LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– *Ross Miller, Chief Economist*

February GRF tax revenue exceeded the estimate published by the Office of Budget and Management (OBM) in September 2020 by $183 million. The three biggest tax sources were each well above estimate: the sales and use tax by $48 million, the personal income tax (PIT) by $90 million, and the commercial activity tax (CAT) by $25 million. Though tax revenue has exceeded estimate each month this fiscal year, February was the first month since July during which the positive variance exceeded $100 million. For FY 2021 through February, GRF tax revenue was $722 million above estimate. On the spending side of the budget, February GRF expenditures were well below estimate, due to a $537 million negative variance for Medicaid expenditures.

The U.S. Bureau of Labor Statistics reported an increase in nationwide nonfarm payroll employment of 379,000 in February, but the unemployment rate remained 6.2%.

Through February 2021, GRF sources totaled $25.21 billion:

- Revenue from the sales and use tax was $446.4 million above estimate;
- PIT receipts were $237.2 million above estimate.

Through February 2021, GRF uses totaled $23.75 billion:

- Program expenditures were $1.57 billion below estimate, due almost entirely to Medicaid, for which spending was $1.54 billion below estimate;
- Expenditures under two program categories were significantly above estimate, due in part to timing, including Primary and Secondary Education (by $114.0 million) and Debt Service ($81.3 million).

In this issue...

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

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$121,078	$98,200	$22,878	23.3%
Nonauto Sales and Use	$686,701	$661,500	$25,201	3.8%
Total Sales and Use	*$807,778*	*$759,700*	*$48,078*	*6.3%*
Personal Income	$382,487	$292,100	$90,387	30.9%
Commercial Activity Tax	$376,861	$351,900	$24,961	7.1%
Cigarette	$61,461	$62,100	-$639	-1.0%
Kilowatt-Hour Excise	$28,076	$31,300	-$3,224	-10.3%
Foreign Insurance	$116,876	$119,700	-$2,824	-2.4%
Domestic Insurance	$0	$0	$0	---
Financial Institution	$76,290	$51,300	$24,990	48.7%
Public Utility	$28,111	$30,000	-$1,889	-6.3%
Natural Gas Consumption	$16,411	$15,100	$1,311	8.7%
Alcoholic Beverage	$5,659	$4,400	$1,259	28.6%
Liquor Gallonage	$4,205	$3,700	$505	13.6%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$16	$0	$16	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,904,231**	**$1,721,300**	**$182,931**	**10.6%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$6,408	$7,102	-$693	-9.8%
Other Revenue	$435	$496	-$61	-12.2%
Total Nontax Revenue	**$6,844**	**$7,597**	**-$754**	**-9.9%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,911,074**	**$1,728,897**	**$182,177**	**10.5%**
Federal Grants	**$381,563**	**$691,055**	**-$309,492**	**-44.8%**
Total GRF Sources	**$2,292,638**	**$2,419,952**	**-$127,315**	**-5.3%**

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

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2021 as of February 28, 2021
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 1, 2021)

State Sources	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Tax Revenue						
Auto Sales	$1,138,075	$999,500	$138,575	13.9%	$1,029,245	10.6%
Nonauto Sales and Use	$6,704,789	$6,397,000	$307,789	4.8%	$6,388,173	5.0%
Total Sales and Use	*$7,842,864*	*$7,396,500*	*$446,364*	*6.0%*	*$7,417,418*	*5.7%*
Personal Income	$6,512,218	$6,275,000	$237,218	3.8%	$5,590,361	16.5%
Commercial Activity Tax	$1,212,282	$1,215,600	-$3,318	-0.3%	$1,246,186	-2.7%
Cigarette	$563,647	$524,000	$39,647	7.6%	$543,536	3.7%
Kilowatt-Hour Excise	$207,213	$225,700	-$18,487	-8.2%	$228,384	-9.3%
Foreign Insurance	$293,651	$277,600	$16,051	5.8%	$316,474	-7.2%
Domestic Insurance	$840	$2,100	-$1,260	-60.0%	$3,971	-78.8%
Financial Institution	$96,437	$79,200	$17,237	21.8%	$86,364	11.7%
Public Utility	$79,130	$98,400	-$19,270	-19.6%	$95,904	-17.5%
Natural Gas Consumption	$35,798	$40,400	-$4,602	-11.4%	$29,061	23.2%
Alcoholic Beverage	$41,385	$37,000	$4,385	11.9%	$35,406	16.9%
Liquor Gallonage	$38,607	$34,100	$4,507	13.2%	$35,143	9.9%
Petroleum Activity Tax	$2,062	$4,400	-$2,338	-53.1%	$4,041	-49.0%
Corporate Franchise	$5,817	$0	$5,817	---	$92	6214.6%
Business and Property	$59	$0	$59	---	$0	---
Estate	$12	$0	$12	---	$38	-67.1%
Total Tax Revenue	**$16,932,022**	**$16,210,000**	**$722,022**	**4.5%**	**$15,632,380**	**8.3%**
Nontax Revenue						
Earnings on Investments	$32,562	$18,750	$13,812	73.7%	$76,978	-57.7%
Licenses and Fees	$24,408	$20,325	$4,083	20.1%	$20,809	17.3%
Other Revenue	$94,481	$82,244	$12,237	14.9%	$80,349	17.6%
Total Nontax Revenue	**$151,450**	**$121,319**	**$30,132**	**24.8%**	**$178,136**	**-15.0%**
Transfers In	**$85,026**	**$77,932**	**$7,094**	**9.1%**	**$76,431**	**11.2%**
Total State Sources	**$17,168,499**	**$16,409,251**	**$759,248**	**4.6%**	**$15,886,947**	**8.1%**
Federal Grants	**$8,039,906**	**$9,006,755**	**-$966,849**	**-10.7%**	**$7,004,470**	**14.8%**
Total GRF SOURCES	**$25,208,404**	**$25,416,005**	**-$207,601**	**-0.8%**	**$22,891,417**	**10.1%**

*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)).
**Cumulative totals through the same month in FY 2020.
Detail may not sum to total due to rounding.

Revenues[1]

– Jean J. Botomogno, Principal Economist

Overview

FY 2021 GRF sources through February of $25.21 billion were $207.6 million (0.8%) short of the estimate released by OBM in September 2020, due to a large negative variance of $966.8 million (10.7%) for federal grants. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants. Partially offsetting the negative variance for federal grants, year-to-date (YTD) state-source receipts were $759.2 million (4.6%) above estimate. This overage was due to positive variances of $722.0 million (4.5%) for GRF tax sources, $30.1 million (24.8%) for nontax revenue, and $7.1 million (9.1%) for transfers in. GRF revenue from federal grants is related to spending for Medicaid and other human services programs, and YTD GRF Medicaid expenditures posted a substantial negative variance totaling $1.54 billion (11.8%) through February.[2] Thus, despite the YTD shortfall of GRF sources, the budget situation remains sound. Tables 1 and 2 show GRF sources for the month of February and for FY 2021 through February, respectively.

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

GRF tax sources have been above estimate throughout FY 2021. The fiscal year's overage has generally been due to favorable performances by three of the biggest taxes. Through February, the sales and use tax, the PIT, and the cigarette tax were $446.4 million, $237.2 million, and $39.6 million above their respective estimates. The CAT, another major tax source, had a YTD shortfall of $3.3 million, due to poor tax payments in the first fiscal quarter tied to COVID-19-related measures in the spring quarter.[3] Excluding the largest tax sources above, the remaining taxes had a combined YTD positive variance of just $2.1 million. The foreign insurance tax, the liquor gallonage tax, and the alcoholic beverage tax were above their respective YTD

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

[2] FY 2021 Medicaid variances are measured against estimates that are approximately $3 billion higher for all funds Medicaid expenditures than the estimates established when H.B. 166 was enacted. Thus, the negative variance for federal grants is likely to persist throughout the fiscal year.

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

revenue targets by $16.1 million, $4.5 million, and $4.4 million. The financial institutions tax (FIT) was $17.2 million above anticipated revenue, due to its February performance. Receipts of $76.3 million during the month were $25.0 million above projected revenue, and this result erased a YTD shortfall totaling $7.8 million at the end of January.[4] In addition, the corporate franchise tax (CFT) had a YTD positive variance of $5.8 million, due to revenue from the conclusion of certain audits.[5] The positive variances were partly offset by YTD deficits from the public utility tax (in part due to a one-time refund not anticipated), the kilowatt-hour tax, the natural gas consumption tax, the petroleum activity tax (PAT), and the domestic insurance tax. These taxes experienced negative variances of $19.3 million, $18.5 million, $4.6 million, $2.3 million, and $1.3 million, respectively. Utility-related taxes – kilowatt-hour, public utility, and natural gas consumption – have generally been below their respective estimates throughout 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.

February GRF sources were below expectations by $127.3 million (5.3%), brought down by another large negative variance for federal grants, in this case a shortfall of $309.5 million (44.8%). That deficit was partially offset by a positive variance of $182.9 million (10.6%) for GRF taxes. Regarding the other revenue categories, nontax revenue was below expectation by $0.8 million (9.9%). As in the previous five months, GRF revenue from transfers in was not anticipated in February 2021 and none was made. (OBM anticipates the next GRF transfers in to be made in June.)

For the month, the PIT, the sales and use tax, and the CAT were above their anticipated revenue levels by $90.4 million, $48.1 million, and $25.0 million, respectively. In addition to the FIT's monthly positive variance mentioned earlier, the natural gas consumption tax and the alcoholic beverage tax each surpassed their projections by $1.3 million. Most of the remaining tax sources experienced shortfalls, including the kilowatt-hour tax ($3.2 million), the foreign insurance tax ($2.8 million), and the public utility tax ($1.9 million). Chart 1, below, shows cumulative YTD variances of GRF sources through February in FY 2021.

