

**OHIO LEGISLATIVE SERVICE COMMISSION**  
**LEGISLATIVE BUDGET OFFICE**

**February 4, 2025**

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**BASELINE FORECASTS OF  
GRF REVENUES &  
MEDICAID EXPENDITURES**

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**FY 2026-FY 2027 Biennial Budget**

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# ECONOMIC CONDITIONS AND OUTLOOK

## State of the Economy

With inflation cooling and unemployment slowly trending upward, the Federal Reserve began a series of rate cuts this past September, lowering its targeted interest rate by one percentage point in total by the end of the year. Inflation expectations inched up and investors demanded a higher rate of return, pushing up interest rates on long-term debt such as 30-year mortgages. This, combined with the economic uncertainty surrounding potential federal policy changes, have factored into the Federal Reserve's decision to slow the pace of short-term interest rate reductions in 2025. Neither inflation nor the unemployment rate were substantially different at the end of 2024 compared to September.

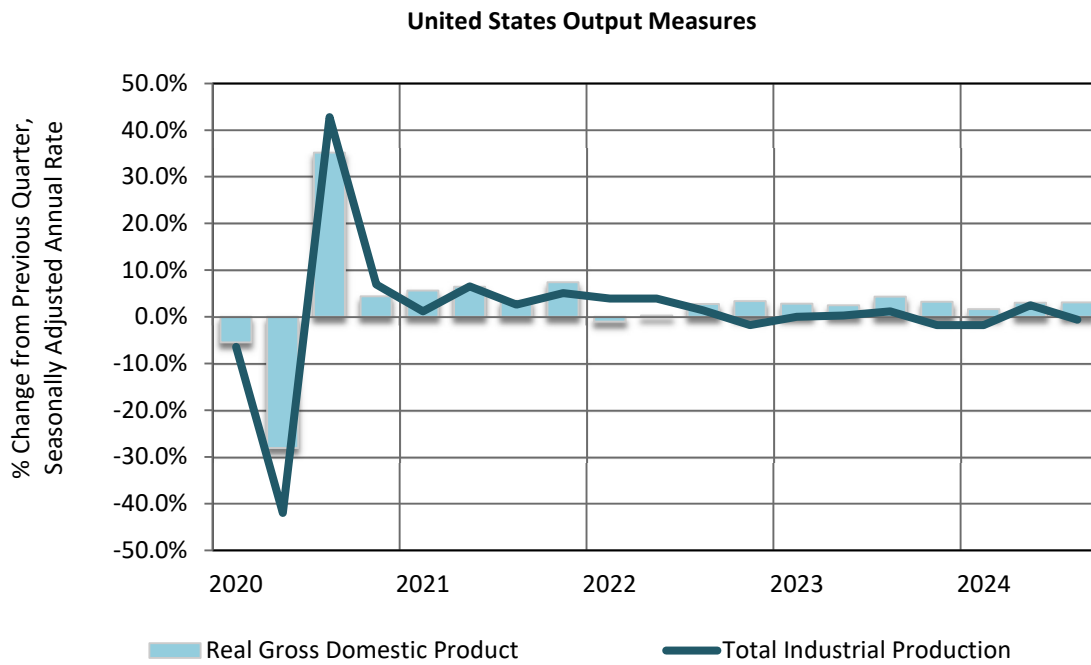
Output growth slowed in the first quarter of 2024 then picked up over the following quarters. Industrial production contracted in the first and third quarters and finished the year at roughly the same level as the end of 2023. The aerospace industry suffered work stoppages at two companies, losing a total estimated 1.3 million worker days before new contracts were approved by the workers union. Employers collectively continued to add to payrolls through the end of 2024, though growth of total employment continued to slow from 2023. Contrary to the increasing number of jobs, the unemployment rate slowly increased in 2024, settling at 4.1% by December.

Economic activity in Ohio, as elsewhere, will be influenced by a host of forces in the near future. On the one hand, production growth is slowing, and the labor market is becoming a buyer's market as companies post fewer openings and fewer workers quit their jobs for better opportunities elsewhere. Furthermore, inflation has not yet reached the Federal Reserve's stated target of 2%, meaning that the rate of increase in the price level is higher than the central bank deems ideal for the economy. The potential of new tariffs also threatens to contribute to inflation and reduce economic activity overall. On the other hand, if the Federal Reserve can control inflation and continue lowering short-term interest rates, consumer loans such as those for automobiles or short-term revolving credit may become cheaper, stimulating consumption.

As discussed more fully below, most but not all measures of economic activity in the state show Ohio trailing the nation in the expansion following the 2020 recession.

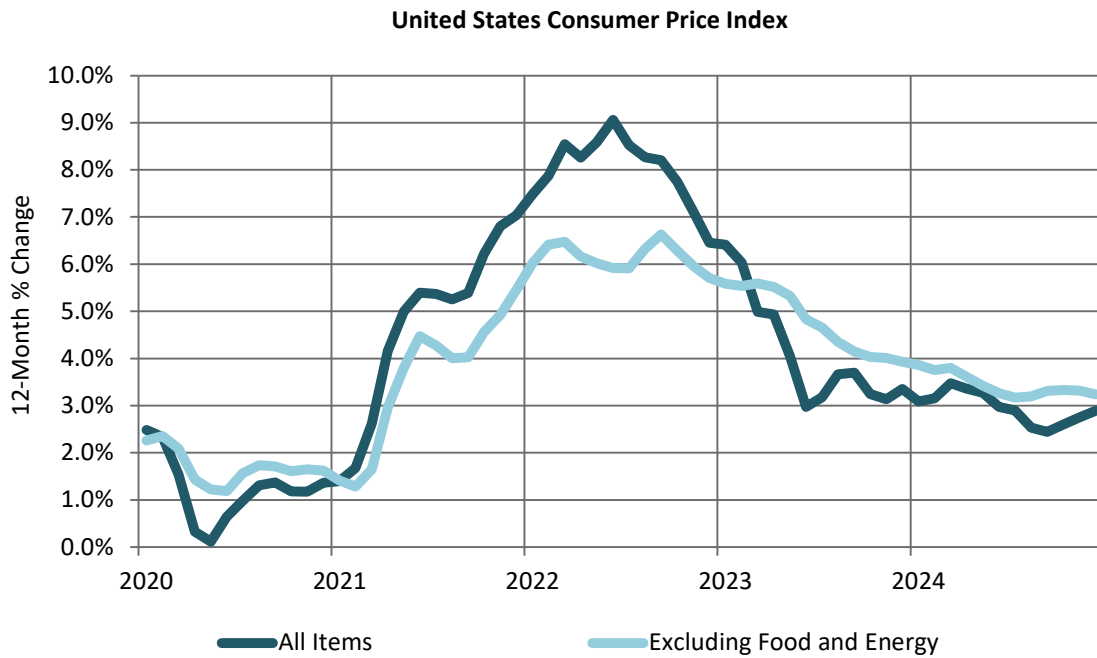
## The National Economy

The chart below displays the extreme deviations in real GDP and industrial production that occurred during the COVID-19 pandemic followed by a return to lower, more typical rates of growth. After a minor contraction in 2022, the economy expanded at a normal pace through 2024. On the other hand, industrial production fell in the fourth quarter of 2022 and in three of the four most recent quarters as manufacturing production was reduced in numerous industries. Aerospace manufacturing output is slowly recovering from worker strikes at Textron Aviation and Boeing, the world's largest manufacturer of commercial jetliners and defense, space, and security systems.

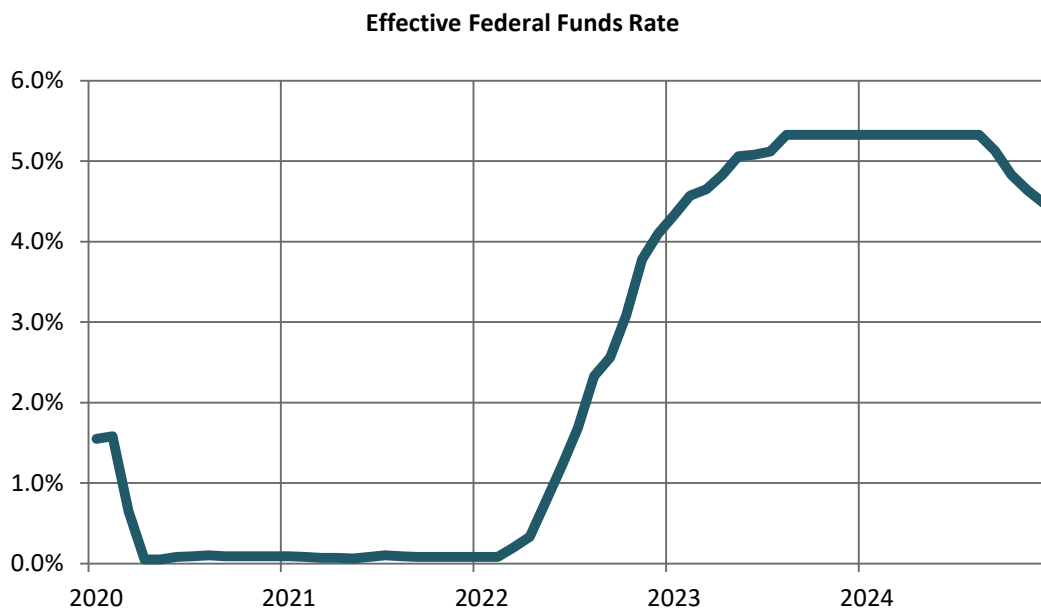


In an effort to stimulate the economy during the pandemic, the Federal Reserve increased the money supply at historic rates by lowering short-term interest rates and purchasing substantial amounts of financial assets during the pandemic. The increase was such that by 2021, one in four dollars in the money supply was newly created. The combination of cheaper loans, government stimulus, and a pausing in the payment of many debt obligations, such as student loans, led to a dramatic increase in the demand for goods and services, pushing up prices. Inflation during this time was exacerbated by supply constraints caused by economic shutdowns all over the world, leading buyers flush with excess cash to outbid each other over fewer available goods and services.

Inflation measured by the year-over-year percent change in the consumer price index for all urban consumers (CPI-U) is shown in the following chart, for all items and for consumer prices other than food and energy (Core CPI-U). Inflation reached levels not observed since the early 1980s in 2022; inflation for all items peaked at 9.1% in June. The rate at which prices increase moderated since this peak, settling down around 3% over the past year.

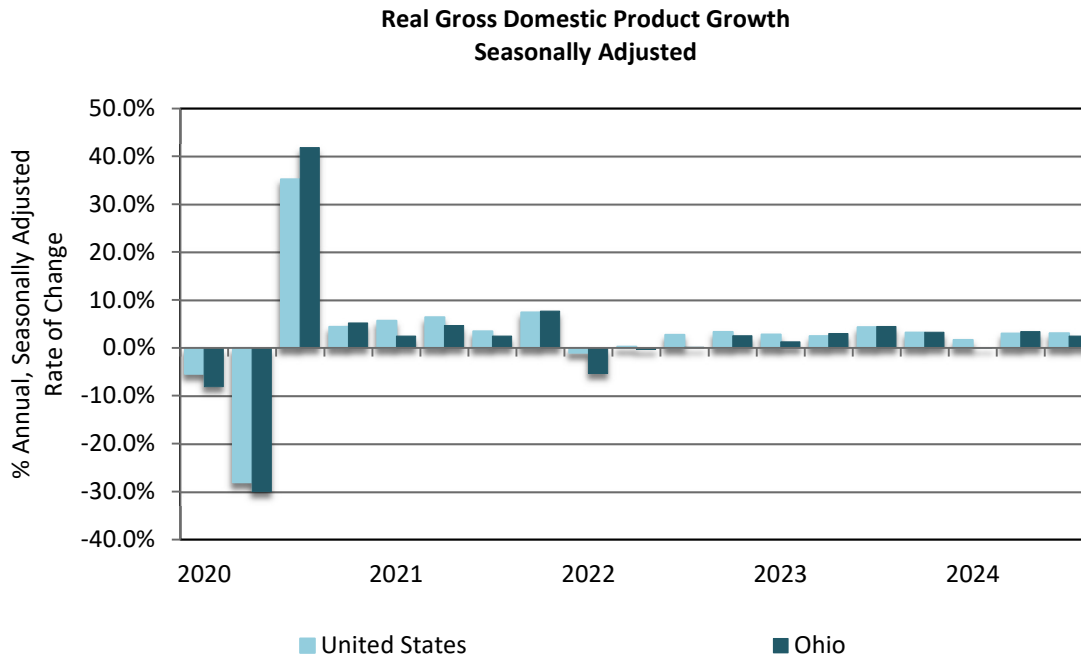


As the economy began to fully reopen, the Federal Reserve sharply increased its target short-term interest rate to fight the rapid ascent of inflation observed in the chart above. The central bank also halted their program of buying U.S. Treasury, agency, and mortgage-backed securities, which was designed to hold down longer-term interest rates, and began allowing its securities holdings to decline as they matured. In mid-September 2024, the central bank’s policy-setting Federal Open Market Committee began a series of interest rate cuts, lowering its target rate from 5.3% to 4.3% over the following three months. Chairman Jerome Powell announced in December the central bank’s intention to slow the rate of interest rate cuts in 2025 due to core inflation remaining above 2% and economic uncertainty surrounding potential economic policy changes.



