OBM

January 10, 2019

MEMORANDUM TO: The Honorable John R. Kasich, Governor
The Honorable Mary Taylor, Lt. Governor

FROM: Timothy S. Keen, Director TK

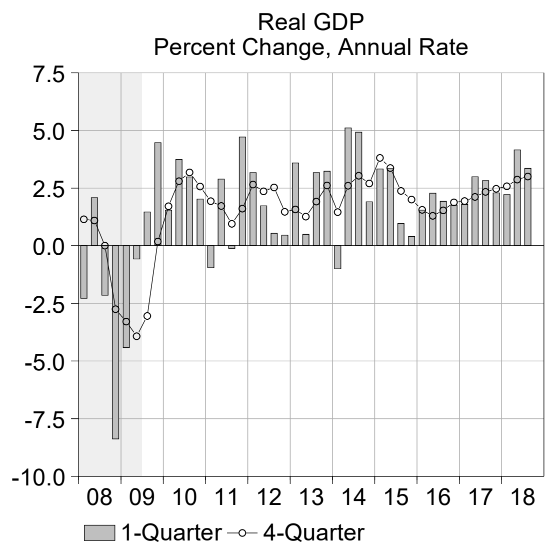
SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

Economic Performance Overview

- The economy expanded at an annual rate of 3.4% in the third quarter and was 3.0% larger than a year earlier. Forecasters project that growth continued at a rate of about 2.5% or slightly faster in the fourth quarter.
- U.S. employment increased by 312,000 jobs in December for a 3-month average of 254,000 jobs per month. The unemployment rate increased 0.2 points to 3.9%.
- Ohio nonfarm payroll employment increased by 5,200 jobs in November and 114,600 from a year earlier. This is the highest twelve-month job growth since June of 2012. The unemployment rate stayed at 4.6% – down by 0.3 points since last December.
- Leading economic indicators remain consistent with uninterrupted economic growth well into 2019. The consensus among forecasters is for slower overall growth.

Economic Growth

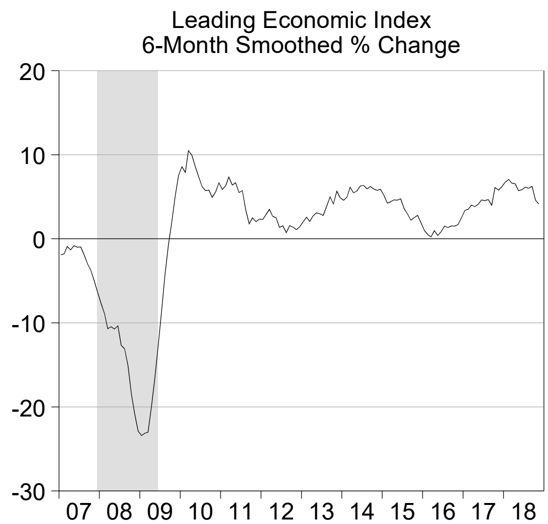


Real GDP expanded at an annual rate of 3.4% in the third quarter, according to the second revision for the quarter. The economy grew 3.8% during the middle two quarters of the year, up from 2.6% during the four quarters ending in the first quarter of 2018. Growth was 3.0% on a year-over-year basis, which is the fastest in just over three years and well ahead of the compound annual rate of 2.2% from the end of the last recession through the first quarter of this year.

Though most signs indicate continuing growth, the economy has exhibited some signs of slowing since the third quarter. Auto sales have been flat, housing activity is in a slump, consumer and business confidence has declined from historically high levels, commodity prices have turned down, and industrial activity has slowed. However, despite some indications of slowing, growth in employment and earnings remains 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 backdrop, the **Ohio economy** expanded moderately again in November, according to the Ohio coincident economic index, which is computed from labor market indicators by the Philadelphia Federal Reserve. The index increased 0.2% after a 0.2% rise the month before and is the fifth monthly increase in a row. Compared with a year ago, the index was higher by 3.1%.

National leading indicators continued to point toward uninterrupted expansion in November, as the Conference Board's composite **Leading Economic Index** increased 0.2% after a 0.3% decrease the month before, which was revised down from an initial report of a 0.1% increase. Seven of the ten components of the index made positive contributions, led by building permits and followed closely by the ISM index for new orders. Consumer expectations for business conditions also made a meaningful positive contribution. Subtracting from the index were initial unemployment claims and the stock market. The Leading Economic Index was 5.5% above its year earlier level, down from a recent high of 7.1% in September but still providing strong evidence that the expansion will continue at least through the winter.



Source: The Conference Board

The **Treasury yield spread** is one leading indicator that has created a great deal of concern about the potential for a recession starting in the near future. The spread is simply the difference between the yield on a long-term Treasury security and a short-term Treasury security. When long-term yields have fallen below short-term yields in the past, the economy has usually slowed and often entered a recession.

In December, the spread between the 10-year Treasury note yield and the 3-month Treasury note yield fell to 47 basis points, which was down from 87 basis points in October, and down from over 100 basis points at the end of 2017, and nearly 200 basis points at the end of 2016. Nevertheless, the significant flattening of the yield curve – that is, the smaller spread between Treasury securities with different maturities – is probably not flashing a signal of imminent recession.

First, the 3-month yield is still below the 10-year yield. Second, to the extent that the curve has been effective at signaling recessions in the past, it largely has been as a measure of credit market tightness. Other measures of credit markets, such as the Federal Reserve Board's quarterly survey of senior loan officers at banks, still indicate that credit is readily available. Finally, the Cleveland Fed estimates that in December the yield spread was consistent with approximately a 24% probability of near-term recession, which is up from 17% in October, but still below the critical threshold.

Elsewhere, sentiment among small businesses deteriorated in November by the largest amount since March, according to the **National Federation of Independent Business (NFIB)**. The decline marks the third in a row from the all-time high reached in August, however it remains at historically high level. Expected business conditions and expected real sales accounted for more than half of the decline. The percent of respondents viewing the current period as a good time to expand declined slightly. Labor markets, capital spending, and sales and inventories all made positive contributions to the overall index.

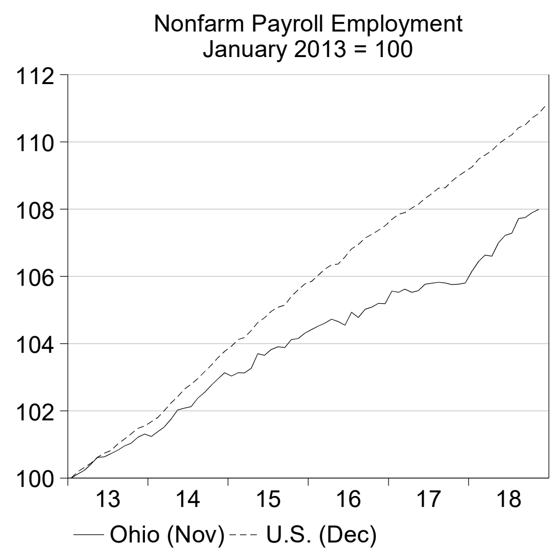
The diffusion of increases in **state-level coincident economic indexes** remained high in November, as the indexes for only three states were lower than a month ago (HI, LA, PA) and three months ago (HI, ME, ND). The number of state indexes lower from the month before in the first month of recession 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.

