INVESTING in Ohio's FUTURE

BUDGET OF THE STATE OF OHIO | FISCAL YEARS 2022-2023

Testimony Of
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Ohio House Finance Committee
Governor DeWine's Executive Budget Proposal
Fiscal Years 2022 and 2023

February 4, 2021

Chairman Oelslager, Vice Chair Plummer, Ranking Member Crawley, and members of the Finance Committee, my name is Kim Murnieks, and I am the Director of the Office of Budget and Management. I am pleased to be with you this morning to present Governor DeWine's Executive Budget for fiscal years 2022 and 2023.

I want to thank Governor DeWine and his staff, Lt. Governor Husted, all members of the Governor's cabinet, and especially the staff of OBM who worked to develop the balanced budget that I am happy to present today.

YEAR IN REVIEW

As we introduce this budget, I want to take a few moments to reflect on the past twelve months. This has been a time of great uncertainty but also of great clarity. The onset of the global Coronavirus pandemic in March brought to an abrupt end the historic economic expansion that began in the middle of 2009. The COVID-19 crisis has demonstrated that our prosperity cannot be separated from the health of our citizens. We know that our economic recovery is closely linked to Ohioans' ability to reduce the spread of the pandemic. It is clear that our economy cannot fully recover until consumers feel safe going to places like retail stores and restaurants.

Under Governor DeWine's leadership, Ohio has made bold decisions to protect lives. We are able to make investments in the future of our state now because we took immediate action to ensure that our budget remained balanced. We froze state government spending, we cut state staffing costs, and we saved money by refinancing our state bonds. We made the hard choices early that put us on a stable footing and put us in a position today to lead the state towards economic recovery. We aligned staffing with essential positions, instituted a hiring freeze, reducing permanent state staffing by 1,500 while maintaining essential state services and assisting those in need across our great state.

OBM and the Ohio Public Facilities Commission (OPFC) watched the financial markets closely and took advantage of favorable market conditions. In June 2020, during the height of the revenue shortfall, we closed the largest General Obligation bond financing in Ohio history, refunding and restructuring $780 million of State debt. This sale was also the largest conducted with a minority-owned underwriting firm and with a women's business enterprise as financial advisor. This historic collaboration of public and private sector partners produced $363.6 million in cash flow savings for fiscal year 2021 at an extremely advantageous interest rate of 1.54 percent.

Federal government funding, and our careful management of those dollars, also enables the budget plan before you today. We are using this unique opportunity to be bold and responsible, and to put Ohio on top for the future. Congress provided Ohio $4.5 billion in Coronavirus Relief Funds to support unbudgeted state and local needs brought on by the pandemic. Over the past year, the General Assembly and Administration worked together and allocated $2 billion to local governments, $150 million for K-12 school districts to support virtual and hybrid learning, and $300 million to colleges and universities so students could safely return to our campuses. This budget builds on our track record of sharing these dollars by supporting small businesses who have been hardest-hit by the pandemic, and continues to use federal resources for our state agencies responding to the pandemic while protecting our state's general revenue fund from these costs.

These actions have put us in a position to address significant issues facing the residents of Ohio, with a budget that supports Governor DeWine's vision of *Investing in Ohio's Future* by prioritizing the health of our people, renewing our communities, and re-igniting a thriving economy.

This budget is conservatively forecast, balanced, and does not raise taxes. Today, I will discuss our current economic conditions, the revenue assumptions that form the basis for the budget, and the major policies that are the Governor's primary focus.

The budget is carefully constructed to allocate one-time resources to one-time expenses and to allocate recurring revenues to ongoing programs. It is crucial that we keep a close eye on our budget's structural balance even as we are addressing today's needs. It is important that our decisions today not create a "budget cliff" two years from now. And with an eye towards that structural balance, you will hear me talk today about "one-time resources" and "surge funds" – and you might ask *what are these one-time funds and where did this money come from?* These funds include:

- Funds conserved this current fiscal year by reducing state payroll expenses, including savings achieved by freezing hiring, freezing supervisor and director pay rates, and implementing cost savings days;
- Savings from refinancing and restructuring the state's debt portfolio as I've mentioned;
- 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 by a "pandemic effect" on consumer spending, that has led 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. We do not know how long this pandemic-induced

shift in consumer spending will last, so it is important to carefully plan a portion of this budget as a one-time “surge” to address our citizen’s most pressing needs today. In fact, it is necessary for our economic recovery that the shift in consumer spending eventually be reversed as spending on services recovers.

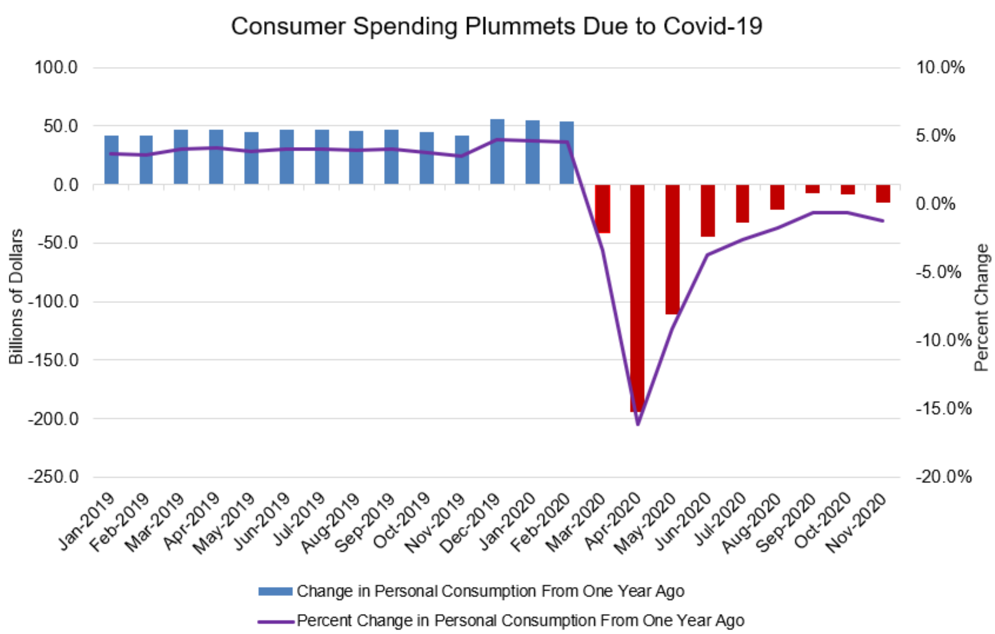
ECONOMIC OVERVIEW AND FORECAST

The downturn caused by COVID-19 ended a record U.S. economic expansion of 128 months, from July 2009 through February 2020. During that expansion, the U.S. unemployment rate dropped to 3.5 percent in January 2020 and stayed there in February, getting back to the 50-year low it first touched in September 2019. Unemployment rates had not been that low since the last months of 1968 and the first months of 1969 when they reached 3.4 percent. Ohio’s unemployment rate was 4.1 percent.

This good economic news was reflected in Ohio’s tax revenues, which through February 2020 were $249 million, or 1.6 percent, above estimate.

Along with the growth in aggregate measures of the economy, the long expansion had begun to lift the fortunes of lower income and wealth households. Unfortunately, these beneficial developments in the national and Ohio economies were halted and at least temporarily reversed by COVID-19.

The spread of COVID-19 had an immediate negative impact on consumption spending. Figure 1 below illustrates the severity of the decline in consumption, compared to the prior year. At the lowest point, in April, consumption spending fell by almost $200 billion ($2.3 trillion in an annualized basis), or 16.1 percent from the prior year.

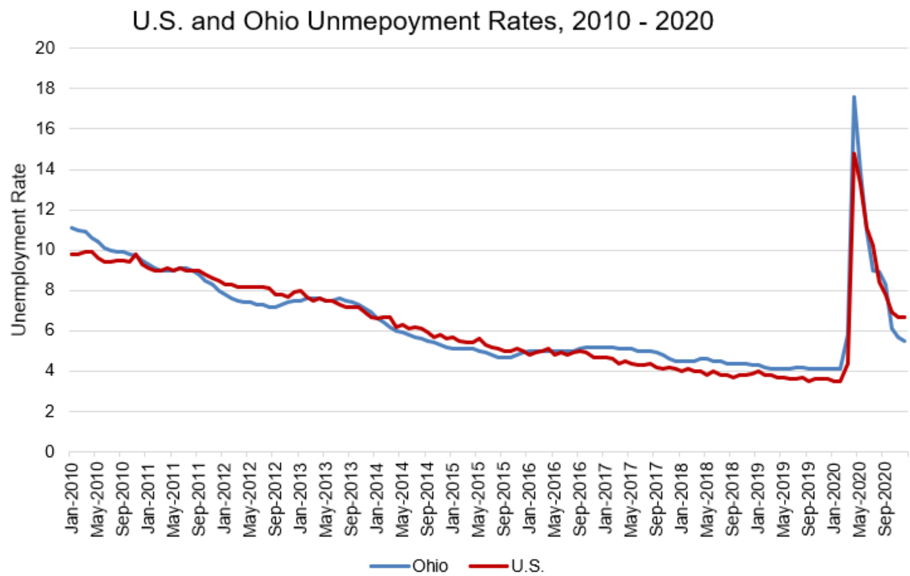


Source: Bureau of Economic Analysis via FRED

Figure 1

On the employment side, states were flooded with unemployment claims. Nationally, the unemployment rate increased dramatically from 3.5 percent in February to a peak of 14.8 percent in April. In Ohio, the April unemployment rate hit 17.6 percent. The week ending April 18, 2020 saw total Ohio unemployment claims peak at almost 870,000 initial claims. All these employment statistics were much worse than at the lowest point of the Great Recession.

Figure 2, below, shows the initial spike in unemployment rates at the onset of the pandemic and the steady decline since April. In October 2020, Ohio's unemployment dipped below the national rate and has remained there for the last three months. Ohio's unemployment rate for December was 5.5 percent, while the U.S. rate was substantially higher, at 6.7 percent.



Source: Bureau of Economic Analysis via FRED

Figure 2

At this time of enormous economic upheaval, Congress acted swiftly and decisively. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020. The CARES Act, along with the Paycheck Protection Program and Healthcare Enhancement Act, passed on April 24, 2020, provided $2.2 trillion in federal spending and tax relief to bolster the economy. To put this federal support into context, the $2.2 trillion amount was over 10 percent of pre-pandemic GDP. This was a much larger relief package than the American Recovery and Reinvestment Act of 2009 (ARRA), passed to support the economy amid the Great Recession. ARRA spending and tax cuts totaled about 5.7 percent of pre-recession GDP.

While the CARES Act was an enormously detailed and complex piece of legislation, it had three very clear pillars of support for the economy: expanded unemployment insurance, direct payments to households (so called "stimulus checks"), and Paycheck Protection Program (PPP) loans and grants to businesses, aimed at retaining jobs and income for employees. These three provisions accounted for about $1.3 trillion of the $2.2 trillion CARES Act total, or over 6 percent of pre-pandemic GDP.

One can see the impact of this infusion of federal money to households and businesses in the monthly estimates of disposable income (income after taxes) of households. Disposable income over the March through November 2020 period actually rose by $1.03 trillion over the March through November period a year prior. As Figure 3 illustrates, this increase in income was led by increases in unemployment compensation and stimulus checks, which accounted for 77 percent of the increase.

