Ohio | Office of Budget and Management

Mike DeWine, Governor
Jon Husted, Lt. Governor

Kimberly Murnieks, Director

February 11, 2019

MEMORANDUM TO: The Honorable Mike DeWine, Governor
The Honorable Jon Husted, Lt. Governor

FROM: Kimberly Murnieks, Director

SUBJECT: Monthly Financial Report

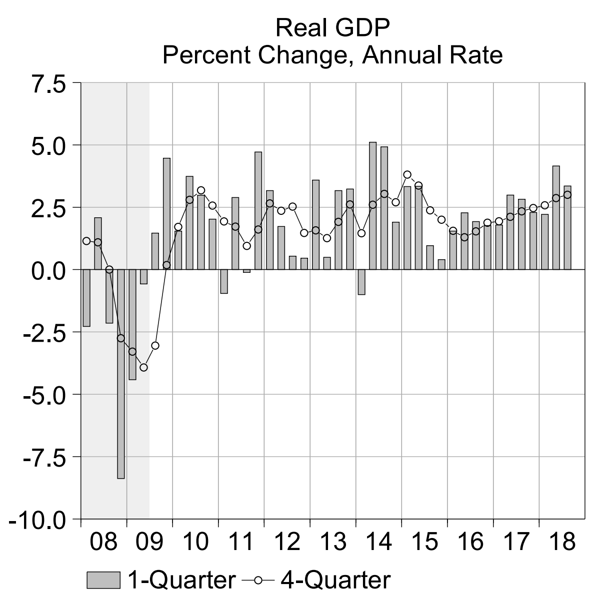
Report Overview

- Medicaid enrollment remains below estimate, resulting in below estimate Medicaid disbursements for the month. Consequently, federal grant revenues deposited into the GRF were below estimate.
- The personal income tax was below estimate primarily due to quarterly estimated payments. This variance may be the result of new filing behavior by individuals due to recent federal tax law changes.
- Despite the personal income tax shortfall, tax receipts were $78.2 million above the year-to-date estimate.
- U.S. employment increased by 304,000 jobs in January for a 3-month average of 241,000 jobs per month. The unemployment rate increased 0.1 points to 4.0%.
- Ohio nonfarm payroll employment increased by 2,900 jobs in December and 116,500 from a year earlier. The unemployment rate stayed at 4.6%.

ECONOMIC SUMMARY

Economic Growth

Economic growth continued through the end of 2018 and into 2019, based on the available indicators. The release of fourth-quarter real GDP has been delayed by the government shutdown, but forecasters estimate that growth slowed to 2.5% in the quarter from an average of 3.7% during the middle two quarters of the year. Growth averaged 2.2% annually from the end of the last recession through the first quarter of 2018.



Though most signs indicate continued growth, the economy has exhibited some signs of slowing since the third quarter. Auto sales have been flat for months and weakened in January, housing activity is declining, consumer and business confidence have declined from historically high levels, and commodity prices have turned down. However, despite some indications of slowing, growth in employment and earnings remain solid and personal income and spending continue to rise. In addition, inflation remains moderate, credit is widely available, and with the exception of disputes over trade, economic policies are generally conducive to growth.

Against this national economic backdrop, the **Ohio economy** expanded moderately again in December, according to the Ohio coincident economic index, which is computed from labor market indicators by the Philadelphia Federal Reserve. The index increased 0.2% for the fourth month in a row. Compared with a year ago, the index was higher by 3.1% – the same as in November.

National leading indicators weakened somewhat but continued to point toward uninterrupted expansion in December. The Conference Board's composite **Leading Economic Index** decreased 0.1% in December for the second decline in three months, leaving the index below its September level. Three of the ten components of the index made negative contributions, led by stock prices, which posted their largest December drop since 1931. The ISM index for new orders made the next-largest negative contribution, falling to its lowest mark since April 2016.

The Leading Economic Index has been in a slowing trend since early last fall, as the year-over-year percent change declined from 7.1% in September to 4.4% in December. While still growing on a year-over-year basis, the abrupt slowdown is the first hint of weakening in the economy since a deceleration in the index in 2014-2016. However, the recent pattern is still more consistent with growth, albeit slower growth, in GDP this year rather than an end to the expansion.

After dropping sharply in November, sentiment among small businesses essentially held firm in December, according to the **National Federation of Independent Business (NFIB)**. The Small Business Optimism Index edged down to 104.4 in December from 104.8 the month before but remains at an historically high level. Moreover, the weakness appeared tied to supply-side constraints rather than softening demand. The decline was driven by unfilled jobs and the lack of qualified applicants, as job openings reached a new record and job creation plans strengthened.

The diffusion of increases in **state-level coincident economic indexes** remained high in December, as the indexes for only three states were lower than a month ago (HI, KS, MI) and only two were lower than three months ago (HI, ME). Of note, the number of state indexes lower from the month before in the first month of recession has averaged 17 since 1979. The number of state indexes down from the previous month three months before the onset of recession has averaged 10. Current readings are much lower than these recession onset averages.

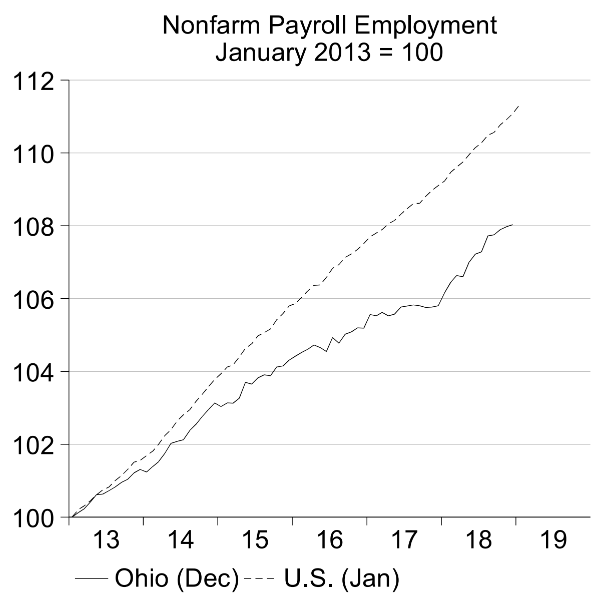
The **Ohio leading index**, which is designed to predict growth in the coincident index during the next six months, was 0.7% in November, down from recent months but still well within the range of recent years. The number of negative readings among individual **state-level composite leading indexes** increased from one (HI) in October to three in November (HI, PA, MI), highly consistent with uninterrupted expansion in the near-term. Compiled by the Philadelphia Federal Reserve, the diffusion across these state leading indexes has been a leading indicator in the past. These indexes are very sensitive to state unemployment rates, which are subject to large annual benchmark revisions early each year.

As shown in the table below, the **consensus among forecasters** is that real GDP growth slowed in the fourth quarter to approximately 2.5%.

Source	**Date**	**2018-Q4 GDP Forecast**
Atlanta FRB (GDPNow)	2/6/19	2.5%
New York FRB (Nowcast)	2/1/19	2.6%
Philadelphia FRB (SPF*)	11/13/18	2.6%
Blue Chip	2/6/19	2.6% (2.2%-3.0%)
IHS	2/1/18	2.6%
*Survey of Professional Forecasters (2nd month of each quarter)		

Employment

Nonfarm payrolls across the country increased by 304,000 jobs in January, which was above the 3-month average increase of 241,000 and 12-month average of 224,000. The severe cold weather that hit late in the month did not affect the numbers, because the survey was conducted near the middle of the month when weather was relatively mild. The government shutdown was not much of a factor either, as furloughed workers were counted as employed because they were awarded back pay. Nonfarm payroll employment increased by 2.81 million jobs during the most recent twelve months, more than one-third above the gain of 2.07 million jobs during the previous 12-month period.



