Ohio | Office of Budget and Management

Mike DeWine, Governor
Jon Husted, Lt. Governor

Kimberly Murnieks, Director

March 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

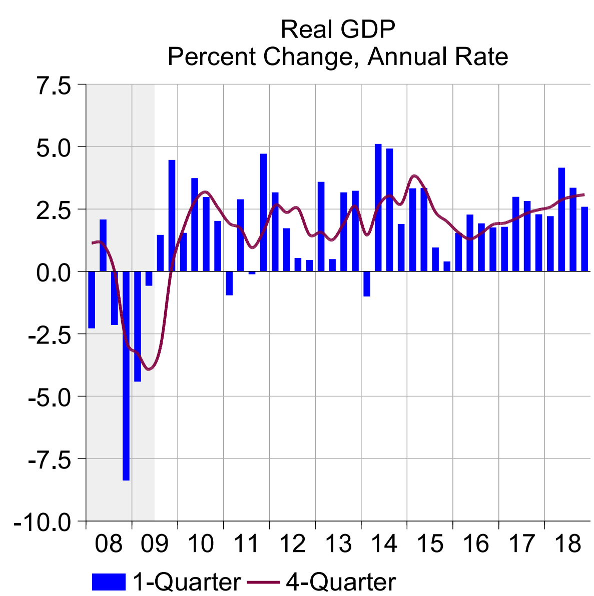
- Tax revenues were below estimate by $7.3 million for the month. This was primarily due to a timing related variance in the Foreign Insurance tax, which was $22.7 million below estimate. Sales tax revenues were $11.6 million below estimate, but remain $131.0 million above estimate year-to-date, primarily due to the Non-auto Sales tax.
- Ohio nonfarm payroll employment increased by 20,300 jobs in January, but the December level was adjusted down by 67,500 jobs in the regular annual benchmark revisions. The unemployment rate ticked up to 4.7% in January after holding steady at 4.6% for the last nine months of 2018.
- U.S. employment increased by only 20,000 jobs in February, pulling down the 3-month average to 186,000. However, the unemployment rate decreased 0.2 points to 3.8%, and average hourly earnings rose 0.4% to 3.4% above the year earlier – the best since April 2009.
- The economy expanded at an annual rate of 2.6% in the fourth quarter and was 3.1% larger than a year earlier. Leading economic indicators point to slower but continued growth.

ECONOMIC SUMMARY

Economic Growth

Real GDP expanded at an annual rate of 2.6% in the fourth quarter. Growth exceeded expectations but was well below the 3.8% pace during the two previous quarters. Growth was 3.1% from the fourth quarter of 2017 to the fourth quarter of 2018 – the best calendar year increase during this expansion. Year-over-year growth has been stronger in only three other quarters of the expansion.

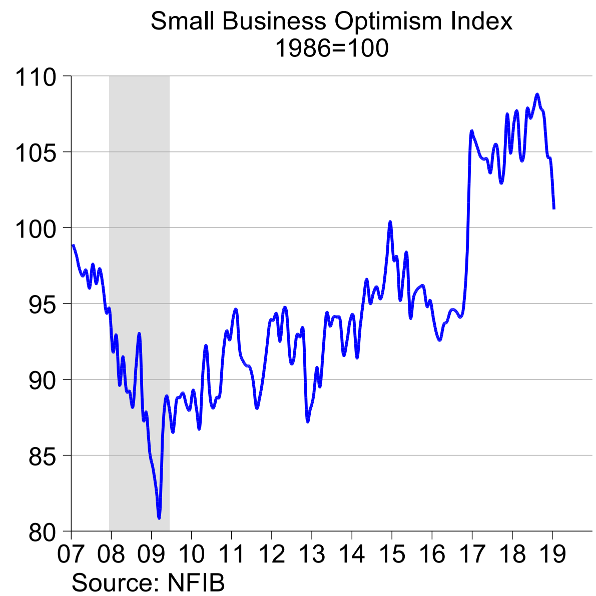
Growth during the quarter was driven by consumer spending and business investment. Personal consumption expenditures contributed



1.92 percentage points to the 2.6% GDP growth rate, and nonresidential investment added 0.82 percentage points. Exports added 0.19 percentage points, and the change in inventories added another 0.14 percentage points. Subtracting from growth were imports (-0.41pp), which are included as production in other categories and backed out in a separate line item, and residential fixed investment (-0.14pp).

Compared with a year earlier, consumer spending accounted for about 60% of the fourth-quarter to fourth-quarter growth rate, while investment contributed the remaining 40%. The contribution from investment came entirely from businesses, as investment in residential structures fell slightly. The small positive contribution from government was approximately offset by a similar sized decline in trade.

The mood of small business owners has moved in sync with the slowing economy. The Small Business Optimism Index of the **National Federation of Independent Business (NFIB)** fell for the fifth month in a row in January to its lowest level in more than two years. Seven of the ten components of the index declined, while the other three increased. Aside from an adjustment in inventory investment plans that had been unsustainably high, approximately half of the January decline came from lower expectations for real sales growth and business conditions in the second-half of the year.



Economic activity in and around Ohio reportedly grew at a modest pace from mid-December to mid-February, according to a regular survey by the Federal Reserve Bank of Cleveland. Home sales responded positively to the decline in mortgage rates, although retailers noted a softening in demand following the holiday season. Reports from manufacturers were mixed, with some expressing uncertainty about the global economy. Employment in the area increased modestly, with wages rising moderately across sectors and occupations.

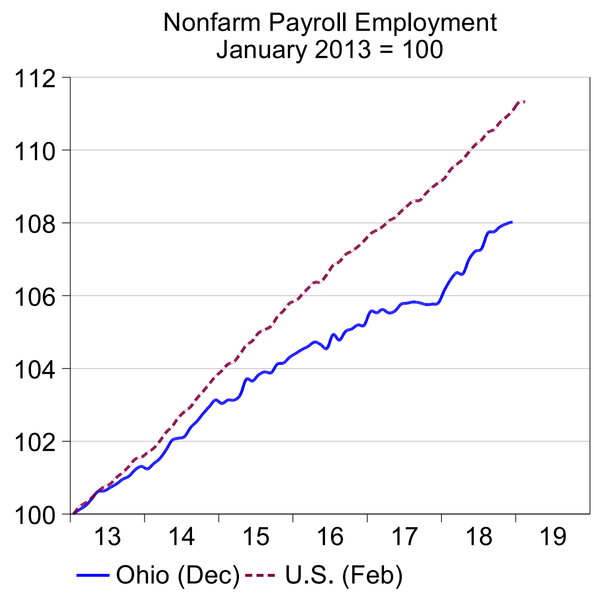
A weakening in leading indicators in recent months points toward a further slowing in growth. The December change in the Conference Board's composite **Leading Economic Index** was revised up from -0.1% to unchanged, but the index declined 0.1% in January. The index remains below its September level and the 12-month rate of change has declined from 6.8% in September to 3.2% in January. The recent pattern is more consistent with a return toward growth near 2% than an outright recession in the near-term.

As shown in the table below, the **consensus among forecasters** is that real GDP growth is slowing further in the first quarter.

Source	Date	2019-Q1 GDP Forecast
Atlanta FRB (GDPNow)	3/6/19	0.5%
New York FRB (Nowcast)	3/1/19	0.9%
Blue Chip	3/6/19	1.9% (1.3%-2.5%)
IHS	3/8/19	1.2%

Employment

Nonfarm payrolls across the country increased by just 20,000 jobs in February and the 3-month average increase declined to 186,000 from 241,000 last month (before revisions). The changes to employment in each of the previous two months were revised up by a total of 12,000 jobs. Nonfarm payroll employment increased by 2.51 million jobs during the most recent twelve months, a tenth more than the gain of 2.26 million jobs during the previous 12-month period. The initial reaction of analysts was that the February Employment Situation Report was distorted by the government shutdown and weather patterns and warrants a cautious approach.



