LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2020 Issue: February 2020

Highlights

– *Ross Miller, Chief Economist*

January GRF program expenditures were $110.4 million above the estimate published by the Office of Budget and Management (OBM) in September 2019. GRF expenditures for Medicaid were $161.9 million above estimate, while the combined spending on all other program categories partially offset the positive variance for Medicaid. Year-to-date (YTD) program expenditures remain below estimate despite January's results.

GRF tax revenue had another good month, with receipts for January exceeding estimate by $44.7 million. Sales and use tax revenue was $31.2 million above estimate, and the commercial activity tax (CAT) and financial institutions tax (FIT) were above estimate by over $10 million each. There was a $16.4 million negative variance for the personal income tax (PIT), though, due to refunds for the month having been almost $31 million greater than expected.

Through January 2020, GRF sources totaled $20.54 billion:

- Revenue from the sales and use tax was $110.6 million above estimate;
- PIT receipts were $19.2 million below estimate.

Through January 2020, GRF uses totaled $21.45 billion:

- Program expenditures were $146.9 million below estimate;
- Expenditures from all program categories were below estimates except for Medicaid, which was above estimate by $108.2 million.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 3, 2020)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$125,490	$128,700	-$3,210	-2.5%
Nonauto Sales and Use	$916,866	$882,500	$34,366	3.9%
Total Sales and Use	*$1,042,356*	*$1,011,200*	*$31,156*	*3.1%*
Personal Income	$980,483	$996,900	-$16,417	-1.6%
Commercial Activity Tax	$83,823	$72,800	$11,023	15.1%
Cigarette	$74,328	$73,100	$1,228	1.7%
Kilowatt-Hour Excise	$27,906	$28,500	-$594	-2.1%
Foreign Insurance	$82	-$2,500	$2,582	103.3%
Domestic Insurance	$145	$0	$145	---
Financial Institution	$74,577	$60,100	$14,477	24.1%
Public Utility	$1,387	$100	$1,287	1286.9%
Natural Gas Consumption	$2,159	$2,300	-$141	-6.1%
Alcoholic Beverage	$4,077	$4,400	-$323	-7.3%
Liquor Gallonage	$5,263	$5,000	$263	5.3%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$32	$0	$32	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,296,618**	**$2,251,900**	**$44,718**	**2.0%**
Nontax Revenue				
Earnings on Investments	$35,458	$27,500	$7,958	28.9%
Licenses and Fees	$4,194	$3,716	$478	12.9%
Other Revenue	$2,485	$776	$1,709	220.2%
Total Nontax Revenue	**$42,137**	**$31,991**	**$10,146**	**31.7%**
Transfers In	**$50**	**$0**	**$50**	**---**
Total State Sources	**$2,338,805**	**$2,283,891**	**$54,914**	**2.4%**
Federal Grants	**$930,121**	**$846,116**	**$84,005**	**9.9%**
Total GRF Sources	**$3,268,926**	**$3,130,008**	**$138,919**	**4.4%**

*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 January 31, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 3, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$926,354	$890,600	$35,754	4.0%	$867,854	6.7%
Nonauto Sales and Use	$5,707,281	$5,632,400	$74,881	1.3%	$5,426,451	5.2%
Total Sales and Use	*$6,633,635*	*$6,523,000*	*$110,635*	*1.7%*	*$6,294,305*	*5.4%*
Personal Income	$5,411,725	$5,430,900	-$19,175	-0.4%	$5,384,887	0.5%
Commercial Activity Tax	$891,845	$858,100	$33,745	3.9%	$835,088	6.8%
Cigarette	$476,830	$477,600	-$770	-0.2%	$493,759	-3.4%
Kilowatt-Hour Excise	$193,340	$197,700	-$4,360	-2.2%	$209,112	-7.5%
Foreign Insurance	$172,046	$153,500	$18,546	12.1%	$153,375	12.2%
Domestic Insurance	$3,971	$0	$3,971	---	$2	204940.2%
Financial Institution	$35,618	$33,600	$2,018	6.0%	$47,319	-24.7%
Public Utility	$65,832	$68,500	-$2,668	-3.9%	$73,087	-9.9%
Natural Gas Consumption	$20,453	$22,100	-$1,647	-7.5%	$22,495	-9.1%
Alcoholic Beverage	$31,490	$34,400	-$2,910	-8.5%	$32,529	-3.2%
Liquor Gallonage	$31,316	$30,400	$916	3.0%	$30,336	3.2%
Petroleum Activity Tax	$4,041	$4,500	-$459	-10.2%	$4,750	-14.9%
Corporate Franchise	$85	$0	$85	---	$1,227	-93.1%
Estate	$38	$0	$38	---	$32	16.9%
Total Tax Revenue	**$13,972,264**	**$13,834,300**	**$137,964**	**1.0%**	**$13,582,303**	**2.9%**
Nontax Revenue						
Earnings on Investments	$76,957	$55,000	$21,957	39.9%	$55,070	39.7%
Licenses and Fees	$15,498	$11,968	$3,530	29.5%	$13,660	13.5%
Other Revenue	$79,879	$60,646	$19,233	31.7%	$55,444	44.1%
Total Nontax Revenue	**$172,334**	**$127,615**	**$44,719**	**35.0%**	**$124,174**	**38.8%**
Transfers In	**$75,598**	**$68,570**	**$7,028**	**10.2%**	**$82,025**	**-7.8%**
Total State Sources	**$14,220,196**	**$14,030,484**	**$189,712**	**1.4%**	**$13,788,501**	**3.1%**
Federal Grants	**$6,318,467**	**$6,224,137**	**$94,329**	**1.5%**	**$5,837,824**	**8.2%**
Total GRF SOURCES	**$20,538,663**	**$20,254,622**	**$284,041**	**1.4%**	**$19,626,326**	**4.6%**

*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]

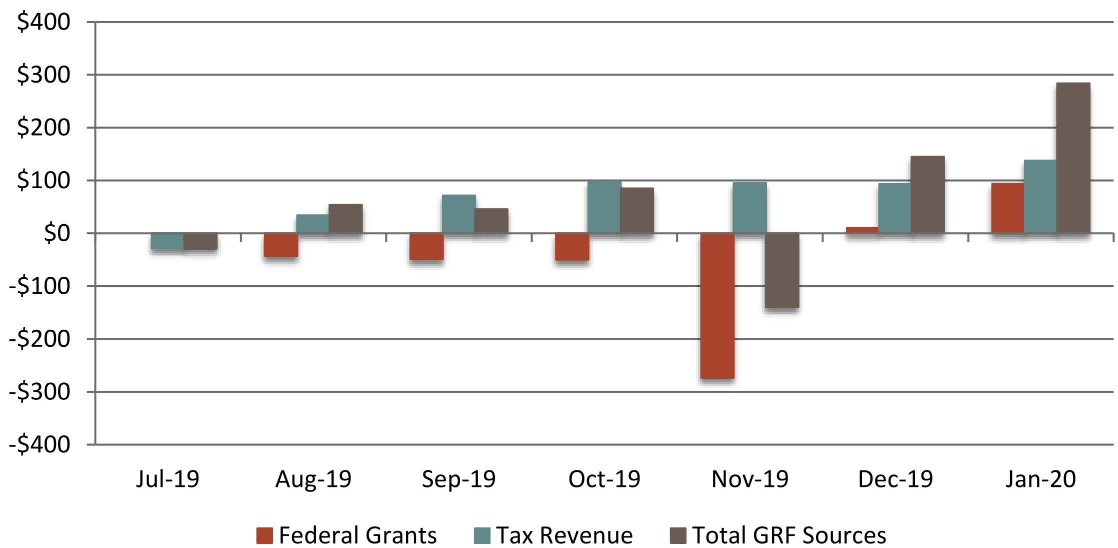
– Jean Botomogno, Principal Economist

Overview

GRF sources started calendar year (CY) 2020 with a monthly positive variance of $138.9 million (4.4%) when compared to the OBM estimate released in August 2019. This performance increased GRF sources' cumulative positive variance to $284.0 million (1.4%), up from $145.1 million in the first half of FY 2020. All GRF categories were above estimate for the YTD, including tax revenue ($138.0 million, 1.0%), federal grants[2] ($94.3 million, 1.5%), nontax revenues ($44.7 million, 35.0%), and transfers in ($7.0 million, 10.2%). GRF sources in January 2020 were $3.27 billion, raising the YTD total to $20.54 billion. Tables 1 and 2 show GRF sources for the month of January and for FY 2020 through January, 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 January 2020.

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



[1] This report compares actual monthly and 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.

