LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2021 **Issue: July 2021**

Highlights

– Ross Miller, Chief Economist

June GRF tax revenue was $367.6 million above the estimate published by the Office of Budget and Management (OBM) in September 2020, due to strong performances by both the sales and use tax and the personal income tax (PIT). The favorable June experience capped a strong year overall for revenue, with FY 2021 GRF sources ending the year $1.13 billion above estimate and $6.04 billion (18.0%) higher than FY 2020 GRF sources. Revenue from the sales and use tax was strong all year and ended the year $1.01 billion above estimate. Most other GRF taxes exceeded estimates, too, with the notable exception of energy-related taxes, and total tax revenue ended the fiscal year $1.54 billion above estimate and $3.84 billion above FY 2020 tax receipts. Tax revenue growth from FY 2020 and growth in federal grants were boosted by one-time factors explained in detail in this month's Revenues article.

The spending side of the budget also fared well, ending the year $780.5 million below estimate. The overall favorable fiscal situation meant that there was no need for planned transfers into the GRF in June, and the Budget Stabilization Fund (BSF) was not used during the year.

Simplified GRF Cash Statement, as of June 30, 2021 ($ in millions)	
Beginning Cash Balance	**$1,270.2**
Plus Actual Revenues, Transfers In, and Receivables	$39,546.3
Less Actual Expenditures and Transfers Out	$36,095.0
Ending Cash Balance	**$4,721.5**
Year-end Encumbrances	$611.5
Final Payroll	$77.7
Unobligated Ending Cash Balance	**$4,032.3**
Budget Stabilization Fund Balance	**$2,691.6**
Combined GRF and BSF Unobligated Ending Balance	**$6,723.9**

Ohio's economy and people continue to recover from the struggles caused by COVID-19, with vaccination rates allowing businesses to reopen gradually across the state. The unemployment rate dropped from 13.7% in May 2020 to 5.0% in May 2021, as nonfarm payroll employment increased by 395,700 (8.1%) during the same period.

Through June 2021, GRF sources totaled $39.55 billion:

- ❖ PIT receipts were $435.5 million above estimate.

Through June 2021, GRF uses totaled $36.09 billion:

- ❖ Program expenditures were $789.9 million below estimate, due primarily to GRF Medicaid expenditures, which were $757.0 million below estimate;
- ❖ Expenditures in the Justice and Public Protection category were $148.4 million below estimate, while spending in the Primary and Secondary Education category was $123.8 million above estimate.

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More details on GRF **Revenues** (p. 3), **Expenditures** (p. 17), the **National Economy** (p. 37), and the **Ohio Economy** (p. 39).

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Have a great summer!

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

State Sources	**Actual**	**Estimate***	**Variance**	**Percent**
Tax Revenue				
Auto Sales	$174,555	$137,900	$36,655	26.6%
Nonauto Sales and Use	$932,461	$834,100	$98,361	11.8%
Total Sales and Use	*$1,107,016*	*$972,000*	*$135,016*	*13.9%*
Personal Income	$1,081,617	$853,900	$227,717	26.7%
Commercial Activity Tax	$11,371	$5,700	$5,671	99.5%
Cigarette	$137,279	$135,200	$2,079	1.5%
Kilowatt-Hour Excise	$12,693	$19,000	-$6,307	-33.2%
Foreign Insurance	-$6,621	-$7,700	$1,079	14.0%
Domestic Insurance	$299,319	$293,800	$5,519	1.9%
Financial Institution	$24,418	$23,200	$1,218	5.3%
Public Utility	$2,797	$3,800	-$1,003	-26.4%
Natural Gas Consumption	$0	$0	$0	---
Alcoholic Beverage	$3,931	$6,000	-$2,069	-34.5%
Liquor Gallonage	$5,049	$4,700	$349	7.4%
Petroleum Activity Tax	$689	$2,600	-$1,911	-73.5%
Corporate Franchise	$26	$0	$26	---
Business and Property	$223	$0	$223	---
Estate	$1	$0	$1	---
Total Tax Revenue	**$2,679,810**	**$2,312,200**	**$367,610**	**15.9%**
Nontax Revenue				
Earnings on Investments	$11,394	$3,125	$8,269	264.6%
Licenses and Fees	$940	$639	$302	47.2%
Other Revenue	$783	$416	$366	88.0%
Total Nontax Revenue	**$13,118**	**$4,180**	**$8,938**	**213.8%**
Transfers In	**$617**	**$463,600**	**-$462,983**	**-99.9%**
Total State Sources	**$2,693,545**	**$2,779,980**	**-$86,435**	**-3.1%**
Federal Grants	**$1,389,636**	**$1,141,916**	**$247,720**	**21.7%**
Total GRF Sources	**$4,083,181**	**$3,921,896**	**$161,285**	**4.1%**

*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 June 30, 2021
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 1, 2021)

State Sources	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Tax Revenue						
Auto Sales	$1,856,618	$1,592,000	$264,618	16.6%	$1,502,737	23.5%
Nonauto Sales and Use	$10,334,014	$9,588,700	$745,314	7.8%	$9,183,047	12.5%
Total Sales and Use	*$12,190,632*	*$11,180,700*	*$1,009,932*	*9.0%*	*$10,685,784*	*14.1%*
Personal Income	$10,201,335	$9,765,800	$435,535	4.5%	$7,881,337	29.4%
Commercial Activity Tax	$1,666,759	$1,653,000	$13,759	0.8%	$1,671,680	-0.3%
Cigarette	$926,884	$871,700	$55,184	6.3%	$913,017	1.5%
Kilowatt-Hour Excise	$298,216	$326,400	-$28,184	-8.6%	$331,795	-10.1%
Foreign Insurance	$324,421	$292,000	$32,421	11.1%	$305,073	6.3%
Domestic Insurance	$309,716	$313,200	-$3,484	-1.1%	$303,038	2.2%
Financial Institution	$226,375	$189,700	$36,675	19.3%	$214,903	5.3%
Public Utility	$124,664	$140,000	-$15,336	-11.0%	$141,034	-11.6%
Natural Gas Consumption	$70,055	$79,400	-$9,345	-11.8%	$59,735	17.3%
Alcoholic Beverage	$59,874	$56,000	$3,874	6.9%	$53,642	11.6%
Liquor Gallonage	$57,637	$51,000	$6,637	13.0%	$53,386	8.0%
Petroleum Activity Tax	$3,891	$10,000	-$6,109	-61.1%	$8,737	-55.5%
Corporate Franchise	$5,955	$0	$5,955	---	-$435	---
Business and Property	$413	$0	$413	---	$399	3.5%
Estate	$62	$0	$62	---	$71	-11.5%
Total Tax Revenue	**$26,466,889**	**$24,928,900**	**$1,537,989**	**6.2%**	**$22,623,196**	**17.0%**
Nontax Revenue						
Earnings on Investments	$56,995	$25,000	$31,995	128.0%	$131,649	-56.7%
Licenses and Fees	$88,423	$58,814	$29,609	50.3%	$66,655	32.7%
Other Revenue	$108,850	$103,753	$5,097	4.9%	$121,117	-10.1%
Total Nontax Revenue	**$254,268**	**$187,567**	**$66,701**	**35.6%**	**$319,420**	**-20.4%**
Transfers In	**$97,791**	**$541,532**	**-$443,741**	**-81.9%**	**$81,020**	**20.7%**
Total State Sources	**$26,818,948**	**$25,657,999**	**$1,160,949**	**4.5%**	**$23,023,636**	**16.5%**
Federal Grants	**$12,727,184**	**$12,757,496**	**-$30,312**	**-0.2%**	**$10,482,045**	**21.4%**
Total GRF SOURCES	**$39,546,132**	**$38,415,495**	**$1,130,637**	**2.9%**	**$33,505,681**	**18.0%**

*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

On June 30, 2021, Ohio closed the books on a fiscal year during which GRF tax revenue surged due to the reopening of the economy and a boost to consumer spending from numerous federal stimulus programs. In FY 2020, to slow the COVID-19 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. As a result, GRF tax revenues plunged and ended that fiscal year $1.10 billion (4.6%) below estimates.

For FY 2021 as a whole, GRF sources of $39.55 billion were $1.13 billion (2.9%) above OBM estimates of September 2020,[2] with GRF tax sources above projections by $1.54 billion (6.2%). In addition, nontax revenue had a surplus of $66.7 million (35.6%) mostly due to earnings on investments. On the other hand, yearly transfers in posted a shortfall of $443.7 million (81.9%), as strong tax revenue canceled the need for an anticipated transfer to the GRF of $463.6 million in June 2021; and, federal grants had a relatively modest negative variance of $30.3 million (0.2%). GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, transfers in, and federal grants, which are related to spending for Medicaid and other human services programs. Tables 1 and 2 show GRF sources for the month of June and for FY 2021 through June, respectively.

The strong performance of GRF tax sources in FY 2021 was largely due to robust positive variances of $1.01 billion for the sales and use tax and $435.5 million for the PIT. The other two major tax sources, the cigarette tax and the commercial activity tax (CAT), were above their respective estimates by $55.2 million and $13.8 million. Also surpassing their estimates were the financial institutions tax (FIT, $36.7 million), the foreign insurance tax ($32.4 million), the liquor gallonage tax ($6.6 million), the alcoholic beverage tax ($3.9 million), and the corporate franchise tax (CFT, $6.0 million), due to revenue from the conclusion of certain audits in December 2020.[3] Those positive variances were partly offset by deficits from the kilowatt-hour tax ($28.2 million), the public utility tax ($15.3 million), the natural gas consumption tax ($9.3 million), the petroleum activity tax (PAT, $6.1 million), and the domestic insurance tax ($3.5 million). Chart 1, below, shows cumulative YTD variances of GRF sources through June in FY 2021.

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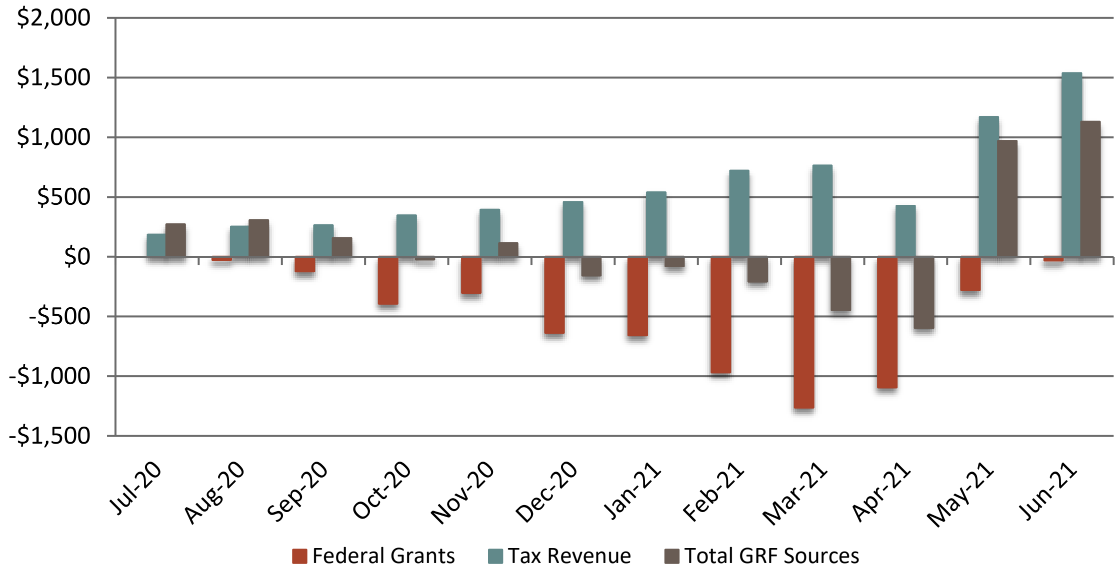
[1] This report compares actual monthly and year-to-date (YTD) GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than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

[2] OBM released updated FY 2021 GRF estimates in February with the introduction of the executive budget (Blue Book). The agency also revised estimates in June 2021 for budget conference committee deliberations. However, because LBO did not receive updated monthly estimates this publication compares actual GRF sources to the estimates released in September 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.

