LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– Ross Miller, Chief Economist

March GRF tax revenue was $159 million below the estimate published by the Office of Budget and Management (OBM) in August 2019. Revenue from both the sales and use tax and the personal income tax (PIT) was below their respective estimates, not surprisingly, in light of the societal changes made in response to the COVID-19 crisis. Despite the weak revenue performance for the month, GRF tax revenue remained above estimate, by almost $90 million, for FY 2020 through March.

Time lags are an important factor underlying the fact that March tax revenue was not weaker than it was. LBO economists expect April GRF tax revenue performance to be considerably worse, but the speed with which events are changing makes it extremely difficult to quantify the effects those events will have on revenues. The Tracking the Economy article in this month's edition includes a preliminary analysis of the most recent economic forecast received from IHS Markit as compared with the economic forecast used to forecast Ohio's FY 2020-FY 2021 GRF tax revenue during the budget process last year. LBO economists have been in regular communication with economists at IHS Markit, who are working to keep up with the changing circumstances due to COVID-19 and their implications for the economy.

Through March 2020, GRF sources totaled $24.90 billion:

- Revenue from the sales and use tax was $77.4 million (1.0%) above estimate;
- PIT receipts were $39.9 million (0.7%) below estimate.

Through March 2020, GRF uses totaled $26.42 billion:

- Program expenditures were $200.5 million (0.8%) below estimate;
- GRF Medicaid expenditures were above estimate by $136.8 million (1.2%);
- Spending in all other program categories was below estimate except Other Education, for which spending was above estimate by $3.1 million.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of March 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 1, 2020)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$128,963	$130,400	-$1,437	-1.1%
Nonauto Sales and Use	$622,516	$689,100	-$66,584	-9.7%
Total Sales and Use	*$751,479*	*$819,500*	*-$68,021*	*-8.3%*
Personal Income	$416,522	$438,800	-$22,278	-5.1%
Commercial Activity Tax	$12,232	$9,400	$2,832	30.1%
Cigarette	$73,552	$72,400	$1,152	1.6%
Kilowatt-Hour Excise	$29,816	$32,400	-$2,584	-8.0%
Foreign Insurance	$19,456	$97,800	-$78,344	-80.1%
Domestic Insurance	-$2,286	$0	-$2,286	---
Financial Institution	$41,733	$33,500	$8,233	24.6%
Public Utility	$4,943	$1,600	$3,343	209.0%
Natural Gas Consumption	$0	$0	$0	---
Alcoholic Beverage	$4,181	$4,800	-$619	-12.9%
Liquor Gallonage	$3,907	$3,700	$207	5.6%
Petroleum Activity Tax	$2,573	$3,200	-$627	-19.6%
Corporate Franchise	-$457	$0	-$457	---
Estate	$10	$0	$10	---
Total Tax Revenue	**$1,357,662**	**$1,517,100**	**-$159,438**	**-10.5%**
Nontax Revenue				
Earnings on Investments	$24	$0	$24	---
Licenses and Fees	$30,333	$27,073	$3,260	12.0%
Other Revenue	$11,104	$10,695	$409	3.8%
Total Nontax Revenue	**$41,461**	**$37,768**	**$3,693**	**9.8%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,399,123**	**$1,554,868**	**-$155,745**	**-10.0%**
Federal Grants	**$609,997**	**$618,648**	**-$8,651**	**-1.4%**
Total GRF Sources	**$2,009,120**	**$2,173,516**	**-$164,395**	**-7.6%**

*Estimates of the Office of Budget and Management as of August 2019.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2020 as of March 31, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 1, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$1,158,208	$1,113,300	$44,908	4.0%	$1,078,723	7.4%
Nonauto Sales and Use	$7,010,689	$6,978,200	$32,489	0.5%	$6,700,379	4.6%
Total Sales and Use	*$8,168,897*	*$8,091,500*	*$77,397*	*1.0%*	*$7,779,102*	*5.0%*
Personal Income	$6,006,883	$6,046,800	-$39,917	-0.7%	$6,072,488	-1.1%
Commercial Activity Tax	$1,258,419	$1,219,300	$39,119	3.2%	$1,200,251	4.8%
Cigarette	$617,088	$610,200	$6,888	1.1%	$626,849	-1.6%
Kilowatt-Hour Excise	$258,200	$261,600	-$3,400	-1.3%	$272,923	-5.4%
Foreign Insurance	$335,930	$331,000	$4,930	1.5%	$327,588	2.5%
Domestic Insurance	$1,685	$200	$1,485	742.7%	$31	5360.2%
Financial Institution	$128,097	$111,600	$16,497	14.8%	$117,377	9.1%
Public Utility	$100,848	$100,000	$848	0.8%	$104,200	-3.2%
Natural Gas Consumption	$29,061	$40,000	-$10,939	-27.3%	$40,432	-28.1%
Alcoholic Beverage	$39,587	$42,800	-$3,213	-7.5%	$39,297	0.7%
Liquor Gallonage	$39,049	$37,800	$1,249	3.3%	$37,658	3.7%
Petroleum Activity Tax	$6,614	$7,700	-$1,086	-14.1%	$8,400	-21.3%
Corporate Franchise	-$364	$0	-$364	---	$1,456	-125.0%
Estate	$48	$0	$48	---	$32	47.7%
Total Tax Revenue	**$16,990,042**	**$16,900,500**	**$89,542**	**0.5%**	**$16,628,083**	**2.2%**
Nontax Revenue						
Earnings on Investments	$77,002	$55,000	$22,002	40.0%	$55,153	39.6%
Licenses and Fees	$51,142	$47,173	$3,969	8.4%	$52,250	-2.1%
Other Revenue	$91,453	$71,915	$19,538	27.2%	$66,262	38.0%
Total Nontax Revenue	**$219,597**	**$174,089**	**$45,508**	**26.1%**	**$173,665**	**26.4%**
Transfers In	**$76,431**	**$68,570**	**$7,862**	**11.5%**	**$83,039**	**-8.0%**
Total State Sources	**$17,286,070**	**$17,143,158**	**$142,912**	**0.8%**	**$16,884,786**	**2.4%**
Federal Grants	**$7,614,467**	**$7,524,202**	**$90,265**	**1.2%**	**$7,371,973**	**3.3%**
Total GRF SOURCES	**$24,900,537**	**$24,667,360**	**$233,177**	**0.9%**	**$24,256,759**	**2.7%**

*Estimates of the Office of Budget and Management as of August 2019.
**Cumulative totals through the same month in FY 2019.
Detail may not sum to total due to rounding.

Revenues[1]

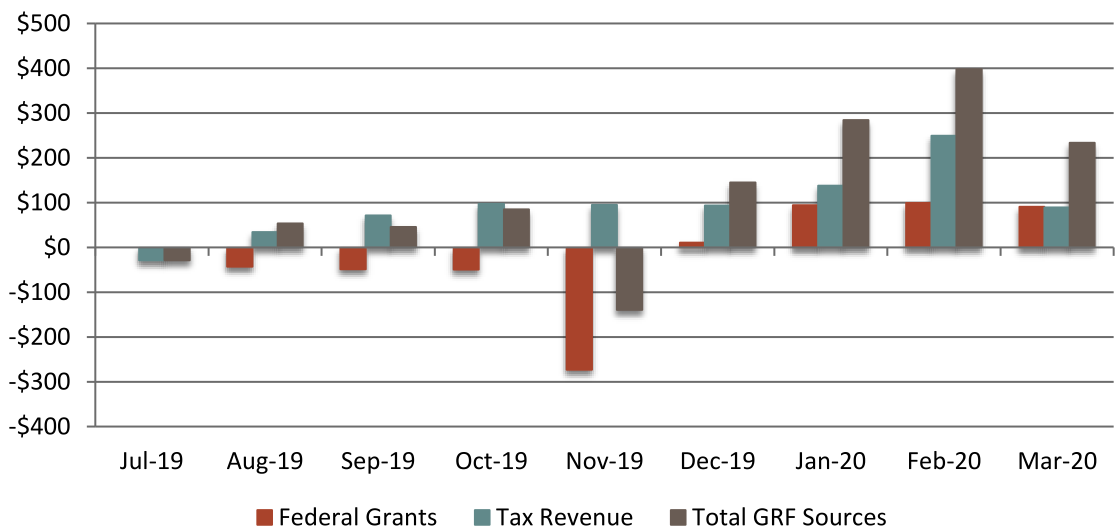
– Jean J. Botomogno, Principal Economist

Overview

The Ohio economy abruptly decelerated in the second half of March as the state took progressively more stringent measures to slow the COVID-19 outbreak. The Governor issued an emergency declaration on March 9, 2020, and various public health orders followed, including a stay-at-home requirement. March GRF sources fell relative to estimate by $164.4 million (7.6%). Almost half of this March variance was due to an expected, timing-related negative variance of $78.3 million in the foreign insurance tax. The rest was largely due to the pandemic measures previously mentioned. This performance decreased the YTD positive variance of GRF sources to $233.2 million (0.9%) above the August 2019 OBM estimates, down from a cumulative positive variance of $397.6 million at the end of February. Despite the monthly revenue shortfall, YTD positive variances for all GRF categories continued at the end of the third fiscal quarter as follows: tax revenue ($89.5 million, 0.5%), federal grants[2] ($90.3 million, 1.2%), nontax revenues ($45.5 million, 26.1%), and transfers in ($7.9 million, 11.5%). Tables 1 and 2 show GRF sources for the month of March and for FY 2020 through March, respectively. GRF sources consist of both federal grants and state-source receipts, such as tax revenue, nontax revenue, and transfers in.

Chart 1, below, shows cumulative YTD variances of GRF sources each month through March 2020.

Chart 1: Cumulative Variances of GRF Sources in FY 2020
(Variances from Estimates, $ in millions)



[1] This report compares actual monthly and year-to-date (YTD) GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

[2] Federal grants are typically federal reimbursements for Medicaid and other human services programs.

Among measures designed to help consumers and businesses weather the impact of the COVID-19 pandemic, H.B. 197 of the 133rd General Assembly authorized the Tax Commissioner to delay various state tax payments during the period of the Governor's emergency declaration. In response to enactment of the bill, the Tax Commissioner authorized an extension of the deadline to file state income taxes until July 15, matching the extended deadline for federal returns.[3] Both reduced economic activity and the tax payment delay are likely to substantially curtail GRF revenue from the PIT in the final months of this fiscal year; reduced economic activity is expected to reduce sales and use tax receipts and revenue from the commercial activity tax (CAT) during those months. H.B. 197 also authorized the Director of Budget and Management to make a transfer as needed from the Budget Stabilization Fund (BSF) to the GRF in order to make up any FY 2020 revenue shortfall; the current balance of the BSF is about $2.69 billion. The transfer is subject to the approval of four members of the Controlling Board.

Through nine months in FY 2020, the sales and use tax, the CAT, and the financial institution tax (FIT) exceeded their respective YTD estimates by $77.4 million, $39.1 million, and $16.5 million, respectively. In addition, the cigarette tax, the foreign insurance tax, and the domestic insurance tax were also above their respective YTD projected revenues by $6.9 million, $4.9 million, and $1.5 million. Those positive variances were partially offset by shortfalls of $39.9 million from the PIT, $10.9 million from the natural gas consumption tax, $3.4 million from the kilowatt-hour excise tax, and $3.2 million from the alcoholic beverage tax.