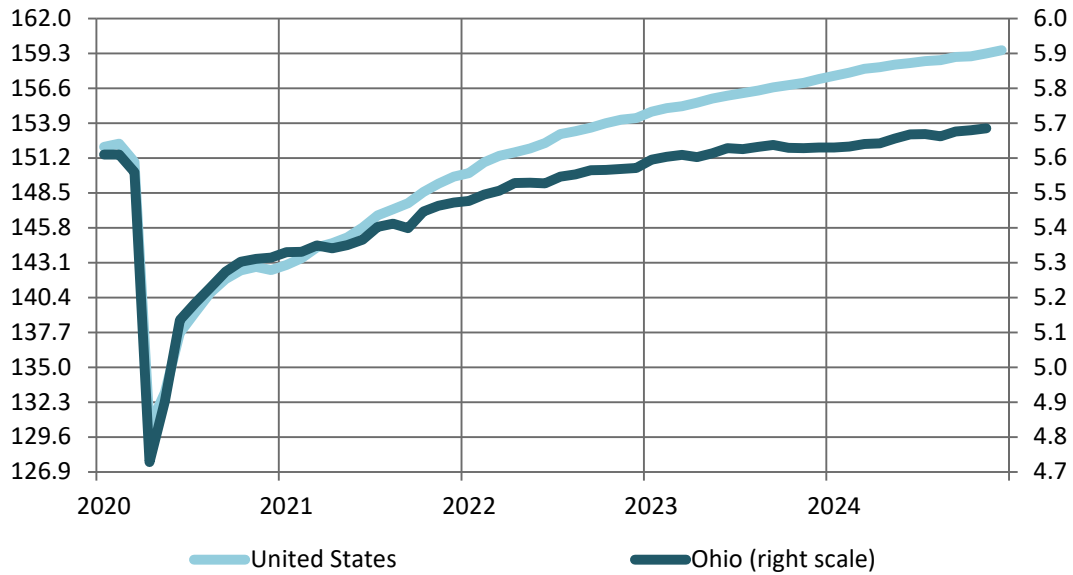
## The Ohio Economy

Ohio’s economy has grown slower in the post-pandemic expansion compared to the nation by the broadest measure, real GDP. Most industries grew at a slow pace or contracted slightly. The retail industry expanded faster than others over the last two years while the manufacturing industry has alternated between expansion and contraction.



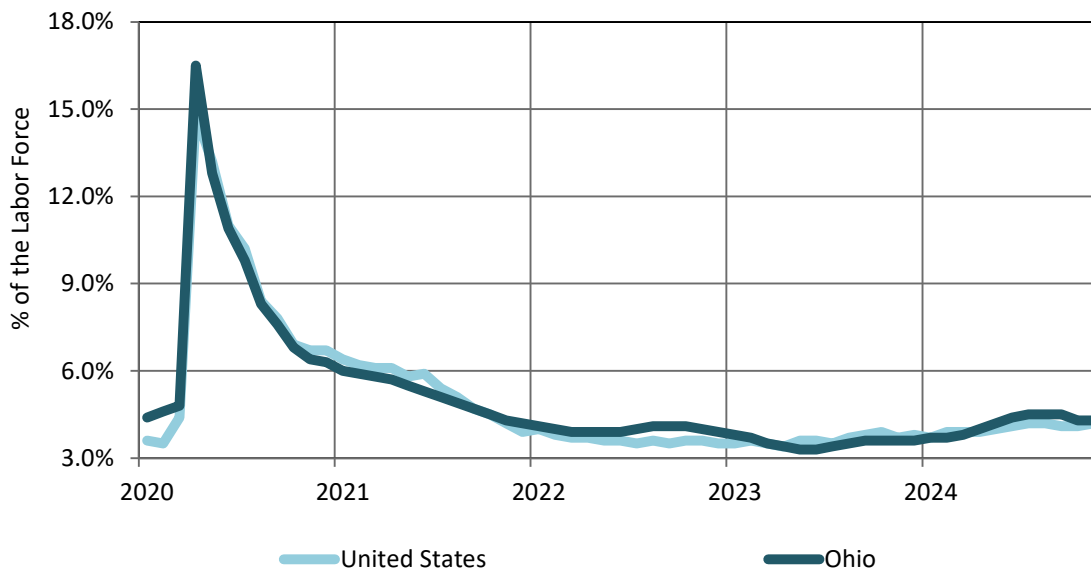
Job growth in Ohio has lagged that of the nation since the reopening of the economy. From the April 2020 recession trough through November 2024, total statewide nonfarm payroll employment rose 20.2%, compared with a 22.1% increase nationwide. Ohio employment remained above the prerecession peak from May 2023 onwards and surpassed the previous all-time high in March 2024. This contrasts with the comparable nationwide statistic, which rose to an all-time high more than a year before Ohio in January 2023.

**Total Nonfarm Payroll Employment  
Millions, Seasonally Adjusted**

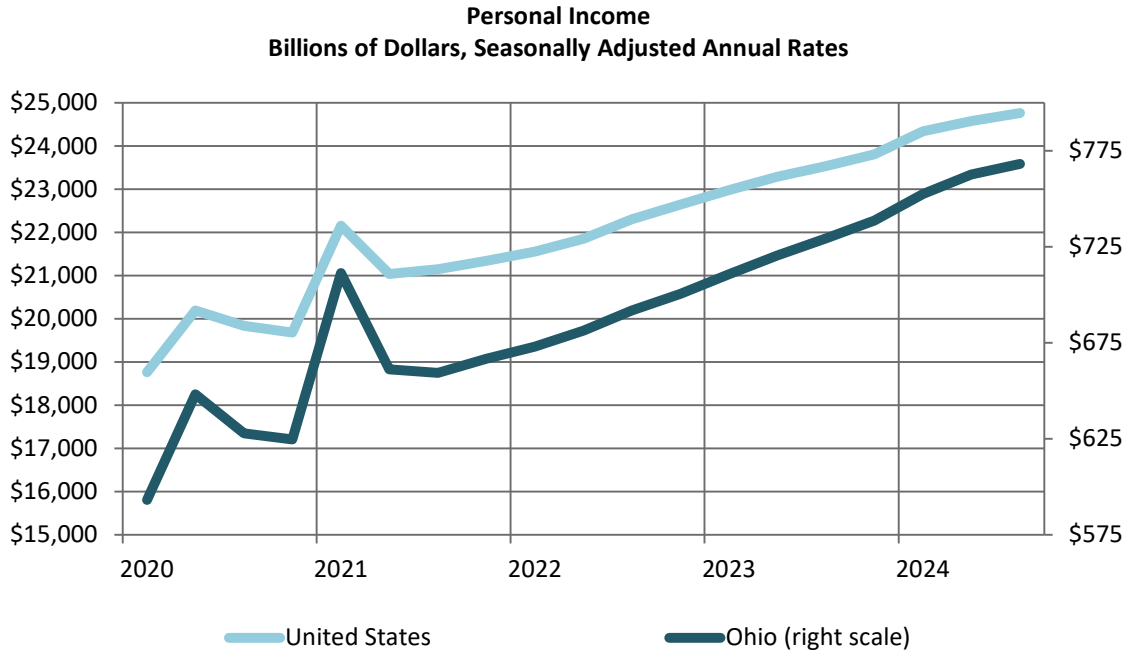


Ohio’s unemployment rate was the same as or lower than the nation’s between March 2023 and March 2024. However, the state unemployment rate surpassed that of the nation in April 2024 and has remained higher since. In December, the percentage of unemployed individuals actively seeking work in the state was 4.4%, slightly higher than the national average of 4.1%. Unemployment rates from January 2020 through December 2024 are shown in the chart below for both the state and the nation.

**Unemployment Rate  
Seasonally Adjusted**



Personal income per capita rose sharply in 2020 and 2021 due to federal transfer payments enacted in response to the pandemic. Over the full period shown in the chart, Ohio’s total personal income rose by 29.5%, which is approximately equivalent to a 5.6% annual rate. Nationwide, total personal income increased by 31.9%, which is approximately equivalent to a 6.0% annual rate.



### Economic Forecasts

The following are forecasts of key indicators of the economic environment that will determine state tax 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 inherently subject to uncertainty. The economic indicator projections shown below are from baseline forecasts released in December 2024 by Moody’s Analytics, an economic forecasting firm used by LBO.

The first line in each table contains quarter-by-quarter projected changes in the indicator at annual rates. The second line contains year-over-year projected changes in the indicator averaged over the four quarters of the fiscal year. The unemployment rate tables are Moody’s Analytics 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

Moody’s Analytics anticipates slowing economic growth through the third quarter of calendar year (CY) 2026, followed by a modest increase in the growth rate through CY 2027. U.S. real GDP is projected to increase about 1.7% annually on average in the next biennium, as shown below.

U.S. Real GDP Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent change at annual rate -----											
Quarterly	2.2	1.8	1.7	1.7	1.5	1.5	1.5	1.6	1.8	1.9	2.0	2.1
Fiscal Year	2.5				1.8				1.6			

### Ohio Gross Domestic Product

Ohio’s economy is expected to expand at a slower pace than the national economy, with growth bottoming out in the second quarter of CY 2026 before steadily increasing through CY 2027. Real GDP in the state is projected to increase at about a 1.2% annual rate on average in the next biennium, somewhat slower than the nation’s growth rate.

Ohio Real GDP Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent change at annual rate -----											
Quarterly	1.8	1.3	1.1	1.1	1.0	0.9	1.1	1.2	1.4	1.5	1.6	1.6
Fiscal Year	2.0				1.2				1.1			

### U.S. Inflation

Inflation, as measured by the rate of increase in the CPI for all urban consumers, is predicted to oscillate in the narrow range of 2.2% to 2.9% and to average around 2.6% annually during the next biennium.

U.S. Consumer Price Index Inflation												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent change at annual rate -----											
Quarterly	2.2	2.5	2.7	2.9	2.9	2.8	2.6	2.5	2.5	2.4	2.4	2.3
Fiscal Year	2.4				2.6				2.7			

### U.S. Personal Income

Nationwide personal income growth is projected to fluctuate between 4.0% and 4.7%, and equal about 4.5% on average annually during the upcoming biennium. After dipping in the first quarter of 2026 and recovering in the second, the rate of growth is expected to slow from the third quarter until the end of the biennium.

U.S. Personal Income Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent change at annual rate -----											
Quarterly	4.5	4.5	4.6	4.7	4.2	4.6	4.3	4.2	4.2	4.2	4.0	4.0
Fiscal Year	4.7				4.6				4.4			

### Ohio Personal Income

Total personal income in Ohio is forecast to grow slower than the nation, equaling about 4.2% on average annually during the upcoming biennium. Similar to the nation as a whole, total personal income growth in the state is projected to drop in the first quarter of 2026, recover in the second, and then moderate throughout the biennium.

Ohio Personal Income Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent change at annual rate -----											
Quarterly	4.2	4.2	4.4	4.5	3.9	4.4	4.1	4.1	4.0	3.9	3.7	3.6
Fiscal Year	4.6				4.3				4.1			

### U.S. Unemployment Rate

In Moody’s Analytics December baseline forecast, the seasonally adjusted national unemployment rate remains stable throughout this calendar year and the following two. The nationwide unemployment rate is forecast to remain at 4.1% in all quarters outside of the first in 2026.

U.S. Unemployment Rate												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent of the labor force -----											
Quarterly	4.1	4.1	4.1	4.1	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Fiscal Year	4.2				4.1				4.1			

## Ohio Unemployment Rate

Ohio’s seasonally adjusted unemployment rate is projected to rise slightly this calendar year and remain relatively unchanged through 2027. Statewide unemployment is forecast to average 4.6% of the labor force in the upcoming biennium, half a percentage point above the national figure.

Ohio Unemployment Rate												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----- Percent of the labor force -----											
Quarterly	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.7	4.7	4.6	4.6	4.6
Fiscal Year	4.5				4.6				4.6			

# REVENUE FORECASTS

## Summary

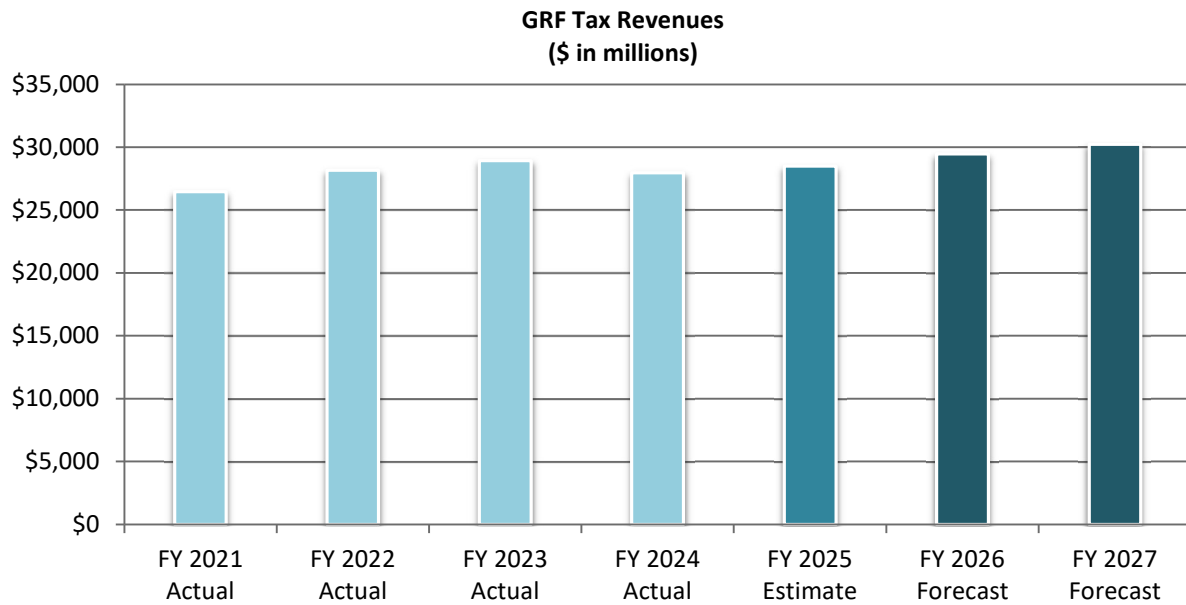
The LBO baseline forecasts for FY 2026 and FY 2027 assume the current statutory tax structure, including tax changes enacted by the 135<sup>th</sup> General Assembly. It thereby reflects the changes to the personal income tax (PIT) enacted in H.B. 33 of the 135<sup>th</sup> General Assembly, including consolidating the nonbusiness income tax brackets to two and lowering the marginal tax rate for the higher bracket to 3.5% beginning in tax year (TY) 2024. It also reflects the changes to the commercial activity tax (CAT), including an exclusion on the first \$6 million of taxable gross receipts beginning in 2025. Other tax changes having smaller revenue effects were also incorporated into the forecast. Statutory law allocates 1.70% of GRF tax revenue to each of the Local Government Fund (LGF) and the Public Library Fund (PLF).

Three taxes that generated some revenue in recent years, the corporate franchise tax (CFT), the business and property tax, and the estate tax, have been repealed. LBO expects no revenue from these taxes in future years.

