LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2020 **Issue: May 2020**

Highlights

– Ross Miller, Chief Economist

April GRF income tax revenue amounted to just under half of the estimate published by the Office of Budget and Management (OBM) in August 2019, primarily due to a delay in the tax filing deadline until July 15, but also to an unprecedentedly large volume of layoffs resulting from the COVID-19 situation. April sales and use tax revenue amounted to 76.0% of estimate. GRF tax revenues as a whole were $867 million below estimate in April. For the year to date (YTD), GRF tax revenues at the end of April were $777 million (4.0%) below estimate.

The national unemployment rate rose from 4.4% in March to 14.7% in April. A comparable jump in Ohio's unemployment rate from the March level of 5.5% is likely, due to recent layoffs.

Through April 2020, GRF sources totaled $27.22 billion:

- Revenue from the sales and use tax was $159.3 million below estimate;
- Personal income tax (PIT) receipts were $675.7 million below estimate.

Through April 2020, GRF uses totaled $28.97 billion:

- GRF program expenditures were $336.0 million (1.2%) below estimate;
- GRF expenditures for Medicaid were above estimate by $116.4 million, and expenditures for Other Education were $2.6 million above estimate;
- Expenditures in all other program categories were below estimate, led by Health and Human Services ($117.0 million), Property Tax Reimbursements ($100.5 million), and Primary and Secondary Education ($100.4 million).

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

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$67,421	$157,900	-$90,479	-57.3%
Nonauto Sales and Use	$680,476	$826,700	-$146,224	-17.7%
Total Sales and Use	*$747,897*	*$984,600*	*-$236,703*	*-24.0%*
Personal Income	$622,255	$1,258,000	-$635,745	-50.5%
Commercial Activity Tax	$62,315	$70,100	-$7,785	-11.1%
Cigarette	$83,955	$69,700	$14,255	20.5%
Kilowatt-Hour Excise	$30,947	$30,800	$147	0.5%
Foreign Insurance	$487	$300	$187	62.2%
Domestic Insurance	$0	$800	-$800	-100.0%
Financial Institution	$25,173	$25,800	-$627	-2.4%
Public Utility	$107	$300	-$193	-64.2%
Natural Gas Consumption	$3,523	$4,300	-$777	-18.1%
Alcoholic Beverage	$4,477	$3,600	$877	24.4%
Liquor Gallonage	$4,886	$4,300	$586	13.6%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$55	$0	$55	---
Estate	$21	$0	$21	---
Total Tax Revenue	**$1,586,097**	**$2,452,600**	**-$866,503**	**-35.3%**
Nontax Revenue				
Earnings on Investments	$34,444	$27,500	$6,944	25.2%
Licenses and Fees	$12,357	$10,080	$2,277	22.6%
Other Revenue	$11,656	$14,120	-$2,464	-17.5%
Total Nontax Revenue	**$58,457**	**$51,701**	**$6,756**	**13.1%**
Transfers In	**$614**	**$0**	**$614**	**---**
Total State Sources	**$1,645,168**	**$2,504,301**	**-$859,133**	**-34.3%**
Federal Grants	**$677,386**	**$685,777**	**-$8,391**	**-1.2%**
Total GRF Sources	**$2,322,554**	**$3,190,078**	**-$867,524**	**-27.2%**

*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 April 30, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 1, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$1,225,629	$1,271,200	-$45,571	-3.6%	$1,238,103	-1.0%
Nonauto Sales and Use	$7,691,165	$7,804,900	-$113,735	-1.5%	$7,479,114	2.8%
Total Sales and Use	*$8,916,794*	*$9,076,100*	*-$159,306*	*-1.8%*	*$8,717,217*	*2.3%*
Personal Income	$6,629,138	$7,304,800	-$675,662	-9.2%	$7,402,156	-10.4%
Commercial Activity Tax	$1,320,734	$1,289,400	$31,334	2.4%	$1,271,335	3.9%
Cigarette	$701,042	$679,900	$21,142	3.1%	$699,771	0.2%
Kilowatt-Hour Excise	$289,147	$292,400	-$3,253	-1.1%	$305,211	-5.3%
Foreign Insurance	$336,417	$331,300	$5,117	1.5%	$327,738	2.6%
Domestic Insurance	$1,685	$1,000	$685	68.5%	$330	411.0%
Financial Institution	$153,270	$137,400	$15,870	11.6%	$148,390	3.3%
Public Utility	$100,955	$100,300	$655	0.7%	$104,428	-3.3%
Natural Gas Consumption	$32,584	$44,300	-$11,716	-26.4%	$44,472	-26.7%
Alcoholic Beverage	$44,064	$46,400	-$2,336	-5.0%	$44,162	-0.2%
Liquor Gallonage	$43,936	$42,100	$1,836	4.4%	$41,810	5.1%
Petroleum Activity Tax	$6,614	$7,700	-$1,086	-14.1%	$8,400	-21.3%
Corporate Franchise	-$310	$0	-$310	---	$1,551	-120.0%
Estate	$68	$0	$68	---	$73	-6.9%
Total Tax Revenue	**$18,576,139**	**$19,353,100**	**-$776,961**	**-4.0%**	**$19,117,044**	**-2.8%**
Nontax Revenue						
Earnings on Investments	$111,446	$82,500	$28,946	35.1%	$82,619	34.9%
Licenses and Fees	$63,499	$57,254	$6,245	10.9%	$63,186	0.5%
Other Revenue	$103,109	$86,035	$17,073	19.8%	$83,487	23.5%
Total Nontax Revenue	**$278,054**	**$225,789**	**$52,265**	**23.1%**	**$229,291**	**21.3%**
Transfers In	**$77,045**	**$68,570**	**$8,476**	**12.4%**	**$84,588**	**-8.9%**
Total State Sources	**$18,931,238**	**$19,647,459**	**-$716,221**	**-3.6%**	**$19,430,923**	**-2.6%**
Federal Grants	**$8,291,853**	**$8,209,979**	**$81,874**	**1.0%**	**$7,993,772**	**3.7%**
Total GRF SOURCES	**$27,223,091**	**$27,857,438**	**-$634,347**	**-2.3%**	**$27,424,696**	**-0.7%**

*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

April 2020 GRF tax sources fell $866.5 million (35.3%) below the projection published by the OBM in August 2019, and this negative variance generated a corresponding shortfall of $867.5 million (27.2%) for GRF sources. GRF sources consist of both federal grants and state-source receipts, such as tax revenue, nontax revenue, and transfers in. This large GRF revenue shortfall was expected in light of the societal changes made in response to the COVID-19 pandemic[2] and the delay to various tax payments authorized by H.B. 197 of the 133rd General Assembly.

Due to a delay in the income tax filing deadline and an unprecedentedly large volume of layoffs resulting from the COVID-19 situation, April revenue from the two largest tax sources, the PIT and the sales and use tax, dropped $635.7 million (50.5%) and $236.7 million (24.0%) relative to their respective estimates. The PIT negative variance was driven primarily by a $697.8 million shortfall in payments accompanying the filing of annual returns. Since tax liabilities to be reported in those returns reflect economic activity in 2019, predating the emergence of COVID-19, most of the $697.8 million will be received in the state treasury in coming months, though much of it will likely arrive following the end of FY 2020. The next largest tax source, the commercial activity tax (CAT), had a smaller negative variance of $7.8 million (11.1%). The cigarette and other tobacco products tax posted a timing-related positive variance of $14.3 million (20.5%). The remaining tax sources had relatively small positive or negative variances. For the month, federal grants were short of estimates by $8.4 million (1.2%), but nontax revenue experienced a positive variance of $6.8 million (13.1%). Transfers in of $0.6 million were made when none were expected in April. Tables 1 and 2 show GRF sources for the month of April and for FY 2020 through April, respectively.

The April underperformance reversed a GRF sources positive cumulative variance of $233.2 million through three quarters in FY 2020, and for the YTD through April, the negative variance stood at $634.3 million (2.3%). YTD tax sources at the end of April were $777.0 million (4.0%) short of anticipated revenue. However, the other GRF categories remained above their YTD estimates as follows: federal grants ($81.9 million, 1.0%), nontax revenue ($52.3 million, 23.1%), and transfers in ($8.5 million, 12.4%).

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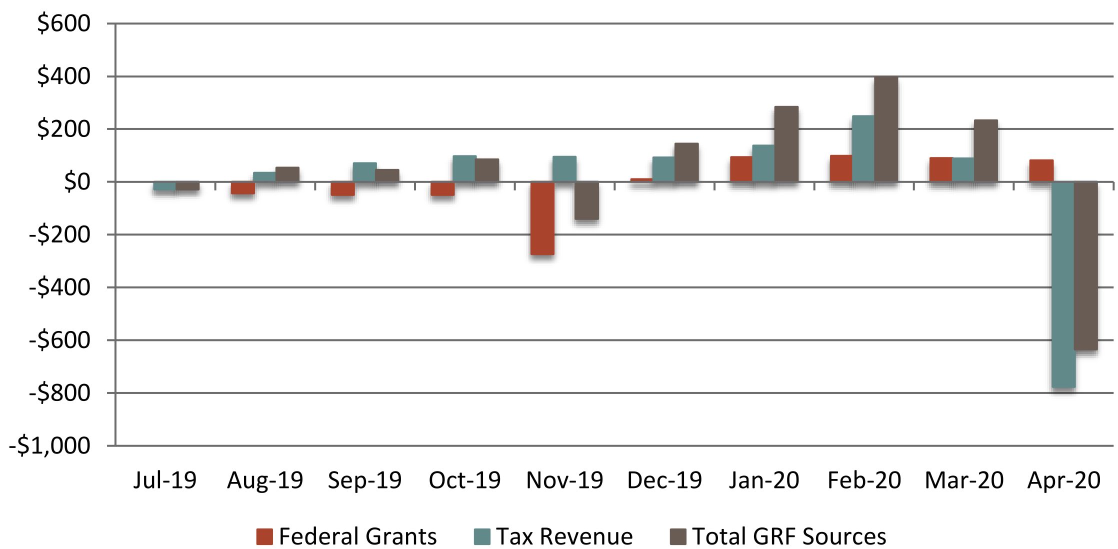
[1] This report compares actual monthly and YTD GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

[2] To slow the COVID-19 pandemic, the Governor issued an emergency declaration on March 9, 2020, and various public health orders followed, including a stay-at-home requirement. In response to enactment of H.B. 197, the Tax Commissioner authorized an extension of the deadline to file state income taxes until July 15, matching the extended deadline for federal returns. 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.

