LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– Ross Miller, Chief Economist

December GRF tax revenue was $64 million above the estimate published by the Office of Budget and Management (OBM) in September 2020. Revenue from the sales and use tax exceeded expectations in December by $50 million, continuing the strength shown during the first five months of FY 2021. Revenue from all GRF taxes, including the sales and use tax, exceeded estimate by $458 million during the first half of the fiscal year. The unusual situation of GRF revenue exceeding GRF expenditures early in the fiscal year, noted (and explained) in the December edition of *Budget Footnotes*, held true for the first half of FY 2021.

Ohio's unemployment rate dropped to 5.7% in November, and was a full percentage point lower than the national rate for that month. Total nonfarm payroll employment grew by 29,400 from October to November.

Through December 2020, GRF sources totaled $19.48 billion:

- Revenue from the sales and use tax was $356.5 million (6.3%) above estimate;
- Personal income tax (PIT) receipts were $75.3 million (1.5%) above estimate.

Through December 2020, GRF uses totaled $18.96 billion:

- Program expenditures were $698.9 million (3.6%) below estimate, including GRF Medicaid expenditures that were $539.2 million (5.3%) below estimate;
- Expenditures in the Primary and Secondary Education program category were above estimate by $26.4 million (0.7%); expenditures in all other program categories were below estimates.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 4, 2021)

State Sources	**Actual**	**Estimate***	**Variance**	**Percent**
Tax Revenue				
Auto Sales	$132,100	$124,400	$7,700	6.2%
Nonauto Sales and Use	$920,327	$878,400	$41,927	4.8%
Total Sales and Use	*$1,052,428*	*$1,002,800*	*$49,628*	*4.9%*
Personal Income	$830,622	$825,200	$5,422	0.7%
Commercial Activity Tax	$16,676	$10,300	$6,376	61.9%
Cigarette	$82,202	$69,700	$12,502	17.9%
Kilowatt-Hour Excise	$19,392	$20,800	-$1,408	-6.8%
Foreign Insurance	-$140	-$1,100	$960	87.3%
Domestic Insurance	$0	$2,000	-$2,000	-100.0%
Financial Institution	-$4,979	-$7,000	$2,021	28.9%
Public Utility	-$10,034	$5,000	-$15,034	-300.7%
Natural Gas Consumption	$212	$0	$212	---
Alcoholic Beverage	$3,452	$3,400	$52	1.5%
Liquor Gallonage	$4,458	$4,300	$158	3.7%
Petroleum Activity Tax	$1,184	$2,500	-$1,316	-52.6%
Corporate Franchise	$6,577	$0	$6,577	---
Business and Property	$44	$0	$44	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,002,094**	**$1,937,900**	**$64,194**	**3.3%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$722	$488	$235	48.1%
Other Revenue	$85	$3,750	-$3,665	-97.7%
Total Nontax Revenue	**$808**	**$4,238**	**-$3,430**	**-80.9%**
Transfers In	**$5,194**	**$0**	**$5,194**	**---**
Total State Sources	**$2,008,096**	**$1,942,138**	**$65,958**	**3.4%**
Federal Grants	**$475,907**	**$811,519**	**-$335,612**	**-41.4%**
Total GRF Sources	**$2,484,004**	**$2,753,657**	**-$269,653**	**-9.8%**

*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 December 31, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 4, 2021)

State Sources	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Tax Revenue						
Auto Sales	$886,939	$781,500	$105,439	13.5%	$800,865	10.7%
Nonauto Sales and Use	$5,095,963	$4,844,900	$251,063	5.2%	$4,790,415	6.4%
Total Sales and Use	*$5,982,902*	*$5,626,400*	*$356,502*	*6.3%*	*$5,591,280*	*7.0%*
Personal Income	$5,070,702	$4,995,400	$75,302	1.5%	$4,431,242	14.4%
Commercial Activity Tax	$775,275	$790,300	-$15,025	-1.9%	$808,022	-4.1%
Cigarette	$430,119	$391,600	$38,519	9.8%	$402,501	6.9%
Kilowatt-Hour Excise	$152,531	$166,500	-$13,969	-8.4%	$165,435	-7.8%
Foreign Insurance	$176,497	$160,700	$15,797	9.8%	$171,964	2.6%
Domestic Insurance	$824	$2,000	-$1,176	-58.8%	$3,826	-78.5%
Financial Institution	-$19,947	-$30,500	$10,553	34.6%	-$38,958	48.8%
Public Utility	$50,779	$67,700	-$16,921	-25.0%	$64,445	-21.2%
Natural Gas Consumption	$19,217	$22,700	-$3,483	-15.3%	$18,293	5.0%
Alcoholic Beverage	$31,320	$27,700	$3,620	13.1%	$27,413	14.3%
Liquor Gallonage	$28,771	$25,300	$3,471	13.7%	$26,053	10.4%
Petroleum Activity Tax	$2,062	$4,400	-$2,338	-53.1%	$4,041	-49.0%
Corporate Franchise	$6,825	$0	$6,825	---	$52	13010.4%
Business and Property	$59	$0	$59	---	$0	---
Estate	$12	$0	$12	---	$38	-67.1%
Total Tax Revenue	**$12,707,948**	**$12,250,200**	**$457,748**	**3.7%**	**$11,675,646**	**8.8%**
Nontax Revenue						
Earnings on Investments	$17,577	$13,750	$3,827	27.8%	$41,498	-57.6%
Licenses and Fees	$15,538	$9,447	$6,091	64.5%	$11,304	37.4%
Other Revenue	$82,952	$79,101	$3,851	4.9%	$77,395	7.2%
Total Nontax Revenue	**$116,068**	**$102,298**	**$13,769**	**13.5%**	**$130,197**	**-10.9%**
Transfers In	**$85,026**	**$77,932**	**$7,094**	**9.1%**	**$75,548**	**12.5%**
Total State Sources	**$12,909,042**	**$12,430,430**	**$478,612**	**3.9%**	**$11,881,391**	**8.6%**
Federal Grants	**$6,572,187**	**$7,208,262**	**-$636,075**	**-8.8%**	**$5,388,345**	**22.0%**
Total GRF SOURCES	**$19,481,229**	**$19,638,692**	**-$157,463**	**-0.8%**	**$17,269,737**	**12.8%**

*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 December of $19.48 billion were $157.5 million (0.8%) 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. In the first six months of FY 2021, federal grants posted a negative variance of $636.1 million (8.8%). Revenue for this GRF category is related to spending for Medicaid and other human services programs; GRF Medicaid expenditures were $539.2 million below estimate through December. The shortfall of federal grants was partially offset by positive variances of $457.7 million (3.7%) for GRF tax sources, $13.8 million (13.5%) for nontax revenue, and $7.1 million (9.1%) for transfers in. Tables 1 and 2 show GRF sources for the month of December and for FY 2021 through December, respectively.

Halfway through FY 2021, the sales and use tax, the PIT, and the cigarette tax were $356.5 million, $75.3 million, and $38.5 million above their respective estimates. However, the commercial activity tax (CAT) had a year-to-date (YTD) shortfall of $15.0 million, primarily due 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 financial institutions tax (FIT), the alcoholic beverage tax, and the liquor gallonage tax were above their respective YTD revenue targets by $15.8 million, $10.6 million, $3.6 million, and $3.5 million. Unexpectedly, the corporate franchise tax (CFT) had a YTD positive variance of $6.8 million, with $6.6 million of that total coming in December. 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. The positive variances were partly offset by deficits from the public utility tax, the kilowatt-hour tax, the natural gas consumption tax, and the petroleum activity tax (PAT). These taxes experienced negative variances of $16.9 million, $14.0 million, $3.5 million, and $2.3 million, respectively.

December GRF sources were below expectations by $269.7 million (9.8%) due to a substantial shortfall of $335.6 million (41.4%) for federal grants and a negative variance of $3.4 million (80.9%) for nontax revenue. On the other hand, GRF taxes had another good month and exceeded the estimate by $64.2 million (3.3%); and, revenue from transfers in was $5.2 million when none was expected during the month. For the month, the sales and use tax, the cigarette tax, and the PIT were above their anticipated revenue levels by $49.6 million,

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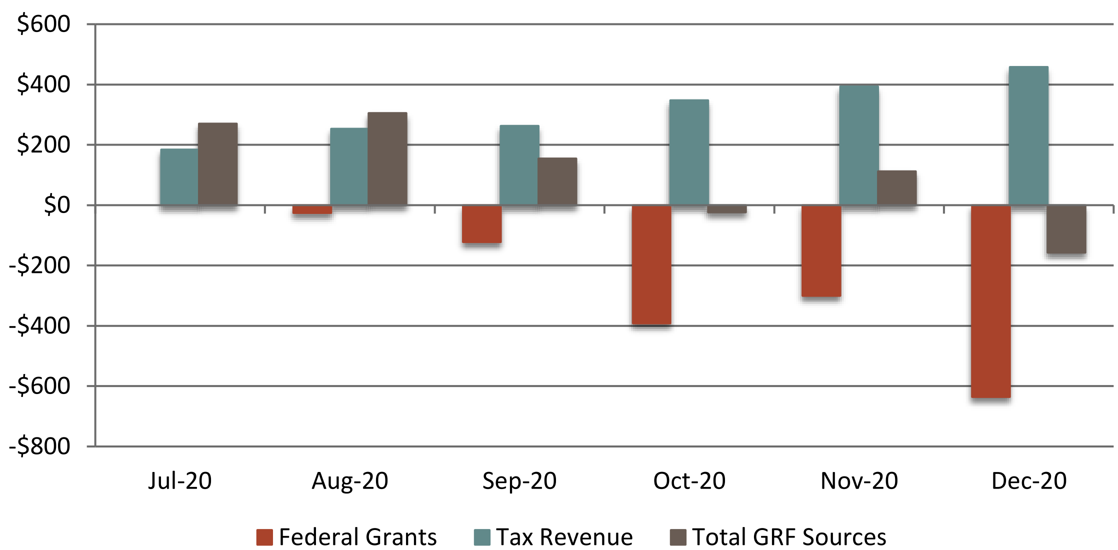
[1] This report compares actual monthly and year-to-date (YTD) GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than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

[2] 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.

