

Testimony Of  
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Conference Committee  
*Governor DeWine's Executive Budget Proposal*  
*Fiscal Years 2022 and 2023*

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Mr. Chairman, members of the Conference Committee, thank you for the opportunity to testify today on Amended Substitute House Bill 110, the fiscal years 2022 and 2023 Biennial Operating Budget. Governor DeWine appreciates the time and effort that you and all members of the House of Representatives and the Senate have given to the development of Ohio's next budget.

## UPDATE ON THE ECONOMY

Ohio's economy is quickly rebounding to our firm pre-pandemic position. The results of the strong actions taken by Governor DeWine starting in February of 2020 to protect Ohioans, to control state government spending, to freeze hiring and administrative costs, and to prioritize saving lives to save our economy, are now apparent. Ohio has proven resilient. The Ohio unemployment rate continues to decline, falling from 5.6 percent in December 2020 to 4.7 percent in April. Ohio has also had a remarkable decrease in unemployment insurance filings. As of the week ending May 29, 2021, total unemployment insurance claims were 74 percent less than during the peak week of filings in April 2020, and initial filings are down more than 50 percent since the last week in December. There has also been a precipitous drop in the number of employers warning of pending layoffs.

In December, when OBM crafted the forecast that formed the basis for the Executive Budget, the pandemic landscape looked much different than today. At the peak of the pandemic last winter, 12,992 Ohioans became ill with COVID-19 on a single day. Yesterday, the number of reported cases was 381, and in recent weeks we have seen days with reported cases even lower than that – as low as 178 on Monday of this week. That means COVID cases in Ohio have dropped 98 percent from the winter peak.

This was accomplished by Ohio's strong COVID mitigation efforts, including vaccine roll-out. On December 28, 2020, when OBM was finalizing our revenue forecast, vaccine distribution was just beginning – 96,550 Ohioans had received their first dose. Now, six months later, more than 5.4 million Ohioans have received their first dose, and just under five million Ohioans are completely inoculated. And when OBM developed the Blue Book forecast, the effectiveness of the vaccines was still an unknown. We now know that the vaccines are highly effective, and we know that 75 percent of our most vulnerable are vaccinated, and additional Ohioans continue to be vaccinated every day.

On the economic front, at the time that the Blue Book forecast was published, there was concern that the consumption spending stimulus from the CARES Act was waning, and that revenues would slow in the second half of the fiscal year. The December macroeconomic forecast that was the basis for the revenue forecast did not fully account for the federal stimulus package passed in December (Coronavirus Response and Relief Supplemental Appropriations, or CRRSA) and more importantly, did not account for the additional economic support passed in the American Rescue Plan Act (ARPA) in March of 2021.

The past year and a half demonstrated without a doubt that Ohio's economy is closely linked to the health of our residents. As we have stemmed the spread of the pandemic, consumers have returned to retail stores and restaurants, sparking growth. Over the last two quarters of calendar year 2020, Ohio's Gross Domestic Product, or GDP, outpaced the nation's growth. While the national GDP expanded in the fourth quarter of calendar year 2020 at an annualized rate of 4.3 percent, Ohio's GDP rose 5.0 percent during the same time frame.

Ohioans are rejoining the labor force. As of April 2021, labor force participation in Ohio is 62.3 percent, now ahead of the national rate. And Ohio's businesses are ready to bring even more people back to work. Job postings on OhioMeansJobs.com were 42.6 percent higher in April 2021 than they were in April 2020, and 49.2 percent higher than in April 2019. When I checked yesterday, there were 101,715 jobs that pay more than \$50,000 per year posted on OhioMeansJobs.com and 189,291 total job postings.

## UPDATE ON AVAILABLE REVENUES

Ohio's strong revenue recovery has been supported by the passage of additional federal stimulus packages in December 2020 and March 2021 that I mentioned a few moments ago. Among the myriad benefits and support in these two bills, the economic impact payments to individuals have already had a strong effect. In the months following the receipt of these payments, personal income levels soared, and levels of consumption rose along with income. This resulted in sales tax revenues for April and May combined that were 20.1 percent higher than estimated. It is important to keep in mind the temporary effects of this stimulus on our tax revenues – especially on our sales tax receipts – as we finalize the biennial budget. As of today, through eleven months of the current fiscal year 2021, General Revenue Fund tax revenues are \$1.170 billion, or 5.2 percent, above estimate – led by both categories of the sales tax.

April 2021 sales tax receipts set monthly records in both the non-auto and auto categories following the March passage of the American Rescue Plan Act. May receipts were also robust, with non-auto performance not far off the April record. As a result, OBM's revised fiscal year 2021 total GRF tax revenue forecast is \$1.8 billion, or 7.4 percent, above the Blue Book forecast, with most of the upward revision coming in the sales and use tax.

