LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– *Ross Miller, Chief Economist*

GRF tax revenue received during August was $15.4 million (0.7%) above the estimate published by the Office of Budget and Management (OBM) in August 2021. Combined with a similar positive variance in July, GRF tax revenue received through August 31 was $40.1 million (0.9%) above estimate. A sharp drop in tax revenue from the comparable months of FY 2021 was due to unusually high income tax revenue in July 2020, which was in turn due to the delay in the 2019 income tax filing deadline until July last year.

Ohio payroll employment grew by 19,200 (0.4%) in July, and Ohio's unemployment rate was 5.4% for that month, the same as the national unemployment rate. Employment growth was driven by the private service-providing sector, in which employment grew by 18,500.

Through August 2021, GRF sources totaled $6.70 billion:

- Revenue from the sales and use tax was $43.8 million below estimate;
- Personal income tax (PIT) receipts were $38.2 million above estimate.

Through August 2021, GRF uses totaled $10.02 billion:

- Program expenditures were $145.3 million below estimate;
- GRF Medicaid expenditures were $154.6 million below estimate;
- Spending in most other program categories was below estimate except for Property Tax Reimbursements, which was above estimate by $85.2 million, primarily due to timing.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of August 2021
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 7, 2021)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$180,272	$179,600	$672	0.4%
Nonauto Sales and Use	$870,002	$889,600	-$19,598	-2.2%
Total Sales and Use	*$1,050,274*	*$1,069,200*	*-$18,926*	*-1.8%*
Personal Income	$766,020	$741,900	$24,120	3.3%
Commercial Activity Tax	$355,841	$347,000	$8,841	2.5%
Cigarette	$82,875	$84,500	-$1,625	-1.9%
Kilowatt-Hour Excise	$32,531	$30,400	$2,131	7.0%
Foreign Insurance	$0	$0	$0	---
Domestic Insurance	-$98	$200	-$298	-149.1%
Financial Institution	$418	$0	$418	---
Public Utility	$34,612	$31,400	$3,212	10.2%
Natural Gas Consumption	$11,028	$13,100	-$2,072	-15.8%
Alcoholic Beverage	$3,752	$4,900	-$1,148	-23.4%
Liquor Gallonage	$5,250	$4,900	$350	7.1%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$372	$0	$372	---
Business and Property	$0	$0	$0	---
Estate	$3	$0	$3	---
Total Tax Revenue	**$2,342,878**	**$2,327,500**	**$15,378**	**0.7%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$4,635	$4,282	$354	8.3%
Other Revenue	$1,306	$73,094	-$71,788	-98.2%
Total Nontax Revenue	**$5,942**	**$77,376**	**-$71,434**	**-92.3%**
Transfers In	**$30,362**	**$30,362**	**$0**	**0.0%**
Total State Sources	**$2,379,183**	**$2,435,239**	**-$56,056**	**-2.3%**
Federal Grants	**$750,310**	**$835,911**	**-$85,601**	**-10.2%**
Total GRF Sources	**$3,129,493**	**$3,271,150**	**-$141,657**	**-4.3%**

*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 August 31, 2021
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 7, 2021)

State Sources	Actual	Estimate*	Variance	Percent	FY 2021**	Percent
Tax Revenue						
Auto Sales	$359,285	$354,500	$4,785	1.3%	$338,920	6.0%
Nonauto Sales and Use	$1,817,480	$1,866,100	-$48,620	-2.6%	$1,751,787	3.8%
Total Sales and Use	*$2,176,765*	*$2,220,600*	*-$43,835*	*-2.0%*	*$2,090,707*	*4.1%*
Personal Income	$1,431,654	$1,393,500	$38,154	2.7%	$2,017,839	-29.1%
Commercial Activity Tax	$441,575	$413,100	$28,475	6.9%	$332,046	33.0%
Cigarette	$112,244	$102,100	$10,144	9.9%	$106,082	5.8%
Kilowatt-Hour Excise	$53,430	$52,100	$1,330	2.6%	$51,383	4.0%
Foreign Insurance	$5	$300	-$295	-98.3%	$37	-86.4%
Domestic Insurance	$1,614	$200	$1,414	706.9%	$824	95.9%
Financial Institution	-$23	$700	-$723	-103.3%	$2,390	-101.0%
Public Utility	$34,877	$31,600	$3,277	10.4%	$31,285	11.5%
Natural Gas Consumption	$12,874	$13,900	-$1,026	-7.4%	$13,570	-5.1%
Alcoholic Beverage	$13,533	$11,300	$2,233	19.8%	$11,943	13.3%
Liquor Gallonage	$10,194	$9,700	$494	5.1%	$10,026	1.7%
Petroleum Activity Tax	$0	$0	$0	---	$0	---
Corporate Franchise	$408	$0	$408	---	$180	126.4%
Business and Property	$0	$0	$0	---	$15	-100.0%
Estate	$3	$0	$3	---	$1	213.8%
Total Tax Revenue	**$4,289,152**	**$4,249,100**	**$40,052**	**0.9%**	**$4,668,328**	**-8.1%**
Nontax Revenue						
Earnings on Investments	$1	$0	$1	---	$1	46.8%
Licenses and Fees	$5,419	$5,830	-$411	-7.0%	$6,397	-15.3%
Other Revenue	$19,766	$85,188	-$65,422	-76.8%	$80,532	-75.5%
Total Nontax Revenue	**$25,186**	**$91,018**	**-$65,832**	**-72.3%**	**$86,929**	**-71.0%**
Transfers In	**$35,310**	**$30,362**	**$4,948**	**16.3%**	**$79,832**	**-55.8%**
Total State Sources	**$4,349,648**	**$4,370,481**	**-$20,833**	**-0.5%**	**$4,835,089**	**-10.0%**
Federal Grants	**$2,346,378**	**$2,429,251**	**-$82,873**	**-3.4%**	**$2,697,761**	**-13.0%**
Total GRF SOURCES	**$6,696,026**	**$6,799,732**	**-$103,706**	**-1.5%**	**$7,532,850**	**-11.1%**

*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

– Jean J. Botomogno, Principal Economist

Overview

This section compares FY 2022 actual GRF sources posted each month against OBM's estimates. GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs. Estimated revenue by GRF source for the full fiscal year is provided at the end of the section.

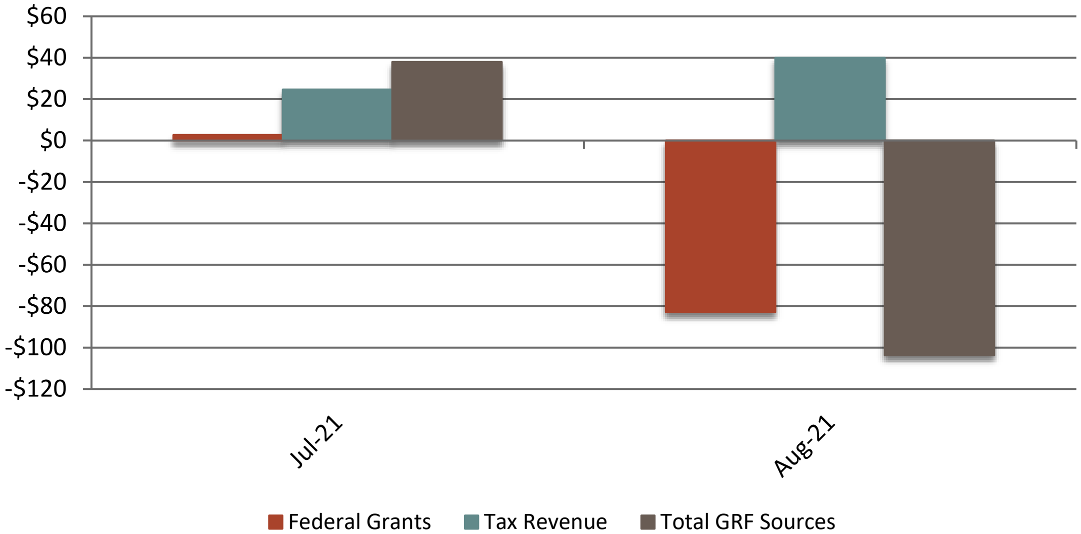
If actual receipts are higher than the estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts are lower than the estimate. Tables 1 and 2, which precede this section, show GRF sources for the most recent month, in this case August, and year-to-date (YTD) sources (including both July and August) relative to YTD estimates. Table 2 also presents the sum of the sources, respectively, for the corresponding months in the previous fiscal year and the percent change from the previous fiscal year to the current fiscal year.

For example, Table 1 shows that GRF sources for August were $3.13 billion and OBM's estimates totaled $3.27 billion. Thus, August sources had a negative variance of $141.7 million (4.3%), which was due to large negative variances of $85.6 million (10.2%) for federal grants and $71.4 million for nontax revenue (92.3%). GRF tax sources were above projections by $15.4 million (0.7%), while revenue from transfers in matched the August estimate. Among the largest tax sources, positive variances from the commercial activity tax (CAT) and the PIT were partially offset by negative variances from the sales and use tax and the cigarette tax, netting a combined positive variance of $12.4 million. Combined receipts for the remaining tax sources provided a net positive variance of $3.0 million.

