LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

**Volume: Fiscal Year 2023** **Issue: February 2023**

# Highlights

*– Ross Miller, Chief Economist*

January GRF tax receipts amounted to $2.74 billion, which was $139.6 million more than the estimate published by the Office of Budget and Management (OBM). The personal income tax (PIT) was $95.5 million above estimate, the commercial activity tax (CAT) was $24.5 million above its estimate, and the sales and use tax had a positive variance of $23.3 million. For the year to date (YTD) through January, GRF tax revenues were $649.9 million above estimate. Due to healthy revenue and a provision of H.B. 45 of the 134th General Assembly, OBM transferred $727 million into the Budget Stabilization Fund in January.

Ohio's unemployment rate remained 4.2% in December, the third month in a row at that rate. The national rate was 3.5% for that month. Ohio's total nonfarm payroll employment grew 1,900 in December. This month's *Tracking the Economy* article includes forecasts of several key economic variables used by LBO economists in forecasting revenue for the upcoming biennium.

**Through January 2023, GRF sources totaled $25.59 billion:**

- Revenue from the PIT was $397.2 million above estimate;
- Sales and use tax receipts were $145.5 million above estimate.

**Through January 2023, GRF uses totaled $26.25 billion:**

- Program expenditures were $567.0 million below estimate;
- Expenditures from most program categories were below estimates, including GRF Medicaid ($209.6 million), General Government ($144.1 million), and Justice and Public Protection ($138.7 million).

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**Table 1: General Revenue Fund Sources**
**Actual vs. Estimate**
**Month of January 2023**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2023)

| State Sources | Actual | Estimate* | Variance | Percent |
|---|---|---|---|---|
| **Tax Revenue** | | | | |
| Auto Sales | $151,581 | $138,300 | $13,281 | 9.6% |
| Nonauto Sales and Use | $1,087,621 | $1,077,600 | $10,021 | 0.9% |
| *Total Sales and Use* | *$1,239,203* | *$1,215,900* | *$23,303* | *1.9%* |
| | | | | |
| Personal Income | $1,225,926 | $1,130,400 | $95,526 | 8.5% |
| Commercial Activity Tax | $116,356 | $91,900 | $24,456 | 26.6% |
| Cigarette | $67,421 | $69,900 | -$2,479 | -3.5% |
| Kilowatt-Hour Excise | $24,138 | $24,200 | -$62 | -0.3% |
| Foreign Insurance | -$791 | -$4,300 | $3,509 | 81.6% |
| Domestic Insurance | $0 | $0 | $0 | --- |
| Financial Institution | $60,330 | $63,800 | -$3,470 | -5.4% |
| Public Utility | $558 | $500 | $58 | 11.6% |
| Natural Gas Consumption | $328 | $1,600 | -$1,272 | -79.5% |
| Alcoholic Beverage | $4,694 | $4,800 | -$106 | -2.2% |
| Liquor Gallonage | $5,836 | $5,700 | $136 | 2.4% |
| Petroleum Activity Tax | $0 | $0 | $0 | --- |
| Corporate Franchise | $12 | $0 | $12 | --- |
| Business and Property | $0 | $0 | $0 | --- |
| Estate | $0 | $0 | $0 | --- |
| **Total Tax Revenue** | **$2,744,009** | **$2,604,400** | **$139,609** | **5.4%** |
| | | | | |
| **Nontax Revenue** | | | | |
| Earnings on Investments | $68,883 | $22,500 | $46,383 | 206.1% |
| Licenses and Fees | $3,487 | $2,377 | $1,109 | 46.7% |
| Other Revenue | $10,550 | $10,850 | -$299 | -2.8% |
| **Total Nontax Revenue** | **$82,920** | **$35,727** | **$47,193** | **132.1%** |
| | | | | |
| **Transfers In** | **$7,500** | **$0** | **$7,500** | **---** |
| | | | | |
| **Total State Sources** | **$2,834,429** | **$2,640,127** | **$194,302** | **7.4%** |
| | | | | |
| **Federal Grants** | **$1,142,420** | **$1,342,254** | **-$199,835** | **-14.9%** |
| | | | | |
| **Total GRF Sources** | **$3,976,848** | **$3,982,381** | **-$5,533** | **-0.1%** |

*Estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

**Table 2: General Revenue Fund Sources**
**Actual vs. Estimate ($ in thousands)**
**FY 2023 as of January 31, 2023**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2023)

| State Sources | Actual | Estimate* | Variance | Percent | FY 2022** | Percent |
|---|---|---|---|---|---|---|
| **Tax Revenue** | | | | | | |
| Auto Sales | $1,150,790 | $1,094,200 | $56,590 | 5.2% | $1,093,020 | 5.3% |
| Nonauto Sales and Use | $6,838,688 | $6,749,800 | $88,888 | 1.3% | $6,577,605 | 4.0% |
| *Total Sales and Use* | *$7,989,477* | *$7,844,000* | *$145,478* | *1.9%* | *$7,670,625* | *4.2%* |
| | | | | | | |
| Personal Income | $6,477,099 | $6,079,901 | $397,198 | 6.5% | $6,068,764 | 6.7% |
| Commercial Activity Tax | $1,167,480 | $1,092,600 | $74,880 | 6.9% | $1,036,525 | 12.6% |
| Cigarette | $454,199 | $478,400 | -$24,202 | -5.1% | $485,382 | -6.4% |
| Kilowatt-Hour Excise | $168,616 | $170,800 | -$2,184 | -1.3% | $178,700 | -5.6% |
| Foreign Insurance | $197,576 | $177,700 | $19,875 | 11.2% | $176,442 | 12.0% |
| Domestic Insurance | $17,620 | $19,000 | -$1,380 | -7.3% | $2,254 | 681.8% |
| Financial Institution | $49,948 | $33,100 | $16,848 | 50.9% | $2,296 | 2075.4% |
| Public Utility | $87,494 | $66,800 | $20,694 | 31.0% | $69,989 | 25.0% |
| Natural Gas Consumption | $19,881 | $19,800 | $80 | 0.4% | $18,611 | 6.8% |
| Alcoholic Beverage | $37,905 | $37,500 | $405 | 1.1% | $39,761 | -4.7% |
| Liquor Gallonage | $34,849 | $34,600 | $249 | 0.7% | $35,262 | -1.2% |
| Petroleum Activity Tax | $6,032 | $4,000 | $2,032 | 50.8% | $3,628 | 66.3% |
| Corporate Franchise | $42 | $100 | -$58 | -57.9% | $530 | -92.0% |
| Business and Property | $0 | $0 | $0 | --- | $0 | --- |
| Estate | $33 | $0 | $33 | 8596.5% | $7 | 368.2% |
| **Total Tax Revenue** | **$16,708,252** | **$16,058,302** | **$649,949** | **4.0%** | **$15,788,776** | **5.8%** |
| | | | | | | |
| **Nontax Revenue** | | | | | | |
| Earnings on Investments | $113,383 | $44,100 | $69,283 | 157.1% | $20,962 | 440.9% |
| Licenses and Fees | $17,604 | $15,735 | $1,869 | 11.9% | $16,042 | 9.7% |
| Other Revenue | $150,503 | $166,143 | -$15,640 | -9.4% | $391,038 | -61.5% |
| **Total Nontax Revenue** | **$281,490** | **$225,977** | **$55,513** | **24.6%** | **$428,043** | **-34.2%** |
| | | | | | | |
| **Transfers In** | **$13,135** | **$5,000** | **$8,135** | **162.7%** | **$51,600** | **-74.5%** |
| | | | | | | |
| **Total State Sources** | **$17,002,877** | **$16,289,280** | **$713,597** | **4.4%** | **$16,268,419** | **4.5%** |
| | | | | | | |
| **Federal Grants** | **$8,586,224** | **$8,703,257** | **-$117,033** | **-1.3%** | **$6,671,546** | **28.7%** |
| | | | | | | |
| **Total GRF SOURCES** | **$25,589,101** | **$24,992,537** | **$596,565** | **2.4%** | **$22,939,965** | **11.5%** |

*Estimates of the Office of Budget and Management.

**Cumulative totals through the same month in FY 2022.

Detail may not sum to total due to rounding.

# Revenues[1]

*– Ross Miller, Chief Economist*

## Overview

GRF sources in January totaled $3.98 billion, an amount $5.5 million (0.1%) below the estimate published by OBM. This negative variance was due to a shortfall of $199.8 million (14.9%) from federal grants; all other revenue categories were above their respective estimates. Federal grants are mostly reimbursements for the federal share of Medicaid spending. Total GRF revenue consists of GRF state source revenue and federal grants. State source revenue includes tax revenue, which is the largest single revenue category, nontax revenue, and transfers in from other state funds. January GRF tax revenue amounted to $2.74 billion, which was $139.6 million (5.4%) above estimate.

For the YTD through January, GRF sources amounted to $25.59 billion, which was $596.6 million (2.4%) above estimate. All revenue categories were above their YTD estimates except federal grants, which were below estimate by $117.0 million. Tables 1 and 2, which precede this *Revenues* section, show GRF sources for January 2023 and YTD through the first seven months of FY 2023, respectively.

GRF tax revenue has exceeded the OBM estimate every month this year except for July.[2] YTD GRF tax revenue through January amounted to $16.71 billion, $649.9 million (4.0%) above estimate. Positive variances have been driven by the major taxes, i.e., the PIT, the sales and use tax, and the CAT. YTD receipts from those taxes were $397.2 million, $145.5 million, and $74.9 million above their respective estimates. The fourth-largest tax revenue source is the cigarette and other tobacco products (OTP) tax; revenue from that tax source was $24.2 million less than the estimate through January and was the only notable negative YTD variance among tax sources. More details about revenue from the four largest tax sources are provided in separate sections below. Other notable positive YTD variances include the public utility excise tax ($20.7 million), the foreign insurance tax ($19.9 million), and the financial institutions tax (FIT, $16.8 million). The positive variance for the FIT is primarily due to smaller than expected refunds issued so far this year, as January revenue from the tax was $3.5 million below estimate.[3]

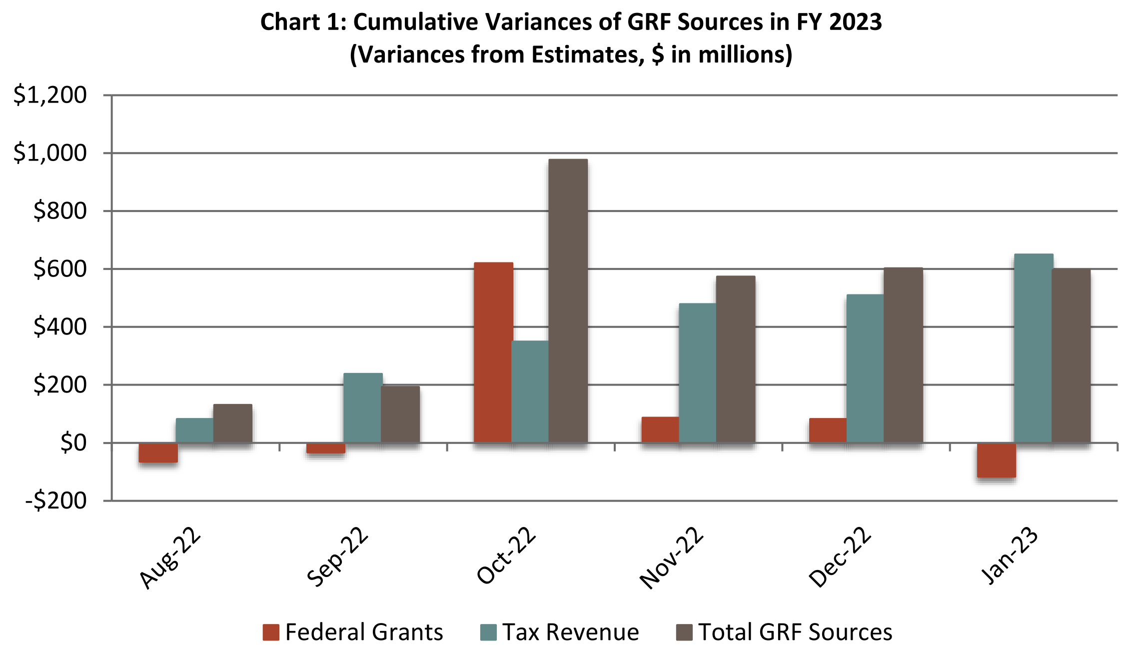
Among GRF revenue sources other than taxes, the most notable YTD variances were a $69.3 million positive variance for earnings on investments, due to higher than expected interest rates, and the $117.0 million negative variance for federal grants mentioned above. Negative variances for federal grants tend to be good for the budget as a whole, since they typically mean

[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] OBM's July estimates were based on the actual revenue received, making the July variances equal to zero.