The PIT and the sales and use tax contributed the bulk of the YTD shortfall for tax sources with negative variances of $675.7 million and $159.3 million, respectively. In addition, the natural gas consumption tax, the kilowatt-hour tax, the alcoholic beverage tax, and the petroleum activity tax were short of their respective estimates by $11.7 million, $3.3 million, $2.3 million, and $1.1 million. Those negative variances were partially offset by positive variances of $31.3 million for the CAT, $21.1 million for the cigarette tax, $15.9 million for the financial institution tax (FIT), $5.1 million for the foreign insurance tax, and $1.8 million for the liquor gallonage tax.

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

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



To address the economic fallout from COVID-19, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The new law includes cash payments of up to $1,200 (plus $500 for each child age 16 or under) for each qualifying adult, an additional $600 per week on top of any state-provided unemployment benefits through July 31, 13 weeks of unemployment benefits above that of each state's unemployment program, and unemployment benefits for self-employed and "gig" workers. Also, a federal Payroll Protection Program was created with the intention of funding businesses reeling from the pandemic.[3]

The federal stimulus package will reduce tax revenue losses for the remainder of FY 2020, and probably into FY 2021. However, the tax payment delay will continue to curtail GRF revenue from the PIT in May and June 2020; though various business sectors previously shuttered are reopening, the uptick in economic activity may be halting and slow. If so, revenue results running below expectations from the sales and use tax and from the CAT would also continue in the next few months.

[3] The Payroll Protection Program is a federal loan program intended to subsidize payroll costs for eight weeks after low-interest loans, some of which would be forgivable, are made.

Compared to GRF sources in FY 2019 through April, GRF sources decreased $201.6 million (0.7%), due to declines of $540.9 million (2.8%) for tax revenue and $7.5 million (8.9%) for transfers in. Those decreases were partially offset by increases of $298.1 million (3.7%) and $48.8 million (21.3%), respectively, for federal grants and nontax revenue. The PIT experienced the largest reduction in tax revenue ($773.0 million) due to two reductions made to withholding tax rates in the last 16 months and the tax payment delay. (The section below analyzing the PIT provides additional details on the rate cuts.) Combined revenue from the utility-related taxes (kilowatt-hour tax, public utility tax, and natural gas consumption tax) fell $31.4 million due to lower energy prices this year. However, revenue from the sales and use tax and the CAT were above their levels of FY 2019 by $199.6 million and $49.4 million, respectively. Other taxes with noticeable increases included the foreign insurance tax ($8.7 million), the FIT ($4.9 million), the liquor gallonage tax ($2.1 million), and the cigarette and other tobacco products tax ($1.3 million).

Sales and Use Tax

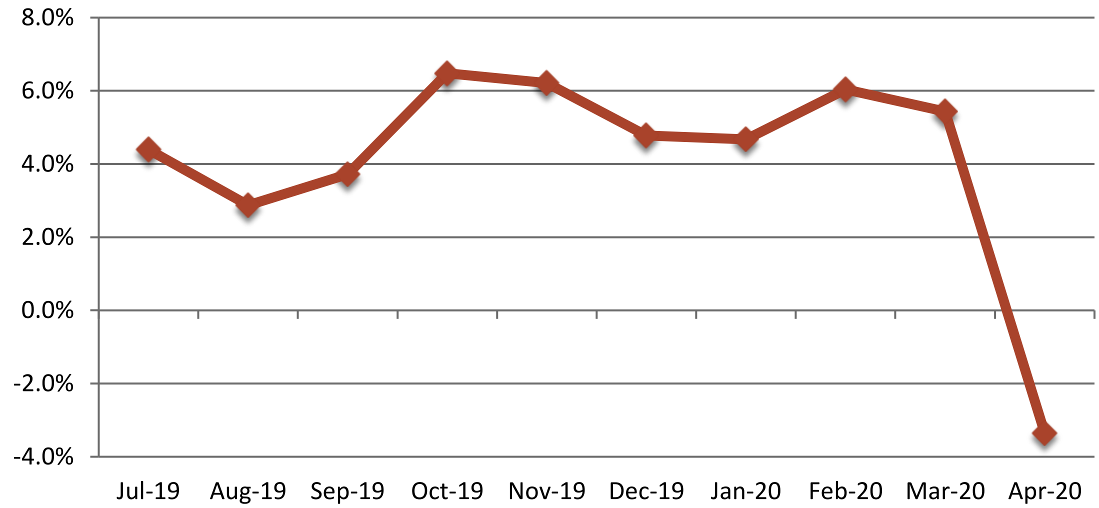
Ohio citizens' home confinement and closures of nonessential businesses strongly constrained taxable spending in March and April 2020, and sales and use tax receipts decreased dramatically. After this GRF source fell 8.3% below estimate in March, April sales and use taxes totaling $747.9 million were 24.0% below anticipated revenue as the economic damage of the pandemic came into focus. Both the nonauto and the auto portions of the tax had large negative variances. Monthly receipts were also $190.2 million (20.3%) below receipts in April 2019. This underperformance gave rise to a YTD negative variance of $159.3 million (1.8%) for the tax source. In the first three quarters of the fiscal year, the cumulative positive variance had been $77.4 million. However, sales and use tax revenue totaling $8.92 billion for FY 2020 through April remained above YTD FY 2019 receipts by 2.3%.

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.

Nonauto Sales and Use Tax

April GRF receipts from the nonauto sales and use tax were $680.5 million. This amount was $146.2 million (17.7%) below estimate and $98.3 million (12.6%) below revenue in April 2019. In March, the tax was $66.6 million below anticipated revenue. Thus, for the two-month period, the nonauto sales and use tax was $212.8 million (14.0%) below the combined estimate. For the YTD, total receipts of $7.69 billion were $113.7 million (1.5%) below projections, down from a cumulative positive variance of $32.5 million through March. YTD GRF receipts were $212.1 million (2.8%) above revenue in the corresponding period in FY 2019. Chart 2 shows year-over-year growth in nonauto sales and use tax collections in FY 2020 and reflects the dramatic revenue decline in the latest month. Though the stay-at-home requirement is being progressively lifted and nonessential business closures have started to ease, the resumption of "normal" economic activity is likely to be slow. Consequently, the year-over-year decline in nonauto sales and use tax revenue is expected to continue for a while longer, though "stimulus" checks and unemployment compensation income will provide some support during this time when many consumers are adjusting their spending in response to lost jobs and reduced wages.

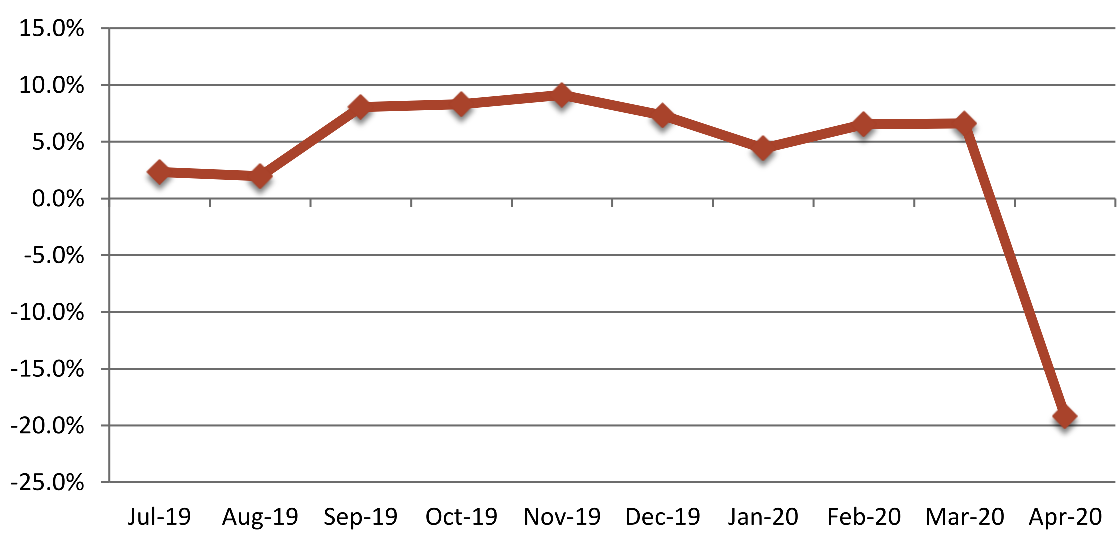
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

Monthly auto sales and use taxes of $67.4 million were $90.5 million (57.3%) below estimate and $92.0 million (57.7%) below revenue in April 2019. YTD GRF revenue from this source totaling $1.23 billion was $45.6 million (3.6%) below estimate and $12.5 million (1.0%) below 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 had been positive through March 2020. Then, in April, demand declined abruptly and the closures or sharp reduction in business activity at auto manufacturers and dealerships reduced the supply of vehicles, and vehicle sales and tax revenue suffered greatly.

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



Nationwide, annualized seasonally adjusted units were about 9 million units in April, a decrease of approximately 46.0% when compared to unit sales in the same month in 2019. Sales dropped across all categories. Unit sales of light trucks and SUVs decreased nearly 42.0% year over year, while auto sales were down about 57.0%. Financial press reports suggest April new vehicle sales may have marked a bottom of the market, and this month begins the road back to higher sales. Still, the expected increase in vehicle sales may not bring unit sales back up to previous sales trends anytime soon. Most forecasting firms suggest vehicle unit sales is likely to remain below 16 million seasonally adjusted annualized units[4] until 2021 due to the significant headwinds the industry will face over the next year: consumers are concerned about both the pandemic and then near-term job uncertainty, and this is likely to keep some buyers away from showrooms.

Personal Income Tax

Ohio taxpayers took advantage of the extension of the deadline to file state income taxes mentioned earlier and PIT revenue to the GRF cratered.[5] April PIT revenue to the GRF was $635.7 million (50.5%) below OBM's August estimate. 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,[6] 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 81.0% of gross collections in FY 2019). Larger or smaller than expected refunds could also greatly affect the monthly performance of the tax.

