LBO Budget Footnotes

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Volume: Fiscal Year 2020 **Issue: June 2020**

Highlights

– Ross Miller, Chief Economist

May GRF tax revenue was $271 million (13.0%) below the estimate published by the Office of Budget and Management (OBM) in August 2019. The negative variance for the sales and use tax was $167 million, for the personal income tax (PIT) $91 million, and for the commercial activity tax (CAT) $11 million. For the year to date (YTD) through May GRF tax revenue was $1.05 billion below estimate. On the spending side, May Medicaid expenditures were $266 million above estimate. The state's fiscal situation remains negative due to the COVID-19 pandemic and responses to it.

Ohio's unemployment rate jumped to 16.8% in April, and unemployment in the Cleveland and Toledo metro areas jumped to over 20%. By comparison, the national unemployment rate was 14.7% in April. In response, the Ohio Department of Job and Family Services (ODJFS) has distributed over $3.5 billion in unemployment compensation to Ohio workers during the 11 weeks prior to June 4.

Through May 2020, GRF sources totaled $29.99 billion:

- Revenue from the sales and use tax was $326.6 million below estimate;
- PIT receipts were $767.0 million below estimate.

Through May 2020, GRF uses totaled $31.92 billion:

- Program expenditures were $109.3 million below estimate;
- Expenditures for Medicaid were $382.4 million above estimate;
- Expenditures on all other program categories except Other Education were below estimates, with the largest negative variances being for Primary and Secondary Education ($196.2 million), Higher Education ($75.4 million), and Health and Human Services ($71.8 million).

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of May 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 2, 2020)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$101,367	$135,200	-$33,833	-25.0%
Nonauto Sales and Use	$681,162	$814,600	-$133,438	-16.4%
Total Sales and Use	*$782,529*	*$949,800*	*-$167,271*	*-17.6%*
Personal Income	$513,736	$605,100	-$91,364	-15.1%
Commercial Activity Tax	$332,411	$343,500	-$11,089	-3.2%
Cigarette	$65,312	$68,700	-$3,388	-4.9%
Kilowatt-Hour Excise	$23,253	$21,000	$2,253	10.7%
Foreign Insurance	-$23,324	-$25,000	$1,676	6.7%
Domestic Insurance	$18,952	$20,200	-$1,248	-6.2%
Financial Institution	$34,225	$27,700	$6,525	23.6%
Public Utility	$37,221	$37,300	-$79	-0.2%
Natural Gas Consumption	$27,151	$33,600	-$6,449	-19.2%
Alcoholic Beverage	$3,123	$4,300	-$1,177	-27.4%
Liquor Gallonage	$4,455	$4,000	$455	11.4%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	-$139	$0	-$139	---
Business and Property	$10	$0	$10	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,818,916**	**$2,090,200**	**-$271,284**	**-13.0%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$2,599	$370	$2,229	602.3%
Other Revenue	$537	$1,362	-$826	-60.6%
Total Nontax Revenue	**$3,136**	**$1,733**	**$1,404**	**81.0%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,822,052**	**$2,091,933**	**-$269,880**	**-12.9%**
Federal Grants	**$947,692**	**$729,774**	**$217,918**	**29.9%**
Total GRF Sources	**$2,769,744**	**$2,821,706**	**-$51,962**	**-1.8%**

*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 May 31, 2020
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 2, 2020)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$1,326,996	$1,406,400	-$79,404	-5.6%	$1,383,911	-4.1%
Nonauto Sales and Use	$8,372,326	$8,619,500	-$247,174	-2.9%	$8,277,799	1.1%
Total Sales and Use	*$9,699,323*	*$10,025,900*	*-$326,577*	*-3.3%*	*$9,661,710*	*0.4%*
Personal Income	$7,142,874	$7,909,900	-$767,026	-9.7%	$8,076,015	-11.6%
Commercial Activity Tax	$1,653,145	$1,632,900	$20,245	1.2%	$1,610,943	2.6%
Cigarette	$766,355	$748,600	$17,755	2.4%	$780,996	-1.9%
Kilowatt-Hour Excise	$312,400	$313,400	-$1,000	-0.3%	$323,733	-3.5%
Foreign Insurance	$313,093	$306,300	$6,793	2.2%	$304,195	2.9%
Domestic Insurance	$20,638	$21,200	-$562	-2.7%	$15,278	35.1%
Financial Institution	$187,496	$165,100	$22,396	13.6%	$178,870	4.8%
Public Utility	$138,176	$137,600	$576	0.4%	$138,231	0.0%
Natural Gas Consumption	$59,735	$77,900	-$18,165	-23.3%	$75,902	-21.3%
Alcoholic Beverage	$47,187	$50,700	-$3,513	-6.9%	$50,989	-7.5%
Liquor Gallonage	$48,391	$46,100	$2,291	5.0%	$45,773	5.7%
Petroleum Activity Tax	$6,614	$7,700	-$1,086	-14.1%	$8,400	-21.3%
Corporate Franchise	-$449	$0	-$449	---	$1,574	-128.5%
Business and Property	$10	$0	$10	---	$0	---
Estate	$68	$0	$68	---	$117	-42.0%
Total Tax Revenue	**$20,395,055**	**$21,443,300**	**-$1,048,245**	**-4.9%**	**$21,272,724**	**-4.1%**
Nontax Revenue						
Earnings on Investments	$111,446	$82,500	$28,946	35.1%	$82,665	34.8%
Licenses and Fees	$66,099	$57,624	$8,475	14.7%	$63,582	4.0%
Other Revenue	$103,645	$87,398	$16,248	18.6%	$84,737	22.3%
Total Nontax Revenue	**$281,190**	**$227,522**	**$53,668**	**23.6%**	**$230,983**	**21.7%**
Transfers In	**$77,045**	**$68,570**	**$8,476**	**12.4%**	**$85,737**	**-10.1%**
Total State Sources	**$20,753,290**	**$21,739,391**	**-$986,101**	**-4.5%**	**$21,589,444**	**-3.9%**
Federal Grants	**$9,239,545**	**$8,939,753**	**$299,792**	**3.4%**	**$8,932,238**	**3.4%**
Total GRF SOURCES	**$29,992,835**	**$30,679,144**	**-$686,309**	**-2.2%**	**$30,521,683**	**-1.7%**

*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

The negative impact of the COVID-19 pandemic on tax revenues continued in May 2020. GRF tax sources for the month fell $271.3 million (13.0%) below the projection published by OBM in August 2019. This performance was an improvement from the $866.5 million shortfall for tax sources recorded the previous month. Partially offsetting the negative variance of GRF tax sources, federal grants[2] were $217.9 million (29.9%) above estimate in May, and nontax revenue was $1.4 million (81.0%) above estimate; no transfers into the GRF were expected or made during the month. Overall, the monthly negative variance for GRF sources totaled $52.0 million (1.8%), well below the deficit of $867.5 million recorded in April. GRF sources consist of both federal grants and state-source receipts, such as tax revenue, nontax revenue, and transfers in. Tables 1 and 2 show GRF sources for the month of May and for FY 2020 through May, respectively.

In May 2020, revenue from the two largest tax sources, the sales and use tax and the PIT, were $167.3 million (17.6%) and $91.4 million (15.1%) below their respective estimates. The next two largest tax sources, the CAT and the cigarette and other tobacco products tax, also posted negative variances of $11.1 million (3.2%) and $3.4 million (4.9%), respectively. On the other hand, the financial institutions tax (FIT) and the kilowatt-hour tax recorded positive variances of $6.5 million (23.6%) and $2.3 million (10.7%), respectively.

The most recent monthly shortfall increased the YTD negative variance of GRF sources to $686.3 million (2.2%), up from $634.3 million at the end of April. YTD tax sources were $1.05 billion (4.9%) short of anticipated revenue. That negative variance was partially offset by positive variances of $299.8 million (3.4%) for federal grants, $53.7 million (23.6%) for nontax revenues, and $8.5 million (12.4%) for transfers in.

As expected, the PIT and the sales and use tax contributed the bulk of the YTD shortfall for tax sources with negative variances of $767.0 million and $326.6 million, respectively.[3] In addition, the natural gas consumption tax, the alcoholic beverage tax, the petroleum activity tax,

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

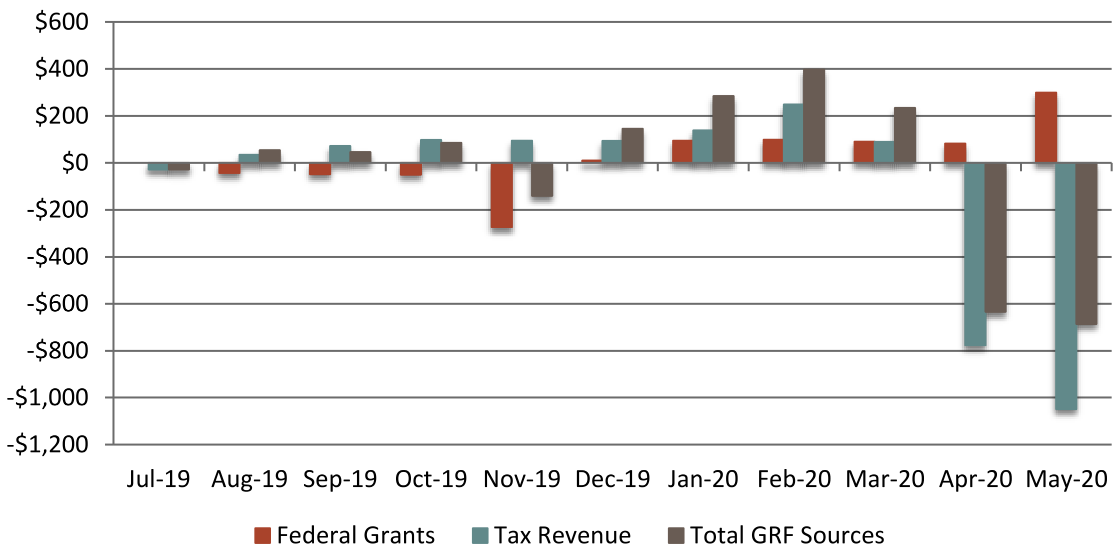
[2] Federal grants are typically federal reimbursements for Medicaid and other human services programs. Through May, spending on Medicaid and human services programs exceeded estimates by $310.6 million.