$12.5 million, and $5.4 million, respectively. The CAT and the FIT also had positive variances of $6.4 million and $2.0 million, respectively. Negative variances were recorded by the public utility tax ($15.0 million), the domestic insurance tax ($2.0 million), the kilowatt-hour tax ($1.4 million), and the PAT ($1.3 million). Chart 1, below, shows cumulative YTD variances of GRF sources in the first half of FY 2021.

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



First-half GRF sources rose $2.21 billion (12.8%) compared to sources in the corresponding period in FY 2020. The growth was due to large increases in federal grants ($1.18 billion, 22.0%) and tax sources ($1.03 billion, 8.8%). The growth for federal grants was due in part to a COVID-19-related temporary rise in the share of federal reimbursements for Medicaid. This increase, which was authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, accounted for $564.4 million of the $1.18 billion growth in federal grants. Transfers in also rose by $9.5 million (12.5%), but nontax revenue fell by $14.1 million (10.9%). The growth in GRF tax sources was led by an increase of $639.5 million in PIT revenue and $391.6 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, as explained further in the section on that tax. Growth for the sales and use tax and the PIT totaled $1.03 billion. Thus, combined receipts for the remaining taxes were virtually unchanged from total revenue from those taxes in FY 2020. Revenue from the cigarette tax, the FIT, the CFT, the foreign insurance tax, the alcoholic beverage tax, and the liquor gallonage tax increased by $27.6 million, $19.0 million, $6.8 million, $4.5 million, $3.9 million, and $2.7 million, respectively. On the other hand, revenue declined for the CAT ($32.7 million), the public utility tax ($13.7 million), the kilowatt-hour tax ($12.9 million), the domestic insurance tax ($3.0 million), and the PAT ($2.0 million).

Sales and Use Tax

The sales and use tax has been stronger than expected YTD in FY 2021, with both portions of the tax (i.e., auto and nonauto) exceeding their respective estimates by large margins. Through December, FY 2021 revenue totaled $5.98 billion. This amount was $356.5 million (6.3%) above OBM projections. First-half GRF receipts from this tax were also $391.6 million (7.0%) above receipts in the corresponding period in FY 2020. December GRF sales and use tax revenue of $1.05 billion was $49.6 million (4.9%) above estimate, with both portions of the tax above their respective projections. Compared to receipts last year in the same month, December 2020 sales and use tax revenue was higher by $94.1 million (9.8%).

Various federal income support programs since the spring of 2020 have buttressed FY 2021 sales and use tax revenue by offsetting the economic drag from the COVID-19 pandemic.[3] Following a temporary drop in the spring, Ohio retail spending (including online purchases, excluding groceries) was estimated to have increased by 12.4% compared to its January level. Consumer spending on goods, which is mostly taxable under Ohio sales tax law, has been strong, though spending on services (a majority of which is untaxed) has substantially lagged. The positive effect of the recovery in Ohio is also likely due to increased employment levels among high-wage earners, though employment rates among workers in the bottom wage quartile has yet to recover to the levels of January and February 2020.[4] A new federal income support program was signed into law at the end of December. This new program provides $600 to most adults and children and is to be distributed in the coming weeks. Though this program is smaller than federal personal transfer payment programs enacted earlier in 2020, it may provide another boost to consumer spending and sales and use tax in the next few months.

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 FY 2021 GRF nonauto sales and use tax receipts totaled $5.10 billion, an amount $251.1 million (5.2%) above estimate and $305.5 million (6.4%) above revenue in FY 2020 through December. December receipts of $920.3 million were $41.9 million (4.8%) above estimate. The monthly tally was also $81.3 million (9.7%) above revenue in December 2019. Generally, a large part of a month's nonauto sales and use tax revenue is from tax collection or

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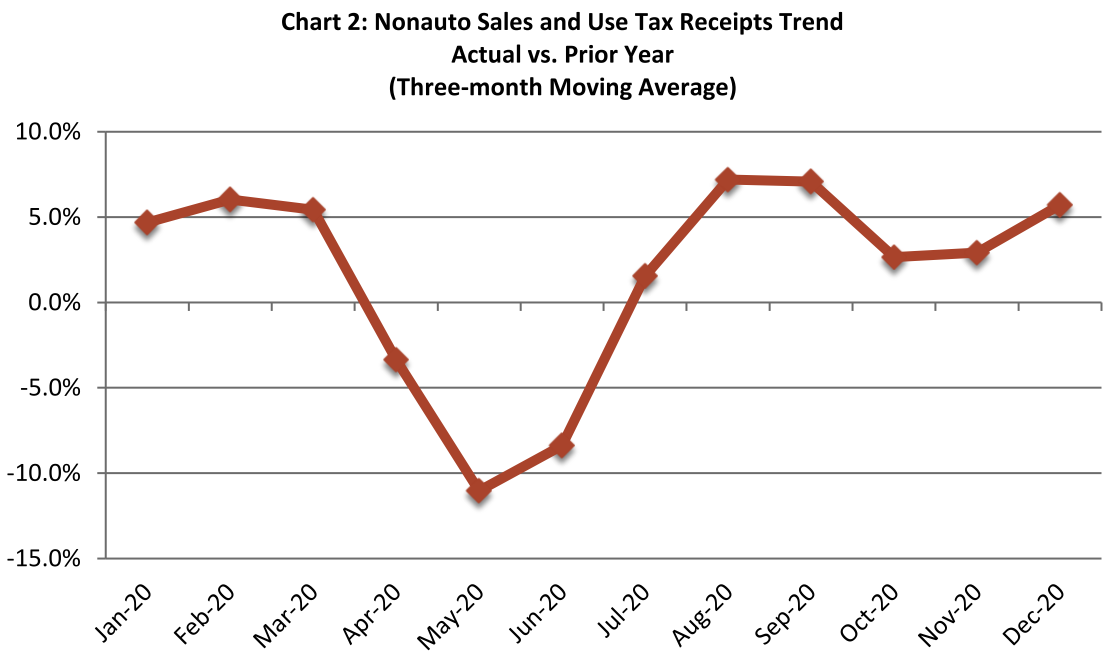
[3] To address the economic fallout from COVID-19, the U.S. Congress passed the CARES Act at the end of March 2020. The Act included cash payments of up to $1,200 (plus $500 for each child age 16 or under) for each qualifying adult, an additional $600 per week on top of any state-provided unemployment benefits through July 31, 13 weeks of unemployment benefits above that of each state's unemployment program, and unemployment benefits for self-employed and "gig" workers. The payroll protection program is a loan program intended to subsidize payroll costs for eight weeks after those loans, some of which are forgivable, are made. In the months following passage of the CARES Act, other federal support programs have been enacted or modified.

[4] For these purposes, high-wage earners are defined as those earning in excess of $60,000 per year. Low-wage earners are those earning below $27,000 per year. Employment rates as of October 15, 2020; spending data as of December 6, 2020. Data available at: https://tracktherecovery.org/.

tax remittance on taxable sales in the previous month. The future performance of this tax source is likely to be dependent on improvement in the Ohio economy and labor markets and potential statewide restrictions on economic activity due to high levels of COVID-19 infections.

Chart 2, below, provides year-over-year growth in nonauto sales and use tax collections in 2020. After strong growth at the start of the fiscal year and a sharp drop-off during the spring, the chart shows strong growth has returned in the most recent three months.

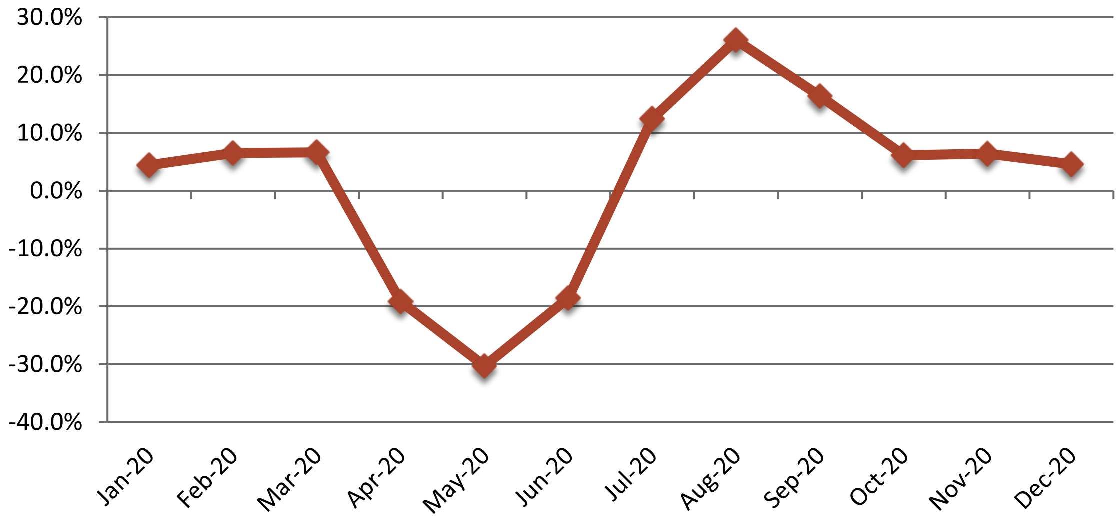


Auto Sales and Use Tax

The performance of the auto sales and use tax has been exceptionally strong this fiscal year. In the first six months of FY 2021, GRF auto sales and use tax receipts totaled $886.9 million, an amount $105.4 million (13.5%) above estimate and $86.1 million (10.7%) above revenue in the first half of FY 2020. Growth of more than 10% from the prior year in the absence of any significant tax policy change is unusual. In December, auto sales and use tax revenue was $132.1 million, $7.7 million (6.2%) above estimate and $12.7 million (10.7%) above such receipts in December 2019. Chart 3, below, shows year-over-year growth in auto sales and use tax collections, the pandemic-related revenue declines earlier in the calendar year from both low demand and low supply of vehicles, and the subsequent rebound starting in late spring. Recently, revenue growth for this tax source has essentially returned to growth rates at the start of the calendar year before the pandemic. 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.

