LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2022 Issue: February 2022

Highlights

– *Jean J. Botomogno, Principal Economist*

January GRF tax receipts exceeded the estimate published by the Office of Budget and Management (OBM) by $236 million, led by a strong positive variance of $188 million from the personal income tax (PIT). Through the latest month, year-to-date (YTD) GRF tax sources were $816 million above projections. On the spending side, total YTD GRF uses were $6 million below estimate. Thus, more than halfway through the fiscal year, the budget situation remains excellent.

Ohio's unemployment rate was 4.5% in December 2021, down from 4.8% in November, and down from 5.6% a year ago. Ohio's rate was 0.6 percentage point higher than the national rate. Nonfarm payroll employment increased by 8,800 (0.2%) over the month. Employment in the private service-providing sector and in goods-producing industries increased 6,600 and 5,000, respectively, while government employment fell 2,800.

Through January 2022, GRF sources totaled $22.94 billion:

- Revenue from the sales and use tax was $287.7 million above estimate;
- Revenue from the PIT was $484.4 million above estimate.

Through January 2022, GRF uses totaled $24.42 billion:

- Program expenditures were $35.4 million below estimate;
- Expenditures under Health and Human Services and Justice and Public Protection program categories were below their respective estimates by $153.2 million and $133.1 million, but spending under the Primary and Secondary Education category was above estimate by $375.8 million, due primarily to timing.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2022
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2022)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$134,951	$149,600	-$14,649	-9.8%
Nonauto Sales and Use	$1,046,701	$956,500	$90,201	9.4%
Total Sales and Use	*$1,181,652*	*$1,106,100*	*$75,552*	*6.8%*
Personal Income	$1,152,796	$964,800	$187,996	19.5%
Commercial Activity Tax	$87,056	$81,600	$5,456	6.7%
Cigarette	$70,356	$76,700	-$6,344	-8.3%
Kilowatt-Hour Excise	$24,537	$26,400	-$1,863	-7.1%
Foreign Insurance	-$6,498	$200	-$6,698	-3349.0%
Domestic Insurance	$0	$0	$0	---
Financial Institution	$54,092	$71,200	-$17,108	-24.0%
Public Utility	$55	$500	-$445	-89.0%
Natural Gas Consumption	$61	$1,300	-$1,239	-95.3%
Alcoholic Beverage	$5,027	$4,600	$427	9.3%
Liquor Gallonage	$5,818	$5,500	$318	5.8%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$10	$0	$10	---
Business and Property	$0	$0	$0	---
Estate	$2	$0	$2	---
Total Tax Revenue	**$2,574,964**	**$2,338,900**	**$236,064**	**10.1%**
Nontax Revenue				
Earnings on Investments	$9,078	$9,252	-$174	-1.9%
Licenses and Fees	$2,475	$3,305	-$830	-25.1%
Other Revenue	$234,933	$10,911	$224,022	2053.1%
Total Nontax Revenue	**$246,486**	**$23,468**	**$223,017**	**950.3%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$2,821,450**	**$2,362,368**	**$459,081**	**19.4%**
Federal Grants	**$1,215,721**	**$902,957**	**$312,764**	**34.6%**
Total GRF Sources	**$4,037,171**	**$3,265,326**	**$771,845**	**23.6%**

*Estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2022 as of January 31, 2022
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2022)

State Sources	Actual	Estimate*	Variance	Percent	FY 2021**	Percent
Tax Revenue						
Auto Sales	$1,093,020	$1,080,100	$12,920	1.2%	$1,016,997	7.5%
Nonauto Sales and Use	$6,577,605	$6,302,800	$274,805	4.4%	$6,018,089	9.3%
Total Sales and Use	*$7,670,625*	*$7,382,900*	*$287,725*	*3.9%*	*$7,035,086*	*9.0%*
Personal Income	$6,068,764	$5,584,400	$484,364	8.7%	$6,129,730	-1.0%
Commercial Activity Tax	$1,036,525	$962,500	$74,025	7.7%	$835,420	24.1%
Cigarette	$485,382	$485,100	$282	0.1%	$502,185	-3.3%
Kilowatt-Hour Excise	$178,700	$178,500	$200	0.1%	$179,137	-0.2%
Foreign Insurance	$176,442	$178,400	-$1,958	-1.1%	$176,775	-0.2%
Domestic Insurance	$2,254	$1,600	$654	40.9%	$840	168.4%
Financial Institution	$2,296	$41,800	-$39,504	-94.5%	$20,147	-88.6%
Public Utility	$69,989	$62,300	$7,689	12.3%	$51,019	37.2%
Natural Gas Consumption	$18,611	$21,000	-$2,389	-11.4%	$19,387	-4.0%
Alcoholic Beverage	$39,761	$36,100	$3,661	10.1%	$35,726	11.3%
Liquor Gallonage	$35,262	$33,800	$1,462	4.3%	$34,402	2.5%
Petroleum Activity Tax	$3,628	$4,000	-$372	-9.3%	$2,062	75.9%
Corporate Franchise	$530	$0	$530	---	$5,802	-90.9%
Business and Property	$0	$0	$0	---	$59	-100.0%
Estate	$7	$0	$7	---	$12	-42.6%
Total Tax Revenue	**$15,788,776**	**$14,972,400**	**$816,376**	**5.5%**	**$15,027,791**	**5.1%**
Nontax Revenue						
Earnings on Investments	$20,962	$18,737	$2,225	11.9%	$32,561	-35.6%
Licenses and Fees	$16,042	$15,059	$984	6.5%	$18,000	-10.9%
Other Revenue	$391,038	$101,268	$289,771	286.1%	$94,045	315.8%
Total Nontax Revenue	**$428,043**	**$135,063**	**$292,980**	**216.9%**	**$144,607**	**196.0%**
Transfers In	**$51,600**	**$30,362**	**$21,238**	**69.9%**	**$85,026**	**-39.3%**
Total State Sources	**$16,268,419**	**$15,137,826**	**$1,130,594**	**7.5%**	**$15,257,424**	**6.6%**
Federal Grants	**$6,671,546**	**$6,574,948**	**$96,598**	**1.5%**	**$7,658,343**	**-12.9%**
Total GRF SOURCES	**$22,939,965**	**$21,712,773**	**$1,227,192**	**5.7%**	**$22,915,767**	**0.1%**

*Estimates of the Office of Budget and Management.

**Cumulative totals through the same month in FY 2021.

Detail may not sum to total due to rounding.

Revenues[1]

–Philip A. Cummins, Senior Economist

Overview

FY 2022 GRF sources through January of $22.94 billion were $1,227.2 million (5.7%) over the estimate released by OBM. This strong performance reflects positive variances of $816.4 million (5.5%) for GRF tax sources, $293.0 million (216.9%) for nontax revenue,[2] $21.2 million (69.9%) for transfers in, and $96.6 million (1.5%) for federal grants.[3] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants. Tables 1 and 2, which precede this revenue section, show GRF sources for January 2022 and YTD through January in FY 2022, respectively.

GRF tax sources performed very well through the first seven months of FY 2022. The largest tax sources had positive variances, including the PIT, $484.4 million; the sales and use tax, $287.7 million; and the commercial activity tax (CAT), $74.0 million. The cigarette tax was on target relative to estimates with a positive variance of $0.3 million. (These four taxes are estimated to provide about 94% of GRF tax revenue and nearly two-thirds of total GRF sources in FY 2022.) Among the smaller taxes, the public utility excise tax, the alcoholic beverage tax, and the liquor gallonage tax exceeded their respective estimates by $7.7 million, $3.7 million, and $1.5 million. Partially offsetting the positive variances, the financial institutions tax (FIT) was short of the YTD estimate by $39.5 million, increased from a negative variance of $22.4 million through December due to a negative variance of $17.1 million from the first FIT payment of the fiscal year.[4] In addition, the natural gas consumption tax and the foreign insurance tax had shortfalls of $2.4 million and $2.0 million, respectively.

Total GRF sources for the month of January were $771.8 million (23.6%) above estimate. GRF tax receipts were robust, resulting in a positive monthly variance of $236.1 million (of the total YTD tax receipts surplus of $816.4 million). Nontax revenue exceeded projection by $223.0 million (950.3%).[5] Federal grants exceeded the estimate by $312.8 million (34.6%) (thus

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

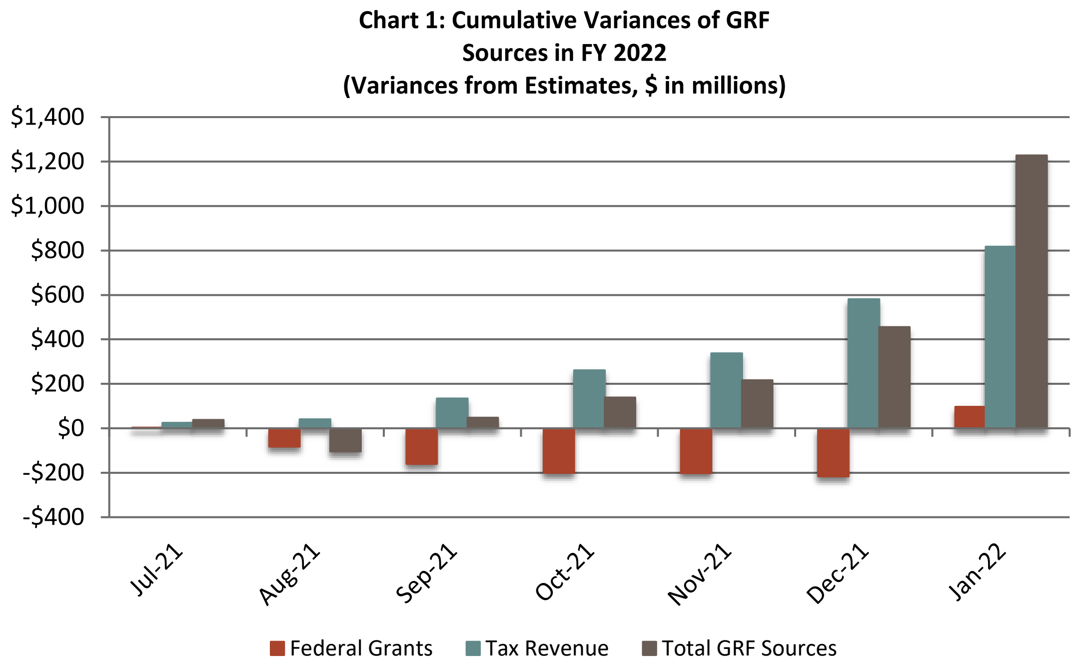
[2] More than half of the YTD revenue for this category was from recoveries/ISTV, almost all of which was booked in January. ISTVs are intrastate transfer vouchers, used for making payments.

