OHIO LEGISLATIVE SERVICE COMMISSION

Wendy Zhan, Director

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

Baseline Forecast of GRF Tax Revenues and Medicaid Expenditures for the FY 2024-FY 2025 Biennial Budget

Testimony Before the Conference Committee on H.B. 33

June 22, 2023

Chair Edwards, Vice-Chair Dolan, and members of the Conference Committee, I am Wendy Zhan, Director of the Legislative Service Commission. I am here to testify on the forecasts developed by our Legislative Budget Office (LBO) economists for General Revenue Fund (GRF) tax revenues and Medicaid service expenditures in fiscal years 2023 through 2025. My testimony will focus on the differences between our February and June forecasts. The attachment to this testimony provides more detailed information on the current state and forecast of the economy and forecasts of GRF tax revenues and Medicaid service expenditures. These are baseline forecasts, meaning that LBO economists made these forecasts based on the current Revised Code tax structure and current law and administrative policies on Medicaid. They do not reflect any policy changes that may be enacted in H.B. 33.

Comparison of LBO February and June baseline forecasts

GRF tax revenue forecasts

Compared with our February forecasts, LBO economists now forecast higher GRF tax revenues for FY 2023 and FY 2024 but slightly lower revenue for FY 2025. For FY 2023, baseline GRF tax revenues are now expected to total $28.8 billion. This reflects actual GRF tax receipts through May and estimated tax receipts for June, the final month of the fiscal year. The updated estimate is $294.3 million (1.0%) higher than what we presented in February. The increase is almost entirely due to a $294.0 million upward revision for the personal income tax. Through May, the personal income tax performed much better than LBO anticipated in February. The smaller upward or downward revisions made to other GRF taxes essentially offset each other.

For FY 2024, baseline GRF tax revenues are now forecast to increase by 2.1% over FY 2023 to $29.4 billion. This is $334.0 million (1.1%) higher than our February forecast. In contrast to the updates for FY 2023, the upward revision for FY 2024, as a whole, is primarily due to the sales and use tax. LBO economists now anticipate this tax will generate $325.1 million more in GRF tax receipts during FY 2024.

For FY 2025, our June and February forecasts largely stay the same. Baseline GRF tax revenues for FY 2025 are expected to grow by 2.9% over FY 2024 to $30.3 billion. This is

$42.6 million (0.1%) lower than our February forecast. An increase of $89.3 million in our forecast for the sales and use tax is largely offset by a decrease of $81.0 million in the forecast for the personal income tax. Revenue forecasts were revised downward for several smaller taxes as well.

Table 1 summarizes the differences between our June and February revenue forecasts for fiscal years 2023 through 2025. The differences are presented as June forecast minus the February forecast, so positive numbers indicate a higher updated forecast for each fiscal year.

Table 1. Summary of Differences Between LBO February and June Revenue Forecasts

	FY 2023	FY 2024	FY 2025
GRF tax revenue difference	$294.3 million	$334.0 million	-$42.6 million
% difference	1.0%	1.1%	-0.1%

Medicaid service expenditure forecasts

LBO economists are now forecasting lower Medicaid service expenditures for the current fiscal year and for each fiscal year of the next biennium, due to the availability of one month of post redetermination data and refined expectations of the scale and scope of eligibility redeterminations following the end of the COVID-19 public health emergency. The differences between our June and February Medicaid forecasts for fiscal years 2023 through 2025 are summarized in Table 2. The differences are presented as June forecast minus the February forecast, so negative numbers indicate a lower updated forecast for each fiscal year.

As shown in Table 2, the updated LBO baseline forecast for combined state and federal Medicaid service expenditures is lower by $575.4 million in FY 2024 and $169.4 million in FY 2025, than was presented in February. This reflects a downward revision of 2.0% in FY 2024 and 0.6% in FY 2025. The state share of Medicaid service expenditures is now forecast to be $161.1 million lower in FY 2024 and $47.4 million lower in FY 2025.

Table 2. Summary of Differences Between LBO February and June Medicaid Expenditure Forecasts

	FY 2023	FY 2024	FY 2025
Medicaid expenditure difference	-$92.1 million	-$575.4 million	-$169.4 million
% difference	-0.3%	-2.0%	-0.6%
State share difference	*-$25.8 million*	*-$161.1 million*	*-$47.4 million*

Economic forecasts and risks

In developing our revenue forecasts, LBO economists have relied on the leading economic forecasting firm, IHS Markit, a unit of S&P Global, for the macro economic forecasts. Specifically, in our June forecast we have used the company's May baseline forecasts for the nation and Ohio as the source for most input or explanatory variables in our models. The company's December baseline forecasts were used in developing our February forecast. Both the December and May forecasts are for economic expansion in the nation and Ohio during the period corresponding to state fiscal years 2024 and 2025. However, IHS Markit's May baseline forecast estimates a higher growth rate for the current fiscal year but projects lower growth for the economy in the next biennium. Our June revenue forecasts reflect these revisions.

As is detailed in the accompanying attachment, for the upcoming biennium, IHS Markit's May baseline forecast shows national real GDP (inflation-adjusted gross domestic product) growing by an annual average of 1.0% for the biennium, down from 1.5% growth in FY 2023. Ohio's real GDP is also predicted to show slow growth of 0.4% in FY 2023 and grow by an annual average of 0.6% for the biennium. In comparison, IHS Markit's December baseline forecast projected average annual growth rates of 1.5% for national real GDP and 1.2% for Ohio's real GDP.

The company's May baseline forecast increases its personal income growth projection for FY 2023 from 4.8% to 5.7% for the nation and from 4.9% to 5.3% for Ohio. Personal income is forecast to continue to grow in the next biennium by about a 4.2% annual rate on average for the nation and about 4.1% for Ohio. Due largely to the revised, higher growth rate for FY 2023, the next biennium's average annual growth rates for the nation and Ohio are both somewhat lower in the May forecast than in the December forecast. The latter projected personal income to grow by 4.5% on average annually for both the nation and Ohio during the next biennium.

The unemployment rate during the next biennium is now anticipated to average around 4.3% annually for the nation, compared with the 5.0% rate projected in the December baseline forecast. Ohio's unemployment rate is anticipated to average around 4.8% annually in the May baseline forecast, down from 5.7% in December. For the current fiscal year, the unemployment rate is projected to be 3.5% for the nation and 4.0% for Ohio.

Inflation, measured by the consumer price index, is projected to be around 2.7% through the upcoming biennium in the May baseline forecast, in comparison with an average annual rate of 2.5% projected in the December baseline forecast.

As we stated in February, economic forecasts are uncertain by nature. We all know that "past performance is no guarantee of future results." LBO economists employed a sound methodology in developing our revenue forecasts for the next biennium. However, uncertainties abound. Our baseline forecast could prove too optimistic regarding economic growth in the nation and Ohio. Alternatively, as it was in February, it could be too pessimistic.

Chair Edwards and members of the Conference Committee, thank you for the opportunity to present the updated LBO forecasts. The staff and I would be happy to answer any questions that you may have.