[3] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers adjust previous tax filings. FIT receipts are generally expected at the end of January, March, and May, with the annual tax report due in October of each year.

that Medicaid spending is below estimate, and YTD GRF Medicaid spending was below estimate by $209.6 million through January. Chart 1, below, shows cumulative YTD variances of GRF sources.




As shown in Table 2, most revenue sources have exhibited growth from the first seven months of FY 2022 to the corresponding months of FY 2023. Revenue from the PIT grew $408.3 million (6.7%) despite a withholding rate reduction implemented in early FY 2022. Revenue growth was also strong for the sales and use tax, at $318.9 million (4.2%) and the CAT ($131.0 million, 12.6%). Revenue from these taxes tends to receive a boost from inflation, which has been high for the last year, as often described in the *Tracking the Economy* section of this publication. Other taxes that grew by notable amounts include the FIT ($47.7 million), the foreign insurance tax ($21.1 million), the public utility excise tax ($17.5 million), and the domestic insurance tax ($15.4 million). The large gain from the FIT is primarily due to smaller refunds having been issued so far this year ($22.8 million), as compared to last year ($79.5 million). The only notable revenue declines among tax sources were the cigarette and OTP tax, which declined by $31.2 million and the kilowatt-hour (kWh) tax (down $10.1 million). The cigarette and OTP tax has declined steadily for years except for a brief revenue spike early in the pandemic. All funds revenue from the kWh tax fell slightly year-over-year but about $6.8 million of the decline is due to an increase in revenue allocated to the Public Library Fund, half of which is debited against this tax for accounting purposes.

## Sales and Use Tax

January GRF receipts from the sales and use tax amounted to $1.24 billion, which was $23.3 million (1.9%) above estimate. For FY 2023 through the end of January, revenue from the tax amounted to $7.99 billion, $145.5 million (1.9%) above estimate. YTD revenue grew by $318.9 million (4.2%) compared to the corresponding months in FY 2022. Revenue from this tax was above estimate every month so far this fiscal year except July and December. In July that was due to OBM using actual receipts as the estimate, resulting in a zero variance; in December there was a modest negative variance.

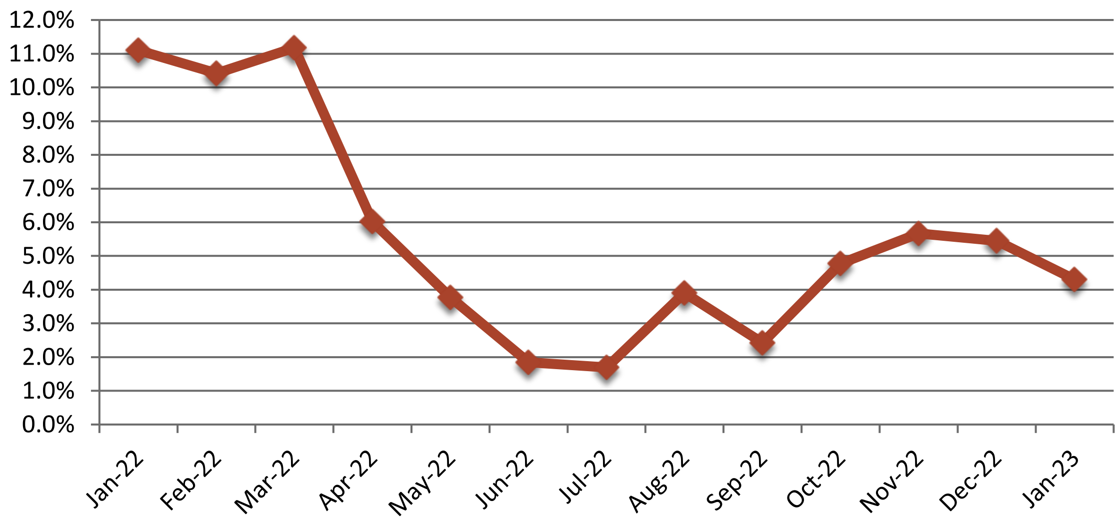
For analysis and forecasting, revenue from the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax. Both components of the tax were above their respective estimates in January and for the fiscal year to date.

## Nonauto Sales and Use Tax

January GRF receipts of $1.09 billion from the nonauto component of the tax were $10.0 million (0.9%) above the OBM estimate and $40.9 million (3.9%) above revenue in January 2022. For FY 2023 through January, this component generated $6.84 billion in GRF receipts, $88.9 million (1.3%) above estimate. Revenue grew $261.1 million (4.0%) compared to the corresponding months of FY 2022.

Chart 2, below, shows year-over-year growth in nonauto sales and use tax collections since January 2022. The data are shown using a three-month moving average[4] to smooth out some of the variability that would appear if year-over-year growth were shown for each individual month. Growth exceeded 10%, on average, in the first calendar quarter of 2022, and then slowed to about 2.0%, on average, in the second. The growth slowdown was likely due in part to reductions in federal income support and other factors.[5] Growth in recent months has accelerated somewhat, due at least in part to inflation boosting prices of taxable goods.

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




[4] A three-month moving average means, for example, that the most recent data point shown shows the percentage growth from revenue received during the three months November 2021 through January 2022 to revenue received during November 2022 through January 2023.

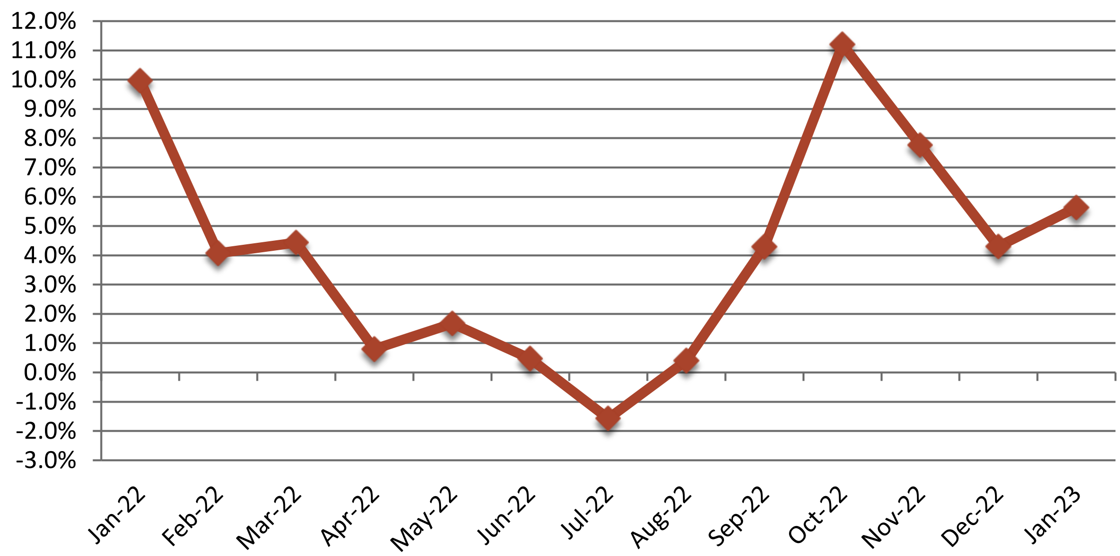
[5] In FY 2022, an unusual set of circumstances supported consumer spending on taxable goods: household incomes increased from prepandemic levels with assistance from federal income support programs and a low interest rate environment combined with rapidly appreciating home values enabled many homeowners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

## Auto Sales and Use Tax

January receipts from the auto component of the sales and use tax were $151.6 million, $13.3 million (9.6%) above estimate, and $16.6 million (12.3%) more than revenue collected during the month a year ago. YTD through January, revenue amounting to $1.15 billion exceeded the estimate by $56.6 million (5.2%). YTD revenue grew by $57.8 million (5.3%) compared to the first seven months of FY 2022.

Chart 3, below, shows year-over-year growth in auto sales and use tax collections since January 2022. The earliest portion of the pattern is similar to that for the nonauto sales tax, in that it reflects strong growth at the outset of calendar year (CY) 2022 but a deceleration towards the end of the second calendar quarter, as interest rates started rising. Revenue growth has accelerated in FY 2023, largely due to inflation increasing the average price of vehicles. However, data published by the U.S. Bureau of Economic Analysis (BEA) indicate that national unit sales of light motor vehicles (i.e., automobiles and light trucks, including SUVs) have risen this fiscal year by 4.6% over the comparable months a year prior. Vehicle sales on a seasonally adjusted basis weakened in the second half of 2021 and remained weak through most of 2022. But BEA data show signs of a partial recovery in the most recent four months.

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




## Personal Income Tax

GRF revenue from the PIT exceeded estimate each month from August to January. January GRF revenue of $1.23 billion exceeded the estimate by $95.5 million (8.5%) and grew by $73.1 million (6.3%) from January 2022. YTD revenue through January amounted to $6.48 billion, which was $397.2 million (6.5%) above estimate and $408.3 million (6.7%) above revenue received during the first seven months of FY 2022.

Much of the variance so far this year has been due to strong receipts from employer withholding. Withholding receipts exceeded the estimate for the month of December by $42.1 million (4.1%) and for January by $209.0 million (21.8%). For the YTD, withholding has grown 11.2% relative to the first seven months of FY 2022. A Department of Taxation (TAX) official notified LBO this month, however, that the classification of a new source of receipts into this category accounts for part of the strong growth. Specifically, amounts reported to LBO as withholding receipts include amounts paid along with submissions of Form 4738, for pass through entities paying the tax enacted in S.B. 246 of the 134th General Assembly. Such amounts in future will be classified as estimated payments rather than withholding. The official reports that YTD growth in withholding defined more narrowly amounted to 6.6%, still a fairly strong growth rate. That 6.6% growth would have been even stronger except that TAX reduced withholding rates effective September 2021 to bring them into line with tax rate reductions enacted in H.B. 110 (the operating budget act of the 134th General Assembly). The 6.6% growth in withholding revenue is a result of payroll growth in Ohio, due to some combination of increasing employment and wage growth as employers have tried to attract and retain workers.

In addition to employer withholding, gross collections under the PIT include quarterly estimated payments,[6] payments accompanying the filing of annual returns, trust payments, and miscellaneous payments. To arrive at GRF revenue from the tax, refunds are subtracted from gross collections, and some of the revenue is transferred to the Local Government Fund (LGF). The primary driver of GRF revenue from the PIT is employer withholding; that component of revenue accounted for about 76% of FY 2022 gross collections from the tax.

The table below provides details on revenue from each component of the PIT relative to estimates for FY 2023 through January and compared to revenue received in FY 2022 through January. FY 2023 YTD gross collections were $599.3 million (8.7%) above anticipated revenue. All components of gross collections exceeded their estimates, most notably employer withholding, by $442.1 million (but see paragraph above), payments due with annual returns, by $116.8 million, and estimated payments, by $27.6 million. YTD refunds were $193.9 million above projections, and distributions to the LGF were also above projections, by $8.2 million, both of which reduced revenue available to the GRF. Subtracting $193.9 million and $8.2 million from the gross collections' positive variance of $599.3 million yields the YTD positive variance of $397.2 million.

[6] Taxpayers who expect to be underwithheld by more than $500 make quarterly estimated payments. Quarterly estimated payments are generally due in April, June, and September of an individual's tax year and January of the following year.

| FY 2023 Personal Income Tax Revenue Variance and Annual Change by Component | | | | |
|---|---|---|---|---|
| Category | Variance from Estimate | | Changes from FY 2022 | |
| | Amount ($ in millions) | Percent (%) | Amount ($ in millions) | Percent (%) |
| Withholding | $442.1 | 7.3% | $653.0 | 11.2% |
| Quarterly Estimated Payments | $27.6 | 4.3% | -$27.3 | -3.9% |
| Trust Payments | $7.0 | 23.8% | $6.5 | 21.5% |
| Annual Return Payments | $116.8 | 102.8% | $20.6 | 9.8% |
| Miscellaneous Payments | $5.9 | 16.5% | -$8.1 | -16.4% |
| **Gross Collections** | **$599.3** | **8.7%** | **$644.7** | **9.4%** |
| Less Refunds | $193.9 | 38.3% | $222.8 | 46.7% |
| Less LGF Distribution | $8.2 | 2.9% | $13.5 | 4.8% |
| **GRF PIT Revenue** | **$397.2** | **6.5%** | **$408.3** | **6.7%** |

As noted above, YTD GRF revenue grew 6.7% from the corresponding period in FY 2022. Gross collections grew $644.7 million (9.4%), driven primarily by withholding receipts, which grew $653.0 million. Payments with annual returns came in $20.6 million above FY 2022, providing another notable boost. Growth in GRF revenue from the tax was restrained, though, by growth of $222.8 million (46.7%) in refunds. As noted above, year-over-year growth in withholding receipts had been limited for several months because of the 3.0% reduction in withholding rates that was effective September 1, 2021. The reduction was in response to income tax rate cuts for nonbusiness income enacted in H.B. 110. Starting in September 2022, however, the growth in FY 2023 monthly withholding receipts fully reflects the strength in the underlying tax base.

