LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2023 **Issue: October 2022**

Highlights

– Phil Cummins, Senior Economist

September GRF tax receipts exceeded the estimate published by the Office of Budget and Management (OBM) by $155 million. The positive variance for tax revenue was mostly from the personal income tax (PIT, $115 million), and additionally from the auto sales and use tax ($28 million), and the commercial activity tax (CAT, $15 million). The overall positive variance was reduced by negative variances for the nonauto sales and use tax ($9 million) and the cigarette tax ($5 million). YTD, GRF tax receipts were $238 million above anticipated revenue.

Ohio's unemployment rate rose to 4.0% in August after remaining at 3.9% in May through July, lowest since 2019. The national unemployment rate was 3.7% in August and 3.5% in September. Ohio nonfarm payroll employment increased by 7,500 (0.1%) in August, with much of the increase in private service-providing industries.

Through September 2022, GRF sources totaled $11.17 billion:

- Revenue from the sales and use tax was $42.6 million above estimate;
- PIT receipts were $168.8 million above estimate.

Through September 2022, GRF uses totaled $12.10 billion:

- Program expenditures were $217.6 million below estimate;
- Expenditures in several program categories were below estimates, including Medicaid ($105.0 million), Justice and Public Protection ($76.0 million), and Primary and Secondary Education ($73.5 million);
- Property Tax Reimbursements spending was above estimate ($81.5 million).

In this issue...

More details on GRF Revenues (p. 2), Expenditures (p. 12),
the National Economy (p. 26), and the Ohio Economy (p. 29).

Also **Issue Updates** on:

Consolidate Rail Infrastructure and Safety Improvements Program (p. 19)

Economic Development Compliance Report (p. 19)

Veterans of Foreign Wars Grants (p. 20)

ODH Releases Infant Mortality Report (p. 21)

OhioMHAS Lockable Container Pilot Program (p. 22)

School Facilities Completions (p. 22)

School Report Cards (p. 24)

Performance Audit of Co-located Ohio Colleges and Universities (p. 25)

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of September 2022
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 3, 2022)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$177,841	$150,200	$27,641	18.4%
Nonauto Sales and Use	$877,431	$886,900	-$9,469	-1.1%
Total Sales and Use	*$1,055,272*	*$1,037,100*	*$18,172*	*1.8%*
Personal Income	$1,109,359	$994,800	$114,559	11.5%
Commercial Activity Tax	$25,947	$10,900	$15,047	138.0%
Cigarette	$74,822	$80,200	-$5,378	-6.7%
Kilowatt-Hour Excise	$29,932	$28,900	$1,032	3.6%
Foreign Insurance	$13,380	$8,700	$4,680	53.8%
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$2,425	-$4,000	$1,575	39.4%
Public Utility	$2,703	$0	$2,703	---
Natural Gas Consumption	$0	$0	$0	---
Alcoholic Beverage	$6,559	$4,400	$2,159	49.1%
Liquor Gallonage	$4,848	$4,800	$48	1.0%
Petroleum Activity Tax	$2,538	$1,700	$838	49.3%
Corporate Franchise	$34	$0	$34	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,322,970**	**$2,167,500**	**$155,470**	**7.2%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$2,226	$3,523	-$1,297	-36.8%
Other Revenue	$14,817	$140,150	-$125,333	-89.4%
Total Nontax Revenue	**$17,043**	**$143,673**	**-$126,630**	**-88.1%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$2,340,013**	**$2,311,173**	**$28,840**	**1.2%**
Federal Grants	**$1,191,903**	**$1,158,797**	**$33,106**	**2.9%**
Total GRF Sources	**$3,531,916**	**$3,469,970**	**$61,947**	**1.8%**

*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 2023 as of September 30, 2022
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 3, 2022)

State Sources	Actual	Estimate*	Variance	Percent	FY 2022**	Percent
Tax Revenue						
Auto Sales	$534,782	$500,000	$34,783	7.0%	$512,793	4.3%
Nonauto Sales and Use	$2,747,706	$2,739,900	$7,806	0.3%	$2,682,774	2.4%
Total Sales and Use	*$3,282,488*	*$3,239,900*	*$42,588*	*1.3%*	*$3,195,567*	*2.7%*
Personal Income	$2,681,285	$2,512,501	$168,785	6.7%	$2,463,063	8.9%
Commercial Activity Tax	$495,726	$487,800	$7,926	1.6%	$455,543	8.8%
Cigarette	$179,634	$192,600	-$12,967	-6.7%	$191,712	-6.3%
Kilowatt-Hour Excise	$82,574	$78,900	$3,674	4.7%	$77,859	6.1%
Foreign Insurance	$13,807	$9,600	$4,207	43.8%	$10,737	28.6%
Domestic Insurance	$17,530	$17,500	$30	0.2%	$1,650	962.6%
Financial Institution	-$1,795	-$8,300	$6,505	78.4%	-$3,405	---
Public Utility	$44,100	$31,900	$12,200	38.2%	$34,600	27.5%
Natural Gas Consumption	$13,899	$12,400	$1,499	12.1%	$12,874	8.0%
Alcoholic Beverage	$19,117	$15,900	$3,217	20.2%	$18,637	2.6%
Liquor Gallonage	$14,713	$14,800	-$86	-0.6%	$15,005	-1.9%
Petroleum Activity Tax	$2,538	$1,700	$838	49.3%	$1,425	78.1%
Corporate Franchise	-$20	$200	-$220	-109.9%	$435	-104.5%
Business and Property	$0	$0	$0	---	$0	---
Estate	$5	$0	$5	1309.1%	$4	49.1%
Total Tax Revenue	**$6,845,603**	**$6,607,402**	**$238,201**	**3.6%**	**$6,475,705**	**5.7%**
Nontax Revenue						
Earnings on Investments	$1	$0	$1	---	$1	-11.2%
Licenses and Fees	$10,584	$8,670	$1,914	22.1%	$8,916	18.7%
Other Revenue	$135,589	$151,545	-$15,955	-10.5%	$148,043	-8.4%
Total Nontax Revenue	**$146,175**	**$160,215**	**-$14,040**	**-8.8%**	**$156,960**	**-6.9%**
Transfers In	**$5,635**	**$5,000**	**$635**	**12.7%**	**$41,895**	**-86.6%**
Total State Sources	**$6,997,413**	**$6,772,617**	**$224,796**	**3.3%**	**$6,674,560**	**4.8%**
Federal Grants	**$4,174,847**	**$4,206,850**	**-$32,004**	**-0.8%**	**$3,012,930**	**38.6%**
Total GRF SOURCES	**$11,172,259**	**$10,979,467**	**$192,792**	**1.8%**	**$9,687,491**	**15.3%**

*Estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2022.
Detail may not sum to total due to rounding.

Revenues[1]

– *Jean J. Botomogno, Chief Economist*

Overview

FY 2023 GRF sources through September of $11.17 billion were $192.8 million (1.8%) above the estimate released by OBM in August. Positive variances of $238.2 million (3.6%) for GRF tax sources and $0.6 million (12.7%) for transfers in were partly offset by negative variances of $32.0 million (0.8%) for federal grants[2] and S14.0 million (8.8%) for nontax revenue. 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 September 2022 and year-to-date (YTD) through the first quarter of FY 2023.

Regarding GRF tax sources through September, the three largest tax sources posted positive variances: the PIT ($168.8 million), the sales and use tax ($42.6 million), and the CAT ($7.9 million). The cigarette tax, the next largest tax source, experienced a revenue shortfall of $13.0 million. Except for a small negative variance for the liquor gallonage tax, the remaining tax sources exceeded their estimates, most notably the public utility excise tax ($12.2 million), the foreign insurance tax ($4.2 million), the kilowatt-hour tax ($3.7 million), and the alcoholic beverage tax ($3.2 million). The financial institutions tax (FIT) posted net refunds totaling $1.8 million, while net refunds of $8.3 million were anticipated, resulting in a first-quarter positive variance of $6.5 million for this tax source.[3]

GRF sources for September amounted to $3.53 billion, an amount $61.9 million (1.8%) above estimate. Positive variances of $155.5 million for GRF tax sources and $33.1 million for federal grants were partially offset by a timing-related deficit of $126.6 million for nontax revenue. The nontax revenue category had a positive variance of $112.6 million in August, due to an early payment from JobsOhio's liquor profits that was expected to occur in September. OBM did not make any transfers in to the GRF in September, as projected, resulting in a zero monthly variance for this category.

Regarding tax sources for the month, the PIT, the sales and use tax, and the CAT exceeded their estimates by $114.6 million, $18.2 million, and $15.0 million, respectively. In addition, the foreign insurance tax, the alcoholic beverage tax, the public utility excise tax, the FIT, and the kilowatt-hour tax had positive variances of $4.7 million, $2.2 million, $2.7 million, $1.6 million, and $1.0 million, respectively. The cigarette tax was the only tax source with a revenue shortfall,

---

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

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

[3] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to previous tax filings. FIT receipts are generally expected at the end of January, March, and May.

a negative variance of $5.4 million. Chart 1, below, shows cumulative YTD variances of GRF sources in August and September 2022. OBM did not release monthly estimates for July 2022, deeming that actual revenue for each GRF source that month matched the estimate; i.e., each monthly variance was $0.

