

# ON THE MONEY

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## **FISCAL YEAR 2021:**

### **January Bottom Line: Plus \$1.120 Billion**

This edition of the Bottom Line reports the revenue and expenditure totals for the first 7 months of fiscal year 2021. General Revenue Fund (GRF) *Tax revenues* exceeded estimate by \$539 million for the first 7 months of the new fiscal year. “Other revenues” were \$31 million above estimate through January and combined with Federal grant revenues that were \$657 million below estimate for the first 7 months, *Total General Fund Revenue* fell short of estimates by \$87 million through the first 7 months of FY21. Meanwhile, FY21 Expenditures through January were below estimate by \$1.208 billion. This is largely due to Medicaid enrollment, and hence expenditures, falling below July’s revised estimates. Thus, the combination of total GRF revenue below estimates with expenditures much farther below projections means that the net Bottom Line for the first 7 months of FY21 is a positive \$1.120 billion.

A comparison of FY21 GRF tax revenues to FY20 GRF tax revenues for the first 7 months of the fiscal year showed that the State GRF received \$1.055 billion more in tax receipts through January; FY21 than it received over the same portion of FY20. More than 2/3<sup>rd</sup> of the tax revenue increase compared to last December was due to the delay of the income tax filing deadline from April 15<sup>th</sup> to July 15<sup>th</sup> which caused \$719 million in income tax revenue to shift from FY20 to FY21. The state also received \$1.340 billion more in Federal grant revenues through the first 7 months of FY21 as compared to the same portion of FY20. On the expenditure side, the State spent \$385 million more in the first 7 months of FY21 than it spent over the same period one year ago.

### **January Receipts: Plus \$77 Million**

Table 1 summarizes General Revenue Fund (GRF) revenues and expenditures for the month of January. January revenues were \$77 million more than forecast and combined with January spending of \$509 million below estimated levels, a Bottom Line of plus \$586 million for the month of January was realized.

GRF receipts come from three sources: taxes, federal grants, and “other.” The latter category consists of licenses and fees and earnings on the State’s investments. Most categories of tax revenue were fairly close to estimated levels in January. The non-auto sales tax (+\$31.5 million) and auto sales tax (+\$10 million) were both above estimate in December, and the personal income tax was \$71.5 million above estimate. The non-auto sales tax has now been above estimate in 6 of the first 7 months of FY21. OBM attributes the unexpectedly strong performance of the non-auto sales tax in FY21 to a

shift in consumption patterns away from non-taxable services and towards taxable goods. The auto sales tax has been above estimate for 8 straight months, fully offsetting the \$126 million auto sales tax revenue decline from March through May. Cigarette tax revenues have been above estimate in all but 2 months since the pandemic began in March.

Financial Institutions tax revenues were \$18 million below estimate and the Commercial Activity Tax was \$13 million below estimate in January. All other taxes were generally in line with estimated amounts during the month of January. Federal grant revenues were \$21 million below estimate in January. Table 1 provides a summary of January 2020 GRF Revenues and Expenditures.

**Table 1: General Revenue Fund: January Receipts and Spending (Millions of \$)**

<b>Receipts</b>	<b>Actual</b>	<b>Estimate</b>	<b>Difference</b>
Non-Auto Sales Tax	\$922	\$891	\$32
Auto Sales Tax	\$130	\$120	\$10
Income Tax	\$1,059	\$988	\$72
Financial Institutions Tax	\$40	\$58	(\$18)
Commercial Activity Tax	\$60	\$73	(\$13)
Cigarette Tax	\$72	\$70	\$2
Other Taxes	\$36	\$39	(\$2)
<b>Total Taxes</b>	<b>\$2,320</b>	<b>\$2,239</b>	<b>\$81</b>
Federal Grants	\$1,086	\$1,107	(\$21)
Other Receipts	\$29	\$11	\$17
<b>Total Receipts</b>	<b>\$3,435</b>	<b>\$3,357</b>	<b>\$77</b>
<b>Spending</b>	<b>Actual</b>	<b>Estimate</b>	<b>Difference</b>
K-12 Education	\$761	\$768	(\$7)
Higher Education	\$176	\$183	(\$7)
Other Education	\$8	\$8	\$0
Medicaid	\$1,199	\$1,659	(\$460)
Health & Human Services	\$109	\$150	(\$41)
Justice & Public Protection	\$232	\$234	(\$2)
General Government	\$47	\$41	\$6
Property Tax Reimbursements	\$0	\$0	\$0
Debt Service	\$124	\$122	\$2
<b>Total Expenditures</b>	<b>\$2,656</b>	<b>\$3,164</b>	<b>(\$509)</b>
<b>Bottom Line</b>			<b>\$586</b>