[3] To slow the COVID-19 pandemic, the Governor issued an emergency declaration on March 9, 2020, and various public health orders followed, including a stay-at-home requirement and some business closures. In response to enactment of H.B. 197, the Tax Commissioner authorized an extension of the deadline to file state income taxes until July 15, matching the extended deadline for federal returns. Through June 1, the number of individual income tax returns filed dropped about 14% relative to the corresponding period in FY 2019, with most of that decline occurring in April when tax returns are normally due.

and the kilowatt-hour tax were short of their respective revenue targets by $18.2 million, $3.5 million, $1.1 million, and $1.0 million. Those negative variances were partially offset by positive variances of $20.2 million for the CAT, $17.8 million for the cigarette tax, $22.4 million for the FIT, $6.8 million for the foreign insurance tax, and $2.3 million for the liquor gallonage tax.

Chart 1, below, shows cumulative YTD variances of GRF sources each month through May 2020.

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



Compared to GRF sources in FY 2019 through May, GRF sources decreased $528.8 million (1.7%), due to declines of $877.7 million (4.1%) for tax sources and $8.7 million (10.1%) for transfers in. Those decreases were partially offset by increases of $307.3 million (3.4%) and $50.2 million (21.7%), respectively, for federal grants and nontax revenue. The PIT experienced the largest reduction in tax revenue ($933.1 million) due to a tax payment delay and to two reductions made to withholding tax rates in the last 17 months, but also layoffs and employee furloughs. (The section below analyzing the PIT provides additional details on the rate cuts.) Revenue from the cigarette and other tobacco products tax decreased $14.6 million, which is a normal long trend; revenue from the natural gas consumption tax and the kilowatt-hour tax declined $16.2 million and $11.3 million, respectively. However, revenue from the sales and use tax and the CAT were above their levels of FY 2019 by $37.6 million and $42.2 million, respectively. Other taxes with significant increases included the insurance taxes ($14.3 million combined) and the FIT ($8.6 million).

Sales and Use Tax

Home confinement and closures of nonessential businesses in April and May 2020 constrained taxable spending, and sales and use tax receipts decreased dramatically. After this GRF source fell 24.0% below estimate in April, May sales tax revenue totaling $782.5 million was 17.6% below anticipated revenue; for the two-month period, sales tax revenues were short of estimates by a combined $404.0 million. Both the nonauto and the auto portions of the tax had large negative variances in May. Monthly sales tax receipts were also $162.0 million (17.1%)

below receipts in May 2019. This underperformance doubled the YTD negative variance for the tax source to $326.6 million (3.3%), up from $159.3 million through the previous ten months. However, total sales and use tax revenue totaling $9.70 billion for FY 2020 through May remained above revenue in the corresponding period last year by $37.6 million (0.4%), though receipts from the auto sales tax portion have fallen $56.9 million below such collections through May 2019.

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

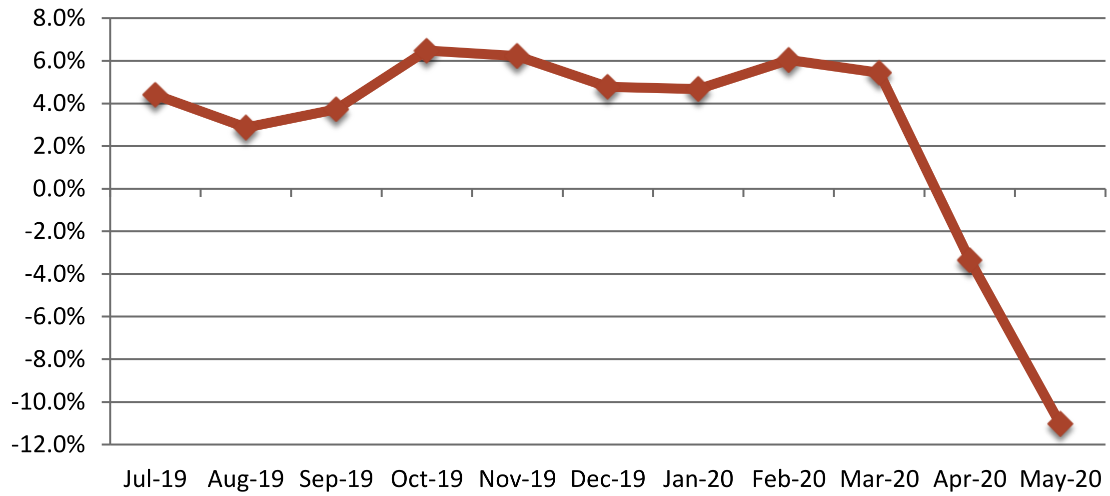
GRF receipts from the nonauto sales and use tax in May were $681.2 million. This amount was $133.4 million (16.4%) below estimate and $117.5 million (14.7%) below revenue in May 2019. For the YTD, total receipts of $8.37 billion were $247.2 million (2.9%) below projections, up from a cumulative negative variance of $113.7 million through April. YTD GRF receipts were $94.5 million (1.1%) above revenue in the corresponding period in FY 2019.

In the last two months, consumers have received income support from federal stimulus checks, additional unemployment compensation from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a number of businesses have kept some employees on payroll after receiving loans from the federal payroll protection program.[4] That income has helped sales tax revenue. However, the timing of full resumption of "normal" economic activity is still uncertain and the nonauto sales and use tax revenue will be weak for a while longer due to lost jobs and reduced spending.[5] Chart 2 shows year-over-year growth in nonauto sales and use tax collections in FY 2020 and reflects the toll of the pandemic on nonauto sales tax revenue in recent months.

[4] To address the economic fallout from COVID-19, the U.S. Congress passed the CARES Act at the end of March 2020. The new law included cash payments of up to $1,200 (plus $500 for each child age 16 or under) for each qualifying adult, an additional $600 per week on top of any state-provided unemployment benefits through July 31, 13 weeks of unemployment benefits above that of each state's unemployment program, and unemployment benefits for self-employed and "gig" workers. The payroll protection program is a loan program intended to subsidize payroll costs for eight weeks after those loans, some of which are forgivable, are made.

[5] The personal saving rate (measured as the ratio of savings to disposable personal income) jumped from 8.2% in February 2020 to 33.0% in April 2020, an indication that consumers have turned somewhat cautious.

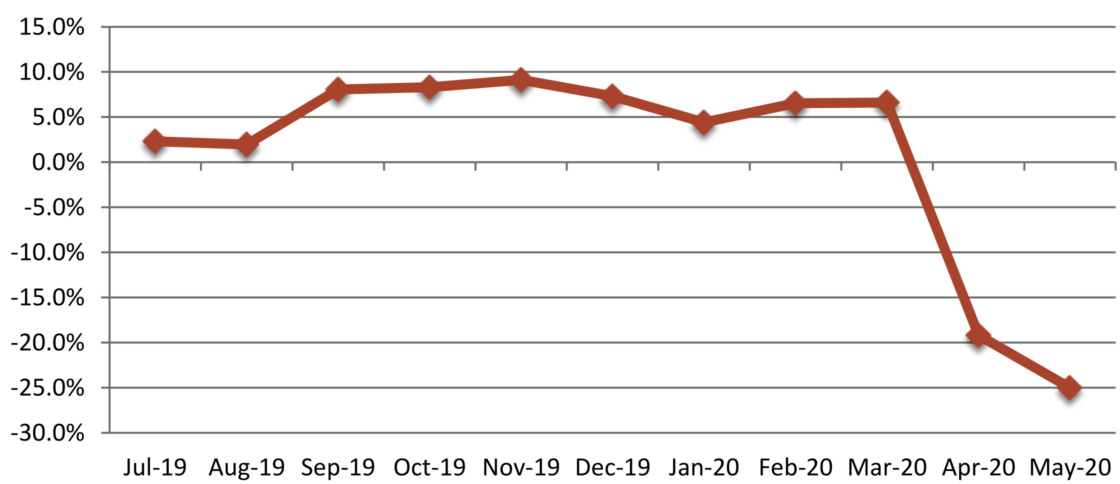
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

Monthly auto sales and use taxes of $101.4 million were $33.8 million (25.0%) below estimate and $44.4 million (30.5%) below revenue in May 2019. This performance was an improvement relative to that of April when this tax was 57.3% below estimate. YTD GRF revenue from this source totaling $1.33 billion was $79.4 million (5.6%) below estimate and $56.9 million (4.1%) below receipts through May in FY 2019. In the first ten months of FY 2020, the cumulative negative variance had been $45.6 million. Chart 3 shows year-over-year growth in auto sales and use tax collections and the pandemic-related revenue declines from both low demand and low supply of vehicles. Auto manufacturers have resumed production, auto dealerships have reopened, and sales also have somewhat rebounded. Nationwide sales suggest that a market bottom was reached in April.

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



Nationwide, unit sales of light vehicles (autos and light trucks) increased to 12.1 million units (on an annualized seasonally adjusted basis) in the month of May, up from 9.0 million units in April. However, the recent monthly tally represents a year-over-year sales decrease of 30.1% when compared to sales in May 2019. Sales increased across all categories and this appears to mark the start of the long road back to the 17 million annualized units experienced over the past five years. Following the financial crisis of 2008 and 2009, new vehicle sales did not reach prerecession levels for a full five years. However, most forecasters believe the recovery of new vehicle sales will not take as long this time around, under the assumption that there are no other waves of virus outbreak that disrupt business and keep consumers locked down in their homes. Even without another outbreak, the industry will face significant headwinds over the next year: consumers are concerned about both the pandemic and near-term job uncertainty, and this is likely to keep some buyers away from showrooms.

Personal Income Tax

Both the economic downdraft and the extension of the deadline to file state income taxes negatively affected the PIT in the last two months. May PIT revenue to the GRF of $513.7 million was $91.4 million (15.1%) below projections. In April, GRF receipts from the PIT were $635.7 million (50.5%) below OBM's August estimate. So, in the current fiscal quarter, the combined negative variance for the PIT totaled $727.1 million. 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 81.0% of gross collections in FY 2019). Larger or smaller than expected refunds (which decrease gross collections) could also greatly affect the monthly performance of the tax.

