LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2020 Issue: November 2019

Highlights

– Ross Miller, Chief Economist

Strong October sales and use tax receipts resulted in GRF tax revenue for the month exceeding estimates by $25.6 million. Adding that to previous monthly variances, GRF tax revenue was $97.0 million above estimate for the first four months of FY 2020. Year-to-date (YTD) positive results were almost entirely attributable to the sales and use tax and the commercial activity tax (CAT); the personal income tax (PIT) was essentially on target, while most other tax sources were below estimates.

Ohio's unemployment rate rose from 4.1% in August to 4.2% in September. The national unemployment rate was 3.5% in September. Ohio nonfarm payroll employment decreased by 1,500 in September, due to a decline in government employment of 2,900; private sector payroll employment rose by 1,400.

Through October 2019, GRF sources totaled $11.45 billion:

- Revenue from the sales and use tax was $82.3 million above estimate;
- PIT receipts were $1.8 million below estimate.

Through October 2019, GRF uses totaled $12.97 billion:

- Program expenditures were $127.8 million below estimate, due primarily to Medicaid spending, which was $79.9 million below estimate;
- Expenditures from all other program categories were below estimates except for Property Tax Reimbursements, which was above estimate by $47.5 million, due to timing.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of October 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 01, 2019)

State Sources	**Actual**	**Estimate***	**Variance**	**Percent**
Tax Revenue				
Auto Sales	$144,389	$136,400	$7,989	5.9%
Nonauto Sales and Use	$802,643	$759,200	$43,443	5.7%
Total Sales and Use	*$947,032*	*$895,600*	*$51,432*	*5.7%*
Personal Income	$716,303	$736,900	-$20,597	-2.8%
Commercial Activity Tax	$69,275	$74,400	-$5,125	-6.9%
Cigarette	$77,616	$77,400	$216	0.3%
Kilowatt-Hour Excise	$29,314	$30,200	-$886	-2.9%
Foreign Insurance	$166,510	$158,000	$8,510	5.4%
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$17,282	-$9,000	-$8,282	-92.0%
Public Utility	$2,794	$3,400	-$606	-17.8%
Natural Gas Consumption	$534	$600	-$66	-11.0%
Alcoholic Beverage	$4,675	$3,600	$1,075	29.9%
Liquor Gallonage	$4,029	$4,100	-$71	-1.7%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$23	$0	$23	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,000,823**	**$1,975,200**	**$25,623**	**1.3%**
Nontax Revenue				
Earnings on Investments	$41,338	$27,500	$13,838	50.3%
Licenses and Fees	$860	$413	$447	108.3%
Other Revenue	$1,610	$1,417	$192	13.6%
Total Nontax Revenue	**$43,808**	**$29,330**	**$14,477**	**49.4%**
Transfers In	**$67**	**$0**	**$67**	**---**
Total State Sources	**$2,044,698**	**$2,004,530**	**$40,168**	**2.0%**
Federal Grants	**$847,981**	**$848,842**	**-$861**	**-0.1%**
Total GRF Sources	**$2,892,679**	**$2,853,372**	**$39,307**	**1.4%**

*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 October 31, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 01, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$563,002	$536,200	$26,802	5.0%	$519,867	8.3%
Nonauto Sales and Use	$3,128,047	$3,072,500	$55,547	1.8%	$2,962,337	5.6%
Total Sales and Use	*$3,691,049*	*$3,608,700*	*$82,349*	*2.3%*	*$3,482,204*	*6.0%*
Personal Income	$2,998,430	$3,000,200	-$1,770	-0.1%	$2,926,007	2.5%
Commercial Activity Tax	$468,707	$440,200	$28,507	6.5%	$428,378	9.4%
Cigarette	$257,005	$260,100	-$3,095	-1.2%	$268,461	-4.3%
Kilowatt-Hour Excise	$119,227	$121,000	-$1,773	-1.5%	$129,385	-7.9%
Foreign Insurance	$175,429	$165,600	$9,829	5.9%	$177,579	-1.2%
Domestic Insurance	$1	$0	$1	---	$1	-43.4%
Financial Institution	-$26,788	-$14,500	-$12,288	-84.7%	-$18,867	-42.0%
Public Utility	$34,886	$35,300	-$414	-1.2%	$35,758	-2.4%
Natural Gas Consumption	$13,304	$14,600	-$1,296	-8.9%	$15,363	-13.4%
Alcoholic Beverage	$17,158	$20,200	-$3,042	-15.1%	$18,873	-9.1%
Liquor Gallonage	$17,278	$17,100	$178	1.0%	$16,813	2.8%
Petroleum Activity Tax	$1,796	$2,000	-$204	-10.2%	$2,019	-11.0%
Corporate Franchise	-$4	$0	-$4	---	$181	-102.0%
Estate	$38	$0	$38	---	$32	16.9%
Total Tax Revenue	**$7,767,514**	**$7,670,500**	**$97,014**	**1.3%**	**$7,482,187**	**3.8%**
Nontax Revenue						
Earnings on Investments	$41,457	$27,500	$13,957	50.8%	$25,360	63.5%
Licenses and Fees	$9,465	$7,414	$2,051	27.7%	$9,365	1.1%
Other Revenue	$71,220	$56,458	$14,762	26.1%	$53,716	32.6%
Total Nontax Revenue	**$122,143**	**$91,372**	**$30,771**	**33.7%**	**$88,441**	**38.1%**
Transfers In	**$75,548**	**$68,570**	**$6,978**	**10.2%**	**$76,109**	**-0.7%**
Total State Sources	**$7,965,205**	**$7,830,441**	**$134,763**	**1.7%**	**$7,646,736**	**4.2%**
Federal Grants	**$3,488,919**	**$3,538,556**	**-$49,637**	**-1.4%**	**$3,582,964**	**-2.6%**
Total GRF SOURCES	**$11,454,124**	**$11,368,998**	**$85,126**	**0.7%**	**$11,229,700**	**2.0%**

*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.

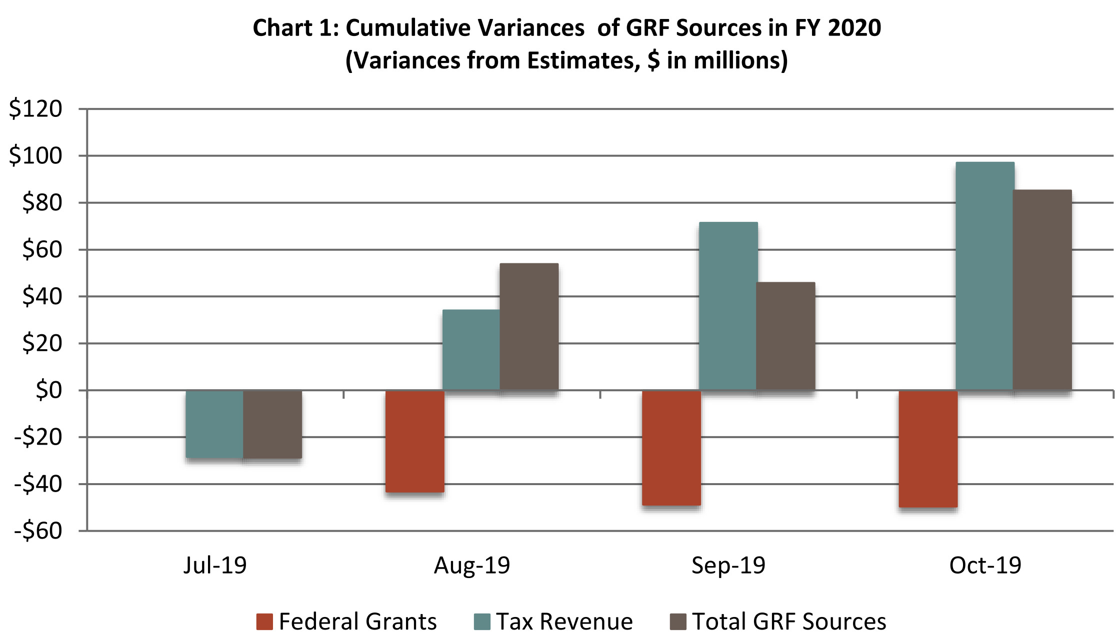
Revenues[1]

– Russ Keller, Senior Economist

Overview

Four months into FY 2020, GRF sources totaling $11.45 billion were $85.1 million (0.7%) above the Office of Budget and Management (OBM) estimate. For the third consecutive month, tax revenue outperformed estimates while federal grants receipts were less than anticipated (refer to Chart 1). At the close of October, the YTD tax receipts were $97.0 million above estimate, while nontax revenues and GRF transfers in also had positive variances of $30.8 million and $7.0 million, respectively. On the other hand, federal grants were $49.6 million below their four-month estimate as GRF Medicaid spending was 1.4% below FY 2020 expectations. Tables 1 and 2 show GRF sources for the month of October and for FY 2020 through October, 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 variances of GRF sources through October 2019.



