LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– *Ross Miller, Chief Economist*

GRF tax receipts during the first half of FY 2020 were $93.2 million over the estimate published by the Office of Budget and Management (OBM) in August 2019. GRF nontax revenue was also above expectations for the first half of the year, by $34.6 million. GRF expenditures were below estimate, meaning the state budget is following a very favorable trajectory so far this year.

Ohio's unemployment rate was 4.2% in November, the same rate as October. While Ohio's rate was higher than the national rate of 3.5% that month, both rates are at low levels by historical standards. Ohio's nonfarm payroll employment increased by 6,700 from October to November.

Through December 2019, GRF sources totaled $17.27 billion:

- Revenue from the sales and use tax was $79.5 million above estimate;
- Personal income tax receipts were $2.8 million below estimate.

Through December 2019, GRF uses totaled $18.48 billion:

- Program expenditures were $257.3 million below estimate;
- Expenditures from all program categories were below estimates, led by Higher Education ($67.8 million), Medicaid ($53.7 million), Health and Human Services ($39.0 million), and General Government ($31.9 million);
- Spending was below expectations in other program categories by lesser amounts.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 8, 2020)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$119,378	$119,800	-$422	-0.4%
Nonauto Sales and Use	$838,992	$873,300	-$34,308	-3.9%
Total Sales and Use	*$958,370*	*$993,100*	*-$34,730*	*-3.5%*
Personal Income	$829,347	$793,700	$35,647	4.5%
Commercial Activity Tax	$9,007	$10,200	-$1,193	-11.7%
Cigarette	$73,248	$72,000	$1,248	1.7%
Kilowatt-Hour Excise	$20,587	$21,900	-$1,313	-6.0%
Foreign Insurance	-$2,290	$0	-$2,290	---
Domestic Insurance	$3,819	$0	$3,819	---
Financial Institution	-$9,042	-$4,200	-$4,842	-115.3%
Public Utility	$5,218	$3,500	$1,718	49.1%
Natural Gas Consumption	$3	$0	$3	---
Alcoholic Beverage	$4,926	$4,800	$126	2.6%
Liquor Gallonage	$4,474	$4,200	$274	6.5%
Petroleum Activity Tax	$2,245	$2,500	-$255	-10.2%
Corporate Franchise	$9	$0	$9	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,899,921**	**$1,901,700**	**-$1,779**	**-0.1%**
Nontax Revenue				
Earnings on Investments	$23	$0	$23	---
Licenses and Fees	$687	$424	$263	62.0%
Other Revenue	$3,785	$1,130	$2,655	234.9%
Total Nontax Revenue	**$4,495**	**$1,554**	**$2,941**	**189.2%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,904,417**	**$1,903,254**	**$1,162**	**0.1%**
Federal Grants	**$1,298,733**	**$1,015,036**	**$283,696**	**27.9%**
Total GRF Sources	**$3,203,149**	**$2,918,291**	**$284,858**	**9.8%**

*Estimates of the Office of Budget and Management as of August 2019.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2020 as of December 31, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 8, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$800,865	$761,900	$38,965	5.1%	$743,565	7.7%
Nonauto Sales and Use	$4,790,415	$4,749,900	$40,515	0.9%	$4,594,584	4.3%
Total Sales and Use	*$5,591,280*	*$5,511,800*	*$79,480*	*1.4%*	*$5,338,148*	*4.7%*
Personal Income	$4,431,242	$4,434,000	-$2,758	-0.1%	$4,373,242	1.3%
Commercial Activity Tax	$808,022	$785,300	$22,722	2.9%	$768,754	5.1%
Cigarette	$402,501	$404,500	-$1,999	-0.5%	$420,313	-4.2%
Kilowatt-Hour Excise	$165,435	$169,200	-$3,765	-2.2%	$179,207	-7.7%
Foreign Insurance	$171,964	$156,000	$15,964	10.2%	$159,037	8.1%
Domestic Insurance	$3,826	$0	$3,826	---	$2	---
Financial Institution	-$38,958	-$26,500	-$12,458	-47.0%	-$28,380	-37.3%
Public Utility	$64,445	$68,400	-$3,955	-5.8%	$73,072	-11.8%
Natural Gas Consumption	$18,293	$19,800	-$1,507	-7.6%	$20,253	-9.7%
Alcoholic Beverage	$27,413	$30,000	-$2,587	-8.6%	$27,055	1.3%
Liquor Gallonage	$26,053	$25,400	$653	2.6%	$25,171	3.5%
Petroleum Activity Tax	$4,041	$4,500	-$459	-10.2%	$4,750	-14.9%
Corporate Franchise	$52	$0	$52	---	$1,179	-95.6%
Estate	$38	$0	$38	---	$32	16.9%
Total Tax Revenue	**$11,675,646**	**$11,582,400**	**$93,246**	**0.8%**	**$11,361,836**	**2.8%**
Nontax Revenue						
Earnings on Investments	$41,498	$27,500	$13,998	50.9%	$25,426	63.2%
Licenses and Fees	$11,304	$8,253	$3,051	37.0%	$10,343	9.3%
Other Revenue	$77,395	$59,871	$17,524	29.3%	$54,972	40.8%
Total Nontax Revenue	**$130,197**	**$95,624**	**$34,574**	**36.2%**	**$90,740**	**43.5%**
Transfers In	**$75,548**	**$68,570**	**$6,978**	**10.2%**	**$76,109**	**-0.7%**
Total State Sources	**$11,881,391**	**$11,746,593**	**$134,798**	**1.1%**	**$11,528,685**	**3.1%**
Federal Grants	**$5,388,345**	**$5,378,021**	**$10,324**	**0.2%**	**$5,021,310**	**7.3%**
Total GRF SOURCES	**$17,269,737**	**$17,124,614**	**$145,123**	**0.8%**	**$16,549,995**	**4.3%**

*Estimates of the Office of Budget and Management as of August 2019.
**Cumulative totals through the same month in FY 2019.
Detail may not sum to total due to rounding.

Revenues[1]

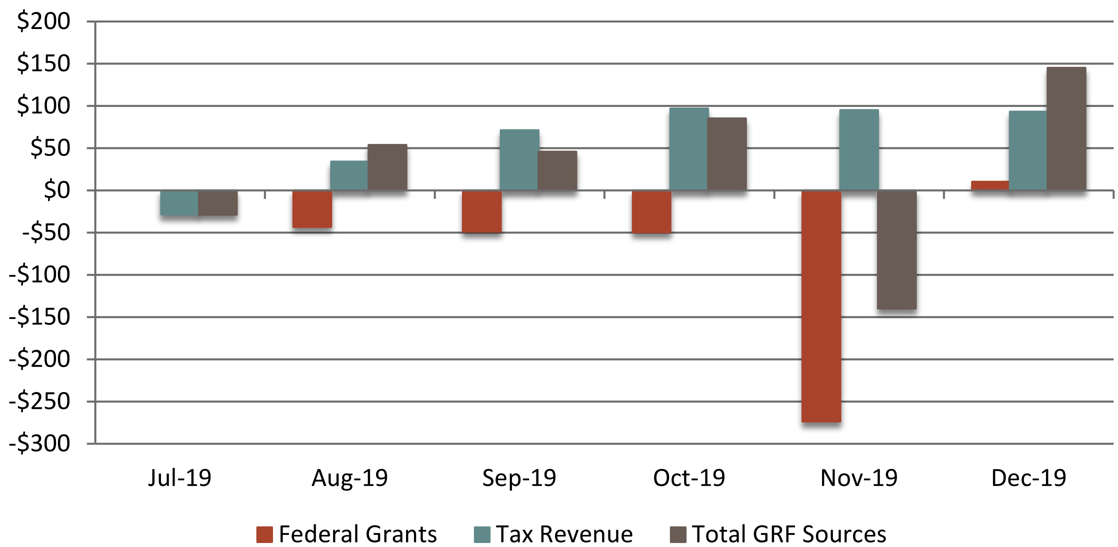
– Jean J. Botomogno, Principal Economist

Overview

GRF sources closed out the first half of FY 2020 with a cumulative positive variance of $145.1 million (0.8%) when compared to the Office of Budget and Management (OBM) estimate released in August 2019. This year-to-date (YTD) performance was largely due to positive variances of $93.2 million (0.8%) for tax revenue and $34.6 million (36.2%) for nontax revenues. In addition, federal grants[2] and GRF transfers in were above projections by $10.3 million (0.2%) and $7.0 million (10.2%), respectively. Tables 1 and 2 show GRF sources for the month of December and for FY 2020 through December, respectively. GRF sources consist of both federal grants and state-source receipts, such as tax revenue, nontax revenue, and transfers in.

Chart 1, below, shows cumulative YTD variances of GRF sources each month through December 2019.

Chart 1: Cumulative Variances of GRF Sources in FY 2020
(Variances from Estimates, $ in millions)



The sales and use tax and the commercial activity tax (CAT) posted positive YTD variances of $79.5 million and $22.7 million, respectively. Also, the foreign insurance tax and the domestic insurance tax were above their respective YTD estimates by $16.0 million and

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

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

$3.8 million. On the other hand, most of the remaining GRF taxes experienced negative variances through December 2019: the financial institutions tax (FIT) had a shortfall of $12.5 million, the majority of which occurred in the October-December period;[3] the three utility-related taxes (the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax) were collectively $9.2 million below projections; the negative variance for the personal income tax (PIT) was $2.8 million; the alcoholic beverage tax was $2.6 million below its anticipated level; and the cigarette and other tobacco products tax was $2.0 million short of expectation.