Growth of GRF sources relative to year-ago sources has followed the same patterns in the last few months, with large increases in federal grants and tax revenues. YTD GRF sources rose $2.32 billion (10.1%) compared to sources in the corresponding period in FY 2020. Tax sources and federal grants rose $1.30 billion (8.3%) and $1.04 billion (14.8%), respectively. Growth for federal grants was due in part to a COVID-19-related temporary rise in the share of federal reimbursements for Medicaid. This increase, which was authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, accounted for $767.1 million of the $1.04 billion growth in federal grants. Transfers in also rose, by $8.6 million (11.2%), but nontax revenue fell by $26.7 million (15.0%) from lower earnings on investments in FY 2021.

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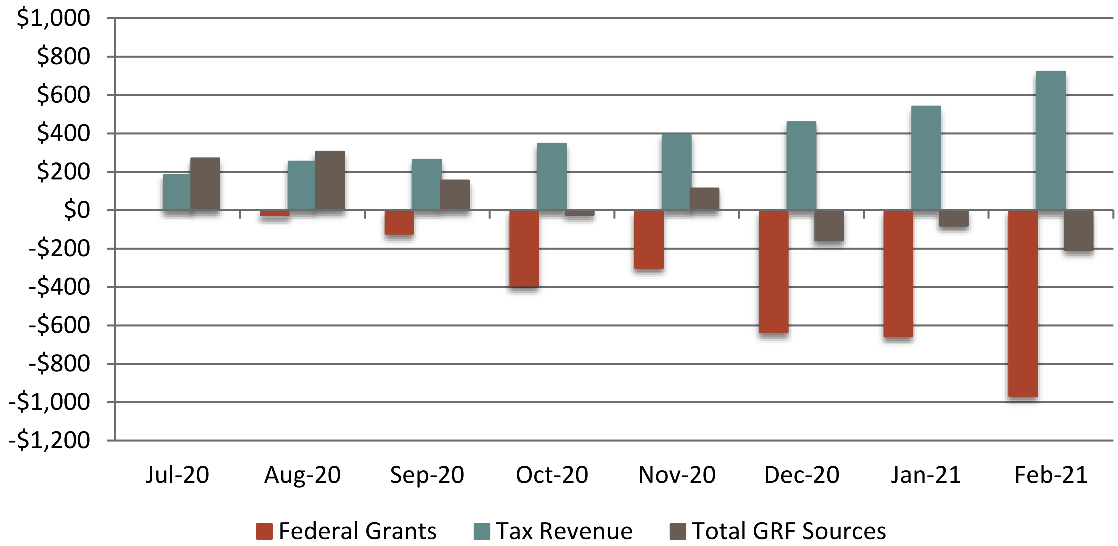
[4] Annual FIT tax returns are due in October, but estimated payments are made at the end of January, March, and May. The reconciliation between estimated payments and final tax liability may result in net refunds between July and December. The January payment, including February receipts, was $6.7 million above the combined estimate for the two-month period.

[5] 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.

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



The growth in GRF tax sources was due to increases of $921.9 million in PIT revenue and $425.4 million for the sales and use tax. The increase in PIT revenue was primarily due to a delay in the tax filing deadline from April until July, as explained in more detail in the PIT section below, while sales and use tax revenue has been supported by federal income support programs since the spring of 2020. Combined receipts from the remaining taxes fell by $47.6 million. Revenue from the cigarette tax, the FIT, the natural gas consumption tax, the alcoholic beverage tax, the CFT, and the liquor gallonage tax increased. On the other hand, revenue declined for the CAT, the public utility tax, the kilowatt-hour tax, the foreign insurance tax, the domestic insurance tax, and the PAT.

Sales and Use Tax

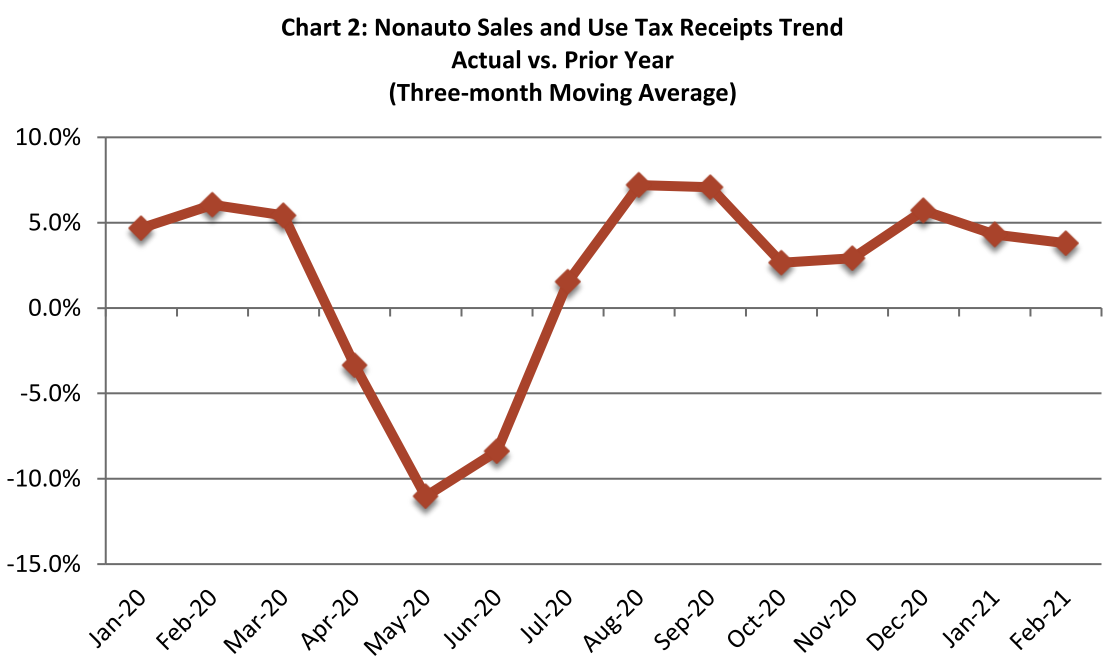
The sales and use tax continues to perform superbly. February GRF sales and use tax revenue of $807.8 million was $48.1 million (6.3%) above estimate, and both portions of the tax (i.e., auto and nonauto) again beat their respective estimates in the latest month. Compared to receipts last year in the same month, revenue was higher by $24.0 million (3.1%). Through February, FY 2021 revenue totaled $7.84 billion. This amount was $446.4 million (6.0%) above OBM projections and 5.7% above receipts in the corresponding period in FY 2020.

Sales tax revenue has been supported by increased consumer spending. Overall spending was estimated to have risen by 3.2%, compared to its level of January 2020. Ohio retail spending (including online purchases, excluding groceries) was also estimated to have increased by 17.0% compared to its January 2020 level. Consumer spending on goods, which is mostly taxable under Ohio sales tax law, has been strong throughout FY 2021, though spending on services (a majority of which is untaxed) has substantially lagged. On the other hand, the labor market continues to be different for various categories of workers, with increased employment levels among high-wage earners, though employment rates among workers in the middle and bottom tiers of wage earners remain below prepandemic levels.[6] The performance of this tax source in the fourth fiscal quarter is likely to be dependent on continued improvement in the Ohio economy and buoyed by the pending federal relief package.[7] COVID-19 infections appear to be stabilizing and increased vaccinations might also provide another boost to the economy.

For analysis and forecasting, revenue from the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

Nonauto Sales and Use Tax

YTD GRF nonauto sales and use tax receipts totaled $6.70 billion, an amount $307.8 million (4.8%) above estimate and $316.6 million (5.0%) above revenue in FY 2020 through February. February receipts of $686.7 million were $25.2 million (3.8%) above estimate. Monthly receipts were also $5.8 million (0.9%) above revenue in February 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 in 2020.



[6] For these purposes, high-wage earners are defined as those earning in excess of $60,000 per year. Low-wage earners are those earning below $27,000 per year. Employment rates as of December 12, 2020; spending data as of February 14, 2021. Data available at: https://tracktherecovery.org/.

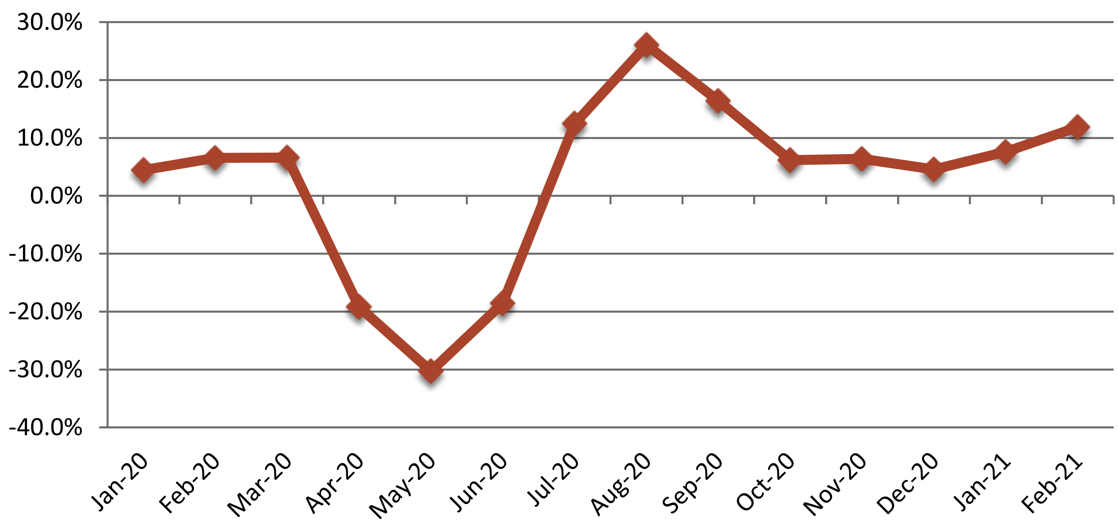
[7] H.R. 1319, the American Rescue Plan Act of 2021, includes a recovery rebate of up to $1,400 per person, depending on income level.

Auto Sales and Use Tax

Through February, FY 2021 receipts totaled $1.14 billion, an amount $138.6 million (13.9%) above estimate and $108.8 million (10.6%) above revenue in the corresponding period last fiscal year. (Excluding an outsized first-quarter performance, the growth rate compared to last year for the succeeding five months of 6.6% has also been good.) February auto sales and use tax revenue was $121.1 million, $22.9 million (23.3%) above estimate and $18.2 million (17.7%) above such receipts in February 2020. Chart 3, below, shows year-over-year growth in auto sales and use tax collections, the pandemic-related revenue declines earlier in calendar year (CY) 2020 from both low demand and low supply of vehicles, and the subsequent rebound starting in late spring and continuing through the current fiscal year.