Chart 1: Cumulative Variances of GRF Sources in FY 2023 (Variances from Estimates, $ in millions)

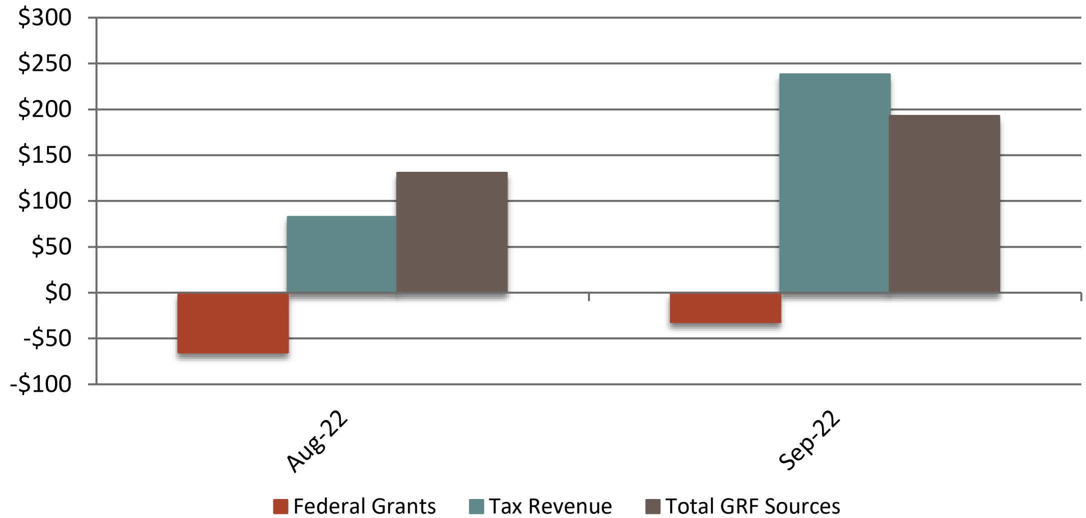


Table 2 shows that YTD GRF sources were $1.48 billion (15.3%) higher than such sources in the first quarter of FY 2022. YTD federal grants were higher by $1.16 billion (38.6%) and GRF tax sources were $369.9 million (5.7%) above revenue in the July-September period last year. Tax revenue growth was driven primarily by the PIT, revenue from which grew $218.2 million (8.9%) over the year, despite a reduction in withholding rates early last year. Reflecting continuing economic growth, tax revenue grew for most tax sources, except for the cigarette tax that posted a more than usual decline in receipts. For the remaining GRF categories, receipts from nontax revenue sources and transfers in decreased $10.8 million (6.9%) and $36.3 million (86.6%), respectively.

Sales and Use Tax

In the first quarter of FY 2023, sales and use tax receipts to the GRF totaled $3.28 billion, an amount $42.6 million (1.3%) above estimate. Both the auto and nonauto portions of the sales and use tax were above estimates, but revenue from the auto portion drove the source's positive variance. YTD GRF receipts were also $86.9 million (2.7%) above revenue in the corresponding period in FY 2022, well below revenue growth of 6.9% in FY 2022 as a whole.[4]

In September, sales and use tax revenue to the GRF was $18.2 million (1.8%) above estimate, due to a positive variance of $27.6 million for the auto sales and use tax. That positive

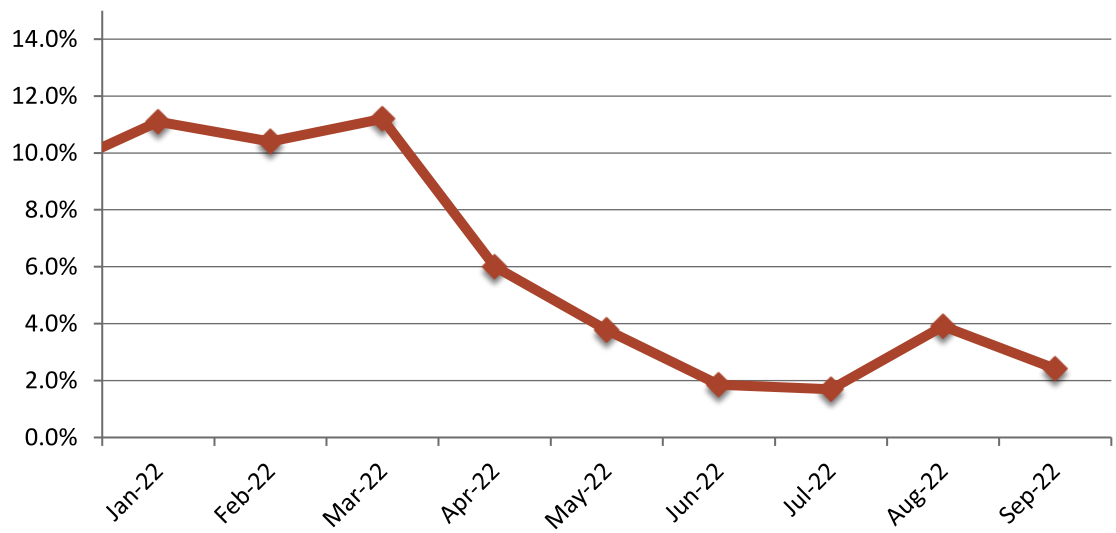
[4] In FY 2022, an unusual set of circumstances supported consumer spending on taxable goods: household incomes increased from prepandemic levels with assistance from federal income support programs, and a low interest rate environment combined with rapidly appreciating home values enabled many homeowners to refinance their mortgage at lower rates in 2020 and 2021.

variance was partly offset by a negative variance of $9.5 million for the nonauto sales and use tax, the first time in more than 12 months revenue from this source has fallen below the estimate. 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

September 2022 GRF receipts of $877.4 million were $9.5 million (1.1%) below the OBM estimate, but $12.1 million (1.4%) above revenue in September 2021. This monthly performance reduced the YTD positive variance of this tax to $7.8 million (0.3%), down from $17.3 million in the first two months of FY 2023. Generally, a large part of a month's nonauto sales and use tax revenue is from tax collection or tax remittance on taxable sales in the previous month. Chart 2, below, provides year-over-year growth in nonauto sales and use tax collections in 2022. Growth exceeded 10%, on average, in the first calendar quarter, and then slowed to about 1.9%, on average, in the second. In the most recent quarter, revenue growth increased to about 2.4%.

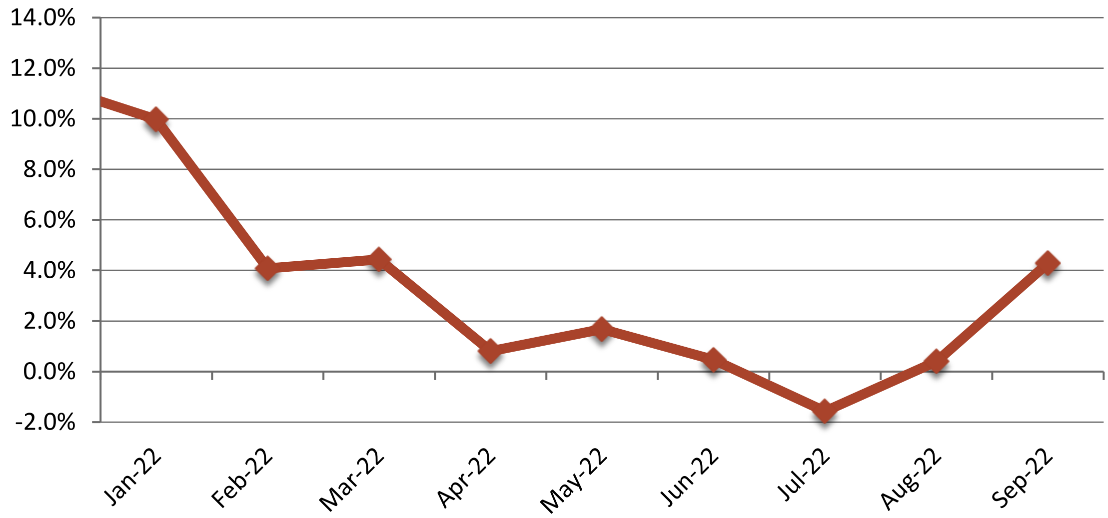
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

The auto sales and use tax performed well in September. For the month, GRF revenue from this source surpassed the estimate by $27.6 million (18.4%). Revenue of $177.8 million was also $24.3 million (15.9%) above such receipts in September 2021. For the YTD, first-quarter auto sales and use tax receipts totaled $534.8 million, an amount $34.8 million (7.0%) above estimate, and $22.0 million (4.3%) above revenue in the first quarter of FY 2022. Chart 3, below, shows year-over-year growth in auto sales and use tax collections in 2022. It reflects strong growth at the outset of the calendar year (CY) but a flattening out towards the end of the second calendar quarter, as interest rates started rising. However, revenue growth has accelerated to 4.3%, on average, in the last three months.

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



On a seasonally adjusted annualized rate basis, U.S. new light vehicle (autos and light trucks) unit sales averaged 13.3 million in the July to September period, with more than three quarters of total unit sales attributable to sales of light trucks. The tax base continues to grow due to record breaking average prices, as auto dealers are selling a greater mix of higher-trimmed trucks, SUVs, crossovers, and luxury vehicles, and manufacturers have kept incentive spending low, given the continued strong demand for new vehicles. Though unit sales have been trending lower in recent quarters, total spending on vehicles has increased, as shown in data provided by the Ohio Bureau of Motor Vehicles in the table below.

