LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– Ross Miller, Chief Economist

Favorable results for sales tax revenue continued in January with GRF receipts from the tax $42 million above the estimate published by the Office of Budget and Management (OBM) in September 2020. Personal income tax (PIT) receipts did even better, coming in $72 million above estimate. Shortfalls in several other taxes limited GRF taxes as a whole to $81 million above estimate. GRF uses were $499 million below estimate in January, continuing the favorable FY 2021 experience on the spending side of the budget.

Ohio's unemployment rate declined to 5.5% in December, below the national rate of 6.7% that month. Nonfarm payroll employment decreased 11,500 (0.2%) for the month, with the leisure and hospitality sector hard hit again, accounting for 9,200 of the decline for the month.

Through January 2021, GRF sources totaled $22.92 billion:

- Revenue from the sales and use tax was $398.3 million above estimate;
- PIT receipts were $146.8 million above estimate.

Through January 2021, GRF uses totaled $21.62 billion:

- Program expenditures were $1.21 billion below estimate, primarily due to GRF Medicaid spending, which was $999 million below estimate;
- Expenditures under all other program categories were below estimates except for Primary and Secondary Education, for which spending was above estimate by $19.2 million.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2021
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2021)

State Sources	**Actual**	**Estimate***	**Variance**	**Percent**
Tax Revenue				
Auto Sales	$130,058	$119,800	$10,258	8.6%
Nonauto Sales and Use	$922,126	$890,600	$31,526	3.5%
Total Sales and Use	*$1,052,184*	*$1,010,400*	*$41,784*	*4.1%*
Personal Income	$1,059,028	$987,500	$71,528	7.2%
Commercial Activity Tax	$60,145	$73,400	-$13,255	-18.1%
Cigarette	$72,067	$70,300	$1,767	2.5%
Kilowatt-Hour Excise	$26,607	$27,900	-$1,293	-4.6%
Foreign Insurance	$278	-$2,800	$3,078	109.9%
Domestic Insurance	$16	$100	-$84	-84.1%
Financial Institution	$40,094	$58,400	-$18,306	-31.3%
Public Utility	$240	$700	-$460	-65.7%
Natural Gas Consumption	$170	$2,600	-$2,430	-93.5%
Alcoholic Beverage	$4,406	$4,900	-$494	-10.1%
Liquor Gallonage	$5,631	$5,100	$531	10.4%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	-$1,024	$0	-$1,024	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,319,843**	**$2,238,500**	**$81,343**	**3.6%**
Nontax Revenue				
Earnings on Investments	$14,984	$5,000	$9,984	199.7%
Licenses and Fees	$2,462	$3,777	-$1,315	-34.8%
Other Revenue	$11,093	$2,647	$8,447	319.2%
Total Nontax Revenue	**$28,539**	**$11,423**	**$17,116**	**149.8%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$2,348,382**	**$2,249,923**	**$98,459**	**4.4%**
Federal Grants	**$1,086,155**	**$1,107,438**	**-$21,283**	**-1.9%**
Total GRF Sources	**$3,434,537**	**$3,357,361**	**$77,176**	**2.3%**

*Estimates of the Office of Budget and Management as of September 2020 (H.B. 166 estimate, adjusted for the shift of income tax filings from April (FY 2020) to July (FY 2021)).
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2021 as of January 31, 2021
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2021)

State Sources	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Tax Revenue						
Auto Sales	$1,016,997	$901,300	$115,697	12.8%	$926,354	9.8%
Nonauto Sales and Use	$6,018,089	$5,735,500	$282,589	4.9%	$5,707,281	5.4%
Total Sales and Use	*$7,035,086*	*$6,636,800*	*$398,286*	*6.0%*	*$6,633,635*	*6.1%*
Personal Income	$6,129,730	$5,982,900	$146,830	2.5%	$5,411,725	13.3%
Commercial Activity Tax	$835,420	$863,700	-$28,280	-3.3%	$891,845	-6.3%
Cigarette	$502,185	$461,900	$40,285	8.7%	$476,830	5.3%
Kilowatt-Hour Excise	$179,137	$194,400	-$15,263	-7.9%	$193,340	-7.3%
Foreign Insurance	$176,775	$157,900	$18,875	12.0%	$172,046	2.7%
Domestic Insurance	$840	$2,100	-$1,260	-60.0%	$3,971	-78.9%
Financial Institution	$20,147	$27,900	-$7,753	-27.8%	$35,618	-43.4%
Public Utility	$51,019	$68,400	-$17,381	-25.4%	$65,832	-22.5%
Natural Gas Consumption	$19,387	$25,300	-$5,913	-23.4%	$20,453	-5.2%
Alcoholic Beverage	$35,726	$32,600	$3,126	9.6%	$31,490	13.5%
Liquor Gallonage	$34,402	$30,400	$4,002	13.2%	$31,316	9.9%
Petroleum Activity Tax	$2,062	$4,400	-$2,338	-53.1%	$4,041	-49.0%
Corporate Franchise	$5,802	$0	$5,802	---	$85	6763.2%
Business and Property	$59	$0	$59	---	$0	---
Estate	$12	$0	$12	---	$38	-67.1%
Total Tax Revenue	**$15,027,791**	**$14,488,700**	**$539,091**	**3.7%**	**$13,972,264**	**7.6%**
Nontax Revenue						
Earnings on Investments	$32,561	$18,750	$13,811	73.7%	$76,957	-57.7%
Licenses and Fees	$18,000	$13,223	$4,777	36.1%	$15,498	16.1%
Other Revenue	$94,045	$81,748	$12,297	15.0%	$79,879	17.7%
Total Nontax Revenue	**$144,607**	**$113,721**	**$30,886**	**27.2%**	**$172,334**	**-16.1%**
Transfers In	**$85,026**	**$77,932**	**$7,094**	**9.1%**	**$75,598**	**12.5%**
Total State Sources	**$15,257,424**	**$14,680,353**	**$577,071**	**3.9%**	**$14,220,196**	**7.3%**
Federal Grants	**$7,658,343**	**$8,315,700**	**-$657,357**	**-7.9%**	**$6,318,467**	**21.2%**
Total GRF SOURCES	**$22,915,767**	**$22,996,053**	**-$80,286**	**-0.3%**	**$20,538,663**	**11.6%**

*Estimates of the Office of Budget and Management as of September 2020 (H.B. 166 estimate, adjusted for the shift of income tax filings from April (FY 2020) to July (FY 2021)).

**Cumulative totals through the same month in FY 2020.

Detail may not sum to total due to rounding.

Revenues[1]

– Jean J. Botomogno, Principal Economist

Overview

FY 2021 GRF sources through January of $22.92 billion were $80.3 million (0.3%) short of the estimate released by OBM in September 2020. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants. Year-to-date (YTD), FY 2021 federal grants posted a negative variance of $657.4 million (7.9%). Revenue for this GRF category is related to spending for Medicaid and other human services programs; GRF Medicaid expenditures posted a large negative variance totaling $999.0 million (8.4%) through January. The shortfall of federal grants was partially offset by positive variances of $539.1 million (3.7%) for GRF tax sources, $30.9 million (27.2%) for nontax revenue, and $7.1 million (9.1%) for transfers in. Tables 1 and 2 show GRF sources for the month of January and for FY 2021 through January, respectively.

OBM recently released updated FY 2021 GRF estimates with the introduction of the executive budget (Blue Book). OBM now anticipates GRF revenue of $36.21 billion for the full fiscal year, down from its September estimate of $38.42 billion, with most of the variance in federal grants. The reduction in estimated GRF tax revenues was $634.5 million. Because LBO has not received updated monthly estimates for the remainder of this fiscal year, this publication will continue to compare actual GRF sources to the estimates released in September 2020.

The fiscal year's GRF tax overage was due to favorable performances by three of the major taxes. Through the first seven months, the sales and use tax, the PIT, and the cigarette tax were $398.3 million, $146.8 million, and $40.3 million above their respective estimates. The commercial activity tax (CAT), another major tax source, had a YTD shortfall of $28.3 million, due in part to poor tax payments in August tied to COVID-19-related measures in the spring quarter.[2] Regarding the other taxes, the foreign insurance tax, the liquor gallonage tax, and the alcoholic beverage tax were above their respective YTD revenue targets by $18.9 million, $4.0 million, and $3.1 million. Unexpectedly, the corporate franchise tax (CFT) had a YTD positive variance of $5.8 million, due to revenue from the conclusion of certain audits.[3] The positive variances were partly offset by deficits from the public utility tax (in part due to a one-time refund not anticipated), the kilowatt-hour tax, the natural gas consumption tax, and the petroleum activity tax (PAT). These taxes experienced negative variances of $17.4 million, $15.3 million,

[1] This report compares actual monthly and year-to-date 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.

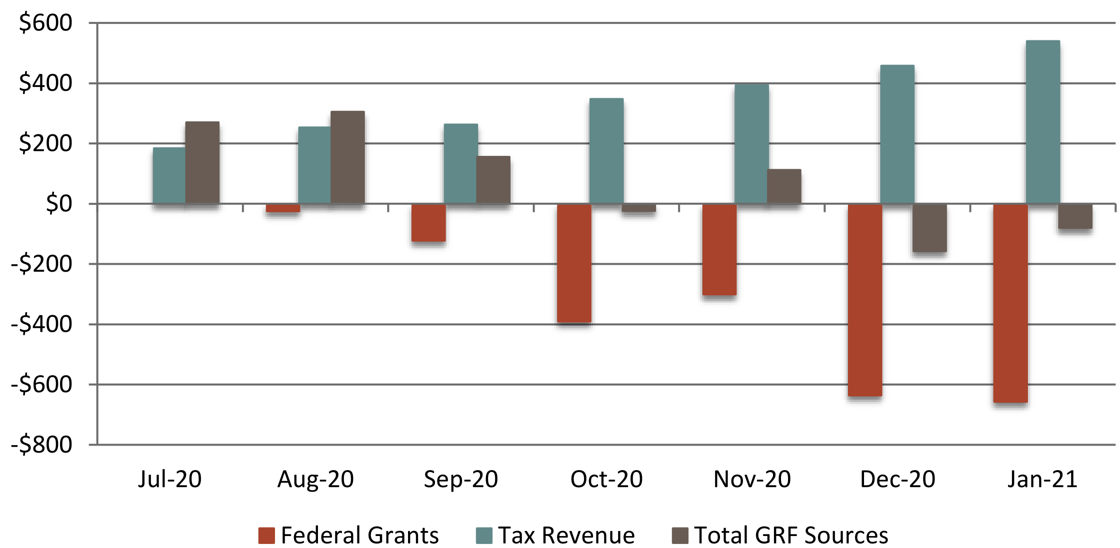
[2] To slow the pandemic outbreak, the Governor issued an emergency declaration on March 9, 2020, and various public health orders followed, including a stay-at-home requirement and some business closures. Those measures reduced economic activity and taxable gross receipts in the spring quarter, which was the basis for the tax paid by quarterly CAT taxpayers in August 2020.

[3] Though GRF receipts are no longer anticipated because H.B. 510 of the 129th General Assembly eliminated the CFT at the end of 2013, adjustments to tax filings in previous years continue to affect this tax source.