FY 2025 GRF tax revenue is projected to grow 2.0% from the FY 2024 level. Through December, GRF tax revenue grew 0.2% over the comparable period of FY 2024, but revenue received in the second half of the fiscal year is expected to outpace that growth rate. GRF tax revenue under current law is forecast to increase by \$960.6 million (3.4%) in FY 2026. Moody's Analytics is forecasting solid growth at the end of FY 2025, but this growth tapers off somewhat over the course of the upcoming biennium. Their macroeconomic projections result in tepid growth in revenue from the nonauto sales and use tax and an oscillating revenue pattern from the auto sales and use tax. Most other tax revenue sources are expected to grow at rates more similar to their historic rates. Revenue from the PIT is projected to grow by 6.0%, which benefits from a comparison against a year-earlier period when larger tax cuts were enacted. Revenue from the CAT is projected to decline by 8.2%, but that reflects tax policy changes rather than weakness in the CAT base. Most other tax sources are expected to grow at moderate rates, as Ohioans' incomes are expected to grow faster than inflation. But the cigarette and other tobacco products (OTP) tax, the public utility excise tax (PUET), the liquor gallonage tax, and the petroleum activity tax (PAT) are expected to yield declining revenues. The cigarette and OTP tax is in a period of secular decline, but the other three taxes are simply following unusually strong performances in the prior years.

GRF tax revenue under current law is forecast to increase by \$769.9 billion (2.6%) in FY 2027. Growth is expected to decelerate for most tax sources, as the economy is projected to grow at a slower pace in the second year of the biennium. Receipts from the tax on cigarettes and OTP are expected to continue their typical decline, though, and slight decreases are expected in revenue from certain energy-related taxes. The auto sales and use tax surged at the outset of the pandemic, but growth in the tax base has appeared to plateau in recent years.

The following chart and table provide overviews of GRF receipts from taxes.

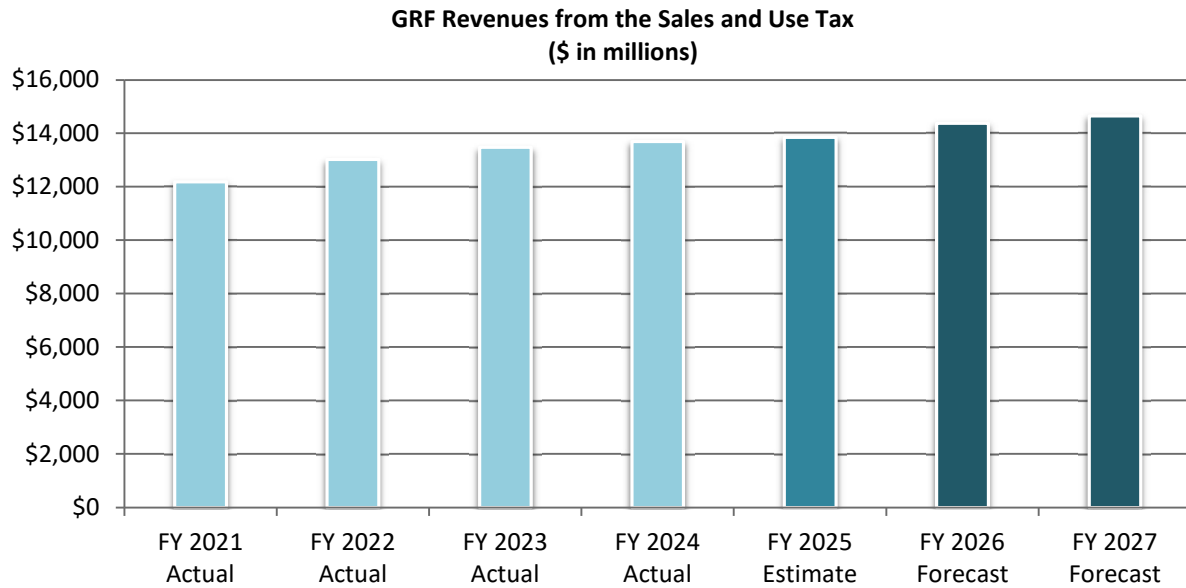


\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimated	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$26,466.9	\$28,152.5	\$28,915.7	\$27,944.5	\$28,500.4	\$29,460.9	\$30,230.9
Growth	17.0%	6.4%	2.7%	-3.4%	2.0%	3.4%	2.6%

## LBO Baseline GRF Tax Revenue Forecasts, FY 2026-FY 2027 (\$ in millions)

Tax	FY 2024 Actuals	FY 2025 Estimates	Growth Rate	FY 2026 Forecast	Growth Rate	FY 2027 Forecast	Growth Rate
Auto Sales & Use	\$1,917.2	\$1,910.0	-0.4%	\$1,929.1	1.0%	\$1,909.8	-1.0%
Nonauto Sales & Use	\$11,783.3	\$11,944.8	1.4%	\$12,450.8	4.2%	\$12,749.1	2.4%
<b>Total Sales &amp; Use</b>	<b>\$13,700.5</b>	<b>\$13,854.8</b>	<b>1.1%</b>	<b>\$14,379.9</b>	<b>3.8%</b>	<b>\$14,658.9</b>	<b>1.9%</b>
Personal Income	\$9,519.3	\$10,094.0	6.0%	\$10,633.3	5.3%	\$11,034.9	3.8%
Commercial Activity	\$2,366.0	\$2,171.4	-8.2%	\$2,078.6	-4.3%	\$2,155.5	3.7%
Cigarette	\$750.4	\$724.5	-3.5%	\$703.5	-2.9%	\$685.0	-2.6%
Kilowatt-Hour Excise	\$284.5	\$293.9	3.3%	\$285.5	-2.9%	\$278.7	-2.4%
Foreign Insurance	\$402.1	\$418.0	3.9%	\$422.0	1.0%	\$435.0	3.1%
Domestic Insurance	\$349.7	\$375.0	7.2%	\$387.0	3.2%	\$403.0	4.1%
Financial Institutions	\$204.9	\$208.0	1.5%	\$211.0	1.4%	\$215.0	1.9%
Public Utility Excise	\$170.3	\$162.8	-4.4%	\$160.5	-1.4%	\$163.8	2.1%
Natural Gas Consumption	\$65.9	\$67.7	2.9%	\$68.6	1.2%	\$69.1	0.8%
Alcoholic Beverage	\$60.7	\$62.6	3.2%	\$63.3	1.1%	\$64.1	1.1%
Liquor Gallonage	\$56.6	\$55.6	-1.7%	\$57.1	2.6%	\$58.5	2.6%
Petroleum Activity	\$13.2	\$11.9	-9.6%	\$10.6	-11.1%	\$9.3	-12.5%
Corporate Franchise	\$0.2	\$0.0	-100.0%	\$0.0	---	\$0.0	---
Business & Property	\$0.0	\$0.0	---	\$0.0	---	\$0.0	---
Estate	\$0.2	\$0.0	-100.0%	\$0.0	---	\$0.0	---
<b>Total Tax Revenue</b>	<b>\$27,944.5</b>	<b>\$28,500.4</b>	<b>2.0%</b>	<b>\$29,460.9</b>	<b>3.4%</b>	<b>\$30,230.9</b>	<b>2.6%</b>

## Sales and Use Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$12,190.6	\$13,029.6	\$13,483.1	\$13,700.5	\$13,854.8	\$14,379.9	\$14,658.9
Growth	14.1%	6.9%	3.5%	1.6%	1.1%	3.8%	1.9%

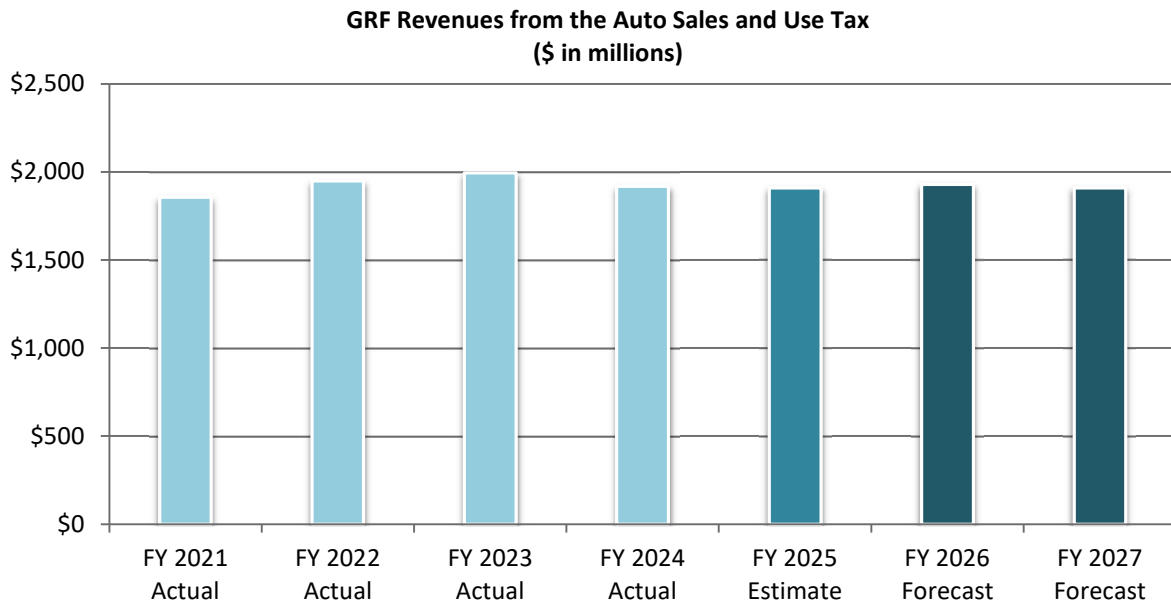
Under current law, the state sales and use tax is levied at a rate of 5.75% on retail sales of tangible personal property, rental of some tangible personal property, and selected services. Major exemptions to the sales and use tax include: food for human consumption off the premises where sold, motor fuel (taxed separately), packaging and packaging equipment, prescription drugs and medical supplies, and property used primarily in manufacturing or used directly in mining or agriculture. There is also a credit for trade-ins on purchases of new motor vehicles.

For forecasting purposes, the tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. One major exception is auto taxes arising from leases, which are paid at the lease signing and are mostly recorded under the nonauto tax. The level of auto sales is dependent on the level of incentives provided by manufacturers and dealers and changes in gasoline prices. Incentive programs also affect the way consumers decide whether to purchase or lease their vehicles, affecting both the auto component of the tax and the nonauto component.

Revenue from this tax historically has increased nearly every year by percentages in the low single digits, except when there were changes in tax rates, major changes in the tax base, or a recession. Moody’s Analytics is projecting mild retail sales growth in the first two quarters of CY 2025. Total sales and use tax revenues under current law are projected to rise modestly in FY 2026, largely due to income gains, and the auto sales and use tax is forecast to oscillate

near its current level over the biennium. Total revenue grows faster in FY 2026 than in FY 2027, as Moody’s Analytics anticipates more economic headwinds in the second year.

### Auto Sales and Use Tax

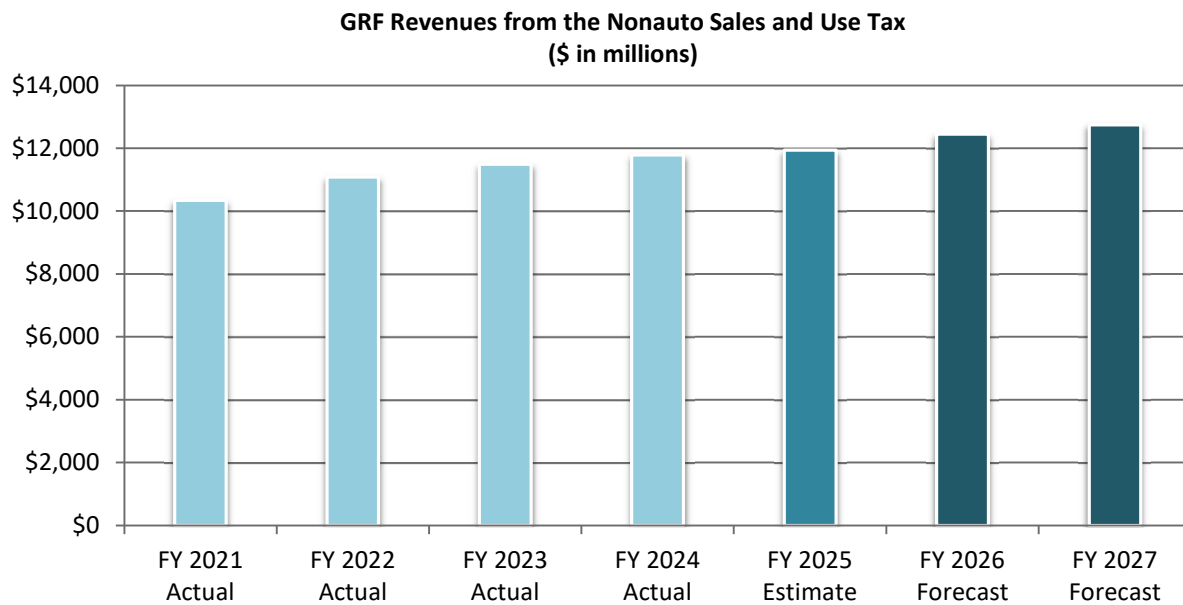


\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$1,856.6	\$1,949.0	\$1,994.6	\$1,917.2	\$1,910.0	\$1,929.1	\$1,909.8
Growth	23.5%	5.0%	2.3%	-3.9%	-0.4%	1.0%	-1.0%

The forecast for the auto sales and use tax is based on autoregressive integrated moving average (ARIMA) statistical regressions of its quarterly tax base against lagged values of the tax base and error terms representing unexpected shocks to the model, such as the sudden supply constraints that occurred during the COVID-19 pandemic, as well as the federal funds rate, Wilshire5000 Index, and the personal consumption expenditures on automobiles and parts in Ohio. The tax base grew substantially in FY 2021 and FY 2022 due to federal income support programs responding to the pandemic and rising prices caused by supply chain disruptions. Revenue received during the first six months of FY 2025 grew only 0.9% compared to the first six months of FY 2024 after falling by 3.9% in FY 2024. A projected decline in the Wilshire5000 Index, which serves as a broad proxy measure of economic health, should depress vehicle demand while declining interest rates and an increase in the personal consumption expenditure on automobiles and parts are expected to have the opposite effect. Overall, the tax base is projected to increase modestly in FY 2026 and decline somewhat in FY 2027. Used vehicle prices during the upcoming biennium are projected to decline from their pandemic-era peak, which constitutes a drag on tax base growth.

