LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2021 Issue: October 2020

Highlights

– Ross Miller, Chief Economist

September GRF tax revenue was $8.7 million (0.5%) higher than the estimate published by the Office of Budget and Management (OBM) in September 2020. Tax revenue ended the first quarter of FY 2021 $262.4 million above estimate. Only two tax sources were below their estimates by more than $5 million: the commercial activity tax (CAT) and the kilowatt-hour tax, by $23.5 million and $7.4 million, respectively. Federal grants received during the quarter were $122.2 million below estimate, but that was primarily due to Medicaid spending being below estimate by $116.0 million.

Ohio's nonfarm payroll employment grew by 45,500 in August, but was still 448,700 below August 2019. Nearly one-third (31.8%) of the job losses over the last year were in the leisure and hospitality sector. Ohio's unemployment rate ticked down to 8.9% in August, from 9.0% the prior month. The national unemployment rate was 8.4% in August.

Through September 2020, GRF sources totaled $10.45 billion:

- ❖ Revenue from the sales and use tax was $183.9 million above estimate;
- ❖ Personal income tax (PIT) receipts were $84.2 million above estimate.

Through September 2020, GRF uses totaled $10.69 billion:

- ❖ Program expenditures were $316.3 million below estimate;
- ❖ Expenditures from all program categories were below estimates.

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

State Sources	**Actual**	**Estimate***	**Variance**	**Percent**
Tax Revenue				
Auto Sales	$148,303	$133,600	$14,703	11.0%
Nonauto Sales and Use	$738,370	$752,100	-$13,730	-1.8%
Total Sales and Use	*$886,673*	*$885,700*	*$973*	*0.1%*
Personal Income	$887,978	$900,100	-$12,122	-1.3%
Commercial Activity Tax	$15,553	$7,100	$8,453	119.1%
Cigarette	$89,911	$73,800	$16,111	21.8%
Kilowatt-Hour Excise	$30,797	$31,600	-$803	-2.5%
Foreign Insurance	$6,808	$6,800	$8	0.1%
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$6,367	-$4,000	-$2,367	-59.2%
Public Utility	$56	$100	-$44	-44.4%
Natural Gas Consumption	$121	$0	$121	---
Alcoholic Beverage	$3,603	$4,600	-$997	-21.7%
Liquor Gallonage	$4,712	$4,400	$312	7.1%
Petroleum Activity Tax	$878	$1,900	-$1,022	-53.8%
Corporate Franchise	$91	$0	$91	---
Business and Property	$0	$0	$0	---
Estate	$11	$0	$11	---
Total Tax Revenue	**$1,920,824**	**$1,912,100**	**$8,724**	**0.5%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$5,099	$2,184	$2,915	133.5%
Other Revenue	$689	$65,800	-$65,111	-99.0%
Total Nontax Revenue	**$5,788**	**$67,984**	**-$62,196**	**-91.5%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,926,613**	**$1,980,084**	**-$53,471**	**-2.7%**
Federal Grants	**$989,526**	**$1,086,406**	**-$96,880**	**-8.9%**
Total GRF Sources	**$2,916,139**	**$3,066,490**	**-$150,351**	**-4.9%**

*Estimates of the Office of Budget and Management as of September 2020.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2021 as of September 30, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 1, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Tax Revenue						
Auto Sales	$487,223	$409,800	$77,423	18.9%	$418,613	16.4%
Nonauto Sales and Use	$2,490,157	$2,383,700	$106,457	4.5%	$2,325,404	7.1%
Total Sales and Use	*$2,977,380*	*$2,793,500*	*$183,880*	*6.6%*	*$2,744,017*	*8.5%*
Personal Income	$2,905,817	$2,821,600	$84,217	3.0%	$2,282,127	27.3%
Commercial Activity Tax	$347,599	$371,100	-$23,501	-6.3%	$399,431	-13.0%
Cigarette	$195,993	$172,500	$23,493	13.6%	$179,389	9.3%
Kilowatt-Hour Excise	$82,180	$89,600	-$7,420	-8.3%	$89,913	-8.6%
Foreign Insurance	$6,845	$8,400	-$1,555	-18.5%	$8,919	-23.2%
Domestic Insurance	$824	$0	$824	---	$1	164666.6%
Financial Institution	-$3,977	-$7,100	$3,123	44.0%	-$9,506	58.2%
Public Utility	$31,340	$31,800	-$460	-1.4%	$32,092	-2.3%
Natural Gas Consumption	$13,691	$16,200	-$2,509	-15.5%	$12,770	7.2%
Alcoholic Beverage	$15,546	$14,400	$1,146	8.0%	$12,484	24.5%
Liquor Gallonage	$14,738	$12,900	$1,838	14.2%	$13,249	11.2%
Petroleum Activity Tax	$878	$1,900	-$1,022	-53.8%	$1,796	-51.1%
Corporate Franchise	$271	$0	$271	---	-$26	1131.1%
Business and Property	$15	$0	$15	---	$0	---
Estate	$11	$0	$11	---	$38	-69.8%
Total Tax Revenue	**$6,589,152**	**$6,326,800**	**$262,352**	**4.1%**	**$5,766,691**	**14.3%**
Nontax Revenue						
Earnings on Investments	$1	$0	$1	---	$119	-99.3%
Licenses and Fees	$11,496	$7,601	$3,895	51.2%	$8,605	33.6%
Other Revenue	$81,221	$72,097	$9,124	12.7%	$69,611	16.7%
Total Nontax Revenue	**$92,718**	**$79,697**	**$13,020**	**16.3%**	**$78,335**	**18.4%**
Transfers In	**$79,832**	**$77,932**	**$1,900**	**2.4%**	**$75,480**	**5.8%**
Total State Sources	**$6,761,702**	**$6,484,429**	**$277,273**	**4.3%**	**$5,920,507**	**14.2%**
Federal Grants	**$3,687,287**	**$3,809,476**	**-$122,189**	**-3.2%**	**$2,640,938**	**39.6%**
Total GRF SOURCES	**$10,448,989**	**$10,293,905**	**$155,084**	**1.5%**	**$8,561,445**	**22.0%**

*Estimates of the Office of Budget and Management as of September 2020.
**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 September of $10.45 billion were $155.1 million (1.5%) above the estimate released by OBM in September 2020. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants.[2] Federal grants were the only GRF category posting a year-to-date (YTD) negative variance with a shortfall of $122.2 million (3.2%). This shortfall was more than offset by positive variances of $262.4 million (4.1%) for GRF tax sources, $13.0 million (16.3%) for nontax revenue, and $1.9 million (2.4%) for transfers in. Tables 1 and 2 show GRF sources for the month of September and for FY 2021 through September, respectively.

Through the end of September, three of the four largest tax sources had solid performances. The sales and use tax and the PIT were $183.9 million and $84.2 million above their respective estimates; a strong positive variance of $23.5 million for the cigarette tax canceled out a deficit of the same amount for the CAT (which was due to reduced economic activity tied to COVID-19-related measures in the prior quarter).[3] Total revenues for the remaining GRF tax sources were $5.7 million below the combined estimate. The financial institutions tax (FIT), the liquor gallonage tax, and the alcoholic beverage tax were above their respective YTD revenue targets by $3.1 million, $1.8 million, and $1.1 million. However, those positive variances were offset by negative variances of $7.4 million for the kilowatt-hour tax, $2.5 million for the natural gas consumption tax, and $1.6 million for the foreign insurance tax.

For the month of September, GRF sources totaled $2.92 billion, an amount $150.4 million (4.9%) below projection, due to a shortfall of $96.9 million (8.9%) for federal grants and a timing-related negative variance of $62.2 million (91.5%) for nontax revenue. The monthly negative variance for nontax revenue reflects a payment made by JobsOhio in August that had been expected in September.[4] GRF taxes were $8.7 million (0.5%) above estimate, and no transfers in occurred or were anticipated during the month. Regarding tax sources, the cigarette tax, the CAT, and the sales tax were above anticipated revenue by $16.1 million, $8.5 million, and $1.0 million, respectively. Those positive variances were partially offset by negative variances of

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

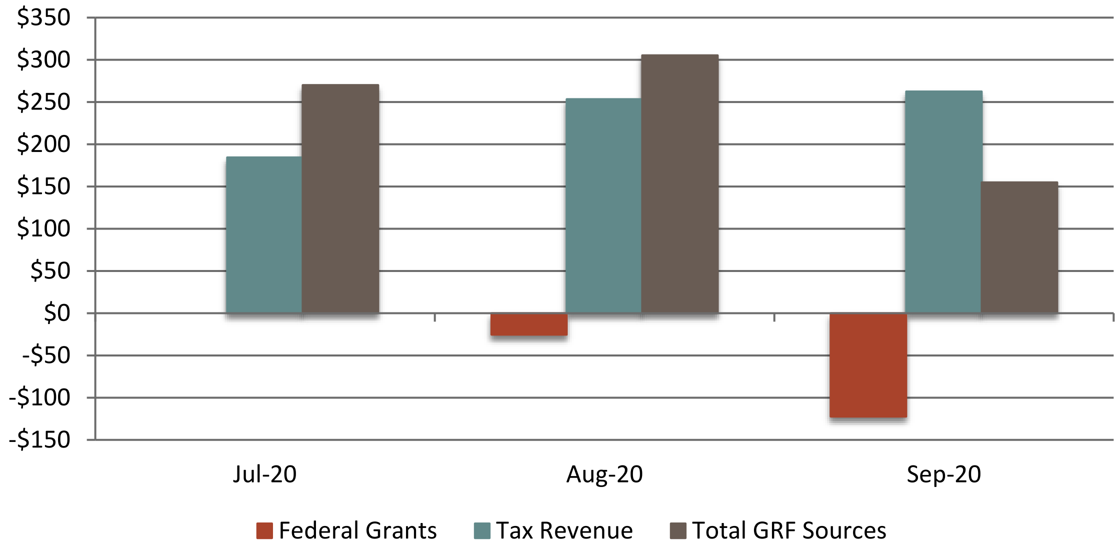
[2] Federal grants are typically federal reimbursements for Medicaid and other human services programs.