For the month of June 2021, except for the transfers in shortfall mentioned earlier, the other GRF categories were above expectations, including tax sources ($367.6 million), nontax revenue ($8.9 million), and federal grants ($247.7 million). The major tax sources were all above their respective estimates in June. The sales and use tax, the PIT, the CAT, and the cigarette tax experienced positive variances of $135.0 million, $227.7 million, $5.7 million, and $2.1 million, respectively. The remaining taxes had a combined negative variance of $2.9 million, including deficits of $6.3 million for the kilowatt-hour tax, $2.1 million for the alcoholic beverage tax, and $1.9 million for the PAT, and a surplus of $5.5 million for the domestic insurance tax.

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



Growth of GRF sources relative to FY 2020 followed a consistent pattern for most months in FY 2021, with large increases in federal grants and tax revenues. FY 2021 GRF sources rose $6.04 billion (18.0%). Tax sources grew $3.84 billion (17.0%). Federal grants rose $2.25 billion (21.4%), with $1.17 billion of the total increase due to a COVID-19-related temporary rise in the share of federal reimbursements for Medicaid authorized by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. Transfers in also rose, by $16.8 million (20.7%), but nontax revenue fell by $65.2 million (20.4%) from lower earnings on investments in FY 2021.

The growth in GRF tax sources was almost entirely due to revenue increases for the two largest tax sources, which has also been a consistent pattern most of the fiscal year. The increase in PIT revenue was due in part to the delay in the tax filing deadline from April to July in 2020, as explained in more detail in the PIT section below, while sales and use tax revenue has been supported by several federal income support programs since the spring of 2020. Combined revenue for the remaining taxes grew only $18.8 million (0.5%).

Sales and Use Tax

The sales and use tax had a strong year in FY 2021. For the fiscal year, revenue from this GRF source totaled $12.19 billion. This amount was $1.01 billion (9.0%) above OBM estimates, with outstanding results from both the auto sales tax and the nonauto sales tax. GRF receipts were also $1.50 billion (14.1%) above sales and use tax revenue in FY 2020. In the last fiscal quarter (April to June 2021), revenue from this tax source was 38.4% above revenue in the corresponding period in 2020, which was severely reduced by business closures and stay-at-home requirements resulting from the emergency order of March 2020. In the first nine months of FY 2021, sales and use tax revenue was 6.6% above receipts in the corresponding period in FY 2020. Historically, yearly sales and use tax growth exceeded 14% only when a rate increase had been enacted or the tax base expanded substantially.

For the month of June, sales and use tax revenue to the GRF of $1.11 billion was $135.0 million (13.9%) above estimate, with strong performances again from both portions of the tax. Compared to receipts last year in the same month, revenue from this tax source was higher by $120.6 million (12.2%) in June 2021.

The sales and use tax was buoyed by robust consumer spending on taxable goods in FY 2021. This tax source was supported by a variety of federal income support programs, starting with stimulus payments and months of federal unemployment compensation supplements from the federal CARES Act enacted in March 2020,[4] and ending with the American Rescue Plan (ARP) Act enacted in March 2021.[5] In addition to the CARES Act, the spending effect of both the Consolidated Appropriations Act (December 2020) and the ARP Act, improving labor markets, and increases in the number of vaccinations helped fuel a sharp increase in spending, particularly on autos and other big ticket items. Household incomes increased from prepandemic levels, household balance sheets were very strong, and household debt-service burdens, as a share of after-tax income, were and are still at low levels. Current economic conditions, including employment growth and decreasing unemployment rates, are likely to continue to sustain sales tax growth at the beginning of FY 2022, though the federal income support programs would start to wane. However, as consumers are increasing their spending on services (which are mostly not taxed under the sales tax) relative to goods, growth in sales and use tax collections is likely to decrease in future months, compared to growth rates achieved in FY 2021. Also, though employment rates and consumer spending have increased from the trough of the pandemic-induced recession, both are still below the levels of January 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

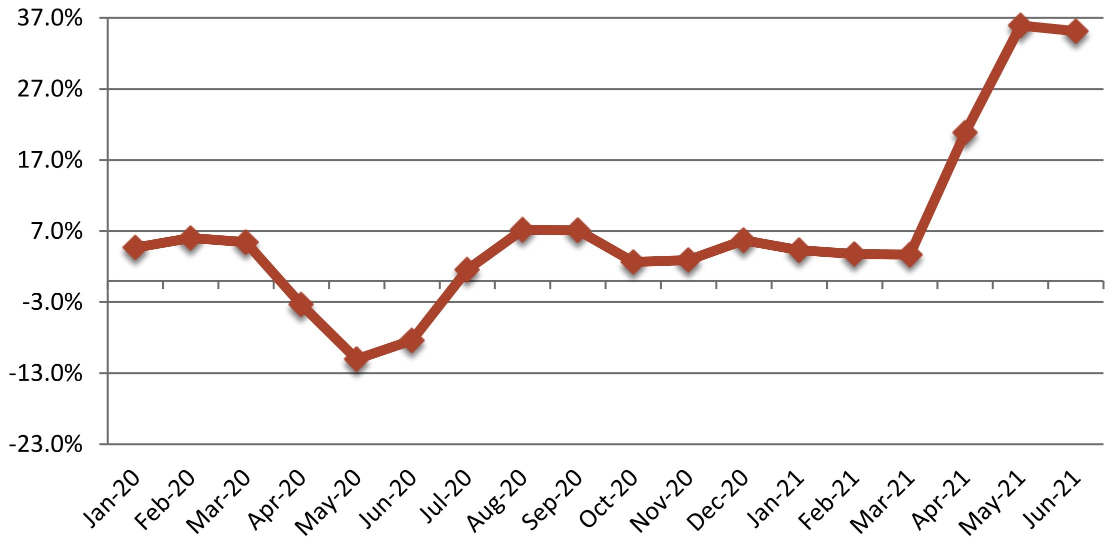
FY 2021 GRF revenue totaled $10.33 billion, an amount $745.3 million (7.8%) above estimate and $1.15 billion (12.5%) above FY 2020 receipts. June GRF receipts of $932.5 million were $98.4 million (11.8%) above estimate and $121.7 million (15.0%) above revenue in

[4] The CARES Act provided cash payments of $1,200 for each adult (and $500 for each child age 16 or under of each qualifying adult), an additional $600 per week on top of any state-provided unemployment benefits, several weeks of unemployment benefits above that of each state's unemployment program, and new unemployment benefits for self-employed and "gig" workers.

[5] The ARP Act included economic impact payments of up to $1,400 per person, depending on income level. The Congressional Budget Office estimated total payments under this program to be about $411 billion, higher than amounts of about $292 billion from the CARES Act (spring of 2020) and approximately $164 billion for the Consolidated Appropriations Act (January and February 2021).

June 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. Chart 2, below, provides year-over-year growth in nonauto sales and use tax collections since January 2020. It shows negative growth during the spring of 2020, then a rebound in the summer, which continued the remainder of the year. In the last fiscal quarter, year-over-year growth accelerated as tax revenue compared favorably to depressed revenue levels in the corresponding period in FY 2020.

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



Auto Sales and Use Tax

The auto sales and use tax had an outstanding year. Through June, FY 2021 receipts totaled $1.86 billion, an amount $264.6 million (16.6%) above estimate and $353.9 million (23.5%) above revenue in the corresponding period in FY 2020. A year ago, auto sales and use tax revenue decreased due to pandemic-related dealership closures and auto manufacturer shutdowns and parts supply issues. Growth of more than 15% from the prior year for this tax in the absence of any significant tax policy change is very unusual. For the fiscal year, auto sales tax revenue was exceptionally strong but fell short of the record 27% yearly growth achieved in FY 1984.

For the month of June, GRF revenue from this tax source was $174.6 million, $36.7 million (26.6%) above estimate but $1.2 million (0.7%) below such receipts in June 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 FY 2021, with a trend comparable to that of the nonauto sales and use tax.

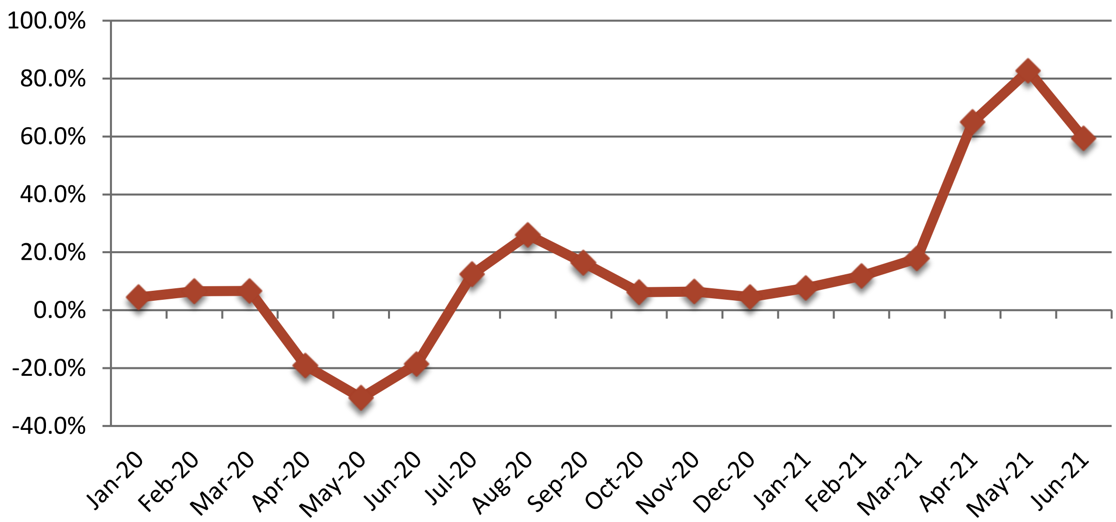
The increase in the Ohio auto tax base relative to FY 2020 was due to an increase of 13.5% in the number of passenger vehicles and trucks sold,[6] according to data provided by the Ohio Bureau of Motor Vehicles (BMV) shown below. Unit purchases of both new and used motor

[6] Data on motorcycles and other titled motor vehicles not included.

vehicles increased; spending for both new and used motor vehicles also rose strongly, nearly 25% for new vehicles and about 22% for used vehicles, as compared with the previous year. Average prices also grew, exceeding $41,000 for new vehicles and $10,000 for used vehicles, both record levels according to BMV data.

New and Used Vehicles Titled			
FY 2021	**Titles**	**Spending ($ in millions)**	**Average Price**
New vehicles	392,777	$16,169	$41,165
Used vehicles	1,786,330	$19,482	$10,906
Total	**2,179,107**	**$35,651**	**$16,360**
Growth from FY 2020			
New vehicles	18.0%	24.9%	5.9%
Used vehicles	12.5%	22.1%	8.5%
Total	**13.5%**	**23.3%**	**8.7%**

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



Personal Income Tax

FY 2021 revenue from the PIT to the GRF totaled $10.20 billion, an amount $435.5 million (4.5%) above the estimate. The second largest GRF tax source had a solid fiscal year, though very unusual with the filing of two annual tax returns. Generally, income tax returns are filed in mid-April each year, but the filing of tax returns for tax year (TY) 2019 was delayed to July 2020 instead of April 2020, due to the COVID-19 pandemic. This year, the due date for filing Ohio TY 2020 tax returns was pushed to May 2021. Ohio also followed the Internal Revenue Service in extending the due date of tax returns as a result of the enactment of the ARP Act, which contained significant changes in federal tax law affecting TY 2020 and prior tax years.[7] At the conclusion of the 2021 tax filing season, GRF revenue through May was $207.8 million (2.3%) above the YTD estimate. In June, a PIT positive variance of $227.7 million (26.7%) increased that prior cumulative positive variance to $435.5 million for the fiscal year as a whole.

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,[8] 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.

For the month of June, gross collections were $247.8 million (26.5%) above estimate, driven by positive variances of $134.1 million for payments due with annual returns and $112.9 million for employer withholding. Trust payments and miscellaneous payments were also above their anticipated levels by $2.7 million and $1.3 million, respectively. On the other hand, quarterly estimated payments were $3.2 million below projections. Refunds and distributions to the LGF were above their respective estimated levels in June by $8.7 million and $11.3 million. Thus, GRF revenue was $227.7 million above estimate for the month.