All major sectors except for information posted employment gains during January. The largest gains occurred in leisure and hospitality (+74,000), reflecting broad-based strength within the sector and in education and health services employment (+55,000), reflecting strength in health care (+41,600). Employment expanded by 52,000 jobs each in construction and trade, transportation, and utilities. In construction, the strength was mainly due to specialty trade contractors, whereas retail and warehousing and storage accounted for the bulk of the gain in trade, transportation, and utilities. Manufacturing employment increased by 13,000 jobs, more than all of which came in durable goods industries.
Despite the strength in hiring, the **unemployment rate** increased by 0.1 points to 4.0% (and would

have increased to 4.1% if responses from some furloughed government workers had been recorded correctly). The increase of 0.3 percentage points from the low of 3.7% reached in November would almost be enough to flash a very tentative recession warning, except for the presumably temporary nature of the government furloughs (the average increase in the unemployment rate between the unemployment rate's low point and the point when the NBER pegs the start of a recession is 0.4% over the last seven recessions; however there are times when the unemployment rate has increased by 0.4% and then fallen again).

Average hourly earnings of all employees on private nonfarm payrolls increased 0.1% in January to 3.2% year-over-year, down from an upwardly revised year-over-year pace of 3.3% during each of the previous three months. The rate of increase in earnings is roughly consistent with economic fundamentals and not necessarily a sign of higher future inflation, considering that it matches the approximately 1% rate of increase in labor productivity, plus the approximately 2% rate of inflation, meaning that unit labor costs are close to flat.

Ohio nonfarm payroll employment increased by 2,900 jobs in December and the November increase was revised down from 5,200 jobs to 4,200 jobs. Changes across sectors were mixed, with employment higher in government (+3,400), construction (+2,600), and manufacturing (+2,300) and lower in professional and business services (-3,700), trade, transportation, and utilities (-1,800), and information (-700). The increase in government employment occurred primarily at the local level.

Ohio employment increased by 116,500 jobs during the twelve months ending December, with all but information (-2,200) rising. The largest gains occurred in trade, transportation, and utilities (+22,600), education and health services (+21,500), and construction (+14,500). Also contributing to the increase were leisure and hospitality (+13,900), professional and business services (+12,900), government (+11,700), and manufacturing (+10,400).

Among the **contiguous states**, employment increased on a year-over-year basis in Ohio (+2.1%), Indiana (+1.4%), Michigan (+1.3%), Pennsylvania (+1.2%), Kentucky (+1.1%), and West Virginia (+0.6%). Manufacturing employment increased year-over-year in Ohio and Kentucky (1.5%), Michigan (1.2%), Indiana and Pennsylvania (0.6%), and was unchanged in West Virginia.

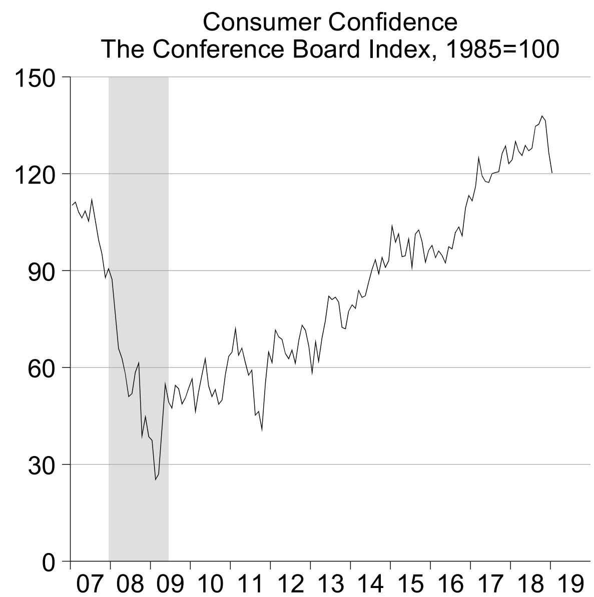
The **Ohio unemployment rate** was 4.6% in December for the sixth month in a row – 0.3 points below the December 2017 level. Total employment decreased by 370 workers, while the labor force increased by 1,280 workers and the number of unemployed increased by 1,650. The 0.3 percentage point decline in the unemployment rate during the year resulted from an increase of 1,110 workers, a 15,060 decrease in the labor force, and a 16,170 person decline in the number of unemployed.

Across the country in December, the unemployment rate decreased notably from the month before in three states: Delaware, Maryland, and North Dakota. Four states had meaningfully higher rates than the month before: Colorado, Oregon, Arizona, and New Mexico. Changes in the unemployment rate in the remaining 43 states and the District of Columbia were not statistically significant.

Consumer Income and Consumption

The economic health of the household sector likely remained sound in December, but releases of data on personal income, retail sales, and personal consumption expenditures have been delayed by the government shutdown. However, based on other data that are available, the Federal Reserve Bank of Atlanta estimates that real personal consumption expenditures increased at an annual rate of 3.6% in the fourth quarter, somewhat above the 3.0% pace during the year ending in the third quarter.

Sales of light motor vehicles likely softened in January to an annual rate of 16.7 million units. That rate is down from an estimated 17.5 million units in December and the lowest since similar rates in July and August. Even so, at 17.1 million units the 12-month average remained above 17.0 million units, where it has been since July 2015. Plans to purchase a motor vehicle were essentially unchanged in January, although still at a relatively soft level, according to the University of Michigan survey of consumers.



More broadly, **consumer confidence** deteriorated further in January due mainly to dimmer expectations but also due to a less optimistic view of current conditions. The Conference Board and University of Michigan indexes retreated 5.1% and 7.2%, respectively. The decline in the Conference Board index came on top of a 7.2% decline in December.

Both indexes remain high in historical context, and the declines have been attributed to the aftereffects of the stock market rout in the fourth quarter and the government shutdown from late December to late January. Both are likely temporary events, which could give way to an upswing in confidence in coming months. Despite their concerns, consumers noted a very strong job market, are positive on the prospect for income gains in the year ahead and expressed some greater interest in purchasing homes in the next six months.

Industrial Activity

Industrial production increased 0.3% in December, as large increases in manufacturing and mining were only partially undercut by a weather-related drop in utility output. The developments are consistent with fourth-quarter estimates for real GDP growth in the 2.5% to 3.0% range. Manufacturing and mining output were up 3.2% and 13.4% year-over-year, respectively, while utility output fell 4.3%. Total industrial production was up 4.0% year-over-year.

A major development was the 1.1% rise in manufacturing output, which was the largest gain since last February. Importantly, the increase was broad-based and represented growth in most key industries. In addition, a significant upward revision to the level of production beginning in October indicates that momentum at year-end was stronger than previously reported.

With the exception of machinery, production across the country in some industries that are key employers in Ohio was positive. Primary metal output increased 0.6%, fabricated metal output was up 0.1%, and motor vehicles and parts production increased by 4.7%. Production of machinery was down by 0.6%. Compared with a year ago, production was higher by 4.8% in fabricated metal, 4.9% in machinery, 8.4% in primary metal, and 7.8% in motor vehicles and parts – all solid gains on the year.

The view of manufacturing by **purchasing managers** in the sector rebounded in January, more than recovering the surprising drop in December. The Purchasing Managers Index increased 2.5 points to 56.6, still below its 12-month average of above 58, but up reassuringly after the December decline and comfortably above the neutral level of 50. The important New Orders and Production indexes posted very strong increases to near their levels prior to the December setback.

Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, fourteen reported growth in the latest month. Industries with a major effect on Ohio manufacturing employment, primary metals, transportation equipment, machinery, and fabricated metal products, all reported increases.

Anecdotes from across industries turned positive from a cautionary tone in December. A source in the transportation equipment industry said that, "business continues to be good; however, margins are being squeezed." A contact in the fabricated metals industry said that it's, "going to be a very strong spring" and generally reported that business levels will be just as strong as the same period in 2018. A contact in the machinery industry reported that they, "continue to enjoy a strong general economy" and "are busy and maintain a backlog of sales orders."