Two of the largest tax sources were ahead of estimates YTD as the sales and use tax posted a positive variance of $82.3 million while the CAT was $28.5 million above estimate. In addition, the foreign insurance tax was $9.8 million above anticipated levels. Two important tax sources had modestly negative YTD variances. The PIT and cigarette tax were $1.8 million (0.1%) and $3.1 million (1.2%), respectively, below their FY 2020 estimates. Other GRF taxes

[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.

yielded negative variances over the first four months of FY 2020, too. The financial institutions tax (FIT) was $12.3 million below anticipated collections, which matches a trend of negative variances observed in previous years.[2] The combined receipts from three utility-related taxes (the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax) were $3.5 million below projections. Similarly, the alcoholic beverage tax was $3.0 million short of expectations. All other taxes had smaller variances at the end of October.

For the month of October 2019, GRF sources of $2.89 billion were $39.3 million above estimates. The overall performance of tax sources was positive, largely due to robust sales and use tax collections. Total tax revenue for October yielded a surplus of $25.6 million including positive variances of $51.4 million for the sales and use tax, $8.5 million for the foreign insurance tax, and $1.1 million for the alcoholic beverage tax. However, those positive variances were partially offset by shortfalls of $20.6 million for the PIT, $8.3 million for the FIT, and $5.1 million for the CAT. Nontax revenue was above estimate by $14.5 million, which was spurred by strong earnings on investments. Finally, federal grants were close to OBM's estimate, as they recorded a negative variance of $0.9 million (0.1%) in October.

Sales and Use Tax

The sales and use tax has been healthy so far this fiscal year. Through October, YTD GRF receipts from the sales and use tax of $3.69 billion were $82.3 million (2.3%) above estimate, with both the nonauto and the auto portions of the tax above projections. Total sales tax revenue was also $208.8 million (6.0%) above receipts in FY 2019 through October. For the latest month, GRF receipts were $947.0 million, $51.4 million (5.7%) above estimate, with broad-based gains for both the nonauto sales tax and auto sales tax. Compared to the same month last year, October receipts from this tax increased $94.2 million (11.0%). 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.

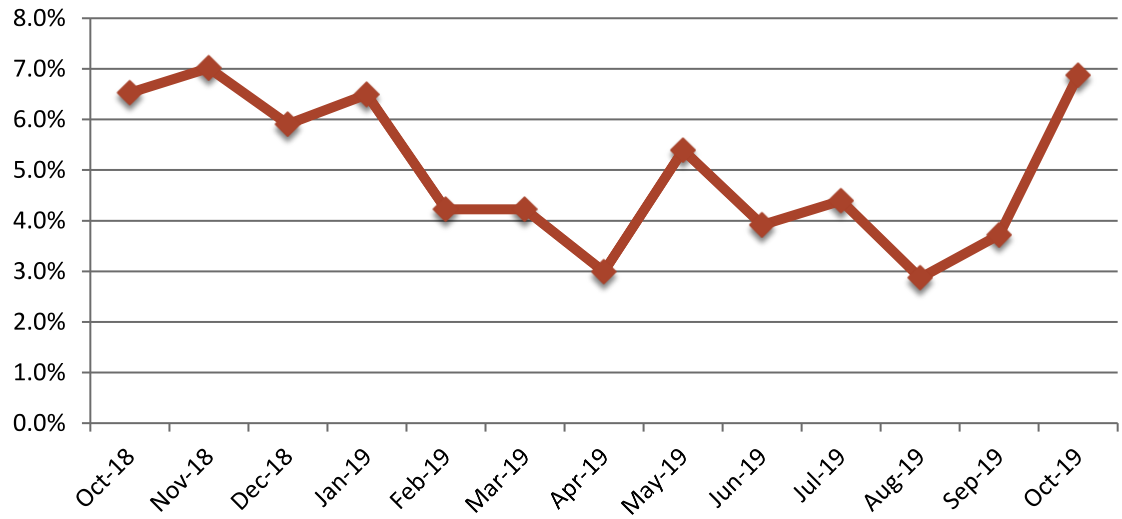
Nonauto Sales and Use Tax

Although this GRF source was $6.9 million (0.9%) below estimate in September, the October receipts were more robust as monthly collections exceeded estimate by $43.4 million (5.7%). GRF revenue from the nonauto sales and use tax totaled $802.6 million for the month, which was unseasonably strong for October. This performance increased the cumulative YTD positive variance of this source to $55.5 million (1.8%), up from a first-quarter positive variance of $12.1 million. Compared to revenue in the same month in 2018, October nonauto sales and use tax revenue increased $82.3 million (11.4%). For the fiscal year, GRF receipts of $3.13 billion through October were $165.7 million (5.6%) above revenue in the corresponding period in FY 2019.

[2] A negative variance in FIT collections through the first four months of the year is not uncommon. The OBM estimate always assumes refunds outweigh FIT collections at this time of year. Refunds typically occur during the first half of a fiscal year as taxpayers make adjustments to previous tax filings, which is inherently difficult to predict. Receipts of the FIT are typically expected in January, March, and May.

Chart 2, below, shows year-over-year growth in nonauto sales tax collections. The recent uptick in growth, as seen in Chart 2, has been supported by increased sales tax remittances by out-of-state sellers. Though the total amount of additional tax revenue is uncertain, Ohio has benefitted from an increase in voluntary collections by certain remote sellers in the wake of the U.S. Supreme Court decision in *South Dakota v. Wayfair* in June 2018. Following this Supreme Court decision, H.B. 166, the main operating budget act for the biennium, substantially modified Ohio's nexus[3] assumptions, which are expected to increase nonauto sales tax revenue by $121 million in FY 2020. However, the revenue gains may be higher or lower depending on the behavioral response of remote sellers and market facilitators (e.g., Amazon Marketplace, eBay, Walmart Marketplace, Etsy).

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

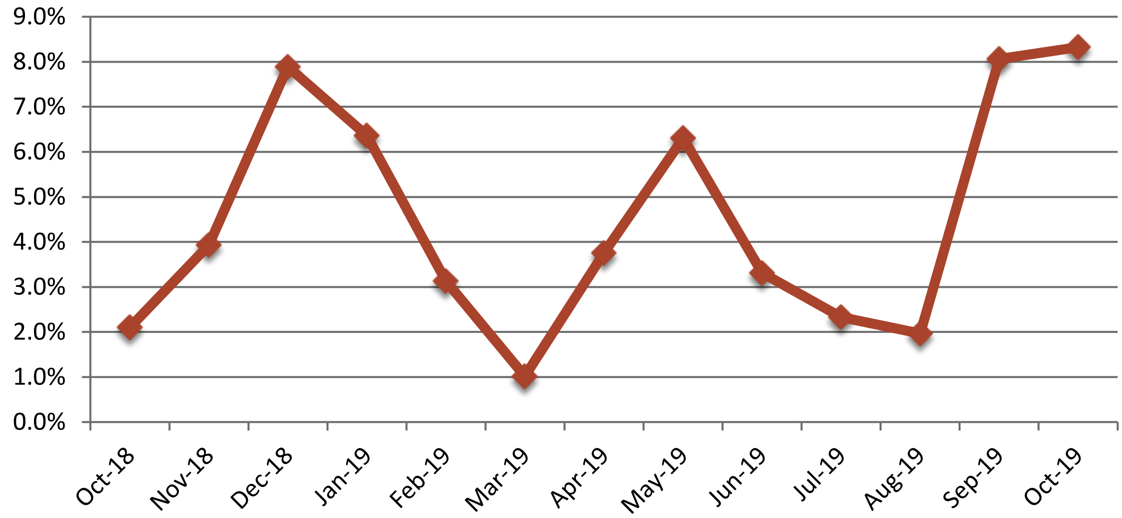


Auto Sales and Use Tax

The auto sales and use tax continued to outperform expectations as GRF revenue from this source totaled $563.0 million through October, which was $26.8 million (5.0%) above estimates. YTD collections were $43.1 million (8.3%) above receipts in the corresponding period in FY 2019. For the month of October 2019, revenue from this tax was $144.4 million, $8.0 million (5.9%) above estimate and $11.9 million (9.0%) above the amount received in the same month in 2018. Chart 3, below, shows year-over-year growth in auto sales and use tax collections. As mentioned in the previous edition of *Budget Footnotes*, recent gains in the tax base largely reflect higher vehicle prices paid by consumers rather than increases in the number of units sold.

[3] If an out-of-state seller has sufficient contact with the state (nexus), the seller is required to abide by Ohio's tax laws. Effective August 1, 2019, Ohio enacted substantial nexus statutes when a seller has at least 200 transactions or $100,000 or more in gross sales into Ohio. With this change in statutes, a seller making sales into Ohio may have a requirement to collect Ohio (seller's) use tax without a physical presence in this state.

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



Personal Income Tax

Through October, YTD PIT receipts of $3.00 billion were $1.8 million (0.1%) below projections. GRF receipts were above estimate in the first quarter, but a negative variance of $20.6 million (2.8%) in October yielded a modest shortfall in FY 2020 collections. This tax source recorded a surplus of $18.8 million in the first fiscal quarter. For the month of October, PIT revenue of $716.3 million was $2.9 million (0.4%) above revenue in October 2018. Comparisons with year-ago receipts are affected by a 3.3% withholding rate reduction earlier this calendar year.[4] Growth in the tax base has generally been strong and compared to PIT receipts from the same four-month period one year ago, FY 2020 revenue grew $72.4 million (2.5%).