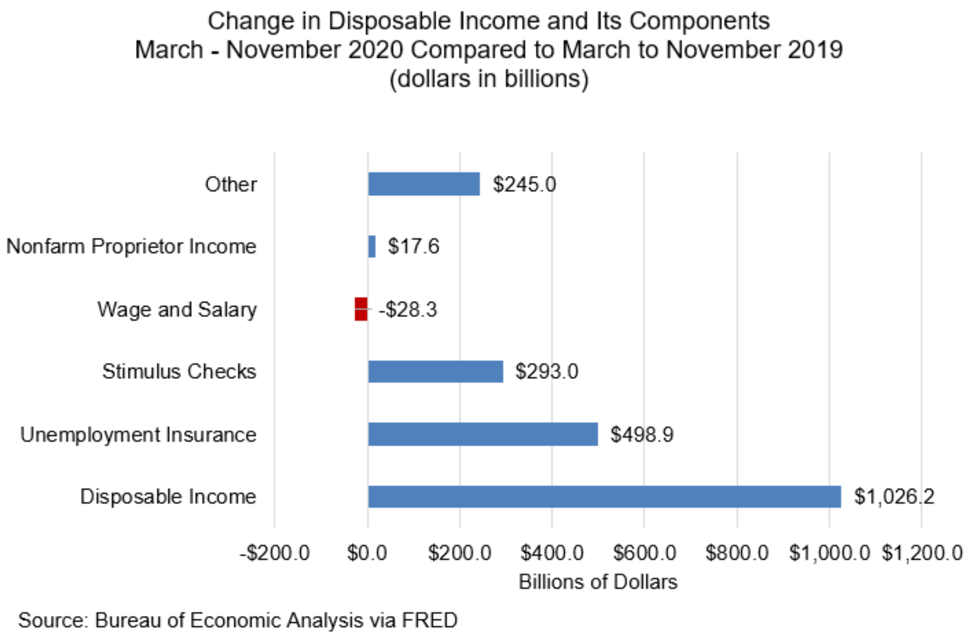


Figure 3

Some of the increase in disposable income went to preventing consumption from falling farther than it otherwise would have. As shown in Figure 1 earlier, consumption has been steadily recovering since its low in April. Furthermore, consumption of goods has actually risen, while services have been the driver of the consumption decline, as shown in Figure 4.

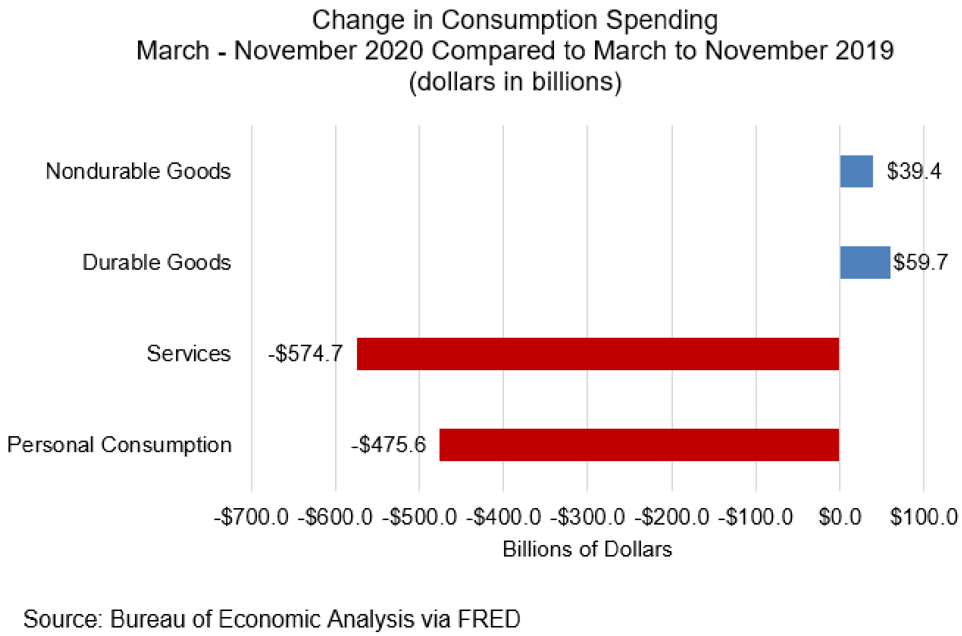


Figure 4

The increase in spending on goods has been one important factor supporting the sales tax since its sharp decline in March through May.

Overall, the economy continues to rally. Real GDP for the fourth quarter increased by 4.0 percent from the third quarter, as consumption of services finally began to rise again, although still well below where it was a year ago. In an echo of the Great Recession, the recovery of production has outpaced the recovery in the labor market. As Figure 5 shows, GDP for the last quarter of 2020 was back to only 2.5 percent below where it was one year ago, pre-pandemic, whereas both U.S. and Ohio employment are still about 6 percent below their pre-pandemic levels.

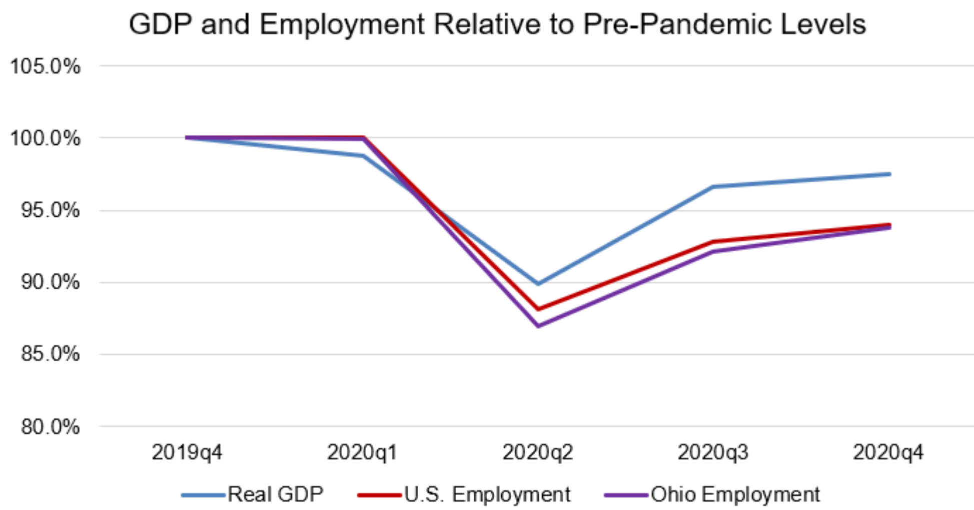


Figure 5

Despite the fact that the economy has rallied, no account would be complete without mentioning the fact that the economic hardship has been disproportionately borne by lower wage workers. Employment has not rebounded to the same degree for those workers, and weekly data reported by the Census shows that many of our households, around the nation and here in Ohio, are facing difficulties in affording enough food, covering rent, and paying other household expenses. This drives many of the policy priorities included in Governor DeWine's Executive Budget before you today.

The Outlook

IHS Markit is OBM's primary supplier of national and state economic forecasts. Our association with this highly respected firm of economists goes back for more than 30 years, when the firm emerged from the Wharton School of Business. OBM also has a long association with Moody's Analytics.

The IHS Markit and Moody's Analytics forecasts are similar in their broad outlines, with both calling for a strong resurgence in U.S. growth in calendar years 2021 and 2022, with growth moving back toward the estimated long-term trend in calendar year 2023. Table 1 below shows the December 2020 baseline forecasts of both firms, along with the January mean forecasts of the Wall Street Journal Survey of economists and the November median forecasts of the Philadelphia Federal Reserve bank Survey of Professional Forecasters.

U.S. Real GDP growth, History and Dec-2020 Moody's and IHSM baseline forecast						
WSJ forecast from Jan-2021, Philadelphia Fed SPF forecast from Nov-2020						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
IHS Markit	3.0	2.2	-3.4	4.3	3.6	2.6
Moody's Analytics	3.0	2.2	-3.5	4.1	4.7	3.2
WSJ Survey	3.0	2.2	-2.5	4.3	3.0	2.4
Philadelphia Fed SPF	3.0	2.2	-3.5	4.0	3.0	2.1

Table 1

As one can see in Table 1, there is remarkable consensus around U.S. GDP growth in calendar year 2021, with the forecasts at or slightly above four percent. In calendar years 2022 and 2023, the Moody's forecast is an outlier on the high side.

The labor market forecasts of the two firms show a different pattern. As Table 2 shows, Moody's is more pessimistic about the pace of labor market recovery, despite their forecast of faster GDP growth. The Moody's forecast is a low outlier in terms of predicting both lower job totals and a higher unemployment rate.

U.S. Payroll Employment and U.S. Unemployment Rate, History and Dec-2020 Moody's and IHSM baseline forecast WSJ forecast from Jan-2021, Philadelphia Fed SPF forecast from Nov-2020							
		2018	2019	2020	2021	2022	2023
IHSM	payroll employment (millions)	148.9	150.9	142.3	146.3	151.3	153.2
IHSM	unemployment rate	3.9	3.7	8.1	5.9	4.6	4.4
MA	payroll employment (millions)	148.9	150.9	142.3	143.9	147.4	151.0
MA	unemployment rate	3.9	3.7	8.1	6.9	6.0	4.6
WSJ Survey	unemployment rate	3.9	3.7	8.1	6.2	5.8	5.5
SPF	unemployment rate	3.9	3.7	8.1	6.3	5.2	4.6

Table 2

After carefully examining these forecasts, both at the macro level as in Tables 1 and 2, and at a more micro level, looking at such variables as consumption spending on goods and services, **OBM selected the IHS Markit December baseline forecast as the basis for the revenue and Medicaid caseload forecasts that underpin the Executive Budget.**

There is more detail about the baseline economic forecast in the Governor's Executive Budget document, the "Blue Book", Section B, if you would like more information than I have discussed today.

Risks to the Forecast

Unsurprisingly, since it was a global pandemic that halted the longest expansion in U.S. history, the greatest risks, both to the upside and to the downside, are tied to the course of the pandemic. The upside risks are largely from vaccine deployment being faster and more effective than assumed in the IHS Markit December baseline.

There is also upside risk related to the surge in U.S. savings that I mentioned earlier in my testimony. Once consumers feel that it is safe to consume services such as hotel accommodations and restaurant meals, consumption of those and other services might grow very fast as pent-up demand is released. Research by economists at both the New York Federal Reserve Bank and at universities have found that although the CARES Act direct payments to households helped to shore up consumption spending in calendar year 2020, much of those payments were saved by households that had either higher incomes or higher bank balances to begin with. These precautionary savings, and savings from the second round of stimulus payments, could lead to higher consumption spending later in calendar year 2021, and in calendar year 2022.

On the downside, the risks to the forecast are more numerous. Just as in the optimistic scenario, the main downside risks are centered on vaccine deployment, the number of COVID-19 cases and hospitalizations, and containment measures.

If vaccine production and deployment takes longer than anticipated in the U.S., population immunity would take longer to reach, leading to a loss in consumer confidence, a slower recovery in consumption spending, further employment loss, or at least a lack of rehiring in service sectors, and a reduction in business investment in those sectors.