For the first time in FY 2020, monthly GRF tax revenues were significantly below estimate, in part, due to a timing-related shortfall for the foreign insurance tax. March GRF tax sources, which were 10.5% below anticipated receipts, contributed $159.4 million of the total GRF sources' shortfall of $164.4 million noted earlier. For the remaining GRF categories, federal grants were $8.7 million (1.4%) below estimate, but nontax revenue exceeded anticipated revenue by $3.7 million (9.8%). No transfers in were made in March, as anticipated by OBM. Regarding specific tax sources, the foreign insurance tax posted a negative variance of $78.3 million, which followed a surplus of $64.7 million in the previous month. So combined receipts in February and March were $13.6 million (7.6%) below the two-month estimate. In addition to that shortfall, the sales and use tax, the PIT, the kilowatt-hour excise tax, and the domestic insurance tax were below estimates in March by $68.0 million, $22.3 million, $2.6 million, and $2.3 million, respectively. On the other hand, the FIT, the CAT, the public utility tax, and the cigarette tax posted positive variances of $8.2 million, $2.8 million, $3.3 million, and $1.2 million, respectively.

YTD GRF sources were $643.8 million (2.7%) higher than GRF sources in FY 2019 through March. Except for transfers in, which were $6.6 million below their FY 2019 level, revenue from the other categories grew relative to receipts in the previous year: tax sources, federal grants, and nontax revenue increased $362.0 million, $242.5 million, and $45.9 million, respectively. Growth in GRF tax revenue was mostly due to the sales and use tax ($389.8 million), the CAT ($58.2 million), and the FIT ($10.7 million). On the other hand, receipts fell for the utility-related

[3] The extended deadline applies also to school district income taxes, certain returns and payments filed by pass-through entities, and municipal net profit taxes if they are administered by the Department of Taxation. Filing deadlines for other taxes have not been extended.

taxes ($29.4 million), due to lower energy prices this year; the cigarette tax ($9.8 million), which is the normal trend; and the PIT ($65.6 million), due to two reductions made to withholding tax rates in the last 15 months. (The section below analyzing the PIT provides additional details on the rate cuts.)

Sales and Use Tax

The sales and use tax had been substantially below estimates only once (December 2019) this fiscal year. March sales and use taxes totaling $751.5 million were $68.0 million (8.3%) below anticipated revenue as a large number of stores and restaurants were shuttered when the emergency order and the stay-at-home requirement took effect. Both the nonauto and the auto portions of the tax had negative variances. Monthly receipts were also $23.3 million (3.0%) below receipts in March 2019. This monthly performance brought the YTD positive variance of the tax source down to $77.4 million (1.0%), from a cumulative positive variance of $145.4 million through February.

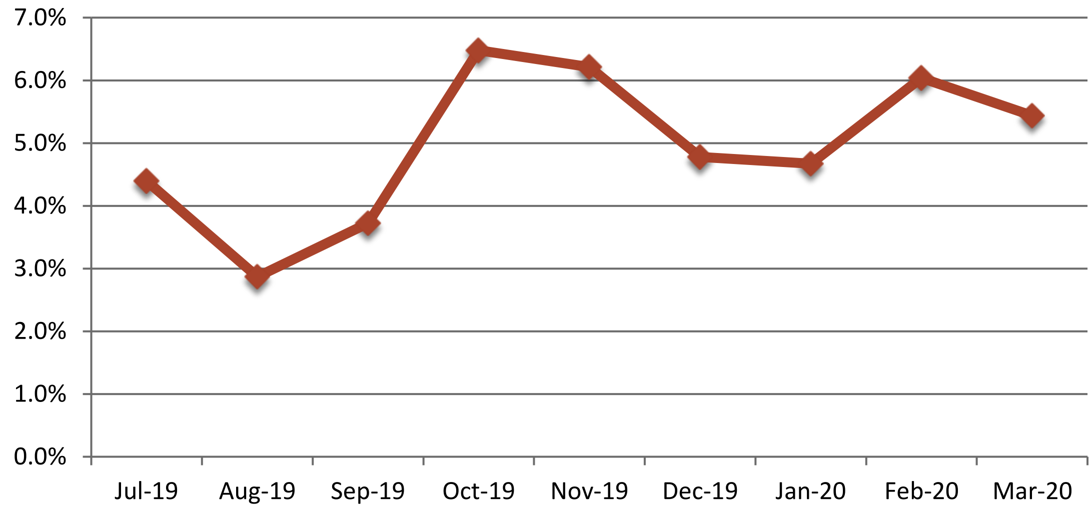
For analysis and forecasting, revenue from the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

GRF revenue from the sales and use tax is expected to decrease significantly in the next several months, as Ohio citizens are to be confined to their homes and nonessential businesses are closed for several more weeks.

Nonauto Sales and Use Tax

March GRF receipts from the nonauto sales and use tax totaling $622.5 million were $66.6 million (9.7%) below estimate and $30.3 million (4.6%) below revenue in March 2019. For the YTD, total receipts of $7.01 billion were $32.5 million (0.5%) above estimate, down from a cumulative positive variance of $99.1 million through February. YTD GRF receipts were also $310.3 million (4.6%) above revenue in the corresponding period in FY 2019. Chart 2, below, shows year-over-year growth in nonauto sales and use tax collections in FY 2020. On a three-month moving average basis, revenue growth has been good, if uneven, in FY 2020. However, growth is likely to experience a sustained decline in the next several months. Though online purchases are substituting for some of the purchases that would have been made in stores, how consumers react to lost jobs and reduced wages, and how long businesses remain shuttered, will determine the extent of the overall decline in nonauto sales tax revenue.

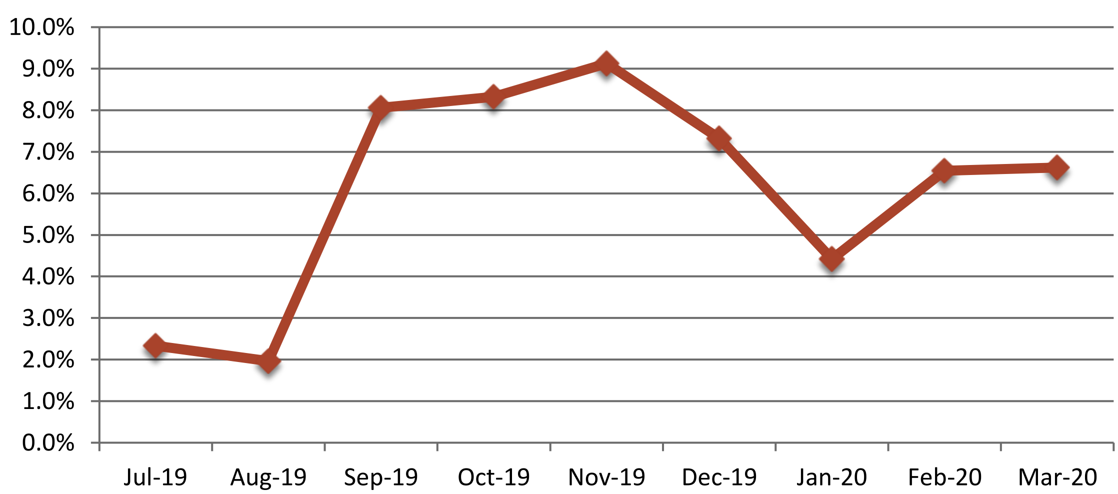
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

Despite a collapse of showroom traffic in the second half of March, monthly auto sales and use taxes of $129.0 million were only $1.4 million (1.1%) below estimate.[4] However, March receipts were $7.0 million (5.7%) above revenue in the same month last year. YTD GRF revenue from this source totaling $1.16 billion was $44.9 million (4.0%) above estimate and $79.5 million (7.4%) above receipts during the corresponding period in FY 2019. Chart 3 shows year-over-year growth in auto sales and use tax collections. The growth rate in FY 2020 relative to FY 2019 has been positive throughout the fiscal year. However, similarly to the nonauto sales and use tax, the closure of auto dealerships and layoffs will negatively affect the auto sales tax in future months.

Chart 3: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



[4] Auto sales and use tax remittances were generally not affected until the last week of March.

U.S. light vehicle sales (autos and light trucks) started 2020 on a strong note, reaching about 17 million seasonally adjusted annualized units in January and in February. However, as expected, nationwide sales dropped significantly in March 2020, tallying only 10.7 million units, with sales dropping across both autos and light trucks. Compared to sales in the same month a year ago, annualized seasonally adjusted units decreased by 38.5%. Unit sales of light trucks decreased by 38.1%, while auto sales were down 46.3%.

Personal Income Tax

Through March, YTD GRF receipts from the PIT of $6.01 billion were $39.9 million (0.7%) below projections, a deficit which was an increase from a cumulative shortfall of $17.6 million through February. Yearly GRF revenue was $65.6 million (1.1%) below revenue in the first three quarters of FY 2019 due to two reductions in withholding rates. Year-over-year growth in withholding receipts during the first half of FY 2020 was limited by a 3.3% reduction in withholding rates implemented in January 2019. Year-over-year growth in withholding receipts in the first quarter of 2020 was limited due to a 4.0% reduction in withholding rates effective January 2020. The more recent reduction was due to a 4.0% reduction in income tax rates for nonbusiness income enacted by H.B. 166. The OBM revenue estimates for FY 2020 incorporated the fiscal impact of this rate reduction for the January to June period.

PIT revenue to the GRF is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[5] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (about 81% of gross collections in FY 2019). Generally, larger than expected refunds could also greatly affect the monthly performance of the tax, and refund activity has influenced the shortfall in PIT receipts through the first three quarters of this fiscal year.

March GRF receipts from the PIT were $22.3 million (5.1%) short of anticipated revenue and $48.6 million (10.4%) below receipts in the same month last year. The monthly revenue shortfall was largely due to refunds, which were $17.5 million above estimate, thereby boosting a negative variance of $4.9 million for gross collections. Payments with annual returns and miscellaneous payments had negative variances of $17.8 million and $2.7 million, respectively. Those negative variances were partially offset by positive variances of $13.6 million for employer withholding and $2.4 million for quarterly estimated payments.

For the YTD, revenues from each component of the PIT relative to estimates and revenue received in FY 2019 are detailed in the table below. Gross collections were $64.0 million above projections. Employer withholding, quarterly estimated payments, and trust payments exceeded their YTD estimates by $57.4 million, $14.4 million, and $5.5 million, respectively. Those positive variances were offset by a shortfall of $13.5 million from annual return payments. Refunds and distributions to the LGF as a whole were $103.9 million higher than expected, thus resulting in a YTD shortfall of $39.9 million.

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[5] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and March of the following year. Most estimated payments are made by high-income taxpayers.