April gross collections and refunds were below their respective estimates by sizable amounts. Gross collections were $888.4 million (49.2%) below target, with big deficits for nearly all the components. Payments due with annual returns came in sharply below projections and posted a negative variance of $697.8 million (84.9%) for the month. The first quarterly estimated payments, also typically due April 15, fell $80.9 million (65.3%) relative to expectations. Additionally, employer withholding and trust payments were short of projections by $84.6 million (10.3%) and $25.8 million (79.4%). Refunds and LGF distributions were $248.3 million (47.8%) and $4.3 million (15.0%) below estimate, respectively.

Through April, YTD GRF receipts from the PIT were $6.63 billion, an amount $675.7 million (9.2%) below projections. This YTD negative variance was an increase from a cumulative shortfall of $39.9 million through March 2020. Yearly GRF revenue was also $773.0 million (10.4%) below revenue in the first ten months of FY 2019. In addition to the impact of delayed income tax filings, two reductions in withholding rates also decreased FY 2020 revenue relative to FY 2019. 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 2020 was limited due to a 4.0% reduction in withholding rates effective

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[4] Unit sales were about 17 million in calendar year (CY) 2019.

[5] Through April, the number of individual income tax returns filed dropped about 16.0% relative to the corresponding period in FY 2019, with most of that decline occurring in the month of April.

[6] 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.

January 2020 and through April. 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.

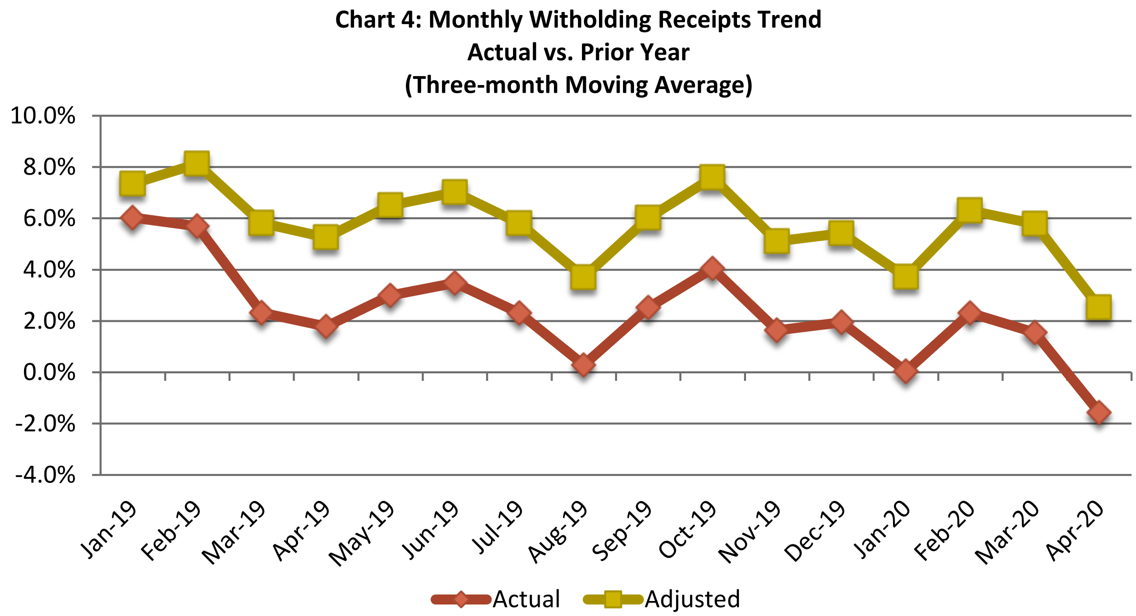
For the YTD, revenues from each component of the PIT relative to estimates and revenue received in FY 2019 are detailed in the table below. Gross collections were $824.4 million below projections, largely due a negative variance of $711.2 million for payments due with annual returns. Employer withholding, quarterly estimated payments, and trust payments also fell by $27.2 million, $66.5 million, and $20.3 million, respectively, though miscellaneous payments posted a positive variance of $0.9 million. Refunds were $149.5 million below estimate, but LGF distributions were above anticipated revenue by $0.8 million, thus resulting in a YTD PIT shortfall of $675.7 million.

Compared to gross collections in FY 2019 through April, payments due with annual returns this year were reduced by $750.9 million. In addition, quarterly estimated payments and trust payments decreased $43.5 million and $29.6 million, respectively. On the other hand, employer withholding and miscellaneous payments were, respectively, $65.0 million and $2.5 million higher than in FY 2019 through April. Overall, YTD gross collections through April were $756.5 million below YTD collections in FY 2019. LGF distributions were $19.2 million above those in the corresponding period in FY 2019, but YTD refunds were $2.8 million below FY 2019 refunds. 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[7] grew 0.8%, 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	-$27.2	-0.3%	$65.0	0.8%
Quarterly Estimated Payments	-$66.5	-9.5%	-$43.5	-6.4%
Trust Payments	-$20.3	-31.5%	-$29.6	-40.2%
Annual Return Payments	-$711.2	-68.5%	-$750.9	-69.7%
Miscellaneous Payments	$0.9	1.2%	$2.5	3.4%
Gross Collections	-$824.4	-8.5%	-$756.5	-7.9%
Less Refunds	-$149.5	-7.4%	-$2.8	-0.1%
Less LGF Distribution	$0.8	0.2%	$19.2	5.9%
GRF PIT Revenue	-$675.7	-9.2%	-$773.0	-10.4%

[7] Withholding receipts consist of monthly employer withholding (about 99.0% of the total) and annual employer withholding.

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 2.5%, on average, in the last three months.



Commercial Activity Tax

April CAT GRF receipts of $62.3 million were $7.8 million (11.1%) below estimate, and $8.8 million (12.3%) below April 2019 revenue. The monthly underage decreased the CAT's YTD positive variance to $31.3 million (2.4%), down from $39.1 million at the end of March 2020. FY 2020 GRF receipts totaled $1.32 billion, an amount $49.4 million (3.9%) above revenue through April 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 April, FY 2020 gross collections (i.e., all funds revenue) grew only 2.5% while refunds and credits fell 14.2%, resulting in a higher growth rate for the GRF. Though the tax is above target YTD relative to estimate through April, CAT returns for quarterly calendar taxpayers due May 10 will reflect the early negative economic impact of the COVID-19 pandemic. Those receipts are based on companies' taxable receipts for the January to March quarter.

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%). 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. On the other hand, if CAT revenue is insufficient for the required payments, the GRF would subsidize the local funds.

[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.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of April 2020
($ in thousands)
(Actual based on OAKS reports run May 1, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$576,621	$636,732	-$60,111	-9.4%
Higher Education	$234,190	$191,903	$42,287	22.0%
Other Education	$3,505	$3,986	-$481	-12.1%
Total Education	**$814,316**	**$832,621**	**-$18,305**	**-2.2%**
Medicaid	$997,998	$1,018,410	-$20,413	-2.0%
Health and Human Services	$78,129	$152,659	-$74,530	-48.8%
Total Health and Human Services	**$1,076,126**	**$1,171,069**	**-$94,943**	**-8.1%**
Justice and Public Protection	$209,772	$230,065	-$20,293	-8.8%
General Government	$52,693	$46,503	$6,189	13.3%
Total Government Operations	**$262,464**	**$276,568**	**-$14,104**	**-5.1%**
Property Tax Reimbursements	$304,570	$310,403	-$5,833	-1.9%
Debt Service	$96,242	$98,535	-$2,294	-2.3%
Total Other Expenditures	**$400,812**	**$408,938**	**-$8,126**	**-2.0%**
Total Program Expenditures	**$2,553,719**	**$2,689,197**	**-$135,478**	**-5.0%**
Transfers Out	**$41**	**$0**	**$41**	**---**
Total GRF Uses	**$2,553,761**	**$2,689,197**	**-$135,437**	**-5.0%**

*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 April 30, 2020
($ in thousands)
(Actual based on OAKS reports run May 1, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$6,967,795	$7,068,180	-$100,386	-1.4%	$6,951,472	0.2%
Higher Education	$1,977,477	$2,007,623	-$30,146	-1.5%	$1,914,180	3.3%
Other Education	$74,746	$72,154	$2,592	3.6%	$64,343	16.2%
Total Education	**$9,020,018**	**$9,147,957**	**-$127,939**	**-1.4%**	**$8,929,995**	**1.0%**
Medicaid	$12,991,582	$12,875,154	$116,428	0.9%	$12,363,054	5.1%
Health and Human Services	$1,184,683	$1,301,637	-$116,954	-9.0%	$1,147,197	3.3%
Total Health and Human Services	**$14,176,266**	**$14,176,791**	**-$526**	**0.0%**	**$13,510,251**	**4.9%**
Justice and Public Protection	$2,052,511	$2,096,664	-$44,153	-2.1%	$1,911,571	7.4%
General Government	$385,960	$438,644	-$52,685	-12.0%	$340,053	13.5%
Total Government Operations	**$2,438,471**	**$2,535,309**	**-$96,838**	**-3.8%**	**$2,251,624**	**8.3%**
Property Tax Reimbursements	$1,307,922	$1,408,426	-$100,504	-7.1%	$1,446,709	-9.6%
Debt Service	$1,358,044	$1,368,228	-$10,184	-0.7%	$1,349,087	0.7%
Total Other Expenditures	**$2,665,966**	**$2,776,654**	**-$110,688**	**-4.0%**	**$2,795,796**	**-4.6%**
Total Program Expenditures	**$28,300,721**	**$28,636,712**	**-$335,991**	**-1.2%**	**$27,487,666**	**3.0%**
Transfers Out	**$668,161**	**$669,975**	**-$1,814**	**-0.3%**	**$759,217**	**-12.0%**
Total GRF Uses	**$28,968,882**	**$29,306,687**	**-$337,805**	**-1.2%**	**$28,246,883**	**2.6%**

*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 May 1, 2020)