Sales tax paid on the lease of a vehicle is not categorized as auto sales tax receipts. The percentage of new cars that are leased has been increasing since 2022. This is particularly true for electric vehicles, as dealerships may claim a \$7,500 tax credit per vehicle when leased without the vehicle and battery origination, income, and vehicle price constraints that a consumer would face if purchasing the vehicle and applying for the credit. Dealers receiving the full tax credit may pass on the savings to the consumer in the form of a cheaper lease. The effect of consumers opting for a lease over a loan would be to reclassify the taxes paid from the auto sales tax to the nonauto sales tax and reduce the amount paid.

### Nonauto Sales and Use Tax



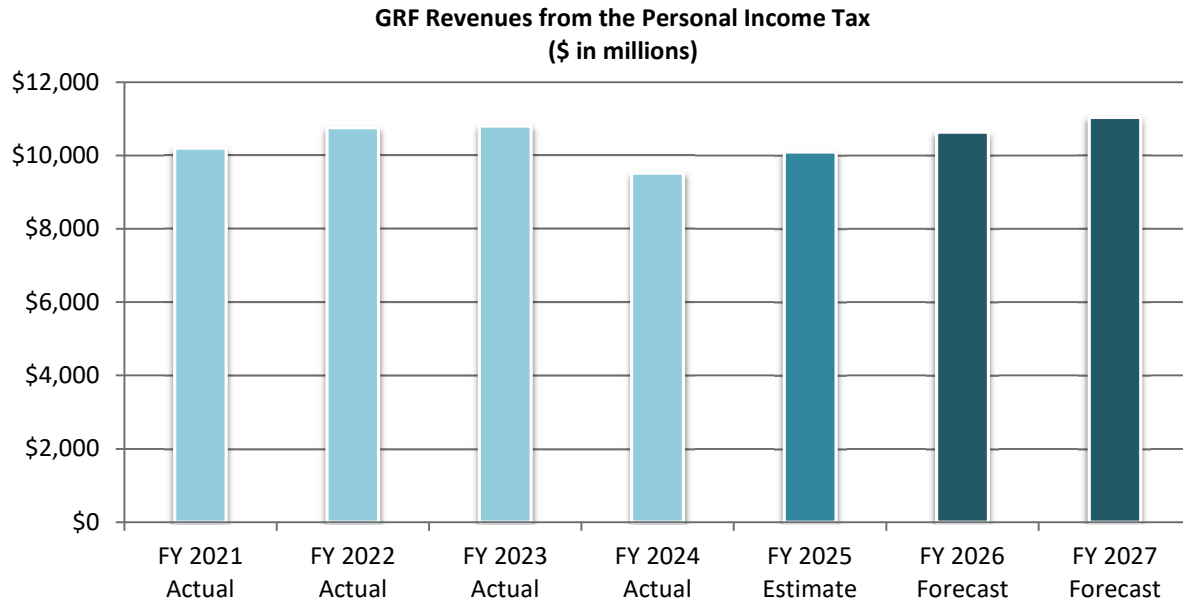
\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$10,334.0	\$11,080.6	\$11,488.6	\$11,783.3	\$11,944.8	\$12,450.8	\$12,749.1
Growth	12.5%	7.2%	3.7%	2.6%	1.4%	4.2%	2.4%

The forecast for the nonauto sales and use tax is based on statistical regressions of quarterly nonauto sales and use tax revenues against Ohio retail sales, employment, disposable income, and housing values. FY 2021 and FY 2022 saw much sharper growth, due to a shift in consumer spending toward taxable goods and away from services, many of which are nontaxable. FY 2022 growth was restrained slightly by an exemption for employment services enacted in H.B. 110 of the 134<sup>th</sup> General Assembly. Revenue growth in FY 2023 and FY 2024 slowed as inflation subsided from its peak level. An expanded sales tax holiday occurred in FY 2025, which further curtailed growth in tax receipts.

Nonauto sales and use tax revenue in the first six months of FY 2025 was 0.9% lower than revenue received during FY 2024 through December, primarily due to the aforementioned

sales tax holiday. Revenue growth is projected to rise in the second half of the year once the impact of the sales tax holiday is lessened as additional months of tax receipts are received in FY 2025. Revenue growth is projected to accelerate in FY 2026 and FY 2027, due to expected income growth and additional retail sales activity.

## Personal Income Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$10,201.3	\$10,752.2	\$10,797.2	\$9,519.3	\$10,094.0	\$10,633.3	\$11,034.9
Growth	29.4%	5.4%	0.4%	-11.8%	6.0%	5.3%	3.8%

The PIT is levied on Ohio taxable income, which equals federal adjusted gross income (FAGI) as reported to the U.S. Internal Revenue Service (IRS), plus or minus various adjustments and minus personal and dependent exemptions. A taxpayer’s tax liability before credits is determined by applying Ohio’s graduated tax rates to the taxpayer’s Ohio taxable nonbusiness income. These tax rates currently range up to 3.50% for the highest incomes. Business income has been given separate treatment since TY 2013, with the first \$250,000 of a taxpayer’s business income currently exempted from tax by a deduction.<sup>1</sup> The balance, taxable business income, is taxed at a 3% rate. Certain credits may be subtracted to derive the taxpayer’s final tax liability.

<sup>1</sup> The \$250,000 threshold is for single taxpayers and joint filers. Married taxpayers filing separately may deduct up to the first \$125,000 of business income.

The estimate of PIT revenues in FY 2025 and the forecasts for FY 2026 and FY 2027 are based on the results of models of revenue collections. The models work with five components of state income tax collections: (1) employer withholding, (2) payments from individual taxpayers, such as quarterly estimated tax payments and annual returns, (3) payments from pass-through entities, (4) other revenues arising from trust income and miscellaneous collections, and (5) refunds.

The data are largely organized on a fiscal-year basis. Withholding is estimated using an average of two different statistical models, as a function of Ohio wage and salary income, nonfarm payroll employment, withholding rates, the amount of wages per employee, and the number of employees per household. The individual taxpayer component and pass-through entity component rely on taxable income projections from the Congressional Budget Office. All other income tax collections are a function of revenue trends in miscellaneous collections and the S&P 500 index (used as a predictor of receipts derived from taxable trusts). Refunds are a function of gross tax collections, the change in gross tax collections from the previous year, the value of the personal exemption, the percent of business income that may be deducted, a variable representing the 3% rate on taxable business income, refunds in the previous year, and tax rate variables. Projections of future values of the explanatory variables are largely sourced from economic forecasting firm Moody's Analytics.

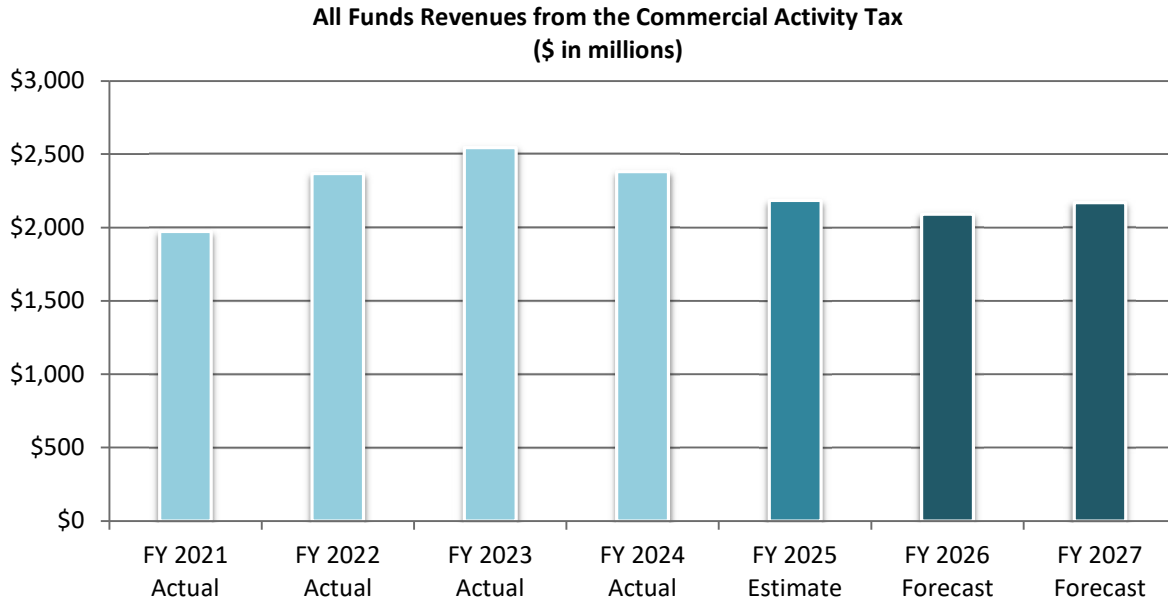
The global COVID-19 pandemic and related U.S. economic shutdowns led policymakers to delay until July 2020 the due date for TY 2019 final settlements, as well as due dates for quarterly estimated tax payments. The due date for TY 2020 final settlements was also delayed but remained within FY 2021. These changes resulted in weak PIT revenues in FY 2020 and strong revenues in FY 2021. The PIT base continued strong in subsequent years, particularly from wages.

Income tax rates on nonbusiness income were reduced in TY 2023 and TY 2024 by H.B. 33 of the 135<sup>th</sup> General Assembly. Similarly, the associated employer withholding rates were reduced in November of 2023 and July 2024, respectively. Both actions reduced the progressivity of the PIT by condensing the number of taxable brackets.

Through December, FY 2025 GRF revenues from the PIT were 6.9% above estimate and 2.4% above revenues in the first six months of FY 2024. The large increases from estimate and a year ago resulted primarily from a drop in refunds attributable to pass-through entities. A new payment option originated in TY 2022 for "electing" pass-through entities, which upended the traditional taxpayer payment patterns beginning in FY 2023. Refunds among this type of taxpayer surged in FY 2024 before subsiding in FY 2025.

The FY 2025 estimate for GRF revenues from the PIT is \$10.09 billion, a 6.0% increase from FY 2024 revenues. GRF revenues under current law are projected to grow by 5.3% in FY 2026 and by 3.8% in FY 2027.

## Commercial Activity Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
All Funds Revenue	\$1,972.5	\$2,366.9	\$2,543.6	\$2,381.8	\$2,185.6	\$2,092.2	\$2,169.6
Growth	-0.6%	20.0%	7.5%	-6.4%	-8.2%	-4.3%	3.7%
GRF Share	\$1,666.8	\$1,995.5	\$2,151.9	\$2,366.0	\$2,171.4	\$2,078.6	\$2,155.5

The CAT is a privilege tax on business entities operating in Ohio. Previously, business entities with annual taxable gross receipts below \$150,000 were exempt from the CAT, and those with annual taxable gross receipts above \$150,000 and less than \$1 million paid the minimum tax of \$150. Taxpayers with taxable gross receipts between \$1 million and \$2 million paid \$800 plus 0.26% of the taxable gross receipts in excess of \$1 million. Those with taxable gross receipts between \$2 million and \$4 million paid \$2,100 plus 0.26% of the taxable gross receipts in excess of \$1 million, and those with taxable gross receipts in excess of \$4 million paid \$2,600 plus 0.26% of the taxable gross receipts in excess of \$1 million. Effective on January 1, 2024, the CAT annual minimum tax was eliminated, and the exclusion amount increased from \$1 million to \$3 million for CY 2024 and increased to \$6 million for CY 2025 and years thereafter. Taxpayers generally pay the CAT each quarter, based on taxable receipts in the previously concluded quarter. Major tax credits available against the tax include the job retention, job creation, research and development (R&D), R&D loan repayment, and credit for net operating losses and other deferred tax assets.

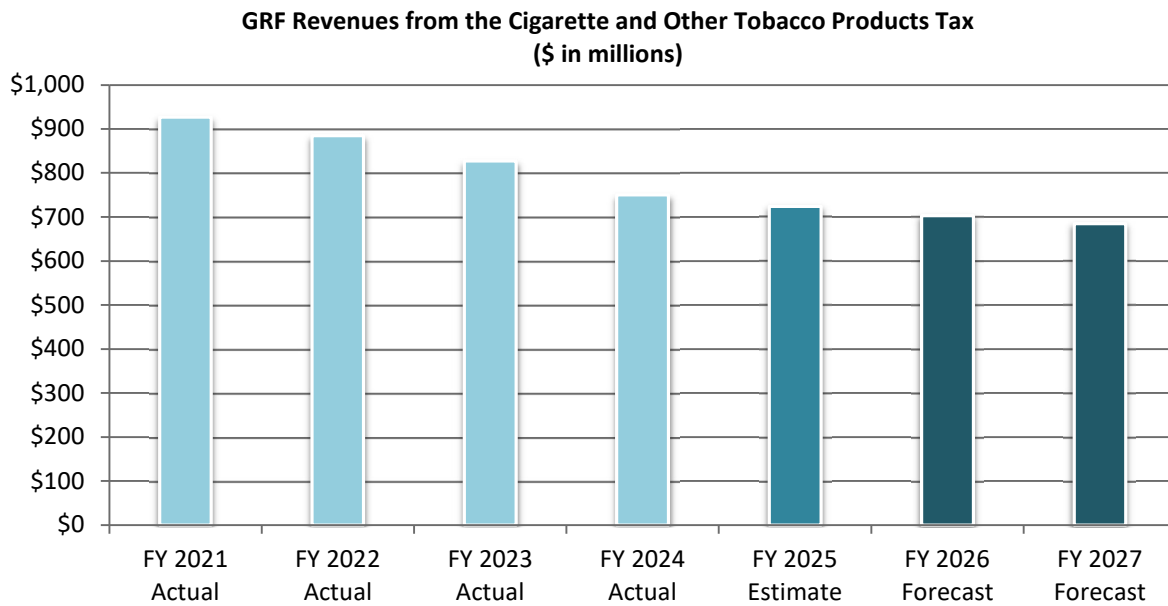
Revenues from the CAT were previously earmarked for the GRF and for reimbursing school districts and other local governments for the reductions and phase out of local taxes on

most tangible personal property. This revenue sharing changed over the years, and the latest change in H.B. 33 of the 135<sup>th</sup> General Assembly eliminated the percentage-based earmarking of CAT revenues for these replacement funds. Instead, the Tax Commissioner now transfers CAT receipts to these funds as necessary. Under the current law, after 0.65% of CAT collections is set aside to defray administrative costs (Fund 2280), the remaining balance is allocated to the GRF.