[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 taxable gross receipts in the spring quarter, which was the basis for the tax paid by quarterly CAT taxpayers in August 2020.

[4] In August 2020, nontax revenue was above estimate by $65.5 million due to the early payment.

$12.1 million for the PIT, $2.4 million for the FIT, and $1.0 million each for the alcoholic beverage tax and the petroleum activity tax. Chart 1, below, shows cumulative YTD variances of GRF sources in the first three months of FY 2021.

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



Compared to first-quarter GRF sources in FY 2020, YTD GRF sources rose $1.89 billion (22.0%), due to large increases in federal grants ($1.05 billion, 39.6%)[5] and tax sources ($822.5 million, 14.3%). Nontax revenue and transfers in also rose, respectively, by $14.4 million (18.4%) and $4.4 million (5.8%). The increase in GRF tax sources was led by an increase of $623.7 million in PIT revenue and $233.4 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 tax revenue has been supported by federal income support programs, as explained further in the section on that tax. Also, revenue from the cigarette tax, the FIT, the alcoholic beverage tax, and the liquor gallonage tax increased by $16.6 million, $5.5 million, $3.1 million, and $1.5 million, respectively. On the other hand, noticeable revenue declines were experienced by the CAT ($51.8 million), the kilowatt-hour excise tax ($7.7 million), and the foreign insurance tax ($2.1 million).

Sales and Use Tax

Through September, revenue from the sales and use tax totaled $2.98 billion. This amount was $183.9 million (6.6%) above OBM projections, with $145.8 million of the overage coming in July. YTD GRF revenue was also $233.4 million (8.5%) above FY 2020 receipts. In the latest month, the performance of the tax weakened but was still positive. September GRF sales

[5] This growth is primarily due to a COVID-19-related temporary increase in the share of federal reimbursements for Medicaid. The increase was authorized by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The increased federal reimbursement accounted for $275.6 million of the $1.05 billion growth in federal grants, according to the Ohio Administrative Knowledge System (OAKS).

tax revenue of $886.7 million was slightly above target. The auto sales and use tax had another strong monthly positive variance, which came in $1.0 million larger than the revenue shortfall from the nonauto sales and use tax, resulting in a positive variance of 0.1% for the combined total sales and use tax. As mentioned in the previous edition of *Budget Footnotes,* a decrease in employee compensation during 2020's second quarter was more than offset by the increase in unemployment compensation payments and other personal transfer receipts.[6] Though nationwide hiring slowed in September, employment for persons earnings above $60,000 a year appears to be returning close to the prepandemic levels, while the bulk of job losses are concentrated in households earning less than that amount. Since the April trough, inflation-adjusted consumer spending had steadily increased, and recent data suggest it recovered to about 95% of prepandemic levels.

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

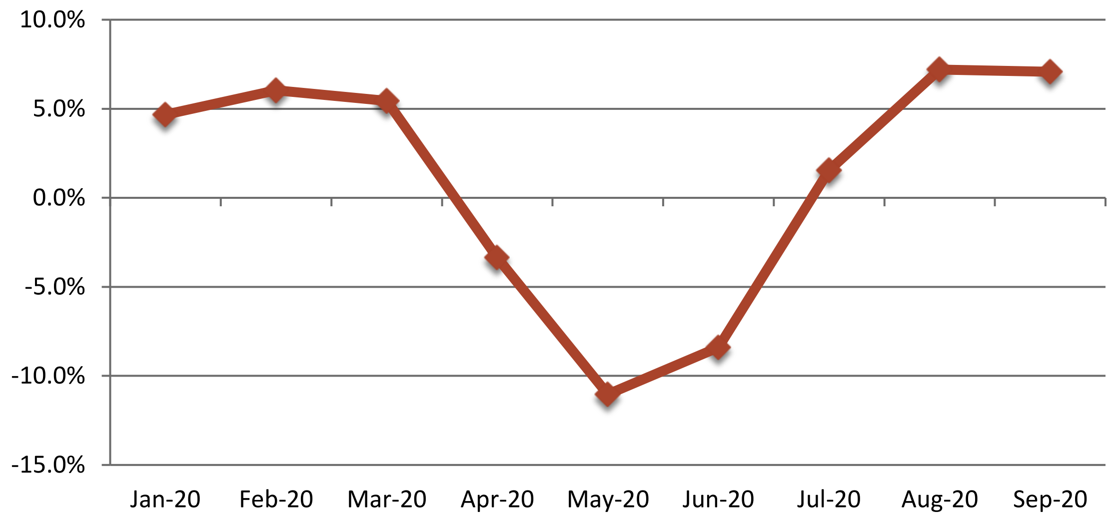
Nonauto Sales and Use Tax

YTD FY 2021 GRF nonauto sales and use tax receipts totaled $2.49 billion, an amount $106.5 million (4.5%) above estimate and $164.8 million (7.1%) above revenue in the first quarter of FY 2020. The performance of the nonauto sales and use tax receipts so far has been remarkable. The income support from the federal fiscal response to the pandemic essentially eliminated the economic downdraft of the COVID-19 pandemic in July and August. However, the impact of the federal income and employment support programs is waning, and this affected September revenue. Nonauto sales and use tax revenue of $738.4 million was below estimate by $13.7 million (1.8%) and $9.4 million (1.3%) above revenue in September 2019. Generally, a large part of a month's nonauto sales and use tax revenue is from tax collection or tax remittance on taxable sales in the previous month. The future performance of this tax source is likely to be dependent on continued improvement in the Ohio labor market, any additional federal personal transfer payments, and potential new restrictions if COVID-19 infections rise.

Chart 2 provides year-over-year growth in nonauto sales and use tax collections since January 2020 and shows the rebound in nonauto sales and use tax revenue in recent months.

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

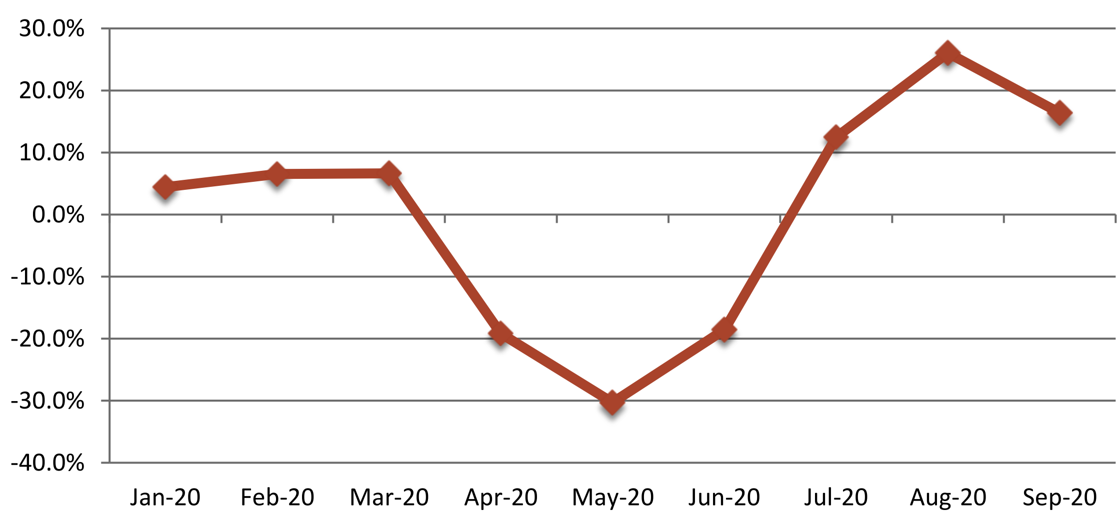
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

Through September, FY 2021 auto sales and use tax receipts of $487.2 million were $77.4 million (18.9%) above estimate and $68.6 million (16.4%) above revenue in the corresponding period in FY 2020. In September, auto sales and use tax revenue was $148.3 million, $14.7 million (11.0%) above estimate and $20.2 million (15.8%) above such receipts in September 2019. Growth of more than 15% from the prior year in the absence of any significant tax policy change is unusual. Auto sales tax revenue in July and September exceeded that threshold and was also good in August (growth of 7.6%). Chart 3 shows year-over-year growth in auto sales and use tax collections, the pandemic-related revenue declines earlier in the calendar year from both low demand and low supply of vehicles, and the subsequent rebound in the most recent months.

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



Cheap credit and high demand for SUVs and pickup trucks drove the faster than expected bounce back of the auto industry from lows in the spring quarter. In addition to the federal fiscal income support and improvement in labor markets, the pandemic may have led persons avoiding public transportation (either for work or leisure) to purchase motor vehicles. The increase in the Ohio auto tax base in FY 2021 relative to the corresponding period in FY 2020 was due to a 14.2% increase in the number of motor vehicles titled,[7] according to data provided by the Ohio Bureau of Motor Vehicles (BMV) shown below. Unit purchases of both new and used vehicles increased; the taxable base for both new and used vehicles also rose.