There are other risks that are less immediate but still significant.

(i) Difficulties with vaccine rollout for key trading partners, Canada, Mexico, the Eurozone, and Asia, could lead to weak exports and slower U.S. growth, particularly in manufacturing, which is important to Ohio's economy.

(ii) High asset prices, particularly stock prices but also home prices, which have been fueled in part by the surge in saving, could turn out to be an asset bubble which deflates quickly, hurting consumer confidence and leading to a pullback in spending.

(iii) In the longer run, a Federal Reserve policy that keeps interest rates very low and injects large amounts of liquidity into the economy could lead to fast increases in inflation, forcing a sharp policy reversal by the Federal Reserve resulting in slower long-run growth.

(iv) Workers who have left the labor force due to COVID-19 eventually re-enter with skills that are mismatched to the post-pandemic economy, leading to lower overall productivity and slower income growth.

OBM's adoption of the baseline IHS Markit forecast does not ignore these risks. **The revenue prediction models that rely on the IHS Markit baseline forecast for inputs generate quite conservative tax revenue forecasts in fiscal year 2021, and by extension also produce conservative forecasts in fiscal year 2022 and fiscal year 2023**.

Detailed Near-Term Outlook

There are literally thousands of national and state variables in the IHS Markit economic forecasts. OBM pays particular attention to a relatively small group of key variables that either summarize the broad economy or are directly used in the equations that are used to forecast GRF tax revenues. The fiscal years 2021-2023 forecasts for those variables, along with the history for fiscal years 2018-2020, are summarized in Table 3, below. Please note that these forecasts are displayed in state fiscal year terms, so they will differ from the calendar year forecasts shown in Tables 1 and 2.

History and IHS Markit Dec2020 Baseline Forecast of Key Economic Variables, FY 2018-2023
Annual percent change unless otherwise indicated

	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Forecast	FY 2023 Forecast
Output						
U.S. Real GDP	2.9	2.5	-1.1	1.0	3.8	3.0
Ohio Real GDP	1.6	2.1	-1.9	0.4	3.4	2.5
Income						
U.S. nominal personal income	5.4	4.8	5.2	2.8	1.5	4.1
Ohio nominal personal income	4.1	4.0	4.7	2.9	1.1	3.7
Ohio nominal wage and salary income	4.0	4.1	0.6	3.2	4.8	3.6
Employment						
U.S. nonfarm employment	1.5	1.5	-1.9	-2.7	4.3	2.0
Ohio nonfarm employment	0.7	0.6	-5.3	0.5	3.7	1.1
U.S. unemployment rate (percentage)	4.1	3.8	6.0	7.0	5.1	4.5
Ohio unemployment rate (percentage)	4.5	4.2	7.9	6.2	5.29	4.8
Consumer Spending						
U.S. real personal consumption expenditure	2.7	2.5	-1.3	1.7	4.5	2.6
U.S. nominal personal consumption expenditure	4.7	4.4	0.0	3.1	6.5	4.6
U.S. retail and food service sales	4.8	3.5	0.3	8.3	5.7	4.2
U.S. light vehicle sales (millions of units)	17.14	17.15	16.48	14.65	16.06	15.98
U.S. light vehicle average price (thousands)	$33.09	$33.96	$35.38	$37.38	$38.15	$39.18

Table 3

GENERAL REVENUE FUND TAX FORECAST

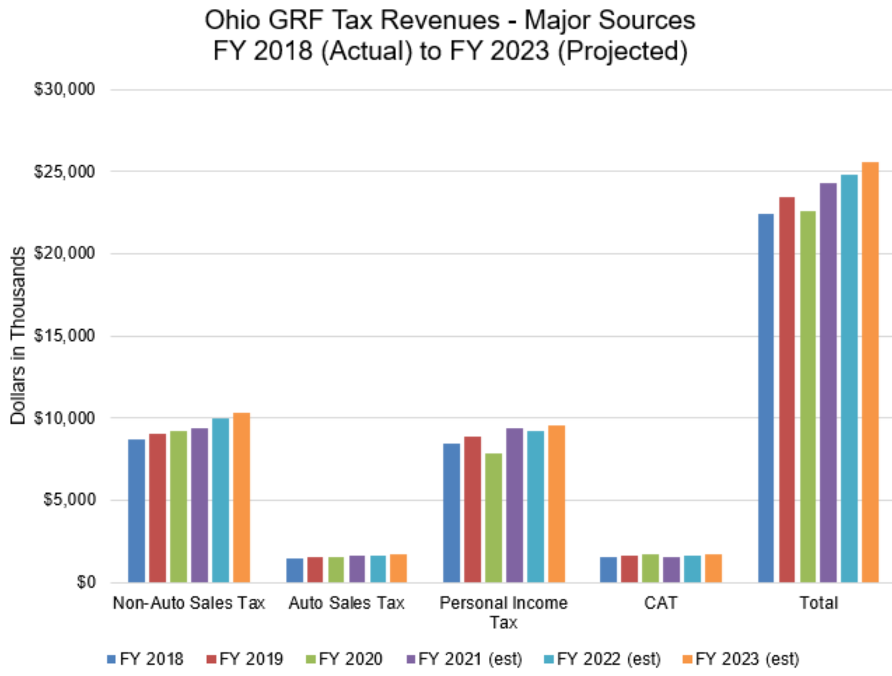


Figure 6

OBM staff, in conjunction with the Department of Taxation, developed the GRF tax revenue forecasts. These forecasts reflect the total GRF tax revenue resources expected to be produced in each fiscal year and which will be available to fund the GRF appropriations in this Executive Budget.

The baseline GRF tax revenue forecasts total $24.79 billion in fiscal year 2022 and $25.6 billion in fiscal year 2023. The forecasted annual growth rates are 2.0 percent for fiscal year 2022 and 3.4 percent for fiscal year 2023.

I would like to summarize our forecasts for the most significant tax sources. The personal income tax typically poses the greatest complexity in forecasting Ohio's baseline GRF tax revenues. Employer withholding is the primary driver of income tax revenue, and the component most amenable to conventional econometric modeling. In fact, going back to the pre-pandemic period, OBM's employer withholding estimates for the first 2/3rds of fiscal year 2020 were quite close to actual performance: July through February 2020 collections were $44 million (0.7 percent) above estimate. This shows that our forecasting models fit very well with actual economic performance. Once the pandemic struck, to no one's surprise, we found that employer withholding collections did not reach estimate during the remainder of fiscal year 2020: from March through June, employer withholding was $177 million (-5.9 percent) below estimate. However, fiscal year 2021 has so far shown a distinct upturn from the spring and performance has been more in line with original estimates: through December, fiscal year 2021 employer withholding collections have exceeded the estimate by just $15 million (0.3 percent). Monthly withholding collections have increased by 4 percent over the prior year once one adjusts for the withholding tax rate reduction that occurred in calendar year 2020. The fiscal year 2021 performance is impressive considering that unemployment levels remain elevated. Based on the economic forecast of a recovering labor market, monthly employer withholding is projected to grow by 5.9 percent in fiscal year 2022 and by 4.4 percent in fiscal year 2023.

The most challenging part of forecasting income tax revenue involves non-withholding collections that are based on non-wage income – these include the taxable income streams such as capital gains, interest, dividends, other forms of investment income, and partnership and sole proprietor income (not otherwise deducted under Ohio law). Data on non-wage income emanates from the Internal Revenue Service, albeit with a considerable lag. At present, the most recent data we have is from tax year 2018, while the state is currently receiving revenues based on what happened in tax year 2020. To forecast revenue for this budget, OBM and the Department of Taxation must estimate present levels of income because what is actually known comes from IRS-originated data that is two years old, and then forecast future years' non-wage income.

The economic crisis has made non-wage income tax forecasting more challenging than usual. For instance, there is high unpredictability on the aggregate levels of business income for sole proprietors and investors in pass-through entities during tax year 2020; even with the very large amounts of federally-enacted stimulus, much of it does not translate into taxable income. Another non-wage component with large uncertainty is taxable unemployment compensation; the level will be much higher than normal, but because of Ohio's income tax rate structure, including the exemption for incomes below $22,150, it is difficult to estimate the tax associated with such compensation. All told, the considerable amount of uncertainty impacting tax year 2020 non-wage income creates associated uncertainty for fiscal year 2021 revenue.

Going forward, for fiscal years 2022 and 2023, OBM has taken a conservative approach to forecasting the various components of non-wage income, to hedge the overall income tax forecasts against downside risk. OBM forecasts total GRF income tax baseline revenues to decline by 2.3 percent in fiscal year 2022, but then grow by 4.3 percent in fiscal year 2023. As mentioned above, the postponement of income tax payments into July 2020 produced an estimated $719 million in one-time revenue in fiscal year 2021. If not for that change, there would have been positive estimated baseline income tax growth in fiscal year 2022.

I would now like to turn to auto and non-auto sales tax revenues. Throughout fiscal year 2021, both the auto sales tax and non-auto sales tax have been running well above the estimates crafted at the enactment of the current biennial budget. After experiencing a combined auto and non-auto shortfall of $473 million (12.7 percent) during the last 1/3rd of fiscal year 2020, with the decline primarily concentrated in April and May, the combined sources are $357 million (6.3 percent) above estimate during the first half of fiscal year 2021.

OBM has devoted considerable time over the last six months to examining the likely reasons for this vibrant performance, particularly in the non-auto sales tax since it is more fiscally significant. Among the most compelling reasons for this performance are enacted federal fiscal policies that provided a tremendous amount of support paid directly to individuals and businesses, including assistance to the unemployed. It is reasonable to conclude the federal support prevented a more drastic erosion in consumption and that the enhanced savings provided the resources to support additional consumption over succeeding months. In this way, federal policies contributed to our non-auto sales tax revenues.

Another major factor is an apparent significant shift away from the consumption of services and to the consumption of goods. Many services have simply become unavailable during the pandemic. The relative shift toward goods did not come simply by the decline in services. Instead, individuals have shown a willingness to increase their goods consumption; even as COVID spread, consumers and retailers alike have shown remarkable flexibility and willingness to spend their discretionary income, much of it on goods that are taxable under Ohio law.

One notable Ohio law change enacted as part of the current budget was the requirement for out-of-state sellers to collect Ohio sales tax, a response to the June 2018 U.S. Supreme Court ruling in *Wayfair vs. South Dakota*. The last budget bill also required marketplace facilitators (third-party online marketplaces) to collect sales tax on sales to Ohio consumers that were made on their platforms. This law change took effect in October 2019 and generated nearly $250 million from marketplace facilitators in fiscal year 2020 and is expected to generate approximately $375 million in during fiscal year 2021.

Despite the recent positive revenue news, important risks cloud the horizon. The virus inherently creates uncertainty: as long as the virus remains highly transmissible and most of the population remains vulnerable, we must remain ready for the possibility of a downturn in economic conditions. In addition, there is a possibility that consumers will begin to lose some of their willingness to purchase goods as the crisis endures. Even if further fiscal stimulus materializes from Washington, it is possible that consumers may choose to close their wallets and retrench by putting a higher share of their income into savings.