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

[4] Annual FIT tax returns are due in October, but estimated payments are made at the end of January, March, and May. The reconciliation between estimated payments and final tax liability generally results in net refunds between July and December. Monthly FIT revenue to the GRF was $54.7 million from February 1 to 8, 2022, above projected receipts of $48.4 million for the full month. Thus, the recent shortfall is likely to be partially reversed in February.

[5] Recoveries/ISTV booked in January covered base pay and overtime for corrections officers paid by the Department of Rehabilitation and Correction for service during the period June 7, 2020, to October 25, 2020. These services were substantially dedicated to mitigating or responding to the

reversing a cumulative shortfall of $216.2 million in the first six months). January tax sources were buoyed by a positive variance of $188.0 million from the PIT. The sales and use tax exceeded expectations by $75.6 million and CAT revenues to the GRF were above estimate by $5.5 million. On the other hand, cigarette tax receipts fell short of expectation by $6.3 million. In addition to the FIT, tax revenues in January were below estimate for the foreign insurance tax, by $6.7 million; the kilowatt-hour tax, by $1.9 million; and the natural gas consumption tax, by $1.2 million. The remaining taxes had smaller positive or negative variances. Chart 1, below, shows cumulative YTD variances of GRF sources through January in FY 2022.



YTD GRF sources were $24.2 million (0.1%) above such sources through January in FY 2021. This net increase resulted from a $761.0 million (5.1%) increase in total tax revenue and a $283.4 million (196.0%) increase in total nontax revenue, which together exceeded a decrease of $986.8 million (12.9%) in federal grants[6] and a decrease in transfers in of $33.4 million (39.3%). Growth for GRF tax sources was mainly due to revenue increases of $635.5 million for the sales and use tax and $201.1 million for the CAT, reflecting economic expansion. In addition, receipts rose from the public utility tax, by $19.0 million; the alcoholic beverage tax, by $4.0 million; the petroleum activity tax, by $1.6 million; the domestic insurance tax, by $1.4 million; and the liquor gallonage tax, by $0.9 million. Those increases were partially offset by revenue decreases of $61.0 million for the PIT (due to changes in filing of tax returns in 2020, as explained below), $17.9 million for the FIT, $16.8 million for the

COVID-19 public health emergency. The payment was from COVID-19 relief funds received from the federal government through the state Coronavirus Relief Fund (Fund 5CV1).

[6] H.B. 110 reduced the GRF federal share of Medicaid spending (and increased the non-GRF federal share of Medicaid spending) in FY 2022, relative to Medicaid spending in FY 2021. As a result, FY 2022 federal grants will decline compared to the year-earlier period.

cigarette tax, and $0.8 million for the natural gas consumption tax. YTD revenue also declined by $5.3 million for the corporate franchise tax, a tax which was eliminated at the end of 2013.

Sales and Use Tax

FY 2022 YTD GRF revenue from the sales and use tax of $7.67 billion was above estimate by $287.7 million (3.9%). Receipts exceeded estimates from September through January for the nonauto portion of the tax, and in July, August, and October through December for the auto portion. Compared to the first seven months of FY 2021, YTD revenue from this tax source was 9.0% higher.

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

For the YTD through January, this tax source totaled $6.58 billion, an amount $274.8 million (4.4%) above estimate. FY 2022 revenue was also $559.5 million (9.3%) above revenue in the first seven months of FY 2021. January 2022 GRF receipts of $1.05 billion were above estimate by $90.2 million (9.4%) and $124.6 million (13.5%) above revenue in January 2021, another robust monthly gain. 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 current operating budget, H.B. 110 of the 134th General Assembly, repealed the sales tax paid by businesses on purchases of employment services and employee placement services. This law change was effective in October 2021, thus first impacting revenues in November 2021. OBM estimated this change would reduce nonauto sales tax revenue by an average of $12.0 million per month.

The table below shows the percent changes in nationwide retail sales in various industries in which sales and use tax is charged in Ohio. Changes shown are to the first half of FY 2021 and FY 2022 from the year-earlier period and include changes in both quantities sold and the prices of those goods and services. Changes in Ohio are likely similar. Fully comparable state data are not published, but available information for Ohio indicates a somewhat smaller increase (estimated at 2.7 percentage points) in year-over-year retail sales in the state than nationwide, for the retail industries shown excluding restaurants, bars, and nonstore retailers, in the 2021 July to September quarter.

In the latest six-month period, retail sales nationwide in these industries excluding the nonstore retailers rose 19.4% from a year earlier. Furthermore, the pace of year-over-year increases did not slow notably during this period; November and December sales of this group of industries were each higher by more than 21%. This exceptional sales growth reflects multiple factors, including strong support from federal economic impact payments and other income support programs aimed at combatting the adverse economic effects of the pandemic on spending.[7] These payments in part supported spending around the time they were received by households and in part were retained, building up consumers' available savings and

[7] More details on these programs are in previous editions of this report.

supporting higher spending in subsequent months. More generally, consumer assets and net worth, in the aggregate, have increased in value, tending to support willingness of consumers to increase their spending and to take on debt to support higher spending. The higher dollar amounts of retail sales in addition reflect rapid increases in prices, as inflation surged to four-decade highs.

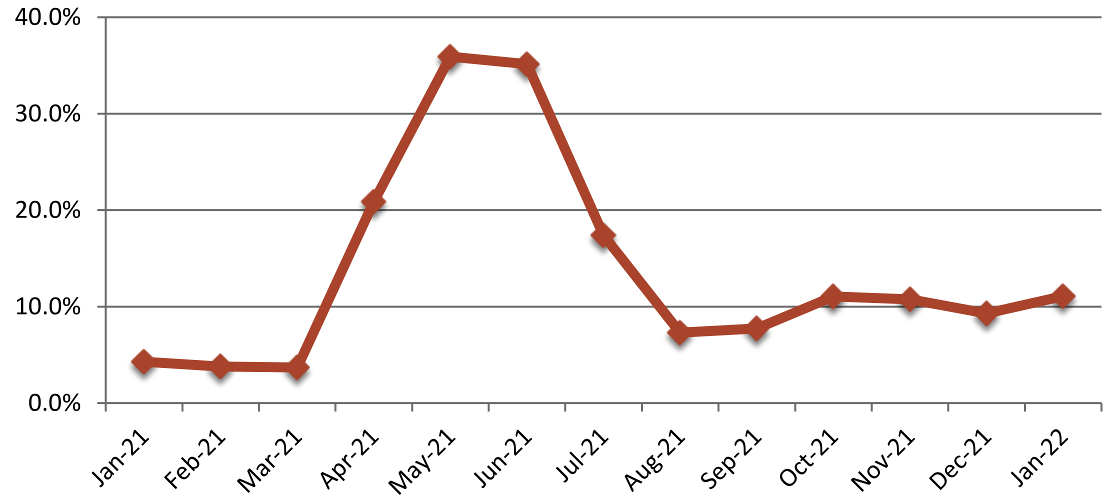
In the first half of FY 2021, sales at nonstore retailers were sharply higher than a year earlier as many consumers chose to order goods online for delivery, substituting such remote sourcing for in-store purchases for a portion of their needs during the first year of the pandemic. In the latest period shown, growth of nonstore retail sales remained high but slowed from growth in the previous year.

U.S. Retail Sales: Year-ago Percent Change in July to December Period in FY 2021 and FY 2022

Selected Sectors	FY 2021 Compared to FY 2020	FY 2022 Compared to FY 2021	FY 2022 Compared to FY 2020
Furniture and Home Furnishings	5.9%	14.0%	20.7%
Electronics and Appliance Stores	-9.3%	16.6%	5.8%
Building Materials and Garden Equipment and Supplies Dealers	17.5%	8.9%	27.9%
Health and Personal Care Stores	4.6%	8.5%	13.5%
Clothing and Clothing Access. Stores	-12.1%	32.6%	16.6%
Sporting Goods, Hobby, Musical Instrument, and Book Stores	16.6%	17.6%	37.1%
General Merchandise Stores	3.0%	13.7%	17.1%
Miscellaneous Store Retailers	6.2%	23.5%	31.2%
Food Services and Drinking Places	-17.3%	35.2%	11.8%
Subtotal	-1.5%	19.4%	17.6%
Nonstore Retailers	24.4%	9.0%	35.5%
Total	**4.0%**	**16.8%**	**21.5%**

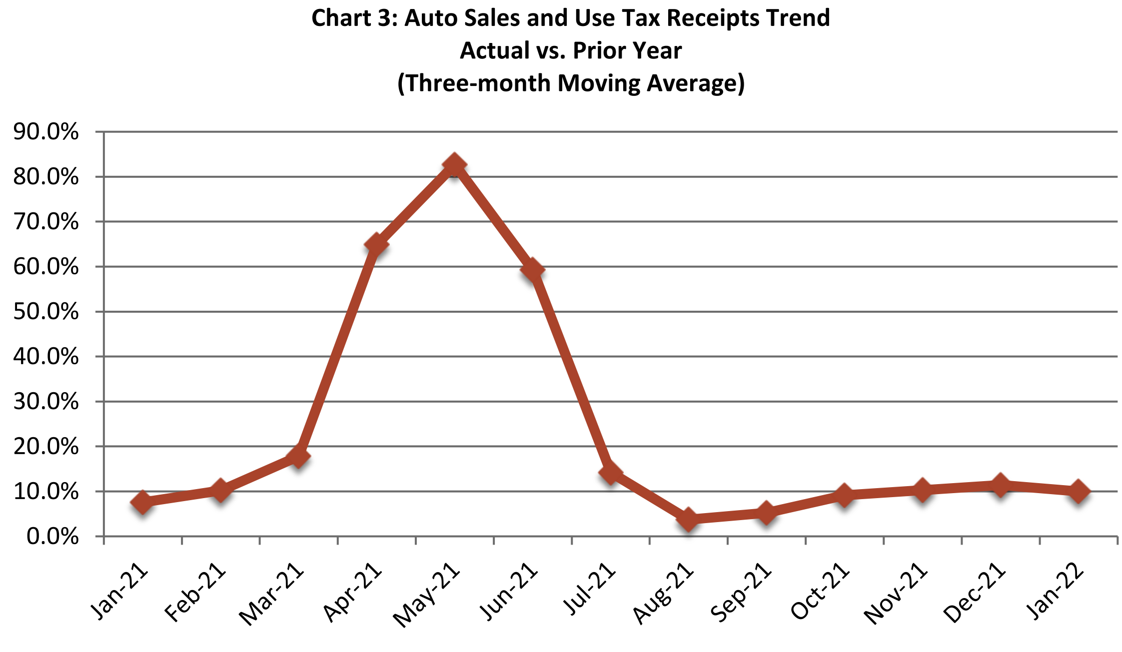
Chart 2, below, shows year-over-year growth in nonauto sales and use tax collections since January 2021. Growth was modest at the start of the 2021 calendar year, strengthened in the second calendar quarter as tax revenue compared favorably to depressed levels in the year-earlier period, then slowed to a more moderate level, about 11.1% on average in the last three months.