**January Spending: Minus \$509 Million**

GRF expenditures were \$509 million less than estimated in January. As is typically the case, this was primarily due to Medicaid spending which was \$460 million below estimate for the month. This was largely due to enrollment increases being lower than forecast. Note that Medicaid spending is now being compared to revised enrollment and spending estimates which take into account the Covid-19 pandemic. Health and Human Services spending (-\$41 million) was well below estimate, and both K-12 and Higher Education were \$7 million above estimate in January. All other expenditure categories were generally in line with estimated amounts in January. Under the revised spending categorizations created in FY14 it is now evident how large a role Medicaid spending plays in Ohio's state budget. The \$1.199 billion shown in January Medicaid spending is 45.1% of the total \$2.656 billion state GRF expenditures for the month.

**Year-to-Date Bottom Line through January: Plus \$1.120 Billion**

Table 2 shows FY21 year-to-date revenues and expenditures through January.

**Table 2: General Revenue Fund: Year-to-Date Receipts and Spending (In Millions)**

<b>Receipts</b>	<b>Actual</b>	<b>Estimate</b>	<b>Difference</b>
Non-Auto Sales Tax	\$6,018	\$5,736	\$283
Auto Sales Tax	\$1,017	\$901	\$116
Income Tax	\$6,130	\$5,983	\$147
Financial Institutions Tax	\$20	\$28	(\$8)
Commercial Activity Tax	\$835	\$864	(\$28)
Cigarette Tax	\$502	\$462	\$40
Other Taxes	\$505	\$516	(\$10)
<b>Total Taxes</b>	<b>\$15,028</b>	<b>\$14,489</b>	<b>\$539</b>
Federal Grants	\$7,658	\$8,316	(\$657)
Other Receipts	\$145	\$114	\$31
<b>Total Receipts</b>	<b>\$22,831</b>	<b>\$22,918</b>	<b>(\$87)</b>
<b>Spending</b>	<b>Actual</b>	<b>Estimate</b>	<b>Difference</b>
K-12 Education	\$4,777	\$4,758	\$19
Higher Education	\$1,319	\$1,334	(\$16)
Other Education	\$49	\$51	(\$2)
Medicaid	\$10,856	\$11,855	(\$999)
Health & Human Services	\$841	\$930	(\$90)
Justice & Public Protection	\$1,515	\$1,577	(\$62)
General Government	\$265	\$294	(\$29)
Property Tax Reimbursements	\$904	\$934	(\$29)
Debt Service	\$650	\$650	\$0
<b>Total Expenditures</b>	<b>\$21,176</b>	<b>\$22,384</b>	<b>(\$1,208)</b>
<b>Bottom Line</b>			<b>\$1,120</b>

The cumulative revenue perspective for the 2021 fiscal year contained in Table 2 shows that tax receipts have exceeded estimates by \$539 million over the first 7 months of FY21. This result – which has been surprising considering that Ohio’s economy is still recovering from the economic slowdown caused by the coronavirus pandemic - is almost entirely due to the performance of the 2 primary state taxes. The auto and non-auto sales taxes are a combined \$398 million (6.0%) above estimate through January, while the Personal Income tax is \$147 million (2.5%) above estimate through the first 7 months of FY21. In addition, the Cigarette tax is \$40 million (8.7%) above estimate for the first 7 months of FY21 while the Foreign Insurance tax is \$19 million above estimate. The Commercial Activity Tax (-\$28 million), Public Utility tax (-\$17 million) and the Kilowatt Hour Tax (-\$15 million) were the only taxes noticeably below estimate through the first 7 months of FY21. The CAT performance is perhaps the one sign that Ohio’s economy is not quite as strong as sales and income tax revenues might suggest. All other taxes are largely in line with estimates through January. Federal grants are \$657 million below estimate through the first 7 months of FY21, which is largely due to lower than expected Medicaid disbursements.

Cumulative expenditure data show \$1,120.3 million less in spending through the first 7 months of FY21 than estimated. Every category of expenditure except for K-12 Education (+\$19 million) is below estimate thus far in FY21. Medicaid spending (-\$999 million) is significantly below revised estimates through the first 7 months of the fiscal year, while Health & Human Services (-\$90 million), Justice & Public Protection (-\$62 million), Property Tax Reimbursements (-\$29 million), General Government (-\$29 million) and Higher Education (-\$15.5 million) were all well below estimate thus far in FY21. All other spending categories were roughly in line with forecasts through the first 7 months of FY21. A negative number in the "Difference" column of the expenditure tables means that the State spent *less* than expected over the period under consideration and a positive number means that the State spent more than expected.