With this in mind, OBM conservatively forecasts that non-auto GRF sales tax revenue will increase by 2.6 percent in fiscal year 2021, followed by 5.6 percent growth in fiscal year 2022 and 3.4 percent growth in fiscal year 2023.

Auto sales tax revenue has also displayed stronger performance to date than expected during fiscal year 2021. After a historically dismal performance in April and May, falling 42 percent from estimate, this source has exceeded estimate ever since (13.5 percent above estimate for fiscal year 2021 to date). The reasons for this growth are likely due to both enhanced demand effects and supply limitations. Fiscal stimulus provided unexpected increases in income for many consumers, and the demand for vehicles seems to have increased as an adaptation to the “socially distanced” public health environment. This increased demand led to price effects because during the early-spring downturn in new vehicle sales, there was an associated decline in the supply of late-model used cars; meanwhile, as demand for used vehicles increased in late spring and summer, there were very large wholesale price spikes.

Using OBM’s traditional revenue forecasting models in conjunction with the latest available economic forecasts, OBM estimates that auto sales tax revenues will increase by 7.6 percent in fiscal year 2021, and then conservatively continue to grow by 2.2 percent in fiscal year 2022, and 1.7 percent in fiscal year 2023.

The final GRF tax forecast that I would like to discuss today is the commercial activity tax, or the CAT. The tax is based on taxable gross receipts, a very broad measure of aggregate economic activity. To no surprise, revenue from this source declined in early fiscal year 2021 since returns due in August reflected activity that occurred during the April-June 2020 period. Revenue for that period declined 13.0 percent from the prior year. However, another tax filing date has since elapsed, showing improved performance.

OBM's CAT forecast reflects a conservative forecast for fiscal year 2021, with an anticipated decline of 8.2 percent. However, a strong rebound is forecasted for fiscal year 2022, with revenue estimated to increase by 8.1 percent. For fiscal year 2023, revenue is estimated to grow by 5.8 percent.

Before leaving the discussion of revenues, I would briefly like to discuss one proposed policy change and its expected impact on GRF tax revenues. The budget proposes an expansion of the existing job creation tax credit program to allow more companies to qualify for the tax credit. The current program is targeted to companies that create at least ten new jobs and generate over $660,000 in additional annual payroll. The proposal would require the Tax Credit Authority to expand the tax credit qualification criteria by allowing projects below these thresholds to qualify for the program. This would typically benefit smaller companies. No more than $25 million in tax credits may be claimed per year under the expanded criteria. Because there is inherent lag between the proposal's effective date and when credits could first be issued and claimed, the first revenue impact is expected to occur in fiscal year 2023 and is estimated to reduce commercial activity tax revenue by $10 million in that year and we have accounted for that in the budget before you today.

In addition to the GRF tax source discussion, it is important to note one non-GRF tax source, the Motor Fuel Tax, which was dramatically impacted at the start of the pandemic and is not expected to fully recover to pre-pandemic forecasted levels during the upcoming two-year period. Last spring, at the onset of the pandemic, traffic volumes decreased significantly. In fact, at one point in March, traffic declined nearly 50 percent from the same point in 2019. As a result, gas tax revenue came in $125 million below projections in the final quarter of fiscal year 2020 and is expected to be much lower than initial projections in fiscal year 2021. Moving forward into the next biennium, the Ohio Department of Transportation (ODOT) expects gas tax revenue to start to recover, but is still projecting $333 million less over the upcoming biennium when compared to pre-pandemic forecasts (-$174 million in fiscal year 2022 and -$159 million in fiscal year 2023) and the ODOT budget has been adjusted accordingly. Meanwhile, additional federal highway transportation funds have been included in the ODOT budget, which assist in closing that gap.

FISCAL YEARS 2022-2023 BUDGET PRIORITIES

I will now shift from discussing our economic and revenue forecasts to a discussion of the priorities outlined in Governor DeWine's Executive Budget.

Recommended appropriations in the Executive Budget are made across nearly 800 funds that are grouped by similarity of purpose into 14 budget fund groups. The largest budget fund group by far consists of only one fund, the General Revenue Fund. The GRF receives most general-purpose tax revenues of the state and is the fund where the state has the most discretion in resource allocation. The second largest fund group is Federal, which receives the state's federal revenue, with the notable exception of federal revenues for Medicaid expenditures paid from the GRF which are deposited back into the GRF.

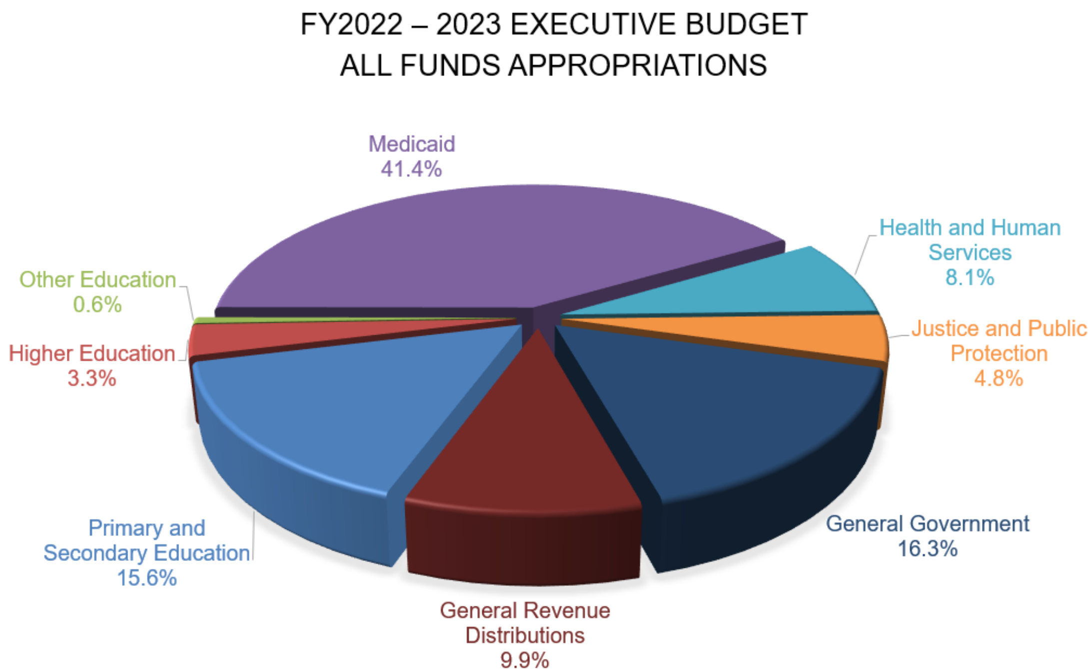


Figure 7

Figure 7 summarizes budget appropriations for all funds by category. The budget recommends total agency appropriations of $85.7 billion in fiscal year 2022 and $85.8 billion in fiscal year 2023. In dollar terms, the "all funds" budget grows by $1.8 billion in fiscal year 2022 and $65.6 million in fiscal year 2023.

As you can see, the largest category of all-funds expenditures is the Medicaid program at 41.4 percent, followed by General Government, and Primary and Secondary Education.

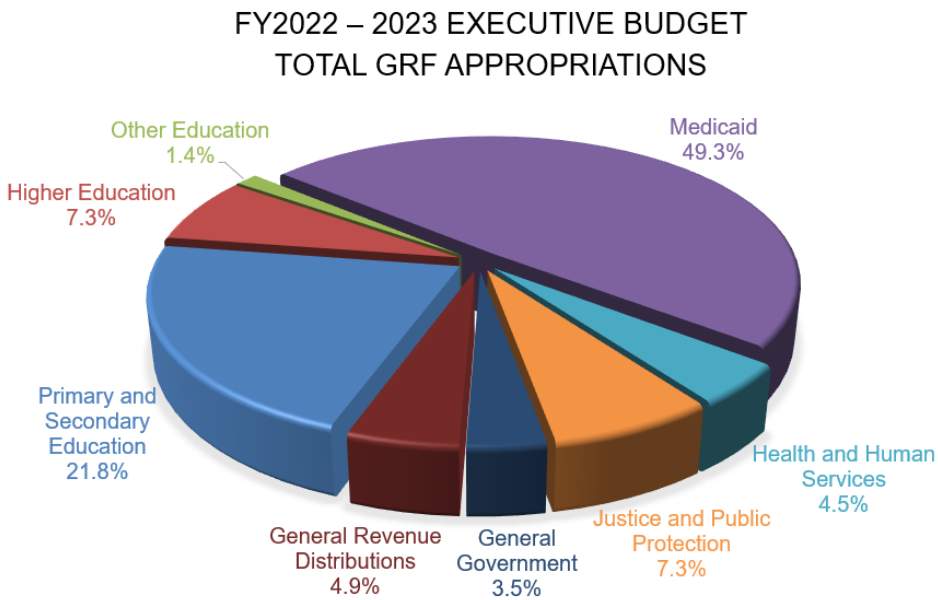


Figure 8

Total General Revenue Fund Appropriations (dollars in millions)

Function	FY 2021 Estimate	FY 2022 Executive	% Change	FY 2023 Executive	% Change
Primary and Secondary Education	$ 7,898.2	$ 8,151.8	3.2%	$ 8,120.6	-0.4%
Higher Education	$ 2,583.9	$ 2,738.7	6.0%	$ 2,743.5	0.2%
Other Education	$ 395.4	$ 528.6	33.7%	$ 498.4	-5.7%
Medicaid	$ 16,518.0	$ 16,441.3	-0.5%	$ 20,340.8	23.7%
Health and Human Services	$ 1,424.2	$ 1,693.7	18.9%	$ 1,674.9	-1.1%
Justice and Public Protection	$ 2,575.9	$ 2,679.2	4.0%	$ 2,765.5	3.2%
General Government	$ 976.1	$ 1,318.2	35.0%	$ 1,274.7	-3.3%
General Revenue Distributions	$ 1,858.3	$ 1,834.4	-1.3%	$ 1,854.0	1.1%
Total	**$ 34,229.8**	**$ 35,386.0**	**3.4%**	**$ 39,272.5**	**11.0%**

Table 4

The budget recommends GRF agency appropriations of $35.4 billion in fiscal year 2022 and $39.3 billion in fiscal year 2023. As discussed in detail later in my testimony, the largest area of growth in the GRF budget is Medicaid, which accounts for 76 percent, or $3.8 billion, of the growth. Note that Total GRF appropriations in Figure 8 and Table 4 include the federal Medicaid revenue that is deposited into the GRF.

Finally, for the clearest picture of how this budget allocates our discretionary resources, we must examine the State-Only GRF appropriations, depicted in Figure 9 and Table 5. As you can see, when the Federal Medicaid revenues are removed from the picture, it is clear that this budget directs the largest proportion of discretionary funds towards Primary and Secondary

Education (32.4 percent). As with the total GRF, the largest percentage increase in this category is in Medicaid (accounting for 62.1 percent of total growth over the biennium). This growth will be discussed later in my testimony and is largely driven by higher caseloads and the enhanced Federal Medical Assistance Percentage, or eFMAP, currently being received by the State.