YTD FY 2021	Titles	Spending ($ in millions)	Average Price
New vehicles	115,248	$4,190	$36,361
Used vehicles	541,332	$5,163	$9,539
Total	**656,580**	**$9,354**	**$14,247**
Growth from FY 2020			
New vehicles	8.1%	$394.9	2.1%
Used vehicles	15.6%	$697.8	0.0%
Total	**14.2%**	**$1,092.7**	**-0.8%**

BMV data show that unit sales of new passenger vehicles decreased 3.1% but their average price rose 5.6%; unit sales of new trucks rose 10.9% and their average price increased 3.2%. Demand for previously owned vehicles was high during the quarter: unit sales of used passenger vehicles grew 10.7%, though the average price fell 1.4%, and unit sales of used trucks jumped 18.0% and prices rose 0.8%.

Personal Income Tax

YTD FY 2021 GRF receipts from the PIT of $2.91 billion were $84.2 million (3.0%) above estimate and $623.7 million (27.3%) above such revenue in the first quarter of FY 2020. This large year-over-year growth is directly attributable to the delay of income tax filings from April to July 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, to match the extended deadline for federal income tax returns. Thus, in July 2020, payments associated with annual returns of $501.9 million were $492.5 million above such payments in July 2019;[8] PIT GRF revenue for the month was $550.1 million (87.3%) above receipts in July 2019.

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

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

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. The income tax filing delay introduced some volatility in the monthly trends of most PIT components. However, this volatility for payments with annual returns and for refunds is expected to decrease in the coming months as taxpayers continue to file tax year 2019 tax returns.

September PIT revenue to the GRF of $888.0 million was $12.1 million (1.3%) below anticipated revenue. Gross collections were $13.9 million (1.4%) above target. Though employer withholding was $4.0 million below projection, the remaining components had positive variances: $8.6 million for quarterly estimated payments, $4.1 million for payments associated with annual returns, $3.9 million for trust payments, and $1.2 million for miscellaneous payments. Refunds were $23.1 million above estimates, more than offsetting the positive variance for gross collections. In addition, LGF distributions were $2.9 million higher than their expected level.

For FY 2021, 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 $51.2 million above projections. Quarterly estimated payments and trust payments were above their respective projections by $52.7 million and $13.9 million. Those positive variances were partially offset by shortfalls of $9.4 million for payments due with annual returns, $3.1 million for miscellaneous payments, and $2.9 million for employer withholding. Refunds were $47.4 million below estimate, but LGF distributions were above expectation by $14.4 million, thus resulting in a YTD positive variance of $84.2 million for the GRF.

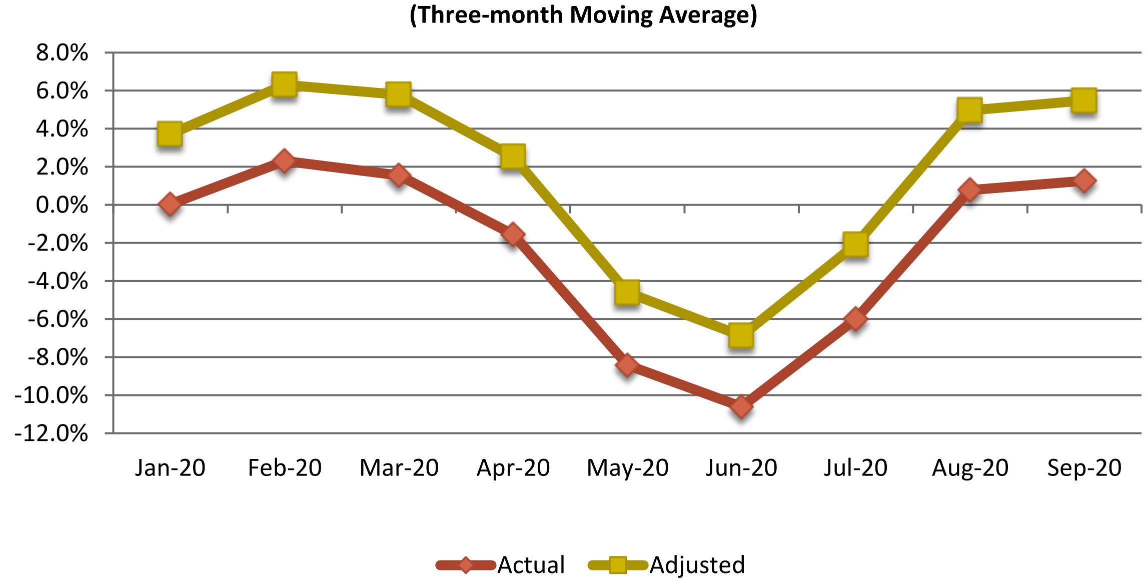
Compared to the corresponding period last year, first-quarter gross collections grew $809.8 million, driven by an increase of $595.2 million from payments due with annual returns. In addition, quarterly estimated payments, trust payments, and employer withholding increased by $144.2 million, $45.4 million, and $28.2 million, respectively. However, miscellaneous payments were $3.2 million lower than in FY 2020. Year-over-year growth in withholding receipts in calendar year (CY) 2020 is limited because of a 4.0% reduction in withholding rates effective January 2020 due to H.B. 166's reduction of income tax rates for nonbusiness income. FY 2021 refunds and LGF distributions were higher than those in FY 2020 by $169.3 million and $16.9 million, respectively. Therefore, growth in PIT GRF revenue totaled $623.7 million relative to YTD receipts in FY 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.

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	-$2.9	-0.1%	$28.2	1.3%
Quarterly Estimated Payments	$52.7	15.4%	$144.2	57.5%
Trust Payments	$13.9	30.7%	$45.4	327.9%
Annual Return Payments	-$9.4	-1.4%	$595.2	1154.8%
Miscellaneous Payments	-$3.1	-17.3%	-$3.2	-17.4%
Gross Collections	$51.2	1.5%	$809.8	31.7%
Less Refunds	-$47.4	-12.4%	$169.3	101.3%
Less LGF Distribution	$14.4	13.4%	$16.9	16.0%
GRF PIT Revenue	$84.2	3.0%	$623.7	27.3%

The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts in FY 2021 and estimated withholding receipts adjusted for the decrease in the withholding tax rate. Payrolls are estimated to have increased about 5.5%, on average, in the first quarter of FY 2021, after their low point in the spring quarter.

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



Commercial Activity Tax

September receipts to the GRF from the CAT were $15.6 million, an amount $8.5 million (119.1%) above estimate, bringing the YTD negative variance for this tax source to $23.5 million (6.3%), down from $32.0 million in the first two months. For the quarter, GRF receipts from CAT taxpayers were $347.6 million, $51.8 million (13.0%) below revenue in FY 2020 through September. The first payment from quarterly CAT taxpayers in August, based on taxable gross receipts from April to June 2020, was short of estimate by $30.4 million (9.9%). September is not a big month for the CAT, but the monthly revenue partially reduced a good portion of the August deficit. First-quarter gross collections totaled $505.8 million, a decrease of $51.0 million (10.1%), relative to gross collections in FY 2020 through September. Refunds and credits were $32.6 million, an increase of $10.5 million (32.1%) above those items in FY 2020. Revenue credited to the Revenue Enhancement Fund (Fund 2280) was $3.3 million. (Moneys in the fund help defray Ohio Department of Taxation costs of administering the CAT and other taxes.)

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%). First-quarter distributions were $53.2 million and $8.2 million, respectively. The distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are generally transferred back to the GRF.

Cigarette and Other Tobacco Products Tax

YTD through September, FY 2021 revenue from the cigarette and other tobacco products (OTP) tax totaling $196.0 million was above estimate by $23.5 million (13.6%). This total included $169.7 million from the sale of cigarettes and $26.3 million from the sale of OTP. For the month of September, receipts from this tax source of $89.9 million were $16.1 million (21.8%) above estimate and $9.9 million (12.4%) above revenue in September 2019.

FY 2021 first-quarter receipts grew $16.6 million (9.3%) relative to revenues in the first quarter of FY 2020. Receipts from cigarette sales and OTP sales increased by $11.0 million (6.9%) and $5.6 million (27.3%), 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. Of total receipts in FY 2020 of $82.4 million from the sale of OTP, the new tax on vapor products contributed $3.6 million, according to the Ohio Department of Taxation.

On a yearly basis, revenue from the cigarette tax usually trends downward, generally at a slow pace. However, that historical trend has been suspended in the last six months. Through March in FY 2020, receipts from the sales of cigarette stamps were 2.2% below such revenue in the first nine months of FY 2019. In the April to June 2020 quarter, those receipts were flat compared to receipts in the same quarter in FY 2019, and FY 2021 first-quarter receipts from the cigarette base were unusually strong. Revenue increased by $1.6 million in July, $1.0 million in August, and $8.3 million in September 2020, relative to the corresponding months in FY 2020. The COVID-19 pandemic may have modified recent purchasing patterns and behavior: smokers are spending less on travel and entertainment during the pandemic and thus have more disposable income for cigarettes. Fewer social interactions and more time at home allow for more tobacco use occasions. Also, some smokers may also have switched back to traditional cigarettes due to recent federal restrictions on e-cigarette flavors.