Employment changes were weak in all major categories with the exception of professional and business services (+42,000) where professional and technical services (+22,000) and administrative and support services (+14,600) posted sizable gains. The only other pocket of net hiring was health care (+20,800), which was not strong enough to compensate for weakness in educational services (-18,700) and education and health services (+4,000).

Elsewhere, construction employment dropped 31,000 jobs, mostly in heavy and civil engineering construction (-13,200) and specialty trade contractors (-13,500). Leisure and hospitality, which is another weather-sensitive sector, posted no change to employment. Manufacturing employment increased by just 4,000 jobs, while trade, transportation and utilities increased by just 2,000 jobs, held back by retail (-6,000) and transportation and warehousing (-3,000).

A positive development, especially from a business cycle perspective, was that the **unemployment rate** decreased by 0.2 points to 3.8% from an expansion-high of 4.0% in January. The decline puts the rate just 0.1 point above the low during the previous twelve months, strongly suggesting that the economy will continue to expand in coming months. Increases in the unemployment rate by 0.4 points or more from the previous 12-month low historically have marked the onset of recession.

Another positive development was that **average hourly earnings** of all employees on private nonfarm payrolls increased 0.4% in February to 3.4% year-over-year – the best since April 2009. The rate of increase in earnings is roughly consistent with economic fundamentals and not necessarily a sign of higher future inflation, considering that productivity growth has picked up in recent quarters.

Ohio nonfarm payroll employment increased by 20,300 jobs in January, but the December 2018 level was adjusted downward by 67,500 jobs in the regular annual benchmark revision. Nonfarm payroll employment in Ohio increased by 44,700 jobs from December 2017 to December 2018, much lower than had been reported for the December 2017 to November 2018 period.

Changes across sectors were mixed in January, with employment higher in education and health services (+7,300), trade, transportation and utilities (+6,500), and leisure and hospitality (+4,200). During the twelve months ending in January 2019, Ohio employment increased 19,300 jobs in education and health services, 11,000 jobs in manufacturing, and 10,600 jobs in leisure and hospitality. Nonfarm payroll employment in Ohio increased by 55,500 jobs from January 2018 to January 2019.

Among the **contiguous states**, employment increased on a year-over-year basis in West Virginia (+2.7%), Kentucky (+1.2%), Indiana (+1.1%), Michigan (+1.1%), Ohio (+1.0%), and Pennsylvania (+0.8%). Manufacturing employment increased year-over-year in West Virginia (2.1%). Ohio (1.6%), Michigan (1.5%), Indiana (1.0%), Kentucky (0.9%), Pennsylvania (0.7%).

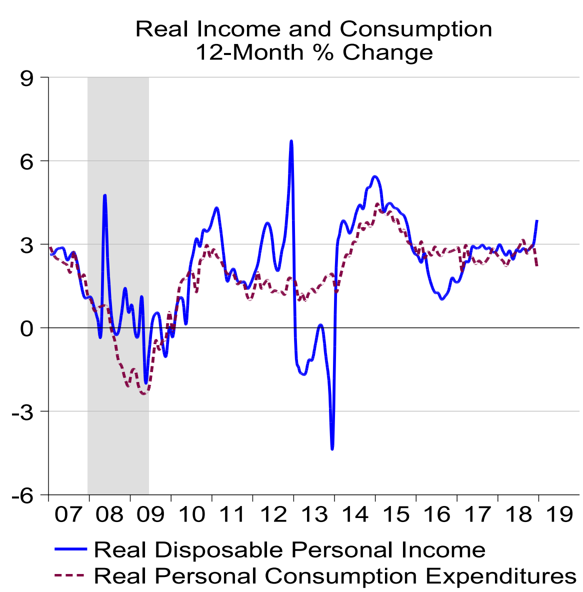
The **Ohio unemployment rate** was 4.7% in January, which was 0.2 points higher than the January 2018 level. The 0.2 percentage point increase in the unemployment rate during the year resulted from an increase of 10,290 workers, a 21,910 increase in the labor force, and a 11,620 person increase in the number of unemployed.

Consumer Income and Consumption

Consumer income and spending weakened at the turn of the year. Personal income fell 0.1% in January for a 4.3% year-over-year increase. The decline on the month largely reflected a large one-off corporate dividend payment and one-time Agricultural Department subsidies to farmers in December. Wage and salary disbursements, which were not affected by the one-time events, increased 0.3% in January after a 0.5% increase in December for a 4.2% year-over-year increase.

Data on consumer spending for January are not yet available because of delays caused by the government shutdown. We do know that spending contracted in December, as retail sales fell 1.2% in a broad-based decline and personal consumption expenditures pulled back by 0.5%. In the case of personal consumption, durable goods and nondurable goods posted declines while services managed a slight 0.1% increase.

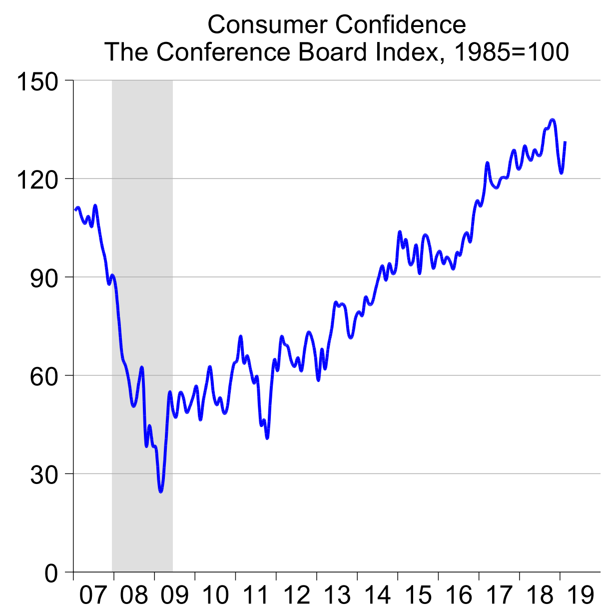
At the very least, the weakness continued into January in the motor vehicles sector where unit sales of light motor vehicles fell 4.7% from December to a seasonally adjusted annual rate of 16.7 million units. Early reports suggest that unit sales fell modestly further to a 16.5-million-unit annual rate in February.



Consumer credit remained widely available through the end of the year, according the to the Federal Reserve Board's Senior Loan Officer Opinion Survey on Bank Lending Practices, although banks stopped loosening standards for mortgage loans and modestly tightened standards for credit card, auto, and other loans. At the same time, banks reported an abrupt weakening in demand for credit card, auto, and other loans.

Strength in labor markets is likely to support a revival in income and spending growth in coming months. Hourly earnings recently have been growing at about the best pace in years while the length of the workweek has remained relatively stable. While the debt service burden for both mortgage loans and consumer debt remain low-to-moderate, consumers' moods picked up in February after a several-month period of weakness.

The Conference Board Index of **Consumer Confidence** increased substantially in February, primarily reflecting brighter expectations, although assessments for current conditions also improved. The University of Michigan Index of Consumer Sentiment rose by a smaller amount during the month, fueled by a slightly more positive outlook. In both surveys, improvements occurred among households with higher incomes.