Attachment: Section 1 Revenue forecast
Section 2 Medicaid
Section 3 Economic conditions and outlook

ATTACHMENT: FY 2024-FY 2025 BIENNIAL BUDGET FORECAST

Section 1: Revenue forecasts

Summary

The table below summarizes the differences between LBO's February and June baseline forecasts for GRF tax revenue. As seen from the table, the updated forecasts are higher for FY 2023 and FY 2024 but lower for FY 2025. For the upcoming biennium, the net revenue effect is an increase of $291.4 million. Revenue since January this year from the personal income tax (PIT) was significantly better than LBO economists expected, and the mild recession that IHS Markit predicted for the first half of calendar year 2023 has not materialized. The better than expected FY 2023 experience flowed through to the forecast for FY 2024, but the FY 2025 numbers are decreased due to IHS Markit predicting slightly smaller values for Ohio wage disbursements and certain other economic variables for that year.

Table 1. Comparison of LBO Baseline GRF Revenue Forecasts ($ in millions)

	February			June		
	FY 2023 Estimate	FY 2024 Forecast	FY 2025 Forecast	FY 2023 Estimate	FY 2024 Forecast	FY 2025 Forecast
Total GRF taxes	$28,527.0	$29,097.6	$30,327.1	$28,821.3	$29,431.5	$30,284.5
			Difference	**$294.3**	**$334.0**	**-$42.6**

GRF tax revenue forecast

The LBO baseline forecast for FY 2024 and FY 2025 assumes the current statutory tax structure, including tax changes enacted by the 134th General Assembly. It thereby includes the changes to the PIT and sales and use tax enacted in H.B. 110, including a reduction in the top marginal nonbusiness income tax rate from 4.797% to 3.99% (for incomes over $115,300), a 3% reduction in other marginal tax rates for nonbusiness income, and an increase in the threshold below which no tax is owed (from $22,150 to $25,000). H.B. 110 changes to sales tax law and changes made by other bills[1] enacted by the 134th General Assembly were also incorporated.

H.B. 110 included an uncodified provision that temporarily increased the share of GRF tax revenue allocated to the Public Library Fund from its statutory level of 1.66% of such revenue to 1.70% for the current biennium. The House Passed and Senate Passed versions of H.B. 33 included the same increase, incorporating it into codified law, and did the same with the Local Government

[1] The major tax changes involved were enacted in H.B. 515, S.B. 225, and S.B. 246.

Fund. Nevertheless, the forecast assumes that the 1.66% shares in codified law will resume for the upcoming biennium for both funds. Based on the updated revenue forecast, a 1.70% share would reduce GRF revenue by about $12 million for each fund in each fiscal year of the upcoming biennium.

Three taxes that generated some revenue during FY 2023, the corporate franchise tax (CFT), the business and property tax, and the estate tax, have been repealed. We expect no revenue from these taxes in future years.[2]

GRF tax revenue under current law is forecast to increase by $610.2 million (2.1%) in FY 2024. PIT revenue is expected to grow about 1.9%, restrained by the slow economic growth expected by IHS Markit. Similarly, slow growth is expected for the sales and use tax (3.0%) and the commercial activity tax (2.7%), due to expected economic conditions. Cigarette tax revenue is expected to decline, though, reverting to a long-run trend that was interrupted in fiscal years 2020 and 2021, and revenue from the public utility excise tax is expected to decline, primarily due to a projected decrease in natural gas prices.

GRF tax revenue under current law is forecast to increase by $853.0 million (2.9%) in FY 2025. Growth is expected to continue for most tax sources, at rates closer to historical experience. Receipts from the tax on cigarettes and other tobacco products are expected to continue their typical decline, though, and slight decreases are expected in revenue from the kilowatt-hour (kWh) tax, public utility excise tax, and domestic insurance tax.

The following tables provide overviews of GRF receipts from taxes.

Table 2. Total Baseline GRF Tax Revenue Growth, FY 2019-FY 2025, ($ in millions)
June 2023 Forecast

	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Forecast	FY 2025 Forecast
Revenue	$23,489.6	$22,623.2	$26,466.9	$28,152.5	$28,821.3	$29,431.5	$30,284.5
Growth	4.8%	-3.7%	17.0%	6.4%	2.4%	2.1%	2.9%

[2] The total GRF revenue collected from the three taxes amounted to less than $500,000 in FY 2023 through May. Recent revenue is due to adjustments to prior filings and audits and drawn out settling of estates. The financial institutions tax, which first received revenue in FY 2014, replaced the CFT and the business and property tax.

Table 3. LBO Baseline GRF Tax Revenue Forecasts, FY 2024-FY 2025 ($ in millions) June 2023 Forecast							
Tax	FY 2022 Actual	FY 2023 Estimate	Growth Rate	FY 2024 Forecast	Growth Rate	FY 2025 Forecast	Growth Rate
Auto Sales & Use	$1,949.0	$1,990.0	2.1%	$2,043.0	2.7%	$2,085.0	2.1%
Nonauto Sales & Use	$11,080.6	$11,471.8	3.5%	$11,822.2	3.1%	$11,949.9	1.1%
Total Sales & Use	**$13,029.6**	**$13,461.8**	**3.3%**	**$13,865.2**	**3.0%**	**$14,034.9**	**1.2%**
Personal Income	$10,752.2	$10,768.9	0.2%	$10,968.4	1.9%	$11,573.2	5.5%
Commercial Activity	$1,995.5	$2,143.1	7.4%	$2,201.5	2.7%	$2,290.9	4.1%
Cigarette	$884.6	$825.0	-6.7%	$805.0	-2.4%	$785.0	-2.5%
Kilowatt-hour Excise	$291.4	$280.9	-3.6%	$285.2	1.5%	$278.9	-2.2%
Foreign Insurance	$328.4	$357.0	8.7%	$355.0	-0.6%	$369.0	3.9%
Domestic Insurance	$312.6	$360.0	15.2%	$357.0	-0.8%	$356.0	-0.3%
Financial Institutions	$202.8	$237.5	17.1%	$235.0	-1.1%	$240.0	2.1%
Public Utility	$156.3	$183.7	17.5%	$157.2	-14.4%	$151.2	-3.8%
Natural Gas Consumption	$69.0	$69.2	0.2%	$66.1	-4.4%	$66.6	0.7%
Alcoholic Beverage	$61.7	$63.0	2.0%	$63.5	0.8%	$64.1	0.9%
Liquor Gallonage	$57.9	$57.3	-1.1%	$59.5	3.8%	$61.8	3.9%
Petroleum Activity	$9.3	$13.5	45.2%	$13.0	-3.5%	$13.0	0.0%
Corporate Franchise	$0.7	$0.1	-85.3%	$0.0	-100.0%	$0.0	--
Business & Property	$0.4	$0.4	8.2%	$0.0	-100.0%	$0.0	--
Estate	$0.1	$0.0	-100.0%	$0.0	--	$0.0	--
Total Tax Revenue	**$28,152.5**	**$28,821.3**	**2.4%**	**$29,431.5**	**2.1%**	**$30,284.5**	**2.9%**

Table 4. FY 2023 GRF Tax Revenue Estimate Comparison ($ in millions)			
Tax	February	June	Change
Auto Sales & Use	$2,015.0	$1,990.0	-$25.0
Nonauto Sales & Use	$11,464.0	$11,471.8	$7.8
Total Sales & Use	**$13,479.0**	**$13,461.8**	**-$17.2**
Personal Income	$10,474.9	$10,768.9	$294.0
Commercial Activity	$2,154.7	$2,143.1	-$11.6
Cigarette	$835.0	$825.0	-$10.0
Kilowatt-hour Excise	$285.0	$280.9	-$4.1
Foreign Insurance	$355.0	$357.0	$2.0
Domestic Insurance	$341.0	$360.0	$19.0
Financial Institutions	$215.0	$237.5	$22.5
Public Utility	$188.9	$183.7	-$5.2
Natural Gas Consumption	$70.9	$69.2	-$1.7
Alcoholic Beverage	$59.5	$63.0	$3.5
Liquor Gallonage	$57.1	$57.3	$0.2
Petroleum Activity	$11.0	$13.5	$2.5
Corporate Franchise	$-0.1	$0.1	$0.2
Business & Property	$0.2	$0.4	$0.2
Estate	$0.0	$0.0	$0.0
Total Tax Revenue	**$28,527.0**	**$28,821.3**	**$294.3**