The positive \$1.120 billion on the Bottom Line means that the State's actual net revenue and expenditure position looks better than the projected position by that amount. Through the first seven months of the 2020 fiscal year, total receipts fell short of forecast amounts by \$87.4 million, while expenditures were \$1,207.7 million below estimates. Subtraction of the expenditure difference from the revenue difference yielded a positive number for the period: = -\$87.4 million - (-\$1,207.7 million) = \$1,207.7 million - \$87.4 million = **-\$1,120.3 million = \$1.120 billion.**

### **Year-to-Date FY21 Tax Receipts: Plus \$1.055 Billion vs. FY20 Taxes**

Tables 3 and 4 show comparisons of the State's tax revenue and spending for the first 7 months of FY21 compared to the same period of FY20. Table 3 shows the tax receipts for all GRF taxes in both FY20 and FY21. Of the 15 taxes (not counting the eliminated Corporate Franchise and Estate taxes which still report some legacy activity), only the Commercial Activity tax (-\$56 million), Public Utility tax (-\$15 million) and Kilowatt Hour tax (-\$14 million) returned appreciably less revenue through January 2021 (the first 7 months of FY21) than it yielded through January 2020. Both the non-auto sales tax

(+\$311 million) and auto sales tax (+\$91 million) show noticeable growth over FY20, however, the Personal income tax (+\$718 million) was responsible for 68% of the total \$1.055 billion increase in tax revenues compared to January of last year. This is entirely due to \$719 million in income tax revenue shifted from April to July. Apart from the Cigarette tax (+\$25 million), all other taxes were relatively unchanged from the same point in FY20. Overall, total tax receipts were \$1.055 billion more through the first seven months of FY21 as compared with the same point in FY20. In addition, Federal grants were \$1.340 billion more through January of FY21 than they were a year ago.

**Table 3: Comparison of Revenues from GRF Taxes in FY21 and FY20 through January (In Millions of Dollars)**

<b>July through January Tax Receipts</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>Difference</b>
Non-Auto Sales & Use	\$6,018	\$5,707	\$311
Auto Sales & Use	\$1,017	\$926	\$91
Subtotal Sales & Use	\$7,035	\$6,634	\$401
Personal Income	\$6,130	\$5,412	\$718
Corporate Franchise	\$6	\$0	\$6
Financial Institutions Tax	\$20	\$36	-\$15
Commercial Activity Tax	\$835	\$892	-\$56
Petroleum Activity Tax	\$2	\$4	-\$2
Public Utility	\$51	\$66	-\$15
Kilowatt Hour	\$179	\$193	-\$14
MCF	\$19	\$20	-\$1
Foreign Insurance	\$177	\$172	\$5
Domestic Insurance	\$1	\$4	-\$3
Other Business & Property Tax	\$0	\$0	\$0
Cigarette	\$502	\$477	\$25
Alcoholic Beverage	\$36	\$31	\$4
Liquor Gallonage	\$34	\$31	\$3
Estate	\$0	\$0	-\$0
<b>Total Tax Receipts</b>	<b>\$15,028</b>	<b>\$13,972</b>	<b>\$1,056</b>
Federal Grants	\$7,658	\$6,318	\$1,340

**Year-to-Date FY21 Expenditures: Plus \$385 Million vs. FY20 Expenditures**

Table 4 compares fiscal year expenditures for FY20 and FY21. The table shows that the State spent \$385 million more through the first 7 months of FY21 than it spent in the same period in FY20. This difference was entirely attributable to Medicaid spending which was \$990 million more than a year ago. According to OBM, this large variance is (unsurprisingly) attributable to higher caseloads and costs from the COVID-19 pandemic. Justice & Public Protection spending (+\$15 million) was also notably above FY20 expenditure levels through the first 7 months of FY21 while K-12 Education (-\$209

million) and Health & Human Services (-\$18 million) were both below last year's spending levels. Debt Service was \$374.5 million below FY20 levels as result of the restructuring of state general obligation debt, in order to provide budgetary relief in FY21. All other spending categories were largely the same through the first 7 months of FY21 as in FY20.

