LBO Budget Footnotes

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Highlights

– *Ross Miller, Chief Economist*

GRF tax receipts during July and August totaled $830 million more than was received during the first two months of FY 2020. A boost was certainly expected from the delay in the personal income tax (PIT) filing deadline from April to July, and that accounts for most of the growth – perhaps roughly $600 million. But sales tax revenue grew strongly as well, contributing $204 million in growth from FY 2020 to the current fiscal year. The only tax that was notably weak was the commercial activity tax (CAT), for which revenue was based on companies' taxable gross receipts during the April through June period so strongly affected by COVID-19 business shutdowns. When compared to the Office of Budget and Management's (OBM's) revenue estimates, released in September and which took into account the delay in the PIT filing deadline, tax revenue was $254 million above estimate for the year to date (YTD) through August 31.

Ohio's unemployment rate fell to 8.9% in July, from 11.0% in June and from 17.6% at its peak in April. Though still clearly elevated due to responses to COVID-19, Ohio's rate was over a full percentage point lower than the national rate of 10.2% in July.

Through August 2020, GRF sources totaled $7.53 billion:

- Revenue from the sales and use tax was $182.9 million above estimate;
- PIT receipts were $96.3 million above estimate.

Through August 2020, GRF uses totaled $7.60 billion:

- Program expenditures were $85.5 million below estimate, due primarily to property tax reimbursements having been $105.2 million below estimate;
- Expenditures for Medicaid were $68.0 million above estimate.

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

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$156,342	$142,200	$14,142	9.9%
Nonauto Sales and Use	$802,596	$779,600	$22,996	2.9%
Total Sales and Use	*$958,938*	*$921,800*	*$37,138*	*4.0%*
Personal Income	$837,879	$775,200	$62,679	8.1%
Commercial Activity Tax	$278,052	$308,500	-$30,448	-9.9%
Cigarette	$80,472	$77,700	$2,772	3.6%
Kilowatt-Hour Excise	$28,533	$34,500	-$5,967	-17.3%
Foreign Insurance	$0	$700	-$700	-100.0%
Domestic Insurance	$445	$0	$445	---
Financial Institution	$385	-$3,200	$3,585	112.0%
Public Utility	$31,029	$31,500	-$471	-1.5%
Natural Gas Consumption	$13,532	$14,500	-$968	-6.7%
Alcoholic Beverage	$5,310	$5,200	$110	2.1%
Liquor Gallonage	$5,150	$4,300	$850	19.8%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$12	$0	$12	---
Business and Property	$0	$0	$0	---
Estate	$1	$0	$1	---
Total Tax Revenue	**$2,239,738**	**$2,170,700**	**$69,038**	**3.2%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$2,761	$4,804	-$2,043	-42.5%
Other Revenue	$73,328	$5,838	$67,490	1156.1%
Total Nontax Revenue	**$76,089**	**$10,641**	**$65,447**	**615.0%**
Transfers In	**$4,000**	**$77,932**	**-$73,932**	**-94.9%**
Total State Sources	**$2,319,827**	**$2,259,273**	**$60,553**	**2.7%**
Federal Grants	**$1,140,575**	**$1,165,884**	**-$25,309**	**-2.2%**
Total GRF Sources	**$3,460,402**	**$3,425,157**	**$35,245**	**1.0%**

*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 August 31, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 1, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Tax Revenue						
Auto Sales	$338,920	$276,200	$62,720	22.7%	$290,551	16.6%
Nonauto Sales and Use	$1,751,787	$1,631,600	$120,187	7.4%	$1,596,437	9.7%
Total Sales and Use	*$2,090,707*	*$1,907,800*	*$182,907*	*9.6%*	*$1,886,987*	*10.8%*
Personal Income	$2,017,839	$1,921,500	$96,339	5.0%	$1,351,212	49.3%
Commercial Activity Tax	$332,046	$364,000	-$31,954	-8.8%	$387,456	-14.3%
Cigarette	$106,082	$98,700	$7,382	7.5%	$99,364	6.8%
Kilowatt-Hour Excise	$51,383	$58,000	-$6,617	-11.4%	$57,081	-10.0%
Foreign Insurance	$37	$1,600	-$1,563	-97.7%	$736	-94.9%
Domestic Insurance	$824	$0	$824	---	$1	164666.6%
Financial Institution	$2,390	-$3,100	$5,490	177.1%	-$7,540	131.7%
Public Utility	$31,285	$31,700	-$415	-1.3%	$32,088	-2.5%
Natural Gas Consumption	$13,570	$16,200	-$2,630	-16.2%	$12,769	6.3%
Alcoholic Beverage	$11,943	$9,800	$2,143	21.9%	$9,015	32.5%
Liquor Gallonage	$10,026	$8,500	$1,526	18.0%	$8,709	15.1%
Petroleum Activity Tax	$0	$0	$0	---	$0	---
Corporate Franchise	$180	$0	$180	---	-$30	697.6%
Business and Property	$15	$0	$15	---	$0	---
Estate	$1	$0	$1	---	$38	-97.8%
Total Tax Revenue	**$4,668,328**	**$4,414,700**	**$253,628**	**5.7%**	**$3,837,886**	**21.6%**
Nontax Revenue						
Earnings on Investments	$1	$0	$1	---	$84	-99.4%
Licenses and Fees	$6,397	$5,417	$980	18.1%	$5,512	16.1%
Other Revenue	$80,532	$6,297	$74,235	1179.0%	$63,939	26.0%
Total Nontax Revenue	**$86,929**	**$11,713**	**$75,216**	**642.1%**	**$69,535**	**25.0%**
Transfers In	**$79,832**	**$77,932**	**$1,900**	**2.4%**	**$69,480**	**14.9%**
Total State Sources	**$4,835,089**	**$4,504,345**	**$330,744**	**7.3%**	**$3,976,901**	**21.6%**
Federal Grants	**$2,697,761**	**$2,723,070**	**-$25,309**	**-0.9%**	**$1,963,119**	**37.4%**
Total GRF SOURCES	**$7,532,850**	**$7,227,415**	**$305,435**	**4.2%**	**$5,940,020**	**26.8%**

*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

On June 30, 2020, Ohio closed the books of a difficult fiscal quarter and year as the impact of the COVID-19 pandemic brought down GRF tax revenue. In contrast, FY 2021 started in a more auspicious way: GRF sources of $7.53 billion through August were $305.4 million (4.2%) 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 $25.3 million (0.9%). This shortfall was more than offset by gains of $253.6 million (5.7%) for GRF tax sources, $75.2 million (642.1%) for nontax revenue, and $1.9 million (2.4%) for transfers in. Tables 1 and 2 show GRF sources for the month of August and for FY 2021 through August, respectively.