YTD FY 2021 GRF receipts from the PIT were $2.32 billion (29.4%) above such revenue in FY 2020 through June. The large year-over-year PIT revenue growth is attributable, in part, to the delay of income tax filings from April to July 2020. About $719.0 million in income tax due with annual returns and first quarter estimated payments were postponed by the tax filing delay last year and realized in FY 2021, according to the Ohio Department of Taxation.

For FY 2021 through June, 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 $536.1 million above anticipated revenue, with miscellaneous payments the only component with a shortfall ($5.9 million). Quarterly estimated payments, employer withholding, payments due with annual returns, and trust payments were above their respective projections by $167.6 million, $169.0 million, $169.6 million, and $35.8 million. Refunds and LGF distributions were $81.7 million and $18.9 million above their respective estimates, partially offsetting the positive variance of gross collections. Thus, the fiscal year's positive variance for the GRF was $435.5 million.

[7] H.B. 197 of the 133rd General Assembly authorized the Tax Commissioner to delay various state tax payments during the period of the Governor's emergency declaration, and the Commissioner used that authority for both tax filing delays.

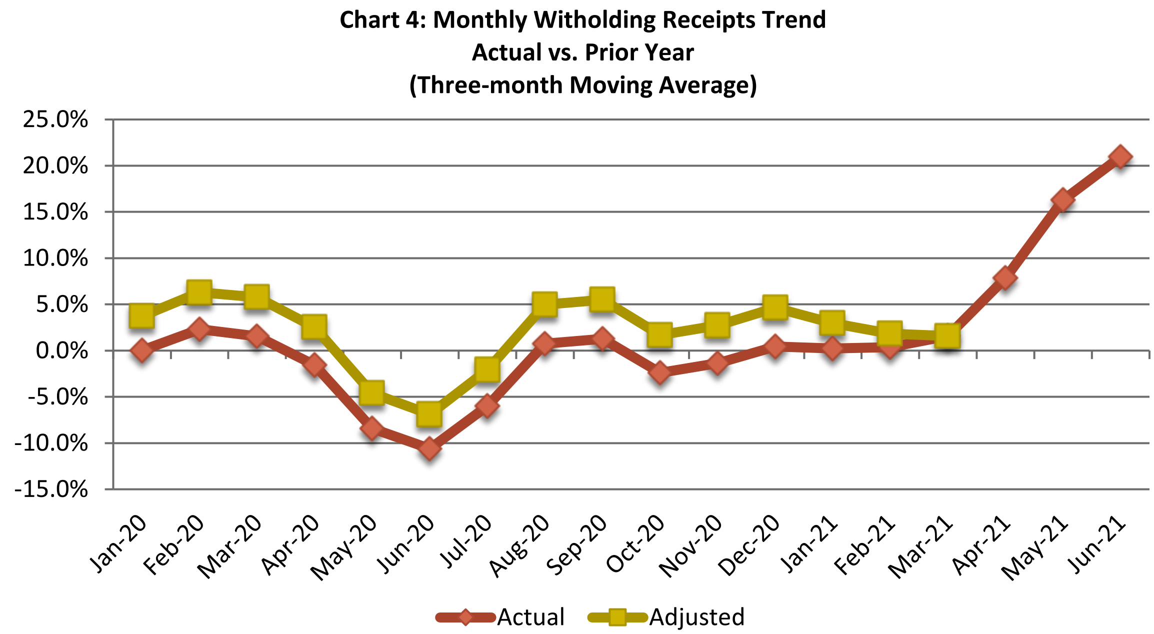
[8] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. When tax filings are not delayed, quarterly estimated payments are generally due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

Compared to the corresponding period in FY 2020, gross collections grew $2.51 billion in FY 2021, driven by increases of $1.48 billion from payments due with annual returns and $501.6 million from employer withholding. In addition, quarterly estimated payments and trust payments rose $434.5 million and $98.2 million, respectively. FY 2021 refunds and LGF distributions were higher than those in FY 2020 by $133.8 million and $58.3 million, respectively. Therefore, growth in PIT GRF revenue totaled $2.32 billion relative to 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 explains the earlier relatively weak growth in withholding receipts in the first half of FY 2021 (0.8%). In the second half of FY 2021, growth in this component gradually strengthened to reflect more accurately growth in employers' payrolls.

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	$169.0	1.8%	$501.6	5.5%
Quarterly Estimated Payments	$167.6	16.8%	$434.5	59.2%
Trust Payments	$35.8	31.5%	$98.2	192.0%
Annual Return Payments	$169.6	9.7%	$1,478.7	341.3%
Miscellaneous Payments	-$5.9	-6.4%	-$0.9	-1.0%
Gross Collections	$536.1	4.3%	$2,512.1	24.3%
Less Refunds	$81.7	3.9%	$133.8	6.5%
Less LGF Distribution	$18.9	4.3%	$58.3	14.4%
GRF PIT Revenue	$435.5	4.5%	$2,320.0	29.4%

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 January 2020 decrease in the withholding tax rate through the first half of FY 2021 (meaning adjustments are not affecting actual receipts after December).



Payrolls are estimated to have increased about 21.0%, on average, in the last three months. Year-over-year growth in withholding receipts in the final fiscal quarter was high due to increased unemployment levels experienced in the spring of 2020. For example, Ohio's unemployment rate jumped to 17.6% in April, then decreased to 13.7% in May, and to 10.3% in June 2020. In contrast, April and May 2021 unemployment rates were 4.7% and 5.0%, respectively.

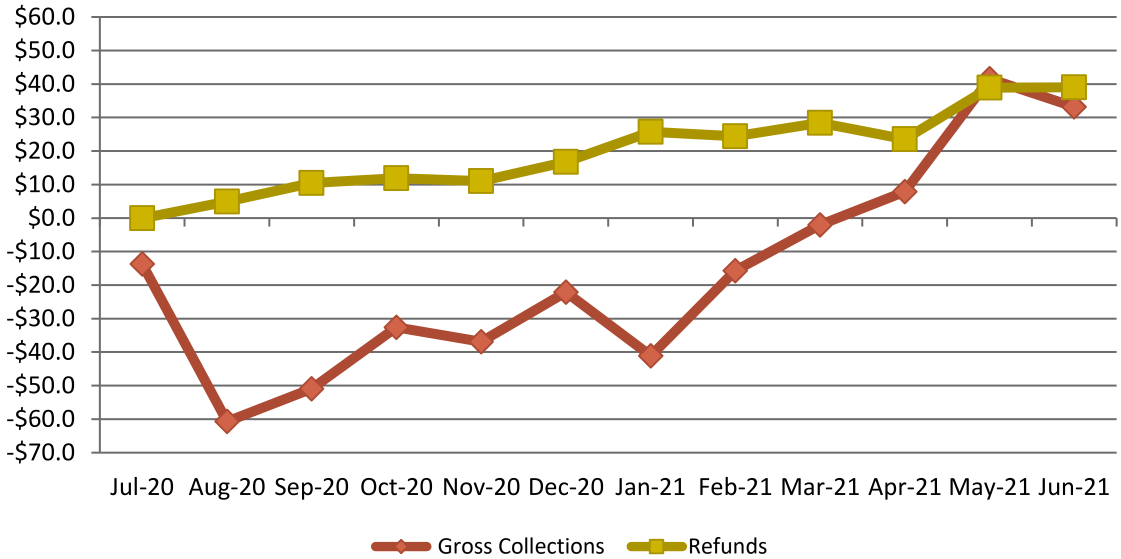
Commercial Activity Tax and Petroleum Activity Tax

June 2021 GRF revenue from the CAT was $11.4 million, an amount $5.7 million (99.5%) above estimate but $7.2 million (38.6%) below revenue in June 2020. The monthly performance of the CAT increased its YTD cumulative positive variance to $13.8 million (0.8%), up from $8.1 million through May 2021. Pandemic-related business closures and the economic slowdown in the spring of 2020 reduced CAT revenue in the July to September 2020 period. (CAT payments are generally based on gross receipts in the previous calendar quarter.) As a result, first-quarter CAT GRF revenue in FY 2021 was below both estimate and prior-year revenue. The second fiscal quarter showed some improvement, which continued the remainder of the fiscal year. Excluding first-quarter results, CAT GRF revenue was 3.0% above estimate and 3.7% above revenue in the October to June period in FY 2020.

For the fiscal year as a whole, GRF receipts of $1.67 billion were $4.9 million (0.3%) below revenue in FY 2020. As shown in the chart below, the decrease in GRF revenue in FY 2021 was driven by an increase in tax credits and refunds claimed against the CAT.[9] Gross collections totaling $2.14 billion were $33.2 million (1.6%) above last year's gross collections. On the other hand, refunds and credits were $161.1 million, $39.0 million (31.9%) above those items in FY 2020. So, the increase in refunds and credits (which reduce gross collections) explains the decline in GRF revenue compared to FY 2020.

[9] A number of Ohio's business tax credits can be claimed against more than one type of tax, but many are claimed against the CAT, which is imposed on the privilege of doing business in Ohio.

Chart 5: Cumulative Growth in Collections and Refunds in FY 2021
(Relative to FY 2020, $ in millions)



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%). Through June, Fund 7047 and Fund 7081 received $254.9 million and $39.2 million, respectively. Disbursements from the funds to school districts and other local governments were $107.1 million and $8.9 million, respectively. Those distributions are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are generally transferred back to the GRF, though excess cash in Fund 7047 and Fund 7081 were not needed to make an anticipated transfer of $330.3 million to the GRF in June.[10]

The PAT is applied to receipts from the sale or exchange of motor fuel at a rate of 0.65% on a motor fuel supplier's adjusted gross receipts, with the majority of the revenue deposited in the Petroleum Activity Tax Public Highway Fund (Fund 5NZ0). PAT GRF revenue was $3.9 million in FY 2021, an amount $6.1 million (61.1%) below estimate and $4.8 million (55.5%) below FY 2020 GRF receipts.

In FY 2021, all funds revenue (net of refunds) from the PAT was $42.3 million, with $38.4 million deposited in Fund 5NZ0. In the prior fiscal year, all funds revenue was $82.5 million, with $73.8 million of that total deposited in Fund 5NZ0. PAT receipts in the last two fiscal years have been affected by the decline in motor fuel sales related to business closures, home confinement, and work-from-home policies of employers. (In FY 2019, all funds PAT receipts were $95.5 million, and $83.9 million was deposited in Fund 5NZ0.)

[10] At the end of FY 2021, cash balances in Fund 7047 and Fund 7081 totaled $272.5 million and $94.2 million, respectively.

Cigarette and Other Tobacco Products Tax

FY 2021 revenue from the cigarette and other tobacco products (OTP) tax totaling $926.9 million was above estimate by $55.2 million (6.3%). This total included $826.0 million from the sale of cigarettes and $100.9 million from the sale of OTP. For the month of June, receipts from this source of $137.3 million were $2.1 million (1.5%) above estimate but $9.4 million (6.4%) below revenue in June 2020.

FY 2021 revenue was also $13.9 million (1.5%) above FY 2020 revenue. OTP sales increased by $18.4 million (22.4%) while receipts from cigarette sales decreased $4.6 million (0.6%). The increase in OTP revenue is primarily due to growth in OTP prices, but also 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), with collections beginning in October of FY 2020. For OTP, the 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 grows with price increases.

On a yearly basis, revenue from sales of cigarettes usually trends downward, generally at a slow pace. The COVID-19 pandemic temporarily upended historical trends in the first half of FY 2021, as revenue from cigarette sales was $17.0 million (4.7%) above such receipts in FY 2020 through December. Then, from January to June 2021, those receipts decreased $21.6 million (4.6%) compared to the corresponding period in 2020, resulting in a YTD decline of $4.6 million through June 2021.

Utility-Related Taxes

Utility-related taxes include the public utility tax, the natural gas distribution or MCF tax, and the kilowatt-hour tax. Receipts from these taxes are credited to the GRF. However, half the share of GRF total tax revenue transferred to the Public Library Fund (PLF) is debited against the kilowatt-hour tax for accounting purposes (the other half is debited against the nonauto sales and use tax). Changes in consumption and prices are generally the main determinants of revenue from utility-related taxes. All three taxes were generally below their respective estimates in FY 2021, in part due to decreased energy consumption related to closures induced by the COVID-19 pandemic, milder weather, and lower than expected energy prices earlier in the fiscal year.