## Commercial Activity Tax

CAT GRF revenue of $116.4 million in January was $24.5 million (26.6%) above estimate. The latest monthly performance brought the YTD positive variance for this tax source to $74.9 million (6.9%). YTD receipts from CAT taxpayers through January were $1.17 billion, $131.0 million (12.6%) above revenues in FY 2022 through January.

Through January, gross collections totaled $1.45 billion, an increase of $155.6 million (12.1%) relative to gross collections in FY 2022 through January. Refunds were $63.0 million, an increase of $0.5 million (0.8%) from FY 2022. (The increase in refunds moderated GRF revenue growth, though only slightly.[7]) Revenue credited to the Revenue Enhancement Fund (Fund 2280) was $9.3 million. Moneys in the fund help defray TAX costs of administering the CAT and other taxes.

[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%). YTD distributions to Fund 7047 and Fund 7081 were $178.6 million and $27.5 million, respectively. The distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property and the phase down of property taxes on public utility tangible personal property. Any receipts in excess of amounts needed for such payments may be transferred back to the GRF, though OBM did not transfer the excess cash in FY 2022, as it was not needed.[8]

## Cigarette and Other Tobacco Products Tax

The cigarette and OTP tax generated $67.4 million in GRF revenue in January, below estimate for the month by $2.5 million (3.5%). YTD revenue from the tax was $454.2 million through January, $24.2 million (5.1%) below estimate. The YTD total included $384.8 million derived from the sale of cigarettes and $69.4 million from the sale of OTP.

FY 2023 revenue through January fell by $31.2 million (6.4%) compared to FY 2022 revenue through January 2022. OTP sales increased by $4.7 million (7.2%) while receipts from cigarette sales decreased $35.8 million (8.5%). The increase in OTP revenue is primarily due to growth in OTP prices. The tax is an ad valorem tax, generally 17% of the wholesale price paid by wholesalers for the product; thus, revenue from that portion of the tax base grows with price increases.

On a yearly basis, revenue from sales of cigarettes usually trends downward, generally at a slow pace. The COVID-19 pandemic temporarily upended historical trends in the first half of FY 2021, as revenue from cigarette sales increased during that time. However, cigarette tax receipts appear to have reverted to the prepandemic trend during FY 2022 and early FY 2023. The tax on cigarettes is based on unit sales rather than value.

[8] OAKS reports run February 2, 2023, showed cash balances of $637.5 million in Fund 7047 and $157.9 million in Fund 7081.

**Table 3: General Revenue Fund Uses**
**Actual vs. Estimate**
**Month of January 2023**
($ in thousands)
(Actual based on OAKS reports run February 2, 2023)

| Program Category | Actual | Estimate* | Variance | Percent |
|---|---|---|---|---|
| Primary and Secondary Education | $754,790 | $727,341 | $27,450 | 3.8% |
| Higher Education | $189,781 | $193,619 | -$3,838 | -2.0% |
| Other Education | $8,705 | $7,839 | $865 | 11.0% |
| **Total Education** | **$953,276** | **$928,799** | **$24,477** | **2.6%** |
| Medicaid | $1,787,290 | $2,054,102 | -$266,811 | -13.0% |
| Health and Human Services | $158,171 | $151,901 | $6,270 | 4.1% |
| **Total Health and Human Services** | **$1,945,461** | **$2,206,002** | **-$260,542** | **-11.8%** |
| Justice and Public Protection | $261,823 | $265,517 | -$3,694 | -1.4% |
| General Government | $50,096 | $160,479 | -$110,382 | -68.8% |
| **Total Government Operations** | **$311,920** | **$425,996** | **-$114,076** | **-26.8%** |
| Property Tax Reimbursements | $0 | $0 | $0 | --- |
| Debt Service | $112,644 | $106,487 | $6,157 | 5.8% |
| **Total Other Expenditures** | **$112,644** | **$106,487** | **$6,157** | **5.8%** |
| **Total Program Expenditures** | **$3,323,300** | **$3,667,283** | **-$343,983** | **-9.4%** |
| **Transfers Out** | **$743,976** | **$6,000** | **$737,976** | **12299.6%** |
| **Total GRF Uses** | **$4,067,276** | **$3,673,283** | **$393,993** | **10.7%** |

*August 2022 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

**Table 4: General Revenue Fund Uses**
**Actual vs. Estimate**
**FY 2023 as of January 31, 2023**
($ in thousands)
(Actual based on OAKS reports run February 2, 2023)

| Program Category | Actual | Estimate* | Variance | Percent | FY 2022** | Percent |
|---|---|---|---|---|---|---|
| Primary and Secondary Education | $5,431,255 | $5,442,161 | -$10,906 | -0.2% | $5,561,530 | -2.3% |
| Higher Education | $1,419,037 | $1,440,379 | -$21,342 | -1.5% | $1,396,535 | 1.6% |
| Other Education | $61,536 | $61,285 | $251 | 0.4% | $62,228 | -1.1% |
| **Total Education** | **$6,911,827** | **$6,943,824** | **-$31,997** | **-0.5%** | **$7,020,292** | **-1.5%** |
| Medicaid | $12,321,292 | $12,530,853 | -$209,561 | -1.7% | $9,653,533 | 27.6% |
| Health and Human Services | $1,039,478 | $1,065,848 | -$26,370 | -2.5% | $897,243 | 15.9% |
| **Total Health and Human Services** | **$13,360,770** | **$13,596,701** | **-$235,931** | **-1.7%** | **$10,550,777** | **26.6%** |
| Justice and Public Protection | $1,642,274 | $1,780,974 | -$138,701 | -7.8% | $1,626,102 | 1.0% |
| General Government | $338,121 | $482,198 | -$144,077 | -29.9% | $316,254 | 6.9% |
| **Total Government Operations** | **$1,980,394** | **$2,263,172** | **-$282,778** | **-12.5%** | **$1,942,356** | **2.0%** |
| Property Tax Reimbursements | $912,161 | $931,000 | -$18,839 | -2.0% | $913,053 | -0.1% |
| Debt Service | $1,104,685 | $1,102,161 | $2,524 | 0.2% | $1,014,457 | 8.9% |
| **Total Other Expenditures** | **$2,016,846** | **$2,033,161** | **-$16,316** | **-0.8%** | **$1,927,510** | **4.6%** |
| **Total Program Expenditures** | **$24,269,838** | **$24,836,859** | **-$567,021** | **-2.3%** | **$21,440,935** | **13.2%** |
| **Transfers Out** | **$1,975,658** | **$684,900** | **$1,290,758** | **188.5%** | **$2,979,663** | **-33.7%** |
| **Total GRF Uses** | **$26,245,496** | **$25,521,759** | **$723,737** | **2.8%** | **$24,420,598** | **7.5%** |

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

**Table 5: Medicaid Expenditures by Department**
**Actual vs. Estimate**
($ in thousands)
(Actuals based on OAKS report run on February 3, 2023)

| | Month of January 2023 | | | | Year to Date through January 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Department** | **Actual** | **Estimate*** | **Variance** | **Percent** | **Actual** | **Estimate*** | **Variance** | **Percent** |
| **Medicaid** | | | | | | | | |
| GRF | $1,725,301 | $1,980,711 | -$255,410 | -12.9% | $11,905,385 | $12,076,345 | -$170,960 | -1.4% |
| Non-GRF | $1,940,483 | $1,084,174 | $856,309 | 79.0% | $6,964,117 | $6,902,007 | $62,109 | 0.9% |
| All Funds | $3,665,785 | $3,064,885 | $600,900 | 19.6% | $18,869,502 | $18,978,352 | -$108,850 | -0.6% |
| **Developmental Disabilities** | | | | | | | | |
| GRF | $53,989 | $64,733 | -$10,744 | -16.6% | $348,615 | $359,594 | -$10,979 | -3.1% |
| Non-GRF | $325,391 | $268,855 | $56,536 | 21.0% | $1,686,818 | $1,747,407 | -$60,589 | -3.5% |
| All Funds | $379,380 | $333,588 | $45,792 | 13.7% | $2,035,433 | $2,107,001 | -$71,568 | -3.4% |
| **Job and Family Services** | | | | | | | | |
| GRF | $6,507 | $7,774 | -$1,266 | -16.3% | $59,962 | $87,516 | -$27,554 | -31.5% |
| Non-GRF | $12,139 | $17,485 | -$5,346 | -30.6% | $99,798 | $229,565 | -$129,767 | -56.5% |
| All Funds | $18,647 | $25,259 | -$6,612 | -26.2% | $159,761 | $317,081 | -$157,321 | -49.6% |
| **Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education** | | | | | | | | |
| GRF | $1,492 | $884 | $608 | 68.8% | $7,330 | $7,398 | -$68 | -0.9% |
| Non-GRF | $3,260 | $3,359 | -$98 | -2.9% | $21,774 | $30,189 | -$8,416 | -27.9% |
| All Funds | $4,753 | $4,243 | $510 | 12.0% | $29,103 | $37,587 | -$8,484 | -22.6% |
| **All Departments:** | | | | | | | | |
| **GRF** | **$1,787,290** | **$2,054,102** | **-$266,811** | **-13.0%** | **$12,321,292** | **$12,530,853** | **-$209,561** | **-1.7%** |
| **Non-GRF** | **$2,281,274** | **$1,373,873** | **$907,401** | **66.0%** | **$8,772,507** | **$8,909,168** | **-$136,662** | **-1.5%** |
| **All Funds** | **$4,068,564** | **$3,427,975** | **$640,589** | **18.7%** | **$21,093,799** | **$21,440,022** | **-$346,223** | **-1.6%** |

*January 2023 estimates from the Department of Medicaid.
Detail may not sum to total due to rounding.

**Table 6: All Funds Medicaid Expenditures by Payment Category**
**Actual vs. Estimate**
($ in thousands)
(Actuals based on OAKS report run on February 3, 2023)

| | Month of January 2023 | | | | Year to Date through January 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Payment Category** | **Actual** | **Estimate*** | **Variance** | **Percent** | **Actual** | **Estimate*** | **Variance** | **Percent** |
| **Managed Care** | **$2,669,877** | **$2,394,393** | **$275,484** | **11.5%** | **$14,022,040** | **$14,058,425** | **-$36,386** | **-0.3%** |
| CFC† | $906,042 | $713,774 | $192,268 | 26.9% | $4,370,206 | $4,332,423 | $37,783 | 0.9% |
| Group VIII | $708,993 | $634,580 | $74,413 | 11.7% | $3,955,782 | $4,117,227 | -$161,445 | -3.9% |
| ABD† | $270,462 | $224,088 | $46,374 | 20.7% | $1,530,775 | $1,569,359 | -$38,584 | -2.5% |
| ABD Kids | $83,296 | $73,415 | $9,881 | 13.5% | $463,512 | $481,394 | -$17,881 | -3.7% |
| My Care | $220,263 | $258,129 | -$37,866 | -14.7% | $1,695,398 | $1,749,565 | -$54,167 | -3.1% |
| OhioRise | $22,223 | $36,835 | -$14,613 | -39.7% | $115,060 | $163,503 | -$48,443 | -29.6% |
| SPBM | $458,598 | $453,571 | $5,027 | 1.1% | $1,582,195 | $1,327,454 | $254,741 | 19.2% |
| Pay for Performance | $0 | $0 | $0 | --- | $309,111 | $317,500 | -$8,389 | -2.6% |
| **Fee-For-Service** | **$1,188,676** | **$797,727** | **$390,948** | **49.0%** | **$5,664,095** | **$5,692,100** | **-$28,005** | **-0.5%** |
| ODM Services | $472,210 | $470,028 | $2,182 | 0.5% | $2,999,005 | $2,934,175 | $64,830 | 2.2% |
| DDD Services | $374,644 | $327,699 | $46,945 | 14.3% | $1,980,673 | $2,040,056 | -$59,383 | -2.9% |
| Hospital - HCAP | $341,821 | $0 | $341,821 | --- | $684,417 | $717,869 | -$33,452 | -4.7% |
| **Premium Assistance** | **$118,479** | **$137,295** | **-$18,816** | **-13.7%** | **$828,218** | **$859,835** | **-$31,617** | **-3.7%** |
| Medicare Buy-In | $76,242 | $84,660 | -$8,418 | -9.9% | $539,516 | $559,177 | -$19,661 | -3.5% |
| Medicare Part D | $42,237 | $52,635 | -$10,399 | -19.8% | $288,702 | $300,658 | -$11,956 | -4.0% |
| **Administration** | **$91,533** | **$98,559** | **-$7,027** | **-7.1%** | **$579,446** | **$829,661** | **-$250,215** | **-30.2%** |
| **Total** | **$4,068,564** | **$3,427,975** | **$640,589** | **18.7%** | **$21,093,799** | **$21,440,022** | **-$346,223** | **-1.6%** |

*January 2023 estimates from the Department of Medicaid.
†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program.
Detail may not sum to total due to rounding.