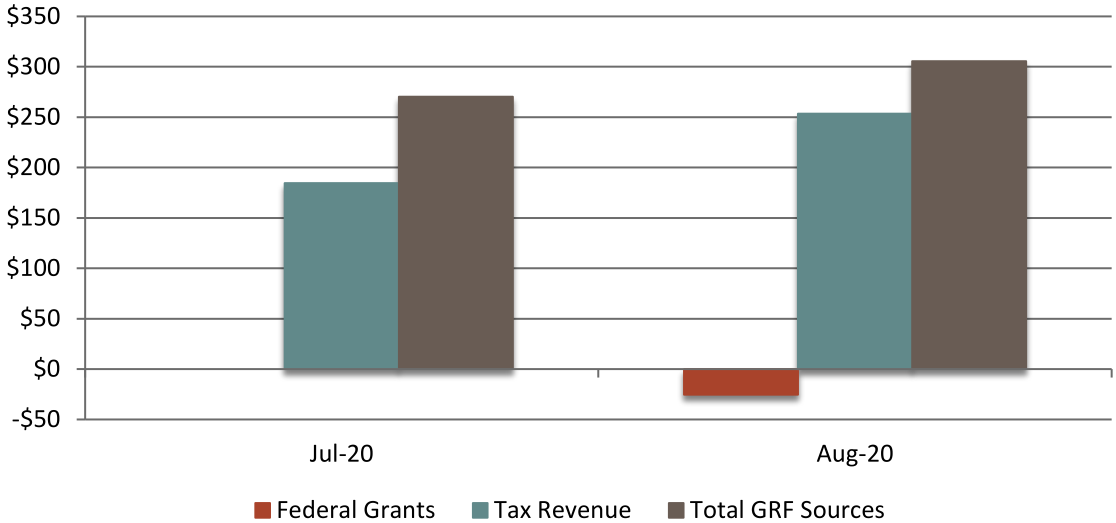
Regarding GRF tax revenues, in the April to June period in FY 2020, they fell $1.19 billion (17.4%) below the estimate. In FY 2021, however, this GRF category is experiencing a resurgence. For the fiscal year through August, three of the four largest tax sources posted positive variances. The sales and use tax and the PIT were $182.9 million and $96.3 million, above their respective estimates. The cigarette tax also experienced a positive variance of $7.4 million. On the other hand, the CAT was short of its projected receipts by $32.0 million, due to reduced economic activity tied to COVID-19-related measures in the prior quarter.[3] The remaining tax sources posted a YTD combined negative variance of just $1.0 million. The financial institutions tax (FIT), the alcoholic beverage tax, the liquor gallonage tax, and the domestic insurance tax were above their respective revenue targets by $5.5 million, $2.1 million, $1.5 million, and $0.8 million. However, those positive variances were offset by negative variances of $6.6 million for the kilowatt-hour tax, $2.6 million for the natural gas consumption tax, $1.6 million for the foreign insurance tax, and $0.4 million for the public utility tax. Chart 1, below, shows cumulative YTD variances of GRF sources in July and in August 2020.

[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.

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



Compared to GRF sources in FY 2020 through August, GRF sources rose $1.59 billion (26.8%), due to outsized increases in federal grants ($734.6 million, 37.4%)[4] and tax sources ($830.4 million, 21.6%). Nontax revenue and transfers in also grew, respectively, by $17.4 million (25.0%) and $10.4 million (14.9%). The increase in GRF tax sources was led by a jump of $666.6 million in PIT revenue and $203.7 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 FIT, the cigarette tax, and the alcoholic beverage tax increased by $9.9 million, $6.7 million, and $2.9 million, respectively. On the other hand, CAT receipts declined $55.4 million, and kilowatt-hour excise tax revenue declined $5.7 million.

Sales and Use Tax

The recovery in sales tax receipts started in June continued in July and August 2020. Over the first two months of FY 2021, the sales and use tax was $182.9 million (9.6%) above OBM projections, with $145.8 million of the overage coming in July. Combined GRF revenue totaling $2.09 billion was also $203.7 million (10.8%) above FY 2020 receipts. In the latest month, August GRF sales tax revenue of $958.9 million was $37.1 million (4.0%) above estimate, due to a strong positive variance from the auto sales tax portion of the tax. Growth of 10.8% from the prior year in the absence of any significant tax policy change is unusually large. This likely reflects pent-up consumer demand and delayed purchases of durable and nondurable products due to earlier lockdowns and business closures. According to the most recent estimates by the Bureau of Economic Analysis, a nationwide decrease in employee compensation (-$197.6 billion) during

[4] 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 $186.6 million of the $734.6 million growth in federal grants, according to the Ohio Administrative Knowledge System (OAKS).

2020's second quarter was more than offset by the increase in unemployment compensation payments and other personal transfer receipts (+$613.1 billion), resulting in a seasonally adjusted annualized 34.3% rate of increase in personal income for the quarter.

Consumers received income support from federal stimulus checks, additional unemployment compensation from the federal CARES Act, and a number of businesses kept some employees on payroll after receiving loans from the federal payroll protection program.[5] The income support from the federal fiscal response to the pandemic appears to have eliminated (at least temporarily) the economic downdraft of the COVID-19 pandemic on the sales and use tax. Also, both Ohio employment and unemployment data have shown marked improvements of late. For example, Ohio's unemployment rate declined to 8.9% in July 2020 from the rate of 11.0% in June (in April and May, the unemployment rate was 17.6% and $13.9%, respectively). Nonfarm payroll employment gained 62,700 workers (seasonally adjusted) in July, with most of the gains from employment in service-producing industries. That gain followed a payroll employment increase of 213,200 in June. The future performance of this tax source is likely to be dependent on continued improvement in the Ohio labor market and any additional federal personal transfer payments.

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.

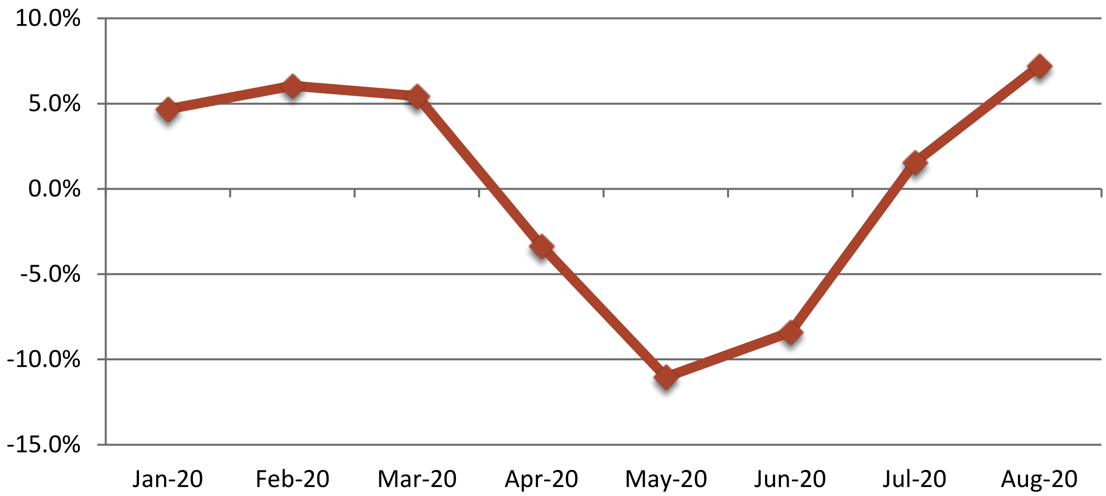
Nonauto Sales and Use Tax

YTD FY 2021 GRF nonauto sales and use tax receipts totaled $1.75 billion, an amount $120.2 million (7.4%) above estimate and $155.4 million (9.7%) above revenue in the corresponding period in FY 2020. Nonauto sales and use tax revenue of $802.6 million in August was above estimate by $23.0 million (2.9%) and $17.3 million (2.2%) above revenue in the same month last year. In July 2020, this tax source was $97.2 million (11.4%) above estimate. 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. After widespread lockdowns and business closures in April and May, most businesses reopened in June. Thus, the increases in July and August sales and use tax revenue are due, in part, to increased consumer spending and taxable sales in June and July, respectively.

In the last quarter of FY 2020, this tax source fell $315.2 million (12.7%) below estimate; quarterly receipts were $199.0 million (8.4%) below receipts in the corresponding quarter in FY 2019. So, the turnaround in nonauto sales and use tax receipts in FY 2021 has been remarkable. Chart 2 provides year-over-year growth in nonauto sales and use tax collections since January 2020 and shows the rebound in nonauto sales tax revenue in recent months.