Our forecasts for fiscal years 2022 and 2023 are also revised upwards. Total GRF baseline tax revenue is now estimated to be \$26.5 billion in fiscal year 2022, an upward revision of nearly \$1.7 billion from the Blue Book forecast. For fiscal year 2023, total baseline tax revenue is estimated at \$27.2 billion, reflecting a \$1.6 billion increase from the Blue Book baseline forecast. The table below outlines the actual and forecasted key economic variables that underpin the updated revenue forecast. In particular, note the incredible increases in transfer payments in fiscal years 2020 and 2021 – these are non-recurring injections of cash into the economy that have boosted our recent revenues and will continue to boost in the near-term of the upcoming biennium, including the

economic impact payments that I have already discussed.

Our forecasts of revenue growth are lower in fiscal year 2023 than in fiscal year 2022, as we expect the impact of extraordinary federal income support to households to wane as the biennium goes on. Once one adjusts fiscal year 2021 income tax revenue for the amounts received in fiscal year 2021 that would ordinarily have been received in fiscal year 2020 (because of the postponement of last year's annual return filing date), total GRF baseline tax revenue growth in fiscal 2022 is forecasted to be 4.3 percent, slowing to 2.9 percent in fiscal year 2023. The pattern of slowing growth during the biennium holds not only for total tax revenue, but also for each of the major taxes as well (again, one must adjust the fiscal year 2021 income tax revenues to obtain this result). In the auto sales tax, growth actually turns slightly negative in FY 2023.

### History and May 2021 IHS/Markit Baseline Forecast of Key Economic Variables, FY 2018-2023

Annual percent change unless otherwise indicated; annual amounts are averages of quarters

<b>Output</b>	<b>FY 2018 Actual</b>	<b>FY 2019 Actual</b>	<b>FY 2020 Actual</b>	<b>FY 2021 Estimate</b>	<b>FY 2022 Forecast</b>	<b>FY 2023 Forecast</b>
U.S. Real GDP	2.9	2.5	-1.1	1.7	6.7	2.5
Ohio Real GDP	1.6	2.1	-1.9	1.8	5.8	1.9
<b>Income</b>						
U.S. nominal personal income	5.4	4.8	5.2	6.8	0.9	3.9
Ohio nominal personal income	4.1	4.0	4.9	6.9	0.1	3.4
U.S. transfer payments	3.4	4.6	24.8	21.8	-18.8	1.0
Ohio transfer payments	2.6	2.9	23.8	19.5	-17.8	0.6
U.S. nominal wage and salary income	5.2	4.9	1.9	3.7	8.0	4.8
Ohio nominal wage and salary income	4.0	4.1	0.7	4.2	7.1	4.2
<b>Employment</b>						
U.S. nonfarm employment	1.5	1.5	-1.9	-2.7	5.1	1.9
Ohio nonfarm employment	0.7	0.7	-2.7	-2.4	4.3	1.3
U.S. unemployment rate (percentage)	4.1	3.8	6.0	6.9	4.3	3.6
Ohio unemployment rate (percentage)	4.7	4.3	6.8	6.0	4.3	3.9
<b>Consumer Spending</b>						
U.S. real personal consumption expenditure	2.7	2.5	-1.3	2.4	6.4	3.0
U.S. nominal personal consumption expenditure	4.7	4.4	0.0	4.2	8.7	4.8
U.S. retail and food service sales	4.7	3.4	0.2	11.5	5.7	2.2
Ohio retail and food service sales	4.0	1.6	2.7	13.8	2.7	-0.4
U.S. light vehicle sales (millions of units)	17.26	17.11	15.05	16.36	16.64	16.83
U.S. light vehicle average price (thousands)	\$33.36	\$34.23	\$35.98	\$38.11	\$38.94	\$38.96

Table 1

As I indicated in my House and Senate Finance Committee testimonies earlier this spring, this budget is carefully constructed to allocate one-time resources to one-time expenses and to allocate recurring revenues to ongoing programs. In light of this updated forecast, it is even more crucial that we keep a close eye on our budget's structural balance. It is vital that our decisions avoid creating a "budget cliff" two years from now. And with an eye towards that structural balance, I would like to remind you that our current forecast includes significant one-time resources:

- Funds conserved this current fiscal year that resulted from the Governor's decisive actions reducing state payroll expenses, freezing hiring, and limiting administrative costs including state agency travel expenses;
- Savings from refinancing and restructuring the state's debt portfolio;
- Temporarily increased federal Medicaid matching funds that have been available during the pandemic but are only expected to continue through the end of the current calendar year, freeing GRF resources; and
- Some sales tax revenues that have been temporarily boosted now three times by colossal levels of federal stimulus and by a "pandemic effect" on consumer spending leading to more spending on taxable goods and less spending on untaxed services. Not only has spending shifted to taxable goods, but to spending on taxable goods at home, here in Ohio.