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



Auto Sales and Use Tax

Through January, receipts from the auto sales and use tax totaled $1,093.0 million in FY 2022, an amount $12.9 million (1.2%) above estimate, with the overage more than accounted for by the second fiscal quarter. YTD revenue was also $76.0 million (7.5%) above revenue in the corresponding period in FY 2021. For the month of January, GRF revenue from this tax source was $135.0 million, $14.6 million (9.8%) below anticipated receipts, and $4.9 million (3.8%) above revenue in January 2021. Chart 3, below, shows year-over-year growth in auto sales and use tax collections, including high growth rates in the spring of 2021 from pandemic-depressed revenues a year earlier when vehicle buying plunged. Slower year-over-year revenue growth started in June and is continuing into FY 2022, with growth of 10.0%, on average, in the last three months. As noted in this space last month, auto sales tax revenue growth in FY 2022 has been due to increases in average sale prices of vehicles, while unit sales have declined, constrained in part by shortages of semiconductors.



Personal Income Tax

Through January, FY 2022 GRF revenue from the PIT totaled $6.07 billion, $484.4 million (8.7%) above the estimate, largely due to stronger than anticipated revenue from employer withholding, also due to higher than expected estimated tax payments and final settlements, and lower than expected refunds. PIT revenue to the GRF is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[8] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (generally over 81% of gross collections for an entire fiscal year).

In January, PIT receipts to the GRF of $1,152.8 million were $188.0 million (19.5%) above estimate and $93.8 million (8.9%) above such revenue in January 2021. Gross collections were $146.4 million above estimate, boosted by a positive variance of $93.0 million for estimated payments. Most of the other components were also above projections, notably withholding by $40.4 million and taxes due/final settlements by $15.5 million. Refunds were lower than expected by $46.9 million. Distributions to the LGF were higher than OBM's estimate by $5.3 million.

FY 2022 GRF receipts from the PIT were $61.0 million (1.0%) below such revenue in FY 2021 through January. This decrease was due to a year-over-year decline totaling $586.2 million in the months of July and August. The large year-over-year PIT revenue decline is attributable to the delay of income tax filings for tax year (TY) 2019 from April to July 2020.

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

Generally, income tax returns are filed in mid-April each year, but the filing of TY 2019 tax returns was delayed due to the COVID-19 pandemic.[9] Income tax filings for TY 2020 returns were delayed from mid-April to mid-May 2021, still within FY 2021, due to the late enactment of the American Rescue Plan Act (ARPA), which included several tax changes impacting TY 2020 returns.

For FY 2022 through January, revenues from each component of the PIT relative to estimates and to revenue received in FY 2021 are detailed in the table below. FY 2022 gross collections were $432.8 million above anticipated revenue, with positive variances of $211.9 million from employer withholding, $135.6 million from quarterly estimated payments, $77.9 million from payments due with annual returns, and $12.0 million from miscellaneous payments. Those positive variances were partly offset by a shortfall of $4.7 million for payments from trusts. YTD refunds were $63.6 million below projections, but LGF distributions were $11.9 million above estimate. Thus, the YTD positive variance for the GRF was $484.4 million.

FY 2022 PIT Revenue Variance and Annual Change by Component

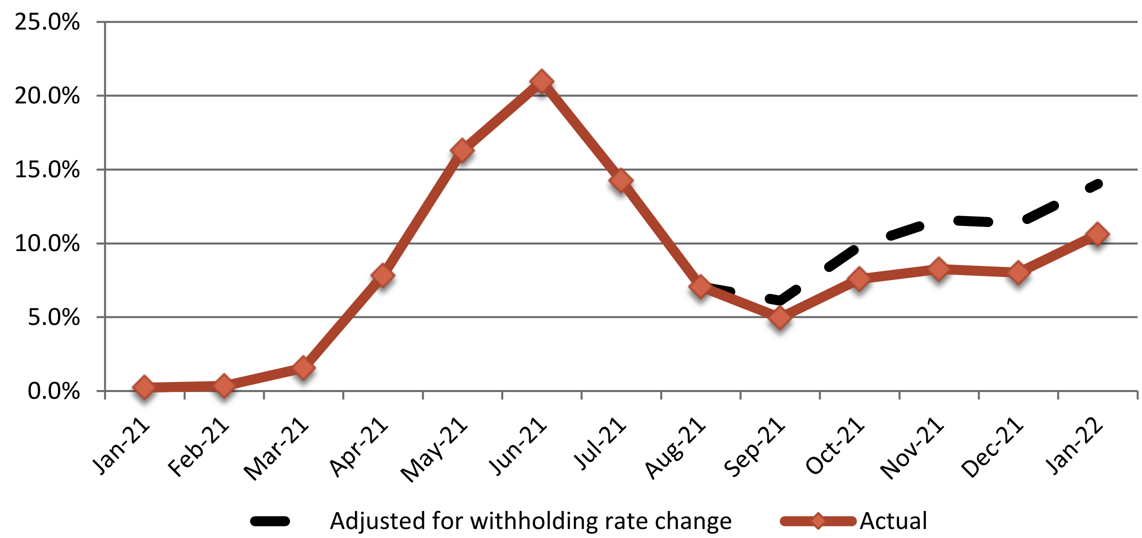
Category	YTD Variance from Estimate		Changes from FY 2021	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$211.9	3.8%	$388.3	7.1%
Quarterly Estimated Payments	$135.6	24.0%	-$39.4	-5.3%
Trust Payments	-$4.7	-13.6%	-$48.0	-61.5%
Annual Return Payments	$77.9	59.1%	-$526.2	-71.5%
Miscellaneous Payments	$12.0	32.0%	$11.9	31.6%
Gross Collections	$432.8	6.8%	-$213.4	-3.0%
Less Refunds	-$63.6	-11.8%	-$167.6	-26.0%
Less LGF Distribution	$11.9	4.4%	$15.1	5.7%
GRF PIT Revenue	**$484.4**	**8.7%**	**-$61.0**	**-1.0%**

[9] Among measures designed to help consumers and businesses weather 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 during the period of the Governor's emergency declaration. In response to enactment of the bill, the Tax Commissioner authorized an extension of the deadline to file state income taxes until July 15, 2020, matching the extended deadline for federal income tax returns.

Compared with the same period in FY 2021, gross collections fell $213.4 million in the first seven months of FY 2022. Employer withholding and miscellaneous payments were above their prior-year levels by $388.3 million and $11.9 million, respectively. However, revenue from annual returns, trust payments, and quarterly estimated payments fell $526.2 million, $48.0 million, and $39.4 million, respectively. FY 2022 refunds declined by $167.6 million relative to refunds in the year-earlier period, and LGF distributions were $15.1 million higher than in the corresponding period last year. Therefore, YTD PIT GRF revenue was $61.0 million less than receipts in FY 2021 through January.

The chart below illustrates the growth of actual employer withholdings received monthly, on a three-month moving average basis relative to one year ago. Withholding rates were decreased by 3% across the board beginning in September, as a result of a tax rate reduction in H.B. 110.[10] The dashed line in the chart, adjusted for the withholding rate change, approximates actual payroll growth in recent months which was stronger than growth of amounts withheld.

Chart 4: Monthly Witholding Receipts Trend
Change from Prior Year
(Three-month Moving Average)



Commercial Activity Tax

CAT GRF revenue of $87.1 million in January was $5.5 million (6.7%) above estimate and $26.9 million (44.7%) above revenue in the same month last year. The latest monthly performance brought the YTD positive variance for this tax source to $74.0 million (7.7%), up

[10] H.B. 110 enacted several changes that will decrease PIT revenue this fiscal year. Most significantly, H.B. 110 reduces income tax rates by 3% in TY 2021 and thereafter, except that it eliminates the top bracket and further reduces the tax rate to 3.99% (from 4.797% and 4.413% in the previous top and next-to-top brackets), for nonbusiness taxable income of $110,650 or more. The budget act also increases the income level at which the lowest tax bracket begins from $22,150 in TY 2020 to $25,000 in TY 2021. Nonbusiness taxable income below these levels incurs zero tax liability.

from $68.6 million through December. For the fiscal year, YTD GRF receipts were $1,036.5 million, $201.1 million (24.1%) above revenues in FY 2021 through January due to poor first-quarter receipts that year. (Low tax payments related to pandemic-related business closures and recession in spring 2020 showed up in that quarter because CAT payments are based on a company's gross receipts in the previous calendar quarter.) In the first quarter of FY 2022, GRF receipts were 31.1% above receipts in the corresponding quarter in FY 2021. In the second fiscal quarter, revenue growth slowed to 15.5% above the corresponding period a year earlier.

Through January, gross collections totaled $1.29 billion, an increase of $198.0 million (18.1%) relative to gross collections in the first seven months of FY 2021. Refunds were $62.5 million, a decrease of $40.2 million (39.1%) from FY 2021. (The reduction in refunds boosted GRF revenue growth.) Revenue credited to the Revenue Enhancement Fund (Fund 2280) was $8.2 million. (Money in the fund helps defray Ohio Department of Taxation costs of administering the CAT and other taxes.)