**Table 4: Comparison of Expenditures in FY21 and FY20 through January  
(In Millions of Dollars)**

<b>July through January Expenditures</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>Difference</b>
Primary and Secondary Education	\$4,777	\$4,987	-\$209
Higher Education	\$1,319	\$1,331	-\$12
Other Education	\$49	\$55	-\$6
Medicaid	\$10,856	\$9,866	\$990
Health and Human Services	\$841	\$859	-\$19
Justice and Public Protection	\$1,515	\$1,500	\$15
General Government	\$265	\$263	\$1
Property Tax Reimbursements	\$904	\$905	-\$1
Debt Service	\$650	\$1,025	-\$375
<b>Total</b>	<b>\$21,176</b>	<b>\$20,791</b>	<b>\$385</b>

**Commercial Activity Tax (CAT): Minus \$28 Million Through January**

Table 5 summarizes current Commercial Activity Tax receipts. January is not one of the 4 months when large taxpayers make estimated payments, so CAT receipts are typically low. CAT GRF deposits were \$13.3 million below estimate in January and the CAT's year-to-date contribution to the GRF is now \$28.3 million (-3.3%) below the estimated level through the first 7 months of FY21. In addition, FY21 GRF CAT receipts are \$56.4 million (-6.3%) below FY20 levels through the first 7 months of the fiscal year. CAT revenues were \$10.1 million (2.0%) above estimate in the 2<sup>nd</sup> quarter of FY21.

The All Funds total for the CAT is now an estimated \$33.3 million less than estimated through January. All Funds CAT revenue includes \$147.4 million in revenue earmarked to Tangible Personal Property Tax (TPP) replacement payments to schools and local governments.

**Table 5: CAT Revenues for January and from FY2021 (In Millions of Dollars)**

<b>Commercial Activity Tax</b>	<b>Actual</b>	<b>Estimated</b>	<b>Difference</b>
January GRF	\$60.1	\$73.4	(\$13.3)
January TPP	\$10.6	\$13.0	(\$2.3)
January All Funds	\$70.7	\$86.4	(\$15.6)
<b>YTD</b>			
FY21 GRF	\$835.4	\$863.7	(\$28.3)
FY21 Property Tax Replacement	\$147.4	\$152.4	(\$5.0)

FY21 All Funds	\$982.8	\$1,016.1	(\$33.3)
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In FY15, 50% of CAT receipts were distributed to the GRF and 50% of receipts were allocated to TPP payments to schools and local governments. However, as a result of continued reductions in TPP replacement payments, the GRF share of CAT revenues increased to 75% in FY16 and FY17, and to 85% in FY18, FY19, FY20 and FY21, meaning that the TPP share of the CAT has now been reduced to 15%.

### Economic and Fiscal Outlook

Table 4 summarizes some of the economic and fiscal indicators identified by OBM as useful measures of economic conditions. The data are a mixture of Ohio and national economic statistics. The table includes the most recent employment data for Ohio.

Items on the table begin with a "+" or a "-" to indicate how one might characterize them as favorable or unfavorable news for the economy.

**Table 4: Overview of the National and Ohio Economy Based on OBM's Summary of Economic Developments, Employment Reports from the Ohio Department of Jobs and Family Services, and Data from the Bureau of Labor Statistics**

<b>Economic Growth</b>
+/- The US economy continued its recovery from the initial onset of the Coronavirus pandemic with <b><i>U.S. Real GDP growth increasing at an annualized rate of 4.0% in the 4<sup>th</sup> quarter of 2020.</i></b> This increase came on the heels of the record 33.1% annualized growth rate in the 3 <sup>rd</sup> quarter of 2020, which in turn came in the aftermath of a record -31.4% (annualized rate) decline in U.S. Real GDP in the 2 <sup>nd</sup> quarter of 2020. GDP declined at a -5.0% annualized rate in the 1 <sup>st</sup> quarter of 2020. <b><i>U.S. GDP declined -3.5% in 2020, the first decline since the great recession in 2008 and 2009 and the largest decline since the immediate aftermath of WW II.</i></b>
+ The 2020 3 <sup>rd</sup> quarter recovery of +33.1% was a bit misleading as the Bureau of Economic utilizes annualized rates and the percentage increase in the 3 <sup>rd</sup> quarter was measured against a very low 2 <sup>nd</sup> quarter baseline due to the massive decrease in GDP in the 2 <sup>nd</sup> quarter. In comparison to the 3 <sup>rd</sup> quarter of 2019, 2020 3 <sup>rd</sup> quarter GDP declined by 2.9%.
- The 2020 2 <sup>nd</sup> quarter GDP percentage decrease was the largest since modern record keeping began in 1947 and far exceeded the -8.4% decrease in the 4 <sup>th</sup> quarter of 2008 at the height of the Great Recession.
-/+ GDP growth was 2.1% in the 4 <sup>th</sup> qtr. of 2019, +2.1% in the 3 <sup>rd</sup> qtr. of 2019, +2.0% in the 2 <sup>nd</sup> qtr. of 2019, & +3.1% in the 1 <sup>st</sup> qtr. of 2019. Prior to the 1 <sup>st</sup> quarter of 2020, the U.S. economy had expanded for a record 42 consecutive quarters.