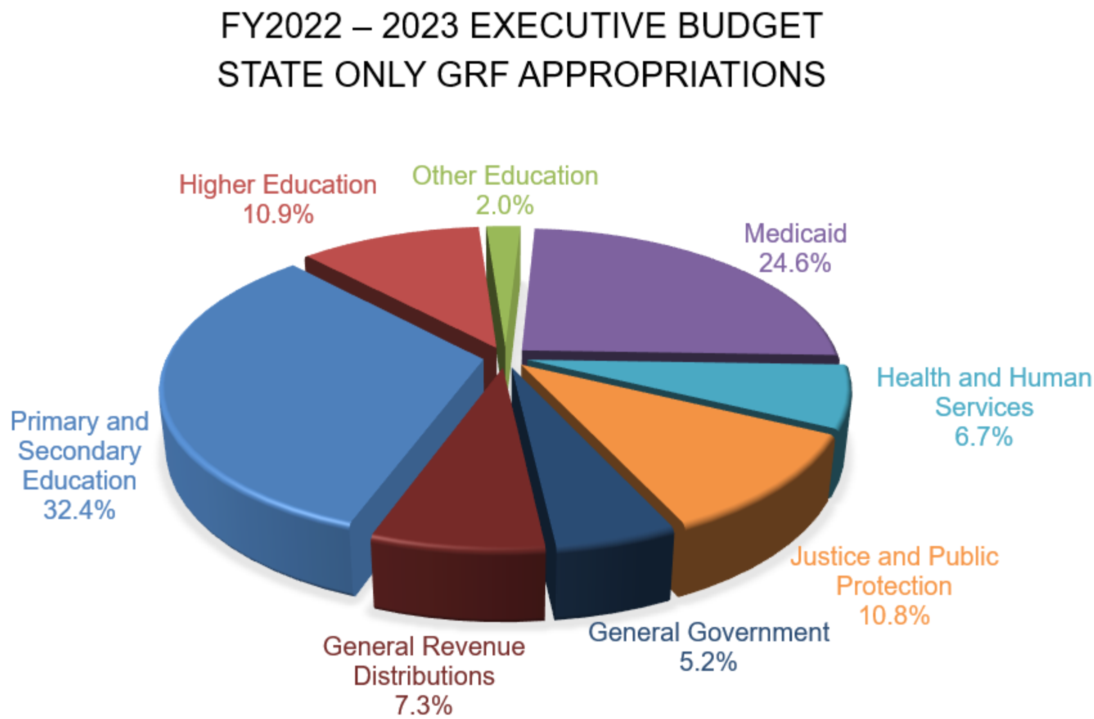


Figure 9

State Only General Revenue Fund Appropriations (dollars in millions)

Function	FY 2021 Estimate	FY 2022 Executive	% Change	FY 2023 Executive	% Change
Primary and Secondary Education	$ 7,898.2	$ 8,151.8	3.2%	$ 8,120.6	-0.4%
Higher Education	$ 2,583.9	$ 2,738.7	6.0%	$ 2,743.5	0.2%
Other Education	$ 395.4	$ 528.6	33.7%	$ 498.4	-5.7%
Medicaid	$ 5,000.7	$ 5,364.2	7.3%	$ 6,997.2	30.4%
Health and Human Services	$ 1,424.2	$ 1,693.7	18.9%	$ 1,674.9	-1.1%
Justice and Public Protection	$ 2,575.9	$ 2,679.2	4.0%	$ 2,765.5	3.2%
General Government	$ 976.1	$ 1,318.2	35.0%	$ 1,274.7	-3.3%
General Revenue Distributions	$ 1,858.3	$ 1,834.4	-1.3%	$ 1,854.0	1.1%
Total	**$ 22,712.5**	**$ 24,308.9**	**7.0%**	**$ 25,928.9**	**6.7%**

Table 5

The Investing in Ohio Initiative

We have an opportunity to invest in Ohio today for a stronger, self-sufficient tomorrow.

Ohioans are resilient. We are pioneers, and we are innovators. We see opportunity in the challenge, and this Executive Budget plan will assist Ohioans by investing in our communities, businesses, and economies. Governor DeWine's Executive Budget includes a $1 billion ***Investing in Ohio Initiative***, an aggressive plan to accelerate economic growth and ensure economic vitality. By making targeted investments, we can address disparities, build prosperity, and set Ohio on the road to a bright future.

Investing in Ohio by Sustaining Our Businesses

Recognizing that some sectors – such as entertainment, hospitality, and new businesses – have been hit especially hard by the pandemic, the Executive Budget invests $460 million to help these entities cover costs and keep their doors open. The budget will:

- Provide funding for grants of up to **$30,000 to assist bars and restaurants** that have been severely impacted by the pandemic.
- Assist **15,000 small businesses by providing $10,000** grants to the qualified Small Business Relief Grant applicants who have yet to receive assistance through the state's share of the Coronavirus Relief Fund.
- Provide funding for grants up to **$30,000 to support lodging industry businesses** that have seen a significant occupancy reduction during the pandemic.
- Provide funding for grants up to **$30,000 to support indoor entertainment venues** that have been impacted by the pandemic, including movie theaters, bowling alleys, trampoline parks, and privately-owned museums.
- Assist **2,000 new businesses across the state** that opened their doors between the beginning of January and the end of March 2020 with grants of up to $10,000 each. These critical grants will help our newest entrepreneurs make it through this challenging time.

Investing in Ohio by Enhancing our Communities

Through a nearly half-billion-dollar investment, we are supporting key infrastructure projects and the development and adoption of a more robust broadband network in communities throughout the state. The Executive Budget will:

- **Invest $250 million** to provide grants to expand broadband access throughout Ohio, with the goal of ensuring that all households have the basic connectivity necessary to support children's homework, a job search, or online training.
- **Invest $200 million** to provide grants of up to $2.5 million each to pay for infrastructure projects in communities.

Investing in Ohio by Growing a Skilled Workforce

We are investing in programs to help tens of thousands of Ohioans upskill and find success in new careers and ensure businesses can access the talent needed in today's economy. While assisting Ohioans in accessing high-demand, quality-wage careers, these initiatives also ensure businesses have access to the talent needed in today's economy and make targeted workforce investments in rural and urban parts of the state. The Executive Budget will:

- **Fund an additional 5,000 technology-focused credentials** through the TechCred Program, including the Individual Microcredential Assistance Program, in fiscal year 2021 ($5 million) and an additional 45,000 credentialed individuals in the next biennium ($25 million in both fiscal years 2022 and 2023).
- **Invest $15 million** to support targeted workforce investments in economically distressed rural and urban communities. This program partners with businesses, communities, organizations, and educational institutions throughout Ohio to establish and expand programs that help Ohioans reskill and pursue new, in-demand employment opportunities.
- **Invest $16 million** in school programs so 70,000 high school juniors and seniors can earn credentials for in-demand jobs while also working towards high school graduation. An additional $25 million in recommended GRF will be available to schools and districts through the Innovative Workforce Incentive Program.
- **Continue** to support and expand successful programs like the Export Internship, Diversity & Inclusion Internship, and Choose Ohio First. The Export Internship and the Diversity and Inclusion Internship programs will provide opportunities to 690 individuals across the biennium. Choose Ohio First will provide 2,000 new scholarships in addition to the 3,375 total scholarships in the 2019-2020 Academic Year.
- **Guarantee** that every student in Ohio has access to computer science education.

HEALTHY PEOPLE

The health of Ohioans and the health of our state's economy are unquestionably connected. The COVID-19 pandemic has shown us directly how physical health, mental health, accessibility to wellness services, and healthcare inequities in our communities affect an individual's ability to participate in the marketplace. Healthy people lead to renewed communities and a thriving economy. Our economy cannot rebound without healthy individuals.

Access to quality care is critical to the health of all Ohioans. Still, access is limited by a program or service's ability to reach communities, the conditions of the community, and the trust those communities have with the providers. Governor DeWine's Executive budget includes a **$50 million** one-time investment to advance public health equity. The budget will:

- **Provide $6 million** to support local health departments in improving Ohio’s population health based upon the findings and recommendations in Ohio’s 2020-2022 State Health Improvement Plan and to incentivize efficiencies, including shared services or the consolidation of local health districts that formally merge on or after July 1, 2021.

- **Invest $5.5 million** to improve the health of infants and women. The Governor's Office of Children's Initiatives will support programming of community and local faith-based service providers who provide services and support to pregnant mothers to improve both maternal and infant health outcomes. In addition, the Departments of Health and Medicaid will develop a universal needs assessment for vulnerable women to identify and provide needed health and wrap-around supports.
- **Allocate $2 million** to the Ohio Department of Health along with other agencies, boards, and commissions, to identify and address social determinants of health which will improve health equity for all Ohioans.
- **Fund $3.25 million** for emergency department diversion and harm reduction efforts. Governor DeWine's RecoveryOhio Initiative will support the continuation of the Emergency Department Comprehensive Care Initiative to enhance Ohio's response to the addiction crisis by creating a comprehensive system of care for patients who present in emergency departments with addiction. In addition, the Governor's RecoveryOhio Initiative will support local health providers' harm reduction efforts for accidental drug overdose rates and deaths.
- **Provide $5 million** for nursing home quality training. The Ohio Department of Aging will incentivize quality-improvement initiatives in or regarding long-term care facilities or connect long-term care facilities with technical assistance programming including training on infection control, elder abuse, or other topics identified by the Department of Health informed by trends in citation data from the Bureau of Nursing Home Survey and Certification.
- **Provide $2.25 million** for housing for pregnant mothers. The Departments of Health and Development and the Governor's Children's Initiatives Office will support stable housing initiatives for pregnant mothers to improve maternal and infant health outcomes.
- **Allocate $1 million** for Technology First Initiative. The Department of Developmental Disabilities will invest in projects to increase technology access for individuals with developmental disabilities. This initiative strives to use technology to better support individuals with developmental disabilities and ensure opportunities to live, work, and thrive in their communities.
- **Invest $25 million** to improve public health data. The Departments of Health and Administrative Services will support or procure a comprehensive and integrated technology solution to align data systems and records and streamline timely data to improve and enhance disease reporting and healthcare delivery across the state. The COVID-19 pandemic has highlighted the importance of more accurate and timely health data to improve community health programs and protect Ohio lives.

Governor DeWine's budget also proposes reform to further Ohio's ability to regulate and ensure quality in long-term care service delivery. The Governor's plan to make the needed investment into high-quality nursing homes, while at the same time providing an option for low quality providers to exit the business or invest and improve their care models, is one that will provide better quality care for Ohioans. The Governor's Executive Budget will:

- **Invest $50 million** for a nursing home reform initiative in response to the underutilization of licensed nursing home beds in Ohio. The Department of Health, in collaboration with the Departments of Aging and Medicaid, will encourage facilities to voluntarily downsize, move to single patient rooms, and remove the costly excess unused beds from the system. The way the nursing home payment structure in Ohio was designed years ago, Medicaid is required to cover a portion of expenses for unused bed days. According to current Department of Health records, nearly 20 percent (approximately 11,000) of eligible nursing home beds were vacant prior to the start of the COVID-19 pandemic. As Ohioans demand more community-based care options, this initiative will help rebalance the services available and improve the quality of care for all Ohioans, regardless of setting.

Medicaid Program

The Executive Budget includes $31.31 billion for fiscal year 2022 and $31.97 billion for fiscal year 2023 for the Department of Medicaid to meet the healthcare needs of Ohio's vulnerable populations. The recommended state-share GRF appropriation for the Department of Medicaid is $4.61 billion in fiscal year 2022 and $6.18 billion in fiscal year 2023.