As shown in the table below, the **consensus among forecasters** is that real GDP growth is slowing in the fourth quarter to approximately 2.5%-2.75%.

Source	**Date**	**2018-Q4 GDP Forecast**
Atlanta FRB (GDPNow)	1/3/19	2.6%
New York FRB (Nowcast)	1/4/19	2.5%
Philadelphia FRB (SPF*)	11/13/18	2.6%
Blue Chip	1/3/19	2.6% (2.0%-3.1%)
IHS	1/4/18	2.8%
*Survey of Professional Forecasters (2nd month of each quarter)		

Employment

Nonfarm payrolls across the country increased by 312,000 jobs in December. Additionally, the October and November gains both were revised higher by a total of 58,000 jobs. The average gain during the most recent three months was 254,000, above the 12-month average of 220,000. For the year, nonfarm payroll employment increased by 2.6 million jobs, about one-fifth more than the gain of 2.2 million jobs in 2017.



All major sectors with the exception of information posted employment gains during December. The largest gains occurred in education and health services (+82,000), reflecting the largest-ever increase in health care (+50,200). Leisure and hospitality employment increased by 55,000 jobs, reflecting strength in food services and drinking places (+40,700). Employment in professional and business services increased by 43,000 jobs, primarily due to gains in administrative and support employment (+23,000). Construction employment rose 38,000, due to hiring in heavy and civil engineering contractors (+16,300) and nonresidential specialty trade contractors (+16,100). Finally, retail employment increased by 23,800 jobs, reflecting strength in general merchandise stores (+15,000) and auto dealers (+6,300).

Despite the strength in hiring, the **unemployment rate** increased by 0.2 points to 3.9%. The number of unemployed rose by 276,000, about half of whom quit their previous jobs. Job leavers as a percent of total unemployed jumped by 1.7 points, rising from 11.6% to 13.3% of the number of unemployed.

The increase is a positive sign, because a downtrend in the ratio has preceded or coincided with the onset of the last seven recessions. The ratio remains below its peak of 14.0% in August, but at 13.3% is little changed from last March.

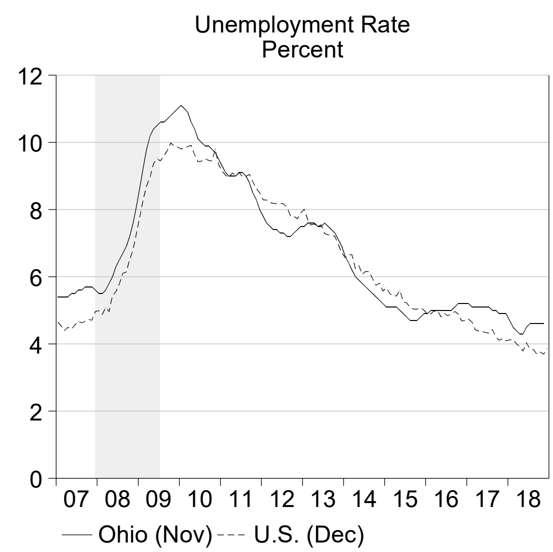
Average hourly earnings of all employees on private nonfarm payrolls increased 0.4% in December to 3.2%, up from 3.1% in November and back to the expansion peak reached in October. The rate of increase in earnings is roughly consistent with economic fundamentals and not necessarily a sign of higher future inflation, considering that it matches the approximately 1% rate of increase in labor productivity, plus the approximately 2% rate of inflation.

Ohio nonfarm payroll employment increased by 5,200 jobs in November and the October increase was revised down from 10,900 jobs to 5,200 jobs. Changes across sectors were mostly positive. Employment increased in professional and business services (+2,800), educational and health services (+1,700), and trade, transportation and utilities (+1,500). Decreases occurred mainly in information (-800), government (-600), financial activities (-400), and leisure and hospitality (-400).

Ohio employment increased by 114,600 jobs year-to-date through November to a new all-time high of almost 5.65 million jobs. The 114,600 increase is the best 12-month job growth number since June 2012. The strongest growth occurred in trade, transportation and utilities (+26,600), educational and health services (+21,200), and professional and business services (+16,600). Leisure and hospitality added 14,200 jobs, and construction and manufacturing employment gained 11,800 jobs and 8,000 jobs, respectively.

Among the **contiguous states**, employment increased on a year-over-year basis in Ohio (+2.1%), Pennsylvania (+1.3%), Michigan (+1.2%), Indiana (+1.0%), and Kentucky and West Virginia (+0.9%). Manufacturing employment increased year-over-year in Ohio (1.5%), West Virginia (1.3%), Michigan (1.2%), Kentucky (1.1%), Indiana (0.7%), and in Pennsylvania (0.6%).

The **Ohio unemployment rate** was 4.6% in November for the fifth month in a row – down by 0.3 points since last December. Total employment decreased by 2,169 workers, while the labor force decreased by 4,814 workers and the number of unemployed decreased by 2,645. The 0.3 percentage point decline in the unemployment rate year-to-date through Nov-ember resulted from an increase of 1,499 workers, a 16,304 decrease in the labor force, and a 17,803 person decline in the number of unemployed.



Across the country in November, the unemployment rate decreased notably from the month before in six states: Connecticut, Florida, Maryland, New York, Oklahoma, and Vermont. Two states had meaningfully higher rates than the month before: Colorado and Hawaii. Changes in the unemployment rate in the remaining 42 states and the District of Columbia were not statistically significant.

<u>Consumer Income and Consumption</u>

Personal income and personal consumption expenditures continued growing in November, but at a slower pace than the month before. **Personal income** growth slowed from 0.5% to 0.2%, as a rise in wage and salary disbursements and farm proprietors' income were partially offset by decreases in personal dividend income and Social Security payments. The increase in payments to farmers resulted from the Market Facilitation Program implemented through the Agriculture Department in late summer to compensate farmers for losses arising from trade actions. Compared with a year ago, personal income and wage and salary disbursements both were higher by 4.2%.

Personal consumption expenditures grew 0.4% in November, down from an increase of 0.8% the month before. Revisions to previous months resulted in slightly faster growth during late summer and early fall. The November gain reflected slower growth in spending on nondurable goods and services. Growth in spending on durable goods increased slightly to a strong 0.9% from 0.8% in the previous month, despite a 0.5% decrease in unit sales of light **motor vehicles**.

Light motor vehicle sales are estimated to have recouped the November decline in December, rising 0.6% to approximately 17.5 million units. At 17.2 million units in 2018, sales exceeded 17 million units for the fourth year in a row for the first time in history. The annual rate of sales peaked at 17.5 million units in 2016. **Consumer confidence** deteriorated further in December due mainly to less promising expectations. Even so, both the Conference Board and University of Michigan indexes remained near historical highs. The Conference Board index fell by 8.3 points, or 6.1%, to 128.1, reflecting an 11.8% drop in the expectations component. Assessments of current conditions fell just slightly.