New and Used Vehicles Titled			
FY 2023 1st Quarter	**Titles**	**Spending ($ in millions)**	**Average Price**
New vehicles	86,612	$4,203	$48,529
Used vehicles	442,465	$5,980	$13,514
Total	**529,077**	**$10,183**	**$19,246**
Growth from FY 2022			
New vehicles	-2.0%	7.1%	9.3%
Used vehicles	-11.3%	2.1%	15.2%
Total	**-9.8%**	**4.1%**	**15.4%**

Compared to the corresponding quarter last year, unit purchases of motor vehicles (i.e., the sum of new and used vehicle sales) were down by almost 10% from a year earlier, but average prices were considerably higher, by about 15% than in the year-earlier quarter. As a result, total spending on new and used vehicles was 4.1% higher in the first quarter of FY 2023 than a year earlier.

Personal Income Tax

Through September, PIT receipts to the GRF of $2.68 billion exceeded the estimate by $168.8 million (6.7%), and were $218.2 million (8.9%) above revenue in the first quarter in FY 2022. 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. Employer withholding, which is the largest component of gross collections (about 76% of gross collections in FY 2022), typically drives the performance of the PIT. Larger or smaller than expected refunds (which decrease gross collections) could also greatly affect the monthly performance of the tax.

September GRF revenue was $114.6 million (11.5%) above estimate and $78.0 million (7.6%) above September 2021 revenue. Gross collections were $115.0 million (10.6%) above estimate, with all its components above their anticipated revenue levels. Quarterly estimated payments and employer withholding were above their projections by $48.9 million and $38.3 million, respectively; and payments due with annual returns and miscellaneous payments were above their estimates by $21.1 million and $3.2 million, respectively. Refunds were below estimate by $0.9 million, but distributions to the LGF posted a positive variance of $1.3 million, thus reducing the gross collections variance by $0.4 million in September. Overall, GRF revenue was $114.6 million above estimate for the month.

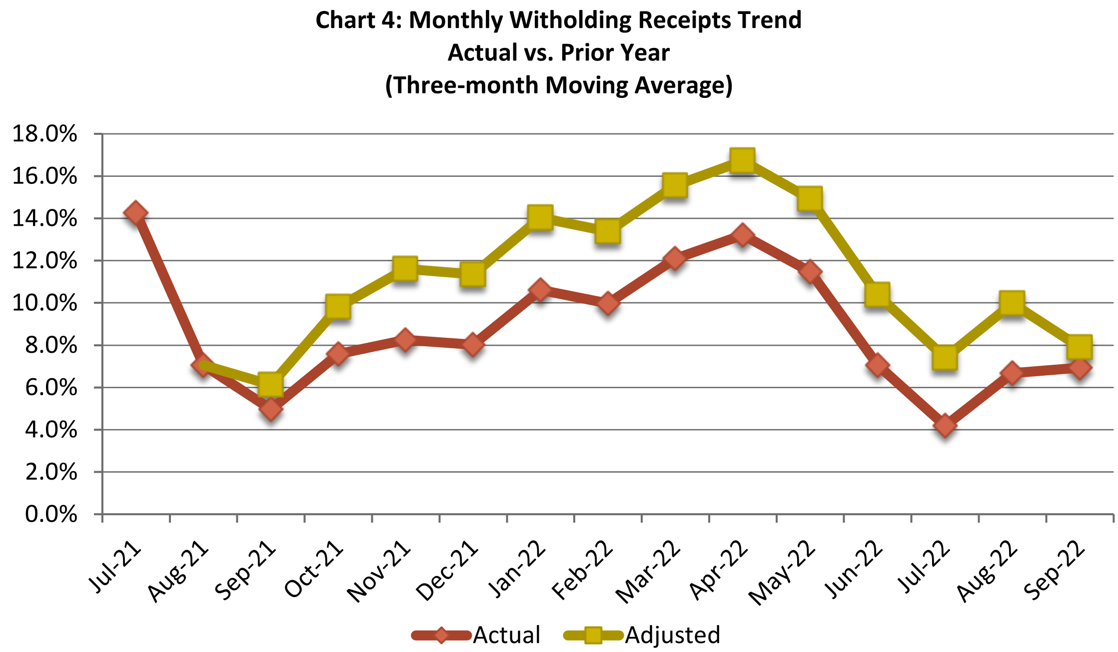
The table below provides details on revenue from each component of the PIT relative to estimates for FY 2023 through September and revenue received in FY 2022. FY 2023 YTD gross collections were $170.2 million above anticipated revenue. All components of gross collections exceeded their estimates, including employer withholding, $77.3 million, quarterly estimated payments, $53.1 million, and payments due with annual returns, $28.9 million. YTD refunds and LGF distributions were, respectively, $0.5 million and $0.9 million, above projections. Thus, the fiscal YTD positive variance for the GRF was $168.8 million.

Compared to the corresponding period in FY 2022, gross collections grew $213.8 million YTD in FY 2023, mostly due to an increase of $163.8 million in employer withholding. The remaining components of gross collections were also above corresponding receipts in FY 2022, most notably quarterly estimated payments, which was above estimate by $35.0 million. YTD FY 2023 refunds were $9.2 million lower than those in the first quarter of last fiscal year, but LGF distributions were higher by $4.7 million. Therefore, growth in PIT GRF revenue was $218.2 million over YTD receipts in FY 2022.

[5] Taxpayers who expect to be underwithheld by more than $500 make quarterly estimated payments. 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 2023 PIT Revenue Variance and Annual Change by Component				
Category	Variance from Estimate		Changes from FY 2022	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$77.3	3.2%	$163.8	6.9%
Quarterly Estimated Payments	$53.1	22.1%	$35.0	13.5%
Trust Payments	$5.5	45.4%	$7.1	67.7%
Annual Return Payments	$28.9	72.0%	$7.3	11.8%
Miscellaneous Payments	$5.4	33.2%	$0.7	3.1%
Gross Collections	$170.2	6.2%	$213.8	7.9%
Less Refunds	$0.5	0.4%	-$9.2	-7.3%
Less LGF Distribution	$0.9	0.7%	$4.7	3.9%
GRF PIT Revenue	$168.8	6.7%	$218.2	8.9%

Year-over-year growth in withholding receipts had been limited for several months because of a 3.0% reduction in withholding rates that was effective September 1, 2021. The reduction was in response to income tax rate cuts for nonbusiness income enacted in H.B. 110 (the operating budget act). Starting in September 2022, however, the growth in FY 2023 monthly withholding receipts fully reflects the strength in the underlying tax base. The chart, below, illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts since July 2021 and estimated withholding receipts adjusted for the September 2021 withholding tax rate cut. Payrolls are estimated to have increased about 7.9%, on average, in the first quarter of FY 2023.



Commercial Activity Tax

GRF revenue from the CAT in September was $25.9 million, an amount $15.0 million (138.0%) above estimate. For the YTD, first-quarter GRF receipts totaled $495.7 million, an amount $7.9 million (1.6%) above estimate. YTD GRF revenue was also $40.2 million (8.8%) above first-quarter revenue in FY 2022. YTD FY 2023 gross collections totaling $629.7 million were $59.2 million (10.4%) above last year's gross collections through September, but refunds and credits also increased compared to FY 2022, by $11.6 million (37.6%), resulting in a lower growth rate for GRF revenue.[6]

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%). Through September, Fund 7047 and Fund 7081 received $75.8 million and $11.7 million, respectively. Disbursements from the funds 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 may be transferred back to the GRF, though OBM did not transfer the excess cash in FY 2022, as it was not needed.[7]

[6] A number of Ohio's business tax credits can be claimed against more than one type of tax, but many are claimed against the CAT, which is imposed on the privilege of doing business in Ohio.

[7] At the end of FY 2022, cash balances in Fund 7047 and Fund 7081 totaled $493.2 million and $133.6 million, respectively. Balances at the end of September were $569.0 million and $142.1 million, respectively.

Cigarette and Other Tobacco Products Tax

Through September, FY 2023 revenue from the cigarette and other tobacco products (OTP) tax totaling $179.6 million was below estimate by $13.0 million (6.7%). Total revenue included $148.4 million from the sale of cigarettes and $31.2 million from the sale of OTP. For the month of September, receipts from this tax source of $74.8 million were $5.4 million (6.7%) below estimate and $4.6 million (5.8%) below revenue in September 2021.