$5.9 million, and $2.3 million, respectively. In addition, financial institutions made their first financial institutions tax (FIT) payments totaling $40.1 million in January, an amount that was $18.3 million below estimate; this negative performance erased a cumulative positive variance of $10.6 million at the end of December, and resulted in a YTD negative variance of $7.8 million.[4]

January GRF sources were above expectations by $77.2 million (2.3%) due to positive variances of $81.3 million (3.6%) for GRF taxes and $17.1 million (149.8%) for nontax revenues, which were partially offset by a shortfall of $21.3 million (1.9%) for federal grants. Revenue from transfers in was not anticipated in January 2021 and none was made. For the month, the PIT, the sales and use tax, and the cigarette tax were above their anticipated revenue levels by $71.5 million, $41.8 million, and $1.8 million, respectively. The foreign insurance tax also had a positive variance of $3.1 million. In addition to the FIT's monthly negative variance mentioned earlier,[5] most of the remaining tax sources experienced shortfalls, including the CAT ($13.3 million), the natural gas consumption tax ($2.4 million), the kilowatt-hour tax ($1.3 million), and the CFT ($1.0 million). Chart 1, below, shows cumulative YTD variances of GRF sources through January in FY 2021.

Chart 1: Cumulative Variances of GRF Sources in FY 2021
(Variances from Estimates, $ in millions)



Growth of GRF sources relative to year-ago sources has followed the same patterns in the last few months, with large increases in federal grants and tax revenues. YTD GRF sources rose $2.38 billion (11.6%) compared to sources in the corresponding period in FY 2020, with increases of $1.34 billion (21.2%) for federal grants and $1.06 billion (7.6%) for tax sources. Growth for federal grants was due in part to a COVID-19-related temporary rise in the share of federal

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

[5] Monthly FIT revenue was $71.6 million as of February 8, 2021, above projected receipts of $51.3 million for the month. Thus, the recent shortfall is likely to be reversed in February.

reimbursements for Medicaid. This increase, which was authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, accounted for $676.2 million of the $1.34 billion growth in federal grants. Transfers in also rose by $9.4 million (12.5%), but nontax revenue fell by $27.7 million (16.1%). The growth in GRF tax sources was led by an increase of $718.0 million in PIT revenue and $401.5 million for the sales and use tax. The increase in PIT revenue was primarily due to a delay in the tax filing deadline from April until July, as explained in more detail in the PIT section below, while sales and use tax revenue has been supported by federal income support programs since the spring of 2020. Revenue from the cigarette tax, the CFT, the foreign insurance tax, the alcoholic beverage tax, and the liquor gallonage tax increased by $25.4 million, $5.7 million, $4.7 million, $4.2 million, and $3.1 million, respectively. On the other hand, revenue declined for the CAT ($56.4 million), the FIT ($15.5 million), the public utility tax ($14.8 million), the kilowatt-hour tax ($14.2 million), the domestic insurance tax ($3.1 million), and the PAT ($2.0 million).

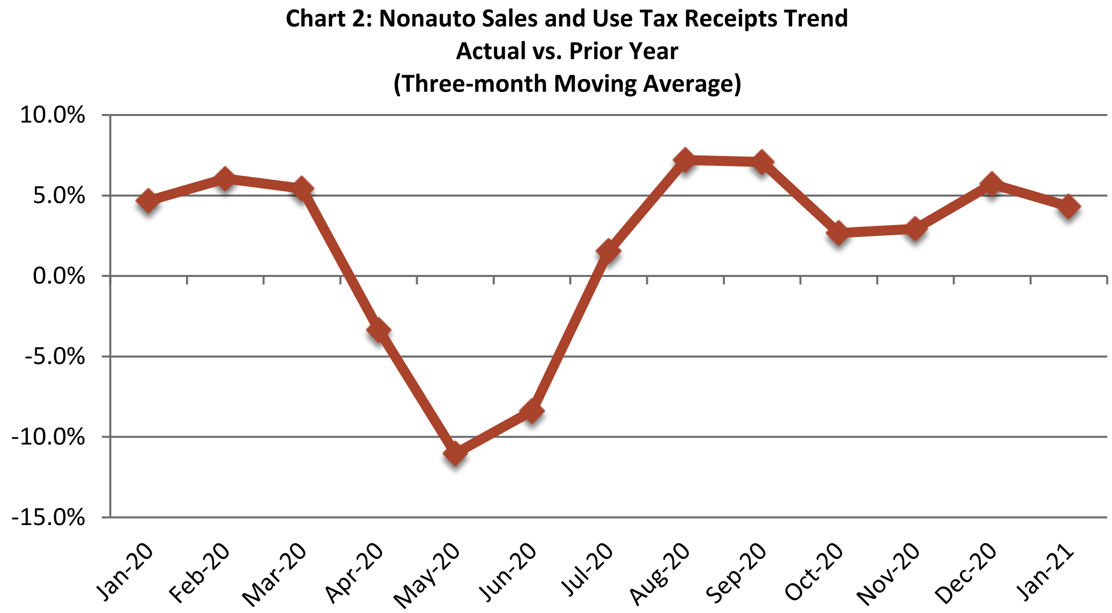
Sales and Use Tax

The sales and use tax has performed well throughout FY 2021. Both portions of the tax (i.e., auto and nonauto) again beat their respective estimates in the latest month. January GRF sales and use tax revenue of $1.05 billion was $41.8 million (4.1%) above estimate. Compared to receipts last year in the same month, revenue was higher by $9.8 million (0.9%). Through January, FY 2021 revenue totaled $7.04 billion. This amount was $398.3 million (6.0%) above OBM projections. YTD GRF receipts from this tax were also $401.5 million (6.1%) above receipts in the corresponding period in FY 2020.

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

YTD GRF nonauto sales and use tax receipts totaled $6.02 billion, an amount $282.6 million (4.9%) above estimate and $310.8 million (5.4%) above revenue in FY 2020 through January. January receipts of $922.1 million were $31.5 million (3.5%) above estimate. Monthly receipts were $5.3 million (0.6%) above revenue in January 2020. Generally, a large part of a month's nonauto sales and use tax revenue is from tax collection or tax remittance on taxable sales in the previous month. The future performance of this tax source is likely to be dependent on continued improvement in the Ohio economy and labor markets. However, recent increases in COVID-19 infections may lead to a near-term economic downturn and might negatively affect growth of nonauto sales and use tax revenue in the second half of the fiscal year. On the other hand, further deployment of vaccines may also mitigate any potential economic impact of increased infections. Chart 2, below, provides year-over-year growth in nonauto sales and use tax collections in 2020.

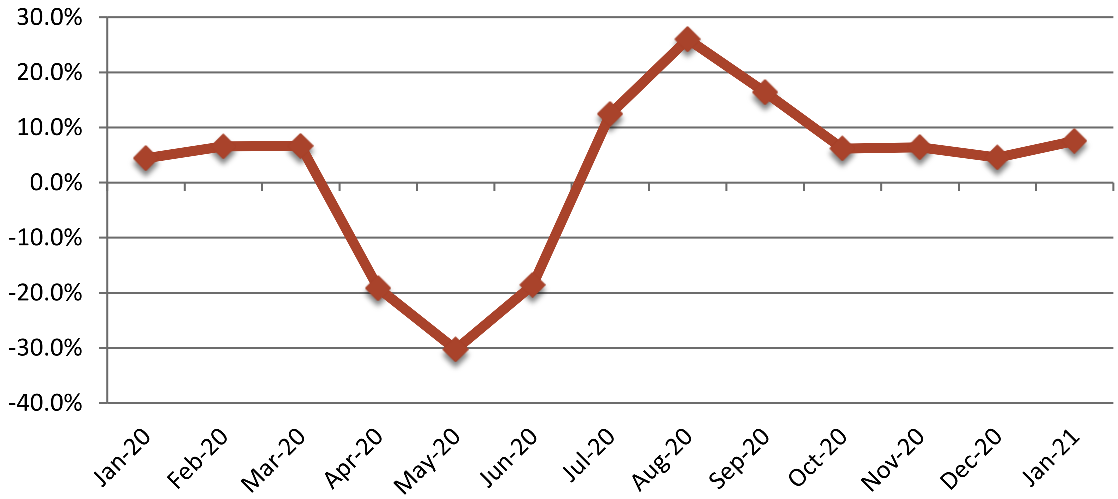


Auto Sales and Use Tax

The auto sales and use tax has been very strong in FY 2021. In the first seven months, FY 2021 receipts totaled $1.02 billion, an amount $115.7 million (12.8%) above estimate and $90.6 million (9.8%) above revenue in the corresponding period last fiscal year. January auto sales and use tax revenue was $130.1 million, $10.3 million (8.6%) above estimate and $4.6 million (3.6%) above such receipts in January 2020. Chart 3, below, shows year-over-year growth in auto sales and use tax collections, the pandemic-related revenue declines earlier in calendar year (CY) 2020 from both low demand and low supply of vehicles, and the subsequent rebound starting in late spring and continuing through the current fiscal year. As with the nonauto portion, the future performance of this tax source is likely to be dependent on improvement in the Ohio economy and labor markets and the impact of the COVID-19 pandemic and vaccine deployment.

New U.S. light vehicle (auto and light truck) sales came in above expectations in January, with sales of both light trucks and autos increasing from their December levels. However, sales of 16.6 million units (on a seasonally adjusted annual rate basis) in January were about 1.5% below year-ago total unit sales, though unit sales of light trucks and SUVs rose 3.4% compared to those of January 2020. Although a useful barometer of the direction of the industry, U.S. light vehicle monthly unit sales do not track closely with Ohio's auto sales and use tax performance and have been for several months below auto sales and use tax growth.

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



Personal Income Tax

A positive revenue variance of $71.5 million (7.2%) in January pushed up the YTD positive variance of the PIT to $146.8 million, up from $75.3 million during the first six months of the fiscal year. FY 2021 GRF receipts from the PIT of $6.13 billion were also $718.0 million (13.3%) above such revenue in FY 2020 through January. The large year-over-year PIT revenue growth (which is expected to decrease over time) is directly attributable to the delay of income tax filings from April to July 2020. Excluding July receipts, combined PIT GRF revenue was $167.9 million (3.5%) above receipts in the August to January period in FY 2020. Among measures designed to combat the impact of the COVID-19 pandemic, H.B. 197 of the 133rd General Assembly authorized the Tax Commissioner to delay various state tax payments, which he did for this tax, to match the extended deadline for federal income tax returns. Thus, in July 2020, payments associated with annual returns of $501.9 million were $492.5 million above such payments in July 2019; PIT GRF revenue for the month was $550.1 million (87.3%) above receipts in July 2019. About $719.0 million in income tax annual returns and first-quarter estimated payments were postponed and realized in FY 2021, according to the Department of Taxation.

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 87% of gross collections in FY 2020). Larger or smaller than expected refunds (which decrease gross collections) could also greatly affect the monthly performance of the tax.