With a shortfall of $19.2 million through the first seven months of the fiscal year, the PIT was the only underperforming major tax source, pulled down by higher than expected refunds; the section below analyzing the PIT provides some additional details on refunds this year. On the other hand, the sales and use tax and the CAT posted positive YTD variances of $110.6 million and $33.7 million, respectively. Also, the foreign insurance tax, the domestic insurance tax, and the FIT were above their respective YTD estimates by $18.5 million, $4.0 million, and $2.0 million. In addition to the PIT, the following tax sources had noticeable YTD negative variances: the three utility-related taxes (the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax, for a total of $8.7 million) and the alcoholic beverage tax ($2.9 million).[3] The remaining GRF tax sources had a net YTD negative variance of $0.2 million.

For the month of January 2020, all GRF categories contributed to the overall positive variance. Federal grants exceeded anticipated revenue by $84.0 million (9.9%); tax sources were $44.7 million (2.0%) above estimate; and nontax revenue was $10.1 million (31.7%) above projections primarily due to better than expected earnings on investments. Among the largest tax sources, the sales and use tax had a good month with a positive variance of $31.2 million, while larger than expected refund activity again this month led to a deficit of $16.4 million for the PIT. The CAT and the cigarette tax were above estimates by $11.0 million and $1.2 million, respectively. Financial institutions made their first FIT estimated payments totaling $74.6 million in January, an amount $14.5 million above estimates; this erased a cumulative negative variance of $12.5 million at the end of December.[4] The foreign insurance tax and the public utility tax experienced positive variances of $2.6 million and $1.3 million, respectively. All the other tax sources posted smaller revenue variances.

Compared to receipts in the first seven months of FY 2019, YTD FY 2020 GRF sources were higher by $912.3 million (4.6%). Except for transfers in which was $6.4 million below its FY 2019 level, revenue from the other GRF categories grew relative to receipts in the previous year. Federal grants, tax sources, and nontax revenue increased $480.6 million, $390.0 million, and $48.2 million, respectively. Growth in GRF tax revenue was mostly due to the sales and use tax ($339.3 million), the CAT ($56.8 million), the foreign insurance tax ($18.7 million), and the PIT ($26.8 million). On the other hand, receipts fell for the utility-related taxes ($25.1 million), due to lower energy prices this year, and the cigarette tax ($16.9 million), which is the normal trend.

Sales and Use Tax

In January 2020, sales and use taxes totaling $1.04 billion were $31.2 million (3.1%) above estimate, partially reversing a negative variance of $34.7 million in December 2019. Revenue in January and in December were strongly affected by the performance of the nonauto sales and use tax. Through January 2020, YTD GRF revenue of $6.63 billion was $110.6 million (1.7%) above anticipated receipts, and $339.3 million (5.4%) above collections in the first seven months of FY 2019. For analysis and forecasting, revenue from the sales and use tax is separated into two

[3] Remittances for sales of both beer/malt beverages and wine/mixed beverages were below estimates and also below last year revenues.

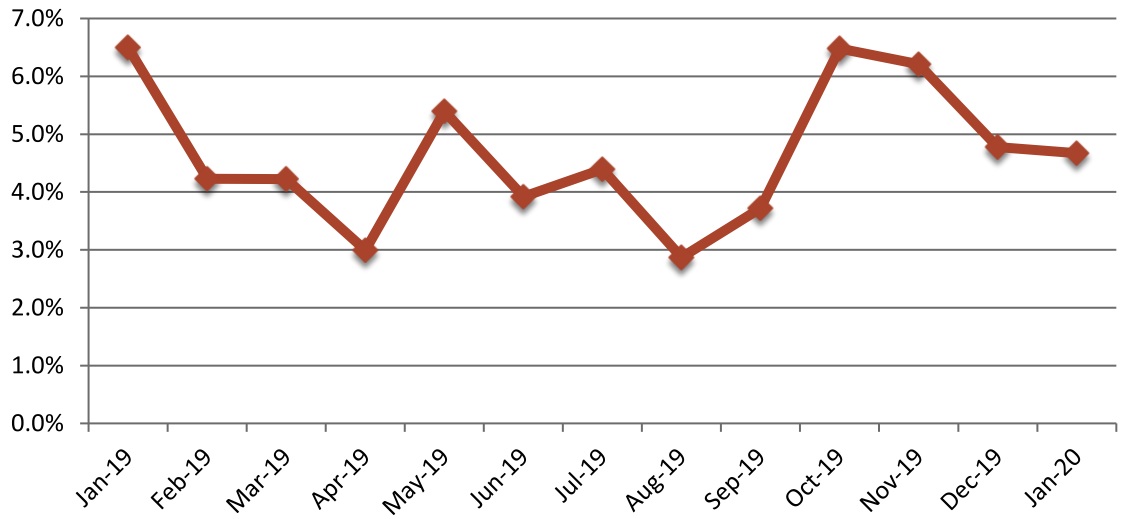
[4] Annual FIT tax returns are due in October, but estimated payments are made in January, March, and May. The reconciliation between estimated payments and final tax liability generally results in net refunds between July and December.

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.

Nonauto Sales and Use Tax

The nonauto sales and use tax this month bounced back from a shortfall in December. January GRF receipts totaling $916.9 million were $34.4 million (3.9%) above estimate, effectively cancelling out the prior month's negative variance of $34.3 million. So, for the two-month period, revenue from the tax source was on target relative to the combined estimates. Monthly receipts were also $85.0 million (10.2%) above revenue in January 2019. The most recent month's collections increased the cumulative positive variance of this GRF source to $74.9 million (1.3%), up from $40.5 million in the first half of FY 2020. For the fiscal year to date, GRF receipts of $5.71 billion were $280.8 million (5.2%) above revenue in the corresponding period in FY 2019. Chart 2, below, shows year-over-year growth in nonauto sales and use tax collections. On a three-month moving average basis, revenue growth has fallen from 6.5% in October to 4.7% in January but is still fairly robust.

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

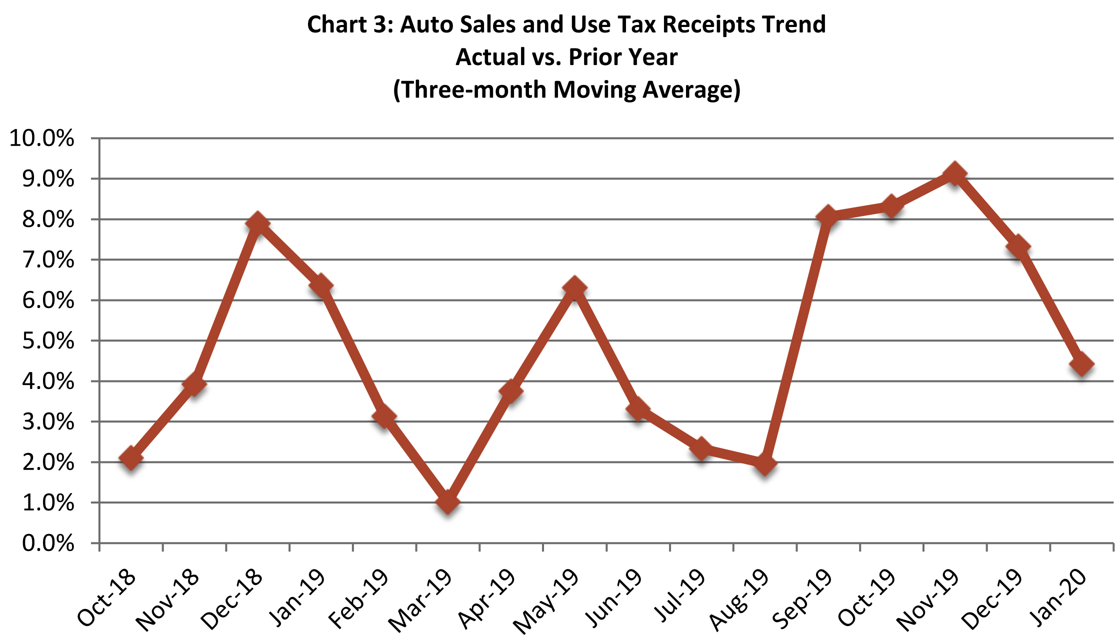


The nonauto sales and use tax is benefiting from payments made by "marketplace facilitators" (MPFs) that were imposed in H.B. 166, the main operating budget act for the biennium. The act substantially modified Ohio's sales and use tax nexus and required businesses to remit sales and use taxes for sales through those retail channels to Ohio residents. Generally, an MPF is an entity, or an affiliate of an entity, that owns, operates, or controls a marketplace (either physical or electronic) and facilitates sales on that marketplace. A seller who makes sales of goods or services to a consumer in Ohio facilitated by an MPF (regardless of whether the seller has substantial nexus of its own or is a retailer with a physical presence in Ohio) must charge sales and use taxes to be remitted by the MPF. State and permissive local nonauto sales and use tax remittances by MPFs may have totaled about $76 million in the second fiscal quarter, according to data from the Tax Department.