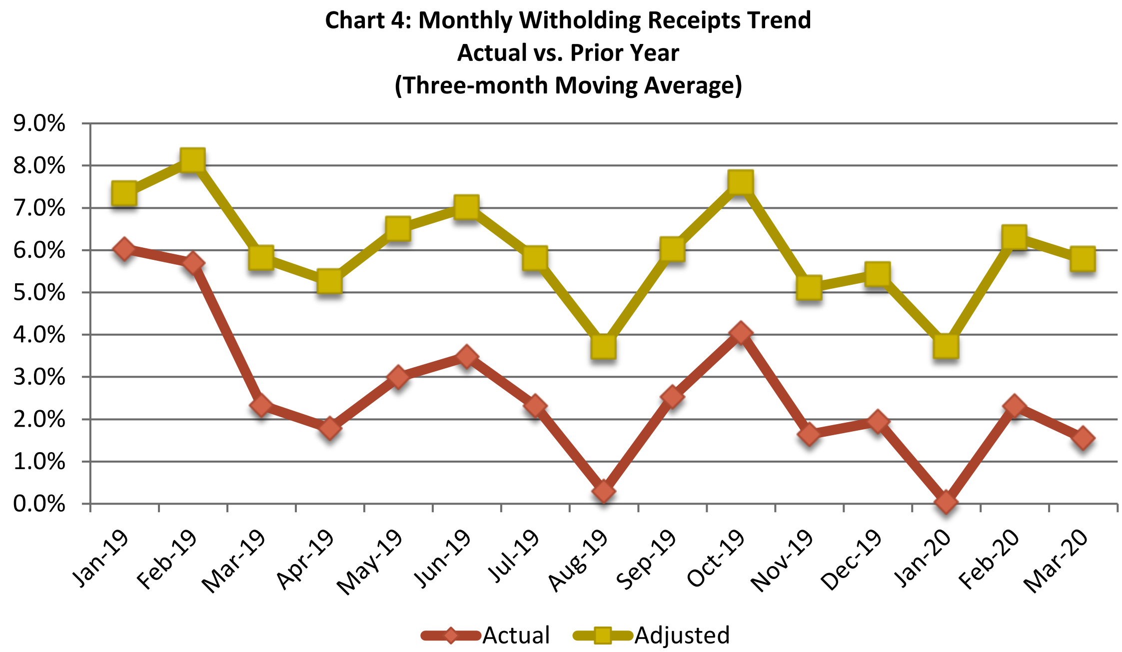
Compared to PIT components in FY 2019, an increase of $175.8 million in gross collections in FY 2020 was offset by a larger increase in refunds and LGF distributions totaling $241.4 million, yielding a decline of $65.6 million. In part, the increase in LGF distributions is due to an increase in the allocation of GRF tax revenue to the LGF. H.B. 166 included a provision in uncodified law increasing the allocation from 1.66% of GRF tax revenue to 1.68% during the current biennium. Compared to receipts in the corresponding period in FY 2019, YTD FY 2020 employer withholding receipts[6] grew 2.0%, despite the reductions in withholding rates described above.

FY 2020 PIT Revenue Variance and Annual Change by Component

Category	YTD Variance from Estimate		Changes from FY 2019	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$57.4	0.8%	$136.9	2.0%
Quarterly Estimated Payments	$14.4	2.5%	$40.0	7.3%
Trust Payments	$5.5	17.4%	$3.2	9.3%
Annual Return Payments	-$13.5	-6.2%	-$5.9	-2.8%
Miscellaneous Payments	$0.1	0.2%	$1.5	2.4%
Gross Collections	$64.0	0.8%	$175.8	2.3%
Less Refunds	$98.8	6.6%	$221.5	16.2%
Less LGF Distribution	$5.1	1.6%	$19.9	6.7%
GRF PIT Revenue	-$39.9	-0.7%	-$65.6	-1.1%

The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts in FY 2020 and estimated withholding receipts adjusted for the decreases in withholding tax rates. Payrolls are estimated to have grown about 2.3%, on average, in the first quarter of 2020.

[6] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding.



Fourth-quarter PIT revenue was estimated at $2.68 billion, nearly 31% of estimated receipts for the fiscal year.[7] Thus, the extension of the income tax return filing deadline and tax payments to July 15 is likely to significantly reduce PIT receipts in the April-June period and shift some of those payments to FY 2021.

Commercial Activity Tax

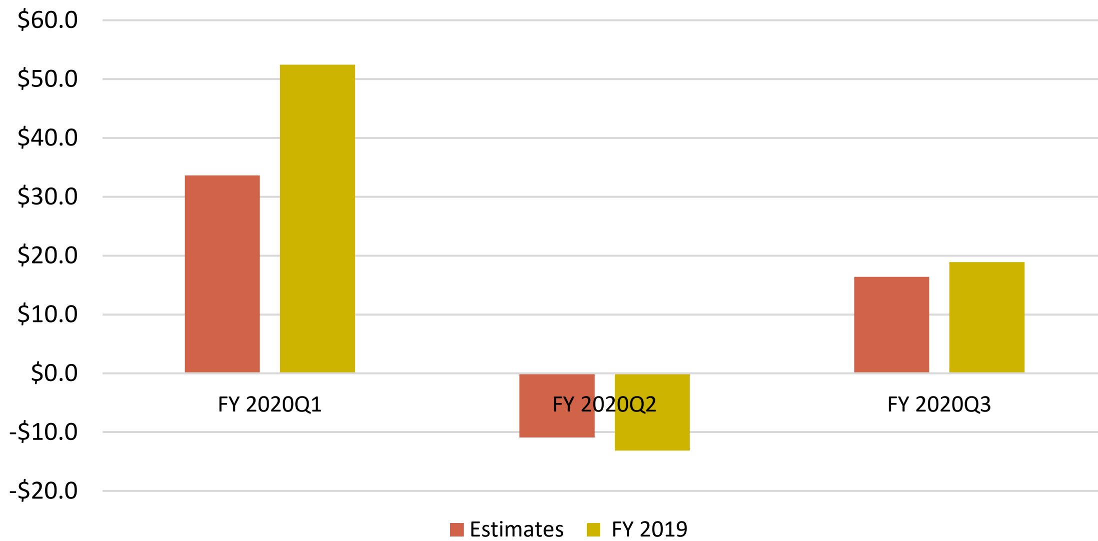
March is not a big revenue month for the CAT. GRF receipts of $12.2 million were $2.8 million (30.1%) above estimate, but $4.1 million (25.3%) below March 2019 revenue. The monthly performance of the CAT increased its YTD positive variance to $39.1 million (3.2%), up from $36.3 million at the end of February. FY 2020 GRF receipts totaled $1.26 billion, an amount $58.2 million (4.8%) above revenue through March in FY 2019. As shown in the chart below, following a dismal second fiscal quarter in which the CAT was below both estimates and prior-year receipts, third-quarter GRF receipts were $16.4 million (3.8%) above estimate and $18.9 million (4.4%) above receipts in the corresponding period in FY 2019. The increase in GRF revenue in FY 2020 has been driven throughout the fiscal year, in part, by a decline in tax credits and refunds claimed against the CAT.[8] Through March, FY 2020 gross collections (i.e., all funds revenue) grew only 2.5% while refunds and credits fell 26.3%, resulting in a higher growth rate for the GRF.

[7] April estimated receipts are $1.26 billion of the total.

[8] A number of Ohio's business tax credits can be claimed against more than one type of tax, but many are claimed against the CAT, which is imposed on the privilege of doing business in Ohio. In the first three quarters of FY 2020, refunds and credits totaled $83.6 million, $29.7 million below those in the corresponding period in FY 2019.

Under continuing law, CAT receipts are deposited into the GRF (85.0%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13.0%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2.0%). Through three quarters in FY 2020, Fund 7047 and Fund 7081 received $192.5 million and $29.6 million, respectively. The distributions are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are transferred back to the GRF.

Chart 5: FY 2020 Quarterly CAT GRF Revenue
Actual vs. Estimate and Prior Year ($ in millions)



Cigarette and Other Tobacco Products Tax

YTD revenue to the GRF from the cigarette and other tobacco products tax totaled $617.1 million, $6.9 million (1.1%) above estimate, but $9.8 million (1.6%) below receipts through March in FY 2019. YTD revenue included $556.9 million from the sale of cigarettes and $60.2 million from the sale of other tobacco products. Compared to FY 2019, receipts from cigarette sales fell $12.7 million (2.2%) while those from the sale of other tobacco products increased $2.9 million (5.1%). On a yearly basis, revenue from the cigarette and other tobacco products tax usually trends downward generally at a slow pace due to a decline of cigarette revenue, though receipts from the sales of other tobacco products increase yearly.

H.B. 166 levied a tax of 10¢ per milliliter (or gram) of vapor product (depending on the form of the product). A vapor product is defined as any liquid solution or other substance that contains nicotine and is depleted as it is used in an electronic smoking product. The tax is to be paid by distributors beginning October 1, 2019. The taxation of vapor products is estimated to increase GRF revenue by $3.2 million in FY 2020, with most of the revenue occurring in the January to June period. The increase relative to FY 2019 revenue from the other tobacco products tax is due, in part, to the tax on vapor products.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of March 2020
($ in thousands)
(Actual based on OAKS reports run April 6, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$666,101	$654,289	$11,812	1.8%
Higher Education	$197,026	$198,870	-$1,844	-0.9%
Other Education	$10,456	$7,121	$3,335	46.8%
Total Education	**$873,584**	**$860,281**	**$13,303**	**1.5%**
Medicaid	$1,044,341	$1,008,007	$36,334	3.6%
Health and Human Services	$142,082	$109,652	$32,430	29.6%
Total Health and Human Services	**$1,186,422**	**$1,117,658**	**$68,764**	**6.2%**
Justice and Public Protection	$179,267	$168,289	$10,978	6.5%
General Government	$38,560	$45,315	-$6,756	-14.9%
Total Government Operations	**$217,826**	**$213,604**	**$4,222**	**2.0%**
Property Tax Reimbursements	$98,060	$172,019	-$73,959	-43.0%
Debt Service	$160,869	$165,985	-$5,116	-3.1%
Total Other Expenditures	**$258,928**	**$338,004**	**-$79,075**	**-23.4%**
Total Program Expenditures	**$2,536,761**	**$2,529,547**	**$7,213**	**0.3%**
Transfers Out	**$4,500**	**$0**	**$4,500**	**---**
Total GRF Uses	**$2,541,261**	**$2,529,547**	**$11,713**	**0.5%**

*September 2019 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2020 as of March 31, 2020
($ in thousands)
(Actual based on OAKS reports run April 6, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$6,391,174	$6,431,449	-$40,275	-0.6%	$6,330,706	1.0%
Higher Education	$1,743,287	$1,815,720	-$72,433	-4.0%	$1,730,016	0.8%
Other Education	$71,241	$68,168	$3,074	4.5%	$60,503	17.7%
Total Education	**$8,205,702**	**$8,315,336**	**-$109,634**	**-1.3%**	**$8,121,225**	**1.0%**
Medicaid	$11,993,585	$11,856,744	$136,841	1.2%	$11,381,455	5.4%
Health and Human Services	$1,106,555	$1,148,978	-$42,424	-3.7%	$999,692	10.7%
Total Health and Human Services	**$13,100,139**	**$13,005,722**	**$94,417**	**0.7%**	**$12,381,148**	**5.8%**
Justice and Public Protection	$1,842,739	$1,866,600	-$23,860	-1.3%	$1,723,646	6.9%
General Government	$333,267	$392,141	-$58,874	-15.0%	$283,887	17.4%
Total Government Operations	**$2,176,006**	**$2,258,741**	**-$82,734**	**-3.7%**	**$2,007,533**	**8.4%**
Property Tax Reimbursements	$1,003,351	$1,098,023	-$94,672	-8.6%	$1,091,920	-8.1%
Debt Service	$1,261,803	$1,269,693	-$7,890	-0.6%	$1,276,519	-1.2%
Total Other Expenditures	**$2,265,154**	**$2,367,716**	**-$102,562**	**-4.3%**	**$2,368,440**	**-4.4%**
Total Program Expenditures	**$25,747,002**	**$25,947,515**	**-$200,513**	**-0.8%**	**$24,878,346**	**3.5%**
Transfers Out	**$668,120**	**$669,975**	**-$1,856**	**-0.3%**	**$759,077**	**-12.0%**
Total GRF Uses	**$26,415,121**	**$26,617,490**	**-$202,368**	**-0.8%**	**$25,637,423**	**3.0%**

*September 2019 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2019.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 7, 2020)