Cheap credit and high demand for SUVs and pickup trucks have sustained the Ohio auto sales and use tax. The pandemic may have led persons avoiding public transportation (either for work or leisure) to purchase motor vehicles; and, the increased demand raised vehicle prices.

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



The increase in the Ohio auto tax base in the first half of FY 2021 relative to the corresponding period in FY 2020 was due to a 6.5% increase in the number of motor vehicles titled,[5] according to data provided by the Ohio Bureau of Motor Vehicles (BMV) shown below. Unit purchases of both new and used motor vehicles increased; and, the taxable base for both new and used motor vehicles also rose.

Motor Vehicles Titled in Ohio			
YTD FY 2021	**Titles**	**Spending ($ in millions)**	**Average Price**
New vehicles	213,852	$7,992	$36,361
Used vehicles	928,468	$9,336	$9,539
Total	**1,142,320**	**$17,328**	**$14,247**
Growth from FY 2020			
New vehicles	8.8%	$849.2	2.8%
Used vehicles	6.0%	$874.8	4.1%
Total	**6.5%**	**$1,724.0**	**4.3%**

[5] Titled motor vehicles include passenger vehicles, trucks, motorcycles, and other motor vehicles.

Also, data provided by the BMV show that new passenger vehicles sales were flat, while new truck demand jumped about 10%, and their average prices increased 3% and 7%, respectively. In the previously owned vehicle market, the demand for trucks was higher (8%) than that of passenger vehicles (2%) and average prices grew 5% and 4%, respectively.

The U.S. auto industry reported its lowest yearly sales tally in nearly a decade, as the fallout from the COVID-19 pandemic flipped over a record run for vehicle sales, though a sharp bounce back in demand in the year's second half led shoppers to pay record sums for new transportation. U.S. auto and light trucks sales totaled 14.5 million units in 2020, roughly 15% below sales in 2019, and the decline snapped a five-year stretch in which sales topped 17 million vehicles annually.

Personal Income Tax

YTD FY 2021 GRF receipts from the PIT of $5.07 billion were $75.3 million (1.5%) above estimate and $639.5 million (14.4%) above such revenue in FY 2020 through December. Though this tax source is above estimate for the fiscal year to date, the PIT underperformed in the second quarter, being $8.9 million (0.4%) below estimate in the period, a shortfall driven mostly by higher than estimated refunds. In the first fiscal quarter, GRF receipts were $84.2 million (3.0%) above anticipated revenue.

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 $89.4 million (2.4%) above receipts in the August to December 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;[6] PIT GRF revenue for the month was $550.1 million (87.3%) above receipts in July 2019.

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,[7] 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.

December PIT revenue to the GRF of $830.6 million was $5.4 million (0.7%) above anticipated revenue. Gross collections were $30.4 million (3.3%) above target, with all components above estimates. Employer withholding and quarterly estimated payments had positive variances of $17.4 million and $11.1 million, respectively. Taxes due with annual returns, miscellaneous payments, and trust payments were above their respective estimates by

[6] In April 2020, this component was $697.8 million below anticipated revenue.

[7] 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.

$0.8 million, $0.7 million, and $0.3 million. Refunds were $24.8 million (50.8%) higher than anticipated, and LGF distributions were $0.2 million (0.6%) above expectations.

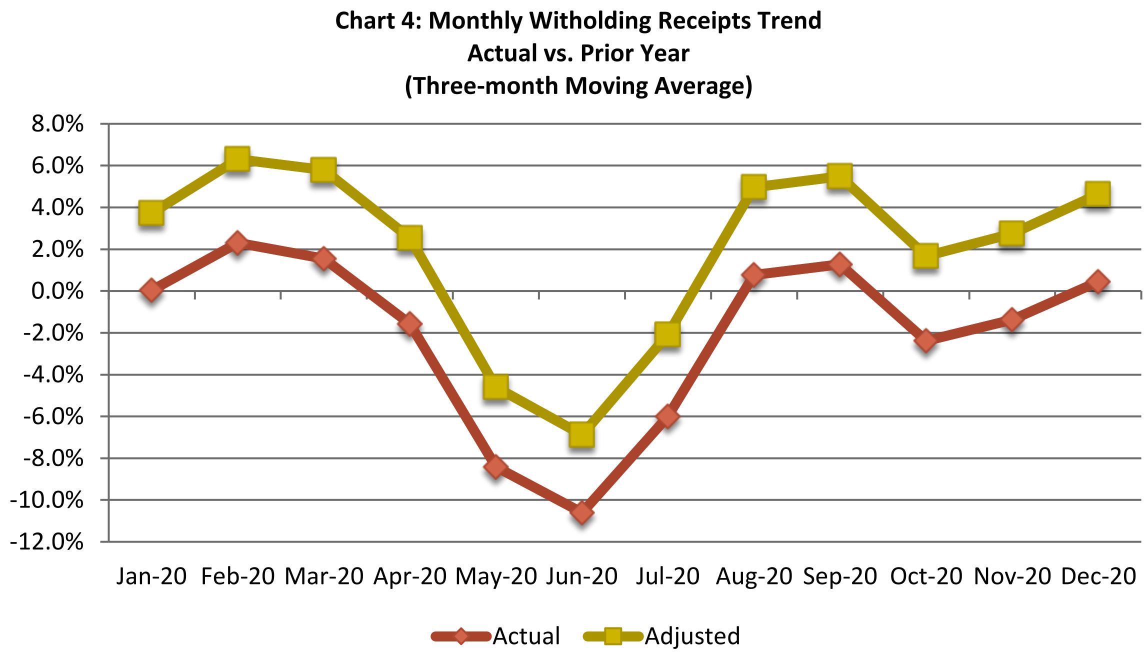
For FY 2021 through December, revenues from each component of the PIT relative to estimates and revenue received in FY 2020 are detailed in the table below. FY 2021 gross collections were $71.9 million above anticipated revenue. Quarterly estimated payments, employer withholding, and trust payments were above their projections by $54.8 million, $14.8 million, and $14.4 million, respectively. Those positive variances were partially offset by shortfalls of $9.4 million for payments due with annual returns and $2.6 million for miscellaneous payments. Refunds were $17.5 million below estimate, but LGF distributions were above expectation by $14.1 million, thus resulting in the YTD positive variance of $75.3 million for the GRF.

Compared to the first half of FY 2020, gross collections have been higher in FY 2021 due to the income tax filing delay. They grew $824.2 million, driven by an increase of $594.1 million from payments due with annual returns. In addition, quarterly estimated payments, employer withholding, and trust payments increased by $150.3 million, $38.8 million, and $43.6 million, respectively. On the other hand, miscellaneous payments were $2.6 million lower than in FY 2020. Year-over-year growth in withholding receipts in calendar year (CY) 2020 has been limited 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. FY 2021 refunds and LGF distributions were higher than those in FY 2020 by $168.6 million and $16.1 million, respectively. Therefore, growth in PIT GRF revenue totaled $639.5 million relative to YTD receipts in FY 2020.

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	$14.8	0.3%	$38.8	0.8%
Quarterly Estimated Payments	$54.8	13.1%	$150.3	46.5%
Trust Payments	$14.4	28.4%	$43.6	201.8%
Annual Return Payments	-$9.4	-1.3%	$594.1	452.5%
Miscellaneous Payments	-$2.6	-7.2%	-$2.6	-7.2%
Gross Collections	$71.9	1.2%	$824.2	16.2%
Less Refunds	-$17.5	-2.8%	$168.6	38.6%
Less LGF Distribution	$14.1	6.5%	$16.1	7.5%
GRF PIT Revenue	$75.3	1.5%	$639.5	14.4%

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 decrease in the withholding tax rate. Payrolls are estimated to have increased about 4.6%, on average, in the last three months.



Commercial Activity Tax

CAT GRF revenue of $16.7 million in December was $6.4 million (61.9%) above estimate and $7.7 million (85.1%) above December 2019 revenue, resulting in a better fiscal quarter than the first of the fiscal year. First-half GRF receipts from CAT taxpayers totaling $775.3 million were $15.0 million (1.9%) below estimate and $32.7 million below GRF revenue in the first six months of FY 2020. The CAT had recorded a first-quarter GRF shortfall of $23.5 million; however, in the second fiscal quarter, the CAT posted a positive GRF variance of $8.5 million (2.0%). Quarterly revenue was also $23.9 million (5.9%) above revenue in the corresponding quarter in FY 2020. Thus, the impact on CAT receipts of the COVID-19 pandemic may have been confined to the first quarter of FY 2021. YTD FY 2021 gross collections totaled $1.00 billion, a decrease of $22.1 million (2.1%) relative to gross collections in FY 2020 through December. Refunds and credits were $83.2 million, an increase of $16.7 million (25.1%) above those items in FY 2020.

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 $118.6 million and $18.2 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

First-half revenue in FY 2021 from the cigarette and other tobacco products (OTP) tax totaling $430.1 million was above estimate by $38.5 million (9.8%). This total included $379.6 million from the sale of cigarettes and $50.5 million from the sale of OTP. Revenue from this tax source in the latest month was outstanding. December receipts of $82.2 million were $12.5 million (17.9%) above estimate and $9.0 million (12.2%) above revenue in December 2019. Monthly growth relative to last year was almost entirely due to increased cigarette sales.

Through December, FY 2021 receipts grew $27.6 million (6.9%) relative to revenues in the corresponding period in FY 2020. Receipts from cigarette sales and OTP sales increased by $17.0 million (4.7%) and $10.6 million (26.6%), 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 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. However, that historical trend has been suspended since March 2020 by the impact on smokers of the COVID-19 pandemic. Smokers are spending less on travel and entertainment during the pandemic and thus have more disposable income for cigarettes. Fewer social interactions and more time at home allow for more tobacco use occasions. Also, some smokers may have switched back to traditional cigarettes due to recent federal restrictions on e-cigarette flavors.