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.

Annual tax returns are generally due by April 15 after the close of a calendar year. However, some taxpayers request a six-month filing extension, which requires them to file their completed tax returns on or before the October 15 deadline. According to the Internal Revenue Service (IRS), about 15 million taxpayers nationwide filed an extension for tax year (TY) 2018, which is equal to nearly 10% of all federal tax returns filed in the previous year. Because

[4] 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).

[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.

taxpayers who request an extension generally have more complex finances, they represent about 16% of the total income and 20% of the total tax liability that will be reported for all individual income tax returns filed during the year.[6]

Much like the federal government, Ohio permits taxpayers to extend the due date for filing a PIT return to October 15, provided the taxpayer qualifies for an IRS extension. Ohio does not have an extension request form, but it honors the IRS extension. An extension of time to file does not extend the time for payment of the tax due. Personal income taxpayers must make extension payments by April 15. Interest will accrue on any tax not paid by April 15, and penalties may also apply.

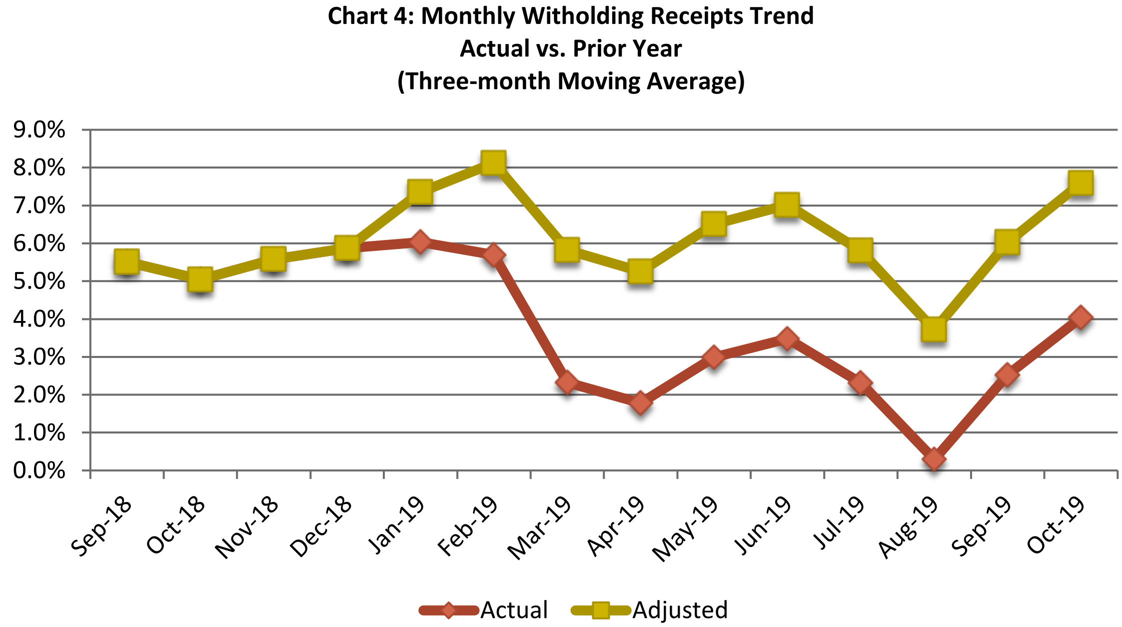
For the YTD, revenues from each component of the PIT relative to estimates and revenue received in FY 2019 are detailed in the table below. It shows withholding, annual return payments, trust payments, and miscellaneous payments were above estimates. Those positive variances were partially offset by a negative variance for quarterly estimated payments, resulting in a surplus of $40.4 million (1.2%) for gross collections. The PIT surplus dissipated because refunds were $41.2 million (15.2%) higher than expected. FY 2020 refunds also increased compared to their amount in the same four-month period last fiscal year. Taxpayers who relied on extensions to file their TY 2018 tax returns are the beneficiaries of most of these refunds, as some of them overestimated their tax liabilities and remitted too much PIT payment by April when requesting an IRS extension.

FY 2020 Personal Income Tax 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	$32.3	1.1%	$100.7	3.5%
Quarterly Estimated Payments	-$4.2	-1.5%	$21.3	8.4%
Trust Payments	$1.2	7.1%	$1.3	7.6%
Annual Return Payments	$8.0	7.6%	$24.2	27.5%
Miscellaneous Payments	$3.0	13.7%	$3.6	16.5%
Gross Collections	$40.4	1.2%	$151.2	4.6%
Less Refunds	$41.2	15.2%	$72.8	30.3%
Less LGF Distribution	$0.9	0.7%	$5.9	4.4%
GRF PIT Revenue	-$1.8	-0.1%	$72.4	2.5%

[6] https://www.irs.gov/statistics/filing-season-statistics.

Through October, FY 2020 employer withholding receipts[7] grew 3.5%. 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.



Commercial Activity Tax

In each of the first three months of the fiscal year, the CAT exceeded OBM's estimate, including a monthly surplus of $18.2 million in August for the first payment for quarterly calendar return taxpayers. However, in October 2019, GRF revenue from the CAT was $69.3 million, or $5.1 million (6.9%) below estimate. Nevertheless, YTD revenue from this source was $28.5 million (6.5%) above the four-month estimate.

Some of the YTD gains were driven by a decline in tax credits claimed against the CAT, as compared to the previous year. However, remarks published last month in OBM's *Monthly Financial Report* highlight growth in the tax base during the first quarter of FY 2020. Specifically, OBM observed that GRF CAT receipts were $52.4 million (15.1%) above collections during the same period in FY 2019. After adjusting for the $23 million (approximately) decline in tax credits claimed against the CAT, first quarter receipts still grew more than 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. Since the CAT's next quarterly due date is November 10, October tax collections give only limited information on growth of the tax base. CAT receipts reported in the next issue of *Budget Footnotes* will offer more conclusive evidence as to whether Ohio's business tax base is continuing to grow at an 8% annualized rate.

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

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of October 2019
($ in thousands)
(Actual based on OAKS reports run November 1, 2019)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$685,779	$670,711	$15,067	2.2%
Higher Education	$197,411	$197,079	$332	0.2%
Other Education	$6,092	$5,923	$169	2.9%
Total Education	**$889,282**	**$873,714**	**$15,568**	**1.8%**
Medicaid	$1,276,142	$1,293,619	-$17,476	-1.4%
Health and Human Services	$215,283	$212,836	$2,447	1.1%
Total Health and Human Services	**$1,491,425**	**$1,506,455**	**-$15,029**	**-1.0%**
Justice and Public Protection	$236,638	$239,439	-$2,802	-1.2%
General Government	$41,712	$37,719	$3,993	10.6%
Total Government Operations	**$278,350**	**$277,158**	**$1,192**	**0.4%**
Property Tax Reimbursements	$250,356	$311,705	-$61,349	-19.7%
Debt Service	$92,352	$92,389	-$37	0.0%
Total Other Expenditures	**$342,708**	**$404,094**	**-$61,385**	**-15.2%**
Total Program Expenditures	**$3,001,766**	**$3,061,420**	**-$59,654**	**-1.9%**
Transfers Out	**$5,066**	**$27,200**	**-$22,134**	**-81.4%**
Total GRF Uses	**$3,006,831**	**$3,088,620**	**-$81,789**	**-2.6%**

*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 October 31, 2019
($ in thousands)
(Actual based on OAKS reports run November 1, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$2,861,890	$2,888,265	-$26,375	-0.9%	$2,852,509	0.3%
Higher Education	$739,145	$752,497	-$13,352	-1.8%	$758,409	-2.5%
Other Education	$37,743	$39,088	-$1,344	-3.4%	$33,872	11.4%
Total Education	**$3,638,778**	**$3,679,850**	**-$41,072**	**-1.1%**	**$3,644,791**	**-0.2%**
Medicaid	$5,434,467	$5,514,408	-$79,941	-1.4%	$5,547,550	-2.0%
Health and Human Services	$512,919	$535,705	-$22,786	-4.3%	$465,336	10.2%
Total Health and Human Services	**$5,947,387**	**$6,050,113**	**-$102,727**	**-1.7%**	**$6,012,886**	**-1.1%**
Justice and Public Protection	$866,957	$889,042	-$22,084	-2.5%	$820,265	5.7%
General Government	$152,721	$161,928	-$9,207	-5.7%	$134,273	13.7%
Total Government Operations	**$1,019,678**	**$1,050,969**	**-$31,291**	**-3.0%**	**$954,537**	**6.8%**
Property Tax Reimbursements	$851,362	$803,825	$47,537	5.9%	$829,019	2.7%
Debt Service	$853,499	$853,782	-$283	0.0%	$887,115	-3.8%
Total Other Expenditures	**$1,704,861**	**$1,657,607**	**$47,254**	**2.9%**	**$1,716,134**	**-0.7%**
Total Program Expenditures	**$12,310,704**	**$12,438,540**	**-$127,836**	**-1.0%**	**$12,328,348**	**-0.1%**
Transfers Out	**$661,667**	**$669,975**	**-$8,308**	**-1.2%**	**$752,327**	**-12.1%**
Total GRF Uses	**$12,972,371**	**$13,108,515**	**-$136,144**	**-1.0%**	**$13,080,675**	**-0.8%**