While the majority of Medicaid spending occurs through the Department of Medicaid, significant spending also occurs through seven "sister agencies": the Departments of Aging, Developmental Disabilities, Health, Job and Family Services, Mental Health and Addiction Services, Education, and the Pharmacy Board. The recommended all-funds appropriations for the Medicaid program, including sister agencies, totals $35.13 billion in fiscal year 2022 while the fiscal year 2023 recommended all-funds appropriations totals $35.92 billion.

These amounts account for all cost drivers such as program enrollment in the managed care, fee-for-service, and premium assistance programs; program costs per-member-per-month (PMPM); and other expenses not directly related to enrollment or PMPM.

Additionally, the recommendation includes alterations to program spending, both in amounts and funding sources, precipitated by the public health emergency and subsequent federal law changes. The most significant impacts stem from the Families First Coronavirus Response Act, passed by Congress in March of 2020. This law contained provisions resulting in two important programmatic and fiscal changes to the Medicaid program, which subsequently resulted in significant changes to Ohio's current and future operating budgets: First, a temporary increase in the federal Medicaid matching rate of 6.2 percent, also referred to as the enhanced Federal Medical Assistance Percentage or eFMAP; and Second, a temporary prohibition from disenrolling individuals during the federally-declared public health emergency.

The higher federal Medicaid match rate provides Ohio with greatly appreciated and needed budgetary relief and flexibility but, without careful planning, could cause a fiscal cliff when the federal public health emergency ends. This budget is specifically crafted to avoid that potential cliff. Because increased Medicaid enrollments will continue throughout the upcoming budget period but eFMAP is only currently expected to continue through this December, this budget plan includes a transfer of eFMAP funding received in the current fiscal year to the upcoming biennium to assist with addressing this increased enrollment. In other words, this plan moves the temporary boost realized due to higher federal Medicaid match forward into the next biennium when the peak Medicaid enrollments and their related costs will be incurred.

As mentioned above, one significant factor driving Medicaid enrollment increases across the nation is the current inability of the Department to disenroll individuals during the period of the federally-declared public health emergency. While this provision ensures critical access to healthcare during the pandemic for some of Ohio's most vulnerable individuals and families, it also results in higher baseline budgets for fiscal years 2022 and 2023. Current caseloads as of December 2020 were 3.1 million. The budget assumes continued Medicaid caseload growth into fiscal year 2022 due mostly to the federal law change, but also due to the economic impacts of the pandemic. Projections include peak enrollment of 3.45 million individuals in February 2022, which is 667,000 higher than caseloads in February of 2020 at the onset of the pandemic. Once the federal public health emergency ends, the Department can begin its normal process of redeterminations, which will likely result in decreased Medicaid caseloads and a reduction in costs to the state from that point on.

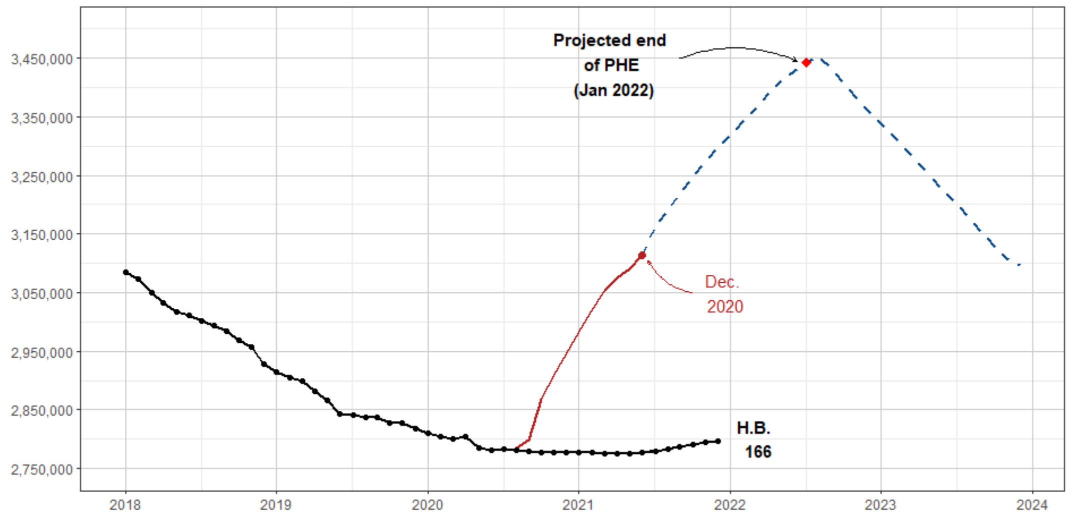


Figure 10

Despite the difficulties posed by the pandemic, the Department of Medicaid and its sister agencies have paved a path forward that provides both a greater quantity, and a higher quality of care throughout Ohio's health and human services networks, all while remaining fiscally responsible and flexible for the uncertainties that lie ahead.

Taken together, the Medicaid program priorities included in the Governor's Executive Budget will:

- Support the re-procurement of Ohio's managed care system, which will improve wellness and health outcomes while emphasizing a personalized care experience. This managed care system will improve care for children with complex behavioral needs, and it will support providers in better patient care while increasing program transparency and accountability.

- Increase access to and care for Medicaid members with significant behavioral health needs through continued funding of Medicaid's Behavioral Health Care Coordination program.
- Expand access to personalized care through Medicaid's Emergency Telehealth program, which makes access to care easier and more flexible during the COVID-19 pandemic.
- Prevent custody relinquishment of multi-system youth children with an additional $5 million per fiscal year. Multi-system youth utilize various services beyond public children's service agencies (PCSA) such as mental and behavioral health and health care.

Priority Health Programs

As we move through the pandemic and into economic recovery, it is crucial that we build on our momentum in priority health programs to ensure that Ohio children grow up healthy, and that our adults are strong and job-ready. The Executive Budget will:

- **Increase funding for Help Me Grow**, Ohio's evidenced-based home visiting program serving more than 8,200 families, encourages early prenatal and well-baby care, as well as parenting education to promote the comprehensive health and development of children. The Executive Budget invests an additional $1.9 million each fiscal year - for a total investment of $41.2 million in fiscal years 2022 and 2023 - allowing the Department of Health to increase home visiting services for at-risk, expectant mothers, and families of young children at or below 200 percent of the federal poverty level. Home visiting is proven to reduce infant mortality and promote child development and school readiness.
- **Continue the lead hazard protection programs**, to make Ohio's homes and communities lead-safe. The Department of Health will conduct lead hazard control and abatement services on hundreds of Ohio homes, conduct public outreach and education, and increase the number of lead hazard workers through the Lead Worker/Contractor Licensure Repayment Program. A new, statewide Lead-Safe Housing Fund will provide competitive grants to Ohio communities to abate lead hazards in their housing stock, promoting revitalized, renewed communities.
- **Support the FQHC Primary Care Workforce Initiative**, which addresses the need for more qualified health professionals by providing medical, dental, behavioral health, advanced practice nursing, and physician assistant students with clinical rotations in Federally Qualified Health Centers (FQHC) that are recognized as Patient Centered Medical Homes (PCMH). Funds are distributed to the Ohio Association of Community Health Centers (OACHC).
- **Address chronic disease and health equity** through increased awareness and action in all Department of Health programs and initiatives.

Continuing Recovery Ohio

RecoveryOhio is the state's initiative to address the crisis of substance use disorders and support the mental health and well-being of Ohio's citizens. The goals of the initiative are to create a system to help make treatment available to Ohioans in need, provide support services for those in recovery and their families, offer direction for the state's prevention and education efforts. These executive budget highlights underscore the comprehensive, collaborative work that is happening across Ohio's state agencies, boards, and commissions. The Executive Budget will:

- **Expand early identification programs** to increase screening, provide early intervention, and connect people to treatment through the Department of Mental Health and Addiction Services (OMHAS).
- **Support forensic services** to reduce the stress on the hospital and criminal justice systems that interact with people with serious mental illnesses and expand treatment capacity for those incarcerated with critical mental illnesses by providing access to the medicine they need.
- **Support programs to address disparities and disproportionate negative impacts on minority, poor, and underserved populations,** including African Americans, Hispanics and Latinos, immigrant populations, refugee, and traumatized populations.
- **Continue the support of crisis services** to meet the mental health and addiction needs of children, youth, families, and adults.
- **Expand access to the Tobacco Use Prevention and Cessation** program for all Ohioans. The program provides and promotes tobacco control activities that support the three primary objectives of: 1) decreasing the initiation of tobacco use, including e-cigarettes and vaping products; 2) increasing quitting of tobacco; and 3) protecting Ohioans from exposure to secondhand smoke. Furthermore, the Department of Health's My Life, My Quit youth-centered quit program also seeks to educate Ohio youths of the risks of the vaping/e-cigarette epidemic.
- **Fund the expansion of Specialized Dockets** with new courts that seek to connect individuals with support services around mental health, substance abuse, trauma care, and other service to better the individual's wellbeing. There are currently 183 specialized court dockets across 57 counties, serving more than 8,000 Ohioans, seeking to ensure public safety by identifying individuals with mental health needs involved in the criminal justice system and supporting them via diversion or linkage to trauma-informed, culturally-responsive, and consumer-directed services and supports when appropriate.

Mental Health and Corrections Partnership

Incarcerated Ohioans struggling with substance use disorders need access to reliable resources for recovery. 67 percent of incarcerated people have a moderate or severe need for recovery services. Almost 23 percent of incarcerated people are on the mental health caseload, 10.2 percent with a serious mental illness. This investment will expand access to treatment within Ohio's correctional facilities, including counseling, peer support, technology, and medication. Recovery services provided during incarceration significantly increase the likelihood that these individuals become productive members of society when released.

RENEWED COMMUNITIES

As Ohioans, we know that our communities are the best places to live, work, play, and raise a family. Our cities, counties, small towns, townships, and villages have been challenged by the pandemic but are already on the road to recovery. This Executive Budget will provide the needed boost for our renewal and carry our communities forward. Our livelihood, wellness, and Ohio's economic recovery and stability are grounded in our diversity. The initiative provides a variety of investments to strengthen our communities and the quality of life in Ohio. With investments in renewed communities, our economy will rebound stronger.

H2Ohio

Water quality, preservation, and accessibility are crucial to healthy people and our communities' economic strength. We must continue the work started with the H2Ohio initiative in fiscal years 2020 and 2021 implemented by the Departments of Agriculture and Natural Resources, the Ohio Environmental Protection Agency, and the Lake Erie Commission. H2Ohio addresses critical water quality needs and innovative solutions for some of the state's most pressing water challenges.