Table 5. LBO Baseline GRF Tax Revenue Forecast Comparison, FY 2024 and FY 2025
($ in millions)

Tax	FY 2024			FY 2025		
	February	June	Change	February	June	Change
Auto Sales & Use	$2,012.0	$2,043.0	$31.0	$2,100.0	$2,085.0	-$15.0
Nonauto Sales & Use	$11,528.1	$11,822.2	$294.1	$11,845.5	$11,949.9	$104.3
Total Sales & Use	**$13,540.1**	**$13,865.2**	**$325.1**	**$13,945.5**	**$14,034.9**	**$89.3**
Personal Income	$10,931.2	$10,968.4	$37.1	$11,654.2	$11,573.2	-$81.0
Commercial Activity	$2,212.5	$2,201.5	-$11.0	$2,327.3	$2,290.9	-$36.4
Cigarette	$818.0	$805.0	-$13.0	$802.0	$785.0	-$17.0
Kilowatt-hour Excise	$288.1	$285.2	-$2.9	$278.5	$278.9	$0.3
Foreign Insurance	$353.0	$355.0	$2.0	$353.0	$369.0	$16.0
Domestic Insurance	$346.0	$357.0	$11.0	$351.0	$356.0	$5.0
Financial Institutions	$220.0	$235.0	$15.0	$226.0	$240.0	$14.0
Public Utility	$184.7	$157.2	-$27.6	$182.1	$151.2	-$30.9
Natural Gas Consumption	$73.6	$66.1	-$7.5	$73.8	$66.6	-$7.2
Alcoholic Beverage	$60.0	$63.5	$3.5	$60.5	$64.1	$3.6
Liquor Gallonage	$59.3	$59.5	$0.2	$61.6	$61.8	$0.2
Petroleum Activity	$11.0	$13.0	$2.0	$11.5	$13.0	$1.5
Corporate Franchise	$0.0	$0.0	--	$0.0	$0.0	--
Business & Property	$0.0	$0.0	--	$0.0	$0.0	--
Estate	$0.0	$0.0	--	$0.0	$0.0	--
Total Tax Revenue	**$29,097.6**	**$29,431.5**	**$334.0**	**$30,327.1**	**$30,284.5**	**-$42.6**

ATTACHMENT: FY 2024-FY 2025 BIENNIAL BUDGET FORECAST

Section 2: Medicaid service expenditure forecast

Expenditure forecast summary

As seen from Table 6, compared with LBO's February baseline forecast, the updated baseline forecast for Medicaid service expenditures is lower by $575.4 million in FY 2024 and by $169.4 million in FY 2025, for a biennial difference of $744.8 million. The state share is lower by $161.1 million in FY 2024 and by $47.4 million in FY 2025, for a biennial difference of $208.6 million, assuming an overall federal reimbursement rate of 72%. Unless noted otherwise, the figures reported in this section include both state and federal shares as Medicaid is a joint state-federal program that provides health care coverage to low-income individuals. This baseline forecast is based on current law and administrative policies on Medicaid.

Table 6. LBO Baseline Forecast of Medicaid Service Expenditures (combined state and federal dollars, $ in millions)

Category	FY 2022 Actuals	February			June		
		FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast	FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast
Expenditures	$26,272.8	$28,261.0	$29,925.2	$31,145.8	$28,168.9	$29,349.8	$30,976.4
Growth	8.2%	7.6%	5.9%	4.1%	7.2%	4.2%	5.5%
				Total state and federal difference	-$92.1	-$575.4	-$169.4
				% Difference	-0.3%	-2.0%	-0.6%
				State share difference (assuming 72% federal reimbursement)	-$25.8	-$161.1	-$47.4

The forecast was lowered primarily to reflect changes in the projected caseload for most of the eligible groups. The first few months of 2023 have seen several events that make caseload forecasting more challenging. Among these are the new reporting systems used by the Ohio Department of Medicaid (ODM) that have left preliminary numbers subject to revision for a longer period of time and the end of the suspension of eligibility redeterminations associated with the COVID-19 public health emergency. Although only one month of redetermination data became available at the time of this forecast update, the scale of the caseload decline was much greater than LBO's February forecast had anticipated. Consequently the caseload forecast was revised lower for FY 2024 and FY 2025. Table 7 on the following page shows the updated forecast by payment category.

Table 7. LBO Baseline Forecast of Medicaid Service Expenditures by Payment Category (combined state and federal dollars, $ in millions)							
Category	FY 2022 Actuals	June Forecast					
		FY 2023 Estimates	Growth Rate	FY 2024 Forecast	Growth Rate	FY 2025 Forecast	Growth Rate
Managed Care	**$21,854.0**	**$23,647.2**	**8.2%**	**$25,219.6**	**6.7%**	**$26,780.7**	**6.2%**
CFC	$8,100.8	$6,995.4	-13.7%	$7,002.9	0.1%	$7,508.2	7.2%
Group VIII	$7,126.1	$6,490.6	-8.9%	$6,252.1	-3.7%	$6,439.1	3.0%
ABD	$3,766.1	$2,893.8	-23.2%	$2,748.2	-5.0%	$2,936.5	6.9%
My Care	$2,861.0	$3,032.8	6.0%	$3,133.1	3.3%	$3,206.2	2.3%
OhioRise	--	$258.1	--	$542.3	110.1%	$867.0	59.9%
PBM	--	$3,976.5	--	$5,541.0	39.3%	$5,823.7	5.1%
Fee-For-Service	**$4,418.7**	**$4,521.7**	**2.3%**	**$4,130.2**	**-8.7%**	**$4,195.7**	**1.6%**
Nursing Facilities	$1,677.9	$1,493.1	-11.0%	$1,512.5	1.3%	$1,543.6	2.1%
Hospitals	$791.1	$878.3	11.0%	$698.9	-20.4%	$716.0	2.4%
Aging Waivers	$401.5	$385.0	-4.1%	$360.9	-6.3%	$368.6	2.2%
Prescription Drugs	$317.1	$384.0	21.1%	$302.3	-21.3%	$307.2	1.6%
Home Care Waivers	$147.3	$139.8	-5.1%	$133.3	-4.7%	$132.1	-0.9%
Behavioral Health	$120.6	$158.1	31.1%	$112.2	-29.1%	$108.7	-3.1%
All Other	$963.3	$1,083.4	12.5%	$1,010.3	-6.8%	$1,019.5	0.9%
Total	**$26,272.8**	**$28,168.9**	**7.2%**	**$29,349.8**	**4.2%**	**$30,976.4**	**5.5%**

LBO forecasts caseload-driven Medicaid service expenditures. However, our forecast does not include service expenditures for various Medicaid programs administered by the Ohio Department of Developmental Disabilities, which depend partly on caseloads and partly on policies. ODM also incurs some service expenditures that depend more heavily on state and federal policies or other factors than Medicaid caseload. These service expenditures, such as Medicare Buy-In or Medicare Part D, are not included in LBO's baseline Medicaid service expenditure forecast either. In addition to service expenditures, the Medicaid Program also incurs administrative costs, which typically account for about 5% of total program expenditures.