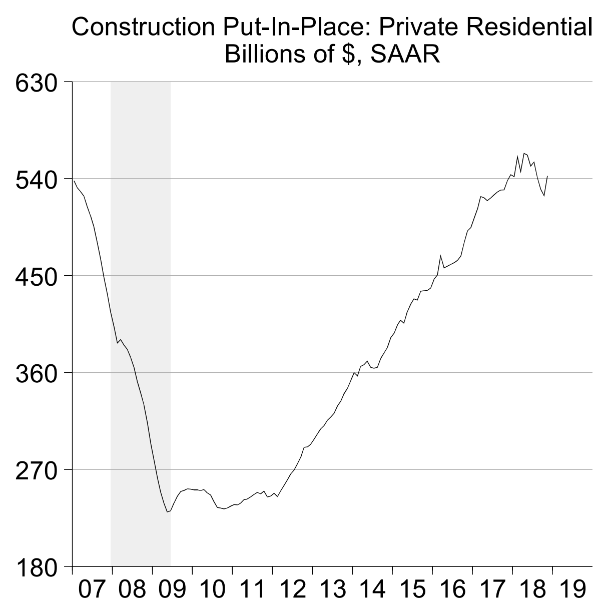
Construction

Construction put-in-place increased 0.8% in November, on a seasonally adjusted annual rate (SAAR), but decreases were widespread across categories and aside from the 12.1% increase in the statistically unreliable residential improvements category, construction decreased 1.0%. In general, construction gains have slowed from their recent high points:

(i) Compared with a year ago, total construction put-in-place was higher by 3.4%, but that was down from an increase of 6.0% as recently as August.

(ii) Private sector activity, which was running 6.1% ahead of a year earlier last February, was up by just 2.3% year-over-year in November.

(iii) Public sector activity was higher by 7.0% year-over-year, but that was down from 12.5% growth in August.



Within the private sector, residential (excluding improvements) fell 1.0%, as single-family decreased by more than multi-family increased. It is of concern that the level of single-family construction put-in-place in November was 3.5% below its February 2018 pace. Private nonresidential construction put-in-place fell by 1.2%, as there was no strength in other categories to overcome weakness in commerical, health care, and power. Public sector construction fell 0.9%, reflecting weakness concentrated in education and water supply that more than offset an increase in highway & street.

The **Housing Market Index** (HMI) from the National Association of Homebuilders (NAHB) recovered modestly in January after a steep 2-month fall that had left it at the lowest level since May 2015. The index is based on assessments of current sales, expected sales in six months, and traffic of prospective buyers of new homes and can range from 0 to 100. The HMI also continued lower in the Midwest in January to its lowest level since February 2015. The extended downtrend in the national index is consistent with accumulating weakness in housing activity in recent months and matches the level that has signaled cyclical downturns in housing in the past.

Housing starts and permits and new home sales have not been released for December due to the government shutdown, but other data do not suggest that activity has begun to turn up. **Existing home sales** fell 1.0% nationally and 2.3% in the Midwest on a 3-month moving average basis in December, reflecting drops of 6.4% and 11.2%, respectively on a month-to-month basis. Year-over-year comparisons were both negative, with national sales down 7.4% and Midwest sales down 5.9%, again on the 3-month moving average basis. The more forward-looking Pending Home Sales Index also continued to weaken in December and has declined at an accelerating pace on a year-over-year basis.

The weakening trend in housing has been widely attributed to higher mortgage rates and home prices and less favorable tax treatment for property taxes and mortgage interest. While these cyclical factors remain in effect, underlying demographics are expected to provide some support to the market during the next few years.

A contributing factor to slowing home construction and sales was the rise in **home prices**, which nationally posted their 81st straight monthly increase in November to 5.2% above the year earlier level, 51.1% above the cyclical low reached in February 2012, and 11.7% above the previous peak in February 2007, according to the Case-Shiller index.

REVENUES

NOTE: *Effective January 1, 2019, Ohio employer withholding tax rates were reduced by 3.3% in order to be fully consistent with the income tax rate reductions enacted in 2015 (House Bill 64). The revised employer withholding tax rates were announced and issued by the Tax Commissioner in late calendar year 2018. This change will result in a one-time reduction in personal income tax revenue, to occur during the January-June 2019 period. The net General Revenue Fund impact of this change is estimated to be $148.5 million. There will be a loss in FY 2019 because the offsetting revenue gain caused by reduced calendar year 2019 income tax refunds will not occur until tax returns are filed in FY 2020. Effective with the February 2019 Monthly Financial Report, the FY 2019 tax revenue estimates are updated to reflect the anticipated revenue reduction caused by this change.*

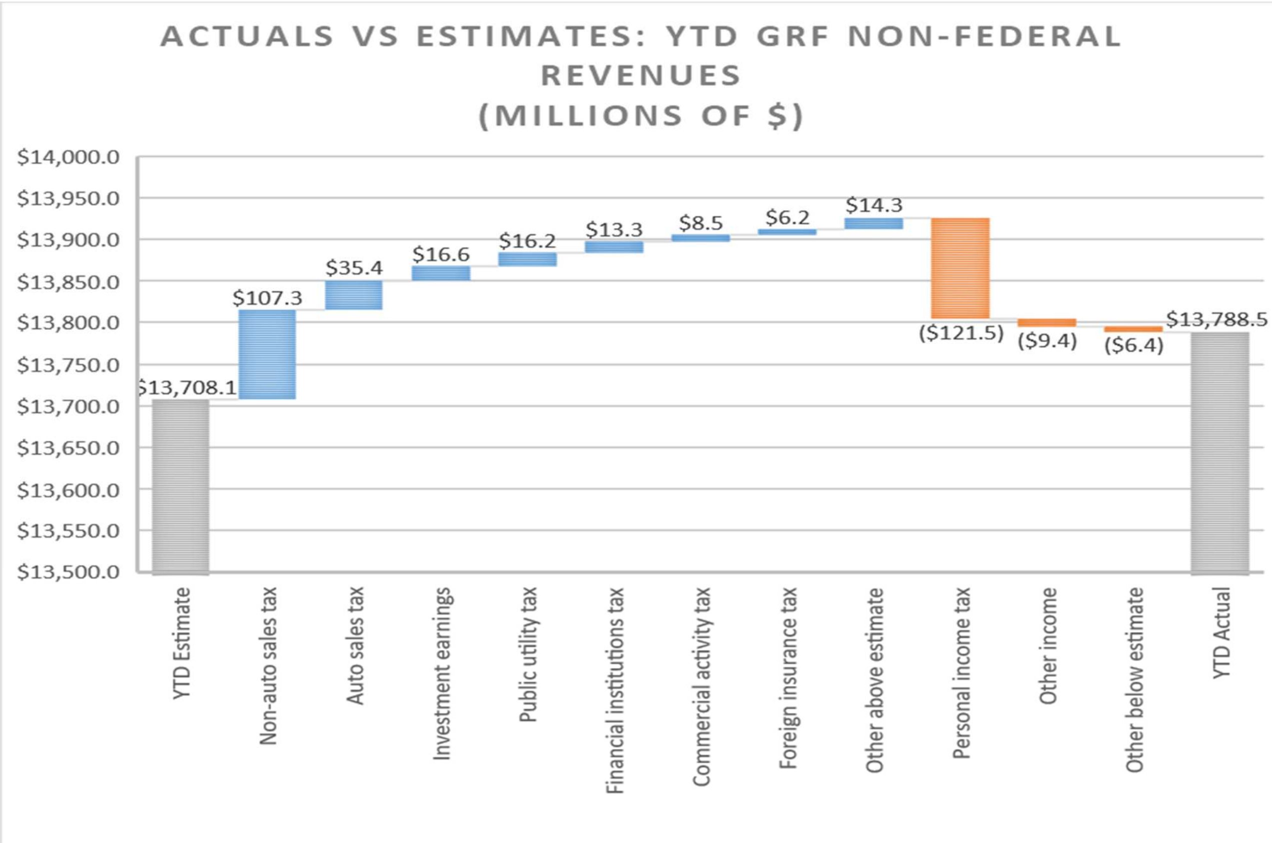
January **GRF receipts totaled $3,076.3 million** and were $153.4 million (4.8%) below the estimate. For the month, tax revenues were $50.5 million (2.2%) below estimate due to a shortfall in the personal income tax of $77.4 million (7.1%). Federal grant revenue was $109.7 million (11.8%) below estimate.