# Expenditures[9]

*– Melaney Carter, Director*

*– Ivy Chen, Division Chief*

## Overview

GRF program expenditures totaled $24.27 billion in the first seven months of FY 2023. These expenditures were $567.0 million (2.3%) below OBM's estimates. GRF uses also include transfers out, which totaled $1.98 billion and were $1.29 billion (188.5%) over estimate for the YTD, due primarily to the timing of $553.8 million in transfers that were not estimated to occur until June, and $734.5 million in transfers that were authorized in H.B. 45 of the 134th General Assembly and not included in the estimates. Total GRF uses for these seven months were $26.25 billion, which is $723.7 million (2.8%) above estimate. The preceding tables 3 and 4 show GRF uses compared to estimates for the month of January and YTD, respectively.

For January program expenditures, negative monthly variances in GRF Medicaid ($266.8 million, 13.0%), General Government ($110.4 million, 68.8%), Higher Education ($3.8 million, 2.0%), and Justice and Public Protection ($3.7 million, 1.4%), were slightly offset by positive monthly variances in Primary and Secondary Education ($27.5 million, 3.8%), Health and Human Services ($6.3 million, 4.1%), and Debt Service ($6.2 million, 5.8%). The remaining categories had monthly variances of less than $1.0 million. Total program expenditures were $344.0 million (9.4%) under estimate for the month of January.

For YTD program expenditures, most categories were under estimate, most significantly GRF Medicaid ($209.6 million, 1.7%), General Government ($144.1 million, 29.9%), and Justice and Public Protection ($138.7 million, 7.8%). The larger GRF variances, in addition to Medicaid's non-GRF variance, are discussed below.

## Medicaid

Medicaid is a joint federal-state program. It is mainly funded by the GRF but is also supported by several non-GRF funds. Both GRF and non-GRF Medicaid expenditures contain federal and state dollars. GRF Medicaid expenditures were below their monthly estimate in January by $266.8 million (13.0%) and below their YTD estimate by $209.6 million (1.7%) at the end of January. Non-GRF Medicaid expenditures were above their monthly estimate by $907.4 million (66.0%) but below their YTD estimate by $136.7 million (1.5%). January's higher non-GRF and lower GRF expenditures reflect a continuation of the trend by state Medicaid agencies to transfer spending away from general revenue and towards special-purpose funds. Including both the GRF and non-GRF, all funds Medicaid expenditures were $640.6 million (18.7%) above estimate in January but $346.2 million (1.6%) below their YTD estimate at the end of January. The positive monthly variance in all funds spending is attributable to the issuance of Hospital Care Assurance Program (HCAP) payments that had been planned for previous months.

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

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other “sister” agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. ODM had an all funds positive variance in January of $600.9 million (19.6%) but a YTD all funds negative variance of $108.9 million (0.6%) at the end of January. ODODD had a January all funds positive variance of $45.8 million (13.7%) but ended the month with YTD expenditures $71.6 million (3.4%) below estimate. The other six “sister” agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining 1% of the total Medicaid budget. Unlike ODM and ODODD, the six “sister” agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for all four major payment categories at the end of January. In both percentage terms and absolute dollars, the Administration variance of $250.2 million (30.2%) was the largest. The other categories' negative variances were Managed Care at $36.4 million (0.3%), Premium Assistance at $31.6 million (3.7%), and Fee-For-Service (FFS) at $28.0 million (0.5%). The YTD Administration variance continues to reflect general underspending on administrative costs, particularly in the Ohio Department of Job and Family Services (ODJFS). The subcategory variance for the Ohio Resilience through Integrated Systems and Excellence (OhioRISE) program reflects continued less-than-forecasted spending as the enrollment of qualified youth is slower than anticipated. Also, some enrollees who would normally be served by a managed care plan have been held in the FFS category until the Next Generation Medicaid managed care plans begin enrolling members.

From the beginning of the COVID-19 pandemic in March 2020 through the end of January 2023, caseloads have increased by approximately 21,740 cases per month, on average. According to ODM, nearly all of the caseload variance has been due to the suspension of routine redeterminations of eligibility required as a condition of receiving increased financial assistance from the federal government and an increase in the number of new applications and approvals due to the economic impacts of the COVID-19 pandemic. Recently, states have received approval to restart eligibility redeterminations. ODM will begin any associated disenrollments during the spring of this year. This should lead to negative caseload variances throughout the second half of the calendar year. Until that time, the recent trend of positive caseload variances is expected to continue, as it did in January, with 55,439 cases (1.6%) above estimate.

## General Government

This program category includes all GRF spending for general government programs, except for debt service. The Department of Development (DEV) makes up 36.5% of the estimated expenditures from this category in FY 2023. Four other agencies make up another 32.6% of estimated expenditures: the Ohio Department of Transportation (ODOT, 9.0%), the Department of Natural Resources (8.7%), TAX (7.8%), and the Department of Agriculture (7.1%). Twenty other agencies make up the remaining 30.9% of estimated spending.

This category was under estimate by $110.4 million (68.8%) in January, increasing its negative YTD variance to $144.1 million (29.9%). Most agencies in the category were under their YTD estimates. The largest appropriation line item (ALI) variances were for appropriations made in H.B. 687 of the 134th General Assembly to support Intel’s megaproject development in central

Ohio. ALI 195456, Local Roads, in DEV's budget, was under estimate by $95.0 million in January and under its YTD estimate by $74.9 million. The estimates had the entire $95 million appropriation for this ALI being expended in January. Nothing was actually expended from this ALI in January; $20.1 million, however, was expended in November. ALI 195459, Ohio Onshoring Incentive, also in DEV's budget was under its YTD estimate by $37.5 million. The estimates have expenditures of $12.5 million each month from November through the end of the fiscal year, but no payments have yet been made. Finally, ALI 775471, State Road Improvements, in ODOT's budget is under its YTD estimate by $4.8 million. These variances are timing-related and should diminish as the projects move forward.

## Justice and Public Protection

This program category includes all GRF spending for justice and public protection programs, except for debt service. The Ohio Department of Rehabilitation and Correction (DRC) accounts for 71.0% of the estimated expenditures for this category for FY 2023. Eleven other agencies make up the remaining 29.0% of estimated spending.

The negative YTD variance in this category grew by $3.7 million in January to reach $138.7 million (7.8%). The largest YTD variances were in the Ohio Department of Public Safety (DPS), DRC, and the Office of the Ohio Public Defender (OPD).

DPS was under its YTD estimate by $63.3 million; $50.0 million of that variance was due to ALI 761408, Highway Patrol Operating Expenses. This amount is the entire appropriation amount for this ALI for FY 2023. The estimates were for the entire amount to be expended in January, but this did not happen. This is a timing issue, this amount is expected to be expended later in the fiscal year. This ALI provides GRF support for the highway patrol's operating expenditures that are in addition to the funds collected for this purpose from various taxes, fees, and fines related to the registration and operation of vehicles on public highways. Most of the other ALIs in the DPS budget were also under estimate.

DRC ended January with a negative YTD variance of $46.6 million, due mainly to negative YTD variances of $20.7 million in ALI 505321, Institution Medical Services, and $15.0 million in ALI 501321, Institutional Operations. ALI 501321 is used primarily for the operating costs of Ohio's prisons, including facility maintenance, support services, security, and management. ALI 505321 is used to provide medical services to inmates of the state's prisons.

OPD was under its YTD estimate by $13.3 million, due mainly to a negative YTD variance of $12.1 million in ALI 019501, County Reimbursement. This ALI is used to reimburse counties for their costs in providing legal counsel to indigent persons. The estimate allocates the appropriation over the fiscal year, but actual expenditures depend on the actual costs incurred by the counties and the timing of the requests for reimbursement.

## Primary and Secondary Education

This program category contains all GRF spending by the Ohio Department of Education (ODE), except for property tax reimbursement and Medicaid spending. This category was over its monthly estimate in January by $27.5 million, reducing its negative YTD variance to $10.9 million (0.2%). The positive January variance was mainly due to ALI 200550, Foundation Funding – All Students, which was over estimate by $29.8 million for the month. Also contributing to the January positive variance was ALI 200502, Pupil Transportation, which was over estimate by $5.1 million.

ALI 200550 is the main source of state support for public schools in the state, including those operated by traditional school districts, joint vocational school districts (JVSDs), and community and STEM (science, technology, engineering, and mathematics) schools, as well as for the state's scholarship programs for students attending chartered nonpublic schools. For FY 2023, estimated spending in this ALI comprises 83.7% of total estimated spending in the category. Expenditures from this ALI are governed by a variety of formulas and data and can be difficult to predict on a monthly basis. There are, therefore, often timing-related variances in this ALI. Similarly, ALI 200502 supports formula-derived funding for pupil transportation by schools and also experiences timing-related variances.

## Health and Human Services

This program category includes all GRF spending for non-Medicaid health and human services programs, except for debt service. ODJFS accounts for 53.4% of the estimated expenditures for this category for FY 2023, followed by the Ohio Department of Mental Health and Addiction Services (OhioMHAS) at 29.7% and the Ohio Department of Health (ODH) at 8.5%. Eight other agencies make up the remaining 8.4% of estimated spending.

This category's negative YTD variance fell by $6.3 million in January to $26.4 million (2.5%). All agencies were under estimate for the YTD with the exception of ODJFS, which was over its YTD estimate by $13.8 million. The two agencies with the largest negative YTD variances were ODH ($15.7 million) and OhioMHAS ($14.4 million).

Significant variances for ALIs in the ODJFS budget include:

- A positive monthly variance of $0.7 million in ALI 600535, Early Care and Education, which increased the positive YTD variance for this ALI to $12.0 million. This ALI is used to pay for publicly funded child care services.
- A positive monthly variance of $8.0 million in ALI 600450, Program Operations, which resulted in a positive YTD variance for this ALI of $9.5 million. This ALI primarily supports the operating expenses of several of the offices within ODJFS.
- A negative monthly variance of $1.1 million in ALI 600523, Family and Children Services, which lowered the YTD positive variance to $4.0 million. This ALI is used primarily to support county public children services agencies.
- A positive monthly variance of $2.9 million in ALI 600410, TANF State Maintenance of Effort, which lowered the negative YTD variance for this ALI to $0.8 million. This ALI is used in conjunction with other sources of funding to support Ohio's Temporary Assistance for Needy Families (TANF) program.

The majority of ALIs in ODH's budget were under estimate for the YTD, including ALI 440459, Help Me Grow, and ALI 440474, Infant Vitality, which were under estimate by $4.3 million and $2.5 million, respectively. ALI 440459 supports a family support program offered to pregnant women and new parents. ALI 440474 is used for programs designed to decrease infant mortality in Ohio.

Most ALIs in OhioMHAS's budget were under the YTD estimate, including ALI 336504, Community Innovations, and ALI 336422, Criminal Justice Services, which were under estimate by $4.7 million and $3.2 million, respectively. ALI 336504 is used for a variety of community programs that support OhioMHAS's mission. ALI 336422 is primarily used for forensic psychiatric evaluations and substance use disorder treatment for people involved in the court system.

## Transfers Out

Transfers out of the GRF were over the January estimate by $738.0 million and over the YTD estimate by $1.29 billion (188.5%). The January variance was primarily caused by a transfer of $727.0 million into the Budget Stabilization Fund (BSF). This transfer was authorized by H.B. 45 of the 134th General Assembly and was not included in the estimates. A transfer of $7.5 million into the Electronic Pollbooks Fund (Fund 5ZE0) was also authorized by H.B. 45 and also contributed to the January variance.

In addition to the January variance, the YTD variance is primarily due to transfers to support capital appropriations. H.B. 687 of the 134th General Assembly authorizes a total of $1.5 billion in transfers out of the GRF to support capital projects during the FY 2023-FY 2024 capital biennium.[10] The estimates have $1.1 billion of these transfers occurring in June, so this timing-related variance will not resolve until the end of the fiscal year. The following transfers out of the GRF to support capital projects, totaling $553.8 million, have been made so far this fiscal year:

October

- $200.0 million to the Higher Education Improvement Fund (Fund 7034);
- $100.0 million to the Adult Correctional Building Fund (Fund 7027).