The University of Michigan index exhibited a similar pattern, with expectations down 1.2% and current conditions up 3.4%. Even after the weakness in recent months, both indexes remained well above their respective historical averages during periods of economic expansion. Sentiment among upper-income respondents increased, while sentiment among lower-income respondents decreased.

The steep decline in stock prices is likely a key cause of the declines in consumer confidence, possibly along with concerns about the potential effects of tensions over international trade in particular and the tone of political discourse in general. In contrast to this, the more than 20% decline in the price of gasoline during the last three months to the lowest level since July 2017 likely bolstered confidence somewhat. Of note, the partial shutdown of the federal government had not yet occurred when the surveys were undertaken

Plans to buy major appliances within the next six months posted a large drop to the lowest level since July 2017, even though views of labor markets continued to improve. The percentage who think jobs are plentiful minus the percentage who think jobs are scarce increased to the highest mark since January 2001, according to the Conference Board survey. But 30% of respondents to the University of Michigan poll expect the unemployment rate to rise, up from 22% in November and the highest percentage in two years.

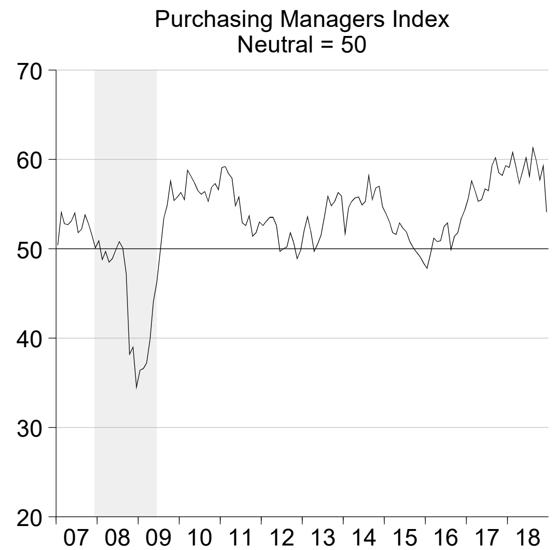
Industrial Activity

Industrial production accelerated to a 0.6% increase in November after a 0.2% decline the month before that was revised down from an initial report of +0.1%. Compared with a year earlier, production is up 3.9%. The November gain was due entirely to a 1.7% rise in **mining** output and a 3.3% increase in **utility** output, which reflected unusually cold weather. **Manufacturing** production was unchanged after a 0.1% decline the month before that was revised down from an initial report of +0.3%. Compared with a year earlier, mining, utility, and manufacturing output were up 13.2%, 4.3%, and 2.0%, respectively.

The slowdown in manufacturing has been abrupt and is of some concern. Production expanded at an annual rate of 6.1% during the three months ending in August and slowed to just 0.3% in the most recent three months. Likely causes of the slowdown are the foreign exchange value of the dollar and uncertainty and costs imposed by tensions over international trade. The trade-weighted value of the dollar decreased by 3.5% during 2017 and 2018 but remained more than 30% higher than at its recent cyclical low in July 2011, making American goods more expensive overseas. Since the end of 2014 – about a year and a half after the value of the dollar really began to rise – exports of goods have increased by only 5.2%, compared with a 10.1% increase in imports of goods.

With the exception of fabricated metals, production across the country in some industries that are key employers in Ohio was positive. Primary metal output increased 2.4%, machinery output was up 0.5%, and motor vehicles and parts production edged higher by 0.3%. Production of fabricated metals decreased 0.1%. Compared with a year ago, production was still higher by 4.5% in fabricated metal Products, and was up by 6.2% in machinery, 5.1% in primary metal, and 3.4% in motor vehicles and parts.

The view of manufacturing by **purchasing managers** in the sector soured markedly in December. The Purchasing Managers Index fell to its lowest level since November 2016. At 54.1, however, the index remained well above the neutral level of 50 and slightly above the 50-year average of approximately 53. The components of the index were uniformly negative, but most of the damage was done by the New Orders index, which fell by 11 points to 51.1. The Backlog of Orders index dropped from 56.4 to 50.0, but trade barometers held up well. The index of New Export Orders increased a bit to 52.8, while the index of New Import Orders slipped to its lowest level since last June but remained above 50.



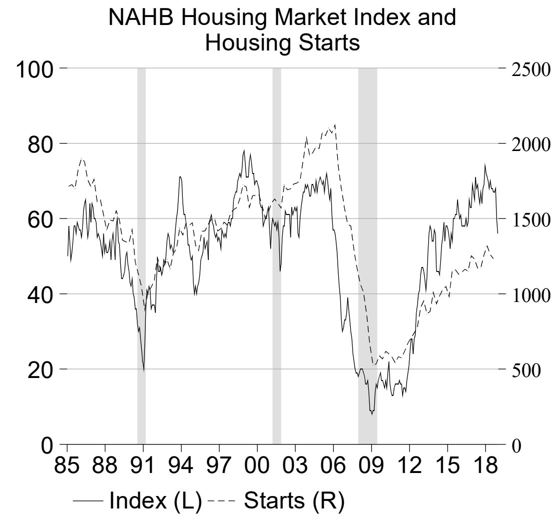
Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, eleven reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, transportation equipment and primary metals reported increases, while fabricated metals reported a decrease, and machinery was stable.

Anecdotes from across industries turned cautionary. A source in the transportation equipment industry reported that, “customer demand continues to decrease” due to “concerns about the economy and tariffs.” A contact in the fabricated metals industry reported, “caution seems to be the outlook.” Finally, a contact in the Machinery industry said that, “the ongoing issues with tariffs … are causing longer-term concerns about costs and sourcing strategies.”

Construction

Overall **construction activity** declined in the second-half of the year. The decrease was entirely due to weakness in residential in both the private and public sectors, as nonresidetial activity posted modest increases. The rise in the 30-year fixed mortgage rate from 4% at the beginning of the year to 4.75% by the end of the year, combined with the cumulative rise in house prices in recent years, is likely a main cause of the weakness. Construction put-in-place data for November have not been released, because of the partial government shutdown. Government data released before the shutdown and private sector data show further deterioration in housing.

The **Housing Market Index** from the National Association of Homebuilders (NAHB) fell for the second month in a row in December, extending the year-long downtrend. The index, which is based on assessments of current sales, expected sales in six months, and traffic of prospective buyers of new homes and which ranges from 0 to 100, peaked at 74 in December 2017 and fell to 56 in December 2018. The index fell from 76 to 52 in the Midwest during the same period. The 18-point year-over-year drop 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.