For the fiscal year-to-date, the largest single variance was in federal grants, which were $346.3 million (5.6%) below estimate due to Medicaid spending being $459.2 million (4.8%) below estimate. Non-federal revenues were $80.4 million (0.6%) above estimate, led by a $78.2 million (0.6%) overage in tax revenues. Non-tax revenues, other than federal grants, had a positive variance of $2.1 million, as the underperformance in the other income and transfers in categories was slightly more than offset by an overage in investment earnings.

Category	**Includes:**	**YTD Variance**	**% Variance**
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, natural gas distribution, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	$78.2	1.1%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($338.5)	-5.4%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	($5.7)	-6.5%
TOTAL REVENUE VARIANCE:		**($265.9)**	**-1.3%**
Non-federal revenue variance		**$80.4**	**0.6%**
Federal grants variance		**($346.3)**	**-5.6%**

Despite a $50.5 million shortfall in tax revenues in January, a year-to-date overage of $78.2 million remains. Year-to-date the non-auto sales tax still has the largest single overage at $107.3 million (2.0%); followed by the auto sales tax at $35.3 million (4.2%); and the public utility excise tax at $16.2 million (28.4%). Though not a tax source, investment earnings actually outperformed the public utility excise tax, as it exceeded its year-to-date estimate by $16.6 million (43.5%).

The following chart displays the relative contributions of various revenue sources to the overall variation between actual and estimated revenues through December.



On a year-over-year basis, monthly receipts were $143.0 million (4.4%) lower than in January of the previous fiscal year. The decline was driven by other income and the personal income tax, which were a combined $307.4 million (23.3%) lower than last January (the decline in the other income category was attributable to a one-time payment in January 2018 from unclaimed funds). Much of that decline was offset by growth in federal grants, which were $99.8 million larger than the previous January. For the year, GRF revenues have grown by $393.6 million, the result of tax revenues which have grown by $483.3 million (3.7%). The income and sales taxes combined have accounted for $398.1 million of that growth. In fact, those growth numbers are understated somewhat due to the fact that fiscal year 2018 included one-month (July) where Medicaid Health Insuring Corporation (MHIC) sales tax revenue was included. Backing MHIC revenue out of fiscal year 2018, GRF tax revenues have grown by $554.4 million (4.3%).

Like December, this month's revenue performance was decidedly mixed, with a number of sources indicating a shortfall relative to estimate. However, the most substantial shortfalls, which occurred in federal grants and personal income tax, need to be put into proper context. Shortfall in federal grants was a function of reduced Medicaid spending, and the shortfall in the personal income tax may be in part due to timing of payments (as discussed below).

GRF Revenue Sources Relative to Monthly Estimates – January 2019
($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Financial Institutions Tax	$25.5	Federal Grants	($109.7)
Earnings on Investments	$11.0	Personal Income Tax	($77.4)
Auto Sales Tax	$10.7	Foreign Insurance Tax	($6.2)
Other Source Above Estimate	$4.6	Non-auto Sales Tax	($4.5)
		Commercial Activity Tax	($3.2)
		Other Income	($2.8)
		Other Sources Below Estimate	($1.6)
Total above	**$51.8**	**Total below**	**($205.3)**

Note: Due to rounding of individual sources, the combined sum of sources above and below estimate may differ slightly from the total variance.

Non-Auto Sales Tax

January non-auto sales and use tax collections to the GRF totaled $831.9 million and were $4.5 million (0.5%) below estimate. This underperformance contrasts with the general trend observed over the first-half of fiscal year 2019. The slight underage this month marks only the second of the fiscal year; October was 0.7% below estimate. Year-to-date non-auto sales tax revenue exceeds estimate by $107.3 million (2.0%).

Despite the negligible underage for January, several factors that influence non-auto sales tax revenue suggest a return to recent growth in the coming months. Retail demand is a key factor that influences the non-auto sales tax. As reported by the Cleveland Federal Reserve in their *Beige Book*, retail demand was strong for most of 2018 and it is expected to remain high throughout 2019.

On a monthly basis, year-over-year growth in non-auto sales tax revenue to the GRF was $38.6 million (4.9%) compared to January of last year and after adjusting for the impact of the repealed sales tax on Medicaid Health Insuring Corporations (MHICs), year-to-date growth was 5.8% when compared to the same point in the previous fiscal year. As stated in previous reports this fiscal year, monthly comparisons no longer require adjustment, but year-to-date comparisons will continue to be adjusted since MHIC revenues were collected in July of fiscal year 2018, skewing that annual data.

Monthly and year-to-date revenues (adjusted for MHIC collections) are shown in the table below. All funds collections are highlighted as well as GRF revenues.

Non-Auto Sales Tax Revenue Growth Without MHIC– FY18 through January
($ in millions)

	Jan-18	Jan-19	FY 18 YTD	FY 19 YTD
Non-Auto sales tax GRF	$793.2	$831.9	$5,198.5	$5,426.5
Non-Auto sales tax PLF (Library Fund)	$15.8	$16.0	$113.1	$117.9
Non-Auto sales tax, all funds	$809.1	$847.9	$5,311.6	$5,544.3
MHIC revenues (state)	$0.00	$0.00	$71.7*	$0.00
GRF and PLF revenues without MHIC	$809.1	$847.9	$5,239.6	$5,544.3
Change from prior year in non-MHIC collections		$38.8		$304.7
Pct. change from prior year in non-MHIC collections		4.8%		5.8%

*July 2017 (FY18) was final MHIC sales tax payment received by Ohio.

The non-auto sales tax has shown substantial improvement in growth since its low-point last January. Growth has been inconsistent across months but has averaged above 5% over the previous twelve months.

The overall improvement in non-auto sales tax revenue growth has generally coincided with the reduction in federal income tax withholding rates due to the passage of the federal Tax Cuts and Jobs Act (TCJA). While it is too early to infer that the improvement in growth has resulted from reduced federal withholding and thus additional disposable income for consumers, it is a reasonable hypothesis. Further support of this hypothesis is evident in that non-auto sales tax growth (5.8%) has caught up with Ohio's income tax withholding growth (6.2%). If the two are related, it is possible growth may slow in the second-half of fiscal year 2019 as income comparisons twelve months apart incorporate higher disposable income in both months.

Auto Sales Tax

January auto sales tax revenues were $124.3 million and were $10.7 million (9.4%) above the estimate. January represents the fifth overage in the auto sales tax in the last six months, with September being only slightly below the estimate. The latest overage pushes the year-to-date variance to 35.4 million (4.2%) above estimate.

Auto sales dipped nationally by 1.0% in January year-over-year, reversing the strong December to close out calendar year 2018. The 1.15 million units sold brought down the seasonally adjusted annual rate (SAAR) to 16.9 million total cars and light trucks sold, compared to 17.33 million total cars and light trucks sold as of last month. January marks the first month since August that the annual sales rate has dropped below 17 million, however the January number was still high historically. Auto industry analysts point to cold weather and the federal government shutdown as two likely reasons auto sales slumped in January. Financial incentives for consumers are also beginning to shrink as the Federal Reserve slowly increases interest rates, contributing to a slowing of demand.