LBO's caseload-driven baseline forecast represents about 85% of total Medicaid expenditures. Although overall Medicaid Program expenditures are higher than the figures reported in this section, they do not affect the comparison of LBO's and ODM's baseline service expenditure forecasts. The caseload-driven forecast is the only source of the difference between the LBO and ODM forecasts.

Caseload forecast summary

The following four tables (tables 8-11) detail the changes in LBO's Medicaid caseload forecasts. The June forecast for the monthly total caseload is lower than the February forecast by about 52,600 in FY 2024 and 42,400 in FY 2025. The updated forecast includes a few more months of actual caseload data, though all ODM caseload numbers since January 2023 are still preliminary. With the end of the COVID-19 public health emergency, ODM began eligibility redeterminations in April for the first time in over three years. When ODM determines a recipient is no longer eligible, a grace period allows for the recipient to remain on the rolls until the end of the month. Thus, May's caseload numbers were the first to reflect a decline due to redeterminations. May's caseload decline was larger than previously anticipated. On the expectation of similar redetermination declines in the coming months, LBO revised its forecast lower for the covered families and children (CFC), the Children's Health Insurance Program (CHIP), and the Affordable Care Act expansion (Group VIII) categories. The broader CFC category in Table 4 includes both CHIP and Group VIII. Meanwhile, recent data shows an increase in dual eligible – recipients who qualify for both Medicaid and Medicare. This is likely part of the redetermination process finding some Medicaid recipients have aged into the Medicare service group. Because of this increase in dual eligibles, the forecast for the adult blind and disabled (ABD) category was revised upward.

Table 8. Comparison of Total Medicaid Caseload Forecasts

	FY 2022 Actuals	February			June		
		FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast	FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast
Caseload	3,328,642	3,463,199	3,446,842	3,418,123	3,461,383	3,394,251	3,375,681
Growth	7.1%	4.0%	-0.5%	-0.8%	4.0%	-1.9%	-0.6%
				Difference	-1,816	-52,590	-42,442
				% Difference	-0.1%	-1.6%	-1.3%

Table 9. Comparison of CFC Medicaid Caseload Forecasts							
	FY 2022 Actuals	February			June		
		FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast	FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast
Caseload	2,686,988	2,809,603	2,784,813	2,748,518	2,807,806	2,732,338	2,706,192
Growth	8.6%	4.6%	-0.9%	-1.3%	4.5%	-2.7%	-1.0%
				Difference	-1,797	-52,474	-42,326
				% Difference	-0.1%	-1.9%	-1.6%

Table 10. Comparison of ABD Medicaid Caseload Forecasts							
	FY 2022 Actuals	February			June		
		FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast	FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast
Caseload	754,345	768,701	775,596	783,532	770,038	783,618	791,553
Growth	1.4%	1.9%	0.9%	1.0%	2.1%	1.8%	1.0%
				Difference	1,337	8,022	8,022
				% Difference	0.2%	1.0%	1.0%

Table 11. Comparison of Other Caseload Forecasts							
	FY 2022 Actuals	February			June		
		FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast	FY 2023 Estimates	FY 2024 Forecast	FY 2025 Forecast
Caseload	141,248	144,258	147,783	149,907	143,570	143,656	145,780
Growth	2.8%	2.1%	2.4%	1.4%	1.6%	0.1%	1.5%
				Difference	-688	-4,127	-4,127
				% Difference	-0.5%	-2.9%	-2.8%

ATTACHMENT: FY 2024-FY 2025 BIENNIAL BUDGET FORECAST

Section 3: Economic conditions and outlook

State of the economy

The IHS Markit December baseline forecast on which LBO based revenue forecasts at the beginning of the budget legislative process anticipated a mild recession in the first half of 2023. However, the latest data available as of this writing show national employment and total output continuing to grow. Inflation-adjusted gross domestic product (real GDP) increased in the first quarter by 1.3% (annual rate). An often-cited rule of thumb is that two consecutive quarters of falling real GDP means recession, though small declines in real GDP in last year's first half, accompanied by continuing increases in other measures of economic activity, were not deemed a recession. U.S. nonfarm payroll employment rose 339,000 (0.2%) in May and 1.57 million (1.0%) so far this year. In Ohio, nonfarm payroll employment increased by 59,900 (1.1%) from December to May.

Still, uncertainties abound. One source of uncertainty, about macroeconomic policy conducted at the federal level, was relieved on June 2 with agreement to raise the national debt limit. The agreement includes restraints on federal nonmilitary spending in federal fiscal years 2024 and 2025. Federal military spending is also limited but is allowed to grow during the two years. Such restraints will have effects on the economy but certainly less dramatic than those that would have resulted from failure to raise the debt limit, which would have necessitated sharp cuts in federal spending.

Uncertainty remains about monetary policy. The Federal Reserve (Fed), the nation's central bank, has been increasing the federal funds interest rate, most recently to a range of 5.0% to 5.25% at the May 2-3 meeting of its policy-setting Federal Open Market Committee (FOMC), in order to reduce inflation while attempting to avoid a so-called "hard landing," i.e., a recession. Congress has given the Fed a "dual mandate," to conduct monetary policy so as to maintain price stability and to achieve maximum employment. At times like the present, there can be considerable tension between those goals. Inflation has come down in response to Fed policy as well as other influences. Even with this slowing, however, the rate of increase in prices remains well above the Fed's 2% target. At its June 13-14 meeting, the FOMC held its target for federal funds unchanged but indicated that most committee members expected further increases in this interest rate later this year. No FOMC members thought the federal funds rate would decline until next year.

As the Fed has pursued its policy goal, some strains have emerged in the banking sector, including the widely publicized failure of Silicon Valley Bank, due to suspected poor management of the risks related to a rising interest rate environment. But the press release issued after the June 13-14 meeting of the Fed's FOMC characterized the U.S. banking system as "sound and resilient."

The effects of Fed monetary policy decisions are still playing out. Most measures of inflation are at more than twice the 2% rate the Fed wants to see. Because the time lags between Fed interest rate increases and their economic effects are variable, uncertainty remains about Fed policymakers' next decision. At a minimum, lending by regional banks seems likely to be restrained in the coming months, as the failure of Silicon Valley Bank caused depositors and investors to question whether other banks made sufficient provision for the risk associated with a rising interest rate environment.

Labor markets in the U.S. and Ohio remain tight, though this tightness is showing signs of easing. The state's unemployment rate, the number unemployed as a share of the labor force, fell to 3.6% in May, a record low on records going back to 1976. While very welcome for workers, this low unemployment rate is in part due to a reduction in labor force participation since the pandemic. The labor force, defined as persons employed or actively seeking work, was about 119,700 smaller in May than it was in January 2020. When workers leave the labor force, whether because of family responsibilities, illness or disability, returning to school, retirement, or other reasons, they are not counted among the unemployed. The labor force participation rate was 62.1% in May, down from 63.6% in January 2020.