Governor DeWine's Executive Budget will:

- **Invest $100 million** for the Department of Agriculture to continue to enroll and engage more than 1,900 agriculture producers in nutrient management, water management, and erosion management. Farmers rely on nutrients to ensure the maximum crop yields, and this program helps farmers with implementing proven practices that prevent nutrient runoff. To date, more than 1.1 million acres across 14 counties, 36 percent of the representative cropland, is part of this program to implement ten best practices for nutrient management.
- **Provide $50 million** for the continuation of wetland restoration through the Department of Natural Resources, supporting 44 projects encompassing 80,000 acres of watershed and protecting threatened or endangered species. To date, this initiative has over 40 wetland projects in contract, engaged with 18 nonprofit conservation partners to support 60,000 acres of watershed filtered by wetland projects, and identified 90 species threatened or endangered that will benefit from this additional habitat.
- **Allocate $92 million** for the Ohio Environmental Protection Agency to continue the protection of public health by improving water and wastewater infrastructure, reducing lead exposure by replacing an additional 1,500 lead service lines and more than 600 failed home treatment systems across seven counties. To date, H2Ohio has replaced 185 lead service lines, repaired or replaced 180 failed home sewage treatment systems, improved the quality of drinking water for 4,000 people, and served 670 people with three new wastewater projects.

Farmland Preservation

Agriculture is an integral part of the Ohio economy, and through this budget, we seek to stabilize and expand this sector of our marketplace. The Farmland Preservation Program's goal is to permanently preserve farmland through the purchase of agricultural easements from landowners. Similar to an economic development program, the proceeds are used to expand farming operations, reduce debt, and install conservation practices. To aid farmers and landowners to move forward quickly and preserve at least 3,500 additional acres, this budget adds $7 million in addition to the $12 million in recent capital appropriations.

Children's Services Transformation

Creating safe, healthy, and stable environments for all Ohio children is central to thriving, renewed communities. This budget seeks to reinforce existing programs and invest in evidence-based strategies to promote independent families, build resilient children, and bring greater transparency to the children services system. The budget will:

- **Invest $240 million** for State Child Protection Allocation (SCPA) to Ohio's 88 county public children services agencies, preventing custody relinquishment of Multisystem Youth, expand Foster Care Recruitment, and best practices to support Ohio's nearly 16,000 youth in out-of-home care and more than 10,000 kinship and foster caregivers who care for them.
- **Provide $60 million** in financial assistance to kinship while they work toward foster care licensure.
- **Allocate $10 million** to provide financial support to caregivers in cases where children cannot return to their homes.
- **Fund $20 million** for evidence-based prevention services to prevent children from entering the children services system and, if children must enter foster care, to ensure appropriate settings are used.
- **Provide $2 million** to help pay counties efficiently inspect and approve placements for foster and adoptive children.
- **Fund $1 million** to establish the Adoption Assessor Registry to evaluate the current home assessor workforce, develop home study completion measures, and adjust requirements for assessors.

Imagination Library

The Governor and First Lady are excited to continue the Ohio Governor's Imagination Library to provide all Ohio children with a monthly book for the first five years of their lives. With the support of the Legislature and community partners, books are now offered to children in all 88 counties. A **$16 million** investment over the biennium through the Department of Job and Family Services' budget will help ensure this program continues to help spur development and kindergarten readiness in Ohio's future leaders.

Older Ohioans

The coronavirus pandemic has hit our elder Ohioans very hard, amplifying health issues, increasing isolation, and reducing critical access to general healthcare, elective surgeries, nutrition, and long-term care. Governor DeWine's Executive Budget expands aid to Senior Community Services and the Department of Aging's Statewide Aging Initiatives to meet older Ohioans' needs best. The budget will:

- **Provide $8.7 million** to support the implementation of health, nutrition, long-term care, and safety programs under the Older Americans Act and Medicaid through the state's Area Agencies on Aging.
- **Allocate $9 million** to support older Ohioans' needs, including access, equity, health outcomes, independence, and protection for older Ohioans in whatever place they call home, with special consideration given to older Ohioans with the greatest need.

Law Enforcement Investments

Safe and secure communities are thriving communities. This budget seeks to increase police transparency by expanding body camera accessibility, reduce violent crimes and substance abuse, assist local agencies in the recruitment and hiring of new peace officers, and create safe schools. The Governor's Executive Budget will:

- **Fund $10 million** in grants to local law enforcement agencies across the state to implement or enhance body-worn camera programs. This includes the body cameras themselves and other expenses associated with running the program.
- **Provide $8 million** to help reduce violent crimes through state and local law enforcement agencies. This new program is designed to provide flexible grant funding that can meet individual communities' needs with promising or proven crime reduction strategies.
- **Invest $1 million** to support state and local law enforcement agencies in recruiting and hiring new peace officers.
- **Invest $6.5 million** to expand the Ohio Narcotics Intelligence Center (ONIC) to further support local law enforcement and their partners further. The ONIC assists Ohio narcotics task force and law enforcement agencies through investigative, analytical, and digital forensic support. Launched in December of 2019, it has assisted with more than 100 criminal investigations, analyzed more than 220 cellphones, and conducted more than 840 forensic examinations. The ONIC has also supported 70 agencies across federal, state, local, and county task forces, as well as within sectors including criminal justice, homeland security, and public health.
- **Provide $4.6 million** in additional funding for the Ohio School Safety Center (OSSC) to support operations and ongoing initiatives. The OSSC assists local schools and first responders with preventing, preparing for, and responding to threats and acts of violence, including self-harm, through a holistic, solutions-based approach to school safety. This funding is in addition to the continuation of funding for maintaining and promoting the Safer Ohio Schools Tip Line. In April 2020, the OSSC implemented a social media-scanning program of posts from K-12 Ohioans, resulting in 1,145 alerts. The OSSC maintains the state's Safer Ohio School Tip Line offering suicide intervention

and counseling services for individuals. Furthermore, OSSC has reviewed 2,797 school emergency management plans and helped schools create and implement pandemic response procedures.

Local Government Fund and Public Library Fund

Ensuring stability for local governments and public libraries is critical to sustained communities. The Executive Budget renews its commitment to Ohio's local governments and public libraries by continuing funding for the Local Government Fund and the Public Library Fund at their statutory levels. Based on current revenue estimates, the Local Government Fund and the Public Library Fund will each provide **$425 million** in fiscal year 2022 and **$440 million** in fiscal year 2023 in shared revenue to these critical local partners.

Expanding Access to Affordable Childcare

The Executive Budget will ease the burden on low-income working parents and caregivers who struggle to provide adequate childcare. By raising family initial income eligibility requirements from 130 percent to 138 percent of the Federal Poverty Level (FPL), and 150 percent FPL for special needs children, more children will receive the care, supervision, and developmental opportunities they need.

Rent and Utility Assistance

The loss of income for Ohioans due to the pandemic has placed many in jeopardy of falling behind in rent, utility, and energy bills. Ohioans impacted by the pandemic with rent, rent arrears, utilities and home energy costs, and utility and home energy cost arrears will receive assistance from funds awarded to local Community Action Agencies (CAAs). These funds total **$565 million** from the US Treasury and are approved for use in Ohio.

Supporting K-12 Learning

As Ohio recovers from the pandemic, we must catch kids up who were left behind during school closures and continue to support students with the most need. Investing in children allows us to strengthen our future workforce and economy. In the fiscal years 2022 and 2023 biennium recommendation, the Department of Education will disburse more than **$13.1 billion** to schools and districts across the state to support Ohio's 1.7 million school children. This investment includes $125 million in restored foundation funding for schools and districts.

The Executive Budget also will appropriate over **$2 billion** of additional federal funding provided in the recent stimulus package to give kids access to the learning opportunities they have missed out on because of the pandemic. To help kids catch up, schools and districts will develop extended learning and learning recovery plans. Schools and districts will partner with community organizations to deliver extended learning and activities to targeted student populations.

K-12 Student Wellness

One of our most disrupted populations due to the pandemic are our school children. The pandemic has put a strain on their health, mental wellbeing, and academic success of these students. The Executive Budget includes **$1.1 billion** in the Department of Education's budget to continue support for Student Wellness and Success programs, which fund partnerships between schools and community organizations to develop programs that meet the social and emotional needs of students.

A recent study released by the Ohio Department of Education titled *Student Wellness and Success Fund Survey Data Report*, released in December 2020, found schools and districts implementing more than 3,000 initiatives, serving over 1 million Ohio students. More than one in four initiatives was focused on mental health services, with nearly two-thirds of districts implementing or planning an initiative in this category. Almost one in seven initiatives was focused on physical health services across more than one-third of districts.

Quality Community Schools

To encourage and identify high-quality charter schools, the Executive Budget will increase the Quality Community School Support Fund to **$54 million** per year. To access these funds, charter schools must meet several academic, good-standing, and financial criteria set forth by the Department. These funds will help successful charter schools build the capacity to serve more Ohio students.

Prioritizing Higher Education and Student Scholarship Programs

Ohio prioritizes access to a quality college education for our disadvantaged students to create more opportunities to succeed. The cost of higher education is a barrier to many students to obtain a degree and the skills necessary to compete in today's fast-paced economy. The Executive Budget will:

- **Raise the per-student Ohio College Opportunity Grant award by $500** over the biennium to make college affordable for students with financial need.
- **Provide at least 2,000 new scholarships** through the Choose Ohio First scholarship program, which helps students become skilled in high-demand areas and prioritizes awards for underrepresented populations enrolled in the critical STEMM disciplines of science, technology, engineering, math, and medicine.
- Continue to **support Ohio's wide range of colleges and universities** throughout the state by increasing our investment in the State Share of Instruction institutional subsidy by 1.8 percent over the biennium to maintain quality and provide support services.

Efficiency Initiatives

I have talked this morning about revenues and planned budget priorities, and I would like to now end my testimony with a few examples of efficiencies gained over the past year.

Common Sense Initiative

We will also continue to focus on eliminating redundant governmental regulations by reviewing business-impacting rules and helping businesses navigate regulatory obstacles. Since its launch, CSI has reviewed nearly 15,000 state agency regulations, and has identified 60 percent of those regulations as potential obstacles to Ohio businesses. All of those identified regulations were either amended or rescinded.

Ohio Checkbook

You may recall in June 2020, Lt. Governor Jon Husted and Ohio Treasurer Robert Sprague unveiled OhioCheckbook.gov, the new transparency website combining OhioCheckbook.com (previously administered by the Treasurer's office) and Ohio's Interactive Budget (previously operated by the Office of Budget and Management) to create a single, one-stop resource for taxpayers hoping to learn more about spending at the state and local levels of government. By streamlining website administration and eliminating duplication, the partnership between the DeWine-Husted Administration and Treasurer Sprague maintains the features of both sites while delivering a projected savings of around $900,000 per year. We are very proud of this initiative and have even expanded the tool to host a data dashboard detailing the federal funds awarded and spent in Ohio to combat the COVID-19 pandemic. Our state continues to lead the nation in providing our citizens with transparent, detailed spending data and we will continue to improve on these successes.

Duplicate Payments

InnovateOhio and OBM have partnered to utilize data analytics to review state agency spending and identify duplicative payments. To date, we have identified $1.37 million duplicate payment, the majority of which have already been recovered. These are actual taxpayer dollars recovered, not just potential savings identified. We continue to review the state's payment processes for additional enhancement or expansions of this analytics tool.

CONCLUSION

Mr. Chairman, members of the Committee, I appreciate the opportunity to review *Investing In Ohio's Future*, Governor DeWine's Executive Budget for fiscal years 2022 and 2023. This is a conservative, balanced budget with no new taxes that is focused on building a thriving Ohio economy. The pandemic has clearly shown that a thriving economy depends on healthy people and renewed communities.