Source: National Association of Home Builders

Home construction and sales cut against the downtrend by rising in the month of November but continued to weaken on a 3-month moving average basis. Total **housing starts** decreased 0.6% due to a 2.5% decrease in single-family starts that outweighed the 3.8% increase in multi-family starts. Starts are down 6.1% from the expansion peak reached in March and 0.4% from a year ago. Starts fell 5.6% in the Midwest on a 3-month moving average basis in November, reflecting a 0.5% increase in single-family starts and an 18.3% drop in multi-family starts. The more-forward-looking **housing permits** were up across the country and down in the Midwest.

The weakness in housing this year has been widely attributed to higher mortgage rates and home prices as well as 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.

Existing home sales also have been soft. National sales were off 0.1% in November on a 3-month moving average basis for the seventh straight decline, while Midwest sales moved higher by just 1.6% for the fourth consecutive gain. Year-over-year comparisons were both negative, with national sales down 5.4% and Midwest sales down 3.0%.

A contributing factor to slowing home construction and sales is the rise in **home prices**, which nationally posted their 80th straight monthly increase in October to 5.5% above the year earlier level, 50.6% above the cyclical low reached in February 2012, and 11.4% above the previous peak in February 2007, according to the Case-Shiller index.

REVENUES

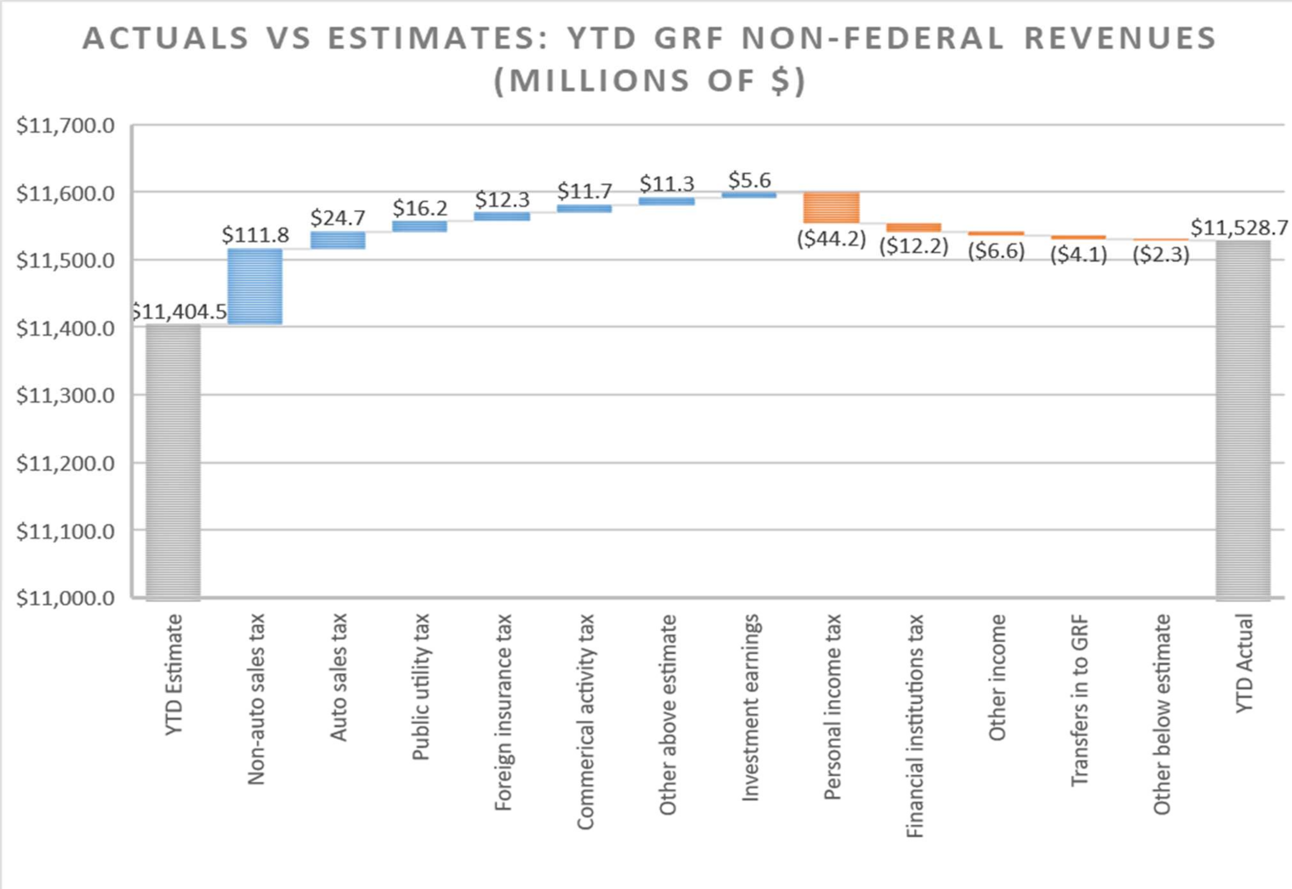
December **GRF receipts totaled $2,498.4 million** and were $123.0 million (4.7%) below the estimate. For the month, tax revenues were $38.2 million (2.0%) below estimate, due to an underage in the personal income tax of $46.8 million. Federal grant revenue was $83.2 million (11.1%) below estimate.

For the year, the largest single variance is in federal grants. Grants are $236.6 million (4.5%) below estimate for the year, due to Medicaid spending being $314.2 million (3.9%) below estimate. Non-federal revenues are $124.1 million (1.7%) above estimate, led by a $128.7 million (1.1%) overage in tax revenues. Non-tax revenues other than federal grants have a slight negative variance of $4.6 million, as underperformance in other income and transfers in slightly more than offsets 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	$128.7	1.1%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($237.1)	-4.4%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	($4.1)	-5.1%
TOTAL REVENUE VARIANCE:		**($112.5)**	**-0.7%**
Non-federal revenue variance		**$124.1**	**1.7%**
Federal grants variance		**($236.6)**	**-4.5%**

Despite the $38.2 million shortfall in tax revenues in December, there is a year-to-date overage of $128.7 million. Year-to-date, the non-auto sales tax still holds has the largest single overage at $111.8 million (2.5%), followed by the auto sales tax at $24.7 million (3.4%), and the public utility excise tax, which overtook the foreign insurance tax for the third highest year-to-date overage at $16.2 million (28.4%).

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 $210.4 million (7.8%) lower than in December of the previous fiscal year. The majority of this difference was due to federal grants, which were $208.7 million (23.9%) lower than last December. For the year, GRF revenues have grown by $536.6 million, driven by tax revenues, which have grown by $538.4 million (5.0%). The income and sales taxes combined have accounted for $458.0 million of that growth. In fact, those growth numbers are understated somewhat due to the fact that the first six months of 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 $609.5 million, or 5.7%.

Unlike November, this month's revenue performance was decidedly mixed, with a number of sources recording 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. The shortfall in federal grants is a function of below estimate Medicaid spending, and the shortfall for personal income appears to be driven in large part by the timing of payments, which will be discussed below in that section.