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[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 PIT revenue to the GRF totaling $1.06 billion was above anticipated revenue due to fewer than anticipated refunds.[7] Refunds were $62.2 million (61.7%) below their projected level. Gross collections were $10.0 million (0.9%) above target. Employer withholding and miscellaneous payments had shortfalls of $28.9 million and $3.2 million, respectively. Those negative variances were offset by positive variances of $35.8 million for quarterly estimated payments, $3.9 million for taxes due with annual returns, and $2.3 million for trust payments.

For FY 2021 through January, revenues from each component of the PIT relative to estimates and revenue received in FY 2020 are detailed in the table below. FY 2021 gross collections were $81.9 million above anticipated revenue. Quarterly estimated payments and trust payments were above their projections by $90.6 million and $16.7 million, respectively. Those positive variances were partially offset by shortfalls of $14.1 million for employer withholding, $5.5 million for payments due with annual returns, and $5.8 million for miscellaneous payments. Refunds were $79.7 million below estimate, but LGF distributions were above expectation by $14.8 million, thus resulting in the YTD positive variance of $146.8 million for the GRF.

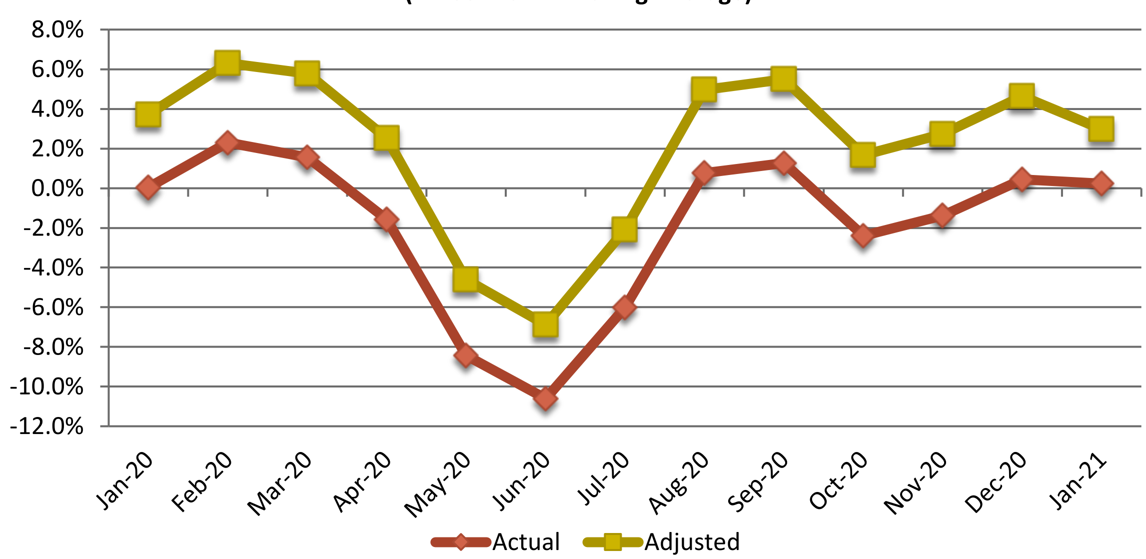
Compared to the corresponding period in FY 2020, gross collections have been higher in FY 2021 due to the income tax filing delay. They grew $791.3 million, driven by increases of $597.8 million from payments due with annual returns and $168.6 million for quarterly estimated payments. In addition, trust payments rose $42.9 million. On the other hand, employer withholding and miscellaneous payments were below their respective FY 2020 levels by $12.2 million and $5.8 million. FY 2021 refunds and LGF distributions were higher than those in FY 2020 by $55.4 million and $17.9 million, respectively. Therefore, growth in PIT GRF revenue totaled $718.0 million relative to YTD receipts in FY 2020. Year-over-year growth in withholding receipts in CY 2020 had been limited through December 2020 because of a 4.0% reduction in withholding rates effective January 2020 due to the reduction of income tax rates for nonbusiness income enacted in H.B. 166. This limitation on growth in withholding receipts no longer applies starting in January 2021.

[7] This year, the Internal Revenue Service delayed the opening of the filing of the federal income tax returns to February 12, 2021. Accordingly, the Department of Taxation will also start accepting and processing tax returns that day, two weeks later than in 2020. About 90% of Ohio income tax returns are filed electronically.

FY 2021 PIT Revenue Variance and Annual Change by Component				
Category	YTD Variance from Estimate		Changes from FY 2020	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	-$14.1	-0.3%	-$12.2	-0.2%
Quarterly Estimated Payments	$90.6	13.9%	$168.6	29.5%
Trust Payments	$16.7	27.3%	$42.9	121.9%
Annual Return Payments	-$5.5	-0.7%	$597.8	432.1%
Miscellaneous Payments	-$5.8	-13.3%	-$5.8	-13.4%
Gross Collections	$81.9	1.2%	$791.3	12.7%
Less Refunds	-$79.7	-11.0%	$55.4	9.4%
Less LGF Distribution	$14.8	5.9%	$17.9	7.2%
GRF PIT Revenue	$146.8	2.5%	$718.0	13.3%

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 2021 and estimated withholding receipts adjusted for the January 2020 decrease in the withholding tax rate through the first half of FY 2021. Payrolls are estimated to have increased about 3.0%, on average, in the last three months.

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



Commercial Activity Tax

Poor performance from the CAT in January increased the YTD negative GRF variance of this tax source to $28.3 million (3.3%), up from $15.0 million in the first half of FY 2021. GRF revenue of $60.1 million for the month was $13.3 million (18.1%) below estimate, brought down by a large amount of credits and refunds. Monthly GRF revenue was also $23.7 million (28.2%) below January 2020 revenue. For the fiscal year, GRF receipts of $835.4 million were $56.4 million (6.3%) below GRF revenue in the first seven months of FY 2020. YTD FY 2021 gross collections totaled $1.09 billion, a decrease of $41.1 million (3.6%) relative to gross collections in FY 2020 through January. Refunds and credits were $102.7 million this fiscal year, an increase of $25.7 million (33.4%) above those items in FY 2020. After a first quarter GRF shortfall of $23.5 million, the CAT experienced a positive variance of $8.5 million in the second quarter, which was based on activity that occurred during the July to September period. This outcome was consistent with a recovering economy. The third fiscal quarter started poorly, but its results will mostly be determined by remittances by quarterly CAT taxpayers on February 10, 2021, reflecting taxable gross receipts in the October to December period.

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%). Distributions to Fund 7047 and Fund 7081 were $127.8 million and $19.7 million, respectively. The distributions to Fund 7047 and Fund 7081 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 generally transferred back to the GRF.

Cigarette and Other Tobacco Products Tax

YTD revenue from the cigarette and other tobacco products (OTP) tax totaling $502.2 million was above estimate by $40.3 million (8.7%). This total included $443.1 million from the sale of cigarettes and $59.1 million from the sale of OTP. Revenue from this tax source continues to outpace projected receipts as the pandemic wears on; positive revenue variances over several months appear to be related to heightened consumption since March 2020. January receipts of $72.1 million were $1.8 million (2.5%) above estimate, but $2.3 million ($3.0%) below revenue in January 2020. The monthly decline relative to the same month a year ago was entirely due to a drop in cigarette revenue while revenue from OTP sales increased. Most recent months have seen year-over-year growth in total revenue from the tax.

Through January, FY 2021 receipts grew $25.4 million (5.3%) relative to revenues in the corresponding period in FY 2020. Receipts from cigarette sales and OTP sales increased by $13.7 million (3.2%) and $11.7 million (24.6%), respectively. The increase in OTP revenue is due, in part, to additional revenue from the vapor tax. H.B. 166 levied a tax of 10¢ per milliliter (or gram) of vapor product (depending on the form of the product) which is defined as any liquid solution or other substance that contains nicotine and is depleted as it is used in an electronic smoking product.[8] The OTP tax is an ad valorem tax, generally 17% of the wholesale

[8] Of total receipts in FY 2020 of $82.4 million from the sale of OTP, the tax on vapor products contributed $3.6 million, or about 4%, according to the Ohio Department of Taxation.

price paid by wholesalers for the product; thus, revenue from that portion of the tax base (about 9% of the total tax base in FY 2020) grows with OTP price increases.

On a yearly basis, revenue from the cigarette tax usually trends downward, generally at a slow pace. It is unclear how long smokers will maintain this higher level of tobacco consumption, though the long-term annual decline in cigarette consumption may resume later this year.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2021
($ in thousands)
(Actual based on OAKS reports run February 3, 2021)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$761,004	$768,217	-$7,213	-0.9%
Higher Education	$175,897	$183,090	-$7,193	-3.9%
Other Education	$7,836	$7,885	-$49	-0.6%
Total Education	**$944,737**	**$959,192**	**-$14,455**	**-1.5%**
Medicaid	$1,198,892	$1,658,667	-$459,775	-27.7%
Health and Human Services	$108,765	$149,809	-$41,044	-27.4%
Total Health and Human Services	**$1,307,658**	**$1,808,476**	**-$500,819**	**-27.7%**
Justice and Public Protection	$232,038	$233,806	-$1,768	-0.8%
General Government	$46,930	$40,909	$6,020	14.7%
Total Government Operations	**$278,968**	**$274,715**	**$4,252**	**1.5%**
Property Tax Reimbursements	-$4	$0	-$4	---
Debt Service	$124,176	$121,968	$2,209	1.8%
Total Other Expenditures	**$124,173**	**$121,968**	**$2,205**	**1.8%**
Total Program Expenditures	**$2,655,535**	**$3,164,352**	**-$508,817**	**-16.1%**
Transfers Out	**$9,645**	**$0**	**$9,645**	**---**
Total GRF Uses	**$2,665,180**	**$3,164,352**	**-$499,172**	**-15.8%**

*September 2020 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 2021 as of January 31, 2021
($ in thousands)
(Actual based on OAKS reports run February 3, 2021)

Program Category	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Primary and Secondary Education	$4,777,494	$4,758,277	$19,217	0.4%	$4,986,544	-4.2%
Higher Education	$1,318,670	$1,334,211	-$15,541	-1.2%	$1,331,136	-0.9%
Other Education	$49,175	$51,244	-$2,069	-4.0%	$55,045	-10.7%
Total Education	**$6,145,339**	**$6,143,732**	**$1,607**	**0.0%**	**$6,372,724**	**-3.6%**
Medicaid	$10,856,316	$11,855,308	-$998,992	-8.4%	$9,865,975	10.0%
Health and Human Services	$840,498	$930,428	-$89,930	-9.7%	$859,186	-2.2%
Total Health and Human Services	**$11,696,814**	**$12,785,736**	**-$1,088,922**	**-8.5%**	**$10,725,161**	**9.1%**
Justice and Public Protection	$1,515,067	$1,577,185	-$62,118	-3.9%	$1,500,226	1.0%
General Government	$264,643	$293,637	-$28,994	-9.9%	$263,210	0.5%
Total Government Operations	**$1,779,711**	**$1,870,822**	**-$91,112**	**-4.9%**	**$1,763,436**	**0.9%**
Property Tax Reimbursements	$904,345	$933,578	-$29,233	-3.1%	$905,289	-0.1%
Debt Service	$650,140	$650,238	-$98	0.0%	$1,024,647	-36.5%
Total Other Expenditures	**$1,554,485**	**$1,583,816**	**-$29,331**	**-1.9%**	**$1,929,937**	**-19.5%**
Total Program Expenditures	**$21,176,348**	**$22,384,106**	**-$1,207,758**	**-5.4%**	**$20,791,258**	**1.9%**
Transfers Out	**$444,870**	**$445,900**	**-$1,030**	**-0.2%**	**$663,620**	**-33.0%**
Total GRF Uses	**$21,621,218**	**$22,830,006**	**-$1,208,788**	**-5.3%**	**$21,454,878**	**0.8%**