Table 2 shows that YTD GRF sources totaled $6.70 billion compared to an estimate of $6.80 billion. So, the YTD variance was also negative, $103.7 million (1.5%). Positive variances of $40.1 million (0.9%) for tax sources and $4.9 million for transfers in partially offset deficits of $82.9 million (3.4%) for federal grants and $65.8 million (72.3%) for nontax revenue. The sum of sources in July and August 2020 (FY 2021) was $7.53 billion.

Regarding GRF tax sources through August 2021, though the sales and use tax was short of anticipated revenue by $43.8 million, the PIT, the CAT, and the cigarette tax had positive variances of $38.2 million, $28.5 million, and $10.1 million, respectively. Among the smaller taxes, the public utility tax, the alcoholic beverage tax, the domestic insurance tax, and the kilowatt-hour tax surpassed their respective estimates by $3.3 million, $2.2 million, $1.4 million, and $1.3 million. On the other hand, the natural gas consumption tax posted a shortfall of $1.0 million. Chart 1, below, shows cumulative YTD variances of GRF sources through August in FY 2022.

Chart 1: Cumulative Variances of GRF Sources in FY 2022 (Variances from Estimates, $ in millions)



As shown in Table 2, YTD GRF sources were $836.8 million (11.1%) below such sources through August in FY 2021. YTD FY 2022 federal grants were $351.4 million (13.0%) below such sources in the first two months of FY 2021. In addition, GRF tax sources were $379.2 million (8.1%) below revenue in the corresponding period last year, due to a shortfall of $586.2 million from the PIT. The decrease in PIT revenue was due to the delay in the filing deadline for tax year (TY) 2019 tax returns from April to July in 2020, with receipts realized in FY 2021, as explained in more detail in the PIT section below. On the other hand, YTD revenue growth for the CAT was strong, due to pandemic-related revenue weakness in the first two months of FY 2021. Revenue from the remaining GRF tax sources generally grew, except for a noticeable decline in receipts from the financial institutions tax. For the remaining GRF categories, revenue from nontax revenue and transfers in fell by $61.7 million (71.0%) and $44.5 million (55.8%), respectively.

Sales and Use Tax

The sales and use tax had a strong year in FY 2021. Last fiscal year, revenue from this source was 9.0% above OBM estimates, with outstanding results from both the auto sales tax and the nonauto sales tax. 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. FY 2021 receipts were also 14.1% above revenue in FY 2020. The sales and use tax was supported by a variety of federal income support programs, starting with stimulus payments and months of federal unemployment compensation supplements from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted in March 2020,[1] continuing with the Consolidated

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

Appropriations Act (December 2020), and ending with the American Rescue Plan Act (ARPA) enacted in March 2021.[2]

The spending effect of those programs, improving labor markets, and increases in the number of vaccinations helped fuel a sharp increase in spending in FY 2021, particularly on autos and other big ticket items. Household incomes had increased from prepandemic levels, household balance sheets were very strong, and household debt-service burdens, as a share of after-tax income, were at low levels. However, at the start of FY 2022, the sales and use tax is facing certain headwinds, and YTD GRF revenue of $2.18 billion was $43.8 million (2.0%) below estimate, brought down by a YTD negative variance of $48.6 million from the nonauto portion of the tax. On the other hand, the auto portion of the tax posted a positive variance of $4.8 million. YTD revenue from this tax source was $86.1 million (4.1%) above receipts in the corresponding period in FY 2021, so revenue growth relative to year-ago receipts is solid.

Though employment has continued to rise, overall consumer spending growth has slowed, and consumers are increasing their spending on services (which are mostly not taxed under the sales tax) relative to goods. Also, vaccinations appear to have plateaued, while infections are rising due to new variants of the COVID-19 virus, and the boost to consumers from additional income from various federal unemployment insurance programs has ended. Those federal income support programs included benefits from the Pandemic Emergency Unemployment Compensation (PEUC) benefits, which were an extension of traditional unemployment benefits,[3] available for up to 53 weeks through September 4, 2021; the Pandemic Unemployment Assistance (PUA) benefits, which were provided to self-employed individuals, independent contractors, and others who did not qualify for traditional unemployment benefits, this assistance was available for up to 79 weeks through September 4, 2021; and the Federal Pandemic Unemployment Compensation (FPUC) which provided an additional $300 weekly benefit to eligible claimants in multiple programs, including (but not limited to) those receiving traditional unemployment benefits, PEUC benefits, and PUA benefits. The FPUC supplement was ended early by the Governor on June 26, 2021, instead of September 6, 2021, as provided by ARPA.

Nonauto Sales and Use Tax

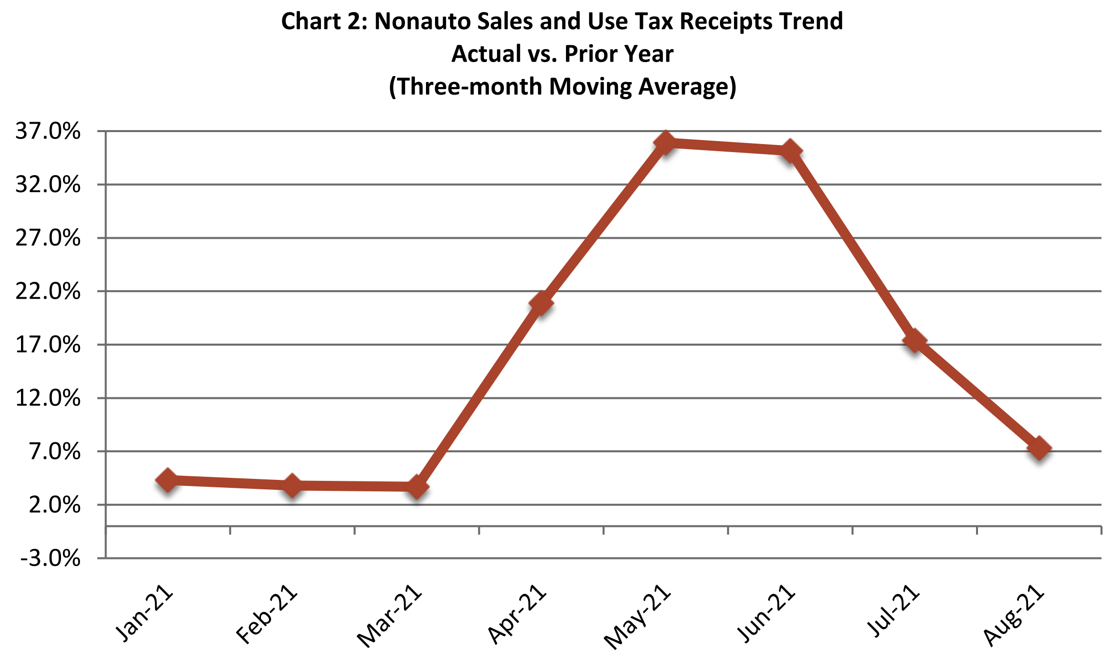
Through August, FY 2022 GRF revenue totaled $1.82 billion, an amount $48.6 million (2.6%) below estimate, but $65.7 million (3.8%) above receipts in the July to August period in FY 2021. August 2021 GRF receipts of $870.0 million were short of estimate by $19.6 million (2.2%), after falling below expectations by $29.0 million (3.0%) in July 2021.[4] Though this tax source was short of estimate for the month of August, revenue growth of 8.4% relative to the corresponding month in FY 2021 was good. Generally, a large part of a month's nonauto sales

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

[3] Ohio unemployment compensation benefits are generally up to 26 weeks.