[5] 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)

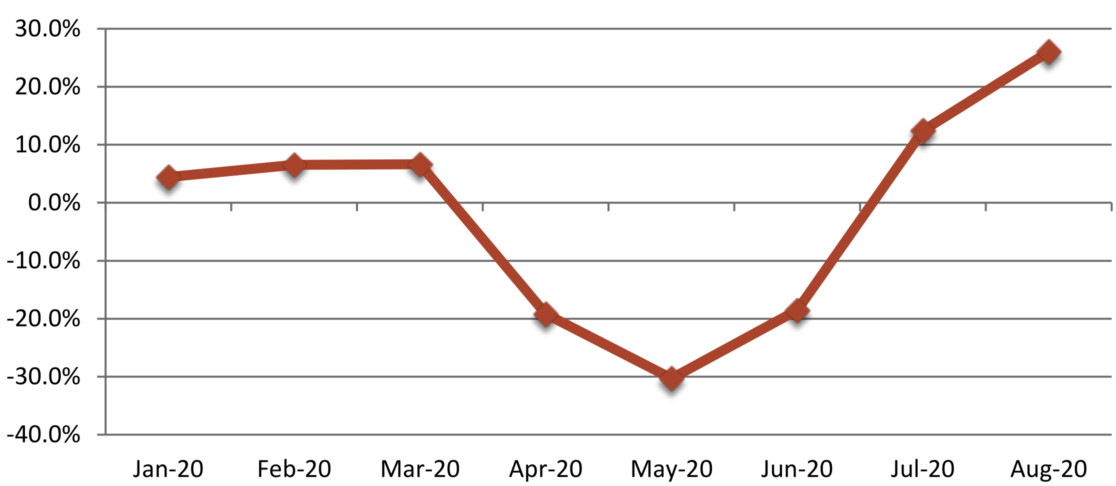


Auto Sales and Use Tax

The rebound in auto sales and use tax receipts from poor performances in April and May started in June 2020 (when the tax had a positive variance of $34.1 million) and continued in the new fiscal year. Through August, FY 2021 auto sales and use tax receipts of $338.9 million were $62.7 million (22.7%) above estimate and $48.4 million (16.6%) above revenue in the corresponding period in FY 2020. In the latest month, auto sales and use tax revenue was $156.3 million, an amount $14.1 million (9.9%) above estimate and $11.0 million (7.6%) above such receipts in August 2019. In July, this tax source was $48.6 million (36.3%) above estimate.

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)



Nationwide, U.S. unit vehicle sales (for new vehicles) took a slight step backwards in August. Annualized seasonally adjusted units sold came in at 14.9 million, a monthly decrease of 0.7% from July. Year-over-year sales were down by 20% and sales retreated for both cars and light trucks. Unit sales of light trucks decreased by about 16% and car sales were down 32% below those in August 2019. Generally, sales of used vehicles constitute almost half of the Ohio auto sales tax base. Sales of previously owned vehicles have been strong and are supporting the expansion of the auto taxable base.

Personal Income Tax

YTD FY 2021 GRF receipts from the PIT of $2.02 billion were $96.3 million (5.0%) above estimate, and $666.6 million (49.3%) above such revenue in the corresponding period in 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;[6] PIT GRF revenue for the month was $550.1 million (87.3%) above receipts in July 2019.

PIT revenue to the GRF is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[7] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (about 87% of gross collections in FY 2020). Larger or smaller than expected refunds (which decrease gross collections) could also greatly affect the monthly performance of the tax. The income tax filing delay has introduced some volatility in the monthly trends of most PIT components.

August PIT revenue to the GRF of $837.9 million was $62.7 million (8.1%) above anticipated revenue. Gross collections for the month were $19.5 million (2.0%) below target, due mostly to payments due with annual returns being below its estimate by $79.9 million. This negative variance was partially offset by positive variances of $28.9 million for employer withholding, $20.7 million for quarterly estimated payments, and $11.5 million for trust payments. More than offsetting the shortfall in gross collections, refunds were $93.6 million below estimates, though LGF distributions were $11.5 million higher than their anticipated level. Thus, PIT revenue to the GRF came in $62.7 million above the estimate for the month.

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 $37.3 million above projections. Quarterly estimated payments, trust payments, and employer withholding were above their respective projections by $44.2 million, $10.0 million, and $1.1 million. Those

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

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

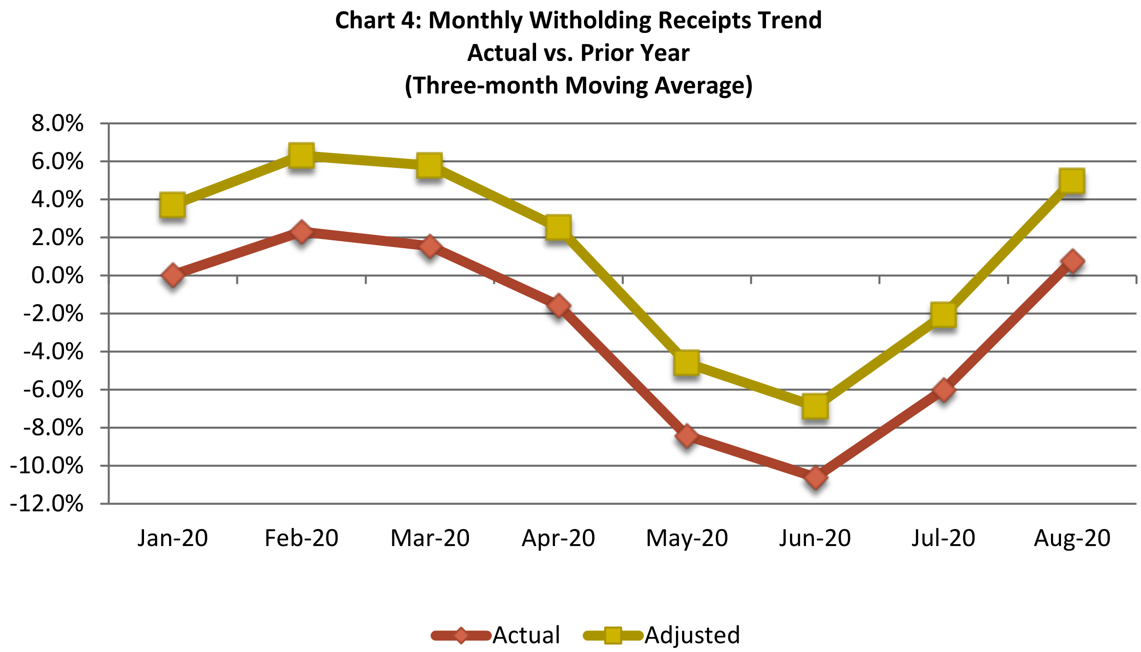
positive variances were partially offset by shortfalls of $13.5 million for payments due with annual returns and $4.4 million for miscellaneous payments. Refunds were $70.5 million below estimate and LGF distributions were above expectation by $11.5 million, thus resulting in a YTD positive variance of $96.3 million for the GRF.

Compared to the corresponding period last year, FY 2021 gross collections grew $826.9 million, driven by an increase of $599.0 million from payments due with annual returns. In addition, quarterly estimated payments, trust payments, and employer withholding increased by $157.9 million, $44.7 million, and $29.6 million, respectively. However, miscellaneous payments were $4.4 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 $146.4 million and $13.8 million, respectively. Therefore, growth in PIT GRF revenue totaled $666.6 million relative to YTD receipts in FY 2020.

FY 2021 PIT Revenue Variance and Annual Change by Component

Category	YTD Variance from Estimate		Changes from FY 2020	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$1.1	0.1%	$29.6	2.0%
Quarterly Estimated Payments	$44.2	31.3%	$157.9	577.8%
Trust Payments	$10.0	27.1%	$44.7	2078.3%
Annual Return Payments	-$13.5	-2.1%	$599.0	2268.1%
Miscellaneous Payments	-$4.4	-33.3%	-$4.4	-33.3%
Gross Collections	$37.3	1.6%	$826.9	53.3%
Less Refunds	-$70.5	-20.3%	$146.4	112.0%
Less LGF Distribution	$11.5	16.3%	$13.8	20.2%
GRF PIT Revenue	$96.3	5.0%	$666.6	49.3%

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 5.0%, on average, in the last three months, after their low point in the spring quarter.