November

- $150.0 million to the School Building Program Assistance Fund (Fund 7032);
- $60.0 million to the Third Frontier Research and Development Taxable Bond Fund (Fund 7014);
- $37.5 million to the Clean Ohio Conservation Fund (Fund 7056);
- $6.3 million to the Clean Ohio Agricultural Easement Fund (Fund 7057).

The YTD variance in transfers out can be further explained by the following:

- Transfers totaling $3.2 million to the National Guard Scholarship Reserve Fund (Fund 5BM0) that were authorized in R.C. 5919.341 but not included in the estimates;
- Transfers totaling $2.8 million to the Ohio College Opportunity Grant Program Reserve Fund (Fund 5PU0) that were authorized in R.C. 3333.124 but not included in the estimates;
- A transfer of $250,000 to the At Home Technology Pilot Fund (Fund 5XT0) that was estimated to occur in June;
- A transfer of $1.0 million to the Major IT Purchases Fund (Fund 4N60) in November, when the estimates reflect a transfer of $5.2 million in October.

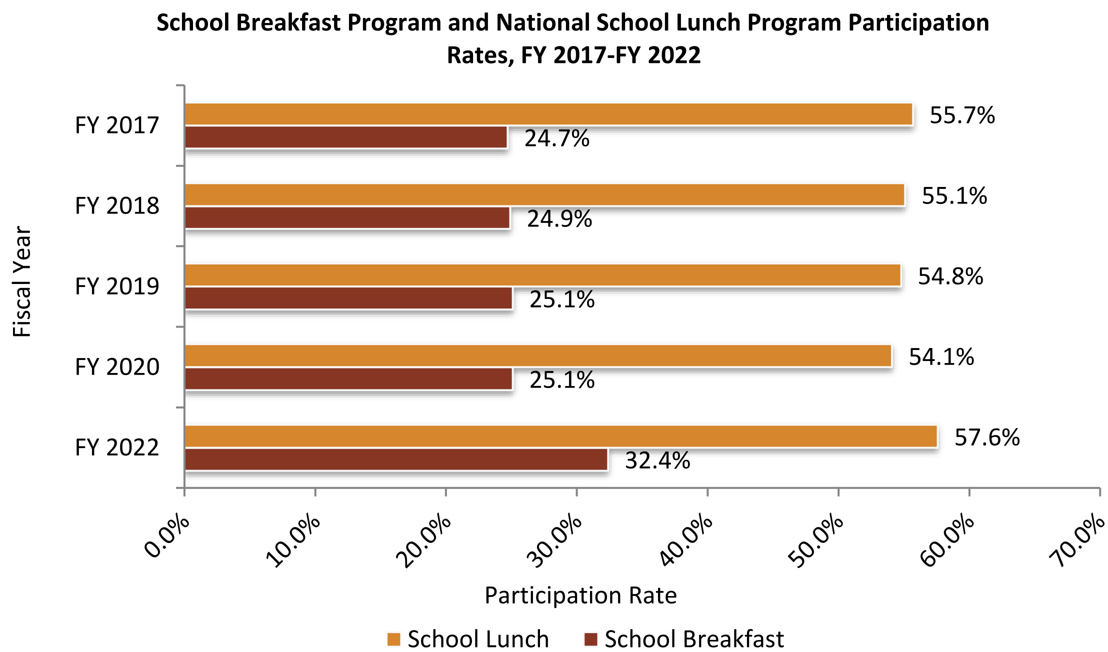
[10] Additional transfers may be made unless disapproved by either the Speaker of the House of Representatives or the President of the Senate.

# Issue Updates

## ODE Issues Report on School Nutrition Program Participation

*– Andrew Ephlin, Budget Analyst*

In December 2022, ODE issued its annual report on the School Breakfast Program (SBP), which is a federal program administered by ODE that supports free and reduced-price breakfasts for students meeting income eligibility guidelines. The report describes the implementation and effectiveness of the program by detailing participation rates and the type of breakfast model used as well as participation rates for the similar National School Lunch Program (NSLP). ODE found that statewide SBP and NLSP participation was higher in FY 2022 than in recent years preceding the COVID-19 pandemic, particularly for the SBP. As shown in the chart below, the participation rate[11] in SBP increased from 25.1% in FY 2019 (the first full year before the pandemic) to 32.4% in FY 2022, an increase of 7.3 percentage points. FY 2021 data is unavailable due to school participation in the Seamless Summer Option (SSO) and the Summer Food Service Program, two alternative federal school nutrition programs that were used in place of SBP and NSLP to support meals served to students not receiving in-person instruction. ODE suggests that the spike in SBP participation may be due in part to schools offering free breakfast to all students in FY 2022 under SSO. NSLP participation increased more slowly, by 2.8 percentage points from FY 2019 (54.8%) to FY 2022 (57.6%).

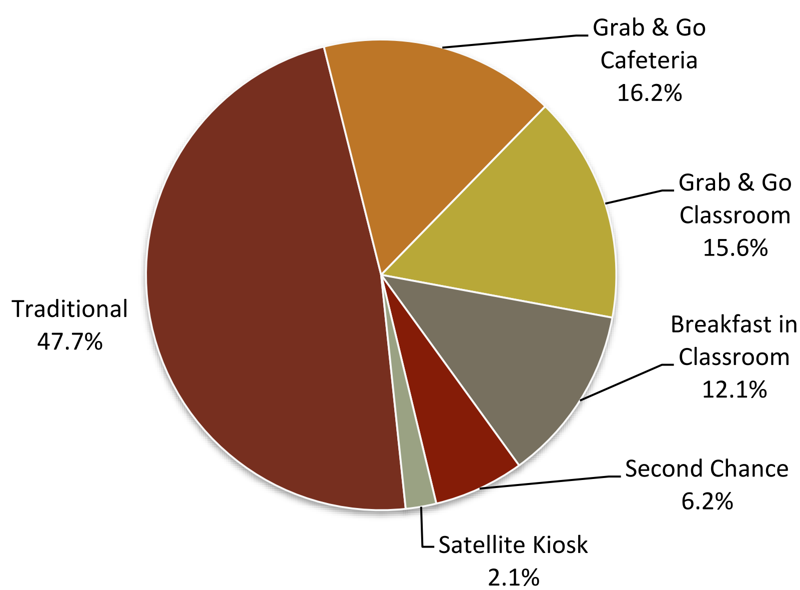



[11] ODE calculated each program's participation rate as the ratio of its average daily participation to statewide student enrollment.

The growth in SBP and NSLP participation, along with increased federal reimbursement rates and temporary federal nutrition program waivers that permitted all students to receive free meals, contributed to a significant increase in federal meal reimbursements passed through ODE to schools and other providers in FY 2022. That year, NSLP, SBP, and SSO reimbursements totaled $1.09 billion, including $851.9 million for school lunches and $238.3 million for school breakfasts. For reference, these reimbursements totaled $494.6 million in FY 2019.

The ODE report also summarizes the different breakfast models and their frequency in the current 2022-2023 school year (FY 2023), which is presented in the chart below. Note that schools may use more than one breakfast model; therefore, the percentages represent the proportions of the total number of models used.

**Frequency of Breakfast Service Models Used, FY 2023**




The most common breakfast service type, used in just under half of the models, is the traditional method that uses a serving line in the cafeteria before the beginning of the school day. The second- and third-most used methods, require students to pick up bagged meals to eat in the cafeteria (16.2%) or the classroom (15.6%). ODE reports that many schools that began using these and other alternative breakfast service models in response to the pandemic have continued to employ them despite the return to in-person learning. For additional details, see the Ohio School Breakfast Program annual report (PDF), which may be accessed by conducting a keyword "annual reports" search on the ODE website: education.ohio.gov.

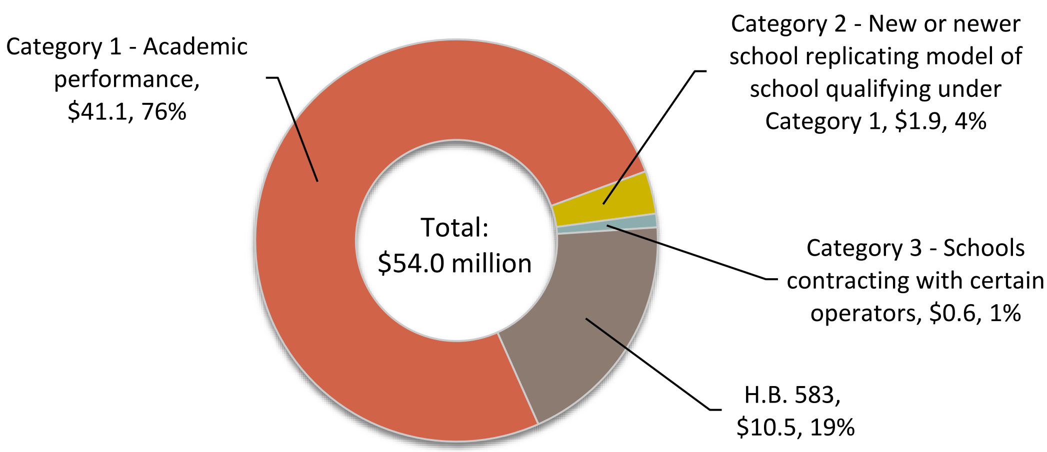
## ODE Announces Quality Community School Support Awards

*– Daniel Hummel, Budget Analyst*

In January 2023, ODE released the list of schools awarded Quality Community School Support funds for the 2022-2023 school year. The program rewards community schools that meet certain criteria with respect to sponsor ratings, report card performance, and other factors. Designated schools receive payments of $1,750 for every student identified as economically disadvantaged and $1,000 for each other student. For the 2022-2023 school year, ODE awarded $54 million, supported by lottery profits, to 117 schools. These schools served 39,470 full-time equivalent (FTE) students, of whom 36,344 (92%) were economically disadvantaged. The number of students in qualifying schools required each school's payment to be prorated to about 81% of the calculated amount to fit within the appropriation.

A community school must meet at least one of three categories of criteria to qualify for the Quality Community School designation, all of which require that a school's sponsor must be rated "exemplary" or "effective" on the sponsor's most recent evaluation. The three categories allow schools to qualify based on a variety of metrics and capture different dimensions of school quality. Schools that meet the designation criteria for a given fiscal year, in general, retain the designation for the subsequent two fiscal years, for a total of three years of eligibility. The chart below illustrates the amount of FY 2023 funding distributed by designation category.

**Quality Community School Support Funds by Designation Category ($ in millions), FY 2023**




Of the 117 schools designated, 71 schools, receiving $41.1 million, qualified under Category 1, which focuses on the academic performance of the schools. In general, this category takes into account performance index scores relative to the school district in which the school is located, the value-added progress dimension on the report cards (a statistical measure intended to capture students' learning over the course of a school year), and the school's concentration of economically disadvantaged students. Eight schools, receiving $1.9 million, qualified under Category 2, which designates certain schools that are new or opened within the last four years, that are replicating an instructional or operational model of a school designated under Category 1, and whose operator, if any, meets certain performance requirements. One school, receiving $593,000, qualified under Category 3, which applies to schools contracting with certain operators that also operate schools in other states. In addition to these three categories, H.B. 583 of the 134th General Assembly temporarily allows schools designated for the first time in the 2019-2020 school year to maintain their designation for the 2022-2023 school year, essentially providing a fourth year of eligibility for schools that otherwise would have been disqualified. Of the 117 schools, 30 (26%) qualified under the H.B. 583 criteria and received a total of $10.5 million, or about 19% of awarded funds.

Payments for each fiscal year are calculated based on the final FTE number of students enrolled in the school for the prior fiscal year. However, if a school is in its first year of operation, the payment is calculated using the school's FTE number of students for the current fiscal year as of the date the payment is made.

## OFCC Awards $100 Million in Ohio K-12 School Safety Grants to Approximately 1,770 Schools in FY 2023

*– Jason Glover, Budget Analyst*

In November 2022, the Ohio Facilities Construction Commission (OFCC) awarded a total of $57.7 million in Ohio K-12 School Safety grants to more than 700 schools, bringing the total grant awards and number of schools funded in FY 2023 under the program to $100.0 million and about 1,770 schools. With the November 2022 funding round, OFCC has fully awarded the $100.0 million in federal American Rescue Plan Act (ARPA) funds appropriated for the program in H.B. 687, the capital budget act for the 134th General Assembly.[12] Under the program, OFCC makes competitive grants of up to $100,000 to public and chartered, nonpublic schools for physical security enhancement, equipment, or inspection and screening equipment to improve the overall physical security and safety of their buildings. Grants are awarded according to guidelines adopted by OFCC after consultation with ODE and DPS's Division of Ohio Homeland Security. Under H.B. 687, OFCC may consider applications submitted by schools and districts that applied for but did not receive a grant from the $5.0 million appropriated for the School Safety Grant Program in S.B. 310 of the 133rd General Assembly. School buildings that received a grant under that program or have had their facilities constructed or renovated under any school facilities assistance programs in the last five years are prohibited from receiving a grant under this program.