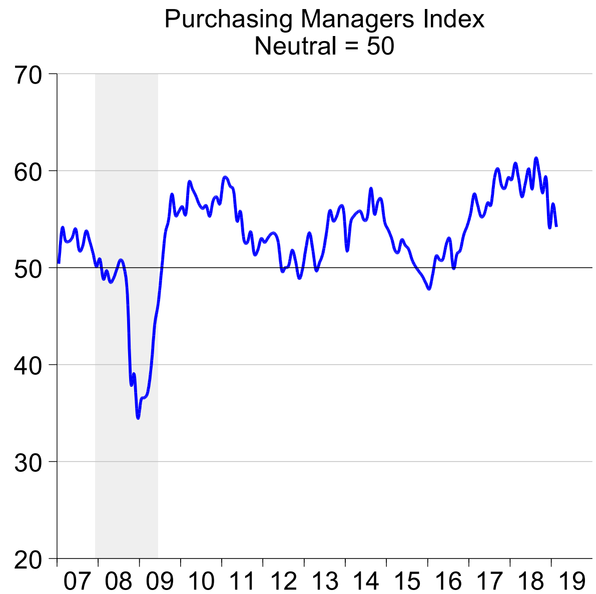
The end of the government shutdown and the slim prospect of another likely bolstered confidence, along with the firm recovery in the stock market. Stability in gas prices through mid-month likely helped as well, although they rose in the second half. Plans to buy major appliances, homes, and autos were mixed across the two surveys, with intentions receding according to the Conference Board survey and plans rising according to the University of Michigan survey.

Industrial Activity

Industrial production decreased 0.6% in January, in contrast to expectations for a small increase. Manufacturing production decreased 0.9%, while mining and utility output were up modestly. In combination with revisions to previous months, the January report was consistent with a notable slowdown in industrial production in the first quarter and a reason that forecasters lowered projections for first-quarter GDP growth.

The decline in manufacturing production essentially reversed a 0.8% increase in December that was revised down from a 1.0% rise. Among industries that are key employers in Ohio, production fell 0.2% in primary metal, 0.5% in machinery, and a much larger-than-expected 8.8% in motor vehicles and parts. Production in the fabricated metal industry was up 0.4% for the sixth straight monthly gain.

Purchasing managers in manufacturing reported somewhat less widespread gains in activity during February. The Purchasing Managers Index (PMI) declined by 2.4 points to 54.2, which is still comfortably above the neutral level of 50 but below the average during the last two years. Respondents to the monthly survey reported an increased order backlogs, which points to better activity, and some strength in both export and import orders, but all other measures softened. In particular, the New Orders index fell 2.7 points to 55.5 and the Production index declined 4.7 points to 54.8.



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

Anecdotes from across industries turned positive from a previously cautionary tone. A source in the transportation equipment industry said that business is, "still fairly steady with production and services." A contact in the fabricated metals industry reported, "Business so far this year is meeting, but not exceeding, our forecast. We are concerned about indicators showing a slight recession for the second half of the calendar year." Finally, a contact in the machinery industry reported that, "Orders remain strong. Supplier delivery continues to be challenged on some commodities."

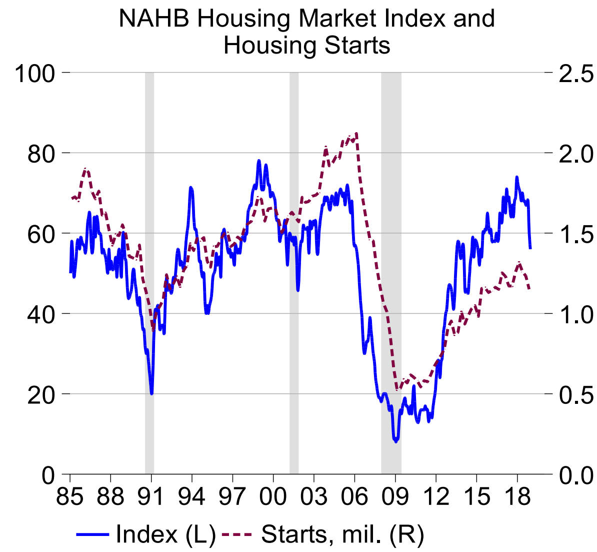
Construction

Construction put-in-place decreased 0.6% in December after a 0.8% rise the month before. Compared with a year ago, total construction put-in-place was higher by 1.6%, but that was down from 6.0% as recently as August. Private sector construction decreased 0.6% to only 0.8% above the year ago level. Public construction was off 0.6% to 4.2% above the year earlier level. Total, private, and public were all down in the second-half of the year.

Within the private sector, residential fell 1.4%, as the 3.2% decrease in the much larger single-family category outweighed the 3.1% increase in the multi-family category. It is of concern that the level of single-family construction put-in-place in December was 7.2% below its June 2018 pace. Private nonresidential construction put-in-place increased 0.4% in December, but that was not enough to recoup the 1.1% loss the month before.

Public sector construction fell 0.6% in December, reflecting weakness in both residential and nonresidential. Public residential is a small category, but dropped 5.1% in December to nearly 20% below its May level. Nonresidential decreased 0.6% with weakness concentrated in highway, health care, and transportation that far outweighed increases in office and commercial.

The **Housing Market Index** (HMI) from the National Association of Homebuilders (NAHB) recovered further in February after a steep fall in November and December 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. The HMI recovered in the Midwest in February after a steep 3-month decline through January. The downward trend in the national index during the past year has been sufficiently pronounced to warrant concern.



Source: National Association of Home Builders

Housing starts improved in January on a 3-month moving average basis after a large decline in December. Total starts moved up by 0.6%, reflecting a 2.6% rise in single-family starts that just outweighed the 4.0% decline in the smaller multi-family category. In contrast, the downswing intensified in the Midwest, where starts fell 15.5% due to declines of 3.7% in single-family and 45.3% in multi-family starts, all on a 3-month moving average basis.

The more forward-looking **housing permits** were more positive, with the national total rising 2.0% for the third consecutive monthly increase, as multi-family gained enough to offset a decrease in single-family. Permits also rose across the Midwest by 1.4% with a strong multi-family increase more than offsetting a decline in single-family.

Existing home sales fell 1.8% nationally and 2.7% in the Midwest on a 3-month moving average basis in January. Year-over-year comparisons were both negative, with national sales down 9.2% and Midwest sales down 8.5%, again on the 3-month moving average basis. The more forward-looking Pending Home Sales index stabilized in January, rising slightly both across the country and in the Midwest. **New home sales** rose 3.4% in January on a 3-month moving average basis across the country and 1.8% in the Midwest.

The weakening trend in housing has been widely attributed to increases in mortgage rates and home prices earlier in the year and less favorable tax treatment for property taxes and mortgage interest. Mortgage rates have retreated somewhat, and price gains have slowed, but the tax effects might still be affecting demand. Beyond the near-term, underlying demographics are expected to provide some support to the market.

Home prices posted their 82nd straight monthly increase in December to 4.7% above the year earlier level, 51.3% above the cyclical low reached in February 2012, and 11.9% above the previous peak in February 2007, according to the Case-Shiller index. As reported by Freddie Mac, home prices increased 0.8% in the fourth quarter on a seasonally adjusted basis to 5.2% year-over-year, down from 7.1% in 2017. In comparison, prices across Ohio increased 1.3% in the quarter and 5.7% from a year ago, a little bit slower than the 6.2% rise in 2017. In major metro areas in Ohio, prices increased 1.9% in the quarter and 6.9% from a year ago in Cincinnati, which was slightly faster than the 6.6% increase in 2017; 1.5% in the quarter and 5.8% from a year ago in Cleveland, which was up from 5.6% in 2017; and 1.4% in the quarter and 6.6% from a year ago in Columbus, compared with 7.4% in 2017.