	Month of March 2020				Year to Date through March 2020			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$981,212	$946,641	$34,571	3.7%	$11,390,286	$11,257,888	$132,398	1.2%
Non-GRF	$1,153,089	$1,140,560	$12,529	1.1%	$7,199,701	$7,339,504	-$139,803	-1.9%
All Funds	$2,134,301	$2,087,200	$47,100	2.3%	$18,589,987	$18,597,392	-$7,405	0.0%
Developmental Disabilities								
GRF	$54,079	$53,127	$951	1.8%	$518,197	$517,378	$819	0.2%
Non-GRF	$301,431	$282,672	$18,759	6.6%	$1,897,079	$1,923,139	-$26,060	-1.4%
All Funds	$355,510	$335,800	$19,710	5.9%	$2,415,276	$2,440,516	-$25,240	-1.0%
Job and Family Services								
GRF	$8,319	$7,315	$1,004	13.7%	$77,172	$73,397	$3,775	5.1%
Non-GRF	$16,729	$15,643	$1,086	6.9%	$143,011	$138,622	$4,389	3.2%
All Funds	$25,048	$22,958	$2,090	9.1%	$220,183	$212,020	$8,163	3.9%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$732	$924	-$193	-20.8%	$7,930	$8,081	-$151	-1.9%
Non-GRF	$2,697	$3,842	-$1,145	-29.8%	$32,189	$32,434	-$245	-0.8%
All Funds	$3,429	$4,766	-$1,337	-28.1%	$40,119	$40,515	-$396	-1.0%
All Departments:								
GRF	**$1,044,341**	**$1,008,007**	**$36,334**	**3.6%**	**$11,993,585**	**$11,856,744**	**$136,841**	**1.2%**
Non-GRF	**$1,473,947**	**$1,442,718**	**$31,229**	**2.2%**	**$9,271,980**	**$9,433,699**	**-$161,719**	**-1.7%**
All Funds	**$2,518,287**	**$2,450,724**	**$67,563**	**2.8%**	**$21,265,565**	**$21,290,443**	**-$24,878**	**-0.1%**

*September 2019 estimates from the Department of Medicaid.
Detail may not sum to total due to rounding.

Table 6: All Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 7, 2020)

	Month of March 2020				Year to Date through March 2020			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,581,302**	**$1,548,654**	**$32,648**	**2.1%**	**$13,379,113**	**$13,179,842**	**$199,271**	**1.5%**
CFC†	$558,671	$548,770	$9,901	1.8%	$4,689,676	$4,600,662	$89,014	1.9%
Group VIII	$447,160	$414,627	$32,533	7.8%	$3,576,262	$3,417,297	$158,964	4.7%
ABD†	$253,827	$268,873	-$15,046	-5.6%	$2,173,793	$2,224,079	-$50,286	-2.3%
ABD Kids	$79,980	$85,153	-$5,173	-6.1%	$715,702	$715,164	$539	0.1%
My Care	$241,664	$231,231	$10,433	4.5%	$2,017,558	$2,018,158	-$599	0.0%
P4P†	$0	$0	$0	---	$206,121	$204,482	$1,639	0.8%
Fee-For-Service	**$765,108**	**$718,624**	**$46,484**	**6.5%**	**$6,343,107**	**$6,435,754**	**-$92,646**	**-1.4%**
ODM Services	$397,632	$388,012	$9,620	2.5%	$3,193,148	$3,257,144	-$63,996	-2.0%
DDD Services	$351,225	$330,612	$20,613	6.2%	$2,346,548	$2,364,510	-$17,962	-0.8%
Hospital - HCAP†	$12,489	$0	$12,489	---	$659,697	$669,444	-$9,747	-1.5%
Hospital - Other	$3,761	$0	$3,761	---	$143,714	$144,655	-$941	-0.7%
Premium Assistance	**$99,713**	**$99,537**	**$176**	**0.2%**	**$840,503**	**$859,244**	**-$18,742**	**-2.2%**
Medicare Buy-In	$59,167	$57,084	$2,084	3.7%	$487,891	$496,862	-$8,971	-1.8%
Medicare Part D	$40,545	$42,453	-$1,908	-4.5%	$352,612	$362,382	-$9,770	-2.7%
Administration	**$72,165**	**$83,910**	**-$11,744**	**-14.0%**	**$702,842**	**$815,604**	**-$112,762**	**-13.8%**
Total	**$2,518,287**	**$2,450,724**	**$67,563**	**2.8%**	**$21,265,565**	**$21,290,443**	**-$24,878**	**-0.1%**

*September 2019 estimates from the Department of Medicaid.

†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program; P4P - Pay For Performance.

Detail may not sum to total due to rounding.

Expenditures[9]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

For the YTD, GRF uses of $26.42 billion were below estimate by $202.4 million (0.8%). This negative variance decreased from the end of February due to a positive variance of $11.7 million for the month of March. This positive March variance would have been larger except for a timing-related negative variance of $74.0 million in Property Tax Reimbursements. Despite positive March variances in five of the nine program categories, all but two categories, Medicaid and Other Education, had negative YTD variances. YTD variances in GRF uses compared to estimates are shown in the preceding Table 4. The preceding Table 3 shows GRF uses compared to estimates for the month of March.

Medicaid's GRF expenditures were above estimate by $36.3 million for the month of March, increasing Medicaid's YTD positive GRF variance to $136.8 million at the end of March. The following section gives more details about Medicaid GRF and non-GRF variances.

Property Tax Reimbursements had the largest negative YTD variance of $94.7 million, due largely to a negative variance of $74.0 million in March. The second and third largest negative YTD variances were in Higher Education ($72.4 million) and General Government ($58.9 million). Both of these negative variances grew in March, by $1.8 million and $6.8 million, respectively. Three other program categories had negative YTD variances that were more than $20.0 million. All three of these had positive variances in March that reduced their negative YTD variances. These categories are: Health and Human Services ($42.4 million, falling by $32.4 million in March), Primary and Secondary Education ($40.3 million, falling by $11.8 million), and Justice and Public Protection ($23.9 million, falling by $11.0 million). These variances are discussed further in the following sections.

GRF uses include both program expenditures and transfers out. Transfers out had a positive variance of $4.5 million in March due to a transfer of $4.5 million into the Information Technology Development Fund (Fund 5LJ0) to support the Office of InnovateOhio. This transfer was originally scheduled to occur in August.

Medicaid

GRF Medicaid expenditures were above their monthly estimate in March by $36.3 million (3.6%), which caused the variance in Medicaid YTD expenditures to increase to $136.8 million (1.2%) above estimate. Non-GRF Medicaid expenditures were also above their monthly estimate, by $31.2 million (2.2%), but remained below their YTD estimate by $161.7 million (1.7%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $67.6 million (2.8%) above estimate in March and $24.9 million (0.1%) below their YTD estimate at the end of March.

[9] This report compares actual monthly and YTD expenditures from the GRF to OBM's estimates. If a program category's actual expenditures were higher than estimate, that program category is deemed to have a positive variance. The program category is deemed to have a negative variance when its actual expenditures were lower than estimate.

Above estimate expenditures in March eliminated the majority of the YTD negative variance for all funds expenditures carried over from previous months of the fiscal year, although at the end of March, these expenditures still remained below estimate. The initial impact of the COVID-19 pandemic has shown in Medicaid caseloads. Medicaid experienced an enrollment increase of more than 14,000 in March, which represents Ohio Medicaid's largest one-month caseload increase in more than three years. However, caseload remained under the budget estimate by 15,000 cases (0.53%).

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had a positive variance in March of $47.1 million, which brought YTD expenditures virtually equal to estimate, with a $7.4 million negative variance. This is in contrast to the negative YTD variance of approximately seven times this magnitude which was seen in all funds ODM expenditures at the end of February.

ODODD had a positive variance ($19.7 million) in March that decreased the magnitude of ODODD's negative YTD variance from $45.0 million (2.1%) at the end of February to $25.2 million (1.0%) at the end of March. The other six "sister" agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining 1% of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending. Job and Family Services had a $2.1 million (9.1%) positive variance in March, which increased its YTD positive variance to $8.2 million (3.9%).

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories. Administration ($112.8 million, 13.8%) had the largest overall negative variance, followed by Fee-For-Service (FFS, $92.6 million, 1.4%), and Premium Assistance ($18.7 million, 2.2%). Managed Care expenditures were above their YTD estimate by $199.3 million (1.5%).

Expenditures in the Managed Care category experienced a positive variance of $32.6 million (2.1%) in March, which increased the YTD positive variance to $199.3 million. Through the fiscal year, the largest factors which have contributed to this positive YTD variance have been positive monthly variances in the Covered Families and Children (CFC) and Group VIII categories. Managed Care rates, which are legally required to be actuarially sound, increased in January, and according to ODM, these rates are approximately 3% higher than those that were estimated for use in the budget for the final six months of the fiscal year. In addition, the positive variances for Group VIII have been influenced by higher than expected caseloads. For the first nine months of FY 2020, the average monthly managed care caseloads for Group VIII were 1.7% (9,274 cases) above estimate.

Property Tax Reimbursements

The negative YTD variance in Property Tax Reimbursements of $94.7 million (8.6%) was due primarily to this category's expenditures being $74.0 million below estimate in March. Property tax reimbursement funds are disbursed upon the request of county auditors. The timing of these requests may vary from that assumed in the OBM estimate. The negative YTD variance in Property Tax Reimbursements is expected to narrow in the next few months.

Higher Education

The Higher Education category was under its YTD estimate by $72.4 million (4.0%) at the end of March. For the month of March, this category was under estimate by $1.8 million. As reported in the last issue of *Budget Footnotes*, expenditures from two line items have been delayed since December. These two items are listed below with their negative YTD variances indicated in parentheses:

- 235535, Ohio Agricultural Research and Development Center ($28.0 million);
- 235511, Cooperative Extension Service ($18.8 million).

Once agreements between the Department and these organizations are finalized, these negative variances should be reversed.

In addition to these, most other line items in this category were also under estimate for the YTD. These items include 235438, Choose Ohio First Scholarship, ($9.8 million) and 235563, Ohio College Opportunity Grant, ($5.3 million). Expenditures in these two items are dependent on when the Department receives requests from higher education institutions, so they often have timing-related variances.

General Government

The General Government category had a negative YTD variance of $58.9 million (15.0%) at the end of March and a negative variance of $6.8 million for the month of March. The March variance was largely the result of a negative monthly variance of $5.0 million in item 700417, Soil and Water Phosphorus Program, in the Department of Agriculture budget. With this March variance, this item is now $15.0 million under estimate YTD. The largest negative YTD variance in this category is $24.9 million in item 775470, Public Transportation – State, in the Department of Transportation budget. The variances in both of these items were due to delays in payments for these programs.

Health and Human Services

The negative YTD variance in the Health and Human Services category fell by $32.4 million in March, from $74.9 million (7.2%) to $42.4 million (3.7%).

The Ohio Department of Job and Family Services (ODJFS) is largely responsible for the positive March variance in this category. ODJFS had a positive variance of $30.3 million in March that partially offset this agency's negative YTD variance at the end of February, leaving a negative YTD variance of $3.5 million at the end of March. Item 600523, Family and Children Services, had the largest positive variance in March of $24.3 million, changing its YTD variance from a negative $14.0 million to a positive $10.4 million. In addition, item 600535, Early Care and Education, had its eighth positive monthly variance in March ($4.5 million), bringing its positive YTD variance to $20.8 million. These positive YTD variances were offset by negative YTD variances in most other items, especially item 600450, Program Operations, which had a negative YTD variance of $19.2 million at the end of March.

The Ohio Department of Mental Health and Addiction Services (OMHAS) continues to have a significant negative YTD variance ($20.1 million at the end of March), despite a positive variance of $4.9 million for the month. As reported in prior issues of *Budget Footnotes*, this negative variance is primarily from expenditures in October.