Other Taxes

Utility-related taxes – kilowatt-hour, public utility, and natural gas consumption – were below their respective estimates in the first half of FY 2021, in part due to decreased energy consumption related to closures induced by the COVID-19 pandemic.

The kilowatt-hour tax generated $152.5 million for the GRF during the first six months of the fiscal year. This amount was $14.0 million (8.4%) below estimate and $12.9 million (7.8%) below revenue during the comparable months of FY 2020. The performance of the tax is due in part to milder weather than expected and lower than anticipated electricity consumption. The tax base generally is kilowatt-hours of electricity used, i.e., it generally does not depend on the price of electricity. Half of the allocation of GRF tax revenue to the Public Library Fund is debited against this tax for accounting purposes, thus bad GRF tax revenue performance overall can make the performance of this tax look relatively worse.

YTD through December, receipts from the public utility tax were $50.8 million, $16.9 million (25.0%) below estimate and $13.7 million (21.2%) lower than during July to December 2019. Most receipts from this tax are in the second month of each calendar quarter, with the largest receipts usually in May. Deliveries by natural gas utilities account for a large

[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.

part of the total. The drop in revenues from the public utility tax appears to be accounted for by lower prices paid for natural gas by all types of consumers.[9] Quantities of natural gas consumed in the Ohio market were down overall, though consumption by electric power producers somewhat grew.

Receipts from the natural gas consumption tax were $19.2 million in the first half of this fiscal year, $3.5 million (15.3%) below estimate but $0.9 million (5.0%) higher than in the year-earlier period. Payments in May account for nearly half of annual receipts from this tax in most years.

The foreign insurance tax generated $176.5 million during the first half of FY 2021, an amount $15.8 million (9.8%) above estimate, and $4.5 million (2.6%) above receipts in the corresponding period in FY 2020. The reason for the jump in collections from this tax source is unclear at this time. This tax is paid by insurance companies headquartered in other states based on premiums they receive to provide insurance covering risks located in Ohio. But, the revenue experience in the first six months generally reveals little about the full fiscal year experience from the tax as payments received so far represent advance payments based on previous-year tax liabilities before credits.

Only $0.8 million has been received so far in FY 2021 from the domestic insurance tax (paid by insurance companies headquartered in Ohio). That amount was $1.2 million (58.8%) below estimate and $3.0 million (78.5%) below revenue in the first six months of FY 2020. However, similarly to the foreign insurance tax, the first-half performance says little about the full-year experience: virtually all revenue from the tax is received in May and June each fiscal year.

Nontax Revenue

YTD GRF nontax revenue totaling $116.1 million was $13.8 million (13.5%) above estimate but $14.1 million (10.9%) below such revenue in the first six months of FY 2020. The year-over-year decline in revenue was entirely due to earnings on investments. FY 2021 earnings on investments were 57.6% below earnings recorded in the corresponding period last year, primarily due to lower federal funds rates implemented by the Federal Reserve in the last year and a half.

[9] The following are the four types of consumers: residential, commercial, industrial, and electric power generation.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2020
($ in thousands)
(Actual based on OAKS reports run January 7, 2021)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$572,738	$567,173	$5,565	1.0%
Higher Education	$187,996	$184,793	$3,203	1.7%
Other Education	$2,859	$3,919	-$1,060	-27.0%
Total Education	**$763,593**	**$755,885**	**$7,708**	**1.0%**
Medicaid	$973,624	$1,100,981	-$127,356	-11.6%
Health and Human Services	$136,400	$123,370	$13,030	10.6%
Total Health and Human Services	**$1,110,024**	**$1,224,351**	**-$114,326**	**-9.3%**
Justice and Public Protection	$158,089	$165,873	-$7,784	-4.7%
General Government	$27,404	$44,480	-$17,076	-38.4%
Total Government Operations	**$185,493**	**$210,353**	**-$24,860**	**-11.8%**
Property Tax Reimbursements	$2,132	$14,977	-$12,845	-85.8%
Debt Service	$21,991	$22,190	-$199	-0.9%
Total Other Expenditures	**$24,123**	**$37,167**	**-$13,044**	**-35.1%**
Total Program Expenditures	**$2,083,234**	**$2,227,756**	**-$144,522**	**-6.5%**
Transfers Out	**$23,750**	**$0**	**$23,750**	**---**
Total GRF Uses	**$2,106,984**	**$2,227,756**	**-$120,772**	**-5.4%**

*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 December 31, 2020
($ in thousands)
(Actual based on OAKS reports run January 7, 2021)

Program Category	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Primary and Secondary Education	$4,016,490	$3,990,059	$26,430	0.7%	$4,175,558	-3.8%
Higher Education	$1,142,773	$1,151,121	-$8,348	-0.7%	$1,132,287	0.9%
Other Education	$41,339	$43,359	-$2,020	-4.7%	$50,769	-18.6%
Total Education	**$5,200,602**	**$5,184,539**	**$16,062**	**0.3%**	**$5,358,614**	**-2.9%**
Medicaid	$9,657,424	$10,196,641	-$539,218	-5.3%	$8,424,866	14.6%
Health and Human Services	$731,732	$780,618	-$48,886	-6.3%	$742,522	-1.5%
Total Health and Human Services	**$10,389,156**	**$10,977,260**	**-$588,104**	**-5.4%**	**$9,167,388**	**13.3%**
Justice and Public Protection	$1,283,029	$1,343,379	-$60,350	-4.5%	$1,264,437	1.5%
General Government	$217,714	$252,728	-$35,014	-13.9%	$221,776	-1.8%
Total Government Operations	**$1,500,743**	**$1,596,107**	**-$95,364**	**-6.0%**	**$1,486,213**	**1.0%**
Property Tax Reimbursements	$904,349	$933,578	-$29,229	-3.1%	$905,289	-0.1%
Debt Service	$525,964	$528,271	-$2,307	-0.4%	$903,325	-41.8%
Total Other Expenditures	**$1,430,312**	**$1,461,849**	**-$31,536**	**-2.2%**	**$1,808,614**	**-20.9%**
Total Program Expenditures	**$18,520,813**	**$19,219,755**	**-$698,941**	**-3.6%**	**$17,820,829**	**3.9%**
Transfers Out	**$435,225**	**$445,900**	**-$10,675**	**-2.4%**	**$662,799**	**-34.3%**
Total GRF Uses	**$18,956,038**	**$19,665,655**	**-$709,617**	**-3.6%**	**$18,483,627**	**2.6%**

*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 January 8, 2021)

	Month of December 2020				Year to Date through December 2020			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$921,002	$1,051,607	-$130,605	-12.4%	$9,312,876	$9,846,807	-$533,932	-5.4%
Non-GRF	$1,414,524	$1,454,366	-$39,842	-2.7%	$4,867,771	$4,968,717	-$100,945	-2.0%
All Funds	$2,335,526	$2,505,974	-$170,448	-6.8%	$14,180,647	$14,815,524	-$634,877	-4.3%
Developmental Disabilities								
GRF	$43,255	$42,430	$825	1.9%	$292,212	$292,629	-$416	-0.1%
Non-GRF	$178,303	$207,049	-$28,746	-13.9%	$1,314,757	$1,253,777	$60,979	4.9%
All Funds	$221,557	$249,479	-$27,921	-11.2%	$1,606,969	$1,546,406	$60,563	3.9%
Job and Family Services								
GRF	$8,563	$6,012	$2,552	42.4%	$46,326	$50,995	-$4,670	-9.2%
Non-GRF	$14,387	$12,361	$2,026	16.4%	$88,477	$94,914	-$6,437	-6.8%
All Funds	$22,950	$18,373	$4,577	24.9%	$134,803	$145,910	-$11,107	-7.6%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$805	$932	-$127	-13.6%	$6,010	$6,210	-$200	-3.2%
Non-GRF	$4,540	$2,478	$2,062	83.2%	$17,275	$20,872	-$3,597	-17.2%
All Funds	$5,345	$3,410	$1,935	56.7%	$23,285	$27,082	-$3,797	-14.0%
All Departments:								
GRF	**$973,624**	**$1,100,981**	**-$127,356**	**-11.6%**	**$9,657,424**	**$10,196,641**	**-$539,218**	**-5.3%**
Non-GRF	**$1,611,754**	**$1,676,254**	**-$64,501**	**-3.8%**	**$6,288,280**	**$6,338,280**	**-$50,001**	**-0.8%**
All Funds	**$2,585,378**	**$2,777,235**	**-$191,857**	**-6.9%**	**$15,945,703**	**$16,534,922**	**-$589,218**	**-3.6%**

*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 January 8, 2021)

	Month of December 2020				Year-to-Date through December 2020			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,869,909**	**$1,849,807**	**$20,102**	**1.1%**	**$10,682,701**	**$10,914,994**	**-$232,293**	**-2.1%**
CFC†	$632,526	$654,127	-$21,601	-3.3%	$3,663,166	$3,764,603	-$101,437	-2.7%
Group VIII	$529,559	$604,858	-$75,299	-12.4%	$3,079,174	$3,275,135	-$195,960	-6.0%
ABD†	$248,694	$258,622	-$9,928	-3.8%	$1,505,338	$1,535,479	-$30,141	-2.0%
ABD Kids	$80,532	$83,704	-$3,173	-3.8%	$482,979	$494,512	-$11,533	-2.3%
My Care	$237,830	$248,497	-$10,667	-4.3%	$1,432,459	$1,467,293	-$34,834	-2.4%
P4P & Ins Fee†	$140,769	$0	$140,769	---	$519,585	$377,973	$141,612	37.5%
Fee-For-Service	**$534,001**	**$751,256**	**-$217,255**	**-28.9%**	**$4,261,868**	**$4,571,421**	**-$309,553**	**-6.8%**
ODM Services	$316,172	$367,106	-$50,934	-13.9%	$2,078,560	$2,281,923	-$203,363	-8.9%
DDD Services	$217,829	$235,800	-$17,971	-7.6%	$1,560,675	$1,496,681	$63,993	4.3%
Hospital - HCAP&Other†	$0	$148,350	-$148,350	-100.0%	$622,633	$792,816	-$170,184	-21.5%
Premium Assistance	**$104,940**	**$95,975**	**$8,965**	**9.3%**	**$543,986**	**$530,121**	**$13,865**	**2.6%**
Medicare Buy-In	$70,293	$61,372	$8,920	14.5%	$369,771	$355,536	$14,236	4.0%
Medicare Part D	$34,647	$34,602	$45	0.1%	$174,215	$174,585	-$370	-0.2%
Administration	**$76,528**	**$80,197**	**-$3,669**	**-4.6%**	**$457,149**	**$518,385**	**-$61,237**	**-11.8%**
Total	**$2,585,378**	**$2,777,235**	**-$191,857**	**-6.9%**	**$15,945,703**	**$16,534,922**	**-$589,218**	**-3.6%**