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.*

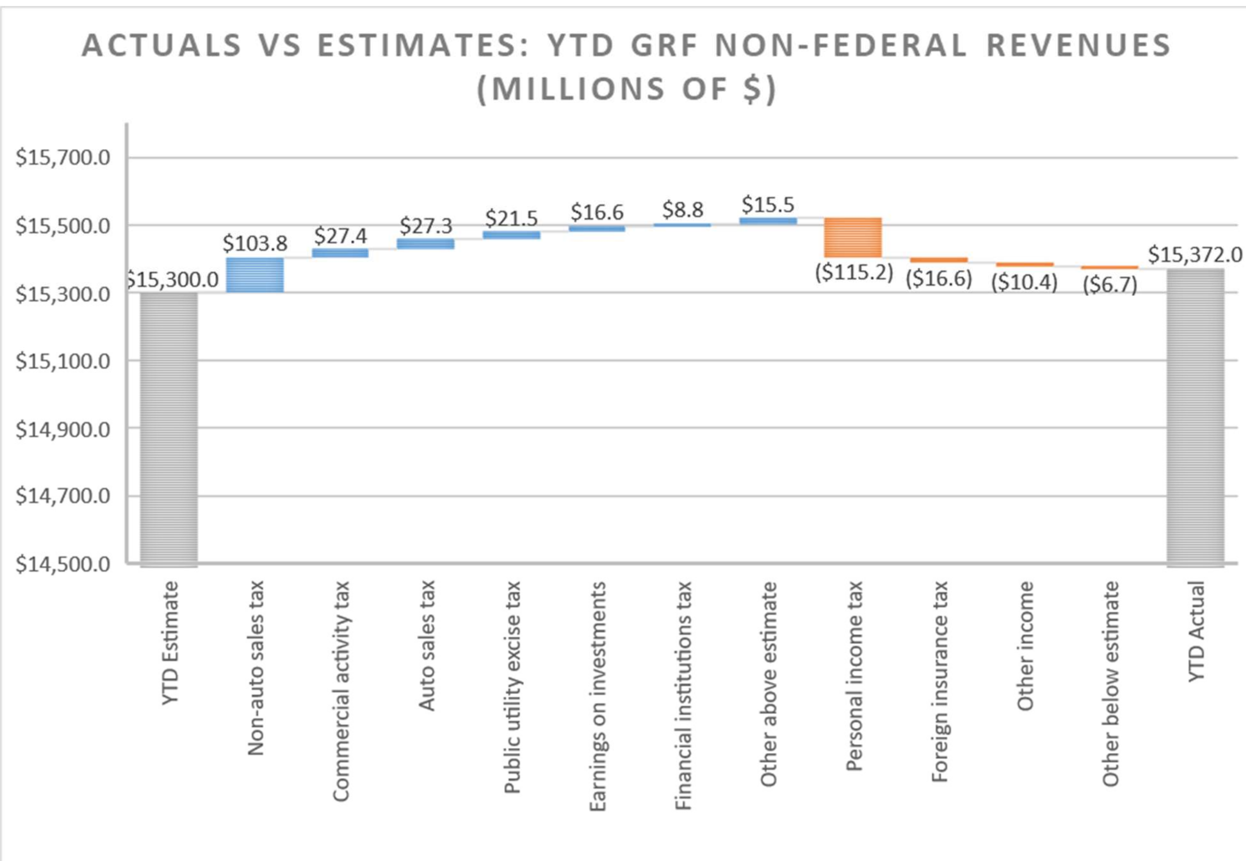
February **GRF receipts totaled $2,263.4 million** and were $86.1 million (3.7%) below the estimate. For the month, tax revenues were $7.3 million (0.5%) below estimate. The variance was primarily attributable a timing-driven variance in the foreign insurance tax, which was $22.7 million (18.1%) below estimate. However, early March revenues show that the variance was due only to the unpredictable split between February and March revenues, which was a result of the tax being due March 1. Non-federal revenues were below estimate $8.4 million (0.5%). Over ninety percent of the total February revenue underage was due to federal grants, which were $77.8 million (10.3%) below estimate, due to GRF Medicaid spending being $96.4 million below estimate.

For the year, the GRF revenues are $352.1 million (1.6%) below estimate. Tax revenues are $70.9 million (0.5%) above estimate, and non-federal revenues are $72.0 million (0.5%) above estimate. Federal grants are $424.1 million (6.1%) below estimate, but this was not a net negative for the GRF, since it was driven by Medicaid GRF underspending of $555.5 million (5.2%).

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	$70.9	0.5%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($417.3)	-5.9%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	($5.7)	-6.5%
TOTAL REVENUE VARIANCE:		**($352.1)**	**-1.6%**
Non-federal revenue variance		**$72.0**	**0.5%**
Federal grants variance		**($424.1)**	**-6.1%**

Both the non-auto and auto sales tax categories were below estimate in February. However, both remain well above estimate for the year; the non-auto sales tax was $103.8 million (1.7%) above estimate for the year, and the auto sales tax was $27.3 million (2.9%) above estimate for the year. While the non-auto sales tax continues to be the largest year-to-date over performance, the auto sales tax, was narrowly overtaken in February by the CAT for the position of second-largest year-to-date overage. Strong February CAT revenue, resulting in a monthly overage of $18.9 million, pushed the year-to-date CAT overage to $27.4 million (2.4%). The public utility excise has the fourth highest overage, exceeding estimate by $21.5 million (26.0%). The laggard among revenue sources (other than federal grants) remains the personal income tax. Income tax revenues exceeded the estimate by $6.3 million in February on strong withholding performance but remain $115.2 million (2.0%) below estimate for the year, as a result of the underperformance of estimated payments in December and January that has been discussed extensively in prior issues of this report.

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



On a year-over-year basis, monthly receipts were $0.2 million higher than in February of the previous fiscal year. Federal grants decreased by $17.6 million (2.5%), but tax revenues increased by $20.1 million (1.3%), led by the CAT, which increased $30.1 million (9.4%). Other notable growth occurred in the non-auto sales tax, which increased $19.4 million (3.2%) and the income tax, which grew by $8.1 million (3.8%). The foreign insurance tax declined by $26.8 million, but as mentioned earlier, that appears to be a timing issue. Total non-federal revenues increased by $17.8 million (1.1%) from the prior February.

For the year, non-federal revenues are up $294.9 million (2.0%). Tax revenues have grown by $503.4 million (3.4%) and after adjusting fiscal year 2018 revenues for the one month of sales tax revenues from Medicaid Health Insuring Corporations (MHICs) that was received in July before collections ceased, tax revenue growth has been $575.5 million (3.9%). On the non-tax side, federal grants, despite being well below estimate, have grown by $98.9 million (1.5%). Offsetting part of the growth coming from these categories and holding overall GRF revenue growth to $393.8 million (1.8%), was a $180.7 million decline in the "other income" category. This was due to a one-time payment to the GRF of $200 million from unclaimed funds in January 2018.

As the table below shows and federal grants aside, February revenues were fairly evenly balanced between underperformers (six, totaling $44.1 million) and overperformers (five, totaling $35.7 million. The tally would have been even closer if not for the underage in foreign insurance, which as noted earlier, was a timing matter rather than one related to underlying economic factors.