Despite the slight decline in unit sales, year-to-date auto sales tax revenues were strong, up 6.0% on a year-over-year basis. Kelley Blue Book estimates the average transaction price for new vehicles in January was around $35,500 and this high average price contributed to a strong month for auto sales tax revenue. Additionally, and continuing the trend observed over the last several months, the composition of auto sales has also contributed to auto sales tax growth. Light trucks have comprised the bulk of auto sales (70.9%) compared to cars (29.1%) for some time, and they carry a nearly 50% higher average retail price than cars, contributing to the high average transaction price mentioned previously.

Auto sales tax revenues have also been supported by high used vehicle prices. Edmunds.com reported that the average used vehicle price in the first quarter of 2018 was $19,657, up 17.6% from five years earlier.

Personal Income Tax

January GRF personal income tax receipts totaled $1,011.6 million and were $77.3 million (7.1%) below estimate. This decline is notably inconsistent with the performance of this revenue source during the first five months of this fiscal year, which had been tracking rather closely with estimates. As in December, the reason for the January decline rests squarely with the quarterly estimated payments. These payments fell short of estimate by $70.9 million (23.1%) for January, resulting in a combined December-January underage of $139.6 (34.2%). Compared to last year, estimated payments for those two months dropped by 43.3%, whereas they had been estimated to decline by 13.8%. Currently, it appears that a primary contributing cause of this shortfall is the change to the federal income tax deduction for state and local taxes paid.

The historic and sweeping federal tax bill enacted by Congress in late 2017 (the Tax Cuts and Jobs Act of 2017, hereafter TCJA) imposed a $10,000 annual limitation on the amount of state and local taxes paid that may be claimed as a deduction by individuals on their federal income tax return. The limitation became effective in 2018. Because of this law change, beginning in December 2018 many taxpayers that make quarterly Ohio estimated income tax payments had less of an incentive to make as large of a fourth quarter payment as they had when the deduction was unlimited. Once a taxpayer reaches the new maximum annual deductible amount and also reaches the annual Ohio “safe harbor” tax payment amount (and thereby avoids Ohio underpayment tax penalty), there is no apparent inducement to make any additional fourth-quarter payment. Due to a processing lag, many payments made in December were booked as January revenue which means both December 2018 and January 2019 estimated tax payments are affected by this new dynamic.

Ohio was not alone in seeing a sharper than anticipated drop in estimated payments in December and January. Other states have reported the same phenomenon. On the other hand, non-withheld income tax payments at the federal level actually increased for those two months, by 5.7%. OBM has contacted the Congressional Budget Office (CBO), other states, and CPAs in Ohio in an effort to understand the implications of the December-January shortfall. The evidence and opinion from these various groups is that it is possible that taxpayer behavior caused by TCJA may have led taxpayers to move some of their tax payments from December-January to April, and therefore April payments of tax due may exceed the estimate (this would make state tax payment patterns conform more closely to federal tax payments patterns). However, conclusions cannot yet be drawn based on this evidence, and so ultimately this question cannot be resolved until the end of April when annual tax payments have been processed (in fact, some of these payments could extend into July and October due to late payments made with filing extensions).

Following a December overage, employer withholding in January was $20.9 million (2.4%) above estimate. Withholding is now $60.6 million (1.1%) above estimate for the year. It has grown 5.8% above the prior year, compared to 4.7% in anticipated growth.

January is a modest month for other types of income tax payments. All other payment categories fell short of estimate by a total of $2.7 million (8.8%) in January. However, refunds exceeded estimate by a noteworthy $25.2 million (30.3%). Since this reflects only the beginning of the 2019 income tax filing season, it is too soon to draw conclusions from these early results. OBM will continue to monitor refunds over the coming months given their important impact on income tax revenue performance.

On a year-over-year basis, January GRF income tax collections were $103.7 million (9.3%) below January 2018 collections, but collections for the year have grown by $120.7 million, or 2.3%.

FY2019 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Actual January	Estimate January	$ Var	Actual Jan-2019	Actual Jan-2018	$ Var Y-O-Y
Withholding	$888.6	$867.7	$20.9	$888.6	$836.0	$52.6
Quarterly Est.	$235.6	$306.5	($70.9)	$235.6	$360.5	($124.9)
Annual Returns & 40 P	$8.9	$9.1	($0.2)	$8.9	$8.7	$0.2
Trust Payments	$12.4	$12.6	($0.2)	$12.4	$15.7	($3.4)
Other	$6.3	$8.5	($2.2)	$6.3	$8.5	($2.2)
Less: Refunds	($108.4)	($83.2)	($25.2)	($108.4)	($82.8)	($25.6)
Local Distr.	($31.6)	($32.2)	$0.6	($31.6)	($31.2)	($0.4)
Net to GRF	$1,011.6	$1,089.0	($77.4)	$1,011.6	$1,115.4	($103.7)

Note: Due to the rounding of individual sources, the sum of sources above and below estimate may differ slightly from the total variance.

Commercial Activity Tax (CAT)

January GRF CAT revenue totaled $66.3 million and was below estimate by $3.2 million (4.6%). Following a second quarter in which revenues exceeded estimate by $31.7 million (8.1%), January's underperformance might appear to indicate a considerable change in revenue trajectory for the CAT. Such a conclusion would be premature and perhaps incorrect as January simply reflects early payments of a tax whose next quarterly due date is February. Next month's report will provide a more meaningful measure of CAT revenue performance for the third quarter of fiscal year 2019.

Financial Institutions Tax (FIT)

After a first-half of the fiscal year with lower than anticipated revenue (or, more literally, larger than anticipated refunds) in the wake of the 2018 tax year payment period, January reflects the first of three estimated payments required for the 2019 tax year, with the final one to be made in May 2019.

January revenues exceeded estimate by $25.5 million (50.8%). Conclusion should not be drawn based on this overage; the fact that the estimated payment due dates are the last day of the month (in January, March, and May) makes month-specific predictions susceptible to considerable error, depending on exactly when tax payments are received and the revenues are processed. For this reason, some of the January overage could be offset by February results. Only once February revenues are received will OBM be able to provide meaningful observations about the performance of this revenue source for the first estimated payment period.

Alcoholic Beverage Tax

January revenues from the alcoholic beverage tax totaled $5.5 million and were $1.6 million (40.4%) above estimate. This month's overage simply offsets much of the shortfall experienced in December. This source is now tracking closer to estimate for the year, down $0.8 million (2.3%).

GRF Non-Tax Receipts

GRF non-tax revenues in January totaled $850.0 million and were $101.3 million (10.7%) below estimate. This variance was primarily attributable to federal grants, which were below estimate by $109.7 million (11.8%) due to underspending in the GRF Medicaid category.

Revenues from earnings on investments were $11.0 million (59.4%) above estimate and were $16.6 million (43.5%) above estimate year-to-date. Interest rates have continued trending upward, contributing to increased earnings.

Revenues in the other income category were $2.8 million (85.1%) below estimate due to lower than anticipated revenues from various refunds, reimbursements, and fines.

Transfers in were $1.6 million (21.1%) below estimate due to an estimated transfer of $7.5 million from the proceeds of Department of Rehabilitation and Correction farm land sales not occurring in January as expected. Though land sales are estimated to occur within a certain timeframe, they are sometimes delayed. This variance was partially offset by a $5.9 million transfer from the Public Safety Highway Purpose fund for reimbursements on debt service related to MARCS radios. This transfer was estimated for May but was partially received in January.