*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[10]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

For the first half of FY 2021, GRF program expenditures totaled $18.52 billion. These expenditures were $698.9 million (3.6%) 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 December. The program category with the largest negative variance was Medicaid, which had a negative YTD GRF variance of $539.2 million (5.3%). Medicaid also had the largest negative variance for the month of December at $127.4 million (11.6%). 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. Justice and Public Protection had the second largest negative YTD variance at $60.4 million (4.5%). Health and Human Services was next with a negative YTD variance of $48.9 million (6.3%). The only positive YTD variance was $26.4 million (0.7%) for the Primary and Secondary Education category. YTD variances are shown in the preceding Table 4, while Table 3 shows December variances.

In addition to program expenditures, total uses include transfers out. Transfers out totaled $435.2 million YTD and had a negative YTD variance of $10.7 million (2.4%) at the end of December. This negative variance fell by $23.8 million in December due to a transfer for that amount to the Targeted Addiction Program Fund (Fund 5TZ0) occurring in December instead of August as expected.

Combining program expenditures and transfers out, total GRF uses for the first half of FY 2021 were $18.96 billion. These uses were $709.6 million (3.6%) below estimate. The rest of this section discusses both GRF and non-GRF variances in Medicaid and the GRF variances in Justice and Public Protection, Health and Human Services, and Primary and Secondary Education.

Medicaid

GRF Medicaid expenditures were below their monthly estimate in December by $127.4 million (11.6%) and below their YTD estimate, by $539.2 million (5.3%), at the end of December. Non-GRF Medicaid expenditures were below their monthly estimate, by $64.5 million (3.8%), and also below their YTD estimate, by $50.0 million (0.8%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $191.9 million (6.9%) below estimate in December and $589.2 million (3.6%) below their YTD estimate at the end of December. 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

[10] 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.

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 budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had an all funds negative variance in December of $170.4 million (6.8%), and YTD expenditures also were below estimate, with a negative variance of $634.9 million (4.3%). Part of the negative December variance for ODM was due to a scheduled Upper Payment Limit payment of $148.3 million which did not go out during the month. ODM did make a $141.0 million payment towards the health insurance fee. ODODD had a December all funds negative variance of $27.9 million (11.2%) and ended the month with a YTD positive variance of $60.6 million (3.9%). 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 December. Fee-For-Service had the largest negative variance of $309.6 million (6.8%), followed by Managed Care’s negative variance of $232.3 million (2.1%), and Administration’s negative variance of $61.2 million (11.8%). Premium Assistance YTD expenditures were above estimate by $13.9 million (2.6%).

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 through December of 2020, caseloads have increased by 32,900 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, December’s caseload of 3.1 million enrollees is approximately 272,000 cases (8.0%) below estimate.

Justice and Public Protection

The Justice and Public Protection program category had a YTD negative variance at the end of December of $60.4 million (4.5%). This YTD variance has been gradually building up from a series of negative monthly variances from August through December. The negative variance for December was $7.8 million (4.7%). Two agencies make up the majority of the negative YTD variance – the Department of Rehabilitation and Correction (DRC) and the Public Defender Commission (PUB).

DRC had a positive variance in December of $2.5 million, but this was not enough to offset negative variances in the previous four months, especially a negative variance of $17.1 million in September and a negative variance of $10.8 million in November. DRC’s resulting YTD variance for the first six months of FY 2021 was a negative $31.8 million. All but one of DRC’s appropriation items had negative YTD variances. The most significant was a negative YTD variance for item 501321, Institutional Operations, which was below its YTD estimate by $21.6 million at the end of December. Item 501321 is DRC's main appropriation item used to pay for its operating expenses.

PUB had a negative YTD variance for the first half of FY 2021 of $10.9 million. Most of this variance was caused by a negative variance of $8.4 million for the month of December. These variances were almost completely driven by appropriation item 019501, County Reimbursement, which had a negative December variance of $8.4 million and a negative YTD variance of $10.6 million. Item 019501 is used to reimburse counties for their expenditures for indigent defense. At least part of the current variance in this item is due to timing issues with the reimbursements. No expenditures were made from the item in December.

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 positive variance of $13.0 million (10.6%) in December, decreasing its YTD negative variance to $48.9 million (6.3%).

Job and Family Services

The Ohio Department of Job and Family Services (ODJFS) was responsible for $16.6 million of the YTD negative variance. ODJFS's negative variance decreased significantly in December due to a positive variance for the month of $26.7 million. ODJFS's variances were dominated by three appropriation items with negative variances partially offset by one appropriation item with a positive variance as listed below:

- 600535, Early Care and Education, was $5.3 million under estimate in December and $14.4 million under estimate YTD;
- 600450, Program Operations, was $3.9 million under estimate in December and $9.1 million under estimate YTD;
- 600413, Child Care State/Maintenance of Effort, was $3.1 million over estimate in December and $7.8 million under estimate YTD;
- 600523, Family and Children Services, was $27.5 million over estimate in December and $17.1 million over estimate YTD.

Items 600535 and 600413 are used to provide publically funded child care. Item 600450 is used for administrative functions and operating expenses for a number of ODJFS's program offices. 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.

Mental Health and Addiction Services

The Department of Mental Health and Addiction Services (MHA) had a negative variance in December of $11.0 million that increased its negative YTD variance to $15.5 million. MHA's negative variance in December came mainly from item 336421, Continuum of Care Services, which was under its December estimate by $7.0 million, partially offsetting its positive November variance of $8.3 million. For the YTD, this item was $5.6 million under estimate. Item 336421 is mainly used to distribute funds to local boards of alcohol, drug addiction, and mental health.

Primary and Secondary Education

The Primary and Secondary Education program category includes all GRF expenditures by the Ohio Department of Education (ODE), except for Medicaid and Property Tax Reimbursement expenditures. This category had a positive variance of $57.5 million in October, another positive variance of $37.8 million in November, and now a positive variance of $5.6 million (1.0%) in December. These positive variances have more than offset the category's negative September variance, resulting in a YTD positive variance of $26.4 million (0.7%). As reported in October's issue of *Budget Footnotes*, this category had negative variances of $48.2 million in appropriation item 200550, Foundation Funding, and $30.7 million in appropriation item 200573, EdChoice Expansion, in September, due mainly to a timing issue related to scholarship payments. With positive variances in October, November, and December, item 200573's negative YTD variance has been reduced to $11.5 million. Item 200550 also had positive variances in October, November, and December leaving it with a YTD positive variance of $55.8 million. Item 200550 is the main source of state funding for local schools.

Issue Updates

Internet- and Computer-based Community School Enrollment Grows Amid Pandemic

– Nick Ciolli, Budget Analyst

Enrollment in internet- and computer-based community schools (e-schools) has increased substantially in the 2020-2021 school year (FY 2021), as more parents have opted to enroll their children in e-schools in the wake of the COVID-19 pandemic. E-schools have grown from an enrollment of 23,300 full-time equivalent (FTE) students at the end of FY 2020 to 34,100 FTE students for FY 2021 (as of December), an increase of 10,800 students, or 46.3%. The vast majority of this growth is occurring in the state's six general education e-schools, which are listed in the table below and whose total enrollment has increased by 10,600 students (54.4%). All but one of these schools has a "statewide" enrollment base, which means that students may reside anywhere in Ohio and enroll in the school. Enrollment in the nine dropout prevention and recovery (DOPR) e-schools has grown by about 210 students (5.5%). Site-based community school enrollment is stable, increasing less than 1% compared to FY 2020.

While e-school enrollment has increased substantially, no e-school reached its statutory enrollment limit in FY 2021. Each e-school has an enrollment limit based on the school's enrollment in FY 2013 or 1,000 students if the school opened after FY 2013 and a prescribed rate of annual growth that is applied to the prior year's enrollment limit (not the prior year's FTEs).