*September 2020 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2020.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on February 8, 2021)

	Month of January 2021				Year to Date through January 2021			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,144,604	$1,593,128	-$448,524	-28.2%	$10,457,479	$11,439,935	-$982,456	-8.6%
Non-GRF	$989,063	$926,303	$62,760	6.8%	$5,856,834	$5,895,019	-$38,185	-0.6%
All Funds	$2,133,667	$2,519,431	-$385,764	-15.3%	$16,314,314	$17,334,954	-$1,020,641	-5.9%
Developmental Disabilities								
GRF	$48,777	$59,460	-$10,684	-18.0%	$340,989	$352,089	-$11,100	-3.2%
Non-GRF	$184,878	$187,175	-$2,296	-1.2%	$1,499,635	$1,440,952	$58,683	4.1%
All Funds	$233,655	$246,635	-$12,980	-5.3%	$1,840,624	$1,793,041	$47,583	2.7%
Job and Family Services								
GRF	$4,679	$5,156	-$477	-9.3%	$51,005	$56,152	-$5,147	-9.2%
Non-GRF	$9,277	$9,112	$166	1.8%	$97,755	$104,026	-$6,272	-6.0%
All Funds	$13,957	$14,268	-$312	-2.2%	$148,759	$160,178	-$11,419	-7.1%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$833	$923	-$90	-9.8%	$6,843	$7,133	-$290	-4.1%
Non-GRF	$1,780	$2,394	-$614	-25.6%	$19,055	$23,266	-$4,211	-18.1%
All Funds	$2,613	$3,316	-$704	-21.2%	$25,898	$30,399	-$4,501	-14.8%
All Departments:								
GRF	**$1,198,892**	**$1,658,667**	**-$459,775**	**-27.7%**	**$10,856,316**	**$11,855,308**	**-$998,992**	**-8.4%**
Non-GRF	**$1,184,999**	**$1,124,983**	**$60,016**	**5.3%**	**$7,473,278**	**$7,463,263**	**$10,015**	**0.1%**
All Funds	**$2,383,891**	**$2,783,650**	**-$399,759**	**-14.4%**	**$18,329,594**	**$19,318,572**	**-$988,977**	**-5.1%**

*September 2020 estimates from the Office of Budget and Management and Department of Medicaid.
Detail may not sum to total due to rounding.

Table 6: All Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on February 8, 2021)

	Month of January 2021				Year to Date through January 2021			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,652,083**	**$1,964,761**	**-$312,677**	**-15.9%**	**$12,334,784**	**$12,879,755**	**-$544,971**	**-4.2%**
CFC†	$600,828	$707,466	-$106,638	-15.1%	$4,263,994	$4,472,069	-$208,075	-4.7%
Group VIII	$510,462	$653,430	-$142,968	-21.9%	$3,589,637	$3,928,565	-$338,928	-8.6%
ABD†	$241,616	$266,924	-$25,308	-9.5%	$1,746,954	$1,802,404	-$55,450	-3.1%
ABD Kids	$79,619	$86,581	-$6,962	-8.0%	$562,598	$581,093	-$18,494	-3.2%
My Care	$219,557	$250,359	-$30,802	-12.3%	$1,652,016	$1,717,652	-$65,636	-3.8%
P4P & Ins Fee†	$0	$0	$0	---	$519,585	$377,973	$141,612	37.5%
Fee-For-Service	**$573,280**	**$656,053**	**-$82,773**	**-12.6%**	**$4,835,148**	**$5,227,474**	**-$392,326**	**-7.5%**
ODM Services	$322,610	$390,991	-$68,382	-17.5%	$2,401,170	$2,672,915	-$271,745	-10.2%
DDD Services	$229,208	$242,061	-$12,854	-5.3%	$1,789,882	$1,738,743	$51,140	2.9%
Hospital - HCAP&Other†	$21,463	$23,000	-$1,537	-6.7%	$644,095	$815,816	-$171,721	-21.0%
Premium Assistance	**$97,064**	**$95,973**	**$1,092**	**1.1%**	**$641,051**	**$626,093**	**$14,957**	**2.4%**
Medicare Buy-In	$62,509	$61,276	$1,233	2.0%	$432,280	$416,812	$15,469	3.7%
Medicare Part D	$34,555	$34,697	-$142	-0.4%	$208,770	$209,282	-$512	-0.2%
Administration	**$61,463**	**$66,864**	**-$5,401**	**-8.1%**	**$518,612**	**$585,249**	**-$66,637**	**-11.4%**
Total	**$2,383,891**	**$2,783,650**	**-$399,759**	**-14.4%**	**$18,329,594**	**$19,318,572**	**-$988,977**	**-5.1%**

*September 2020 estimates from the Office of Budget and Management and Department of Medicaid.

†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program; P4P & Ins Fee - Pay For Performance, and Health insurance provider fee.

Detail may not sum to total due to rounding.

Expenditures[9]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

GRF program expenditures totaled $21.18 billion for the first seven months of FY 2021. These expenditures were $1.21 billion (5.4%) below the estimate released by OBM in early September 2020. All program categories, except for Primary and Secondary Education, had negative YTD variances at the end of January. The program category with the largest negative variance was Medicaid, which had a negative YTD GRF variance of $999.0 million (8.4%). Medicaid also had the largest negative GRF variance for the month of January at $459.8 million (27.7%). It should be noted that Medicaid variances are measured against estimates that are approximately $3 billion higher for all funds Medicaid expenditures for the fiscal year than the estimates established when H.B. 166 was enacted. Health and Human Services had the second highest negative YTD variance of $89.9 million (9.7%), and the second highest monthly variance at $41.0 million (27.4%). YTD variances are shown in the preceding Table 4, while Table 3 shows January variances.

In addition to program expenditures, total uses include transfers out. Transfers out totaled $444.9 million YTD and had a negative YTD variance of $1.0 million (0.2%) at the end of January. Combining program expenditures and transfers out, total GRF uses for the first seven months of FY 2021 were $21.62 billion. These uses were $1.21 billion (5.3%) below estimate. The rest of this section discusses both GRF and non-GRF variances in Medicaid and the GRF variance in Health and Human Services.

Medicaid

GRF Medicaid expenditures were below their monthly estimate in January by $459.8 million (27.7%) and below their YTD estimate, by $999.0 million (8.4%), at the end of January. Non-GRF Medicaid expenditures were above their monthly estimate, by $60.0 million (5.3%), and above their YTD estimate, by $10.0 million (0.1%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $399.8 million (14.4%) below estimate in January and $989.0 million (5.1%) below their YTD estimate at the end of January. The Medicaid expenditure and caseload estimates used in this report were updated by the Ohio Department of Medicaid (ODM) for FY 2021. These updates were precipitated by the COVID-19 pandemic and are thus different from the expenditure and caseload estimates outlined in H.B. 166. The updated expenditure estimates include approximately $3 billion in increases for the fiscal year, related to many impacts of the COVID-19 pandemic.

Table 5 shows GRF and non-GRF Medicaid expenditures for 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

[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.

budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had an all funds negative variance in January of $385.8 million (15.3%), and YTD expenditures also were below estimate, with a negative variance of $1.02 billion (5.9%). ODODD had a January all funds negative variance of $13.0 million (5.3%) and ended the month with a YTD positive variance of $47.6 million (2.7%). The other six “sister” agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining 1% of the total Medicaid budget. Unlike ODM and ODODD, the six “sister” agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories as of the end of January. Managed Care had the largest negative variance of $545.0 million (4.2%), followed by Fee-For-Service’s negative variance of $392.3 million (7.5%), and Administration’s negative variance of $66.6 million (11.4%). Premium Assistance YTD expenditures were above estimate by $15.0 million (2.4%).

The impact of the COVID-19 pandemic began to show in March 2020’s Medicaid caseloads, and the impacts have continued to show through monthly caseload increases since March. From March 2020 through January 2021, caseloads have increased by 32,000 cases per month, on average. According to ODM, nearly all of the caseload variance has been due to the suspension of routine redeterminations of eligibility and an increase in the number of new applications and approvals due to the economic impacts of the COVID-19 pandemic. Based on updated FY 2021 ODM estimates, January’s caseload of 3.1 million enrollees is approximately 398,000 cases (11.3%) below estimate.

Health and Human Services

The Health and Human Services program category includes all non-Medicaid GRF expenditures by several state agencies. This category had a negative variance of $41.0 million (27.4%) in January, increasing its YTD negative variance to $89.9 million (9.7%). The Ohio Department of Job and Family Services (ODJFS) was responsible for $35.7 million (86.9%) of the negative variance in this category in January and $52.5 million (58.1%) of the YTD negative variance. ODJFS’s negative January variance was dominated by a negative variance of $27.8 million in appropriation item 600523, Family and Children Services, which offset a positive variance of $27.5 million for this item in December. For the YTD, item 600523 is under estimate by $10.7 million. The uses of item 600523 include providing funding to public children services agencies for child protection, supplementing federal Title XX funds provided to counties, and supporting foster parents. For a description of the remaining YTD variance in this category, please see the prior month’s *Budget Footnotes*.

Issue Updates

ODH Releases 2019 Ohio Infant Mortality Report

– Jacquelyn Schroeder, Senior Budget Analyst

On December 17, 2020, the Ohio Department of Health (ODH) released its 2019 Ohio Infant Mortality Report. The report found that the overall number of infant deaths across all races, as well as the corresponding infant mortality rate, has decreased for several years in a row.[10] Between 2016 and 2019, the number of infant deaths decreased from 1,023 to 929, while the infant mortality rate declined from 7.4 to 6.9.[11] ODH's goal is to attain an overall infant mortality rate of 6.0 by 2028. The infant mortality rate for white and Hispanic infants met this goal in 2019 with rates of 5.1 and 5.8, respectively. The rate for black infants, however, remains higher than the goal. In 2019, this rate was 14.3, almost three times higher than the rate for white infants. The report also looked at the leading causes, as well as risk factors associated with, infant deaths. Prematurity-related conditions were the most common cause of infant death, followed by congenital anomalies or birth defects, and external injuries. In addition, certain maternal health behaviors or conditions are associated with an increased risk of infant death. These include: a previous pregnancy within 18 months or less, maternal smoking, maternal weight (both obese and underweight mothers had higher infant mortality rates), maternal age (mothers under age 20 experienced the highest rates followed by mothers age 40 and over), and lack of access to prenatal care.