Under continuing law, CAT receipts net of refunds and transfers to Fund 2280 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%). YTD distributions to Fund 7047 and Fund 7081 were $158.5 million and $24.4 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 and the phase down of property taxes on public utility tangible personal property.

Cigarette and Other Tobacco Products Tax

Through January in FY 2022, GRF revenue from the cigarette and other tobacco products (OTP) tax totaling $485.4 million was above estimate by $0.3 million (0.1%). This total included $420.6 million from the sale of cigarettes and $64.8 million from the sale of OTP. For the month of January, receipts from this source of $70.4 million were $6.3 million (8.3%) below estimate and $1.7 million (2.4%) below revenue in January 2021.

FY 2022 YTD revenue was $16.8 million (3.3%) below year-earlier revenue. OTP sales increased by $5.7 million (9.6%) while receipts from cigarette sales decreased $22.5 million (5.1%). For OTP, the tax is an ad valorem tax, generally 17% of the wholesale price paid by wholesalers for the product; thus, revenue from that portion of the tax base grows with price increases. On a yearly basis, revenue from sales of cigarettes usually trends downward, generally at a slow pace, though monthly receipts may grow or decline from revenue in the year-earlier month.

Nontax Revenue

YTD GRF nontax revenue totaling $428.0 million was $293.0 million (216.9%) above estimate and $283.4 million (196.0%) above such revenue in the first seven months of FY 2021.

The year-over-year increase in revenue was due to "Other revenue." which was $289.8 million (286.1%) above estimate. As noted above, the large variance in "Other revenue" was due in part to a payment of federal COVID-19 relief funds to the GRF to pay the cost of pay and overtime for corrections officers in response to the public health emergency. Also, earlier in the fiscal year the GRF received excess payments from liquor profits from JobsOhio.[11]

FY 2022 earnings on investments were $2.2 million (11.9%) above estimate through January but $11.6 million (35.6%) below earnings in the corresponding period last year, primarily due to low interest rates implemented in 2020 when substantial parts of the economy were shut down in response to the pandemic.

[11] JobsOhio is a nonprofit corporation that operates and manages various economic development programs in Ohio. It is funded from the profits on sales of spirituous liquor, which JobsOhio receives through its long-term lease of the state's liquor franchise. JobsOhio makes an annual payment to the state GRF, an amount that varies based on annual growth in liquor profits.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2022
($ in thousands)
(Actual based on OAKS reports run February 1, 2022)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$754,408	$656,590	$97,817	14.9%
Higher Education	$192,213	$193,506	-$1,293	-0.7%
Other Education	$9,272	$8,189	$1,083	13.2%
Total Education	**$955,893**	**$858,285**	**$97,607**	**11.4%**
Medicaid	$1,699,498	$1,437,472	$262,026	18.2%
Health and Human Services	$125,210	$146,333	-$21,123	-14.4%
Total Health and Human Services	**$1,824,708**	**$1,583,805**	**$240,903**	**15.2%**
Justice and Public Protection	$259,475	$274,545	-$15,070	-5.5%
General Government	$46,899	$51,158	-$4,259	-8.3%
Total Government Operations	**$306,374**	**$325,703**	**-$19,329**	**-5.9%**
Property Tax Reimbursements	$0	$0	$0	---
Debt Service	$119,262	$120,062	-$800	-0.7%
Total Other Expenditures	**$119,262**	**$120,062**	**-$800**	**-0.7%**
Total Program Expenditures	**$3,206,236**	**$2,887,855**	**$318,381**	**11.0%**
Transfers Out	**$6,042**	**$2,400**	**$3,642**	**151.7%**
Total GRF Uses	**$3,212,278**	**$2,890,255**	**$322,023**	**11.1%**

*September 2021 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 2022 as of January 31, 2022
($ in thousands)
(Actual based on OAKS reports run February 1, 2022)

Program Category	Actual	Estimate*	Variance	Percent	FY 2021**	Percent
Primary and Secondary Education	$5,561,530	$5,185,773	$375,756	7.2%	$4,777,494	16.4%
Higher Education	$1,396,535	$1,424,140	-$27,605	-1.9%	$1,318,670	5.9%
Other Education	$62,228	$66,210	-$3,983	-6.0%	$49,175	26.5%
Total Education	**$7,020,292**	**$6,676,124**	**$344,168**	**5.2%**	**$6,145,339**	**14.2%**
Medicaid	$9,653,533	$9,690,285	-$36,752	-0.4%	$10,856,316	-11.1%
Health and Human Services	$897,243	$1,050,439	-$153,195	-14.6%	$840,498	6.8%
Total Health and Human Services	**$10,550,777**	**$10,740,724**	**-$189,947**	**-1.8%**	**$11,696,814**	**-9.8%**
Justice and Public Protection	$1,626,102	$1,759,211	-$133,109	-7.6%	$1,515,067	7.3%
General Government	$316,254	$358,565	-$42,311	-11.8%	$264,643	19.5%
Total Government Operations	**$1,942,356**	**$2,117,776**	**-$175,419**	**-8.3%**	**$1,779,711**	**9.1%**
Property Tax Reimbursements	$913,053	$922,665	-$9,612	-1.0%	$904,345	1.0%
Debt Service	$1,014,457	$1,019,088	-$4,631	-0.5%	$650,140	56.0%
Total Other Expenditures	**$1,927,510**	**$1,941,753**	**-$14,244**	**-0.7%**	**$1,554,485**	**24.0%**
Total Program Expenditures	**$21,440,935**	**$21,476,377**	**-$35,442**	**-0.2%**	**$21,176,348**	**1.2%**
Transfers Out	**$2,979,663**	**$2,950,400**	**$29,263**	**1.0%**	**$444,870**	**569.8%**
Total GRF Uses	**$24,420,598**	**$24,426,777**	**-$6,179**	**0.0%**	**$21,621,218**	**12.9%**

*September 2021 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2021.
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 February 7, 2022)

	Month of January 2022				Year to Date through January 2022			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,643,041	$1,350,010	$293,031	21.7%	$9,218,440	$9,206,740	$11,700	0.1%
Non-GRF	$1,123,885	$1,197,216	-$73,331	-6.1%	$8,655,188	$9,343,445	-$688,257	-7.4%
All Funds	$2,766,926	$2,547,226	$219,700	8.6%	$17,873,628	$18,550,185	-$676,557	-3.6%
Developmental Disabilities								
GRF	$48,795	$57,670	-$8,874	-15.4%	$375,837	$384,793	-$8,956	-2.3%
Non-GRF	$235,682	$232,010	$3,672	1.6%	$1,455,551	$1,482,808	-$27,257	-1.8%
All Funds	$284,477	$289,680	-$5,203	-1.8%	$1,831,388	$1,867,601	-$36,213	-1.9%
Job and Family Services								
GRF	$6,871	$28,926	-$22,055	-76.2%	$52,367	$91,627	-$39,260	-42.8%
Non-GRF	$12,897	$0	$12,897	---	$103,808	$86,035	$17,773	20.7%
All Funds	$19,767	$28,926	-$9,158	-31.7%	$156,175	$177,662	-$21,487	-12.1%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$791	$867	-$76	-8.7%	$6,888	$7,125	-$236	-3.3%
Non-GRF	$2,211	$3,385	-$1,175	-34.7%	$20,675	$28,616	-$7,941	-27.7%
All Funds	$3,001	$4,252	-$1,250	-29.4%	$27,564	$35,741	-$8,177	-22.9%
All Departments:								
GRF	**$1,699,498**	**$1,437,472**	**$262,026**	**18.2%**	**$9,653,533**	**$9,690,285**	**-$36,752**	**-0.4%**
Non-GRF	**$1,374,674**	**$1,432,611**	**-$57,937**	**-4.0%**	**$10,235,222**	**$10,940,904**	**-$705,682**	**-6.4%**
All Funds	**$3,074,172**	**$2,870,083**	**$204,088**	**7.1%**	**$19,888,755**	**$20,631,189**	**-$742,434**	**-3.6%**

*September 2021 estimates from the 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 February 7, 2022)

	Month of January 2022				Year to Date through January 2022			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$2,195,591**	**$1,931,894**	**$263,697**	**13.6%**	**$13,753,398**	**$14,041,980**	**-$288,581**	**-2.1%**
CFC†	$833,567	$696,463	$137,105	19.7%	$4,892,943	$4,937,832	-$44,889	-0.9%
Group VIII	$736,157	$629,897	$106,261	16.9%	$4,262,902	$4,330,935	-$68,033	-1.6%
ABD†	$301,710	$261,679	$40,031	15.3%	$1,819,127	$1,853,776	-$34,649	-1.9%
ABD Kids	$100,283	$90,012	$10,272	11.4%	$608,436	$589,019	$19,416	3.3%
My Care	$223,873	$253,845	-$29,972	-11.8%	$1,644,408	$1,678,816	-$34,408	-2.0%
P4P & Ins Fee†	$0	$0	$0	-	$525,582	$651,603	-$126,020	-19.3%
Fee-For-Service	**$671,186**	**$739,841**	**-$68,655**	**-9.3%**	**$4,839,405**	**$5,232,960**	**-$393,555**	**-7.5%**
ODM Services	$392,432	$437,829	-$45,396	-10.4%	$2,453,709	$2,680,675	-$226,966	-8.5%
DDD Services	$278,754	$283,512	-$4,758	-1.7%	$1,772,781	$1,806,513	-$33,732	-1.9%
Hospital - HCAP&Other†	$0	$18,500	-$18,500	-100.0%	$612,916	$745,773	-$132,857	-17.8%
Premium Assistance	**$111,996**	**$107,880**	**$4,116**	**3.8%**	**$729,375**	**$741,304**	**-$11,930**	**-1.6%**
Medicare Buy-In	$75,433	$71,202	$4,230	5.9%	$473,650	$486,218	-$12,567	-2.6%
Medicare Part D	$36,563	$36,677	-$114	-0.3%	$255,724	$255,086	$638	0.3%
Administration	**$95,399**	**$90,469**	**$4,930**	**5.4%**	**$566,577**	**$614,945**	**-$48,368**	**-7.9%**
Total	**$3,074,172**	**$2,870,083**	**$204,088**	**7.1%**	**$19,888,755**	**$20,631,189**	**-$742,434**	**-3.6%**

*September 2021 estimates from the Department of Medicaid.
†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; P4P & Ins Fee - Pay for Performance, and Health insurance provider fee; HCAP - Hospital Care Assurance Program.