Auto Sales and Use Tax

Despite two consecutive monthly setbacks, the auto sales and use tax continues to be above estimate so far in FY 2020. This tax source posted a negative variance of $3.2 million (2.5%) in January 2020, which followed a shortfall of $0.4 million in December. Monthly collections were $1.2 million (1.0%) above revenue in January 2019. YTD GRF revenue from this source totaled $926.4 million through January, an amount $35.8 million (4.0%) above estimates. YTD collections were also $58.5 million (6.7%) above receipts during the corresponding period in FY 2019.

Chart 3 shows year-over-year growth in auto sales and use tax collections. After a sharp increase from September through November, the growth rate has declined in the most recent months. Nationwide, U.S. vehicle sales started 2020 on a strong note, reaching about 17 million seasonally adjusted annualized units. January vehicle sales were 1.9% above those in January 2019, and CY 2019 trends continued. Car sales were 14.6% lower and light truck and SUV sales were 9.5% higher than in the same month last year.



Personal Income Tax

Through January, YTD GRF receipts of $5.41 billion were $19.2 million (0.4%) below projections, with the bulk of the shortfall coming in the latest month. January revenue from the PIT to the GRF totaling $980.5 million was $16.4 million (1.6%) below projections, and this result increased the first-half cumulative deficit which was $2.8 million. YTD FY 2020 revenue increased $26.8 million (0.5%) compared to PIT GRF receipts in the first seven months of FY 2019.

January PIT revenue was also $31.2 million (3.1%) below January 2019 receipts, the first month of a "true" comparison relative to year-ago receipts in FY 2020. Effective January 1, 2019, Ohio employer withholding tax rates were reduced by 3.3% in order to be fully consistent with the income tax rate reductions enacted in 2015 (H.B. 64 of the 131st General Assembly). Thus, starting in January 2020, monthly revenue comparisons with year-ago receipts are no longer affected by the previous withholding rate reduction, though YTD comparisons would still be affected. However, the impact on those YTD comparisons would lessen in subsequent months.

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). Larger than expected refunds could also greatly affect the monthly performance of the tax, and refund activity has directly led to the shortfall in PIT receipts this fiscal year.

Four of the seven months this fiscal year experienced significantly higher refunds than estimated: in the first and second fiscal quarters, taxpayer refunds were $8.1 million and $28.5 million above estimates, respectively. In January, refunds were $30.9 million greater than anticipated, more than twice the size of the positive variance of $14.6 million for gross collections for the month. Refunds for the fiscal year through January thus total $67.5 million more than expected (as shown in the table below). Also, taxpayers have received $124.9 million more in refunds YTD than in the corresponding period in FY 2019. A potential explanation for increased refunds may lie, in part, on changes in the behavior of taxpayers and tax preparers still adjusting to a major federal tax reform bill (the Tax Cuts and Jobs Act of 2017) and recent changes to Ohio income tax law.

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 $53.5 million above estimate, with all components above their YTD estimates. However, refunds and distributions to the LGF as a whole were $72.7 million higher than expected. FY 2020 refunds and LGF distributions also increased compared to their respective amounts in the corresponding period last fiscal year. 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 first seven months of FY 2019, YTD FY 2020 employer withholding receipts[6] grew 1.9%, despite the reduction in withholding rates described above.

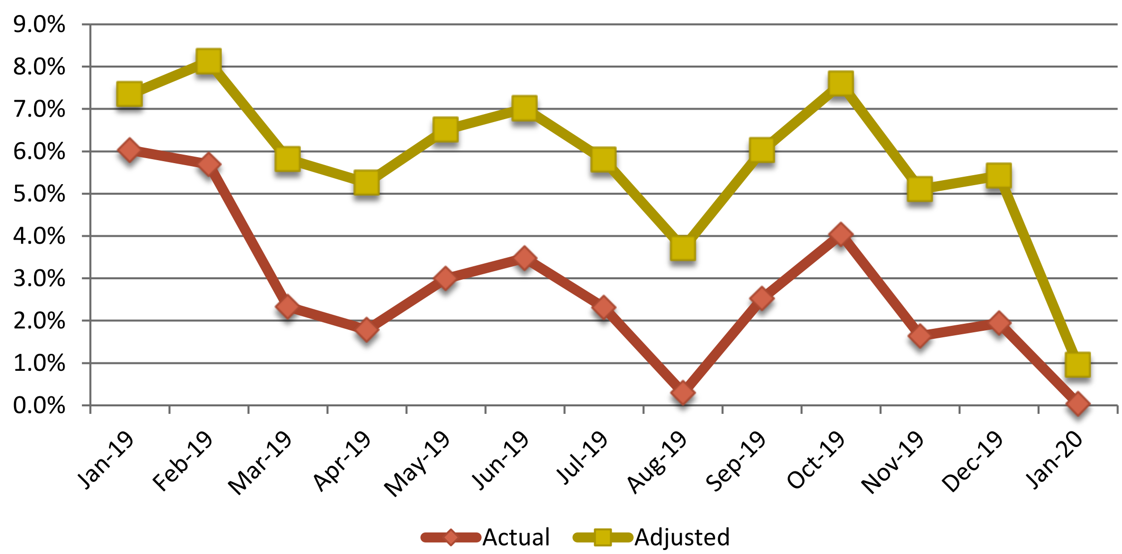
[5] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

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

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	$38.4	0.7%	$101.6	1.9%
Quarterly Estimated Payments	$8.3	1.5%	$39.7	7.5%
Trust Payments	$5.7	19.2%	$3.8	12.2%
Annual Return Payments	$0.3	0.2%	$19.4	16.3%
Miscellaneous Payments	$0.9	2.0%	$1.8	4.4%
Gross Collections	$53.5	0.9%	$166.4	2.7%
Less Refunds	$67.5	12.9%	$124.9	26.9%
Less LGF Distribution	$5.2	2.1%	$14.7	6.3%
GRF PIT Revenue	-$19.2	-0.4%	$26.8	0.5%

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 decrease in withholding tax rates in January 2019.

Chart 4: Monthly Witholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Commercial Activity Tax

GRF CAT receipts in January 2020 were $83.8 million, an amount $11.0 million (15.1%) above estimate and $17.5 million (26.4%) above revenue in the same month in 2019. Through January 2020, GRF receipts of $891.8 million exceeded OBM estimates by $33.7 million (3.9%), up from $22.7 million at the end of December 2019, and were $56.8 million (6.8%) above revenue YTD through January in FY 2019. The increase in receipts compared to FY 2019 was driven, in part, by a decline in tax credits claimed against the CAT.[7] Through January, FY 2020 gross collections (i.e., all funds revenue) grew only 4.6% while refunds and credits fell 17.3%, resulting in a higher growth rate for the GRF.

Under continuing law, CAT receipts are deposited into the GRF (85%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2%). Through January, Fund 7047 and Fund 7081 received $136.4 million and $21.0 million, respectively. Those funds 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. In FY 2020, OBM estimates a CAT excess of $141.5 million would be transferred to the GRF.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax provided $74.3 million to the GRF in January, an amount $1.2 million (1.7%) above estimate, and $0.9 million (1.2%) above revenue in January 2019. Through January in FY 2020, revenue to the GRF totaled $476.8 million, $0.8 million (0.2%) below estimate and $16.9 million (3.4%) below receipts through January in FY 2019. YTD revenue included $429.4 million from the sale of cigarettes and $47.4 million from the sale of other tobacco products. Compared to FY 2019, receipts from cigarette sales fell $19.5 million while those from the sale of other tobacco products increased $2.6 million. 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, with most of the revenue occurring in the January to June period.

[7] 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. Through January, refunds and credits totaled $76.9 million, $16.1 million below those in the corresponding period in FY 2019.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2020
($ in thousands)
(Actual based on OAKS reports run February 4, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$810,985	$819,217	-$8,231	-1.0%
Higher Education	$198,849	$190,582	$8,268	4.3%
Other Education	$4,276	$3,980	$296	7.4%
Total Education	**$1,014,110**	**$1,013,779**	**$332**	**0.0%**
Medicaid	$1,441,110	$1,279,243	$161,867	12.7%
Health and Human Services	$116,664	$151,155	-$34,492	-22.8%
Total Health and Human Services	**$1,557,773**	**$1,430,398**	**$127,375**	**8.9%**
Justice and Public Protection	$235,789	$246,358	-$10,569	-4.3%
General Government	$41,434	$47,978	-$6,544	-13.6%
Total Government Operations	**$277,223**	**$294,337**	**-$17,113**	**-5.8%**
Property Tax Reimbursements	$0	$0	$0	---
Debt Service	$121,322	$121,500	-$178	-0.1%
Total Other Expenditures	**$121,322**	**$121,500**	**-$178**	**-0.1%**
Total Program Expenditures	**$2,970,430**	**$2,860,014**	**$110,416**	**3.9%**
Transfers Out	**$821**	**$0**	**$821**	**---**
Total GRF Uses	**$2,971,251**	**$2,860,014**	**$111,237**	**3.9%**