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) grows with OTP price increases.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of September 2020
($ in thousands)
(Actual based on OAKS reports run October 6, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$669,146	$750,194	-$81,048	-10.8%
Higher Education	$196,351	$194,400	$1,951	1.0%
Other Education	$7,956	$9,481	-$1,526	-16.1%
Total Education	**$873,453**	**$954,075**	**-$80,622**	**-8.5%**
Medicaid	$1,303,977	$1,488,036	-$184,059	-12.4%
Health and Human Services	$98,373	$97,838	$536	0.5%
Total Health and Human Services	**$1,402,351**	**$1,585,874**	**-$183,523**	**-11.6%**
Justice and Public Protection	$189,201	$196,030	-$6,829	-3.5%
General Government	$27,793	$43,227	-$15,434	-35.7%
Total Government Operations	**$216,994**	**$239,257**	**-$22,263**	**-9.3%**
Property Tax Reimbursements	$358,510	$300,767	$57,743	19.2%
Debt Service	$237,970	$240,038	-$2,068	-0.9%
Total Other Expenditures	**$596,480**	**$540,805**	**$55,675**	**10.3%**
Total Program Expenditures	**$3,089,278**	**$3,320,011**	**-$230,733**	**-6.9%**
Transfers Out	**$670**	**$0**	**$670**	**---**
Total GRF Uses	**$3,089,948**	**$3,320,011**	**-$230,063**	**-6.9%**

*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 September 30, 2020
($ in thousands)
(Actual based on OAKS reports run October 6, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Primary and Secondary Education	$2,395,750	$2,470,100	-$74,350	-3.0%	$2,176,112	10.1%
Higher Education	$566,239	$572,620	-$6,382	-1.1%	$541,734	4.5%
Other Education	$25,379	$25,541	-$162	-0.6%	$31,651	-19.8%
Total Education	**$2,987,367**	**$3,068,261**	**-$80,894**	**-2.6%**	**$2,749,497**	**8.7%**
Medicaid	$5,265,222	$5,381,234	-$116,012	-2.2%	$4,158,325	26.6%
Health and Human Services	$329,919	$350,051	-$20,132	-5.8%	$297,636	10.8%
Total Health and Human Services	**$5,595,142**	**$5,731,285**	**-$136,144**	**-2.4%**	**$4,455,961**	**25.6%**
Justice and Public Protection	$682,021	$711,151	-$29,130	-4.1%	$630,320	8.2%
General Government	$102,633	$123,210	-$20,578	-16.7%	$111,008	-7.5%
Total Government Operations	**$784,653**	**$834,361**	**-$49,708**	**-6.0%**	**$741,328**	**5.8%**
Property Tax Reimbursements	$498,980	$546,433	-$47,453	-8.7%	$601,005	-17.0%
Debt Service	$411,621	$413,690	-$2,068	-0.5%	$761,147	-45.9%
Total Other Expenditures	**$910,601**	**$960,123**	**-$49,521**	**-5.2%**	**$1,362,152**	**-33.1%**
Total Program Expenditures	**$10,277,763**	**$10,594,030**	**-$316,267**	**-3.0%**	**$9,308,938**	**10.4%**
Transfers Out	**$411,398**	**$436,900**	**-$25,502**	**-5.8%**	**$656,601**	**-37.3%**
Total GRF Uses	**$10,689,161**	**$11,030,930**	**-$341,769**	**-3.1%**	**$9,965,540**	**7.3%**

*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 October 8, 2020)

	Month of September 2020				Year to Date through September 2020			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,251,435	$1,433,518	-$182,083	-12.7%	$5,093,640	$5,203,502	-$109,861	-2.1%
Non-GRF	$908,369	$837,520	$70,849	8.5%	$2,115,151	$2,160,690	-$45,538	-2.1%
All Funds	$2,159,804	$2,271,039	-$111,235	-4.9%	$7,208,792	$7,364,192	-$155,400	-2.1%
Developmental Disabilities								
GRF	$43,798	$43,139	$659	1.5%	$146,767	$146,817	-$51	0.0%
Non-GRF	$264,268	$189,818	$74,450	39.2%	$710,477	$629,052	$81,425	12.9%
All Funds	$308,066	$232,957	$75,110	32.2%	$857,244	$775,870	$81,374	10.5%
Job and Family Services								
GRF	$7,924	$10,392	-$2,468	-23.7%	$21,974	$27,739	-$5,765	-20.8%
Non-GRF	$13,946	$15,256	-$1,310	-8.6%	$40,003	$46,826	-$6,823	-14.6%
All Funds	$21,870	$25,648	-$3,778	-14.7%	$61,977	$74,565	-$12,588	-16.9%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$820	$987	-$167	-16.9%	$2,842	$3,176	-$334	-10.5%
Non-GRF	$1,328	$2,460	-$1,133	-46.0%	$9,039	$10,668	-$1,629	-15.3%
All Funds	$2,147	$3,447	-$1,300	-37.7%	$11,880	$13,844	-$1,964	-14.2%
All Departments:								
GRF	**$1,303,977**	**$1,488,036**	**-$184,059**	**-12.4%**	**$5,265,222**	**$5,381,234**	**-$116,012**	**-2.2%**
Non-GRF	**$1,187,911**	**$1,045,054**	**$142,856**	**13.7%**	**$2,874,670**	**$2,847,236**	**$27,434**	**1.0%**
All Funds	**$2,491,888**	**$2,533,090**	**-$41,202**	**-1.6%**	**$8,139,893**	**$8,228,471**	**-$88,578**	**-1.1%**

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

Table 6: All Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on October 8, 2020)

	Month of September 2020				Year to Date through September 2020			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,662,764**	**$1,732,814**	**-$70,050**	**-4.0%**	**$5,158,380**	**$5,220,652**	**-$62,271**	**-1.2%**
CFC†	$602,334	$606,123	-$3,789	-0.6%	$1,830,152	$1,873,690	-$43,538	-2.3%
Group VIII	$501,134	$542,089	-$40,955	-7.6%	$1,527,436	$1,530,746	-$3,310	-0.2%
ABD†	$251,567	$256,333	-$4,766	-1.9%	$756,230	$761,002	-$4,773	-0.6%
ABD Kids	$80,532	$82,537	-$2,004	-2.4%	$242,336	$244,320	-$1,984	-0.8%
My Care	$237,099	$245,732	-$8,633	-3.5%	$721,760	$730,393	-$8,633	-1.2%
P4P†	-$9,903	$0	-$9,903	---	$80,466	$80,500	-$34	0.0%
Fee-For-Service	**$667,521**	**$619,791**	**$47,730**	**7.7%**	**$2,523,234**	**$2,507,396**	**$15,838**	**0.6%**
ODM Services	$320,316	$346,583	-$26,267	-7.6%	$1,066,296	$1,111,778	-$45,482	-4.1%
DDD Services	$304,060	$227,993	$76,067	33.4%	$834,278	$751,151	$83,127	11.1%
Hospital - HCAP&Other†	$43,146	$45,215	-$2,070	-4.6%	$622,660	$644,466	-$21,807	-3.4%
Premium Assistance	**$94,601**	**$94,003**	**$598**	**0.6%**	**$249,263**	**$246,194**	**$3,069**	**1.2%**
Medicare Buy-In	$59,825	$58,990	$835	1.4%	$179,367	$175,828	$3,539	2.0%
Medicare Part D	$34,776	$35,013	-$237	-0.7%	$69,896	$70,366	-$470	-0.7%
Administration	**$67,002**	**$86,483**	**-$19,481**	**-22.5%**	**$209,016**	**$254,229**	**-$45,213**	**-17.8%**
Total	**$2,491,888**	**$2,533,090**	**-$41,202**	**-1.6%**	**$8,139,893**	**$8,228,471**	**-$88,578**	**-1.1%**

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

†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program; P4P - Pay For Performance

Detail may not sum to total due to rounding.

Expenditures[10]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

FY 2021 GRF program expenditures totaled $10.28 billion at the end of September. These expenditures were $316.3 million (3.0%) below the estimate released by OBM in early September 2020. The program category with the largest negative variance was Medicaid, which had a negative YTD GRF variance of $116.0 million (2.2%) as a result of a negative variance of $184.1 million (12.4%) in September more than offsetting a positive variance of $68.0 million in August. Primary and Secondary Education had the second largest negative YTD variance at $74.4 million (3.0%), which, like Medicaid, was caused by a negative September variance ($81.0 million, 10.8%) more than offsetting a positive August variance ($6.7 million, 0.7%). Property Tax Reimbursements had the third largest negative YTD variance at $47.5 million (8.7%), despite a positive September variance of $57.7 million (19.2%). All other program categories also had negative YTD variances at the end of September. YTD variances are shown in the preceding Table 4, while Table 3 shows September variances.

In addition to program expenditures, total uses include transfers out. Transfers out totaled $411.4 million YTD and had a negative YTD variance of $25.5 million (5.8%) at the end of September. Combining program expenditures and transfers out, total GRF uses for FY 2021 were $10.69 billion at the end of September. These uses were $341.8 million (3.1%) below estimate. The rest of this section discusses both GRF and non-GRF variances in Medicaid and the GRF variances in Primary and Secondary Education and Property Tax Reimbursements.

Medicaid

GRF Medicaid expenditures were below their monthly estimate in September by $184.1 million (12.4%) and below their YTD estimate by $116.0 million (2.2%) at the end of September. Non-GRF Medicaid expenditures were above their monthly estimate, by $142.9 million (13.7%), which brought the YTD expenditures to $27.4 million (1.0%) above estimate. Including both the GRF and non-GRF, all funds Medicaid expenditures were $41.2 million (1.6%) below estimate in September and $88.6 million (1.1%) below their YTD estimate at the end of September.

The impact of the COVID-19 pandemic began to show in March's Medicaid caseloads, and the impacts have continued to show through monthly caseload increases since March. From March through September of 2020, caseloads have increased by 39,400 cases per month, on average. According to the Ohio Department of Medicaid (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

[10] This report compares actual monthly and YTD expenditures from the GRF to OBM's estimates. If a program category's actual expenditures were higher than estimate, that program category is deemed to have a positive variance. The program category is deemed to have a negative variance when its actual expenditures were lower than estimate.

pandemic. Based on FY 2021 ODM estimates, September's caseload of 3.1 million enrollees is approximately 80,700 cases (2.6%) below estimate.