These effects, especially the boosts to consumer spending and likewise our sales tax receipts, will not last indefinitely and will run their course over the upcoming biennium. In fact, we are already beginning to see the winds shift. It was reported on Tuesday that U.S. retail sales dropped 1.3 percent in May compared to April, as consumer spending moved from goods to services, as prices rose and inflationary pressures continued to build, and as the stimulus payments from ARPA worked their way through the economy. It is now even more important to carefully plan a portion of this budget as a one-time "surge" to address our citizens' most pressing needs today, including the Governor's priority economic package for broadband and community infrastructure. Furthermore, given these uncertainties, OBM recommends that a significant portion of the additional revenue now forecast in this budget be carried forward in the state's General Revenue Fund as a buffer during these volatile times, to ensure that we continue the fiscally conservative practices that enabled Ohio to sustain our strong financial position in the face of the pandemic and the resulting global economic downturn.

It is clear that Ohio's strong measures to address the COVID-19 pandemic head on – both from a health and budget standpoint – worked. We must stay focused on the long term to maintain a structurally balanced budget so Ohio's people and communities – and our state economy – continue to surge ahead.

During my testimonies before both the House and Senate Finance Committees, I noted several "upside risks" to our forecast – possible scenarios that could result in revenues above our forecasted levels. As my testimony this morning makes clear, the best-case scenario has been realized on almost all fronts: COVID-19 cases have rapidly declined, vaccine deployment continues to be successful, the vaccines are tremendously effective, the next rounds of federal stimulus twice again boosted sales tax revenues, and the income tax filing season results reflected strong average income growth compared to 2020. Furthermore, as the national and Ohio economies improved, so did the forecasts for fiscal year 2022 and fiscal year 2023. Ohio is coming out of this pandemic strong.

## Revised Medicaid Estimates – Updating Baseline Projections

The updated Medicaid caseload projections also reflect Ohio’s successful response to the pandemic. The estimated peak caseload, still projected to occur in February 2022, has decreased by 123,300 ultimately resulting in reduced average monthly enrollment and therefore reduced baseline budget estimates over the biennium.

The updated baseline projection for all-funds Medicaid spending has decreased by \$196.2 million over the biennium. The GRF spending estimate has decreased by \$1.18 billion over the biennium, with a State Share decrease of \$290.2 million over the two fiscal years (\$133.9 million in fiscal year 2022 and \$156.2 million in fiscal year 2023). The all-funds decrease is mitigated by updated spending estimates in programs heavily influenced by policy decisions at the federal level like the Hospital Care Assurance Program and the Medicare Part D Claw Back payments. The updated GRF spending estimates on the other hand reflect the significant reduction in caseload estimates as well as lower than originally anticipated per-member-per month costs. Ultimately, the updated Medicaid caseload and baseline budget projections reflect the success of Ohio’s response to the pandemic and provide a clear path forward into a post pandemic biennium.

## OUR SHARED PRIORITIES

Upon reviewing the budget as passed by the House and as passed by the Senate, Governor DeWine and Lt. Governor Husted appreciate your shared commitment to investing in Ohio’s families and children, our local communities, workforce and innovation, our state’s natural resources, and in guiding our citizens to recovery from addiction and its impacts. The pandemic has clearly shown that a prosperous economy depends on healthy people and renewed communities. You have shown a true dedication to our future and for continuing to make Ohio a great place to live, work, and raise a family.

Mr. Chairman, members of the Committee, my sincere thanks for the opportunity to address you today. Each member of the Cabinet and I stand ready to provide any assistance and information you may require as you work to finalize the budget. I would be happy to answer any questions.