YTD FY 2023 revenue was also $12.1 million (6.3%) below FY 2022 revenue through September. OTP sales increased by $2.4 million (8.2%) while receipts from cigarette sales decreased $14.4 million (8.9%). The increase in OTP revenue is primarily due to growth in OTP prices. 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. The tax on cigarettes is based on unit sales rather than value, and revenue from this portion of the tax base has steadily decreased over time.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of September 2022
($ in thousands)
(Actual based on OAKS reports run October 4, 2022)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$616,271	$599,548	$16,723	2.8%
Higher Education	$208,387	$212,993	-$4,606	-2.2%
Other Education	$17,023	$10,948	$6,075	55.5%
Total Education	**$841,680**	**$823,489**	**$18,191**	**2.2%**
Medicaid	$1,632,757	$1,656,250	-$23,493	-1.4%
Health and Human Services	$113,332	$140,640	-$27,308	-19.4%
Total Health and Human Services	**$1,746,089**	**$1,796,890**	**-$50,801**	**-2.8%**
Justice and Public Protection	$201,969	$201,282	$688	0.3%
General Government	$42,573	$52,388	-$9,815	-18.7%
Total Government Operations	**$244,542**	**$253,670**	**-$9,127**	**-3.6%**
Property Tax Reimbursements	$413,468	$325,451	$88,017	27.0%
Debt Service	$359,028	$361,228	-$2,200	-0.6%
Total Other Expenditures	**$772,496**	**$686,679**	**$85,817**	**12.5%**
Total Program Expenditures	**$3,604,808**	**$3,560,728**	**$44,080**	**1.2%**
Transfers Out	**$2,394**	**$0**	**$2,394**	**---**
Total GRF Uses	**$3,607,201**	**$3,560,728**	**$46,473**	**1.3%**

*August 2022 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 2023 as of September 30, 2022
($ in thousands)
(Actual based on OAKS reports run October 4, 2022)

Program Category	Actual	Estimate*	Variance	Percent	FY 2022**	Percent
Primary and Secondary Education	$2,246,567	$2,320,041	-$73,474	-3.2%	$1,794,425	25.2%
Higher Education	$608,177	$616,250	-$8,073	-1.3%	$365,034	66.6%
Other Education	$35,638	$32,299	$3,338	10.3%	$17,428	104.5%
Total Education	**$2,890,382**	**$2,968,591**	**-$78,208**	**-2.6%**	**$2,176,887**	**32.8%**
Medicaid	$5,851,023	$5,956,005	-$104,983	-1.8%	$3,398,017	72.2%
Health and Human Services	$394,246	$422,432	-$28,187	-6.7%	$236,834	66.5%
Total Health and Human Services	**$6,245,268**	**$6,378,438**	**-$133,169**	**-2.1%**	**$3,634,851**	**71.8%**
Justice and Public Protection	$691,937	$767,898	-$75,961	-9.9%	$497,266	39.1%
General Government	$129,479	$138,587	-$9,108	-6.6%	$91,279	41.8%
Total Government Operations	**$821,416**	**$906,485**	**-$85,069**	**-9.4%**	**$588,545**	**39.6%**
Property Tax Reimbursements	$647,074	$565,610	$81,464	14.4%	$298,615	116.7%
Debt Service	$821,611	$824,245	-$2,634	-0.3%	$382,831	114.6%
Total Other Expenditures	**$1,468,685**	**$1,389,856**	**$78,830**	**5.7%**	**$681,447**	**115.5%**
Total Program Expenditures	**$11,425,752**	**$11,643,369**	**-$217,617**	**-1.9%**	**$7,081,730**	**61.3%**
Transfers Out	**$674,153**	**$673,700**	**$453**	**0.1%**	**$2,941,052**	**-77.1%**
Total GRF Uses	**$12,099,905**	**$12,317,069**	**-$217,164**	**-1.8%**	**$10,022,781**	**20.7%**

*August 2022 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2022.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on October 5, 2022)

	Month of September 2022				Year to Date through September 2022			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,573,278	$1,588,096	-$14,818	-0.9%	$5,674,880	$5,748,482	-$73,602	-1.3%
Non-GRF	$830,425	$836,506	-$6,080	-0.7%	$1,583,536	$1,614,910	-$31,374	-1.9%
All Funds	$2,403,703	$2,424,602	-$20,899	-0.9%	$7,258,416	$7,363,392	-$104,976	-1.4%
Developmental Disabilities								
GRF	$46,967	$46,430	$536	1.2%	$145,353	$144,889	$463	0.3%
Non-GRF	$218,976	$209,757	$9,219	4.4%	$667,438	$670,020	-$2,583	-0.4%
All Funds	$265,942	$256,187	$9,756	3.8%	$812,790	$814,910	-$2,119	-0.3%
Job and Family Services								
GRF	$11,361	$20,284	-$8,923	-44.0%	$28,014	$59,426	-$31,411	-52.9%
Non-GRF	$11,022	$36,548	-$25,526	-69.8%	$38,849	$101,729	-$62,879	-61.8%
All Funds	$22,383	$56,832	-$34,449	-60.6%	$66,864	$161,154	-$94,291	-58.5%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$1,151	$1,439	-$288	-20.0%	$2,776	$3,208	-$432	-13.5%
Non-GRF	$4,865	$7,438	-$2,573	-34.6%	$9,424	$15,068	-$5,644	-37.5%
All Funds	$6,016	$8,877	-$2,861	-32.2%	$12,200	$18,276	-$6,076	-33.2%
All Departments:								
GRF	**$1,632,757**	**$1,656,250**	**-$23,493**	**-1.4%**	**$5,851,023**	**$5,956,005**	**-$104,983**	**-1.8%**
Non-GRF	**$1,065,288**	**$1,090,248**	**-$24,960**	**-2.3%**	**$2,299,247**	**$2,401,727**	**-$102,480**	**-4.3%**
All Funds	**$2,698,045**	**$2,746,498**	**-$48,453**	**-1.8%**	**$8,150,270**	**$8,357,732**	**-$207,463**	**-2.5%**

*September 2022 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 October 5, 2022)

	Month of September 2022				Year to Date through September 2022			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,854,967**	**$1,870,422**	**-$15,456**	**-0.8%**	**$5,561,320**	**$5,656,216**	**-$94,896**	**-1.7%**
CFC†	$641,082	$649,148	-$8,065	-1.2%	$1,932,458	$1,973,639	-$41,181	-2.1%
Group VIII	$623,956	$626,002	-$2,046	-0.3%	$1,873,151	$1,897,773	-$24,622	-1.3%
ABD†	$251,058	$255,198	-$4,140	-1.6%	$760,158	$774,980	-$14,822	-1.9%
ABD Kids	$73,669	$73,830	-$161	-0.2%	$221,967	$222,442	-$475	-0.2%
My Care	$250,487	$247,892	$2,594	1.0%	$737,783	$741,208	-$3,426	-0.5%
OhioRise	$14,715	$18,352	-$3,637	-19.8%	$35,804	$46,174	-$10,370	-22.5%
Fee-For-Service	**$653,010**	**$632,422**	**$20,588**	**3.3%**	**$2,014,774**	**$1,983,201**	**$31,573**	**1.6%**
ODM Services	$401,828	$382,448	$19,380	5.1%	$1,224,950	$1,199,010	$25,940	2.2%
DDD Services	$250,408	$249,974	$434	0.2%	$789,050	$784,191	$4,859	0.6%
Hospital - HCAP	$774	$0	$774	--	$774	$0	$774	--
Premium Assistance	**$118,362**	**$119,322**	**-$960**	**-0.8%**	**$352,856**	**$355,829**	**-$2,973**	**-0.8%**
Medicare Buy-In	$77,550	$78,231	-$682	-0.9%	$231,149	$233,017	-$1,868	-0.8%
Medicare Part D	$40,812	$41,090	-$278	-0.7%	$121,707	$122,811	-$1,104	-0.9%
Administration	**$71,707**	**$124,332**	**-$52,625**	**-42.3%**	**$221,319**	**$362,487**	**-$141,167**	**-38.9%**
Total	**$2,698,045**	**$2,746,498**	**-$48,453**	**-1.8%**	**$8,150,270**	**$8,357,732**	**-$207,463**	**-2.5%**

*September 2022 estimates from the Department of Medicaid
†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program
Detail may not sum to total due to rounding.

Expenditures[8]

– Melaney Carter, Director

– Ivy Chen, Division Chief

Overview

For the YTD through September, FY 2023 GRF program expenditures totaled $11.43 billion. These expenditures were $217.6 million (1.9%) below OBM's estimates. GRF uses also include transfers out, which totaled $674.2 million and were $0.5 million (0.1%) over estimate for the YTD. Total GRF uses for these three months totaled $12.10 billion, which was $217.2 million (1.8%) under estimate. The three largest negative YTD variances were in Medicaid ($105.0 million, 1.8%), Justice and Public Protection ($76.0 million, 9.9%), and Primary and Secondary Education ($73.5 million, 3.2%). The largest offsetting positive YTD variance was in Property Tax Reimbursements ($81.5 million, 14.4%). YTD spending in all other program categories, except Other Education which had a $3.3 million positive variance, was below estimate. The larger variances singled out above, in addition to Medicaid's non-GRF variance, 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 September by $23.5 million (1.4%) and below their YTD estimate by $105.0 million (1.8%) at the end of September. Non-GRF Medicaid expenditures were below their monthly estimate by $25.0 million (2.3%) and below their YTD estimate by $102.5 million (4.3%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $48.5 million (1.8%) below estimate in September and $207.5 million (2.5%) below their YTD estimate at the end of September. The YTD variance is due primarily to the underspending of administration and underspending within the managed care program.