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 99.0% 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 September of $111.2 million (4.9%) and YTD expenditures were also below estimate, with a negative variance of $155.4 million (2.1%). ODODD had an all funds positive variance of $75.1 million (32.2%) in September and ended September with a YTD positive variance of $81.4 million (10.5%). 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 1.0% 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 Managed Care and Administration by $62.3 million (1.2%) and $45.2 million (17.8%), respectively. Fee-For-Service (FFS) YTD expenditures were above estimate by $15.8 million (0.6%), and Premium Assistance YTD expenditures were above estimate by $3.1 million (1.2%).

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's negative September variance of $81.0 million (10.8%) more than offset its positive August variance of $6.7 million (0.7%), resulting in a negative YTD variance of $74.4 million (3.0%). The category's negative September variance was caused mainly by variances of $48.2 million in appropriation item 200550, Foundation Funding, and $30.7 million in appropriation item 200573, EdChoice Expansion. The variances in both of these items were caused by a timing issue related to scholarship payments and should be reversed in future months.

Property Tax Reimbursements

This category of GRF expenditures reimburses school districts and other local governments for their property tax losses due to property tax rollbacks and the homestead exemption. Reimbursements are made twice a year. The current payment is based on a property tax settlement conducted in August. Reimbursements will be made as counties request them through December. Since payments are made at the request of the counties, this category often has variances at the beginning of a cycle that are offset as the cycle draws to a close. At the end of August, this category was under estimate by $105.2 million (42.8%). A positive variance of $57.7 million (19.2%) in September partially offset August's variance, resulting in a negative YTD variance of $47.5 million (8.7%) at the end of September, which should decrease even more by the end of the calendar year.

Issue Updates

ODE Awards $50 Million in BroadbandOhio Connectivity Grants

– Jason Glover, Budget Analyst

On September 2, 2020, ODE released the list of awardees for the $50.0 million BroadbandOhio Connectivity Grant Program. Nearly 950 schools were awarded funds ranging from $500 to just over $150,000. The table below shows the total award amounts by school type. As the table shows, 470 traditional school districts received approximately $30.1 million (60.1%). Next, 266 community and STEM schools received $12.5 million (25.0%), followed by 151 chartered nonpublic schools at $4.8 million (9.6%), 35 joint vocational school districts (JVSDs) at $1.8 million (3.6%), and 27 education service centers (ESCs) and county developmental disabilities (DD) boards at $870,000 (1.7%). Schools were required to apply to ODE to receive the funds. Eligible grant requests of less than $20,000 were approved for the full amount. However, due to high demand, eligible requests over $20,000 were prorated at 60% of the difference between $20,000 and the requested amount.

The BroadbandOhio Connectivity Grant Program uses $50 million of Ohio's CARES Act Coronavirus Relief Fund (Fund 5CV1) resources, approved by the Controlling Board in late July, to help schools with the costs of remote learning. The program focuses on the following eligible student groups: economically disadvantaged students, students defined by ODE as "vulnerable" youth, those with chronic conditions, and students who do not have other access to the internet. More specifically, grant funds may be used for home internet, hotspot/MiFi with a service plan, mobile hotspots (including on buses), public Wi-Fi infrastructure, and other technology that provides a connection for the student.

BroadbandOhio Connectivity Grant Funding by School Type		
School Type	**Number of Awardees**	**Total Allocations**
Traditional School Districts	470	$30,052,586
Community and STEM Schools	266	$12,495,134
Chartered Nonpublic Schools	151	$4,790,869
Joint Vocational School Districts	35	$1,777,149
ESCs and County DD Boards	27	$866,861
Total	**949**	**$49,982,599**

U.S. Department of Defense Awards the State $5.0 Million for Defense Manufacturing

– Shannon Pleiman, Senior Budget Analyst

On September 17, 2020, the U.S. Department of Defense (DoD) awarded a $5.0 million grant to the Development Services Agency (DSA) to improve defense manufacturing processes in the state. The grant will be administered under DSA's existing Ohio Manufacturing Extension Partnership (MEP) Program and will be awarded to ten MEP partners as shown in the table below.

The first seven recipients listed in the table will use the grant funding to engineer and implement "Industry 4.0" and advanced manufacturing technology at small- to medium-sized defense manufacturers. Industry 4.0 refers to the use of interconnected digital technologies in the manufacturing process, or the "internet of things." The remaining three recipients will use the award money to develop workforce credentials and training for Industry 4.0 equipment and production process needs. Altogether, these organizations will use this funding over the next three years to (1) undertake at least 26 advanced manufacturing projects, (2) credential at least 400 new workers in advanced manufacturing, and (3) create at least 50 new products and 20 new manufacturers in the defense supply chain.

Defense Manufacturing Grant by MEP Program (Total: $5,000,000)			
MEP Partner	**Total Grant Amount**	**MEP Partner**	**Total Grant Amount**
FASTLANE	$600,000	Ohio Aerospace Institute	$300,000
Manufacturing Advocacy and Growth Network	$600,000	Ohio State University – Center for Design and Manufacturing Excellence	$300,000
TechSolve	$600,000	Ohio Manufacturing Association	$1,400,000
Center for Innovative Food Technology	$300,000	America Makes	$300,000
Columbus State Community College	$300,000	Lorain County Community College and Automation and Robotics Manufacturing Institute	$300,000

The federal grant is in response to the state being designated by DoD as a Defense Manufacturing Community on August 16, 2020. The purpose of the designation is to support long-term community investments that strengthen national security innovation and expand the capabilities of defense manufacturing. In order for the state to receive the grant, a 25% match was required (approximately $1.3 million) which brings the total funding for the initiative to $6.3 million. The matching funds are supported by $650,000 in state funds and $600,000 in program income and partner contributions. The $650,000 in state funds will be paid from GRF line item 195499, BSD Federal Programs Match, which provides state matching funds for federal programs, including the MEP Program.

Ohio Receives $96.2 Million State Opioid Response Grant

– Ryan Sherrock, Economist

On August 21, 2020, the Ohio Department of Mental Health and Addiction Services (OhioMHAS) announced that it received a $96.2 million federal State Opioid Response (SOR) grant. SOR grant funds are used by states to combat the ongoing opioid epidemic. Specifically, these funds will be used to increase access to medication-assisted treatment, reduce unmet treatment need, and reduce overdose deaths through the provision of prevention, treatment, and recovery supports for opioid use disorder. In addition, funds will be used to support evidence-based prevention, treatment, and recovery support services for stimulant drugs, including cocaine and methamphetamine, to address a rise in their usage. OhioMHAS estimates that 20,000 Ohioans will receive services through these grant funds. In addition, OhioMHAS will build and engage local and regional community partnerships to scale-up local supports necessary for recovery.

These grant funds were awarded by the U.S. Substance Abuse and Mental Health Services Administration as part of the 21st Century CARES Act. The total amount of funding available was $1.42 billion. States and territories received an award based on a formula that considered (1) the proportion of state residents who meet criteria for dependence or abuse of heroin or pain relievers, but have not received any treatment and (2) the proportion of drug poisoning deaths in the state. Additionally, 15% of the funds were set-aside for the ten states with the highest mortality rates related to drug poisoning deaths. These states include Ohio, as well as Delaware, Kentucky, Maryland, Massachusetts, New Hampshire, New Jersey, Pennsylvania, Washington D.C., and West Virginia.

This was the third round of SOR funding awarded. In total, Ohio has received $235.1 million since the program's inception in 2018. Past and current Ohio SOR efforts include expanding prevention efforts related to naloxone distribution, increasing access to medication-assisted treatment and recovery housing, and developing employment opportunities for persons in recovery from opioid addiction.

Ohio Department of Medicaid Files Rules to Make Expanded Access to Telehealth Permanent

– Nelson V. Lindgren, Economist

On August 31, 2020, ODM filed a rule with the Joint Committee on Agency Rule Review (JCARR) to expand access to telehealth. This rule would make permanent the emergency rules regarding telehealth, which were issued in March in response to the COVID-19 pandemic.[11] The rule expands the type of providers eligible to render telehealth services to include supervised practitioners (e.g., trainees and aides), Medicaid School Program providers, audiologists, speech-language pathologists, occupational therapists, physical therapists, home health and private duty nurses in home health or hospice settings, dentists, dietitians, behavioral health practitioners, and optometrists. The rule also provides fewer restrictions on patient and provider site locations.

[11] Executive Order 2020-05D specified that these rules would become effective immediately, March 19, 2020. The order was to expire 120 days from the effective date of the emergency rules or upon the adoption of the rules through the normal JCARR process, whichever is sooner.

In addition, the rule requires providers who utilize telehealth to include a modifier that reflects the physical location of the patient and a place of service code that reflects the physical location of the treating provider. ODM states that this is being done, in part, to improve access to care. Between March 19 and September 1, 2020, more than 625,000 Medicaid members have used telehealth services. Only 5,000 telehealth claims were submitted prior to the COVID-19 pandemic.

This rule is scheduled for a hearing before JCARR on October 1, 2020, and according to ODM, is on track to become effective as the current emergency rules expire. Thus, if approved, expanded telehealth access will be continued throughout the remainder of the COVID-19 pandemic and beyond, assuming continued federal flexibility.

Motor Fuel Tax Revenue Increased by $650 Million (33.6%) in FY 2020, Although Consumption Decreased Due to COVID-19

– Tom Middleton, Senior Budget Analyst

– Eric Makela, Economist

Motor fuel tax (MFT) revenue increased $650 million (33.6%) in FY 2020, although consumption decreased, as indicated in the table below. This increase was due to MFT rate increases enacted in H.B. 62 of the 133rd General Assembly, the transportation budget bill for the FY 2020-FY 2021 biennium. H.B. 62 increased the MFT rate by 10.5 cents per gallon for gasoline and by 19 cents per gallon for other fuels, including diesel.[12] The increases became effective on July 1, 2019, the start of FY 2020.