Detail may not sum to total due to rounding.

Expenditures[12]

– *Melaney Carter, Director*

– *Ivy Chen, Principal Economist*

Overview

A significant positive monthly variance in GRF program expenditures in January of $318.4 million (11.0%) followed an even larger positive monthly variance in GRF program expenditures in December of $459.6 million (16.8%); so that the YTD negative variance in GRF program expenditures at the end of January fell to $35.4 million (0.2%). As was reported in the January issue of Budget Footnotes (PDF), December's positive variance was primarily in the Primary and Secondary Education category. As seen in Table 3 of this issue of *Budget Footnotes*, January's variance was primarily in Medicaid ($262.0 million, 18.2%), although Primary and Secondary Education also had a significant positive variance ($97.8 million, 14.9%). Most other program categories had negative monthly variances, partially offsetting these two significant positive variances, especially Health and Human Services, with a negative variance of $21.1 million (14.4%) and Justice and Public Protection, with a negative variance of $15.1 million (5.5%).

For the YTD, total program expenditures reached $21.44 billion at the end of January. All program categories were under estimate except for Primary and Secondary Education, which was above estimate by $375.8 million (7.2%). The largest negative YTD variances were in Health and Human Services ($153.2 million, 14.6%) and Justice and Public Protection ($133.1 million, 7.6%). In addition to program expenditures, total uses include transfers out. Transfers out totaled $2.98 billion YTD and had a positive YTD variance of $29.3 million (1.0%) at the end of January. Combining program expenditures and transfers out, total GRF uses for the first seven months of FY 2022 were $24.42 billion. These uses were $6.2 million below estimate. YTD variances are shown in the preceding Table 4, while Table 3 shows monthly variances. The rest of this section discusses both GRF and non-GRF variances in Medicaid and the GRF variances in a few other categories.

Medicaid

Medicaid is a joint federal-state program. It is mainly funded by the GRF but is also supported by several non-GRF funds. Both GRF and non-GRF Medicaid expenditures contain federal and state dollars. GRF Medicaid expenditures were above their monthly estimate in January by $262.0 million (18.2%) but remained below their YTD estimate by $36.8 million (0.4%) at the end of January. Non-GRF Medicaid expenditures were below their monthly estimate, by $57.9 million (4.0%), and below their YTD estimate by $705.7 million (6.4%) at the end of January. Including both the GRF and non-GRF, all funds Medicaid expenditures were $204.1 million (7.1%) above estimate in January and $742.4 million (3.6%) below their YTD estimate at the end of January.

[12] 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.

Table 5 shows GRF and non-GRF Medicaid expenditures for The Ohio Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had an all funds positive variance in January of $219.7 million (8.6%), which brought ODM's YTD negative variance to $676.6 million (3.6%) at the end of January. ODODD had a January all funds negative variance of $5.2 million (1.8%) and ended the month with YTD expenditures $36.2 million (1.9%) below estimate. The other six "sister" agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining 1% of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for all of the four major payment categories at the end of January. Fee For Service (FFS) had the largest negative YTD variance of $393.6 million (7.5%), which was largely caused by below estimate FFS caseloads and lower than expected payments in the Hospital Care Assurance Program (HCAP). Under HCAP, the state makes subsidy payments to hospitals that provide uncompensated care to low-income and uninsured individuals at or below 100% of the federal poverty level. These payments are under estimate because of the final Centers for Medicare and Medicaid Services' allowable amounts, which were lower than was estimated for these payments.

FFS's largest negative variance was followed by Managed Care's negative YTD variance of $288.6 million (2.1%). A portion of Managed Care's negative variance in December was caused by a $126.0 million negative variance in Pay for Performance and Health Insurance Provider Fee (P4P & Ins Fee); that amount still accounts for nearly half of the Managed Care YTD variance at the end of January.

Administration and Premium Assistance rounded out the negative YTD variances among all payment categories with negative variances of $48.4 million (7.9%) and $11.9 million (1.6%), respectively.

From the beginning of the COVID-19 pandemic in March 2020 through the end of January 2022, caseloads have increased by approximately 24,400 cases per month, on average. According to ODM, nearly all of the caseload variance has been due to the suspension of routine redeterminations of eligibility required as a condition of receiving increased financial assistance from the federal government and an increase in the number of new applications and approvals due to the economic impacts of the COVID-19 pandemic. Despite the increasing trends in monthly caseloads, caseloads were under ODM estimate for each of the first four months of FY 2022. November, December, and January, however, have had positive caseload variances, with January's positive variance of 20,507 cases (0.6%) bringing the FY 2022 average caseload to approximately 1,700 cases (0.1%) above estimate.

Primary and Secondary Education

This program category contains all GRF spending by the Ohio Department of Education (ODE), except for property tax reimbursement and Medicaid spending. In December, this category was over estimate by $342.0 million (37.7%), and in January this category was over estimate by $97.8 million (14.9%). At the end of January, this category had a positive YTD variance of $375.8 million (7.2%). This YTD variance is a result of a positive YTD variance of $402.1 million in ALI 200550, Foundation Funding – All Students, plus some smaller positive variances being partially offset by some negative variances in other ALIs.

ALI 200550 had positive monthly variances of $77.7 million in December and $131.9 million in January. This ALI is the main source of state support for public schools, including those operated by traditional school districts, joint vocational school districts, and community and science, technology, engineering, and mathematics (STEM) schools, as well as for the state's scholarship programs for students attending chartered nonpublic schools. A second GRF ALI, 200502, Pupil Transportation, is primarily used to support the transportation part of the school funding formula. ALI 200502 had a positive variance of $264.2 million in December, which offset negative variances from earlier in the year, and a negative variance of $36.3 million in January, which partially offset December's variance. For the YTD, this ALI was $3.8 million over estimate at the end of January.

Formula payments are made twice a month for traditional districts and once a month for other schools. With the January payments, ODE started using the new formula enacted in H.B. 110. The payments during the first half of the fiscal year were based on the prior formula. Under the new formula, some schools and some districts are to receive more or less on some components of the formula than what had been calculated under the old formula, so ODE started to make adjustments to the payments beginning in January. If ODE calculated that a school or district was underpaid on a specific component for the first half of the year, ODE made up the difference in the January payment. If, however, ODE calculated that a school or district was overpaid on a specific component for the first half of the year, ODE is recouping the overpayment gradually over the remaining months of the fiscal year. As a result, the January payments were higher than the estimates. For traditional districts, the first January payment posted in December, resulting in the positive variance in that month.

Health and Human Services

This program category includes all GRF spending for non-Medicaid health and human services programs, except for debt service. The Ohio Department of Job and Family Services (ODJFS) accounts for 53.5% of the estimated expenditures for this category for FY 2022, followed by the Ohio Department of Mental Health and Addiction Services (OhioMHAS) at 29.4% and the Ohio Department of Health at 8.8%. Eight other agencies make up the remaining 8.3% of estimated spending.

Except for a small positive variance in December, this category has consistently been under estimate in FY 2022. It had the largest negative YTD variance at the end of January, at $153.2 million (14.6%). This negative variance comes primarily from ODJFS, which had a negative YTD variance of $107.4 million at the end of January.

Significant variances for ALIs in the ODJFS budget include:

- A positive monthly variance of $2.1 million in ALI 600450, Program Operations, which decreased the negative YTD variance for this ALI to $34.7 million. This ALI primarily supports the operating expenses of several of the offices within ODJFS.
- A negative monthly variance of $2.1 million in ALI 600523, Family and Children Services, which increased the negative YTD variance for this ALI to $26.8 million. This ALI is used primarily to support county public children services agencies.

- A negative monthly variance of $14.8 million in ALI 600535, Early Care and Education, which more than offset a positive variance of $8.6 million in this ALI in December and increased the negative YTD variance for this ALI to $18.9 million. This ALI is used for publicly funded child care.
- A negative monthly variance of $2.1 million in ALI 600410, TANF State Maintenance of Effort, which increased the negative YTD variance for this ALI to $11.1 million. This ALI is used in conjunction with other sources of funding to support Ohio's Temporary Assistance for Needy Families (TANF) Program.

Justice and Public Protection

This program category includes all GRF spending for justice and public protection programs, except for debt service. The Ohio Department of Rehabilitation and Correction (DRC) accounts for 70.5% of the estimated expenditures for this category for FY 2022. Eleven other agencies make up the remaining 29.5% of estimated spending.

At the end of January, this category was under estimate by $133.1 million (7.6%), a negative YTD variance that rose in January by $15.1 million. The negative January variance was driven by a timing-related negative variance of $10.9 million for the Attorney General (AG). DRC continues to dominate the negative YTD variance in this category, with a negative YTD variance of $82.6 million at the end of January, in spite of a positive variance of $6.7 million for the month of January. Most other agencies in this category also had negative YTD variances at the end of January.

The monthly variance for the AG is primarily from a negative variance of $10.7 million in ALI 055509, Law Enforcement Reimbursement Training Pilot Program. This ALI provides partial reimbursement to law enforcement agencies for the salaries of peace officers and troopers while they undergo required training during a one-year pilot. The reimbursement payments were estimated to begin in January, but the start of these payments has been delayed to February.

DRC's variances were mainly due to positive January variances of $3.0 million in ALI 501321, Institutional Operations, and $5.1 million in ALI 505321, Institution Medical Services, leaving these ALIs with negative YTD variances of $65.8 million and $9.0 million, respectively. ALI 501321 is used primarily for the operating costs of Ohio's prisons, including facility maintenance, support services, security, and management. ALI 505321 is used to provide medical services to inmates of the state's prisons.

Transfers Out

Cash transfers out of the GRF to other state funds were above estimate by $3.6 million (151.7%) in January and $29.3 million (1.0%) YTD. In January, a transfer of $6.0 million was made from the GRF to the Information Technology Development Fund (Fund 5LJ0). The estimates have this transfer occurring in March instead of January. On the other hand, the estimates have a transfer of $2.4 million from the GRF to the OAKS Support Organization Fund (Fund 5EB0) occurring in January, which did not take place.