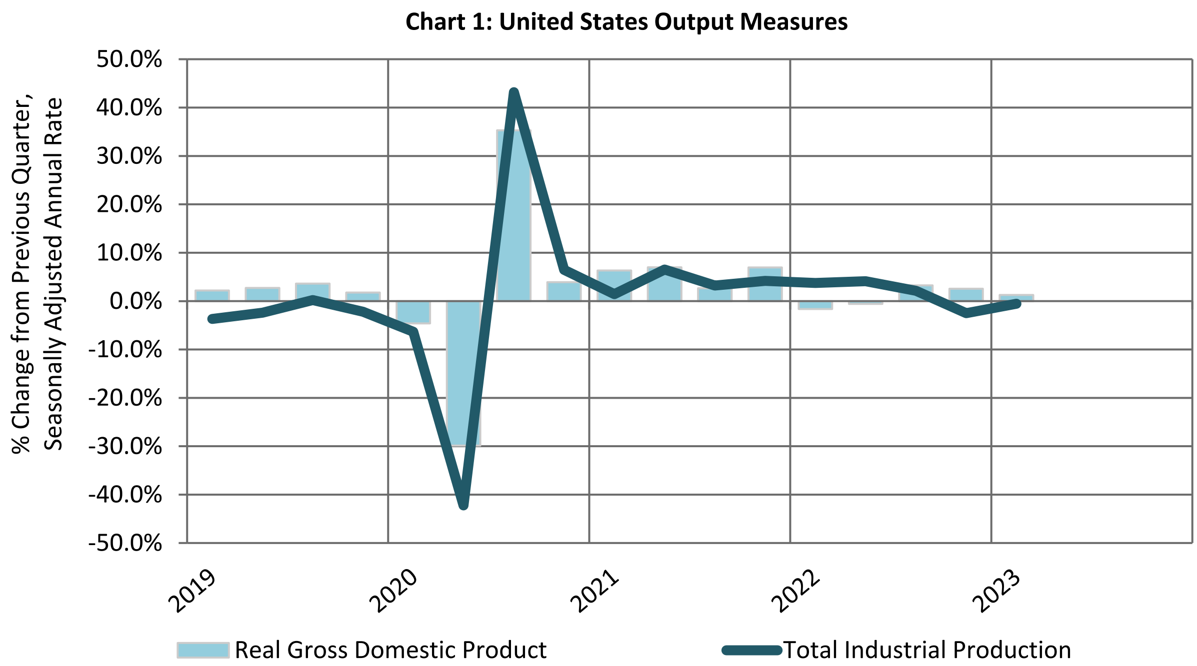
Job openings in Ohio, 339,000 in March, continued to exceed the number of persons unemployed in the state (206,700 in May). The number of job openings, seasonally adjusted, ticked up in March but has trended downward since a peak in June 2022. For context, the number reached 250,000 in only a handful of months prior to 2018 and reached 300,000 only three times prior to March 2021. These statistics, considered alongside those about the reduced labor force in the preceding paragraph and the historically low unemployment rate, point to very tight labor markets in Ohio.

But the latest Fed Beige Book, a collection of observations on business conditions from contacts outside the Fed, includes reports from some Fed contacts in the Cleveland District that they were holding wages steady because hiring had become less difficult. This report, published on May 31 based on data collected through May 22, reported stable employment and noted that most business contacts reported that they expected to hold headcounts steady in coming months. The section noted little change in aggregate business activity, though with some variation across business sectors. Similarly, consumer spending was described as generally little changed though with some variation. It also noted that contacts in banking reported declines in commercial and consumer lending.

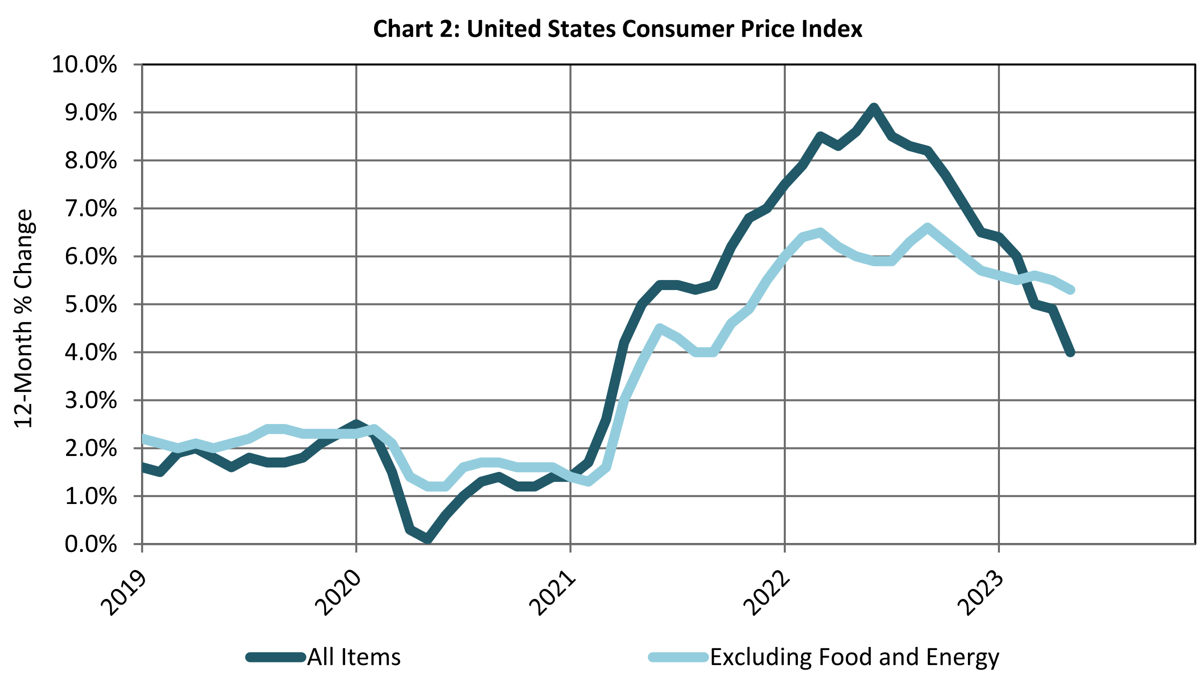
Selected national economic indicators

Chart 1 on the following page shows changes in real GDP and industrial production[3] in recent years, notably the huge fluctuations around the pandemic-driven 2020 recession. More recently, real GDP continued to grow, albeit slowly, in this year's first quarter. Growth of consumer spending on services has accounted for a substantial portion of real GDP growth in recent quarters. Other sectors continue to lag, notably residential fixed investment. Industrial production has fallen in the latest two quarters, with declines in numerous manufacturing industries.

[3] The Federal Reserve's industrial production index measures output of manufacturers, the mining sector, and natural gas and electric utilities.