	Month of April 2020				Year to Date through April 2020			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$933,223	$953,580	-$20,358	-2.1%	$12,323,508	$12,211,468	$112,040	0.9%
Non-GRF	$1,112,369	$1,114,100	-$1,730	-0.2%	$8,312,070	$8,453,603	-$141,533	-1.7%
All Funds	$2,045,592	$2,067,680	-$22,088	-1.1%	$20,635,579	$20,665,072	-$29,493	-0.1%
Developmental Disabilities								
GRF	$57,840	$57,616	$224	0.4%	$576,037	$574,994	$1,043	0.2%
Non-GRF	$165,788	$179,027	-$13,239	-7.4%	$2,062,868	$2,102,166	-$39,299	-1.9%
All Funds	$223,629	$236,644	-$13,015	-5.5%	$2,638,905	$2,677,160	-$38,255	-1.4%
Job and Family Services								
GRF	$6,213	$6,340	-$128	-2.0%	$83,385	$79,738	$3,647	4.6%
Non-GRF	$12,788	$17,098	-$4,310	-25.2%	$155,799	$155,720	$79	0.1%
All Funds	$19,000	$23,438	-$4,438	-18.9%	$239,184	$235,458	$3,726	1.6%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$722	$873	-$151	-17.3%	$8,652	$8,955	-$302	-3.4%
Non-GRF	$4,458	$4,395	$64	1.4%	$36,648	$36,829	-$182	-0.5%
All Funds	$5,180	$5,268	-$88	-1.7%	$45,300	$45,784	-$484	-1.1%
All Departments:								
GRF	**$997,998**	**$1,018,410**	**-$20,413**	**-2.0%**	**$12,991,582**	**$12,875,154**	**$116,428**	**0.9%**
Non-GRF	**$1,295,404**	**$1,314,620**	**-$19,216**	**-1.5%**	**$10,567,385**	**$10,748,319**	**-$180,935**	**-1.7%**
All Funds	**$2,293,402**	**$2,333,030**	**-$39,628**	**-1.7%**	**$23,558,967**	**$23,623,473**	**-$64,507**	**-0.3%**

*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 May 1, 2020)

	Month of April 2020				Year to Date through April 2020			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,538,404**	**$1,548,883**	**-$10,479**	**-0.7%**	**$14,917,517**	**$14,728,725**	**$188,792**	**1.3%**
CFC†	$559,198	$546,763	$12,435	2.3%	$5,248,874	$5,147,425	$101,449	2.0%
Group VIII	$452,247	$415,458	$36,789	8.9%	$4,028,508	$3,832,756	$195,753	5.1%
ABD†	$250,860	$269,364	-$18,504	-6.9%	$2,424,653	$2,493,442	-$68,789	-2.8%
ABD Kids	$81,514	$85,240	-$3,726	-4.4%	$797,216	$800,403	-$3,187	-0.4%
My Care	$194,585	$232,058	-$37,473	-16.1%	$2,212,144	$2,250,216	-$38,073	-1.7%
P4P†	$0	$0	$0	---	$206,121	$204,482	$1,639	0.8%
Fee-For-Service	**$575,882**	**$607,108**	**-$31,226**	**-5.1%**	**$6,918,989**	**$7,042,861**	**-$123,873**	**-1.8%**
ODM Services	$365,439	$375,652	-$10,213	-2.7%	$3,558,587	$3,632,796	-$74,210	-2.0%
DDD Services	$210,369	$231,456	-$21,087	-9.1%	$2,556,917	$2,595,966	-$39,049	-1.5%
Hospital - HCAP†	$0	$0	$0	---	$659,697	$669,444	-$9,747	-1.5%
Hospital - Other	$74	$0	$74	---	$143,788	$144,655	-$867	-0.6%
Premium Assistance	**$95,607**	**$99,999**	**-$4,392**	**-4.4%**	**$936,110**	**$959,243**	**-$23,134**	**-2.4%**
Medicare Buy-In	$54,869	$57,483	-$2,613	-4.5%	$542,760	$554,345	-$11,585	-2.1%
Medicare Part D	$40,738	$42,517	-$1,779	-4.2%	$393,350	$404,899	-$11,549	-2.9%
Administration	**$83,510**	**$77,040**	**$6,469**	**8.4%**	**$786,352**	**$892,644**	**-$106,292**	**-11.9%**
Total	**$2,293,402**	**$2,333,030**	**-$39,628**	**-1.7%**	**$23,558,967**	**$23,623,473**	**-$64,507**	**-0.3%**

*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

On May 7, the Governor signed an executive order requiring GRF expenditure reductions of $775.0 million for FY 2020 as part of an effort to balance the budget in the wake of decreased revenues as a result of the COVID-19 pandemic. These reductions are discussed briefly below. GRF uses in April were $135.4 million (5.0%) below estimate. FY 2020 GRF uses for the YTD have been under estimate all throughout the year. The negative variance at the end of March was $202.4 million; this variance increased to $337.8 million (1.2%) at the end of April. The total for YTD uses at the end of April was $28.97 billion, consisting of $28.30 billion in program expenditures and $668.2 million in transfers out. 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 April.

Medicaid's GRF expenditures were below estimate by $20.4 million for the month of April, decreasing Medicaid's YTD positive GRF variance to $116.4 million (0.9%) at the end of April. The section below gives more details about Medicaid GRF and non-GRF variances.

Health and Human Services had the largest negative YTD and monthly variances at $117.0 million (9.0%) and $74.5 million, respectively. The second largest negative YTD variance was in Property Tax Reimbursements at $100.5 million (7.1%), this negative variance grew by $5.8 million in April. Primary and Secondary Education had the third largest negative YTD variance and the second largest negative monthly variance at $100.4 million (1.4%) and $60.1 million, respectively. Three other program categories had negative YTD variances that were more than $30.0 million. Two of these had positive variances in April that reduced their negative YTD variances and one had a negative variance in April that increased its YTD variance. These categories are: General Government ($52.7 million (12.0%), decreasing by $6.2 million in April), Justice and Public Protection ($44.2 million (2.1%), increasing by $20.3 million), and Higher Education ($30.1 million (1.5%), decreasing by $42.3 million). These variances are discussed below.

Executive Order Reductions

The governor signed an executive order on May 7 requiring $775.0 million in GRF budget reductions for FY 2020. OBM released a table showing a total of $776.3 million in reductions detailed by agency, which is available at obm.ohio.gov. The following table shows the reductions by program category.

[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.

Executive Order Budget Reductions by Program Category	
Category	**FY 2020 Budget Reduction**
Primary and Secondary Education	$354,590,000
Higher Education	$109,088,900
Other Education	$2,130,100
Medicaid	$211,973,500
Health and Human Services	$54,342,600
Justice and Public Protection	$16,586,300
General Government	$27,552,800
TOTAL	**$776,264,200**

Medicaid

GRF Medicaid expenditures were below their monthly estimate in April by $20.4 million (2.0%), which decreased the YTD variance in Medicaid expenditures to $116.4 million (0.9%) above estimate. Non-GRF Medicaid expenditures were also below their monthly estimate, by $19.2 million (1.5%), and remained below their YTD estimate by $180.9 million (1.7%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $39.6 million (1.7%) below estimate in April and $64.5 million (0.3%) below their YTD estimate at the end of April. The initial impact of the COVID-19 pandemic has shown in Medicaid caseloads. Medicaid experienced a total enrollment increase of more than 24,000 in March, which represented Ohio Medicaid's largest one-month caseload increase in more than three years. In April, this trend continued, with a total caseload increase of more than 93,000 cases. For the month of April, caseloads were above the budget estimate by 3.57% (100,656 cases). March and April's caseload increases reversed the trend of the previous eight months of the fiscal year, which had all seen caseloads below estimate. For YTD average caseloads, total Medicaid enrollment remains below estimate, by 0.03% (715 cases).

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 99.0% of the total Medicaid budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had a negative variance in April of $22.1 million (1.1%), which maintained YTD expenditures below estimate, with a $29.5 million (0.1%) negative variance. April's negative monthly variance increased the magnitude of the YTD negative variance, which was $7.4 million at the end of March.

ODODD had a negative variance ($13.0 million) in April which increased the magnitude of ODODD's negative YTD variance from $25.2 million (1.0%) at the end of March to $38.3 million (1.4%) at the end of April. 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

1.0% of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending. The Ohio Department of Job and Family Services (ODJFS) had a $4.4 million (18.9%) negative variance in April, which decreased its YTD positive variance to $3.7 million (1.6%).

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories. Managed Care expenditures were above their YTD estimate by $188.8 million (1.3%). Fee-For-Service (FFS, $123.9 million, 1.8%) had the largest overall negative variance, followed by Administration ($106.3 million, 11.9%), and Premium Assistance ($23.1 million, 2.4%).

The negative variance in FFS in April might be driven by delays in non-essential care, which was postponed or canceled throughout the month of April. While total Managed Care expenditures for April were below estimate by $10.5 million (0.7%), Managed Care expenditures for the Covered Families and Children (CFC) and Group VIII populations were above their monthly estimates, by $12.4 million (2.3%) and $36.8 million (8.9%), respectively. These variances added to positive YTD variances of $101.4 million (2.0%) for CFC and $195.8 million (5.1%) for Group VIII. These two figures represent the majority of the YTD positive variance in total Managed Care expenditures, and their higher expenditures in April may be driven by the caseload increases in these populations. Through FY 2020, the largest factors which have contributed to the positive YTD variance in total Managed Care have been positive monthly variances in the 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 3.0% 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. In April, increased caseloads caused by the COVID-19 economic decline caused Managed Care caseloads for Group VIII to increase to 10.4% (57,871 cases) above estimate, which brought the average monthly caseloads to 2.6% (14,278 cases) above estimate for the first ten months of FY 2020.

ODM is expected to reduce its FY 2020 GRF budget by $212.0 million and its non-GRF budget by $9.1 million.

Health and Human Services

The negative YTD variance in the Health and Human Services category increased by $74.5 million in April, from $42.4 million (3.7%) to $117.0 million (9.0%).

ODJFS is largely responsible for the negative April variance in this category. ODJFS had a negative variance of $56.8 million in April that brought this agency's negative YTD variance at the end of April to $60.3 million. Item 600523, Family and Children Services, had the largest negative variance in April of $33.3 million, changing its YTD variance from a positive $10.4 million at the end of March to a negative $23.0 million at the end of April. In addition, item 600535, Early Care and Education, had a negative monthly variance in April of $17.2 million, partially offsetting positive variances from earlier months and resulting in a positive YTD variance for this item of $3.7 million. Item 600450, Program Operations, continued its trend of negative monthly variances with a negative variance of $1.8 million in April, bringing its negative YTD variance to $21.0 million at the end of April. ODJFS is expected to reduce its FY 2020 budget by $36.2 million, 66.6% of the total budget reductions for this program category.

