STATEHOUSE REPORT

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Revised State General Revenue Fund projects forecast tight budget for remainder of SFY 2025

The Office of Budget and Management (OBM) revised its State Fiscal Year (SFY) 2025 General Revenue Fund (GRF) revenue estimates earlier this month. SFY 2025 began July 1, 2024, and ends June 30, 2025. The original estimate, prepared in June 2023 for the HB 33 Conference Committee, anticipated that FY 2025 GRF tax receipts would total approximately $28.6 billion. The latest estimate lowers this total by about $1.0 billion, or 3.5%, compared to the original forecast. At this level, state tax revenue for SFY 2025 will be lower than the $27.9 billion received in SFY 2024 and approximately $1.3 billion lower than the $28.9 billion received in FY 2023.

The SFY 2025 GRF tax estimates shown in Table 1 below do not include an expected transfer of $584.3 million to the state GRF to offset the impact of the expanded sales tax holiday that concluded on August 8, 2024.

Table 1: State General Revenue Fund Total Tax Receipts		
FY 2023 (Actual)	FY 2024 (Actual)	FY 2025 (Revised Est.)
$28.9 billion	$27.9 billion	$27.6 billion

The personal income tax estimate is the main factor leading to the downward revision. SFY 2025 personal income tax estimates were reduced by $681.3 million (6.5%) from the original estimate following significant underperformance in SFY 2024 beyond the expected impact of the tax cuts enacted by HB 33. Now that the employer withholding changes from the tax cut have been implemented, the tax is expected to resume growth in line with personal income, as shown in Table 2.

Table 2: Personal Income Tax Receipts		
FY 2023 (Actual)	FY 2024 (Actual)	FY 2025 (Revised Est.)
$10.8 billion	$9.5 billion	$9.8 billion

The SFY 2025 sales and use tax estimate was lowered by $321.4 million (2.4%) to $13.3 billion, leaving the total about $400 million below SFY 2024, as shown in Table 3. Similar to Table 1, an expected transfer of $584.3 million to the state GRF is not included.

Table 3: State Sales and Use Tax Receipts (Auto and Non-Auto)		
FY 2023 (Actual)	FY 2024 (Actual)	FY 2025 (Revised Est.)
$13.5 billion	$13.7 billion	$13.3 billion

Investment earnings were revised upward by $125 million (83.3%), and the foreign insurance tax estimate was increased by $59 million (16.4%). The latter was offset by decreased expected cigarette and tobacco taxes of $63.2 million (8.2%). Cigarette and tobacco taxes generally decline each year. This tax totaled $827.4 million in SFY 2023 but is expected to generate just $703.5 million in SFY 2025.

For more details, please see the OBM September Monthly Financial Report and the Legislative Budget Office September Budget Footnotes.

ARPA Update: Obligation deadline months away, December 31, 2024

Counties and other local governments that received Local Fiscal Recovery Funds from the American Rescue Plan Act (ARPA) must obligate these funds by December 31, 2024. Funds that remain unobligated after that date must be returned to the US Treasury. If funds are properly obligated, they must be expended by December 31, 2026. Funds used for federal Surface Transportation Projects or Housing and Community Development Title I projects must be expended by September 30, 2026. ***The obligation deadline applies to all ARPA funds, including those that are expended under the revenue loss category.***

ARPA rules established by Treasury define "obligation" as "an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment," similar to the definition provided in the Federal Uniform Guidance. Treasury rules also allow a recipient to demonstrate an obligation by planning to expend funds to comply with a requirement under federal law or regulations, or a provision of the grant award terms. It should be noted that subrecipient organizations that received a subaward of ARPA funds from the county are ***not*** subject to the December 31, 2024, obligation deadline, although they remain subject to the December 31, 2026, expenditure deadline.

In addition to contracts and subawards, Treasury rules allow ARPA recipients to use other methods to demonstrate that funds have been properly obligated. These methods include interagency agreements (FAQ 17.6); personnel expenses for continuing eligible projects (FAQs 17.7 and 17.8); costs related to certain legal and administrative expenses, including grant closeout costs (FAQs 17.5, 17.10 – 13); and change orders or contingencies provided for in a contract (FAQ 17.16). Counties using these methods should be prepared to provide detailed advance estimates on the appropriate project and expenditure report.