For the month of December 2019, GRF sources of $3.20 billion were $284.9 million (9.8%) above estimate. Though GRF tax sources posted a small negative variance of $1.8 million (just 0.1%), federal grants were $283.7 million above estimate (27.9%), reversing a timing-related shortfall of $223.7 million in November 2019. Also, nontax revenue was above estimate by $2.9 million (189.3%). No GRF transfers in occurred or were anticipated in December. Regarding GRF tax sources, a negative variance of $34.7 million for the sales and use tax partially offset a positive one of $35.6 million for the personal income tax; and a CAT shortfall of $1.2 million cancelled out a positive variance of the same amount for the cigarette tax. The collective receipts for the utility-related taxes were on target relative to the cumulative estimate, and combined receipts for the insurance taxes were $1.5 million above estimates. Refunds for the FIT totaled $9.0 million when they were estimated to be $4.2 million, resulting in a negative variance of $4.8 million for the month.

As shown in Table 2, FY 2020 GRF sources through December were $719.7 million (4.3%) above sources in the corresponding period in FY 2019. Except for transfers in which was slightly below its FY 2019 level, revenue from the other GRF categories grew relative to receipts in the previous year. First-half receipts for federal grants, tax sources, and nontax revenue increased $367.0 million, $313.8 million, and $39.5 million, respectively. Growth in GRF tax revenue was mostly due to the sales tax ($253.1 million), the PIT ($58.0 million), and the CAT ($39.3 million). Receipts fell for the utility-related taxes ($24.4 million) due to lower energy prices this year, and the cigarette tax ($17.8 million), which is the normal trend.

Sales and Use Tax

The sales and use tax has been above estimate throughout FY 2020. First-half receipts to the GRF totaled $5.59 billion, an amount $79.5 million (1.4%) above estimate, with both the nonauto and the auto portions of the tax above projections. Total sales and use tax revenue was also $253.1 million (4.7%) above receipts in FY 2019 through December. For the latest month, however, receipts of $958.4 million for this GRF source were $34.7 million (3.5%) below estimate due to a shortfall from the nonauto sales and use tax. Sales and use tax receipts were essentially flat relative to revenue in December 2018. 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.

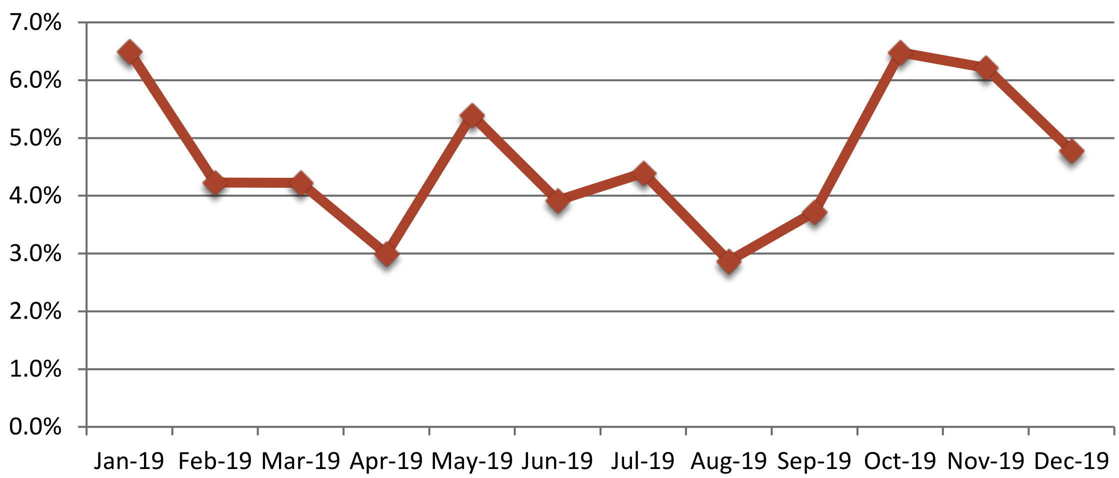
[3] A negative variance in FIT collections through the first half of the year is not uncommon. Annual FIT returns are due in October, so receipts in the second fiscal quarter reflect a reconciliation between prior estimated payments (typically January, March, and May) and final reported tax liability. A first-half negative variance means the volume of refunds was higher than expected.

Nonauto Sales and Use Tax

In December, the performance of the nonauto sales and use tax was poor for only the second time in FY 2020. GRF receipts totaling $839.0 million missed the estimate by $34.3 million (3.9%). The monthly collection reduced the cumulative YTD positive variance of this GRF source to $40.5 million (0.9%), down from a positive variance of $74.8 million during the first five months of FY 2020. For the fiscal year to date, GRF receipts of $4.79 billion were $195.8 million (4.3%) above revenue in the corresponding period in FY 2019.

Nonauto sales tax receipts have continued to grow in FY 2020, though the growth rate has slipped in the latest months. Compared to revenue in the same month in 2018, December revenue decreased $6.0 million (0.7%); and combined receipts in November and December this year were below estimates by $15.0 million (0.9%), and $30.1 million (1.8%) above revenue in the corresponding two-month period in 2018.[4] Chart 2, below, shows year-over-year growth in nonauto sales tax collections.

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



Auto Sales and Use Tax

The auto sales and use tax has been solid this fiscal year. YTD GRF revenue from this source totaled $800.9 million through December, an amount $39.0 million (5.1%) above estimates. YTD collections were also $57.3 million (7.7%) above receipts during the corresponding period in FY 2019. Though the tax had been above estimate each earlier month of the fiscal year, December revenue of $119.4 million was $0.4 million (0.4%) short of projection. Revenue was also $6.2 million (5.4%) above collections in the same month in 2018.

[4] Through October, this GRF source was 1.8% above estimate and 5.6% above total revenue in the first four months of FY 2019.

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

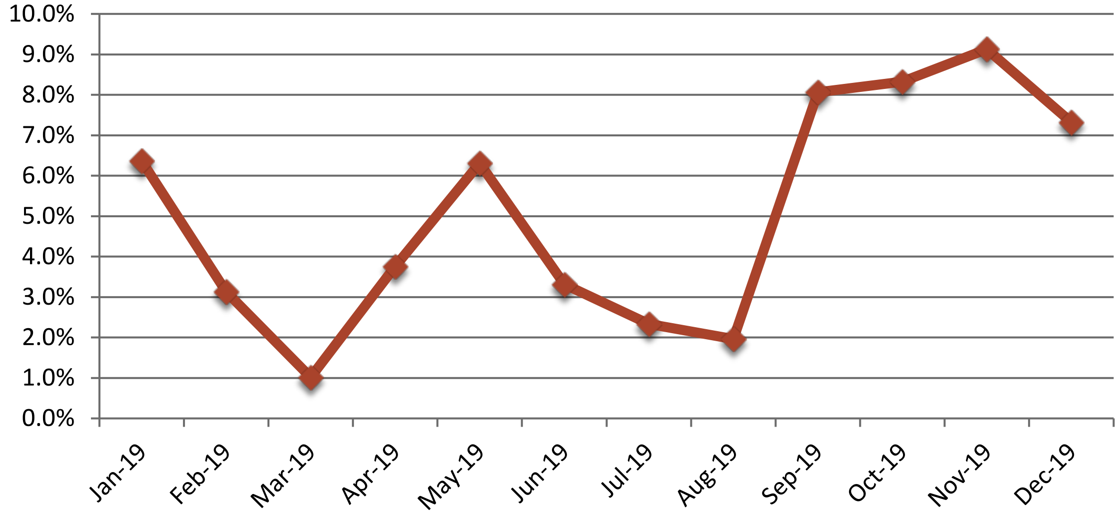


Chart 3 shows year-over-year growth in auto sales and use tax collections. Gains in the tax base reflect both higher vehicle prices paid by consumers (as consumer tastes and preferences have shifted away from cars toward trucks, sport-utility vehicles, and crossovers) and increases in the number of units sold, according to data provided by the Ohio Bureau of Motor Vehicles, shown below. Through December 2019, the number of motor vehicles titled grew 2.7% from the corresponding period in FY 2019; both components of the auto taxable base increased, and the increase for purchases of used motor vehicles was substantial (which reflects a rise in the supply of used trucks in that market).

FY 2020	Titles	Spending (in millions)	Average Price
New vehicles	196,577	$7,143	$36,337
Used vehicles	876,161	$8,461	$9,657
Total	1,072,738	$15,604	$14,546
Growth from FY 2019			
New vehicles	0.2%	4.4%	4.3%
Used vehicles	3.3%	10.1%	6.5%
Total	2.7%	7.4%	4.6%

Nationally, unit sales of light vehicles (autos and light trucks) fell in calendar year (CY) 2019. The auto industry sold about 17.0 million units, approximately 1.4% below unit sales in CY 2018. Sales of cars plunged nearly 11% while those of light trucks increased 2.8%.

Personal Income Tax

Through December, YTD PIT GRF receipts of $4.43 billion were $2.8 million (0.1%) below projections, as revenue slipped in the second fiscal quarter. This tax source recorded a surplus of $18.8 million in the first fiscal quarter, but posted a shortfall of $21.6 million in the next, though December revenue from the PIT was good. December GRF receipts of $829.3 million were above estimates by $35.6 million (4.5%), partially reversing a shortfall of $36.6 million in November (which came after a deficit of $20.6 million in October). December PIT revenue was also $67.8 million (8.9%) above revenue in the same month in 2018. Comparisons with year-ago receipts are affected by a 3.3% withholding rate reduction earlier this calendar year.[5] Compared to PIT receipts from the corresponding period one year ago, YTD FY 2020 revenue increased $58.0 million (1.3%).

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,[6] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (about 81% of gross collections in FY 2019). Larger than expected refunds could also greatly affect the monthly performance of the tax.