Grant amounts per school ranged from about $1,000 to the maximum $100,000. The table below summarizes the grant recipients and total awards by school type. As the table shows, 1,491 traditional schools (located within 369 school districts) received the bulk of the funds, at $78.8 million. A total of 156 chartered nonpublic schools received about $13.8 million, followed by 89 community schools, at about $5.0 million, 24 JVSDs, at about $1.5 million, and 13 educational service centers (ESCs), at about $880,000. The full list of awards and recipients for each round can be accessed by conducting a keyword "school safety grants" search on OFCC's website: ofcc.ohio.gov.

[12] In August 2022, OFCC awarded $42.3 million in Ohio K-12 School Safety grants to 1,065 schools.

| School Safety Grant Awards, FY 2023 | | |
|---|---|---|
| **Type of School** | **Number of Schools** | **Total Awards** |
| Traditional School | 1,491 | $78,789,712 |
| Chartered Nonpublic | 156 | $13,814,866 |
| Community School | 89 | $4,978,692 |
| JVSD | 24 | $1,535,084 |
| ESC | 13 | $881,646 |
| **Total** | **1,773** | **$100,000,000** |

H.B. 45 of the 134th General Assembly provides an additional $112.0 million in ARPA-supported funds for school safety grants in FY 2023 and reappropriates any unused balance of this appropriation at the end of FY 2023 for the same purpose in FY 2024. OFCC plans to award these funds by the end of this fiscal year.

## Department of Development Awards $64.1 Million in Ohio Historic Preservation Tax Credits

*– Shannon Pleiman, Senior Budget Analyst*

On December 20, 2022, DEV approved 54 awards totaling $64.1 million in Round 29 of the Ohio Historic Preservation Tax Credit (OHPTC) Program. These awards will be used for the rehabilitation of 57 historic buildings. The table below displays the number of awards by region, total value of awards, total project costs, and the average percentage of the project cost covered by the award in each region.

| Ohio Historic Preservation Tax Credit Awards, Round 29 | | | | |
|---|---|---|---|---|
| **Region** | **Number of Awards** | **Total Value of Awards** | **Total Project Costs** | **Award as % of Total Project Costs** |
| Northeast | 18 | $29,812,825 | $449,949,232 | 6.6% |
| Southwest | 21 | $20,805,532 | $373,819,502 | 5.6% |
| Central | 4 | $7,222,000 | $137,928,682 | 5.2% |
| Northwest | 7 | $3,664,191 | $26,883,108 | 13.6% |
| Southeast | 4 | $2,628,299 | $23,571,155 | 11.2% |
| **Total** | **54** | **$64,132,847** | **$1,012,151,679** | |

The OHPTC Program is designed to aid investment within historic areas, restore buildings that will attract new businesses, and generate new jobs. To be eligible, generally a building must be listed on the National Register of Historic Places or designated as a local landmark by a certified local government. The program is administered through a partnership between DEV and the Ohio History Connection's State Historic Preservation Office. DEV awards two rounds of funding each year. The tax credits can be claimed against the applicable income tax, FIT, and foreign and domestic insurance premium taxes.

S.B. 225 of the 134th General Assembly contained several temporary changes to the OHPTC Program for FY 2023 and FY 2024. The bill increased the funding allocation for the program from $60.0 million per fiscal year to $120.0 million per fiscal year (the allocation is still divided evenly between the two annual funding rounds). S.B. 225 also increased the maximum tax credit award from $5.0 million to $10.0 million (but no more than 25% of the qualified rehabilitation expenditures). Lastly, the bill allows previously awarded OHPTC awardees in rounds 25 to 28 to reapply for increased tax credits if construction did not commence before the approval date of the new application. In Round 29, 12 projects were awarded an increased tax credit.

## MARCS Grants Totaling $3.5 Million Awarded to Fire Departments in 76 Counties.

*– Tom Wert, Senior Budget Analyst*

On December 29, 2022, the Division of State Fire Marshal within the Department of Commerce (COM) announced $3.5 million in awards under the Multi-Agency Radio Communication System (MARCS) Grant program. Overall, 325 fire departments in 76 counties were awarded grants, ranging from $240 to $50,000, the maximum award amount under the program. Nine departments statewide were awarded the maximum amount. H.B. 110 earmarked up to $3.5 million for the program in FY 2023. The list of recipients can be found on the State Fire Marshal's website: com.ohio.gov/divisions-and-programs/state-fire-marshal.

MARCS grants are primarily used to offset the costs that local fire departments incur for equipment and services that are compatible with MARCS. Additional grant funding beyond equipment costs may be used to pay MARCS-related radio user fees. The State Fire Marshal uses a variety of criteria to decide award amounts, including: (1) the fire department's annual budget, (2) the annual number of fire incidents, (3) the resident population served by the department, (4) the fire protection area size, and (5) requests from multiple jurisdictions within the same county or region collaborating to acquire or complete MARCS service for their fire departments. Eligible grant recipients include volunteer fire departments, municipal or small township fire departments that serve one or more small municipalities or townships, joint fire districts, and municipalities that contract with certain private fire companies that serve a population of 25,000 or less. Funding for the MARCS grants comes from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses. The revenue from these various sources is deposited into the State Fire Marshal Fund (Fund 5460).

## OhioMHAS Awarded a $2 Million Federal 988 Lifeline Grant

*– Suveksha Bhujel, Economist*

On December 16, 2022, OhioMHAS received a $2 million federal grant to enhance the state's 988 Lifeline response and workforce expansion efforts. Funds will be used for a variety of activities, including the following: to improve the coordination between 988 and 911 systems, increase each state's ability to answer 988 Lifeline chat and text requests initiated within their state, streamline access to mobile crisis response teams for all 988 crisis centers, assist in the expansion of human resource systems to increase 988 hiring and recruitment, and improve follow-up and referral outcomes. The grant is administered by the U.S. Substance Abuse and Mental Health Services Administration (SAMHSA). In total, SAMSHA made $47 million available to states and territories for these efforts. Grant awards ranged from $458,000 to $2 million. Ohio received the largest grant award, along with Florida, Illinois, Michigan, New York, North Carolina, Pennsylvania, and Texas.

Federal legislation (National Suicide Hotline Designation Act of 2020) required states to transition from the ten-digit National Suicide Prevention Lifeline (NSPL) number to the three-digit 988 number by July 16, 2022. Previously, SAMHSA was responsible for NSPL, which was a confidential 24/7 telephone line that connected individuals in crisis with trained counselors across the United States. The service provided referrals to local treatment facilities, support groups, and community-based organizations. With the 988 transition, states are taking a more active role in the administration of the hotline. SAMHSA has awarded grants in the past to facilitate this process. OhioMHAS received a $360,000 planning grant in January 2021 and a $3.3 million grant in May 2022 to build 988 call center capacity.

## Federal Government Sets End of Continuous Medicaid Coverage Requirement

*– Nelson V. Lindgren, Economist*

Beginning on April 1, 2023, states will be allowed to disenroll individuals from their Medicaid rolls. Since March 2020, with the passage of the federal Families First Coronavirus Response Act, states were required to meet specific requirements in exchange for receiving a 6.2 percentage point increase in the state's federal medical assistance percentage (FMAP) for certain Medicaid expenditures. One of the chief requirements was that states had to provide continuous coverage to Medicaid recipients during the public health emergency. As a result, Medicaid recipients could only be disenrolled from the program if the individual moved out of state or asked to be disenrolled. However, in December 2022, the federal Consolidated Appropriations Act (CAA) of 2023 was signed into law. This legislation eliminates the requirement that states provide continuous coverage and also phases down the enhanced FMAP. Under the CAA, the enhanced FMAP for the last three quarters of CY 2023 will be as follows: 5.0 percentage points from April through June; 2.5 percentage points from July through September; and 1.5 percentage points from October through December. States will need to develop comprehensive "unwinding" plans detailing how the state will return to normal eligibility and enrollment operations and have this plan approved by the U.S. Centers for Medicare and Medicaid. Disenrollments can only occur after an eligibility redetermination. Due to the time involved in carrying out redeterminations, states will have up to 12 months to initiate and 14 months to complete their unwinding plans after the continuous coverage requirement ends.

## Controlling Board Approves an Increase to Implement the Nursing License Compact

*– Suveksha Bhujel, Economist*

On December 12, 2022, the Controlling Board approved the Nursing Board's request to increase appropriations by about $330,000 in FY 2023 to implement the Nurse Licensure Compact agreement. Under the Compact, a multistate license (MSL) issued by a nurse's primary state of residence will allow a nurse to practice as a registered or licensed practical nurse in other Compact states without additional licensure. The Nursing Board received the grant award from the National Council of State Boards of Nursing. The award will be used as follows: $70,000 for eLicense enhancements; $60,000 for outreach materials for applicants, colleges, universities, and employers; and $100,000 for temporary staffing to help with the issuance of licenses. An MSL may benefit nurses in Compact states by making it easier to practice across borders, to practice telehealth, to teach via distance education, and to respond more quickly to disasters. Additionally, employers in Compact states may also benefit. For instance, hiring nurses with an MSL could expand recruitment efforts, decrease the time it takes to fill positions, and reduce any employer costs associated with obtaining multiple licenses.

S.B. 3 of the 134th General Assembly entered Ohio into the Compact effective January 1, 2023. Currently, there are 36 Compact states including Ohio. One additional state recently enacted Compact legislation, but has not yet begun implementation, while another seven states have introduced Compact legislation. Compact licensure requirements are the same for all states. Thus, nurses issued an MSL have met uniform requirements and have also passed a federal and state criminal records check. In Ohio, the fee for an initial MSL is $100 and a renewal fee is $75.

## Attorney General Releases FY 2022 Crime Victim Services Report

*– Jessica Murphy, Budget Analyst*

In January 2023, the Attorney General's Office released its Crime Victim Services Report for FY 2022. The annual report is required under R.C. 2743.69 and includes information related to claims made under the Crime Victim Compensation Program, including the receipts, disbursements, and balance of the Reparations Fund (Fund 4020). One of the purposes of this fund is to pay reparations to crime victims and their families.[13] However, reparations payments are also funded through the federal Crime Victims Compensation Fund (Fund 3FV0) and the GRF. In total, $6.1 million in claims was paid in FY 2022.[14] The complete report (PDF) may be found on the Attorney General's website under the "Media" tab and selecting "Reports" at: ohioattorneygeneral.gov.

[13] Applicants may be reimbursed up to $50,000 for economic losses incurred as a result of a violent crime. Economic losses that can be recovered are: medical and related expenses, funeral and burial expenses (up to $7,500), dependents' economic losses resulting from the death of a victim, crime scene cleanup expenses (up to $750), and compensation for property held as evidence (up to $750).

[14] $0.9 million from Fund 4020, $4.9 million from Fund 3FV0, and $0.3 million from the GRF.

Other report highlights include:

- The Attorney General's Office processed 4,504 new reparations claims during FY 2022, with the average award totaling $3,355; in FY 2021, new claims totaled 4,782, with an average award totaling $3,388.
- The majority of the claims paid in FY 2022 went to victims of assault (37.3%) followed by awards related to homicide (31.9%) and child sexual abuse (7.8%).
- Since FY 2016, Fund 4020's primary source of revenue, court costs and fees, has been decreasing, with court costs receipts totaling $9.2 million in FY 2022 as compared to $13.3 million in FY 2016.
- Several shifts in program expenses have taken place to help offset declining revenue. In FY 2020, federal grant funds were secured for funding certain DNA testing expenditures and for the Sexual Assault Forensic Exam (SAFE) Program. In combination with federal grant funding, GRF was also used to pay for the majority of the SAFE Program in FY 2022.
- The cash balance of Fund 4020 totaled $10.4 million at the end of FY 2022, compared to $9.5 million at the end of FY 2021 and $7.3 million at the end of FY 2020.

Responsibility and management of the Reparations Fund (Fund 4020), which was first created in 1976, was transferred from the Court of Claims to the Ohio Attorney General's Office on July 1, 2000. The Court of Claims still hears appeals of decisions made by the Attorney General's Crime Victim's Services section.