New U.S. light vehicle (auto and light truck) sales came in below expectations in February. Sales of 15.7 million units (on a seasonally adjusted annual rate basis) were 6.6% below year-ago total unit sales. Both passenger cars and light trucks saw weaknesses. The pullback in U.S. sales was likely caused by the severe weather that struck Texas and other southeastern states during the month, thus the February weakness may be transient. As mentioned in previous editions of this publication, although a useful barometer of the direction of the industry, U.S. light vehicle monthly unit sales do not track closely with Ohio's auto sales and use tax performance and have been, for several months, below auto sales and use tax growth.

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



Personal Income Tax

A positive revenue variance of $90.4 million (30.9%) in February pushed up the YTD variance of the PIT to $237.2 million (3.8%), up from $146.8 million through January. In January, GRF revenue from this tax source was also above estimate, by $71.5 million. Both performances were primarily due to lower than anticipated refunds resulting from a delayed start to the tax filing season.[8] For the January to February period, refunds were about 38% below refunds during the corresponding period in 2020.

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,[9] 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.

YTD, FY 2021 GRF receipts from the PIT of $6.51 billion were $921.9 million (16.5%) above such revenue in FY 2020 through February. The large year-over-year PIT revenue growth (which is expected to decrease over time) is directly attributable to the delay of income tax filings from April to July 2020. Excluding July receipts, combined PIT GRF revenue was $371.8 million (7.5%) above receipts in the August to February period in FY 2020. Among measures designed to combat the impact of the COVID-19 pandemic, H.B. 197 of the 133rd General Assembly authorized the Tax Commissioner to delay various state tax payments, which he did for this tax, to match the extended deadline for federal income tax returns. About $719.0 million in income tax annual returns and first-quarter estimated payments were postponed and realized in FY 2021, according to the Department of Taxation.

February PIT revenue to the GRF was above anticipated revenue due to fewer than anticipated refunds. Refunds were $53.1 million (11.9%) below their projected level. Gross collections were $35.8 million (4.6%) above target, with mixed results for the various components. Collections were buoyed by positive variances of $25.1 million for quarterly estimated payments, $13.0 million for taxes due with annual returns, and $3.5 million for trust payments. Those positive variances were partially offset by shortfalls of $3.4 million for employer withholding and $2.4 million for miscellaneous payments.

For FY 2021 through February, 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 $117.7 million above anticipated revenue. Quarterly estimated payments, trust payments, and payments due with annual returns were above their projections by $115.6 million, $20.2 million, and $7.5 million, respectively. Those positive variances were partially offset by shortfalls of $17.5 million for employer withholding and $8.1 million for miscellaneous payments. Refunds were $132.8 million below estimate, but LGF distributions were above expectation by $13.3 million, thus resulting in the YTD positive variance of $237.2 million for the GRF.

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[8] The Internal Revenue Service (IRS) and the Department of Taxation started accepting and processing tax returns on February 12, 2021. Through February 19, 2021, IRS filing statistics indicate that 37.9% fewer returns were processed, relative to the tax filing season in 2020.

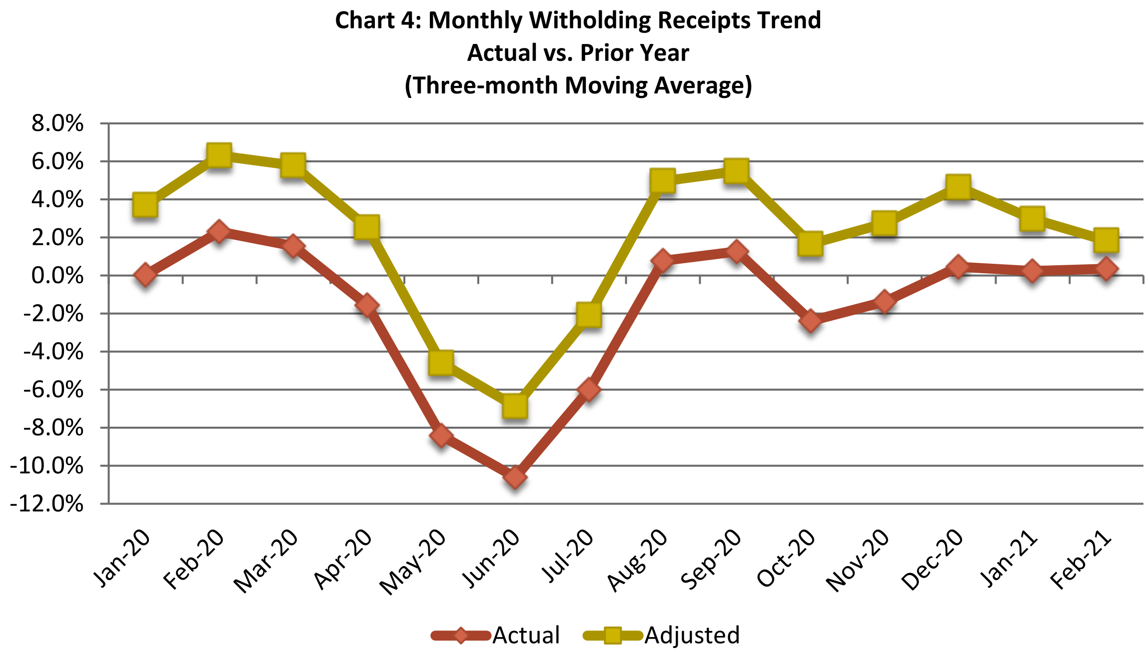
[9] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

Compared to the corresponding period in FY 2020, gross collections have been higher in FY 2021 due to the income tax filing delay. They grew $839.6 million, driven by increases of $606.5 million from payments due with annual returns and $189.7 million for quarterly estimated payments. In addition, trust payments and employer withholding rose $46.2 million and $7.6 million, respectively. On the other hand, miscellaneous payments were below their FY 2020 levels by $10.4 million. FY 2021 refunds were lower than those in FY 2020 by $100.6 million, but LGF distributions were higher by $18.3 million. Therefore, growth in PIT GRF revenue totaled $921.9 million relative to YTD receipts in FY 2020. Year-over-year growth in withholding receipts in CY 2020 had been limited through December 2020 because of a 4.0% reduction in withholding rates effective January 2020 due to the reduction of income tax rates for nonbusiness income enacted in H.B. 166. This limitation on growth in withholding receipts explains much of the weak growth in withholding receipts from FY 2020 shown in the table, but it no longer applies starting in January 2021. Though we might expect withholding growth to pick up during the remaining months of FY 2021, in fact revenue from withholding decreased in both January and February from the respective year-earlier months, despite withholding rates remaining the same.

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	-$17.5	-0.3%	$7.6	0.1%
Quarterly Estimated Payments	$115.6	17.7%	$189.7	32.8%
Trust Payments	$20.2	32.6%	$46.2	128.3%
Annual Return Payments	$7.5	1.0%	$606.5	409.6%
Miscellaneous Payments	-$8.1	-15.8%	-$10.4	-19.3%
Gross Collections	$117.7	1.5%	$839.6	12.0%
Less Refunds	-$132.8	-11.3%	-$100.6	-8.8%
Less LGF Distribution	$13.3	4.5%	$18.3	6.4%
GRF PIT Revenue	$237.2	3.8%	$921.9	16.5%

The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts in FY 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 affecting December but not January and February actual receipts). Payrolls are estimated to have increased about 1.8%, on average, in the last three months.



Commercial Activity Tax

The third CAT payment by quarterly calendar taxpayers to the GRF in February returned $376.9 million, an amount $25.0 million (7.1%) above estimate. This performance decreased the YTD negative variance of the CAT to $3.3 million (0.3%), down from $28.3 million at the end of January. Monthly GRF revenue was also $22.5 million (6.4%) above February 2020 revenue.

For the fiscal year, GRF receipts of $1.21 billion through February were $33.9 million (2.7%) below revenue during the first eight months of FY 2020. YTD FY 2021 gross collections totaled $1.54 billion, a decrease of $15.7 million (1.0%) from collections in the corresponding period last year. On the other hand, refunds and credits were $108.0 million this fiscal year, an increase of $24.4 million (29.2%) above those items in FY 2020. After a first-quarter shortfall, this tax source experienced a positive variance in the second quarter; January CAT receipts were poor, but remittances in the latest month, reflecting taxable gross receipts in the October to December period, are consistent with a continuing economic recovery.

Under continuing law, CAT receipts are deposited into the GRF (85.0%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13.0%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2.0%). Distributions to Fund 7047 and Fund 7081 were $185.4 million and $28.5 million, respectively. The distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are generally transferred back to the GRF.

Cigarette and Other Tobacco Products Tax

YTD revenue from the cigarette and other tobacco products (OTP) tax totaling $563.6 million was above estimate by $39.6 million (7.6%). This total included $496.4 million from the sale of cigarettes and $67.2 million from the sale of OTP. Revenue from this tax source continues to outpace projected receipts as the pandemic wears on; positive revenue variances over several months appear to be related to heightened consumption since March 2020. February receipts of $61.5 million were $0.6 million (1.0%) below estimate and $5.2 million (7.9%) below revenue in the same month in 2020. The monthly decline relative to the same month a year ago was almost entirely due to a drop in cigarette revenue while revenue from OTP sales increased. Until January 2021, when receipts were also below revenue in the same month a year ago, previous months had seen year-over-year growth in total revenue from the tax.

Through February, FY 2021 receipts grew $20.1 million (3.7%) relative to revenues in the corresponding period in FY 2020. Receipts from cigarette sales and OTP sales increased by $7.2 million (1.5%) and $12.9 million (23.7%), respectively. The increase in OTP revenue is due, in part, to additional revenue from the vapor tax. H.B. 166 levied a tax of 10¢ per milliliter (or gram) of vapor product (depending on the form of the product) which is defined as any liquid solution or other substance that contains nicotine and is depleted as it is used in an electronic smoking product.[10] The OTP tax is an ad valorem tax, generally 17% of the wholesale price paid by wholesalers for the product; thus, revenue from that portion of the tax base (about 9% of the total tax base in FY 2020) grows with OTP price increases.