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

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Commercial Activity Tax	$18.9	Federal Grants	($77.8)
Personal Income Tax	$6.3	Foreign Insurance Tax	($22.7)
Public Utility Excise Tax	$5.3	Auto Sales Tax	($8.1)
Natural Gas Distribution Tax	$3.6	Financial Institutions Tax	($4.5)
Other Source Above Estimate	$1.6	Non-auto Sales Tax	($3.5)
		Kilowatt Hour Tax	($3.4)
		Other Sources Below Estimate	($1.9)
Total above	**$35.7**	**Total below**	**($121.9)**

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

February non-auto sales and use tax collections to the GRF totaled $621.1 million and were $3.5 million (0.6%) below the estimate. This was the second consecutive monthly underperformance, and the third underage of the fiscal year, however, each of these underperformances has been less than one percent away from the estimate, indicating that there is likely no structural shift pointing towards weakening non-auto sales tax revenues. In fact, the general trend for this revenue source has been strong overall in fiscal year 2019 with year-to-date non-auto sales tax revenue exceeding the estimate by $103.8 million (1.7%).

Concerns about these consecutive small underages are mitigated by the fact that there are factors supporting non-auto sales tax revenue growth rates in the near term. Retail demand is a key factor that influences the non-auto sales tax and as reported by the Cleveland Federal Reserve in their most recent *Beige Book*, retail demand was strong for most of 2018. Wage and salary income is another important driver of non-auto sales tax revenue, and national growth in this income continues (state-level income growth data are available only through 2018q3; fourth quarter numbers will not be released until late March). Wage and salary income growth has decelerated slightly in the past three months but remains above 4 percent.

Another factor that may be supporting non-auto sales tax growth was continued growth in sales tax collections from out-of-state sellers, which may have been given a boost from the U.S. Supreme Court decision in South Dakota v. Wayfair, Inc., released in late June 2018. Although Ohio has not made law changes to conform to the "economic nexus" standard for requiring sales tax collection from out-of-sate sellers, it has nonetheless seen what was already strong growth in sales tax revenues from out-of-state sellers accelerate in fiscal year 2019, reaching well into double-digit territory.

However, there are factors that suggest that although growth will continue, it may slow somewhat. Non-auto sales tax growth for the year had been running above 5.0%, but in February it slowed to 3.2% for the GRF (3.0% all funds; see table below). After adjusting for the impact of the repealed sales tax on Medicaid Health Insuring Corporations (MHICs), growth was 5.6% 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 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– FY19 through February
($ in millions)

	Feb-18	Feb-19	FY 18 YTD	FY 19 YTD
Non-Auto sales tax GRF	$601.8	$621.1	$5,800.3	$6,047.6
Non-Auto sales tax PLF (Library Fund)	$19.6	$19.2	$128.9	$137.1
Non-Auto sales tax, all funds	$621.4	$640.3	$5,929.2	$6,184.7
MHIC revenues (state)	$0.00	$0.0	$71.7*	$0.00
GRF and PLF revenues without MHIC	$621.4	$640.3	$5,857.5	$6,184.7
Change from prior year in non-MHIC collections		$18.9		$255.4
Pct. change from prior year in non-MHIC collections		3.0%		5.6%

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

The overall improvement in non-auto sales tax revenue growth during the last half of fiscal year 2018 and the first half of fiscal year 2019 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 resulted primarily from reduced federal withholding and thus additional disposable income for consumers, it is a reasonable hypothesis. Since federal withholding cuts began to take effect in February 2018, 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

February auto sales tax revenues were $88.9 million, which was $8.0 million (8.3%) below estimate. February was only the second underperformance for the fiscal year in the auto sales tax; prior to February underage, September's revenues were $2.2 million below estimate. February is typically one of the worst performing months of the year for the auto sales tax. It is a short month, and winter weather keeps people from shopping for cars. The February estimate was the only estimate of fiscal year 2019 that was below $100 million. As February sales are generally low and somewhat weather dependent, February's underage on its own may not be a sign of any general slowing in auto sales tax revenues. Additionally, despite the February underage, year-to-date auto sales tax revenues are still $27.3 million (2.9%) over the estimate.

New U.S. auto sales dipped nationally by 2.9% in February year-over-year, continuing the slowdown that started last month. The 1.27 million units sold brought down the seasonally adjusted annual rate (SAAR) to 16.6 million total cars sold, compared to 17.33 million total cars and light trucks sold as of December. Despite the recent downward trend in auto sales, it is noteworthy that overall auto sales are still very high historically.

As in January, auto industry analysts point to cold temperatures and lingering effects of the federal government shutdown as two likely reasons for the February slump in auto sales. Financial incentives for consumers are also beginning to shrink as the Federal Reserve slowly increases interest rates, contributing to a slowing of demand.

An additional factor that may have impacted auto sales in February is the reduction in many Americans' income tax refunds. Usually starting in February and gaining momentum in March into April, many consumers use tax refund money to contribute toward a down payment on a vehicle. This year, however, there is an abundance of anecdotal and some statistical evidence that taxpayers failed to properly adjust their income tax withholding in accordance with changes in federal income tax rates. As a result, they so far have received smaller refunds, i.e., less income to purchase vehicles. This factor will be monitored in the next few months as a possible contributor should auto sales revenues weaken.

Despite the recent slight decline in unit sales, year-to-date auto sales tax revenues are strong, up 5.1% on a year-over-year basis. Continuing the trend observed 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 for some time, and they carry a nearly 50% higher average retail price than cars contributing to an overall high and increasing average transaction price.

Auto sales tax revenues have also been supported by high used vehicle prices. Edmunds.com reported that the average used vehicle price hit a record high of $20,084 in the third quarter of 2018. This price was nearly 20% higher than the average price only five years ago, and also likely reflects a preference for light trucks among consumers, even for used vehicles.

Personal Income Tax

February GRF personal income tax receipts totaled $222.5 million and were $6.3 million (2.9%) above the estimate. This outcome was consistent with the overages demonstrated during the first five months of this fiscal year, and interrupts the shortfalls experienced in December and January. During February, the crucial tax categories are employer withholding and refunds, and the results reflect sufficiently robust employer withholding performance to overcome somewhat larger than expected refunds.

Once again, February was a better than anticipated month for employer withholding, exceeding estimate by $14.7 million (2.0%). Relative to last February, withholding grew $20.0 million (2.8%). If not for the reduction in employer withholding tax rates that took effect in January 2019, year-over-year growth in February would have been approximately $45.0 million (6.3%). Withholding is now $75.3 million (1.3%) above estimate for the year. It has grown 5.4% above the prior year, compared to 4.1% in anticipated growth (after adjusting for the January rate cut).

Although the tax year 2018 annual return filing season began last month, February was the first month to reflect a full month's worth of refund activity. Following January's notable refund overage of $25.2 million, February also demonstrated an overage but by a smaller $11.9 million (2.5%). For the combined months of January and February, refunds have exceeded estimate by $37.1 million (6.5%). Although the total number of refunds paid has declined relative to last year, average refund amounts have increased enough to more than offset the decline in the count. January and February account for just over one-third of total anticipated refunds for the January-June period, so it is still too early to draw strong inferences from the refund data collected so far.

February was not a significant month for all other types of income tax payments. All other payment categories exceeded estimate by a total of $2.7 million (12.0%) in February. These categories will pick up in March as “tax due” annual returns begin to be filed in earnest, reaching their peak in April.

On a year-over-year basis, February GRF income tax collections were $8.1 million (3.8%) above February 2018 collections, and collections for the year have grown by $128.8 million, or 2.4%. Adjusting for the $47 million in lost withholding collections in January and February due to the rate cut, collections growth would be 3.2%.