Commercial Activity Tax

August receipts to the GRF from the CAT were $278.1 million, an amount $30.4 million (9.9%) below estimate and $43.9 million (13.6%) below August 2019 revenue. This first payment from quarterly CAT taxpayers was based on taxable gross receipts from April to June 2020, and it reflected the first full impact of the economic downdraft from the COVID-19 pandemic on this tax. (The last quarterly CAT payment of $332.4 million was received in May for taxable gross receipts during the January to March quarter.) For the YTD, total GRF receipts from the CAT of $332.0 million were $32.0 million (8.8%) short of estimate and $55.4 million (14.3%) less than revenue in the first two months of FY 2020. Compared to the last fiscal year, FY 2021 gross collections decreased by $60.7 million (12.6%), but refunds and credits increased $4.9 million (22.7%) above those items in FY 2020.

Under continuing law, CAT receipts are deposited into the GRF (85.0%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13.0%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2.0%). 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

FY 2021 revenue from the cigarette and other tobacco products (OTP) tax totaling $106.1 million was above estimate by $7.4 million (7.5%). This total included $88.3 million from the sale of cigarettes and $17.8 million from the sale of OTP. For the month of August, receipts from this tax source of $80.5 million were $2.8 million (3.6%) above estimate and $1.7 million (2.1%) above revenue in August 2019.

FY 2021 receipts grew $6.7 million (6.8%) relative to revenues in the July to August period in FY 2020. Receipts from cigarette sales and OTP sales increased by $2.6 million (3.1%) and $4.1 million (29.7%), respectively. The large 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 Department of Taxation.

On a yearly basis, revenue from the cigarette tax usually trends downward, generally at a slow pace, while receipts from the tax on OTP generally increase with price increases of the products. 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 August 2020
($ in thousands)
(Actual based on OAKS reports run September 3, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$1,005,255	$998,557	$6,698	0.7%
Higher Education	$192,849	$201,182	-$8,333	-4.1%
Other Education	$7,941	$6,577	$1,364	20.7%
Total Education	**$1,206,044**	**$1,206,316**	**-$271**	**0.0%**
Medicaid	$1,797,147	$1,729,101	$68,046	3.9%
Health and Human Services	$109,433	$130,100	-$20,667	-15.9%
Total Health and Human Services	**$1,906,580**	**$1,859,201**	**$47,379**	**2.5%**
Justice and Public Protection	$167,280	$189,582	-$22,301	-11.8%
General Government	$30,096	$35,240	-$5,143	-14.6%
Total Government Operations	**$197,377**	**$224,821**	**-$27,445**	**-12.2%**
Property Tax Reimbursements	$140,476	$245,672	-$105,196	-42.8%
Debt Service	$74,403	$74,403	$0	0.0%
Total Other Expenditures	**$214,878**	**$320,075**	**-$105,196**	**-32.9%**
Total Program Expenditures	**$3,524,880**	**$3,610,413**	**-$85,533**	**-2.4%**
Transfers Out	**$3,227**	**$33,900**	**-$30,673**	**-90.5%**
Total GRF Uses	**$3,528,107**	**$3,644,313**	**-$116,206**	**-3.2%**

*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 August 31, 2020
($ in thousands)
(Actual based on OAKS reports run September 3, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2020**	Percent
Primary and Secondary Education	$1,726,604	$1,719,906	$6,698	0.4%	$1,456,515	18.5%
Higher Education	$369,887	$378,220	-$8,333	-2.2%	$353,466	4.6%
Other Education	$17,423	$16,059	$1,364	8.5%	$17,656	-1.3%
Total Education	**$2,113,914**	**$2,114,185**	**-$271**	**0.0%**	**$1,827,637**	**15.7%**
Medicaid	$3,961,245	$3,893,198	$68,046	1.7%	$3,048,542	29.9%
Health and Human Services	$231,546	$252,213	-$20,667	-8.2%	$223,563	3.6%
Total Health and Human Services	**$4,192,791**	**$4,145,412**	**$47,379**	**1.1%**	**$3,272,105**	**28.1%**
Justice and Public Protection	$492,820	$515,121	-$22,301	-4.3%	$462,916	6.5%
General Government	$74,839	$79,983	-$5,143	-6.4%	$81,627	-8.3%
Total Government Operations	**$567,659**	**$595,104**	**-$27,445**	**-4.6%**	**$544,543**	**4.2%**
Property Tax Reimbursements	$140,470	$245,666	-$105,196	-42.8%	$201,355	-30.2%
Debt Service	$173,651	$173,651	$0	0.0%	$386,012	-55.0%
Total Other Expenditures	**$314,121**	**$419,318**	**-$105,196**	**-25.1%**	**$587,367**	**-46.5%**
Total Program Expenditures	**$7,188,486**	**$7,274,019**	**-$85,533**	**-1.2%**	**$6,231,653**	**15.4%**
Transfers Out	**$410,727**	**$436,900**	**-$26,173**	**-6.0%**	**$648,403**	**-36.7%**
Total GRF Uses	**$7,599,213**	**$7,710,919**	**-$111,706**	**-1.4%**	**$6,880,056**	**10.5%**

*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.

Expenditures[8]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

This section compares actual monthly and YTD program expenditures and transfers from the GRF (GRF uses) with OBM's estimates. The tables that precede this section summarize the data and are referred to in this section. Table 3 compares the uses for the most recent month with the estimates for that month and Table 4 compares the uses for the fiscal YTD with the YTD estimates. The variance column in each table is calculated by subtracting the estimate from the actual; so if the actual use is higher than the estimate, the variance is positive and if the actual use is lower than the estimate, the variance is negative. The variance is shown both as a dollar value and a percent. Table 4 also shows the sum of the uses for the corresponding months in the previous fiscal year and the percent change from the previous fiscal year to the present fiscal year; a negative percent change means the value of the use has fallen from the prior year and a positive percent change means the value of the use has risen from the prior year. Program expenditures are broken out into nine program categories. Three are related to education, two to health and human services, and two to government operations. The remaining two are property tax reimbursements and debt service.

Through August, FY 2021 GRF program expenditures totaled $7.19 billion. These expenditures were $85.5 million (1.2%) below the estimate released by OBM in September 2020. This negative YTD variance was dominated by a negative YTD variance of $105.2 million (42.8%) in Property Tax Reimbursements. Four other program categories had negative YTD variances, including two with variances greater than $20.0 million: Justice and Public Protection ($22.3 million, 4.3%) and Health and Human Services ($20.7 million, 8.2%). These negative variances were partially offset by positive YTD variances in the three remaining categories, especially a positive YTD variance of $68.0 million (1.7%) in Medicaid. In addition to program expenditures, total uses include transfers out. Transfers out totaled $410.7 million YTD and had a negative YTD variance of $26.2 million (6.0%) at the end of August. Combining program expenditures and transfers out, total GRF uses for FY 2021 were $7.60 billion at the end of August. These uses were $111.7 million (1.4%) below estimate. The rest of this section discusses both GRF and non-GRF variances in Medicaid and the GRF variance in Property Tax Reimbursements.

Medicaid

GRF Medicaid expenditures were $68.0 million (3.9%) above their monthly estimate in August, which brought YTD expenditures to 1.7% above estimate at the end of August. Non-GRF Medicaid expenditures were $115.4 million (9.2%) below their monthly estimate in August, which brought YTD expenditures to 6.4% below estimate at the end of August. Including both the

[8] 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.