## Controlling Board Approves Release of $4.8 Million in State Disaster Relief Funding

*– Maggie West, Senior Budget Analyst*

On December 12, 2022, the Controlling Board approved a request from the Ohio Emergency Management Agency (Ohio EMA), located within DPS, to increase State Disaster Relief Fund (Fund 5330) ALI 763601, State Disaster Relief, by $4.8 million in FY 2023 to reimburse the cost of damages incurred by several counties as a result of severe weather events. The request was triggered by the Governor's authorization in November 2022 to implement the State Disaster Relief Program (SDRP) for multiple severe weather events that occurred earlier in the year. The Governor's authorization of the SDRP, which provides for the use of the State Disaster Relief Fund, allows the Ohio EMA to request the funding from the Controlling Board.

The SDRP is a reimbursement program that can be used in instances where storm damage amounts do not meet the threshold to qualify for federal assistance. It is intended to provide supplemental state assistance to local governments and eligible nonprofit organizations and is available for those counties impacted by the severe weather event whose damages meet a specified countywide per capita indicator. The cash balance and appropriation of Fund 5330 are monitored jointly by Ohio EMA and OBM with quarterly adjustments typically requested by the Controlling Board.

The following table lists those severe weather events that are funded using the appropriation increase, the counties eligible to receive reimbursement, and the amount and type of damages for each event.

| State Disaster Relief Program Reimbursement (Total: $4,811,000) | | | |
|---|---|---|---|
| **Severe Weather Event** | **Amount** | **Eligible Counties** | **Type of Damage** |
| **Flooding and severe storms** (February 2022) | $2,508,000 | Gallia, Harrison, Jefferson | Infrastructure (roads) damage |
| **Tornadoes** (July 2022) | $1,503,000 | Clermont | Damage to public buildings, debris removal operations, and emergency response measures |
| **Severe Storms** (May 2022) | $800,000 | Monroe, Muskingum | Infrastructure (roads) damage |

# Tracking the Economy

*– Philip A. Cummins, Senior Economist*

This month's edition of *Tracking the Economy* was derived from the Economic Outlook in LBO's *Baseline Forecast of GRF Revenues & Medicaid Expenditures*.

## Overview

Surging prices and wages in the U.S. led the Federal Reserve, the nation's central bank, to raise short-term interest rates starting last March. This ongoing monetary tightening is aimed at restraining aggregate demand and bringing inflation under control. It appears to be having the desired effect but has further to run and may lead to a more widespread economic downturn this year.

Output growth slowed in 2022, and industrial production nationwide declined in last year's fourth quarter. Employers collectively continued to add to payrolls through the end of 2022, though growth of total employment slowed and some large employers recently have announced layoffs. In January, however, U.S. total nonfarm payroll employment increased 517,000, the largest month-to-month change since last July, and the nationwide unemployment rate fell to 3.4%, lowest since 1969. Economic recovery from the exceptionally sharp, brief 2020 recession is largely complete in the aggregate though not for all industries or regions. The broadest measure of economic activity, national inflation-adjusted gross domestic product (real GDP), was at a new all-time peak at the end of last year.

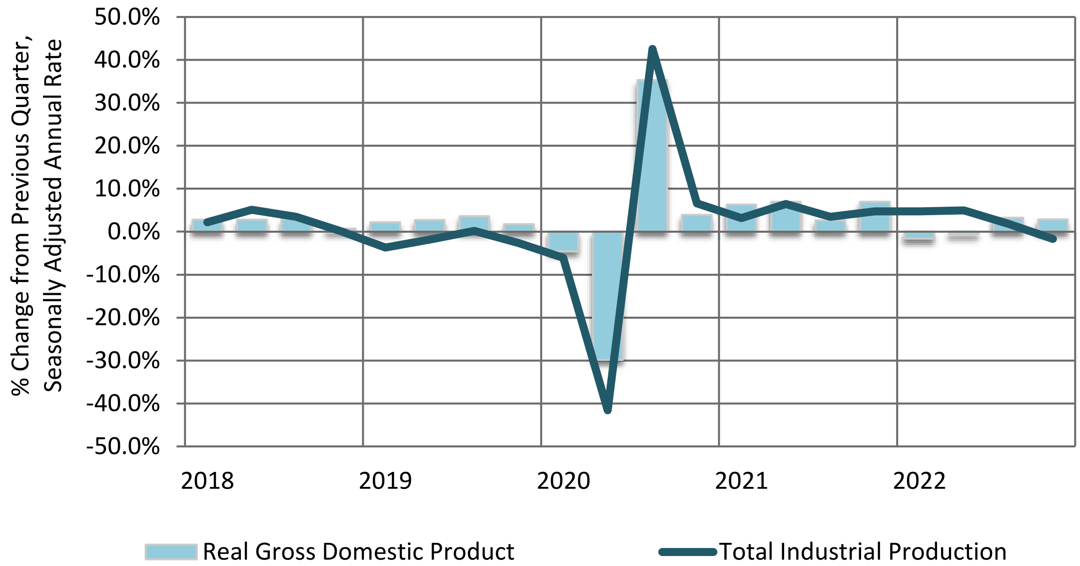
Contributors to the elevated inflation in this country and elsewhere are numerous, including pandemic disruptions of supply chains; pandemic-related ongoing labor shortages; increased government deficits to fund fiscal stimulus, including transfer payments designed to combat adverse pandemic effects on people's well-being; the very low interest rates set by the central bank in most of 2020, all of 2021, and into 2022, also to support recovery; and Russia's war on Ukraine.

Economic activity in Ohio, as elsewhere, will be constrained by the monetary tightening and the waning of fiscal stimulus enacted in 2020 and 2021. As discussed more fully below, most but not all measures of economic activity in the state show Ohio trailing the nation as a whole in the recovery and expansion following the 2020 recession.

## The National Economy

The chart below shows the huge swings in real GDP and industrial production during the past five years. Both output measures plunged in the 2020 second quarter as the COVID-19 pandemic and policy responses to it shut down segments of the economy, then surged in the next quarter as shuttered economic sectors reopened. More recently, real GDP grew more slowly quarter-by-quarter through 2021, contracted in the first two quarters of 2022, then turned higher in last year's third and fourth quarters. Industrial production fell in the 2022 fourth quarter, as manufacturing production was reduced in numerous industries.

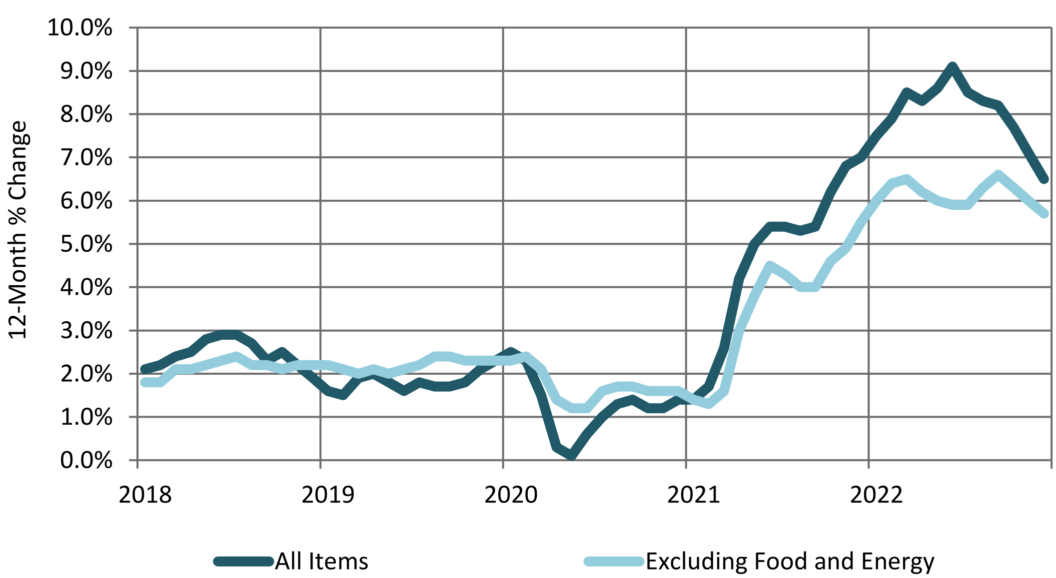
**Chart 4: United States Output Measures**




Real consumer spending grew more slowly in 2022, and declined in the last two months of the year, as support from federal transfer programs waned. Rising residential mortgage interest rates in 2022, following sharp home price increases in 2021, made home purchases less affordable, leading to falling housing sales and lower residential fixed investment. Nonresidential fixed investment, in total, grew in 2022, but business investment in structures fell for the third straight year, and growth of equipment buying slowed.

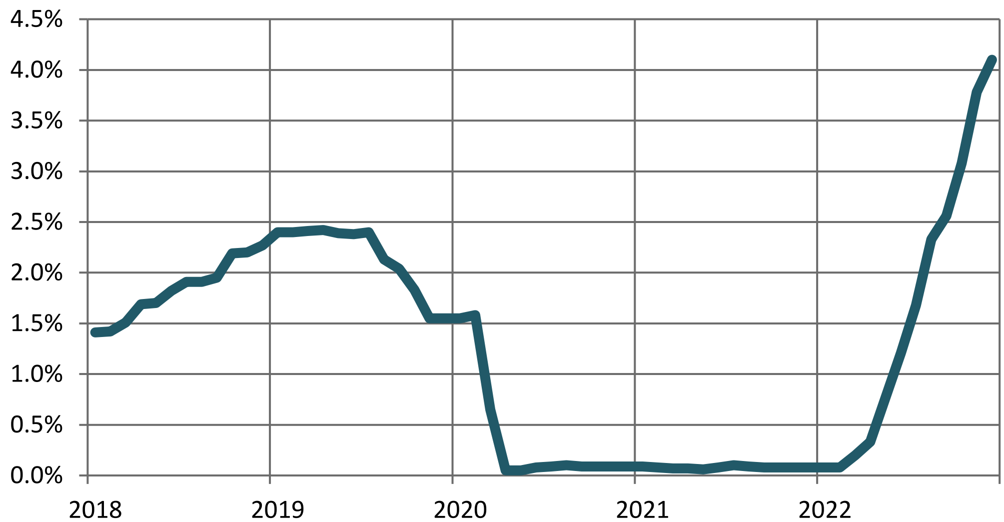
Inflation measured by the consumer price index (CPI) is shown in the following chart, for all items and for consumer prices other than food and energy. The chart shows percent changes in the indexes from a year earlier. Inflation increased in 2021 and reached a peak for all items in June 2022 when the index was 9.1% higher than a year earlier. In last year's second half, food prices rose more slowly and energy prices fell. Prices for other goods also declined in the 2022 second half, but prices for other services continued to rise rapidly.

**Chart 5: United States Consumer Price Index**



The Federal Reserve sharply increased its target short-term interest rate last year, as shown in the following chart. It also halted a program of buying U.S. Treasury and agency securities, to hold down longer-term interest rates, and began allowing its securities holdings to decline as they matured. The central bank's policy-setting Federal Open Market Committee met January 31-February 1 and raised its interest rate target by one-quarter percentage point, to a range of 4.5% to 4.75%. At that time, central bank policy makers expected further increases in their interest rate target in the future.

**Chart 6: Effective Federal Funds Rate**

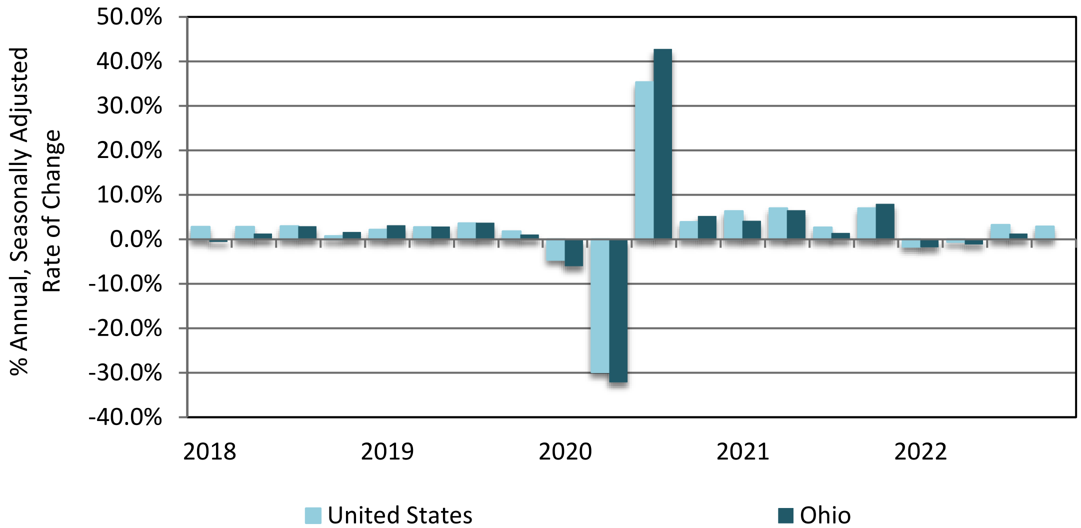



## The Ohio Economy

The recovery of Ohio's economy from the pandemic downturn in 2020 has been slightly ahead of that of the nation by the broadest measure, real GDP. From the low point in the 2020 second quarter to the 2022 third quarter, real GDP in the state rose 15.7%, compared with a 15.4% increase in real GDP nationwide. This followed a sharper downturn in the 2020 recession in the state (-10.6%) than nationwide (-9.6%). In the previous expansion period of about ten years, Ohio's economy grew more slowly (21.7%) than the national economy (26.7%).