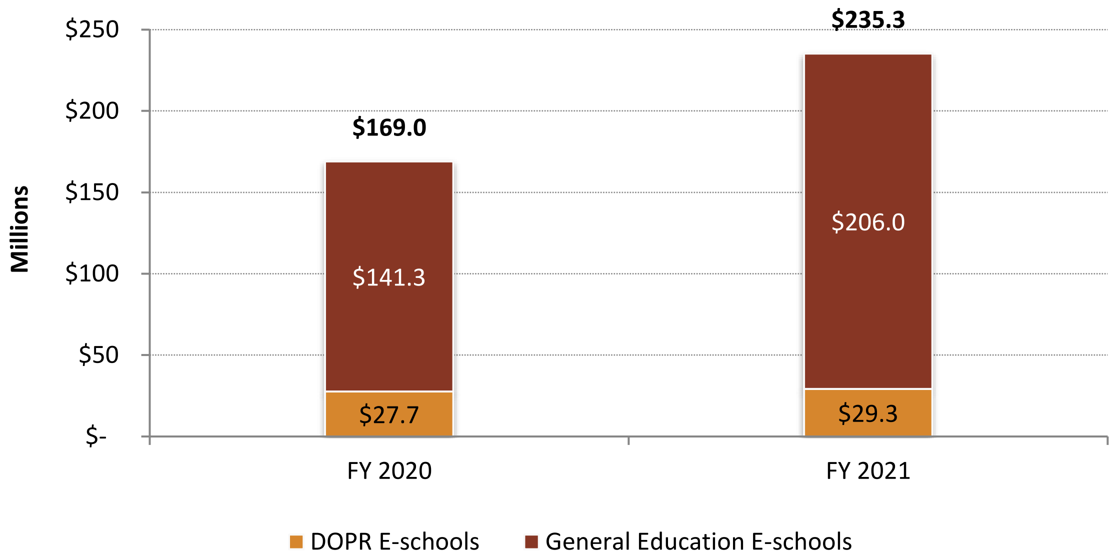
E-school Enrollment Growth, FY 2020-FY 2021				
Community School	**FTE Enrollment FY 2020**	**FTE Enrollment FY 2021**	**Change FY2020-FY2021**	**% Change FY 2020-FY 2021**
Ohio Virtual Academy	11,825	17,727	5,902	49.9%
Ohio Connections Academy	4,182	5,389	1,207	28.9%
Alternative Education Academy	2,025	4,802	2,777	137.2%
Great River Connections Academy	843	1,288	445	52.7%
Buckeye On-Line School	546	642	96	17.5%
Quaker Preparatory Academy*	0	142	N/A	N/A
General education e-school subtotal	*19,422*	*29,989*	*10,567*	*54.4%*
*DOPR** e-school subtotal*	*3,880*	*4,092*	*212*	*5.5%*
Total	**23,302**	**34,081**	**10,779**	**46.3%**

*Quaker Preparatory Academy newly opened for FY 2021.

**The nine DOPR e-schools are not listed in the table.

As a result of the enrollment gains, funding for e-schools has also increased significantly. E-school funding is slated to grow from $169.0 million in FY 2020 to $235.3 million in FY 2021, an increase of $66.3 million (39.2%). Similar to enrollment growth, general education e-schools are receiving almost the entirety of the funding increase, as shown in the chart below. Funding for e-school students, like that for students attending site-based community schools, is generally deducted from the foundation aid of the student's resident district.[11] E-school funding is based on the full formula amount of $6,020 and, if applicable, the full per-pupil category amounts for special education additional aid and career-technical education funds.

Chart 5: E-school Funding Transfers by School Education Plan, FY 2020-FY 2021



ODE Partners with Sandy Hook Promise on Threat Assessment Training

– Dan Redmond, Budget Analyst

On November 23, 2020, ODE announced a partnership with the Sandy Hook Promise organization to provide school districts and other public schools with free school violence prevention training through the organization's Safety Assessment and Intervention program. The partnership follows the enactment of H.B. 123 of the 133rd General Assembly, which requires the establishment of threat assessment teams in public schools and completion of an approved training program by team members. The six-hour, evidence-based training program is offered at no charge to public schools for the FY 2020-FY 2021 school year using grant funding from the U.S. Department of Justice. It is designed for multidisciplinary teams to help identify existing gaps in school safety policies and codes of conduct and learn how to respond to keep the community

[11] H.B. 123 of the 133rd General Assembly created a pilot program to provide additional funding to certain DOPR e-schools in FY 2021. The program is funded directly by a $2.5 million earmark from ODE's FY 2021 GRF foundation funding line item and does not involve deductions and transfers from traditional school districts.

safe. This year it will be offered virtually due to the COVID-19 pandemic. Public schools that enroll in the training will learn to:

- Identify the threats, signs, and signals of a violent act;
- Determine the seriousness of such threats, signs, and signals; and
- Develop intervention plans to protect potential victims and address the problems underlying the threatening behavior.

The goals of the training program align with *Each Child, Our Future*, ODE's five-year strategic plan for education, which includes a commitment that every child learn in a physically and emotionally safe environment. Following the training, Sandy Hook Promise provides ongoing support and resources.

Children Services Transformation Report Released

– Nicholas J. Blaine, Budget Analyst

On November 20, 2020, the Governor released the Children Services Transformation Advisory Council's final report, which includes recommendations for reforming Ohio's children services system.[12] One overarching recommendation was to address inequities in the system that lead to black and multiracial youths being referred to children services and placed in out-of-home care much more often than their white counterparts. The report also made 37 specific recommendations that were grouped into seven core action areas: prevention, workforce, practice, kinship, foster care, adoption, and juvenile justice. Some of these include: integrating and expanding peer mentoring services, enhancing prenatal-to-three prevention and early intervention services, establishing a state-level ombudsman to independently investigate and resolve complaints made by or on the behalf of children and families involved with children services, and create a multisystem data exchange platform that makes sharing state and local data easier. ODJFS will work to implement the recommendations.

The Children Services Transformation Advisory Council was formed in November 2019 by the Governor. It consisted of state and local government representatives, as well as public members including foster and adoptive parents, kinship care providers, and foster care alums. It was tasked with reviewing the foster care system and providing recommendations to strengthen all areas of the system. The advisory council held ten forums from November 2019 to January 2020 to hear from Ohioans about their experiences with children services systems and gather their feedback for its improvement. It heard testimony from approximately 500 individuals during this time.

[12] The full report can be read here: https://governor.ohio.gov/wps/portal/gov/governor/media/news-and-media/children-services-transformation-final-report-11202020.

Ohio Medicaid Releases Request for Applications for OhioRISE

– Nelson V. Lindgren, Economist

On October 28, 2020, ODM released its request for applications (RFA) for bidders to administer the Ohio Resilience through Integrated Systems and Excellence (OhioRISE) program. OhioRISE is a specialized managed care program that will serve children with complex behavioral health and multi-system needs. The selected bidder will be responsible for both developing and managing a full continuum of behavioral health network providers who have the expertise necessary to serve these populations. In addition, the selected bidder will be responsible for developing the infrastructure necessary to ensure the integration of physical health and behavioral health services. Specifically, OhioRISE will provide intensive care coordination services; offer new and enhanced critical services; and assist families, state and local child-serving agencies, and other health providers to locate and use services. Program objectives are broad and include the following: expand early interventions to reduce hospitalization and emergency department use, increase access to community and in-home support, increase school attendance, reduce recidivism rates in the juvenile justice system, and reduce custody relinquishment and out-of-home placements such as foster care.

ODM expects 50,000 to 60,000 children will be enrolled in the program. In order to receive services a child must be enrolled in Medicaid, be under age 21, and meet a functional needs threshold that assesses a child's needs and strengths in different areas including school, trauma, mental health needs, and risk behaviors. RFAs had to be submitted to ODM by December 16, 2020. ODM estimates the award for the administration of the OhioRISE managed care contract will take place in February 2021 and the program will go live on January 1, 2022.

Ohio Department of Veterans Services Receives $2.6 Million in Federal CARES Funding for Veterans Homes

– Shaina Morris, Budget Analyst

On October 26, 2020, the Controlling Board approved a request from the Department of Veterans Services to increase federal appropriation item 900609, Medicare Services, by $2.6 million in FY 2021. The increase is due to the receipt of federal funding from the CARES Act. The state's two veterans homes, located in Sandusky (Erie County) and Georgetown (Brown County), respectively, will use the funds for COVID-19-related expenses, including testing, staffing, and personal protective equipment. Revenue from Medicare reimbursements has dropped due to a decline in the resident population and new admissions having been put on hold in response to the COVID-19 pandemic.

As of December 18, 2020, the Department reported that, since its first case, 184 residents had tested positive for COVID-19, 89 had recovered, and 38 had died. Of its staff at the homes, the Department reported 139 had tested positive for COVID-19, 108 had recovered, and none had died.

Sandusky and Georgetown have a combined capacity and capability to provide services to more than 700 veterans. The Ohio Veterans Home in Sandusky is a 427-bed nursing home facility and opened in 1888 to care for veterans of the Civil War. The location also hosts a 122-bed domiciliary. The Ohio Veterans Home in Georgetown offers 168 beds for nursing home care and opened in 2003. Combined, the two veterans homes are one of the largest nursing home systems in the country and the largest in Ohio.

Ohio EPA Awards $122 Million in Wastewater and Drinking Water Infrastructure Loans

– Jamie Doskocil, Fiscal Supervisor

In November 2020, the Ohio Environmental Protection Agency (Ohio EPA) announced that low-interest and principal forgiveness loans totaling approximately $122 million had been awarded to 50 recipients for wastewater and drinking water infrastructure improvement projects. Forty-seven of the recipients were units of local government. The loans were approved during the third quarter of calendar year 2020 (period ending on September 30). More than $11 million of the financing includes principal forgiveness, which means it does not have to be repaid. Ohio EPA estimates that loan recipients will save a total of more than $28 million statewide compared to market-rate loans.

The largest amounts of financing were awarded to the Northeast Ohio Regional Sewer District ($17.1 million for multiple wastewater projects), Akron ($16.7 million for three loans for public water, and sanitary and sewer projects), Warren County ($15.3 million for upgrades to the county's two drinking water plants), and Columbus ($15 million for water plant, storm water, and sewer projects). Three of the loan recipients were also awarded project-related funding from the H2Ohio program: Pike Water Inc. ($1 million), New Waterford ($500,000), and West Milton ($500,000).

The loans are backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF) and the Water Supply Revolving Loan Account (WSRLA). Both funds are managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The WPCLF provides below-market rate, zero interest rate, and principal forgiveness loans for the planning, design, and construction of wastewater treatment facilities and sewer systems. The WSRLA provides below-market rate loans to public water systems for the planning, design, and construction of improvements to community water systems and nonprofit noncommunity public water systems. Both the WPCLF and WSRLA are funded with federal capitalization grants, loan repayments, and bond proceeds and were created in 1989 and 1998, respectively.