*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 January 31, 2020
($ in thousands)
(Actual based on OAKS reports run February 4, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$4,986,544	$5,016,386	-$29,843	-0.6%	$4,840,045	3.0%
Higher Education	$1,331,136	$1,390,627	-$59,490	-4.3%	$1,330,912	0.0%
Other Education	$55,045	$55,712	-$668	-1.2%	$49,556	11.1%
Total Education	**$6,372,724**	**$6,462,725**	**-$90,001**	**-1.4%**	**$6,220,514**	**2.4%**
Medicaid	$9,865,975	$9,757,801	$108,174	1.1%	$9,022,795	9.3%
Health and Human Services	$859,186	$932,706	-$73,520	-7.9%	$824,349	4.2%
Total Health and Human Services	**$10,725,161**	**$10,690,508**	**$34,654**	**0.3%**	**$9,847,143**	**8.9%**
Justice and Public Protection	$1,500,226	$1,531,869	-$31,643	-2.1%	$1,402,672	7.0%
General Government	$263,210	$301,699	-$38,488	-12.8%	$226,460	16.2%
Total Government Operations	**$1,763,436**	**$1,833,567**	**-$70,132**	**-3.8%**	**$1,629,132**	**8.2%**
Property Tax Reimbursements	$905,289	$926,004	-$20,715	-2.2%	$905,520	0.0%
Debt Service	$1,024,647	$1,025,339	-$691	-0.1%	$1,062,765	-3.6%
Total Other Expenditures	**$1,929,937**	**$1,951,343**	**-$21,406**	**-1.1%**	**$1,968,285**	**-1.9%**
Total Program Expenditures	**$20,791,258**	**$20,938,143**	**-$146,884**	**-0.7%**	**$19,665,074**	**5.7%**
Transfers Out	**$663,620**	**$669,975**	**-$6,356**	**-0.9%**	**$752,927**	**-11.9%**
Total GRF Uses	**$21,454,878**	**$21,608,118**	**-$153,240**	**-0.7%**	**$20,418,001**	**5.1%**

*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 February 7, 2020)

	Month of January 2020				Year to Date through January 2020			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,374,779	$1,213,269	$161,510	13.3%	$9,392,869	$9,287,236	$105,633	1.1%
Non-GRF	$845,219	$839,955	$5,263	0.6%	$5,067,556	$5,166,164	-$98,608	-1.9%
All Funds	$2,219,998	$2,053,224	$166,774	8.1%	$14,460,425	$14,453,400	$7,025	0.0%
Developmental Disabilities								
GRF	$58,198	$57,980	$218	0.4%	$406,260	$406,071	$189	0.0%
Non-GRF	$150,468	$178,172	-$27,704	-15.5%	$1,416,002	$1,449,919	-$33,917	-2.3%
All Funds	$208,666	$236,152	-$27,487	-11.6%	$1,822,262	$1,855,990	-$33,728	-1.8%
Job and Family Services								
GRF	$7,392	$7,241	$151	2.1%	$60,873	$58,090	$2,784	4.8%
Non-GRF	$12,933	$16,503	-$3,570	-21.6%	$111,264	$104,712	$6,552	6.3%
All Funds	$20,325	$23,744	-$3,419	-14.4%	$172,137	$162,801	$9,336	5.7%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$741	$753	-$12	-1.6%	$5,974	$6,405	-$431	-6.7%
Non-GRF	$2,340	$4,321	-$1,981	-45.9%	$24,495	$24,608	-$113	-0.5%
All Funds	$3,081	$5,074	-$1,993	-39.3%	$30,468	$31,013	-$545	-1.8%
All Departments:								
GRF	**$1,441,110**	**$1,279,243**	**$161,867**	**12.7%**	**$9,865,975**	**$9,757,801**	**$108,174**	**1.1%**
Non-GRF	**$1,010,959**	**$1,038,952**	**-$27,992**	**-2.7%**	**$6,619,317**	**$6,745,404**	**-$126,086**	**-1.9%**
All Funds	**$2,452,069**	**$2,318,195**	**$133,875**	**5.8%**	**$16,485,293**	**$16,503,205**	**-$17,912**	**-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 February 7, 2020)

	Month of January 2020				Year to Date through January 2020			
Payment Category	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	**$1,701,663**	**$1,542,604**	**$159,059**	**10.3%**	**$10,257,698**	**$10,085,809**	**$171,888**	**1.7%**
CFC†	$647,243	$546,639	$100,604	18.4%	$3,585,842	$3,504,373	$81,470	2.3%
Group VIII	$484,492	$413,357	$71,135	17.2%	$2,683,212	$2,588,747	$94,465	3.6%
ABD†	$263,717	$267,801	-$4,084	-1.5%	$1,667,623	$1,686,830	-$19,207	-1.1%
ABD Kids	$93,668	$85,004	$8,665	10.2%	$555,284	$544,943	$10,341	1.9%
My Care	$212,543	$229,803	-$17,261	-7.5%	$1,561,539	$1,556,434	$5,105	0.3%
P4P†	$0	$0	$0	--	$204,197	$204,482	-$286	-0.1%
Fee-For-Service	**$574,864**	**$600,834**	**-$25,971**	**-4.3%**	**$5,047,027**	**$5,126,901**	**-$79,875**	**-1.6%**
ODM Services	$350,194	$352,276	-$2,082	-0.6%	$2,456,018	$2,513,818	-$57,800	-2.3%
DDD Services	$204,507	$230,952	-$26,445	-11.5%	$1,770,410	$1,798,984	-$28,574	-1.6%
Hospital - HCAP†	$0	$0	$0	--	$680,646	$669,444	$11,202	1.7%
Hospital - Other	$20,163	$17,606	$2,556	14.5%	$139,953	$144,655	-$4,703	-3.3%
Premium Assistance	**$94,947**	**$97,644**	**-$2,697**	**-2.8%**	**$644,594**	**$660,492**	**-$15,898**	**-2.4%**
Medicare Buy-In	$56,229	$56,970	-$740	-1.3%	$372,853	$382,910	-$10,056	-2.6%
Medicare Part D	$38,718	$40,675	-$1,957	-4.8%	$271,741	$277,582	-$5,841	-2.1%
Administration	**$80,595**	**$77,110**	**$3,485**	**4.5%**	**$535,974**	**$630,000**	**-$94,026**	**-14.9%**
Total	**$2,452,069**	**$2,318,193**	**$133,877**	**5.8%**	**$16,485,292**	**$16,503,203**	**-$17,910**	**-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[8]

– Melaney Carter, Director, Legislative Budget Office

Overview

GRF uses totaled $21.45 billion for the first seven months of FY 2020. These uses were under estimate by $153.2 million (0.7%). All program categories, except for Medicaid, were under estimate YTD. YTD variances in GRF uses are shown in the preceding Table 4. The preceding Table 3 shows GRF uses compared to estimates for the month of January. GRF uses in January totaled $2.97 billion and were above estimate by $111.2 million (3.9%).

Medicaid's YTD variance went from a negative $53.7 million at the end of December to a positive $108.2 million at the end of January. Medicaid's positive monthly variance of $161.9 million in January combined with its positive monthly variance of $32.2 million in December have offset negative monthly variances from earlier in the fiscal year. The following section gives more details about Medicaid GRF and non-GRF variances.

The program categories with negative YTD variances are led by Health and Human Services, which had a negative YTD variance of $73.5 million that grew by $34.5 million in January. Higher Education had the second largest YTD negative variance ($59.5 million), although it had a positive monthly variance of $8.3 million in January. Other program categories that were more than $30.0 million under their YTD estimates are: General Government ($38.5 million) and Justice and Public Protection ($31.6 million). Both of these categories also had negative monthly variances in January of $6.5 million and $10.6 million, respectively. These variances are discussed further in the following sections.

Medicaid

GRF Medicaid expenditures were above their monthly estimate in January by $161.9 million (12.7%), which brought their YTD expenditures to $108.2 million (1.1%) above their YTD estimate. Non-GRF Medicaid expenditures were below their monthly estimate, by $28.0 million (2.7%), and below their YTD estimate by $126.1 million (1.9%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $133.9 million (5.8%) above estimate in January and $17.9 million (0.1%) below the YTD estimate at the end of January. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.

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 significant positive variance in January ($166.8 million) but had a relatively small positive variance of $7.0 million YTD. On the other hand, ODODD had a negative variance of $27.5 million in January that led to a negative variance of $33.8 million YTD. The other six agencies – Job and Family Services, Health, Aging,

[8] 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.

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.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories. Administration ($94.0 million, 14.9%) had the largest overall negative variance, followed by Fee-For-Service (FFS, $79.9 million, 1.6%), and Premium Assistance ($15.9 million, 2.4%). Managed Care expenditures were above their YTD estimate by $171.9 million (1.7%).