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 September of $20.9 million (0.9%), and a YTD all funds negative variance of $105.0 million (1.4%) at the end of September. ODODD had a September all funds positive variance of $9.8 million (3.8%) but ended the month with YTD expenditures $2.1 million (0.3%) 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

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

Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four major payment categories at the end of September. In both percentage terms and in absolute dollars, the Administration variance of $141.2 million (38.9%) was the largest. The other two categories with negative variances were Managed Care at $94.9 million (1.7%) and Premium Assistance at $3.0 million (0.8%). The YTD Administration variance is due primarily to the delay in some administration-related payments, specifically a large negative variance at Ohio Department of Job and Family Services (ODJFS). Finally, the Fee-For-Service (FFS) payment category saw a positive YTD variance of $31.6 million (1.6%).

From the beginning of the COVID-19 pandemic in March 2020 through the end of September 2022, caseloads have increased by approximately 21,800 cases per month, on average. According to ODM, nearly all of the caseload variance has been due to the suspension of routine redeterminations of eligibility 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. Caseload estimates for FY 2023 have allowed for the continuation of the federally declared public health emergency. September saw a continuation of the recent trend of positive caseload variances, with 4,556 cases (0.1%) above estimate.

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 71.0% of the estimated expenditures for this category for FY 2023. Eleven other agencies make up the remaining 29.0% of estimated spending.

The negative YTD variance in this category was $76.0 million (9.9%), which was primarily due to DRC with a negative YTD variance of $54.1 million; the DRC variance grew by $18.0 million in September. DRC's September variance was offset by a positive monthly variance of $19.7 million for the Public Defender Commission (PUB). Including smaller monthly variances in other agencies, the category as a whole was $0.7 million (0.3%) above estimate for the month of September.

DRC's negative YTD variance was mainly due to negative variances of $31.0 million in appropriation line item (ALI) 501321, Institutional Operations, and $17.3 million in ALI 505321, Institution Medical Services. 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.

PUB's positive monthly variance was due to a positive variance of $19.8 million in ALI 019501, County Reimbursement, which partially offset negative variances in the ALI in previous months. This ALI is used to reimburse counties for their costs in providing legal counsel to indigent persons. The estimate allocates the appropriation over the fiscal year, but actual expenditures depend on the actual costs incurred by the counties and the timing of the requests for reimbursement.

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. This category was under the YTD estimate by $73.5 million (3.2%) at the end of September, despite a positive variance of $16.7 million (2.8%) for the month of September. Both the YTD and monthly variances were dominated by ALI 200550, Foundation Funding – All Students, which was over estimate in September by $11.3 million and under estimate for the YTD by $58.6 million. This ALI is the main source of state support for public schools in the state, including those operated by traditional school districts, joint vocational school districts (JVSDs), 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. For FY 2023, estimated spending in this ALI comprises 83.7% of total estimated spending in the category. Expenditures from this ALI are governed by a variety of formulas and data and can be difficult to predict on a monthly basis. There are, therefore, often timing-related variances in this ALI.

Property Tax Reimbursements

This category of GRF expenditures reimburses school districts and other local governments for their property tax losses due to property tax rollbacks and the homestead exemption. Reimbursements are made twice a year as counties request them. 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. In September, this category had a positive variance of $88.0 million (27.0%). After smaller negative variances earlier in the fiscal year, this resulted in a positive YTD variance in this category of $81.5 million (14.4%) at the end of September.

Issue Updates

Controlling Board Approves $8.6 Million in Additional Federal Funding for Railroad Improvements

– Jared Cape, LSC Fellow

On August 29, 2022, the Controlling Board approved an Ohio Rail Development Commission (ORDC) request to appropriate $8.6 million in FY 2023 for two railroad improvement projects awarded by the Federal Railroad Administration (FRA). The additional funding comes from the Consolidated Rail Infrastructure and Safety Improvements (CRISI) Program to improve railroad safety, efficiency, and reliability. Of the total, nearly $6.9 million will be used to pay for 70.0% of the cost to improve rail yard operations of the Wheeling Lake Erie Railway in the Village of Spencer in Medina County. The project will add new track in the yard and eliminate the need to stop street traffic during rail car switching maneuvers. The remaining $1.7 million will be used to pay for 50% of the cost to repair and rehabilitate a rail line from Midland to Greenfield that is owned by the village of Greenfield in Highland County. These improvements will offer faster operating speeds to rail traffic. The funding for both CRISI awards will be appropriated under Highway Operating Fund (Fund 7002) ALI 776475, Rail - Federal Rail Administration. The state match for both projects will be paid from the Rail Development Fund (Fund 4N40). The funding sources, including the federal award, state matching funds, and amounts to be given through partnerships with railroads and other contributors are detailed in the table below.

Awards Under the CRISI Program				
Location	FRA Grant	ORDC Match	Partnerships	Total
Spencer (Medina County)	$6,868,768	$490,626	$2,453,131	$9,812,525
Greenfield (Highland County)	$1,702,688	$54,789	$1,647,898	$3,405,375
Total	**$8,571,456**	**$545,415**	**$4,101,029**	**$13,217,900**

Attorney General Issues 2021 Economic Development Compliance Report

– Jessica Murphy, Budget Analyst

On September 19, 2022, the Ohio Attorney General (AGO) released the 2021 Economic Development Compliance Report, a required annual review of recipient compliance with the terms and conditions, including any performance metrics, of state economic development awards administered by the Department of Development (DEV). The duty to monitor compliance was first enacted by H.B. 420 of the 127th General Assembly (effective December 30, 2008). H.B. 110 transferred this duty from the Attorney General to the Auditor of State who will prepare and publish all future compliance reports. The AGO may still pursue remedies and recoveries from entities based on the reports' findings.

The current report examined 48 awards with a performance period ending in CY 2020. The economic development awards issued by DEV for this period fall into three main categories: project grants, tax credits, and project loans. As shown in the table below, 45 recipients, or 94%, were determined to be either fully compliant (42) or substantially compliant (3), having met at least 90% of performance metrics set forth in the agreement. The metrics used to determine compliance included the commitments for job creation, job retention, minimum hourly wage, capital investment, or other commitments, as set forth in the entity's award agreement. Three awards did not meet the criteria standards for either compliant or substantially compliant. One award for $3 million in the grants category was deemed noncompliant due to insufficient documentation substantiating eligibility of project costs. Two awards in the tax credit category (one for $9,510 and one for $49,510) failed to create committed jobs and generate sufficient new payroll per the terms of their awards. For the three awards determined to be noncompliant, no remedial actions were taken by DEV at the time of the report's release.

State Economic Development Awards Compliance Rates – Period Ending CY 2020

Award Category (# reviewed)	Total Amount Awarded and Reviewed	Number of Awards Compliant or Substantially Compliant	Compliance Rate	Amount Determined Noncompliant
Grants* (19)	$12,871,039	18	95%	$3,000,000
Tax Credits (18)	$3,409,595	16	89%	$59,020
Project Loans (11)	$14,370,500	11	100%	$0
Total (48)	**$30,651,134**	**45**	**94%**	**$3,059,020**

*All project grants were for roadwork development, which do not require job creation and retention commitments.

Ohio Department of Veterans Services Distributes $750,000 to the Veterans of Foreign Wars

– Shaina Morris, Budget Analyst

On August 12, 2022, the Ohio Department of Veterans Services (ODVS) distributed $750,000 to the Veterans of Foreign Wars Department of Ohio (VFW of Ohio). H.B. 338 of the 134th General Assembly appropriated the funding to GRF ALI 900409, Veterans of Foreign Wars Grants for FY 2022. After the bill's enactment, ODVS and VFW of Ohio entered into a memorandum of understanding for administration of the grant funds.

Under the memorandum of understanding, the funding is required to be used exclusively for the Veterans of Foreign Wars Emergency Repair Program for posts across Ohio. According to the VFW of Ohio, the repairs will be made solely to posts with roof and interior damage caused by leaks. Of the 306 posts across the state, the VFW of Ohio has identified 15 as needing repairs.

Currently, the repair work on six posts has already been completed for a total of $275,000; while the others are in progress.

Ohio's 2020 Infant Mortality Rate Lowest in the Past Ten Years

– Jacquelyn Schroeder, Senior Budget Analyst

In August 2022, the Ohio Department of Health (ODH) released its 2020 Ohio Infant Mortality Report, which found that Ohio's infant mortality rate[9] for all races decreased from 6.9 in 2019 to 6.7 in 2020, the lowest overall rate in the past ten years. The black infant mortality rate saw the largest decrease between 2019 and 2020, dropping from 14.3 to 13.6. The Hispanic infant mortality rate also dropped from 5.8 to 5.2 during that time frame, while the white infant mortality rate remained the same at 5.1. Ohio's goal for the overall rate and the rate for priority populations[10] is 6.0 or lower by 2028. The largest contributing factors to infant mortality include prematurity (birth before 37 weeks gestation), low birth weight, congenital anomalies, perinatal infections, obstetric conditions, sudden infant death syndrome, and other unintentional injuries. There are also several maternal health behaviors or conditions that can be associated with an increase in infant deaths. These include: having a prior pregnancy, smoking during or prior to pregnancy, being obese, or having a condition such as hypertension or diabetes. In addition, maternal age also can play a role. Mothers between the ages of 30 and 34 years of age experienced the lowest infant mortality rates, while those younger than 20 experienced the highest.