FY2019 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Actual February	Estimate February	$ Var	Actual Feb-2019	Actual Feb-2018	$ Var Y-0ver-Y
Withholding	$733.2	$718.5	$14.7	$733.2	$713.1	$20.0
Quarterly Est.	$6.7	$4.1	$2.6	$6.7	$4.1	$2.6
Annual Returns & 40 P	$9.2	$7.8	$1.4	$9.2	$7.8	$1.4
Trust Payments	$0.9	$0.9	$0.0	$0.9	$0.9	$0.0
Other	$8.4	$9.6	($1.2)	$8.4	$9.6	($1.3)
Less: Refunds	($497.8)	($485.9)	($11.9)	($497.8)	($482.3)	($15.5)
Local Distr.	($37.9)	($38.8)	$0.9	($37.9)	($38.8)	$0.9
Net to GRF	$222.7	$216.2	$6.3	$222.7	$214.4	$8.1

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)

February revenue from the CAT was $348.8 million, which was $18.9 million (5.7%) above estimate. This more than makes up for the modest $3.2 million shortfall in January. Although the third quarter of fiscal year 2019 has not yet ended, the March estimate is quite modest so OBM can probably conclude that the CAT will have performed strongly for the second-consecutive quarter (in contrast to the first quarter of fiscal year 2019, which fell below estimate). On a year-over-year basis, CAT revenues grew $30.1 million (9.4%) in February. For the year, this revenue source was $27.4 million (2.4%) above estimate and $63.7 million (5.7%) above fiscal year 2018.

Information on taxable gross receipts subject to the CAT is received with a considerable lag, therefore at this point OBM cannot say exactly what drove the strong February performance. However, the data available on tax credits suggest that credits have continued to grow significantly in fiscal year 2019, which would suggest that taxable receipts are growing strongly enough to drive revenue overages despite higher tax credit amounts.

Financial Institutions Tax (FIT)

Although January reflects the first of three estimated payments required for the 2019 FIT tax year, month-specific predictions are susceptible to considerable error, depending on exactly when tax payments are received, and the revenues are processed. As discussed in last month's report, some of the large January overage was indeed absorbed by a shortfall in February, with this month's FIT collections being $4.5 million (10.1%) below estimate. Combined January and February payments are $21.0 million (22.0%) above estimate. Although this constitutes a strong first payment, the FIT has a pattern of successively smaller revenues during the last two estimated payment dates and some of the overage could dissipate if such reduced payments end up even smaller than anticipated.

Public Utility Tax

Public utility excise tax revenue exceeded estimate by $5.3 million (20.6%) in February. Revenue received in February reflected estimated payments based on one-third of the prior year's assessed tax liability. Most of the tax is paid by natural gas distribution companies. This source has consistently overperformed relative to estimates for the important payment months of the fiscal year, with revenue exceeding estimate by $21.4 million (26.0%) for the year.

Foreign Insurance Premium Tax

Foreign insurance tax revenue was $22.7 million (18.1%) below estimate during February. Even though these results mean that year-to-date foreign insurance tax revenue was $16.6 million (6.1%) below estimate through February, early March revenues suggest that the February and year-to-date shortfall are a timing matter and revenues will be over estimate in March.

Natural Gas Distribution Tax

February revenue from the natural gas distribution tax was $3.6 million (25.4%) above estimate. This follows a pattern of overages demonstrated during preceding significant payment months during fiscal year 2019. The strong performance reflects higher-than-expected consumption of natural gas during this year.

GRF Non-Tax Receipts

GRF non-tax revenues in February totaled $688.6 million and were $78.9 million (10.3%) below estimate. This variance was primarily attributable to Federal grants, which were below estimate by $77.8 million (10.3%) due to underspending in the GRF Medicaid category.

Revenues in the Other Income category were $1.1 million (72.4%) 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 FEBRUARY	MONTH ESTIMATE FEBRUARY	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	621,135	624,600	(3,465)	-0.6%	6,047,586	5,943,800	103,786	1.7%
Auto Sales & Use	88,906	97,000	(8,094)	-8.3%	956,760	929,500	27,260	2.9%
Subtotal Sales & Use	710,041	721,600	(11,559)	-1.6%	7,004,346	6,873,300	131,046	1.9%
Personal Income	222,520	216,200	6,320	2.9%	5,607,407	5,722,600	(115,193)	-2.0%
Corporate Franchise	16	0	16	N/A	1,243	0	1,243	N/A
Financial Institutions Tax	40,354	44,900	(4,546)	-10.1%	87,673	78,900	8,773	11.1%
Commercial Activity Tax	348,796	329,900	18,896	5.7%	1,183,885	1,156,500	27,385	2.4%
Petroleum Activity Tax	0	0	0	N/A	4,750	2,700	2,050	75.9%
Public Utility	30,866	25,600	5,266	20.6%	103,953	82,500	21,453	26.0%
Kilowatt Hour	29,579	33,000	(3,421)	-10.4%	238,692	239,700	(1,008)	-0.4%
Natural Gas Distribution	17,937	14,300	3,637	25.4%	40,432	33,700	6,732	20.0%
Foreign Insurance	102,669	125,400	(22,731)	-18.1%	256,044	272,600	(16,556)	-6.1%
Domestic Insurance	3	0	3	N/A	5	0	5	N/A
Other Business & Property	0	0	0	N/A	0	0	0	N/A
Cigarette and Other Tobacco	63,656	64,400	(744)	-1.2%	557,415	554,000	3,415	0.6%
Alcoholic Beverage	4,742	3,300	1,442	43.7%	37,271	36,600	671	1.8%
Liquor Gallonage	3,654	3,500	154	4.4%	33,990	33,100	890	2.7%
Estate	0	0	0	N/A	32	0	32	N/A
Total Tax Receipts	1,574,836	1,582,100	(7,264)	-0.5%	15,157,138	15,086,200	70,938	0.5%
NON-TAX RECEIPTS								
Federal Grants	679,938	757,691	(77,753)	-10.3%	6,517,763	6,941,818	(424,055)	-6.1%
Earnings on Investments	0	0	0	N/A	54,849	38,211	16,639	43.5%
License & Fees	8,235	8,308	(73)	-0.9%	21,895	21,445	450	2.1%
Other Income	403	1,463	(1,059)	-72.4%	56,025	66,440	(10,415)	-15.7%
ISTV'S	7	0	7	N/A	50	0	50	N/A
Total Non-Tax Receipts	688,583	767,461	(78,878)	-10.3%	6,650,582	7,067,914	(417,332)	-5.9%
TOTAL REVENUES	**2,263,419**	**2,349,561**	**(86,142)**	**-3.7%**	**21,807,720**	**22,154,114**	**(346,394)**	**-1.6%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	0	0	N/A	82,025	87,690	(5,665)	-6.5%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	0	0	0	N/A	82,025	87,690	(5,665)	-6.5%
TOTAL SOURCES	**2,263,419**	**2,349,561**	**(86,142)**	**-3.7%**	**21,889,745**	**22,241,804**	**(352,059)**	**-1.6%**