The YTD variance in the Administration category is mostly due to timing and is expected to smooth out throughout the fiscal year. January's YTD negative variance is 15.3% smaller in magnitude than December's.

Expenditures in the Managed Care category were kept above their YTD estimate by a positive variance in January of $159.1 million (10.3%). The largest factors contributing to this positive variance were the positive monthly variances in Covered Families and Children (CFC) and Group VIII expenditures of $100.6 million (18.4%) and $71.1 million (17.2%), respectively. The positive variances for Group VIII were influenced by higher than expected caseloads. For the first seven months of FY 2020, the average monthly managed care caseloads for Group VIII were 1.5% (8,381) above estimate.

Health and Human Services

The negative YTD variance in the Health and Human Services category increased by $34.5 million in January to reach $73.5 million (7.9%).

The January monthly variance was dominated by a negative variance of $35.1 million in the Ohio Department of Job and Family Services (ODJFS). This negative monthly variance offset a small positive YTD variance at the end of December resulting in a negative YTD variance of $34.7 million at the end of January. ODJFS's monthly variance was primarily caused by a negative variance of $31.9 million in item 600523, Family and Children Services, which offset a positive variance in October, leaving the item with a negative variance of $13.5 million for the YTD. Item 600450, Program Operations, also had a negative YTD variance of $13.5 million, which grew by $3.1 million in January. All but two of ODJFS's line items had negative YTD variances. Item 600535, Early Care and Education, had a positive YTD variance of $11.7 million, which was caused by an accumulation of positive monthly variances over the YTD.

The Ohio Department of Mental Health and Addiction Services (OMHAS) continues to have a significant negative YTD variance ($23.1 million at the end of January). As reported in prior issues of *Budget Footnotes*, this negative variance is primarily from expenditures in October. For the month of January, OMHAS had a small positive variance.

Also contributing to the negative YTD variance in this category was the Department of Health (DOH), which had a negative YTD variance at the end of January of $9.9 million. This YTD variance was a result of an accumulation of negative monthly variances for most months of the fiscal year. DOH's variances are spread out over most of its line items. The largest variance is for item 440459, Help Me Grow, which had a negative variance of $1.4 million in January and a negative YTD variance of $3.7 million at the end of January. The Help Me Grow Home Visiting Program is the state's parenting education program for expectant, first-time, and other parents at highest risk for poor child outcomes.

The agency in this category with the fourth highest negative YTD variance is the Department of Veterans Services (DVS), which had a negative YTD variance of $4.6 million at the end of January. This variance is primarily from item 900321, Veterans' Homes, which pays the operating costs of the state's two veterans' homes.

Higher Education

The Higher Education category was under its YTD estimate by $59.5 million (4.3%) at the end of January. For the month of January, this category was over estimate by $8.3 million. As reported in the last two issues of *Budget Footnotes*, expenditures from a number of line items were delayed beginning in December. Of the five line items mentioned last month, disbursements still had not begun, at the end of January, from two of them. These are listed below with their negative YTD variances indicated in parentheses:

- 235535, Ohio Agricultural Research and Development Center ($21.8 million);
- 235511, Cooperative Extension Service ($14.6 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.

General Government

The General Government category had a negative YTD variance of $38.5 million (12.8%) at the end of January and a negative variance of $6.5 million for the month of January. These variances were largely the result of a negative monthly variance of $7.5 million and a negative YTD variance of $20.6 million in item 775470, Public Transportation – State, in the Department of Transportation budget. Also contributing to the negative YTD variance was a negative YTD variance of $10.0 million in item 700417, Soil and Water Phosphorus Program, in the Department of Agriculture budget. The variances in both of these items were due to delays in payments for these programs.

Justice and Public Protection

The Justice and Public Protection category had a negative variance for the month of January of $10.6 million, which increased this category's negative YTD variance to $31.6 million (2.1%). The negative January variance was mainly caused by a negative variance of $10.2 million for the Department of Rehabilitation and Correction (DRC). DRC's negative variance in January was due to a negative variance of $16.6 million in item 501405, Halfway House, that offset a positive variance of $17.4 million for this item in December. Despite DRC's negative January variance, it maintained a positive YTD variance of $4.4 million. Most other agencies in this category had negative YTD variances at the end of January. The most significant were the Department of Public Safety ($10.6 million), the Attorney General ($9.7 million), and the Department of Youth Services ($8.4 million).

Issue Updates

More than $6.6 million to be Awarded to 20 Local Trail Projects

– Tom Wert, Senior Budget Analyst

On January 9, 2020, the Department of Natural Resources (DNR) announced calendar year 2019 Clean Ohio Trail Fund grant awards totaling more than $6.6 million for projects in Ashtabula, Clinton, Columbiana, Cuyahoga, Delaware, Franklin, Greene, Hamilton, Lorain, Medina, Summit, Warren, and Williams counties. In all, 20 projects will receive grants ranging from approximately $19,000 to $500,000 to build new or improve existing trails for hiking, biking, and other outdoor activities.[9]

Funding for Clean Ohio Trail Fund grants is supported by bond proceeds that are deposited into the Clean Ohio Fund (Fund 7061). Recipients of Clean Ohio Trail Fund grants must provide a 25% local match for their projects. Eligible uses of the money include land acquisition, existing trail improvement, construction of trailhead facilities, and engineering and design costs for bridges or other necessary infrastructure. All projects must be completed within 15 months. H.B. 529 of the 132nd General Assembly, the capital budget bill for the FY 2019-FY 2020 capital biennium, provided $12.5 million to support these grants.

OFCC Releases Report on Storm Shelters for Schools

– Jason Glover, Budget Analyst

In December 2019, the Ohio Facilities Construction Commission (OFCC) released a report on its study regarding appropriate requirements for storm shelters for Ohio school buildings. The study, required by H.B. 166, found that Ohio ranks among the top 20 states for fatalities, injuries, and dollar losses from tornadoes. The study also found that while there have been no fatalities from tornadoes hitting a school building in Ohio since 1887, schools built to modern building codes are still susceptible to collapse due to tornadoes.

Beginning in November 2017, the Ohio Building Code required certain buildings, including K-12 schools, to have storm shelters in accordance with the International Building Code. According to the report, the requirement can be met through a stand-alone structure, or a specifically designed, hardened area within a school building. Prior to the new requirement's effective date, OFCC staff developed estimates of the cost to incorporate a storm shelter into public school construction projects that were in design at the time. According to OFCC's model, a storm shelter added an average of $589,000 (3.8%) to the total cost of a new public school. H.B. 21 of the 132nd General Assembly enacted a moratorium on the school storm shelter requirement until September 15, 2019, and H.B. 166 extended the moratorium until September 15, 2020.

OFCC's report found that few code-compliant storm shelters have been built in Ohio. As a result of that and the multiple ways in which a facility can meet the storm shelter requirement, there is not one specific model for designing a cost-effective and compliant storm shelter.

[9] A complete list of grant recipients can be found on DNR's website at: http://ohiodnr.gov/Portals/realestate/pdfs/grants/clean_ohio_trails/2019COTFAwards.pdf.

However, the report suggests that the additional cost associated with the storm shelter requirement will decrease as the storm shelter designs and building materials become more widespread. OFCC concluded by recommending the following actions be taken before the storm shelter requirement for Ohio schools takes effect:

- School district officials should participate directly in the Ohio Board of Building Standards (BBS) rule-development process to share their perspective on building code impacts on their districts;
- BBS should provide additional detailed guidance on the code requirement for school renovations and additions;
- BBS should discuss with the design community storm shelter compliance paths that provide the necessary level of safety for the least cost;
- OFCC and the design and construction community should widely share real-world experiences on storm shelters in Ohio, with the goal of reducing risk and cost through lessons learned.

National Motor Vehicle Title Information Systems Study Committee Issues Report and Recommendations

– Jamie Doskocil, Fiscal Supervisor

On December 16, 2019, the National Motor Vehicle Title Information Systems (NMVTIS) study committee issued its final report and recommendations. The study committee was created by S.B. 263 of the 132nd General Assembly and tasked to research the advantages and disadvantages of utilizing information reported within the NMVTIS for making decisions on the issuance of salvage certificates of title in Ohio.[10] A salvage title is typically issued when a vehicle is wrecked or rendered a total loss in an insurance claim. The legislation, which took effect on March 19, 2019, issued a moratorium generally prohibiting clerks of court from issuing salvage certificates of title based solely on information provided by the NMVTIS until January 21, 2021. The study committee also addressed the accuracy of information entered into the system, public access to the information, and how other states utilize NMVTIS Junk, Salvage, and Insurance (JSI) information when titling vehicles.

The study committee, consisting of 13 members and chaired by the Director of Public Safety's designee, issued the following recommendations:

- Continue the moratorium on use of NMVTIS JSI information for purposes of issuing salvage titles beyond January 1, 2021;
- Continue use of NMVTIS JSI information for purposes of the clerk's identification of a scrap or crush vehicle;
- Increase public awareness and education about availability and accessibility of vehicle title information.