The public utility excise tax is imposed on the gross intrastate receipts of some utilities. Companies subject to the tax pay 4.75% of gross receipts, except for pipeline companies which pay 6.75%.[11] Revenues from this tax totaled $124.7 million in FY 2021, $15.3 million (11.0%) less than the estimate and $16.4 million (11.6%) below FY 2020 revenue. A large refund was paid in December 2020, reducing net revenues from this tax in FY 2021. Taxes paid by natural gas companies account for most tax receipts from the public utility tax. Receipts from pipelines have grown in recent years. Other classes of utilities that pay this tax include waterworks, water transportation, and heating. Companies that pay the public utility tax do not pay the CAT.

The natural gas consumption tax, also known as the natural gas distribution or MCF tax, is levied based on the quantity of natural gas distributed to end users in Ohio. The tax is charged at rates ranging from 2¢ to 15.93¢ per Mcf (thousand cubic feet), depending on the amount

[11] Exemptions include receipts from sales to the federal government or to other public utilities for resale and receipts billed on behalf of other entities by natural gas companies.

distributed to each end user.[12] Receipts from this tax were $70.1 million in FY 2021, $9.3 million (11.8%) below the estimate but $10.3 million (17.3%) above receipts the previous year. The increase from the previous year resulted from refunds in FY 2020 that were expected by the Department of Taxation to be nonrecurring in nature and from an increase in the average temperature in Ohio in the latest year as measured by higher heating degree days.

The kilowatt-hour tax is levied on electric distribution companies with end users in Ohio. The tax rate depends on the volume of electricity used by the customer. In FY 2021, the GRF received $298.2 million from the kilowatt-hour tax. This amount was $28.2 million (8.6%) below estimate and $33.6 million (10.1%) lower than receipts in FY 2020. Total collections (all funds receipts) from the tax in FY 2021 were $526.8 million, which were $4.6 million (0.9%) lower than FY 2020 total collections. As noted earlier, half the share of GRF total tax revenue transferred to the PLF is debited against the kilowatt-hour tax. In FY 2021, the PLF received 1.70% of revenues from all GRF taxes.

Foreign and Domestic Insurance Taxes

Insurance taxes are levied on premiums collected by insurance companies and are deposited in the GRF. The domestic insurance tax is paid by insurance companies whose headquarters are in Ohio while the foreign insurance tax is paid by insurance companies whose headquarters are located outside of the state. The large majority of the revenue is deposited in the GRF, while a small portion is dedicated to the state Fire Marshal Fund (Fund 5460). Combined revenue from the insurance taxes was $666.7 million in FY 2021, of which $634.1 million was deposited in the GRF and $32.6 million was deposited in Fund 5460.

The GRF received $309.7 million from the domestic insurance tax in FY 2021, an amount $3.5 million (1.1%) below estimate and $6.7 million (2.2%) more than receipts in FY 2020. The increase in receipts from the domestic insurance tax was largely due to an increase in taxes paid by Medicaid managed care organizations and property and casualty insurers. Net revenue from this tax this fiscal year was influenced by an increase of $12.4 million in tax credits relative to FY 2020.

Foreign insurance tax receipts totaled $324.4 million. That amount was $32.4 million (11.1%) above estimate and $19.3 million (6.3%) more than FY 2020 revenue. Unlike Medicaid managed care organizations that are all domestic insurers, the performance of the foreign insurance tax is directly related to increased premiums received by property and casualty, life and health, and other insurers.

Corporate and Financial Institutions Tax

The FIT is levied on the "total Ohio equity capital" of financial institutions, which includes a firm's common stock, perpetual preferred stock, surplus, retained earnings, treasury stock, and unearned employee stock ownership plan shares. Annual FIT tax returns are due in October, but estimated payments are made in January, March, and May. The reconciliation between estimated payments and final tax liability generally results in net refunds between July and December. In FY 2021, GRF receipts from the FIT of $226.4 million were $36.7 million (19.3%) above estimate and $11.5 million (5.3%) above receipts in FY 2020. Gross collections increased for FY 2021, while the amounts of refunds and credits was roughly the same, when compared to FY 2020.

[12] Exemptions include natural gas distributed to the federal government and natural gas both produced and consumed by an end user that does not flow through a natural gas company's pipelines.

Regarding the CFT, though GRF receipts were not anticipated from this tax because H.B. 510 of the 129th General Assembly eliminated the tax at the end of 2013, adjustments to tax filings in previous years continue to affect this tax source. These adjustments provided net revenue of $6.0 million this fiscal year, due to revenue from the conclusion of certain audits in December 2020.

Alcoholic Beverage and Liquor Gallonage Taxes

Combined revenue for the two taxes totaled $117.5 million in FY 2021, an amount $10.5 million (9.8%) above estimate for the fiscal year and by a similar amount above combined revenue in FY 2020. While pandemic-induced restrictions reduced patronage at restaurants and bars, the volume of consumption rose for both alcoholic beverages and liquor, reflecting increased home consumption of alcoholic beverages.

The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. All beverages brewed or fermented from malt products and containing at least 0.5% alcohol by volume are included in the tax base. The tax is levied on a per-container rate depending on the type of beverage sold and tax rates vary greatly. Revenue is deposited in the GRF. For FY 2021, GRF revenue from the alcoholic beverage tax was $59.9 million, an amount $3.9 million (6.9%) above OBM's September 2020 estimate. FY 2021 revenue was also $6.2 million (11.6%) above that of the prior year. The bases for the alcoholic beverage tax are split into beer/malt beverages and wine/mixed beverages. In FY 2021, revenue from the malt beverages category was $43.1 million, an increase of $3.1 million (7.7%) from FY 2020 collections; revenue from the wine and mixed beverages category was $16.8 million, an increase of $3.2 million (23.3%) from FY 2020.

The liquor gallonage tax is levied at the rate of $3.38 per gallon of spirituous liquor. This is the equivalent of $0.67 per standard 750 milliliter bottle. Revenue is deposited in the GRF. Revenue from the liquor gallonage tax was $57.6 million during FY 2021, $6.6 million (13.0%) above estimated revenue for this tax. FY 2021 revenue was $4.2 million (8.0%) above receipts in FY 2020, continuing the upsurge in consumption of liquor again this year.

On the whole, alcoholic beverage sales have continued to shift from beer, wine, and mixed beverages and towards spirituous liquor, largely a result of changes in consumer preferences. Over the last ten years, the share of combined revenue for all alcoholic beverages coming from the liquor tax slowly rose from roughly 40% to about 49% in FY 2021. That increase has come primarily at the expense of tax revenue from the sales of beer and malt beverages.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of June 2021
($ in thousands)
(Actual based on OAKS reports run July 1, 2021)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$304,142	$304,676	-$534	-0.2%
Higher Education	$192,966	$175,327	$17,639	10.1%
Other Education	$1,212	$3,821	-$2,609	-68.3%
Total Education	**$498,320**	**$483,824**	**$14,495**	**3.0%**
Medicaid	$1,820,192	$1,716,468	$103,725	6.0%
Health and Human Services	$61,032	$59,846	$1,186	2.0%
Total Health and Human Services	**$1,881,224**	**$1,776,313**	**$104,911**	**5.9%**
Justice and Public Protection	$119,695	$173,520	-$53,824	-31.0%
General Government	$19,431	$33,558	-$14,127	-42.1%
Total Government Operations	**$139,126**	**$207,078**	**-$67,952**	**-32.8%**
Property Tax Reimbursements	$12,591	$31,280	-$18,689	-59.7%
Debt Service	$196,968	$89,072	$107,895	121.1%
Total Other Expenditures	**$209,558**	**$120,352**	**$89,206**	**74.1%**
Total Program Expenditures	**$2,728,228**	**$2,587,568**	**$140,661**	**5.4%**
Transfers Out	**$5,766**	**$9,172**	**-$3,406**	**-37.1%**
Total GRF Uses	**$2,733,994**	**$2,596,739**	**$137,255**	**5.3%**

*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 June 30, 2021
($ in thousands)
(Actual based on OAKS reports run July 1, 2021)

Program Category	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Primary and Secondary Education	$7,883,063	$7,759,265	$123,798	1.6%	$7,846,873	0.5%
Higher Education	$2,368,511	$2,296,884	$71,627	3.1%	$2,282,270	3.8%
Other Education	$71,097	$76,535	-$5,438	-7.1%	$82,091	-13.4%
Total Education	**$10,322,671**	**$10,132,684**	**$189,987**	**1.9%**	**$10,211,233**	**1.1%**
Medicaid	$18,094,379	$18,851,353	-$756,974	-4.0%	$15,471,844	17.0%
Health and Human Services	$1,381,340	$1,431,271	-$49,931	-3.5%	$1,343,999	2.8%
Total Health and Human Services	**$19,475,719**	**$20,282,624**	**-$806,905**	**-4.0%**	**$16,815,843**	**15.8%**
Justice and Public Protection	$2,387,018	$2,535,446	-$148,428	-5.9%	$2,385,951	0.0%
General Government	$421,789	$482,529	-$60,740	-12.6%	$440,437	-4.2%
Total Government Operations	**$2,808,807**	**$3,017,975**	**-$209,168**	**-6.9%**	**$2,826,388**	**-0.6%**
Property Tax Reimbursements	$1,805,991	$1,858,251	-$52,260	-2.8%	$1,800,605	0.3%
Debt Service	$1,216,805	$1,128,311	$88,494	7.8%	$1,449,932	-16.1%
Total Other Expenditures	**$3,022,796**	**$2,986,562**	**$36,234**	**1.2%**	**$3,250,537**	**-7.0%**
Total Program Expenditures	**$35,629,993**	**$36,419,845**	**-$789,852**	**-2.2%**	**$33,104,001**	**7.6%**
Transfers Out	**$464,960**	**$455,572**	**$9,388**	**2.1%**	**$669,498**	**-30.6%**
Total GRF Uses	**$36,094,953**	**$36,875,417**	**-$780,463**	**-2.1%**	**$33,773,499**	**6.9%**

*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 July 8, 2021)

	Month of June 2021				Year to Date through June 2021			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,772,179	$1,657,914	$114,265	6.9%	$17,426,611	$18,120,176	-$693,565	-3.8%
Non-GRF	$1,185,988	$894,827	$291,161	32.5%	$10,677,890	$12,001,736	-$1,323,846	-11.0%
All Funds	$2,958,167	$2,552,741	$405,426	15.9%	$28,104,501	$30,121,912	-$2,017,411	-6.7%
Developmental Disabilities								
GRF	$42,881	$53,944	-$11,062	-20.5%	$578,419	$640,118	-$61,699	-9.6%
Non-GRF	$220,539	$199,558	$20,982	10.5%	$2,770,531	$2,660,986	$109,544	4.1%
All Funds	$263,421	$253,501	$9,919	3.9%	$3,348,949	$3,301,104	$47,845	1.4%
Job and Family Services								
GRF	$4,598	$3,705	$892	24.1%	$78,561	$79,853	-$1,292	-1.6%
Non-GRF	$12,044	$9,569	$2,476	25.9%	$164,321	$158,180	$6,141	3.9%
All Funds	$16,642	$13,274	$3,368	25.4%	$242,882	$238,032	$4,850	2.0%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$535	$905	-$371	-40.9%	$10,788	$11,206	-$418	-3.7%
Non-GRF	$4,948	$2,871	$2,077	72.3%	$35,641	$42,500	-$6,859	-16.1%
All Funds	$5,482	$3,776	$1,706	45.2%	$46,429	$53,706	-$7,277	-13.5%
All Departments:								
GRF	**$1,820,192**	**$1,716,468**	**$103,725**	**6.0%**	**$18,094,379**	**$18,851,353**	**-$756,974**	**-4.0%**
Non-GRF	**$1,423,520**	**$1,106,825**	**$316,695**	**28.6%**	**$13,648,383**	**$14,863,401**	**-$1,215,019**	**-8.2%**
All Funds	**$3,243,712**	**$2,823,292**	**$420,420**	**14.9%**	**$31,742,761**	**$33,714,754**	**-$1,971,993**	**-5.8%**

*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 July 8, 2021)