GRF and non-GRF, all funds Medicaid expenditures were $47.4 million (1.6%) below estimate in August, and YTD all funds Medicaid expenditures were 0.8% below estimate at the end of August.

Among departments, the Ohio Department of Medicaid (ODM) had the largest all funds expenditures both in the month of August ($2.6 billion) and YTD ($5.0 billion). ODM was followed by the Ohio Department of Developmental Disabilities (ODODD), with all funds expenditures of $282.3 million in August and $549.2 million YTD. The other six “sister” agencies who have Medicaid expenditures – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remainder (less than 1%) of the total Medicaid budget. Unlike ODM and ODODD, the six “sister” agencies incur only administrative spending.

By service category, Managed Care accounted for more than half of total expenditures, both in August and YTD. August expenditures for Managed Care were $1.8 billion and YTD expenditures were $3.5 billion. Fee-For-Service was the next largest service category by expenditures, accounting for $921.3 million in August and $1.9 billion YTD. The remaining expenditures were distributed among Premium Assistance ($95.2 million in August, $154.7 million YTD) and Administration ($81.1 million in August, $142.0 million YTD).

The impact of the COVID-19 pandemic has led to increases in Medicaid caseloads during each of the past six months. From March through August of 2020, caseloads increased by an average of 39,200 cases per month. According to the ODM, nearly all of the caseload variance over the previous six months 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. In August, total caseloads were 3,021,000. Average monthly caseloads for FY 2021 were 3,003,000 at the end of August.

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%). This YTD variance should decrease by the end of the calendar year.

Issue Updates

Controlling Board Approves $200 million in Additional Federal COVID-19 Relief for Higher Education Institutions

– Edward Millane, Senior Budget Analyst

On July 13, 2020, the Controlling Board approved a total of $200 million in additional federal funding for public and private institutions of higher education to respond to the COVID-19 pandemic. The additional funding, appropriated in three new line items in the Department of Higher Education (DHE) budget, is supported by federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds deposited into the Coronavirus Relief Fund (Fund 5CV1). Chart 5 shows the new $200 million in Fund 5CV1 appropriations by line item. The chart shows that $92.3 million (46.2%) is directed towards the state's public universities with relatively large shares of students living on campus (item 235677). These funds may be used to support COVID-19-related measures at campus locations, including additional costs for mitigation in residences and dining halls. The remaining two items direct $53.9 million (26.9%) to public "commuter campuses," including community colleges and Ohio technical centers (item 235679), and $53.8 million (26.9%) to private nonprofit and for-profit institutions (item 235678) to support any necessary adjustments to campuses to comply with COVID-19-related health measures. Generally, allocations are based on each campus' full-time equivalent (FTE) enrollment with additional weights for students who are Pell-eligible, part-time status, or campus residents. These new funds are in addition to the approximately $400 million in CARES Act funds that institutions received directly from the U.S. Department of Education earlier this year through the Higher Education Emergency Relief Fund.

Over 250 public and private higher education institutions and Ohio technical centers will receive a portion of the $200 million. Chart 6 shows Fund 5CV1 allocations by institution sector type. As the chart indicates, the state's 14 public universities will receive approximately $127.3 million (63.6%). A total of 74 private, nonprofit institutions will receive the next highest share at $51.9 million (25.9%), followed by 22 community colleges at $18.1 million (9.1%), 91 private, for-profit institutions at $1.9 million (1.0%), and 52 Ohio technical centers at $0.8 million (0.4%).

Chart 5. Fund 5CV1 Appropriations for Ohio Higher Education Institutions by Line Item

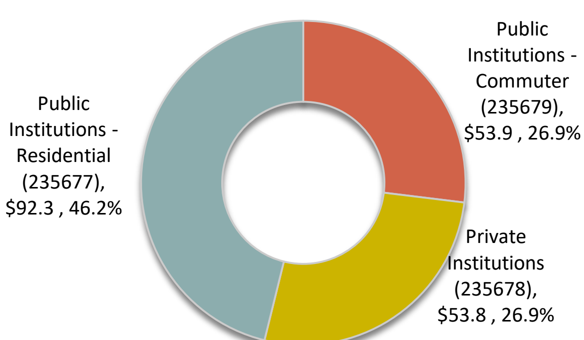
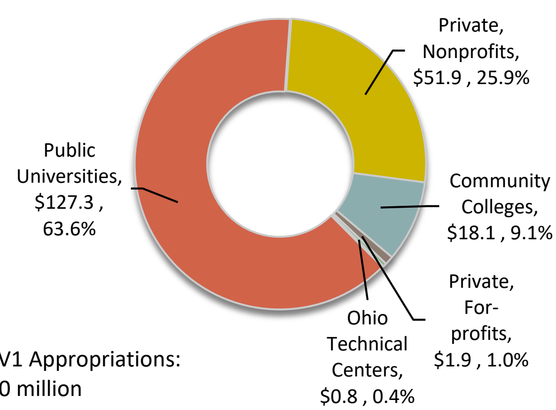


Chart 6. Fund 5CV1 Allocations for Ohio Higher Education Institutions by Sector Type



Total Fund 5CV1 Appropriations: $200 million

Through August 27, nearly 100 institutions have received payouts totaling approximately $182.5 million. DHE anticipates that eligible institutions will receive their full allocations by the end of September. An institution that receives an allocation from these new funds must complete an interim financial compliance report by October 15, 2020, and a final report by December 30, 2020.

Controlling Board Approves More Than $471 million in COVID-19 Provider Relief Funds

– Nelson V. Lindgren, Economist

On July 13 and July 27, the Controlling Board approved eight requests to establish appropriations totaling $471.2 million for OBM, which will be used to provide COVID-19 relief payments to healthcare providers. The funds to support these requests come from the federal government's CARES Act. Payments will be made to Medicaid providers who have experienced business interruptions and increased costs as a result of the COVID-19 pandemic. Funds can be used to continue to provide services and to address additional and ongoing costs related to the pandemic. Providers that are eligible to receive this funding include the following: skilled nursing facilities (SNFs); critical access, rural access, and distressed hospitals; private intermediate care facilities for individuals with intellectual disabilities (ICF/IIDs); home and community long-term care providers; and community behavioral health providers. The table below shows the total amounts available for each provider type. SNFs will receive regular relief funds, as well as infection control funds. To qualify for the infection control funds, SNFs must meet certain survey criteria.

COVID-19 Provider Relief Funds Available, FY 2021	
Provider Type	**Amount**
SNF Total	$207,169,262
SNF Regular Relief	*$182,169,262*
SNF Infection Control	*$25,000,000*
Home and Community Long-Term Care Providers	$124,232,014
Critical Access, Rural, and Distressed Hospitals	$62,000,000
Community Behavioral Health Providers	$45,000,000
ICF/IIDs	$32,812,500
Total	**$471,213,776**

OBM collaborated with the departments of Medicaid, Aging, Mental Health and Addiction Services, and Developmental Disabilities to calculate the allocations for each provider type. To determine amounts, they surveyed providers and analyzed existing cost reports and other relevant information. Providers must apply at the state of Ohio's grant website in order to receive funds. The website can be accessed here – https://grants.ohio.gov/fundingopportunities.aspx (see CARES Act – Coronavirus Relief Fund Provider Relief Payments). Eligibility requirements and relief payments vary by provider type. The application period ends on September 30, 2020.

Development Services Agency Awards $20 million in CARES Act Funds for PPE Manufacturing Grants

– Tom Middleton, Senior Budget Analyst

The Development Services Agency (DSA) allocated nearly $20 million in federal CARES Act funding to 68 businesses in June under the Ohio PPE Retooling and Reshoring Grant Program. Grants of up to $500,000 were awarded to small- and medium-sized manufacturers (500 employees or fewer) to repurpose existing facilities to make personal protective equipment (PPE) or reshore PPE production to Ohio. The table below summarizes the grants by JobsOhio region.