[10] The final report is available at the Legislative Service Commission library.

The NMVTIS is a federal repository housed within the U.S. Department of Justice. It was created under the Car Theft Act of 1992 and was reauthorized under the Anti Car Theft Improvements Act of 1996. The purpose of NMVTIS is to provide consumers protection from unsafe vehicles, protect states and consumers (individual and commercial) from fraud, prevent the introduction or reintroduction of stolen motor vehicles into interstate commerce, and reduce the use of stolen vehicles for illicit purposes, including funding of criminal enterprises.

Medicaid Awarded $16 million Integrated Care for Kids Grant

– Nelson V. Lindgren, Economist

In December 2019, the U.S. Centers for Medicare and Medicaid Services (CMS) awarded the Ohio Department of Medicaid (ODM) a seven-year, $16 million, Integrated Care for Kids grant. The goal of the grant is to reduce expenditures and improve the quality of care for children through prevention, early identification, and treatment of behavioral and physical health needs. Grant funds will be used to design and test early intervention models that do all of the following: improve children's health outcomes; reduce in-patient and out-of-home placements for children, including foster care placements; and create sustainable alternative payment models that ensure provider accountability for cost and quality outcomes. To achieve this, ODM will partner with Nationwide Children's Hospital to develop and test an integrated care coordination model for all Medicaid-eligible children from birth to age 21 residing in Licking and Muskingum counties. Special focus within these counties will be placed on eligible children who live in out-of-home placements, those at risk for out-of-home placement in the future, and children with acute behavioral health needs. As part of this process, Nationwide Children's Hospital will convene community partners to integrate coordination and management of core child services, including clinical care, early care and education, school-based health services, and housing. Integrating these core child services will provide children and caregivers with a single point of coordination for all providers, which should make accessing services easier.

Ohio is one of seven states chosen by CMS to receive grants. Other states receiving grants include Connecticut, Illinois, New Jersey, New York, North Carolina, and Oregon. Grant activities will begin on January 1, 2020, and conclude on December 31, 2026. The first two years of the grant will focus primarily on pre-implementation work. During this phase, CMS will assist states in developing the infrastructure and procedures necessary for model implementation. A five-year model implementation period will follow. This period will be devoted to implementing and monitoring models. States will be required to report specific data to CMS during the implementation period.

Reducing Falls with Artificial Intelligence Project Launched

– Nelson V. Lindgren, Economist

On December 1, 2019, a three-year Reducing Falls with Artificial Intelligence (AI) project was launched in Ohio to improve the overall quality of life for nursing home residents. The project will be administered by VirtuSense Technologies, which is based out of Illinois. VirtuSense Technologies will work with ODM to select ten nursing facilities to participate in the project. As part of the project, residents at these selected nursing facilities will be assessed for their risk level for falls by using AI to identify musculoskeletal and sensory deficiencies. Each assessment conducted will provide data concerning the resident's mobility level, gait speed, and their sit-to-stand time. In addition, for those residents over the age of 70, the assessment will also calculate the probability that the resident will suffer a fall in the next 12 months. The information generated by the assessments will be used by the facility's staff to form a plan of care appropriate for each resident. Once the plan is begun, residents showing minimal progress will be provided an alternative plan of care. The project is anticipated to do the following: reduce hip fractures by 10%, reduce falls and falls with injury by 10%, and improve the gait speed for participating residents by 20%. This will allow residents to live with a greater degree of independence and should decrease medical costs associated with fall injuries. As part of the project, one onsite training and unlimited virtual trainings will be provided to appropriate staff at each nursing facility. In addition, each facility will receive balance software, a laptop, and a sensor to be used to conduct the assessments.

CMS approved approximately $400,000 in funding for the project. The funding comes from civil monetary penalties paid by nursing facilities that do not meet federal health and safety standards. States have discretion to use these funds for projects to improve resident outcomes in Medicare and Medicaid certified nursing facilities. ODM recommended the project to CMS and will receive from VirtuSense quarterly progress reports and a final report that evaluates project outcomes and results.

Attorney General Awards $4.0 million Under the Ohio Law Enforcement Body Armor Program

– Jessica Murphy, Budget Analyst

As of January 1, 2020, the Ohio Attorney General's Office had awarded $4.0 million of the $7.0 million available to purchase body armor vests under the Ohio Law Enforcement Body Armor Program. The money was awarded to 426 local law enforcement agencies across 82 counties and used to purchase an estimated 5,621 body vests. Under the program, a local law enforcement agency that has a mandatory wear policy for all uniformed officers on duty is eligible to receive up to $40,000 in grant funding, with a required 25% local match, to purchase body armor that meets National Institute of Justice standards. The award amount is based on an itemized cost quote from the vendor that is submitted as part of the application, which is then reimbursed by the Attorney General upon receipt of proof of payment documentation.

The program, created in FY 2019 and continuing through FY 2020, is funded by the Bureau of Workers' Compensation (BWC) and administered by the Attorney General. The funding consists of safety and hygiene assessments charged to employers along with their workers' compensation premiums, which is transferred from BWC to the General Holding Fund (Fund R004), from which the Attorney General disburses the grant awards. Of the awardees, 16 received over $30,000 in funding, with four receiving the maximum.[11] The largest share of funding – around 9% – benefited Cuyahoga County with 38 local law enforcement agencies receiving a combined total of $373,290, followed by Trumbull County with 24 local law enforcement agencies receiving $197,154, or around 5% of the amount awarded.

[11] A list of awards can be found at this link: https://www.ohioattorneygeneral.gov/Law-Enforcement/Ohio-Law-Enforcement-Gateway/Body-Armor-Grants.

State Fire Marshal Awards $2.9 million in MARCS Grants

– Shannon Pleiman, Senior Budget Analyst

On December 27, 2019, the State Fire Marshal's Office within the Department of Commerce announced nearly $2.9 million in awards under the Multi-Agency Radio Communications System (MARCS) Grant program. Overall, 283 fire departments in 43 counties received awards, ranging from $120 to $50,000, the maximum award amount under the program.[12] H.B. 166 earmarked up to $3.0 million for the program for FY 2020.

The MARCS grants offset the costs that local fire departments incur for MARCS-related radio user fees and equipment that promotes interoperability between fire services. The State Fire Marshal uses a variety of criteria to decide award amounts, including: (1) the fire department's annual budget, (2) the annual number of fire incidents, (3) the resident population served by the department, and (4) requests from multiple jurisdictions within the same county or region collaborating to acquire or complete MARCS service for their fire departments. Eligible grant recipients include volunteer fire departments, municipal or small township fire departments that serve one or more small municipalities or townships, joint fire districts, and certain private fire companies that serve a population of 25,000 or less. Funding for the MARCS grants comes from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses. The receipts from these various sources are deposited into the State Fire Marshal Fund (Fund 5460).

Auditor of State Releases Phase 1 ODOT Performance Audit

– Terry Steele, Senior Budget Analyst

On January 9, 2020, the Auditor of State released its Phase 1 performance audit findings for the Ohio Department of Transportation (ODOT). As shown in the table below, the audit report identified recommendations in four areas that, if adopted, could yield savings of between nearly $32.5 million and $63.5 million annually. The largest portion of potential savings comes from a recommendation that ODOT retain the current fleet management policy rather than transitioning to a more expensive leasing model for specified vehicles, thereby avoiding estimated new costs of between $22.0 million and $42.0 million. The second largest area of savings ($10.0 million to $21.0 million) comes from the recommendation that ODOT deploy internal staff before hiring private-sector construction inspectors. The audit also calculated savings of approximately $450,000 from replacing information technology (IT) consultants with permanent staff and recommended that ODOT develop a plan for evaluating the most cost-effective use of department staff and consultants on IT projects. Finally, the audit report recommended that ODOT improve its data collection and management practices to improve decision making.

---

12 A list of all the fire departments awarded MARCS grants can be found at: https://apps2.com.ohio.gov/admn/pressroom/View.aspx?FileName=3854.pdf.

ODOT Phase 1 Performance Audit Summary	
Recommendation	**Potential Annual Savings**
Retain current fleet management model and forego leasing plan	$22,000,000 to $42,000,000
Use in-house construction inspection staff instead of consultants	$10,000,000 to $21,000,000
Develop plan for rationalizing use of IT staff and consultants	$450,000
Total	**$32,450,000 to $63,450,000**

H.B. 62 of the 133rd General Assembly, the transportation budget for the FY 2020-FY 2021 biennium, requires the Auditor of State to undertake a performance audit of ODOT. The Auditor divided the performance audit into two phases. The first phase, just released, focused on the areas of fleet management, construction inspection, seasonal staffing, and IT. The second phase, currently ongoing, focuses on highway management and maintenance practices, specifically pavement, bridge construction, and other maintenance operations. The costs of performance audits for state agencies are generally paid from the Public Audit – Intrastate Fund (Fund 1090). These costs are then reimbursed by the agency being audited.