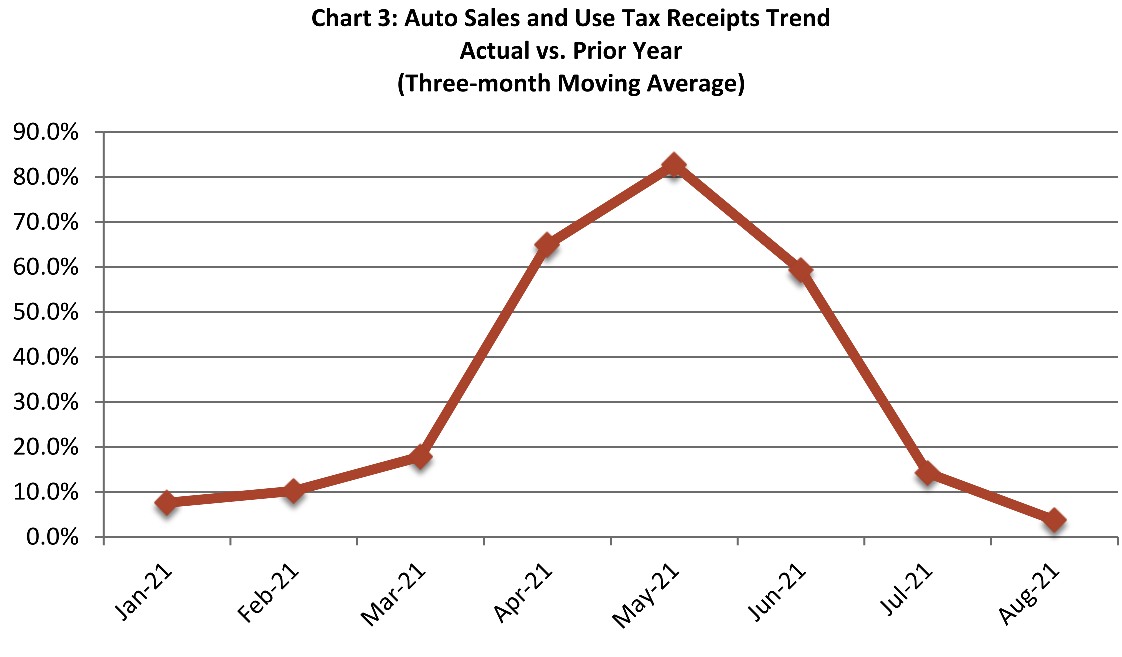
[4] Sales taxes are collected for both state and permissive county and transit authority sales taxes. OBM has suggested that payouts to counties were higher than anticipated in July, meaning monthly GRF estimates for the nonauto sales tax may have been higher than they should have been.

and use tax revenue is from tax collection or tax remittance on taxable sales in the previous month. Chart 2, below, provides year-over-year growth in nonauto sales and use tax collections since January 2021. It shows modest growth at the start of the year, then strong growth in the second calendar quarter, as tax revenue compared favorably to depressed revenue levels in the corresponding period in calendar year (CY) 2020, and revenue growth declining in recent months to a more moderate level. For the full fiscal year 2022, OBM expects GRF receipts from the nonauto sales tax to grow modestly, about 1.2% relative to revenue in FY 2021.



Auto Sales and Use Tax

The auto sales and use tax had an outstanding FY 2021, coming in 16.6% above estimate and 23.5% above receipts in FY 2020. Through August in FY 2022, receipts totaled \$359.3 million, an amount \$4.8 million (1.3%) above estimate and \$20.4 million (6.0%) above revenue in the corresponding period in FY 2021. For the month of August, GRF revenue from this tax source was \$180.3 million, \$0.7 million (0.4%) above estimate and \$23.9 million (15.3%) above receipts in August 2020. Chart 3, below, shows year-over-year growth in auto sales and use tax collections, including high growth rates in the spring of 2021 related to pandemic-related revenue declines in the spring of 2020 from both low demand and low supply of vehicles. Then, revenue growth declined starting in June, and is continuing into FY 2022, with a trend comparable to that of the nonauto sales and use tax. For FY 2022 as a whole, OBM estimates revenue from the auto sales and use tax may grow by just 0.2% when compared to FY 2021 revenue.



Personal Income Tax

Through August, FY 2022 revenue from the PIT to the GRF totaled $1.43 billion, an amount $38.2 million (2.7%) above the estimate, largely due to 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,[5] 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). Larger or smaller than expected refunds could also greatly affect the monthly performance of the tax.

In August, PIT receipts of $766.0 million were $24.1 million (3.3%) above estimate, with about half of the positive variance due to a smaller than expected amount paid out in refunds. Gross collections were $12.3 million (1.5%) above estimate, boosted by a positive variance of $8.4 million for payments due with annual returns. Quarterly estimated payments, miscellaneous payments, and trust payments were also above their anticipated levels by $3.0 million, $1.9 million, and $0.6 million, respectively. On the other hand, employer withholding fell below projection by $1.6 million. Refunds were below estimate by $12.2 million, but distributions to the LGF were above estimate by $0.4 million. Thus, GRF revenue was $24.1 million above anticipated receipts for the month.

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

FY 2022 GRF receipts from the PIT were $586.2 million (29.1%) below such revenue in FY 2021 through August, with $514.3 million of the total decline occurring in July 2021. The large year-over-year PIT revenue decline is attributable to the delay of income tax filings for TY 2019 from April to July 2020. 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.[6] About $719.0 million in income tax due with annual returns and first quarter estimated payments were postponed by that tax filing delay and realized in the first quarter of FY 2021, according to the Ohio Department of Taxation. FY 2021 experienced a one-month income tax filing delay for TY 2020 returns, from mid-April to mid-May 2021, due to the late enactment of ARPA which included several tax changes impacting TY 2020 returns. However, PIT revenue from those returns was realized within the same fiscal year.

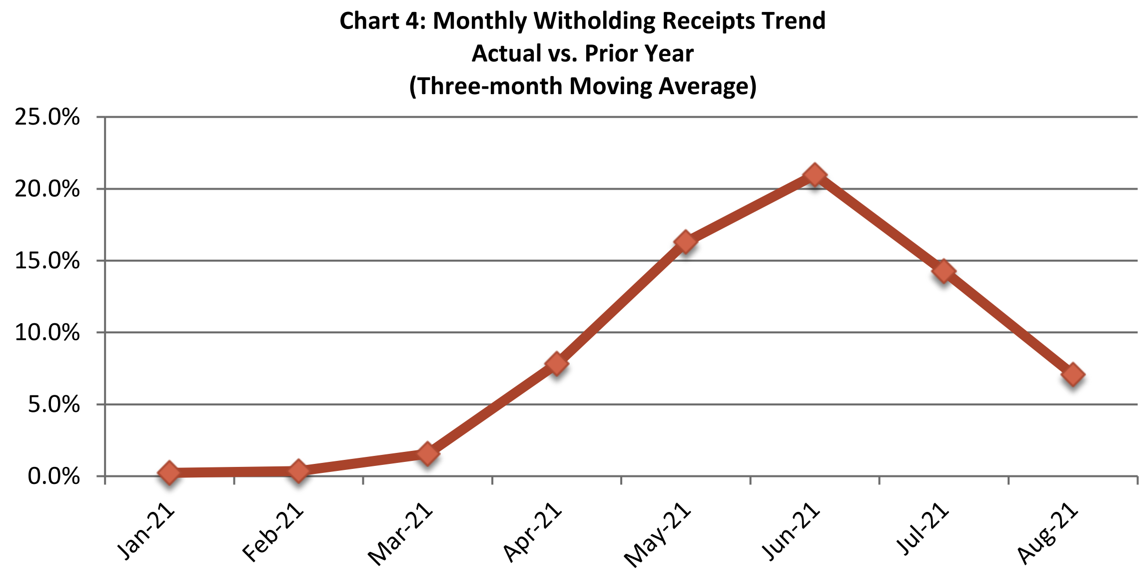
For FY 2022 through August, revenues from each component of the PIT relative to estimates and revenue received in FY 2021 are detailed in the table below. FY 2022 gross collections were $4.3 million above anticipated revenue, with positive variances of $4.4 million from miscellaneous payments and $1.0 million for employer withholding. Those positive variances were partially offset by negative variance of $0.3 million for quarterly estimated payments and $0.7 million for payments due with annual returns. YTD refunds were $34.3 million below projections, but LGF distributions were $0.4 million above estimate. Thus, the fiscal year's positive variance for the GRF was $38.2 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	$1.0	0.1%	$12.9	0.9%
Quarterly Estimated Payments	-$0.3	-1.0%	-$153.4	-82.8%
Trust Payments	$0.0	0.3%	-$44.1	-94.0%
Annual Return Payments	-$0.7	-2.6%	-$597.5	-95.5%
Miscellaneous Payments	$4.4	49.6%	$4.4	49.5%
Gross Collections	$4.3	0.3%	-$777.8	-32.7%
Less Refunds	-$34.3	-28.6%	-$191.4	-69.1%
Less LGF Distributions	$0.4	0.5%	-$0.2	-0.2%
GRF PIT Revenue	$38.2	2.7%	-$586.2	-29.1%

[6] 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 to the first two months of FY 2021, gross collections fell $777.8 million in FY 2022. Employer withholding and miscellaneous payments were above their prior year respective levels by $12.9 million and $4.4 million, respectively. However, revenue from annual returns, quarterly estimated payments, and trust payments fell $597.5 million, $153.4 million, and $44.1 million, respectively. FY 2022 refunds and LGF distributions were also below those in FY 2021 by $191.4 million and $0.2 million, respectively. Therefore, YTD PIT GRF revenue was $586.2 million less than receipts in FY 2021 through August. This revenue decline relative to prior-year receipts is likely to persist for several months in the current fiscal year.

The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago in CY 2021.



Payrolls are estimated to have increased about 7.1%, on average, in the last three months. Year-over-year growth in withholding receipts in the final fiscal quarter of FY 2021 was high due to increased unemployment levels experienced in the spring of 2020. For example, Ohio's unemployment rate jumped to 16.4% in April 2020, then decreased to 14.9% in May, and to 10.3% in June. In contrast, April, May, and June 2021 unemployment rates were 4.7%, 5.0%, and 5.2%, respectively, and the number of employed individuals generally has continued to rise. The three-month average in payroll growth is expected to decrease below 7.1% for the first quarter of FY 2022.