*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 November 2, 2019)

	Month of October 2019				Year to Date through October 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,210,921	$1,223,881	-$12,960	-1.1%	$5,163,307	$5,240,245	-$76,937	-1.5%
Non-GRF	$648,135	$667,426	-$19,291	-2.9%	$2,988,332	$3,050,802	-$62,469	-2.0%
All Funds	$1,859,056	$1,891,307	-$32,251	-1.7%	$8,151,640	$8,291,047	-$139,407	-1.7%
Developmental Disabilities								
GRF	$57,304	$57,717	-$413	-0.7%	$233,858	$234,333	-$475	-0.2%
Non-GRF	$159,701	$163,674	-$3,972	-2.4%	$814,461	$821,671	-$7,210	-0.9%
All Funds	$217,005	$221,391	-$4,386	-2.0%	$1,048,319	$1,056,004	-$7,685	-0.7%
Job and Family Services								
GRF	$7,096	$11,105	-$4,009	-36.1%	$34,073	$36,232	-$2,159	-6.0%
Non-GRF	$13,227	$5,404	$7,823	144.8%	$58,855	$42,534	$16,321	38.4%
All Funds	$20,323	$16,510	$3,814	23.1%	$92,928	$78,766	$14,162	18.0%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$821	$915	-$94	-10.3%	$3,228	$3,598	-$369	-10.3%
Non-GRF	$2,869	$3,198	-$330	-10.3%	$14,636	$14,077	$559	4.0%
All Funds	$3,690	$4,113	-$423	-10.3%	$17,864	$17,674	$190	1.1%
All Departments:								
GRF	**$1,276,142**	**$1,293,619**	**-$17,476**	**-1.4%**	**$5,434,467**	**$5,514,408**	**-$79,941**	**-1.4%**
Non-GRF	**$823,932**	**$839,702**	**-$15,770**	**-1.9%**	**$3,876,284**	**$3,929,084**	**-$52,800**	**-1.3%**
All Funds	**$2,100,074**	**$2,133,321**	**-$33,247**	**-1.6%**	**$9,310,751**	**$9,443,492**	**-$132,741**	**-1.4%**

*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 November 2, 2019)

	Month of October 2019				Year to Date through October 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,379,333**	**$1,390,314**	**-$10,981**	**-0.8%**	**$5,528,045**	**$5,554,751**	**-$26,706**	**-0.5%**
CFC†	$490,084	$492,493	-$2,409	-0.5%	$1,949,424	$1,974,587	-$25,164	-1.3%
Group VIII	$358,909	$362,415	-$3,507	-1.0%	$1,437,047	$1,449,548	-$12,501	-0.9%
ABD†	$230,601	$236,847	-$6,246	-2.6%	$931,324	$943,649	-$12,325	-1.3%
ABD Kids	$75,268	$76,894	-$1,626	-2.1%	$301,797	$306,005	-$4,209	-1.4%
My Care	$226,395	$221,665	$4,730	2.1%	$910,379	$880,962	$29,417	3.3%
P4P†	-$1,925	$0	-$1,925		-$1,925	$0	-$1,925	
Fee-For-Service	**$551,580**	**$566,710**	**-$15,129**	**-2.7%**	**$3,118,897**	**$3,164,454**	**-$45,557**	**-1.4%**
ODM Services	$341,465	$350,507	-$9,041	-2.6%	$1,401,425	$1,451,098	-$49,673	-3.4%
DDD Services	$211,209	$216,203	-$4,994	-2.3%	$1,019,239	$1,025,356	-$6,117	-0.6%
Hospital - HCAP†	$0	$0	$0		$680,646	$669,444	$11,202	1.7%
Hospital - Other	-$1,094	$0	-$1,094		$17,587	$18,557	-$969	-5.2%
Premium Assistance	**$91,525**	**$92,773**	**-$1,248**	**-1.3%**	**$363,075**	**$368,903**	**-$5,828**	**-1.6%**
Medicare Buy-In	$52,648	$52,987	-$340	-0.6%	$207,790	$211,715	-$3,925	-1.9%
Medicare Part D	$38,877	$39,785	-$908	-2.3%	$155,285	$157,188	-$1,903	-1.2%
Administration	**$77,637**	**$83,524**	**-$5,888**	**-7.0%**	**$300,734**	**$355,384**	**-$54,650**	**-15.4%**
Total	**$2,100,074**	**$2,133,321**	**-$33,247**	**-1.6%**	**$9,310,751**	**$9,443,492**	**-$132,741**	**-1.4%**

*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*

– *Ivy Chen, Principal Economist*

Overview

FY 2020 GRF program expenditures totaled $12.31 billion at the end of October, $127.8 million under estimate. This negative YTD variance grew by $59.7 million in October. As was the case at the end of September, all program categories were below estimate except for Property Tax Reimbursements, although, as expected, the timing-driven positive variance in this category fell in October (by $61.3 million to $47.5 million).[9] GRF Medicaid expenditures continue to have the largest negative YTD variance ($79.9 million). Three other program categories had negative variances greater than $20 million: Primary and Secondary Education ($26.4 million), Health and Human Services ($22.8 million), and Justice and Public Protection ($22.1 million). In addition to program expenditures, transfers out also had a negative YTD variance ($8.3 million), due to a negative variance of $22.1 million in October more than offsetting positive variances from the first quarter of the fiscal year.

Including both program expenditures and transfers out, total YTD GRF uses at the end of October were $12.97 billion, which was $136.1 million below estimate. The remainder of this article will give more details about both GRF and non-GRF variances in Medicaid as well as significant GRF variances in other categories.

Medicaid

GRF Medicaid expenditures were below both their monthly and YTD estimates, by $17.5 million (1.4%) and $79.9 million (1.4%), respectively. Non-GRF Medicaid expenditures were also below both their monthly and YTD estimates, by $15.8 million (1.9%) and $52.8 million (1.3%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures were $33.2 million (1.6%) below estimate in October and $132.7 million (1.4%) below the YTD estimate at the end of October. 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. The other six agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining one percent of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

[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.

[9] Please see the October issue of *Budget Footnotes* for an explanation of the variances in the Property Tax Reimbursements category.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for all four payment categories. Administration ($54.7 million, 15.4%) had the largest overall negative variance, followed by Fee-For-Service (FFS, $45.6 million, 1.4%), Managed Care ($26.7 million, 0.5%), and Premium Assistance ($5.8 million, 1.6%).

The variance in the Administration category is mostly due to timing and is expected to smooth out throughout the fiscal year. The FFS variance is largely due to lower than expected spending in the Ohio Medicaid Schools Program (MSP). MSP allows school entities to be reimbursed for Medicaid covered services, certain administrative activities, and specialized transportation provided to eligible children aged 3 to 21 years. Services are delivered through an individualized education program designed to enable a child to participate in school. Any qualified local education agency may participate in MSP voluntarily.

Primary and Secondary Education

At the end of October, the Primary and Secondary Education category had a negative variance of $26.4 million (0.9%). This variance fell from a negative $41.4 million at the end of September. The two appropriation items that drove the negative variance at the end of September[10] – 200550, Foundation Funding, and 200573, EdChoice Expansion – both had positive variances in the month of October. Item 200550 was over estimate in October by $17.9 million, resulting in a negative YTD variance at the end of October of $2.0 million. Item 200573 was over estimate in October by $10.4 million, resulting in a negative YTD variance at the end of October of $6.2 million.

The remaining YTD negative variance at the end of October is largely from appropriation item 200437, Student Assessment. This appropriation item had a negative variance of $11.7 million in October, which, when combined with smaller variances in August and September, resulted in a negative variance of $12.8 million YTD. Item 200437 is used to support the state's system of achievement and diagnostic assessments for students. Most of this spending is for contracts with outside entities that develop, distribute, and score the assessments. The variance in October is related to the timing of payments on these contracts and should be resolved in future months.

Health and Human Services

For the month of October, this category had a positive variance of $2.4 million, which lowered its YTD negative variance to $22.8 million (4.3%). Whereas the variances in the first quarter of the fiscal year were spread out among the many appropriation items that make up this category, the variances in October were dominated by two appropriation items. Appropriation item 600523, Family and Children Services, in the Department of Job and Family Services, had a positive variance of $23.5 million in October, which was partially offset by a negative variance of $18.1 million in appropriation item 336421, Continuum of Care Services, in the Department of Mental Health and Addiction Services.

The variance in item 600523 was mainly due to greater than estimated requests for reimbursements from local public children services agencies through the state child protection

[10] Please see the October issue of *Budget Footnotes* for more information about these items and their variances at the end of September.

allocation. Item 336421 is used primarily to distribute funds to local boards of alcohol, drug addiction, and mental health. The October variance in this item was primarily due to timing.