GRF Revenue Sources Relative to Monthly Estimates – December 2018
($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Non-auto Sales Tax	$7.7	Federal Grants	($83.2)
Auto Sales Tax	$4.1	Personal Income Tax	($46.8)
Public Utility Excise Tax	$4.1	Financial Institutions Tax	($4.3)
Petroleum Activity Tax	$1.3	Alcoholic Beverage Tax	($2.9)
Other Source Above Estimate	$1.5	Cigarette and Other Tobacco Tax	($2.7)
		Other Income	($1.5)
		Other Sources Below Estimate	($0.4)
Total above	**$18.8**	**Total below**	**($141.7)**

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

December non-auto sales and use tax collections to the GRF totaled $845.0 million and were $7.8 million (0.9%) above estimate. This overperformance continues the general trend observed over the first-half of fiscal year 2019 where except for a slight underage in October, non-auto sales tax revenues have exceeded the estimate in each month.

Retail demand is a key factor that influences the non-auto sales tax. As reported by the Cleveland Federal Reserve, retail demand increased slightly during November, overcoming a flat September-October period. Growth had been present for most of calendar year 2018, suggesting that November's slight increase represented a return to the year's normal growth trend, which was reflected in December's sales tax receipts. Given these two strong months and previous performance, it is conceivable that the September-October slowdown was an aberration.

Another working theory OBM has considered to explain the regular overages relates to the *South Dakota v. Wayfair Inc.* Supreme Court decision. As states have begun requiring online retailers to remit sales taxes, retailers may have preemptively started collecting non-auto sales tax revenue for Ohio – either for ease of implementation or in anticipation of changes to Ohio law.

Year-over-year growth in non-auto sales tax revenue to the GRF was $35.2 million (4.3%) compared to December of last year. After adjusting for the impact of the repealed sales tax on Medicaid Health Insuring Corporations (MHICs), growth is 6.0% year-over-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 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 December
($ in millions)

	Dec-17	Dec-18	FY 18 YTD	FY 19 YTD
Non-Auto sales tax GRF	$809.7	$844.9	$4,405.3	$4,594.6
Non-Auto sales tax PLF (Library Fund)	$16.4	$17.7	$97.3	$101.9
Non-Auto sales tax, all funds	$826.1	$862.7	$4,502.6	$4,696.5
MHIC revenues (state)	$0.00	$0.00	$71.7	$0.00
GRF and PLF revenues without MHIC	$826.1	$862.7	$4,430.9	$4,696.5
Change from prior year in non-MHIC collections		$36.6		$265.6
Pct. change from prior year in non-MHIC collections		4.4%		6.0%

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 5% over the previous eleven months.

The improvement in non-auto 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 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 (5.6%) has caught up with Ohio's income tax withholding growth (5.9%). If the two are related, then 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

December auto sales tax revenues were $113.2 million and were $4.1 million (3.8%) above estimate. December represents the fourth overage in the auto sales tax in the last five months, with September being only slightly below the estimate. The latest overage pushes the year-to-date variance up to $24.7 million (3.4%) above estimate.

Auto sales grew nationally by 2.2% in December year-over-year, reversing the slight decline in auto sales realized in November. The 1.6 million units sold made December the second highest sales month in calendar year 2018, resulting in a grand total of 17.3 million total cars and light trucks sold during the year. Kelley Blue Book estimates the average transaction price for new vehicles in December was over $37,000, which is near the record high. Price growth combined with robust sales combined for a strong month of auto sales tax revenue. A temperate December and anticipated raises in interest rates are two factors cited by industry analysts that could have contributed to such a strong December.

Continuing the trend discussed over the last several months, the composition of auto sales has 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. Low gas prices were likely a factor in consumer's decisions to purchase larger less fuel-efficient vehicles in 2018.

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

December GRF personal income tax receipts totaled $761.5 million and were $46.8 million (5.8%) 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. The reason for the December decline rests squarely with the quarterly estimated payments. These payments fell short of estimate by $68.6 million (67.4%). The likely cause of this notable underage is due to changes to the federal income tax deduction for state and local taxes paid.

The federal tax bill enacted by Congress in late 2017 (the Tax Cuts and Jobs Act of 2017) 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. This limitation became effective in 2018. Due to the law change, many taxpayers that make quarterly Ohio estimated income tax payments have less of an incentive to make their fourth quarter payments in December, because they have already reached their maximum annual deductible amount. Instead, many of these fourth quarter payments are now being shifted into the month in which they are due, which is January. Although a modest behavioral change was anticipated, the magnitude of the shift evidently occurring appears to be larger than what was forecasted. However, only once we obtain January 2019 estimated payment results will we be able to draw meaningful conclusions about this particular stream of revenue from the income tax.

After modest shortfalls during the last several months, employer withholding in December finished $25.1 million (3.3%) above estimate. Withholding is now $39.7 million (0.9%) above estimate for the year. It has grown 5.7% above the prior year, compared to 4.8% in anticipated growth.

December is a fairly light month for other types of income tax payments. All other payment categories fell short of estimate by a total of $1.4 million (7.9%) in December. Refunds exceeded estimate by $0.7 million (1.6%).

On a year-over-year basis, December GRF income tax collections were $27.1 million (3.4%) below December 2017 collections, but collections for the year have grown by $224.4 million (5.4%).

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). 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 fiscal year 2019 revenue because the offsetting revenue gain caused by reduced calendar year 2019 income tax refunds will not occur until tax returns are filed in fiscal year 2020. Effective with the February 2019 Monthly Financial Report, OBM's fiscal year 2019 tax revenue estimates shall be updated to reflect the anticipated revenue reduction caused by this change.

FY2019 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Actual December	Estimate December	$ Var	Actual Dec-2018	Actual Dec-2017	$ Var Y-0ver-Y
Withholding	$792.1	$767.0	$25.1	$792.1	$734.6	$57.5
Quarterly Est.	$33.2	$ 101.8	($68.6)	$33.2	$113.2	($80.0)
Annual Returns & 40 P	$9.6	$8.0	$1.6	$9.6	$7.6	$2.0
Trust Payments	$0.8	$1.8	($1.0)	$0.8	$1.8	($1.0)
Other	$5.7	$7.6	($1.9)	$5.7	$7.7	($2.0)
Less: Refunds	($44.7)	($44.0)	($0.7)	($44.7)	($43.7)	($1.0)
Local Distr.	($35.1)	($33.9)	($1.2)	($35.1)	($32.5)	($2.6)
Net to GRF	$761.5	$808.3	($46.8)	$761.5	$788.6	($27.1)

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)

CAT revenues were consistent with the solid performance observed during the first two months of the second quarter of fiscal year 2019. GRF CAT revenues in December were $0.2 million (2.3%) above estimate, pushing second-quarter revenues above estimate by $31.7 million (8.1%). Second quarter CAT revenue grew 12.9% from fiscal year 2018. Revenue performance in the second quarter of fiscal year 2019 was considerably different than that of the first quarter of fiscal year 2019, where revenues fell $20.0 million (5.5%) below estimate and declined 2.4% from fiscal year 2018.