The Ohio Department of Mental Health and Addiction Services (OMHAS) had a negative variance of $17.9 million for the month of April, increasing its negative YTD variance to $38.0 million. Over half of the monthly and YTD variances were due to item 336421, Continuum of Care Services, which had a negative variance of $10.5 million in April and $21.7 million YTD. Item 336421 is used to distribute funds to local boards of mental health and alcohol, drug, and gambling addiction services to meet locally determined needs. OMHAS is expected to reduce its FY 2020 budget by $8.3 million, 15.3% of the total budget reductions for this program category.

Also contributing to the negative YTD variance in this category was the Department of Health (DOH), which had a negative YTD variance of $8.3 million at the end of April. This YTD variance was a result of an accumulation of negative monthly variances for most months of the fiscal year, although DOH had a positive variance of $1.3 million for the month of April. DOH's variances are spread out over most of its line items. DOH is expected to reduce its FY 2020 budget by $5.3 million, 9.7% of the total budget reductions for this program category.

The agency in this category with the fourth highest negative YTD variance is the Department of Veterans Services, which had a negative YTD variance of $6.9 million at the end of April. This variance is primarily from item 900321, Veterans' Homes, which pays the operating costs of the state's two veterans' homes.

Property Tax Reimbursements

The negative YTD variance in Property Tax Reimbursements of $100.5 million (7.1%) was due primarily to this category's expenditures being $74.0 million below estimate in March, although this category also had a negative variance of $5.8 million in April. 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. This category is exempt from budget reductions.

Primary and Secondary Education

The Primary and Secondary Education category had a negative variance for the month of April of $60.1 million, which increased this category's negative YTD variance to $100.4 million (1.4%). This category only includes the Ohio Department of Education (ODE). The negative variance in April was mainly due to negative variances in items 200550, Foundation Funding, and 200532, Nonpublic Administrative Cost Reimbursement, of $28.2 million and $23.3 million, respectively. Item 200550 provides the main funding for the state's foundation aid to public schools. The executive budget reductions include a $300.0 million reduction to this program. Reductions by school district are available at obm.ohio.gov. The reductions were distributed across school districts based on each district's number of students and capacity to raise local revenue. Item 200532 is used to reimburse nonpublic schools chartered by the state for certain administrative activities required to maintain their charter. The variance in this item is due to timing. Item 200437, Student Assessment, also has a significant negative YTD variance at the end of April of $15.7 million, despite a positive variance of $1.6 million for the month. In addition to the $300.0 million reduction from the foundation program, ODE is expected to reduce its FY 2020 budget by $54.6 million for a total of $354.6 million.

General Government

The General Government category had a negative YTD variance of $52.7 million (12.0%) at the end of April, but a positive variance of $6.2 million for the month of April. The April variance was largely the result of a positive monthly variance of $11.3 million in item 775470, Public Transportation – State, in the Ohio Department of Transportation (ODOT) budget. This positive variance decreased this item's negative YTD variance to $13.6 million. ODOT is expected to reduce its FY 2020 budget by $6.7 million, 24.2% of the total budget reductions for this program category. Item 700417, Soil and Water Phosphorus Program, in the Department of Agriculture budget, continued to have a negative YTD variance of $15.0 million due to the delay of the start of this program. The Department of Agriculture is expected to reduce its FY 2020 budget by $4.8 million, 17.3% of the total budget reductions for this program category. The third highest negative YTD variance in this category is $3.8 million in item 195556, TechCred Program, in the Development Services Agency (DSA) budget. The TechCred Program is a new workforce development program that receives funding from the Ohio Incumbent Workforce Training Fund (Fund 5HR0) as well as the GRF. DSA is expected to reduce its FY 2020 budget by $7.4 million, 26.8% of the total budget reductions for this program category

Justice and Public Protection

The Justice and Public Protection category had a negative variance for the month of April of $20.3 million, which increased this category's negative YTD variance to $44.2 million (2.1%). The negative variance in April was due to a negative variance of $17.4 million in the Department of Rehabilitation and Correction (DRC), which decreased DRC's positive YTD variance to $7.2 million. Most other agencies in this category had negative YTD variances including the Department of Public Safety (DPS, $16.9 million), the Attorney General ($11.1 million), the Public Defender ($9.3 million), the Department of Youth Services (DYS, $8.5 million), and the Judiciary/Supreme Court ($4.7 million). Most FY 2020 budget reductions in this category are expected for DYS ($6.2 million, 37.4% of the category total), the Public Defender ($6.1 million, 36.8%), and DPS ($3.0 million, 18.1%).

Higher Education

The Higher Education category reversed much of the negative YTD variance it has had since December with a positive variance in April of $42.3 million. This category's YTD variance was a negative $30.1 million (1.5%) at the end of April. As reported in the last issue of *Budget Footnotes*, expenditures from two line items had been delayed since December. These expenditures were made in April. The two items are listed below with their positive April variances indicated in parentheses:

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

Most other line items in this category were under estimate for the YTD. These items include 235438, Choose Ohio First Scholarship, ($10.8 million); 235563, Ohio College Opportunity Grant, ($9.6 million); and 235599, National Guard Scholarship, ($4.0 million). The Department of Higher Education (DHE) is expected to reduce its FY 2020 budget by $109.1 million. This includes $76.7 million in item 235501, State Share of Instruction, which provides the state's main support to public colleges and universities. Reductions by institution are available at obm.ohio.gov.

Issue Updates

CARES Act Allocates $478 million to Support Ohio Transits

– Tom Middleton, Senior Budget Analyst

On April 2, 2020, the Federal Transit Administration (FTA) announced that Ohio will receive approximately $478.1 million from a total of $25 billion authorized nationwide under the federal CARES Act to assist transit systems across the nation in response to COVID-19. The money will be distributed under two FTA programs: the Urban Transit Program (UTP), assisting transits in cities with a population of 50,000 or more, and the Rural Transit Program (RTP), for transits in less populated areas. As the table below shows, $396.1 million (82.8%) of the funding designated for Ohio is distributed by formula under the UTP. This money goes directly to transit systems serving designated metropolitan areas according to factors such as ridership, service miles, fare revenue, cost per hour, passengers per mile, and others. For example, in the Columbus area, the Central Ohio Transit Authority (COTA) provides most transit service and receives the lion's share of FTA funding for the area, but Delaware County Transit also receives a small portion of the area's allocation.

In contrast to UTP funding, the federal grant funding under the RTP is administered by the state through ODOT. On April 20, 2020, the Controlling Board approved $81.9 million in additional RTP funding in FY 2020 to rural transit systems under the CARES Act. According to ODOT, the majority of this additional funding will be allocated to transit agencies in proportion to previously awarded FY 2020 allocations. Most of the remaining RTP funding will go toward (1) capital projects that did not yet receive funding in FY 2020 and (2) rural intercity bus programs. The FTA funding is spent through Highway Operating Fund (Fund 7002) line item 775452, Public Transportation – Federal.

Funding for Ohio Transit Agencies Under the CARES Act, by Metropolitan Area

Metropolitan Area	CARES Act Allocation	Metropolitan Area	CARES Act Allocation	Metropolitan Area	CARES Act Allocation
Cleveland	$123,467,325	Canton	$11,428,977	Mansfield	$3,050,997
Dayton	$81,351,601	Youngstown*	$11,106,926	Lima	$2,877,930
Columbus	$53,174,170	Lorain-Elyria	$7,895,873	Steubenville-Weirton	$1,577,933
Cincinnati*	$45,389,982	Middletown	$4,183,573	Wheeling, WV*	$1,290,256
Akron	$23,034,772	Springfield	$3,700,111	Huntington, WV*	$1,082,965
Toledo*	$17,820,132	Newark	$3,319,130	Parkersburg, WV*	$314,948
				TOTAL – UTP allocations (federal direct awards)	**$396,067,601**
				TOTAL – RTP allocations (awarded through ODOT)	**$81,932,267**
				TOTAL All CARES Act funding to Ohio transits	**$477,999,868**

*Amount in this metropolitan area (which crosses into other states) represents the amount received by Ohio transits.

Typically, funding allocations under these two FTA programs can be used to cover up to 80% of capital costs and 50% of operating costs, with the state or local entities covering the remaining matching costs. Under the CARES Act, funding can cover 100% of eligible costs related to the COVID-19 pandemic beginning January 20, 2020, including (1) reimbursement of operating costs to maintain service, (2) purchase of personal protective equipment, and (3) payment of administrative leave for operations personnel due to reductions in service.

DOH Receives Federal Funding of $94.4 million to Address COVID-19

– Jacquelyn Schroeder, Senior Budget Analyst

Between March 25 and May 11, the Controlling Board approved six requests to increase appropriations for DOH by a total of $94.4 million in FY 2020 to address the COVID-19 pandemic. The increases affect three DOH funds – the Public Health Emergency Preparedness Fund (Fund 3GN0), the newly created Coronavirus Relief Fund (Fund 5CV1), and the Federal Public Health Programs Fund (Fund 3920). The increase of $24.2 million in Fund 3GN0 will be used for a variety of activities including: supporting local health department efforts to monitor, investigate, and contain the virus; developing public education and awareness campaigns; distributing specimen collection kits and conducting testing; making medication available to providers; supporting DOH's COVID-19 call center; and purchasing personal protective equipment and public health laboratory supplies. Fund 5CV1, which received an appropriation of $63.4 million, will be used for the same purposes as Fund 3GN0, as well as a few others. These other purposes include contracting for data analysis to help determine when mitigation efforts can be lifted, public antibody testing, ventilator inventory system and maintenance, external laboratory testing, developing technology for notification of localized outbreaks, and increasing the number of epidemiological investigators at local health departments. Lastly, the increase of approximately $6.8 million in Fund 3920 will be used to provide funding to rural hospitals to help combat COVID-19, increase epidemiology and laboratory capacity, and to prevent and minimize the impact of COVID-19 on individuals with HIV or AIDS.