Justice and Public Protection

For the month of October, this category had a negative variance of $2.8 million, which increased its YTD negative variance to $22.1 million. The most significant variances in October were a positive variance of $8.2 million for the Department of Rehabilitation and Correction (DRC) and a negative variance of $6.4 million for the Attorney General's Office (AGO). The AGO's negative variance in October is primarily due to a delay in the payment of school safety training grants. The estimates reflect a payment of $6.0 million in October that did not occur as planned. DRC's positive variance in October is primarily due to a positive variance of $8.8 million in appropriation item 501321, Institutional Operations, that partially offsets a negative variance in this appropriation item of $9.9 million in September. For the YTD, however, DRC's positive variance of $7.5 million comes primarily from a positive YTD variance of $6.8 million in appropriation item 505321, Institution Medical Services. Item 501321 is DRC's primary GRF appropriation item used to pay for the operation of the state's prisons. Item 505321 is used by DRC to pay for the provision of medical services to offenders housed in the state's prison system.

Transfers out

For the first quarter of the fiscal year, transfers out were above estimate by $13.8 million. This positive variance was reversed in October by a negative monthly variance of $22.1 million, resulting in a negative YTD variance at the end of October of $8.3 million. The negative October variance was primarily due to a $20.0 million transfer to the Tourism Ohio Fund that took place in August, instead of October as reflected in the estimates. In addition, the estimates reflect an October transfer of $7.2 million to the Departmental Services – Interstate Fund, but this transfer did not take place as planned. H.B. 166 authorizes this temporary transfer to pay costs for the reconstruction of the Hocking Hills Dining Lodge prior to receipt of insurance proceeds. Partially offsetting these two negative variances was a transfer of $5.0 million to the State Park Fund that occurred in October, but was originally planned for August.

The negative YTD variance in transfers out at the end of October consists of a remaining $4.5 million negative variance in transfers out to the Information Technology Development Fund (estimated $9.0 million transfer in August, actual $4.5 million transfer in September), and the $7.2 million negative variance from the planned transfer to the Departmental Services – Interstate Fund as mentioned above, partially offset by an unplanned transfer of $3.7 million to the Ohio College Opportunity Grant Program Reserve Fund in September as reported in OBM's *Monthly Financial Report*.

Issue Updates

Ohio Federal Medical Assistance Percentage to Increase in FFY 2021

– Ivy Chen, Principal Economist

On September 25, 2019, Federal Funds Information for the States (FFIS) released estimates showing that the federal reimbursement rate, known as the Federal Medical Assistance Percentage (FMAP) will increase for Ohio in federal fiscal year (FFY) 2021.[11] The FMAP for Ohio is estimated to increase by 0.61 percentage point, from 63.02% in FFY 2020 to 63.63% in FFY 2021. This increase in the FMAP will decrease Ohio's share of many Medicaid expenditures. For example, state fiscal year (FY) 2019 Ohio Medicaid expenditures that are subject to FMAP are estimated to be close to $19 billion. At that level of expenditure, an increase in the FMAP of 0.61 percentage point would lower Ohio's share of Medicaid costs by approximately $116 million ($19 billion x 0.61%).

The FMAP for each state is based on a formula that provides higher reimbursement to states with lower per capita incomes relative to the national average. The revised 2018 personal income data released by the U.S. Bureau of Economic Analysis (BEA) on September 24, 2019, allow calculation of FFY 2021 FMAPs, which are based on per capita personal incomes for calendar years 2016 through 2018. Although Ohio's per capita personal income rose 4.5% to $48,739 in 2018, after increasing 3.6% in 2017, the national average growth rates were higher at 4.0% in 2017 and 4.9% in 2018. The national average per capita personal income was $54,446 in 2018. Ohio's per capita personal income ranks 32nd among the 50 states and the District of Columbia. In addition to Ohio, FFIS estimates that FMAPs will increase in 24 other states and decline in 13 states.

In spite of this increase, the enhanced FMAP (eFMAP) for Ohio is estimated to decrease by 11.07 percentage points, from 85.61% in FFY 2020 to 74.54% in FFY 2021. The eFMAP generally is calculated by reducing each state's share based on the FMAP by 30%, so when a state's FMAP increases, its eFMAP also increases. However, the Affordable Care Act (ACA) increased state's eFMAP above the typical calculation by 23 percentage points through FFY 2019.[12] Subsequent legislation provided a transition year in FFY 2020 with an 11.5 percentage point increase above the typical calculation. With the phase-out of the ACA increase, all states experienced reductions in FFY 2020 that will continue in FFY 2021. FY 2019 expenditures for Ohio's Children's Health Insurance Program (SCHIP), which is subject to

[11] The FFY 2021 FMAP will apply to the last three quarters of FY 2021 and the first quarter of FY 2022. This change in the FMAP does not affect the federal reimbursement rate for individuals newly eligible for Medicaid under the Affordable Care Act (ACA) expansion. This rate is uniform for all states that adopt the expansion and is 93% in calendar year (CY) 2019 and will be 90% in CY 2020 and each year thereafter.

[12] For example, Ohio's FMAP is 63.09% for FFY 2019, meaning Ohio's share based on the FMAP is 36.91% (100% - 63.09%). Reducing that state share by 30% results in 11.07% (30% x 36.91%). Adding that to Ohio's FMAP results in 74.16% (63.09% + 11.07%). Under the ACA, however, the actual eFMAP in FFY 2019 is 97.16% (74.16% + 23%).

eFMAP, were estimated to be approximately $570 million. At that level of expenditure, a decrease in the eFMAP of 11.07 percentage points would increase Ohio's share of SCHIP costs by approximately $63 million ($570 million x 11.07%).

OFCC Completed Facility Plans for Two School Districts in FY 2019

– Jason Glover, Budget Analyst

During FY 2019, the Ohio Facilities Construction Commission (OFCC) completed projects that fully addressed the facilities needs of two school districts. As shown in the following table, the total master facility plan costs of these projects, as assessed by OFCC, was $138.1 million. Of that total, the state share was $76.5 million (55%) and the local share was $61.5 million (45%).

FY 2019 Completed School Facility Plans				
District	**County**	**Total Plan Costs**	**State Share**	**State Share %**
Eaton Community City School District	Preble	$56,381,310	$24,243,963	43%
Middletown City School District	Butler	$81,696,309	$52,285,638	64%
	Total	**$138,077,619**	**$76,529,601**	**55%**

Overall, OFCC disbursed $200.0 million for school facilities assistance projects in FY 2019, almost 89% ($177.2 million) of which was spent on Classroom Facilities Assistance Program (CFAP) projects. The remainder, $22.8 million, primarily supported OFCC's Exceptional Needs Program ($15.6 million), which addresses the facilities needs of a specific building rather than the entire facilities needs of a district; as well as facilities assistance for independent science, technology, engineering, and mathematics (STEM) schools ($3.1 million); high performing community schools ($2.0 million); and the Vocational Facilities Assistance Program (VFAP) for joint vocational school districts (JVSDs) ($2.0 million). The current capital appropriations act, H.B. 529 of the 132nd General Assembly, appropriates a total of $700 for classroom facilities assistance projects for the FY 2019-FY 2020 capital biennium, primarily supported through the sale of bonds.

Through the end of FY 2019, 43% of districts statewide, including 268 school districts and 15 JVSDs, have completed projects that fully addressed their facilities' needs through CFAP and VFAP and another 17% of districts, including 113 school districts and one JVSD, have buildings in the design or construction phase or had some work performed through another OFCC program. An additional 18% of districts, including 110 school districts and 11 JVSDs, have been offered funding but have deferred the offer, allowed it to lapse because they were unable to raise the required local share, or are in the process of seeking the required local share. The remaining 21% of districts, including 119 school districts and 22 JVSDs, have not yet been offered CFAP funding.

ODE Receives $42 Million Federal Literacy Grant

– Dan Redmond, Budget Analyst

On October 15, 2019, the Ohio Department of Education (ODE) was competitively awarded a five-year, $42 million federal grant to improve language and literacy skills for children from birth through grade 12. Ohio's Comprehensive Literacy State Development Grant will primarily support the establishment of up to 64 model literacy sites through subgrants to selected "high-need" school- or early childhood program-based locations throughout the state. According to ODE, the sites will serve as both incubators of sustainable practices and demonstration sites for districts and schools exploring and beginning to implement new practices. Model sites will implement practices aligned with "Ohio's Plan to Raise Literacy Achievement," a framework for schools to implement evidence-based strategies to improve proficiency in reading, writing, and oral language skills. Specifically, funded activities include:

- Development of shared leadership teams that include teachers and building and district administrators;
- Systems of supports that involve screening, intervention, progress monitoring, instructional decision-making, and communication with families;
- Professional development in evidence-based language and literacy practices and interventions;
- Family partnerships that provide caregivers with high-quality books for early learners and strategies to improve involvement in literacy development; and
- Collaboration with community partners to share practices in implementing literacy plans.

These activities will be focused on assisting students from low-income families, English learners, and students with disabilities. Results from the model sites will be leveraged by schools in the model site's regional network to improve professional learning and coaching and by ODE to develop statewide resources.

In accordance with federal grant requirements, ODE will award the subgrants through a competitive process. Further, certain portions of the funds must be allocated to programs supporting children in specified grade bands: at least 15% for children from birth through kindergarten entry, at least 40% for grades K-5, and at least 40% for grades 6-12. A request for applications will be released by January 2020. ODE may use up to 5% of the grant award for state leadership activities, technical assistance and training, data collection, reporting, and administration.