Ohio has taken several steps in recent years to address infant mortality. The State Health Improvement Plan has identified infant mortality reduction and related risk factors as a focal point. Identified strategies to address infant mortality include smoke-free policies, group prenatal care, early childhood home visiting, and strategies to impact health behavior and access to care. ODH currently supports many programs aimed at reducing infant mortality, including a 24/7 breastfeeding hotline, a smoking cessation program for pregnant women, group prenatal care initiatives to provide social support for women who are more likely to experience poor birth outcomes, and home visiting models aimed at providing parenting support and education.

To read the report in its entirety or to learn more about the state's efforts to reduce infant mortality, please refer to ODH's Infant and Fetal Mortality Reports page on its website.[11]

---

[9] The infant mortality rate is defined as the number of infant deaths before the age of one per 1,000 live births.

[10] Priority populations include blacks, individuals in certain age brackets (e.g., 15 to 17 or 45 and over), individuals residing in urban counties, and individuals with low educational attainment.

[11] To access the report, go to the Department's website (odh.ohio.gov), click on the Know Our Programs tab, do a keyword search on "infant and fetal mortality," and then click the Reports link.

OhioMHAS Contracts with Johns Hopkins University for the Lockable Container Pilot Program

– Ryan Sherrock, Economist

On August 1, 2022, the Controlling Board approved a request from the Ohio Department of Mental Health and Addiction Services (OhioMHAS) to contract with Johns Hopkins University to administer the Lockable Container Pilot Program. The contract is for approximately $2.0 million in FY 2023. Under the pilot program, participating pharmacies will use lockable or tamper-evident containers when dispensing schedule II[12] controlled substances that are in solid oral dosage formulations. The purpose of the program is to determine if these containers lead to a decrease in misuse and abuse, or diversion of, these drugs. Under the contract, Johns Hopkins University will develop a process for selecting pharmacies to participate in the pilot program, establish procedures pharmacies must follow when dispensing schedule II drugs, ensure that pharmacies are able to acquire a sufficient number of containers, and create a system for paying dispensing fees to pharmacies. In addition, Johns Hopkins must submit quarterly and year-end reports summarizing certain data, such as the number of prescriptions dispensed, the amount disbursed as dispensing fees to pharmacies, and any challenges experienced. The year-end report must include recommendations regarding whether the use of these containers should be promoted as a best practice. Four pharmacies located across the state will be recruited to participate in the pilot program. The contract stipulates that any expenses a participating pharmacy incurs for the containers cannot be passed onto a patient or third-party payer.

H.B. 110 established the pilot program and required $1.0 million in both FY 2022 and FY 2023 be used for its operation.[13] However, the pilot program was not operated in FY 2022. Instead, the Controlling Board request above also transferred the FY 2022 appropriation to FY 2023.

OFCC Completed Facility Plans for Eight School Districts in FY 2022

– Jason Glover, Budget Analyst

During FY 2022, the Ohio Facilities Construction Commission (OFCC) completed projects that fully addressed the facilities needs of eight school districts. As shown in the following table, the total master facility plan costs of these projects, as assessed by OFCC, was $456.1 million. Of that total, the state share was $196.9 million (43%) and the local share was $259.1 million (57%).

[12] According to the United States Drug Enforcement Administration, schedule II drugs are drugs with a high potential for abuse, with use potentially leading to severe psychological or physical dependence.

[13] These funds were appropriated in GRF ALI 336421, Continuum of Care Services.

FY 2022 Completed School Facility Plans				
District	**County**	**Total Plan Costs**	**State Share**	**State Share %**
Elida Local School District	Allen	$30,715,736	$10,443,350	34%
Elyria City School District	Lorain	$57,059,562	$22,253,229	39%
Fremont City School District	Sandusky	$107,130,573	$52,493,981	49%
Indian Creek Local School District	Jefferson	$15,953,174	$5,105,016	32%
Sandusky City School District	Erie	$51,266,212	$27,683,754	54%
Southwest Local School District	Hamilton	$84,695,998	$27,102,719	32%
Talawanda City School District	Butler	$55,809,028	$13,394,167	24%
Warren Local School District	Washington	$53,430,964	$38,470,294	72%
	Total	**$456,061,247**	**$196,946,510**	**43%**

Source: Ohio Facilities Construction Commission

Overall, OFCC disbursed approximately $211.0 million for school facilities assistance projects in FY 2022, 93% ($196.2 million) of which was spent on Classroom Facilities Assistance Program (CFAP) projects. The remainder, $14.8 million, primarily supported OFCC's Vocational Facilities Assistance Program (VFAP) for JVSDs ($7.2 million), and the Exceptional Needs Program ($7.0 million), which addresses the facilities needs of a specific building rather than the entire facilities needs of a district. Additionally, smaller amounts were provided for high performing community schools ($0.2 million), facilities assistance for independent STEM schools ($0.2 million), and school security grants ($0.1 million). H.B. 687 of the 134th General Assembly appropriates $600.0 million for classroom facilities assistance projects for the FY 2023-FY 2024 capital biennium.

Through the end of FY 2022, OFCC reports they have completed projects that fully addressed the facilities' needs in 49% of districts statewide, including 306 school districts and 15 JVSDs. Another 15% of districts, including 96 school districts and one JVSD, have buildings in the design or construction phase or had some work performed through another OFCC program and 16% of districts, including 94 school districts and 11 JVSDs, have been offered funding but have deferred the offer, allowed it to lapse because they were unable to raise the required local share, or are in the process of seeking the required local share. The remaining 20% of districts, including 113 school districts and 22 JVSDs, have not yet been offered CFAP or VFAP funding.

Department of Education Releases FY 2022 School Report Cards

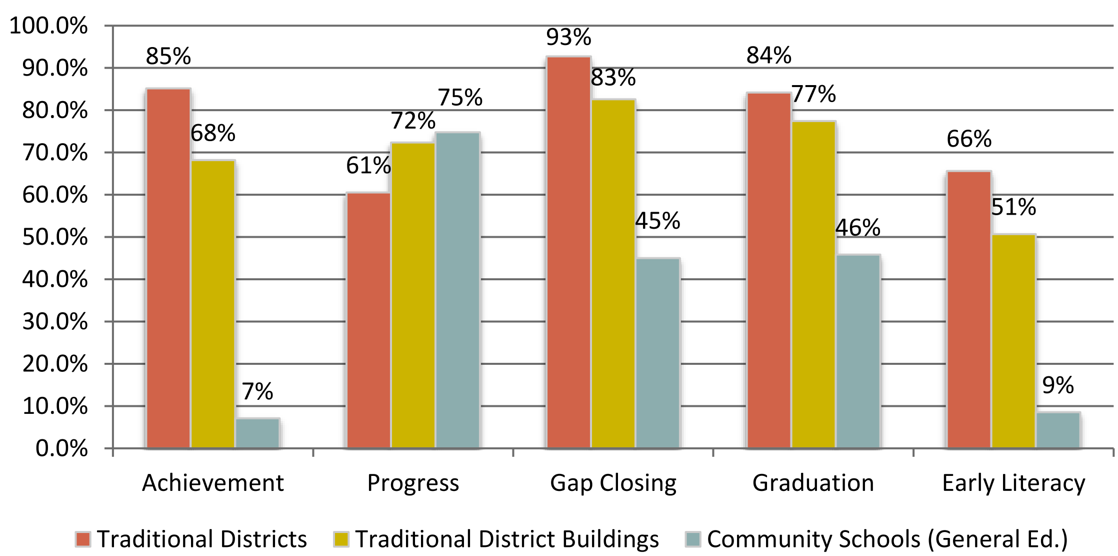
– Brian Hoffmeister, Senior Budget Analyst

ODE issued FY 2022 school and district report cards on September 15, 2022. For the first time, the report cards use a rating system of one to five stars (replacing A-F letter grades), with three stars indicating a school or district meets the state's standards and five stars indicating it significantly exceeds expectations. ODE issued ratings across five measurement domains, but did not issue overall district or building ratings this year per the new system's implementing legislation (H.B. 82 of the 134th General Assembly). The five domains are Achievement, Progress, Gap Closing, Graduation, and Early Literacy.

Traditional school districts and their individual school buildings performed best on the Gap Closing component, which measures the extent to which students or certain groups of students are meeting performance goals that are intended to close educational gaps in a broad set of metrics. As seen in the chart below, about 93% of districts and 83% of individual school buildings with ratings scored three or more stars on this component. Districts also performed well on the Achievement and Graduation components, although the percentage of individual schools meeting or exceeding state standards lagged their districts overall.

General education community schools had a larger share meet or exceed standards on the Progress component (75%) than traditional districts (61%) and their individual schools (72%). The Progress component measures student academic growth from one year to the next. However, these community schools lagged significantly behind traditional districts and individual district buildings on all other components. Of the community schools with star ratings in a respective component, fewer than half met or exceeded standards in Graduation (46%) and Gap Closing (45%) while 9% met or exceeded standards in Early Literacy, and 7% met or exceeded standards on the Achievement component.