On a yearly basis, revenue from the cigarette tax usually trends downward, generally at a slow pace. It is unclear how long smokers will maintain this higher level of tobacco consumption, though the long-term annual decline in cigarette consumption may have resumed. In January and February 2021, revenue from the sale of cigarettes was below such revenue in the corresponding months last year.

[10] Of total receipts in FY 2020 of $82.4 million from the sale of OTP, the tax on vapor products contributed $3.7 million, or about 4%, according to the Department of Taxation.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of February 2021
($ in thousands)
(Actual based on OAKS reports run March 2, 2021)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$820,260	$725,447	$94,813	13.1%
Higher Education	$237,189	$216,188	$21,001	9.7%
Other Education	$4,552	$5,269	-$717	-13.6%
Total Education	**$1,062,002**	**$946,904**	**$115,098**	**12.2%**
Medicaid	$614,529	$1,151,500	-$536,972	-46.6%
Health and Human Services	$104,478	$111,386	-$6,908	-6.2%
Total Health and Human Services	**$719,007**	**$1,262,887**	**-$543,879**	**-43.1%**
Justice and Public Protection	$153,829	$170,439	-$16,610	-9.7%
General Government	$28,203	$27,500	$702	2.6%
Total Government Operations	**$182,032**	**$197,940**	**-$15,908**	**-8.0%**
Property Tax Reimbursements	-$1	$0	-$1	---
Debt Service	$166,729	$85,365	$81,364	95.3%
Total Other Expenditures	**$166,728**	**$85,365**	**$81,363**	**95.3%**
Total Program Expenditures	**$2,129,769**	**$2,493,095**	**-$363,326**	**-14.6%**
Transfers Out	**$0**	**$0**	**$0**	**---**
Total GRF Uses	**$2,129,769**	**$2,493,095**	**-$363,326**	**-14.6%**

*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 February 28, 2021
($ in thousands)
(Actual based on OAKS reports run March 2, 2021)

Program Category	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Primary and Secondary Education	$5,597,754	$5,483,724	$114,030	2.1%	$5,725,073	-2.2%
Higher Education	$1,555,859	$1,550,399	$5,460	0.4%	$1,546,261	0.6%
Other Education	$53,727	$56,513	-$2,785	-4.9%	$60,785	-11.6%
Total Education	**$7,207,340**	**$7,090,636**	**$116,705**	**1.6%**	**$7,332,118**	**-1.7%**
Medicaid	$11,470,845	$13,006,809	-$1,535,964	-11.8%	$10,949,244	4.8%
Health and Human Services	$944,976	$1,041,814	-$96,838	-9.3%	$964,473	-2.0%
Total Health and Human Services	**$12,415,821**	**$14,048,623**	**-$1,632,802**	**-11.6%**	**$11,913,717**	**4.2%**
Justice and Public Protection	$1,668,897	$1,747,625	-$78,728	-4.5%	$1,663,473	0.3%
General Government	$292,846	$321,138	-$28,292	-8.8%	$294,707	-0.6%
Total Government Operations	**$1,961,743**	**$2,068,762**	**-$107,019**	**-5.2%**	**$1,958,180**	**0.2%**
Property Tax Reimbursements	$904,344	$933,578	-$29,234	-3.1%	$905,292	-0.1%
Debt Service	$816,869	$735,603	$81,266	11.0%	$1,100,934	-25.8%
Total Other Expenditures	**$1,721,213**	**$1,669,181**	**$52,032**	**3.1%**	**$2,006,226**	**-14.2%**
Total Program Expenditures	**$23,306,117**	**$24,877,201**	**-$1,571,084**	**-6.3%**	**$23,210,241**	**0.4%**
Transfers Out	**$444,870**	**$445,900**	**-$1,030**	**-0.2%**	**$663,620**	**-33.0%**
Total GRF Uses	**$23,750,987**	**$25,323,101**	**-$1,572,114**	**-6.2%**	**$23,873,861**	**-0.5%**

*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 March 7, 2021)

	Month of February 2021				Year to Date through February 2021			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$559,600	$1,085,990	-$526,391	-48.5%	$11,017,079	$12,525,926	-$1,508,847	-12.0%
Non-GRF	$1,534,907	$1,455,915	$78,992	5.4%	$7,391,741	$7,350,934	$40,807	0.6%
All Funds	$2,094,506	$2,541,905	-$447,399	-17.6%	$18,408,820	$19,876,860	-$1,468,040	-7.4%
Developmental Disabilities								
GRF	$49,613	$59,460	-$9,847	-16.6%	$390,602	$411,549	-$20,947	-5.1%
Non-GRF	$194,144	$193,501	$643	0.3%	$1,693,779	$1,634,452	$59,326	3.6%
All Funds	$243,757	$252,961	-$9,204	-3.6%	$2,084,381	$2,046,001	$38,379	1.9%
Job and Family Services								
GRF	$4,594	$5,315	-$720	-13.6%	$55,599	$61,466	-$5,867	-9.5%
Non-GRF	$12,407	$10,565	$1,843	17.4%	$110,162	$114,591	-$4,429	-3.9%
All Funds	$17,002	$15,879	$1,122	7.1%	$165,761	$176,057	-$10,296	-5.8%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$722	$735	-$13	-1.8%	$7,565	$7,868	-$303	-3.9%
Non-GRF	$4,461	$5,783	-$1,322	-22.9%	$23,516	$29,049	-$5,533	-19.0%
All Funds	$5,183	$6,518	-$1,335	-20.5%	$31,081	$36,917	-$5,836	-15.8%
All Departments:								
GRF	**$614,529**	**$1,151,500**	**-$536,972**	**-46.6%**	**$11,470,845**	**$13,006,809**	**-$1,535,964**	**-11.8%**
Non-GRF	**$1,745,919**	**$1,665,763**	**$80,156**	**4.8%**	**$9,219,197**	**$9,129,026**	**$90,171**	**1.0%**
All Funds	**$2,360,448**	**$2,817,263**	**-$456,816**	**-16.2%**	**$20,690,042**	**$22,135,835**	**-$1,445,793**	**-6.5%**

*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 March 7, 2021)

	Month of February 2021				Year to Date through February 2021			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,643,117**	**$2,012,812**	**-$369,695**	**-18.4%**	**$13,977,901**	**$14,892,567**	**-$914,666**	**-6.1%**
CFC†	$605,112	$732,797	-$127,685	-17.4%	$4,869,106	$5,204,865	-$335,760	-6.5%
Group VIII	$500,426	$675,153	-$174,726	-25.9%	$4,090,063	$4,603,718	-$513,655	-11.2%
ABD†	$242,588	$266,990	-$24,403	-9.1%	$1,989,542	$2,069,394	-$79,852	-3.9%
ABD Kids	$80,293	$86,737	-$6,444	-7.4%	$642,891	$667,830	-$24,939	-3.7%
My Care	$214,698	$251,135	-$36,437	-14.5%	$1,866,714	$1,968,787	-$102,073	-5.2%
P4P & Ins Fee†	$0	$0	$0	---	$519,585	$377,973	$141,612	37.5%
Fee-For-Service	**$545,377**	**$625,424**	**-$80,047**	**-12.8%**	**$5,380,525**	**$5,852,898**	**-$472,373**	**-8.1%**
ODM Services	$315,028	$377,037	-$62,009	-16.4%	$2,716,198	$3,049,952	-$333,754	-10.9%
DDD Services	$230,349	$248,387	-$18,038	-7.3%	$2,020,232	$1,987,130	$33,101	1.7%
Hospital - HCAP&Other†	$0	$0	$0	---	$644,095	$815,816	-$171,721	-21.0%
Premium Assistance	**$97,629**	**$105,895**	**-$8,266**	**-7.8%**	**$738,680**	**$731,989**	**$6,691**	**0.9%**
Medicare Buy-In	$62,535	$61,020	$1,515	2.5%	$494,816	$477,832	$16,984	3.6%
Medicare Part D	$35,094	$44,875	-$9,781	-21.8%	$243,864	$254,157	-$10,293	-4.0%
Administration	**$74,325**	**$73,132**	**$1,193**	**1.6%**	**$592,937**	**$658,381**	**-$65,444**	**-9.9%**
Total	**$2,360,448**	**$2,817,263**	**-$456,816**	**-16.2%**	**$20,690,042**	**$22,135,835**	**-$1,445,793**	**-6.5%**

*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[11]

– *Melaney Carter, Director*

– *Ivy Chen, Principal Economist*

Overview

GRF program expenditures totaled $23.31 billion for the YTD through February 2021. These expenditures were $1.57 billion (6.3%) below the estimate released by OBM in early September 2020. Medicaid's YTD variance was $1.54 billion (11.8%) as this category continued spending well below the estimates that were increased from the original H.B. 166 estimates by approximately $3 billion for all-funds spending as a response to the economic disruption caused by the COVID-19 pandemic. For the month of February, Medicaid was under these estimates by $537.0 million (46.6%). Negative YTD variances in Health and Human Services ($96.8 million, 9.3%) and Justice and Public Protection ($78.7 million, 4.5%) also increased in February, by $6.9 million and $16.6 million, respectively. On the other hand, Primary and Secondary Education had a positive YTD variance at the end of February of $114.0 million (2.1%), which grew by $94.8 million during the month. Two other categories moved from negative to positive YTD variances in February: Debt Service ended the month with a positive YTD variance of $81.3 million (11.0%) and Higher Education ended the month with a positive YTD variance of $5.5 million (0.4%). The remaining categories had negative YTD variances. YTD variances are shown in the preceding Table 4, while Table 3 shows February variances.

In addition to program expenditures, total uses include transfers out. Transfers out totaled $444.9 million YTD and had a negative YTD variance of $1.0 million (0.2%) at the end of February. Combining program expenditures and transfers out, total GRF uses for the first eight months of FY 2021 were $23.75 billion. These uses were $1.57 billion (6.2%) below estimate. The rest of this section discusses both GRF and non-GRF variances in Medicaid and the GRF variances in Health and Human Services, Justice and Public Protection, Primary and Secondary Education, Debt Service, and Higher Education.