It appears that a high amount of credits claimed against the CAT early this fiscal year, rather than underperformance of taxable receipts, was the primary reason for the poor first quarter. Perhaps some credits that would have been taken in October in prior years were instead accelerated into the first quarter this year, explaining some of the performance disparity of these two most recent quarters.

Financial Institutions Tax (FIT)

As anticipated, December shows negative revenue for the FIT, as a result of refunds. The amount of negative revenue was $4.3 million more than estimated. As discussed in the most recent issues of this report, October is the primary month to reflect the settling-up of the estimated payments made during the January-May period (i.e., in the last half of fiscal year 2018) with the tax liability reported on tax year 2018 returns filed with extension by October 2018. As refunds through this fiscal year have been somewhat larger than anticipated (thus partially offsetting the higher-than-expected tax revenues demonstrated during the last half of fiscal year 2018), year-to-date FIT revenue was $12.2 million (75.2%) below estimate.

Public Utility Tax

Public utility excise tax revenue exceeded expectation by $4.1 million (452.5%) in December. This is the latest evidence of strong growth for this source in fiscal year 2019, with revenue exceeding estimate by $16.2 million (28.4%) for the year. Year-over-year growth so far in fiscal year 2019 was $17.5 million (31.5%). Most of the tax is paid by natural gas distribution companies. OBM will continue to monitor this revenue source both to better understand the dynamics explaining the recent growth and to assess the implications for the remainder of the fiscal year.

Alcoholic Beverage Tax

December revenues from the alcoholic beverage tax were $2.9 million (64.9%) below estimate. Although OBM is not yet aware of the reason for this month's outcome, it is presumed to be non-recurring in nature and not an indication of authentic weakness in this revenue source.

GRF Non-Tax Receipts

GRF non-tax revenues in December totaled $665.0 million and were $84.8 million (11.3%) below estimate. This variance was primarily attributable to Federal grants, which were below estimate by $83.2 million (11.1%) due to underspending in the GRF Medicaid category. Revenues in the Other Income category were $1.5 million (85.1%) below estimate due to lower than anticipated revenues from various refunds, reimbursements, and fines.

Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2019 VS ESTIMATE FY 2019
($ in thousands)

REVENUE SOURCE	MONTH ACTUAL DECEMBER	MONTH ESTIMATE DECEMBER	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	844,949	837,200	7,749	0.9%	4,594,584	4,482,800	111,784	2.5%
Auto Sales & Use	113,211	109,100	4,111	3.8%	743,565	718,900	24,665	3.4%
Subtotal Sales & Use	958,160	946,300	11,860	1.3%	5,338,148	5,201,700	136,448	2.6%
Personal Income	761,503	808,300	(46,797)	-5.8%	4,373,242	4,417,400	(44,158)	-1.0%
Corporate Franchise	988	0	988	N/A	1,179	0	1,179	N/A
Financial Institutions Tax	(6,525)	(2,200)	(4,325)	-196.6%	(28,380)	(16,200)	(12,180)	-75.2%
Commercial Activity Tax	10,029	9,800	229	2.3%	768,754	757,100	11,654	1.5%
Petroleum Activity Tax	2,732	1,400	1,332	95.1%	4,750	2,700	2,050	75.9%
Public Utility	4,972	900	4,072	452.5%	73,072	56,900	16,172	28.4%
Kilowatt Hour	22,477	22,500	(23)	-0.1%	179,207	178,000	1,207	0.7%
Natural Gas Distribution	0	200	(200)	N/A	20,253	17,700	2,553	14.4%
Foreign Insurance	8	0	8	N/A	159,037	146,700	12,337	8.4%
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	73,194	75,900	(2,706)	-3.6%	420,313	417,200	3,113	0.7%
Alcoholic Beverage	1,578	4,500	(2,922)	-64.9%	27,055	29,400	(2,345)	-8.0%
Liquor Gallonage	4,272	4,000	272	6.8%	25,171	24,500	671	2.7%
Estate	0	0	0	N/A	32	0	32	N/A
Total Tax Receipts	1,833,389	1,871,600	(38,211)	-2.0%	11,361,836	11,233,100	128,736	1.1%
NON-TAX RECEIPTS								
Federal Grants	664,222	747,396	(83,175)	-11.1%	5,021,310	5,257,930	(236,620)	-4.5%
Earnings on Investments	0	0	0	N/A	25,239	19,634	5,605	28.5%
License & Fees	555	681	(127)	-18.6%	10,343	9,918	425	4.3%
Other Income	258	1,732	(1,474)	-85.1%	55,134	61,700	(6,565)	-10.6%
ISTV'S	6	0	6	N/A	24	0	24	N/A
Total Non-Tax Receipts	665,041	749,810	(84,770)	-11.3%	5,112,051	5,349,181	(237,131)	-4.4%
TOTAL REVENUES	**2,498,430**	**2,621,410**	**(122,980)**	**-4.7%**	**16,473,886**	**16,582,281**	**(108,395)**	**-0.7%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	0	0	N/A	76,109	80,190	(4,081)	-5.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	0	0	0	N/A	76,109	80,190	(4,081)	-5.1%
TOTAL SOURCES	**2,498,430**	**2,621,410**	**(122,980)**	**-4.7%**	**16,549,995**	**16,662,471**	**(112,476)**	**-0.7%**

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

REVENUE SOURCE	MONTH				YEAR-TO-DATE			
	DECEMBER FY 2019	DECEMBER FY 2018	$ VAR	% VAR	ACTUAL FY 2019	ACTUAL FY 2018	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	844,949	809,737	35,212	4.3%	4,594,584	4,405,251	189,333	4.3%
Auto Sales & Use	113,211	105,444	7,767	7.4%	743,565	699,336	44,229	6.3%
Subtotal Sales & Use	958,160	915,181	42,979	4.7%	5,338,148	5,104,587	233,561	4.6%
Personal Income	761,503	788,612	(27,108)	-3.4%	4,373,242	4,148,803	224,439	5.4%
Corporate Franchise	988	45	942	2083.2%	1,179	2,938	(1,758)	-59.9%
Financial Institutions Tax	(6,525)	(1,965)	(4,560)	-232.1%	(28,380)	(25,039)	(3,341)	-13.3%
Commercial Activity Tax	10,029	9,439	591	6.3%	768,754	729,044	39,710	5.4%
Petroleum Activity Tax	2,732	1,710	1,022	59.7%	4,750	3,280	1,470	44.8%
Public Utility	4,972	1,846	3,127	169.4%	73,072	55,565	17,508	31.5%
Kilowatt Hour	22,477	22,595	(118)	-0.5%	179,207	168,282	10,926	6.5%
Natural Gas Distribution	0	53	(53)	N/A	20,253	16,761	3,492	20.8%
Foreign Insurance	8	1	7	472.6%	159,037	144,844	14,192	9.8%
Domestic Insurance	0	0	0	N/A	2	63	(61)	-97.3%
Other Business & Property	0	0	0	N/A	0	(263)	263	N/A
Cigarette and Other Tobacco	73,194	70,693	2,501	3.5%	420,313	420,847	(534)	-0.1%
Alcoholic Beverage	1,578	4,448	(2,870)	-64.5%	27,055	29,626	(2,571)	-8.7%
Liquor Gallonage	4,272	3,946	326	8.3%	25,171	24,034	1,137	4.7%
Estate	0	14	(14)	N/A	32	114	(82)	-71.7%
Total Tax Receipts	1,833,389	1,816,618	16,771	0.9%	11,361,836	10,823,484	538,352	5.0%
NON-TAX RECEIPTS								
Federal Grants	664,222	872,884	(208,662)	-23.9%	5,021,310	5,004,627	16,683	0.3%
Earnings on Investments	0	0	0	N/A	25,239	15,747	9,492	60.3%
License & Fee	555	352	202	57.4%	10,343	8,970	1,373	15.3%
Other Income	258	1,335	(1,077)	-80.6%	55,134	30,877	24,258	78.6%
ISTV'S	6	1	5	600.7%	24	388	(364)	-93.7%
Total Non-Tax Receipts	665,041	874,572	(209,532)	-24.0%	5,112,051	5,060,609	51,442	1.0%
TOTAL REVENUES	**2,498,430**	**2,691,190**	**(192,760)**	**-7.2%**	**16,473,886**	**15,884,092**	**589,794**	**3.7%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	17,625	(17,625)	N/A	76,109	129,269	(53,160)	-41.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	0	17,625	(17,625)	N/A	76,109	129,269	(53,160)	-41.1%
TOTAL SOURCES	**2,498,430**	**2,708,815**	**(210,385)**	**-7.8%**	**16,549,995**	**16,013,361**	**536,634**	**3.4%**