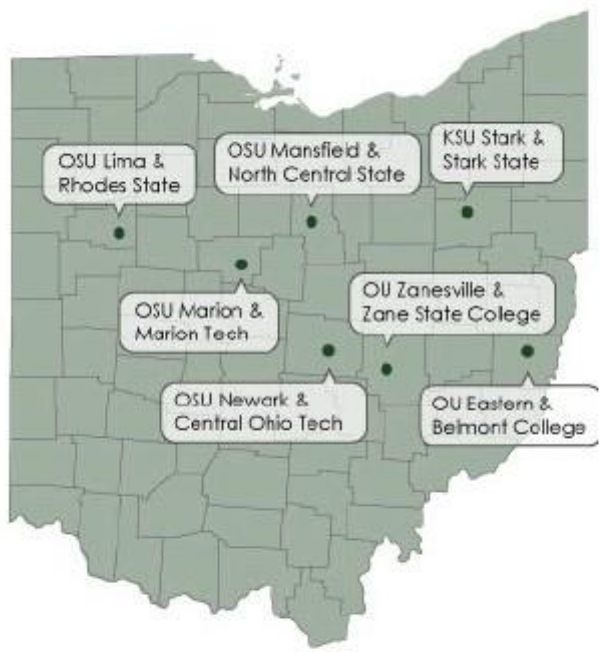
Percentage of Schools and Districts Meeting or Exceeding State Standards (Three or more Stars) on FY 2022 Report Cards



Performance Audit of Co-located Ohio Colleges and Universities Completed

– Jared Cape, LSC Fellow

On September 22, 2022, the Auditor of State (AUD) released the results of a performance audit that reviewed the operations of Ohio colleges and universities that share campuses. The final report identified 15 different recommendations throughout the seven operational areas examined under the audit, and specified which recommendations were applicable to each university audited. The areas examined under the performance audit include: (1) programs and courses, (2) facilities utilization, (3) information technology, (4) student services, (5) campus security, (6) facilities management, and (7) staffing. The report also pointed out items for further study. A map of the co-located campuses from the AUD report is displayed below. For more information, see the AUD report: Ohio's Co-located Institutions of Higher Education Performance Audit September 2022 (PDF), which is available on the AUD website: ohioauditor.gov/performance.html.



The performance audit was paid through a combination of GRF and billings charged to the four-year and two-year institutions of higher education under review. The receipts from those billings are deposited into the Public Audit Expense – Intrastate Fund (Fund 1090) and the Public Audit Expense – Local Government (Fund 4220).

Tracking the Economy

– Russ Keller, Senior Economist

Overview

New economic conditions emerged during the month of September, as interest rates rose, equity markets declined, and the U.S. dollar strengthened. Inflation shows signs of easing but remains elevated. To counter high inflation, the Federal Reserve, the nation's central bank, most recently tightened monetary policy in September by raising its short-term interest rate target. Further interest rate increases are widely expected. Inflation-adjusted gross domestic product (real GDP) contracted in this year's first and second calendar quarters, in part as a result of slower inventory building, while final demand continued to grow.

IHS Markit, which is the economic forecasting firm that provides inputs for LBO's biennial tax revenue forecast, expects outright declines in real GDP in the current and subsequent quarters of sufficient depth and duration to qualify as a recession. IHS Markit forecasts the contraction in U.S. output will bring with it widespread layoffs and a decline in overall employment resulting in a rise in the unemployment rate to 6% or more. However, the company's economists remark that the recession is likely to be shallow by historical comparison, probably involving less than a 1% peak-to-trough decline in real GDP.

The National Economy

On September 21, the Federal Open Market Committee (FOMC), the monetary policy-setting group in the Federal Reserve, announced a further increase in its target for federal funds, by 0.75 percentage point to a range of 3.0% to 3.25%.[14] The FOMC released a statement summarizing their assessment of the economy: "Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures."

The Committee seeks to achieve maximum employment and inflation at the rate of 2.0% over the longer run. Since it began raising its short-term interest rate target in March from near zero, the FOMC has increased the range five times, by a total of 3.0 percentage points. In addition, the central bank has been reducing its holdings of Treasury and agency securities, which also tends to tighten monetary policy. Market expectations are for further increases in the federal funds target range.[15] The FOMC next meets November 1-2.

Equity markets declined in September as the S&P 500 was down 9.3% by month-end, which was the biggest monthly decline since March 2020. For the first nine months of CY 2022, the index was down 24.8%. The S&P 500 is correlated with personal income tax receipts, as tax payments included with (predominantly) tax year 2021 annual returns were $701.3 million

[14] Federal funds are loans, usually overnight, between banks and other financial institutions that keep reserve balances at the central bank.

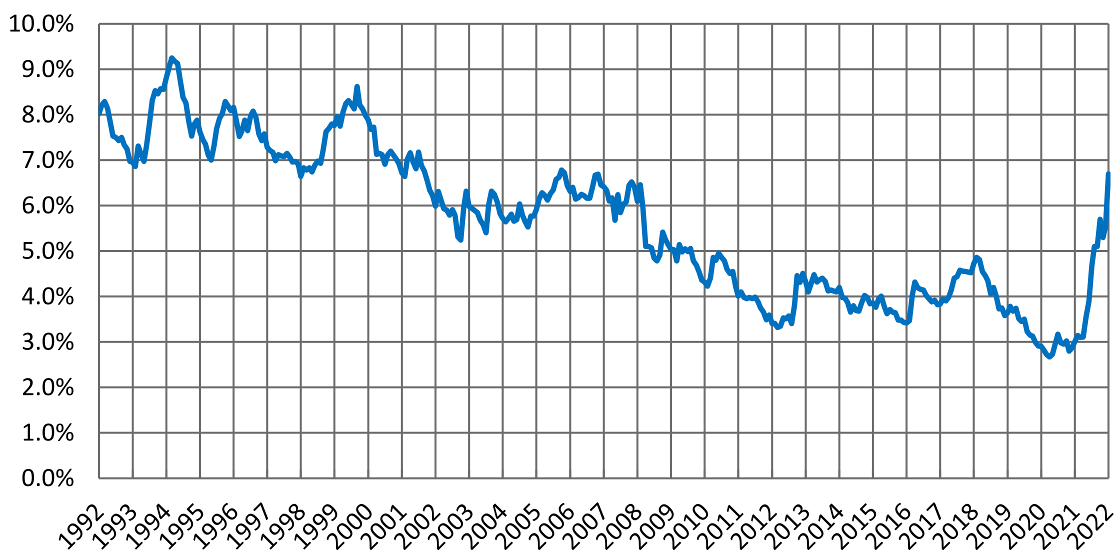
[15] A measure of market expectations, the CME FedWatch Tool based on trading in federal funds futures, as of 1:00 p.m. October 7, showed a 63.3% probability of the federal funds target rate ending 2022 between 4.25% and 4.50%

(98.5%) above OBM's April 2022 estimate. Oftentimes, a surplus in these tax payments is indicative of gains in nonwage income, especially those from financial markets. The volatile income category is correlated with equity indexes in the two most recently completed years. The S&P 500 grew 26.9% during CY 2021 and 16.3% in 2020.

The increase in interest rates affected housing market activity during September. The average 30-year, fixed mortgage rate increased to 6.70% by the end of September, which is the highest level since before the Great Recession of 2007-2009. Nevertheless, the current rates are not outsized compared to the past three decades, especially the period prior to the FOMC's extraordinary response to the 2008 financial crisis.

The higher interest rates have substantially slowed mortgage refinancings, which were one of several tailwinds that spurred robust state sales tax receipts during FY 2021 and FY 2022.[16] The Mortgage Bankers Association released a statement on September 28: "With rates now more than double what they were a year ago, the pace of refinancing is running at a 22-year low and last week was more than 80% below last year's level. Similarly, purchase activity was 29% lower than a year ago, with higher rates and economic uncertainty weighing on buyers' decisions."

Chart 5: 30-Year Fixed Rate Mortgage Average in the United States, 1992-2022

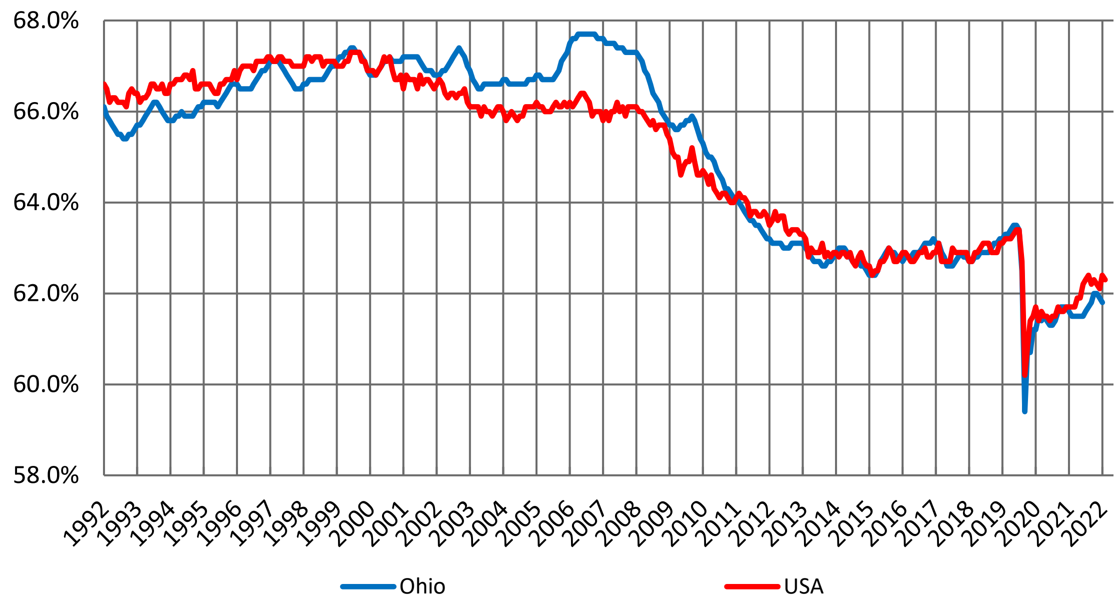


The increase in interest rates affected purchase prices for homes. S&P Dow Jones Indices, which compiles a national home price index, released data in late September that illustrated a decline in home prices over the summer. Before seasonal adjustment, the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, posted a -0.3% month-over-month decrease in July. "Although U.S. housing prices remain substantially above their year-ago levels, July's report