For FY 2022 as a whole, OBM estimates a yearly PIT revenue decline of about 12.8% compared to FY 2021. In addition to the revenue impact of the tax filing delay mentioned earlier, H.B. 110 (the main operating budget act for the current biennium) 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.

Commercial Activity Tax

GRF receipts from the CAT declined slightly in FY 2021 due to poor receipts in the first quarter of that fiscal year. Pandemic-related business closures and the economic slowdown in the spring of 2020 reduced CAT revenue in the July to September 2020 period, as payments for this tax are generally based on gross receipts in the previous calendar quarter. As a result of revenue weakness in the first quarter of FY 2021, first-quarter GRF revenue in FY 2022 will experience strong growth.

The first CAT payment for quarterly return taxpayers in FY 2022, due in August, provided $355.8 million to the GRF, an amount $8.8 million (2.5%) above the monthly estimate, which buttressed a surplus of $19.6 million (29.7%) in the previous month. Thus, the YTD variance through August totaled $28.5 million (6.9%). Compared to FY 2021 through August, YTD GRF CAT receipts increased by $109.5 million (33.0%). YTD gross collections totaled $541.9 million, $121.9 million (29.0%) above last year's gross collections through August 2020. On the other hand, refunds and credits, which reduce gross collections, were $19.0 million, $7.8 million (29.2%) below those items in FY 2021. OBM estimates revenue growth of 8.0% for this tax in FY 2022, compared to FY 2021.

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%). In the first two months of FY 2022, Fund 7047 and Fund 7081 received $67.5 million and $10.4 million, respectively. Those distributions are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are generally transferred back to the GRF.

Cigarette and Other Tobacco Products Tax

FY 2022 GRF revenue from the cigarette and other tobacco products (OTP) tax totaling $112.2 million was above estimate by $10.1 million (9.9%). This total included $93.0 million from the sale of cigarettes and $19.2 million from the sale of OTP. For the month of August, receipts from this source of $82.9 million were $1.6 million (1.9%) below estimate, but $2.4 million (3.0%) above revenue in August 2020.

FY 2022 revenue was also $6.2 million (5.8%) above FY 2021 revenue. OTP sales increased by $1.3 million (7.5%) while receipts from cigarette sales increased $4.9 million (5.4%). 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 same month the previous year.

In FY 2021, total revenue from the cigarette and OTP tax grew 1.5%, due to a small decline in cigarette revenue and strong receipts from OTP (which were buoyed by additional revenue from a recently enacted vapor tax – H.B. 166 of the 133rd General Assembly). For FY 2022, OBM estimates a revenue decline of about 2.3%, compared to FY 2021.

Summary of OBM Estimates for GRF Sources for FY 2022

Estimated revenue by GRF source for the full fiscal year is provided below. As seen from the table, GRF sources are estimated to total $36.60 billion in FY 2022. Based on this estimate, the sales and use tax, the PIT, the CAT, and the cigarette tax will provide nearly two-thirds of total GRF sources in FY 2022.

OBM Estimate for GRF Sources for FY 2022 ($ in millions)		
Revenue Source	**Estimate**	**As a % of Total Source**
Sales and Use Tax	$12,314.8	33.6%
Individual Income Tax	$8,899.2	24.3%
Commercial Activity Tax	$1,799.4	4.9%
Cigarette & Other Tobacco Products Tax	$905.2	2.5%
Domestic and Foreign Insurance Taxes	$647.4	1.8%
Utility Taxes	$506.9	1.4%
Other Taxes	$341.2	0.9%
Subtotal – GRF Taxes	**$25,414.1**	**69.4%**
Nontax Revenue and Transfers In	$569.1	1.6%
Federal Grants	$10,614.9	29.0%
Total GRF Sources	**$36,598.1**	**100.0%**

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of August 2021
($ in thousands)
(Actual based on OAKS reports run September 9, 2021)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$1,026,884	$1,033,345	-$6,461	-0.6%
Higher Education	$189,870	$195,115	-$5,245	-2.7%
Other Education	$8,116	$7,436	$680	9.1%
Total Education	**$1,224,869**	**$1,235,896**	**-$11,027**	**-0.9%**
Medicaid	$1,171,801	$1,326,433	-$154,632	-11.7%
Health and Human Services	$111,488	$142,858	-$31,370	-22.0%
Total Health and Human Services	**$1,283,289**	**$1,469,290**	**-$186,002**	**-12.7%**
Justice and Public Protection	$176,998	$206,164	-$29,167	-14.1%
General Government	$45,378	$49,590	-$4,212	-8.5%
Total Government Operations	**$222,375**	**$255,754**	**-$33,379**	**-13.1%**
Property Tax Reimbursements	$297,290	$212,134	$85,156	40.1%
Debt Service	$141,650	$141,674	-$24	0.0%
Total Other Expenditures	**$438,940**	**$353,808**	**$85,133**	**24.1%**
Total Program Expenditures	**$3,169,473**	**$3,314,748**	**-$145,275**	**-4.4%**
Transfers Out	**$22,652**	**$13,850**	**$8,802**	**63.5%**
Total GRF Uses	**$3,192,125**	**$3,328,598**	**-$136,473**	**-4.1%**

*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 August 31, 2021
($ in thousands)
(Actual based on OAKS reports run September 9, 2021)

Program Category	Actual	Estimate*	Variance	Percent	FY 2021**	Percent
Primary and Secondary Education	$1,794,425	$1,800,886	-$6,461	-0.4%	$1,726,604	3.9%
Higher Education	$365,034	$370,279	-$5,245	-1.4%	$369,887	-1.3%
Other Education	$17,428	$16,748	$680	4.1%	$17,423	0.0%
Total Education	**$2,176,887**	**$2,187,914**	**-$11,027**	**-0.5%**	**$2,113,914**	**3.0%**
Medicaid	$3,398,017	$3,552,649	-$154,632	-4.4%	$3,961,245	-14.2%
Health and Human Services	$236,834	$268,204	-$31,370	-11.7%	$231,546	2.3%
Total Health and Human Services	**$3,634,851**	**$3,820,853**	**-$186,002**	**-4.9%**	**$4,192,791**	**-13.3%**
Justice and Public Protection	$497,266	$526,432	-$29,167	-5.5%	$492,820	0.9%
General Government	$91,279	$95,491	-$4,212	-4.4%	$74,839	22.0%
Total Government Operations	**$588,545**	**$621,924**	**-$33,379**	**-5.4%**	**$567,659**	**3.7%**
Property Tax Reimbursements	$298,615	$213,459	$85,156	39.9%	$140,470	112.6%
Debt Service	$382,831	$382,855	-$24	0.0%	$173,651	120.5%
Total Other Expenditures	**$681,447**	**$596,314**	**$85,133**	**14.3%**	**$314,121**	**116.9%**
Total Program Expenditures	**$7,081,730**	**$7,227,004**	**-$145,275**	**-2.0%**	**$7,188,486**	**-1.5%**
Transfers Out	**$2,941,052**	**$2,932,250**	**$8,802**	**0.3%**	**$410,727**	**616.1%**
Total GRF Uses	**$10,022,781**	**$10,159,254**	**-$136,473**	**-1.3%**	**$7,599,213**	**31.9%**

*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 September 10, 2021)

	Month of August 2021				Year to Date through August 2021			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,104,811	$1,244,004	-$139,193	-11.2%	$3,266,133	$3,405,326	-$139,193	-4.1%
Non-GRF	$1,160,351	$1,236,966	-$76,615	-6.2%	$1,193,046	$1,269,661	-$76,615	-6.0%
All Funds	$2,265,162	$2,480,970	-$215,808	-8.7%	$4,459,179	$4,674,987	-$215,808	-4.6%
Developmental Disabilities								
GRF	$55,228	$55,009	$219	0.4%	$112,567	$112,348	$219	0.2%
Non-GRF	$234,678	$244,339	-$9,661	-4.0%	$420,756	$430,417	-$9,661	-2.2%
All Funds	$289,906	$299,348	-$9,441	-3.2%	$533,323	$542,764	-$9,441	-1.7%
Job and Family Services								
GRF	$10,930	$26,317	-$15,387	-58.5%	$17,520	$32,907	-$15,387	-46.8%
Non-GRF	$20,112	$1,938	$18,174	937.6%	$31,909	$13,735	$18,174	132.3%
All Funds	$31,042	$28,255	$2,787	9.9%	$49,429	$46,642	$2,787	6.0%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$832	$1,103	-$271	-24.6%	$1,797	$2,068	-$271	-13.1%
Non-GRF	$3,202	$4,646	-$1,444	-31.1%	$5,091	$6,534	-$1,444	-22.1%
All Funds	$4,034	$5,749	-$1,715	-29.8%	$6,888	$8,602	-$1,715	-19.9%
All Departments:								
GRF	**$1,171,801**	**$1,326,433**	**-$154,632**	**-11.7%**	**$3,398,017**	**$3,552,649**	**-$154,632**	**-4.4%**
Non-GRF	**$1,418,344**	**$1,487,890**	**-$69,546**	**-4.7%**	**$1,650,801**	**$1,720,347**	**-$69,546**	**-4.0%**
All Funds	**$2,590,144**	**$2,814,322**	**-$224,178**	**-8.0%**	**$5,048,818**	**$5,272,996**	**-$224,178**	**-4.3%**