Interagency agreements – Counties may use an interagency agreement or MOU to demonstrate that funds have been obligated if the agreement meets one of the following conditions:

- It imposes conditions on the use of funds by the receiving agency;

- It governs the provision of funds from one agency to another to carry out an eligible use of Fiscal Recovery Funds; or,

- It governs the procurement of goods or services by one agency from another.

The agreement must set forth specific requirements, such as scope of work and project deliverables, and must be signed by both parties. For example, an agreement could allow a housing agency to purchase IT services from a county IT department (see FAQ 17.6). The agreement may not contain any statement disclaiming the creation of mutually binding rights or obligations.

<u>Personnel costs</u> – Counties may demonstrate an obligation by dedicating ARPA funds to personnel costs for positions that were established and filled prior to December 31, 2024.

These positions ***<u>must</u>*** have job duties that carry out an eligible project or use of Local Fiscal Recovery funds.

Payments for the personnel expenses of dedicated positions may continue even if individual employees leave and are replaced after December 31, 2024, but the county may not create new positions. If the recipient expends amounts for personnel costs less than the original estimate submitted to Treasury, the unused funds may be used for another eligible project for which funds were obligated before the obligation deadline. The county may not switch excess funds to a new project created after the obligation deadline.

Funds obligated for personnel by December 31, 2024, will be reported on the Treasury Project and Expenditure Report, which is due April 30, 2025, for annual reporters, or the report due January 31, 2025, for quarterly reporters.

<u>Legal and Administrative Expenses</u> – Costs may be obligated for legal and administrative requirements, including, but not limited to, reporting and compliance functions, single audit costs, records retention, property standards, environmental and civil rights requirements, and subrecipient monitoring. Recipients that report to Treasury quarterly should have reported their expenditure estimate by July 31, 2024.

Recipients that report to Treasury annually should report their expenditure estimate by April 30, 2025, in their Project and Expenditure Report for the 2024 calendar year.

<u>Contract Change Orders and Contingencies</u> – Treasury rules allow Local Fiscal Recovery Funds to be used to meet increased costs attributable to change orders or contract contingencies ***if the contract expressly provides for them***. Recipients may estimate and retain these amounts after properly reporting them to Treasury.

<u>Replacement of Contract or Subaward</u> – After the obligation deadline, a county may replace a contract or subaward only if one of the following circumstances applies:

- The contractor or subrecipient has defaulted or is unable to perform under the contract;
- The county and contractor/subrecipient mutually agree to terminate the contract;
- The county terminates the contract or subaward after clear evidence that it was improperly awarded but was otherwise entered into in good faith. A contract is entered into in good faith if the parties followed standard procurement or subaward practices, and the contract/subaward was not entered into for the purpose of evading the obligation deadline.

If a county enters into a replacement contract, the funds must be expended by the end of 2026.

Excess Funds
After the obligation deadline, a county may have excess funds that were obligated but were not spent because a project came in under budget. In this case, a county may reclassify the funds to another eligible project that had incurred an obligation by December 31, 2024 (FAQ 17.19).

Additional resources to help counties understand their responsibilities on ARPA obligations can be found below.

US Treasury State and Local Fiscal Recovery Funds
- Main Page
- Frequently Asked Questions
- ARPA Obligation Webinar
- Administrative Rules (31 CFR 35)
- Reporting Guidance

CCAO
- ARPA Resource Hub

National Association of Counties
- American Rescue Plan Resource Hub;
- Obligation Update Guidance

Ohio Auditor of State
- COVID-19 Resource Hub

Legislative Activity

Introduction of Bills
The following bill(s) that may be of interest to counties were introduced this week:

- Senate Bill 314 (Senator Catherine Ingram): To make changes regarding electronic monitoring of a resident's room in a long-term care facility.