Development Services Agency Begins Accepting Applications for the Rural Industrial Park Loan Program

– Tom Middleton, Senior Budget Analyst

In December 2019, the Development Services Agency (DSA) began accepting applications for the Rural Industrial Park Loan Program. A total of $25 million is available in FY 2020 for loans to develop rural industrial parks in certain areas of the state. Applications for the program are accepted on a first-come, first-served basis. Inactive since FY 2011, H.B. 166 revived the Rural Industrial Park Loan Fund (Fund 4Z60) and transferred $25 million from the Facilities Establishment Fund (Fund 7037) for loans in FY 2020. There are no appropriations for the program in FY 2021.

Under program guidelines set by DSA, loans may range in size from $500,000 to $2.5 million, or up to 75% of the total project cost, and may last up to ten years for machinery and equipment or 20 years for real estate. Interest rates will vary but may be 0% for the first five years of the loan and will be fixed below market rates subsequently. The terms of the loan allow at least 50% loan forgiveness upon successful completion of the project and after loan agreement terms are met.

Eligible entities include counties, municipalities, townships, nonprofits, port authorities, community improvement corporations, or private entities. Loans are available in counties that both contain less than 125,000 in population and qualify as a distressed county or a labor surplus county as defined under R.C. 122.19. Most of the 35 eligible counties are in southeast

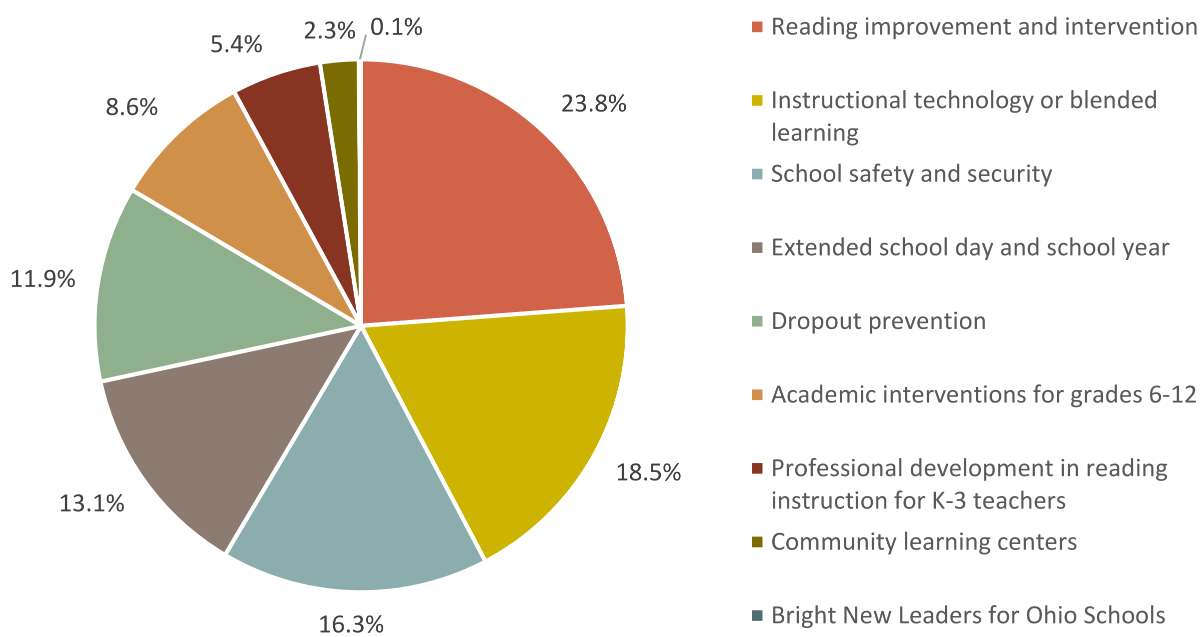
Ohio.[13] Eligible project costs include (1) land or building purchase, (2) machinery or equipment purchase, and (3) other site and infrastructure development, such as utility installation, drainage improvements, or telecommunications hook-up.

ODE Reports School Use of Economically Disadvantaged Funds in FY 2018 and FY 2019

– Alexander Moon, Economist

In December 2019, the Ohio Department of Education (ODE) issued its biennial report on the use of economically disadvantaged funds allocated to public schools through the state foundation formula. The report describes the initiatives on which school districts, community schools, and STEM schools reported spending the funds, which provide well over $400 million each year in support of additional resources and opportunities for economically disadvantaged students. The chart below shows the relative popularity of each of the nine initiatives for which the funds are permitted to be used. The percentages in the chart represent the prevalence with which the initiatives were identified by districts and schools in reports to ODE. Percentages are for the FY 2018-FY 2019 biennium; usage generally remained stable from year to year.

Chart 5: Percentage Share of Economically Disadvantaged Funds Initiatives Used FY 2018-FY 2019



Reading improvement and intervention was the most commonly used initiative, at 23.8% of all initiatives reported. Schools used their funds to develop reading initiatives, hire additional intervention specialists, purchase materials, and provide professional development for reading teachers.

---

[13] The map of eligible counties may be accessed at the following link: https://development.ohio.gov/files/bs/RuralIndLoanProg20.pdf.

The next most common initiative, at 18.5% of initiatives reported, was instructional technology or blended learning, including costs associated with bringing technology into the classroom, as well as distance learning with or without the aid of an instructor or aide being present.

The third most popular initiative was school safety and security, at 16.3%. Schools reported using the funds for various measures to keep students, teachers, staff, and visitors safe, including security personnel, equipment or supplies, and costs for professional development. Costs for nursing or health services are also permitted if those services are provided to all students within a building.

Many schools combined initiatives to maximize opportunities for students. For example, a district might pay for security during extended hours and provide resources such as tutors during that time. Another combination might involve a summer reading program (under an extended school day and school year initiative), reading improvement and intervention services, and professional development in reading instruction for teachers in grades K-3.

Tracking the Economy

– Eric Makela, Economist

Overview

The national and state economies continue to expand, as production and employment increased. Inflation-adjusted gross domestic product (real GDP) grew 2.3% in 2019, compared with the 2.9% growth rate in 2018. According to the U.S. Bureau of Labor Statistics (BLS), the nation added 225,000 nonfarm payroll jobs in January, and the national unemployment rate increased to 3.6%. In December, the Federal Reserve Board's industrial production index (IPI) was 1.0% below its December 2018 level, with manufacturing production down 1.3% during the same time period. In their most recent estimate of the nation's residents, the U.S. Census Bureau measured the country's resident population to be just under 328.2 million as of July 1, 2019.

Ohio's economy added 9,800 nonfarm payroll jobs in December, maintaining the higher pace of job gains observed in November, as compared to previous months. The unemployment rate in the state was 4.2%, 0.4 percentage point below the unemployment rate a year prior. The number of existing home sales in Ohio increased by 1.6% from 2018 to 2019, and the average sale price of those homes was 5.9% greater in 2019 than in the previous year.

Addressing the Coronavirus outbreak in China, a recent presentation by IHS Markit noted that any potential effects on production and consumption are as of yet unclear and are not yet evident in national or subnational data.

The National Economy

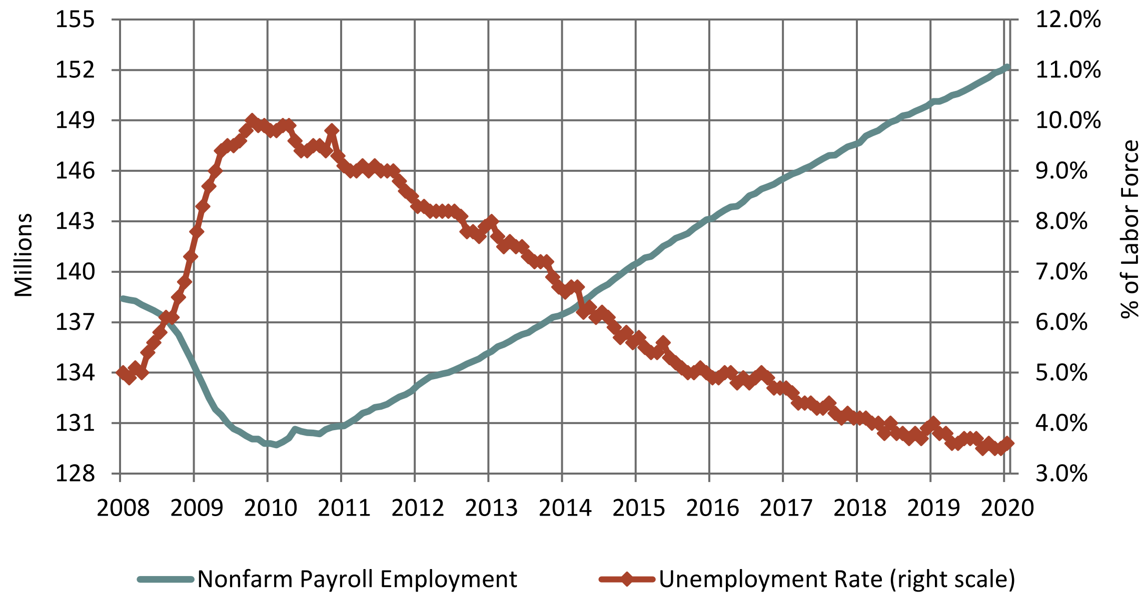
Real GDP rose at an annual rate of 2.3% in 2019, according to the first estimate released by the U.S. Bureau of Economic Analysis (BEA). The value of consumer spending on goods increased 3.8% year over year, while the value of services consumed increased by 2.1%. Nonresidential fixed investment increased 2.1% in 2019, down from a 6.4% increase the previous year; residential fixed investment fell 1.5% from a year prior, although this industry segment has grown in the most recent two quarters. The value of goods and services exported to other nations was essentially unchanged from 2018. Imports grew 1.0% in 2019, after growth of 4.7% and 4.4% in 2017 and 2018, respectively. Expenditures of the federal government increased by 3.5%, while the expenditures of state and local governments increased 1.6% in 2019.