*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 September 10, 2021)

	Month of August 2021				Year to Date through August 2021			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,740,599**	**$1,926,919**	**-$186,320**	**-9.7%**	**$3,453,736**	**$3,640,056**	**-$186,320**	**-5.1%**
CFC†	$634,898	$715,957	-$81,059	-11.3%	$1,261,688	$1,342,747	-$81,059	-6.0%
Group VIII	$547,106	$639,774	-$92,668	-14.5%	$1,087,989	$1,180,657	-$92,668	-7.8%
ABD†	$242,464	$252,081	-$9,617	-3.8%	$481,392	$491,009	-$9,617	-2.0%
ABD Kids	$81,622	$84,451	-$2,829	-3.3%	$163,381	$166,210	-$2,829	-1.7%
My Care	$234,509	$234,656	-$147	-0.1%	$459,286	$459,432	-$147	0.0%
Fee-For-Service	**$658,003**	**$686,808**	**-$28,805**	**-4.2%**	**$1,233,329**	**$1,262,134**	**-$28,805**	**-2.3%**
ODM Services	$372,678	$402,539	-$29,861	-7.4%	$711,146	$741,007	-$29,861	-4.0%
DDD Services	$285,325	$284,270	$1,056	0.4%	$522,183	$521,128	$1,056	0.2%
Premium Assistance	**$101,325**	**$106,980**	**-$5,654**	**-5.3%**	**$202,033**	**$207,688**	**-$5,654**	**-2.7%**
Medicare Buy-In	$64,864	$70,723	-$5,859	-8.3%	$129,379	$135,239	-$5,859	-4.3%
Medicare Part D	$36,462	$36,257	$205	0.6%	$72,654	$72,449	$205	0.3%
Administration	**$90,217**	**$93,615**	**-$3,398**	**-3.6%**	**$159,720**	**$163,118**	**-$3,398**	**-2.1%**
Total	**$2,590,144**	**$2,814,322**	**-$224,178**	**-8.0%**	**$5,048,818**	**$5,272,996**	**-$224,178**	**-4.3%**

*Estimates from the Department of Medicaid.

†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program; P4P & Ins Fee - Pay For Performance, and Health insurance provider fee.

Detail may not sum to total due to rounding.

Expenditures[7]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

For the first two months of FY 2022, GRF program expenditures totaled $7.08 billion. These expenditures were $145.3 million (2.0%) below OBM's estimates. GRF uses also include transfers out, which totaled $2.94 billion and were $8.8 million (0.3%) over estimate for the YTD. Total GRF uses for these two months, therefore, totaled $10.02 billion, which was $136.5 million (1.3%) under estimate. All YTD variances come from GRF uses in August, as the estimates were not completed before the end of July, so July's "estimates" are equal to actuals. OBM's estimates for GRF uses are summarized at the end of this section.

The negative August variance in GRF program expenditures came primarily from Medicaid, which was $154.6 million (11.7%) under estimate. Health and Human Services and Justice and Public Protection also had negative variances of $31.4 million (22.0%) and $29.2 million (14.1%), respectively. These negative variances were partially offset by positive variances of $85.2 million (40.1%) in Property Tax Reimbursements and $8.8 million (63.5%) in Transfers Out. These variances are discussed below.

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 below their monthly estimate in August by $154.6 million (11.7%) and below their YTD estimate by 4.4% at the end of August. Non-GRF Medicaid expenditures were below their monthly estimate, by $69.5 million (4.7%) and below their YTD estimate by 4.0% at the end of August. Including both the GRF and non-GRF, all funds Medicaid expenditures were $224.2 million (8.0%) below estimate in August and 4.3% below their YTD estimate at the end of August.

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 negative variance in August of $215.8 million (8.7%), and YTD expenditures were 4.6% below estimate at the end of August. ODODD had an August all funds negative variance of $9.4 million (3.2%) and ended the month with YTD expenditures 1.7% 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.

[7] 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 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for all four of the payment categories at the end of August. Managed Care had the largest negative variance of $186.3 million (5.1%), followed by Fee-For-Service's (FFS's) negative variance of $28.8 million (2.3%). Rounding out the four Medicaid expenditure payment categories, Premium Assistance had the second smallest negative variance of $5.7 million (2.7%), and Administration had the smallest negative variance of $3.4 million (2.1%).

From the beginning of the COVID-19 pandemic in March 2020 through August 2021, caseloads have increased by approximately 26,400 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 two months of FY 2022. August ended with a negative caseload variance of approximately 6,600 cases (0.2%).

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 (ODH) at 8.8%. Eight other agencies make up the remaining 8.3% of estimated spending.

The negative August variance in this category of $31.4 million (22.0%) was driven by a negative variance of $22.8 million for ODJFS, although most other agencies also had negative variances. ODJFS's negative variance was mainly due to:

- A negative variance of $11.5 million in appropriation line item (ALI) 600523, Family and Children Services. This ALI is used primarily to support county public children services agencies.
- A negative variance of $5.5 million in ALI 600450, Program Operations. This ALI primarily supports the operating expenses of several of the offices within ODJFS.
- A negative variance of $5.0 million in ALI 600452, Ohio Governor Imagination Library. This ALI supports childhood literacy efforts. The August variance is a timing issue that will be reversed in September when the entire FY 2022 appropriation of $8.0 million will be expended.

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.

The negative August variance in this category of $29.2 million (14.1%) was driven by a negative variance of $27.1 million for DRC, which was mainly due to:

- A negative variance of $19.9 million in ALI 501321, Institutional Operations. This ALI is used primarily for the operating costs of Ohio's prisons, including facility maintenance, support services, security, and management.
- A negative variance of $3.3 million in ALI 505321, Institution Medical Services. This ALI primarily pays for medical services provided to inmates of the state's prisons.
- A negative variance of $2.3 million in ALI 501407, Community Nonresidential Programs. This ALI supports grants to counties to operate intensive supervision and other community sanctions programming for felony offenders in lieu of prison or jail.

Property Tax Reimbursements

This program category contains GRF spending for reimbursements to school districts and other local governments for property tax losses due to property tax rollbacks and the homestead exemption. In August, this category was over estimate by $85.2 million (40.1%). 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.

Transfers out

Transfers out were $8.8 million above estimate in August due to transfers of $8.3 million to the Ohio Incumbent Workforce Job Training Fund (Fund 5HR0) and $0.5 million to the OSU Extension Fund (Fund 5YB0). The transfer to Fund 5YB0 is a timing issue; according to the estimates, that transfer was to take place in September. The transfer to Fund 5HR0, however, was not included in the estimates. This transfer was authorized in Section 259.70 of H.B. 110. The revenue to support the transfer is from the sale of the Ohio Centric Student Loan Program loans that closed in February. The Treasurer of State chose to deposit these proceeds into the GRF, from which they were transferred to Fund 5YB0.

Transfers out in July amounted to $2.92 billion. Roughly $1.50 billion of this was transferred as directed in Section 513.10 of H.B. 110 and was attributable to the cash balance remaining in the GRF at the end of FY 2021.

Summary of OBM Estimates for GRF Uses

The table below shows OBM's estimates for GRF uses for FY 2022. The program categories are ordered from largest to smallest annual estimate. Altogether, GRF program expenditures are estimated to total $35.18 billion in FY 2022. Of this amount, $15.96 billion (45.4%) will go to Medicaid and $8.33 billion (23.7%) will go to Primary and Secondary Education. Together, these two program categories are expected to account for 69.1% of total program expenditures in FY 2022.

In addition to program expenditures, OBM estimates that $2.98 billion will be transferred out of the GRF. Most of these transfers ($2.92 billion) occurred in July 2021. OBM also estimates that $352.3 million of FY 2022 appropriations will be encumbered at the end of the fiscal year for expenditure in future fiscal years. This results in an estimated total GRF uses for FY 2022 of $38.51 billion.