**Attachment 1**

**General Revenue Fund Baseline Revenues**

**Fiscal Year 2021**

(dollars in millions)

<b>Revenue Source</b>	<b>Feb-2021 Executive Budget</b>	<b>Jun-2021 Conference Committee</b>	<b>CC vs. Executive \$ Change</b>
<b>Tax Revenue</b>			
Auto Sales and Use	1,616.7	1,829.7	213.1
Non-Auto Sales and Use	9,422.6	10,235.7	813.1
Subtotal Sales and Use	11,039.2	12,065.4	1,026.2
Personal Income	9,389.7	9,960.9	571.2
Corporate Franchise	6.0	5.9	-0.1
Financial Institutions Tax	189.7	225.0	35.3
Commercial Activity Tax	1,535.3	1,661.0	125.7
Petroleum Activity Tax	6.0	6.0	0.0
Public Utility	120.0	126.0	6.0
Kilowatt Hour Tax	296.2	301.0	4.8
MCF Tax	65.0	70.1	5.1
Foreign Insurance	308.1	315.4	7.3
Domestic Insurance	304.4	313.2	8.8
Business and Property	0.0	0.2	0.2
Cigarette and Other Tobacco Tax	927.8	932.7	4.9
Alcoholic Beverage	56.0	63.0	7.0
Liquor Gallonage	51.0	58.0	7.0
Estate	0.0	0.0	0.0
<b>Total of Tax Revenue</b>	<b>24,294.4</b>	<b>26,103.8</b>	<b>1,809.4</b>
<b>Non-Tax Revenue</b>			
Earnings on Investments	25.0	48.7	23.7
Licenses and Fees	58.8	88.1	29.3
Other Income	94.8	96.2	1.4
Interagency Transfers	9.0	12.3	3.3
<b>Total of Non-Tax Revenue</b>	<b>187.6</b>	<b>245.3</b>	<b>57.7</b>
<b>Transfers In</b>	<b>278.2</b>	<b>102.2</b>	<b>-176.0</b>
<b>Total Sources Excl. Federal Grants</b>	<b>24,760.2</b>	<b>26,451.3</b>	<b>1,691.1</b>

Attachment 2

General Revenue Fund Baseline Revenues

Fiscal Year 2022-2023

(dollars in millions)

Revenue Source	FY2022, Executive Budget	FY2022, Conference Committee	CC vs. Executive \$ Change	FY2023, Executive Budget	FY2023, Conference Committee	CC vs. Executive \$ Change
<b>Tax Revenue</b>						
Auto Sales and Use	1,652.1	1,860.1	208.0	1,680.5	1,856.5	176.0
Non-Auto Sales and Use	9,951.5	10,550.7	599.2	10,289.5	10,750.5	461.0
Subtotal Sales and Use	11,603.6	12,410.8	807.2	11,970.0	12,607.0	637.0
Personal Income	9,175.5	9,857.4	681.9	9,571.4	10,349.8	778.4
Corporate Franchise	0.0	0.0	0.0	0.0	0.0	0.0
Financial Institutions Tax	190.0	215.0	25.0	190.0	215.0	25.0
Commercial Activity Tax	1,660.3	1,799.4	139.1	1,756.3	1,881.0	124.7
Petroleum Activity Tax	8.0	8.0	0.0	9.0	9.0	0.0
Public Utility	131.6	135.0	3.4	133.0	140.0	7.0
Kilowatt Hour Tax	307.1	302.7	-4.4	294.8	301.0	6.2
Natural Gas Consumption	68.0	68.0	0.0	69.0	69.0	0.0
Foreign Insurance	311.2	321.7	10.5	314.3	328.1	13.8
Domestic Insurance	315.3	325.7	10.4	321.6	337.1	15.5
Business and Property	0.0	0.2	0.2	0.0	0.2	0.2
Cigarette	910.4	905.2	-5.2	898.5	886.8	-11.7
Alcoholic Beverage	56.0	61.0	5.0	56.0	62.0	6.0
Liquor Gallonage	52.0	57.0	5.0	53.0	58.0	5.0
Estate	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total of Tax Revenue</b>	<b>24,789.0</b>	<b>26,467.1</b>	<b>1,678.1</b>	<b>25,636.9</b>	<b>27,244.0</b>	<b>1,607.1</b>
<b>Non-Tax Revenue</b>						
Earnings on Investments	10.0	35.0	25.0	10.0	35.0	25.0
Licenses and Fees	65.0	69.7	4.7	65.0	69.7	4.7
Other Income	105.4	105.4	0.0	109.2	109.2	0.0
Interagency Transfers	9.0	9.0	0.0	9.0	9.0	0.0
<b>Total of Non-Tax Revenue</b>	<b>189.4</b>	<b>219.1</b>	<b>29.7</b>	<b>193.2</b>	<b>222.9</b>	<b>29.7</b>
<b>Transfers</b>						
<b>Total Transfers</b>	<b>373.0</b>	<b>350.1</b>	<b>-22.9</b>	<b>467.9</b>	<b>413.8</b>	<b>-54.1</b>
<b>Total Sources Excl. Federal</b>	<b>25,351.4</b>	<b>27,036.2</b>	<b>1,684.8</b>	<b>26,298.0</b>	<b>27,880.7</b>	<b>1,582.7</b>