In December, gross collections were above projections by $17.9 million. Employer withholding was $12.1 million above estimate, quarterly estimated payments were $6.3 million above projections, and trust payments had a surplus of $1.4 million. Those positive variances were partially offset by a negative variance of $1.9 million for annual return payments; and smaller than expected refunds contributed $18.0 million to the PIT monthly positive variance of $35.6 million.

For the YTD, revenues from each component of the PIT relative to estimates and revenue received in FY 2019 are detailed in the table below. Gross collections were $38.9 million above estimate, with all components above their YTD estimates. However, refunds and distributions to LGF were $36.6 million and $5.0 million, respectively, higher than expected, which resulted in the YTD negative variance of $2.8 million. FY 2020 refunds and LGF distributions also increased compared to their amounts in the corresponding period last fiscal year. In part, the increase in LGF distributions is due to an increase in the allocation of GRF tax revenue to the LGF. H.B. 166 included a provision in uncodified law increasing the allocation from 1.66% of GRF tax revenue to 1.68% during the current biennium.

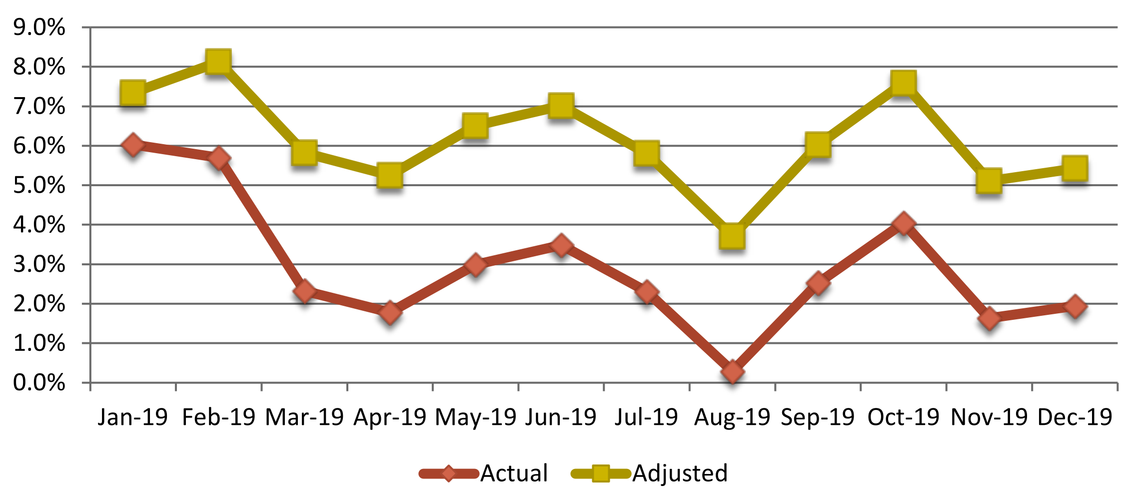
[5] Effective January 1, 2019, Ohio employer withholding tax rates were reduced by 3.3% in order to be fully consistent with the income tax rate reductions enacted in 2015 (H.B. 64 of the 131st General Assembly).

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

FY 2020 PIT Revenue Variance and Annual Change by Component				
Category	YTD Variance from Estimate		Changes from FY 2019	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$35.1	0.8%	$99.4	2.2%
Quarterly Estimated Payments	$0.3	0.1%	$27.4	9.3%
Trust Payments	$2.6	13.7%	$2.6	13.7%
Annual Return Payments	$0.6	0.5%	$21.3	19.4%
Miscellaneous Payments	$0.3	0.9%	$1.2	3.4%
Gross Collections	$38.9	0.8%	$151.9	3.1%
Less Refunds	$36.6	9.1%	$81.6	22.9%
Less LGF Distribution	$5.0	2.4%	$12.3	6.1%
GRF PIT Revenue	-$2.8	-0.1%	$58.0	1.3%

Through December, FY 2020 employer withholding receipts[7] grew 2.2%, despite the reduction in withholding rates described above. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts in FY 2020 and estimated withholding receipts adjusted for the decrease in withholding tax rates in January.

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



[7] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding.

Commercial Activity Tax

The CAT exhibited varied performances in the first two quarters of FY 2020. In the first three months of the fiscal year, receipts to the GRF exceeded OBM's estimate by $33.6 million, including a monthly surplus of $18.2 million in August for the first payment for quarterly calendar return taxpayers. However, second-quarter CAT revenue to the GRF was $10.9 million (2.6%) below estimate, resulting in a YTD positive variance of $22.7 million (2.9%) in the first-half of FY 2020. Remarkably, second-quarter CAT receipts were also $13.2 million (3.2%) below receipts in the corresponding period in FY 2019. Overall, YTD GRF revenue from this source totaling $808.0 million was $39.3 million (5.1%) above revenues in the corresponding period in FY 2019.

Almost half of the increase in receipts compared to FY 2019 were driven by a decline in tax credits claimed against the CAT.[8] Through December, FY 2020 gross collections grew only 2.5% while refunds and credits fell 24.1%, resulting in a higher growth rate for the GRF. After growing 8.8% in the first quarter in FY 2020 relative to the year-earlier period, in the October-December period this fiscal year, gross collections actually fell 3.1%.

Cigarette and Other Tobacco Products Tax

FY 2020 first-half revenue to the GRF from the cigarette and other tobacco products tax totaled $402.5 million, $2.0 million (0.5%) below estimate and $17.8 million (4.2%) below receipts through December in FY 2019. YTD revenue included $362.6 million from the sale of cigarettes and $39.9 million from the sale of other tobacco products. Compared to FY 2019, receipts from cigarette sales fell $20.2 million while those from the sale of other tobacco products increased $2.4 million. On a yearly basis, revenue from the cigarette and other tobacco products tax usually trends downward generally at a slow pace due to a decline of cigarette revenue, though receipts from the sales of other tobacco products increase yearly.

H.B. 166 levied a tax of 10¢ per milliliter (or gram) of vapor product (depending on the form of the product). A vapor product is defined as any liquid solution or other substance that contains nicotine and is depleted as it is used in an electronic smoking product. The tax is to be paid by distributors beginning October 1, 2019. The taxation of vapor products is estimated to increase GRF revenue by $3.2 million, with most of the revenue occurring in the January to June period.

Other Taxes

The kilowatt-hour tax generated $165.4 million during the first six months of the fiscal year. This amount was $3.8 million (2.2%) below estimate, and $13.8 million (7.7%) below revenue during the comparable months of FY 2019. The performance of the tax is largely due to milder weather than expected and lower than anticipated electricity consumption. The tax base generally is kilowatt-hours of electricity used, i.e., it generally does not depend on the price of electricity. Half of the allocation of GRF tax revenue to the Public Library Fund is debited against this tax for accounting purposes, thus good GRF tax revenue performance overall can make the performance of this tax look relatively bad.

[8] 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.

YTD through December receipts from the public utility excise tax were $64.4 million, $4.0 million (5.8%) below estimate and $8.6 million (11.8%) lower than during July-December 2018. Most receipts from this tax are in the second month of each calendar quarter, with the largest receipts usually in May. Deliveries by natural gas utilities account for a large part of the total. The drop in revenues from the public utility excise tax appears to be accounted for by lower prices paid for natural gas by industrial and electric power customers.[9] Quantities of natural gas consumed in the Ohio market have grown this year, entirely due to continued growth of consumption by electric power producers.

Receipts from the natural gas consumption (Mcf) tax were $18.3 million in the first half of this fiscal year, $1.5 million (7.6%) below estimate and $2.0 million (9.7%) lower than in the year-earlier period. Payments in May account for nearly half of annual receipts from this tax in most years. Tax rates per Mcf distributed to end users are lower for large natural gas consumers, and the decline in tax revenues this fiscal year may reflect a drop in deliveries to smaller customers, including residential, commercial, and industrial natural gas consumers.

The foreign insurance tax generated $172.0 million during the first half of FY 2020, $16.0 million (10.2%) above estimate, and $12.9 million (8.1%) above receipts in the corresponding period in FY 2019. The reason for the jump in collections from this tax source is unclear at this time. This tax is paid by insurance companies headquartered in other states based on premiums they receive to provide insurance covering risks located in Ohio. But, the revenue experience so far this year reveals little about the full fiscal year experience from the tax as payments received so far represent advance payments based on previous year tax liabilities before credits.

Similarly, only $3.8 million has been received so far in FY 2020 from the domestic insurance tax (paid by insurance companies headquartered in Ohio), but that says little about the full year experience: virtually all revenue from the tax is received in May and June each fiscal year.

Nontax revenue

YTD GRF nontax revenue totaling $130.2 million was $34.6 million above estimate and $39.5 million above such revenue in the first six months of FY 2019. Earnings on investments contributed $14.0 million to the YTD positive variance, though the three federal funds rate cuts implemented by the Federal Reserve in the last few months are likely to result in lower investment earnings in the second half of the year.