OBM Estimates for GRF Uses for FY 2022 by Program Category ($ in thousands)		
Program Categories	**Expenditures**	**As a % of Total Program Expenditures**
Medicaid	$15,956,268	45.4%
Primary and Secondary Education	$8,333,987	23.7%
Justice and Public Protection	$2,792,595	7.9%
Higher Education	$2,448,654	7.0%
Property Tax Reimbursements	$1,835,900	5.2%
Health and Human Services	$1,645,230	4.7%
Debt Service	$1,497,710	4.3%
General Government	$574,216	1.6%
Other Education	$95,413	0.3%
Total Program Expenditures	**$35,179,972**	**100.00%**
Transfers Out	$2,975,600	---
Year-end Encumbrances	$352,349	---
Total GRF Uses	**$38,507,921**	**---**

Issue Updates

Most Political Subdivisions Agree to $808 Million Settlement with Big Three Opioid Distributors

– Jessica Murphy, Budget Analyst

As of August 20, 2021, more than 99% of litigating political subdivisions in Ohio have agreed to the proposed settlement with three major opioid distributors that will direct $808 million to the state of Ohio, largely to fund state and local government efforts to abate the opioid epidemic. A minimum support level of 95% was required for any settlement to be considered by the distributors – Cardinal Health, McKesson, and AmerisourceBergen. The settlement would resolve allegations that the distributors failed to fulfill their legal duty to refuse to ship opioids to pharmacies that submitted suspicious drug orders.

The settlement is structured into three phases: Phase 1 – State Participation, Phase 2 – Subdivision Participation, and Phase 3 – Consent Judgments. During Phase 2, the current phase, the distributors may decide that political subdivision participation is not at a sufficient level in a state to proceed to Phase 3. No settlement funds can be disbursed to a settling state unless a consent judgement has been entered. Ohio is scheduled to go to trial on September 20 if the settlement is not finalized by that date. However, since participation rates now exceed the target of 95%, a trial seems unlikely at the time of this writing.

Under the settlement proposal, the distributors will pay $808 million to the state of Ohio and its subdivisions over 18 years, provided through an appointed settlement administrator. These funds, based in part on subdivision participation and subject to change, are part of a larger $21 billion nationwide settlement. Ohio's share is expected to be divided as follows:

- 55% to the OneOhio Foundation[8] to be utilized for the benefit of subdivisions statewide;
- 30% to subdivisions directly based on their proportionate share of the impact of the opioid epidemic in Ohio, including the number of opioid-related deaths and the number of people who suffer opioid use disorder; and
- 15% to the Office of the Ohio Attorney General to pay litigation costs and expenses associated with litigation and investigation related to the opioid litigation.

[8] OneOhio Foundation is a private 501(c)(3) foundation to be created as part of a memorandum of understanding between the state of Ohio and its local governments. The Foundation is to have a governing board, a panel of experts, and such other regional entities as may be necessary for the purpose of receiving and disbursing opioid funds.

CMS Withdraws Approval of Ohio's Medicaid Work Requirement

– Nelson V. Lindgren, Economist

On August 10, 2021, the U.S. Centers for Medicare & Medicaid Services (CMS) withdrew its approval of Ohio Medicaid's requirement that most adults aged 19 to 49 participate in 80 hours per month of work or community engagement activities (i.e., employment, education, or job skills training) as a condition of continued Medicaid coverage. The primary reason for this withdrawal is the COVID-19 pandemic and its negative impact on economic opportunities and health outcomes for Medicaid enrollees. CMS also stated that a lack of access to reliable internet and smartphones among enrollees make meeting work and community requirements difficult as many jobs have shifted to telework and social distancing and other measures have reduced community service opportunities. In addition, CMS indicated that if Ohio wishes to keep receiving additional federal Medicaid funding, it must provide continuous enrollment throughout the entirety of the pandemic.[9] On September 9, 2021, the Governor announced that Ohio is pursuing an administrative appeal with CMS.

Ohio's work and community service project was approved by CMS on March 15, 2019, and was originally expected to begin on January 1, 2021. However, implementation was delayed due to the pandemic. In February 2021, CMS notified ODM that it intended to rescind approval. In response, ODM submitted additional information in March 2021 to address CMS's concerns and to request that these requirements be kept in place. However, as mentioned above, CMS withdrew its approval on August 10. CMS also withdrew its approval for Medicaid work requirements in Arizona, Arkansas, Indiana, Michigan, New Hampshire, South Carolina, Utah, and Wisconsin.

OhioMHAS Awards $1.7 Million to Expand Mobile Response and Stabilization Services

– Ryan Sherrock, Economist

On July 29, 2021, the Ohio Department of Mental Health and Addiction Services (OhioMHAS) announced that it awarded $1.7 million in grants to expand the Mobile Response and Stabilization Services (MRSS) Program to 18 additional counties. The MRSS Program provides mobile, on-site, and rapid intervention for youth in a behavioral health crisis, which allows for an immediate de-escalation in the least restrictive setting possible and provides for a more timely stabilization of the situation. As part of the program, children receive crisis intervention services wherever a crisis is occurring, such as a home or school. Eligible applicants were county alcohol, drug addiction, and mental health boards. Grant applications were accepted on an individual or multiple county basis. The table below shows the grant awards. The maximum award was $250,000.

[9] The Families First Coronavirus Response Act increases the federal medical assistance percentage (FMAP) by 6.2 percentage points for certain Medicaid expenditures incurred after January 1, 2020, and throughout the duration of the COVID-19 emergency. However, states must meet certain criteria to receive this increased FMAP. One such criteria is that states cannot terminate Medicaid coverage for individuals enrolled onto the program during the COVID-19 emergency period unless the individual voluntarily terminates eligibility or is no longer a state resident.

MRSS Expansion Grants	
County	**Grant Amount**
Columbiana	$67,255
Franklin	$200,000
Lorain	$224,368
Trumbull	$226,811
Union	$248,721
Portage	$249,910
Coshocton, Guernsey, Morgan, Muskingum, Noble, Perry	$250,000
Athens, Gallia, Hocking, Jackson, Meigs, Vinton	$250,000
Total	**$1,717,065**

Ohio's MRSS Program has been in operation for approximately three years in two Ohio regions. These regions include the northwest (Allen, Auglaize, Hancock, Hardin, Lucas, Paulding, Putnam, and Wood counties) and the southwest (Butler, Clermont, Clinton, Preble, and Warren counties). The program's goal is to intervene before a situation becomes an emergency, which will allow children to remain safely in their homes and communities. As a result, it is anticipated that the program will reduce out-of-home placements, unnecessary emergency department visits, and overall system costs.

Department of Transportation Opens Applications for $8 Million Township Stimulus Program

– Terry Steele, Senior Budget Analyst

The Ohio Department of Transportation (ODOT) recently opened the application period for its Township Stimulus Program. The program provides a one-time allocation of $8.0 million in federal funds for sidewalk, roadway, and certain culvert projects. Up to $250,000 per project is available for qualifying projects. The funding comes from Ohio's $333.0 million share of transportation project funding under ARPA. The grants will be paid from Highway Operating Fund (Fund 7002) appropriation item 772422, Highway Construction – Federal.

ODOT's Division of Planning is responsible for administering the program through its Office of Local Programs. Eligible projects include work on culverts of less than ten feet in span, sidewalks, and roadways. The projects must be within township limits, be under control of the township, and require no or minimal environmental right-of-way work. Applications will be scored to prioritize projects using data related to local economic health, annual average daily traffic, and supporting letters from county engineers, among other criteria. Selected townships will receive a check from ODOT prior to beginning the project, and must provide ODOT project managers with sufficient documentation related to expenditures for the project as well as other reporting requirements. Townships must comply with force account limits that determine whether the project must be bid or can be undertaken by township employees. Townships must also adhere to statutory prevailing wage requirements for work paid for with this funding.

Department of Development Awards $35.9 Million in Ohio Historic Preservation Tax Credits

– Shannon Pleiman, Senior Budget Analyst

On June 30, 2021, the Department of Development (DEV) approved 31 awards totaling $35.9 million in Round 26 of the Ohio Historic Preservation Tax Credits (OHPTC) Program. These awards will be used for the rehabilitation of 51 historic buildings. The table below displays the number of awards by region, total value of awards, total project costs, and the average percentage of the project cost covered by the award in each region.

Ohio Historic Preservation Tax Credit Awards, Round 26				
Region	Number of Awards	Total Value of Awards	Total Project Costs	Award as % of Total Project Costs
Northeast	7	$14,603,371	$137,155,695	10.6%
Southwest	18	$12,757,222	$145,791,487	8.8%
Northwest	3	$6,955,445	$70,401,866	9.9%
Central	2	$1,297,000	$12,687,142	10.2%
Southeast	1	$250,000	$2,322,000	10.8%
Total	**31**	**$35,863,038**	**$368,358,190**	

The OHPTC Program is designed to facilitate investment within historic areas, restore buildings that will attract new businesses, and generate new jobs. To be eligible, generally a building must be listed on the National Register of Historic Places or designated as a local landmark by a certified local government. The program is administered through a partnership between DEV and the Ohio History Connection's State Historic Preservation Office. Tax credits awarded cannot exceed $5.0 million and 25.0% of the qualified rehabilitation expenditures and are not received until the project has been completed.

Each year, $60.0 million is allocated to the program; however, an additional amount in tax credits may be awarded if projects that were previously approved under the program have been withdrawn or if there is a surplus of tax credits from prior fiscal years. DEV awards two rounds of funding each year. Round 27 project applications are due September 30, 2021, and the awards will be announced by the end of December. The tax credits can be claimed against the applicable income tax, financial institutions tax, and foreign and domestic insurance premium taxes.