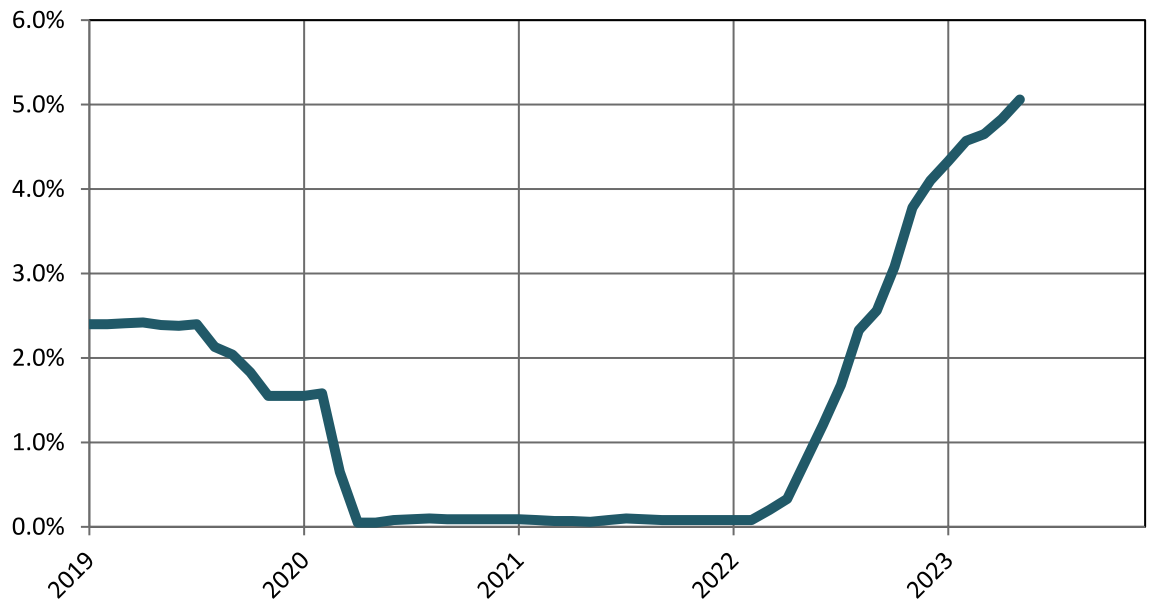
The consumer price index for all urban consumers (CPI-U) rose 0.1% in May to 4.0% higher than a year earlier. The year-over-year inflation rate measured by the consumer price index was down from a peak of 9.1% in June 2022. Gasoline prices fell 5.6% in May to 19.7% lower than a year earlier. The CPI-U excluding food and energy rose 0.4% in May to 5.3% higher than a year earlier. CPI-U changes from a year earlier are shown in Chart 2 below. The Federal Reserve's monetary policy actions, intended to reduce inflation to its target rate of 2%, are a factor in the decline in year-over-year price increases shown in the chart. The significant progress shown in prior months slowed in April, but May data showed another significant decline in the year-over-year inflation rate. The press release from the Fed's June 13-14 meeting stated that the FOMC "remains highly attentive to inflation risks."



A related measure closely watched by the Fed, the personal consumption expenditures price index, rose 0.4% in April to 4.4% higher than a year earlier. Excluding food and energy, the price index was 4.7% higher than a year ago, also well above the central bank target of 2% inflation.

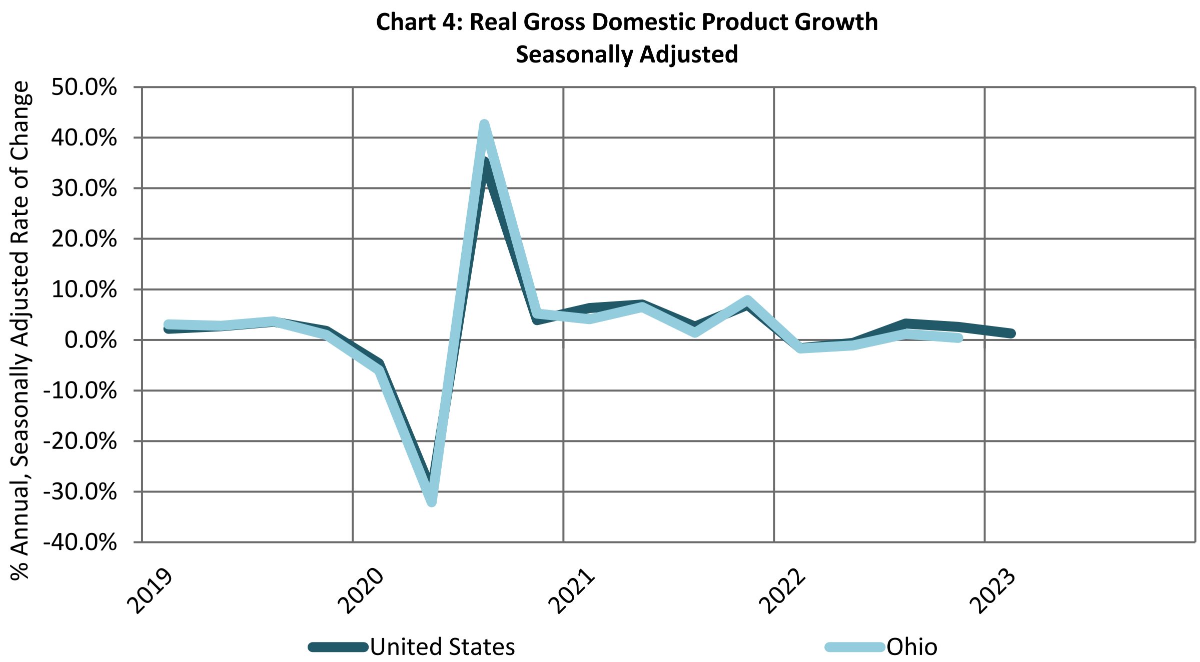
The Federal Reserve began raising short-term interest rates at the March 2022 FOMC meeting, in response to elevated inflation and a strengthening economy. In November 2021, the FOMC began paring back its program of buying U.S. Treasury securities and agency debt and agency mortgage-backed securities to support the economy. From March 2022 through May 2023, the FOMC raised its short-term interest rate target for federal funds by five percentage points. In June it held its federal funds target range unchanged. The effect of this increase is shown in Chart 3 below. Other market short- and longer-term interest rates also rose.