Ohio to Provide $31 Million in FY 2020 to Aid Families of Multi-System Youth

– Ryan Sherrock, Economist

On October 8, 2019, the Governor announced that the departments of Medicaid and Job and Family Services will provide $31 million in FY 2020 to aid families of multi-system youth. This funding was appropriated in H.B. 166 and will be used as follows:

- $20 million will be given to county public children's services agencies to assist with costs for multi-system youth who have been relinquished or are at risk for relinquishment;
- $8 million will be used for direct aid to help parents avoid being forced to relinquish custody of their children in order to get the child treatment and services; and
- $3 million will be used by the Ohio Family and Children First councils to work with stakeholders to develop and implement an action plan. The Multi-System Youth Action Plan Committee will evaluate the existing Family and Children First infrastructure, current practices across the state, and service needs. Funds will be provided for sustainability efforts and technical assistance.

The state plans to provide another $37 million in FY 2021 to prevent custody relinquishment, fund services for children with complex needs, and start to modernize the 88 county Family and Children First councils.

Ohio Local Governments Awarded $44.8 Million in Federal Housing Safety Funding

– Shannon Pleiman, Senior Budget Analyst

On September 30, 2019, the U.S. Department of Housing and Urban Development (HUD) awarded $44.8 million to nine local governments in the state under two housing safety initiatives. Under the first initiative, the Lead-Based Paint Hazard Reduction Program, HUD awarded $40.6 million for nine local governments to identify and control lead-based paint hazards in 2,163 housing units occupied by low-income families with children. Under the second initiative, Healthy Homes Supplemental funding, HUD awarded the remaining $4.3 million for eight of these local governments to perform healthy home assessments on 1,391 housing units to identify and address housing safety hazards, in addition to lead-based paint hazards, that affect occupant health. The table below displays how much was awarded to each grantee under both initiatives, which are both annual HUD programs.

Lead-Based Paint Hazard and Reduction Program and Healthy Homes Supplemental Funding Awards in Ohio			
Grantee	**Lead-Based Paint Hazard Control Program**	**Healthy Homes Supplemental**	**Total Amount**
City of Cleveland	$9,100,000	$600,000	$9,700,000
City of Columbus	$5,000,000	$600,000	$5,600,000
Cuyahoga County	$5,000,000	$600,000	$5,600,000
Summit County	$5,000,000	$600,000	$5,600,000
City of Akron	$4,000,000	$600,000	$4,600,000
Mahoning County	$4,000,000	$600,000	$4,600,000
Erie County	$3,478,430	$350,000	$3,828,430
City of Canton	$3,000,000	$300,000	$3,300,000
City of Lima	$2,000,000	$0	$2,000,000
Total	**$40,578,430**	**$4,250,000**	**$44,828,430**

TechCred Program Application Details Announced

– Tom Middleton, Senior Budget Analyst

On September 25, 2019, the state announced the rollout of the TechCred Program, a new workforce development program. The program is administered by the Development Services Agency (DSA) but was formed in conjunction with the Governor's Office of Workforce Transformation and other state agencies to ensure the program falls in line with the state's greater workforce mission. Under the program, the state will reimburse employers up to $2,000 per employee for a technology-focused credential or qualification that leads to a more advanced position within the company. Other program requirements, including a list of eligible training programs, may be found at techcred.ohio.gov.

The application period opened on October 1, 2019, and closed on October 31, 2019. Awards are to be approved on a competitive basis and are expected to be made in late November. DSA stated that the agency will assess applications received in October and determine whether there will be additional funding rounds of TechCred awards in FY 2020.

According to DSA, $12.3 million in funding will be available for TechCred awards in each of FY 2020 and FY 2021. Of total annual program funding, $4.1 million per fiscal year will be allocated to assist workers employed in each of three business sizes: (1) small businesses, with 50 or fewer employees, (2) medium-sized businesses, with between 51 and 200 employees, and (3) large businesses, with more than 200 employees. The funding source of the TechCred Program is a combination of GRF dollars and casino license fee revenue held in the Ohio Incumbent Workforce Job Training Fund (Fund 5HR0).

Controlling Board Approves Continuation of Evaluation Services Contract for Behavioral Health Juvenile Justice Initiative

– Maggie West, Senior Budget Analyst

On October 7, 2019, the Controlling Board approved the continuation of a contract between the Department of Youth Services (DYS) and Cleveland-based Case Western Reserve University's Begun Center for Violence Prevention Research and Education to provide evaluation services for the Behavioral Health Juvenile Justice (BHJJ) initiative. Case Western Reserve has provided evaluation services for BHJJ since it began in 2005. These services include compiling information related to treatment effects, behavioral and mental health outcomes, and criminogenic risks and needs, and determining the effects of certain evidence-based practices. The approved contracted amount for evaluation services is $141,128 in each of FY 2020 and FY 2021.

BHJJ is a shared statewide initiative between DYS and the Department of Mental Health and Addiction Services (OhioMHAS) that provides funding to juvenile courts in 12 counties (Ashtabula, Cuyahoga, Franklin, Hamilton, Holmes, Lorain, Lucas, Mahoning, Montgomery, Summit, Trumbull, and Wayne) for the purpose of diverting serious juvenile offenders with mental health or substance abuse issues from the juvenile justice system into community-based treatment. DYS has allocated $12.1 million from GRF line item 470401, RECLAIM Ohio, in each of FY 2020 and FY 2021 to fund three community programs or services: BHJJ, Competitive RECLAIM, and Targeted RECLAIM.[13] To date, BHJJ has served more than 4,000 youth; it is expected to serve around 500 youth annually through the FY 2020-FY 2021 biennium.

Ohio EPA Disburses $2.1 Million to Local Air Agencies in the First Quarter of FY 2020

– Jessica Murphy, Budget Analyst

In the first quarter of FY 2020 (July through September), the Ohio Environmental Protection Agency (Ohio EPA) disbursed $2.1 million to eight local air pollution control agencies (LAAs) with geographical jurisdiction in 24 of Ohio's 88 counties. The LAAs are under contract to perform primarily the same air pollution control functions as the Ohio EPA's Division of Air Pollution Control, including air monitoring, permitting, and compliance oversight. The contract amount is based upon the workload of each LAA, including such factors as the population size of the jurisdiction served, the number of air permits issued for both new and existing sources, land area, and the number of air contaminant sources. The contract work is in addition to other activities and services that the LAA may be performing for the U.S. EPA or their parent organization. The Ohio EPA's four district offices have geographical jurisdiction over the 64 Ohio counties not covered by an LAA contract.

[13] This $12.1 million is a flexible pot of money that can be allocated for a range of services and activities, including supplementing the county subsidy portion of RECLAIM and financing behavioral health programs, wrap-around services for youth released from juvenile correctional facilities, and other residential and nonresidential services. These programs or services are aimed at reducing the number of juveniles that might otherwise be committed into the state's care and custody.

The table below summarizes the contract amounts that have been disbursed to the eight LAAs from FY 2018 through the first quarter of FY 2020. The LAAs with the largest contract amounts are located in Cleveland and Cincinnati, respectively. The LAA with the smallest contract amount is located in Mentor (Lake County). Unlike the seven other LAAs that are considered full-service contractors, the Mentor-based LAA does not perform permitting and related inspections. The source of the funds used by the Ohio EPA for these contracts include air pollution permitting and emissions fees (45%), solid waste disposal fees (35%), and federal air pollution control grants (20%).

Ohio EPA Disbursements to Local Air Pollution Control Agencies

Location	Agency	Counties Served	FY 2020*	FY 2019	FY 2018
Akron	Akron Regional Air Quality Management District	Medina, Portage, Summit	$349,262	$1,310,944	$1,397,787
Dayton	Regional Air Pollution Control Agency	Clark, Darke, Greene, Miami, Montgomery, Preble	$271,255	$1,331,107	$1,360,538
Canton	Canton Board of City Health	Stark	$179,586	$819,591	$806,912
Cincinnati	Southwest Ohio Air Quality Agency	Butler, Clermont, Clinton, Hamilton, Warren	$401,961	$1,995,776	$1,956,061
Cleveland	Cleveland Division of Air Quality	Cuyahoga	$530,079	$2,312,874	$2,431,324
Mentor	Lake County General Health District	Geauga, Lake	$60,625	$207,752	$228,144
Portsmouth	Portsmouth City Health Local Air Division	Adams, Brown, Highland, Lawrence, Scioto	$106,681	$506,848	$507,433
Toledo	City of Toledo Division of Environmental Services	Lucas	$202,202	$1,008,632	$1,037,688
		Total	**$2,101,651**	**$9,493,524**	**$9,725,887**

*Total amount disbursed through the first quarter of FY 2020.