Ohio EPA Awards $6.2 Million in Recycling and Litter Prevention Grants for 2021

– Jamie Doskocil, Fiscal Supervisor

In July 2021, the Ohio Environmental Protection Agency (Ohio EPA) announced the award of 103 competitive grants totaling $6.2 million for recycling and litter prevention projects across the state. Ohio EPA's Recycling and Litter Prevention Program supports communities, businesses, and academic institutions that initiate or expand recycling programs, encourage sustainable practices, stimulate economic growth, and support litter prevention efforts. The 2021 grant awards range from $930 for the New Miami Local School District (Butler County) to expand a recycling program for cafeteria and sporting events to $300,000 for Liberty Tire Services (Franklin County) to purchase equipment. Of the 103 awards, 12 were $200,000 or more. More than $3.1 million was awarded for community and litter prevention efforts.

Four different grant programs are made available to communities, local governments, businesses, and nonprofit organizations. Those programs are summarized as follows, along with the eligibility classes:

- Community and Litter Grant – purchase equipment for the collection and processing of recyclables and construction and demolition debris as well as implementing litter collection events, outreach, and education (local governments and nonprofits);
- Academic Institution Grant – support recycling efforts as well as outreach and education, recycling equipment, and conference sponsorships (public and private K-12 schools, colleges, and universities);
- Market Development Grant – create or expand recycling processing capacity and recycled material production, including equipment specifically needed to remanufacture recyclable materials into bulk raw material or finished product (businesses, with a government sponsor); and
- Scrap Tire Grant – create or expand scrap tire processing capacity and product manufacturing (businesses, with a government sponsor) and projects that incorporate the use of ground tire rubber (local governments and nonprofits).

DHE Awards $500,000 for STEM Public-Private Partnership Program

– Jason Glover, Budget Analyst

In June 2021, the Department of Higher Education (DHE) awarded a total of $500,000 to five community colleges as part of the STEM Public-Private Partnership Program created in H.B. 166 of the 133rd General Assembly. Each college was awarded a one-time grant of $100,000 to lead a partnership with high schools and private companies to provide high school students the opportunity to receive education and training in a targeted industry while simultaneously earning high school and college credit (see table below). Each partnership may use the awards only for transportation, classroom supplies, and primary instructors for courses offered under the program. Pursuant to H.B. 166, the five selected partnerships represent each quadrant of the state and the central region. Prior to these grants, DHE awarded a one-time grant of $75,000 to five more colleges for a total of $375,000 in October 2020. Overall, DHE awarded a total of $875,000 to ten community colleges in the FY 2020-FY 2021 biennium to support science, technology, engineering and mathematics (STEM) public-private partnerships.

STEM Public-Private Partnership Program Awardees and Partners, FY 2021		
Higher Education Institutions	**Business Partners**	**Educational Partners**
Central Ohio Technical College	City of Pataskala, Licking Memorial Health Systems, and Wiley Companies	eSTEM Academy and Watkins Memorial High School (HS)
Cincinnati State Technical and Community College	Workhorse Group, Inc.	Taylor HS
Lakeland Community College	Lake Health, Lubrizol Corp., MCPc, Inc., Montreal Consulting, and Steris Corp.	Eastlake North HS, iSTEM Geauga Early College HS, Wickliffe HS, and Willoughby South HS
Owens Community College	Freudenberg Sealing Technologies, Hitachi Astemo Ltd., and Molton North America Corp.	Penta Career Center
Rio Grande Community College	Holzer Health System	Eastern HS, Jackson HS, and Wellston HS

Tracking the Economy

– Eric Makela, Economist

Overview

An increasing national output, positive jobs numbers, and rising wages signal the national economy continued to grow in recent months despite demand and supply chains being impacted by COVID-19. The pace of economic recovery appears to have slowed last month. The national economy added 235,000 nonagricultural payroll jobs in August, fewer than the 636,000 employees added to nonfarm payrolls in the average month earlier this year. The nationwide average unemployment rate decreased to 5.2% in August, lowest since March of last year. Inflation adjusted gross domestic product (real GDP) increased at a seasonally adjusted 6.6% rate in the second quarter of 2021. Industrial production, as indicated by the Federal Reserve Board's Industrial Production Index (IPI) for all production sectors, remains on a growth trajectory, having risen 6.6% between July 2020 and July 2021. In the latest 12 months, the consumer price index (CPI) for all items is up 5.4%, with above-trend inflation in consumer markets for both goods and services. The U.S. Federal Reserve, the nation's central bank, held monetary policy unchanged at the most recent meeting of its policy-setting committee in July.

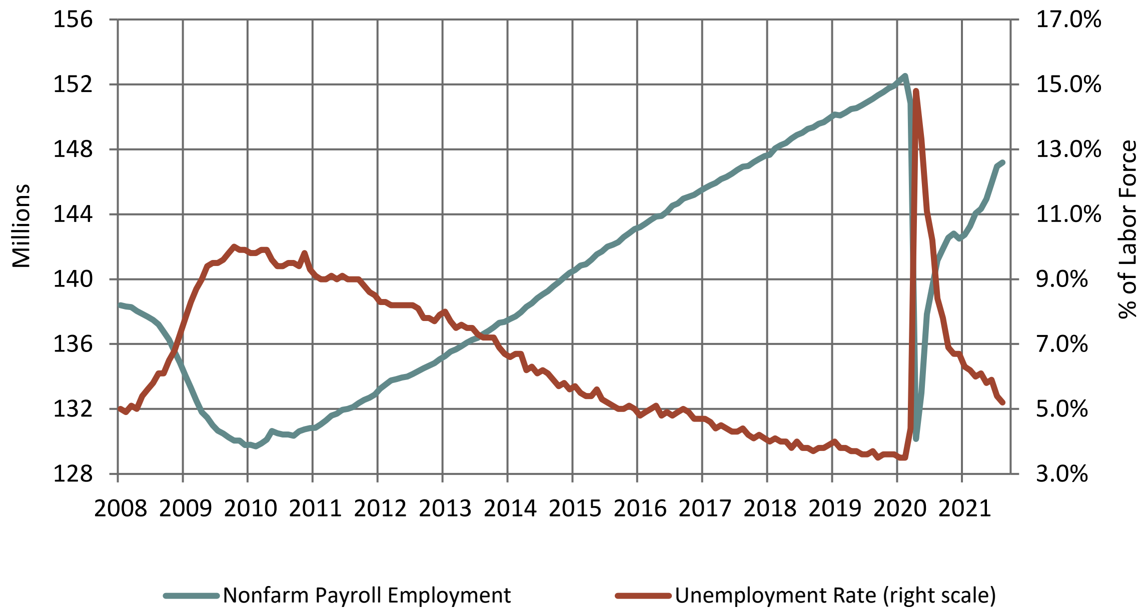
Nonfarm payroll employment in Ohio increased by 19,200 in July, though the unemployment rate increased by 0.2 percentage point, to 5.4%. Total nonfarm payroll employment in Ohio was up by nearly 150,000 between July 2020 and July 2021. The population of Ohio increased to 11.8 million in the 2020 Census, up officially by 262,944 (2.3%) from the 2010 Census. Among counties in the state, resident population increased in 33 of Ohio's 88 counties during that time. Ohio's resident population on April 1, 2020, was 3.6% of the U.S. total. Strong demand for existing homes and limited supply pushed up the average price of previously inhabited houses sold in 2021 through July by 14.9% compared with the year-earlier level. Economic activity increased in the region according to an August business survey by the Federal Reserve Bank of Cleveland, though a number of firms reported mounting challenges sourcing inputs.

The National Economy

Nonfarm payroll employment increased by 235,000 in August, as most industries added jobs. Goods-producing industries added a seasonally adjusted 40,000 payroll positions, led in August by job gains in motor vehicles and parts manufacturing (+24,100). The private service sector added 203,000 jobs last month as the professional and business services (+74,000) and transportation and warehousing (+53,200) industries added to payrolls. The leisure and hospitality industry had a net change of zero jobs during August, after averaging seasonally adjusted job gains of 406,000 per month in June and July. Employment at retailers fell by 28,500 from July to August.

Between August 2020 and August 2021, employers nationally added just over 6.0 million total nonfarm positions. Employment in goods-producing industries rose by 601,000 (3.0%) year over year, as the construction (+193,000, 2.7%), durable goods manufacturing (+235,000, 3.1%), and nondurable goods manufacturing (+118,000, 2.6%) industry segments posted gains. Increases in employment were widespread among private service-providing firms. Wholesale trade (+178,000; 3.2%) and retail trade (+329,000, 2.2%) companies added workers. Among other industries, measured year-over-year job gains in leisure and hospitality (+2,253,000, 17.4%) and transportation and warehousing (+373,000, 6.8%) were robust but also affected by the timing of establishment reopenings. Government employment decreased 28,000 (0.1%) during the year. Chart 5 displays the unemployment rate and nonfarm payroll employment in the United States.