Gross collections for the month were $119.0 million (15.3%) below target, with all components below their respective estimates. Employer withholding had the largest revenue shortfall with a negative variance of $103.8 million. Payments due with annual returns came in at $6.3 million below estimate; miscellaneous payments and trust payments had negative variances of $4.4 million and $4.1 million, respectively. On the other hand, refunds and LGF distributions were $11.2 million (8.6%) and $16.5 million (36.8%) below their anticipated levels. Thus, PIT revenue to the GRF for the month totaled $91.4 million less than estimate.

Through May, YTD GRF receipts from the PIT were $7.14 billion, an amount $767.0 million (9.7%) below projections. This YTD negative variance was an increase from a cumulative shortfall of $675.7 million through April 2020. Yearly GRF revenue was also $933.1 million (11.6%) below revenue through May in FY 2019. In addition to the economic effects of the pandemic and delayed income tax filings authorized by H.B. 197, two reductions in withholding rates decreased FY 2020 revenue relative to FY 2019. Year-over-year growth in withholding receipts during the first half of FY 2020 was limited by a 3.3% reduction in withholding rates implemented in January 2019. Year-over-year growth in withholding receipts in calendar year (CY) 2020 was limited due

[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.

to a 4.0% reduction in withholding rates effective January 2020 and through May. The more recent reduction was due to a 4.0% reduction in income tax rates for nonbusiness income enacted by H.B. 166 (the budget act for the biennium). OBM revenue estimates for FY 2020 incorporated the fiscal impact of this rate reduction for the January to June period.

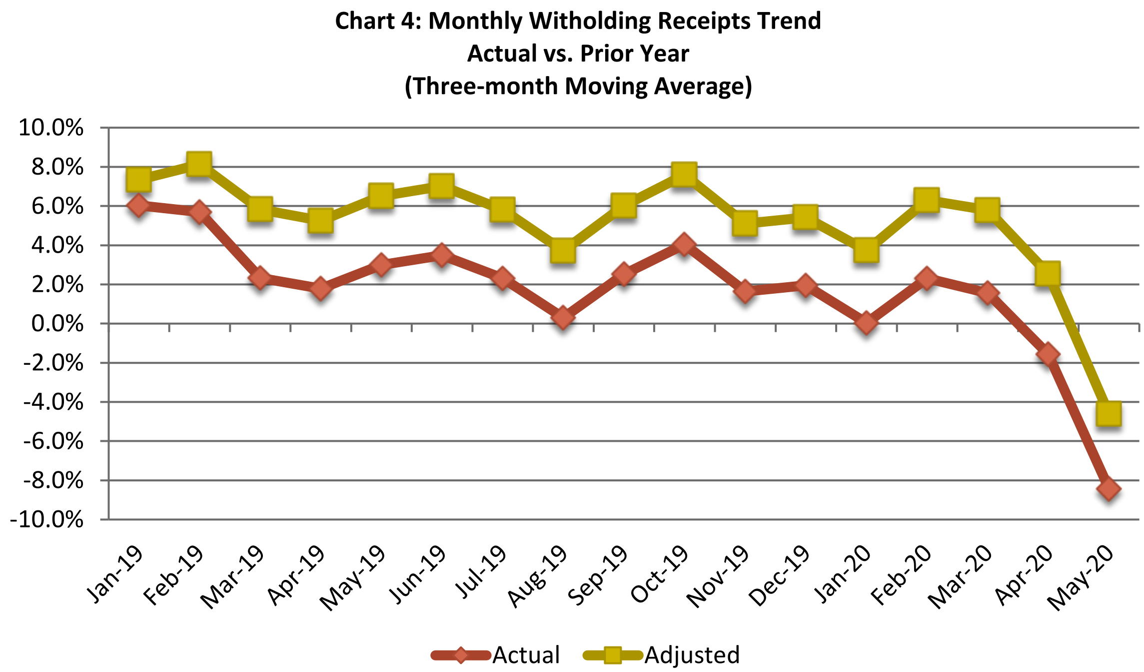
For the YTD, revenues from each component of the PIT relative to estimates and revenue received in FY 2019 are detailed in the table below. Gross collections were $943.4 million below projections, largely due to a negative variance of $717.6 million for payments due with annual returns. Employer withholding, quarterly estimated payments, and trust payments also fell by $131.0 million, $66.9 million, and $24.4 million below their respective estimates. Reducing the negative variance of gross collections, refunds were $160.7 million below estimate and LGF distributions were below expectation by $15.7 million, thus resulting in a lower YTD PIT shortfall in GRF revenue of $767.0 million.

Compared to gross collections in FY 2019 through May, payments due with annual returns and employer withholding were reduced by $760.4 million and $90.4 million, respectively. In addition, quarterly estimated payments and payments with trust returns were below last year's payments by $44.3 million and $36.3 million. Overall, YTD gross collections through May were $933.2 million below YTD collections in FY 2019. LGF distributions were $5.4 million above those in the corresponding period in FY 2019, but YTD refunds were, by a comparable amount, below FY 2019 refunds. 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.

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	-$131.0	-1.5%	-$90.4	-1.1%
Quarterly Estimated Payments	-$66.9	-9.4%	-$44.3	-6.4%
Trust Payments	-$24.4	-33.8%	-$36.3	-43.1%
Annual Return Payments	-$717.6	-66.7%	-$760.4	-68.0%
Miscellaneous Payments	-$3.5	-4.2%	-$1.7	-2.0%
Gross Collections	-$943.4	-9.0%	-$933.2	-8.9%
Less Refunds	-$160.7	-7.5%	-$5.4	-0.3%
Less LGF Distribution	-$15.7	-4.1%	$5.4	1.5%
GRF PIT Revenue	-$767.0	-9.7%	-$933.1	-11.6%

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 decreases in withholding tax rates. Payrolls are estimated to have fallen about 4.6%, on average, in the last three months.



Commercial Activity Tax

The last FY 2020 CAT payment from quarterly taxpayers (based on taxable receipts for the January to March quarter) due on May 11 provided $332.4 million. This amount was $11.1 million (3.2%) below estimate, and $7.2 million (2.1%) below GRF CAT revenue in May 2019. Though the CAT experienced a deficit in May, the first full impact of the economic downdraft from the COVID-19 pandemic will be felt with the next payment by quarterly taxpayers in August 2020. That payment will be based on taxable gross receipts from April to June 2020.

The monthly CAT performance reduced the YTD positive variance of this tax source to $20.2 million (1.2%), down from $31.3 million through April 2020. With one month left in FY 2020, the CAT is likely to finish the year in positive territory (June estimated receipts are $5.6 million). YTD revenue from the CAT to the GRF totaling $1.65 billion was $42.2 million (2.6%) above revenue through May in FY 2019. The increase in GRF revenue in FY 2020 has been driven throughout the fiscal year, in part, by a decline in tax credits and refunds claimed against the CAT.[7] Compared to FY 2019, gross collections were higher by about 1.2%, but refunds and credits were 17.2% below their levels through May in FY 2019, resulting in a higher growth rate for the GRF.

[7] 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.

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%). The distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are transferred back to the GRF. On the other hand, if CAT revenue is insufficient for the required payments, the GRF would subsidize the local funds.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of May 2020
($ in thousands)
(Actual based on OAKS reports run June 8, 2020)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$487,400	$583,180	-$95,780	-16.4%
Higher Education	$161,032	$206,291	-$45,258	-21.9%
Other Education	$5,192	$5,199	-$7	-0.1%
Total Education	**$653,624**	**$794,669**	**-$141,045**	**-17.7%**
Medicaid	$1,437,081	$1,171,100	$265,980	22.7%
Health and Human Services	$117,218	$72,044	$45,174	62.7%
Total Health and Human Services	**$1,554,298**	**$1,243,144**	**$311,155**	**25.0%**
Justice and Public Protection	$220,698	$220,903	-$206	-0.1%
General Government	$38,822	$50,203	-$11,381	-22.7%
Total Government Operations	**$259,520**	**$271,107**	**-$11,587**	**-4.3%**
Property Tax Reimbursements	$466,429	$398,306	$68,123	17.1%
Debt Service	$17,933	$17,935	-$2	0.0%
Total Other Expenditures	**$484,362**	**$416,241**	**$68,121**	**16.4%**
Total Program Expenditures	**$2,951,804**	**$2,725,161**	**$226,643**	**8.3%**
Transfers Out	**$0**	**$0**	**$0**	**---**
Total GRF Uses	**$2,951,804**	**$2,725,161**	**$226,643**	**8.3%**

*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 May 31, 2020
($ in thousands)
(Actual based on OAKS reports run June 8, 2020)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$7,455,195	$7,651,360	-$196,165	-2.6%	$7,517,902	-0.8%
Higher Education	$2,138,510	$2,213,914	-$75,404	-3.4%	$2,112,422	1.2%
Other Education	$79,938	$77,353	$2,585	3.3%	$67,290	18.8%
Total Education	**$9,673,643**	**$9,942,627**	**-$268,984**	**-2.7%**	**$9,697,614**	**-0.2%**
Medicaid	$14,428,663	$14,046,254	$382,409	2.7%	$13,846,168	4.2%
Health and Human Services	$1,301,901	$1,373,681	-$71,780	-5.2%	$1,216,884	7.0%
Total Health and Human Services	**$15,730,564**	**$15,419,935**	**$310,629**	**2.0%**	**$15,063,053**	**4.4%**
Justice and Public Protection	$2,273,209	$2,317,568	-$44,359	-1.9%	$2,061,574	10.3%
General Government	$424,782	$488,848	-$64,066	-13.1%	$366,337	16.0%
Total Government Operations	**$2,697,991**	**$2,806,416**	**-$108,425**	**-3.9%**	**$2,427,911**	**11.1%**
Property Tax Reimbursements	$1,774,351	$1,806,732	-$32,381	-1.8%	$1,750,625	1.4%
Debt Service	$1,375,978	$1,386,164	-$10,186	-0.7%	$1,369,314	0.5%
Total Other Expenditures	**$3,150,329**	**$3,192,896**	**-$42,567**	**-1.3%**	**$3,119,940**	**1.0%**
Total Program Expenditures	**$31,252,526**	**$31,361,873**	**-$109,347**	**-0.3%**	**$30,308,518**	**3.1%**
Transfers Out	**$668,161**	**$669,975**	**-$1,814**	**-0.3%**	**$764,217**	**-12.6%**
Total GRF Uses	**$31,920,686**	**$32,031,848**	**-$111,162**	**-0.3%**	**$31,072,735**	**2.7%**

*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 June 5, 2020)