Table 1

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2019 VS ESTIMATE FY 2019
($ in thousands)

REVENUE SOURCE	MONTH ACTUAL JANUARY	MONTH ESTIMATE JANUARY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	831,867	836,400	(4,533)	-0.5%	5,426,451	5,319,200	107,251	2.0%
Auto Sales & Use	124,289	113,600	10,689	9.4%	867,854	832,500	35,354	4.2%
Subtotal Sales & Use	956,157	950,000	6,157	0.6%	6,294,305	6,151,700	142,605	2.3%
Personal Income	1,011,644	1,089,000	(77,356)	-7.1%	5,384,887	5,506,400	(121,513)	-2.2%
Corporate Franchise	48	0	48	N/A	1,227	0	1,227	N/A
Financial Institutions Tax	75,699	50,200	25,499	50.8%	47,319	34,000	13,319	39.2%
Commercial Activity Tax	66,334	69,500	(3,166)	-4.6%	835,088	826,600	8,488	1.0%
Petroleum Activity Tax	0	0	0	N/A	4,750	2,700	2,050	75.9%
Public Utility	15	0	15	N/A	73,087	56,900	16,187	28.4%
Kilowatt Hour	29,905	28,700	1,205	4.2%	209,112	206,700	2,412	1.2%
Natural Gas Distribution	2,242	1,700	542	31.9%	22,495	19,400	3,095	16.0%
Foreign Insurance	(5,662)	500	(6,162)	-1232.3%	153,375	147,200	6,175	4.2%
Domestic Insurance	0	0	0	N/A	2	0	2	N/A
Other Business & Property	0	0	0	N/A	0	0	0	N/A
Cigarette and Other Tobacco	73,446	72,400	1,046	1.4%	493,759	489,600	4,159	0.8%
Alcoholic Beverage	5,474	3,900	1,574	40.4%	32,529	33,300	(771)	-2.3%
Liquor Gallonage	5,165	5,100	65	1.3%	30,336	29,600	736	2.5%
Estate	0	0	0	N/A	32	0	32	N/A
Total Tax Receipts	2,220,467	2,271,000	(50,533)	-2.2%	13,582,303	13,504,100	78,203	0.6%
NON-TAX RECEIPTS								
Federal Grants	816,514	926,197	(109,683)	-11.8%	5,837,824	6,184,127	(346,303)	-5.6%
Earnings on Investments	29,611	18,577	11,034	59.4%	54,849	38,211	16,639	43.5%
License & Fees	3,317	3,220	97	3.0%	13,660	13,137	522	4.0%
Other Income	487	3,278	(2,791)	-85.1%	55,621	64,978	(9,356)	-14.4%
ISTV'S	19	0	19	N/A	43	0	43	N/A
Total Non-Tax Receipts	849,948	951,272	(101,324)	-10.7%	5,961,998	6,300,453	(338,455)	-5.4%
TOTAL REVENUES	**3,070,415**	**3,222,272**	**(151,857)**	**-4.7%**	**19,544,301**	**19,804,553**	**(260,252)**	**-1.3%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	5,916	7,500	(1,584)	-21.1%	82,025	87,690	(5,665)	-6.5%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	5,916	7,500	(1,584)	-21.1%	82,025	87,690	(5,665)	-6.5%
TOTAL SOURCES	**3,076,331**	**3,229,772**	**(153,441)**	**-4.8%**	**19,626,326**	**19,892,243**	**(265,917)**	**-1.3%**

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2019 VS ACTUAL FY 2018
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	**JANUARY FY 2019**	**JANUARY FY 2018**	**$ VAR**	**% VAR**	**ACTUAL FY 2019**	**ACTUAL FY 2018**	**$ VAR**	**% VAR**
TAX RECEIPTS								
Non-Auto Sales & Use	831,867	793,249	38,618	4.9%	5,426,451	5,198,500	227,951	4.4%
Auto Sales & Use	124,289	119,045	5,245	4.4%	867,854	818,381	49,474	6.0%
Subtotal Sales & Use	956,157	912,294	43,863	4.8%	6,294,305	6,016,881	277,424	4.6%
Personal Income	1,011,644	1,115,391	(103,747)	-9.3%	5,384,887	5,264,194	120,693	2.3%
Corporate Franchise	48	(540)	588	108.8%	1,227	2,397	(1,171)	-48.8%
Financial Institutions Tax	75,699	53,809	21,889	40.7%	47,319	28,770	18,548	64.5%
Commercial Activity Tax	66,334	72,448	(6,114)	-8.4%	835,088	801,493	33,596	4.2%
Petroleum Activity Tax	0	0	0	N/A	4,750	3,280	1,470	44.8%
Public Utility	15	227	(212)	-93.5%	73,087	55,791	17,295	31.0%
Kilowatt Hour	29,905	28,713	1,192	4.2%	209,112	196,995	12,118	6.2%
Natural Gas Distribution	2,242	1,995	248	12.4%	22,495	18,755	3,740	19.9%
Foreign Insurance	(5,662)	513	(6,174)	-1204.1%	153,375	145,357	8,018	5.5%
Domestic Insurance	0	0	0	N/A	2	63	(61)	-96.9%
Other Business & Property	0	0	0	N/A	0	(263)	263	N/A
Cigarette and Other Tobacco	73,446	81,044	(7,598)	-9.4%	493,759	501,891	(8,132)	-1.6%
Alcoholic Beverage	5,474	4,654	820	17.6%	32,529	34,280	(1,751)	-5.1%
Liquor Gallonage	5,165	4,978	187	3.8%	30,336	29,012	1,323	4.6%
Estate	0	5	(5)	N/A	32	118	(86)	-72.9%
Total Tax Receipts	2,220,467	2,275,531	(55,064)	-2.4%	13,582,303	13,099,014	483,288	3.7%
NON-TAX RECEIPTS								
Federal Grants	816,514	716,712	99,802	13.9%	5,837,824	5,721,340	116,485	2.0%
Earnings on Investments	29,611	14,441	15,170	105.1%	54,849	30,187	24,662	81.7%
License & Fee	3,317	4,626	(1,309)	-28.3%	13,660	13,596	64	0.5%
Other Income	487	204,113	(203,626)	-99.8%	55,621	234,990	(179,368)	-76.3%
ISTV'S	19	37	(18)	-49.5%	43	425	(382)	-89.8%
Total Non-Tax Receipts	849,948	939,929	(89,981)	-9.6%	5,961,998	6,000,537	(38,539)	-0.6%
TOTAL REVENUES	**3,070,415**	**3,215,460**	**(145,045)**	**-4.5%**	**19,544,301**	**19,099,552**	**444,749**	**2.3%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	5,916	3,902	2,014	51.6%	82,025	133,171	(51,146)	-38.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	5,916	3,902	2,014	51.6%	82,025	133,171	(51,146)	-38.4%
TOTAL SOURCES	**3,076,331**	**3,219,362**	**(143,031)**	**-4.4%**	**19,626,326**	**19,232,723**	**393,603**	**2.0%**

DISBURSEMENTS

January GRF disbursements, across all uses, totaled $2,580.2 million and were $212.6 million (7.6%) below estimate. This variance was primarily attributable to below estimate disbursements in the Medicaid category and was partially offset by above estimated disbursements in the Health and Human Services category. On a year-over-year basis, January total uses were $125.8 million (5.1%) higher than those of the same month in the previous fiscal year, with the Medicaid category largely responsible for the increase. Year-to-date variance from the estimate by category are provided in the table below.

Category	Description	YTD Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($531.6 Million)	-2.6%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$1.0 Million	1.1%
TOTAL DISBURSEMENTS VARIANCE:		($530.6 Million)	-2.5%

GRF disbursements are reported according to functional categories. This section contains information describing GRF spending and variances within each of these categories.

Primary and Secondary Education

This category contains GRF spending by the Ohio Department of Education. January disbursements for this category totaled $643.0 million and were $36.6 million (5.4%) below estimate. This variance was primarily attributable to below estimated spending in the Foundation Funding line item as expenditures totaled $572.5 million and were $22.3 million (3.8%) below estimate, the EdChoice Expansion line item, which was $7.9 million below estimate, and the Student Assessment line item, which was $7.1 million below estimate. The Foundation Funding line item was below estimate due to timing of payments for the EdChoice scholarship program, which will now occur in February, and payment reconciliation offsetting overspending in prior months. Disbursements in the EdChoice Expansion and Student Assessment line items were both below estimate due to the timing of payments. Payments for EdChoice Expansion scholarships and Student Assessment contracts are expected to be made in February rather than January as originally planned.