Ohio PPE Retooling and Reshoring Grant Program Grants by JobsOhio Region, FY 2020

JobsOhio Region	Total Grant Amount	Number of Grants	Average Grant Award
Northeast	$10,511,243	37	$284,088
Central	$2,992,953	10	$299,295
Northwest	$2,110,963	7	$301,566
West	$1,850,000	4	$462,500
Southwest	$1,533,394	8	$191,674
Southeast	$1,000,000	2	$500,000
Total	**$19,998,553**	**68**	**$294,096**

Grant funds may be used to offset the cost of equipment necessary to manufacture PPE, or to retool, or construct facilities to manufacture PPE. Businesses were required to specify the type of PPE to be produced, which are shown in the list below. Of the 68 businesses receiving grants, 23 committed to manufacturing multiple PPE types.

- Face shields – 23 businesses;
- Community masks – 22 businesses;
- Surgical masks – 13 businesses;
- Hand sanitizers – 11 businesses;
- Gowns – 9 businesses;
- Cleaning and sanitizing products – 6 businesses;
- Other PPE (dividers, nasal swabs, ventilator parts, thermometers, gloves) – 11 businesses.

State Library Board Establishes New Federally Funded Grant Program to Assist Libraries with COVID-19 Response

– Dan Redmond, Budget Analyst

In July 2020, the State Library Board established a new grant program, called the CARES Act Mini-Grant, to assist libraries with their COVID-19 pandemic response. The grant program made available $1.06 million supported by Ohio's share of federal funds appropriated to the Institute of Museum and Library Services (IMLS) as part of the CARES Act. IMLS is an independent federal agency that advises policymakers on library, museum, and information services and distributes federal funds to state library administrative agencies.

The grant provides $3,000 to each library system successfully applying for the funds, with no matching requirement. Awards are limited to one per public library system, academic campus (main or branch), or K-12 school district to be shared among the libraries within each respective system, campus, or school district. Funds must support the purchase of items in any of the following three areas:

- Technology to expand internet connectivity and community outreach;
- Materials to implement new service models; and
- PPE for library staff and facilities.

Libraries have applied to use the funds for the purchase of wireless hotspots and Wi-Fi signal boosters, touchless water fountains and faucets, automatic doors, curbside pickup and drop off services, and increased cleaning services, among others. The application period closed August 14. The State Library Board has awarded 299 grants with another 59 applications pending an award decision. If necessary, the Board will use other IMLS discretionary grant funds to cover any grants above the number that can be supported by its CARES Act award.

Ohio Emergency Management Agency Receives $21 million in Federal Preparedness Grants

– Maggie West, Senior Budget Analyst

On July 10, 2020, the Ohio Emergency Management Agency (Ohio EMA) announced the receipt of $20.9 million in grant funding from the U.S. Department of Homeland Security, Federal Emergency Management Agency (FEMA) to assist state and local governments, nonprofit organizations, and first responders in promoting emergency preparedness across Ohio. Of the $950.0 million available nationally, Ohio's portion represents 2.2%.[9] The funding received by Ohio consists of four separate preparedness grant program awards (see table below). Together these programs aim to prevent, protect against, respond to, recover from, and mitigate terrorist attacks, major disasters, and other emergencies. In addition to these purposes, FEMA requires preparedness grant recipients in any given year to address specified critical priority areas. For the federal fiscal year (FFY) 2020 grant cycle, those areas include cybersecurity, soft targets and crowded places, intelligence and information sharing, and emerging threats.

[9] The FFY 2020 grant guidance focused on the nation's highest risk areas, including urban areas that face the most significant threats.

The Ohio EMA, a division of the Department of Public Safety, serves as the state administrative agency for federal preparedness grants and is responsible for receiving applications, awarding subgrants, and ensuring compliance in accordance with the requirements of each grant program. Additional information on these program grants is available at: https://www.ema.ohio.gov.

Federal Preparedness Grant Awards, FFY 2020 (Total: $20,898,083)	
Grant Program	**Amount**
Emergency Management Performance Grant *Assists enhancing and sustaining all-hazards capabilities of emergency management agencies (EMAs); used to allocate noncompetitive grants to all 88 Ohio county EMAs; 50% match requirement*	$10,166,130
State Homeland Security Grant Program *Supports the prevention, preparation for, response to, and recovery from acts of terrorism; used to allocate noncompetitive grants to all eight Ohio homeland security regions; no match requirement*	$6,731,000
Non-Profit Security Grant Program *Supports security enhancements for nonprofit organizations at high risk of a terrorist attack; used to competitively award grants to eligible nonprofits; no match requirement*	$2,366,979
Operation Stonegarden *Enhances cooperation and coordination among law enforcement agencies that provide security along Lake Erie; used to allocate noncompetitive grants to sheriffs in Ohio counties that border Lake Erie; no match requirement*	$1,633,974

ODJFS Receives $9.4 million Apprenticeship Grant

– Nicholas J. Blaine, Budget Analyst

On July 14, 2020, the Ohio Department of Job and Family Services (ODJFS) was awarded a $9.4 million federal grant to support the state's registered apprenticeship system and to expand apprenticeship opportunities. This "Building State Capacity to Expand Apprenticeship through Innovation" grant is provided by the U.S. Department of Labor (USDOL) and will be expended over three years. Funds will be used for system improvements, incentives to help employers pay for the costs of training, and pre-apprenticeship opportunities to better serve those underrepresented in apprenticeship programs. Specific grant goals include the following: expanding registered apprenticeships in healthcare, mental health care, addiction treatment, or alternative pain management occupations that provide services in rural areas; providing apprenticeships to all workers, including women, minorities, veterans, individuals with disabilities, and individuals with a criminal record; and supporting engagement with small businesses in nontraditional industries. Apprenticeships are available to those 16 and older in a variety of occupations.

USDOL is providing grant funds to expand the registered apprenticeship program model across the nation. Ohio's model is the ApprenticeOhio program, which is housed within the ODJFS Office of Workforce Development. The program offers outreach to employers, technical support, registration of apprenticeship programs that meet certain requirements, and issues a nationally recognized certification for completion. It has more than 19,000 enrolled apprentices. Apprentices learn skills needed for a job in the apprentice sponsor's industry through at least 2,000 hours of structured on-the-job training and 144 hours of classroom instruction. Working under the supervision of a skilled professional, apprentices learn skills while receiving pay for their work.

Supreme Court Awards $725,000 in FY 2021 Civil Justice Program Grants

– Robert Meeker, Budget Analyst

On July 24, 2020, the Ohio Supreme Court announced the award of $725,088 in FY 2021 Civil Justice Program grants to 19 public agencies and nonprofit organizations. In total, seven courts or clerks of court received $209,200 and 12 nonprofit organizations or government agencies received $515,888, including $50,000 to the Bureau of Criminal Investigation. Grants range from $13,000 to the Summit County Court of Common Pleas for an online dispute resolution pilot program to two grants of $80,000 each to the Ohio State Bar Association for the Rural Clerkship Program and the Equality Ohio Education Fund for the Equality Ohio Legal Clinic.

The Civil Justice Grant Program, established in 2016, funds services and activities that provide direct civil legal assistance or increase access to assistance for Ohioans' civil legal needs, such as housing, health care, and economic security. Maximum award amounts vary by expected impact. For FY 2021, projects with a county- or city-wide impact were eligible for up to $25,000, projects with an impact on two or more counties for up to $50,000, projects with a regional impact on five or more counties for up to $75,000, and projects with a strong statewide impact for up to $100,000. As the table below shows, over the life of the program, 40 recipients have been awarded a total of $1.4 million. Beginning in FY 2019 civil justice grants are being awarded biennially and the grant program period is up to 24 months.