I know that my testimony today has provided but a brief overview of the important investments included in this budget, and I know that each of the members of Governor DeWine's Cabinet look forward to joining this Committee and your Subcommittees as you continue hearings.

Each member of the Cabinet and I look forward to working together with each of you as the House considers the budget proposal. I thank you for your time and consideration.

I am happy to answer any questions you may have today.

Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2018 to 2023
(dollars in millions)

	Actuals					Estimates					
Revenue Source	**FY 2018**	**FY 2019**	**% Chg**	**FY 2020**	**% Chg**	**FY 2021**	**% Chg**	**FY 2022**	**% Chg**	**FY 2023**	**% Chg**
Tax Revenue											
Auto Sales and Use	1,440.5	1,501.7	4.2%	1,502.7	0.1%	1,616.7	7.6%	1,652.1	2.2%	1,680.5	1.7%
Non-Auto Sales and Use	8,707.6	9,071.7	4.2%	9,183.0	1.2%	9,422.6	2.6%	9,951.5	5.6%	10,289.5	3.4%
Subtotal Sales and Use	10,148.2	10,573.4	4.2%	10,685.8	1.1%	11,039.2	3.3%	11,603.6	5.1%	11,970.0	3.2%
Personal Income	8,411.0	8,910.2	5.9%	7,881.3	-11.5%	9,389.7	19.1%	9,175.5	-2.3%	9,571.4	4.3%
Corporate Franchise	2.2	2.1	-5.1%	0.0	-100.0%	6.0	0.0%	0.0	-100.0%	0.0	0.0%
Financial Institutions Tax	201.1	202.4	0.7%	214.9	6.2%	189.7	-11.7%	190.0	0.2%	190.0	0.0%
Commercial Activity Tax	1,522.8	1,629.5	7.0%	1,671.7	2.6%	1,535.3	-8.2%	1,660.3	8.1%	1,746.3	5.2%
Petroleum Activity Tax	7.8	11.6	48.0%	8.7	-24.7%	6.0	-31.3%	8.0	33.3%	9.0	12.5%
Public Utility	119.2	143.2	20.1%	141.0	-1.5%	120.0	-14.9%	131.6	9.7%	133.0	1.1%
Kilowatt Hour Tax	342.4	343.6	0.4%	331.8	-3.4%	296.2	-10.7%	307.1	3.7%	294.8	-4.0%
Natural Gas Consumption	69.6	75.9	9.1%	59.7	-21.3%	65.0	8.8%	68.0	4.6%	69.0	1.5%
Foreign Insurance	276.5	296.3	7.2%	305.1	2.9%	308.1	1.0%	311.2	1.0%	314.3	1.0%
Domestic Insurance	278.4	276.0	-0.9%	303.0	9.8%	304.4	0.4%	315.3	3.6%	321.6	2.0%
Business and Property	0.2	0.3	42.3%	0.0	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Cigarette	939.8	918.2	-2.3%	913.0	-0.6%	927.8	1.6%	910.4	-1.9%	898.5	-1.3%
Alcoholic Beverage	55.7	56.3	1.0%	53.6	-4.6%	56.0	4.4%	56.0	0.0%	56.0	0.0%
Liquor Gallonage	48.1	50.3	4.6%	53.4	6.0%	51.0	-4.5%	52.0	2.0%	53.0	1.9%
Estate	0.2	0.2	-27.6%	0.0	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total of Tax Revenue	22,423.2	23,489.6	4.8%	22,623.2	-3.7%	24,294.4	7.4%	24,789.0	2.0%	25,626.9	3.4%
Non-Tax Revenue											
Earnings on Investments	64.2	114.4	78.1%	131.4	14.9%	25.0	-81.0%	10.0	-60.0%	10.0	0.0%
Licenses and Fees	59.2	64.2	8.4%	66.6	3.8%	58.8	-11.8%	65.0	10.5%	65.0	0.0%
Other Income	250.4	71.2	-71.6%	92.7	30.2%	94.8	2.3%	105.4	11.2%	109.2	3.6%
Interagency Transfers	15.7	16.4	4.8%	28.7	74.9%	9.0	-68.7%	9.0	0.0%	9.0	0.0%
Total of Non-Tax Revenue	389.5	266.2	-31.7%	319.4	20.0%	187.6	-41.3%	189.4	1.0%	193.2	2.0%
Transfers											
BSF Transfer	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Transfers In - Other	188.6	247.9	31.5%	81.0	-67.3%	278.2	243.4%	359.0	29.0%	388.9	8.3%
Transfers In - Temporary	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total Transfers	188.6	247.9	31.5%	81.0	-67.3%	278.2	243.4%	373.0	34.1%	467.9	25.4%
Total Sources Excl. Federal Grants	23,001.3	24,003.7	4.4%	23,023.6	-4.1%	24,760.2	7.5%	25,351.4	2.4%	26,288.0	3.7%
Federal Grants	9,469.9	9,763.9	3.1%	10,482.0	7.4%	11,449.3	9.2%	11,000.0	-3.9%	13,249.5	20.5%
Total Sources	32,471.2	33,767.6	4.0%	33,505.6	-0.8%	36,209.5	8.1%	36,351.4	0.4%	39,537.5	8.8%

Appendix 1

BASELINE General Revenue Fund Tax Revenues
Fiscal Years 2020 - 2023
(dollars in millions)

Note: FY22 and FY23 "baseline" amounts do not include the Executive Budget tax policy proposal.

Tax Revenue Source	Actual FY 2020	Estimated FY 2021	FY20-21 % Chg	Baseline FY 2022	FY21-22 % Chg	Baseline FY 2023	FY22-23 % Chg
Auto Sales and Use	$1,502.7	$1,616.7	7.6%	$1,652.1	2.2%	$1,680.5	1.7%
Non-Auto Sales and Use	9,183.0	9,422.6	2.6%	9,951.5	5.6%	10,289.5	3.4%
Personal Income *	7,881.3	9,389.7	19.1%	9,175.5	-2.3%	9,571.4	4.3%
Commercial Activity Tax	1,671.7	1,535.3	-8.2%	1,660.3	8.1%	1,756.3	5.8%
Kilowatt Hour Tax	331.8	296.2	-10.7%	307.1	3.7%	294.8	-4.0%
Foreign Insurance	305.1	308.1	1.0%	311.2	1.0%	314.3	1.0%
Domestic Insurance	303.0	304.4	0.4%	315.3	3.6%	321.6	2.0%
Cigarette and Other Tobacco	913.0	927.8	1.6%	910.4	-1.9%	898.5	-1.3%
Other Taxes	531.5	493.7	-7.1%	505.6	2.4%	510.0	0.9%
Total *	$22,623.2	$24,294.4	7.4%	$24,789.0	2.0%	$25,636.9	3.4%

PROPOSED General Revenue Fund Tax Revenues
Fiscal Years 2020 - 2023
(dollars in millions)

Note: FY22 and FY23 "proposed" amounts include the Executive Budget tax policy proposal.

Tax Revenue Source	Actual FY 2020	Estimated FY 2021	FY20-21 % Chg	Proposed FY 2022	FY21-22 % Chg	Proposed FY 2023	FY22-23 % Chg
Auto Sales and Use	$1,502.7	$1,616.7	7.6%	$1,652.1	2.2%	$1,680.5	1.7%
Non-Auto Sales and Use	9,183.0	9,422.6	2.6%	9,951.5	5.6%	10,289.5	3.4%
Personal Income *	7,881.3	9,389.7	19.1%	9,175.5	-2.3%	9,571.4	4.3%
Commercial Activity Tax	1,671.7	1,535.3	-8.2%	1,660.3	8.1%	1,746.3	5.2%
Kilowatt Hour Tax	331.8	296.2	-10.7%	307.1	3.7%	294.8	-4.0%
Foreign Insurance	305.1	308.1	1.0%	311.2	1.0%	314.3	1.0%
Domestic Insurance	303.0	304.4	0.4%	315.3	3.6%	321.6	2.0%
Cigarette and Other Tobacco	913.0	927.8	1.6%	910.4	-1.9%	898.5	-1.3%
Other Taxes	531.5	493.7	-7.1%	505.6	2.4%	510.0	0.9%
Total *	$22,623.2	$24,294.4	7.4%	$24,789.0	2.0%	$25,626.9	3.4%

*The year-over-year growth amounts for fiscal years 2020, 2021 and 2022 were significantly impacted by a one-time postponement of personal income tax payments, with annual return payments and quarterly payments normally due in April 2020 and in June 2020 instead postponed to July 2020. This shifted an estimated $719 million in revenue into fiscal year 2021, from fiscal year 2020. If this one-time shift of revenue into fiscal year 2021 had not occurred, personal income tax revenues would increase by an estimated 0.8% in fiscal year 2021 and 5.8% in fiscal year 2022, and total GRF tax revenue would increase by an estimated 1.0% in fiscal year 2021 and 5.1% in fiscal year 2022.

Appendix 2

Executive Recommendations by Budget Fund Group
FYs 2021, 2022, 2023

Budget fund groups are categories used to group similar funds for reporting purposes. Ohio's funds are categorized according to their revenue sources and the purposes for which they are used. Budget Fund Group definitions can be found on the Ohio Checkbook (checkbook.ohio.gov).

Budget Fund Group	FY 2021 Estimated	FY 2022 Executive Recommendations	% Change	FY 2023 Executive Recommendations	% Change
General Revenue	$ 34,229,802,094	$ 35,386,039,586	3.4%	$ 39,272,495,431	11.0%
Federal	$ 21,015,787,527	$ 22,885,046,801	8.9%	$ 19,845,136,707	-13.3%
Dedicated Purpose	$ 10,063,924,031	$ 8,370,841,281	-16.8%	$ 7,607,633,447	-9.1%
Fiduciary Funds	$ 8,045,818,746	$ 8,267,906,268	2.8%	$ 8,505,844,177	2.9%
Highway Operating	$ 3,151,652,028	$ 3,394,099,351	7.7%	$ 3,062,973,646	-9.8%
Revenue Distribution Funds	$ 2,176,636,773	$ 2,479,567,236	13.9%	$ 2,520,768,288	1.7%
State Lottery	$ 1,695,394,362	$ 1,622,363,072	-4.3%	$ 1,665,002,345	2.6%
Debt Service	$ 1,346,005,462	$ 1,327,376,697	-1.4%	$ 1,263,689,644	-4.8%
Internal Service Activity	$ 1,046,431,517	$ 1,079,930,028	3.2%	$ 1,096,191,494	1.5%
Highway Safety	$ 548,152,097	$ 595,871,549	8.7%	$ 594,910,348	-0.2%
Facilities Establishment	$ 266,740,419	$ 72,300,000	-72.9%	$ 62,300,000	-13.8%
Capital Funds	$ 205,639,465	$ 122,153,862	-40.6%	$ 172,119,621	40.9%
Bond Research and Development	$ 122,210,250	$ 70,460,000	-42.3%	$ 70,460,000	0.0%
Holding Account	$ 74,914,479	$ 71,015,216	-5.2%	$ 71,015,216	0.0%
Grand Total	**83,989,109,249**	**85,744,970,947**	**2.1%**	**85,810,540,364**	**0.1%**

Appendix 3