Funds received in Fund 3GN0 were provided by the federal Coronavirus Preparedness and Response Supplemental Appropriations Act, which was signed into law on March 6, 2020. Funds received in Fund 3920 and Fund 5CV1 were provided by the CARES Act. The CARES Act allows states to use funding from the Coronavirus Relief Fund for expenditures made in response to the COVID-19 pandemic from March 1, 2020, through December 30, 2020.

Ohio Provides Expanded Access to Food Assistance Programs

– Nicholas J. Blaine, Budget Analyst

In response to the COVID-19 pandemic, the state and federal government have implemented numerous policy changes to alleviate food insecurity among low-income households. Some of these changes were authorized by the federal Families First Coronavirus Response (FFCR) Act. The act allowed the U.S. Department of Agriculture (USDA) to grant state requests for flexibility in administering food assistance programs. One approved request allows Ohio to provide the maximum benefit to households enrolled in the Supplemental Nutrition

Assistance Program (SNAP) for up to two months.[10] This means a household with three individuals will receive the maximum amount of $509 regardless of income. SNAP benefit amounts vary depending on a household's income and size. If a household already receives the maximum amount, it will not receive additional benefits. The act also temporarily suspended SNAP's three-month limit on benefits for unemployed adults under age 50 without children and eased administrative requirements to help states deal with increased applications during a time of office closures. Examples of eased administrative requirements include waiving in-person and telephone interviews for initial applications and recertifications, extending quality control deadlines, and adjusting reporting requirements.

Additionally, the USDA approved Ohio's request to operate the Disaster Household Distribution Program (DHDP).[11] DHDP provides prepackaged boxes of food for families through the state's network of 13 food banks and over 2,800 distribution sites. The food inventories used for distribution come from the Emergency Food Assistance Program (TEFAP), which is administered by ODJFS. While TEFAP also provides emergency food assistance, there are program differences. For example, TEFAP has income eligibility requirements and DHDP does not. Not having to verify income allows social distancing to be maintained while providing food quickly and efficiently. In addition, TEFAP is an ongoing program, while DHDP is a temporary program that operates only for approved time periods. In Ohio's case, DHDP operated between April 7, 2020, and April 30, 2020. To support ongoing emergency efforts, the FFCR Act provided additional funds to TEFAP. In response to this, the Controlling Board approved an ODJFS request to increase appropriations for the program by $4.0 million in FY 2020 and $5.5 million in FY 2021. TEFAP dollars provided to the states are used for both state and food site administrative costs associated with dispensing USDA purchased food items.

Lastly, Executive Order 2020-13D, signed on April 10, 2020, directs the Governor's Office of Faith Based and Community Initiatives to use a portion of their operational funds to reduce food insecurity.[12] The Office is directed to provide up to $5.0 million in each fiscal year to the Ohio Association of Foodbanks to provide supplies to ensure safety, food, and personal hygiene necessities during the COVID-19 pandemic. Of this amount, $1.0 million must support the Agricultural Clearance Program, which provides surplus agricultural products to food banks.

CARES Act Modifies Medicaid Income Eligibility Rules

– Nelson V. Lindgren, Economist

The CARES Act requires federal supplemental unemployment benefits to be disregarded when determining eligibility for Medicaid and Children's Health Insurance Program (CHIP) coverage. The CARES Act provides supplemental benefits of $600 per week to unemployed individuals through July 31, 2020. These supplemental benefits are in addition to any state

[10] SNAP households are eligible for assistance with incomes up to 130% of the federal poverty level (FPL) (about $28,200 per year for a family of three in 2020).

[11] The USDA can approve a state's request to operate such a program if the President declares a national emergency.

[12] H.B. 166 of the 133rd General Assembly earmarked $13.3 million in each fiscal year from federal Fund 3V60 appropriation item 600689, TANF Block Grant, to support the Office's efforts.

unemployment benefits an individual would qualify for under Ohio law. Unemployment benefits are typically considered taxable income and are used to determine financial eligibility for both Medicaid and CHIP.[13] However, the CARES Act specifically states that these amounts be disregarded when determining eligibility.

Medicaid is a joint state-federal program that together with CHIP provides health care to about 2.8 million Ohioans. To be eligible for both programs, an individual must meet financial and nonfinancial requirements. Nonfinancial requirements include being a U.S. citizen and a resident of the state in which the individual is to receive benefits. Financial eligibility standards differ for various populations but must meet federally specified minimums or maximums. In Ohio, adults under age 65 eligible under the Group VIII Medicaid expansion must have an income 138% of the FPL or less (about $30,000 for a family of three) to be eligible. Children under age 19 eligible under the covered families and children population must have an income of 206% FPL or less (about $44,750 for a family of three).

OHFA Awards $5.0 million Under Emergency Housing Assistance Grant Program

– Shannon Pleiman, Senior Budget Analyst

On March 18, 2020, the Ohio Housing Finance Agency (OHFA) approved the use of $5.0 million from its general reserve funds to create the Emergency Housing Assistance Grant Program in response to the COVID-19 pandemic. The grant funds will be used for homelessness prevention, rapid rehousing, and emergency rental assistance. The purpose of the grant is to (1) help slow the transmission of COVID-19 and (2) prevent evictions and housing loss due to nonpayment of rent related to a decline in income, wage reduction, job loss, health challenges, or other circumstances caused by COVID-19.

By mid-April, OHFA had distributed this funding to Ohio's eight urban federally designated entitlement counties, referred to as Continuums of Care (CoC) and the Balance of State CoC (representing the other 80 counties and overseen by DSA) which coordinate housing and other services for homeless families and individuals in the state. CoCs will determine how much funding is available for homelessness prevention, rapid rehousing, and emergency rental assistance and the length of the assistance based on the needs of the communities they serve. Eligible uses of the funds include making rental assistance payments (including arrears), paying for security deposits, and covering moving costs. The table below displays funding distributed to each CoC. The amounts awarded were based on the number of extremely low-income and very low-income residents in each service area.

[13] For more information about the types of income included in a taxpayer's modified adjusted gross income (MAGI) and income eligibility for Medicaid, see www.healthcare.gov/income-and-household-information/income/.

Funding Awarded Under OHFA's Emergency Housing Assistance Grant Program	
Entitlement Community (CoC)	**Total Funding**
Balance of State	$2,006,273
Cuyahoga	$785,654
Franklin	$651,962
Hamilton	$534,622
Montgomery	$277,191
Lucas	$251,013
Summit	$249,202
Stark	$139,141
Mahoning	$104,943
TOTAL	**$5,000,001**

CARES Act Provides $489.2 million in Emergency Relief Formula Funds for K-12 Schools

– Alexander Moon, Economist

The CARES Act will provide an estimated $489.2 million in emergency relief formula funding for Ohio's public elementary and secondary schools according to projections published by Federal Funds Information for States. State allocations are based on their relative share of funding in the most recent fiscal year under Title I, Part A of the federal Elementary and Secondary Education Act (ESEA), which provides funds to school districts and community schools (local education agencies (LEAs)) for educational services to disadvantaged students. ODE must distribute at least 90% of the state's allocation to LEAs in proportion to each LEA's share of Title I, Part A funds in the most recent fiscal year. LEAs may use the funds for a wide variety of activities. Among others, emergency relief formula funding may be used to:

- Maintain continuity of services and continue employment of existing LEA staff;
- Purchase educational technology to aid in educational interactions between students and teachers;
- Plan and coordinate for issues related to long-term school closure;
- Coordinate and improve COVID-19 preparedness and response efforts;
- Train LEA staff on sanitation and purchase supplies to sanitize school facilities;
- Provide mental health services and supports;

- Address the needs of individual schools and the unique needs of low-income children, students with disabilities, and other vulnerable populations; and
- Plan and implement summer learning and supplemental afterschool programs.

Up to 10% of the state's allocation may be used for state-level activities. Of that, 0.5% may be used for administration and the remainder may be used to respond to emergency needs related to COVID-19, as determined by ODE. The CARES Act includes a maintenance of effort provision meant to prevent the federal funds from supplanting state spending, but the requirement may be waived by the U.S. Department of Education (USDOE) for states that experience a precipitous decline in financial resources.

In addition to the formula funds, the CARES Act provides Ohio with $104.9 million under the Governor's Emergency Education Relief Fund. Ohio's allocation is based on its relative population between the ages of five and 24 (60%) and its relative count of students eligible for federal Title I services, mainly children ages five to 17 living in poverty (40%). The Governor must apply to receive these funds, which may be distributed at the Governor's discretion to provide emergency support through grants to LEAs or institutions of higher education that are determined to be the most significantly affected by COVID-19. Funding may also be used to provide support to other educational institutions deemed "essential" by the Governor for emergency educational services, the provision of childcare or early childhood education, social and emotional support, and the protection of education-related jobs.

Ohio Higher Education Institutions to Receive $396 million in Direct Formula Funding from CARES Act

– Edward Millane, Senior Budget Analyst

The CARES Act will provide 220 Ohio higher education institutions with approximately $396 million in financial relief to address the impacts of COVID-19. In general, each institution's allocation is determined by a formula that takes into account its relative share of federal Pell Grant recipients (75%) and its relative share of other students (25%). Eligible higher education institutions will receive their allocations directly from USDOE.

An institution may use its allocation to cover any costs associated with "significant changes to the delivery of instruction due to the coronavirus," but is explicitly prohibited from using the funds to support endowments, recruitment activities, and capital projects for facilities related to athletics, sectarian instruction, or religious worship. In addition, an institution must use at least 50% of its allocation to provide emergency financial aid grants to students for any expenses they incurred as a direct result of the disruption of campus' operations related to COVID-19. Examples of eligible expenses under the act include housing, course materials, meal plans, technology, and other items that otherwise are included in the student's total cost of attendance. The table below shows both the direct allocation and the minimum allocation for emergency financial aid grants to students by sector type of the state's higher education institutions. As the table indicates, public universities receive roughly 50% of the state total. Private, nonprofit institutions receive the next highest share (21%) followed by community colleges (18%), private, for-profit institutions (9%), and Ohio technical centers (2%).