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

REVENUE SOURCE	MONTH				YEAR-TO-DATE			
	FEBRUARY FY 2019	FEBRUARY FY 2018	$ VAR	% VAR	ACTUAL FY 2019	ACTUAL FY 2018	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	621,135	601,766	19,370	3.2%	6,047,586	5,800,266	247,320	4.3%
Auto Sales & Use	88,906	91,992	(3,087)	-3.4%	956,760	910,373	46,387	5.1%
Subtotal Sales & Use	710,041	693,758	16,283	2.3%	7,004,346	6,710,639	293,708	4.4%
Personal Income	222,520	214,440	8,080	3.8%	5,607,407	5,478,634	128,773	2.4%
Corporate Franchise	16	(490)	506	103.2%	1,243	1,908	(665)	-34.9%
Financial Institutions Tax	40,354	51,817	(11,463)	-22.1%	87,673	80,587	7,086	8.8%
Commercial Activity Tax	348,796	318,727	30,070	9.4%	1,183,885	1,120,219	63,665	5.7%
Petroleum Activity Tax	0	0	0	N/A	4,750	3,280	1,470	44.8%
Public Utility	30,866	25,148	5,718	22.7%	103,953	80,939	23,014	28.4%
Kilowatt Hour	29,579	35,128	(5,549)	-15.8%	238,692	232,123	6,569	2.8%
Natural Gas Distribution	17,937	15,547	2,390	15.4%	40,432	34,302	6,130	17.9%
Foreign Insurance	102,669	129,459	(26,790)	-20.7%	256,044	274,816	(18,772)	-6.8%
Domestic Insurance	3	319	(315)	-98.9%	5	381	(376)	-98.6%
Other Business & Property	0	0	0	N/A	0	(263)	263	N/A
Cigarette and Other Tobacco	63,656	63,940	(284)	-0.4%	557,415	565,831	(8,416)	-1.5%
Alcoholic Beverage	4,742	3,466	1,276	36.8%	37,271	37,746	(475)	-1.3%
Liquor Gallonage	3,654	3,442	211	6.1%	33,990	32,455	1,535	4.7%
Estate	0	0	0	N/A	32	118	(86)	-72.9%
Total Tax Receipts	1,574,836	1,554,702	20,134	1.3%	15,157,138	14,653,716	503,422	3.4%
NON-TAX RECEIPTS								
Federal Grants	679,938	697,531	(17,593)	-2.5%	6,517,763	6,418,871	98,892	1.5%
Earnings on Investments	0	0	0	N/A	54,849	30,187	24,662	81.7%
License & Fee	8,235	9,149	(914)	-10.0%	21,895	22,745	(850)	-3.7%
Other Income	403	1,692	(1,289)	-76.2%	56,025	236,682	(180,657)	-76.3%
ISTV'S	7	0	7	N/A	50	425	(375)	-88.2%
Total Non-Tax Receipts	688,583	708,372	(19,789)	-2.8%	6,650,582	6,708,909	(58,328)	-0.9%
TOTAL REVENUES	**2,263,419**	**2,263,074**	**345**	**0.0%**	**21,807,720**	**21,362,626**	**445,094**	**2.1%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	156	(156)	N/A	82,025	133,327	(51,302)	-38.5%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	0	156	(156)	N/A	82,025	133,327	(51,302)	-38.5%
TOTAL SOURCES	**2,263,419**	**2,263,230**	**189**	**0.0%**	**21,889,745**	**21,495,953**	**393,792**	**1.8%**

DISBURSEMENTS

February GRF disbursements, across all uses, totaled $2,467.6 million and were $75.0 million (3.0%) below estimate. This variance was primarily attributable to below estimate disbursements in the Medicaid category and was partially offset by above estimate disbursements in the Primary and Secondary Education category. On a year-over-year basis, February total uses were $81.2 million (3.2%) 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 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)	($606.6 Million)	-2.7%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$1.0 Million	0.1%
TOTAL DISBURSEMENTS VARIANCE:		**($605.6 Million)**	**-2.6%**

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. February disbursements for this category totaled $871.3 million and were $25.1 million (3.0%) above estimate. This variance was primarily attributable to above estimate spending in the Foundation Funding line item where expenditures totaled $681.8 million and were $16.3 million (2.5%) above estimate, as well as the Student Assessment line item, which was $7.5 million above estimate, and the EdChoice Expansion line item, which was $5.8 million above estimate. The Foundation Funding line item was above estimate due to the timing of payments for the EdChoice and Cleveland Scholarship programs, which disbursed in February, but were originally planned for January. Disbursements in the Student Assessment and EdChoice Expansion line items were above estimate due to the timing of payments. Payments for Student Assessment contracts and EdChoice Expansion scholarships were made in February rather than January as originally estimated.

Total expenditures for the school foundation program totaled $735.9 million and were $13.4 million (1.9%) above estimate. Year-to-date disbursements were $5,711.3 million, which was $33.7 million (0.6%) above estimate.

On a year-over-year basis, disbursements in this category were $128.4 million (17.3%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $118.5 million (2.1%) higher than the same point in fiscal year 2018. The year-over-year variance is primarily attributable to increased payments to school districts under the foundation funding formula.

Higher Education

February disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $210.8 million and were $5.4 million (2.48%) below estimate. This variance was primarily attributable to spending in the Ohio College Opportunity Grant Program, which was below estimate by of $2.7 million due to lower than estimated requests for reimbursement from higher education institutions. This variance will likely offset in future months.

Year-to-date disbursements were $1,541.7 million, which was $12.7 million (0.8%) below the estimate. On a year-over-year basis, disbursements in this category were $4.9 million (2.3%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $7.8 million (0.5%) 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.

February disbursements in this category totaled $4.9 million and were $1.6 million (50.5%) above estimate. Year-to-date disbursements were $54.4 million, which was $0.4 million (0.7%) below estimate. On a year-over-year basis, disbursements in this category were $0.1 million (2.7%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $0.7 million (1.3%) 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>
February GRF disbursements for the Medicaid program totaled $1,054.5 million and were $96.4 million (8.4%) below the estimate and $250.0 million (19.2%) below disbursements for the same month in the previous fiscal year. Monthly GRF spending can change significantly on year-over-year basis due to the timing of the use of non-GRF funds in the program. Year-to-date GRF disbursements totaled $10,077.3 million and were $555.5.2 million (5.2%) below the estimate and $130.4 million (1.3%) above disbursements for the same point in the previous fiscal year.

February all-funds disbursements for the Medicaid Program totaled $2,042.9 million and were $164.4 million (7.4%) below the estimate and $121.2 million (5.6%) below disbursements for the same month in the previous fiscal year. Year-to-date all-funds disbursements totaled $17,951.0 million and were $989.4 million (5.2%) below the estimate and $58.2 million (0.3%) above disbursements for the same point in the previous fiscal year.

The February all-funds variance was primarily attributable to lower than anticipated spending in the fee-for-service, managed care, and premium assistance programs. Enrollment in these three programs were under estimate by 6.4%, 4.4%, and 12.3%, respectively, on an average monthly enrollment basis. This underspending was partially offset by higher than anticipated administrative costs, specifically for information technology systems expenses.

The year-to-date, the 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%, 3.3%, and 10.1%, respectively, below estimate on an average monthly enrollment basis. In addition, within the managed care program, pay-for-performance payments and the federal health insurer provider fee payments have been below estimates. Finally, program administration expenses were slightly 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)

	Feb. Actual	Feb. Projection	Variance	Variance %
GRF	$ 1,054.5	$ 1,150.8	$ (96.4)	-8.4%
Non-GRF	$ 988.5	$ 1,056.4	$ (68.0)	-6.4%
All Funds	$ 2,042.9	$ 2,207.3	$ (164.4)	-7.4%

Enrollment

Total February enrollment for the program was 2.84 million, which was 138,412 (4.7%) below the estimate and 154,558 (5.2%) below enrollment for the same period last fiscal year. Year-to-date average monthly enrollment was 2.87 million and was 110,126 (3.7%) below estimate.