The release of the 2019 report also coincides with the Governor's announcement that the Eliminating Racial Disparities in Infant Mortality Task Force will be established. The goal of the task force will be to develop a statewide strategy for reducing infant mortality and eliminating racial disparities in birth outcomes by 2030. The state has taken numerous other steps to address infant mortality over the past several years as well. This includes safe sleep education and access to cribs, pre- and inter-conception health efforts, increasing home visiting enrollment, and establishing grant programs to reduce smoking rates for pregnant women. In addition, there have also been targeted efforts that focus on areas with the highest risk of infant mortality. One such effort uses local community health workers to identify at-risk pregnant women and connect them to healthcare and other necessary social services.

To read the 2019 report in its entirety or to learn more about Ohio's efforts to reduce infant mortality, please refer to ODH's Infant and Fetal Mortality Reports page on ODH's website (www.odh.ohio.gov).

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[10] Infant deaths are defined as deaths prior to an individual's first birthday. The infant mortality rate is the number of infant deaths per 1,000 live births.

[11] Even though the number of infant deaths decreased from 2018 to 2019, the infant mortality rate remained the same because there were fewer babies born in 2019.

Controlling Board Approves $100.0 Million for Rental and Utility Assistance

– Shannon Pleiman, Senior Budget Analyst

On January 25, 2021, the Controlling Board approved a request from OBM to establish an appropriation of $100.0 million to be used by the Development Services Agency (DSA) for (1) rental assistance, (2) utility and home energy assistance, and (3) administrative and operating costs of overseeing the funds. The appropriation is federal funding made available from the federal Consolidated Appropriations Act for 2021 and will support the state's efforts to respond to the COVID-19 pandemic. Part of the Act provides states with funding to assist individuals impacted by the pandemic with rent, rent arrears, utilities and home energy costs, and utility and home energy costs arrears.

DSA will distribute the funds to local community action agencies (CAAs) according to the low- and moderate-income populations and unemployment rates within each county. Individuals at or below 80% of the area median income are eligible for assistance. Rental assistance is available for households that have fallen behind on rent payments, or that are facing eviction, and can also be used to make future rent payments. Utility (water, sewer, and trash removal) and home energy (heating and electric) payment assistance for households which are behind on payments, in danger of losing service, or whose service has been disconnected can be used to cover arrears and future payments. Both assistance types will be provided to the landlord or utility provider directly. The Consolidated Appropriations Act allows 10% of the funds (up to $10 million of this appropriation) to be used for administrative and operating costs incurred by CAAs. If the full allocation of funding for administration and operating is not required by CAAs, the funds remaining are to be used for individual assistance.

This funding is in addition to the $55.2 million allocated to DSA under the Home Relief Grant established by the Controlling Board on October 26, 2020. That grant used federal CARES Act funding to provide mortgage, rental, water, or sewer utility payment assistance to individuals at or below 200% of the federal poverty level. As of December 2020, DSA had awarded $50.0 million in assistance and $5.0 million in administrative and operating costs to CAAs under this program.

OhioMHAS Announces Spending Plan for Federal SOR Funds

– Ryan Sherrock, Economist

On December 18, 2020, the Ohio Department of Mental Health and Addiction Services (OhioMHAS) released a spending plan for the $96.2 million federal State Opioid Response (SOR) grant funds it received this past fall. Of this amount, $76.5 million was provided directly to state, local, and community stakeholders to fund local community efforts. The majority of these community funds were awarded to local alcohol, drug addiction, and mental health services (ADAMHS) boards to support treatment programs and initiatives. These community funds are also being used to do the following: distribute naloxone to reverse overdoses; expand fentanyl awareness campaigns; support Ohio's prescription drug monitoring system; implement community provider projects focusing on peer and re-entry supports, recovery housing, and culturally appropriate services; and connect families to appropriate care through increased early screening and assessments. The remaining $19.7 million is being used to implement OhioMHAS' statewide priorities and awareness campaigns, to develop innovative technology to help manage behavioral health conditions (e.g., mobile apps), and to administer and evaluate grant activities. The spending detail, along with ADAMHS boards allocations, can be read at OhioMHAS' website.

These grant funds were awarded by the U.S. Substance Abuse and Mental Health Services Administration as part of the 21st Century CURES Act. In total, Ohio has received $235.1 million since the program's inception in 2018. Past and current Ohio SOR efforts include expanding prevention efforts related to naloxone distribution, increasing access to medication-assisted treatment and recovery housing, and developing employment opportunities for persons in recovery from opioid addiction.

Criminal Justice Services Awards $427,000 in Federal Residential Substance Abuse Treatment Grants

– Maggie West, Senior Budget Analyst

On December 17, 2020, the Office of Criminal Justice Services announced the award of $427,144 in federal fiscal year (FFY) 2020 Residential Substance Abuse Treatment (RSAT) for State Prisoners Program subgrants to projects in Montgomery, Franklin, and Shelby counties. The RSAT Program assists state and local governments in developing and implementing substance abuse treatment programs for incarcerated offenders within state and local facilities, as well as in creating and maintaining community-based aftercare services for offenders. In order to be eligible to receive RSAT Program funding, states must coordinate the design and implementation of treatment programs between state corrections representatives and the state alcohol and drug abuse agency. If appropriate, coordination must also occur between representatives of local corrections agencies and the state, or appropriate local, alcohol and drug abuse agency.

The following table lists the FFY 2020 RSAT Program project recipients, a project description, and the award amount. All projects receive funding for a 12-month period and require a 25% cash or in-kind match; there are also quarterly reporting requirements. Of the three projects that received funding, two are continuation projects (MonDay and Alvis), meaning that they received funding in prior years.

FFY 2020 Residential Substance Abuse Treatment Grant Recipients		
Award Recipient	Project Description	Award Amount
MonDay Community Based Correctional Facility (Montgomery County)	Focuses on developing cognitive, behavioral, social, vocational, and other skills of offenders according to their needs	$179,157
Alvis, Inc. (Franklin County)	Receives referrals from the Ohio Department of Rehabilitation and Correction and Franklin County Probation and admits women assessed as being at moderate to high risk to recidivate	$137,987
Shelby County Sheriff's Office	Sheriff's Treatment and Recovery (STAR) House serves as a recovery house working with the Shelby County Jail, and accommodates up to 20 residents at a time	$110,000

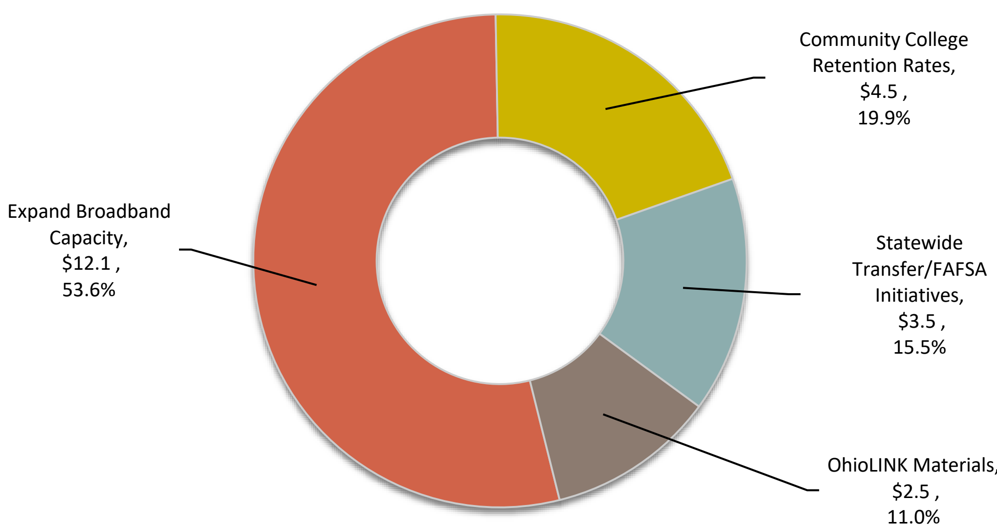
Controlling Board Approves $22.6 Million in CARES Act Funds to Address COVID-19-related Impacts on Higher Education

– Edward Millane, Senior Budget Analyst

On December 14, 2020, the Controlling Board approved a Department of Higher Education (DHE) request to appropriate $22.6 million in federal funds for a variety of initiatives that respond to COVID-19-related issues in higher education. The funding is supported by federal CARES Act funds deposited into the Governor's Emergency Education Relief Fund (Fund 3HQ0). The chart below shows that $12.1 million, or 53.6%, of the new $22.6 million appropriation (line item 235509, GEER – Higher Education Initiatives) will be used to expand broadband capacity at several of Ohio's higher education institutions, followed by $4.5 million (19.9%) for community colleges to improve student retention rates, $3.5 million (15.5%) for statewide transfer guarantee and Free Application for Federal Student Aid (FAFSA) completion initiatives, and $2.5 million (11.0%) for the Ohio Library and Information Network (OhioLINK) to purchase additional materials for remote and hybrid courses.

Chart 5: Fund 3HQ0 Line Item 235509, GEER-Higher Education Intiatives, by Initiative ($ in millions)

Total: $22.6 million



Remediation Rates of First-time Ohio Public College and University Students Continue to Decline

– Jason Glover, Budget Analyst

In December, DHE and the Ohio Department of Education (ODE) released their annual report on remediation coursework.[12] The 2020 Ohio Remediation Report shows a continued decline in the number of first-time public university and community college students requiring remedial coursework in mathematics and English. The table below illustrates the drop in the percentage of such students between academic year 2014-2015 and academic year 2019-2020.

Remediation Rates of First-Time Ohio Public College or University Students by Subject Area and Academic Year

Subject Area	2014-2015	2019-2020
Remedial Mathematics or English	29.3%	23.8%
Remedial Mathematics Only	25.9%	20.2%
Remedial English Only	12.0%	9.6%
Remedial Mathematics and English	8.6%	6.0%

The report recommends seven strategies to continue the trend of decreased enrollment in college remediation coursework: (1) continuously review remediation data and respond with interventions in key academic areas from Pre-K through higher education, (2) emphasize to students the importance of attendance and the effectiveness of early interventions, (3) strengthen advising support for all students, (4) ensure more high school graduates are ready for college through the use of transition classes that address academic gaps in high school, (5) review and implement strategies to close the access and achievement gaps among specific groups of students, such as students of color, English learners, economically disadvantaged, rural students, students over age 25, and students with disabilities, (6) improve student success in entry-level courses by aligning mathematics to academic programs of study, and (7) continue the development, implementation, and evaluation of corequisite strategies (when a student enrolls in both remedial and credit-bearing courses in the same subject at the same time) to support underprepared students.

ODE Reports on Early Childhood Education Grants in FY 2020

– Sarah Anstaett, LSC Fellow

In December 2020, ODE released its Annual Report on Early Childhood Education (ECE) Grants. The report addresses the allocation of grant funding and compliance with ECE program requirements. The following table shows that in FY 2020, 369 ECE grant funded programs

[12] The full report can be viewed at https://www.ohiohighered.org/data-reports/college-readiness.

received grant funding of $71.5 million to serve 17,870 children at 658 locations. The ECE locations are spread across 80 counties in Ohio, with 36% of children served in Cuyahoga, Franklin, Lucas, Hamilton, or Montgomery counties.