Chart 5: U.S. Employment and Unemployment



Nationally, the seasonally adjusted unemployment rate continued its downward trend, and decreased by 0.2 percentage point, from 5.4% to 5.2%, in August. The national unemployment rate was 8.4% in August 2020 and thus declined by over 3.2 percentage points over the last year. The employment to population ratio, equal to the number of persons employed divided by the current population, was 56.5% in August 2020. The employment to population ratio, 58.5% in August 2021, was up 2.0 percentage points year over year but still below the level in most months since 1978.

Real GDP increased at a seasonally adjusted 6.6% rate in the second quarter of 2021, following growth at a rate of 6.3% during the previous quarter.[10] During the latest quarter, personal consumption expenditures grew at a brisk annualized pace for both goods (12.8%) and services (11.3%). Gross private nonresidential fixed investment grew at a 9.3% annual rate in the second quarter, the fourth consecutive quarter of growth. Residential fixed investment contracted at an 11.5% annual rate during the quarter, after strong growth in the previous three quarters.

Personal income (PI) decreased at an annualized 21.8% rate in the second quarter. Wages and salaries increased at an 8.0% rate during that time, doubling its rate of growth in the preceding quarter. The primary factor for the decline in PI was the expiry of federal stimulus,

[10] Growth percentages in this paragraph and the next paragraph are all seasonally adjusted at annualized rates.

mostly disbursed early in 2021 in the form of transfer payments to individual taxpayers. PI excluding transfer receipts increased at a 9.1% annual rate in the second quarter of 2021, following a growth rate of 1.8% in the first quarter; PI excluding transfer receipts has now increased in four consecutive quarters.

Industrial production, including manufacturing, mining, and the electric and gas utility industries, increased by 0.9% in July. Between July 2020 and July 2021, growth in the IPI for business equipment was a brisk 9.7%, while production of consumer goods grew only 2.2%. The IPI for materials, generally inputs for final goods, was up 7.4%. During this time period, the IPI increased for most market groups, reflecting a general expansion of production activity from pandemic-affected 2020.

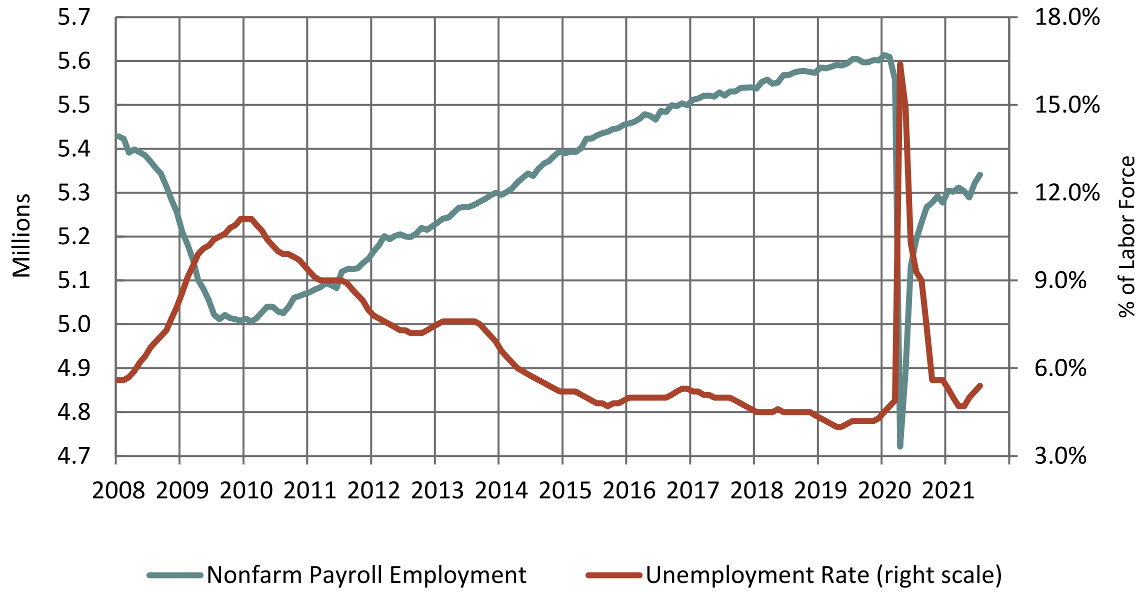
Inflation, as measured by the CPI for all items, rose by a seasonally adjusted 0.5% in July; in the 12 months leading up to July 2021, the CPI increased by 5.4%. Between July 2020 and July 2021, increases in the price indexes for goods (+9.2%) and services (+3.1%) were above-trend. The more volatile food and energy price indexes rose 3.4% and 23.8% during the same time period, respectively. The sub-index for food away from home increased 0.8% in July, its largest monthly increase since February 1981, and was up 4.6% year over year.

The Federal Reserve Board's Open Market Committee (FOMC) last met during the final week of July. A press release noted continuing economic expansion, as evidenced by rising employment, as well as the rise of inflationary pressure, viewed as largely transitory. The press release noted that the economy's future remains dependent on the course of the pandemic. The FOMC held unchanged its federal funds interest rate target at a range between 0% and 0.25% and also held unchanged its securities purchase program at $120 billion per month, reflecting its intention to allow transitory inflation and seeking to achieve its long-term dual objectives of achieving maximum employment and long-run inflation of 2%. The FOMC next meets September 21-22.

The Ohio Economy

Total nonfarm payroll employment increased by a seasonally adjusted 19,200 (0.4%) in July 2021, as the private sector (+21,300) added workers and government employment decreased (-2,100). Among employment gains in the private sector, both service providing (+18,500) and goods producing (+2,800) industries added jobs in July; the largest job number gains were in leisure and hospitality (+7,900), professional and business services (+3,900), and trade, transportation, and utilities (+3,800). Chart 6 displays the unemployment rate and nonfarm payroll employment in Ohio.

Chart 6: Ohio Employment and Unemployment



On an annual basis, the total number of jobs in Ohio was 147,700 (+2.8%) greater in July 2021 than during the same month a year prior. Year-over-year job gains within service providing industries were topped by leisure and hospitality (+47,600, 10.5%), trade, transportation, and utilities (+26,300, 2.6%), professional and business services (+21,300, 3.1%), and educational and health services (+16,300, 1.8%). Among goods producing industries, both manufacturing (+13,300, 2.1%) and construction (+9,000, 4.2%) added workers between July 2020 and July 2021. Government employment increased by 3,900 in the 12 months leading to July 2021, as job losses at the federal (-1,600, 2.0%) and state (-10,000, 5.9%) levels were outnumbered by gains at local (+15,500, 3.1%) levels.

The unemployment rate among Ohio residents increased a seasonally adjusted 0.2 percentage point in July, to 5.4%. According to the Bureau of Labor Statistics (BLS), the seasonally adjusted number of unemployed persons in Ohio increased to 300,600 during July 2021, though the change represents a decrease of 235,600 (-43.9%) unemployed persons compared to a year prior. Ohio's unemployment rate matched that of the U.S. in July, after being lower for the preceding ten months. The same BLS data indicate that the seasonally adjusted number of participants in the civilian labor force decreased by 2.3% between July 2020 and July 2021, when it stood at just over 5.6 million.

As part of the U.S. Census Bureau's ongoing population data releases, state and county populations are now available from the 2020 decennial census. The state gained a net 262,944 residents since the 2010 decennial census, population growth of approximately 2.3%. Of the counties that gained residents between the 2010 and 2020 censuses, the percent increase in population was largest in Delaware (+22.9%), Union (+20.0%), and Warren (+13.9%) counties. Of the counties that lost residents between censuses, the percent decrease in population was largest in Harrison (-8.7%), Monroe (-8.6%), and Morgan (-8.3%) counties. In total, resident populations increased in 33 out of Ohio's 88 counties between 2010 and 2020.

Real estate transactions dipped in July according to Ohio Realtors, as the number of existing home sales during the month was 3.8% below the level of July 2020. However, year-to-date sales totals show the number of units sold during 2021 through July was 7.9% greater than last year. During the same period, the average sales price of existing homes in the state was up 14.9%, resulting in an aggregate transaction value increase of 23.9% year over year.

Economic growth in the Cleveland Federal Reserve District slowed in the most recent survey period, though activity remained solid.[11] Staff levels among District employers increased at a modest pace, as firms struggled with turnover and a slow flow of qualified applicants. Supply constraints limited some contacts' abilities to fill orders, and contacts overwhelmingly reported rises in nonlabor input costs; a number of manufacturers noted being unable to meet demand due to worker shortages and delivery bottlenecks. Housing demand remained robust, while nonresidential construction and real estate activity increased moderately. Business services companies also reported a high level of activity, as resumption of investment programs and workforce expansion spurred demand for software. Banking activity rose on consumer demand for auto loans and mortgages; business lending was slower, as many business customers maintained large cash balances and paid off loans. Demand for freight hauling, already elevated, grew modestly, constrained by driver and equipment shortages.

[11] 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 businesses and industry contacts outside of the Federal Reserve System, collected on or before August 30, 2021.