Civil Justice Program Grant Awards, FY 2018-FY 2021

Fiscal Year	Total Awarded	Number of Awards	Range of Awards
2018	$327,040	8	$10,000-$75,000
2019	$397,551	13	$8,818-$65,000
2021	$725,088	19	$13,000-$80,000
Total	**$1,449,679**	**40***	**$8,818-$80,000**

*The number of unique organizations receiving grants is 32, as eight organizations received two or more grants over the life of the program.

Civil Justice grants are supported by money appropriated from the Civil Justice Grant Program Fund (Fund 5SP0), which consists of (1) one-half ($150) of the fee charged to attorneys from other states trying cases in Ohio[10] and (2) a voluntary $50 donation made as part of the biennial attorney registration process for Ohio attorneys. From FY 2017 through FY 2020, a total of $1.2 million was credited to Fund 5SP0, or about $306,000 per year.

Department of Commerce Awards Financial Literacy Education Grants to Four Recipients

– Shannon Pleiman, Senior Budget Analyst

On August 3, 2020, the Department of Commerce announced funding of $46,510 to four organizations under the Financial Literacy Education Grant Program. The purpose of the grant is to support innovative education programs that strengthen adult financial literacy. This year, grants were awarded to programs focused on providing children and young adults the knowledge and skills needed to develop and integrate personal financial literacy. Grants are awarded to applicants that demonstrate the need for financial education in their community. The table below displays the award recipients and the total amount awarded. More detail on each grant recipient can be found on the Department of Commerce website.

Financial Literacy Education Grant Recipients, FY 2021	
Grant Recipient	**Award Amount**
DoverPhila Federal Credit Union	$25,125
Junior Achievement of Mahoning Valley	$10,000
Terra College Foundation	$8,985
Ohio University Credit Union	$2,400
Total	**$46,510**

The grant is financed through quarterly transfers of 5% of all charges, penalties, and forfeitures levied by the Consumer Finance Section within the Division of Financial Institutions. This revenue is deposited into the Financial Literacy Education Fund (Fund 5FW0). The current fund balance of Fund 5FW0 is nearly $365,000. Grant guidelines require that at least half of the financial literacy education programs be conducted by or offered at public community colleges or state institutions of higher education.

[10] Out-of-state attorneys seeking permission to appear in an Ohio proceeding must first register with the Supreme Court Office of Attorney Services and pay a fee of $300.

Tracking the Economy

– Eric Makela, Economist

Overview

The nation was hit with the most severe economic downturn in modern history during the second quarter of 2020. Since the low point in April, data point generally to recovery. The national unemployment rate declined by 1.8 percentage points in August, to 8.4%, as nonfarm employers added approximately 1.4 million payroll employees. Real gross domestic product (inflation-adjusted GDP) fell at a 31.7% annual rate during the second quarter of 2020, as both consumption and investment expenditures dropped in response to the COVID-19 health crisis. Nationally, industrial production increased in July for the third month in a row, although output remained 8.2% below its level in July 2019. The Federal Reserve Bank (FRB), the nation's central bank, kept its short-term interest rate target near zero and continued to inject funds into the country's monetary base by purchasing securities from commercial and government issuers. The FRB signaled an increased willingness to keep short-term interest rates low for an extended time, saying inflation below its 2% target could be followed by inflation above the target for an unspecified period.

Ohio's labor force and economy appear to be improving, as the unemployment rate dropped to 11.0% in June then 8.9% in July, the first time Ohio's unemployment rate has dipped below that of the nation since late 2015. Employment gains in July were distributed among industries, though job gains were most numerous in the leisure and hospitality service industry. Residential real estate markets, for both existing homes and new residential construction, were strong in July and August, according to Ohio Realtors and the FRB's Beige Book.

The National Economy

Nonfarm payroll employment rose by 1.4 million in August, rising approximately 1% as the total number of persons employed in nonfarm occupations increased to 140.9 million. In August, nonfarm employment was below its February level by around 11.5 million. Among industries, employment totals increased significantly in retail trade (+248,900), professional and business services (+197,000), leisure and hospitality (+174,000), education and health services (+147,000), and transportation and warehousing (+78,100). In total, employment in goods-producing industries increased by 43,000 while private service-providing industries added 984,000 jobs. Chart 7 shows the trend in national payroll employment.

Of particular note, government employment increased by 344,000 in August. While partly the result of ongoing government operations and reopening of schools, this increase is largely attributable to the significant rise in the number of temporary workers helping to conduct the decennial Census. As of the week of the August Bureau of Labor Statistics establishment survey, just over 288,000 paid temporary workers were on Census payrolls across the six census regions.

During August, the national unemployment rate dropped by 1.8 percentage points, to 8.4%; the number of unemployed persons declined by 2.8 million. Unemployment rates were down among all racial groups included in the data. The country's employment-population ratio increased 1.4 percentage points to 56.5% during the month but remained 4.6 percentage points below its February level, suggesting large numbers of persons remain potential labor force reentrants.[11] Chart 8 shows the national unemployment rate.

Real GDP plummeted in the second quarter of 2020, falling at an annualized rate of 31.7%, the largest quarterly decline in economic activity on record; real GDP for the quarter was 9.1% below its rate in the same quarter in 2019. Nonresidential fixed investment fell between the first and second quarters at a seasonally adjusted annual rate of 26.0%, while residential fixed investment declined at a 37.9% rate. However, the number of new housing units started in July was a seasonally adjusted 22.6% greater than a month prior, signaling a recovery in the residential construction industry.[12] New home sales rose in July to the highest rate since 2006. Real consumer spending dropped at a 34.1% annual rate during the second quarter, when spending on both goods (-10.6%) and services (-43.1%) declined.

According to the most recent estimates by the Bureau of Economic Analysis, a nationwide decrease in employee compensation (-$197.6 billion) during 2020's second quarter was more than offset by the increase in unemployment compensation payments and other personal transfer receipts (+$613.1 billion), resulting in a seasonally adjusted annualized 34.3% rate of increase in personal income for the quarter. Paired with the sharp drop in personal consumption spending during the year's second quarter, personal saving increased by approximately $790.1 billion. In July, personal income increased a seasonally adjusted 0.4%, as wages and salary disbursements rose for the third straight month, by 1.4%, after collapsing in March and April. Retail sales during the month were up by a seasonally adjusted 0.8% from the previous month and were 5.8% greater than in July 2019. Sales in the food service industry were up a seasonally adjusted 5.0% in July but still 18.9% below their level a year prior.

Industrial production rose a seasonally adjusted 3.0% in July, according to the most recent data from the Federal Reserve, though production remained 8.2% below its level in July 2019. Industrial output increased in July across all three major industry groups: manufacturing (+3.4%), utilities (+3.3%), and mining (+0.8%). Production of motor vehicles and parts, having fallen at the outset of the COVID-19 pandemic at the most rapid rate in series history that starts in 1972, returned in July nearly to its February level.

Production in the national service sector increased in August for the third month in a row, according to the Institute for Supply Management's (ISM's) Services PMI. The production and new orders indexes signaled continued expansion, although a smaller percentage of surveyed firms reported expansion in August than in July. Employment decreased for a majority of companies surveyed by the ISM. A large majority of companies and industries reported increases in prices paid for labor and supplies.

The consumer price index (CPI) increased by 0.6% in both June and July. Rising prices paid for fuel and energy headline a series of volatile price adjustments in recent months, as markets scramble to adjust to rapidly changing conditions. Year over year, the CPI for all items increased

[11] The labor force is measured as persons who are employed plus unemployed persons who sought work during the four-week period prior to the survey.

[12] According to initial data from the U.S. Census Bureau's Survey of Construction.

by 1.0%; a 2.3% rise in the cost of services[13] and a 4.1% year-over-year increase in the cost of food offset a 20.2% drop in the CPI for energy commodities.