Secretary of State Continues Election Cybersecurity Project in Collaboration with County Boards of Elections

– Terry Steele, Senior Budget Analyst

On September 9, 2019, the Controlling Board approved a $1.7 million contract for the Secretary of State (SOS) to enhance cybersecurity through the Netflow/Intrusion Detection System Monitoring and Analysis Service known as ALBERT. This contract is a continuing part of a two-pronged attempt to enhance security before the 2020 election cycle. The first prong was a directive issued by SOS in June that instructed counties of the necessary actions needed for elections security in 2020.[14] The contract awards $918,800 in FY 2020 and $791,920 in FY 2021 to the Center for Internet Security, Inc. for the installation of ALBERT intrusion detection devices and monitoring devices for the network of each county board of elections and election system vendor. The system consists of single-unit physical servers outfitted with software that detects malicious network activity. This contract will be paid through federal grants received through the Help America Vote Act (HAVA) and held by the state in the HAVA Fund (Fund 3AS0).

Besides this SOS contract, the second prong of the directive required county boards of elections to continue previously mandated efforts of recordkeeping and data sharing using federal Department of Homeland Security (DHS) resources. The directive contains new requirements to utilize DHS services under four categories of cybersecurity: (1) risk and vulnerability assessments, (2) remote penetration testing, (3) validated architectural design review, and (4) cyber threat hunts. To assist counties in completing this directive, SOS awarded grants to county boards of elections of up to $50,000 for each category of DHS service that had yet to be completed. Thus far in FY 2020, SOS has issued grants to 32 counties totaling nearly $3.2 million for these purposes. These grants were paid using HAVA funding coming through a U.S. Election Assistant Commission grant of approximately $12.2 million in FY 2019 and deposited into Fund 3AS0.

[14] https://www.sos.state.oh.us/globalassets/elections/directives/2019/dir2019-08.pdf.

Tracking the Economy

– Eric Makela, Economist

Overview

The U.S. economy added 128,000 nonfarm payroll jobs in October, and the nation's unemployment rate increased by 0.1 percentage point to 3.6%. U.S. production, as measured by inflation-adjusted gross domestic product (real GDP), increased at a seasonally adjusted 1.9% annual rate in the third quarter of 2019, according to the initial estimate by the Bureau of Economic Analysis (BEA). Third quarter economic growth was down slightly from the pace in the year's first half. Manufacturing output remained slower than in last year's second half.

During their October 29-30 meeting, the Federal Reserve Board's Open Market Committee (FOMC) again lowered the federal funds rate by one-quarter of a percentage point, with the target range on the short-term reserve lending rate now set between 1.5% and 1.75%. In a statement, the FOMC cited below-target[15] inflation, weak business fixed investment and exports, and "the implications of global developments for the economic outlook" in their explanation for again reducing their principal target interest rate.

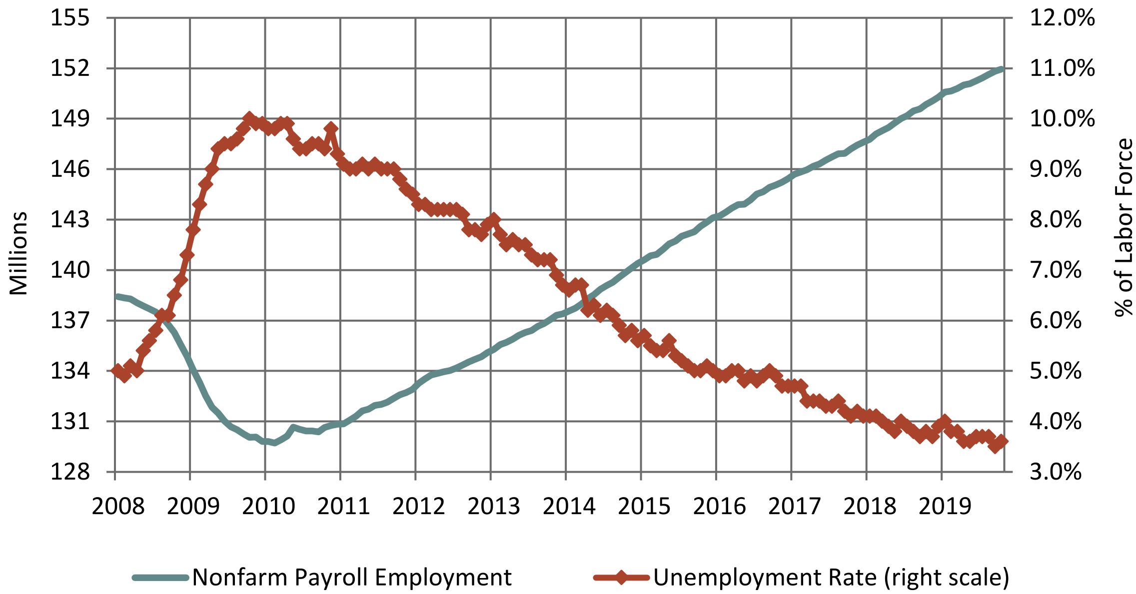
Nonfarm payroll employment in Ohio decreased by 1,500 in September and the unemployment rate increased to 4.2%. Personal consumption expenditures (PCE) in Ohio increased by 4.1% in 2018. Ohio's real GDP rose at a seasonally adjusted rate of 1.3% in the second quarter of 2019. According to the Federal Reserve Board's Beige Book, business activity in Ohio remained steady.

The National Economy

Total nonfarm payroll employment rose by 128,000 in October. Nationally, job losses of around 26,000 in goods-producing industries, mostly due to the now-settled General Motors strike, were more than offset by job gains of 157,000 in private service-providing industries. Trade, transportation, and utilities (+26,000), financial services (+16,000), professional and business services (+22,000), and education and health services (+39,000) all gained workers during October. The leisure and hospitality industry added 61,000 jobs during the month, over 75% of which were in food services and drinking establishments. The federal government shed 17,000 jobs in October, primarily part-time Census Bureau roles.

[15] The FOMC's inflation target is 2%.

Chart 5: U.S. Employment and Unemployment



The U.S. unemployment rate increased marginally to a seasonally adjusted 3.6% in October, up from 3.5% in September. The number of people in the labor force rose by more than the working-age population, and the seasonally adjusted labor force participation rate increased by 0.1 percentage point to 63.3%. The number of discouraged workers was 341,000 in October 2019, down by one-third from October 2018.[16] However, the number of job openings nationwide has fallen since last year. Chart 5 details the national employment totals and unemployment rates from 2008 to the most recent data.

According to the BEA, U.S. real GDP grew at an annualized rate of 1.9% in the third quarter of 2019, following 2.0% growth in the second quarter. Seasonally adjusted growth of consumer spending slowed to a 2.9% rate. Consumer outlays continue to be supported by employment growth and by pay gains generally outpacing inflation. Nonresidential fixed investment declined at a 3.0% rate, while residential fixed investment increased at a 5.1% rate after six quarters of contraction. Exports increased at a 0.7% rate during the quarter after declining at a 5.7% rate in the previous quarter.

The industrial production index (IPI) decreased by a seasonally adjusted 0.4% in September, following an increase of 0.8% in August. Among major industry groups, manufacturing (-0.5%) and mining (-1.3%) activity both declined, while utilities production increased (+1.4%). The largest percent decrease in production among market groups was in automotive products, a result of the strike at General Motors. The Institute for Supply Management's (ISM) manufacturing purchasing managers index registered a slowing of manufacturing production in October. Both the IPI and ISM indexes indicate contracting industrial output nationally, from historically high points during the past year.

[16] Discouraged workers are persons not currently looking for work because they believe no jobs are available to them.

The number of building permits for construction of privately owned housing units decreased by a seasonally adjusted 2.7% in September, compared to a month prior.[17] However, the rate of housing units authorized was 7.7% greater than in September 2018. YTD, the total number of privately owned housing units started has decreased modestly from a year earlier.

The consumer price index (CPI), a seasonally adjusted measure of inflation in the U.S. economy, was unchanged in September. A decrease in the price of energy commodities was offset by increases in the cost of services,[18] causing the aggregate CPI to remain constant. The CPI for all items excluding food and energy was 2.4% greater in September 2019 than in September 2018. Year over year, the price indexes for medical care services (+4.4%), shelter (+3.5%), and food away from home (+3.2%) have risen significantly faster than the CPI aggregate index. An alternative measure frequently cited by the FOMC, the price index for personal consumption expenditures, was 1.3% higher in September than a year earlier, and 1.7% higher excluding food and energy.

During the October 29-30 meeting of the FOMC, the committee decided to lower the short-term interest rate range by one-quarter of a percentage point. A growing body of academic research concerns the U.S. treasury yield curve, the spread between short-term and long-term interest rates, as a leading indicator of recessionary pressures.[19] Prior to each of the last six recessions, short-term interest rates rose above long-term interest rates, signaling investor speculation of a future economic downturn.[20] The yield curve is considered a leading indicator because its movements typically precede a recession, as opposed to coinciding with a recession.

Chart 6 displays the yield curve from 1990 to the current time. The line measures the monthly yield curve, while the shaded areas indicate a recession as measured by the National Bureau of Economic Research (NBER). October marks the fifth consecutive month in which the monthly short-term treasury yield was higher than the monthly long-term treasury yield. Ahead of the 2007-2009 recession, the yield spread was negative for ten months from 2006 to 2007 before reverting to positive territory for six months prior to the business cycle peak at the start of the recession in December 2007.[21] Both monetary policy and changes in investor expectations affect the yield curve; significant lags often exist between treasury markets and nationwide economic growth, and the Federal Reserve Board is careful to indicate that past correlations between the yield curve and economic performance are not necessarily indicative of future outcomes.