Medicaid

GRF Medicaid expenditures were below their monthly estimate in February by $537.0 million (46.6%) and below their YTD estimate, by $1.54 billion (11.8%), at the end of February. Non-GRF Medicaid expenditures were above their monthly estimate, by $80.2 million (4.8%), and above their YTD estimate, by $90.2 million (1.0%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $456.8 million (16.2%) below estimate in February and $1.45 billion (6.5%) below their YTD estimate at the end of February. The Medicaid expenditure and caseload estimates used in this report were updated by the Ohio Department of Medicaid (ODM) for FY 2021. These updates were precipitated by the COVID-19 pandemic and are thus different from the expenditure and caseload estimates outlined in

[11] 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.

H.B. 166. The updated expenditure estimates include approximately $3 billion in increases for the fiscal year, related to many impacts of the COVID-19 pandemic.

Table 5 shows GRF and non-GRF Medicaid expenditures for ODM, the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had an all funds negative variance in February of $447.4 million (17.6%), and YTD expenditures also were below estimate, with a negative variance of $1.47 billion (7.4%). ODODD had a February all funds negative variance of $9.2 million (3.6%) and ended the month with a YTD positive variance of $38.4 million (1.9%). The other six "sister" agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining 1% of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories as of the end of February. Managed Care had the largest negative variance of $914.7 million (6.1%), followed by Fee-For-Service's negative variance of $472.4 million (8.1%), and Administration's negative variance of $65.4 million (9.9%). Premium Assistance YTD expenditures were above estimate by $6.7 million (0.9%).

The impact of the COVID-19 pandemic began to show in March 2020's Medicaid caseloads, and the impacts have continued to show through monthly caseload increases in every month since. From March 2020 through February 2021, caseloads have increased by 30,800 cases per month, on average. According to ODM, nearly all of the caseload variance has been due to the suspension of routine redeterminations of eligibility and an increase in the number of new applications and approvals due to the economic impacts of the COVID-19 pandemic. Based on updated FY 2021 ODM estimates, February's caseload of 3.2 million enrollees is approximately 497,481 cases (13.6%) below estimate.

Health and Human Services

The Health and Human Services program category includes non-Medicaid GRF expenditures by 11 state agencies. This category had a negative variance of $6.9 million (6.2%) in February, increasing its YTD negative variance to $96.8 million (9.3%). Except for the Opportunity for Ohioans with Disabilities Agency, which had a positive YTD variance of $1.4 million, all other agencies in this category had negative YTD variances at the end of February. The largest negative YTD variance by far was $64.6 million for the Ohio Department of Job and Family Services (ODJFS). This negative variance grew by $12.3 million in the month of February. ODJFS's negative variances were dominated by three appropriation items:

- 600535, Early Care and Education, had a negative YTD variance of $25.5 million, which grew by $7.6 million in February;
- 600450, Program Operations, had a negative YTD variance of $14.4 million, which grew by $2.9 million in February; and
- 600523, Family and Children Services, had a negative YTD variance of $10.5 million, which fell by $0.2 million in February.

Item 600535 provides payments for publicly funded child care services. Item 600450 supports the administrative functions of several offices within ODJFS. The uses of item 600523 include providing funding to public children services agencies for child protection, supplementing federal Title XX funds provided to counties, and supporting foster parents.

Justice and Public Protection

The Justice and Public Protection program category includes GRF expenditures by 12 state agencies. This category had a negative variance of $16.6 million (9.7%) in February, increasing its YTD negative variance to $78.7 million (4.5%). All but two agencies had negative YTD variances at the end of February. The two largest negative YTD variances were $38.9 million for the Department of Rehabilitation and Correction (DRC), which grew by $6.6 million in February, and $13.6 million for the State Public Defender (PUB), which grew by $8.5 million in February.

DRC's variance comes from its two largest appropriation items:

- 501321, Institutional Operations, had a negative YTD variance of $21.8 million, which grew by $3.1 million in February; and
- 505321, Institution Medical Services, had a negative YTD variance of $13.0 million, which grew by $3.3 million in February.

Item 501321 is used for the operation of the state's prisons, including facility maintenance, support services, security, and management. Item 505321 is used to provide medical services to prison inmates.

PUB's variance comes from appropriation item 019501, County Reimbursement, which had a negative YTD variance of $13.2 million and a negative February variance of $8.4 million. Item 019501 is used to reimburse counties for their expenditures on indigent defense.

Primary and Secondary Education

The Primary and Secondary Education program category includes all GRF expenditures by the Ohio Department of Education (ODE), except for Medicaid and property tax reimbursement expenditures. This category had a positive variance of $94.8 million (13.1%) in February, increasing its positive YTD variance to $114.0 million (2.1%). Appropriation item 200550, Foundation Funding, dominates this category's positive variances with a positive February variance of $94.8 million and a positive YTD variance of $151.6 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. Therefore, it is likely that spending from item 200550 will end the year above estimate. See the first Issue Update article in this edition of *Budget Footnotes* for more information on the restoration of this funding.

Debt Service

The Debt Service program category went from a slightly negative YTD variance at the end of January to a positive YTD variance of $81.3 million (11.0%) at the end of February. This was caused by a payment expected to be made in March being made in February in appropriation item 230908, Common Schools General Obligation Bond Debt Service.

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 negative YTD variance at the end of January of $15.5 million, but a positive variance of $21.0 million (9.7%) in February pushed the category's YTD variance into positive territory ($5.5 million, 0.4%). Appropriation item 235501, State Share of Instruction, was above estimate by $17.8 million for February and for the YTD. The January 2021 executive order restoring funding for primary and secondary education also restored $100.0 million for DHE, so this category may also end the year above estimate.

Issue Updates

Governor Partially Restores Reduction in FY 2021 Foundation Aid for School Districts

– Sarah Anstaett, LSC Fellow

In January 2021, the Governor issued an executive order partially restoring FY 2021 school district foundation aid that had been reduced to help balance the state budget in the wake of the economic disruption caused by the COVID-19 pandemic. The January 2021 executive order restored $152 million of the $277.2 million that had been withheld in FY 2021 under spending controls implemented by OBM. As a result, the reduction in FY 2021 foundation aid now stands at $125.2 million, or an average reduction of about $75 per pupil.

ODE determined the revised FY 2021 funding reductions by restoring the $152 million in proportion to each district's share of the $277.2 million in net funding reduction for FY 2020. The initial funding reductions for that year, totaling $300.5 million, were based on a per-pupil amount adjusted for wealth, as measured by the state share index, and the funding caps on districts. H.B. 164 of the 133rd General Assembly subsequently provided $23.3 million to limit a school district's FY 2020 funding reduction, after including certain federal emergency school relief funds, to no more than 6.0% of its original FY 2020 foundation aid amount. The chart below illustrates the revised FY 2021 foundation aid reductions by wealth quartile. In the chart, school districts are divided into four groups based on property valuation per pupil, each of which includes approximately 25% of total students statewide. Districts in quartile 1 are the least wealthy and districts in quartile 4 are the wealthiest.

Chart 5: Average Per-Pupil FY 2021 Foundation Aid Reduction by Wealth Quartile

As the chart shows, the average per-pupil funding reductions are generally lower for lower-wealth school districts due to the nature of the FY 2020 funding reduction methodology. FY 2021 average per-pupil reductions range from $52 for quartile 1 to $91 for quartile 3. The lower reduction of $84 per pupil for quartile 4 appears to be a residual effect of the H.B. 164 payment that partially offset the funding reductions in FY 2020, the net amount of which is the starting point for the reductions in FY 2021. Nearly all of the H.B. 164 payment was received by districts in quartile 4.

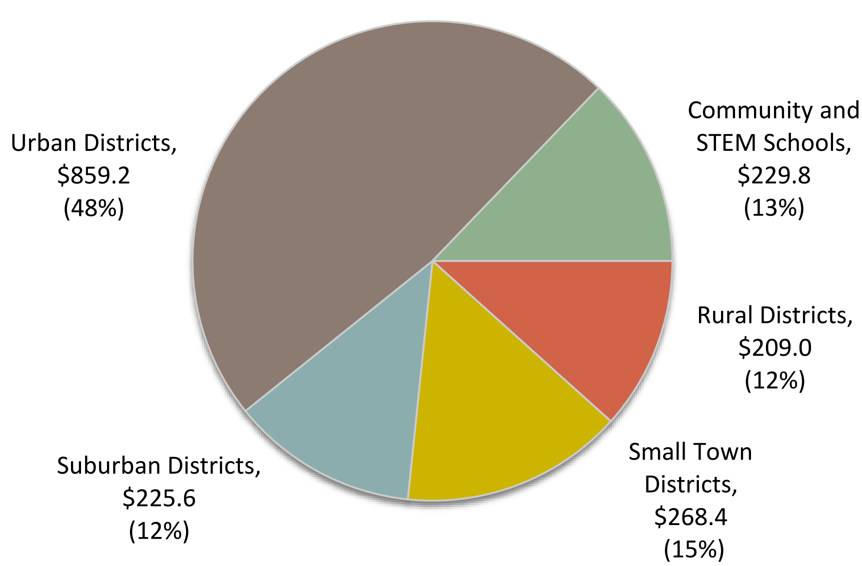
Federal CRRSA Act Provides Nearly $2 Billion in Emergency Relief Formula Funds for K-12 Schools

– Jason Phillips, Division Chief

The federal Coronavirus Response and Relief Supplemental Aid (CRRSA) Act, 2021, enacted as part of the federal Consolidated Appropriations Act, 2021, and signed into law on December 27, 2020, will provide an estimated $1.99 billion in emergency relief formula funding for Ohio's public elementary and secondary schools according to projections published by Federal Funds Information for States. This funding, drawn from the Elementary and Secondary School Emergency Relief (ESSER) Fund, supplements the $489.2 million Ohio received in "ESSER I" funds under the federal CARES Act. State allocations of "ESSER II" funds under CRRSA are based on their relative share of funding in the most recent fiscal year under federal Title I, Part A, which provides funds to school districts and community schools (local education agencies, or LEAs) for educational services to disadvantaged students. ODE must distribute at least 90% of the state's allocation, or $1.79 billion, to LEAs in proportion to each LEA's share of Title I, Part A funds in the most recent fiscal year, the same method used to distribute ESSER funds under the CARES Act. The chart below illustrates the estimated distribution of Ohio's ESSER II funds by LEA type. As the chart shows, urban districts receive the largest share, at $859.2 million, or 48% of the total.