	Month of June 2021				Year to Date through June 2021			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$2,408,490**	**$1,916,212**	**$492,277**	**25.7%**	**$21,551,108**	**$22,787,524**	**-$1,236,416**	**-5.4%**
CFC†	$940,919	$697,802	$243,116	34.8%	$7,665,435	$8,046,774	-$381,339	-4.7%
Group VIII	$791,455	$609,416	$182,039	29.9%	$6,468,653	$7,146,849	-$678,196	-9.5%
ABD†	$339,949	$265,822	$74,126	27.9%	$3,055,668	$3,134,846	-$79,178	-2.5%
ABD Kids	$115,471	$86,271	$29,200	33.8%	$1,006,349	$1,013,330	-$6,981	-0.7%
My Care	$220,696	$256,900	-$36,204	-14.1%	$2,751,804	$2,986,481	-$234,677	-7.9%
P4P & Ins Fee†	$0	$0	$0	---	$603,199	$459,244	$143,955	31.3%
Fee-For-Service	**$664,404**	**$700,851**	**-$36,447**	**-5.2%**	**$8,107,001**	**$8,763,711**	**-$656,710**	**-7.5%**
ODM Services	$403,394	$452,028	-$48,634	-10.8%	$4,205,373	$4,743,731	-$538,357	-11.3%
DDD Services	$261,010	$248,823	$12,187	4.9%	$3,257,532	$3,204,164	$53,368	1.7%
Hospital - HCAP&Other†	$0	$0	$0	---	$644,095	$815,816	-$171,721	-21.0%
Premium Assistance	**$100,186**	**$107,950**	**-$7,764**	**-7.2%**	**$1,196,381**	**$1,159,983**	**$36,397**	**3.1%**
Medicare Buy-In	$64,183	$62,588	$1,595	2.5%	$809,462	$725,109	$84,353	11.6%
Medicare Part D	$36,003	$45,362	-$9,359	-20.6%	$386,919	$434,875	-$47,956	-11.0%
Administration	**$70,632**	**$98,279**	**-$27,647**	**-28.1%**	**$888,272**	**$1,003,536**	**-$115,264**	**-11.5%**
Total	**$3,243,712**	**$2,823,292**	**$420,420**	**14.9%**	**$31,742,761**	**$33,714,754**	**-$1,971,993**	**-5.8%**

*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[13]

– *Melaney Carter, Director*

– *Ivy Chen, Principal Economist*

Overview

GRF program expenditures totaled $35.63 billion in FY 2021, $789.9 million (2.2%) under the estimate released by OBM at the beginning of the fiscal year. This negative variance was primarily due to Medicaid, which ended the year $757.0 million (4.0%) under estimate, despite a positive variance for the month of June of $103.7 million. Justice and Public Protection also had a significant negative variance for the year of $148.4 million (5.9%) that increased by $53.8 million in June. These negative variances for the fiscal year were partially offset by positive variances of $123.8 million (1.6%) in Primary and Secondary Education, $88.5 million (7.8%) in Debt Service, and $71.6 million (3.1%) in Higher Education. The variances in these categories are discussed below.

Program expenditures constitute the majority of GRF uses, but GRF uses also include transfers out. FY 2021 transfers out were $465.0 million, $9.4 million (2.1%) over estimate for the fiscal year. Total GRF uses were $36.09 billion in FY 2021, $780.5 million (2.1%) under estimate.

State agencies encumbered $611.5 million in FY 2021 GRF appropriations for expenditure in FY 2022. Additional information on FY 2021 year-end encumbrances is provided below. In addition to these encumbrances, $77.7 million of FY 2021 appropriations for the last payroll of FY 2021 was disbursed in FY 2022.

Medicaid

GRF Medicaid expenditures were above their monthly estimate in June by $103.7 million (6.0%), but below their yearly estimate, by $757.0 million (4.0%), at the end of the fiscal year. Non-GRF Medicaid expenditures were above their monthly estimate, by $316.7 million (28.6%), yet remained below their yearly estimate, by $1.22 billion (8.2%) at the end of the fiscal year. Including both the GRF and non-GRF, all funds Medicaid expenditures were $420.4 million (14.9%) above estimate in June and $1.97 billion (5.8%) below their yearly estimate at the end of the fiscal year. H.B. 110 of the 134th General Assembly (the FY 2022-FY 2023 biennium budget bill) requires the Director of Budget and Management to transfer $1.2 billion from the surplus of the GRF that existed on June 30, 2021, to the Health and Human Services Fund (Fund 5SA4) for use by Medicaid in the FY 2022-FY 2023 biennium to offset the GRF spending in line item 651525. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.

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

[13] 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.

in H.B. 166. The updated expenditure estimates included approximately $3 billion in increases for the fiscal year, related to many impacts of the COVID-19 pandemic. ODM's updated expenditure estimates for FY 2021 assumed the receipt of enhanced federal reimbursement due to the COVID-19 pandemic for the first six months of FY 2021; however, enhanced federal reimbursement has since been authorized for the second six months of FY 2021, making ODM eligible for increased federal reimbursement for the entirety of FY 2021.

From the beginning of the pandemic in March 2020 through June 2021, caseloads have increased by approximately 27,300 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. Despite increases in caseload during the pandemic, cases have remained below ODM's updated FY 2021 estimates throughout the fiscal year, which has contributed to year-end negative expenditure variances against updated FY 2021 expenditure estimates across many categories of Medicaid spending. Based on updated FY 2021 ODM estimates, June's caseload of 3.2 million enrollees is approximately 226,100 cases (6.6%) below estimate. Average monthly caseloads for FY 2021 also finished the fiscal year below updated FY 2021 estimates, by approximately 254,200 cases (7.6%).

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 positive variance in June of $405.4 million (15.9%), yet yearly expenditures stayed below estimate, with a negative variance of $2.02 billion (6.7%) at the end of the fiscal year. ODODD had a June all funds positive variance of $9.9 million (3.9%) and ended the fiscal year with a positive yearly variance of $47.8 million (1.4%). 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 yearly estimates for three of the four payment categories at the end of the fiscal year. Managed Care had the largest negative variance of $1.24 billion (5.4%), followed by Fee-For-Service's (FFS's) negative variance of $656.7 million (7.5%). The negative variances for both Managed Care and FFS are primarily attributable to below updated estimate enrollment in both Managed Care and FFS over the course of the fiscal year. Managed Care's negative variance is additionally influenced by below estimate Managed Care rates which went into effect in January of 2021 and are currently driving down per-member, per-month costs for the program. Rounding out the four Medicaid expenditure payment categories, Administration had a negative yearly variance of $115.3 million (11.5%) and Premium Assistance had a positive yearly variance of $36.4 million (3.1%).

Justice and Public Protection

GRF spending in the Justice and Public Protection category was under estimate by $53.8 million (31.0%) in June and has been under estimate every month this fiscal year except for April. Yearly expenditures in this category were under estimate by $148.4 million (5.9%). The Department of Rehabilitation and Correction (DRC) is the largest agency in this category and also has the largest negative variances. DRC's GRF spending was under estimate by $46.9 million in June and $109.4 million for the year. All of DRC's GRF appropriation line items were either under or at estimate for the fiscal year, the largest being item 501321, Institutional Operations, which was under estimate by $34.4 million in June and $80.0 million for the fiscal year. This item is used for the general operations of the state's prisons.

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 slightly negative variance in June and ended the year with a positive yearly variance of $123.8 million (1.6%). Appropriation item 200550, Foundation Funding, dominates this category's positive yearly variance with a positive variance of $152.4 million. Item 200550 is the main source of state funding for local schools. When developing expenditure estimates for FY 2021, agencies were instructed to withhold a certain amount of the FY 2021 appropriation as part of spending controls instituted by the Governor. A January 2021 executive order restored $152.0 million of the amount that had been withheld for foundation funding, resulting in the fiscal year's positive variance in this item.

Debt Service

The Debt Service program category includes all GRF expenditures for principal and interest payments on state debt for several different agencies. This category had a large positive variance of $107.9 million (121.1%) in June, resulting in a positive yearly variance of $88.5 million (7.8%). Appropriation item 235909, Higher Education General Obligation Bond Debt Service, was above estimate by $121.0 million for June and by $111.3 million for the fiscal year. Most other items in this category ended the fiscal year below estimate.

Higher Education

The Higher Education program category includes all GRF expenditures by the Department of Higher Education (DHE), except for debt service. This category had a positive variance of $17.6 million (10.1%) in June, increasing the category's yearly positive variance to $71.6 million (3.1%). Appropriation item 235501, State Share of Instruction, was above estimate by $17.8 million for June and by $89.1 million for the fiscal year. The January 2021 executive order restoring funding for primary and secondary education also restored $100.0 million for DHE, so this category was expected to end the year above estimate.

Encumbrances

As of June 30, 2021, state agencies encumbered a total of $611.5 million in GRF appropriations for expenditure in FY 2022. An agency generally has five months to spend prior-year encumbrances for operating expenses, after which time they lapse. An agency may encumber appropriations for purposes other than operating expenses beyond the five-month period if approval is obtained from the Director of Budget and Management. Encumbrances for some grant and aid payments are encumbered for several months or sometimes years.

The table below summarizes the encumbrances by the fiscal year of the original appropriation. As seen from the table, the majority of the encumbrances were originally appropriated in FY 2021. However, small encumbrances remain from as early as FY 2011.

FY 2021 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made		
Fiscal Year	**Amount ($ in thousands)**	**Percentage of Total**
2011-2016	$530	0.1%
2017	$1,636	0.3%
2018	$8,581	1.4%
2019	$6,114	1.0%
2020	$68,604	11.2%
2021	$526,045	86.0%
Total	**$611,511**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As shown in the following table, ODE has the largest encumbrance amount at $122.0 million, 19.9% of the total. The Ohio Department of Job and Family Services (ODJFS) is second with an encumbrance of $84.9 million (13.9%), and DRC is third with an encumbrance of $81.4 million (13.3%). The next five agencies with the largest encumbrances are the Ohio Department of Transportation (ODOT) at $68.2 million (11.1%), DHE at $50.7 million (8.3%), the Department of Development (DEV) at $41.1 million (6.7%), the Department of Agriculture (AGR) at $32.6 million (5.3%), and ODM at $31.1 million (5.1%). Thirty-nine other agencies encumbered the remaining $99.6 million (16.3%).

FY 2021 Year-End Encumbrances by Agency		
Agency	**Amount ($ in thousands)**	**Percentage of Total**
Education	$121,970	19.9%
Job and Family Services	$84,858	13.9%
Rehabilitation and Correction	$81,406	13.3%
Transportation	$68,174	11.1%
Higher Education	$50,664	8.3%
Development	$41,096	6.7%
Agriculture	$32,624	5.3%
Medicaid	$31,104	5.1%
Other	$99,615	16.3%
Total	**$611,511**	**100.0%**

Ohio Department of Education

ODE encumbered $122.0 million for expenditure in FY 2022. Three appropriation items with significant encumbrances are: (1) item 200550, Foundation Funding, at $57.5 million, (2) item 200437, Student Assessment, at $20.1 million, and (3) item 200408, Early Childhood Education, at $16.0 million. These three items account for $93.6 million (76.7%) of ODE's total encumbrances. The remaining $28.4 million was encumbered in various other items.

Funds encumbered in item 200550 will be used mainly to meet year-end school foundation payment adjustments. Foundation payments are allocated to districts based on a variety of data. Some of these data are not finalized until the following fiscal year. Funds are generally encumbered each year in order to make adjusted payments based on these updated data. Funds encumbered in item 200437 will be used to pay contractors for costs related to the state's standardized tests. Funds encumbered in item 200408 will be used to pay providers for early childhood education services to children from lower income families.

Ohio Department of Job and Family Services

ODJFS encumbered $84.9 million for expenditure in FY 2022. Encumbrances in six appropriation items account for $81.6 million (96.1%) of the total. These six items are: (1) item 600450, Program Operations, at $27.3 million, (2) item 600523, Children and Families Subsidy, at $20.2 million, (3) item 655523, Medicaid Program Support – Local Transportation, at $16.4 million, (4) item 655522, Medicaid Program Support – Local, at $6.9 million, (5) item 600533, Child, Family, and Community Protective Services, at $6.2 million, and (6) item 600521, Family Assistance – Local, at $4.5 million.