Also contributing to the negative YTD variance in this category was the Department of Health (DOH), which had a negative YTD variance of $9.5 million at the end of March. This YTD variance was a result of an accumulation of negative monthly variances for most months of the fiscal year, including a negative variance of $1.2 million for the month of March. DOH's variances are spread out over most of its line items.

The agency in this category with the third highest negative YTD variance is the Department of Veterans Services (DVS), which had a negative YTD variance of $6.4 million at the end of March. This variance is primarily from item 900321, Veterans' Homes, which pays the operating costs of the state's two veterans' homes.

Primary and Secondary Education

The Primary and Secondary Education category had a positive variance for the month of March of $11.8 million, which decreased this category's negative YTD variance to $40.3 million (0.6%). The positive variance in March was mainly due to positive variances in items 200437, Student Assessment, and 200550, Foundation Funding, of $7.9 million and $3.4 million, respectively. As reported in prior issues of *Budget Footnotes*, these items often have timing-related variances. These positive monthly variances partially offset negative YTD variances in these items. The YTD variances at the end of March for these items were a negative $17.4 million for item 200437 and a negative $7.9 million for item 200550.

Justice and Public Protection

The Justice and Public Protection category had a positive variance for the month of March of $11.0 million, which decreased this category's negative YTD variance to $23.9 million (1.3%). The positive variance in March was due to a positive variance of $23.8 million in the Department of Rehabilitation and Correction (DRC), which increased DRC's positive YTD variance to $24.6 million. This positive March variance was partially offset by negative variances in most other agencies, especially a negative variance of $7.7 million for the Public Defender that should be reversed in future months as it was due to a delay in county reimbursements. The Public Defender's YTD variance was a negative $6.5 million. Other significant negative YTD variances in this category were for the Department of Public Safety ($14.7 million), the Attorney General ($10.7 million), the Department of Youth Services ($8.3 million), and the Judiciary/Supreme Court ($7.6 million).

Issue Updates

Federal Government Increases Funding for Several Program Grants to Address the COVID-19 Pandemic

– Melaney Carter, Director

In March, Congress passed three acts to allocate additional federal funding to states for several programs to address the COVID-19 pandemic. These three acts are: the Coronavirus Preparedness and Response Supplemental Appropriations Act (signed March 6), the Families First Coronavirus Response Act (FFCRA, March 18), and the Coronavirus Aid, Relief, and Economic Security (CARES) Act (March 27). The following table shows preliminary estimates, provided by Federal Funds Information for States (FFIS), of Ohio's allocations for formula grants in these three acts. Most of the grants provide additional funding to existing programs. Exceptions include the Coronavirus Relief Fund (CRF) and the education funds. These are described in more detail in the following two Issue Updates articles.

Federal Grants Related to COVID-19 ($ in millions)		
Federal Agency	**Program**	**Ohio Estimate**
Treasury	Coronavirus Relief Fund	$4,532.6
Education	Governor's Fund	$105.2
	Elementary & Secondary School Fund	$489.2
	Higher Education Fund	$381.3
Children and Families	Child Care and Development Block Grant	$116.6
	Community Services Block Grant	$38.4
	Head Start	$29.8
	Low Income Home Energy Assistance Program	$12.6
	Child Welfare Services	$1.7
	Family Violence Prevention	$0.9
Community Living	Congregate and Home-Delivered Meals	$26.4
	Supportive Services	$7.3
	Family Caregivers	$3.6
	Centers for Independent Living	$2.6

Federal Grants Related to COVID-19 ($ in millions)		
Federal Agency	**Program**	**Ohio Estimate**
	Protection of Vulnerable Older Americans	$0.8
Disease Control and Prevention	Centers for Disease Control (CDC) States Grants	$33.0
	Poison Control Centers	$0.2
Health Resources and Services	Community Health Centers	$46.1
Labor	Unemployment Compensation Administration	$27.6
Justice	Justice Assistance Grants	$24.4
Agriculture	Emergency Food Assistance (TEFAP) Commodities	$22.3
	TEFAP Administration	$9.3
	Supplemental Nutrition for Women, Infants, and Children	$11.4
Commerce	Manufacturing Extension	$2.3
Homeland Security	Emergency Food and Shelter	$8.3
	Emergency Performance Management	$2.9
Housing and Urban Development	Community Development Block Grant (CDBG) – Local	$63.7
	CDBG – State	$27.3
	Homeless Assistance – Local	$48.6
	Homeless Assistance – State	$42.6
	Public Housing Operating	$30.0
	Tenant-Based Rental Assistance	$22.6
	Housing Opportunities for Persons with AIDS	$0.8
Transportation	Urbanized Area Formula	$297.0
	State of Good Repair	$78.4
	Nonurbanized Area	$72.4
	Growing States	$26.3

Federal Grants Related to COVID-19 ($ in millions)		
Federal Agency	**Program**	**Ohio Estimate**
Independent Agencies	Election Security	$12.8
	National Endowment for the Humanities	$0.8
	National Endowment for the Arts	$0.5
	Total	**$6,660.8**

Federal Government Establishes Coronavirus Relief Fund

– Melaney Carter, Director

The federal government established the CRF in the CARES Act. The CRF provides $150 billion to state and local governments. Funds are to be available within 30 days of enactment. FFIS estimates that Ohio's share of this funding is $4.53 billion. Up to 45% of that may be issued directly to local governments in Ohio with populations exceeding 500,000, leaving at least $2.49 billion as the state government share.

These funds are restricted in use to necessary expenditures incurred due to COVID-19 during the period March 1, 2020, to December 30, 2020, that were not accounted for in the most recently approved budget. OBM is requesting appropriations totaling $226.7 million for expenditures through April 27 at the April 13 Controlling Board meeting. OBM intends to create the Ohio Coronavirus Relief Fund (Fund 5CV1) for these expenditures. The table below shows the requested appropriations by agency.

April 13 Controlling Board Requested Appropriations for Ohio Coronavirus Relief Fund				
Agency	**ALI**	**ALI Name**	**Purpose**	**FY 2020**
Administrative Services	100671	Coronavirus Relief - DAS	5,000 ventilators	$109,000,000
Public Safety	763691	Coronavirus Relief - DPS	Personal protective equipment	$50,000,000
Health	440674	Coronavirus Relief - DOH	Coronavirus testing and medication	$39,000,000
Adjutant General	745632	Coronavirus Relief - ADJ	Temporary medical facilities and allowance for 600 members put on active duty	$28,664,000
			Total	**$226,664,000**

Federal Government Establishes Education Stabilization Fund

– Melaney Carter, Director

In addition to the CRF, the CARES Act established the Education Stabilization Fund. This fund consists of the Governor's Emergency Education Relief Fund, the Elementary and Secondary School Emergency Relief Fund, and the Higher Education Emergency Relief Fund. FFIS estimates that Ohio will receive a total of $975.7 million through these three funds, including $105.2 million for the Governor's fund, $489.2 million for the Elementary and Secondary School fund, and $381.3 million for the Higher Education fund.

The Governor's fund is to be used to provide emergency support to primary and secondary schools, higher education institutions, and other education-related entities that have been impacted the most by COVID-19. Ninety percent of the Elementary and Secondary School fund is to be distributed to local schools in proportion to the funding they receive under Title I, which is distributed primarily based on a school's economically disadvantaged enrollment. The remaining 10% is to be used by the Ohio Department of Education (ODE) to address issues related to COVID-19. The Higher Education fund is to be distributed directly to institutions of higher education, 75% based on enrollment of Pell Grant recipients and 25% based on other enrollment. Institutions are to use the funds for costs related to changes to the delivery of instruction due to COVID-19 and must use at least 50% of their funds to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19.

Medicaid's Federal Reimbursements to Increase During COVID-19 Emergency

– Nelson V. Lindgren, Economist

The second act passed by Congress, the FFCRA, increases the federal medical assistance percentage (FMAP) by 6.2 percentage points for certain Medicaid expenditures incurred after January 1, 2020, and throughout the duration of the COVID-19 emergency.[10] To qualify for the increase, a state must do the following: (1) maintain eligibility standards or procedures that are no more restrictive than those in place on January 1, 2020, (2) not charge premiums that exceed those in place on January 1, 2020, (3) provide testing, services, and treatments including vaccines, specialized equipment, and therapies related to COVID-19 without cost-sharing requirements, (4) provide continuous coverage to individuals enrolled onto the program during the emergency period,[11] and (5) not require local political subdivisions to pay a greater portion of the nonfederal share of expenditures than was required on March 11, 2020.

[10] The increased FMAP is available for each calendar quarter occurring during the emergency. The U.S. Secretary of Health and Human Services declared COVID-19 an emergency on January 31, 2020. Thus, the increase is available for qualifying expenditures incurred on or after January 1, 2020, through the end of the quarter in which the emergency ends.

[11] States cannot terminate Medicaid coverage for individuals enrolled onto the program during the emergency period unless the individual voluntarily terminates eligibility or is no longer a resident of the state.

The Medicaid program is jointly funded by states and the federal government. The federal share for most Medicaid expenditures is determined by a state's FMAP, which is calculated annually for each state using a formula established in federal statute.[12] However, there are exceptions to the regular FMAP formula for certain services and populations. In general, the 6.2 percentage point increase applies only to those Medicaid expenditures subject to the regular FMAP and not to expenditures made for these exceptions. As a result, the increase does not apply to administrative expenditures or service expenditures for the expansion population under the Affordable Care Act (typically referred to as "Group VIII"), among others. Ohio's FMAP is 63.02% from October 1, 2019, through September 30, 2020. Thus, Ohio's FMAP will temporarily increase to 69.22% because of the FFCRA.

Ohio Expands Unemployment Compensation During COVID-19 Emergency

– Nicholas J. Blaine, Budget Analyst

On March 16, 2020, the Governor issued Executive Order 2020-03D to expand flexibility for unemployment compensation during a state of emergency resulting from COVID-19. The executive order allows otherwise eligible workers to receive benefits if unemployed due to a mandatory COVID-19 quarantine,[13] waives the one-week waiting requirement, and waives the work-search requirement for quarantined workers. On March 25, 2020, the General Assembly passed H.B. 197 to enact these changes with one difference. Under H.B. 197, the Director of Job and Family Services has the authority to waive the work-search requirement for all workers instead of only those quarantined.[14] For most nonpublic employers, the additional benefits will be charged to the mutualized account within the Unemployment Compensation Fund (the fund). Under normal circumstances, benefits are paid by the respective employer's account and then an employer's tax rate is adjusted for the next year as a result. However, benefits charged to the mutualized account within the fund do not affect an employer's tax rate. Public employers, including the state and political subdivisions, will need to reimburse the fund for the additional benefits paid on their behalf, as they do for all benefits. More information about COVID-19's impact on benefits can be found on the ODJFS website: www.jfs.ohio.gov.

Besides these state efforts, the federal government has enacted legislation to expand unemployment benefits during the COVID-19 emergency. On March 27, 2020, the President signed the CARES Act into law. The CARES Act provides assistance to states' unemployment compensation programs and expands eligibility for additional benefits, which are subsidized by the federal government through the end of the calendar year. Among other things, the CARES Act creates pandemic unemployment assistance (PUA) to provide support to workers who do not typically qualify for unemployment (such as self-employed workers and independent contractors) and to

[12] The statute considers a state's per capita income for the three most recent years relative to the nation's per capita income over the same time period.

[13] The quarantine must be requested by a medical professional, local health authority, or employer and not a self-quarantine.