The remaining variance in transfers out at the end of January primarily includes:

- $14.0 million transferred to the Targeted Addiction Program Fund (Fund 5TZ0) in October, which the estimates have occurring in February;

- $8.3 million transferred to the Ohio Incumbent Workforce Job Training Fund (Fund 5HR0) in August that was authorized in Section 259.80 of H.B. 110, but not included in the estimates; and
- $2.8 million transferred to the Major Information Technology Purchases Fund (Fund 4N60) in October that was authorized in Section 207.40 of H.B. 110, but not included in the estimates.

Issue Updates

ODE Approves Academic Improvement Plans for School Districts with Academic Distress Commissions

– Sarah Darnell, Budget Analyst

In December 2021, ODE approved three-year academic improvement plans for East Cleveland City School District (CSD), Lorain CSD, and Youngstown CSD. The three districts, each currently under the oversight of an academic distress commission (ADC) for persistently low academic performance, were required by H.B. 110 to submit academic improvement plans, with academic improvement benchmarks, to the Superintendent of Public Instruction as part of a process that allows the districts to exit their status as an ADC district prior to meeting the conditions otherwise established in law. Now that the Superintendent has approved the plans, each district's school board is responsible for implementing them beginning on July 1, 2022 (the start of FY 2023). Each district's ADC will provide assistance to the district but will not have any operational or managerial control while the district is implementing its improvement plan.

The plans include annual and overall academic improvement benchmarks and strategies to achieve those benchmarks. Each district has a host of benchmarks focused on increasing the number of students meeting typical growth targets in core subjects or performing proficient or above on state tests. Each district also includes benchmarks related to the performance index on state report cards, graduation rate, and chronic absenteeism. The table below summarizes each district's baseline (generally based on performance in FY 2021) and the benchmark goal for FY 2025 on these select benchmarks, as reported in the academic improvement plans. The strategies to achieve the benchmarks include actions related to curriculum development, staff support and development, student support, and partnerships with families and the community. The final approved plans and approval letters for each school district are available on ODE's Academic Distress Commission website.

District Performance Goals for Select Benchmarks in Academic Improvement Plans

School District	Fiscal Year	Performance Index Percentage*	Four-year Graduation Rate	Chronic Absenteeism
East Cleveland CSD	Baseline	35.2%	80.0%	62.3%
	FY 2025 goal	60.0%	86.0%	20.0%
	Difference	24.8 point increase	6.0 point increase	42.3 point decrease
Lorain CSD	Baseline	41.6 points	76.3%	63.5%
	FY 2025 goal	66.6 points	78.7%	20.0%
	Difference	25.0 point increase	2.4 point increase	43.5 point decrease

District Performance Goals for Select Benchmarks in Academic Improvement Plans				
School District	Fiscal Year	Performance Index Percentage*	Four-year Graduation Rate	Chronic Absenteeism
Youngstown CSD	Baseline	32.4%	87.3%	63.0%
	FY 2025 goal	47.0%	93.0%	20.0%
	Difference	14.6 point increase	5.7 point increase	43.0 point decrease

* Lorain CSD reported the performance index in points, rather than a percentage. As a point of reference, Lorain CSD's FY 2021 performance index percentage was 34.7%.

The State Board of Education must evaluate a district's performance at the end of the three-year period. If the district improves but does not meet at least a majority of the academic improvement benchmarks, the district board may apply to the Superintendent for up to two one-year extensions. If a district meets a majority of the academic improvement benchmarks at the end of the initial evaluation or after an extension, the ADC is dissolved. Otherwise, the district once again becomes subject to an ADC.

Remediation Rates of First-time Ohio Public College and University Students Continue to Decline

– Jason Glover, Budget Analyst

In December 2021, the Department of Higher Education (DHE) and ODE released their annual report on remediation coursework. The 2021 Ohio Remediation Report shows a continued decline in the number of first-time public university and community college students requiring remedial coursework in mathematics and English. The table below illustrates the drop in the percentage of such students between academic year 2016-2017 and academic year 2020-2021. Among the four subject areas listed in the table, the percentage of students enrolled in either a remedial mathematics or English course, the broadest remediation rate measure, declined over this period by 8.8 percentage points, from 28.1% in academic year 2016-2017 to 19.3% in academic year 2020-2021. The declines in more specific areas were somewhat smaller, ranging from 8.3 percentage points for students needing remediation in mathematics only to 4.1 percentage points for students needing remediation in both mathematics and English.

Remediation Rates of First-time Ohio Public College or University Students by Subject Area and Academic Year		
Subject Area	2016-2017	2020-2021
Remedial mathematics or English	28.1%	19.3%
Remedial mathematics only	24.0%	15.7%
Remedial English only	12.2%	7.5%
Remedial mathematics and English	8.1%	4.0%

The report recommends continuing the same seven strategies from the 2020 report to further the trend of decreased enrollment in college remediation coursework: (1) continuously review remediation data and respond with interventions in key academic areas from Pre-K through higher education, (2) emphasize to students the importance of attendance and the effectiveness of early interventions, (3) strengthen advising support for all students, (4) ensure more high school graduates are ready for college through the use of transition classes that address academic gaps in high school, (5) review and implement strategies to close the access and achievement gaps among specific groups of students, such as students of color, English learners, economically disadvantaged, rural students, students over age 25, and students with disabilities, (6) improve student success in entry-level courses by aligning mathematics to academic programs of study, and (7) continue the development, implementation, and evaluation of co-requisite strategies (when a student enrolls in both remedial and credit-bearing courses in the same subject at the same time) to support underprepared students.

$282 Million in Federal Funds Available for 9-8-8 Transition

– Wendy Risner, Division Chief

On December 20, 2021, the U.S. Substance Abuse and Mental Health Services Administration (SAMHSA) announced that $282.0 million will be made available to help transition the National Suicide Prevention Lifeline from its current ten digit dialing code to the new federally required three-digit 9-8-8 dialing code. Of this amount, $177.0 million will be used to strengthen and expand existing Lifeline operations and infrastructure that will include developing a centralized text response and backup center capacity. The remaining $105.0 million will be used to increase staffing at local crisis call centers to help improve local response rates, to provide follow-up with callers, and to sufficiently train staff and volunteers. The majority of funds to support these efforts come from ARPA. However, other budgeted federal funds will also be used.

The National Suicide Prevention Lifeline, established in 2004, is a confidential 24/7 telephone line that can currently be reached at 1-800-273-TALK. It connects individuals in crisis with trained counselors across the United States and provides referrals to local treatment facilities, support groups, and community-based organizations. The National Hotline Designation Act, which was signed into law in 2020, designated 9-8-8 as the new universal telephone number for the national suicide prevention and mental health crisis hotline system. The 9-8-8 number will be available to anyone using a cellular telephone, landline, or voice-over internet device by July 16, 2022. The transition is intended to prevent suicides and help address mental health crises by having an easy to remember telephone number that can connect people in crisis with necessary services. Once implemented, it is hoped that the transition could also result in fewer arrests or criminal justice encounters and reduce unnecessary emergency department hospitalizations or visits. For more information, please refer to SAMHSA's 9-8-8 Appropriations Report (PDF). States are currently in the process of implementing this transition. OhioMHAS is responsible for planning and implementing the transition in Ohio.

Ohio Receives $88.0 Million in a Multistate Settlement with Navient for Student Loan Misconduct

– Jessica Murphy, Budget Analyst

On January 13, 2022, the AG, along with 38 other state attorneys general, announced a $1.85 billion multistate settlement (PDF) with Navient, one of the nation's largest student loan servicers. Ohio's portion of the settlement totals $88.0 million. The settlement resolves claims that the company violated consumer protection laws during the servicing of student loans and engaged in predatory lending practices. The settlement was led by Pennsylvania, Washington, Illinois, Massachusetts, and California and included debt cancellation, restitution, certain reimbursable costs related to the case, and conduct reforms. Qualifying loans include those made by Navient or its predecessor, Sallie Mae, between 2002 and 2014 to students at certain for-profit schools.

The Ohio portion of the settlement requires Navient to cancel a total of $81.8 million in delinquent private student loans and is expected to benefit more than 3,500 borrowers statewide. The average loan balance per borrower is about $25,750, and some borrowers may have more than one loan canceled. Additionally, approximately $5.3 million will be provided as restitution payments of $260 to 19,800 federal loan borrowers who were impacted by Navient's alleged misconduct between 2009 and 2017 which resulted in higher repayment costs for certain borrowers.[13] The remaining $885,728 of the state's portion represents payment for Ohio's costs and fees related to the case. These funds will be credited to the AGO's Consumer Protection Enforcement Fund (Fund 6310) to fund services and activities that protect consumers from illegal business practices.

Restitution payments and debt cancellation notices will be made automatically by the settlement administrator and are expected to occur by mid-2022.

ODOT and Ohio EPA Announce Diesel Emission Reduction Grant Awards

– Terry Steele, Senior Budget Analyst

In December 2021, the Ohio Environmental Protection Agency (Ohio EPA) and Ohio Department of Transportation (ODOT) announced $9.1 million in Diesel Emission Reduction Grant (DERG) awards for FY 2022. These grants, summarized in the table below, were awarded to six different regional transit authorities to assist in the replacement of 25 aging diesel transit buses with newer, cleaner diesel buses or alternative fuel technology buses.

[13] This included individuals who were steered toward long-term forbearance of loans that were eligible for income-driven repayment.

DERG Awards – FY 2022			
Grant Recipient	**County**	**Grant Amount**	**Percentage Cost of Acquisition**
Central Ohio Regional Transit Authority (COTA)	Franklin	$1,966,240	80% of four new buses
Greater Cleveland Regional Transit Authority (GCRTA)	Cuyahoga	$1,969,976	61% of six new buses
Greater Dayton Regional Transit Authority (GDRTA)	Montgomery	$1,215,672	80% of three new buses
METRO Regional Transit Authority (METRO)	Summit	$854,889	80% of two new buses
Portage Area Regional Transportation Authority (PARTA)	Portage	$1,105,746	70% of three new buses
Stark Area Regional Transit Authority (SARTA)	Stark	$2,000,000	80% of seven new buses
	Total	**$9,112,523**	**79% of 25 new buses**

DERGs are administrated jointly by Ohio EPA and ODOT and funded through the Federal Highway Administration's Congestion Mitigation and Air Quality (CMAQ) Program. These grants are paid from the Highway Operating Fund (Fund 7002) appropriation item 771412, Planning and Research – Federal, in ODOT's budget. To be eligible, the grant recipient must provide a minimum of 20% in matching funds, which cannot be sources from other federal funds or from in-kind services, and the recipient's equipment must be operating in Ohio CMAQ areas for at least 65% of the time. There are 35 counties in Ohio that are eligible to apply for DERG awards.