CARES Act Formula Aid Allocations for Ohio Higher Education Institutions by Sector Type*			
Institution Sector Type	**Number of Institutions**	**Allocation**	**Minimum Allocation for Emergency Financial Aid**
Public universities	14	$199,282,449	$99,641,220
Private, nonprofits	70	$84,585,361	$42,292,663
Community colleges	22	$69,853,633	$34,926,812
Private, for-profits	67	$33,949,393	$16,974,681
Ohio technical centers	47	$7,945,204	$3,972,591
TOTAL	**220**	**$395,616,040**	**$197,807,967**

*Allocations are based on information reported as of April 24, 2020.

Additional CARES Act funding specifically supports awards for minority-serving institutions (MSIs), including Central State University and Wilberforce University (Ohio's historically black colleges and universities), based on their relative shares of certain existing federal appropriations. The CARES Act also allocates funding for discretionary grants to institutions that have the greatest unmet needs related to COVID-19, prioritizing such institutions whose formula and MSI CARES Act funding is less than $500,000. In addition to the funds directly received from USDOE, Ohio higher education institutions may receive a portion of the $104.9 million the state is allocated from the CARES Act through the Governor's Education Emergency Relief Fund, at the Governor's discretion (see separate article discussing emergency relief formula funds for K-12 schools for additional details on this fund).

Arts Council Issues Early Partial Organizational Grant Payments

– Shaina Morris, Budget Analyst

In March of this year, as a means of providing some economic relief from the COVID-19 pandemic, the Ohio Arts Council (OAC) began issuing early partial payments to nearly all organizations awarded FY 2020 operating or project support grants that had not already requested and received such payments. The partial payments represent 50% of the total grant. Under current practice, grantees are paid entirely in arrears but are permitted to request early partial payments equal to one-half of their awards.

Arts Council Approves Individual Excellence Awards

–Shaina Morris, Budget Analyst

On January 29, 2020, the OAC Board approved Individual Excellence Awards of $5,000 each to be awarded to 75 artists in 19 Ohio counties. These competitive awards, totaling $375,000 and backed by the GRF, recognize an Ohio artist's body of work in a variety of disciplines. The number of Individual Excellence Awards for each discipline eligible for funding during the FY 2020 application cycle was as follows: poetry (20), fiction (19), nonfiction (12), music composition (8), playwriting/screenplays (8), choreography (5), and criticism (3).

Award recipients may use the money for a variety of expenses related to growth and development but may not use it for enrolling in or continuing a degree-granting program. The recipients must remain in the state during the grant year.

The annual fall application process is only open to residents of Ohio who are at least 18 years of age and are not students attending high school or students pursuing undergraduate or graduate degrees at the time of application. A panel of nationally recognized artists and arts professionals meet to evaluate and score applications in each discipline. After reviewing all of the work, panelists make funding recommendations. The OAC Board makes all final funding decisions.

DHE Announces Recipients of $8 million in Regional Workforce Training Grants

– Jason Glover, Budget Analyst

In late February 2020, DHE awarded $8 million in capital funds to 36 institutions under the Regionally Aligned Priorities in Delivering Skills (RAPIDS) Program. RAPIDS grants provide funding for capital equipment and facilities used to train students and current workers for the specific workforce requirements of varying regions throughout the state. In this round of grants, DHE awarded $975,000 across each of six JobsOhio regions and another $2.1 million among institutions in the Northeast region. Most of the projects address advanced manufacturing while others focus on or also involve the healthcare, robotics, cybersecurity, information technology, automotive, construction, or logistics fields. Each region's grant recipients and award amounts are provided below.

Northeast region. Youngstown State University ($716,666), Cuyahoga Community College ($264,857), Lorain County Community College ($237,921), Cleveland State University ($213,888), University of Akron ($143,334), Kent State University ($143,333), Lakeland Community College ($143,333), Northeast Ohio Medical University ($143,333), and Stark State College ($143,333).

Central region. Columbus State Community College ($331,672), Ohio State University ($199,974), Central Ohio Technical College ($161,266), Marion Technical College ($142,011), and North Central State College ($140,077).

East region. Washington State Community College ($361,851), Belmont College ($250,000), Zane State College ($238,650), and Eastern Gateway Community College ($124,500).

Northwest region. University of Toledo ($474,287), Bowling Green State University ($147,345), Terra State Community College ($128,400), Northwest State Community College ($121,724), and Rhodes State College ($103,244).

Southeast region. Southern State Community College ($529,662), Hocking College ($121,278), Rio Grande Community College ($118,508), Ohio University ($108,553), and Shawnee State University ($97,000).

Southwest region. University of Cincinnati ($325,054), Miami University ($325,000), and Cincinnati State Technical and Community College ($324,946).

West region. Wright State University ($511,437), Sinclair Community College ($161,000), Clark State Community College ($132,233), Central State University ($107,270), and Edison Community College ($63,060).

Attorney General Issues 2019 Economic Development Compliance Report

– Jessica Murphy, Budget Analyst

On February 24, 2020, the Ohio Attorney General's Office released its 2019 Economic Development Compliance Report, a required annual review of recipient compliance with the terms and conditions, including any performance metrics, of state awards for economic development adminstered by DSA.[14] This monitoring compliance duty was first enacted by H.B. 420 of the 127th General Assembly and became effective December 30, 2008.[15]

The economic development awards issued by DSA fall into four main categories: workforce training grants, project grants, tax credits, and project loans. The latest report examined 149 awards with a performance period ending in CY 2018. Of those, 109 recipients, or 73.2%, were determined to be either compliant or substantially compliant having met at least 90% of the performance metrics set forth in the agreement. The metrics used to determine compliance included the commitments for training workers, job creation, job retention, minimum hourly wage, capital investment, or other commitments, as set forth in an award agreement.

Forty (26.8%) of the award recipients were determined to be noncompliant. The primary reason for noncompliance was the failure to create jobs, and, in the case of tax credits, an additional reason was the failure to generate sufficient new payroll. Remedial actions against noncompliant recipients mostly involved a reduced term or rate of a tax credit award or an increased effective interest rate for a project loan. Overall, remedial action was taken against 27 of those found to be noncompliant, with the remaining 13 not subjected to any such action largely because of a subseqent determination that they were substantially compliant by having attained 90% or greater of their job creation commitment.

[14] https://www.ohioattorneygeneral.gov/Files/Reports/Economic-Development-Accountability-Report/2019-Economic-Development-Accountability-Report.

[15] R.C. 125.112.

Tracking the Economy

– Eric Makela, Economist

– Phillip A. Cummins, Senior Economist

Overview

The national economy continues to face challenges associated with the COVID-19 pandemic and efforts to mitigate the spread of the virus. The national unemployment rate leaped to 14.7% in April, as 20,500,000 nonfarm payroll jobs were lost nationally. Inflation-adjusted gross domestic product (real GDP) decreased at a seasonally adjusted 4.8% annual rate in the first quarter of 2020, according to initial estimates by the Bureau of Economic Analysis (BEA). The Institute for Supply Management (ISM's) manufacturing production index recorded its lowest reading in the index's history starting in 1948. The Federal Reserve Open Market Committee (FOMC), in a meeting on April 28-29, decided to maintain the target range for the federal funds rate at 0% to 0.25%.

Ohio's unemployment rate jumped to 5.5% in March and the state lost a seasonally adjusted 39,700 nonfarm payroll jobs during the month. Over 90% of Ohio's job losses measured in the March survey were in the service sector. In addition, around 97,000 residents exited the labor market during March. LBO economists anticipate Ohio's labor market to follow the negative trend nationally when the April data are released.

The National Economy

Nonfarm payroll employment decreased by a seasonally adjusted 20,500,000 in April, the largest monthly decrease in the nation's history. The industry with the largest decrease in employment during the month was leisure and hospitality, in which employment decreased by 7,653,000, or 47.0%. Employment decreased significantly in education and health services (-2,544,000), professional and business services (-2,128,000), and retail trade (-2,107,000). During the month, payroll employment also decreased by over 1 million workers in manufacturing and in other services. In April, employment decreased in nearly every industry; those which support pandemic-related work from home and sheltering in place, such as general merchandising stores other than department stores (+93,400), couriers (+1,800), and computer and peripheral equipment manufacturing (+800) were shielded the most from economic disruption.

The nation's unemployment rate increased to 14.7% in April 2020, up from the 4.4% recorded in the March household survey. The increase was the single largest monthly rise in the national unemployment rate since the inception of the current statistic in 1948. The nation's labor force participation rate decreased by 2.5 percentage points; 60.2% of the adult resident noninstitutionalized population are now employed or actively seeking work, down from 62.8% a year prior and lowest since 1973. Insured unemployment, a measure of the number of persons currently drawing unemployment benefits, reached approximately 22 million in the week ended April 25. Chart 5 shows monthly employment totals both nationally and in Ohio; Chart 6 shows the monthly unemployment rates both nationally and in Ohio.

Nationally, personal income (PI)[16] decreased by a seasonally adjusted 2.0% in March 2020. Income from compensation of employees decreased by 2.8%, while the value of business proprietors' income decreased by 8.2% over the month. Transfer payments to persons increased 1.6%.

Real GDP decreased at an annual rate of 4.8% in the first quarter of 2020, according to initial estimates. Government spending (+0.7%) and residential fixed investment (+21.0%) increased from the previous quarter; however, these increases were more than offset by declines in personal consumption expenditures (-7.6%), nonresidential fixed investment (-8.6%), and exports (-8.7%).

Total industrial production in the U.S. declined a seasonally adjusted 5.4% in March, according to the Federal Reserve Board. Declines in production occurred in nearly all market groups and industries. Manufacturing production fell 6.3% in March, while declines in production were also recorded in mining (-2.0%) and utilities (-3.9%).

According to the ISM, economic activity in the manufacturing sector contracted between March and April. During the month, factory new orders contracted significantly more quickly than in March. ISM's manufacturing production index registered the lowest figure since the index's inception over 72 years ago. In April, ISM's employment index registered its largest month-over-month decrease since the beginning of the index. Two industries reported an expansion of production in April, (1) paper products and (2) food, beverage, and tobacco products. All other manufacturing industries surveyed reported declines in production during the month.

ISM's nonmanufacturing survey measured a contraction of economic activity in the nonmanufacturing sector, the first drop since late 2009. Business activity, new orders, and employment among surveyed nonmanufacturing business all fell in aggregate during April. Prices paid by businesses for materials and services increased in the sector. Among the nonmanufacturing industries surveyed by ISM, only the finance and insurance industry reported an increase in business activity.