CAT collections are directly linked to levels of economic activity. FY 2021 receipts declined primarily because of weak revenue in the first fiscal quarter of that year, due to the COVID-19 pandemic reducing businesses’ gross receipts in the previous quarter. Strong revenue growth in FY 2022 was due in part to the same phenomenon – weak revenue in the first quarter of the prior year. However, policy changes to the CAT enacted by H.B. 33 have resulted in decreased revenues, as reflected in the decline in collections during the last quarter of FY 2024 and through the first six months of FY 2025. Additionally, actual GRF revenue from the tax depends on the varying value of tax credits and refunds claimed each year.

The CAT forecast is based on statistical regressions and trend analyses of quarterly CAT collections. Accounting for recent changes to the CAT, including the elimination of the annual minimum tax and the increase in the exclusion amount, and the impact of CAT tax credits authorized in H.B. 33, CAT revenues are projected to decline in the first year of the biennium before increasing 3.7% in FY 2027, reflecting both these policy changes and overall economic conditions.

### Cigarette and Other Tobacco Products Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$926.9	\$884.6	\$827.4	\$750.4	\$724.5	\$703.5	\$685.0
Growth	1.5%	-4.6%	-6.5%	-9.3%	-3.5%	-2.9%	-2.6%

The cigarette and OTP tax is levied on cigarettes, cigars, chewing tobacco, snuff, smoking tobacco, other tobacco products, and vapor products. Cigarettes are taxed at a rate of \$1.60 per pack of 20 cigarettes. Receipts from the sales of cigarettes were 85% of total receipts in FY 2024. The tax on OTP is an ad valorem tax, generally 17% of the wholesale price paid by wholesalers for the product, except for “little cigars” which is 37% of the wholesale price, and “premium cigars” which is capped at a \$0.64 per cigar in FY 2025.<sup>2</sup> Revenue from that portion of the tax base grows with OTP price increases. H.B. 166 of the 133<sup>rd</sup> General Assembly levied a tax of 10¢ per milliliter (or gram) of vapor product (depending on the form of the product) that contains nicotine and is depleted as it is used in an electronic smoking product.<sup>3</sup> Revenue collected from the tax is deposited into the GRF.

There is a long-term trend downward in revenue from the tax, due entirely to the tax on cigarettes. There is an upward trend in revenue from the tax on OTP, primarily from increases in the wholesale price of those products, which typically has partially offset decreases in revenue from the tax on cigarettes. The COVID-19 pandemic temporarily suspended the historical trends, most notably by reversing the downward trend for revenue from sales of cigarettes. During the pandemic, fewer opportunities for travel and entertainment might have afforded smokers more disposable income for cigarettes, and more time at home seem to have allowed more occasions for tobacco use. The associated disruptions account for the slower decline in FY 2020 revenue from the tax and the increase in FY 2021. However, sharper declines occurred in FY 2023 and FY 2024, surpassing pre-pandemic trends. As of the first six months of FY 2025, the rate of decline has slowed, with tax revenue decreasing by 3.1% compared to FY 2024 through December.

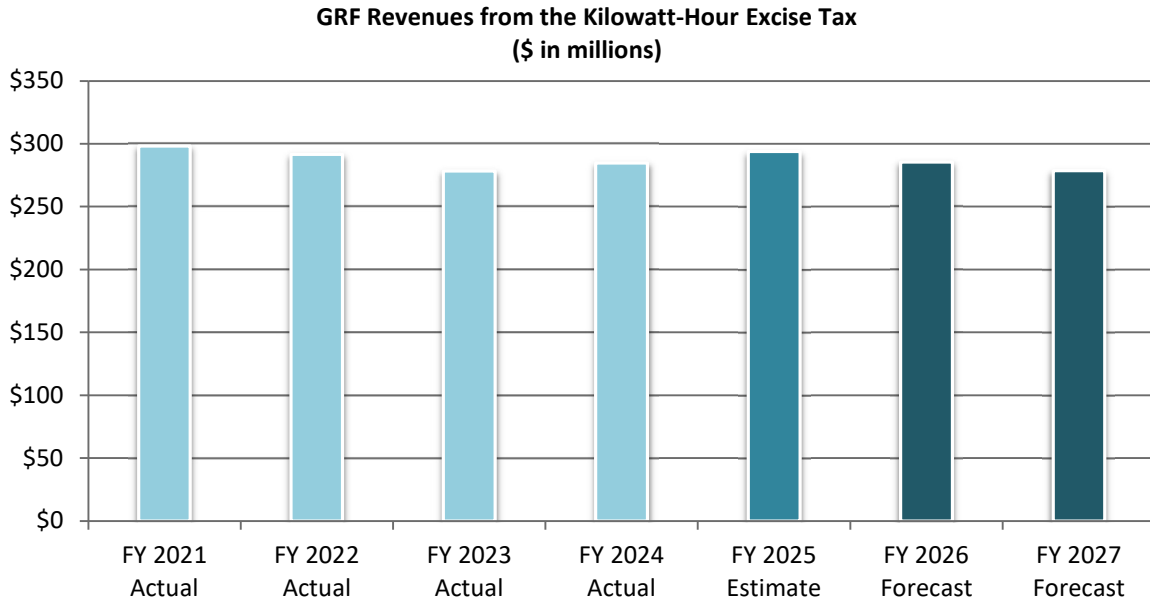
The forecast for the cigarette and OTP tax is based on trend analyses of recent consumption of cigarettes and price increases for OTP. The forecast assumes the long-term annual decline in per capita cigarette consumption moderates in the next biennium to a rate similar to historical rates of decline.

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<sup>2</sup> A “little cigar” is defined as a smoking roll that does not satisfy the excise tax law’s definition of a cigarette, that contains an integrated cellulose acetate filter or other filter, and that is not wrapped in natural leaf tobacco. Generally, a “premium cigar” is a roll for smoking other than a cigarette or little cigar. The tax rate on premium cigars is indexed annually for inflation.

<sup>3</sup> Of total receipts in FY 2023 of \$113.9 million from the sale of OTP, the tax on vapor products contributed \$19.7 million, or about 17%, according to the Ohio Department of Taxation.

## Kilowatt-Hour Excise Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
GRF Revenue	\$298.2	\$291.4	\$278.3	\$284.5	\$293.9	\$285.5	\$278.7
Growth	-10.1%	-2.3%	-4.5%	2.3%	3.3%	-2.9%	-2.4%

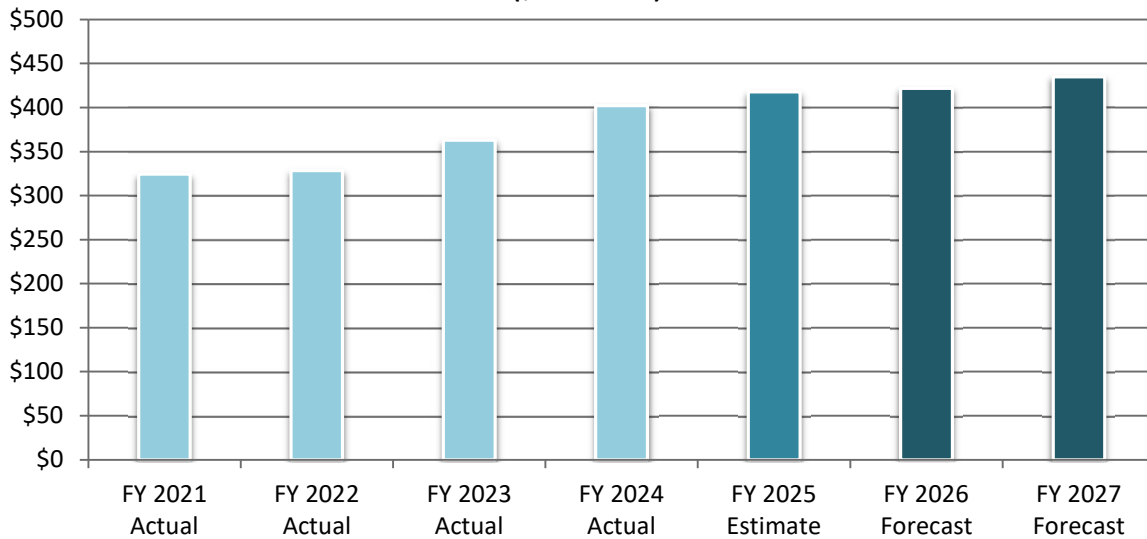
The kilowatt-hour (kWh) excise tax is levied on electric distribution companies with end users in Ohio. The tax rate depends on the volume of electricity used by the customer. There are three distinct marginal tax rates: \$0.00465 per kWh for the first 2,000 kWhs consumed in a month, \$0.00419 per kWh for the next 13,000 kWhs consumed, and \$0.00363 per kWh for all kilowatt hours consumed over 15,000. Very large users, those that use over 45 million kWh per year, have the option of self-assessing the tax, which enables them to pay a lower rate. Beginning January 1, 2011, self-assessors have paid a flat tax rate of \$0.00257 per kWh for the first 500 million kWhs used in a year and \$0.001832 per kWh over 500 million.

Total (all funds) revenue from the tax has been fairly stable over the years, excluding FY 2020-FY 2021 due to the pandemic. Since the beginning of FY 2016, all revenues from this tax have been deposited into the GRF.<sup>4</sup> But half of the share of GRF total tax revenue that is transferred to the PLF is debited against this tax source for accounting purposes. As a result, the annual growth rate for the GRF portion of this tax may deviate from this tax’s total revenue growth rate.

Revenue to all funds from the tax is estimated to increase slightly in both FY 2026 and FY 2027 compared to the estimated revenue in FY 2025. The forecast of total kWh excise tax revenues was generated using a model that used Ohio’s gross state product as a proxy for overall economic conditions and used an Ohio industrial production index, cooling degree days, and Ohio population growth as proxies for electricity consumption growth in commercial, industrial, and residential sectors.

### Foreign Insurance Tax

**GRF Revenues from the Foreign Insurance Tax**  
(\$ in millions)



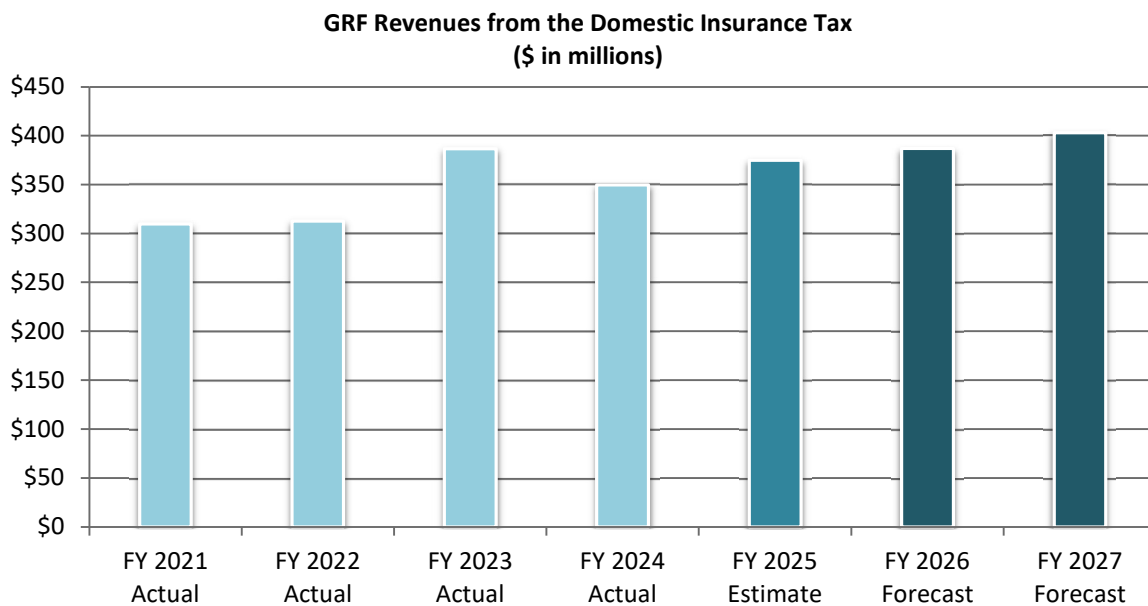
\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$324.4	\$328.4	\$362.8	\$402.1	\$418.0	\$422.0	\$435.0
Growth	6.3%	1.2%	10.5%	10.8%	3.9%	1.0%	3.1%

<sup>4</sup> Prior to FY 2016, 12% of revenues from the tax was shared with two property tax replacement funds and 88% was deposited into the GRF. Prior to FY 2012, the GRF received 63%, and the property tax replacement funds shared the other 37%.

The foreign insurance tax is levied on premiums collected by insurance companies headquartered in a state other than Ohio. The tax is generally 1.4% of premiums; the primary exception is foreign insurance companies that are health insuring corporations (HICs), which pay 1.0% of premiums. Premiums paid for property and casualty insurance accounted for more than half of the revenue from the tax in FY 2024, with premiums paid for life and health insurance accounting for a substantial portion of the remainder.

Revenue from this tax depends on overall economic conditions and on interest rates. Insurance companies derive revenue from both the premiums they collect and the interest earned from investing those premiums. The forecast is derived from a model, which generally uses Ohio personal income as a proxy for overall economic conditions, median home prices in Ohio as a proxy for claims growth, and changes in short-term interest rates as a proxy for company revenues from investing premiums. Higher interest rates partially account for the modest tax revenue growth over the upcoming biennium. A tax credit for transformational mixed-use developments, enacted by S.B. 39 of the 133<sup>rd</sup> General Assembly, also curtails revenue growth.