[14] All changes will remain in effect until the state of emergency concludes or December 1, 2020, whichever comes sooner.

assist those who exhaust their benefits.[15] The CARES Act also provides supplemental benefits of $600 per week through July 31, 2020. These supplemental benefits would be in addition to the benefits an individual who is eligible to receive unemployment benefits would qualify for under Ohio law. PUA recipients are also eligible for these supplemental benefits. All PUA and supplemental benefits, along with administrative costs, will be paid fully by the federal government. In addition to this legislation, the FFCRA, signed by the President on March 18, 2020, provided grants for administration. FFIS estimates Ohio's grant will total $27.6 million. This act also provides full federal funding for extended benefits, instead of the normal 50% federal share.

The number of claimants applying for unemployment benefits rose significantly over the last month from 7,000 for the week of March 8 to March 14 to 274,000 for March 22 to March 28. The table below shows the number of advance unemployment claims filed by Ohioans in recent weeks, according to data provided by the U.S. Department of Labor (DOL). The first confirmed COVID-19 cases within Ohio were reported on March 6.

Initial Unemployment Claims in Ohio and United States, March 1–April 4*

	United States		Ohio	
Week Ended	**Claims**	**% Increase**	**Claims**	**% Increase**
March 7	200,375	--	6,545	--
March 14	251,416	25.5%	7,046	7.7%
March 21	2,920,160	1,061.5%	196,309	2,686.1%
March 28	6,015,821	106.0%	274,288	39.7%
April 4	6,203,359	3.1%	224,182	-18.3%

*Claims data are not seasonally adjusted.

At the end of February 2020, the fund had a balance of $1.18 billion. If the fund were depleted, the Governor or the Governor's designee (the Director of Job and Family Services in Ohio) could request an advance from the U.S. DOL that would allow the state to continue to provide benefits. The average weekly benefit was about $394 at the end of February.

Unemployment insurance is a federal and state partnership for income maintenance during periods of involuntary unemployment that provides partial compensation for lost wages to eligible individuals. State law classifies employers into one of two categories: "contributory" and "reimbursing" employers. Most nongovernment employers are contributory employers, which pay unemployment insurance taxes to the fund on a quarterly basis, and most public employers and nonprofits are reimbursing, which repays the fund for any benefit provided to employees. More information about the state's unemployment compensation system can be found in the LSC Members Brief, *Financing Unemployment Benefits – Federal Loans to Cover Shortfalls*.

[15] PUA benefits will be available to eligible individuals from January 27, 2020, through December 31, 2020. An individual will be eligible for retroactive benefits and can access benefits for a maximum of 39 weeks.

Task Force Issues Recommendations to Address Health Care Workforce Challenges in Ohio

– Edward Millane, Senior Budget Analyst

In early March, the Ohio Physician and Allied Health Care Workforce Preparation Task Force released a report of its findings and recommendations from the seven meetings it held from last August through February of this year. Created by H.B. 166, the task force was established "to study, evaluate, and make recommendations with respect to health care workforce needs in Ohio." Over 30 members from various groups, including representatives from the State Medical Board, medical school deans, hospital administrators, physician and nursing associations, and federally qualified health centers, participated in the discussion. The report highlights numerous existing efforts and initiatives among state agencies, higher education institutions, regional commissions, and various private sector and health care organizations that are addressing health care challenges throughout the state. The task force identified three main challenges regarding Ohio's health care workforce: (1) a shrinking labor pool due to aging providers and the supply of individuals in the education pipeline, (2) an inability of the workforce to grow fast enough to meet demand given changing medical conditions and modes of service delivery, and (3) geographic gaps in the distribution of health care providers. Generally, the task force made the following recommendations while noting that further data collection and information sharing is necessary to better explore the main challenges facing Ohio's health care workforce:

1. **Data availability and transparency**. The task force recommends the Health Professions Data Warehouse (HPDW), a collection of data used to enhance health care workforce forecasting, policy, development, and research, be completed with input from the Department of Administrative Services, InnovateOhio Platform, health professional licensing boards, and other appropriate stakeholders. Also, data available in the HPDW should be made available to the public to facilitate sharing and transparency.
2. **Recruitment, placement, and retention**. The task force recommends focusing on the recruitment, placement, and retention of health care learners to increase the volume and availability of qualified health care workers addressing major health challenges throughout the state. Strategies should be implemented in rural and other underserved areas through innovation, clinical exposure to underserved settings, and programs addressing educational costs and reimbursement.
3. **Educational pipeline opportunities**. The task force recommends all educational institutions and training providers enhance their involvement in efforts to create affordable, accessible, and innovative opportunities for students, including underrepresented minorities, who may want to enter, or up-skill from within, the health care workforce.
4. **Serving all Ohioans**. The task force recommends developing or enhancing targeted strategies that focus efforts on serving people living in health professional shortage areas and other geographically underserved population areas of the state to make sure that all residents of Ohio have the ability to achieve their full-health potential. Strategies should include investigating practice methods, population health management, practice style, and payment methods.

The full report is available online at the Ohio Board of Nursing's website at www.nursing.ohio.gov.

Ohio Infant Mortality Rate Decreases in 2018

– Jacquelyn Schroeder, Senior Budget Analyst

On February 25, 2020, DOH released its 2018 Ohio Infant Mortality Report, which found that Ohio's infant mortality rate[16] for all races decreased from 7.2 in 2017 to 6.9 in 2018. Ohio's goal is to attain a rate of 6.0 or lower for every race or ethnic group. The white infant mortality rate has met this goal since 2014, although the rate did increase slightly from 5.3 in 2017 to 5.4 in 2018. Neither the infant mortality rate for Hispanics nor blacks has achieved this goal. However, both rates experienced a decrease from 2017 to 2018 going from 7.2 to 6.1 for Hispanics and from 15.6 to 13.9 for blacks. The overall decrease in the infant mortality rate is largely due to a decrease in the number of neonatal deaths (deaths during the first 27 days of life). This is especially true for the black population, which saw a decrease in neonatal deaths of 25% from 2017 to 2018. Deaths during the neonatal period are often attributed to preterm birth, low birth weight, congenital anomalies, or health problems experienced by the mother before and during pregnancy. Neonatal deaths account for about two-thirds of all infant deaths. Prematurity-related conditions are the number one cause of infant mortality followed by congenital anomalies.

The state has taken numerous steps to address infant mortality over the past several years. Current efforts include increasing access to home visiting programs. These programs provide in-home services to pregnant women, mothers, and children up to age three, and provide new parents with skills to keep their children healthy and to improve school-readiness. In addition, there have been numerous efforts focusing on areas with high risk of infant mortality. An example of a targeted effort uses "neighborhood navigators" in nine of the most high-risk counties and metropolitan areas to identify at-risk pregnant women and connect them to healthcare and other necessary social services. Approximately 60% of all infant deaths and 90% of black infant deaths occurred in these nine counties in 2018, which include the following: Butler, Cuyahoga, Franklin, Hamilton, Lucas, Mahoning, Montgomery, Stark, and Summit.

To read the report in its entirety or to learn more about Ohio's efforts to reduce infant mortality, please refer to DOH's Infant and Fetal Mortality Reports page on its website (www.odh.ohio.gov).

DHE Awards Research Incentive Third Frontier Funding

– Jason Glover, Budget Analyst

In January, the Department of Higher Education (DHE) announced Research Incentive Third Frontier awards to nine universities and a children's hospital. Of the approximately $5.6 million awarded for the FY 2020-FY 2021 biennium, $2.0 million supports research for reducing infant mortality, $1.9 million supports research on cybersecurity programs and initiatives, and $1.8 million supports research on opiate addiction issues. The awards ranged from almost $97,000 to nearly $1 million. The recipients and award amounts are listed in the table below for each type of issue. DHE indicates that project findings are expected to be reported by the end of FY 2021. The Research Incentive Third Frontier Program aims to enhance the basic research capabilities and promote new research strengths at Ohio's universities in order to strengthen academic research

[16] The infant mortality rate is the number of infant deaths in the first year of life per 1,000 live births.

that contributes to economic growth. The program rewards institutions' successes in attracting external research funds by fractionally matching those external funds obtained during the previous year. The awards are supported by the proceeds of Third Frontier bonds.

Research Incentive Third Frontier Funding Awards for Selected Issues, FY 2020-FY 2021		
Institution	**Project Description**	**Award**
Infant Mortality Research		
Cleveland State University	Identification of economic, household, and neighborhood factors linked to infant mortality	$982,322
The Ohio State University	Comprehensive resources toolkit	$441,146
Bowling Green State University	Research on comprehensive risk assessments and care pathways	$266,642
Mount St. Joseph University	Patient education outreach mobile application	$309,308
Total		**$1,999,418**
Cyber Security Research		
University of Cincinnati	Establish Ohio Cyber Range Institute regional programming centers	$997,502
The Ohio State University	Cybersecurity research testbeds for vehicular, internet-connected object, and manufacturing platforms	$409,846
University of Dayton	Initiatives involving workplace training on cyber-attack awareness, cyber expertise sharing, and Dayton Cyber Range workforce development	$277,201
Ohio University	Educational initiatives to improve cybersecurity awareness and training	$225,161
Total		**$1,859,710**
Opiate Addiction Research		
Nationwide Children's Hospital	Risks of relapse among adults in remission	$499,998
Bowling Green State University	Predictive models for identifying risk factors	$475,535
Wright State University	Prescription-tapering training for primary care providers	$442,741
Cleveland State University	Patient-specific risk patterns for substance use disorder and withdrawal	$252,819
Case Western Reserve University	Geographic context of opiate use to inform intervention strategies	$96,837
Total		**$1,767,930**

Drug Task Forces Awarded $2.1 million in RecoveryOhio Law Enforcement Grants

– Maggie West, Senior Budget Analyst

On February 3, 2020, Governor DeWine announced the award of $2.1 million in RecoveryOhio Law Enforcement grants to 27 existing drug task forces serving 51 Ohio counties. These grants will support task force efforts to identify high-level drug traffickers, dismantle large drug trafficking organizations, interrupt the flow of money and drugs from Mexican cartels, and prevent the sale of illegal narcotics to those with a substance use disorder. Grants ranged from $9,040 (Crime Enforcement Agency of Ashtabula County) to $240,641 (METRICH Drug Task Force serving Ashland, Crawford, Hancock, Huron, Knox, Marion, Morrow, Richland, Seneca, and Wyandot counties), with the average award totaling $77,166.[17]

RecoveryOhio was commissioned by Governor DeWine in 2019 to make treatment available to Ohioans in need, provide support services for those in recovery and their families, offer direction for the state's prevention and education efforts, and work with law enforcement to provide resources to fight illicit drugs at the source. The initiative received GRF funding in H.B. 166, with an appropriation of $9.75 million in each of FY 2020 and FY 2021. The appropriated amounts were earmarked as follows:

- Up to $3.4 million per year to create narcotics task forces focusing on cartel trafficking interdiction;
- Up to $3.25 million per year to establish a narcotics intelligence center;
- Up to $2.5 million per year to provide funding to task forces to build and strengthen partnerships with local law enforcement; and
- Up to $600,000 per year to collaborate with the Department of Administrative Services' Office of Information Technology to develop, enhance, and maintain a uniform records management and data intelligence system for the task forces.

Ohio Awarded $112.6 million to Support Homeless Programs Under HUD's Continuum of Care Program

– Shannon Pleiman, Senior Budget Analyst

In January and March, the U.S. Department of Housing and Urban Development (HUD) awarded a total of $112.6 million in grants under the Continuum of Care Program to support 306 homelessness assistance programs in Ohio. Of this amount, $101.1 million was awarded to 277 existing projects and $11.5 million will support 29 new projects. The goal of the program is to promote a communitywide commitment to end homelessness. Homelessness prevention and assistance services in Ohio are coordinated by eight urban federally designated entitlement counties, referred to as Continuums of Care (CoC) and the Balance of State CoC, which represents the other 80 counties. The table below displays grant funding awarded for existing and new projects by Ohio CoC.