ODJFS Announces $150 Million to Support Child Care

– Nicholas J. Blaine, Senior Budget Analyst

On December 1, 2021, ODJFS announced $150 million in grant funding will be made available to child care providers to help cover unexpected business costs related to the COVID-19 pandemic and to help stabilize operations. The grants cover three areas: Operating/New Pandemic Costs, Workforce Recruitment/Retention, and Child Access Development. The Operating/New Pandemic Costs grant will provide assistance with costs related to the COVID-19 pandemic incurred between January 31, 2020, and June 30, 2022. Examples of costs include: personnel and ongoing costs such as rent and utilities, facility maintenance or renovations that address COVID-19 concerns or that make child care programs more inclusive and accessible for those with disabilities, and the purchase of personal protective equipment, classroom dividers, temporary sinks, or cleaning supplies that are used to facilitate safety protocols. The Workforce Recruitment/Retention grant will support personnel costs (e.g., wages, benefits, sign-on and retention bonuses, and costs for background checks and training) incurred from December 1, 2021, through June 30, 2022. Lastly, the Child Access Development grant will help increase access to child care. Specifically, funds will be used to expand the number of classrooms or to reopen those closed due to the pandemic, expand hours of operation, increase access to technology, and address learning gaps in school-age children. Eligible child care programs have until May 31, 2022, to apply for funding.

Funding for the grants is provided by ARPA. Eligible entities include: child care centers, family child care type A and B homes, in-home aides, approved day camps regulated by ODJFS, and licensed preschool and school-age programs licensed by ODE that are also approved to provide publicly funded child care (PFCC). ODJFS regulated child care programs are eligible for funding regardless of whether they provide PFCC.[14]

Controlling Board Approves $6.6 Million in ARPA Funds for TourismOhio

– Jared Cape, LSC Fellow

On January 10, 2022, the Controlling Board approved a Department of Development request to appropriate $6.6 million in federal ARPA funds to support additional Office of TourismOhio marketing initiatives. Specifically, the approved request appropriates $2.3 million for FY 2022 and $4.3 million for FY 2023 under federal Fund 3080 appropriation item 1956A8, ARPA Tourism Grant Program. With this funding, TourismOhio will be able to (1) resume international marketing through partnerships with regional state tourism divisions, (2) update the TourismOhio website, and (3) expand advertising into more markets.

The Office of TourismOhio, within the Department of Development, supports the tourism industry through marketing, advertising, and industry collaboration. State funding for TourismOhio is supported by transfers from the GRF to the TourismOhio Administration Fund (Fund 5MJ0). Under H.B. 110, $15.0 million was transferred from the GRF to Fund 5MJ0 in July 2021. According to TourismOhio, in calendar year (CY) 2019, visitor spending totaled $48 billion and employed over 430,000 people. Due to the COVID-19 pandemic, visitor spending fell by $10 billion and tourism employment was down 12% in CY 2020.

[14] PFCC helps eligible families pay for child care services. Families pay a copayment based on family size and monthly income.

Tracking the Economy

– Eric Makela, Economist

Overview

The latest economic expansion continued through the fourth quarter of 2021, when inflation-adjusted gross domestic product (real GDP) increased at its fastest pace of the year, a seasonally adjusted annual rate of 6.9%. Nationally, the unemployment rate was up slightly, to 4.0%, though employers added a seasonally adjusted 467,000 nonfarm payroll positions. Despite year-over-year inflation of 7.0%,[15] overall industrial production (+3.7%) and the personal income (PI) of U.S. residents (+7.3%) posted above-trend growth during 2021. In their meeting during the last week in January, the Federal Reserve Board Open Market Committee (FOMC) met to discuss monetary and fiscal policies; the committee retained the current federal funds interest rate target and moved to make further changes to their asset purchasing strategies. Federal fiscal policy, in the form of the Infrastructure Investment and Jobs Act of 2021 (IIJA), will provide additional economic stimulus over the next five years (see below for more detail).

Ohio's nonfarm payroll employment increased by 8,800 in December, and the unemployment rate further decreased to 4.5%. Most industries added workers during 2021, supporting an expansion of the labor force and fewer unemployed persons. According to survey results published by the Federal Reserve Board, economic conditions in the Cleveland bank's region continued to improve, though a number of industry contacts noted that a scarcity of materials and other inputs applied upward pressure on costs and consumer prices in December and January. The state's housing market remained heated through the end of 2021; both unit sales (+5.2%) and average sale prices (+12.3%) increased significantly, as compared to 2020.

The National Economy

Nonagricultural payroll employment increased by a seasonally adjusted 467,000 in January, as most major sectors of the labor market added workers to begin the new calendar year; the national unemployment rate was 4.0%. Private service-providing industries added 440,000 positions in January, while governments (+23,000) and goods-producing industries (+4,000) also added jobs. On a seasonally adjusted basis, estimated job growth in leisure and hospitality (+151,000) and professional and business services (+86,000) was particularly robust. The trade, transportation, and utilities industries (+132,000) also added jobs at a notable clip. Among goods-producing industries, only manufacturing (+13,000) employers augmented their workforces on net in January, as the construction (-5,000) and mining (-4,000) industries reduced staffing.

Effective with the Bureau of Labor Statistics (BLS) data release on February 4, 2022, updated population estimates were incorporated into one of the two surveys comprising the national employment and unemployment estimates. The increase in previously estimated population growth increased the estimated size and composition of the national labor force during 2021. The adjustments increased BLS's December calculation of the number of workers by 1,471,000, the number of unemployed persons by 59,000, and the civilian labor force by

[15] As measured by a rise in the consumer price index (CPI) for all items from December 2020 to December 2021.

1,530,000[16]; estimates of the unemployment rate were unaffected (due to increases in both the numerator and the denominator of the calculation). Historical payroll estimates from the establishment survey were also updated. Chart 6 incorporates the revised numbers, showing U.S. employment and unemployment in recent years.

In their most recent meeting ending January 26, the FOMC announced the federal funds target interest rate would remain between 0% and 0.25%, though the committee did indicate projected economic conditions would soon support an increase in the rate. In a press release, the FOMC reiterated its commitment to achieving maximum employment and long-run inflation of 2%. The committee announced a reduction in its current pace of asset purchases, as well as a planned increase in its holdings of U.S. Treasury and mortgage-backed securities, with a goal of continuing to facilitate the flow of credit to financial institutions, businesses, and households.

Real GDP increased at an annual rate of 6.9% in the fourth quarter of 2021, the fastest rate of growth in domestic output since the third quarter of 2020. The up-tempo expansion was spurred by annualized growth of 32.0% in gross private domestic investment, though exports also rose at a strong 24.5% annual rate during the quarter. Personal consumption expenditures increased at a seasonally adjusted annual rate of 3.3% in the fourth quarter, driven largely by a 4.7% rate of increase in consumer spending on services.

During the fourth quarter, PI of residents increased at a 2.1% annual rate.[17] The rate of overall growth was moderated by a decline in proprietors' income, as well as further reductions in personal current transfer receipts. A continuation in strong growth of wages and salaries (+9.8%) and rental income (+12.0%) supported the overall 2.1% rate of growth. However, inflationary pressures have somewhat mitigated growth in the purchasing power of PI. Real PI, excluding transfer receipts, a measure of the purchasing power of earned PI, rose at only a 0.6% annual rate during the fourth quarter of 2021.[18]

Industrial production, as measured by the Federal Reserve Board's industrial production index (IPI), contracted by 0.1% in December, with a 2.0% expansion in the mining component unable to offset production decreases in manufacturing (-0.3%) and utilities (-1.5%). Between December 2020 and December 2021, total industrial production increased 3.7%. Among market groups, the IPI for consumer goods dipped 0.2% year-over-year; however, production of business equipment (+3.7%), construction supplies (+4.4%), and materials (+4.9%) all met or surpassed aggregate growth.

In December, the CPI for all items rose 0.5%; the inflation index was up 7.0% during the last year, the largest 12-month increase in consumer prices since 1982, when inflation reached 8.4%.[19] The CPI food index was up 6.3% in the year leading up to December 2021, and the energy index

[16] These estimates were compiled by a monthly national survey of households. The employment figures differ in certain respects from numbers compiled from a similar monthly national survey of employer establishments. One of the differences, for example, is that the employer survey does not count farm workers.

[17] PI, as measured by the Bureau of Economic Analysis, is receipts from all sources including wages, salaries, rental income, proprietor's income, dividend and interest income, and transfer receipts. "Transfer receipts" are payments to individuals from business or government, such as Social Security payments or unemployment compensation, for example.

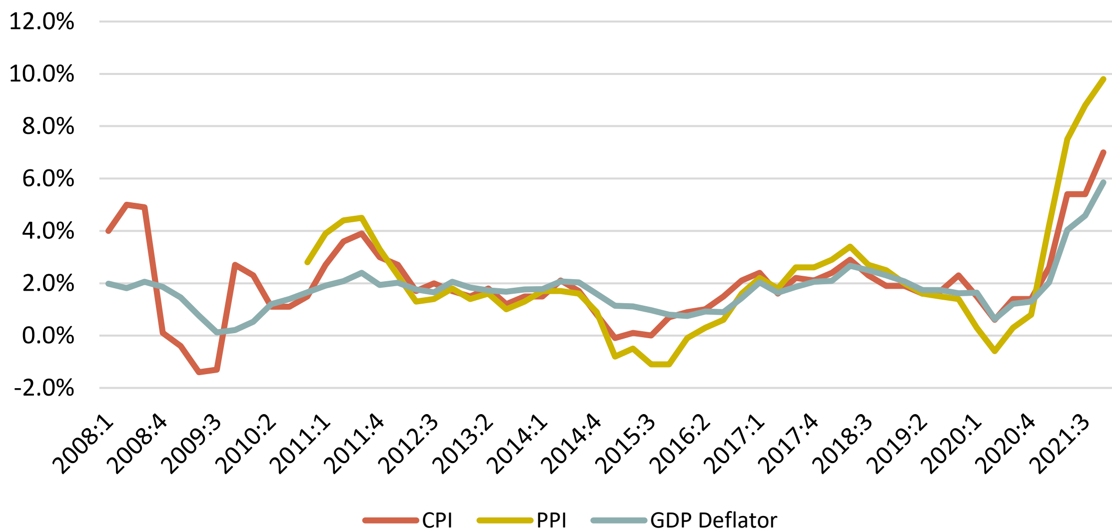
[18] All growth percentages in this paragraph are seasonally adjusted at annual rates.