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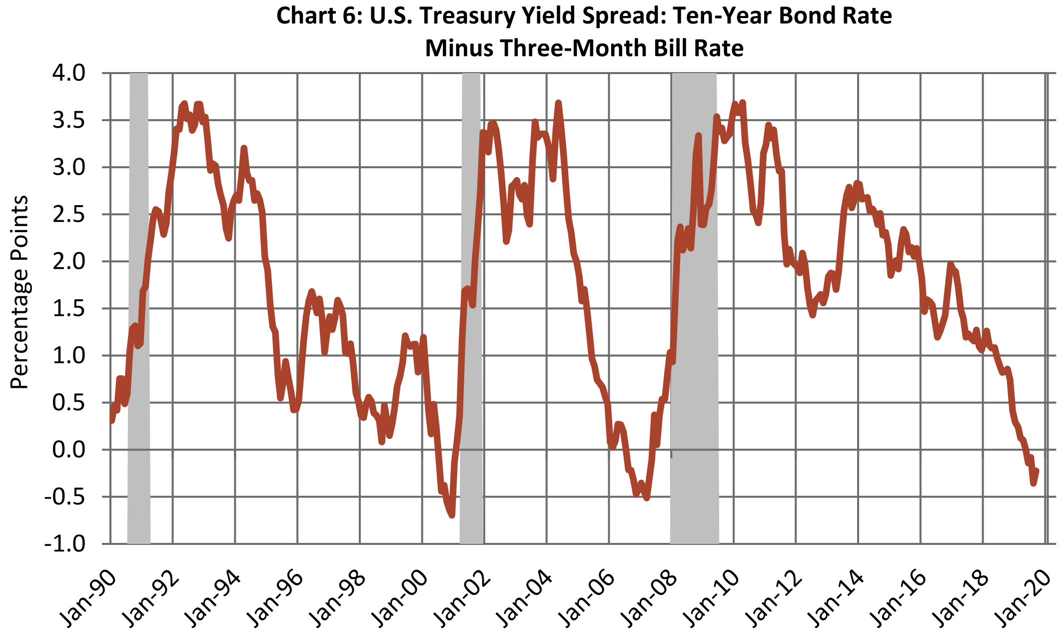
[17] Source: U.S. Department of Housing and Urban Development.

[18] Services excluding energy services.

[19] The yield curve indicator, as discussed in this article, is the difference between the annual yield on ten-year treasuries and three-month treasuries (Bond Equivalent Basis) as measured by the New York Federal Reserve Bank.

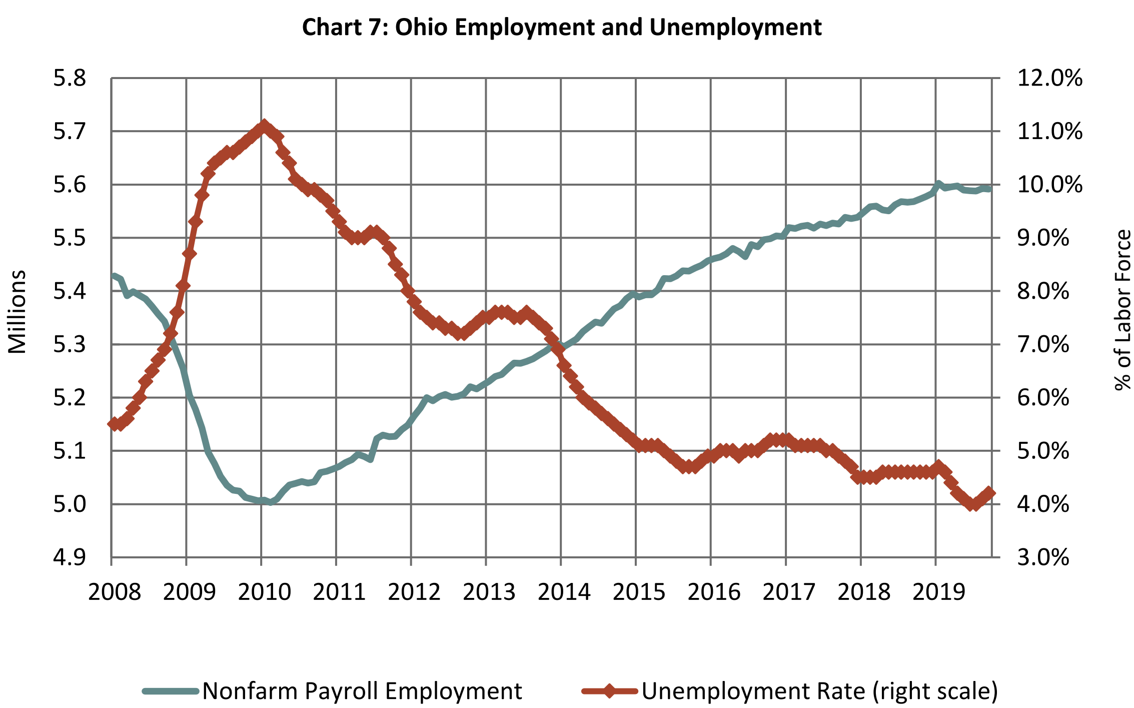
[20] https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci12-5.pdf.

[21] As judged by the NBER.



The Ohio Economy

Employers in Ohio cut 1,500 nonagricultural wage and salary jobs, and total employment in the state was 5,591,200 in September. The unemployment rate among Ohioans was 4.2% in September, a 0.1 percentage point increase over the prior month. Employment in private service-providing jobs increased (+4,400) during September, while employment decreased in private goods-producing jobs (-3,000) and government jobs (-2,900). Chart 7 shows Ohio employment and unemployment.



During September, a decrease in employment in construction (-1,700) and manufacturing (-1,400) industries accounted for the decrease in workers in goods-producing jobs. Over the month, employers added workers in the industries of leisure and hospitality (+2,400); trade, transportation, and utilities (+1,900); other services (+1,000); and financial services (+800). The number of Ohioans employed in educational and health services (-1,000) and professional and business services (-600) decreased during the month. Jobs were shed at all levels of government in September.

Between September 2018 and September 2019, nonfarm wage and salary employment was up by 23,100 (0.4%) in Ohio. Manufacturing employment increased by 1,800 year over year, while construction employment was down by 7,600 jobs between September and a year prior. Employment gains in the leisure and hospitality industry (+14,100) accounted for over half of the total net job gains over the past year, while nonfarm employment in educational and health services (+12,300) and professional and business services (+3,900) also increased significantly. Employment by local governments in Ohio decreased by 2,500 during the same time period.

Ohio's economy grew by a seasonally adjusted 1.3% in the second quarter of 2019, following growth of 2.3% in the first quarter. Though Ohio's growth was slower than the national average over the first half of the year, this state had the fastest growth in real GDP among all states in the Great Lakes Census region during that period.[22] Industries that were significantly above the regional average in their contribution to real GDP growth in Ohio include mining, quarrying, and oil and gas extraction; finance and insurance; and management of companies and enterprises.

PCE by Ohioans increased by 4.1% between 2017 and 2018.[23] In 2018, Ohioans spent an average of $40,852 per capita on consumption of goods and services, including $6,351 per capita on housing and utilities and $7,685 per capita on health care. Consumption growth in the Great Lakes region was lowest in Ohio and Indiana (4.1%), and stronger in Michigan (4.4%), Illinois (4.5%), and Wisconsin (4.9%). As compared to other census-defined regions, PCE growth in the Great Lakes, at 4.4%, was quicker than in New England (4.2%) and on par with the Plains, but slower than in all other regions.

Existing home sales in Ohio, as measured by units, were up 5.4% in September, compared with a year prior.[24] The average sale price of a residence was $198,351 in September 2019, up 7.9% from $183,864 in September 2018. YTD in 2019, the total dollar volume of existing home sales was around $22.8 billion, an increase of 6.7% over the dollar volume in January through September 2018. Total unit sales YTD are essentially unchanged from last year, up just 0.1%.

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

[23] PCE measures expenditure on goods and services purchased by households, as well as spending by nonprofit institutions serving households.

[24] According to Ohio Realtors.

Business activity was stable on balance in the Cleveland Federal Reserve District in the most recent survey period, according to a recent Federal Reserve System publication, the Beige Book.[25] The economic environment continued to boost demand for business services. Home mortgage originations and auto sales increased, spurred by lower interest rates. Employment was generally stable in the district, and wages grew modestly. Some manufacturers reported that demand continued to soften. In real estate, some nonresidential construction contractors noted strong demand for office and healthcare buildings, and the expectation was that demand would remain strong. Activity in professional and business services strengthened in response to an increase in demand for a variety of products, services, and consulting work.

[25] The Federal Reserve Bank of Cleveland's district consists of all Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Comments summarized above are from the latest edition of the Beige Book, a publication that summarizes comments from business and industry contacts outside of the Federal Reserve System collected on or before October 7, 2019.