[17] A complete list of task forces, award amounts, and counties served can be found at: www.recoveryohio.gov.

HUD's Continuum of Care Program Grants by Entitlement Community			
Entitlement Community (CoC)	**Funding for Existing Projects**	**Funding for New Projects**	**Total Funding**
Cuyahoga County	$27,681,076	$2,052,201	$29,733,277
Hamilton County	$18,577,275	$4,215,934	$22,793,209
Franklin County	$13,617,085	$1,475,920	$15,093,005
Montgomery County	$10,185,542	$501,582	$10,687,124
Summit County	$4,113,880	$608,315	$4,722,195
Lucas County	$3,544,083	$237,066	$3,781,149
Stark County	$3,041,890	$86,312	$3,128,202
Mahoning County	$1,806,177	$138,661	$1,944,838
Balance of State	$18,493,005	$2,227,679	$20,720,684
Total	**$101,060,013**	**$11,543,670**	**$112,603,683**

Attorney General Announces Facial Recognition Task Force Recommendations

– Jessica Murphy, Budget Analyst

On February 20, 2020, the Ohio Attorney General announced recommendations of the 29-member Facial Recognition Task Force created in September of 2019 and charged with review of the state's facial recognition database. It found that, in each of the past three years, state and local criminal justice agencies conducted more than 95% of facial recognition searches, with the remainder performed by federal criminal justice agencies.[18] All of the searches were found to be based on legitimate criminal justice purposes, most commonly, the investigation of identity theft and missing-person cases.

The task force met eight times to discuss topics such as which images should be in the database, how the database should be audited, and racial and gender concerns associated with the accuracy and reliability of the technology. Following its review, the task force developed 13 recommendations that advise the Attorney General on how to utilize the database in a way that balances public safety and privacy interests. The full report of recommendations is available on the Attorney General's website.[19]

[18] From January 1, 2017, through July 31, 2019, Ohio's facial recognition database was accessed for 11,070 searches.

[19] www.ohioattorneygeneral.gov.

Ohio's facial recognition database consists of more than 24.4 million photos from a variety of sources. Nearly 87% (21.2 million) of photos were provided by the Ohio Bureau of Motor Vehicles, with another 10% (2.4 million), or so, provided by the Ohio Supreme Court/Ohio Courts Network. The database is part of the Ohio Law Enforcement Gateway (OHLEG) operated by the Attorney General's Bureau of Criminal Investigation.[20] OHLEG is an electronic information-sharing network, allowing law enforcement agencies and criminal justice agencies to share data for the investigation and prevention of crime.

State Library Board Commits $65,000 to Support Census 2020

– Dan Redmond, Budget Analyst

The State Library Board will distribute approximately $65,000 in federal funds to public libraries to support Census 2020. These funds come from the Library Services and Technology Act (LSTA) Program, which is funded through an independent federal agency, the Institute of Museum and Library Services (IMLS). Of these funds, the State Library Board will use $15,000 for marketing, including billboards, stickers, and other promotional materials, to direct people to local libraries where they can complete the census and $50,000 to provide iPads to libraries in counties that lack or have limited internet access. However, it is possible that plans change as a result of COVID-19, as some libraries have closed and supply chain disruptions have delayed delivery of the iPads.

While Census 2020 will be the first time the census is conducted primarily online, 17.1% of Ohio households either lack internet access or only have a dial-up subscription according to the latest American Community Survey data. The State Library Board looked at census tract maps by population lacking internet connectivity (including cellular data) and population located more than five miles from a public library to identify areas of the state that may struggle to complete the census online. Most of these areas are in the Appalachian region. The State Library Board envisions the iPads as a more mobile and accessible option for census completion, enabling local libraries to bring them to community events or even homebound citizens.

Department of Agriculture Begins Accepting License Applications Under Hemp Program

– Shannon Pleiman, Senior Budget Analyst

On March 3, 2020, the Department of Agriculture began accepting license applications for individuals and entities to cultivate and process hemp in the state under the newly created Hemp Program. The Hemp Program was established by S.B. 57 of the 133rd General Assembly and requires the Department to establish, with the U.S. Department of Agriculture's (USDA's) approval, the Hemp Cultivation and Processing Program to monitor and regulate hemp cultivation and processing in Ohio. The USDA approved Ohio's plan on December 27, 2019. The table below displays the different licenses and annual license fees. In addition, there is a nonrefundable $100 application fee for each license. Application and license fees are deposited into the Hemp Program Fund (Fund 5WJ0).

[20] Ohio's facial recognition database is one of 22 applications and data sets that are a part of OHLEG.

Licenses Under the Hemp Program	
License	**Annual License Fee per Growing or Processing Site**
Cultivator	$500
Processor of raw grain	$500
Processor of raw fiber	$500
Processor of raw floral component	$3,000
Wholesale production for processing cannabinoids*	$500
Retail production for processing cannabinoids*	$250

*Cannabinoids can be processed for human and animal food, dietary supplements, and cosmetics and personal care products.

The licenses are valid for three years so long as the annual license fee is remitted to the Department and in particular for the hemp cultivator license, an annual license update form is completed. The license fees will support the Department's administrative costs for the program, including personal expenses of the program's nine employees. Initial funding for the program was supported by a cash transfer of nearly $3.3 million in FY 2020 from the Controlling Board Emergency Purposes/Contingencies Fund (Fund 5KM0) to the Hemp Program Fund (Fund 5WJ0), which was approved by the Controlling Board on September 9, 2019.

Development Services Agency Increases Funding for Tourism Promotion

– Tom Middleton, Senior Budget Analyst

On March 9, 2020, the Controlling Board approved a request by the Development Services Agency (DSA) to increase appropriations for tourism promotion in FY 2020. The increase provides DSA with total appropriations of $11.95 million, a $1.95 million (19.5%) rise from the $10.0 million appropriated in H.B. 166. This is spent through Tourism Fund (Fund 5MJ0) line item 195683, TourismOhio Administration, which pays for the payroll and operating costs of the Office of TourismOhio, including marketing, advertising, and developing and publishing tourism materials.

According to DSA, the increased funds will pay for (1) additional advertising, (2) rest area signage and materials, in partnership with the Ohio Department of Transportation, and (3) updates to the Ohio.org website. The table below shows how DSA plans to spend the appropriations in FY 2020 by type of expense. In total, 86% of the FY 2020 budget will be used for purchased personal services.

TourismOhio Budget by Account Category, FY 2020		
Type of Expense	**FY 2020 Budget**	**% of Total Budget**
Purchased Personal Services	$10,274,922	86.0%
Supplies and Maintenance	$912,987	7.6%
Personal Services (payroll)	$683,323	5.7%
Equipment	$78,768	0.7%
Total	**$11,950,000**	

Since FY 2014, Fund 5MJ0 has received revenue through annual transfers from the GRF. Between FY 2014 and FY 2019, these cash transfers totaled between $10.0 million and $10.4 million annually. H.B. 166 required the transfer of up to $20.0 million to Fund 5MJ0 in FY 2020. As of March 18, 2020, the cash balance of Fund 5MJ0 was $25.9 million.

Tracking the Economy

– Eric Makela, Economist

– Philip A. Cummins, Senior Economist

Overview

The economic slowdown during the COVID-19 outbreak has stifled parts of the Ohio economy. Economic data are available only with lags, and the statistics usually reported in this space do not reflect the actual spread of COVID-19 in the U.S. or Ohio in recent weeks. In this month's report, we have included more detail than usual on a few statistics that become available more promptly. Because of the fast-spreading COVID-19 pandemic, the near-term economic future appears particularly uncertain. For an update on the economic outlook as of late March, compared with that at the time the state's current operating budget was enacted, please see the section at the end of this issue.

In the week ending April 4, the unadjusted number of initial unemployment claims filed nationally was 6,203,359, following the previous week's 6,015,821 claims, much higher than the 217,557 average number of claims filed weekly during 2019. According to the manufacturing purchasing managers index (PMI), a survey conducted by the Institute for Supply Management (ISM) covering the most recent month, aggregate activity in the industry declined during March. ISM's nonmanufacturing index (NMI) registered an increase in non-manufacturing economic activity during the month, despite the sharp cutbacks that other reports show took place in parts of the service sector. Both indexes were boosted by slower deliveries, ordinarily associated with improving demand but mainly due in March to COVID-19 linked supply problems. The U.S. economy shed a seasonally adjusted 701,000 nonfarm payroll jobs in March, and the national unemployment rate increased from 3.5% in February to 4.4% in March, according to the U.S. Bureau of Labor Statistics (BLS). Inflation adjusted gross domestic product (real GDP) increased by 2.3% in 2019, according to the most recent official data from the U.S. Bureau of Economic Analysis (BEA). During March, the Federal Reserve Board's Open Market Committee (FOMC) cut the federal funds rate twice, by a total of 1.50 percentage points, reducing the lower end of the range to zero, in response to changing conditions in the economy and labor markets.

Ohio's economy added approximately 7,800 nonfarm payroll jobs in February, and the state's unemployment rate remained at 4.1% in that month. In Ohio, real GDP grew 1.7% in 2019, 0.6 percentage point below the national growth rate. In March, the number of unemployed persons rose sharply with widespread layoffs to combat the pandemic. Initial unemployment claims in Ohio surged in the most recent weeks. Refer to the Issue Update article on the topic of unemployment compensation in this month's edition of *Budget Footnotes* for a more comprehensive narrative on unemployment compensation trends and legislation, both nationally and in the state.

The National Economy

Nonfarm payroll employment, seasonally adjusted, decreased by 701,000 nationally in March, most notably in the leisure and hospitality industry (-459,000), which mostly represents lost jobs at food services and drinking establishments. Noteworthy levels of job losses were also recorded in the industries of health care and social assistance (-61,000),[21] professional and business services (-52,000), and retail trade (-46,000). Note that employment data are derived from a survey of employers regarding the pay period that includes the 12th of the month, thus the data are not reflective of how the labor market has evolved since.[22]

The nation's seasonally adjusted unemployment rate increased by 0.9 percentage point, to 4.4%, and the estimated number of unemployed persons rose to 7.1 million in March. Unemployment rates increased for all major demographic groups. The number of persons reporting losing their job due to a temporary layoff more than doubled in March, while the number of permanent job losses also increased. The country's labor force participation rate[23] decreased by 0.7 percentage point, to 62.7%. Chart 6 shows the national payroll employment level, and Chart 7 shows the national unemployment rate.

Economic activity in the manufacturing sector contracted in March, according to the manufacturing PMI. More purchasing managers reported declines in both new orders and production than noted increases. The manufacturing employment index was also down during the month. While some surveyed firms reported a significant uptick in orders due to COVID-19, other purchasing managers noted obstructions along their company's supply chain due to the virus. Deliveries slowed, attributed by ISM to supply problems resulting from COVID-19. Aggregate economic activity in the nonmanufacturing sector increased in March, as indicated by the NMI, however, slower deliveries that ISM viewed as mainly due to virus-related supply problems account for the increase in the index. Among nonmanufacturing industries surveyed by the ISM, five reported growth in business activity in March: health care and social assistance, accommodation and food service, construction, public administration, and finance and insurance. Nine reported decreased business activity in March: arts, entertainment, and recreation; mining; educational services; retail trade; professional, scientific, and technical services; transportation and warehousing; wholesale trade; information; and other services.

On March 3, the FOMC held an unscheduled meeting ultimately leading to a reduction in the federal funds rate by 0.5 percentage point. The unscheduled monetary policy decision, according to a press release, was due to evolving risks to economic activity posed by COVID-19.