	Month of May 2020				Year to Date through May 2020			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,368,774	$1,102,779	$265,995	24.1%	$13,692,282	$13,314,247	$378,035	2.8%
Non-GRF	$660,022	$1,037,950	-$377,929	-36.4%	$8,972,092	$9,491,554	-$519,462	-5.5%
All Funds	$2,028,796	$2,140,729	-$111,933	-5.2%	$22,664,374	$22,805,801	-$141,426	-0.6%
Developmental Disabilities								
GRF	$60,546	$58,018	$2,528	4.4%	$636,583	$633,011	$3,572	0.6%
Non-GRF	$161,753	$190,864	-$29,111	-15.3%	$2,224,620	$2,293,031	-$68,410	-3.0%
All Funds	$222,299	$248,882	-$26,583	-10.7%	$2,861,204	$2,926,042	-$64,838	-2.2%
Job and Family Services								
GRF	$6,781	$9,253	-$2,472	-26.7%	$90,165	$88,990	$1,175	1.3%
Non-GRF	$19,166	$22,560	-$3,394	-15.0%	$174,965	$178,280	-$3,315	-1.9%
All Funds	$25,947	$31,812	-$5,866	-18.4%	$265,130	$267,270	-$2,140	-0.8%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$980	$1,051	-$71	-6.8%	$9,632	$10,006	-$374	-3.7%
Non-GRF	$1,829	$4,267	-$2,438	-57.1%	$38,477	$41,096	-$2,619	-6.4%
All Funds	$2,809	$5,318	-$2,509	-47.2%	$48,109	$51,102	-$2,993	-5.9%
All Departments:								
GRF	**$1,437,081**	**$1,171,100**	**$265,980**	**22.7%**	**$14,428,663**	**$14,046,254**	**$382,409**	**2.7%**
Non-GRF	**$842,769**	**$1,255,641**	**-$412,872**	**-32.9%**	**$11,410,154**	**$12,003,960**	**-$593,806**	**-4.9%**
All Funds	**$2,279,850**	**$2,426,741**	**-$146,891**	**-6.1%**	**$25,838,817**	**$26,050,215**	**-$211,398**	**-0.8%**

*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 June 5, 2020)

	Month of May 2020				Year to Date through May 2020			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,532,279**	**$1,627,518**	**-$95,239**	**-5.9%**	**$16,449,796**	**$16,356,243**	**$93,553**	**0.6%**
CFC†	$597,788	$546,988	$50,799	9.3%	$5,846,662	$5,694,413	$152,249	2.7%
Group VIII	$515,914	$416,366	$99,548	23.9%	$4,544,422	$4,249,121	$295,301	6.9%
ABD†	$130,621	$269,931	-$139,310	-51.6%	$2,555,274	$2,763,373	-$208,099	-7.5%
ABD Kids	$82,478	$85,299	-$2,821	-3.3%	$879,694	$885,702	-$6,008	-0.7%
My Care	$205,479	$232,969	-$27,490	-11.8%	$2,417,623	$2,483,185	-$65,563	-2.6%
P4P†	$0	$75,966	-$75,966	-100.0%	$206,121	$280,448	-$74,327	-26.5%
Fee-For-Service	**$558,577**	**$589,890**	**-$31,313**	**-5.3%**	**$7,477,566**	**$7,632,751**	**-$155,185**	**-2.0%**
ODM Services	$341,866	$356,685	-$14,819	-4.2%	$3,900,453	$3,989,482	-$89,028	-2.2%
DDD Services	$216,710	$233,204	-$16,494	-7.1%	$2,773,628	$2,829,170	-$55,543	-2.0%
Hospital - HCAP†	$0	$0	$0	---	$659,697	$669,444	-$9,747	-1.5%
Hospital - Other	$0	$0	$0	---	$143,788	$144,655	-$867	-0.6%
Premium Assistance	**$100,530**	**$100,752**	**-$222**	**-0.2%**	**$1,036,640**	**$1,059,995**	**-$23,355**	**-2.2%**
Medicare Buy-In	$58,742	$57,926	$816	1.4%	$601,502	$612,270	-$10,769	-1.8%
Medicare Part D	$41,789	$42,826	-$1,038	-2.4%	$435,138	$447,725	-$12,587	-2.8%
Administration	**$88,463**	**$108,581**	**-$20,118**	**-18.5%**	**$874,815**	**$1,001,226**	**-$126,410**	**-12.6%**
Total	**$2,279,850**	**$2,426,741**	**-$146,891**	**-6.1%**	**$25,838,817**	**$26,050,215**	**-$211,398**	**-0.8%**

*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[8]

– *Melaney Carter, Director*

– *Ivy Chen, Principal Economist*

Overview

On May 7, the Governor signed an executive order requiring GRF expenditure reductions of $775.0 million for FY 2020 as part of an effort to balance the budget in the wake of decreased revenues as a result of the COVID-19 pandemic. These reductions were discussed in last month's *Budget Footnotes*. Although some of these reductions began to be implemented in May, GRF uses in May were $226.6 million (8.3%) above estimate. This positive variance reduced the negative YTD variance to $111.2 million (0.3%) at the end of May. The total for YTD uses at the end of May was $31.92 billion, consisting of $31.25 billion in program expenditures and $668.2 million in transfers out. YTD variances in GRF uses compared to estimates are shown in the preceding Table 4. The preceding Table 3 shows GRF uses compared to estimates for the month of May.

Medicaid's GRF expenditures were above estimate by $266.0 million for the month of May, increasing Medicaid's YTD positive GRF variance to $382.4 million (2.7%) at the end of May. The section below gives more details about Medicaid GRF and non-GRF variances.

Property Tax Reimbursements and Health and Human Services also had positive monthly variances in May of $68.1 million and $45.2 million, respectively. These positive variances, however, only partially offset the negative YTD variances in these categories at the end of April. The two categories had negative YTD variances of $32.4 million (1.8%) and $71.8 million (5.2%), respectively, at the end of May.

Primary and Secondary Education had the largest negative monthly and YTD variances at $95.8 million and $196.2 million (2.6%), respectively. The second largest negative monthly and YTD variances were in Higher Education at $45.3 million and $75.4 million (3.4%), respectively. Finally, the third largest negative monthly variance was in General Government at $11.4 million, increasing this category's negative YTD variance to $64.1 million (13.1%).

These variances are discussed below.

Medicaid

GRF Medicaid expenditures were above their monthly estimate in May by $266.0 million (22.7%), which increased the YTD variance in GRF Medicaid expenditures to $382.4 million (2.7%) above estimate. Non-GRF Medicaid expenditures were below their monthly estimate, by $412.9 million (32.9%), and remained below their YTD estimate by $593.8 million (4.9%). Including both the GRF and non-GRF, all funds Medicaid expenditures were $146.9 million (6.1%) below estimate in May, and $211.4 million (0.8%) below their YTD estimate at the end of May. The impact of the COVID-19 pandemic began to show in March and April's Medicaid caseloads,

[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.

and the impacts continue to show in May's report. Medicaid experienced a total enrollment increase of nearly 20,000 in March. In April, this trend continued, with a total caseload increase of more than 75,000 cases. May's figures show a continuation of this trend, with a caseload increase of more than 67,000 cases. These May caseload figures were above the budget estimate by 4.8% (135,678 cases). March, April, and May's caseload increases reversed the trend of the initial eight months of the fiscal year, which had all seen caseloads below budget estimate. For YTD average caseloads, total Medicaid enrollment is now above estimate, by 0.2% (6,560 cases).

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 99.0% 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 May of $111.9 million (5.2%), which kept YTD expenditures below estimate, with a $141.4 million (0.6%) negative variance. May's below estimate expenditures increased the magnitude of the YTD negative variance, which was $29.5 million (0.1%) below estimate at the end of April.

ODODD had an all funds negative variance ($26.6 million) in May which increased the magnitude of ODODD's negative YTD variance from $38.3 million (1.4%) at the end of April to $64.8 million (2.2%) at the end of May. 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 1.0% of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending. ODJFS had a $5.9 million (18.4%) negative variance in May, which brought its YTD variance below estimate, with a $2.1 million (0.8%) negative variance. Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for three of the four payment categories. Managed Care expenditures were above their YTD estimate by $93.6 million (0.6%). Fee-For-Service (FFS, $155.2 million, 2.0%) had the largest overall negative variance, followed by Administration ($126.4 million, 12.6%), and Premium Assistance ($23.4 million, 2.2%).

The YTD negative variance in Premium Assistance is driven partly by lower than expected retroactive enrollment in Medicare Part D, a trend which ODM confirms has persisted for most of FY 2020. Part D expenditures have included lower than projected premiums as well, throughout most of FY 2020. The month of April experienced Medicare Buy-In expenditures 4.5% ($2.6 million) below estimate, due to a March accounting issue, and subsequent April adjustment which caused the Medicare Buy-In to be below projection. In May, expenditures stabilized, and were 1.4% ($820,000) above estimate, bringing the YTD negative variance for Medicare Buy-In to 1.8% ($10.8 million) under budget.

The negative variance in FFS in May might be driven by delays in nonessential care, which was postponed or canceled due to ongoing effects of the COVID-19 pandemic. While total Managed Care expenditures for May were below estimate by $95.2 million (5.9%), Managed Care expenditures for the Covered Families and Children (CFC) and Group VIII populations were above their monthly estimates, by $50.8 million (9.3%) and $99.5 million (23.9%), respectively. These variances added to positive YTD variances of $152.2 million (2.7%) for CFC and $295.3 million (6.9%) for Group VIII. These two figures create the YTD positive variance in total Managed Care expenditures. Higher expenditures in May for the CFC and Group VIII populations may be driven by the caseload increases in these populations. Through FY 2020, the largest factors which have contributed to the positive YTD variance in total Managed Care have been positive monthly variances in the CFC and Group VIII categories. All other Managed Care payment categories were below estimate both for the month of May and for their YTD totals.

The positive variances for Group VIII expenditures have been influenced by higher than expected caseloads. For the first nine months of FY 2020, monthly Managed Care caseloads for Group VIII were above estimate, but by less than 1.7% on average. In April, increased caseloads caused by the COVID-19 economic decline caused Managed Care caseloads for Group VIII to increase to 10.2% (56,482 cases) above estimate, and in May, caseloads were 13.3% (73,984 cases) above estimate, which brought the average monthly caseloads to 3.5% (19,520 cases) above estimate for the first 11 months of FY 2020.