[9] The following are the four types of consumers: residential, commercial, industrial, and electric power generation.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2019
($ in thousands)
(Actual based on OAKS reports run January 7, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$619,163	$621,586	-$2,423	-0.4%
Higher Education	$196,434	$201,028	-$4,594	-2.3%
Other Education	$6,770	$7,117	-$347	-4.9%
Total Education	**$822,367**	**$829,731**	**-$7,364**	**-0.9%**
Medicaid	$1,668,974	$1,636,793	$32,181	2.0%
Health and Human Services	$110,898	$118,461	-$7,562	-6.4%
Total Health and Human Services	**$1,779,872**	**$1,755,253**	**$24,619**	**1.4%**
Justice and Public Protection	$193,242	$167,153	$26,089	15.6%
General Government	$34,259	$44,452	-$10,193	-22.9%
Total Government Operations	**$227,501**	**$211,605**	**$15,896**	**7.5%**
Property Tax Reimbursements	$1,727	$14,577	-$12,850	-88.2%
Debt Service	$18,987	$19,208	-$222	-1.2%
Total Other Expenditures	**$20,714**	**$33,785**	**-$13,072**	**-38.7%**
Total Program Expenditures	**$2,850,454**	**$2,830,375**	**$20,079**	**0.7%**
Transfers Out	**$0**	**$0**	**$0**	**---**
Total GRF Uses	**$2,850,454**	**$2,830,375**	**$20,079**	**0.7%**

*September 2019 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 2020 as of December 31, 2019
($ in thousands)
(Actual based on OAKS reports run January 7, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$4,175,558	$4,197,170	-$21,611	-0.5%	$4,197,036	-0.5%
Higher Education	$1,132,287	$1,200,045	-$67,758	-5.6%	$1,147,019	-1.3%
Other Education	$50,769	$51,732	-$963	-1.9%	$45,173	12.4%
Total Education	**$5,358,614**	**$5,448,947**	**-$90,333**	**-1.7%**	**$5,389,228**	**-0.6%**
Medicaid	$8,424,866	$8,478,558	-$53,693	-0.6%	$7,789,622	8.2%
Health and Human Services	$742,522	$781,551	-$39,029	-5.0%	$675,073	10.0%
Total Health and Human Services	**$9,167,388**	**$9,260,109**	**-$92,721**	**-1.0%**	**$8,464,694**	**8.3%**
Justice and Public Protection	$1,264,437	$1,285,511	-$21,074	-1.6%	$1,197,257	5.6%
General Government	$221,776	$253,720	-$31,945	-12.6%	$193,952	14.3%
Total Government Operations	**$1,486,213**	**$1,539,231**	**-$53,018**	**-3.4%**	**$1,391,209**	**6.8%**
Property Tax Reimbursements	$905,289	$926,004	-$20,715	-2.2%	$905,520	0.0%
Debt Service	$903,325	$903,838	-$513	-0.1%	$934,361	-3.3%
Total Other Expenditures	**$1,808,614**	**$1,829,842**	**-$21,228**	**-1.2%**	**$1,839,880**	**-1.7%**
Total Program Expenditures	**$17,820,829**	**$18,078,129**	**-$257,300**	**-1.4%**	**$17,085,011**	**4.3%**
Transfers Out	**$662,799**	**$669,975**	**-$7,177**	**-1.1%**	**$752,840**	**-12.0%**
Total GRF Uses	**$18,483,627**	**$18,748,104**	**-$264,477**	**-1.4%**	**$17,837,851**	**3.6%**

*September 2019 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2019.
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 January 7, 2020)

	Month of December 2019				Year to Date through December 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,607,028	$1,573,911	$33,117	2.1%	$8,018,090	$8,073,967	-$55,877	-0.7%
Non-GRF	$632,031	$654,679	-$22,648	-3.5%	$4,222,338	$4,326,209	-$103,871	-2.4%
All Funds	$2,239,059	$2,228,589	$10,470	0.5%	$12,240,427	$12,400,176	-$159,749	-1.3%
Developmental Disabilities								
GRF	$52,173	$53,533	-$1,360	-2.5%	$348,062	$348,091	-$29	0.0%
Non-GRF	$286,925	$203,667	$83,258	40.9%	$1,265,534	$1,271,747	-$6,213	-0.5%
All Funds	$339,098	$257,199	$81,899	31.8%	$1,613,596	$1,619,838	-$6,242	-0.4%
Job and Family Services								
GRF	$8,981	$8,401	$580	6.9%	$53,481	$50,849	$2,633	5.2%
Non-GRF	$17,740	$19,426	-$1,686	-8.7%	$98,331	$88,208	$10,122	11.5%
All Funds	$26,721	$27,827	-$1,106	-4.0%	$151,812	$139,057	$12,755	9.2%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$792	$948	-$156	-16.5%	$5,233	$5,652	-$419	-7.4%
Non-GRF	$2,435	$2,990	-$555	-18.6%	$22,155	$20,288	$1,868	9.2%
All Funds	$3,227	$3,938	-$711	-18.1%	$27,388	$25,939	$1,449	5.6%
All Departments:								
GRF	**$1,668,974**	**$1,636,793**	**$32,181**	**2.0%**	**$8,424,866**	**$8,478,558**	**-$53,693**	**-0.6%**
Non-GRF	**$939,131**	**$880,761**	**$58,369**	**6.6%**	**$5,608,358**	**$5,706,452**	**-$98,094**	**-1.7%**
All Funds	**$2,608,105**	**$2,517,554**	**$90,551**	**3.6%**	**$14,033,223**	**$14,185,010**	**-$151,787**	**-1.1%**

*September 2019 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 January 9, 2020)

	Month of December 2019				Year to Date through December 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,643,305**	**$1,597,720**	**$45,585**	**2.9%**	**$8,556,034**	**$8,543,206**	**$12,829**	**0.2%**
CFC†	$505,519	$491,967	$13,551	2.8%	$2,938,599	$2,957,734	-$19,135	-0.6%
Group VIII	$400,990	$363,104	$37,886	10.4%	$2,198,720	$2,175,390	$23,330	1.1%
ABD†	$231,223	$237,979	-$6,756	-2.8%	$1,403,906	$1,419,029	-$15,123	-1.1%
ABD Kids	$79,908	$76,989	$2,918	3.8%	$461,616	$459,940	$1,676	0.4%
My Care	$219,544	$223,198	-$3,654	-1.6%	$1,348,997	$1,326,631	$22,366	1.7%
P4P†	$206,121	$204,482	$1,639	0.8%	$204,197	$204,482	-$286	-0.1%
Fee-For-Service	**$796,225**	**$734,008**	**$62,217**	**8.5%**	**$4,472,163**	**$4,526,067**	**-$53,904**	**-1.2%**
ODM Services	$367,920	$373,505	-$5,585	-1.5%	$2,105,823	$2,161,542	-$55,718	-2.6%
DDD Services	$326,104	$252,012	$74,092	29.4%	$1,565,903	$1,568,032	-$2,129	-0.1%
Hospital – HCAP†	$0	$0	$0	---	$680,646	$669,444	$11,202	1.7%
Hospital – Other	$102,202	$108,492	-$6,290	-5.8%	$119,790	$127,049	-$7,259	-5.7%
Premium Assistance	**$94,493**	**$96,866**	**-$2,373**	**-2.4%**	**$549,647**	**$562,848**	**-$13,201**	**-2.3%**
Medicare Buy-In	$55,672	$57,098	-$1,426	-2.5%	$316,624	$325,940	-$9,316	-2.9%
Medicare Part D	$38,821	$39,768	-$947	-2.4%	$233,024	$236,908	-$3,884	-1.6%
Administration	**$74,081**	**$88,960**	**-$14,878**	**-16.7%**	**$455,379**	**$552,890**	**-$97,511**	**-17.6%**
Total	**$2,608,105**	**$2,517,554**	**$90,551**	**3.6%**	**$14,033,223**	**$14,185,010**	**-$151,787**	**-1.1%**

*September 2019 estimates from the Department of Medicaid.

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

Detail may not sum to total due to rounding.

Expenditures[10]

– Melaney Carter, Director

– Ivy Chen, Principal Economist

Overview

For the first half of FY 2020, GRF uses totaled $18.48 billion. These uses were under estimate by $264.5 million (1.4%). All program categories, as well as transfers out, were under estimate YTD. YTD variances in GRF uses are shown in the preceding Table 4. Higher Education had the largest YTD negative variance ($67.8 million), followed by Medicaid ($53.7 million). Other program categories that were more than $20.0 million under their YTD estimates are: Health and Human Services ($39.0 million), General Government ($31.9 million), Primary and Secondary Education ($21.6 million), Justice and Public Protection ($21.1 million), and Property Tax Reimbursements ($20.7 million).

The preceding Table 3 shows GRF uses compared to estimates for the month of December. GRF uses in December totaled $2.85 billion and were above estimate by $20.1 million (0.7%). This positive variance was dominated by positive December variances of $32.2 million in Medicaid and $26.1 million in Justice and Public Protection. These positive variances were partially offset by negative monthly variances in the other program categories. The following sections give more details about Medicaid GRF and non-GRF variances, as well as the most significant of the GRF variances in other categories.

Medicaid

GRF Medicaid expenditures were above their monthly estimate in December by $32.2 million (2.0%), but remained below their yearly estimate by $53.7 million (0.6%). Non-GRF Medicaid expenditures were also above their monthly estimate, by $58.4 million (6.6%) and below their YTD estimate by $98.1 million (1.7%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $90.6 million (3.6%) above estimate in December and $151.8 million (1.1%) below the YTD estimate at the end of December. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.

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. The all funds positive monthly variance in December was primarily driven by a positive variance of $81.9 million for ODODD, which partially offset this agency's timing-related negative variance from the previous five months, resulting in a negative YTD all funds variance of $6.2 million. ODM also had a positive variance in December ($10.5 million), but maintained a significant negative variance of $159.7 million YTD. The other six agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State

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

Board of Pharmacy, and Education – account for the remaining 1% of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories. Administration ($97.5 million, 17.6%) had the largest overall negative variance, followed by Fee-For-Service (FFS, $53.9 million, 1.2%), and Premium Assistance ($13.2 million, 2.3%). Managed Care expenditures were above their YTD estimates by $12.8 million (0.2%).

The YTD variance in the Administration category is mostly due to timing and is expected to smooth out throughout the fiscal year.