Chart 6: Share of Federal ESSER II Funds by LEA Type ($ in millions)

Total: $1.79 billion



LEAs may use ESSER II funds for the same activities as ESSER I funds, including maintaining continuity of services and employment of existing LEA staff; purchasing educational technology to aid in educational interactions between students and teachers; coordinating and improving COVID-19 preparedness and response efforts; training LEA staff on sanitation and purchasing supplies to sanitize school facilities; providing mental health services and supports; addressing the needs of individual schools and the unique needs of low-income children, students with disabilities, and other vulnerable populations; and planning and implementing summer learning and supplemental afterschool programs. Funds received from ESSER I must be spent by September 30, 2022, and funds from ESSER II must be spent by September 30, 2023.

Up to 10% of the state's allocation, equating to $199.1 million, may be used for state-level activities. Of that, 0.5% may be used for administration and the remainder may be used to respond to emergency needs related to COVID-19, as determined by ODE. The CRRSA Act includes a maintenance of effort provision meant to prevent the federal funds from supplanting state spending, but the requirement may be waived by the U.S. Department of Education (USDOE) for states that experience a precipitous decline in financial resources.

The CRRSA Act separately provides Ohio with $201.2 million in funding under the Governor's Emergency Education Relief (GEER) Fund (referred to as "GEER II"; GEER I funds were provided under the CARES Act). Of this amount, $154.9 million is allocated for emergency assistance to nonpublic schools and the remaining $46.3 million may be distributed at the Governor's discretion to provide emergency support through grants to LEAs or institutions of higher education that are determined to be the most significantly affected by COVID-19. This flexible funding may also be used to provide support to other educational institutions deemed "essential" by the Governor for emergency educational services, the provision of child care or early childhood education, social and emotional support, and the protection of education-related jobs. According to ODE, GEER II funds will likely continue GEER I funding that supported educational entities not allocated ESSER funds, such as joint vocational school districts, county developmental disabilities boards, and educational service centers.

Ohio Higher Education Institutions to Receive $474 Million in Direct Formula Funding from Federal CRRSA Act

– Jason Glover, Budget Analyst

The federal CRRSA Act will provide 220 Ohio higher education institutions with approximately $474 million in financial relief to address the impacts of COVID-19. In general, each institution's allocation is determined by a formula that takes into account its relative share of federal Pell Grant recipients who were not exclusively distance learning prior to COVID-19 (75%), its relative share of students not receiving Pell Grants (23%), and its relative share of federal Pell Grant recipients who were exclusively distance learning prior to COVID-19 (2%). Eligible higher education institutions will receive their allocations directly from USDOE.

An institution may use its allocation to defray expenses associated with COVID-19 or for student support activities that address needs related to COVID-19. In addition, an institution must use a portion of its allocation, equal to the same amount of financial aid grants that it was required to set aside for student aid under the federal CARES Act, to provide emergency financial aid grants to students for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19, such as tuition, food, housing, health care (including mental health care), or child care.[12] Institutions must prioritize students with exceptional need. The table below shows both the direct allocation and the minimum allocation for emergency financial aid grants to students by sector type of the state's higher education institutions. Public universities receive roughly 47% of the state total. Community colleges receive the next highest share (27%) followed by private, nonprofit institutions (20%), private, for-profit institutions (4%), and Ohio technical centers (2%).

CRRSA Act Formula Aid Allocations for Ohio Higher Education Institutions by Sector Type*			
Institution Sector Type	**Number of Institutions**	**Allocation**	**Minimum Allocation for Emergency Financial Aid**
Public universities	14	$223,496,118	$99,641,229
Community colleges	22	$125,793,212	$38,171,485
Private, nonprofits	73	$95,634,865	$42,829,789
Private, for-profits	64	$17,851,938	$17,851,938
Ohio technical centers	47	$10,968,059	$3,972,613
Total	**220**	**$473,744,192**	**$202,467,054**

*Allocations are based on information reported as of January 19, 2021

In addition to the funds directly received from USDOE, Ohio higher education institutions may receive a portion of the $46.3 million the state is allocated from the CRRSA Act through the Governor's Education Emergency Relief Fund, at the Governor's discretion (see separate article discussing emergency relief formula funds for K-12 schools for additional details on this fund).

ODE Publishes Literacy Data for the 2019-2020 and 2020-2021 School Years

– Dan Redmond, Budget Analyst

On January 29, 2021, ODE published its annual literacy report for grades kindergarten through four for the 2019-2020 school year. Based on the fall reading diagnostic assessments administered to students in grades K-3, ODE reports the majority of students in each grade were on track to reading at grade level at the beginning of the school year. These results are shown in the table below (data is not available for grade 4 due to the cancellation of the spring 2020 state tests). Literacy skill across all ages, grades, and subjects is on the ten priority strategies in the Department's strategic plan for education: Each Child, Our Future.

[12] A private, for-profit institution must use the full award amount for student aid.

Students Reading at or Below Grade Level, 2019-2020 School Year				
Grade Level	**Students Reading at Grade Level**	**Students Reading Below Grade Level**	**% at Grade Level**	**% Below Grade Level**
Kindergarten	80,963	44,368	64.6%	35.4%
Grade 1	86,779	37,639	69.7%	30.3%
Grade 2	75,360	46,660	61.8%	38.2%
Grade 3	77,108	46,153	62.6%	37.4%
Total	**320,210**	**174,820**	**64.7%**	**35.3%**

In addition to students reading at or below grade level, the report states that 29% of students in grades K-2 who were on a reading improvement and monitoring plan (RIMP) progressed to grade-level reading (data for grade three was not available due to the cancellation of the spring 2020 tests). RIMPs are required for all students reading below grade level. The full report, including specific literacy intervention services, can be found on the ODE website.[13]

In February 2021, ODE provided preliminary data from the fall 2020 administrations of the Kindergarten Readiness Assessment (KRA) and third grade English language arts (ELA) state test that provide some early indication of how students are faring academically in the wake of the COVID-19 pandemic. Among the key points, ODE reported that:

- Most students took the fall tests but participation was lower than normal – 78% of kindergartners took the KRA and 81% of third grade students took the third grade ELA test compared to 93% and 95% participation rates in 2019, respectively. Those students that did not participate tended to be amongst the most vulnerable populations. These students were more likely to be students with disabilities, English learners, economically disadvantaged, or nonwhite, in the case of the KRA, and minority, economically disadvantaged, or residing in districts with low average achievement levels, in the case of the third grade ELA test.
- Overall scores are notably lower than past years, especially for minority and economically disadvantaged students. In the language and literacy domain of the KRA, the percentage of participating students identified as off-track increased from 39.7% in 2019 to 47.6% in 2020. Likewise, third grade ELA proficiency rates in the fall decreased from 45.1% in 2019 to 37.1% in 2020.
- Students learning in districts that used a fully remote education model as their primary education delivery model in fall 2020 tended to perform less well on the third grade ELA test than students attending school under fully in-person or hybrid education models. In

[13] http://education.ohio.gov/getattachment/About/Annual-Reports/2020-2021-K-4-Literacy-Report.pdf.aspx?lang=en-US.

fully remote districts, proficiency rates on the fall third grade ELA test decreased about 12 percentage points while falling by about eight and nine percentage points in districts primarily using fully in-person and hybrid models, respectively.

Additional data regarding how the COVID-19 pandemic is impacting the 2020-2021 school year is available on ODE's website.[14]

2021 Federal Poverty Guidelines Update

– Wendy Risner, Division Chief

The U.S. Department of Health and Human Services recently published the updated Federal Poverty Guidelines (FPG) standards for 2021. These guidelines are used to set eligibility criteria for many assistance programs, such as the Supplemental Nutrition Assistance Program (SNAP) and the Children's Health Insurance Program (CHIP). Assistance programs often use a percentage of the FPG to determine eligibility (e.g., 138% or 200% FPG). The FPG is adjusted for household size and geographic region. The 48 contiguous states and the District of Columbia (DC) all use the same FPG while Alaska and Hawaii each have their own to account for higher costs of living in those regions. The table below shows the updated FPGs for the 48 contiguous states and DC.

2021 FPG for the 48 Contiguous States and DC	
Persons in Household	**Poverty Guideline**
1	$12,880
2	$17,420
3	$21,960
4	$26,500
5	$31,040
6	$35,580

Note: Add $4,540 for each additional household member.

FPGs are published annually and become effective each January. The 2021 guidelines are calculated by taking the 2019 Census Bureau's poverty thresholds and adjusting them, using the Consumer Price Index, for price changes between 2019 and 2020. The FPG represents the minimum amount of income required to provide basic necessities such as food, clothing, and shelter.

[14] http://education.ohio.gov/Topics/Reset-and-Restart/Data-Insights-on-the-2020-2021-School-Year.

Controlling Board Increases ODA Appropriation to Support the Alzheimer's Disease and Related Dementias Task Force

– Wendy Risner, Division Chief

On January 25, 2021, the Controlling Board approved a request to increase the appropriation to the Ohio Department of Aging (ODA) by $4.4 million in FY 2021 to establish the Alzheimer's Disease and Related Dementias Task Force. The Task Force, which was created by S.B. 24 of the 133rd General Assembly, consists of 28 members. Of these, 19 are appointed by the Governor and include impacted individuals, medical providers, and representatives of advocate agencies. The remaining nine members are representatives of various state agencies and legislators. The responsibilities of the Task Force include examining the needs of individuals diagnosed with these conditions, the services available to them, and the ability of health care providers and facilities to meet current and future needs. In addition, the Task Force must make recommendations on a number of topics including trends in Ohio's Alzheimer's disease and related dementias populations, as well as policies to increase public awareness and early detection and to improve and enhance access to the healthcare system. Specifically, ODA also plans to: create statewide screening and risk assessment tools that will be used in all healthcare settings to identify risk factors such as elder abuse or other behaviors such as wandering, to implement a referral protocol that includes responsive interventions that can be used based on the severity of an individual's cognitive decline, and to design a toolkit for case managers to use to link services and interventions with specific high-risk behaviors.