### Domestic Insurance Tax

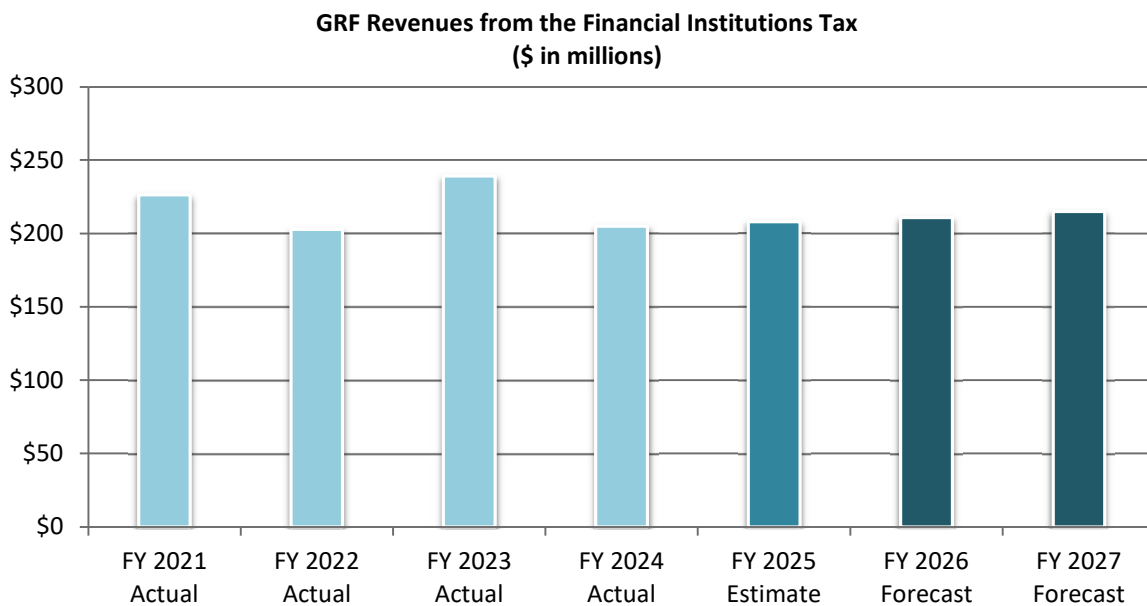


\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$309.7	\$312.6	\$386.7	\$349.7	\$375.0	\$387.0	\$403.0
Growth	2.2%	0.9%	23.7%	-9.6%	7.2%	3.2%	4.1%

The domestic insurance tax is levied on premiums collected by insurance companies headquartered in Ohio. The tax is generally 1.4% of premiums; the primary exception is domestic insurers that are HICs, which pay 1.0% of premiums. This tax structure is the same as the foreign insurance tax structure. About 60% of the tax liability under the tax in FY 2024 was attributable to premiums paid for health insurance. Premiums paid to property and casualty insurers were responsible for about 37% of tax liabilities.

Growth in tax revenue in recent years has been primarily due to growth in revenue attributable to HICs and increases in Medicaid coverage. Revenues from this tax in the future will be primarily driven by Medicaid managed care. The forecast for revenue paid by HICs is based on the LBO Medicaid forecast for expenditures for managed care. Revenue attributable to other premium sources declined for a number of years but seems to be bottoming out. Such revenue is projected to increase during the upcoming biennium in line with growth in personal consumption expenditures for financial and insurance services. Nevertheless, revenue growth is restrained during the upcoming biennium by the transformational mixed use development tax credit, as described in the section about the foreign insurance tax.

### Financial Institutions Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$226.4	\$202.8	\$239.2	\$204.9	\$208.0	\$211.0	\$215.0
Growth	5.3%	-10.4%	18.0%	-14.4%	1.5%	1.4%	1.9%

The financial institutions tax (FIT) is a tax on banks and other types of financial institutions. The FIT was first levied in TY 2014.<sup>5</sup> All receipts from the FIT are credited to the GRF. The FIT is levied on the “total Ohio equity capital” of financial institutions, which includes a firm’s common stock, perpetual preferred stock, surplus, retained earnings, treasury stock, and unearned employee stock ownership plan shares. Taxpayers operating in multiple states are required to apportion total equity capital in proportion to gross receipts apportioned to Ohio. Beginning January 1, 2020, the tax base (total equity capital) is limited to 14% of a financial institution’s total consolidated assets; this provision was enacted under H.B. 166 of the 133<sup>rd</sup> General Assembly.

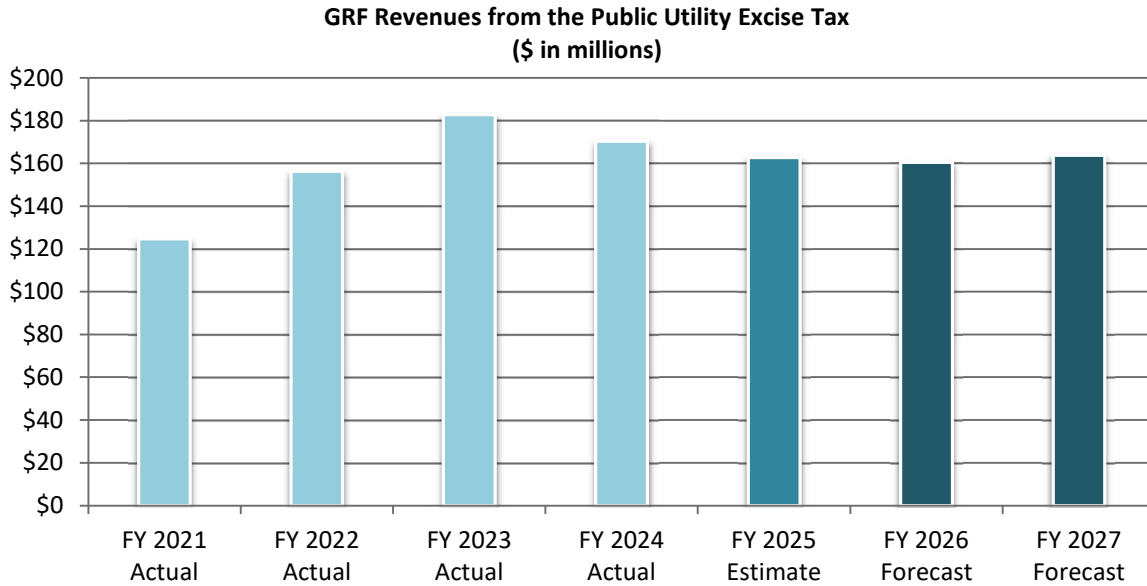
The FIT specifies three tax rates: a rate of 0.8% (8 mills) applied to the first \$200 million of a taxpayer’s total Ohio equity capital, a rate of 0.4% (4 mills) applied to a taxpayer’s total Ohio equity capital between \$200 million and \$1.3 billion, and a rate of 0.25% (2.5 mills) applied to the amount of a taxpayer’s total Ohio equity capital in excess of \$1.3 billion. The minimum tax is \$1,000. Estimated payments are due on January 31, March 31, and May 31 of the tax year, and each taxpayer must file an annual report and file all tax payments by October 15 of each year.

Due to the payment schedule outlined above, during the first half of a fiscal year the primary revenue activity is from the state paying out refunds, resulting in negative revenue being recorded for the tax. Through December 2024, \$43.0 million in refunds was paid out, considerably more than refunds paid during the first half of FY 2024 (\$36.6 million). That suggests lower than average revenue growth this year, but there will be little evidence on which to base the FY 2025 estimate until at least the end of February. Revenues from the FIT are projected to increase from the FY 2025 estimate during the next biennium, generally in line with economic activity in Ohio’s financial sector. Between FY 2016 and FY 2024, revenue from the tax has ranged from a low of \$187.1 million to a high of \$239.2 million. Statistical regressions are not employed in forecasting this tax due to insufficient historical experience with revenue.

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<sup>5</sup> The FIT was created by H.B. 510 of the 129<sup>th</sup> General Assembly as a replacement for the CFT and the dealers in intangibles tax (DIT), which were both eliminated at the end of 2013.

## Public Utility Excise Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$124.7	\$156.3	\$182.9	\$170.3	\$162.8	\$160.5	\$163.8
Growth	-11.6%	25.4%	17.0%	-6.9%	-4.4%	-1.4%	2.0%

The PUET is imposed on the gross intrastate receipts of natural gas utilities, pipeline companies, heating companies, waterworks, and water transportation companies. Other types of public utilities are exempt from the tax, as are all public utilities owned by municipal corporations. Companies subject to the tax pay 4.75% of gross receipts, except for pipeline companies which pay 6.75%. All companies receive an annual deduction of \$25,000. Gross receipts from sales of merchandise, interstate transactions, sales to other utilities for resale, sales to federal government entities, and billings on behalf of other entities are exempt from the tax.

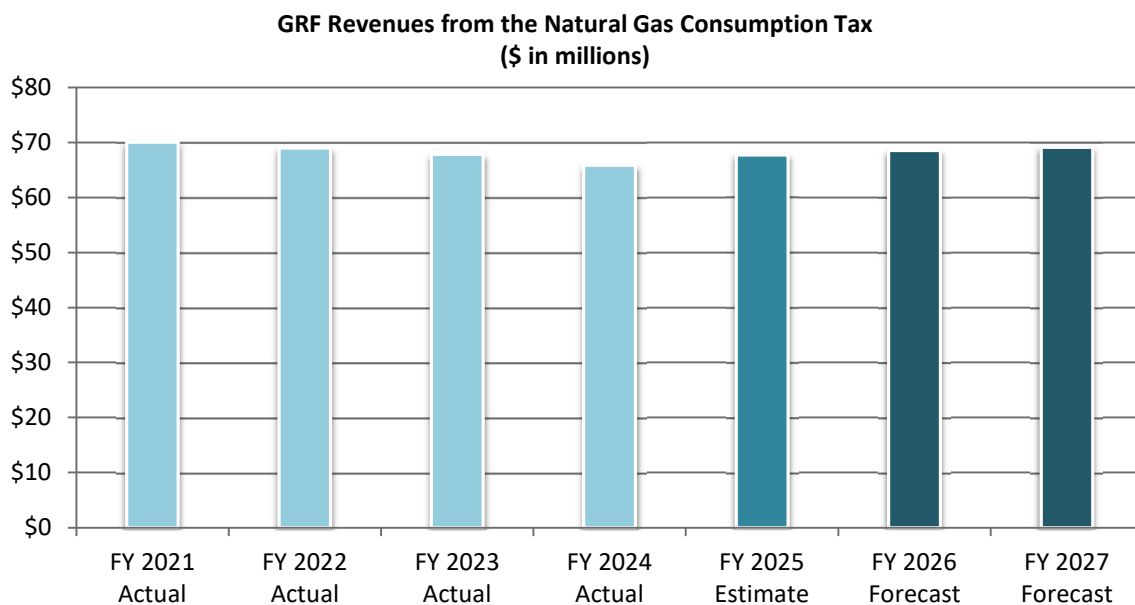
Most of the revenue from the PUET is from natural gas companies. They accounted historically for 90% or more of total PUET revenue. In recent years, pipelines have accounted for a growing share of revenues from this tax. Changes in natural gas prices and consumption remain the main determinants of PUET revenues. All revenue from the PUET goes to the GRF.

Revenue from this tax increased to \$182.9 million in FY 2023, the highest amount since FY 2009. Physical volumes of natural gas delivered to electric power plants have been rising for more than a decade as the industry has relied increasingly on natural gas to power generators, and less on coal. Taxes due from pipelines also have grown substantially.

Through December 2024, FY 2025 receipts from the PUET were 3.8% lower than in the year-earlier period. The decrease was chiefly due to lower natural gas prices, while quantities of gas delivered have grown modestly. Spot market prices for natural gas have since fallen from a peak in August 2022. Tax revenues for all of FY 2025 are projected to be 4.4% lower than in FY 2024. Annual PUET revenues are forecast to decline by 1.4% in FY 2026, followed by a 2.0% increase in FY 2027.

The forecast is based on projections from the U.S. Energy Information Administration (EIA), released January 14, 2025, showing prices for natural gas delivered to customers through 2026. In this forecast, natural gas prices fall from a 2022 peak. Other public utility excise taxes, on water works, water transport, and heating companies, are assumed to remain stable.

### Natural Gas Consumption Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$70.1	\$69.0	\$67.8	\$65.9	\$67.7	\$68.6	\$69.1
Growth	17.3%	-1.5%	-1.8%	-2.9%	2.9%	1.2%	0.8%

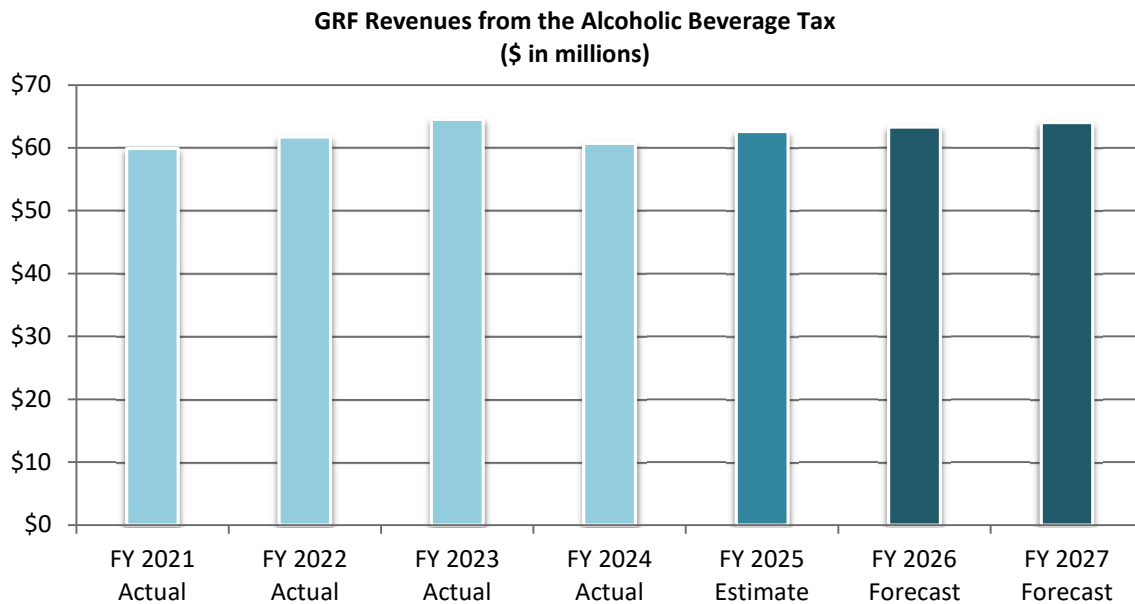
The natural gas consumption tax (also referred to as the natural gas distribution tax or Mcf tax) is levied on natural gas distribution companies, based on natural gas distributed through the meters of end users in Ohio. The base for the tax is the volume of natural gas measured in Mcf (1,000 cubic feet). The tax rate depends on the volume distributed to a customer. There are three marginal tax rates: \$0.1593 per Mcf for the first 100 Mcfs distributed to an end user in a month, \$0.0877 per Mcf for the next 1,900 Mcfs, and \$0.0411 per Mcf for all natural gas distributed to the end user in excess of 2,000 Mcfs in the month. Natural gas distributors with 70,000 or fewer customers, up from 50,000 prior to 2009, may pay the rate

specified on the total quantity of natural gas distributed in Ohio in a month, as if the distribution was to a single customer. Flex customers, generally industrial or commercial customers with very large natural gas consumption (over one billion cubic feet per year in any of the previous five years) at a single location, or that meet other specified requirements, pay \$0.02 per Mcf. About half of annual revenue from this tax is typically received in the fiscal fourth quarter, mostly in May, as a result of natural gas consumption for heating during January through March and a lag in the required payment of the tax by natural gas distribution companies to the state.