Funds encumbered in item 600450 will be used for a variety of administrative costs. Funds encumbered in item 600523 will be used mainly for assistance to county public children services agencies, including assistance with children who require services from multiple systems. Funds encumbered in items 655523 and 655522 will mainly be used for the remaining state share of Medicaid subsidies to county departments of job and family services. Item 655523 pays the state's share of Medicaid costs for local transportation services, and item 655522 pays the state's share of Medicaid costs for local administrative services. Funds encumbered in item 600533 will be used to provide funding to county agencies for community protective services. Finally, encumbrances in item 600521 will be used to provide the state's share of county administration costs for public assistance programs.

Department of Rehabilitation and Correction

DRC encumbered $81.4 million for expenditure in FY 2022, of which $61.4 million occurred in item 501321, Institutional Operations, and another $18.1 million in item 505321, Institution Medical Services. Funds were encumbered in item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, equipment, materials, and other expenditures at DRC and institutions. Funds encumbered in item 505321 will be used to pay various outstanding bills for providing medical services to inmates.

Ohio Department of Transportation

ODOT encumbered $68.2 million for expenditure in FY 2022. Most of this encumbrance ($62.3 million) was in item 775470, Public Transportation – State, which is used primarily for competitive grants for public transit systems across the state. An additional $4.0 million was encumbered in item 777471, Airport Improvements – State, to provide grants to public airports in Ohio for pavement maintenance and obstruction removal.

Department of Higher Education

DHE encumbered $50.7 million for expenditure in FY 2022. The majority of the total was encumbered in items 235438, Choose Ohio First Scholarship, ($37.5 million) and 235599, National Guard Scholarship Program, ($10.7 million) to pay the state's obligations to scholarship recipients. Another $1.5 million was encumbered in item 235563, Ohio College Opportunity Grant; these funds will be used for need-based financial aid.

Department of Development

DEV encumbered $41.1 million for expenditure in FY 2022. The two items with the largest encumbrances were items 195455, Appalachia Assistance, with an encumbrance of $12.7 million, and 195556, TechCred Program, with an encumbrance of $12.1 million. Item 195455 is used to provide economic and community development assistance to the 32 counties in Ohio's Appalachian region. Item 195556 provides the GRF funding for the TechCred Program, a new workforce development program that also received funding from the Ohio Incumbent Workforce Training Fund (Fund 5HR0).

Department of Agriculture

AGR encumbered $32.6 million for expenditure in FY 2022. Most of this amount ($26.9 million) was encumbered in item 700417, Soil and Water Phosphorus Program, and will be used to support programs aimed at reducing phosphorus in the Western Lake Erie Basin. Another $4.5 million was encumbered in item 700512, Local Fairs, which received appropriations in recently enacted S.B. 109 of the 134th General Assembly. These encumbrances will be used to provide grants of $50,000 to local fairs in Ohio.

Ohio Department of Medicaid

ODM encumbered a total of $31.1 million for expenditure in FY 2022, including $15.9 million in item 651525, Medicaid/Health Care Services, and $16.3 million in item 651425, Medicaid Program Support – State. Item 651525 is the primary GRF funding source for Ohio Medicaid. Funds encumbered in this item will be used for subsidy payments to Medicaid providers. Funds encumbered in item 651425 will be used to pay ODM's outstanding personal services and contract expenses for administering the Medicaid Program in Ohio.

Issue Updates

FY 2021 Operating and Capital Expenditures Total $81 Billion

– Melaney Carter, Director

In FY 2021, the state of Ohio incurred a total of $81.22 billion in operating and capital expenditures. As seen from Table A, $76.01 billion (93.6%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $3.79 billion (4.7%) and $1.07 billion (1.3%), respectively. The remaining $347.8 million (0.4%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table A. FY 2020 Operating and Capital Expenditures by Budget		
Budget	**Amount**	**% of Total**
Main Operating	$76,008,730,397	93.6%
Transportation	$3,792,278,538	4.7%
Capital	$1,067,512,536	1.3%
Workers' Compensation	$347,768,599	0.4%
Total	**$81,216,290,070**	**100.00%**

Table B shows FY 2021 expenditures by the account category used in the state's accounting system. As seen from Table B, Subsidies and Shared Revenue is the largest spending area. In FY 2021, 87.5% ($31.16 billion) of total GRF expenditures were distributed as subsidies to Medicaid service providers, schools, colleges and universities, local governments, and various other entities. Across all funds, this category's expenditures totaled $56.87 billion (70.0%).

The vast majority of the expenditures incurred under the Capital Item category – $3.33 billion (4.1%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2021 debt service payments totaled $321.2 million (0.9%) for the GRF and $1.56 billion (1.9%) across all funds.

For FY 2021, state payroll costs (including both salaries and fringe benefits) amounted to $5.16 billion (6.4%) across all funds, of which $2.29 billion was supported by the GRF. In addition to Payroll, spending that is commonly referred to as the state government's operating expenses also includes expenditures incurred under the Purchased Personal Services, Supplies and Maintenance, and Equipment categories. For FY 2021, the state government's operating expenses totaled $9.17 billion across all funds, of which $3.21 billion came from the GRF. In percentage terms, these amounts represent 11.3% and 9.0% of the respective totals.

Table B. FY 2021 Operating and Capital Expenditures by Account Category				
Account Category	GRF Only	% of Total	All Funds	% of Total
500 - Payroll	$2,287,361,527	6.4%	$5,163,395,969	6.4%
510 - Purchased Personal Services	$405,770,445	1.1%	$1,650,386,491	2.0%
520 - Supplies and Maintenance	$501,872,345	1.4%	$2,174,992,494	2.7%
530 - Equipment	$10,648,985	0.0%	$176,315,570	0.2%
550 - Subsidies Shared Revenue	$31,161,851,517	87.5%	$56,868,804,619	70.0%
560 - Goods and Services for Resale	$0	0.0%	$100,412,639	0.1%
570 - Capital Items	$24,271,543	0.1%	$3,331,428,911	4.1%
590 - Judgments, Settlements and Bonds	$7,018,991	0.0%	$19,129,636	0.0%
591 - Debt Service	$321,183,369	0.9%	$1,559,238,826	1.9%
595 - Transfers and Non-Expense	$910,014,251	2.6%	$10,172,184,914	12.5%
Total	**$35,629,992,972**	**100.0%**	**$81,216,290,070**	**100.0%**

Department of Rehabilitation and Correction Releases FY 2020 Annual Report

– Robert Meeker, Budget Analyst

In May 2021, DRC released its annual report for FY 2020. The report includes statistics detailing institutional operations, inmate population trends, employee and offender demographics, parole field services, and community sanctions funding. One of the primary drivers of DRC's annual operating budget is the year-over-year trend in the prison population and commitments. From FY 2019 to FY 2020, the prison population decreased by 6.5%, or 3,175, from 48,988 to 45,813, and the number of offenders committed to prison decreased by 18.8%, or 3,213, from 17,126 to 13,913. The Department attributes the decreased prison population to the impact of COVID-19 on altering law enforcement, jail, and court operations and changes to institutional operations that included targeted early release.

Other report highlights include:

- Total GRF expenditures increased 2.9% from FY 2019 to FY 2020, or nearly $52.45 million. For FY 2019 and FY 2020, GRF expenditures were approximately $1.79 billion and $1.84 billion, respectively.

- Institutional Operations continued to consume around 60% of DRC's total GRF expenditures in FY 2020. This cost component includes security, prison administration, support services, facility maintenance, and unit management.
- Medical, mental health, and education services accounted for 18%, or $322.5 million, of DRC's total GRF expenditures in FY 2020. Of that number, medical services contributed $222.3 million.
- Community corrections, an aggregate of funding for halfway houses, prison and jail diversion programs, and community-based correctional facilities, accounted for 12%, or $221 million, of DRC's total GRF expenditures in FY 2020.
- The average cost per day per inmate in FY 2020 was $83.72, an increase of $3.05, or 3.8%, compared to $80.68 for FY 2019. Of the daily cost, security (supervision and control of inmates) is the largest component, typically around 45%.
- The number of employees in FY 2020 totaled 12,389, including 6,808 correctional officers and 505 parole officers.
- The employee payroll for the year totaled $1.2 billion, an average cost per employee of $61,241, up from $1.1 billion, or $59,031 per employee, in FY 2019. In FY 2020, 10.5% of the average cost per employee was for overtime pay, down slightly from 10.6% in FY 2019.

ODE Publishes Annual State Report on Preschool Children with Disabilities

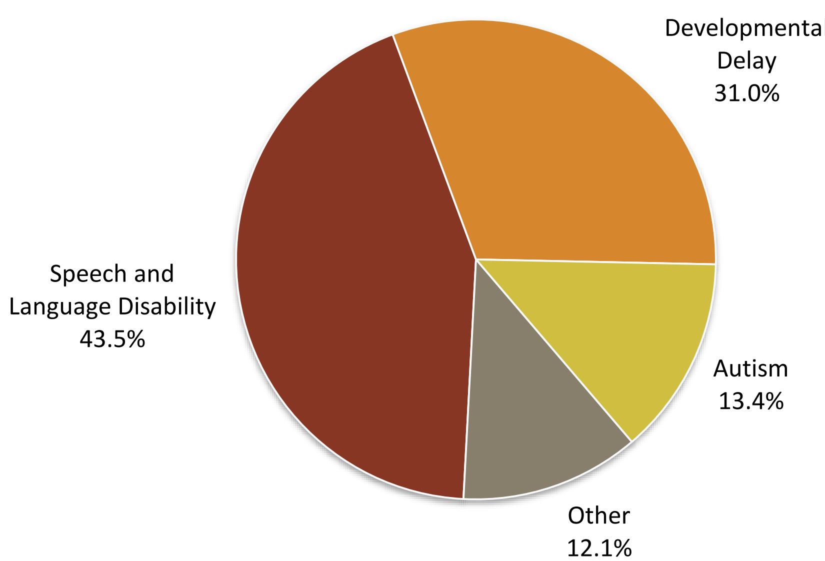
– Sarah Anstaett, LSC Fellow

In March 2021, ODE issued the FY 2020 Annual State Report on Preschool Children with Disabilities in Ohio. ODE reported that 23,351 preschool children received state-funded special education services in FY 2020, an increase of 906 children (4.0%) compared to FY 2019. For funding purposes, preschool children are put into six categories based on their disabilities. The table below summarizes the number of preschool children by special education funding category in each of FY 2019 and FY 2020. The number of preschool children in category six, mostly consisting of students with autism, grew the fastest between FY 2019 and FY 2020, at 12.9%. The other categories grew by 5.8% or less. The number of students in category three decreased. For details regarding the number of children with each of the 14 disability conditions in FY 2020, please refer to the ODE report.

Preschool Special Education Students by Special Education Funding Category, FY 2019 - FY 2020			
Category	**Disability Conditions**	**FY 2019**	**FY 2020**
Category 1	Speech and Language Disability	9,777	10,162
Category 2	Developmentally Disabled; Specific Learning Disabled; Other Health (minor)	8,307	8,447
Category 3	Hearing Impaired; Severe Behavior Disabled	296	249
Category 4	Visually Impaired; Other Health (major)	177	178
Category 5	Multiple Disability; Orthopedically Disabled	1,037	1,097
Category 6	Deaf and Blind; Autistic; Traumatic Brain Injured	2,851	3,218
	Total	**22,445**	**23,351**

Preschool children receiving state-funded educational services tend to be concentrated in three disability conditions, as illustrated in the chart below. Overall, 43.5% of children received services for speech and language disabilities, 31.0% received services for developmental delays, and 13.4% received services for autism. All other children with disabilities comprised the remaining 12.1% of children.

Preschool Children with Disabilities by Disability Condition, FY 2020



State funding for preschool special education and related services provided by school districts, educational service centers, and county developmental disabilities (DD) boards is distributed through a per-pupil based approach. Specifically, each school district receives $4,000 per student plus additional special education aid based on the applicable special education amount for each student multiplied by the resident district's state share index and 0.5. The additional per-pupil funding for each special education category ranges from $1,578 for students with speech and language disabilities to $25,637 for preschool children with deaf-blindness, autism, or traumatic brain injury. Educational service centers and county DD boards receive this funding through transfers from the amounts allocated to the school districts with which those entities have service agreements. In FY 2020 and FY 2021, H.B. 166 provides $110 million each fiscal year for the payments through GRF line item 200540, Special Education Enhancements.