According to May 11, 2020, information from OBM, ODM is expected to reduce its FY 2020 GRF budget by nearly $212 million, with a $200 million cut to item 651525, Medicaid/Health Care Services, and a cut of just under $12 million to item 651425, Medicaid Program Support – State. OBM has also confirmed in a May 6, 2020, press release that ODM will make a cut of $9.1 million to their FY 2020 non-GRF budget.

Property Tax Reimbursements

In May, the negative YTD variance in Property Tax Reimbursements was reduced from $100.5 million (7.1%) at the end of April to $32.4 million (1.8%) at the end of May. Property tax reimbursement funds are disbursed upon the request of county auditors. The timing of these requests typically varies from that assumed in the OBM estimate. The narrowing of the negative YTD variance in this category was expected.

Health and Human Services

After a large negative variance in April ($74.5 million), the Health and Human Services category had a positive variance in May of $45.2 million, bringing its negative YTD variance to $71.8 million (5.2%).

The Ohio Department of Mental Health and Addiction Services (ODMHAS) had a positive variance of $27.6 million for the month of May, decreasing its negative YTD variance to $10.4 million. Over half of the monthly and YTD variances were due to item 336421, Continuum of Care Services, which had a positive variance of $14.1 million in May and a negative variance of $7.6 million YTD. Item 336421 is used to distribute funds to local boards of mental health and alcohol, drug, and gambling addiction services to meet locally determined needs. ODMHAS also had a positive May variance of $9.7 million in item 336412, Hospital Services, which increased this item's positive YTD variance to $14.3 million. This item is used to fund the operations of ODMHAS's six state hospitals.

ODJFS had a positive variance of $19.9 million in May that reduced this agency's negative YTD variance at the end of May to $40.4 million. Item 600413, Child Care State/Maintenance of Effort, had the largest positive variance in May of $15.2 million followed by item 600523, Family and Children Services, with a positive variance in May of $10.7 million. Item 600413's positive May variance pushed its YTD variance into positive territory ($9.2 million), but item 600523 maintained a negative YTD variance ($12.3 million).

Primary and Secondary Education

The Primary and Secondary Education category had a negative variance for the month of May of $95.8 million, which increased this category's negative YTD variance to $196.2 million (2.6%). This category only includes the Ohio Department of Education (ODE). The negative variance in May was mainly due to a negative variance in item 200550, Foundation Funding, of $108.3 million, which brought this item's YTD negative variance to $144.5 million. Item 200550 provides the main funding for the state's foundation aid to public schools. As reported in the prior issue of *Budget Footnotes*, the executive reduced FY 2020 expenditures for this item by $300.5 million.[9] This reduction was reflected in the second of the two payments made in May and will continue to be reflected in the last two payments of the fiscal year in June.

Item 200478, Industry-Recognized Credentials High School Students, also had a negative variance in May ($4.5 million). OBM's estimates for this item consist of only this one $4.5 million payment in May. This funding is to provide start-up funds to public schools to establish credentialing programs for the new Innovative Workforce Incentive Program. This funding has been delayed.

Offsetting these negative May variances, item 200532, Nonpublic Administrative Cost Reimbursement, had a positive variance for the month of $16.0 million, partially offsetting the negative variance in this item of $23.3 million in April and resulting in a negative YTD variance of $7.8 million. Item 200532 is used to reimburse nonpublic schools chartered by the state for certain administrative activities required to maintain their charter.

Higher Education

The Higher Education category increased its negative YTD variance in May by $45.3 million, resulting in a negative YTD variance of $75.4 million (3.4%). The largest monthly and YTD variances were in item 235501, State Share of Instruction, with a variance for both the month and YTD of $38.4 million. This item is used to distribute the state's main contribution to its public higher education institutions. Generally, there are not variances in this item, since the appropriation is paid out consistently over the fiscal year. However, the executive budget reductions for FY 2020 include a reduction of $76.7 million for this item.[10] The other half of this reduction will be reflected in June.

Most other line items in this category were also under estimate for the YTD. These items include 235438, Choose Ohio First Scholarship ($13.2 million), 235563, Ohio College Opportunity Grant ($12.4 million), and 235599, National Guard Scholarship ($6.5 million).

General Government

The General Government category had a negative YTD variance of $64.1 million (13.1%) at the end of May, and a negative variance of $11.4 million for the month of May. The May

[9] Note that the federal CARES Act provides $440.3 million in additional funding to be distributed to Ohio's public schools through September 30, 2022. More information about this funding can be found on page 25 of the May issue of *Budget Footnotes*.

[10] Note that the federal CARES Act provides $269.1 million in funding for Ohio's public institutions of higher education. More information about this funding can be found on page 26 of the May issue of *Budget Footnotes*.

variance was largely the result of a negative monthly variance of $5.4 million in item 775470, Public Transportation – State, in the Ohio Department of Transportation (ODOT) budget. This negative variance increased this item's negative YTD variance to $19.0 million. Item 700417, Soil and Water Phosphorus Program, in the Department of Agriculture budget, continued to have a negative YTD variance of $15.0 million due to the delay of the start of this program. The third highest negative YTD variance in this category is $4.8 million in item 195556, TechCred Program, in the Development Services Agency (DSA) budget. The TechCred Program is a new workforce development program that receives funding from the Ohio Incumbent Workforce Training Fund (Fund 5HR0) as well as the GRF.

Issue Updates

Development Services Agency Receives $10.6 million in CARES Act Funding for Small Business Assistance Programs

– Tom Middleton, Senior Budget Analyst

On May 11, 2020, the Controlling Board approved a request by DSA to use approximately $10.6 million in increased federal funding received under the CARES Act for FY 2020. These moneys will supplement three existing DSA programs: the Small Business Development Center (SBDC) Program, the Ohio Manufacturing Extension Partnership (MEP), and the Procurement Technical Assistance Center (PTAC) Program. These programs are funded primarily from federal sources that aim to assist small businesses and entrepreneurship.

Of the $10.6 million, $6.7 million will support the SBDC Program which offers management counseling, training, and technical assistance to small businesses and entrepreneurs at 28 SBDCs located around the state. The additional funds are to be distributed by formula proportional to the current grant funds received by each SBDC. The CARES Act funding brings total funding for the SBDC Program to just under $12.0 million for FY 2020. Federal funding comes primarily from the U.S. Small Business Administration.

MEP will receive $3.8 million of the CARES Act allocation to DSA. This program is primarily funded through the U.S. Department of Commerce, offering technical assistance and services to improve the competitiveness of small- and medium-sized manufacturing firms to accelerate new manufacturing technology and work processes. DSA distributes Ohio's MEP funding to six regional partners across the state: (1) CIFT (Northwest), (2) Columbus State Community College (Central), (3) FASTLANE (West), (4) MAGNET (Northeast), (5) OSU-South Centers (Southeast), and (6) TechSolve (Southwest). The supplementary funding provided under the CARES Act brings the total appropriated for MEP to approximately $10.3 million in FY 2020.

Finally, DSA will use $116,277 of CARES Act funding to provide additional help to small businesses competing for federal, state, and local contracts under the PTAC Program. There are eight PTACs in Ohio. With the additional CARES Act funding, a total of just over $866,000 in FY 2020 will be available for small businesses participating in the PTAC Program.

Mainstream Voucher Program Receives $1.85 million in Additional Funds

– Nelson V. Lindgren, Economist

In early May 2020, the U.S. Department of Housing and Urban Development (HUD) awarded 24 Ohio cities a total of $1.85 million in increased funding for the Mainstream Voucher Program. These funds will be granted to public housing authorities in these cities and used to provide housing assistance to non-elderly individuals with disabilities. The program's focus is on individuals who are at-risk of institutionalization or are transitioning out of institutional settings, as well as individuals who are, or are at-risk of, experiencing homelessness. The program aims to further the goals of the Americans with Disabilities Act (ADA) by helping persons with disabilities live in integrated settings. It also encourages partnerships with health and human service agencies to coordinate services and supports to enable individuals to live independently in the community. The funding amounts range from $15,131 to $256,324. The list of award amounts for each housing authority can be accessed on ODODD's web site: dodd.ohio.gov.

Ohio housing authorities originally received $3.9 million for the Mainstream Voucher Program in November 2019. The increased funding referenced above was authorized by the CARES Act, which was signed into law on March 27, 2020. The funds are intended to help ameliorate increased demand for public housing programs created by the COVID-19 pandemic's economic fallout.

Secretary of State to Award $13.7 million in Cybersecurity Grants to County Boards of Elections

– Terry Steele, Senior Budget Analyst

On April 27, 2020, the Controlling Board approved a request by the Secretary of State (SOS) to spend the additional $13.7 million in federal funding awarded to Ohio in January by the Elections Assistance Commission (EAC) under the Help America Vote Act (HAVA). These grants are required to be used to improve the administration of elections for federal office, primarily through enhancing election technology and making security improvements to the systems, equipment, and processes used in federal elections. The SOS intends to use this funding to issue grants to county boards of elections for cybersecurity, physical security, and ADA compliance upgrades. More specifically, these grants will continue existing cybersecurity monitoring and alerting programs in cooperation with county boards of elections, provide additional IT support to county boards of elections that do not have dedicated IT staff, and further enhance the SOS's ongoing cybersecurity program.

The election security grant requires a 20% state match, or slightly more than $2.7 million. This match comes from a combination of state funding provided from the Absent Voter's Ballot Application Mailing Fund (Fund 5RG0) to conduct the April 2020 primary election under H.B. 197, as well as Business Services Fund (Fund 5990) money appropriated to the SOS for elections administration under H.B. 166.

CMS Approves Ohio's Medicaid Waivers Related to COVID-19

– Nelson V. Lindgren, Economist

On April 22, 2020, the U.S. Centers for Medicare and Medicaid Services (CMS) approved Ohio's Section 1135 Medicaid Waiver request, which was submitted by the Ohio Department of Medicaid on April 15. ODM and other state Medicaid agencies sought these waivers to improve access to care and ease administrative requirements related to the COVID-19 pandemic. Ohio's waiver request seeks flexibility to do the following: (1) increase the use of telehealth and other technology, (2) waive signature requirements for many providers to encourage safe distancing, (3) ease obstacles to access nursing home care, (4) allow services to be provided at alternative locations, and (5) remove staffing-level requirements for providers. The waiver approval begins on the effective date of the declared emergency and will be retroactively effective as of March 1 2020. Approval ends on the termination of the emergency period or 60 days from the date the waiver is granted, unless extended by CMS.