DISBURSEMENTS

December GRF disbursements, across all uses, totaled $2,295.3 million and were $51.7 million (2.2%) below estimate. This variance was primarily attributable to below estimate disbursements in the Medicaid category and was partially offset by above estimate expenditures in the Primary and Secondary Education category. On a year-over-year basis, December total uses were $236.7 million (9.3%) lower than those of the same month in the previous fiscal year, with a large decrease in Medicaid largely responsible for the difference. Year-to-date variances 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)	($318.9 Million)	-1.8%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$0.9 Million	0.1%
TOTAL DISBURSEMENTS VARIANCE:		**($318.0 Million)**	**-1.8%**

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. December disbursements for this category totaled $645.7 million and were $29.7 million (4.8%) above estimate. This variance was primarily attributable to above estimate spending in the Foundation Funding line item where expenditures totaled $570.5 million and were $23.8 million (4.4%) above estimate and the Pupil Transportation line item, which was $8.7 million (19.9%) above estimate. The Foundation Funding line item was above estimate due to reconciliation payments for fiscal year 2018 and an update to current year data for Career-Technical Education. Disbursements in the Pupil Transportation line item were above estimate due to updates to current year ridership data. These variances were partially offset by below estimate disbursements in the Early Childhood Education line item, which was $5.7 million below estimate due to the shifting of payments to a non-GRF funding source in December.

Total expenditures for the school foundation program totaled $637.5 million and were $33.8 million (5.6%) above estimate. Year-to-date disbursements for the Primary and Secondary Education category were $4,197.0 million, which is $45.3 million (1.1%) above estimate.

On a year-over-year basis, disbursements in this category were $31.4 million (5.1%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $53.2 million (1.3%) higher than the same point in fiscal year 2018.

Higher Education

December disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $188.5 million and were $0.5 million above estimate. This variance was primarily attributable to spending in the Technology and Maintenance Operation line item, which was above estimate by $1.7 million due to the shifting of payments from October and November to December. This variance was partially offset by spending in the Ohio College Opportunity Grant Program, which was below estimate by $2.3 million due to the timing of requests for reimbursement from higher education institutions. These requests were significantly over estimates in October and November leading to lower requests for reimbursement in December.

Year-to-date disbursements were $1,147.0 million, which was $6.6 million (0.6%) below estimate. On a year-over-year basis, disbursements in this category were $30.3 million (13.8%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $2.3 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.

December disbursements in this category totaled $7.2 million and were $3.0 million (70.8%) above estimate. Year-to-date disbursements were $45.2 million, which was $3.2 million (7.5%) above estimate. On a year-over-year basis, disbursements in this category were $2.8 million (63.6%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $3.3 million (7.8%) 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.

<u>Expenditures</u>
December GRF disbursements for the Medicaid Program totaled $1,086.1 million and were $70.4 million (6.1%) below estimate and $208.7 million (16.1%) below disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $7,789.6 million and were $314.2 million (3.9%) below estimate and $164.7 million (2.2%) above disbursements for the same point in the previous fiscal year.

December all-funds disbursements for the Medicaid Program totaled $2,578.6 million and were $168.1 million (7.0%) above estimate and $409.7 million (18.9%) above disbursements for the same month in the previous fiscal year. Year-to-date all-funds disbursements totaled $13,440.2 million and were $930.7 million (6.5%) below estimate and $183.6 million (1.3%) below disbursements for the same point in the previous fiscal year.

The December all-funds variance is primarily attributable to a Hospital Care Assurance Program (HCAP) payment, which was budgeted for earlier in the fiscal year, but was not paid until December. This expense explains why the GRF variance was below estimate but on an all funds basis the variance was above estimate.

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 6.0%, 2.9%, and 9.4%, 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)

	Dec. Actual	Dec. Projection	Variance	Variance %
GRF	$ 1,086.1	$ 1,156.6	$ (70.4)	-6.1%
Non-GRF	$ 1,492.4	$ 1,253.9	$ 238.5	19.0%
All Funds	$ 2,578.6	$ 2,410.5	$ 168.1	7.0%

<u>Enrollment</u>
Total December enrollment for the program was 2.84 million, which was 146,488 (4.9%) below the estimate and 171,883 (5.7%) below enrollment for the same period last fiscal year. Year-to-date average monthly enrollment was 2.88 million and was 100,961 (3.4%) below estimate.

December enrollment by major eligibility category was: Covered Families and Children, 1.60 million; Aged, Blind and Disabled (ABD), 486,452; Group VIII Expansion, 618,611; and Other Full Benefits, 13,867 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.

December disbursements in this category totaled $109.5 million and were $2.1 million (1.9%) below estimate. Year-to-date disbursements were $675.1 million, which was $49.2 million (6.8%) below estimate. On a year-over-year basis, disbursements in this category were $5.4 million (5.1%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $20.3 million (3.1%) higher than at the same point in fiscal year 2018.

Department of Job and Family Service

December disbursements for the Department of Job and Family Services totaled $61.6 million and were $2.2 million (3.4%) below estimate. This variance was primarily attributable to the Child Support Local line item, which was $1.5 million below estimate due to county draws being lower than anticipated. This balances the November draws which were approximately $1.45 million above estimate. Additionally, the TANF State/Maintenance of Effort line item was $1.2 million below estimate due to disbursements for Ohio Works First recipients being lower than anticipated for the TANF administrative allocation. These variances were partially offset by the Information Technology Projects line item, which was approximately $1.5 million over estimate as the result of payment of invoices from DAS for OIT charges.