[19] CPI measures changes in the prices paid for goods and services purchased by consumers.

increased 29.3% during that time.[20] Excluding energy services, the CPI for services increased 3.7% from December 2020 to December 2021, with increases in prices of transportation services (+4.2%) and medical care services (+2.5%) running cooler than headline CPI. Price increases among commodities varied significantly over the last year, though the indexes for apparel (+5.8%), alcoholic beverages (+2.3%), and smoking products (+9.0%) all rose.

Alternative measures of inflation also indicate a general rise in price levels. According to the producer price index (PPI), prices for final demand goods and services were up 9.8% in the 12-month period ending in December.[21] The GDP deflator, a measure of the price level commonly utilized by government and businesses to measure the cost of living, was 5.9% higher in the fourth quarter of 2021 than a year prior.[22] Chart 5 compares the year-over-year changes in these various inflation measures since 2008.[23]

Chart 5: Year-over-year Percent Change in National Price Indexes



The Ohio Economy

Nonfarm payroll employment grew by 8,800 (0.2%) in December, as job gains among the state's private-sector employers (+11,600) outpaced job losses within government (-2,800).

[20] The food index includes food purchases for both home and "away from home" consumption; the energy index includes commodities such as gasoline and other fuels, as well as energy services such as electric and gas utilities.

[21] PPI measures the average change over time in the selling prices received by domestic producers for their output. Data are from a survey of businesses and include prices on the first commercial transaction for finished products and services, whether those transactions originate from consumer demand, capital investment, government consumption, or export.

[22] The GDP deflator is calculated as nominal GDP divided by real GDP and captures the increase in prices for all market goods and services produced in the country.

[23] CPI and PPI in Chart 5 are displayed quarterly, based on the last month of each quarter. For example, the leftmost data point is the percent change in CPI from March 2007 to March 2008 (4.0%).

Employers in the construction industry added a seasonally adjusted 5,700 (+2.4%) jobs in December; manufacturing employment dipped by 600 (-0.1%) during the month. Employment gains in December were led by employers in professional and business services (+6,600, +0.9%), where significant employment increases occurred in administrative and support and waste management and remediation services (+5,300, +1.7%), as well as in professional, scientific, and technical services (+1,500, +0.6%). In December, seasonally adjusted job losses in leisure and hospitality (-1,300, -0.3%) were headlined by those in the arts, entertainment, and recreation industries (-3,200, -4.5%). Agencies at all three levels of government cut jobs during the month, where losses within state government (-2,000, -1.2%) outpaced declines among local (-500, -0.1%) and federal (-300, -0.4%) entities.

The table below headlines changes in employment levels in major sectors of the economy during 2021.[24] By percentage growth from December 2020, the greatest employment increase during the year was in leisure and hospitality (+10.1%), followed by construction (+7.7%) and professional and business services (+3.6%). In 2021, growth in total employment (+127,600, +2.4%) came from growth in both the public (+10,700, +1.4%) and private (+116,900, +2.6%) sectors.

Year-over-year Employment Growth in Ohio			
Sector/Industry	December 2021 Employment	Year-over-year Net Change	% Change
Construction	239,300	+17,100	+7.7%
Manufacturing	660,300	+2,700	+0.4%
Trade, transportation, and utilities	1,054,100	+25,700	+2.5%
Information	64,500	+1,900	+3.0%
Financial activities	303,500	-2,600	-0.8%
Professional and business services	721,100	+24,900	+3.6%
Educational and health services	889,900	-1,000	-0.1%
Leisure and hospitality	517,900	+47,600	+10.1%
Government	753,600	+10,700	+1.4%
Federal	79,700	+300	+0.4%
State	159,800	-100	-0.1%
Local	514,100	+10,500	+2.1%
Total Nonagricultural	**5,405,400**	**+127,600**	**+2.4%**

Note: Data are from seasonally adjusted series for selected industries. Subcategories do not round to total due to the table's omission of the mining and logging industry, as well as other, nonclassified services.

[24] Changes measured between December 2020 and December 2021, as measured by the Establishment Survey conducted by the BLS.

Ohio's seasonally adjusted unemployment rate decreased 0.3 percentage point in December, to 4.5%. The unemployment rate in most of Ohio's neighboring states also decreased by 0.3 percentage point during the month (Indiana, Michigan, Pennsylvania, and West Virginia), signaling a moderate downward trajectory of measured joblessness across the region. In December, the seasonally adjusted number of unemployed persons decreased (by approximately 18,900) and the number of persons in the labor force rose (by approximately 15,100), causing the state's unemployment rate to fall.[25] Chart 7 displays the state's nonfarm employment level and unemployment rate in recent years.

The housing market in Ohio was "remarkably strong, as the sector posted healthy gains in both the number of homes sold and average price in 2021," according to Ohio Realtors President John Mangas and the association's monthly press release. The total dollar volume of existing home sales in Ohio increased 18.1% in 2021 as compared with 2020, and the dollar value of transactions topped $40.5 billion on nearly 170,000 units. The total number of units sold in 2021 increased 5.2% year-over-year, and the average sale price increased 12.3%. In 2021, the average sale price of new and existing residential single family homes and condominiums processed through Multiple Listing Service was $239,295.

Enacted in November 2021, the IIJA will provide federal funding for a range of capital projects around the state. According to a document on the White House website, based solely on formula funding, state and local authorities in Ohio are expected to receive roughly $12.75 billion in federal dollars over the first five years of the program. The funding is available for federal-aid highway projects, bridge replacement and repairs, public transportation initiatives, improvement of broadband access, safe water infrastructure projects, and airport infrastructure. The state and its political subdivisions are also eligible to apply for additional federal grants through a series of programs targeting specific infrastructure needs.

Economic growth in the Cleveland Federal Reserve District continued at a moderate pace during the most recent survey period, though the expansion varied notably by industry.[26] Labor demand continued to outpace labor supply in the district's job market, causing wages to rise; nearly 70% of business contacts reported pay increases in the last two months. Nonlabor input costs increased for roughly 75% of contacts. Consumer spending increased modestly during the survey period, with retailers, restaurateurs, and hoteliers reporting strong demand or increased sales. Growth in demand for manufactured products remained solid; any spots of softness reported by contacts were the result of limited availability of essential manufacturing inputs. Industrial real estate continued to be in high demand during the survey period, and office occupancy rates continued to decrease according to contacts. In the financial services market, lenders noted a slight decrease in demand for mortgages and auto financing, as rising prices in those product markets impacted consumer decisions. Demand for human resources and information technology software remained sound; a number of other professional services

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[25] The unemployment rate is calculated as the number of unemployed persons (those who do not have a job but have searched for work in the previous four weeks) divided by the civilian labor force (the number of unemployed persons plus the number of employed persons).

[26] The Federal Reserve Bank of Cleveland district includes all of Ohio, eastern Kentucky, western Pennsylvania, and the northern panhandle of West Virginia. Information in the latest report was collected on or before January 3, 2022.

firms anticipated, or were already experiencing, an increase in demand for services from the federal infrastructure spending bill. Freight service demand increased moderately, from an already high level prior to the survey period. Multiple contacts expected supply chain issues to ease by the end of the year, as labor and capital markets react to demand in the industry.

Chart 6: U.S. Employment and Unemployment

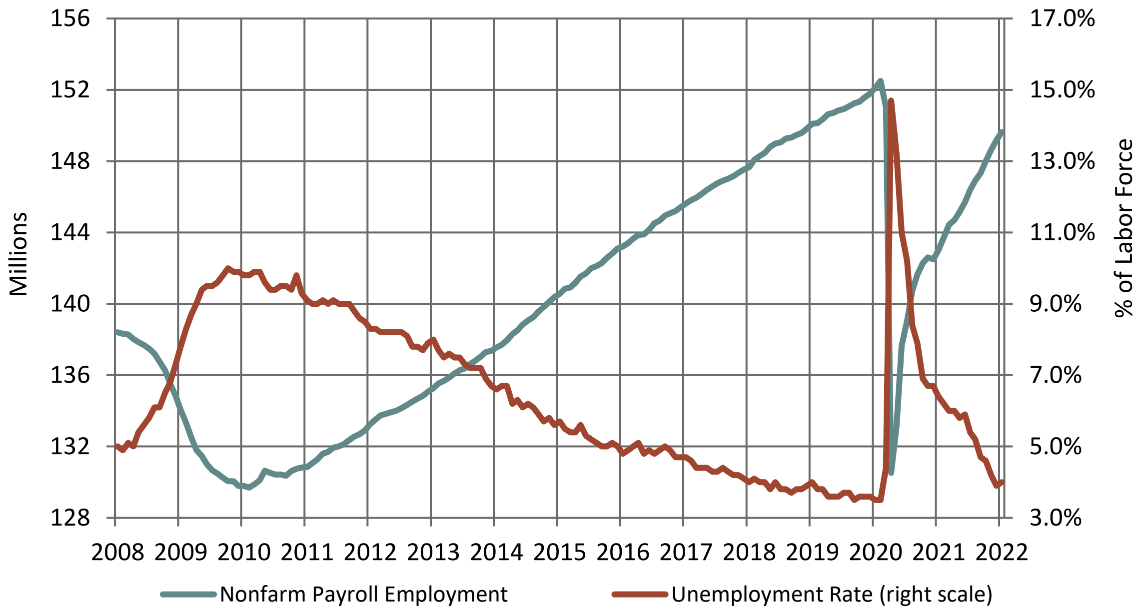

Chart 7: Ohio Employment and Unemployment