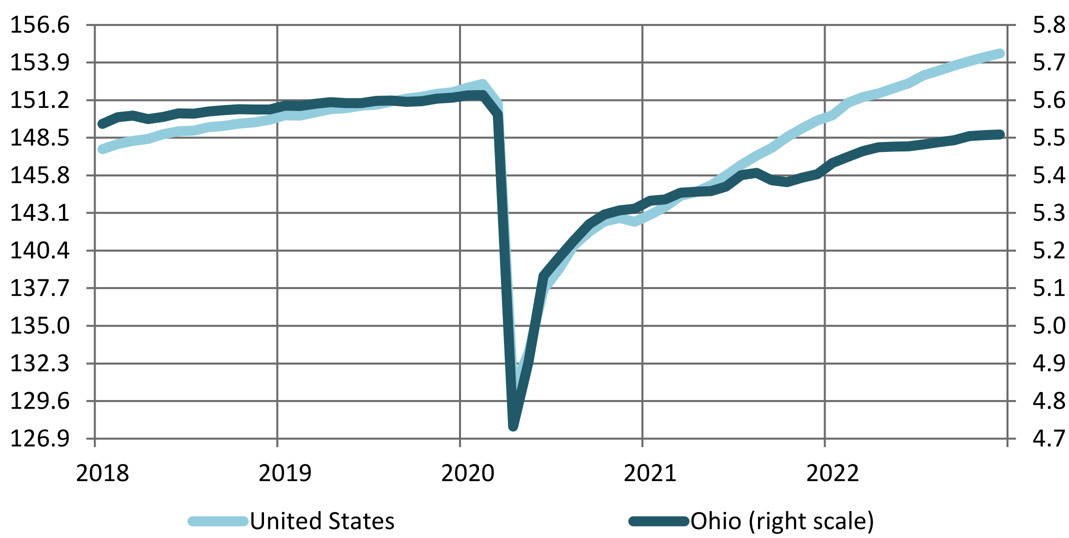
Other measures of economic activity in Ohio and the nation generally show slower growth in the state during the recovery period, as discussed below.

**Chart 7: Real Gross Domestic Product Growth**
**Seasonally Adjusted**



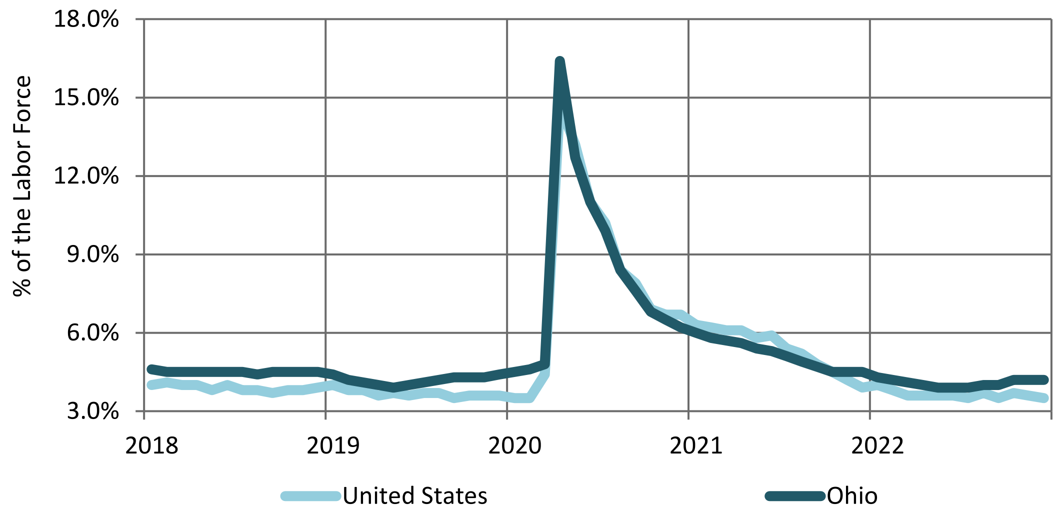

Job growth in Ohio has lagged job growth nationwide. Employment rose in Ohio following the pandemic downturn in 2020, though not as rapidly as nationwide. From the April 2020 recession trough through December 2022, total statewide nonfarm payroll employment rose 16.4%, compared with a 18.5% increase nationwide. Ohio employment as of December was 105,200 (1.9%) below the prerecession peak in February 2020 and 127,100 (2.3%) lower than the all-time peak in 2000. This contrasts with the comparable total nationwide, which rose to a new all-time high in January 2023.

**Chart 8: Total Nonfarm Payroll Employment**
**Millions, Seasonally Adjusted**



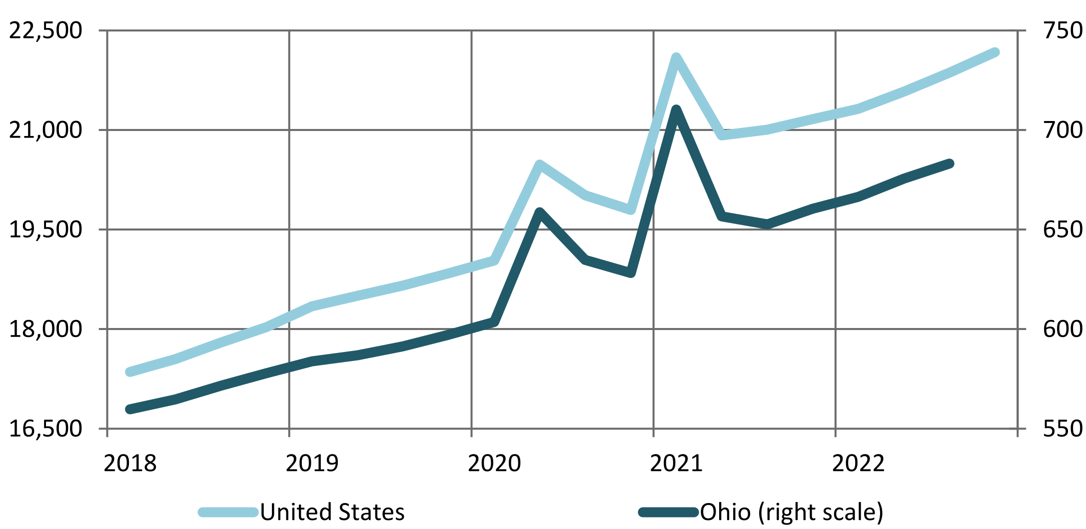
Ohio's unemployment rate has been higher than the national unemployment rate since November 2021. Ohio's unemployment rate in December was 4.2%, compared with the national unemployment rate of 3.5% in that month and 3.4% in January 2023. The Ohio and national unemployment rates from 2018 through 2022 are shown in the chart below.

**Chart 9: Unemployment Rate**
**Seasonally Adjusted**




Personal income rose sharply in 2020 and 2021 as a result of federal transfer payments enacted in response to the pandemic. Over the full period shown in the chart, Ohio total personal income rose 23.1%, about a 4.5% annual rate. Total personal income nationwide rose 27.5%, a 5.2% annual rate, through last year's third quarter and rose further, at a 5.8% annual rate, in the fourth quarter.

**Chart 10: Personal Income**
**Billions of Dollars, Seasonally Adjusted Annual Rates**



# Economic Forecasts

The following are forecasts of key indicators of the economic environment that will determine state revenues during the next biennium. Some of the indicator forecasts were inputs to LBO models used to make state revenue forecasts. Both these economic indicator forecasts and LBO's forecasts for state revenues are inherently subject to uncertainty. The economic indicator projections shown below are from baseline forecasts released in December 2022 by IHS Markit, a unit of S&P Global, an economic forecasting firm used by LBO.

The first line in each table contains quarter-by-quarter projected changes in the indicator at seasonally adjusted annual rates. The second line contains year-over-year projected changes in the indicator averaged over the four quarters of the fiscal year. The unemployment rate tables are IHS Markit's unemployment rate projections for the quarters indicated (first line) and the average of the rates in the quarters of each fiscal year (second line).

## U.S. Gross Domestic Product

IHS Markit anticipated a mild recession in the first two quarters of calendar year (CY) 2023, followed by a slow expansion. U.S. real GDP was projected to increase about 1.5% annually on average in the next biennium, as shown below.

| U.S. Real GDP Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | -1.2 | -1.0 | 1.5 | 2.0 | 2.1 | 2.2 | 2.1 | 2.1 | 1.9 | 1.9 | 1.9 | 1.9 |
| Fiscal Year | | 0.8 | | | | 0.8 | | | | 2.1 | | |

## Ohio Gross Domestic Product

The predicted U.S. recession is expected to slow economic activity in Ohio. Real GDP in the state is projected to increase at about a 1.2% annual rate on average in the next biennium, somewhat slower than the nation's growth rate.

| Ohio Real GDP Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | -1.3 | -1.2 | 0.9 | 1.3 | 2.1 | 2.0 | 2.0 | 1.9 | 1.3 | 1.6 | 1.9 | 1.7 |
| Fiscal Year | | -0.2 | | | | 0.5 | | | | 1.8 | | |

## U.S. Inflation

Inflation, as measured by the rate of increase in the CPI for all urban consumers, is predicted to slow from recent elevated levels and to average around 2.5% annually during the next biennium.

| U.S. Consumer Price Index Inflation | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 3.9 | 2.1 | 2.8 | 3.0 | 2.1 | 1.4 | 2.4 | 2.6 | 2.1 | 2.1 | 1.9 | 2.1 |
| Fiscal Year | | 6.4 | | | | 2.7 | | | | 2.2 | | |

## U.S. Personal Income

Nationwide personal income growth was projected to increase following the mild recession predicted for the first half of this calendar year and to grow about 4.5% on average annually during the upcoming biennium.

| U.S. Personal Income Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 3.9 | 2.7 | 4.1 | 4.3 | 5.4 | 4.8 | 4.7 | 4.7 | 5.2 | 4.7 | 4.5 | 4.4 |
| Fiscal Year | | 4.8 | | | | 4.2 | | | | 4.8 | | |

## Ohio Personal Income

Income to persons who reside in Ohio was forecast to grow 4.9% during FY 2023. In the next biennium, personal income grows at a 4.5% annual rate on average.

| Ohio Personal Income Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 4.3 | 2.8 | 3.7 | 4.0 | 5.8 | 4.8 | 4.6 | 4.6 | 5.2 | 4.4 | 4.3 | 4.1 |
| Fiscal Year | | 4.9 | | | | 4.2 | | | | 4.8 | | |

## U.S. Unemployment Rate

In IHS Markit's December baseline forecast, the national unemployment rate rises during this calendar year as a result of the expected recession in the year's first half, then declines during the next two years. The nationwide unemployment rate was forecast to average around 5.0% during the upcoming biennium.

| U.S. Unemployment Rate | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent of the labor force ---------------------------------- | | | | | | | | | | | |
| Quarterly | 3.8 | 4.4 | 5.0 | 5.3 | 5.3 | 5.1 | 4.9 | 4.8 | 4.7 | 4.7 | 4.6 | 4.5 |
| Fiscal Year | | 3.9 | | | | 5.2 | | | | 4.8 | | |

## Ohio Unemployment Rate

Ohio's unemployment rate was projected to rise this calendar year as a result of the predicted recession, then to decline next year. Statewide unemployment is forecast to average 5.7% of the labor force in the upcoming biennium.

| Ohio Unemployment Rate | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2025 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent of the labor force ---------------------------------- | | | | | | | | | | | |
| Quarterly | 4.4 | 5.1 | 5.7 | 6.1 | 6.1 | 5.9 | 5.7 | 5.5 | 5.4 | 5.3 | 5.3 | 5.2 |
| Fiscal Year | | 4.4 | | | | 5.9 | | | | 5.5 | | |