The GRF started to receive revenues from the Mcf tax in FY 2012; prior to that, revenue was split between two property tax replacement funds. Full-year revenue from this tax has ranged from a high of \$83.7 million in FY 2003 to a low of \$57.8 million in FY 2013. FY 2024 revenues fell 2.9%, with milder winter weather likely a factor. For all of FY 2025, revenues are projected to rise 2.9%, followed by increases of 1.2% in FY 2026 and 0.8% in FY 2027.

The forecast is based on EIA annual projections for natural gas consumption by residential, commercial, and industrial users in East North Central states. Natural gas consumption by the electric power industry is poorly correlated with Mcf tax revenue, so it was excluded. The EIA forecast drives a regression model of natural gas consumption tax revenues based on the historical volume of natural gas deliveries to Ohio residential, commercial, and industrial customers, and a variable to represent the change in the tax in 2009 noted above.

### Alcoholic Beverage Tax



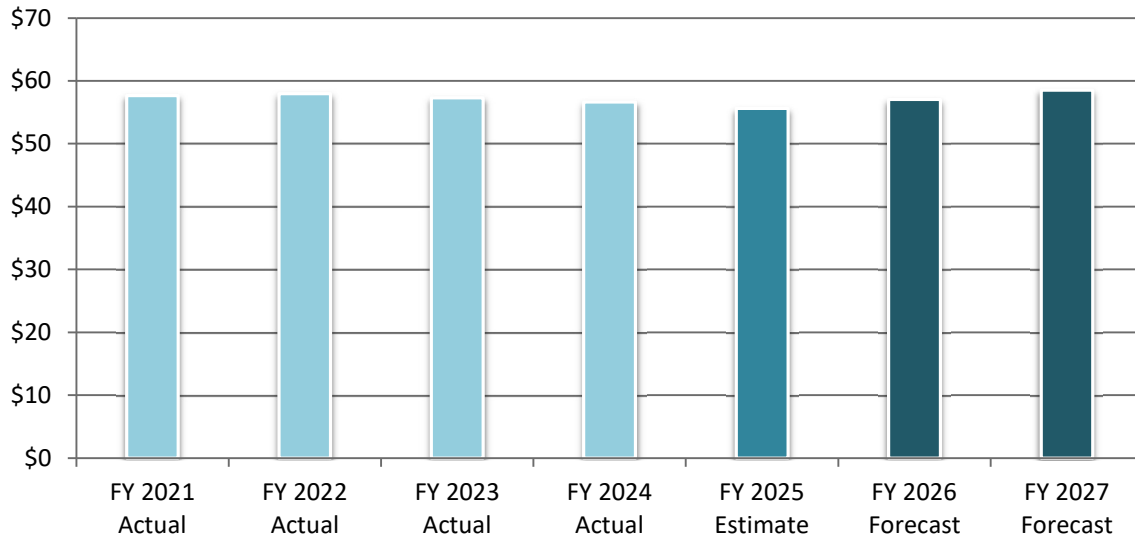
\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$59.9	\$61.7	\$64.5	\$60.7	\$62.6	\$63.3	\$64.1
Growth	11.6%	3.1%	4.5%	-6.0%	3.2%	1.1%	1.1%

The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. All beverages brewed or fermented from malt products and containing at least 0.5% alcohol by volume (ABV) are included in the tax base, with the exception of wine containing less than 4% ABV and sacramental wine used in religious rites. The tax is levied on a per-container rate depending on the type of beverage sold. Beer is taxed at varying rates that are equivalent to 0.14 cents per ounce for bottles and cans with a volume of 12 ounces or less (about 10.1 cents for a six pack of 12-ounce containers). Wine containing more than 4% but less than 14% ABV is taxed at 32 cents per gallon (about 6.3 cents for a standard 750 milliliter (ml) bottle). Wine with between 14% and 21% ABV is taxed at \$1.00 per gallon (or 19.8 cents for a standard 750 ml bottle). Mixed beverages are taxed at \$1.20 per gallon (or 23.8 cents for a standard 750 ml bottle). A portion of the tax paid on each gallon of wine is deposited into the Ohio Grape Industries Fund. All other revenue from the alcoholic beverage tax is deposited into the GRF. During the first half of FY 2025, about 60% of the tax’s revenue was from the sale of beer and malt beverages, down from 72% during the first six months of FY 2021, reflecting a continuing shift in consumers’ alcoholic beverage choices over recent years.

Revenue during FY 2025 through December was 6.5% higher than it was during the first six months of FY 2024. This seems to reflect a more sustained increase in consumption of alcoholic beverages since the initial COVID-19 outbreak. The forecast for tax revenue is based on trend analysis. Revenue is projected to return to its long-run rate of growth starting in FY 2026.

### Liquor Gallonage Tax

**GRF Revenues from the Liquor Gallonage Tax**  
(\$ in millions)

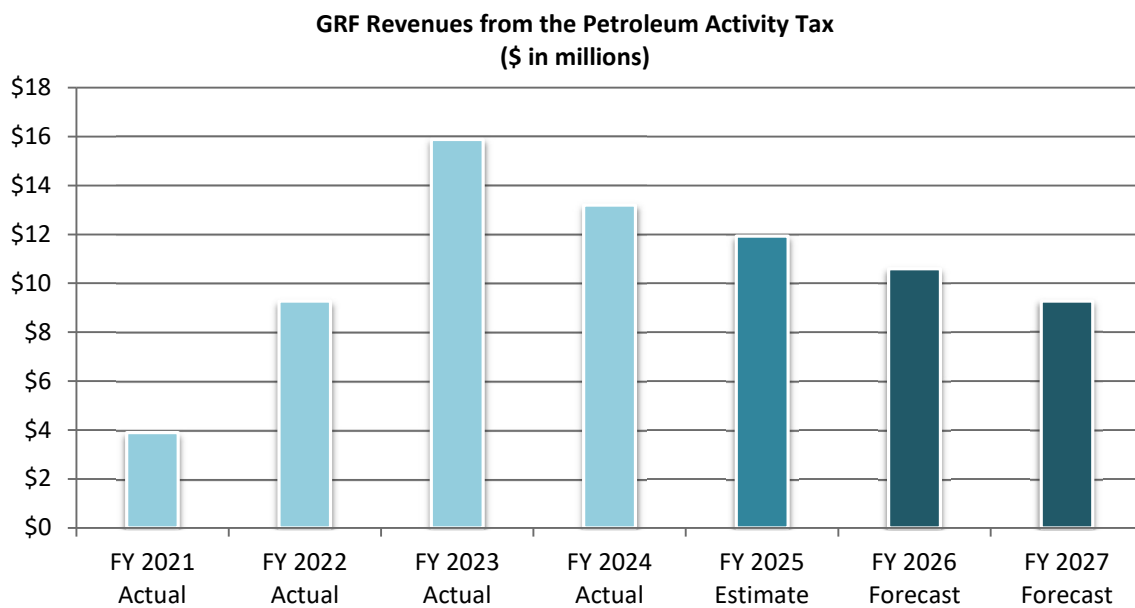


\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$57.6	\$57.9	\$57.3	\$56.6	\$55.6	\$57.1	\$58.5
Growth	8.0%	0.5%	-1.1%	-1.2%	-1.7%	2.6%	2.6%

The liquor gallonage tax is levied at the rate of \$3.38 per gallon of spirituous liquor. This is the equivalent of 67.0 cents per standard 750 ml bottle. The tax is based on the volume of liquor sold and the rate has not changed since 1993, therefore all growth in revenue has come from unit sales. Among alcoholic beverage market shares, spirits have grown mostly at the expense of beer sales, though the market share for wine increased notably during the COVID-19 pandemic response. All revenue from the liquor gallonage tax is deposited into the GRF.

During the first six months of FY 2025 revenue from the tax decreased by 2.8% compared to the first half of FY 2024. As opposed to the alcoholic beverage tax, this appears to be a pullback from a rise in liquor sales during the COVID-19 pandemic and resulting social distancing orders, which caused a spike in revenue from this tax source during FY 2021. Currently anticipated FY 2025 collections are \$55.6 million, 1.7% below FY 2024. LBO estimates the tax will produce \$57.1 million in GRF revenue in FY 2026 and \$58.5 million in FY 2027. The forecast of liquor gallonage tax receipts is based on trend analysis and assumes that revenue growth returns to its long run average rate in FY 2026.

### Petroleum Activity Tax



\$ in millions	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Revenue	\$3.9	\$9.3	\$15.9	\$13.2	\$11.9	\$10.6	\$9.3
Growth	-55.5%	138.4%	71.2%	-16.9%	-9.6%	-11.1%	-12.5%

The PAT, which commenced on July 1, 2014, was enacted in H.B. 59 of the 130<sup>th</sup> General Assembly as a replacement for the CAT on motor fuel. On December 7, 2012, the Supreme Court of Ohio ruled that imposing the CAT on gross receipts from the sale of motor vehicle fuel and allocating the revenues to the GRF was unconstitutional and that revenue arising from the sale of motor fuel used on public highways must be used for public highway purposes.

The PAT is computed on the basis of the gross receipts received by a “supplier” from the first sale of motor fuel delivered to a location in the state. The PAT tax rate is 0.65% on a supplier’s calculated gross receipts, to be paid quarterly by suppliers. A “supplier” is a person that either acquires motor fuel from a terminal or refinery “rack” and distributes that fuel within the state, or who imports motor fuel for sale or distribution within the state but outside of a bulk distribution system.<sup>6</sup> A “rack” is defined as a mechanism that delivers motor fuel from a terminal or refinery into a means of transport other than a pipeline or vessel.

Revenue from the tax is initially credited to the Petroleum Activity Tax Fund, minus moneys required to pay tax refunds. Of the amount remaining, 1% is transferred to the Petroleum Activity Tax Administration Fund to offset Department of Taxation costs. Next, PAT receipts from fuels sold to propel vehicles on public highways and waterways are transferred to the Petroleum Activity Tax Public Highways Fund; these moneys comprise the bulk of PAT collections and must be used for maintaining the state highway system or paying debt service on highway bond obligations. Any revenue from the sale of motor fuel not used to propel vehicles on public highways or waterways is transferred to the GRF.

GRF revenue received during the first six months of FY 2025 was 18.6% less than revenue received during the comparable FY 2024 period, due in part to a fall in average wholesale motor fuel prices used in calculating gross receipts. The rate of decline is projected to moderate in the second half of the year. There is still limited experience with revenue from the tax, since the structure of the tax differs significantly from that of the CAT. This limited experience means that a formal model of tax revenue would have little reliability. However, both Moody’s Analytics and the EIA anticipate gasoline prices to decline over the upcoming biennium, likely resulting in falling revenue in FY 2026 and FY 2027.

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<sup>6</sup> Bulk distribution systems are defined as refineries, pipelines, fuel terminals, or marine vessels.

# MEDICAID SERVICE EXPENDITURE FORECAST

## Forecast Summary

Medicaid is a joint state-federal program that provides health care coverage to low-income individuals. The Medicaid forecast includes both state and federal shares of Medicaid expenditures. LBO forecasts most caseload-driven service expenditures and assumes no changes from current law or administrative policies in the baseline forecast. LBO's baseline forecasts for FY 2025 through FY 2027 are shown in the first row of the table below. Certain Medicaid service expenditures incurred by the Ohio Department of Medicaid (ODM) depend more on administrative policies than caseloads. These expenditures were estimated by ODM and are listed as "add-ons" in the table below. Similarly, Medicaid service expenditures incurred by the Department of Developmental Disabilities (DODD) are driven more by administrative policies and appropriations. These expenditures, which were provided by DODD, are listed as "DODD services" in the table below.