Total expenditures for the school foundation program totaled $628.5 million and were $23.5 million (3.6%) below estimate. Year-to-date disbursements were $4,840.0 million, which is $8.7 million (0.2%) above estimate.

On a year-over-year basis, disbursements in this category were $63.1 million (8.9%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $9.8 million (0.2%) lower than the same point in fiscal year 2018. The year-over-year monthly and year-to-date variance was due to the timing of some payments, which were paid in January of the previous fiscal year but will be paid in February of this fiscal year.

Higher Education

January disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $183.9 million and were $0.7 million (0.4%) below estimate. This variance was primarily attributable to spending in the Ohio College Opportunity Grant Program, which was below estimate by $2.1 million due to lower than estimated requests for reimbursement from higher education institutions, which will offset in future months. For January, this variance was partially offset by spending in the Choose Ohio First Scholarship Program, which was above estimate by $0.8 million due again to the timing of requests for reimbursement from higher education institutions that were estimated to occur in December but occurred in January instead.

Year-to-date disbursements were $1,330.9 million, which was $7.3 million (0.5%) below estimate. On a year-over-year basis, disbursements in this category were $0.7 million (0.4%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $2.9 million (0.2%) lower than at the same point in fiscal year 2018.

Other Education

This category includes non-debt service GRF expenditures made by the Broadcast Education Media Commission, the Ohio Facilities Construction Commission, the Ohio State School for the Blind, the Ohio School for the Deaf, as well as disbursements made to libraries, cultural, and arts organizations.

January disbursements in this category totaled $4.4 million and were $5.2 million (54.3%) below estimate. Year-to-date disbursements were $49.6 million, which was $2.0 million (4.0%) below estimate. On a year-over-year basis, disbursements in this category were $2.7 million (38.2%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $0.6 million (1.1%) higher than at the same point in fiscal year 2018.

Medicaid

This category includes all Medicaid spending on services and program support by the following eight agencies: the Department of Medicaid, the Department of Mental Health and Addiction Services, the Department of Developmental Disabilities, the Department of Health, the Department of Job and Family Services, the Department of Aging, the Department of Education, and the State Board of Pharmacy.

Expenditures

January GRF disbursements for the Medicaid Program totaled $1,233.2 million and were $144.9 million (10.5%) below estimate and $215.7 million (21.2%) above disbursements for the same month in the previous fiscal year. The large year-over-year variance was primarily attributable to timing and the use of available non-GRF funding sources to offset GRF expenses; this offset of GRF expenses occurred in January of the previous fiscal year but occurred in December of this fiscal year. Year-to-date GRF disbursements totaled $9,022.8 million and were $459.2 million (4.8%) below the estimate and $380.4 million (4.4%) above disbursements for the same point in the previous fiscal year.

January all-funds disbursements for the Medicaid Program totaled $2,467.9 million and were $105.7 million (4.5%) above the estimate and $363.0 million (17.2%) above disbursements for the same month in the previous fiscal year. Year-to-date all-funds disbursements totaled $15,908.1 million and were $825.0 million (4.9%) below the estimate, and $179.4 million (1.1%) above disbursements for the same point in the previous fiscal year.

The January all-funds variance was primarily attributable to a Hospital Care Assurance Program (HCAP) payment, which was budgeted for earlier in the fiscal year, but was not paid until January. This variance was partially offset by lower than anticipated costs in the fee-for-service and managed care programs due to enrollment in these programs being below estimate for the month.

The year-to-date, all-funds variance was primarily attributable to underspending in all major program categories. Underspending in the fee-for-service, managed care, and premium assistance programs are all driven by program enrollment being an average of 5.2%, 3.3%, and 9.8%, respectively, below estimate on an average monthly enrollment basis. A pay-for-performance payment and the Health Insurer Provider Fee in the managed care program was also under estimate. Finally, program administration expenses were below estimate as contractual service costs have been lower than anticipated.

The chart below shows the current month's disbursement variance by funding source.

(in millions, totals may not add due to rounding)

	Jan. Actual	Jan. Projection	Variance	Variance %
GRF	$ 1,233.2	$ 1,378.1	$ (144.9)	-10.5%
Non-GRF	$ 1,234.7	$ 984.1	$ 250.6	25.5%
All Funds	$ 2,467.9	$ 2,362.2	$ 105.7	4.5%

<u>Enrollment</u>
Total January enrollment for the program was 2.84 million, which was 139,833 (4.7%) below the estimate and 160,958 (5.4%) below enrollment for the same period last fiscal year. Year-to-date average monthly enrollment was 2.88 million and was 105,975 (3.6%) below estimate.

January enrollment by major eligibility category was: Covered Families and Children, 1.61 million; Aged, Blind and Disabled (ABD), 486,640; Group VIII Expansion, 610,797; and Other Full Benefits, 13,833 persons.

Please note that these data are subject to revision.

Health and Human Services

This category includes non-debt service GRF expenditures by the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long-term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the Medicaid category.

January disbursements in this category totaled $149.3 million and were $2.0 million (1.4%) above estimate. Year-to-date disbursements were $824.3 million, which was $47.2 million (5.4%) below estimate. On a year-over-year basis, disbursements in this category were $12.3 million (7.6%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $8.0 million (1.0%) higher than at the same point in fiscal year 2018.

Department of Job and Family Services
January disbursements for the Department of Job and Family Services totaled $75.6 million and were $1.3 million (1.6%) below estimate. This variance was primarily attributable to the Child Support Local line item, which was $2.6 million below estimate due to county draws being lower than anticipated. This variance was partially offset by the Early Care and Education line item, which was approximately $1.7 million above estimate due to a change in the child care provider payment system from the Child Care Information Data System (CCIDS) to the Time, Attendance, and Payment System (TAPS). This shift occurred in December and allows for quicker payment to providers.

Department of Mental Health and Addiction Services
January disbursements for the Department of Mental Health and Addiction Services totaled $43.5 million and were $1.2 million above estimate. This variance was primarily attributable to the Continuum of Care Service line item, which was $2.2 million above estimate due to the timing of payments for some portions of a quarterly allocation to local Alcohol, Drug, and Mental Health boards.

Justice and Public Protection

This category includes non-debt service GRF expenditures by the Department of Rehabilitation & Correction, the Department of Youth Services, the Attorney General, judicial agencies, and other justice-related entities.

January disbursements in this category totaled $205.4 million and were $11.0 million (5.1%) below estimate. Year-to-date disbursements were $1402.7 million, which was $7.4 million (0.5%) above estimate. On a year-over-year basis, disbursements in this category were $11.4 million (5.3%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $62.3 million (4.6%) higher than at the same point in fiscal year 2018.

Department of Rehabilitation and Correction
January disbursements for the Department of Rehabilitation and Correction totaled $159.4 million and were $6.1 million (3.8%) below estimate. This variance was primarily attributable to the Halfway House line item, which was $16.1 million below estimate due to payments that were estimated to occur in January but occurred in December instead. This variance was partially offset by the Community Nonresidential Programs line item, which was $7.6 million above estimate due to a change in TCAP payments to counties so they occur quarterly rather than evenly across the year. Additionally, the Institutional Operations line item was $2.6 million above estimate due to timing of payments.

Department of Youth Services
January disbursements for the Department of Youth Services totaled $24.4 million and were $1.2 million (4.9%) above estimate. This variance was primarily attributable to disbursements in the RECLAIM Ohio line item, which was above estimate by $1.1 million due to the timing of payments and an unexpected maintenance issue in the Cuyahoga correctional facility.

Public Defender Commission
January disbursements for the Public Defender Commission totaled $0.6 million and were $5.0 million (90.0%) below estimate. This variance was attributable to the timing of disbursements of $5.0 million in the County Reimbursement line item, which were estimated to occur in January but will occur in future months instead.