Motor Fuel Purchases and MFT Paid				
	Taxable Fuel Purchases (millions of gallons)		Motor Fuel Taxes Paid ($ in millions)	
Fiscal Quarter	FY 2020	% Change from FY 2019	FY 2020	% Change from FY 2019
Q1	1,780.3	-1.1%	$714.9	43.0%
Q2	1,705.3	-3.3%	$684.5	40.0%
Q3	1,559.3	-4.1%	$631.8	40.0%
Q4	1,377.1	-23.0%	$556.8	12.1%
Total	**6,422.0**	**-8.0%**	**$2,588.0**	**33.6%**

Source: Ohio Department of Taxation MVR Reports

[12] Taxable fuel includes gasoline, kerosene, diesel, compressed natural gas, and any other liquid that can be used to fuel combustion engines. Year to year, about 75% of MFT revenue is derived from the purchase of gasoline, about 25% is from diesel, and around 0.1% is from other fuels.

Fuel consumption declined slightly through the first three quarters of FY 2020, compared to FY 2019, but dropped precipitously (-23%) in the last quarter of FY 2020 largely due to the COVID-19 pandemic reducing travel demands. Nationally during this quarter, inflation-adjusted consumer spending on motor vehicle fuels, lubricants, and fluids reached its lowest quarterly record since 1986.[13]

Of all MFT revenue, about 60% is used by the Ohio Department of Transportation for state road projects and to pay off highway bond debt, about 35% is allocated to political subdivisions by formula for local road and bridge projects, and about 5% is distributed to other state agencies for transportation-related purposes.

State Debt Refinancing Frees $363.6 Million in FY 2021 Budget

– Eric Makela, Economist

During the month of June 2020, OBM announced the issuance of $780 million of general obligation (GO) bonds. The Series 2020A and Series 2020B bonds, issued by the Ohio Public Facilities Commission (OPFC), refinanced previously issued bonds at lower interest rates; the move freed an additional $363.6 million in cash flow during FY 2021.[14]

As shown in the table below, the OPFC bonded debt service due for all programs in FY 2021 was $1.14 billion prior to the June sale and $775.7 million after the bonds were refinanced.[15] The table displays estimated debt service from OPFC bonded debt from FY 2021 to FY 2039 before and after OPFC's debt restructuring in June, as well as the estimated effects on GRF debt service expenditures during this period. Scheduled debt service payments for several years between FY 2022 and FY 2039 increase due to the refinancing, but by less than the FY 2021 savings, resulting in a reduction in debt service paid during fiscal years 2021 through 2039 of $111.2 million.

The refunding bonds covered three different categories of debt usage: higher education, common schools, and infrastructure improvement. A total of $292.5 million of bonds were issued to refund previous debt issued for higher education facilities; approximately $271.8 million of bonds were issued to refund debt incurred for common school capital investment; approximately $215.8 million of bonds were issued to refund debt previously taken on to fund general public facilities capital projects.[16] The refunded, or retired, debt was issued between 2009 and 2018.

[13] Based on consumer expenditure data from the Bureau of Economic Analysis and compiled by IHS Markit.

[14] https://obm.ohio.gov/wps/portal/gov/obm/home/news-and-events/news-release-2020-06-29.

[15] Source: Ohio Office of Budget and Management.

[16] Subtotals may not add to total due to rounding.

GRF Debt Service for OPFC Bonded Debt ($ in millions)*			
Fiscal Year	Prior to Refunding Bonds	After Refunding Bonds	Change in GRF Debt Service Expenditure
2021	$1,139.4	$775.7	-$363.6
2022	$1,072.9	$1,074.1	$1.1
2023	$984.7	$985.8	$1.1
2024	$847.2	$912.1	$65.0
2025	$746.0	$847.1	$101.0
2026	$655.9	$702.6	$46.7
2027	$567.1	$599.0	$31.9
2028	$543.6	$538.7	-$4.9
2029	$519.1	$512.4	-$6.7
2030	$493.5	$494.2	$0.7
2031	$489.1	$492.4	$3.3
2032	$431.4	$434.7	$3.3
2033	$345.6	$347.4	$1.8
2034	$307.7	$309.5	$1.8
2035	$255.9	$257.7	$1.8
2036	$228.7	$230.6	$1.8
2037	$194.2	$195.6	$1.3
2038	$134.0	$134.9	$0.9
2039	$73.1	$73.5	$0.4
Total	**$10,029.1**	**$9,917.9**	**-$111.2**

*Sums and differences may not total due to rounding.

Controlling Board Approves Attorney General Appropriation Increase for Federal Anti-Heroin Task Force Program Grants

– Jessica Murphy, Budget Analyst

On September 14, 2020, the Controlling Board approved a request from the Ohio Attorney General to appropriate an additional $2.5 million in FY 2021 to use two federal Community Oriented Policing Services (COPS) Anti-Heroin Task Force (AHTF) Program grants awarded subsequent to the enactment of the FY 2020-FY 2021 biennial budget.

The Attorney General's Organized Crime Investigations Commission is using the grants for investigative purposes to locate or investigate illicit activities, including activities related to the distribution of heroin, fentanyl, carfentanil, or other opioids, the unlawful distribution of prescription opioids, or unlawful diversion and distribution of prescription opioids. The Commission authorizes task forces to investigate organized criminal activity that crosses city, township, and county borders and to provide related technical, administrative, and prosecutorial support.

The two COPS AHTF Program grants received by the Commission total $5.2 million: $1.5 million awarded in 2019 and $3.7 million awarded in 2020. The awards are for 24 months and 36 months in duration, respectively. There is no required state match. The funding is not intended for treatment programs or prosecution of heroin and other opioid-related activities. The competition for the grants was limited to state law enforcement agencies with high rates of primary treatment admissions for heroin, fentanyl, carfentanil, or other opioids.

ODE Awards $46 Million in 21st Century Community Learning Center Grants

– Alexander Moon, Economist

In August 2020, ODE awarded $46.3 million in new and continuing grants for FY 2021 to 260 schools and community-based organizations under the 21st Century Community Learning Centers (21CCLC) Grant Program. This federally funded program awards grants to support community learning centers that provide academic enrichment services during nonschool hours or extended learning time as part of the school day, particularly for students in low-performing, high-poverty schools. In this latest round of funding, ODE awarded grants for 42 new programs and 218 continuing programs, totaling $8.4 million and $37.9 million, respectively.

ODE distributes 21CCLC grant funds to recipients for a five-year period with a maximum of $200,000 per year for the first three years of the program and gradually reduced maximum amounts for the last two years as recipients must transition to other resources to sustain the program after the 21CCLC grant expires. Also, to continue receiving a grant, recipients must annually submit program data to ODE and undergo periodic evaluations of the program's effectiveness. Nearly all of the 42 new grantees received the maximum $200,000 in funding for this year. Cuyahoga County is home to the largest number of new recipients, with seven, followed by Hamilton (4), Stark (3), and Montgomery (3) counties. To see the full list of grant recipients, visit education.ohio.gov and search for "21st Century Community Learning Centers."

Ohio National Guard Extends Operation Steady Resolve into December 2020

– Shaina Morris, Budget Analyst

On September 17, 2020, the Ohio National Guard announced the continuation of Operation Steady Resolve, the name given its COVID-19 related missions, through December 2020. From the time that the Governor activated the Ohio National Guard under U.S. Code Title 32 in March until August 31, 2020, Ohio was authorized to be reimbursed by the federal government at 100% of its mission costs to respond to COVID-19 and to "facilitate economic recovery."[17] In August, a presidential order continued funding, but at a cost share of 75% and for costs associated with " . . . emergency assistance activities associated with preventing, mitigating, and responding to the threat to public health and safety posed by the virus . . . " undertaken by the National Guard. These funds are provided by the Federal Emergency Management Agency (FEMA) of the U.S. Department of Homeland Security and authorized through December 31, 2020. The Ohio National Guard's COVID-19 response has also received CARES Act funding to support payroll and other expenses.

More than 400 Guard and State Defense Force members were initially activated in March to assist with the rising demand for food bank services resulting from the COVID-19 pandemic and increased unemployment. Operation Steady Resolve will continue into December with about 350 Guard members assisting 14 food bank locations and warehouses across the state. This mission serves all 88 counties. Since activation, the Ohio National Guard has packed more than 43 million pounds of food and distributed more than 50 million pounds of food, as well as assisted in providing more than 700,000 meals to citizens in need throughout the state.

In addition to the food bank mission, the Ohio National Guard is assisting community pop-up COVID-19 testing centers, transporting sample collections to laboratories, providing personal protective equipment warehousing and logistics, and providing quick response medical teams for temporary assistance at nursing home facilities. Previous missions related to the pandemic have included collaborating with regional partners to identify and develop alternate care sites to expand medical capacity and to provide medical and operational support at state and federal prisons.

[17] Activation under U.S. Code Title 32 means that the state's Governor has been authorized or directed by the President to mobilize or activate the National Guard. The National Guard personnel are on active duty under state control, but with pay and benefits provided by the federal government.

Tracking the Economy

– Eric Makela, Economist

– Phil Cummins, Senior Economist

Overview

The national economy continued to show signs of improving health in September. The pace of recovery has slowed. Nonfarm payroll employment increased by 661,000 in September. American employers have 22.7% of employed persons working remotely. Industrial production, as measured by the Federal Reserve Board's (FRB's) industrial production index (IPI), was up 0.4% in August, the fourth consecutive month of expansion. Gross domestic product adjusted for inflation (real GDP) decreased at a 31.4% annual rate in the second quarter of 2020, according to the Bureau of Economic Analysis (BEA).