The YTD variance in FFS was brought closer to estimate by the resolution of a timing delay in the "DDD Services" category. As reported in last month's *Budget Footnotes* the DDD Services category had a negative monthly variance in November of $70.1 million. This negative variance was offset in December by a positive variance of $74.1 million. The main expenditure item contributing to this resolution was ODODD's cost report adjustment. The cost report is a reporting mechanism that captures Medicaid-eligible costs and allows ODODD to disburse federal funds to counties based on Medicaid-allowable costs that have been incurred by those counties for their services.

Expenditures in the Managed Care category were pushed above their YTD estimate by a positive variance in December of $45.6 million (2.9%). The largest factor contributing to these positive variances was the positive monthly and YTD variances in Group VIII[11] expenditures of $37.9 million and $23.3 million, respectively. The positive variances for Group VIII were mainly due to higher than expected caseloads. For the first six months of FY 2020, the average monthly managed care caseloads for Group VIII were 1.5% (8,210) above estimate.

Higher Education

The negative YTD variance in the Higher Education category increased by $4.6 million in December to reach $67.8 million (5.6%). As reported in last month's *Budget Footnotes*, expenditures from a number of line items have been delayed. Of the seven line items mentioned last month, disbursements still had not begun, at the end of December, from five of them. These are listed below with their negative YTD variances indicated in parentheses:

- 235535, Ohio Agricultural Research and Development Center ($18.7 million);
- 235511, Cooperative Extension Service ($12.6 million);
- 235507, OhioLINK ($3.0 million);
- 235510, Ohio Supercomputer Center ($2.2 million); and
- 235556, Ohio Academic Resources Network ($1.5 million).

Once agreements between the Department and these organizations are finalized, these negative variances should be reversed.

[11] Group VIII refers to those who were newly eligible for Medicaid under the Affordable Care Act (ACA). Expenditures for these enrollees are reimbursed by the federal government at a rate of 91.5% in FY 2020 as opposed to about 63% for most other enrollees.

In addition to these, item 235563, Ohio College Opportunity Grant, was under its YTD estimate by $7.3 million at the end of December. This item funds Ohio's need-based financial aid for higher education students.

Health and Human Services

The Health and Human Services category was under its YTD estimate by $39.0 million (5.0%) at the end of December. For the month of December, this category was under estimate by $7.6 million.

The YTD variance was dominated by a negative variance of $23.8 million in the Ohio Department of Mental Health and Addiction Services (OMHAS). This negative variance, however, is primarily from expenditures in October. For the month of December, OMHAS had a positive variance of $6.4 million. OMHAS's YTD and monthly variances were dominated by item 336421, Continuum of Care Services, which had a positive variance of $5.4 million in December that partially offset a large negative variance in October, leaving a negative YTD variance at the end of December of $14.6 million. Item 336421 is used primarily to distribute funds to local boards of alcohol, drug addiction, and mental health.

Also contributing to the negative YTD variance in this category was the Department of Health (DOH), which had a negative YTD variance at the end of December of $9.2 million. This YTD variance was a result of an accumulation of negative monthly variances for most months of the fiscal year, including a negative variance of $3.6 million in December. DOH's variances are spread out over most of its line items.

The agency in this category with the third highest negative YTD variance is the Department of Veterans Service (DVS), which had a negative YTD variance of $3.8 million at the end of December. This variance is primarily from item 900321, Veterans' Homes, which pays the operating costs of the state's two veterans' homes.

Finally, the Ohio Department of Job and Family Services (ODJFS), while not having a significant YTD variance, had a negative December variance of $9.4 million. This variance was caused by a negative variance of $10.0 million in item 600413, Child Care State/Maintenance of Effort, which offset a large positive variance in October, leaving the item with a negative variance of $2.7 million for the YTD.

General Government

The General Government category had a negative YTD variance of $31.9 million (12.6%) at the end of December and a negative variance of $10.2 million for the month of December. These variances were largely the result of a negative monthly variance of $7.8 million and a negative YTD variance of $13.0 million in item 775470, Public Transportation – State, in the Department of Transportation and a negative monthly variance of $5.0 million and a negative YTD variance of $10.0 million in item 700417, Soil and Water Phosphorus Program, in the Department of Agriculture. The variances in both of these items were due to delays in payments for these programs.

Justice and Public Protection

The Justice and Public Protection category had a positive variance for the month of December of $26.1 million, which decreased this category's negative YTD variance to $21.1 million (1.6%). The positive December variance was mainly caused by a positive variance of $16.6 million for the Department of Rehabilitation and Correction (DRC) and a positive variance of $11.0 million for the Public Defender. Both of these agencies had significant negative variances for the month of November. DRC's positive variance in December was due to a positive variance of $17.4 million in item 501405, Halfway House. This item had a small negative YTD variance at the end of November, so ended up with a positive YTD variance of $15.9 million at the end of December. The Public Defender's December variance was due to a positive variance of $11.1 million in item 019501, County Reimbursement. This December variance partially offset negative variances from prior months resulting in a negative YTD variance of $1.6 million for this item at the end of December.

Issue Updates

Overview of State Debt and Bond Issuance

– Eric Makela, Economist

The issuance of debt has historically been an important component for the upkeep of Ohio's public infrastructure. Currently, Ohio maintains the following credit ratings on its general obligation (G.O.) bonds: Aa1 by Moody's, AA+ by S&P Global, and AA+ by Fitch. Each ratings agency has given Ohio a "high investment grade" rating, and the 2nd highest rating that is possible among public sector debt classes. In evaluating the state's investment rating, ratings agencies analyze a combination of factors, including the state's current debt burden, budgetary performance, financial management, private sector economic performance, and other state-specific factors. Ohio G.O. bonds have been generally stable at these current ratings since 2010.

Under the state Constitution, Ohio's government is authorized to issue up to $750,000 of unsecured debt for the purpose of casual budget deficits. Additionally, the Constitution permits secured debt to be issued for specific purposes as either a general obligation or special obligation of the state. G.O. debt is secured by the full ability of the state to raise revenues via taxation or general operations. Special obligation (S.O.) debt is typically secured by cash flow from lease rental agreements on the operation of public facilities. Additionally, the Treasurer of State (TOS) can issue Grant Anticipation Revenue Vehicles (GARVEEs) to fund highway construction projects. The debt service on GARVEEs is funded by federal transportation grants.

Importantly, Ohio's Constitution includes an upper limit on the amount of selected G.O. debt the state can maintain at one time. Debt which is a direct obligation of the state cannot be issued if its issuance will cause the state's debt service ratio to exceed 5%. The debt service ratio is equal to the dollar amount of selected G.O. debt service divided by the total estimated GRF revenue plus net proceeds from Ohio Lottery Commission (LOT) operations during the fiscal year in which the obligations are to be issued. Prior to every bond issuance, the Office of Budget and Management certifies the total amount of debt outstanding, and estimates the highest future debt service ratio as a percentage of revenues.

The table below displays both GRF debt service payments as well as the amount of outstanding GRF-backed debt at the end of fiscal years 2015 through 2019. As of November 15, 2019, the principal amount of Ohio's outstanding GRF debt was approximately $9.55 billion. Of this amount, $9.11 billion is subject to the 5% debt limit.[12] From 2010 through 2019, the debt burden has fluctuated between 2.8% and 4.2%; the variability is largely a result of a restructuring of GRF debt from fiscal years 2010 through 2012. In FY 2021, the debt burden is currently calculated to be 3.70%.

[12] Bonds issued under the Ohio Constitution Title VIII Section 2r, *Veterans Compensation*, and bonds issued under Title VIII Sections 2p(2) and 2p(3), *Third Frontier Research and Development* and *Site Development*, while G.O. debt, are not subject to the 5% debt limit.

State Debt Payments and Outstanding Debt ($ in thousands)[13]			
End of Fiscal Year	GRF Debt Service Payments	Principal Amount of Outstanding GRF Debt	Debt Service as % of GRF and LOT Revenue
2015	$1,278,259	$9,354,509	3.94%
2016	$1,314,513	$9,271,400	3.76%
2017	$1,328,277	$9,450,790	3.77%
2018	$1,338,396	$9,746,900	3.98%
2019	$1,402,757	$9,496,850	4.02%

Ohio Department of Transportation Approves Nearly $400 million in New Highway Construction Projects

– Terry Steele, Senior Budget Analyst

In December, the Ohio Department of Transportation (ODOT) announced that $398.0 million in new highway construction project funding was approved for the three-year period of FY 2020-FY 2022.[14] This funding is part of the Major/New Construction Program component of ODOT's overall construction budget, which is approved by the Department's Transportation Review Advisory Council (TRAC). The Major/New Construction Program consists of highway projects that add capacity to the state's network of roads and costs over $12.0 million. Combined with Major/New projects approved by TRAC in prior years, there is a total commitment of $1.11 billion for TRAC projects over the FY 2020-FY 2023 period.

TRAC approved the additional Major/New funding commitments with set spending amounts for each qualifying construction project. The table below summarizes these newly approved projects, their estimated construction costs, as well as the anticipated fiscal year in which the construction will take place. In addition to the construction costs of each project listed below, which total $348.3 million, there are some additional design and development costs as well as projected change order costs factored into the overall project costs. These other costs total almost $50.0 million.

[13] https://obm.ohio.gov/wps/portal/gov/obm/areas-of-interest/bonds-and-investors/state-debt-overview/.

[14] http://www.dot.state.oh.us/news/Pages/TRAC-approves-final-list-of-major-new-projects.aspx.