The funds to support this request come from the federal United States Centers for Medicare and Medicaid Services (CMS). CMS awarded each state up to $5.0 million in Money Follows the Person grant funds. These funds had to be used to increase the use of home- and community-based services for persons requiring long-term care.

Controlling Board Approves $8.7 Million Appropriation Increase for Ohio EPA's H2Ohio Initiatives

– Jamie Doskocil, Fiscal Supervisor

On January 25, 2021, the Controlling Board approved a request from the Ohio Environmental Protection Agency (Ohio EPA) to increase appropriation item 715695, H2Ohio, by $8.7 million in FY 2021 in order to continue H2Ohio activities. The money is appropriated from the H2Ohio Fund (Fund 6H20) to support watershed planning, scientific research, and data collection.

H.B. 166, which created Fund 6H20, appropriates additional funds for FY 2021 if authorized by the Controlling Board. The fund was originally seeded with a $172 million transfer of cash from the General Revenue Fund. Fund 6H20 also provides funding to the Ohio Department of Agriculture (AGR) and the Ohio Department of Natural Resources (ODNR).

With the FY 2020 appropriation, Ohio EPA identified 17 projects for funding, as shown in the table below. Some projects were identified after the end of FY 2020 but are to be funded with FY 2020 appropriations. The increased FY 2021 appropriation allows Ohio EPA to select additional projects for funding before the end of FY 2021. Funds will be obligated and disbursed as the projects are completed at a future date. The new FY 2021 projects are currently being selected and will be announced when finalized.

Projects last 12 to 18 months depending on the type of work to be completed and the time it takes to secure any additional funding as necessary. Due to the COVID-19 pandemic, some projects were delayed. All projects are paid on a reimbursement basis. The Ohio Water Development Authority oversees wastewater and drinking water infrastructure projects.

FY 2020 Ohio EPA H2Ohio Project List			
	FY 2020	**FY 2021***	**Total**
Infrastructure Projects			
Pomeroy (Clean Water)	$500,000	---	$500,000
Kunkle (Clean Water)	$500,000	---	$500,000
West Milton (Clean Water)	$500,000	---	$500,000
New Waterford (Drinking Water)	$500,000	---	$500,000
Coshocton (Drinking Water)	$500,000	---	$500,000
Pike Water (Drinking Water)	$1,000,000	---	$1,000,000
Nobel (Clean Water)	---	$710,000	$710,000
Home Sewage Replacement Project			
Paulding County	$250,000	---	$250,000
Putnam County	$250,000	---	$250,000
Ottawa County	$250,000	---	$250,000
Erie County	$250,000	---	$250,000
Williams County	$250,000	---	$250,000
Sandusky County	---	$250,000	$250,000
Wood County	---	$250,000	$250,000
Other Project Areas			
Water Quality Monitoring Projects	$568,500	---	$568,500
Lead Service Lines Projects	---	$725,000	$725,000
Emerging Technologies	---	$225,000	$225,000
H2Ohio Project Consultant	$314,925	---	$314,925
Total	**$5,633,425**	**$2,160,000**	**$7,793,425**

*Amounts in this column represent moneys that were carried over from FY 2020; projects were identified and selected in FY 2021

First H2Ohio Incentive Payments Distributed by the Department of Agriculture

– Shannon Pleiman, Senior Budget Analyst

On February 2, 2021, AGR distributed the first incentive payments to 154 farmers for completed and approved voluntary nutrient management plans (VNMPs) under the state's H2Ohio water quality initiative. The incentive payments amount to approximately $197,000. The approved VNMPs encompass 98,000 farm acres in three of the targeted counties under the program: Auglaize, Hancock, and Putnam.

Under AGR's H2Ohio Program, farmers located in the Maumee River Watershed are incentivized for implementing any of the seven conservation practices established under the program that have been proven to help reduce phosphorus runoff into the waterways. Developing and implementing VNMPs is one of these conservation practices. VNMPs are developed in collaboration with local soil and water conservation districts (SWCDs). The involvement of SWCDs provides farmers with recommendations on both soil fertility and environmental site risk for fields. This helps participating farmers to identify nutrient and sediment loss. SWCDs must approve of these VNMPs in order for farmers to receive the $2 per acre incentive payment under the program.

Criminal Justice Services Awards $541,250 in Federal Law Enforcement Grants

– Maggie West, Senior Budget Analyst

On February 10, 2021, the Department of Public Safety's Office of Criminal Justice Services announced the award of $541,250 in federal grants from the Edward Byrne Memorial Justice Assistance Grant Program for Law Enforcement (JAG LE) to 56 projects in 38 counties.[15] Under the JAG LE Program, law enforcement agencies that are not eligible for direct federal funding may apply for up to $20,000 for projects that reduce crime, increase public safety, and support the Ohio Incident-Based Reporting System (OIBRS). OIBRS allows criminal justice agencies to submit data directly to the state and federal government. Of the 56 funded projects, 47 are renewal grants, meaning they had received funding in the prior year's grant cycle.

Around two-thirds of the funded projects involved the procurement of equipment, computer technology, and other materials directly related to law enforcement functions. The remaining projects involved: (1) hiring, training, and employing new additional law enforcement officers and necessary support personnel and (2) paying overtime to employed law enforcement officers and necessary support personnel to support additional hours worked. All JAG LE Program awards are for seven months of funding, beginning March 1, 2021. A cash match of 10% of the total project cost is generally required but may be waived under certain circumstances.

[15] A complete list of funded programs by county can be found at: https://www.ocjs.ohio.gov/links/Funding_Recommendations_Subgrant_List_by_County.pdf.

Tracking the Economy

– Eric Makela, Economist

Overview

The national economy was buoyed by federal stimulus in the first couple months of the new year, as personal income (PI) jumped in January and employers added 379,000 nonfarm payroll jobs in February. Inflation-adjusted gross domestic product (real GDP) grew at a 4.1% annualized rate in the fourth quarter of 2020, as personal consumption expenditures fell for goods and rose for services. Industrial production increased by a seasonally adjusted 0.9% in January, though growth was mixed among major industrial groups. Consumer prices continued to rise at a rate on the slow side of moderate and, as of January, were 1.4% greater than a year prior.[16]

Consumer demand in Ohio and the surrounding areas was greater than expected in recent weeks, according to business contacts surveyed by the Federal Reserve Bank of Cleveland. Among Ohio's small business community, there is a mix of current financial need and future optimism;[17] while over 43% of Ohio's small businesses have needed and received some form of financial assistance since late December, over 90% of small business owners believe the market for their business will return to prepandemic levels at some point. The market demand for pre-existing housing remains well above prepandemic levels, signaling a healthy appetite for mortgage debt; the dollar volume of existing home deals completed during January was 24.9% above its level in January 2020.

The National Economy

The U.S. economy added 379,000 nonfarm payroll jobs in February, though total employment remains around 9.5 million below its level in February 2020. The national monthly unemployment rate declined slightly to 6.2%. Chart 7 shows nonfarm payroll employment and chart 8 displays unemployment.

Employment gains during the month were largely the result of an increase in leisure and hospitality jobs (+355,000), as an easing of COVID-19 restrictions improved the month's labor market growth. Food services and drinking places (+286,000), accommodation (+36,000), and amusements, gambling, and recreation (+33,000) all posted job gains during the month. Other industries such as health care and social assistance (+46,000), retail trade (+41,000), and manufacturing (+21,000) also added jobs in February. Payroll employment changes in government education (-69,000) and construction (-61,000) were likely, at least in part, the result of pandemic- and weather-related distortions during the month, according to the Bureau of Labor Statistics.

[16] As measured by the consumer price index for all items.

[17] According to the U.S. Census Bureau's Small Business Pulse Survey; data were collected during the final week of February.

The February *Employment Situation* report offers an opportunity to review how the COVID-19 pandemic has affected payroll employment totals over the period of an entire year.[18] Employment in goods-producing industries has decreased by a seasonally adjusted 970,000 in the past year, while employment in private service-providing industries has slid by approximately 7,116,000. Total employment in February 2021 was just over 143 million, a 6.2% decrease from a year prior. The table below provides seasonally adjusted employment estimates by selected industry in February 2021, as well as the percent change from February 2020.

National Payroll Employment and Annual Percent Change, by Industry		
Industry	**February 2021 Payroll Employment**	**Change from February 2020**
Construction	7,340,000	-4.0%
Manufacturing	12,238,000	-4.4%
Durables	7,600,000	-5.1%
Nondurables	4,638,000	-3.2%
Trade, transportation, and utilities	27,079,000	-2.9%
Financial activities	8,770,000	-1.2%
Professional and business services	20,698,000	-3.6%
Education and health services	23,267,000	-5.3%
Leisure and hospitality	13,464,000	-20.4%
Government	21,446,000	-6.1%
Federal government	2,865,000	+0.1%
State government	4,945,000	-6.8%
Local government	13,636,000	-7.0%
Total*	**143,048,000**	**-6.2%**

*Note: Select industry categories do not round to total

February's seasonally adjusted unemployment rate, at 6.2%, is the nation's lowest since March 2020, when the unemployment rate was 4.4%. During the month, there were approximately 10.0 million unemployed persons. The nation's employment-population ratio

[18] The Bureau of Labor Statistic's Establishment Survey is based on the payroll data of businesses during the payroll period that includes the 12th of the month. Thus, the survey in February 2020, the year-earlier month in the comparison shown in the table, was the most recent of which employment data were not potentially affected by government action intended to mitigate the spread of the virus.

was 57.6% in February 2021, compared with 61.1% a year prior, the result of a decline in household employment totals and an increase in the civilian population.[19]

Nationally, real GDP increased by a seasonally adjusted, annualized 4.1% in the fourth quarter of 2020, the second straight quarter of recovery following a record contraction (-31.4%) in the year's second quarter. Real GDP contracted by 3.5% in 2020, according to a revised estimate. During the fourth quarter of 2020, personal consumption expenditure (PCE) on goods fell at a 0.9% annualized rate; PCE on goods was up 3.9% during the year. PCE on services was up 4.0% in the fourth quarter but dropped 7.3% total during 2020. Real fixed investment during 2020 increased on residential projects (+6.0%) but decreased on nonresidential projects (-4.0%), as compared to 2019 expenditure levels.