Third Quarter Wastewater and Drinking Water Infrastructure Loans				
Geographic Area	Number of Loan Recipients	Total Financing*	Principal Forgiveness	Total Estimated Savings**
Central	4	$16,000,000	$50,0000	$2,300,000
Northeast	9	$50,800,000	$1,399,000	$8,400,000
Northwest	11	$7,000,000	$630,492	$1,580,000
Southeast	19	$18,100,000	$8,050,000	$10,900,000
Southwest	7	$30,000,000	$905,588	$5,000,000
Totals	**50**	**$121,900,000**	**$11,035,080**	**$28,180,000**

*Amounts are approximate due to rounding.

**Savings includes interest and principal.

ODOT Awards $23.0 Million in Maritime Assistance Program Grants to Port Authorities in FY 2020-FY 2021 Biennium

– Tom Middleton, Senior Budget Analyst

In November 2020, the Ohio Department of Transportation (ODOT) released a report summarizing the allocation of all $23.0 million in grant funding appropriated under the Maritime Assistance Program created by H.B. 166.[13] In total, 13 projects received grant funding at four port authorities, as summarized in the table below.

Under the competitive grant program, ODOT awarded grants to port authorities that own active marine cargo terminals located on the shore of Lake Erie, a Lake Erie tributary, or the Ohio River. Grants were awarded to projects that will have a significant local or regional impact on Ohio's logistics supply chain, and a minimum 50% match in funds. Projects receiving grant support include those to purchase transloading equipment and to construct infrastructure and facilities, including dock walls, roads, mooring cells, sediment processing facilities, ore tunnel extensions, and intermodal transportation infrastructure.

[13] The ODOT report is available for download at: https://www.transportation.ohio.gov/wps/portal/gov/odot/programs/maritime-freight/resources/ohio-martime-awards.

Maritime Assistance Program Grant Recipients, FY 2020-FY 2021				
Port Authority	Number of Grants	Total Grant Funding	Total Project Funding	% Grant Funding of Total Project
Cleveland-Cuyahoga County	5	$9.7 million	$36.1 million	26.8%
Toledo-Lucas County	4	$10.1 million	$26.1 million	38.5%
Columbiana County	3	$1.7 million	$3.5 million	50.0%
Monroe County	1	$1.5 million	$3.0 million	50.0%
Total	**13**	**$23.0 million**	**$68.7 million**	**33.5%**

Funding for the program was sourced from the Facilities Establishment Fund (Fund 7037), typically used by the Development Services Agency (DSA) for business loans, via a transfer of $23.0 million from Fund 7037 to the Ohio Maritime Assistance Fund (Fund 5QT0).

Development Services Agency Awards $26.5 Million in Ohio Historic Preservation Tax Credits

– Shannon Pleiman, Senior Budget Analyst

On December 17, 2020, the Development Services Agency approved 25 awards totaling $26.5 million in Round 25 of the Ohio Historic Preservation Tax Credits (OHPTC) Program. These awards will be used for the rehabilitation of 53 historic buildings. The table below displays the awards by region, including the number of awards, total value of awards, total project costs, and the average percentage of the project cost covered by the award in each region.

Ohio Historic Preservation Tax Credit Awards, Round 25				
Region	Number of Awards	Total Value of Awards	Total Project Costs	Award as % of Total Project Costs
Northeast	8	$12,819,242	$118,269,747	10.8%
Southwest	14	$11,315,433	$115,070,920	9.8%
Northwest	1	$1,639,451	$10,019,305	16.4%
Central	2	$748,957	$15,997,973	4.7%
Total	**25**	**$26,523,083**	**$259,357,945**	**10.2%**

The OHPTC Program is designed to spur investment within historic areas, restore buildings that will attract new businesses, and generate new jobs. To be eligible, generally a building must be listed on the National Register of Historic Places or designated as a local landmark by a certified local government. The program is administered through a partnership between DSA and the Ohio History Connection. Each year, $60.0 million is allocated to the program; however, an additional amount in tax credits may be awarded if projects that were previously approved under the program have been withdrawn, or if there is a surplus of tax credits from prior fiscal years. DSA awards two rounds of funding each year. Round 26 project applications are due March 31, 2021, and the awards will be announced by the end of June. The tax credits can be claimed against the applicable income tax, financial institutions tax, and foreign and domestic insurance premium taxes.

DNR Begins Chronic Wasting Disease Response Plan After Infection in Wild Deer Specimen Confirmed in Wyandot County

– Tom Wert, Senior Budget Analyst

On December 14, 2020, the Department of Natural Resources (DNR) announced that Chronic Wasting Disease (CWD) had been detected in tissue samples from a deer harvested by a hunter on private property in Wyandot County. CWD is a contagious and fatal neurological disease in deer and elk that has been documented in wild deer populations in 26 states including Pennsylvania, Michigan, and West Virginia. As a result of this first documented positive case among the wild herd in Ohio, DNR will implement its CWD response plan which includes enhanced surveillance within a 10-mile radius of the CWD positive deer location in Wyandot County and mandatory sampling of deer harvested during controlled hunts at Killdeer Plains Wildlife Area. Additionally, DNR will contact all hunters who harvest a deer in Wyandot County during the remaining 2020-2021 deer hunting season to obtain samples for testing. The 2020-2021 deer hunting season ends February 7, 2021.

DNR has conducted CWD surveillance in Ohio's wild deer populations since 2002. But with cases of CWD in wild deer populations so close to Ohio's borders, DNR expanded its 2020-2021 testing program significantly. Under a previous agreement, Colorado State University (CSU) was slated to test 1,200 hunter harvested or road killed wild deer in 2020-2021. The number of tests was increased to 4,000 under a contract approved by the Controlling Board on October 26, 2020. The cost per sample under both the previous and new contracts totaled $19 per sample. Funding for the testing is supported by the Wildlife Fund (Fund 7015) which receives revenue primarily from the sale of hunting and fishing licenses and permits and federal sportfish and wildlife restoration grants.

Tracking the Economy

– Eric Makela, Economist

Overview

National economic recovery slowed in recent months, as the nation and its people navigate a health crisis amidst economic tumult. Nonfarm payroll employment declined by 140,000 in December, and the nation's unemployment rate remained at 6.7%. Nationally, personal income decreased in November in conjunction with a decline in unemployment insurance payments and proprietors' incomes as pandemic-related support waned. Inflation-adjusted gross domestic product (real GDP) increased 7.5% in the third quarter of 2020 after dropping 9.0% during the second quarter.[14] Industrial production rose 0.4% in November, though the level of production in major market groups is still below its level from a year prior.

Ohio employers added 29,400 jobs in November, with job gains in the service sector slightly offset by job losses in the goods producing sector. From October to November, the seasonally adjusted unemployment rate fell by 0.4 percentage point, to 5.7%. The number of Ohioans receiving unemployment benefits during the last full week of 2020 (153,423) was 148.3% greater than during the same week of 2019. The state's real GDP increased 8.2% in the third quarter of 2020, snapping two consecutive quarters of decline in the indicator. The housing market has remained heated through most of 2020, as the YTD average sale price of an existing home in Ohio was 9.5% greater in 2020 than in 2019.[15]

The National Economy

The number of nonfarm payroll jobs in the United States tumbled by 140,000 in December, though the national unemployment rate was unchanged at 6.7%. According to the Bureau of Labor Statistics, the decline in payroll employment reflected the recent resurgence in COVID-19 cases and efforts to contain the pandemic. Chart 6 shows nonfarm payroll employment and Chart 7 displays unemployment.

During the month, the leisure and hospitality industry was most affected, with seasonally adjusted employment decreasing by 498,000, mostly at restaurants and bars, but also at amusement, gambling, and recreation venues and at hotels and motels. Recovery continued in a number of other industries. In December, employment in professional and business services increased by 161,000. Other industries to add payroll employment in December included retail trade (+121,000), construction (+51,000), and transportation and warehousing (+47,000), the last of these mostly due to further gains in couriers and messengers.

Between December 2019 and December 2020, payroll employment in both the goods-producing (-784,000, -3.7%) and private service-providing (-7,312,000, -6.8%) sectors declined. Within the goods-producing sector, manufacturers of both durable goods (-391,000, -4.8%) and nondurable goods (-166,000, -3.5%) culled payrolls during those 12 months. Within the service-providing sector, industries including transportation and

[14] Percentages are from quarter to quarter, not at annualized rates.

[15] Data, according to the Ohio Association of Realtors, as of November 2020.

warehousing (-67,100, -1.2%), financial services (-71,000, -0.8%), and professional and technical services (-159,300, -1.6%) retained comparatively high percentages of their workers during the year leading up to December 2020. Major industries such as leisure and hospitality (-3,825,000, -22.8%) and education and health services (-1,173,000, -4.8%) underwent more sizable labor market change during this time period. Between December 2019 and December 2020, average weekly earnings rose in all major industry groups except leisure and hospitality.

National production, as measured by real GDP, increased by a seasonally adjusted 7.5% during the third quarter of 2020.[16] Consumption of goods by persons rose a seasonally adjusted 10.2% during the quarter, while consumer services increased 8.4%. From the second quarter of 2020 to the third quarter, nonresidential fixed investment increased by a seasonally adjusted 5.3% while residential fixed investment was up 13.0%.

Personal income decreased by a seasonally adjusted 1.1% in November, the result of a decline in proprietors' income (-8.5%) and personal current transfer receipts (-3.3%).[17] In the private sector, wages and salaries rose a seasonally adjusted $39.4 billion (+0.5%). Unemployment insurance payments decreased $27.1 billion (-8.9%). Seasonally adjusted personal saving decreased for the seventh consecutive month in November (-6.4%), after a drastic rise in March and April of this year. Real personal consumption expenditures fell by a seasonally adjusted 0.4% in November; spending on both goods (-1.0%) and services (-0.2%) declined.

Nationally, aggregate industrial production increased by 0.4% in November; among major industry groups, a decrease in utilities (-4.3%) production was more than offset by increases in manufacturing (+0.8%) and mining (+2.3%) output.[18] A ramp-up in production of motor vehicles and parts accounted for approximately half the month's total increase in manufacturing output. From November 2019 to November 2020, the total production of durables manufacturers decreased 4.3% nationwide, with increases among computer and electronic products manufacturers (+1.5%) offset by drops in most other major categories. The decline in nondurables manufacturing (-2.6%) during the same period was driven by mixed gains and losses in production among food, beverage, and tobacco products manufacturers (+1.5%), paper producers (+1.2%), petroleum and coal products producers (-14.0%), chemical makers (-2.9%), plastics and rubber products manufacturers (-2.7%), and other industries.