Section 1135 waivers allow CMS to waive various requirements to increase access to medical services during a time of national emergency. There are two instances in which such a waiver may be approved: the president declares a disaster or emergency or the U.S. Health and Human Services Secretary declares a public health emergency. Approvals only apply to federal requirements not to state licensure or conditions of participation. Waivers ensure that providers can receive reimbursements for services rendered even if they are unable to comply with requirements that would normally prohibit Medicaid payments.

ODE Receives $3.25 million Federal Grant to Expand Educational Data Systems

– Nick Ciolli, Budget Analyst

In March 2020, ODE announced that it was awarded a five-year, $3.25 million grant from the U.S. Department of Education under the Statewide Longitudinal Data Systems (SLDS) Grant Program. The grant will support expansion of the state's educational data system through a project called "Using Data for Equity: Empowering Educators with Information, Tools and Training to Support Each Child in Achieving their Goals." The project has four core goals:

1. Create a system to link preK-12 and workforce data to improve the state's understanding of postsecondary outcomes.
2. Enhance the state's Equitable Access Analysis Tool to improve school district and schools' access to information about educator equity gaps. The enhancements include additional data and increased functionality and usability through a web-based, interactive platform, the goal of which is to increase student access to high-quality educators.
3. Create reports to identify students at risk of not graduating. New Early Warning System and Progress Toward Graduation reports will be accessible to districts and schools to improve the information educators have available to them in providing at-risk students with additional support.
4. Train educators on how to use the data resources available to them to improve education outcomes.

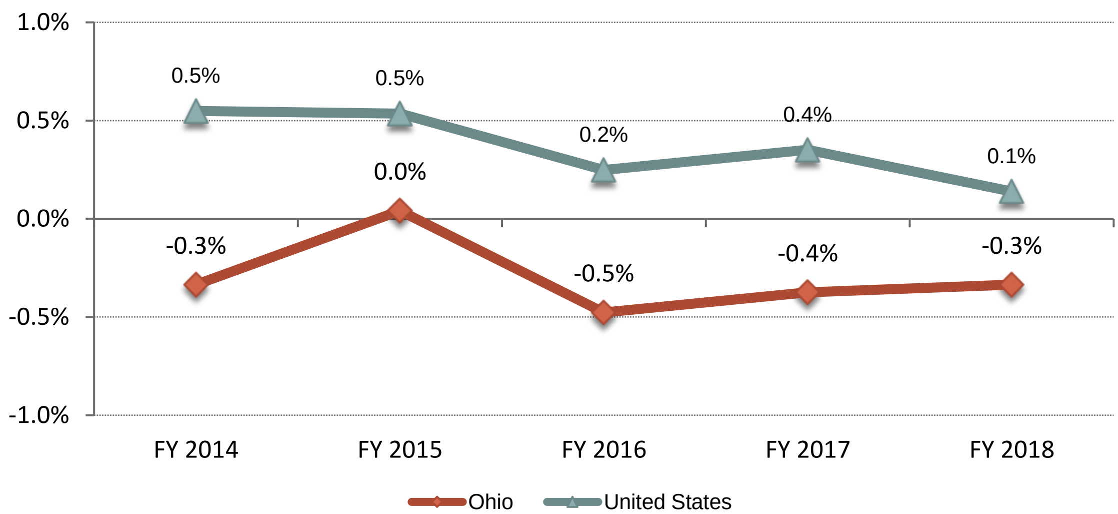
The grant, which will run through February of FY 2024, will be spent out of Fund 3HF0 appropriation line item 200649, Federal Education Grants. Roughly $800,000 of the grant will be available to spend each fiscal year. This is the fourth SLDS grant that ODE has received since 2006 and the first new award since 2010. The most recent SLDS grant ran through FY 2015.

Data Released Comparing Ohio's Public School Enrollment Growth Rate with the Nation's

– Alexander Moon, Economist

The National Center for Education Statistics (NCES) published the most recent edition of *The Condition of Education* in May.[11] This report includes data that show that the rate of decline in Ohio public school enrollment has eased slightly in recent years while the national rate of growth continues to slow. As shown in the chart below, Ohio public school enrollment fell by 0.3% in FY 2018 (the most recent year for which federal data were available), slightly smaller than the 0.4% and 0.5% declines in FY 2016 and FY 2017, respectively, following a very small positive rate of growth in FY 2015. In contrast, public school enrollment growth nationally has been positive but generally trending downward, slowing to 0.1% in FY 2018, after 0.4% and 0.2% increases the prior two years. Over the past five years, public school enrollment has grown by an average of 0.4% nationally.

Chart 5: Public School Enrollment Growth Rates, Ohio vs. United States, FY 2014-FY 2018



Ohio's average annual growth rate over the past five years was -0.3%, ranking 41st in the nation (see table below). This rate is on par with the average for Ohio's surrounding states and somewhat lower than the Midwest region as a whole (-0.1%). Compared to surrounding states, Ohio's public school enrollment growth rate was lower than Indiana (the only neighbor with a positive average growth rate) and Kentucky but higher than Pennsylvania, Michigan, and West Virginia.

[11] The full NCES report, which summarizes actual enrollment between FY 2001 and FY 2018 and projections through FY 2030 along with a host of other education-related data, is available online at: https://nces.ed.gov/pubs2020/2020144.pdf. The NCES is the primary federal entity for collecting, analyzing, and reporting data related to education in the U.S. and other nations.

Average Annual Public School Enrollment Growth Rates, FY 2014–FY 2018		
State	**Average Growth Rate**	**National Rank**
Indiana	0.2%	28
Kentucky	-0.1%	38
Ohio	**-0.3%**	**41**
Pennsylvania	-0.4%	43
Michigan	-0.5%	45
West Virginia	-0.8%	50
Surrounding States Average	**-0.3%**	
Midwest Region Average	**-0.1%**	

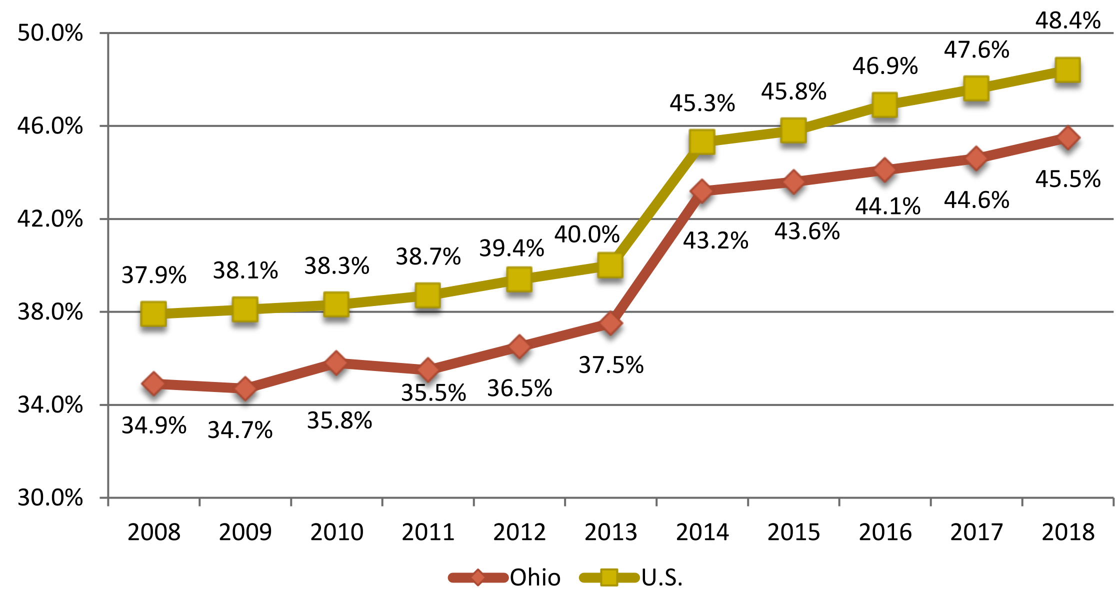
Postsecondary Degree or Certificate Attainment Increased to 45.5% in Ohio in 2018

– Jason Glover, Budget Analyst

Ohio's overall rate of college degree or certificate attainment increased by nearly one percentage point, from 44.6% in 2017 to 45.5% in 2018, according to the latest figures compiled by the Lumina Foundation. The chart below plots Ohio's progress toward achieving its goal of 65% of Ohioans ages 25 to 64 having a degree, certificate, or other postsecondary credential of value in the marketplace by 2025.[12] While Ohio's attainment rate has steadily increased since 2008, the 45.5% attainment rate in 2018 was still nearly three percentage points below the national average of 48.4%. The large percentage point increases in both Ohio's and the U.S.'s average attainment rates between 2013 and 2014 are due to the inclusion of workforce-relevant certificates in the total of postsecondary credentials beginning in 2014.

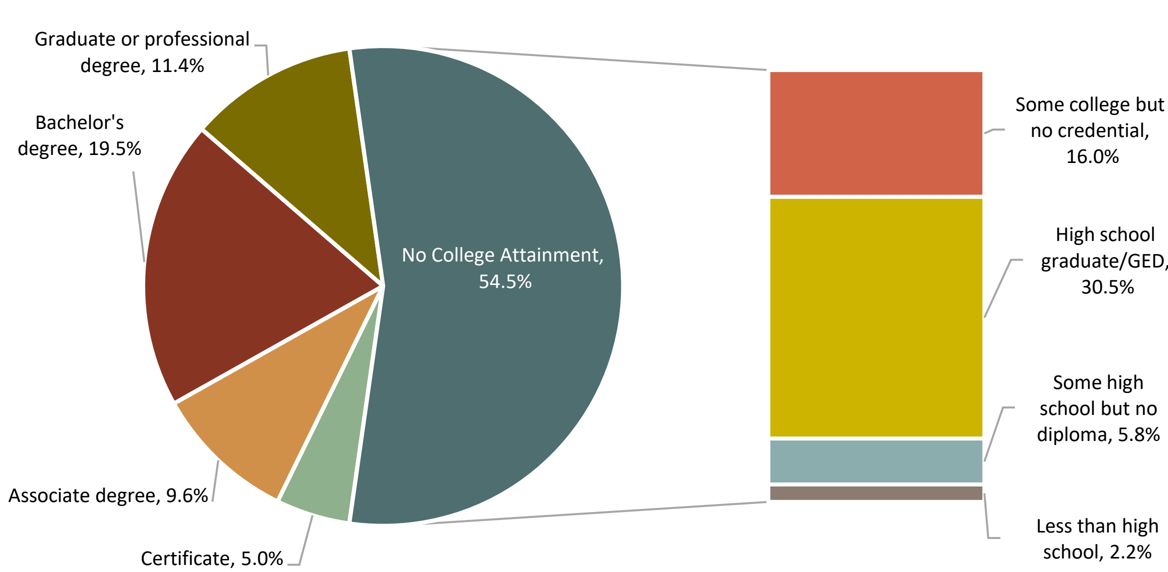
[12] Lumina's full report for Ohio can be viewed online at: https://luminafoundation.org/stronger-nation/report/2020/#state/OH.