Early Childhood Education Grant-Funded Programs	
Category	**FY 2020**
Total State ECE Grant Funding	$71,480,000
Total Number of Children Funded	17,870
State-funded Per-child Amount	$4,000
Number of State-funded Grantees	369
Number of Site Locations	658

Grantees must adhere to program requirements to improve learning and development programs. ODE uses webinar training, among other resources, to communicate requirements and best practices. Teachers must complete 20 hours of professional development every two years. ECE programs must also assess children twice per year using Ohio's Early Learning Assessment. Additionally, ECE programs must earn 3-, 4-, or 5-star ratings in Ohio's Step Up to Quality rating system. In FY 2020, 85.4% of programs participating in Step Up to Quality earned 5-star ratings. Another 8.7% of the programs earned 4-star ratings and 5.8% earned 3-star ratings. To monitor program implementation in FY 2020, ODE conducted 80 on-site visits and 23 desk reviews prior to March 13, 2020. When in-person learning transitioned to virtual learning in spring 2020, teachers used online resources to continue educating children and engaging with parents.

Secretary of State Launches Statewide Campaign Finance Filing Website

– Terry Steele, Senior Budget Analyst

In late January 2021, the Secretary of State launched a statewide campaign finance filing website in advance of the January 29, 2021, campaign finance filing deadline. This site was launched as a result of the enactment of S.B. 107 of the 133rd General Assembly. The act, which became effective on January 1, 2021, gives candidates for the State Board of Education, local offices, and certain political organizations involved with local campaigns the option to file their campaign finance statements online instead of on paper. Under current law, eight categories of campaign finance statement filers meeting certain contribution and spending thresholds are required to file campaign finance statements with the Secretary of State. The additional costs for expanding the filing website and the cost associated with retaining additional records and making them available to the public is minimal, according to the Secretary of State. The expenses related to this new website are paid from the Business Services Fund (Fund 5990) appropriation item 050630, Elections Support Supplement. The website can be found at boefile.ohiosos.gov.

Ohio Receives $2.3 Million from a Multistate Settlement with Nationstar Mortgage

– Jessica Murphy, Budget Analyst

On December 7, 2020, the Ohio Attorney General announced that it had agreed to an $86.3 million multistate settlement with Nationstar Mortgage; Ohio's portion totals $2.3 million. The settlement resolves claims that the company, doing business as Mr. Cooper, violated consumer protection laws during its servicing of mortgage loans between January 1, 2011, and December 31, 2017.[13]

Of the $2.3 million Ohio was awarded, approximately $2.1 million will be used to provide payments to remediate 1,862 loans that were impacted by Nationstar's alleged misconduct. A large portion of this remediation has already been received by those eligible, provided through the appointed settlement administrator. Forthcoming payments will be similarly disbursed, including a guaranteed minimum payment of $250 (to a potential 252 borrowers) or $840 (to a potential 186 borrowers). The remaining $250,000 of Ohio's share has been credited to the Consumer Protection Fund (Fund 6310) to fund services and activities that protect consumers from predatory and illegal business practices. This portion represents payment for the Attorney General's costs and fees.

Nationstar is the country's fourth largest mortgage servicer and the largest nonbank mortgage servicer. The settlement came after a multiyear investigation, which involved the state mortgage regulators and the federal Consumer Financial Protection Bureau. Nationstar made no admission of liability as part of the settlement agreement negotiated with the state attorneys general. The company has agreed to abide by specific servicing standards in how it manages certain mortgage loans to address the issues discovered in the investigation. It will also conduct audits and provide audit results to a committee responsible for enforcing compliance with the settlement, which includes the Ohio Attorney General.

[13] Full details on the financial terms of the settlement can be found in the consent judgement, available at: https://www.ohioattorneygeneral.gov/Files/Briefing-Room/News-Releases/Consumer-Protection/Nationstar-Proposed-Consent-Judgment.aspx.

Tracking the Economy

– Eric Makela, Economist

This month's edition of *Tracking the Economy* was derived from the Economic Outlook in LBO's *Baseline Forecast of GRF Revenues & Medicaid Expenditures*.

Overview

The longest economic expansion in the nation's history ended during FY 2020, and many businesses and households struggled to remain financially viable during the COVID-19 pandemic. Nonfarm payroll employment dropped by 9.8 million (-6.5%), from an all-time peak in February 2020 to December 2020.The national unemployment rate jumped to historic levels during 2020, with the substantial majority of job losses occurring in the service sector. Inflation-adjusted gross domestic product (real GDP) fell 3.5% in 2020, though annualized growth in the third (+33.4%) and fourth (+4.0%) quarters represented an uptick from a record-breaking contraction in the spring (-31.4%). Despite job losses, the wages and salaries component of personal income ended 2020 above its 2019 level; total personal income was 6.3% greater in 2020 than the year prior. In response to the economic shutdowns early on in the pandemic, financial markets were supported by inexpensive credit in the spring of 2020, as the U.S. Federal Reserve Open Market Committee (FOMC) cut the federal funds interest rate to near zero.

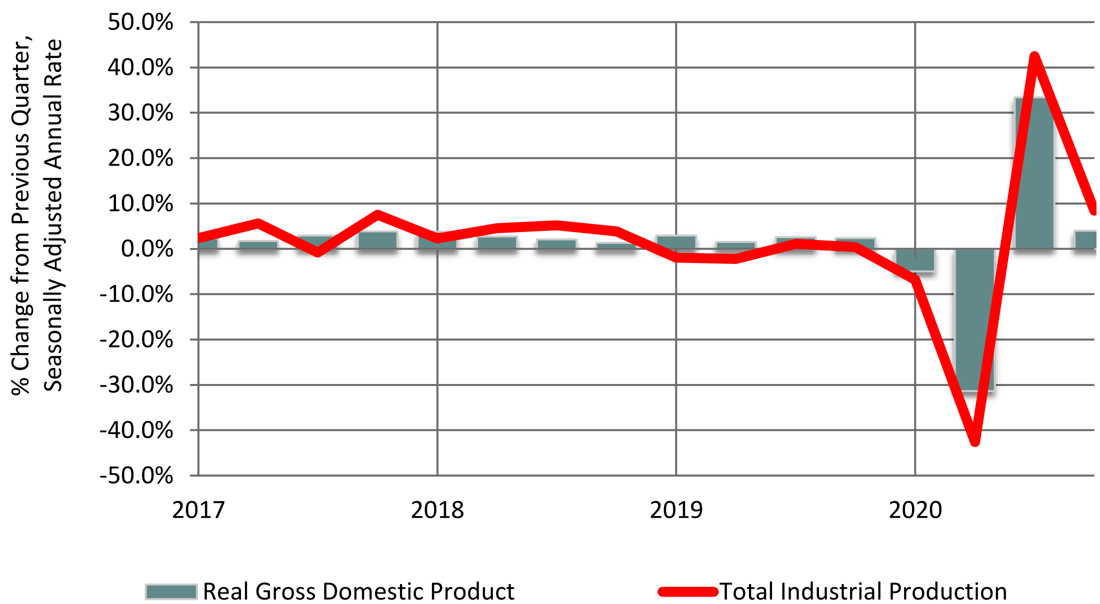
Nonfarm payroll employment in Ohio fell by 357,400 (-6.4%) from its February peak to December 2020, as the state grapples with a winter resurgence of COVID-19 cases. In recent years, the personal income growth of Ohioans has lagged that of the nation by approximately one percentage point, while the state’s real GDP and population growth have also trailed comparable measures for the U.S. as a whole. The state's economy has largely mirrored that of the nation during 2020, with a rapid decline in real GDP in the second quarter (-33.0% annualized rate) followed by a record-setting rise in the third quarter (+36.9% annualized rate). Housing demand and residential construction activity both grew in 2020, as the market for homes became heated amidst a bump in income, somewhat widespread work-from-home orders, and other market adjustments.

The National Economy

The national economy experienced a monumental setback in 2020 during the COVID-19 pandemic which prompted temporary closure of many businesses. In the spring of 2020, an initial round of federal stimulus to individuals, businesses, and governments propped up consumer spending, while a second wave of stimulus is expected to flow through the economy during the first half of 2021. Just prior to the pandemic, the nation had reached all-time peaks in real GDP and total employment (152.5 million); the national unemployment rate (3.5%) was the lowest on record since the 1960's. These peaks were incubated generally by high levels of consumer confidence, but also by financial and credit market conditions and corporate tax incentives that encouraged business fixed investment in the preceding years. Since March 2020, indicators of economic well-being have been largely mixed and prone to rapid swings. In the second quarter of 2020, real GDP fell at an annualized rate of 31.4%, the most rapid contraction in records kept since 1947, but trends now point in a direction of normalization.

The chart below demonstrates real GDP growth and changes in national industrial production over the last four years.[14] The average annualized rate of real GDP growth from 2017 to 2019 was 2.5%. National real GDP underwent record-setting swings in 2020, as annualized growth rates in the first (-5.0%), second (-31.4%), third (+33.4%), and fourth (+4.0%) quarters demonstrate the effects of the nation's rapid reaction to health threats and associated shutdowns. Real GDP in all of CY 2020 is estimated to have been 3.5% below that in 2019. Similarly, industrial production fell precipitously during the first half of 2020, but has since recovered most of this drop. As of December, total industrial production was 3.6% below its level a year prior.

Chart 6: United States Output Measures



The nation reached its highest-ever level of seasonally adjusted total nonfarm payroll employment in February 2020 (152.5 million). Employment plunged in March and April, then recovered partially, and was 9.4 million lower in December than a year earlier, as a result of the ongoing pandemic and efforts to contain it. The pandemic has influenced all areas of economic activity, though its effects have reverberated more in service-sector employment (-8.6 million; -6.6%) than in goods-producing occupations (-0.8 million; -3.7%).[15] Many workers, some classified as on temporary layoff, began drawing unemployment insurance. Others dropped out of the labor force. During 2020, the number of persons age 16 and over who were not in the labor force increased by 5.1 million (+5.3%), and the employment-population ratio declined to its lowest point on monthly records kept since 1948.

Business closures during 2020 resulted in weakness in real consumer spending during 2020 (-3.9%), following growth of 2.4% in 2019. The service sector (-7.3%) bore the brunt of the restrictions, while the jump in real disposable income during 2020 led to strength in the

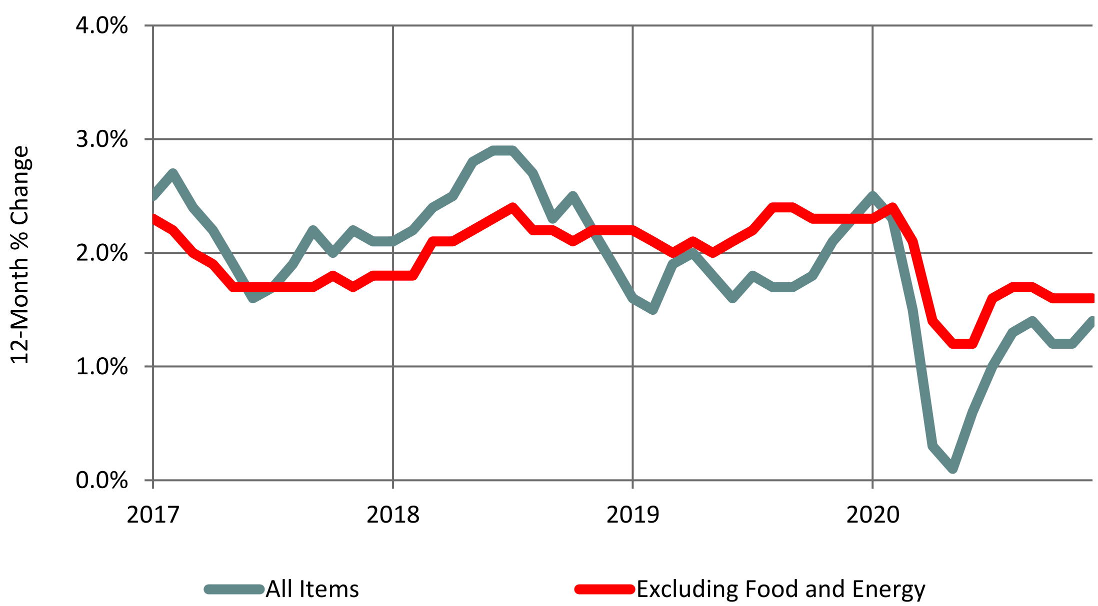
[14] Industrial production as measured by the Federal Reserve Board's Industrial Production Index.