Chart 7: U.S. and Ohio Nonfarm Payroll Employment (in millions)

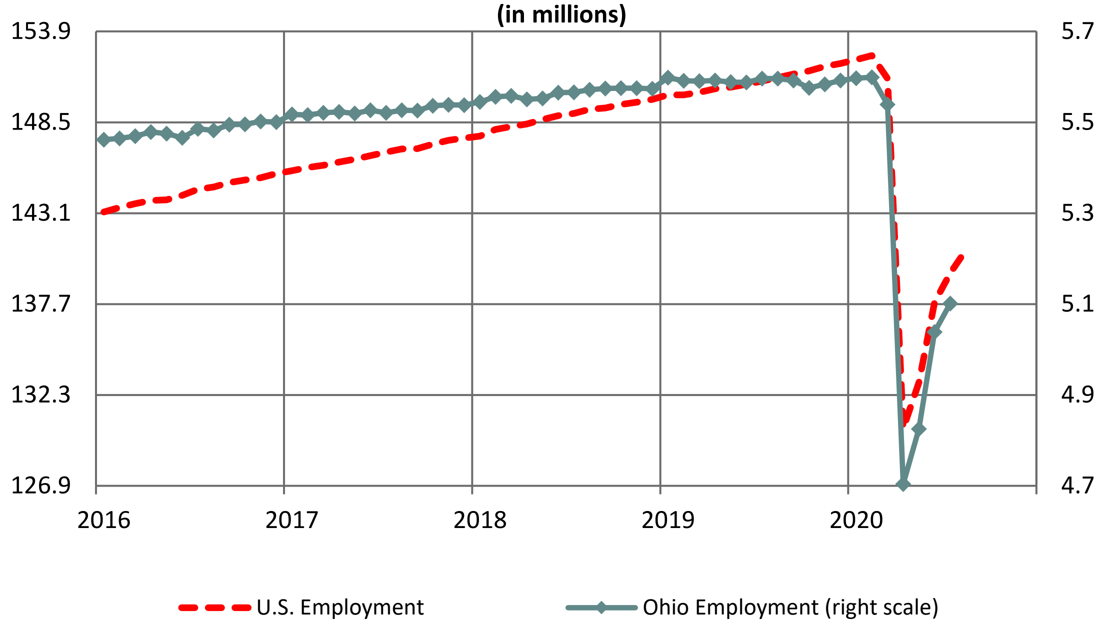
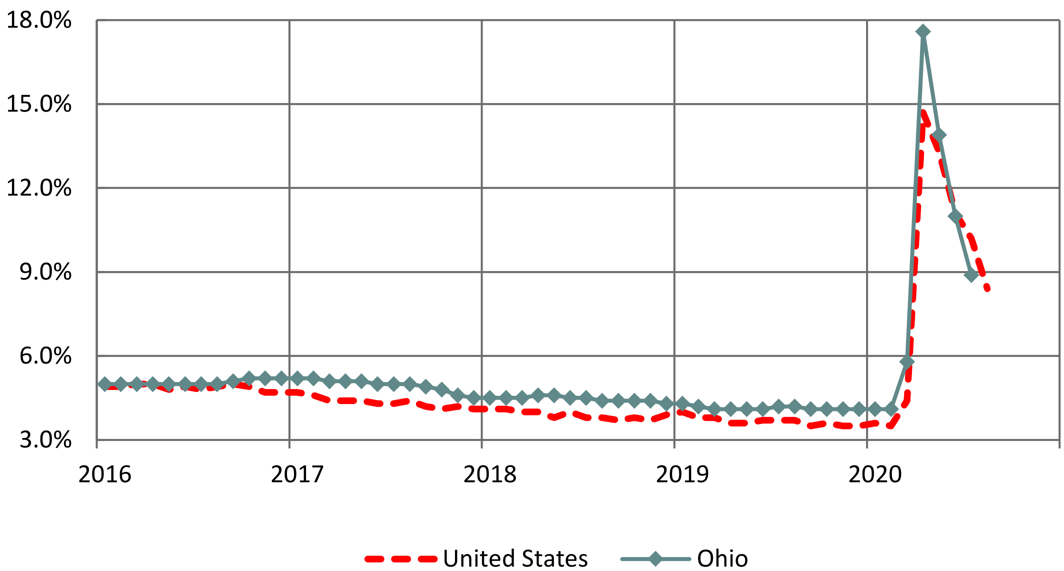


Chart 8: U.S. and Ohio Unemployment Rates % of Labor Force



[13] Services not including energy services.

The Ohio Economy

Ohio's unemployment rate declined to 8.9% in July 2020 from the revised rate of 11.0% in June. Ohio's unemployment rate was 4.2% in July 2019. Chart 8 shows Ohio's unemployment rate. During July, Ohio's unemployment rate was lower than the national rate of 10.2%. Rates of unemployment among states ranged from 4.5% (Utah) to 16.1% (Massachusetts).

Nonfarm payroll employment in Ohio was approximately 5.1 million in July 2020, gaining 62,700 workers during the month, seasonally adjusted. In July, employment in good-producing industries declined by 2,000 while employment in service-producing occupations increased by 64,700. Job gains were particularly large in leisure and hospitality (+25,100), education and health services (+15,700), professional and business services (+14,700), government (+4,900), and construction (+2,000), while employment growth in the financial services (+400) industry was limited. The number of persons on payrolls declined in manufacturing (-3,700) and trade, transportation, and utilities (-1,800) during the month. Chart 7 shows Ohio nonfarm payroll employment.[14]

The rate of business formation was significantly higher in recent weeks in Ohio than during the same period a year ago, according to the U.S. Census Bureau's Business Formation Statistics series, derived from the Internal Revenue Service processing of applications for business-related tax identification numbers. Since early May, the number of business applications from Ohio through the week of August 23 was 68% higher than during the same period a year ago; the number of applications submitted by business persons indicating that they planned for paid employment was 46% higher.

Beginning in March, the U.S. Census Bureau has provided data on the effects of COVID-19 on small business operations via the Small Business Pulse Survey. During the week beginning August 23, among the sample of Ohio employers with under 500 workers, 71% reported that they were negatively affected by the pandemic, 8% believed the pandemic had positively affected their business, and 21% said the pandemic had little or no effect on the business. Such factors as physical distancing, availability of personal protective equipment or other supplies, availability of employees to work, and ability to hire or rehire employees adversely affected activity at 39% of small businesses in the sample. Of the small businesses surveyed during the week, 2% reported missing required loan payments since March 13, 2020.

According to Ohio Realtors, both unit and dollar volume of existing home sales increased from July 2019 to July 2020, up 8.6% and 18.0%, respectively. The average price paid for an existing home was around $223,000 in July 2020. Total unit volume YTD in 2020 declined 3.2% from last year, however, the dollar volume of sales rose 2.6% on higher average prices.

[14] 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, which include occupational categories at a more granular level than available from national surveys. The County Job Trends Report is available on the Department's website at: ohiolmi.com/Home/COVID-19.

Economic conditions in the Cleveland Federal Reserve District improved modestly during the most recent survey reporting period.[15] About one-fourth of contacts reported adding workers during the survey window; a majority of firms believed staffing levels would still be below prepandemic levels come Spring 2021. Most firms held selling prices constant from the previous period, however, a sizable number of construction and manufacturing firms noted price increases for raw materials due to shortages. Activity rose slightly for manufacturers, though with variation among industries. In the real estate market, residential builders reflected positively on recent activity and expect the market to remain strong. In the financial services industry, a decrease in business loan activity was somewhat offset by strength in demand for new mortgages and refinancings, as well as vehicle purchase loans. Firms reported that low delinquency rates among commercial and consumer loans were largely due to a mixture of forbearance agreements and government support programs.

[15] 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 August 24, 2020.