Department of Mental Health and Addiction Services

December disbursements for the Department of Mental Health and Addiction Services totaled $34.4 million and were nearly at the estimate. However, there was variability within individual line items. Notably, the Hospital Services line item was $2.2 million above estimate, due largely to the timing of OIT related payments while the Addiction Services Partnership with Corrections and the Community Innovations line items were below estimate, both due to the timing of payments.

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.

December disbursements in this category totaled $207.9 million and were $7.7 million (3.9%) above estimate. Year-to-date disbursements were $1,197.3 million, which was $18.4 million (1.6%) above estimate. On a year-over-year basis, disbursements in this category were $0.8 million lower than for the same month in the previous fiscal year while year-to-date expenditures were $73.7 million (6.6%) higher than at the same point in fiscal year 2018.

Department of Rehabilitation and Correction

December disbursements for the Department of Rehabilitation and Correction totaled $167.2 million and were $8.8 million (5.6%) above estimate. This variance was primarily attributable to. the Halfway House line item, which was $16.1 million above estimate due to payments that were planned for January occurring early and the Institutional Operations line item, which was $4.1 million below estimate due to variation in the need for overtime pay during the holiday season. This variance was partially offset by the Community Nonresidential Programs line item, which was $5.0 million below estimate due to changes to TCAP payments to counties so they occur quarterly rather than evenly across the year. Additionally, the Institution Medical Services line item was $1.5 million above estimate due to timing of payments.

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.

December disbursements in this category totaled $29.6 million and were $5.7 million (16.1%) below estimate. Year-to-date disbursements were $194.0 million, which was $6.9 million (3.4%) below estimate. On a year-over-year basis, disbursements in this category were $0.9 million (2.9%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $4.5 million (2.4%) higher than at the same point in fiscal year 2018.

Department of Taxation
December disbursements for the Department of Taxation totaled $6.0 million and were $1.5 million (19.9%) below estimate. This variance in the Operating Expense line item is primarily attributable to a delay in charges for office space rental, but also IT costs that were expected to be paid during December, delays in billing from DAS OIT, and some technology projects that were cancelled. Some of these payments are now expected to occur in January.

Department of Transportation
December disbursements for the Department of Transportation totaled $0.6 million and were $2.1 million below estimate (76.9%). This variance is primarily attributable to the Public Transportation - State line, which was $1.1 million below estimate and the Airport Improvements-State line, which was $1.0 million below estimate. Variances in both lines are due to the timing of project expenditures, payments to grantees, and reimbursement requests from contractors.

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. December property tax reimbursements totaled $1.0 million and were $14.2 million (93.5%) below estimate. Year-to-date disbursements totaled $905.5 million and were $7.9 million (0.9%) below estimate. The monthly variance was due to reimbursement requests being received from counties earlier than anticipated.

Debt Service

December payments for debt service totaled $19.7 million and were $0.3 million (1.3%) below estimate. Year-to-date disbursements totaled $934.4 million and were $0.8 million (0.1%) below estimate.

Transfers Out

There were no transfers out in December and none were estimated. Year-to-date transfers totaled $752.8 million and were $0.9 million (0.1%) above estimate.

Table 3

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**ACTUAL DECEMBER**	**ESTIMATED DECEMBER**	**$ VAR**	**% VAR**	**YTD ACTUAL**	**YTD ESTIMATE**	**$ VAR**	**% VAR**
Primary and Secondary Education	645,694	615,956	29,739	4.8%	4,197,036	4,151,767	45,269	1.1%
Higher Education	188,489	187,996	493	0.3%	1,147,019	1,153,654	(6,635)	-0.6%
Other Education	7,245	4,243	3,002	70.8%	45,173	42,014	3,159	7.5%
Medicaid	1,086,133	1,156,563	(70,430)	-6.1%	7,789,622	8,103,831	(314,210)	-3.9%
Health and Human Services	109,489	111,594	(2,105)	-1.9%	675,073	724,303	(49,230)	-6.8%
Justice and Public Protection	207,923	200,197	7,726	3.9%	1,197,257	1,178,894	18,363	1.6%
General Government	29,628	35,324	(5,696)	-16.1%	193,952	200,832	(6,880)	-3.4%
Property Tax Reimbursements	990	15,147	(14,157)	-93.5%	905,520	913,447	(7,927)	-0.9%
Debt Service	19,701	19,963	(262)	-1.3%	934,361	935,139	(778)	-0.1%
Total Expenditures & ISTV's	**2,295,294**	**2,346,982**	**(51,689)**	**-2.2%**	**17,085,011**	**17,403,880**	**(318,869)**	**-1.8%**
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	657,503	657,503	0	0.0%
Operating Transfer Out	0	0	0	N/A	95,337	94,430	906	1.0%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**0**	**0**	**0**	**N/A**	**752,840**	**751,933**	**906**	**0.1%**
Total Fund Uses	**2,295,294**	**2,346,982**	**(51,689)**	**-2.2%**	**17,837,851**	**18,155,814**	**(317,962)**	**-1.8%**

Table 4

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

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	DECEMBER FY 2019	**DECEMBER FY 2018**	**$ VAR**	**% VAR**	**ACTUAL FY 2019**	**ACTUAL FY 2018**	**$ VAR**	**% VAR**
Primary and Secondary Education	645,694	614,293	31,402	5.1%	4,197,036	4,143,826	53,210	1.3%
Higher Education	188,489	218,748	(30,260)	-13.8%	1,147,019	1,149,269	(2,250)	-0.2%
Other Education	7,245	4,428	2,817	63.6%	45,173	41,908	3,266	7.8%
Medicaid	1,086,133	1,294,801	(208,667)	-16.1%	7,789,622	7,624,963	164,658	2.2%
Health and Human Services	109,489	104,138	5,351	5.1%	675,073	654,805	20,268	3.1%
Justice and Public Protection	207,923	207,110	813	.4%	1,197,257	1,123,579	73,678	6.6%
General Government	29,628	30,521	(894)	-2.9%	193,952	189,479	4,473	2.4%
Property Tax Reimbursements	990	41,698	(40,708)	-97.6%	905,520	906,420	(901)	-0.1%
Debt Service	19,701	16,034	3,668	22.9%	934,361	897,879	36,481	4.1%
Total Expenditures & ISTV's	**2,295,294**	**2,531,771**	**(236,477)**	**-9.3%**	**17,085,011**	**16,732,127**	**352,884**	**2.1%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	657,503	0	657,503	N/A
Operating Transfer Out	0	229	(229)	N/A	95,337	69,001	26,336	38.2%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**0**	**229**	**(229)**	**-100.0%**	**752,840**	**69,001**	**683,839**	**991.1%**
Total Fund Uses	**2,295,294**	**2,532,000**	**(236,706)**	**-9.3%**	**17,837,851**	**16,801,128**	**1,036,723**	**6.2%**

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 reduce 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.

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