[15] Employment changes from December 2019 to December 2020.

durable (+6.4%) and nondurable goods (+2.6%) sectors. Residential fixed investment rose 5.9% last year. Nonresidential fixed investment declined 4.0% during 2020, though trends in the third and fourth quarters marked a pickup from the lulls in the year's first half.

National personal income growth ran counter-cyclical to real GDP growth in 2020;[16] annualized growth in personal income jumped from 4.1% in the first quarter to 35.8% in the second quarter, followed by decreases in the third (-10.2%) and fourth (-6.7%) quarters. On an annual basis, personal income increased by nearly $1.2 trillion (+6.3%) in 2020. Transfer receipts (+36.6%) comprised most of the increase in personal income, but were not the only source of rising income during the year.[17] Wages and salaries (+0.6%), business income (+2.3%), and rental income (+1.9%) were all higher in 2020 than the previous year.

Chart 6: United States Consumer Price Index



Average inflation, as measured by the consumer price index (CPI) for all items, has generally run below 2% in recent years; annual inflation rates from 2017 through 2020, displayed in the above chart, averaged 1.9%. The average annual inflation rate from 2013 to 2016 was 1.2%.[18] In December, consumer prices were 1.4% higher than a year prior. Over the last year, overall inflation has been largely influenced by both a decline in energy prices (-7.0%) and an increase in food prices (+3.9%).

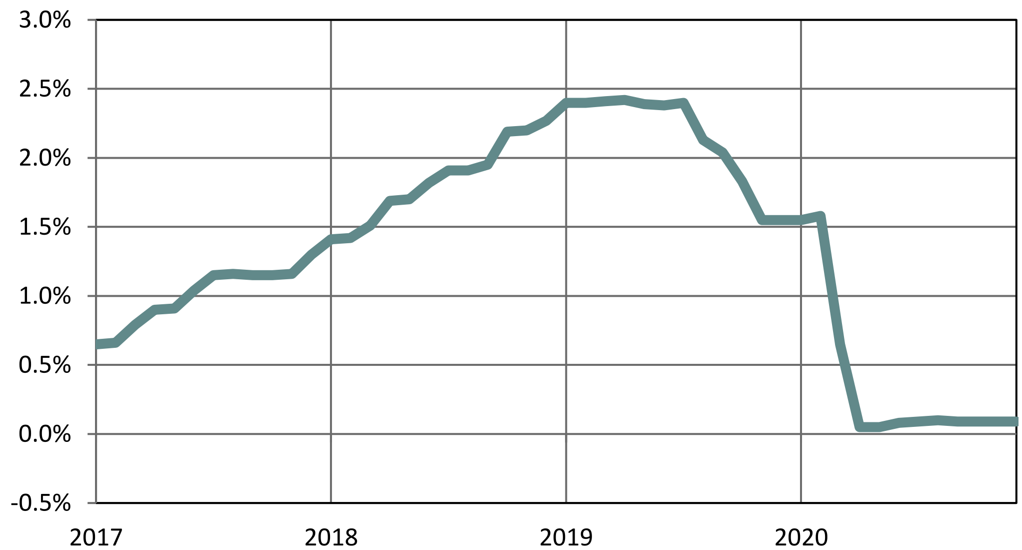
[16] Personal income is income received from all sources: labor force compensation, rental or proprietorship income, income from financial assets, and government transfer receipts.

[17] Transfer receipts include federal economic impact payments, unemployment insurance receipts, lost wages supplemental payments, Medicare, Medicaid, Social Security, and select other pandemic-specific federal money.

[18] Annual growth rates as measured by the December-to-December change in the CPI for all items.

The FOMC ceased raising interest rates during its first meeting of 2019, when the committee determined that inflation remained muted near the central bank's target, domestic job growth was strong, and unemployment low. Beginning on July 31, 2019, the FOMC began lowering short-term interest rates citing muted inflation and concerns about slowing economic growth abroad. Following sequential 0.25 percentage point rate reductions, the nation began its efforts to contain the COVID-19 pandemic. In meetings during March 2020, the federal funds rate range was reduced to its lowest possible positive level, as displayed in the chart below. In addition to these steps, the FOMC has also adjusted its criteria for setting monetary policy and stepped up its bond-purchasing programs.

Chart 7: Effective Federal Funds Rate

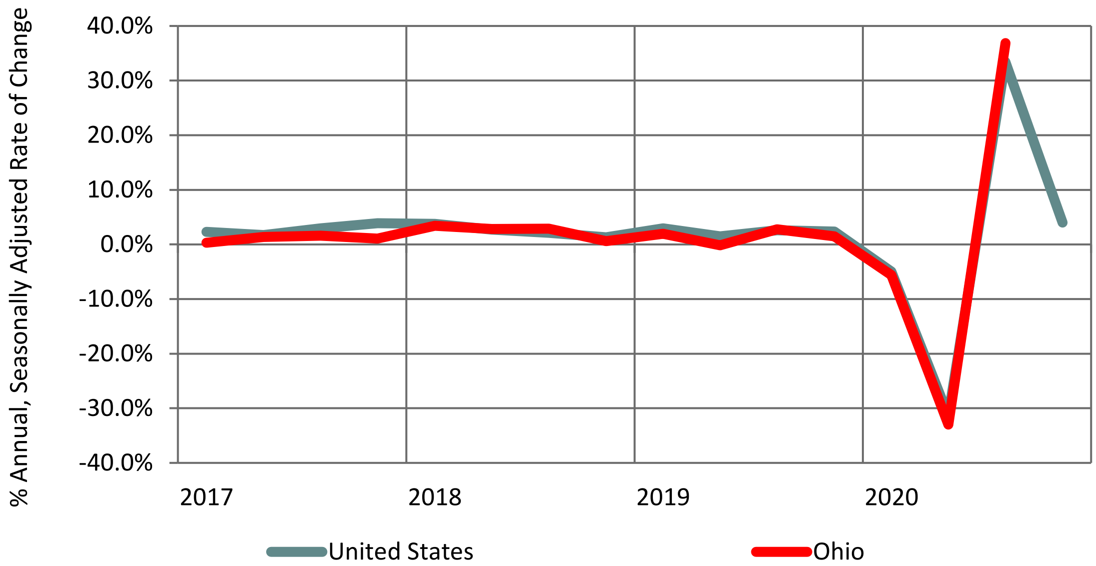


The Ohio Economy

In recent years, the economy in Ohio has grown at a slower rate than the national economy. From 2017 to 2019, the average growth rate of real GDP was 1.7% in Ohio and 2.5% nationally.[19] In the second quarter of 2020, Ohio's real GDP contracted 1.6 percentage points more than the national rate, and in the third quarter, real GDP growth was 3.5 percentage points greater than the national rate. The industry contributing most to real GDP growth during the third quarter of 2020 was durables manufacturing, at least in part due to the steep reduction in output during the previous quarter.

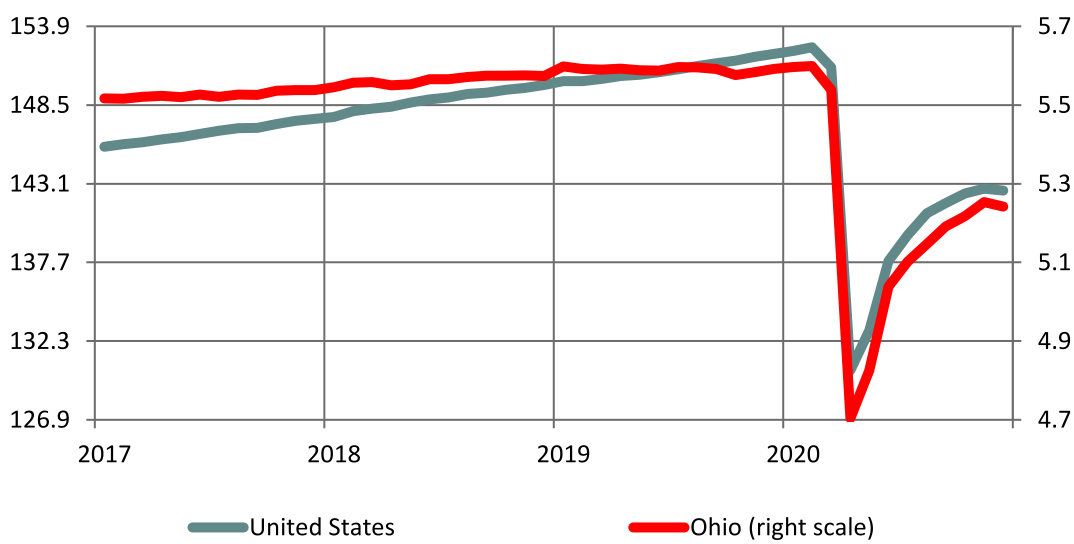
[19] Annualized quarter-to-quarter growth rates of real GDP.

Chart 8: Real Gross Domestic Product Growth
Seasonally Adjusted



As with GDP, job growth in Ohio, at least in sheer numbers, has generally lagged behind that of the country in recent years. From 2017 to 2019, average annualized employment growth in the service sector was 0.4% in Ohio compared to 1.6% nationally; in the same years, average employment growth in goods-producing industries was 1.2% in Ohio and 2.2% nationally.[20] Total nonfarm employment growth is shown in the chart below. In December 2020, Ohio's nonfarm payroll employment fell 11,500 (-0.2%). There were 350,200 (-6.3%) fewer jobs in the state in December 2020 than there were a year prior; the service-providing sector lost 304,600 jobs (-6.5%) and the goods-producing sector lost 45,600 jobs (-4.9%).