The seasonally adjusted annualized rate of real GDP growth was 2.1% in the fourth quarter of 2019. This rate of economic expansion was greater than the 1.1% rate of growth in the fourth quarter of 2018 and follows growth rates of 2.0% and 2.1% in the second and third quarters of 2019, respectively.

The U.S. economy added 225,000 employees to nonfarm payrolls in January, and the national unemployment rate ticked up slightly to a seasonally adjusted 3.6% from 3.5%. Industries with notable job gains were construction (+44,000), leisure and hospitality (+36,000), health care (+36,000), and transportation and warehousing (+28,000). Decreases in employment in the manufacturing sector (-12,000) were largely due to job losses in the motor vehicles and parts manufacturing industry.

Effective with the BLS data release on February 7, 2020, updated population estimates were incorporated into one of the two surveys comprising the national employment and unemployment estimates. The reduction in previously estimated population growth reduced the estimated number of employed persons during 2019. The adjustments decreased BLS's December calculation of the civilian labor force by 524,000, total employment by 507,000, and unemployment by 17,000; previous unemployment rate estimates were unaffected. Historical payroll employment estimates were also revised. Average monthly growth in nonfarm payroll jobs during 2019 decreased from around 175,700 to around 174,700. Chart 6 shows U.S. employment and unemployment.

Chart 6: U.S. Employment and Unemployment



The personal income (PI) of Americans increased 4.5% in 2019, a decrease from the 5.6% growth in 2018. Growth of real personal consumption expenditures in 2019 was down from a year earlier in each expenditure category, including durable goods, nondurable goods, and services. Real PI excluding transfer payments increased at a 2.6% annual rate in 2019 after rising 3.7% in 2018.

According to the Federal Reserve Board's IPI, overall production declined 0.3% in December despite increases of 0.2% and 1.3% in manufacturing and mining activity, respectively. Between December 2018 and December 2019, the IPI decreased by 1.0%. Over the year, production is down for consumer goods, business equipment, nonindustrial supplies, and materials; production of construction supplies, a subcategory of nonindustrial supplies, was up 0.7% year over year, while the production of motor vehicles and parts decreased 8.3% nationally. A private survey of purchasing managers, the Institute for Supply Management's purchasing managers index, measured a growing manufacturing sector in the month of January, after five months measuring contraction in manufacturing activity.

According to the U.S. Census Bureau's Building Permits Survey, the rate of privately owned housing permit authorizations in December was a seasonally adjusted 3.9% below the rate of permit issuance in November but still 5.8% above the rate of issuances a year prior. The number of privately owned housing units started in 2019 was 3.2% greater than in 2018. Among the types of housing, the greatest increase in building starts was for the subset of houses with five or more units. Privately owned housing starts decreased in 2019 in the Midwest Census region.

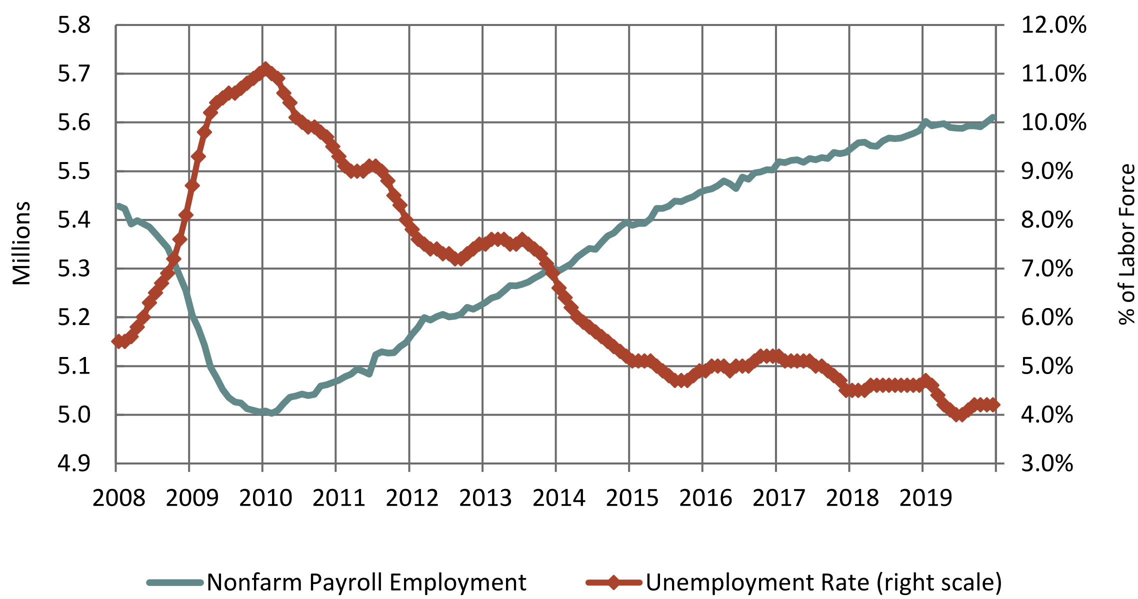
The resident population of the United States was estimated to be just over 328.2 million in the Census Bureau's most recent release of its long-term population estimates. This is the estimated number of persons living in the country as of July 1, 2019. According to the Census Bureau, the resident population grew by 0.5% from July 2018 to July 2019. The estimated population growth rate has been slowing each year since 2015.

The Ohio Economy

Employers in Ohio added an estimated 9,800 nonfarm wage and salary jobs in December, increasing the total to 5,610,600. Employers in the education and health care industries added 3,400 to their payrolls, while employment in the construction industry also increased by 3,400. Manufacturing payroll employment was up by 1,100 in Ohio in December.

Ohio's unemployment rate remained at a seasonally adjusted 4.2%, with approximately 242,600 Ohioans classified as unemployed in December. Between December 2018 and December 2019, both the state and national unemployment rates have decreased by 0.4 percentage point. The rate of unemployment among persons in the Cleveland-Elyria metropolitan statistical area decreased by 1.1 percentage points in that time and was 4.0% in December. The state added just over 81,000 additional labor force participants from December 2018 to December 2019. Chart 7 shows Ohio employment and unemployment.

Chart 7: Ohio Employment and Unemployment



According to the Ohio Realtors Association, existing home unit sales in December were 12.4% above the number of sales in December 2018. For CY 2019, 154,650 existing homes in Ohio transferred ownership; the average sale price for the homes was around $193,663, thus the total dollar value of existing homes sold in Ohio was approximately $29.95 billion. The dollar value of existing home sales was 7.6% greater than the dollar value of home sales in 2018.

Economic activity in the Cleveland Federal Reserve District continued to expand at a modest pace during the survey period, according to a recent Federal Reserve System publication, the Beige Book.[14] According to surveyed firms, activity and employment in the professional and business services industry remained strong since the previous report. Firms in most industries reported increasing wages, particularly in regions where labor is scarce. The price of outputs continued to decline in manufacturing, according to surveyed businesses, however output prices continued to rise in the retail, professional and business services, and construction industries. Consumer spending increased solidly in the region; increases in demand for auto loans and home mortgages were offset by weak demand for business loans. Reports from the transportation sector suggested a contraction of freight demand, as shipping volumes decreased in most industries.

[14] The Federal Reserve Bank of Cleveland's district consists of all Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Comments above are from the latest edition of the Beige Book, a publication that summarizes anecdotal and other information from business and industry contacts outside of the Federal Reserve System collected on or before January 6, 2020.