Personal income increased by a seasonally adjusted 10.0% in January 2021.[20] Among the major components of PI, compensation of employees grew 0.7%, a pace comparable to that of the September through December 2020 period. Proprietors' incomes declined (-0.5%) for the third straight month. By far, the largest components of the PI increase during the month were personal current transfers, including economic impact payments of up to $600 per qualified person and increased unemployment compensation. These initiatives were part of H.R. 133, a federal spending package passed on December 27 which provided a further stimulus payment to qualified taxpayers and supported temporary enhanced unemployment benefits, in addition to boosting an array of funding programs in the areas of business, education, healthcare, agriculture, and infrastructure development.

Nationally, industrial production, as measured by the Federal Reserve Board's industrial production index (IPI), increased by a seasonally adjusted 0.9% in January; production increased in all major market groups during the month.[21] Between January 2020 and January 2021, total industrial production declined 1.8%. Among the major market groups, production activity in the last year has increased only in consumer goods, while the IPIs for business equipment, nonindustrial supplies, construction, and materials all indicate a decline in activity. Year-over-year, industrial output among major industry groups has increased only in utilities (+6.6%), while mining (-11.5%) and manufacturing (-1.0%) activity has decreased.

Consumer prices, as measured by the consumer price index (CPI) for all items, increased 0.3% in January, following rises of 0.2% in November and December. The CPI for all items was 1.4% greater in January 2021 than a year prior. Excluding the more volatile food and energy sub-indexes, measured CPI price levels were 1.4% above their level a year ago, as increases in the price of food were approximately canceled out by a decrease in the cost of energy. Among secondary categories, the January 2021 price index for medical care services was up 2.9% on a year-over-year basis, while the price indexes for shelter (+1.6%) and used cars and trucks (+10.0%) have also risen in the last year.

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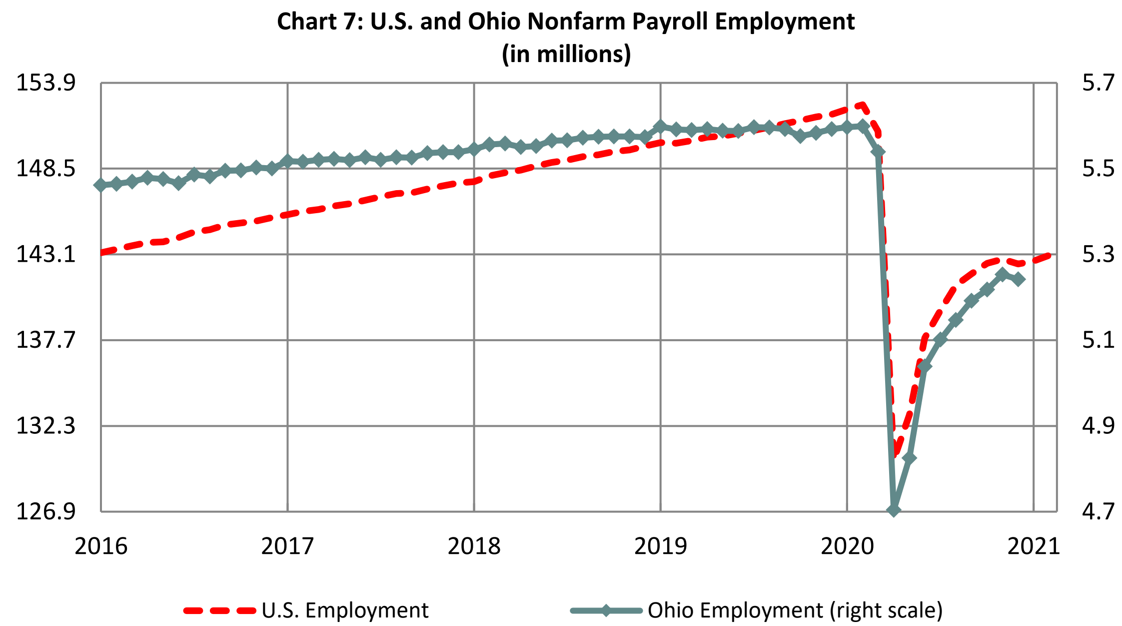
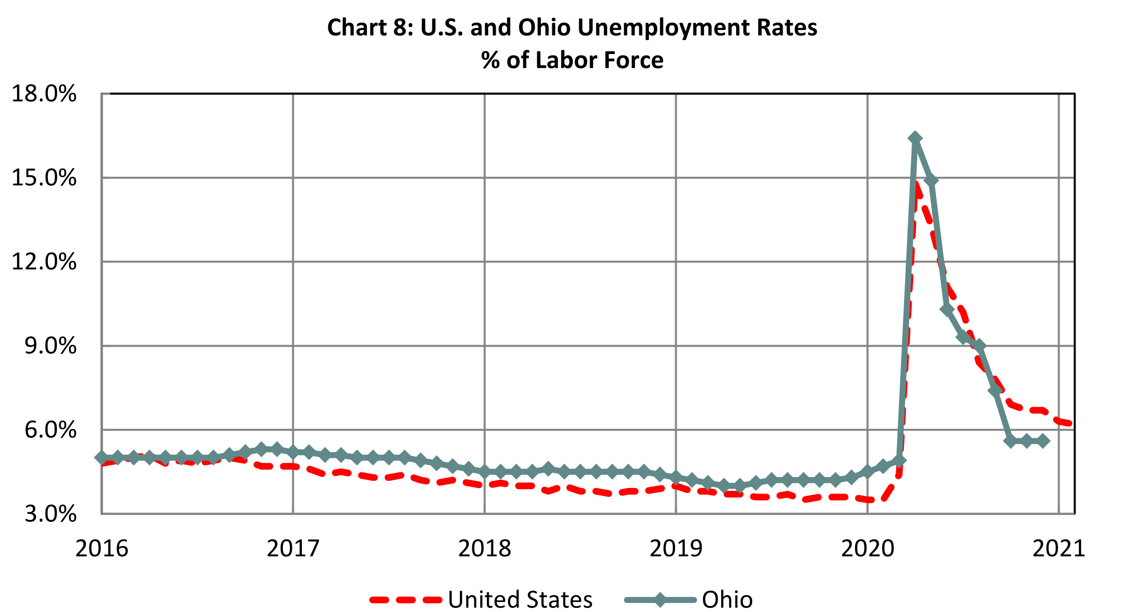
[19] The employment-population ratio is the proportion of the civilian noninstitutionalized population aged 16 years and over that is employed.

[20] Growth percentages in this paragraph are at seasonally adjusted, annualized rates.

[21] Major market groups include final products (with subcategories for consumer goods and business equipment), nonindustrial supplies, construction, and materials.





The Ohio Economy

The initial release of January 2021 Ohio employment and unemployment rate data is currently scheduled for Friday, March 12, with data for all 50 states to be released the following Monday, March 15. For information on Ohio's labor market during 2020, please refer to the Ohio Department of Job and Family Service's *Ohio Labor Market Information* website or to previous editions of *Budget Footnotes*.[22]

[22] https://ohiolmi.com/?page85481=1&size85481=48; https://www.lsc.ohio.gov/pages/budget/documents/budgetfootnotes.aspx.

Nearly a year into the state's official COVID-19 response, some businesses continue to be affected by a shift in social norms and cautious attitudes toward the virus. The Census Bureau's Small Business Pulse Survey compiles data from a poll of small businesses in all states.[23] During the week of February 22 to February 28, 13.1% of Ohio's small businesses changed their level of employment; 4.1% of the companies hired additional workers while 9.0% decreased the number of payroll positions. Since the last week of December, over 43% of the state's small businesses have received financial assistance.[24] The Census Bureau also polled business owners on the amount of time they expect to pass before their business returns to "normal operations." Approximately 18.8% anticipate a full return in six months or less, 42.6% believe a full return will take more than six months, while 8.8% of small business owners have either closed their business or think operations will never return to normal.

The housing market began 2021 on a strong note, according to the Ohio Association of Realtors. Just under 9,400 housing units were sold during the month of January, an 8.8% increase from a year prior. The total dollar volume of existing home sales during the month was $1.98 billion, approximately 24.9% above its level last January.

Economic activity in the Cleveland Federal Reserve District remained below prepandemic levels in the recent survey period, according the Federal Reserve Board's Beige Book.[25] However, contacts noted that customer demand was better than expected and that the district's economy regained momentum. During the survey period, upward wage pressure was stronger than at any other point in the pandemic, and the cost of production materials such as timber, steel, and other mineral commodities continued to increase significantly. The Federal Reserve's contacts noted consumer spending in restaurants improved somewhat following an easing of curfews. The housing market remained strong during the period, as a low stock of existing homes spurred some consumers to move forward with new home construction. Banking contacts noted that federal initiatives such as the Paycheck Protection Program boosted lending but that demand for the program was notably lower than in 2020. Consumer and business demand was high for freight services during the survey period, with the strong levels of demand being derived from strength in the import markets and continued demand from home construction suppliers.

[23] The Small Business Pulse Survey team conducts polls of businesses with at least $1,000 in revenue that employed between one and 499 persons during the sampling timeframe period (active on the national Business Register in April 2020).

[24] Sources include federal programs, state programs, incentives offered by financial institutions, support from family and friends, and an "other sources" category.

[25] The Federal Reserve Bank of Cleveland's district consists of all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Comments here are derived from the latest edition of the Beige Book, a Federal Reserve publication that summarizes reports from business and industry contacts outside of the Federal Reserve System collected on or before February 22, 2021.