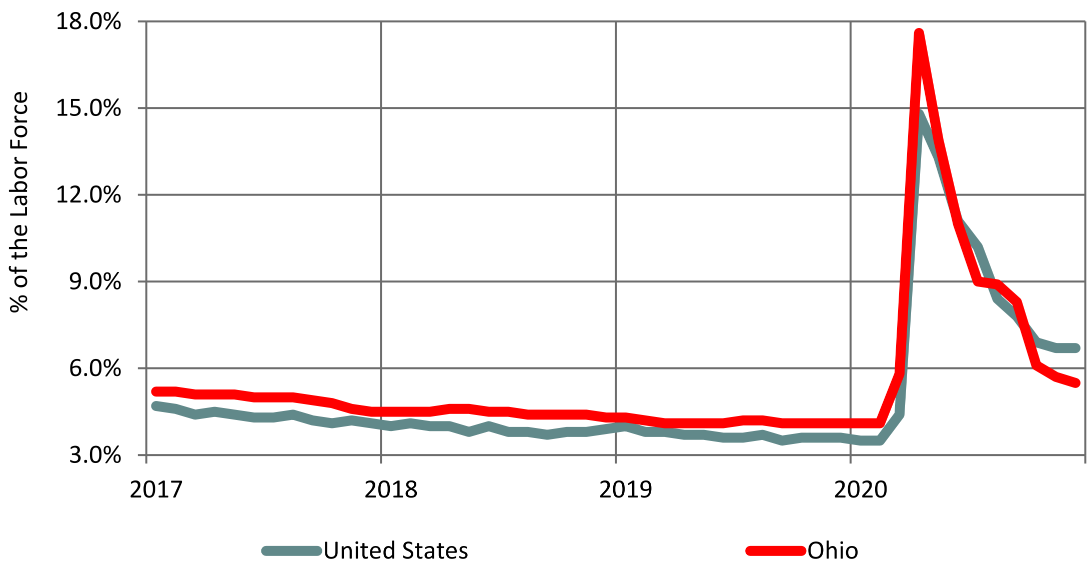
Chart 9: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



[20] Annualized quarter-to-quarter growth rates of nonfarm payroll employment.

Ohio's unemployment rate has been higher than the national unemployment rate since 2016, except for some months during the current pandemic. Ohio's unemployment rate in December was 5.5%, a decrease of 0.2 percentage point from November, while the national unemployment rate was 6.7%. As of December 2020, the state's civilian labor force was down by 128,000 participants (-2.2%) from December 2019, while the United States lost 2.4% of its labor force during that time.[21] The Ohio and national unemployment rates from 2017 to 2020 are charted in the figure below.

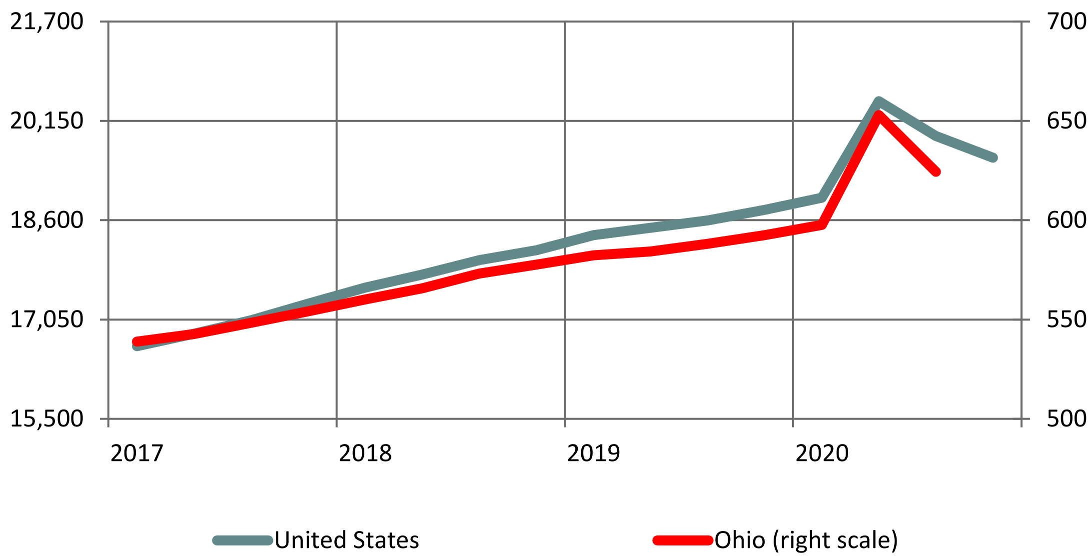
Chart 10: Unemployment Rate
Seasonally Adjusted



Personal income grew fairly steadily in Ohio and nationally prior to 2020. Between 2017 and 2019, personal income grew at an average annualized rate of 3.6% in Ohio, compared with 4.6% nationally; the growth can be viewed in the chart below, which displays personal income growth in Ohio and the United States. During 2020, personal income grew sharply in some months, then contracted, as federal stimulus, including Payroll Protection Program payments and enhanced unemployment benefits, bolstered incomes.

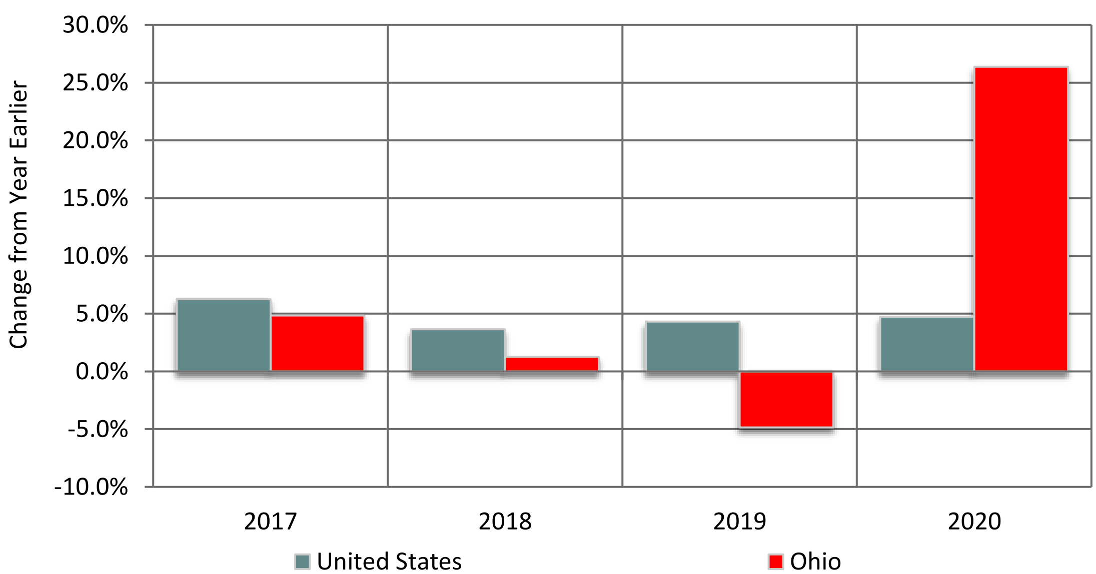
[21] Civilian, noninstitutionalized individuals over the age of 16 are counted as labor force participants if they currently hold a job or are unemployed and have searched for work during the most recent four-week period.

Chart 11: Personal Income
Billions of Dollars, Seasonally Adjusted Annual Rates



Markets for new and previously occupied housing were strong in 2020. Annual new housing completions nationwide during the last four years exceeded those in any prior year since 2007, the business cycle peak year ahead of the Great Recession of 2007-2009. New housing construction in Ohio, as indicated by the number of building permits issued, soared 26% during the year. The marketplace for existing homes in the state was heated in 2020, according to data from the Ohio Realtors trade organization. The number of homes sold during 2020 was 4.3% greater than in 2019. Perhaps more striking, the average sale price for an existing home during the year was $212,517, an increase of 9.9% from the previous year. The total dollar volume of existing home sales in Ohio was just over $34.4 billion last year, an annual increase of 14.7%.

Chart 12: New Privately Owned Housing Units
Authorized by Building Permits



Economic Forecasts

The following are forecasts of key indicators of the economic environment that will determine state revenues during the next biennium. Some of the indicator forecasts were inputs to LBO models used to make state revenue forecasts. Both these economic indicator forecasts and LBO's forecasts for state revenues are inherently subject to uncertainty. The economic indicator projections shown below are from IHS Markit's baseline forecasts released in December 2020. Assumptions regarding further COVID-19 stimulus, as well as the timing of public health orders, are built inherently into the IHS forecast.

The first line in each table contains quarter-by-quarter projected changes in the indicator at seasonally adjusted annual rates. The second line contains year-over-year projected changes in the indicator averaged over the four quarters of the fiscal year. The unemployment rate tables are IHS Economics' unemployment rate projections for the quarters indicated (first line) and the average of the rates in the quarters of each fiscal year (second line).

U.S. Gross Domestic Product

U.S. real GDP is projected to increase about 3.4% annually on average in the next biennium, as shown below.

U.S. Real GDP Growth												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	2.9	2.3	4.8	4.1	4.2	3.3	2.7	2.2	2.5	2.6	2.6	2.6
Fiscal Year		1.0				3.8				3.0		

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2023 at a pace which reflects a post-economic-shock expansion. Ohio real GDP is projected to increase about 2.9% annually on average in the next biennium, somewhat slower than that of the nation.

Ohio Real GDP Growth												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	3.4	2.2	4.2	3.6	3.4	2.5	2.4	2.0	2.2	2.2	2.2	2.2
Fiscal Year		0.4				3.4				2.5		

U.S. Inflation

Inflation, as measured by the rate of increase in the CPI for all urban consumers, is predicted to average around 2.3% annually during the next biennium.

U.S. Consumer Price Index Inflation												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	1.5	2.2	2.8	2.8	2.4	2.4	2.4	2.3	1.7	2.0	1.9	1.9
Fiscal Year		1.5				2.4				2.3		

U.S. Personal Income

Nationwide personal income is projected to grow about 2.8% on average annually during the upcoming biennium. Projections from IHS Markit reflect the firm's expectations for wage income and government transfers to persons, given potential Executive and congressional actions, during the forecast period.

U.S. Personal Income Growth												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	6.9	-2.6	0.7	3.4	4.9	4.1	3.8	3.5	4.7	4.5	4.4	4.4
Fiscal Year		2.8				1.5				4.1		

Ohio Personal Income

Income to persons who reside in Ohio also is forecast to grow in the next biennium, at 2.4% annually on average, slightly lower than the pace of growth projected for the U.S.

Ohio Personal Income Growth												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	8.2	-2.9	0.0	3.2	4.4	3.6	3.4	3.1	4.5	4.0	4.1	4.0
Fiscal Year		2.9				1.1				3.7		

U.S. Unemployment Rate

According to IHS Markit's December baseline forecast, the national unemployment rate is anticipated to decline throughout CY 2021. The unemployment rate will average around 4.8% annually during the upcoming biennium.

U.S. Unemployment Rate												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	6.3	6.2	5.7	5.2	4.8	4.6	4.5	4.5	4.5	4.4	4.3	4.3
Fiscal Year		7.0				5.1				4.5		

Ohio Unemployment Rate

Ohio's unemployment rate is projected to decline to a low of 4.7% during the biennium. The statewide unemployment rate in December 2020, released subsequent to this forecast, was 5.5%.

Ohio Unemployment Rate												
	2021				2022				2023			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	6.3	6.3	6.1	5.7	5.3	5.1	5.0	5.0	4.9	4.7	4.6	4.5
Fiscal Year		6.8				5.6				4.9		