[16] Research from the Federal Reserve Bank of New York demonstrates that "mortgage refinances surged in the last two years, as many homeowners were able to take advantage of historically low interest rates." The benefit of lower house payments and in some cases, cash out refinancings, increased Ohioans capacity to purchase goods and services subject to the Ohio state sales tax.

reflects a forceful deceleration," said the Managing Director at S&P DJI. "For example, while the National Composite Index rose by 15.8% in the 12 months ended July 2022, its year-over-year price rise in June was 18.1%. The -2.3% difference between those two monthly rates of gain is the largest deceleration in the history of the index . . . . As the Federal Reserve continues to move interest rates upward, mortgage financing has become more expensive, a process that continues to this day. Given the prospects for a more challenging macroeconomic environment, home prices may well continue to decelerate."

Chart 6: Labor Force Participation Rate, 1992-2022



The number of job openings decreased by more than a million in August, potentially signaling that the tight U.S. labor situation is easing. Available positions totaled 10.05 million for the month, a 10% drop from the 11.17 million reported in July, according to a Bureau of Labor Statistics (BLS) release in late September. At about the same time, U.S. labor force participation (the share of the working-age population that is either employed or actively seeking work) increased to 62.4% in the August survey. As seen in Chart 6, both the U.S. and Ohio labor force participation rates remain below their prepandemic levels. Prior to the pandemic, the participation rates showed an uptick after a decline in the years following the 2007-2009 recession. As mentioned in last month's edition of *Budget Footnotes*, a recent study from the Brookings Institution includes an estimate that up to 4 million people may be out of work because of "long Covid," which refers to COVID-19 patients who develop a range of debilitating symptoms lasting months. Moreover, some older persons have retired who might have remained in the workforce if the COVID-19 pandemic had not occurred.

Total employment on nonfarm payrolls nationwide rose by 263,000 in September. Leisure and hospitality added 83,000 jobs in September, in line with the average monthly job gain over the first eight months of the year. Within the industry, employment in food services and drinking places rose by 60,000 last month. In September, employment in health care rose by 60,000 and has returned to its February 2020 level. Employment in professional and business services

(+46,000), manufacturing (+22,000), and construction (+19,000) continued to trend upward in September.

The unemployment rate – the number of persons unemployed and actively seeking work, as a percent of the labor force – decreased to 3.5%. The number of people counted as unemployed decreased to 5.8 million in September, down from 6.0 million in August. The labor force was slightly down, as the labor force participation rate decreased 0.1 percentage point in September to 62.3%. The number of persons not in the labor force who currently want a job was little changed at 5.8 million in September and remains above its February 2020 level of 5.0 million. These individuals were not counted as unemployed because they were not actively looking for work during the four weeks preceding the survey or were unavailable to take a job.

In September, 5.2% of employed persons teleworked because of the COVID-19 pandemic, down from 6.5% in the prior month. In May 2020, the first month these data were collected, 35.4% of employed persons teleworked because of the COVID-19 pandemic.[17] These data refer to employed persons who teleworked or worked at home for pay at some point in the four weeks preceding the survey specifically because of the pandemic.

U.S. manufacturing activity grew in September, achieving a 28th consecutive month of growth, say the nation's supply executives in the latest Manufacturing report from the Institute for Supply Management (ISM). However, growth in September was its slowest pace since May 2020 as ISM's separate index for New Orders contracted this past month. The ISM survey results align with several anecdotes in the financial press. Retailers such as Walmart, Target, Macy's and Kohl's recently said they are canceling some orders to better balance inventory levels.[18] Retailers' higher inventory levels are partially a result of tepid consumer spending in recent months. Inflation-adjusted consumer spending increased 0.1% in August after decreasing 0.1% in the prior month, according to data from the U.S. Bureau of Economic Analysis.

The consumer price index (CPI) for all items increased 0.1% from July to August, seasonally adjusted. On a year-over-year basis, the CPI in August was up 8.3%. The relatively mild August reading follows a July report in which inflation was unchanged from June. The summer months were a departure from the experience in prior periods as inflation has risen for the past two years. The moderation in July and August occurred as gasoline prices retreated from their recent peak in June. The food index increased 0.8% in August and shelter costs, which make up about one-third of the CPI weighting, increased 0.7% and are up 6.2% from a year ago. Excluding volatile food and energy costs, the CPI rose 0.6% from July and 6.3% from the same month in 2021. On a year-over-year basis, compared with its year-earlier level, the CPI in July was up 8.5%.

An alternative inflation measure monitored by the FOMC in gauging progress toward its 2% inflation goal is changes in the personal consumption expenditures (PCE) price index. This index grew 0.3% in August after declining 0.1% in July. Compared with its year-earlier level, the PCE price index was 6.2% higher in August, and 4.9% higher excluding food and energy prices, well above the FOMC's 2% goal.

[17] Although the surveys are not strictly comparable, the BLS's American Time Use Survey (ATUS) showed only 13% of wage and salary workers had paid telework arrangements just prior to the pandemic.

[18] See, for example, Retailwire, Walmart and other retailers on canceling billions of dollars in orders.

The Ohio Economy

The National Conference of State Legislatures (NCSL) recently highlighted the employment situation for states, as compared to their prepandemic level. The table below expands on that article by identifying employment changes from February 2020 to August 2022 for each major industry. Over that time period, Ohio's nonfarm employment declined 2.2% while the rest of the U.S. increased by 0.2%. The following table shows the contrast between Ohio and the rest of the nation for each major industry. The largest sources of difference are Professional & Business Services and Educational & Health Services. In the latter category, Ohio's job losses were overwhelmingly attributable to the healthcare portion. In percentage terms, Ohio's Mining & Logging industry (which includes oil and natural gas extraction) is a relatively small employer compared to other industries. Nevertheless, the percentage decline in this small group is more substantial than the national decline.

Employment Change Since the Pandemic, February 2020-August 2022		
Industry	**Ohio**	**Rest of USA**
Mining & Logging	-15.1%	-6.4%
Construction	0.2%	1.1%
Manufacturing	-1.5%	0.6%
Trade, Transportation, & Utilities	2.4%	3.7%
Information	2.5%	4.5%
Financial Activities	-0.3%	1.3%
Professional & Business Services	-1.4%	5.1%
Educational & Health Services	-5.3%	0.0%
Leisure & Hospitality	-6.6%	-7.2%
Other Services	-1.0%	-4.3%
Government	-4.8%	-2.7%
Total Nonagricultural	**-2.2%**	**0.2%**

Total nonfarm payroll employment in Ohio rose 7,500 (0.1%) in August to 82,500 (1.5%) higher than its year-earlier level. The statewide average unemployment rate was 4.0% in August, up from 3.9% in July. In Ohio metropolitan areas, unemployment rates in August ranged from a low of 3.4% in Columbus to a high of 5.3% in Weirton-Steubenville. Employment growth, as reported in the BLS household survey, in the first eight months of the year varied from a 0.03% decline in Mansfield to a 3.73% increase in Toledo. Thirteen of Ohio's 14 metropolitan areas had higher total employment levels in August than they did in December 2021.

Ohio home sales continue to slow. Unit home sales through multiple listing services were 6.4% lower in August than a year earlier, according to Ohio Realtors data. In the calendar year's first eight months, unit home sales were 3.7% below those in the year-earlier period. However, the average price for sales closed in the year's first eight months was 9.3% higher than in January through August of last year. This follows year-over-year price increases of 12.3% in all of 2021 and 10.2% in 2020.

The U.S. Bureau of Economic Analysis (BEA) released state-specific estimates in late September about second-quarter GDP and state personal income. For the three-month period from April through June, the government agency reported Ohio's nominal GDP grew at a 7.5% seasonally adjusted, annualized rate, and was 9.3% higher than in the year-earlier quarter. That measure of state economic activity is often correlated with the CAT tax base. The quarterly CAT collections for that period were 13.5% above year-ago levels, but some of those gains were not attributed to base expansion; instead, tax credit utilization and refunds declined in the recently completed fiscal year. BEA also adjusts the nominal GDP estimate for inflation, and it disclosed that Ohio's real GDP contracted in the second quarter, compared with the first quarter, at a 1.1% annual rate. The biggest sources of this decline were the nondurable manufacturing and construction industries, whereas the finance and insurance industry was the strongest source of growth during the period. Ohio personal income in the second calendar quarter of 2022 grew at a 5.8% annualized rate. The fastest growing subcategory was dividends, interest, and rent, which increased at a 7.1% rate for that period.