



## Auditor of State Advisory Memo

**To:** County Officials  
**From:** Keith Faber, Ohio Auditor of State  
**Date Issued:** May 19, 2020  
**Subject:** County Revenues and the COVID-19 Economic Impacts

It is clear from the various videoconferences hosted by the Auditor of State over the past month that many local officials have strong concerns about the impact of the economic disruption caused by the COVID-19 pandemic. These concerns include the delay in projecting sales tax and Local Government Fund (LGF) revenue in the coming months. The Auditor of State (AOS) will continue to assist, inform and act as a convener with our local government partners. To that end, the AOS has already reached out to various state agencies and asked them to expedite sharing information and in turn plan to share information as it becomes available to help our partners in their planning process.

As we discuss county revenue projections, it is important to note that the impact on those revenues will be different for each county depending on localized economic factors and the number and type of businesses that collect or owe sales tax. The statewide data discussed in this memo is intended as a resource to assist counties in the revenue estimation challenges ahead and AOS encourages them to continue searching out trusted information from a variety of sources.

### **Collection Process**

County permissive sales taxes are collected by the state and distributed no more than 50 days after the last day of the month of state collection.

- State collections from March will be distributed by May 20
- State collections from April will be distributed by June 20
- State collections from May will be distributed by July 20

Most vendors who collect or owe sales tax pay the state monthly on the 23rd day of the month. Payments received on the 23rd are a mix of collections of activity from the prior month and estimated activity from the current month.

For non-auto sales tax collections, generally, between 55 and 60 percent of monthly collections are attributable to the previous month's activity, and 40 to 45 percent of monthly collections are attributable to estimated current month activity.

For auto sales tax, the Clerk of Courts remit collections to the state each Friday for sales tax received the prior week. Based on when Fridays fall during the month, this creates a different mix of current and prior month activity represented in collections by month. Despite the different schedule of payment to the state, the auto sales tax distributions to the counties are paid on the same schedule as the non-auto sales tax.

As a reminder, businesses, not just individual consumers, pay sales and use tax. Statewide, businesses are estimated to pay between 30 and 35 percent of sales taxes.

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### **Impact on Sales Tax Estimates**

As you know, while Ohioans were ordered to shelter at home, many businesses closed their doors, and Ohio unemployment claims significantly increased - diminishing economic output, personal income, and sales tax collections.

The AOS has had conversations with the Ohio Department of Taxation about how counties might get a sense of the impact of the COVID-19 pandemic, sooner rather than later. The department told us it is compiling information to assist counties and hopes to be able to provide more information in the near future. To help with preparations in the meantime, the Department of Taxation's [website](#) has historical files of [county sales tax distributions](#) and the Ohio Office of Budget Management (OBM) posts the [OBM monthly financial report](#), which provides an economic overview and state GRF revenue (see tables 1 and 2) and expenditure analysis (see tables 3 and 4). Counties should also look for OBM's announcement of revised revenue estimates for state fiscal year 2021, which are expected to be announced in June.

A good indicator to help estimate county sales tax impacts may be the state collections figures during a month in the current year compared to the same month in the prior year. Actual state monthly collections compared to monthly state budget estimates may also be of some help.

#### *March Collections Distributed in May*

- State sales tax collections in March were the first impacted by the COVID-19 pandemic, although because of the collection period, that impact was muted. County distributions in May will show only small impacts.
- March state non-auto sales collections were 4.6 percent below March 2019 collections, and were 9.7 percent below the OBM budget estimate.
- March state auto sales collections were actually 5.7 percent above March 2019 collections, although they were 1.1 percent below estimate.

#### *April Collections Distributed in June*

- April state sales tax collections showed significant impact from the COVID-19 shutdown.

- Non-auto sales collections were 12.6 percent below April 2019, and were 17.7 percent below the OBM budget estimate.
- April auto sales collections were 57.7 percent below March 2019 collections, and were about the same percent below the OBM budget estimate (57.3 percent).
- Reductions relative to 2019 payments will be reflected in the distribution to counties in June.

#### *May Collections to be Distributed in July*

- May collections are difficult to predict. The state sales tax collections will consist of both April actual collection activity and estimated May activity. As we experienced, the state stay at home orders were in place throughout April and began to be lifted in May. Presumably, May's prior month activity (from April) will be weaker than April prior month activity (from March) when state orders disrupting economic activity and citizen concerns about the virus only impacted the later part of the month. The May state sales tax collection performance will be dependent on the extent to which estimated current month activity in May is stronger or weaker relative to the April estimated activity - collected in April. A contraction from prior year collections equal to or below April would not be surprising.

#### *Future Month Collections*

- Future month collections will be highly dependent on both the course of the virus in Ohio and elsewhere and its impact on economic activity. Ohioans ability and willingness to engage in economic activity and the potential that health orders could again disrupt the economy in the event of a virus resurgence are key factors in our future collections. The range of potential outcomes is wider than during previous economic slowdowns.
- If we can continue to keep the virus curve flat, economists expect that economic activity will pick up, which should improve sales tax collections as compared to the early months of the COVID-19 impacts. However, performance below 2019 for a number of months would not be unexpected and significant volatility, particularly in the auto sales, is possible.

#### **Local Government Distributions**

The Local Government Fund (LGF) is distributed monthly, based on a percentage of state General Revenue Fund (GRF) tax collections from the previous month. LGF distributions to the counties are made by the 10th day of the month following state collection. At the beginning of the fiscal year, the Department of Taxation posts [projections of LGF distributions on its website](#). May LGF distributions were based on state April revenue collections.

Total state GRF revenue collections in April were 35.3 percent below OBM estimates for the month and 36.3 percent below April of last year, therefore LGF distribution on May

10th were well below expected amounts. A large portion of this underage is attributable to the delay of the April 15th filing date for state income tax liability for 2019 and estimated first quarter 2020 payments. These payments are now due by July 15th and should be recouped in LGF distributions to the counties in August and subsequent months.

State GRF tax collections in May and June will likely also come in well below the budget estimates, which will produce LGF distributions on the 10th of June and July below the Department of Taxation projections from the beginning of the fiscal year.

As mentioned, OBM will revise state FY 2021 GRF tax revenue estimates in June, which will likely trigger a new LGF distribution projection by the Department of Taxation for state FY 2021. This new projection will include the income tax revenue in July and beyond from the delayed state income tax payments.

### **AOS Is Here to Help**

Counties are going to have to start making difficult decisions to prepare for these impacts. As we discussed on the call, AOS is strongly encouraging counties to start planning now for diminished revenue and making appropriate changes to staffing, operations and services as soon as practicable.

The AOS is prepared and ready to assist clients in navigating this changing environment. We will be extremely flexible when it comes to our duty to audit and will take into account the hurdles each community has encountered, but please do your part to help our audit team by documenting and receiving clear legislative authority for all expenditures. Also, for those having dramatic financial hardships, we recommend that you reach out to our Local Government Services team for assistance.

Communication is key as we move forward. We are all in this together, now, and in the journey ahead. Have questions, concerns or comments? [Contact us](#). We look forward to working with you.