Chart 6: Degree and Certificate Attainment Rates for Ohio and U.S.



The pie chart below illustrates the education levels of Ohio residents between the ages of 25 and 64. Overall, the most common credential among those completing some form of postsecondary education is a bachelor's degree (19.5%), followed by a graduate or professional degree (11.4%), associate's degree (9.6%), and high-quality certificate (5.0%). The remaining 54.5% of the population between ages 25 and 64 have not completed a postsecondary credential. However, 16.0% have some college experience.

Chart 7: Ohio Education Levels, Residents Ages 25 to 64, 2018



Educational attainment rates for Ohioans ages 25 to 64 earning at least an associate's degree vary widely by county (note that the Lumina Foundation's data does not estimate the number of residents with postsecondary certificates at the county level). Fourteen (16%) counties were above the state rate, excluding certificates, of 40.5%. Delaware County had the highest rate, at 65.2%. Holmes County had the lowest rate, at 12.7%.

Attorney General Issues 2019 Capital Crimes Report

– Jessica Murphy, Budget Analyst

On April 1, 2020, the Office of the Ohio Attorney General issued its annual report on capital crimes for 2019.[13] The report provides information on each aggravated murder case that resulted in a death sentence since 1981, the year that Ohio adopted its current death penalty statute replacing those ruled unconstitutional. Ohio has issued 340 death sentences in the 38 years covered in the report, seven of which occurred in 2019. Of these 340 death sentences, 21 were commuted, 56 executions were performed, 30 offenders died prior to execution, 8 offenders were found ineligible for the death penalty due to intellectual disability, and 81 sentences were removed based on judicial action. One case is pending resentencing.

As of December 31, 2019, 143 offenders were on death row. Cuyahoga and Hamilton counties accounted for the largest number of inmates on death row (21), followed by Franklin (13), Lucas (9), Trumbull (8), Butler and Summit (7), Montgomery and Stark (6), Mahoning (5), and Clark (4). Another 25 counties accounted for between one and three of the offenders on death row.

Under current Ohio law, the death penalty applies to the offense of aggravated murder when the offender also is convicted of one or more specifications of an aggravating circumstance or for the offense of terrorism when the most serious offense comprising terrorism is aggravated murder. A defendant must have been at least 18 at the time the crime was committed to be sentenced to death.

Lethal injection is the only method of execution used in Ohio. A single drug protocol requiring intravenous injection of a large dosage of sodium thiopental or pentobarbital was utilized from 2010 to 2013, at which point the manufacturers stopped selling those drugs to the state. The most recent execution, on July 18, 2018, utilized a three-drug protocol.[14] The use of that three-drug protocol for future executions is subject to current and continuing litigation.

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[13] https://www.ohioattorneygeneral.gov/2019CapitalCrimesReport.

[14] Three-drug protocol: Midazolam (sedative), paralytic drugs (prevents involuntary movement), and potassium chloride (stops the heart).

2020 Lake Erie Protection and Restoration Plan Released

– Jamie Doskocil, Fiscal Supervisor

In April 2020, the Ohio Lake Erie Commission approved and released its 2020 Lake Erie Protection and Restoration Plan (LEPR).[15] The LEPR reflects actions that the Commission and its member agencies will take over the next several years to protect, preserve, and restore Lake Erie and promote economic development for the region.[16] The state's actions complement federal and local partners' initiatives in the Lake Erie basin and across the region.

The Commission is required to publish a Lake Erie protection and restoration strategy that describes the goals of the Commission and prioritizes the uses of the Lake Erie protection fund and other funds. The plan was last published in 2016.

The 2020 plan has nine priority areas: (1) nutrient pollution reduction, (2) habitat and species, (3) invasive species, (4) dredge material management and maritime infrastructure, (5) areas of concern, (6) toxic pollutants, (7) beach and recreational use, (8) tourism, jobs, and economy, and (9) water withdrawals. Four primary funding mechanisms will be utilized: H2Ohio for Lake Erie (a state initiative), the Great Lakes Restoration Initiative (a federal initiative), partnerships with local and regional investments, and other state funding.

The report also noted the progress of work undertaken by member agencies and partners since the 2016 plan. The highlighted accomplishments include:

- Implementing the Sandusky Bay Initiative (initial project evaluation, design, and engineering for coastal restoration projects);
- $18 million to reduce, repair, and replace home sewage treatment systems in 27 counties of the Lake Erie Basin;
- $1 million for the Dredge Material Management Program through the Healthy Lake Erie Fund with eight beneficial use projects identified for implementation;
- Implementing through soil and water conservation districts the Ohio Working Lands Hay Buffer and Small Grains programs, components of the Soil and Water Phosphorus Program established in S.B. 299 of the 132nd General Assembly;
- Initiating projects to manage and prevent aquatic invasive species.

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[15] The final plan, as well as prior plans, can be located at: https://lakeerie.ohio.gov/LakeEriePlanning/LakeErieProtectionandRestorationStrategy.aspx.

[16] The Commission is comprised of the directors of six state agencies including the Ohio Environmental Protection Agency, and the departments of Natural Resources, Health, Agriculture, Transportation, and Development Services. There are five additional members appointed by the Governor and two board members of the Great Lakes Protection Fund who serve as ex-officio members.

Tracking the Economy

– Eric Makela, Economist

– Phil Cummins, Senior Economist

Overview

The national economy appeared to begin its recovery during May, as a gradual easing of COVID-19 restrictions allowed some businesses to reopen. According to the Bureau of Labor Statistics (BLS), payroll employment increased by a seasonally adjusted 2.5 million in May after falling 20.7 million in April and 1.4 million in March. The national unemployment rate decreased to 13.3% from a peak of 14.7% in April. Economic activity contracted at an annualized rate of 5.0% during the first quarter of 2020, according to the most recent data released by the Bureau of Economic Analysis (BEA). The Federal Reserve Board (FRB) reported the largest ever month-over-month decline in national industrial production in April, estimating a seasonally adjusted decrease in total output of 11.2%. A business cycle peak occurred in February and a recession began then, the National Bureau of Economic Research (NBER) determined. The NBER is widely recognized as the authority on the timing of U.S. business cycles. The expansion lasted 128 months, longest in history. On a quarterly basis, the peak was determined to have occurred in the fourth quarter of 2019.

During April, Ohio's total payroll employment decreased by a seasonally adjusted 14.9%, the largest monthly decline on record at the BLS. The number of unemployed Ohioans during April was estimated to be 957,400, larger than the March number by 622,900. However, initial unemployment claims during the week ended May 30 were about 34,600, significantly below the high of 274,300 during the last full week of March. In the last week of May, business activity continued to be hampered, with approximately 51% of Ohio's small businesses reporting a decrease in operating revenue from the prior week, according to the Small Business Pulse Survey, a temporary survey being conducted by the Census Bureau.

The National Economy

Nonfarm payroll employment rose by a seasonally adjusted 2,509,000 in May, while the national unemployment rate decreased by 1.4 percentage points to 13.3%. The leisure and hospitality industry, buoyed by the lifting of COVID-19 restrictions in various states, added 1,239,000 workers to their payrolls in May, seasonally adjusted. Payroll employment in construction (+464,000), education and health services (+424,000), retail trade (+367,800), and manufacturing (+225,000) also increased markedly during the month. Government employment decreased by 585,000 nationwide.[17]

The number of unemployed persons decreased by over 2 million, and was estimated to be approximately 20,985,000 in May. Despite the improvement in May, the unemployment rate and number of unemployed persons are up by 9.8 percentage points and 15,198,000, respectively, since February. The cohort of persons unemployed between five and 14 weeks, reflective of the timing of

[17] Decreases in employment were at all levels of government: federal (-14,000), state (-84,000), and local (-487,000). Most of the state and local declines were in education.

COVID-19 measures, accounts for about 70.8% of total unemployment. Chart 8 shows payroll employment in the U.S. and Ohio; Chart 9 shows the unemployment rate in the U.S. and Ohio.

Nationally, real GDP decreased at an annualized rate of 5.0% in the first quarter of 2020. During the quarter, large drops in personal consumption expenditures (PCE), nonresidential fixed investment, and inventories were only partially offset by increases in residential fixed investment and government spending. PCE for goods was approximately equal to the previous quarter, as spending for durable goods fell sharply while outlays rose for nondurables, particularly food and beverages purchased for off-premises consumption. PCE for services decreased by around 2.5% from the last quarter of 2019, equivalent to a 9.7% annual rate of decline, with declines in health care, food services and accommodations, recreation services, and transportation. Exports and imports fell for both goods and services. The rate of nonresidential fixed investment decreased by a seasonally adjusted 2.0% (a 7.9% annual rate) during the quarter, the fourth consecutive quarter of decline. The rate of residential fixed investment increased by 4.3% (18.5% annual rate).

According to the FRB's industrial production index (IPI), total industrial production decreased by a seasonally adjusted 11.2% in April, the largest national decline in its over 100 years of history. The decrease was attributable to the slowing or suspension of production due to the COVID-19 pandemic, according to an FRB press release. All major market groups posted declines in April, recording production levels 13% to 26% below that of a year prior.[18] Among major industry groups, utility companies (-0.9%) were least changed month-over-month, as cold weather boosted demand for natural gas. Manufacturing firms (-13.7%) were most affected; shutdowns of most motor vehicle assembly plants and sharply lower parts production led to a particularly acute 71.7% decline in that segment.