Chart 3: Effective Federal Funds Rate

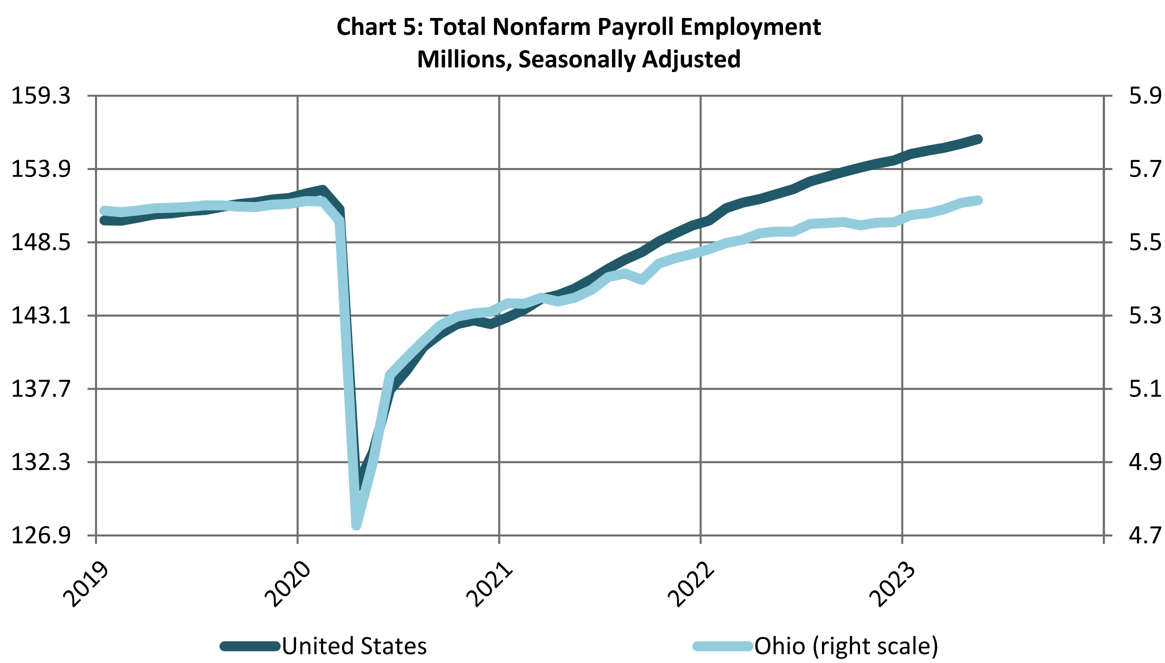


Ohio and national economic indicators

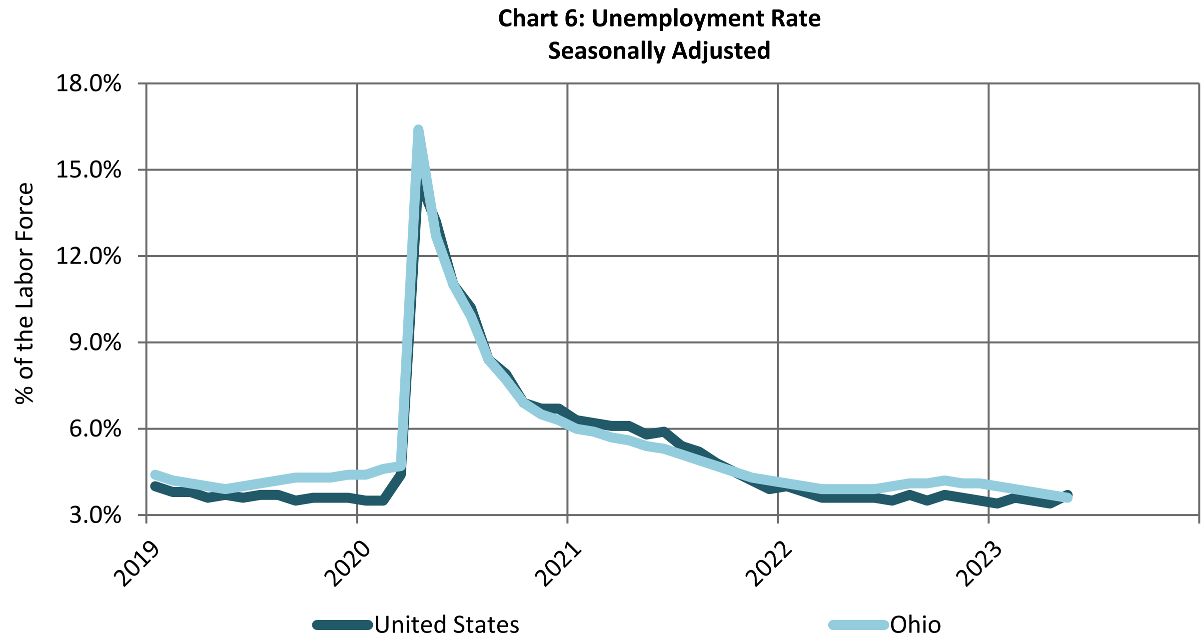
As seen from Chart 4 on the following page, changes in U.S. and Ohio real GDP during the past four years were dominated by the huge fluctuations around the 2020 recession, when economic activity contracted sharply with pandemic shutdowns, then recovered rapidly as shutdowns eased. Less readily apparent, economic growth in Ohio has tended to trail that of the nation. During 2021 and 2022, for example, real GDP growth averaged 3.3% per year for the U.S. and 2.3% for Ohio. The state's economy is also more variable, likely reflecting the greater concentration of durable goods manufacturing here, which is subject to large cyclical fluctuations.



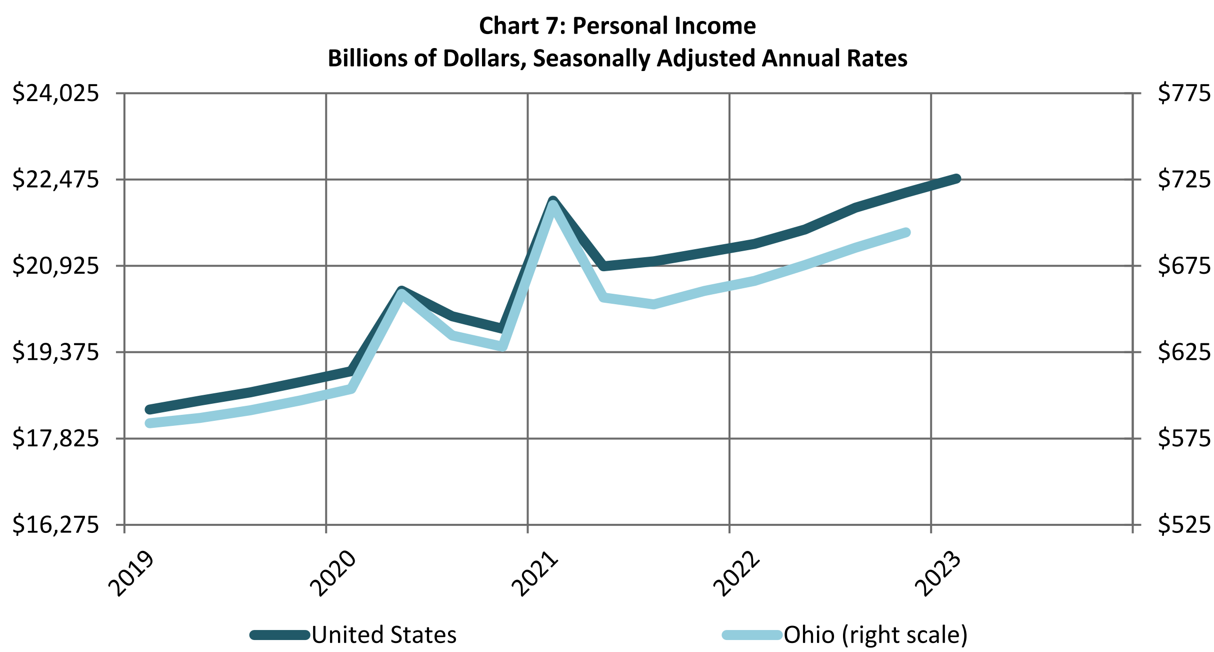
As with GDP, job growth in Ohio has lagged behind that of the country. This is clearly evident in Chart 5 below. In the past two years, from May 2021 to May 2023, Ohio total nonfarm payroll employment has grown 5.0%. During the same period, nationwide total nonfarm payrolls have increased 7.6%. As of May 2023, U.S. total nonfarm payrolls were 3.7 million (2.5%) higher than in February 2020, just prior to the recession downturn. Ohio total nonfarm payroll employment was about even with its level in early 2020 ahead of the recession, just surpassing that level for the first time in May.