Controlling Board Approves Increase in Quality Community School Support Appropriation

– Nick Ciolli, Budget Analyst

On June 14, 2021, the Controlling Board approved an ODE request to increase the FY 2021 appropriation for SLF Fund 7017, line item 200631, Quality Community Schools Support, by $9.9 million to pay certain community schools determined to be eligible for funding under a recent Ohio Supreme Court decision. The Quality Community Schools Support (QCSS) Program provides funds to community schools that meet certain quality standards with respect to report card grades, sponsor ratings, and other factors. The Controlling Board's action stems from several Horizon Science Academy (HSA) schools objecting to an ODE decision to deny their QCSS Program applications because their operator, Concept Schools, lacked a license with the Ohio Secretary of State. According to ODE's interpretation of the eligibility criteria for the program, the operator was not "in good standing" and therefore the schools were ineligible for awards. On May 19, 2021, the Ohio Supreme Court, in *State ex rel. Horizon Science Academy of Lorain, Inc. v. Ohio Dept. of Edn*., determined this decision was incorrect, finding that the definition of "in good standing" for community school operators under the program relates to the operator's effectiveness, not corporate registration with the Secretary of State, and ordered ODE to approve the schools' applications and pay their awards.

H.B. 166 of the 133rd General Assembly appropriated $30.0 million in each of FY 2020 and FY 2021 to item 200631 and required ODE to prorate the payments if the appropriated amount was insufficient to pay calculated awards. In FY 2020 and FY 2021, ODE prorated the payments to fit within the appropriation, paying 89.5% in FY 2022 and 58.4% in FY 2023 of each school's calculated award amount. Upon the court's decision, ODE requested Controlling Board approval to increase the FY 2021 appropriation for item 200631 to $39.9 million to pay the HSA schools their awards and, thus, avoid affecting payments to other community schools. Payments to HSA schools will be subject to the same proration percentages applied to the other awardees. Twelve HSA schools will receive payments for FY 2020 and eight will receive payments for FY 2021, totaling $7.2 million and $2.7 million, respectively. The four schools that do not receive FY 2021 payments due to the court's decision were not initially denied funding for that year. The table below shows the amount each HSA school will receive due to the appropriation increase.

QCSS Program Payments to HSA Schools			
County	**Community School**	**Payment Due FY 2020**	**Payment Due FY 2021**
Lorain	HSA Lorain	$1,118,998	Already Received Award
Lucas	HSA Toledo	$826,476	$528,046
Franklin	HSA Columbus Middle School	$792,536	Already Received Award
Franklin	HSA Elementary School	$760,899	$500,667
Mahoning	HSA Youngstown	$618,890	Already Received Award
Cuyahoga	HSA Cleveland	$567,366	$369,414
Lucas	HSA Springfield	$565,873	Already Received Award
Cuyahoga	HSA Cleveland Middle School	$492,243	$315,608
Montgomery	HSA Dayton High School	$485,025	$312,268
Franklin	HSA Primary	$407,670	$268,474
Hamilton	HSA Cincinnati	$352,316	$209,280
Montgomery	HSA Dayton	$254,150	$161,553
	Total	**$7,242,442**	**$2,665,310**

CMS Issues Guidance for Increased Home and Community-Based Services FMAP

– Wendy Risner, Division Chief

On May 13, the U.S. Centers for Medicare & Medicaid Services (CMS) released guidance on the additional funding provided for Medicaid home and community-based services (HCBS) in the ARP Act of 2021. Specifically, ARP Act provided a ten percentage point increase to the federal medical assistance percentage (FMAP) for certain HCBS expenditures. This increase will be in effect from April 1, 2021 through March 21, 2022. According to the guidance, states must meet the following requirements: (1) any additional federal funds received must be used to supplement existing state funds dedicated to Medicaid HCBS as of April 1, 2020, and (2) the state funds equivalent to the amount of the additional federal funds received must be used to enhance, expand, or strengthen Medicaid HCBS. In other words, funds received from the increased FMAP cannot supplant state funds and should instead strengthen the HCBS system. In addition, states cannot impose stricter eligibility standards, methodologies, or procedures for HCBS than were in place on April 1, 2021, cannot reduce the duration or scope of these services, and must maintain provider payments at rates no less than the rates in place on that date.

Examples of HCBS eligible for this increased FMAP include: home health care, personal care services, case management, rehabilitative services, assistive technology, and private duty nursing. Examples of HCBS enhancements include: new or additional HCBS, provider wage increases, HCBS workforce supports (e.g., increased pay, paid sick leave, and recruitment activities), caregiver supports, and quality improvements. CMS requires states to report initial and quarterly spending plans regarding the use of these funds. The Kaiser Family Foundation estimates that Ohio could receive up to $435 million due to the increased FMAP between April 2021 and March 2022.[14]

The Medicaid Program is jointly funded by states and the federal government. The federal share for most Medicaid expenditures is determined by a state's FMAP, which is calculated annually for each state using a formula established in federal statute. The Families First Coronavirus Response Act (FFCRA), increased the FMAP by 6.2 percentage points for certain Medicaid expenditures (this was broader than just HCBS) incurred after January 1, 2020, and throughout the duration of the COVID-19 emergency.[15] The ten percentage point increase under the ARP Act would be added to this increase. However, the matching rate for Medicaid HCBS is capped at 95%.

Rural Health Clinics Receive $5.2 Million for COVID-19 Testing

– Jacquelyn Schroeder, Senior Budget Analyst

On June 11, 2021, 52 rural health clinics (RHCs) in Ohio were awarded $5.2 million for the federal Rural Health Clinic COVID-19 Testing and Mitigation (RHCCTM) Program. The goal of the RHCCTM Program is to address gaps in health equity in medically underserved rural communities. Funds will be used to increase COVID-19 testing and to expand efforts to mitigate the spread of COVID-19 in local communities, including strategies recommended by the U.S. Centers for Disease Control and Prevention. Examples of mitigation strategies include screening, contact tracing, community education, and clinical referrals. In addition, funds can be used to build or retrofit facilities to support testing and mitigation efforts and to provide education, rehabilitation, treatment, and support services for symptoms following an individual's recovery from COVID-19. Strategies employed will depend on the extent of disease transmission, demographic and community characteristics, and the capacity in the local public health and healthcare systems. Funds were provided through the ARP Act of 2021 and distributed by the U.S. Health Resources and Services Administration (HRSA). A total of $424.7 million was awarded to over 4,200 RHCs nationwide. Each RHC was awarded $100,000. HRSA anticipates that an additional $35.3 million will be distributed later this summer to eligible RHCs.

[14] Based on estimated Medicaid HCBS spending between these dates. The article can be read in its entirety here: https://www.kff.org/medicaid/issue-brief/potential-impact-of-additional-federal-funds-for-medicaid-hcbs-for-seniors-and-people-with-disabilities/.

[15] The increased FMAP is available for each calendar quarter occurring during the emergency. The U.S. Secretary of Health and Human Services declared COVID-19 an emergency on January 31, 2020. Thus, the increase is available for qualifying expenditures incurred on or after January 1, 2020, through the end of the quarter in which the emergency ends.

HRSA has allocated additional funds throughout the past year to RHCs to bolster their COVID-19 response efforts. The first round of such funding was provided in May 2020 through the Rural Health Clinic COVID-19 Testing Program. At that time, a total of $225.0 million was distributed to 4,550 RHCs to increase COVID-19 testing. Of this amount, 57 RHCs in Ohio received $2.8 million. Each allocation was about $50,000. These funds were provided through the Paycheck Protection Program and Health Care Enhancement Act.

CMS provides the special designation of RHCs to certain health care practices that operate in underserved rural areas. The designation allows RHCs to receive enhanced reimbursement rates for providing certain Medicare and Medicaid services. In return, RHCs ensure individuals living in these areas receive access to primary care and preventive health care services. To qualify as an RHC, clinics must be in a nonurbanized area designated by the U.S. Census Bureau and be located in an area designated by HRSA as a health professional shortage area or medically underserved area. RHCs were established by the Rural Health Clinic Service Act of 1977 to address an inadequate supply of physicians serving Medicare beneficiaries in rural areas. According to the Kaiser Family Foundation, in 2020, there were a total of approximately 4,800 Medicare-certified RHCs across the nation. Of these, 59 were located in Ohio.

Department of Natural Resources Completes First Part of Mine Reclamation Project

– Tom Wert, Senior Budget Analyst

On June 21, the Division of Mineral Resources Management within the Department of Natural Resources announced that it had completed the first phase of a $1.7 million hazard remediation project to convert the site of former coal mine openings near Doanville and Chauncey in Athens County into biking trailheads for the Baileys Trail System. The Baileys Trail System is a network of mountain bike paths situated within an approximately 9,300-acre area of the Wayne National Forest and operated by the Outdoor Recreational Council of Appalachia. The first phase involved work at the Doanville location and cost $196,000 to complete. The second, larger phase of the remediation project is underway at a site in nearby Chauncey. The cost of this work is covered by funding the Division receives under the federal component of Ohio's Abandoned Mine Lands (AML) Program. The Division's federal AML Program is funded by a portion of federal severance tax collected from Ohio mining operations and returned to the state for mine site reclamation projects. This money is deposited into the federal Abandoned Mine Lands Fund (Fund 3B50).

Ohio Supreme Court Awards $8.7 Million in Court Technology Grants

– Robert Meeker, Budget Analyst

On June 2, 2021, the Ohio Supreme Court announced the award of 143 GRF-funded court technology grants totaling $8.7 million. The grants were awarded to 97 appellate, common pleas, municipal, and county courts in 57 counties. Individual grants range from $686 (Sandusky County Court) to $250,000 (Erie County Municipal Court) with an average award of $60,496. The table below summarizes the grants by the four types of projects funded. Projects focused on case management systems received the largest amount of funding with 55 grants totaling $5.3 million.

FY 2021 Court Technology Grant Awards by Project Type			
Project Type	Award Count	Award Total	Average Award
Case management systems – new, update, or upgrade	55	$5,325,509	$96,827
Non-case management systems applications	43	$1,838,428	$42,754
Physical security of courtroom or building	22	$784,630	$35,665
Nonsecurity-related hardware, software, or equipment	23	$702,404	$30,539
Total	**143**	**$8,650,971**	**$60,496**

A 36-member volunteer, peer committee scored all of the grant applications using a formula that assigned weights to project priorities and considered factors such as geographical impact and the poverty index. Priority was given to courts located within an area deemed high need (based on poverty level, fiscal emergency, or economic distress) and to courts that had not been awarded funding during the prior 2015 through 2020 grant cycles. Since 2015, about $32.5 million in GRF-backed grants have been awarded to courts for more than 650 projects.[16]

Department of Transportation Provides $33.3 Million for Road Slip Repair and Prevention in Southeastern Ohio

– Terry Steele, Senior Budget Analyst

In June, ODOT announced that the agency will use approximately $33.3 million in federal funding for road slip repair and prevention in the southeastern region of the state. These projects consist of repairs of roadways due to rockslides and landslides as well as mitigation projects to prevent damage from further such events. ODOT has identified 34 priority projects in 16 different counties in the southern and eastern portions of the state that will be funded under this plan. The projects are located within ODOT districts 9, 10, and 11. Five projects in Athens, Meigs, Washington, Lawrence, and Harrison counties, constitute about $12.3 million (36.9%) of the total estimated project costs. The most expensive of these is a $3.5 million embankment repair project in Athens County. Belmont County has 11 of the total projects, the most of any county on the list.[17] The table below shows the estimated cost of the 34 projects and the ODOT district where these projects are situated.

[16] The $32.5 million total includes awards of $26.5 million through the Court Technology Grant Program from 2015 to 2021, and an additional $6.0 million through a Special Pandemic Grant Program in 2020.

[17] The project list and descriptions can be found on the ODOT website at https://www.transportation.ohio.gov/wps/portal/gov/odot/about-us/news/statewide/odot-working-to-prevent-costly-landslides-and-rockslides.