On March 15, the FOMC voted to reduce the federal funds rate by a further 1.0 percentage point and took other measures to support credit flows. In a press release, the committee noted that the COVID-19 outbreak would dampen near-term economic activity, leading to risks to the outlook for the economy. The FOMC has since taken additional measures to support credit availability to households and businesses. Currently, the federal funds rate, the interest rate charged for private banks to borrow reserves on overnight deposit, is between 0% and 0.25%.

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[21] Most losses in the health care and social assistance industry were in outpatient care facilities such as dentists (-17,000) and physician offices (-12,000). Employment losses were also recorded in child daycare services (-19,000).

[22] BLS indicates that slightly more than 40% of surveyed employers have biweekly pay periods, about one-third pay weekly, 20% semimonthly, and a small number monthly.

[23] Measured as the number of employed persons plus unemployed persons, divided by the adult civilian noninstitutionalized population.

The industrial production index, a national measure of output, was up 0.6% in February, with increases in utilities and manufacturing activity offsetting a decline in mining. Overall industrial activity in February 2020 was at the same level as in February 2019, though still below the all-time peak in December 2018. Production increased year over year at companies in the automotive (+3.9%) and home electronics (+3.2%) industries, while production of companies in business equipment segments decreased (-3.7%) during the same time period.

Nationally, real GDP grew 2.3% in 2019, compared with 2.9% growth in 2018, according to data released by the BEA. The price index for final sales to domestic purchasers, a measure of inflation based on the prices paid by consumers, businesses, and governments in the U.S., increased 1.5% in 2019. During 2019, final sales to domestic purchasers rose 2.3% while goods and services exports were little changed.

Chart 6: U.S. and Ohio Nonfarm Payroll Employment (in millions)

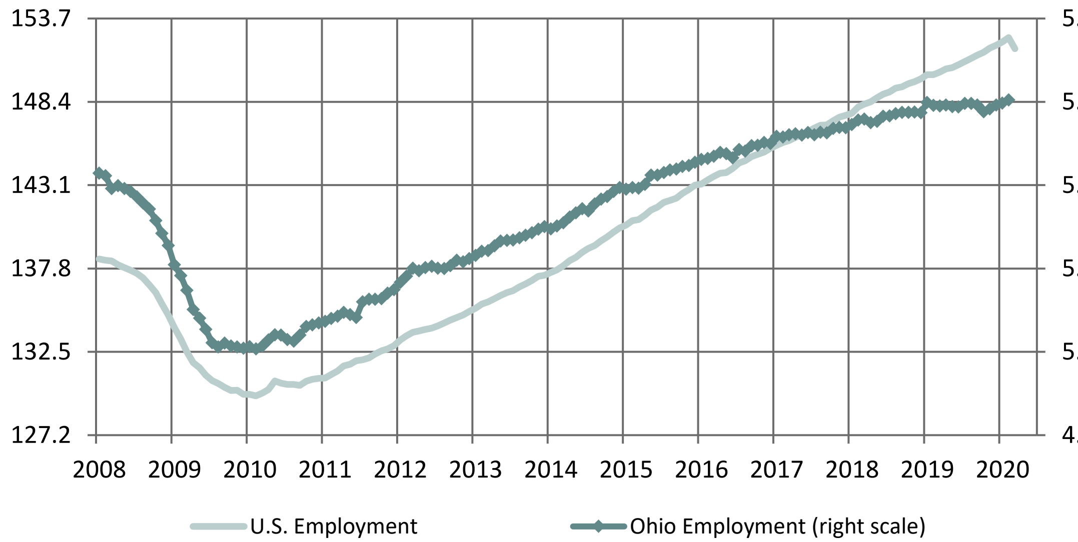
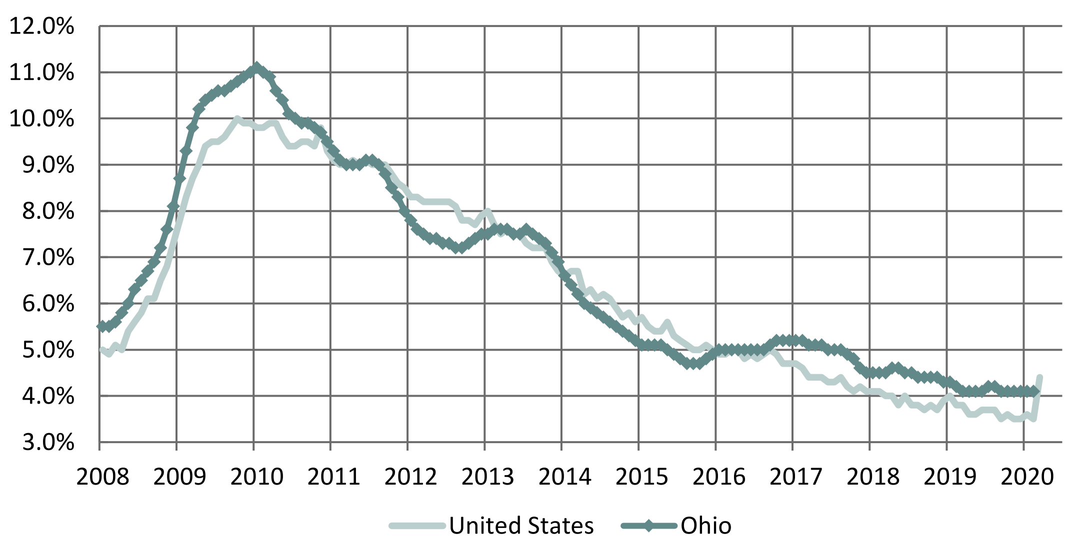


Chart 7: U.S. and Ohio Unemployment Rates % of Labor Force



The Ohio Economy

According to the most recent state employment data, nonfarm payroll employment in Ohio increased by approximately 7,800 in February, following payroll employment growth of 4,900 in January. Year over year, employment in the education and health services industry increased by around 10,900; employment in the leisure and hospitality industry increased by 7,300. Between February 2019 and February 2020, payroll employment decreased in the following industries: manufacturing, financial services, professional and business services, government, and mining and logging.[24]

In February, the state's unemployment rate was a seasonally adjusted 4.1%; the seasonally adjusted unemployment rate remained at this level from September 2019 through February 2020. As noted above, data on unemployment claims imply that the unemployment rate will rise sharply in March, similar to the national rate, and again in April. The seasonally adjusted number of unemployed persons in Ohio in February is estimated to be around 240,800. Approximately 5,829,000 persons are estimated to have participated in the labor market (been employed or actively sought work) during the month. Chart 6 shows Ohio employment and Chart 7 shows the statewide unemployment rate. Note that available employment and unemployment data for Ohio shown in the charts lag national data by one month.

In Ohio, real GDP grew by 1.7% in 2019, compared with growth of 1.9% in the previous year. According to the BEA, Ohio ranked 32nd among all states in GDP growth rate in 2019, although fastest in the Great Lakes region.[25] Per-capita GDP in Ohio was around $59,800 in 2019, compared with $65,300 nationally.

According to the BEA, the personal income (PI) of Ohioans increased by 3.7% in 2019, when the PI of Ohio residents totaled approximately $590.8 billion.[26] Net earnings, the component of PI including wages and salaries, supplemental benefits, and proprietor's income less social insurance taxes, increased by 3.4% in Ohio in 2019, second fastest among states in the Great Lakes region.

There were 8,624 existing home sales registered in Ohio in February 2020, 8.8% more than in February 2019, according to the Ohio Association of Realtors. The average sale price of existing homes sold during the month was 8.0% higher than the average sale price a year prior.

Economic Forecast Update

The table below compares the outlook for the economy, as predicted in forecasts from IHS Markit released in March of this year and in May 2019. The March national forecast in the table, released on March 20, is an update issued in response to rapidly changing events, and served as the basis for the Ohio forecast shown below. The May 2019 predictions, as well as other variables, were inputs to forecasts by LBO economists of GRF revenues, for use by the conference committee in deliberations on H.B. 166, the main operating budget act of the current General Assembly.

[24] The government category includes federal, state, and local government employers.

[25] The Great Lakes region includes Ohio, Indiana, Michigan, Illinois, and Wisconsin.

[26] PI is the income received by all persons in an economy. It includes wages and salaries, employee benefits, proprietors' income, rental income, income from the ownership of financial assets, and transfers from government or businesses less social insurance taxes. PI does not include capital gains or losses.

The economic outlook has darkened rapidly with the exponential spread of the COVID-19 pandemic. IHS Markit's baseline forecast now shows nationwide real GDP falling in the second calendar quarter of this year at a 12.6% annual rate and falling also in the first and third calendar quarters of this year before beginning to recover in the fourth quarter. The predicted drop in the second calendar quarter, if realized, would be the sharpest decline in BEA's quarterly records that start in 1947. On an annual average basis, real GDP fell more than this only in 1932, in BEA annual records that start in 1929. Economic forecasts are highly uncertain at this time since we do not know the future trajectory of COVID-19 infections or the rate at which shuttered firms and persons sheltering in place in their homes will be able to resume more usual prepandemic activities.

Figures shown in the table below are percent changes from the average of the four quarters in state FY 2019 to that for FY 2020 and from FY 2020 to FY 2021, except that unemployment rates are averages for the four quarters of the fiscal year indicated.

On a fiscal year basis, overall growth of U.S. real GDP was revised downward by 1.5 percentage points for FY 2020 and 2.3 percentage points for FY 2021. Downward revisions for Ohio real GDP were 1.7 percentage points and 2.6 percentage points, respectively, for those years. Wage and salary income was also revised sharply lower for both the nation and the state. Inflation gyrates wildly, despite the apparent stability shown by the fiscal year averages, as consumer energy prices plummet in the current quarter then rebound. The unemployment rate soars to nearly 9% for the nation, and nearly 10% for Ohio, by this calendar year's fourth quarter before beginning to decline in 2021.

Revisions to IHS Markit Economic Forecast for FY 2020 and FY 2021				
	Forecast for FY 2020 as of		Forecast for FY 2021 as of	
Variable Name (National)	May 2019	March 2020	May 2019	March 2020
U.S. real GDP growth	2.3%	0.8%	2.0%	-0.3%
U.S. wage and salary growth	4.6%	2.5%	4.7%	-1.4%
U.S. PI growth	4.3%	3.1%	5.0%	0.5%
U.S. consumer price index inflation	2.5%	1.4%	2.0%	1.4%
U.S. nonfarm employment growth	1.4%	0.4%	0.9%	-4.1%
U.S. unemployment rate	3.5%	4.5%	3.5%	7.9%
	Forecast for FY 2020 as of		Forecast for FY 2021 as of	
Variable Name (Ohio)	May 2019	March 2020	May 2019	March 2020
Ohio real GDP growth	1.7%	0.0%	1.1%	-1.5%
Ohio wage and salary growth	4.0%	1.7%	3.7%	-2.2%
Ohio PI growth	4.1%	2.7%	4.2%	-0.1%
Ohio nonfarm employment growth	0.9%	-0.9%	0.2%	-5.1%
Ohio unemployment rate	4.1%	5.2%	4.1%	8.8%

Chart 8 below shows the March 2020 quarterly forecast for Ohio real GDP associated with the fiscal year changes in the table. Quarter-to-quarter changes are shown in the chart at annual rates for FY 2019, FY 2020, and FY 2021. IHS Markit expects Ohio real GDP to plummet in the current quarter at a 15.2% annual rate and to fall again in the first quarter of FY 2021 at a 2.7% annual rate, before beginning to recover in the rest of the fiscal year. Ohio real GDP does not recover to its prerecession level until FY 2022.

Chart 8: **Ohio Real GDP**