General Government

This category includes non-debt service GRF expenditures by the Department of Administrative Services, Department of Natural Resources, Development Services Agency, Department of Agriculture, Department of Taxation, Office of Budget and Management, non-judicial statewide elected officials, legislative agencies, and others.

January disbursements in this category totaled $32.5 million and were $7.7 million (19.2%) below estimate. Year-to-date disbursements were $226.5 million, which was $14.6 million (6.1%) below estimate. On a year-over-year basis, disbursements in this category were $3.9 million (10.6%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $0.6 million (0.3%) higher than at the same point in fiscal year 2018.

Department of Administrative Services
January disbursements for the Department of Administrative Services totaled $0.4 million and were $4.2 million (90.6%) below estimate. This variance was attributable to the State Agency Support Services line item, which was below estimate due to the timing of billing for second-quarter rent. These expenses will be recorded in the month of February.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. There were no property tax reimbursements in January compared to an estimate of roughly $0.5 million. Year-to-date disbursements totaled $905.5 million and were $8.4 million (0.9%) below estimate. January is historically a low month for property tax reimbursements and therefore this month's underage is not an indication that reimbursement requests will be received from counties later than anticipated in the second-half of the fiscal year.

Debt Service

January payments for debt service totaled $128.4 million and were $8.2 million (6.0%) below estimate. Year-to-date disbursements totaled $1,062.8 million and were $8.9 million (0.8%) below estimate. The monthly and year-to-date variances are primarily the result of bond premiums being used to pay a portion of debt service owed on Public Works Commission bonds.

Transfers Out

Transfers out totaled $87,000, though none were estimated. Year-to-date transfers totaled $752.9 million and were $1.0 million (0.1%) above estimate.

Table 3

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2019 VS ESTIMATE FY 2019
($ in thousands)

Functional Reporting Categories Description	MONTH ACTUAL JANUARY	MONTH ESTIMATED JANUARY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE YTD ACTUAL	YEAR-TO-DATE YTD ESTIMATE	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	643,010	679,570	(36,560)	-5.4%	4,840,045	4,831,336	8,709	0.2%
Higher Education	183,893	184,557	(663)	-0.4%	1,330,912	1,338,210	(7,298)	-0.5%
Other Education	4,383	9,583	(5,200)	-54.3%	49,556	51,597	(2,041)	-4.0%
Medicaid	1,233,173	1,378,114	(144,941)	-10.5%	9,022,795	9,481,945	(459,150)	-4.8%
Health and Human Services	149,276	147,228	2,048	1.4%	824,349	871,531	(47,182)	-5.4%
Justice and Public Protection	205,415	216,393	(10,979)	-5.1%	1,402,672	1,395,288	7,384	0.5%
General Government	32,508	40,257	(7,749)	-19.2%	226,460	241,089	(14,629)	-6.1%
Property Tax Reimbursements	(0)	493	(493)	-100.0%	905,520	913,939	(8,420)	-0.9%
Debt Service	128,405	136,558	(8,153)	-6.0%	1,062,765	1,071,697	(8,932)	-0.8%
Total Expenditures & ISTV's	**2,580,063**	**2,792,753**	**(212,690)**	**-7.6%**	**19,665,074**	**20,196,633**	**(531,559)**	**-2.6%**
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	657,503	657,503	0	0.0%
Operating Transfer Out	87	0	87	N/A	95,424	94,430	994	1.1%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**87**	**0**	**87**	**N/A**	**752,927**	**751,933**	**994**	**0.1%**
Total Fund Uses	**2,580,150**	**2,792,753**	**(212,603)**	**-7.6%**	**20,418,001**	**20,948,566**	**(530,565)**	**-2.5%**

Table 4

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2019 VS ACTUAL FY 2018
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**JANUARY FY 2019**	**JANUARY FY 2018**	**$ VAR**	**% VAR**	**ACTUAL FY 2019**	**ACTUAL FY 2018**	**$ VAR**	**% VAR**
Primary and Secondary Education	643,010	706,062	(63,053)	-8.9%	4,840,045	4,849,888	(9,843)	-0.2%
Higher Education	183,893	184,568	(675)	-0.4%	1,330,912	1,333,837	(2,925)	-0.2%
Other Education	4,383	7,096	(2,713)	-38.2%	49,556	49,003	553	1.1%
Medicaid	1,233,173	1,017,438	215,735	21.2%	9,022,795	8,642,401	380,394	4.4%
Health and Human Services	149,276	161,556	(12,280)	-7.6%	824,349	816,361	7,988	1.0%
Justice and Public Protection	205,415	216,814	(11,399)	-5.3%	1,402,672	1,340,393	62,279	4.6%
General Government	32,508	36,359	(3,851)	-10.6%	226,460	225,838	622	0.3%
Property Tax Reimbursements	(0)	(6)	6	-99.6%	905,520	906,414	(894)	-0.1%
Debt Service	128,405	123,987	4,418	3.6%	1,062,765	1,021,866	40,899	4.0%
Total Expenditures & ISTV's	**2,580,063**	**2,453,874**	**126,189**	**5.1%**	**19,665,074**	**19,186,001**	**479,073**	**2.5%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	657,503	0	657,503	N/A
Operating Transfer Out	87	444	(357)	-80.4%	95,424	69,445	25,979	37.4%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**87**	**444**	**(357)**	**-80.4%**	**752,927**	**69,445**	**683,482**	**984.2%**
Total Fund Uses	**2,580,150**	**2,454,317**	**125,832**	**5.1%**	**20,418,001**	**19,255,446**	**1,162,555**	**6.0%**

FUND BALANCE

Note: Beginning in January 2019, personal income tax revenue will be impacted by a 3.3% reduction in Ohio employer withholding tax rates. This change will result in a one-time reduction of GRF revenue estimates by approximately $148.5 million and will subsequently reduce the estimated GRF unencumbered ending balance from approximately $537.4 million to $388.9 million. Further discussion of this change can be found in the Revenue section of this report. This change is reflected in table 5.

Table 5 describes the estimated General Revenue Fund (GRF) unencumbered ending fund balance for FY 2019. Based on the estimated revenue sources for FY 2019 and the estimated FY 2019 disbursements, transfers, and encumbrances, the GRF unencumbered ending fund balance for FY 2019 is an estimated $388.9 million.

The GRF unencumbered ending fund balance should not be considered as a balance available for expenditure in FY 2019 nor should it be considered as equivalent to the FY 2019 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF unencumbered ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2019
($ in thousands)

July 1, 2018 Beginning Cash Balance*	**1,221,039.6**
Plus FY 2019 Estimated Revenues	23,067,141.4
Plus FY 2019 Estimated Federal Revenues	10,240,063.3
Plus FY 2019 Estimated Transfers to GRF	252,790.0
Total Sources Available for Expenditures & Transfers	**34,781,034.2**
Less FY 2019 Estimated Disbursements**	33,308,929.3
Less FY 2019 Estimated Total Encumbrances as of June 30, 2019	321,926.9
Less FY 2019 Estimated Transfers Out	761,233.4
Total Estimated Uses	**34,392,089.7**
FY 2019 ESTIMATED UNENCUMBERED ENDING FUND BALANCE	**388,944.6**

* Includes reservations of $371.2 million for prior year encumbrances. After accounting for these amounts, the estimated unencumbered beginning fund balance for fiscal year 2019 is $849.9 million.

** Disbursements include spending against current year appropriations and prior year encumbrances.

OBM staff that contributed to the development of this report are:

Jason Akbar, Ben Boettcher, Frederick Church, Todd Clark, Jim Coons, Adam Damin, Paul DiNapoli, Florel Fraser, Teresa Goodridge, Chris Guerrini, Chris Hall, Sharon Hanrahan, Kurt Kauffman, Charlotte Kirschner, Sári Klepacz, Taylor Pair, Steven Peishel, Leslie Piatt, Craig Rethman, Tara Schuler, Travis Shaul, Kevin Schrock, Dex Stanger, and Nick Strahan.