<b>Moody's "Back to Normal" Index</b>
-/+ The Moody's "Back to Normal" Index was created to track the economy's recovery from the impact of the COVID-19 pandemic. As of February 3, 2021, the National Index had increased from 74.4% as of January 8 <sup>th</sup> to 81.8%, while the Ohio Back to Normal Index had increased from 79.0% as of January 8 <sup>th</sup> to 84.3%. Both the National and Ohio Back to Normal Index were below 60% at the April low point.

## **Employment**

+/- The U.S. unemployment rate continued its decrease from April's rate of 14.7% to 13.3% in May, 11.1% in June, 10.2% in July, 8.4% in August, 7.9% in September, 6.9% in October, 6.7% in November and December and falling to 6.3% in January. The April rate was the highest unemployment rate seen since the Great Depression 90 years ago. This was only 2 months after February's pre-pandemic unemployment rate of 3.5% which was the lowest rate since Dec. 1969. The January 2020 U.S. unemployment rate was 3.6%

+/- Nonfarm U.S. employment increased by 49,000 jobs in January after decreasing by 140,000 jobs in December. The December decrease was the first decrease in 8 months following increases of 245,000 jobs in November, by 638,000 jobs in October, 661,000 jobs in September, 1.4 million jobs in August, 1.8 million jobs in July, by a record 4.8 million jobs in June, and by 2.7 million jobs in May. These increases followed a record decrease of 20.5 million jobs nationally in April. The April job reduction total was roughly triple the number of jobs lost over the entirety of the Great Recession in 2007-2009

+/- Ohio's unemployment rate decreased to 5.5% in December down from 5.7% in November, 6.1% in October, 8.3% in September, 8.9% in August, 9.0% in July, 11.0% in June, 13.7% in May and 16.8% in April. The number of Ohio unemployed workers in December was 315,000, a decrease from 328,000 in November, 356,000 in October, 469,000 in September, 510,000, in July and August, 636,000 in June, 797,000 in May and 1,796,000 Ohioans unemployed in April. November was the first month since the Covid-19 pandemic began that there were fewer persons unemployed in Ohio than there were in March (334,000). January unemployment data will be released by ODJFS later in February.

- Ohio non-farm wage and salary employment decreased by 11,500 in December, after increasing by 29,400 jobs in November, by 30,800 jobs in October, 41,500 jobs in September, 45,500 jobs in August, 62,700 jobs in July, 208,000 jobs in June, 127,100 jobs in May and by 823,700 jobs in April. January employment data will be released by ODJFS later in February.

## **Personal Income & Consumption**

-/+ U.S. personal income growth continued to ping pong, increasing by 0.6% in December, after decreasing by -1.3% in November and by -0.7% in October, which followed increases of +0.8% in September, a decrease of -2.6% in August and an increase of +0.9 % in July. Decreases in May and June followed a record increase of +12.2% in April which reversed a -1.8% decrease in March. Until March, the monthly personal income growth rate had been at least +0.3% in all but 15 months since October 2014. The large April increase was primarily attributable to the \$3 trillion in CARES Act payments to households and supplemental unemployment insurance payments. An additional round of Federal pandemic relief funds were approved by Congress in December and are expected to again increase personal income and spending. January data is not yet available.

+/- U.S. Real Personal consumption expenditures decreased by -0.2% in December following a revised decrease of -0.7% in November after increasing by +0.3% in October, by +1.3% in

September, +1.2% in August, +1.5% in July, +6.5% in June and by a record +8.7% in May. These increases followed decreases of -12.7% in April, and -6.7% in March. Until March, consumption had shown zero or positive growth in 58 of 60 months since February 2015. The extremely large March and April downturns in personal consumption expenditures were due to the widespread issuance of “stay-at-home” orders in response to the COVID-19 pandemic. The November decrease in spending is attributed to the expiration of Federal COVID relief funding. January data is not yet available.

### **Methodology**

The monthly OBM financial report available at the Department’s website is used to produce On The Money’s Bottom Line Report. In the process, we attempt to simplify OBM’s detailed report into a more compact format. To produce a meaningful “bottom line,” under-spending is converted into a positive number and added to net receipts to yield a number indicative of the State’s current status as compared to budgeted expenditures and anticipated revenues.

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