TRAC Newly Approved New Construction Projects				
Project Description	County	Commitment ($ millions)		
		FY 2020	FY 2021	FY 2022
I-71 N express lane construction	Franklin	$10.0	-	-
US-40 airport access	Montgomery	$8.0	-	-
I-70 and I-270 interchange	Franklin	-	$73.0	-
I-77 widening and interchanges	Summit	-	$65.0	-
I-75 widening	Hamilton	-	$38.0	-
US-33/SR-161 interchange	Union	-	$11.3	-
I-475 widening	Lucas	-	-	$79.0
SR 32 improvements	Clermont	-	-	$38.0
SR-18 widening	Medina	-	-	$18.0
US-36/SR-37 interchange	Delaware	-	-	$8.0
	Total	**$18.0**	**$187.3**	**$143.0**

All funding of Major/New Construction projects are financed out of the Highway Operating Fund (Fund 7002). This fund is comprised of three main sources of revenue: (1) federal highway trust fund distributions, (2) ODOT's portion of revenue from the Ohio motor fuel tax, and (3) proceeds from bonds issued by the state and backed by future federal highway and Ohio motor fuel tax revenues.

Medicaid Awards Grants to Target African American Infant Mortality

– Nelson V. Lindgren, Economist

In November 2019, the Ohio Department of Medicaid (ODM) awarded a total of $26.8 million to organizations located in nine Ohio counties to address African American infant mortality rates among the Medicaid population. These counties were targeted because over 90% of African American infant deaths occurred in these communities in 2017. Eligible applicants included local health departments, not-for-profit organizations, universities, and early care and learning entities. The funds will be used to do the following: build capacity to expand or create services to reach at-risk African American women; fill the gaps between existing services and systems within these communities; increase retention of African American women in patient-centered, culturally appropriate, and high quality health care; and affect changes in attitudes and norms that contribute to disparate birth outcomes. Grant activities will begin January 1, 2020 and conclude December 31, 2021. The table below shows the counties receiving funds and the maximum amount of funding available. In addition to the nine counties, about $933,000 is allocated to the Medicaid Managed Care Plans, which will be used to fund additional interventions to improve service delivery and health outcomes.

Infant Mortality Grant Funding Caps	
County	**Funding Amount**
Cuyahoga	$4,800,000
Franklin	$4,520,000
Montgomery	$3,610,000
Hamilton	$2,919,999
Lucas	$2,670,000
Summit	$2,480,000
Mahoning	$1,879,997
Stark	$1,630,000
Butler	$1,356,920
Medicaid Managed Care Plans	$933,083
Total Statewide	**$26,800,000**

According to the Ohio Department of Health's 2017 Ohio Infant Mortality Report, 982 infants died before their first birthday, resulting in an overall infant mortality rate[15] of 7.2. The white and Hispanic rates were 5.3 and 7.2, respectively. However, the rate for African American infants was far higher with a rate of 15.6. The leading cause of infant deaths are prematurity-related conditions including premature birth and low birth weight, followed by congenital abnormalities and obstetric conditions.

[15] Infant mortality rates are measured as the number of infant deaths per 1,000 live births.

Five Ohio Organizations Receive Drug-Free Communities Support Program Grants

–Ryan Sherrock, Economist

On October 30, 2019, the U.S. Substance Abuse and Mental Health Services Administration announced that five Ohio organizations received new Drug-Free Communities (DFC) Support Program grants. Each grantee received approximately $125,000 for this first year of funding. The five Ohio organizations receiving new grants are:

- Richland Public Health (Richland County);
- HealthPath Foundation of Ohio (Hamilton County);
- Erie County Department of Health (Erie County);
- OneEighty, Inc. (Wayne County); and
- Northern Ohio Recovery Association, Inc. (Cuyahoga County).

In addition to the first year grant, continuation grants of $125,000 per year may be awarded for four additional years. In 2019, 17 organizations located throughout Ohio received continuation grants.[16]

The DFC grant program was created through the Drug-Free Communities Act of 1997. Grants are awarded every year, including both new and continuation grants. Eligible applicants are community-based coalitions that address youth substance abuse. The two goals of the DFC program are: to establish and strengthen collaboration among nonprofit agencies and various government entities to support community efforts to prevent and reduce substance abuse among youth and to reduce substance abuse among youth and adults by addressing the factors in a community that increase risk and promoting factors that minimize risk. Grantees are expected to implement strategies that lead to community level changes. These strategies can include: limiting access to substances, changing the culture and context within which substance use decisions are made, and shifting the consequences associated with youth substance use.

Number of Public Schools Designated for EdChoice Scholarship Program Grows to 1,227 for 2020-2021 School Year

– Nick Ciolli, Budget Analyst

In October 2019, the Ohio Department of Education (ODE) released the list of public schools that are designated for the upcoming 2020-2021 school year (FY 2021) under the performance-based Educational Choice ("EdChoice") Scholarship Program. Under the program, a student may receive a state scholarship to attend a participating chartered nonpublic school if the student's resident district school meets one of a number of criteria largely based on low performance on certain aspects of the state report card. The list for the upcoming school year contains 1,227 schools in 426 school districts. Of those schools, 727 are newly designated (17 schools that are currently designated will drop off the list). As the table below shows, the

[16] Lists of grantees can be found on the website of the White House Office of National Drug Control Policy: www.whitehouse.gov/ondcp/grants-programs/.

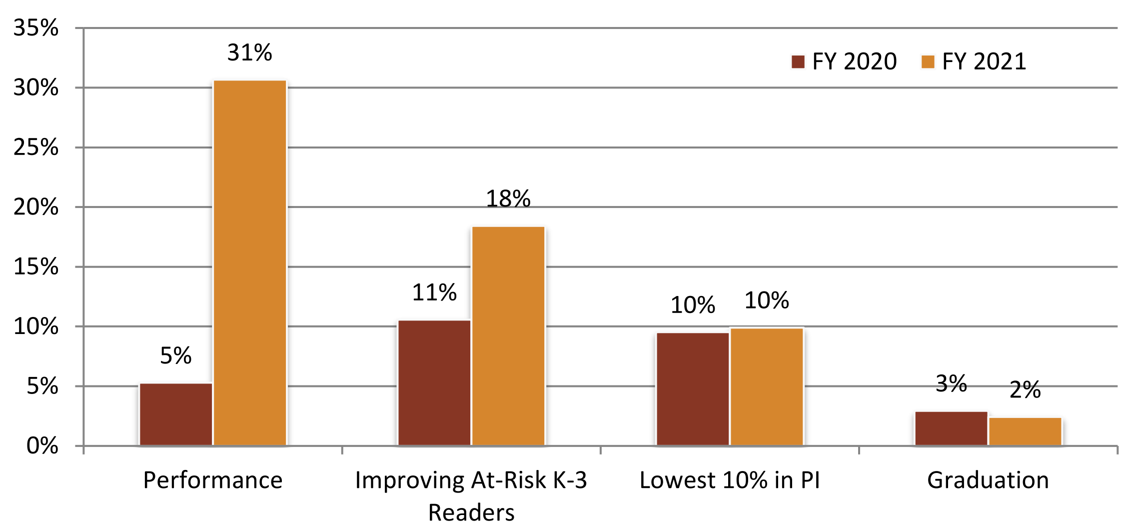
number of schools designated has grown markedly since FY 2019, when 255 schools in 31 districts were designated. Collectively, the 1,227 designated schools represent about 42% of traditional district schools and educate about 620,000 students.

Traditional District Schools Designated For the EdChoice Program, FY 2019-FY 2021

Category	FY 2019	FY 2020	FY 2021
Buildings Designated	255	517	1,227
Districts with One or More Designated Buildings	31	160	426

A school is designated if it meets at least one of six criteria, four of which are based on the school's report card results: (1) Performance, (2) Graduation, (3) Lowest 10% on Performance Index (PI), and (4) Improving At-Risk K-3 Readers. In general, a school must meet the conditions of each building-based criteria for two out of the three most recent school years for which data may be used. Due to "safe harbor" provisions associated with the transition to new state tests, schools were designated for the upcoming school year based on performance on the report cards for the 2013-2014, 2017-2018, and 2018-2019 school years. The other two criteria are district-based, such as if a school's district is subject to an academic distress commission. The Performance criteria, which considers a school's grades on the Performance Index and Overall Value-Added measures, accounted for the largest increase in designations, as shown in the chart below. About 31% of schools have been designated for FY 2021 due to the Performance criteria, compared to 5% for FY 2020. A larger number of schools were also designated under the Improving At-Risk K-3 Readers criteria, which measures how well schools perform at improving the reading skills of grades K-3 students who are not on track for reading proficiency by the end of the third grade.

Chart 5: Percentage of Public Schools Meeting Building-Based Designation Criteria for EdChoice Scholarship Program, FY 2020-FY 2021



For FY 2020, about 29,500 students have received a performance-based EdChoice scholarship, increased from about 23,000 scholarship recipients in FY 2019 due in part to the growth in the number of buildings designated. Currently, ODE may award a maximum of 60,000 performance-based scholarships per year. The scholarships are financed by transfers of state foundation aid from the scholarship recipient's resident school district to the educating school. The amount of the scholarship is the lesser of the student's tuition and $4,650 if the student is in grades K-8 or $6,000 if the student is in grades 9-12. In line with the program's participation growth, the amount transferred from school districts' foundation aid is slated to increase from $113.5 million for FY 2019 to $148.2 million for FY 2020. Deductions in FY 2021 will depend on the number of students awarded scholarships for the upcoming school year. The application window for FY 2021 EdChoice scholarships opens February 1, 2020.