February enrollment by major eligibility category was: Covered Families and Children, 1.61 million; Aged, Blind and Disabled (ABD), 485,521; Group VIII Expansion, 613,089; and Other Full Benefits, 13,087 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.

February disbursements in this category totaled $80.2 million and were $6.0 million (7.0%) below estimate. Year-to-date disbursements were $904.6 million, which was $53.2 million (5.6%) below estimate. On a year-over-year basis, disbursements in this category were $2.7 million (3.5%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $10.7 million (1.2%) higher than at the same point in fiscal year 2018.

Department of Job and Family Services
February disbursements for the Department of Job and Family Services totaled $45.5 million and were $2.3 million (4.8%) below estimate. This variance was primarily attributable to the Child, Family and Adult Community & Protectives Services line item, which was $1.3 million below estimate due to county allocation requests being lower than anticipated. 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. These variances were partially offset by the Information Technology Projects line item, which was approximately $2.5 million above estimate due to larger than anticipated invoices for Office of Information Technology charges from the Department of Administrative Services.

Department of Mental Health and Addiction Services
February disbursements for the Department of Mental Health and Addiction Services totaled $22.8 million and were $3.0 million (13.3%) below estimate. This variance was primarily attributable to the Hospital Services line item, which was $1.6 million below estimate 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.

February disbursements in this category totaled $153.5 million and were $2.3 million (1.4%) below estimate. Year-to-date disbursements were $1556.2 million, which was $5.1 million (0.3%) above estimate. On a year-over-year basis, disbursements in this category were $10.8 million (7.6%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $73.1 million (4.9%) higher than at the same point in fiscal year 2018.

Department of Rehabilitation and Correction
February disbursements for the Department of Rehabilitation and Correction totaled $117.8 million and were $1.48 million (1.2%) below estimate. This variance was primarily attributable to the Community Nonresidential Programs line item, which was $4.0 million below estimate and the Institution Medical Services line item, which was $2.6 million below estimate, both due to the timing of payments. This variance was partially offset by the Institutional Operations line item, which was $5.4 million above estimate, also 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, Department of Transportation, Office of Budget and Management, non-judicial statewide elected officials, legislative agencies, and others.

February disbursements in this category totaled $27.5 million and were $0.8 million (2.9%) above estimate. Year-to-date disbursements were $254.0 million, which was $13.8 million (5.2%) below estimate. On a year-over-year basis, disbursements in this category were $3.8 million (16.3%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $4.5 million (1.8%) higher than at the same point in fiscal year 2018.

Department of Administrative Services

February disbursements for the Department of Administrative Services totaled $4.5 million and were $4.0 million above estimate. This variance was attributable to the State Agency Support Services line item, which was above estimate due to the timing of billing for second-quarter rent. These expenses had been estimated for the month of January but occurred in February instead.

Department of Agriculture

February disbursements for the Department of Agriculture totaled $1.7 million and were $1.9 million (52.9%) below estimates. This variance was primarily attributable to the Soil and Water Phosphorous Program line item, which was $1.5 million below estimate due to delay in the setup of the program which was set to start in January.

Department of Transportation

February disbursements for the Department of Transportation totaled $0.9 million and were $0.8 million below estimate (48.0%). This variance was primarily attributable to the Airport Improvements-State line item, which was $0.8 million below estimate 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. Property tax reimbursements totaled $22 thousand in February compared to an estimate of roughly $0.2 million. Year-to-date disbursements totaled $905.5 million and were $8.6 million (0.9%) below estimate. February is historically a very low month for property tax reimbursements, so 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

February payments for debt service totaled $64.9 million and were $7.7 million (13.4%) above estimate. Year-to-date disbursements totaled $1,127.7 million and were $1.3 million (0.1%) below estimate. The monthly variance was primarily the result of the timing of bond premiums being used to pay a portion of debt service owed on Public Works Commission bonds.

Transfers Out

There were no transfers out in the month of February, and 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				YEAR-TO-DATE			
	ACTUAL FEBRUARY	ESTIMATED FEBRUARY	$ VAR	% VAR	YTD ACTUAL	YTD ESTIMATE	$ VAR	% VAR
Primary and Secondary Education	871,304	846,239	25,065	3.0%	5,711,349	5,677,575	33,774	0.6%
Higher Education	210,796	216,162	(5,367)	-2.5%	1,541,708	1,554,372	(12,664)	-0.8%
Other Education	4,870	3,236	1,634	50.5%	54,426	54,833	(407)	-0.7%
Medicaid	1,054,469	1,150,838	(96,369)	-8.4%	10,077,264	10,632,783	(555,519)	-5.2%
Health and Human Services	80,215	86,238	(6,023)	-7.0%	904,564	957,769	(53,205)	-5.6%
Justice and Public Protection	153,514	155,764	(2,250)	-1.4%	1,556,186	1,551,051	5,134	0.3%
General Government	27,495	26,710	785	2.9%	253,956	267,799	(13,844)	-5.2%
Property Tax Reimbursements	22	192	(170)	-88.6%	905,542	914,131	(8,590)	-0.9%
Debt Service	64,895	57,233	7,662	13.4%	1,127,660	1,128,930	(1,270)	-0.1%
Total Expenditures & ISTV's	**2,467,580**	**2,542,612**	**(75,032)**	**-3.0%**	**22,132,654**	**22,739,245**	**(606,591)**	**-2.7%**
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	95,424	94,430	994	1.1%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**0**	**0**	**0**	**N/A**	**752,927**	**751,933**	**994**	**0.1%**
Total Fund Uses	**2,467,580**	**2,542,612**	**(75,032)**	**-3.0%**	**22,885,581**	**23,491,178**	**(605,597)**	**-2.6%**

Table 4

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**FEBRUARY FY 2019**	**FEBRUARY FY 2018**	**$ VAR**	**% VAR**	**ACTUAL FY 2019**	**ACTUAL FY 2018**	**$ VAR**	**% VAR**
Primary and Secondary Education	871,304	742,917	128,387	17.3%	5,711,349	5,592,805	118,545	2.1%
Higher Education	210,796	215,666	(4,870)	-2.3%	1,541,708	1,549,503	(7,795)	-0.5%
Other Education	4,870	4,744	126	2.7%	54,426	53,747	679	1.3%
Medicaid	1,054,469	1,304,420	(249,950)	-19.2%	10,077,264	9,946,821	130,443	1.3%
Health and Human Services	80,215	77,503	2,712	3.5%	904,564	893,864	10,700	1.2%
Justice and Public Protection	153,514	142,711	10,802	7.6%	1,556,186	1,483,104	73,081	4.9%
General Government	27,495	23,646	3,849	16.3%	253,956	249,485	4,471	1.8%
Property Tax Reimbursements	22	114	(92)	-80.8%	905,542	906,528	(987)	-0.1%
Debt Service	64,895	37,088	27,806	75.0%	1,127,660	1,058,955	68,705	6.5%
Total Expenditures & ISTV's	**2,467,580**	**2,548,811**	**(81,230)**	**-3.2%**	**22,132,654**	**21,734,811**	**397,843**	**1.8%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	657,503	0	657,503	N/A
Operating Transfer Out	0	0	0	N/A	95,424	69,445	25,979	37.4%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**0**	**0**	**0**	**N/A**	**752,927**	**69,445**	**683,482**	**984.2%**
Total Fund Uses	**2,467,580**	**2,548,811**	**(81,230)**	**-3.2%**	**22,885,581**	**21,804,256**	**1,081,325**	**5.0%**

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, Craig Rethman, Tara Schuler, Travis Shaul, Kevin Schrock, Dex Stanger, and Nick Strahan.