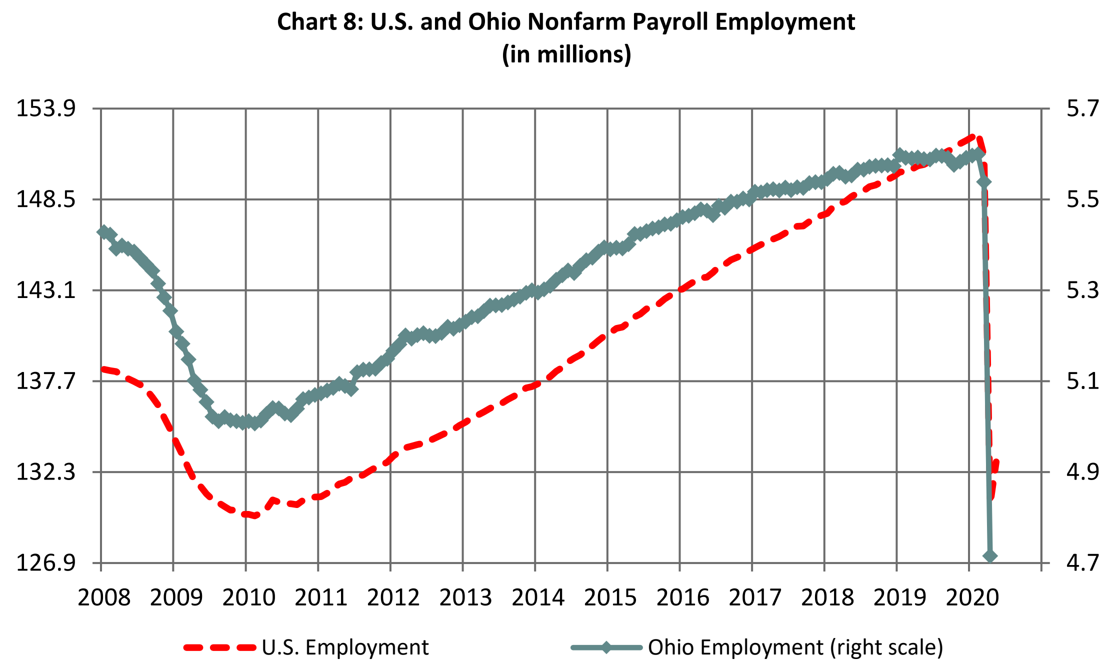
Manufacturing activity contracted in May at more firms nationally than it expanded, according to the Institute for Supply Management's (ISM's) purchasing managers index (PMI). Manufacturing new orders and production declined during the month, continuing a trend onset by the COVID-19 pandemic. ISM's prices index decreased in May, an indication of declining prices in the market for raw materials. A majority of respondents in most industries reported declines. Those in six industries reported growth: nonmetallic mineral products; furniture and related products; apparel, leather, and allied products; food, beverage, and tobacco products; paper products; and wood products.

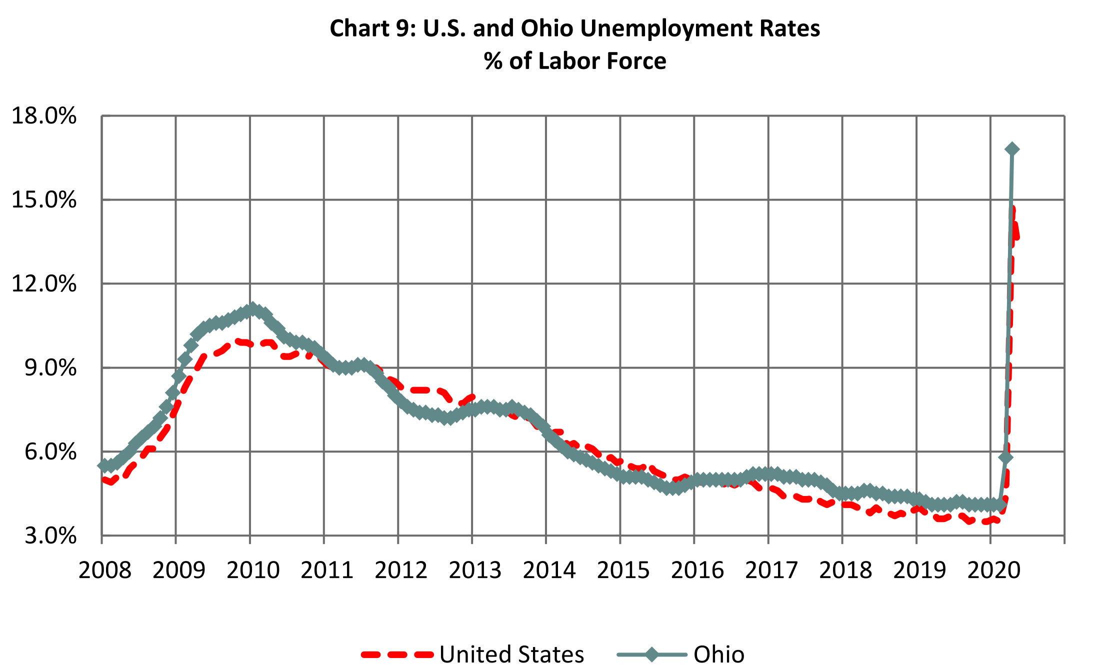
According to ISM's NMI, the institute's nonmanufacturing index, economic activity in the nonmanufacturing sector declined in May, after declining in April for the first time since 2009. Business activity/production and new orders both fell. A majority of survey participants in every nonmanufacturing industry surveyed reported a decrease in employment in April, and none reported increased employment in May.

After decreasing 32% in March and 23% in April, the seasonally adjusted number of light vehicle sales nationally recovered 40% in May. Business accounts for about half of the car and light truck market.

The seasonally adjusted number of private housing starts dropped in April, falling 30.2% from the number in March, after declining 18.6% in that month. The number of privately owned housing units started in April was 29.7% below that in April 2019.

[18] Major market groups include final products, nonindustrial supplies, and materials.





The Ohio Economy

In April, a total of 823,700 nonfarm payroll jobs were cut in Ohio, a decrease of 14.9% in total nonfarm payroll employment from the previous month. The number of workers declined during the month in leisure and hospitality (-263,500), trade, transportation, and utilities (-115,900), professional and business services (-101,000), education and health services (-99,900), manufacturing (-96,300), and construction (-39,400). Payroll employment also decreased during April in local government (-36,400) and state government (-5,600).

Ohio's unemployment rate increased from 5.8% in March to 16.8% in April. The number of unemployed Ohioans grew by approximately 622,900 from March to April; around 957,400 persons were estimated to be unemployed during the month. The number of labor market participants in Ohio decreased by 75,000 in April, indicating that most recently unemployed workers remained in the labor market. Chart 8 shows payroll employment in the U.S. and Ohio; Chart 9 shows the unemployment rate in the U.S. and Ohio.

According to the Department of Labor, approximately 34,600 initial unemployment claims were filed by Ohioans during the week ended May 30, a decrease of 19% from the previous week. At the peak nine weeks earlier, 274,300 initial claims were filed. The number of persons receiving unemployment compensation during the week ended May 23 was approximately 548,400, down by 88,500 (-14%) from the week prior and down 29% from five weeks earlier.

According to the most recently released BEA data, real GDP in Ohio was 1.7% greater in 2019 than in 2018. Real GDP growth in Ohio was highest among Great Lakes states (others are Illinois, Indiana, Michigan, and Wisconsin) but below the national rate of 2.3%. Real GDP in the state grew by 0.8%, 1.6%, and 1.9% in CYs 2016, 2017, and 2018, respectively. Among industry groups, management of companies and enterprises and mining, quarrying, and natural gas extraction contributed notably more to Ohio's economic growth than in other states in the Great Lakes region.

The number of existing home sales plummeted in April, as a decrease in demand during the month led to drops in both the number and total dollar value of transactions. YTD, however, the number of existing home units sold is just 0.3% below the 2019 rate. Through the first four months of 2020, the average sale price of existing structures and real estate was 7.3% greater than during the same months in 2019.

The U.S. Census Bureau recently developed a weekly survey to measure changes in business conditions during the COVID-19 pandemic and economic downturn. The survey includes a random sample of small businesses in each state. During the final full week in May, approximately 51% of Ohio businesses reported decreases in operating revenue as compared with the previous week; 20% reported increases in operating revenue. During the week, 19% of surveyed businesses reported temporary closures, while 81% remained open. Approximately 58% of Ohio businesses surveyed had enough cash on hand currently to sustain business operations for at least one month, while 32% reported having less than one month's cash available for operations.[19]

Economic conditions in the Cleveland Federal Reserve District continued to deteriorate in the most recent sampling period, the result of COVID-19 and shifts in consumer demand.[20] Employment in the district declined broadly, with hiring limited to a few firms. Consumer spending remained significantly below prepandemic levels in most industries. Manufacturing orders slid, and a majority of manufacturing contacts indicated inefficiencies brought on by social

[19] The remaining 10% were unable to answer the question about cash on hand.

[20] The Federal Reserve Bank of Cleveland's district consists of all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Comments here are derived from the latest edition of the Beige Book, a Federal Reserve publication that summarizes reports from businesses and industry contacts outside of the Federal Reserve System collected on or before May 18, 2020.

distancing. Construction activity declined for most firms in the industry. The noted slowdown in production industries resulted in weak cargo volumes among long-haul freight companies. Real estate agents indicated demand from first-time homebuyers was hampered due a weakened job market, though financial service providers noted increased refinancing activity. Demand for business loans remained robust, although down since March.

Economic Forecast Update

Ohio's near-term economic outlook has become considerably darker in the past month. Economic forecasting firm IHS Markit, used by LBO in developing state revenue projections, now estimates that Ohio real GDP in the current quarter will fall 12%, equivalent to a 39% annual rate. The state's economic recovery gets underway in the July-September quarter, in this forecast, but the rebound is much slower than the second-quarter plunge, and real GDP does not return to its prerecession level until the second half of CY 2022, at the start of FY 2023. The FY 2021 average statewide unemployment rate is projected to rise to 18.6%, with a peak during the year of more than 21%. In FY 2021, total nonfarm payroll employment is expected to fall 13.2% and Ohio wage and salary income is predicted to drop 7.1%.