The FOMC, in a meeting from April 28-29, decided to maintain the target range for the federal funds rate at 0% to 0.25%. In addition, the Federal Reserve and U.S. Department of the Treasury have begun multiple initiatives to ease access to funds for financial institutions and municipalities and to incentivize continued consumer spending amid rising uncertainty in the economy and labor markets.[17] As a result of these initiatives, the amount of cash and easily convertible money available in the U.S. economy increased approximately 12.2% in the eight weeks ending April 27.[18]

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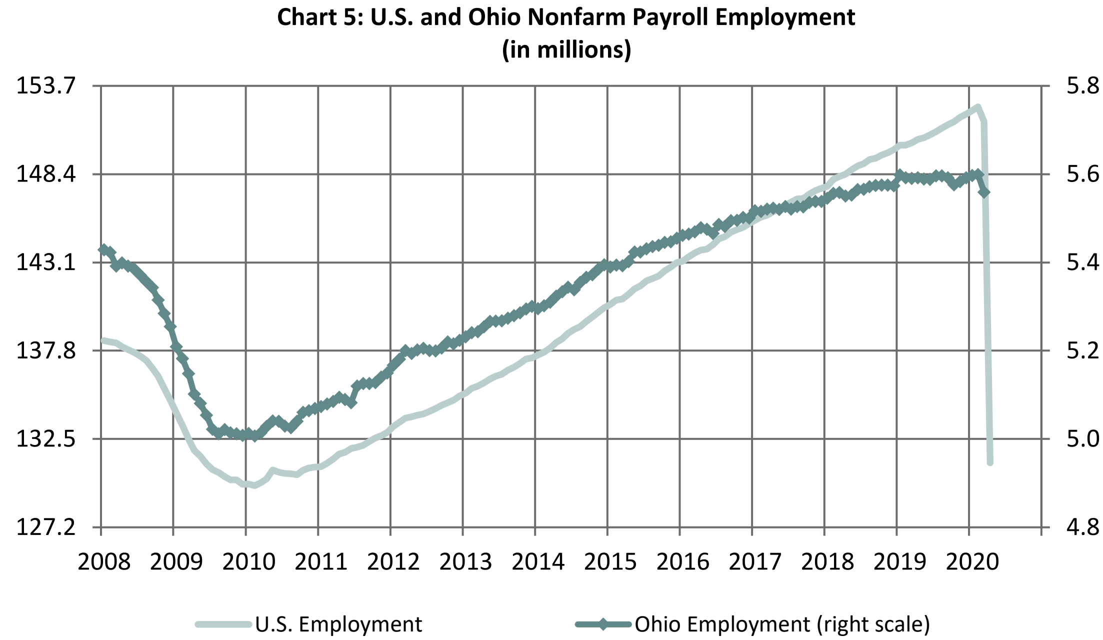
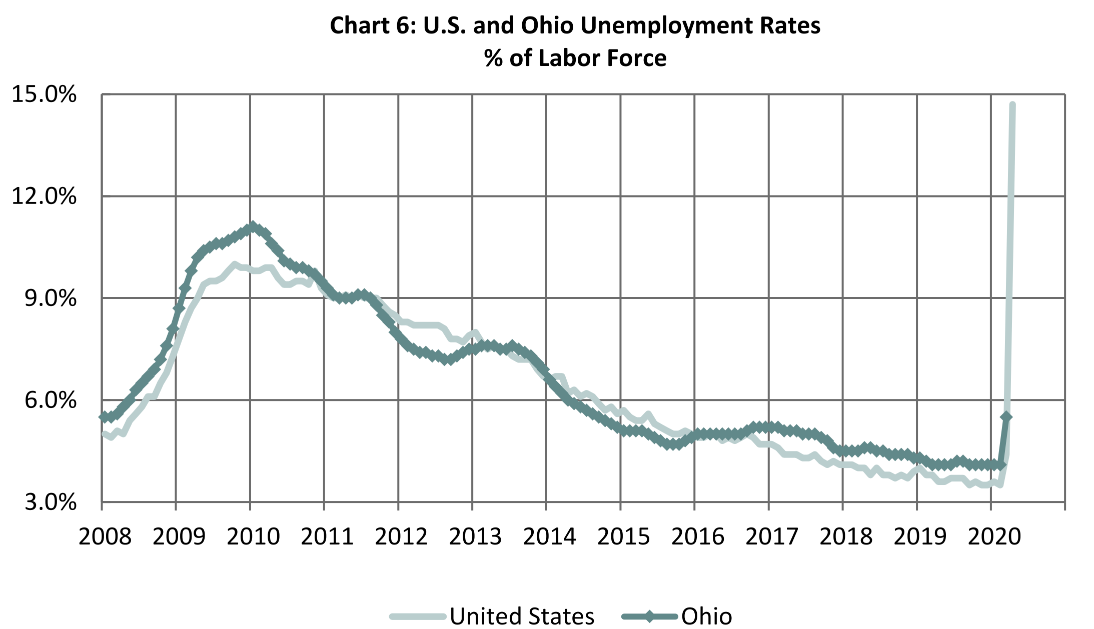
[16] PI is the income received by persons from all sources: from participation as workers in the labor market, from owning a business, from the ownership of financial assets, and from government in the form of transfers.

[17] https://www.federalreserve.gov/.

[18] As measured by the weekly average of the M2 monetary measure. M2 includes cash, funds in checking and savings accounts, time deposits of under $100,000, and balances in cashable financial instruments such as retail money market mutual funds.





The Ohio Economy

Nonfarm payroll employment in Ohio decreased by a seasonally adjusted 39,700 in March, according to the most recent state-level data from the Bureau of Labor Statistics (BLS). The majority of job losses, 36,300, occurred in the private service-providing sector, primarily in the leisure and hospitality industry. The number of persons employed in durable goods manufacturing decreased by 2,700, while the number of persons employed in nondurable goods manufacturing increased by 1,500. Employment levels decreased in construction (-1,500) and wholesale trade (-2,400). Note that employment data are derived from a survey of employers for the pay period that includes the 12th of the month, thus the March data are reflective only of the initial response to the COVID-19 pandemic.

In March, the unemployment rate increased to a seasonally adjusted 5.5%, from 4.1% the previous month, among the largest month-over-month increases in the nation. Between February and March, a seasonally adjusted 97,000 persons exited the labor market in Ohio, meaning they were no longer actively working or seeking work. Persons who are not in the labor market are not counted as unemployed by the BLS. Chart 5 shows employment levels both nationally and in Ohio; Chart 6 shows the unemployment rate both nationally and in Ohio.

According to the Department of Labor, approximately 61,000 initial unemployment claims were processed in Ohio during the week ending May 2, 2020, down from more than 274,000 at the peak five weeks earlier. Insured unemployment decreased by 8.6% in the week ended April 25, from more than 777,000 the week before, by far the highest in the history of the series dating from 1987.

The U.S. Census Bureau recently began publishing an experimental weekly data product, Business Formation Statistics. The data are based on Employer Identification Number applications to the IRS made in the United States. Data are filtered to eliminate those unlikely to be associated with business formation, such as applications for tax liens, estates, trusts, private households, or civic and social organizations. The latest survey indicates that 2,180 business applications were filed in Ohio during the week ended May 2. For the YTD, the number of applications was 4% lower than in the same period in 2019. The number of high propensity applications, those identified as having a high chance of turning into businesses supporting payroll, decreased by 6% YTD compared with a year earlier. Since mid-March, high propensity applications were 18% lower than a year earlier after being up slightly earlier in the year.[19]

The number of existing home sales in March 2020 was 6.5% greater than during March 2019. The average sale price of existing homes was $199,445 during the month, 10.5% higher than a year prior. In the first quarter of 2020, the total dollar value of existing home sales in Ohio was approximately $5.8 billion, compared with $4.9 billion during the first quarter of 2019.

The economy in the Cleveland Federal Reserve District contracted steeply in the latter half of March, the result of COVID-19 and mitigation efforts, according to the Beige Book.[20] By the end of the survey period, most businesses reported cutting staff, hours, or both, often with furloughs in hopes of increasing staffing when activity improves. Over half of firms expected further near-term staffing cuts. Staffing was not cut in a few industries. Selling prices declined, while consumer spending fell sharply due to social distancing. Manufacturing contacts reported a decrease in demand and investment; the firms that noted an initial spike in demand due to the COVID-19 response expected demand to drop off. Construction, both residential and nonresidential, continues; however, demand is expected to weaken in the upcoming months.

[19] High propensity businesses include corporations, businesses which indicate on applications they intend to hire employees or have previously scheduled pay periods. Business applications in the following NAICS (North American Industry Classification System) industrial categories are also included in the definition of high propensity businesses: manufacturing (31-33), retail stores (44), health care (62), restaurants/food service (72).

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

Businesses rushed to secure loans and lines of credit. Banking firms worked to assist clients' increased demand for personal loans. Companies in the professional and business services industry expect weak economic conditions in the coming months. The freight industry observed a significant rise in shipments of consumer staples but weakness in other sectors.

Economic Forecast Update

The prediction for Ohio's economy that appeared in this space last month was an early assessment by economic forecasting firm IHS Markit of the effects of COVID-19 on the state. Greater economic weakness is currently forecast than was predicted a month ago. Last month's forecast of a 15.2% annual rate of decline in Ohio real GDP in the current quarter was revised to a 26.1% drop. The average statewide unemployment rate in FY 2021 was revised upward from 8.8% to 10.9%, with a peak near the end of this calendar year at 11.6%. Total nonfarm payroll employment is now expected to fall 7.6% in FY 2021, revised downward from a 5.1% decline predicted a month ago. Ohio wage and salary income is now predicted to drop 4.9% in FY 2021, compared with a 2.2% decline predicted last month.

The outlook remains highly uncertain. In issuing its latest forecast, IHS Markit indicated an assumption for the national economy that the pandemic would peak in the current quarter, followed by easing of social distancing requirements early in the third quarter. In the firm's modeling, the national economic outlook is the key driver of the outlook for the state. Because Ohio may be easing restrictions on activity here earlier than is assumed in IHS Markit's latest forecast, the drop in state economic activity may be less severe than indicated above.