Consumer prices increased by a seasonally adjusted 0.2% in November, as measured by the consumer price index (CPI) for all items. During the month, the national price index for food decreased 0.1%, while the price index for energy increased 0.4%. During November, the CPI level for all goods was 1.2% greater than a year prior. The index for all items less the more volatile food and energy categories rose 1.6% over the 12 months leading up to November.

[16] See footnote 14.

[17] Personal current transfer receipts are nonwage income and include Social Security, Medicare/Medicaid, and unemployment insurance. This category also includes federal stimulus payments and any federal supplements to state unemployment benefits.

[18] As measured by the Federal Reserve Board's Industrial Production Index.

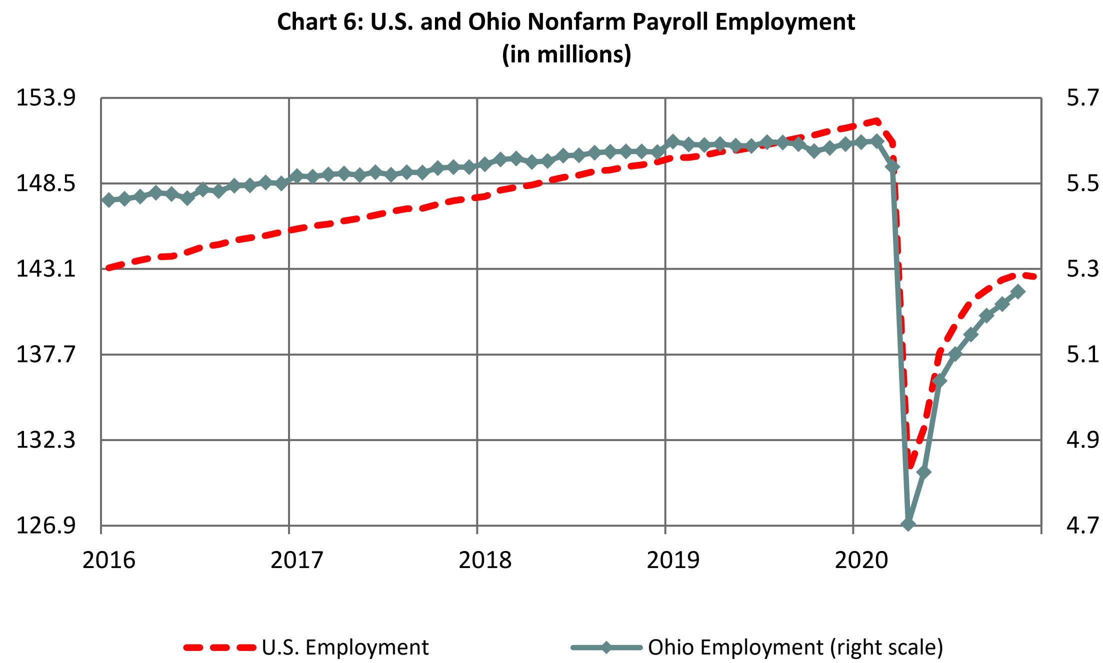


Chart 6: U.S. and Ohio Nonfarm Payroll Employment
(in millions)
153.9
148.5
143.1
137.7
132.3
126.9
5.7
5.5
5.3
5.1
4.9
4.7
2016
2017
2018
2019
2020
U.S. Employment
Ohio Employment (right scale)

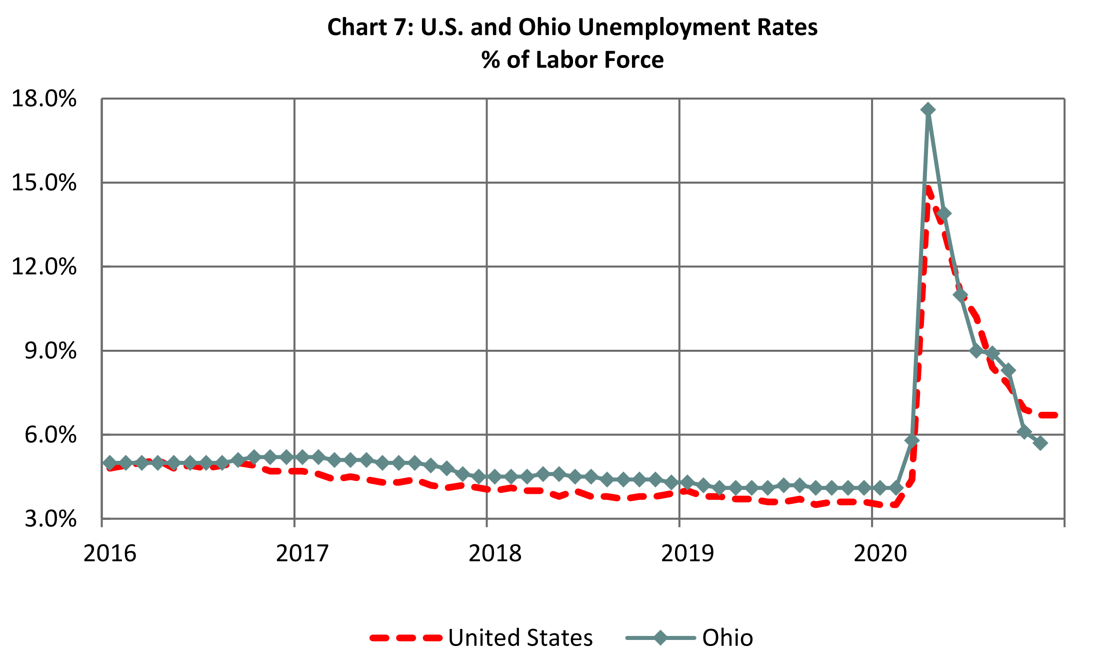


Chart 7: U.S. and Ohio Unemployment Rates
% of Labor Force
18.0%
15.0%
12.0%
9.0%
6.0%
3.0%
2016
2017
2018
2019
2020
United States
Ohio

The Ohio Economy

Ohio's economy added a seasonally adjusted 29,400 nonfarm payroll jobs in November, a 0.6% increase in jobs from the previous month. During the month, employment losses in manufacturing (-2,000, -0.3%) and other (miscellaneous) services (-1,600, -0.8%) were more than offset by seasonally adjusted gains in leisure and hospitality (+11,300, +2.6%), professional and business services (+7,400, +1.1%), and health care and social assistance (+5,000, +0.6%).

Year over year, nonfarm payroll employment decreased in both the goods-producing (-41,900, -4.5%) and service-providing (-294,400, -6.3%) sectors. As of November, the Ohio private industries that shed the greatest percentage of their November 2019 workforces were leisure and hospitality (-20.3%), educational services (-13.4%), mining and logging (-13.0%), and real estate and rental and leasing (-11.1%). Between November 2019 and November 2020, employment by government entities declined at all levels, with the number of job holders in federal (-1.7%), state (-14.2%), and local (-4.2%) governments all notably down in Ohio. Chart 6 displays nonfarm employment totals nationally and in Ohio over the past several years.

Ohio's seasonally adjusted unemployment rate declined from October to November, when it was 5.7%. Chart 7 displays the state's unemployment rate. The number of initial unemployment claims during the final full week of 2020 was 81% greater than in the year-earlier week but 89% below this year's peak weekly number of initial claims. In the prior week, Ohio registered 153,423 continued unemployment insurance claims, 148% above the number of continued claims during the year-earlier week of 2019.[19]

It should be noted that the Census Bureau's survey of establishments, which provide the primary data for state employment counts, is conducted for the pay period that includes the 12th of each month. As a result, Ohio's employment data do not reflect observance of additional COVID-19 restrictions between that period and the date of this publication.

According to recently released quarterly data from the Bureau of Economic Analysis (BEA), Ohio's real GDP increased at a seasonally adjusted rate of 8.2% in the third quarter of 2020, after decreases in real GDP in the first (-1.4%) and second (-9.5%) quarters (percent changes not annualized). During the third quarter, Ohio's real GDP growth ranked 14th in the nation; growth in other Great Lakes states, such as Michigan (third), Indiana (fifth), and Wisconsin (ninth) also was relatively rapid.[20] On an annualized rate basis, GDP growth increased rapidly in every state during the quarter, with growth rates ranging from 19.4% (Wyoming) to 52.2% (Nevada).

The number of small businesses operating in Ohio decreased during 2020. Womply, an integrated business platform for small businesses, reports Ohio-specific data on small business conditions.[21] The number of Ohio small businesses having at least one transaction in the last

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[19] Initial claims measure how many new applicants filed for unemployment benefits during the week; continued claims measure how many persons filed to continue receiving unemployment benefits. Data are provided to the Department of Labor by the ODJFS.

[20] The following states are included in BEA's definition of the Great Lakes region: Illinois, Indiana, Michigan, Ohio, and Wisconsin.

[21] Data according to Track the Recovery Project: https://tracktherecovery.org/. Small businesses are defined as those with under 100 or 150 employees, with the threshold varying by industry.

three business days declined 28.7% from the January indexing period to December 9. Small business revenue in Ohio declined 30.2% during the same time period. Revenue declined by 16.9% for small businesses in transportation and retail industries; small business revenue was also down in professional and business services (-12.6%), education and health services (-33.1%), and leisure and hospitality (-64.8%).

Existing home unit sales were 14.2% greater in November 2020 than in November 2019, according to the Ohio Association of Realtors. Through November, the number of existing home sales was 3.1% above the level in 2019, and the average sale price was 9.5% greater. The YTD total dollar volume of existing home sales was 12.9% higher in 2020 than last year, a trend which suggests a significant increase in demand for houses in the state during the year.