Ohio employers added 45,500 nonfarm payroll workers in August, and the state's unemployment rate edged down to 8.9%; employment totals generally rose across industries. The state's real GDP fell at an annualized rate of 33.0% in the second quarter of 2020 in response to COVID-19 and its fallout, leading to a sharp drop in wage income and proprietor's income during the quarter. The market for existing housing remains heated, as demand for homes remains high despite challenges posed by the pandemic, and as of August 2020 the YTD dollar volume of existing home sales in Ohio was 4.9% greater than in 2019.

The National Economy

Nonfarm payroll employment increased by 661,000 in September, and the national unemployment rate declined by 0.5 percentage point, to a seasonally adjusted 7.9%. In April, at the height of the national pandemic response, the unemployment rate stood at 14.7%. Rates of unemployment decreased among all age and racial groups during September. The seasonally adjusted number of persons in the civilian labor force decreased by 695,000 during the month.[18] The labor force participation rate declined for both men and women in September.[19] The trend in the national unemployment rate can be seen in Chart 6.

The increase in nonfarm payroll employment in September followed substantially larger increases in May through August. Nevertheless, the recovery in employment in the latest five months totaled only about half of the jobs lost in March and April. Among industries, seasonally adjusted employment growth in September in leisure and hospitality (+318,000) and retail trade (+142,000) was sizable, while employment increased in health care and social assistance (+108,000), professional and business services (+89,000), transportation and warehousing (+74,000), and manufacturing (+66,000). Government employment decreased by 216,000 in September, seasonally adjusted, mostly the result of fewer than usual employees returning to work with both local and state government education employers. Compared to September 2019, seasonally adjusted employment has decreased in the significant majority of industries. Some

[18] The civilian labor force equals employed persons plus unemployed persons who have searched for work during the previous four weeks.

[19] The labor force participation rate equals the civilian labor force divided by the civilian, noninstitutionalized adult population.

exceptions are general merchandise stores (+212,000), couriers and messengers (+111,300), and warehousing and storage (+60,600). The trend in national employment can be seen in Chart 5.

A new segment of the U.S. Census Bureau's household survey attempts to document pandemic-specific changes to work practices. In September, around 19.4 million persons reported either not working or working fewer hours because their employer lost business due to the pandemic. In addition, 22.7% of employed persons worked remotely during the month, down from 24.3% in August.

Nationally, initial and ongoing claims for unemployment insurance (UI) remain elevated but have declined significantly since the early onset of the pandemic. For the week ending October 3, a seasonally adjusted 840,000 initial unemployment claims were filed, down 9,000 from the previous week and well above the average of about 213,000 weekly claims filed from the last full week in December 2019 through March 7, 2020. Insured unemployment, a measure of the number of continued UI claims, was 11.0 million during the week ended September 26, down from a high of 24.9 million the week of May 9, and the lowest number of continued claims since March.

Real GDP decreased at an annual rate of 31.4% nationally during the second quarter of 2020, according to the third estimate released by the BEA. During the second quarter, personal consumption expenditures (PCE) on goods decreased at a seasonally adjusted annual rate of 10.8%; the most notable decreases in this spending category were in clothing and gasoline and energy goods. PCE on services decreased at a rate of 41.8% during the quarter, led by a drop in spending on health care as consumers delayed elective procedures and hospitals focused on pandemic readiness. After-tax corporate profits during the second quarter of 2020 were 18.8% lower than during the same quarter a year prior.

The FRB's Open Market Committee (FOMC) decided to keep the federal funds interest rate steady at a range between 0% and 0.25% during their most recent meeting from September 15-16. In a press release, the FOMC anticipated the committee would keep interest rates at this level until the labor market approached maximum employment and inflation had trended above 2% for a period of time. FRB members projected a drop in real GDP of between 3% and 4% in the four quarters ending in the current quarter, followed by growth between 3.6% and 4.7% in the four quarters of CY 2021, above the economy's longer-run growth trend.[20]

National industrial production, as measured by the FRB's IPI, rose by a seasonally adjusted 0.4% in August, following postcontraction growth of 1.0% in May, 6.1% in June, and 3.5% in July. In August, the total IPI was 7.7% below its level a year prior. Among major industry groups, manufacturing production increased by 1.0% in August; mining (-2.5%) and utilities (-0.4%) contracted during the month.

The manufacturing purchasing managers index, derived from a survey of manufacturers by the Institute for Supply Management, measured growth in September for the fourth consecutive month, though employment decreased at more firms than it increased. Input prices increased for the fourth straight month, and firms reported shortages of intermediate inputs such as aluminum, capacitors, and lumber.

[20] Projections derived from Table 1 of the Federal Reserve Board's "Projection Materials": https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200916.pdf.

The rise in prices for goods and services continued in August, as the consumer price index (CPI) for all items increased by 0.4% during the month. During August, the price of food increased by 0.1% while the price of energy increased by 0.9%. Prices of commodities, less food and energy commodities, increased by 1.0%, the largest monthly increase of the year. Compared with a year earlier, prices for all items were 1.3% higher in August, while prices for all items less food and energy were up 1.7% year over year.

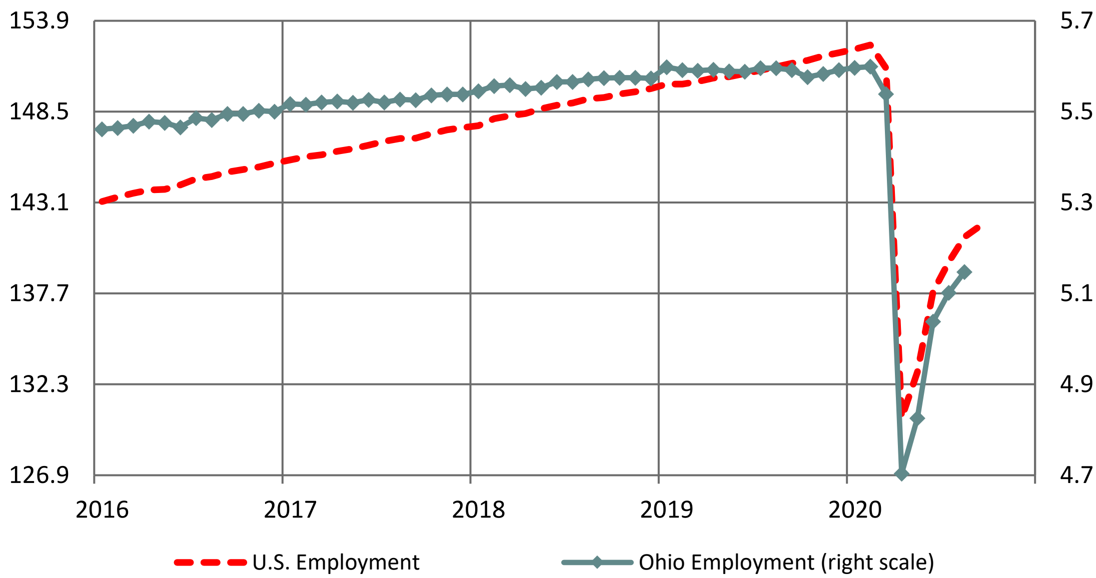


Chart 5: U.S. and Ohio Nonfarm Payroll Employment (in millions)

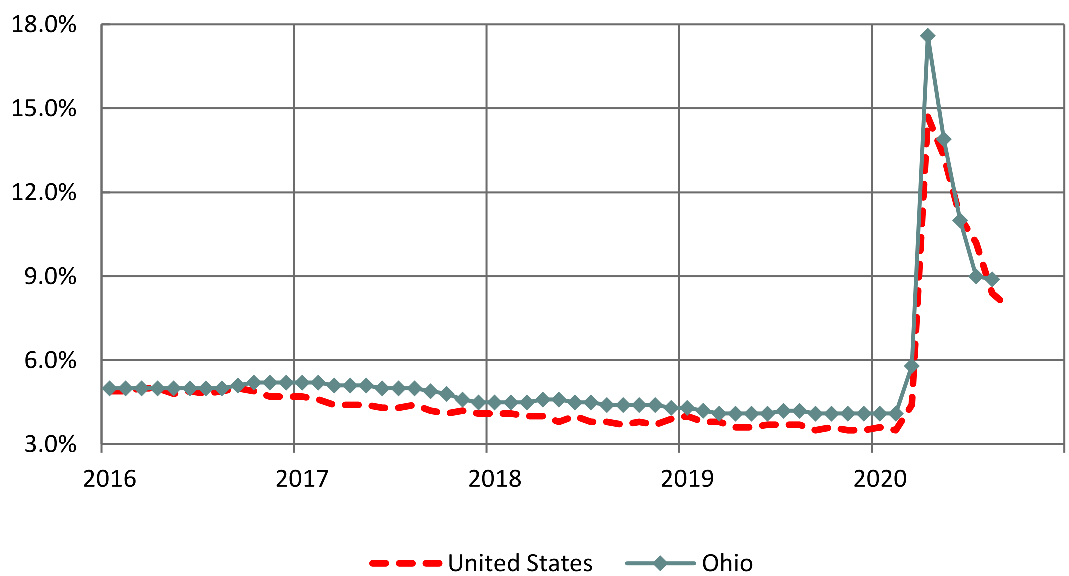


Chart 6: U.S. and Ohio Unemployment Rates % of Labor Force

The Ohio Economy

Ohio's economy added a seasonally adjusted 45,500 nonfarm payroll jobs in August, and the state unemployment rate decreased by 0.1 percentage point, to 8.9%. States with the highest unemployment rates during the month were Nevada (13.2%) and Rhode Island (12.8%). The states with the lowest unemployment rates during the month were Nebraska (4.0%) and Utah (4.1%). Ohio's unemployment rate has declined from a high of 17.6% in April, though much of the decrease occurred in the months immediately following the initial rollback of COVID-19 lockdown orders. Chart 6 displays Ohio's unemployment rate.