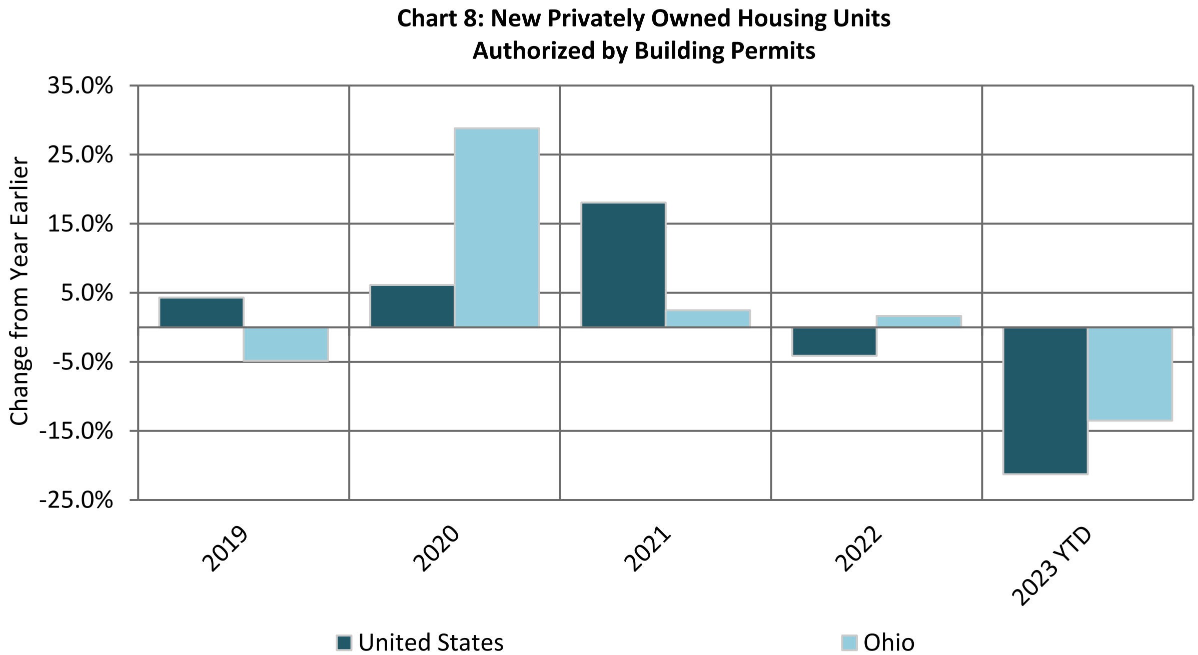
Unemployment rates are low. Ohio's unemployment rate in May, 3.6%, was at a record low, as noted above. The nationwide average unemployment rate was also exceptionally low, as is evident in Chart 6 below. However, the U.S. unemployment rate rose in May, from 3.4% to 3.7%. The excess of job openings over numbers of persons actively seeking employment remains exceptionally wide but has narrowed. Ohio's unemployment rate was above the nation's since late 2021, but the May decrease in Ohio's rate overturned that recent pattern.



Personal income rose sharply in 2020 and 2021 because of federal income support programs in response to the pandemic. These jumps in income are clearly evident in Chart 7 below. As the federal subsidies were withdrawn, with the waning of the pandemic, income growth slowed. Personal income growth in Ohio trailed that nationally in most years.



As the Fed responded to the recovering economy and elevated inflation by tightening monetary policy, rising mortgage interest rates eroded the hot housing market of two years ago. Sharply higher housing prices also cut into affordability for prospective home buyers. New housing construction in Ohio, as indicated by the number of building permits issued, was little changed last year and was 14% lower through the first four months of this year, compared with a year earlier.



Economic forecasts

The following seven tables show forecasts of key indicators of the economic environment that will determine state revenues during the next biennium. Some of the indicator forecasts were inputs to LBO models used to make state revenue forecasts. Both these economic indicator forecasts and LBO's forecasts for state revenues are subject to uncertainty. The economic indicator projections shown below are from IHS Markit's baseline forecasts released in May 2023.

The first line in each table contains quarter-by-quarter projected changes in the indicator at seasonally adjusted annual rates. The second line contains year-over-year projected changes in the indicator averaged over the four quarters of each fiscal year. The unemployment rate tables are IHS Markit's unemployment rate projections for the quarters indicated (first line) and the average of the rates in the quarters of each fiscal year (second line).

U.S. gross domestic product

IHS Markit's May projection for real GDP included a small decline in this year's second calendar quarter, as shown below, but incoming data led to an upward revision for the quarter, to a 0.8% annual rate of growth in the June forecast. The forecast below shows slow growth through the forecast horizon, averaging about 1.0% per year during the biennium.

Table 12. U.S. Real GDP Growth												
	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	1.1	-0.1	0.5	0.5	1.2	1.1	1.3	1.5	1.6	1.8	1.9	2.0
Fiscal Year		1.5				0.7				1.3		

Ohio gross domestic product

The May forecast from IHS Markit for Ohio real GDP shows no growth in this year's first quarter and a decline in the second quarter. Growth of the state's real GDP in the upcoming biennium is projected to average about 0.6% annually, somewhat slower than U.S. growth. The latest U.S. Bureau of Economic Analysis estimate of actual Ohio real GDP is for last year's fourth quarter.

Table 13. Ohio Real GDP Growth												
	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	0.0	-0.6	0.5	0.5	0.8	0.7	1.2	1.0	0.9	1.1	1.2	1.4
Fiscal Year		0.4				0.3				0.9		

U.S. inflation

Inflation, as measured by the rate of increase in the CPI for all urban consumers, is predicted to slow in the next two years toward the Fed's 2% target. It averages 2.7% per year during the biennium.

Table 14. U.S. Consumer Price Index Inflation												
	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	3.8	3.2	3.6	2.7	1.7	2.6	2.6	2.6	2.0	2.0	2.1	2.3
Fiscal Year		6.3				3.1				2.4		

U.S. personal income

Nationwide personal income growth is projected to slow over the next two years. Growth averages about 4.2% annually during the upcoming biennium.

Table 15. U.S. Personal Income Growth												
	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	5.1	4.4	4.7	3.6	4.7	3.7	3.6	3.6	4.4	4.2	4.2	4.4
Fiscal Year		5.7				4.6				3.9		

Ohio personal income

Income to Ohio residents is also forecast to grow more slowly over the next two years. Ohio personal income growth in the biennium is projected to average 4.1% per year.

Table 16. Ohio Personal Income Growth												
	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	6.0	4.0	4.5	3.6	4.8	3.6	3.4	3.4	4.1	3.8	3.9	4.1
Fiscal Year		5.3				4.4				3.7		

U.S. unemployment rate

The national unemployment rate is expected to rise through the end of FY 2025 as a result of an economic slowdown brought on by Fed efforts to bring inflation down. As noted above, the nationwide unemployment rate rose from 3.4% in April to 3.7% in May. The U.S. unemployment rate is projected to average around 4.3% during the upcoming biennium.

Table 17. U.S. Unemployment Rate												
	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	3.5	3.5	3.6	3.8	4.0	4.2	4.4	4.5	4.7	4.8	4.8	4.8
Fiscal Year		3.5				3.9				4.6		

Ohio unemployment rate

Ohio's unemployment rate is also projected to rise during the biennium. As noted above, the statewide average unemployment rate fell to 3.6% in May, lowest on record. However, indicators of softening in tight labor markets have been accumulating. Unemployment in Ohio is projected to average 4.8% in the upcoming biennium.

Table 18. Ohio Unemployment Rate

	2023				2024				2025			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	3.9	3.8	4.1	4.3	4.5	4.7	4.9	5.1	5.2	5.3	5.4	5.4
Fiscal Year		4.0				4.4				5.2		