Road Slip Projects by ODOT District			
ODOT District	**Road Slip Project by County Location**	**Number of Projects**	**Estimated Cost ($ in millions)**
9	Adams (1), Brown (2), Lawrence (3), Scioto (1)	7	$7.7
10	Athens (1), Gallia (1), Meigs (3), Monroe (1), Morgan (3), Noble (1), Washington (2)	12	$17.6
11	Belmont (8), Columbiana (1), Harrison (2), Holmes (2), Jefferson (2)	15	$8.0
	Total	**34**	**$33.3**

The funding for these projects comes from a portion of the $333.4 million ODOT received through the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and deposited into the Highway Operating Fund (Fund 7002).

Tracking the Economy

– Ruhaiza Ridzwan, Senior Economist

– Phil Cummins, Senior Economist

Overview

Recovery in the nation's economy is continuing, accompanied by this year's upturn in inflation. Total nonfarm payroll employment rose by 850,000 in June, the largest monthly increase since August 2020, but unemployment also rose slightly, increasing the nation's unemployment rate to 5.9%. Industrial production grew at a 4% rate this year through May, held back to some extent by supply constraints, notably shortages of semiconductors and workers. Gross domestic product adjusted for inflation (real GDP) rose at a strong 6.4% annual rate in the first quarter and continued to advance in the second quarter at a brisk pace based on available indicators. With COVID-19 vaccinations increasingly widespread in this country and numbers of pandemic cases declining, many economic restrictions in U.S. states have been dismantled, and extraordinary federal fiscal support for households and businesses is being reduced.

The nation's central bank, at a meeting of its Open Market Committee (FOMC) that ended June 16, kept monetary policy essentially unchanged, holding its short-term interest rate target near zero and continuing to add to its holdings of U.S. Treasury and mortgage-backed securities. FOMC members viewed this year's flare-up of inflation pressures as temporary. Supply chain bottlenecks and input shortages are pushing up prices, minutes of the June FOMC meeting say. Some thought these problems might take a while to work out, possibly keeping inflation elevated next year. In forecasts released after the meeting, the median projection of FOMC members showed short-term interest rates starting to rise in 2023, sooner than the group expected three months earlier.

Ohio lost 14,800 jobs in May, the most in one month since the massive decline near the beginning of the pandemic in April 2020. The state's unemployment rate rose to 5.0% in May. Unemployment claims fell. In the first quarter of this year, personal income in Ohio grew at a 73% annual rate, which was above the growth rate of personal income nationwide at 60%. During the same period, Ohio real GDP grew at a 6.4% annual rate, the same pace as U.S. real GDP. Statewide housing markets continued to expand, with unit home sales increased by almost 20% in May compared with a year earlier.

The National Economy

In June, total nonfarm payroll employment increased 850,000 (0.6%), the largest monthly increase since summer 2020 when employment was rebounding from the huge pandemic-driven decline in March and April. Unemployment rose, increasing the nationwide unemployment rate from 5.8% in May to 5.9% in June. These changes are shown in charts 6 and 7.

Employment gains in June were almost all in service-providing industries. By far the largest increase in jobs was in the leisure and hospitality sector, which added 343,000 employees, including at food services and drinking places, 194,000; hotels and motels, 75,000; and arts, entertainment, and recreation, 74,000. Employers in professional and business services added 72,000 employees and retailers added 67,000. The number of government employees rose 188,000, all in state and local education. These numbers are seasonally adjusted, and the source agency, the U.S. Bureau of Labor Statistics (BLS), cautioned that pandemic-related employment fluctuations have distorted typical seasonal patterns. Total nonfarm payroll employment in June remained 6.8 million below the peak in February 2020, prior to the pandemic-related precipitous drop in employment in the next two months.

The number of people counted as unemployed rose by 168,000 in June, increasing the unemployment rate, the number unemployed as a percent of the labor force, to 5.9%. The June increase reflected more persons voluntarily leaving jobs than the month before as well as more reentering the labor force, partly offset by fewer persons losing their jobs or finishing temporary assignments. Unemployment in May, at 5.8% of the labor force, was the lowest since the pandemic peak of 14.8% in April 2020 but still well above the prepandemic rate of 3.5% in February 2020.

The number of job openings in the nation edged up slightly in May to an all-time high of 9.2 million, in data collected since 2000. Job openings per unemployed person rose to 0.99, the highest level since February 2020. Available jobs may not match the skills or locations of job seekers. Quits, which are voluntary separations generally initiated by employees, slowed in May from a record number in April but remained elevated. BLS regards quits as a measure of the willingness of workers to leave jobs or their ability to do so.

The nation's industrial production rose 0.8% in May, continuing to recover from the recession last year and a weather-related downturn in February 2021. Total output of the nation's factories, mines, and electric and natural gas utilities in May remained 1.4% below the level in February 2020, ahead of the severe contraction in March and April, and was 4.1% below the all-time peak in 2018. In May 2021, motor vehicle assemblies rose sharply but continued to be constrained by tight supplies of semiconductors. Production of chemicals rose 2.2% as some petrochemical plants damaged by frigid weather in February were reopened.

Real GDP grew at a 6.4% annual rate in this year's first quarter, as the economy continued to recover from the sharp downturn in last year's first half. This measure of the nation's total economic production had risen by the 2021 first quarter to within 0.9% of the previous peak at the end of 2019, and has since likely risen above that level to a new all-time high. Among industries, growth of service sector output accounted for most of the first quarter's growth, including increases in professional and business services; finance, insurance, real estate, rental, and leasing; retail trade; and accommodation and food service. Arts, entertainment, and recreation, a smaller industry group, was recovering rapidly. Much of the growth of goods production was at durable goods manufacturers.

Among final demand sectors, real consumer spending grew at a double-digit rate earlier this year, though spending flattened in April and May as support from federal pandemic spending programs waned. Growth shifted toward consumer services in the second quarter through May, while outlays on goods also remained strong. New housing construction similarly grew at double-digit rates in last year's second half and this year's first quarter, though new home sales slowed this year from peak levels in January and in last year's second half, seasonally adjusted. Real business fixed investment also grew at more than a 10% annual rate in last year's second half and this year's first quarter, with strength in equipment and intellectual property products, and weakness in structures, notably commercial buildings, hotels and motels, and power utilities. The strength in equipment spending and weakness in outlays for various types of nonresidential structures continued into the second quarter, based on monthly indicators. Domestic production plus imports did not keep up with demand, and inventories were reduced.

The consumer price index (CPI) rose 0.6% in May after increasing 0.8% in April. For the first five months of the year, the CPI increased at a 6.5% annual rate, one of the most rapid rates of increase in four decades. In this period, food prices rose at a 2.9% rate overall, with prices for some grocery items up at double-digit rates. Energy prices collectively were higher at more than a 33% annual rate, with prices for gasoline and other energy commodities up particularly sharply. Prices for all CPI items less food and energy were higher at a 5.2% annual rate, with particularly notable increases in car and truck rentals, used motor vehicles, and several other types of goods and services.[18]

The Ohio Economy

Ohio's total nonfarm payroll employment, seasonally adjusted, declined by 14,800 or 0.3% in May from the revised total in April, following a decline in April and an increase in March. The state's employment was 395,700 or 8.1% higher than in May 2020. In May, employment in the private service-providing sector, the goods-producing sector, and government declined by 10,300, 3,900, and 600, respectively. Employment declined in most industry groups, but increases were reported in leisure and hospitality, information, other services, and local government. During the past year, employment gains in the past 12 months occurred in most industries with increases largely in leisure and hospitality; trade, transportation, and utilities; educational and health services; and durable goods manufacturing. Employment declined in state and federal government.

In May, the state's unemployment rate rose to 5.0% from 4.7% in April, but remained far lower than in May 2020 when it was 14.9%. The unemployment rate has been lower in Ohio than in the U.S. for most of the past year. The U.S. unemployment rate was 5.8% in May, a decrease from 6.1% in April and 13.3% in May 2020. The number of unemployed workers in Ohio was 278,000 in May, 5,000 more than in April, but 589,000 fewer than in May 2020. The number of initial unemployment claims in May was 68,492, about 28% lower than in April and down almost 63% from May of last year. Ohio's employment and unemployment are shown in charts 6 and 7. As seen in Chart 6, almost all job gains occurred in 2020, mostly after the massive decline in April 2020, and not in 2021.

The number of job openings in Ohio rose in March to the highest level since July 2019, based on a BLS survey. Hiring surged initially as economic activity turned up in May and June 2020, after plummeting when many businesses shut down in March and April, but has not kept pace this year with the increase in job openings. Job openings per unemployed person rose to 1.05 in March 2021, also highest since 2019.

Ohio's real GDP increased 6.4% at a seasonally adjusted annual rate in the first quarter of 2021, identical to real GDP growth for the U.S. Sectors contributing the most to Ohio's growth were durable goods manufacturing, finance and insurance, retail trade, administrative and support and waste management and remediation services, and professional, scientific, and technical services. Ohio's growth ranked 28th among the 50 states. In current dollars (i.e., without adjusting for inflation), Ohio's GDP reached $713.5 billion at an annual rate in the first quarter, accounting for about 3.2% of U.S. GDP.

[18] These comparisons are with price levels in December 2020 rather than with levels a year earlier, when many prices were depressed by the widespread economic shutdowns aimed at constraining COVID-19 infections.

Ohio's personal income grew at a 73% annual rate in the first quarter of 2021, following declines in the previous two quarters. This huge increase was almost entirely due to transfer receipts, generally benefits received by individuals from federal, state, or local governments. Net earnings also rose. Transfer receipts included a temporary increase in weekly unemployment compensation and other government relief payments provided under the CRRSAA and the ARP Act. Nationwide, the average state personal income grew at a 60% annual rate in the first quarter of 2021. Ohio's personal income grew above the nationwide growth rate for the period and ranked 15th in the nation (from highest growth to lowest).

The number of existing homes sold in the state was 19.8% higher in May than in May of last year, according to the Ohio Realtors Association. Unit sales of homes in the first five months of this year rose 10.7% higher than in the corresponding months of 2020. The statewide average sales price of homes sold in the first five months of 2021 was $226,291, or 15.1% higher than in the corresponding period a year earlier.

Chart 6: U.S. and Ohio Nonfarm Payroll Employment (in millions)

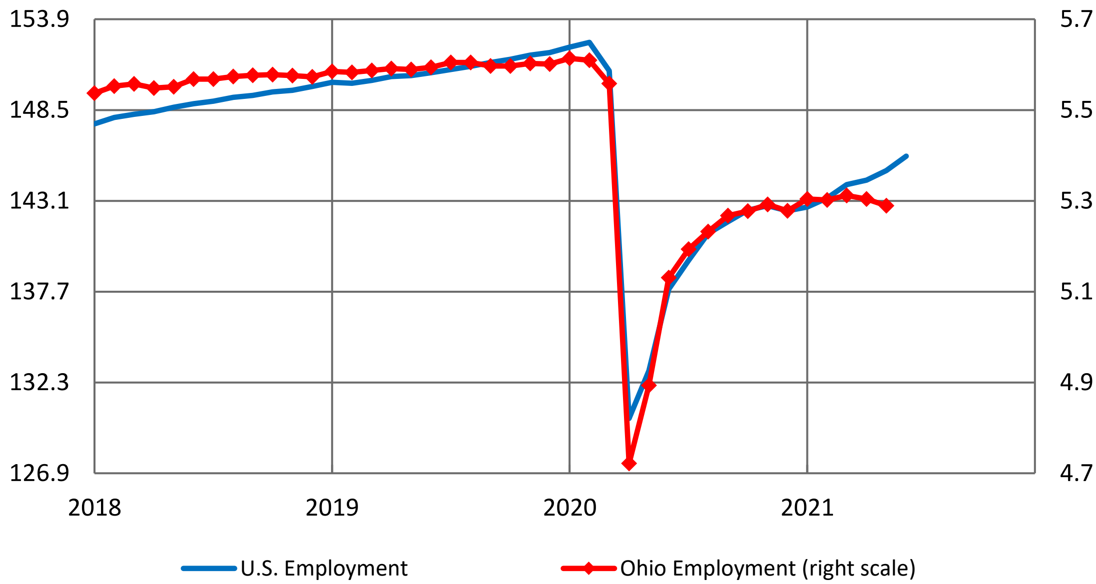


Chart 7: U.S. and Ohio Unemployment Rates
% of Labor Force