Controlling Board Approves $20.6 million for Choose Ohio First Scholarships in Computer Science and Related Fields

– Edward Millane, Senior Budget Analyst

On December 2, 2019, the Controlling Board approved a request from the Department of Higher Education (DHE) to award approximately $20.6 million in scholarships to support students enrolled in computer science and related programs at 35 public and private institutions of higher education across the state through the Choose Ohio First Scholarship program. The 35 institutions were selected for awards through a competitive grant process based on their recruitment and retention plans. Awards ranged from $64,000 for Rhodes State College to $3.0 million for the University of Dayton. Recipient institutions will distribute scholarships to their students. DHE estimates that approximately 1,400 students enrolled in computer science or related fields will receive scholarships from the new award.

Since 2008, the Choose Ohio First Scholarship program has provided scholarships to students pursuing STEMM or STEMM education degrees at one of Ohio's institutions of higher education. The program also provides scholarships to medical and advanced practice nursing students through the Primary Care Medical Student component of the program, consisting of Patient Centered Medical Home (PCMH) Medical and PCMH Nursing scholarships. Subject to certain exceptions, the annual Choose Ohio First scholarship for an undergraduate or graduate student must be at least $1,500 but no more than one-half of the highest in-state undergraduate instructional and general fees charged by all state universities ($7,955 for the 2019-2020 academic year). H.B. 166 expands the program by qualifying students enrolled in an approved certificate program in the STEMM and dentistry fields at a state university or the Northeast Ohio Medical University (NEOMED) for a scholarship. Scholarship recipients in certificate programs receive an annual amount of at least $500, but no more than one-half of the highest in-state undergraduate and general fees charged by all state universities. Overall, H.B. 166 appropriates $28.2 million in FY 2020 and $40.2 million in FY 2021 to support Choose Ohio First scholarships of all types.

Ohio – Ready, Test, Drive! Program to Expand Statewide

– Maggie West, Senior Budget Analyst

On November 21, 2019, Governor DeWine announced the statewide expansion of *Ohio – Ready, Test, Drive!*, a virtual driver assessment program that uses portable driving simulators to test student drivers' ability to respond to routine traffic situations, as well as road hazards, pedestrian activity, and moving and stationary emergency vehicles. All applicants for an initial driver's license, regardless of age or experience, will be required to complete the virtual driver assessment prior to the administration of the on-road driving examination. The results of the assessment, regardless of whether the applicant passed or failed the on-road examination, will be used to ascertain the effectiveness of current driver training programs and to identify areas where improvement is needed.

Ohio – Ready, Test, Drive! began as a pilot program in July 2017, with virtual driver assessment systems installed in five Bureau of Motor Vehicle driver examination locations located in Columbus (three locations), Zanesville, and Springfield. During the pilot program, which ended in September 2019, the participating driver examination locations administered a total of 40,000 virtual driver assessments in which data was collected. That data revealed that the virtual driver assessment was able to accurately detect underprepared applicants and determine, with 80% accuracy, whether an applicant was likely to pass or fail the on-road examination. Once implemented statewide, the program will consist of 400 virtual driving assessment systems, which will be installed in each of Ohio's 57 driver examination locations, as well as in 350 of the state's 523 driver training schools.

DNR Provides $10.2 million to Restore Lake Erie Wetlands Under the H2Ohio Water Quality Initiative

– Tom Wert, Senior Budget Analyst

On November 21, 2019, the Department of Natural Resources (DNR) announced details of six wetland restoration projects totaling $10.2 million that will improve water quality in Lake Erie as part of the state's H2Ohio initiative. DNR will use this money to partner with local organizations to undertake four wetland projects in Lucas County and one each in Paulding and Sandusky counties, as shown in the table below. These projects will restore fish and wildlife habitat, trap sediment, and reduce the volume of phosphorus runoff and other pollutants entering Lake Erie.

H2Ohio Wetland Restoration Projects				
County	**Project**	**Partners**	**Restored Wetland Acres**	**H2Ohio Funding**
Lucas	Cullen Park Wetland Restoration	Lucas County Port Authority City of Toledo	110	$5,088,000
	Grassy Island Wetland Restoration	Lucas County Port Authority City of Toledo	75	$742,000
	Maumee Bay State Park Wetland	The Nature Conservancy	130	$2,000,000
	Oak Openings Preserve Expansion	Metroparks Toledo	30	$867,000
Sandusky	Sandusky – Redhorse Bend	Black Swamp Conservancy	25	$976,000
Paulding	Forder Bridge	Black Swamp Conservancy	5	$513,000
		Total	**375**	**$10,186,000**

The money for these projects comes from the H2Ohio Fund (Fund 6H20) created by H.B. 166. Fund 6H2O was capitalized by a transfer of $172.0 million from FY 2019 GRF surplus revenue. In all, H.B. 166 appropriated $85.2 million in FY 2020 under the budgets of the Department of Natural Resources ($46.2 million), Agriculture ($30.3 million), and the Environmental Protection Agency ($8.7 million) to support projects and programs that improve water quality throughout the state.

Controlling Board Approves Ohio Latino Affairs Appropriation Increase to Fund Latino Mental Health Navigator Project

– Shaina Morris, Budget Analyst

On November 4, 2019, the Controlling Board approved an appropriation increase for the Ohio Commission on Hispanic/Latino Affairs (OCHLA). OCHLA requested an increase of $150,000 in the amount appropriated from the Gifts and Miscellaneous Fund (Fund 6010) in FY 2020 to administer and finance the Latino Mental Health Navigator Project. Under an interagency agreement, the Ohio Department of Mental Health and Addiction Services (OhioMHAS) is transferring the necessary funding from its federal Community Mental Health Block Grant. OCHLA is required to collaborate with OhioMHAS to identify necessary baseline and program data, and to collect and report such data to OhioMHAS to evaluate outcomes of the funded projects. OCHLA is not required to provide matching funds and plans to allocate up to 10% for related operating expenses.

OCHLA's Latino Mental Health Navigator Project is intended to reduce disparities in availability, accessibility, and quality of behavioral healthcare services for the Hispanic-Latino community. Two grants of $65,000 each will be awarded to projects that identify and target structural barriers, promote engagement in behavioral healthcare, and facilitate navigation of systems of care in Central and Southwest Ohio. Eligible applicants include county alcohol, drug addiction, and mental health services (ADAMHS) boards and area agencies working in collaboration with ADAMHS boards in Central and Southwest Ohio, including nonprofits.

Tracking the Economy

– Eric Makela, Economist

Overview

The nation's economy continues to expand. The U.S. economy added 145,000 nonfarm payroll jobs in December, and the monthly national unemployment rate remained level at 3.5%. The seasonally adjusted rate of inflation adjusted gross domestic product (real GDP) growth was estimated to be 2.1% in the third quarter of 2019. Price levels, as measured by the Consumer Price Index (CPI), increased by 0.3% in November after rising 0.4% in October. Total industrial production rose in November, after declines earlier in the year, and was 0.8% below a year earlier.

Nonfarm payroll employment in Ohio increased by 6,700 in November; the state's unemployment rate for the month was unchanged at 4.2%. Ohio's economy, measured by real GDP, grew at a rate of 1.7% in the third quarter of 2019, according to the most recent statistics. The personal income of Ohioans grew at a 4.4% annualized rate in the third quarter of 2019, second fastest among states in the Great Lakes region. The state's population increased by an estimated 12,800 persons from July 2018 to July 2019.

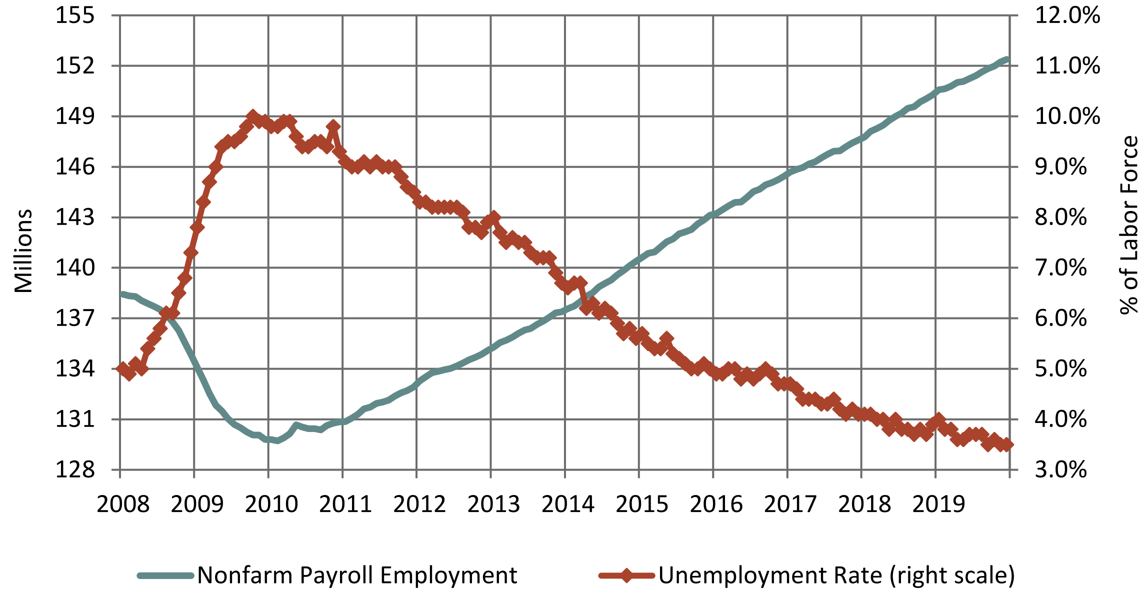
The National Economy

The U.S. economy added 145,000 nonfarm payroll workers in December, and the national unemployment remained at a seasonally adjusted 3.5%. In December 2018, the national unemployment rate was 3.9%.[17] The labor force participation rate was 63.2% last month; a year ago the labor force participation rate was 63.0% nationally. Approximately 158.8 million persons were employed in December 2019, up from 156.8 million persons a year prior.