Nonfarm payroll employment in Ohio increased across a range of industries in August. Among private sector industries, the most job gains were measured in educational and health services (+12,300), professional and business services (+7,500), and trade, transportation, and utilities (+6,800). The seasonally adjusted number of manufacturing jobs increased by 4,500, with gains almost evenly split between durable goods (+2,300) and nondurable goods (+2,200) segments. Total job gains in the private sector in August were 37,700. Payroll employment by the federal government in Ohio increased by 8,200 in August, likely due to a rise in the number of temporary Census workers. Chart 5 shows Ohio nonfarm payroll employment.[21]

Ohio's real GDP fell at a seasonally adjusted, annualized rate of 33.0% during the second quarter of 2020, according to new data released by the BEA; the rate of contraction among all states in the Great Lakes region was 32.8%.[22] Among industries, reductions in activity in durable goods manufacturing and in health care and social assistance had the greatest impact on the measured decrease in Ohio's GDP. Shutdowns in response to the health crisis brought about economic strain across the nation, as real GDP contracted at more than a 21% rate in each state.[23]

The personal income (PI) of Ohioans increased at a seasonally adjusted annual rate of 37.8% during the second quarter of 2020, an increase in total personal income that ranked 20th among states.[24] During the first quarter of this year, PI grew at a rate of 3.6%. During the second quarter, net earnings, equal to worker compensation plus proprietors' income minus government social insurance taxes, plummeted at a 28.3% rate, while income from dividends, interest earnings from financial holdings, and rent payments decreased at an 8.5% rate. Unemployment compensation and other transfer payments soared, accounting for the overall increase in PI.

Earlier this year, Opportunity Insights, a consortium of businesses, nonprofits, and academic institutions, began collaborating to publish select indicators of economic recovery from the recent economic contraction.[25] In the week ending September 25, the number of job postings

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[21] During the COVID-19 pandemic, the Ohio Department of Job and Family Services produced a county-level count of job-posting trends by occupation and employer. The County Job Trends Report is available on the Department's website at: ohiolmi.com/Home/COVID-19.

[22] States in the Great Lakes region are Illinois, Indiana, Michigan, Ohio, and Wisconsin.

[23] The annual rate of GDP change was 20.4% in the District of Columbia.

[24] Personal income is direct income from wages and salaries, rental income, business income, income received from ownership of financial assets, and government transfers.

[25] https://tracktherecovery.org/.

was down 31.2% compared to January 4-31.[26] Opportunity Insights' measures of consumer spending suggest that, as of September 20, Ohioan's weekly spending on restaurants and hotels was down 20.5% compared to January, while spending on transportation was down 48.6%. Spending on general merchandise and groceries were up 15.4% and 20.8%, respectively, during the same time frame.[27]

According to the Ohio Association of Realtors, both the dollar value and number of transactions for existing homes were greater in August 2020 than in August 2019. The total number of existing home sales during the month was 4.2% above that a year prior, while the average sale price was 12.3% greater. Despite some logistical challenges caused by the current health crisis, the YTD dollar volume of existing home sales reached $21.2 billion in August, a 4.9% increase over 2019.

Economic Forecast Update

The table below updates the economic forecast published in this space in July. Economic weakness in this year's first half was severe, but less so than it appeared to be three months ago. Real GDP nationwide plunged at about a 31% annual rate in the April-June quarter, the sharpest fall on record but short of the 42% rate of decline anticipated at that time. Other measures of the economy in the nation and Ohio generally show similar patterns, as COVID-19-related economic shutdowns depressed activity.

The table compares the current outlook for the economy with the outlook last year, as predicted in forecasts from IHS Markit released in September of this year and in May 2019. The May 2019 predictions as well as other variables were inputs to forecasts by LBO economists of GRF revenues, for use by the legislature in enacting H.B. 166, the current biennium's main operating budget act.

As noted here three months ago, economic forecasts are inherently uncertain. This is so even in the best of times. Current uncertainty is exacerbated by the COVID-19 pandemic. Efforts to tamp down flare-ups of infections as they occur, and the extent of success in researching effective treatments and vaccines, will substantially influence the future course of sales, production, and employment

Figures shown in the table below are percent changes from the average of the four quarters in FY 2019 to that for FY 2020 and from FY 2020 to FY 2021, except that unemployment rates are averages for the four quarters of the fiscal year indicated.

On a fiscal year basis, comparing the May 2019 forecast with the September 2020 forecast, overall growth of U.S. real GDP was lower by 3.4 percentage points for FY 2020 and by 2.1 percentage points for FY 2021. Downward revisions for Ohio real GDP were 3.8 percentage points and 1.4 percentage points, respectively, for those years. Wage and salary income was also revised sharply lower for both the nation and the state, but total PI growth is estimated to have been stronger in FY 2020 than anticipated in May 2019 because of federal fiscal support through

[26] All dates in this paragraph are in reference to the year 2020.

[27] Consumer spending data for the Opportunity Insights project is based on purchase data from consumer credit and debit card purchases. As compared to data published by the BEA, the sample is smaller and is based on the state where the cardholder lives, rather than where the transaction occurs.

expanded unemployment compensation and other transfer programs. Inflation, on average, is generally below rates expected in May 2019.

Revisions to IHS Markit Economic Forecast for FY 2020 and FY 2021				
	Forecast for FY 2020 as of		Forecast for FY 2021 as of	
Variable Name (National)	May 2019	September 2020	May 2019	September 2020
U.S. real GDP growth	2.3%	-1.1%	2.0%	-0.1%
U.S. wage & salary growth	4.6%	1.7%	4.7%	2.8%
U.S. PI growth	4.3%	5.1%	5.0%	1.8%
U.S. CPI inflation	2.5%	1.6%	2.0%	1.7%
U.S. nonfarm employment growth	1.4%	-1.9%	0.9%	-1.9%
U.S. unemployment rate	3.5%	6.0%	3.5%	7.5%
	Forecast for FY 2020 as of		Forecast for FY 2021 as of	
Variable Name (Ohio)	May 2019	September 2020	May 2019	September 2020
Ohio real GDP growth	1.7%	-2.1%	1.1%	-0.3%
Ohio wage & salary growth	4.0%	0.2%	3.7%	2.1%
Ohio PI growth	4.1%	5.4%	4.2%	2.0%
Ohio nonfarm employment growth	0.9%	-3.2%	0.2%	-2.1%
Ohio unemployment rate	4.1%	6.8%	4.1%	8.1%

Chart 7 below shows the September 2020 quarterly forecast for Ohio real GDP. Quarter-to-quarter changes are shown in the chart at annual rates, for FY 2019, FY 2020, and FY 2021. BEA's initial estimate, published subsequent to the forecast shown in the chart, is that Ohio real GDP fell in the second quarter at a 33% annual rate, a smaller decline than anticipated in IHS Markit's forecast. Ohio real GDP is expected to begin recovering in FY 2021, but not to rise above its prerecession peak until the last quarter of FY 2022.

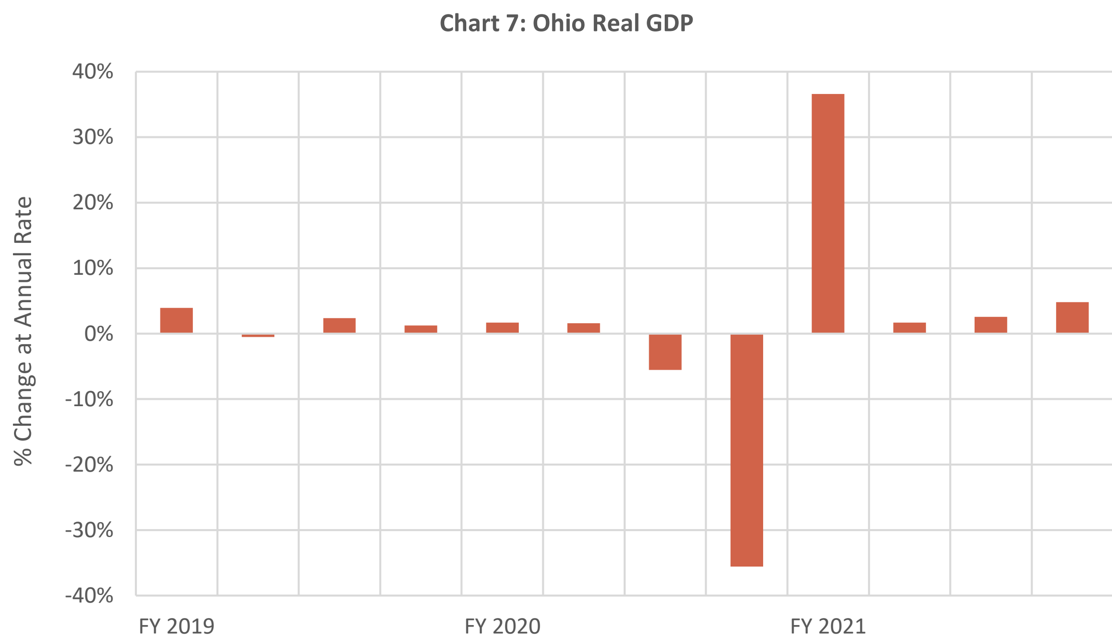
Chart 7: Ohio Real GDP
% Change at Annual Rate
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
FY 2019
FY 2020
FY 2021