Among the nonfarm payroll jobs added in December, the most notable gains were in the industries of retail trade (+41,000) and health care (+28,000). Seasonally adjusted employment in leisure and hospitality (+40,000) and professional and business services (+10,000) was up in December, with those industries each adding over 350,000 jobs during 2019. In January, the U.S. Census Bureau announced its recruiting effort to hire up to 500,000 temporary, part-time employees as part of its Census 2020 effort. Chart 6 shows U.S. employment and unemployment.

[17] The most recent Bureau of Labor Statistics release of national unemployment data included a routine adjustment of the seasonal factors used in calculating seasonally adjusted unemployment rates, and a revision of monthly national unemployment data for the previous five years. As a result of this update, there were no changes to estimated national unemployment rates from January 2019 to November 2019.

Chart 6: U.S. Employment and Unemployment



Employment and unemployment data are derived from the Current Employment Statistics (CES) and Current Population Survey (CPS) programs. According to the Bureau of Labor Statistics (BLS), the CES program surveys approximately 142,000 businesses and government agencies which own or manage around 689,000 nonfarm establishments.[18] The establishment survey provides information on employment, hours, and earnings of employees on nonfarm payrolls. The CPS, or household survey, is a monthly survey of approximately 60,000 households and provides information on the employment, unemployment, and general labor market participation of individuals. Two different employment estimates are generated using the two surveys, and the two estimates sometimes point in different directions: the November data show an 8,000 decrease in household employment and a 265,000 increase in payroll employment. Similar differences sometimes occur in the Ohio data.

Because the CES sample is of a fixed number of establishments, the data do not immediately reflect changes in the U.S. business environment. To correct for this issue, the data are adjusted on an annual basis utilizing a nearly complete employment record, the Quarterly Census of Employment and Wages (QCEW), as well as other sources. The QCEW is a series of quarterly data collected via state unemployment insurance (UI) rolls. The QCEW also is a source of data on the number of business closings and openings. Economists at BLS utilize the QCEW to adjust CES employment data once annually to account for changes in the industrial mix due to employment at new establishments. The annual benchmarking of employment data is due to be released in February 2020; from 2008 to 2018, revisions to total nonfarm payroll employment estimates have not exceeded 902,000 (in 2009).

Nationally, real GDP increased at a seasonally adjusted annual rate of 2.1% in the third quarter of 2019, according to the third Bureau of Economic Analysis estimate. Consumer spending on goods increased at a 5.3% annual rate, while consumption of services increased at

[18] https://www.bls.gov/bls/empsitquickguide.htm.

a 2.2% rate. Nonresidential fixed investment fell for the second straight quarter, although this decrease was partially offset by an increase in the rate of residential fixed investment. Government spending increased, at both the federal and the state and local levels, however growth slowed from the previous quarter. Real disposable personal income increased by a seasonally adjusted 0.4% in November. [19]

Inflation is measured by the CPI and other indexes. The CPI increased by 0.3% from October to November. Excluding the more volatile food and energy services and commodities, the CPI was up 0.2% in that time. The CPI price index for medical care services, not adjusted for seasonality, increased by 0.4%, the fifteenth straight month of increase. The price indexes for new and used vehicles were changed by -0.1% and 0.6%, respectively. The price indexes for services and shelter both increased by 0.3% during the month.

According to the Federal Reserve Board's (FRB) Industrial Production Index (IPI), industrial production was up 1.1% nationally from October to November. The IPI for the manufacturing industry is down by 0.8% between November 2018 and November 2019, while indexes for the mining and utilities industries changed by 2.0% and -4.1% respectively, year-over-year. According to the Institute for Supply Management, manufacturing activity decreased in December. Production, new manufacturing orders, and employment were lower among surveyed firms; prices increased in December after decreasing in November.

The number of privately owned housing unit construction permits issued in November increased by 1.4% from October. The rate of new residential construction authorized by permits was 11.1% greater in November than the rate of permit issuance a year prior.[20] The rate of new residential construction started was 13.6% greater in November than the rate of construction starts a year prior.

The Ohio Economy

In November, nonfarm payroll employment increased by approximately 6,700 and the state unemployment rate remained at 4.2%. The seasonally adjusted total monthly change in employment reflects an increase of around 7,000 workers in the service sector and a decrease of around 300 workers in the goods producing sector. The number of workers employed in the wholesale trade industry decreased by around 600 in November, while the number of workers employed in the retail trade industry decreased by around 500. The leisure and hospitality industry added approximately 2,200 Ohioans to their payroll numbers during the month.

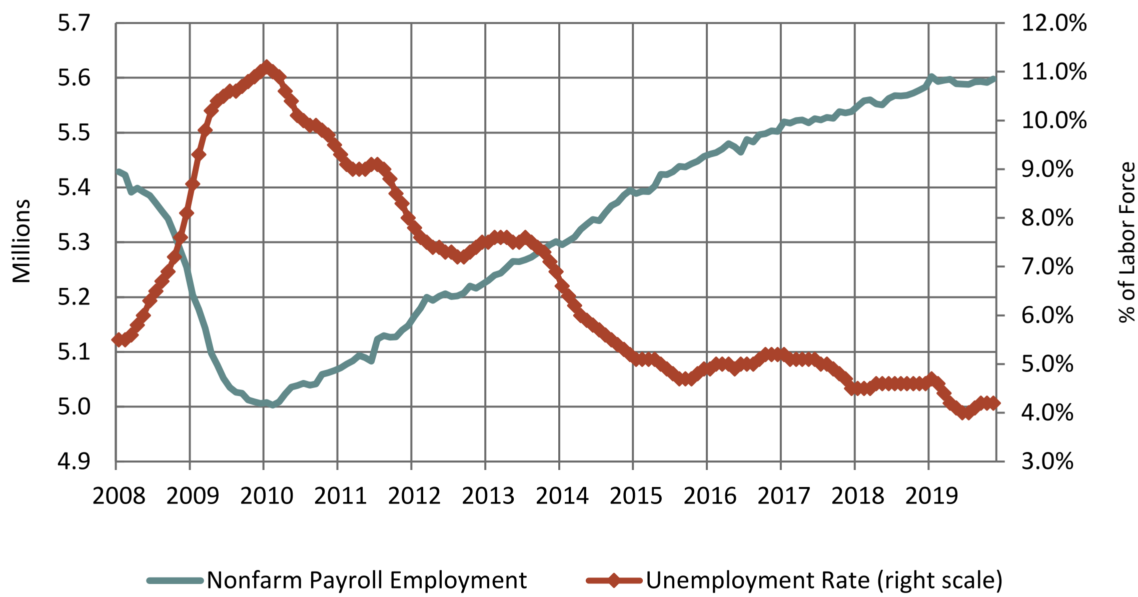
The number of unemployed persons in Ohio increased by approximately 1,100 in November, following a rise of around 3,200 in October. The number of labor force participants grew by around 3,100 in November. There were approximately 77,300 more Ohioans in the labor force this November than in November 2018. Chart 7 shows Ohio employment and unemployment.

[19] Personal income is defined by the BEA as income from the following sources: labor income, proprietors' income, rental income of persons, interest and dividend income, and transfers from government or businesses minus social program taxes such as Social Security and Medicare.

[20] https://www.census.gov/construction/nrc/index.html.

Ohio's economy, measured by the state's real GDP, grew at a seasonally adjusted 1.7% annual rate in the third quarter, following growth at a 1.3% rate in the second quarter of 2019 and 2.3% growth in the first quarter. Third quarter growth in the state ranked 36th nationally. In Ohio, mining, quarrying, and oil and gas extraction accounted for more of the state's growth than in other states in the region; the contribution of most other industries was approximately around the average for the region. Seasonally adjusted annual growth in the finance and insurance industry subtracted from gross state product growth in every state in the nation.

Chart 7: Ohio Employment and Unemployment



The personal income of Ohioans grew at a 4.4% seasonally adjusted annualized rate in the third quarter of 2019, ranking 12th among states. Net earnings, the sum of worker compensation and proprietors' income less social insurance taxes, increased at a 5.3% annual rate in the third quarter of 2019. Dividends, interest, and rental income decreased at a seasonally adjusted annualized rate of 1.0% over the quarter. Transfer income increased at a 6.3% annual rate, the second fastest growth for this category in the nation.

According to the Ohio Associate of Realtors, the number of housing units sold in Ohio in November 2019 decreased by 1.4% from November 2018. YTD, the average sale price of homes in 2019 has been 6.0% greater than in 2018, while the total dollar volume of home sales is up 6.4% in 2019 compared with a year prior.

According to the most recent population estimates released by the U.S. Census Bureau, Ohio's resident population increased by approximately 12,800 persons from July 2018 to July 2019, reaching 11.7 million or 3.6% of nationwide residents.[21] Natural population growth, measured by the number of births minus the number of deaths, was approximately 16,500 during this time period. The birth rate during the time frame was approximately 11.5 births per 1,000 Ohio residents; there were approximately 10.1 deaths per 1,000 residents. By

[21] https://www.census.gov/data/datasets/time-series/demo/popest/2010s-state-total.html.

comparison, the national birth rate was 11.6 per 1,000 residents and 8.7 deaths per 1,000 residents. Net migration of Ohio residents was -3,400 from 2018 to 2019.[22] Domestic net migration, movement of persons within national boundaries, was largely negative in Ohio during this time frame; from July 2018 to July 2019, more persons moved from Ohio to other states than moved from other states to Ohio. International migration, movement of persons outside national boundaries, was positive, meaning Ohio is a net recipient of international migrants.

[22] Net migration is the estimated number of persons moving to Ohio minus the number of persons moving from Ohio to a location outside the state.