As seen from the table, total Medicaid service expenditures are projected to increase from estimated \$40.84 billion in FY 2025 to \$44.09 billion in FY 2026, an increase of 8.0% or \$3.26 billion. In FY 2027, Medicaid service expenditures are projected to total \$46.58 billion, an increase of 5.6% or \$2.48 billion from FY 2026. These increases largely reflect increases in per member per month costs, though overall Medicaid caseload is expected to increase slightly in both FY 2026 and FY 2027. As shown in the equation below, forecasted Medicaid service expenditures are equal to the forecasted number of Medicaid beneficiaries (members) each month – the caseload – multiplied by the forecasted cost per Medicaid beneficiary each month – the PMPM cost.

$$\text{Expenditures} = \text{Caseload} \times \text{PMPM Cost}$$

LBO Baseline Forecast of Medicaid Service Expenditures (Combined State and Federal Dollars, \$ in millions)					
Category	FY 2025 Estimates	FY 2026 Forecast	Growth Rate	FY 2027 Forecast	Growth Rate
LBO forecast	\$30,579.3	\$33,090.9	8.2%	\$35,184.5	6.3%
Add-ons	\$5,509.2	\$6,121.0	11.1%	\$6,327.6	3.4%
DODD services	\$4,750.4	\$4,882.0	2.8%	\$5,063.9	3.7%
<b>Total</b>	<b>\$40,838.8</b>	<b>\$44,093.9</b>	<b>8.0%</b>	<b>\$46,576.1</b>	<b>5.6%</b>

LBO forecasts Medicaid expenditures for two reasons. First, Medicaid services are an entitlement for those who meet eligibility requirements. This means that if an individual is eligible for the program, then that individual is guaranteed the benefits and the state is obligated to pay for them. Second, the program's costs represent a significant portion of the GRF budget. In FY 2024, Medicaid expenditures represent approximately 47.6% of total GRF expenditures (including both state and federal shares) and 24.0% when only the state share of the GRF is considered.

Medicaid provides financial reimbursement to health care professionals and institutions for providing approved medical services, products, and equipment to Medicaid enrollees. Medicaid service expenditures can generally be placed into various payment categories. Total forecasted Medicaid service expenditures are the sum of forecasted expenditures for each of these categories.

<b>LBO Baseline Forecast of Medicaid Service Expenditures by Payment Category (Combined State and Federal Dollars, \$ in millions)</b>							
<b>Category</b>	<b>FY 2024 Actuals</b>	<b>FY 2025 Estimates</b>	<b>Growth Rate</b>	<b>FY 2026 Forecast</b>	<b>Growth Rate</b>	<b>FY 2027 Forecast</b>	<b>Growth Rate</b>
<b>Managed Care</b>	<b>\$24,163.3</b>	<b>\$25,069.4</b>	<b>3.7%</b>	<b>\$26,918.4</b>	<b>7.4%</b>	<b>\$28,417.0</b>	<b>5.6%</b>
CFC	\$6,510.3	\$6,462.9	-0.7%	\$6,744.6	4.4%	\$7,082.4	5.0%
Group VIII	\$5,728.6	\$5,631.6	-1.7%	\$5,833.8	3.6%	\$6,064.6	4.0%
ABD	\$2,608.4	\$2,727.5	4.6%	\$3,009.2	10.3%	\$3,133.3	4.1%
MyCare	\$3,342.7	\$3,824.3	14.4%	\$4,159.4	8.8%	\$4,359.7	4.8%
OhioRISE	\$461.2	\$770.0	66.9%	\$1,175.8	52.7%	\$1,419.2	20.7%
PBM	\$5,512.2	\$5,653.2	2.6%	\$5,995.6	6.1%	\$6,357.9	6.0%
<b>Fee-For-Service</b>	<b>\$5,069.6</b>	<b>\$5,509.9</b>	<b>8.7%</b>	<b>\$6,172.5</b>	<b>12.0%</b>	<b>\$6,767.5</b>	<b>9.6%</b>
Nursing Facilities	\$1,976.3	\$2,045.5	3.5%	\$2,145.7	4.9%	\$2,159.6	0.6%
Hospitals	\$839.2	\$869.5	3.6%	\$1,144.9	31.7%	\$1,327.3	15.9%
Aging Waivers	\$442.6	\$572.7	29.4%	\$647.4	13.0%	\$760.7	17.5%
Prescription Drugs	\$393.4	\$417.7	6.2%	\$452.1	8.2%	\$487.5	7.8%
Home Care Waivers	\$191.2	\$262.8	37.5%	\$273.3	4.0%	\$290.0	6.1%
Behavioral Health	\$130.1	\$138.7	6.6%	\$187.7	35.3%	\$336.0	79.0%
All Other	\$1,096.9	\$1,203.1	9.7%	\$1,321.5	9.8%	\$1,406.3	6.4%
<b>Total</b>	<b>\$29,233</b>	<b>\$30,579</b>	<b>4.6%</b>	<b>\$33,091</b>	<b>8.2%</b>	<b>\$35,185</b>	<b>6.3%</b>

## Caseload Forecast

### Summary

Ohio Medicaid currently provides health care coverage to (1) uninsured children up to age 19 in families with income up to 206% of federal poverty guidelines (FPG), (2) insured children up to age 19 in families with income up to 156% FPG, (3) pregnant women in families with income up to 200% FPG, (4) parents or caretaker relatives with income up to 90% FPG, (5) adults age 19 to 64 with income up to 133% FPG, and (6) individuals who meet the Supplemental Security Income (SSI) standard and are age 65 and older, or are legally blind, or are determined disabled by the Social Security Administration. Medicaid coverage is also available to working Ohioans with disabilities through the Medicaid Buy-In for Workers with Disabilities Program (MBIWD). The current budget bill, H.B. 33 of the 135<sup>th</sup> General Assembly, authorizes ODM to extend the same MBIWD coverage to workers who are age 65 or older. This new program is called Ohio WorkAbility. Under MBIWD, individuals with income up to 250% FPG may qualify and those with income greater than 150% FPG must pay a monthly premium. Ohio WorkAbility has very similar eligibility criteria and cost sharing, and it provides the same coverage as MBIWD. Youth who aged out of foster care on their 18<sup>th</sup> birthday are also eligible for Medicaid coverage until age 26, regardless of income.

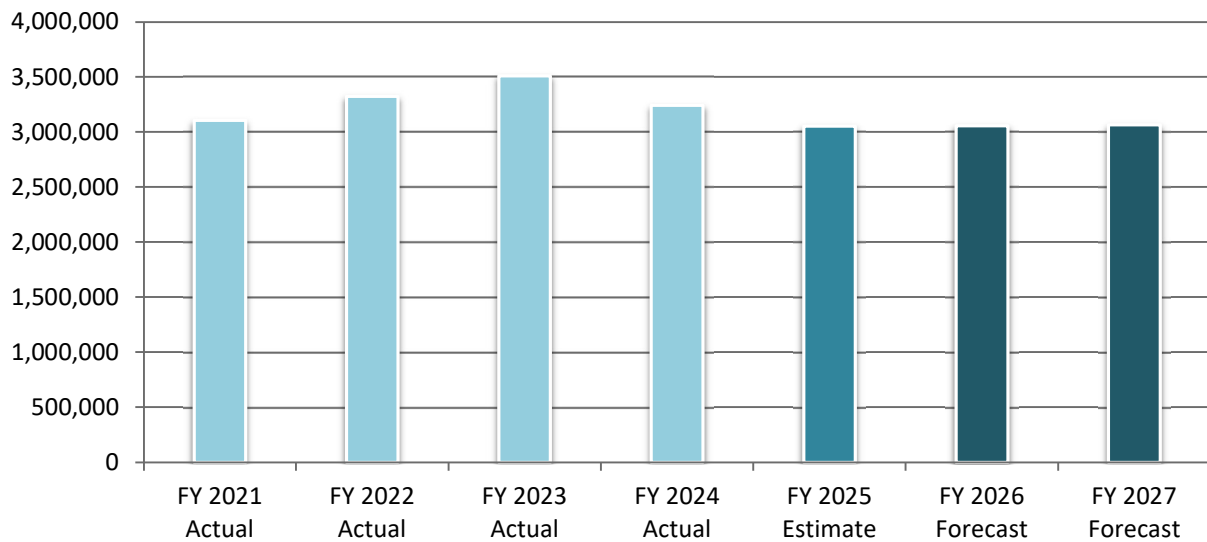
The federal Medicare Program provides health care coverage for most of Ohio’s elderly population; however, many of the elderly are “dually eligible” (i.e., eligible for both Medicare and Medicaid). The Medicaid Program supplements dual eligibles’ Medicare benefits by providing assistance with Medicare premiums, copayments, and deductibles to certain low-income seniors.

During the COVID-19 public health emergency (PHE), continuous enrollment requirements and other related federal law changes led to large increases in Ohio’s Medicaid caseload numbers. From February 2020 to April 2024, the caseload numbers increased by over 800,000 (29.0%). The federal continuous-enrollment requirements ended in April 2023, and Ohio began the process of routine redeterminations and disenrollments the following month. By December 2024, the caseload numbers had declined by over 550,000 (15.3%).

The total number of persons enrolled in Medicaid is expected to increase very slightly over the biennium, from an estimated 3.056 million in FY 2025 to 3.059 million in FY 2026 (an increase of fewer than 3,000, 0.1%), and to 3.067 million in FY 2027 (an increase of about 9,000, 0.3%). This forecast is shown in the following table and chart.

Total Medicaid Caseload (in millions)							
	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Caseload	3.106	3.324	3.509	3.242	3.056	3.059	3.067
Growth	10.11%	6.99%	5.57%	-7.59%	-5.75%	0.08%	0.29%

**Total Medicaid Caseload**



### Caseloads by Eligibility

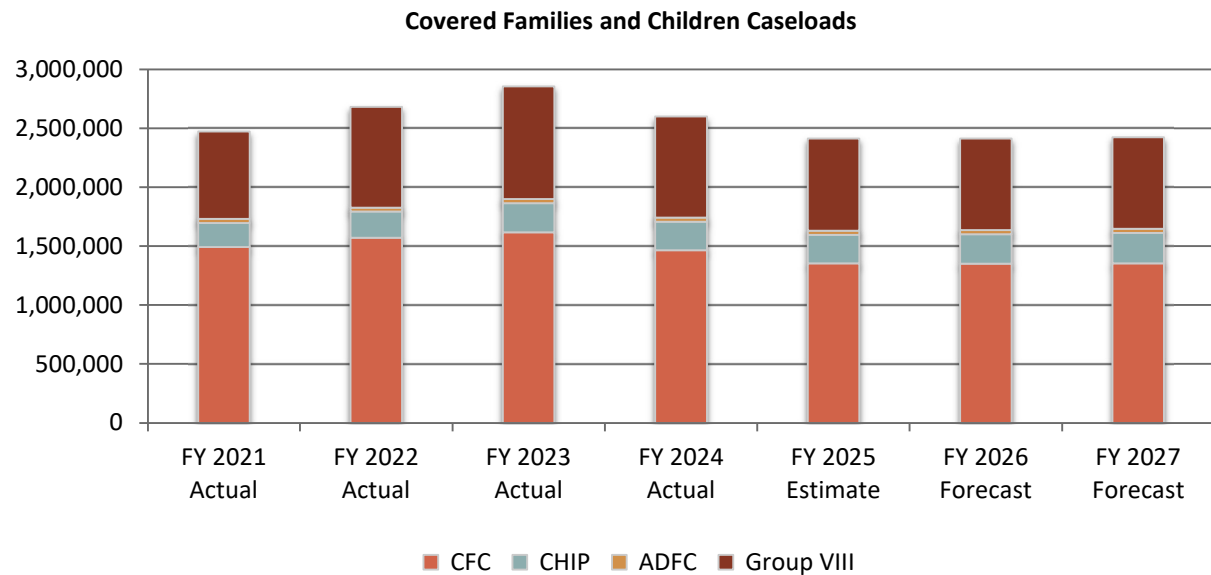
The Medicaid caseload is often presented in two main eligibility categories: covered families and children (CFC) and aged, blind, and disabled (ABD). Generally, state law does not specify which persons fit into which categories. Rather, the categories have in large part been created administratively. CFC includes families, children, and pregnant women, and, after the Patient Protection and Affordable Care Act (ACA) of 2010 expansion, low-income individuals age 19 through 64, also often presented separately and called Group VIII. The ABD category includes certain low-income individuals who are aged (age 65 or older), blind, or disabled. In addition to CFC and ABD, there are a few programs that provide partial Medicaid coverage and are treated separately in the forecast. Individuals in these programs are grouped under the Other category.

Medicaid caseloads, particularly for the CFC group, are affected by changes in the economy. As unemployment increases, workers and their dependents may lose access to employer coverage and may become eligible to enroll in Medicaid. Caseloads are also affected by policy changes at both the state and federal levels. For example, the federal government’s condition for accepting an increased Federal Medical Assistance Percentage (FMAP) during the COVID-19 PHE was the suspension of redeterminations for Medicaid eligibility, and this led to a 29% caseload increase between February 2020 and April 2024. State policy changes also have an effect, such as the 2022 extension of postpartum Medicaid coverage to align the mother’s and child’s eligibility periods.

CFC category caseload forecasts are shown in the table and associated chart below. LBO forecasts that the overall CFC caseload will increase by fewer than 600 in FY 2026 and increase by a little over 9,000 in FY 2027. For forecasting purposes, the CFC category is further broken down into traditional CFC (which includes Healthy Start/Healthy Families), Children’s Health Insuring Program (CHIP), the Adopted and Foster Care Children (ADFC) Program, and Group VIII.

Covered Families and Children Caseloads							
	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
CFC (HS/HF)	1,490,893	1,570,393	1,618,123	1,464,475	1,352,744	1,349,992	1,352,621
Growth	9.57%	5.33%	3.04%	-9.50%	-7.63%	-0.20%	0.19%
CHIP	203,541	221,799	245,816	240,934	243,047	251,842	259,330
Growth	1.22%	8.97%	10.83%	-1.99%	0.88%	3.62%	2.97%
ADFC	35,637	35,248	35,269	35,343	35,109	34,927	34,870
Growth	-2.50%	-1.09%	0.06%	0.21%	-0.66%	-0.52%	-0.16%
Group VIII	743,285	855,308	957,236	860,071	782,151	776,856	776,135
Growth	20.52%	15.07%	11.92%	-10.15%	-9.6%	-0.68%	-0.09%
<b>Total CFC</b>	<b>2,473,356</b>	<b>2,682,748</b>	<b>2,856,443</b>	<b>2,600,823</b>	<b>2,413,051</b>	<b>2,413,617</b>	<b>2,422,955</b>
<b>Growth</b>	<b>10.11%</b>	<b>8.47%</b>	<b>6.47%</b>	<b>-8.95%</b>	<b>-7.22%</b>	<b>0.02%</b>	<b>0.39%</b>

CFC (HS/HF): Traditional Covered Families and Children under the Healthy Start (HS)/Healthy Families (HF) Program  
 CHIP: Children’s Health Insurance Program; ADFC: Adopted and Foster Care Children

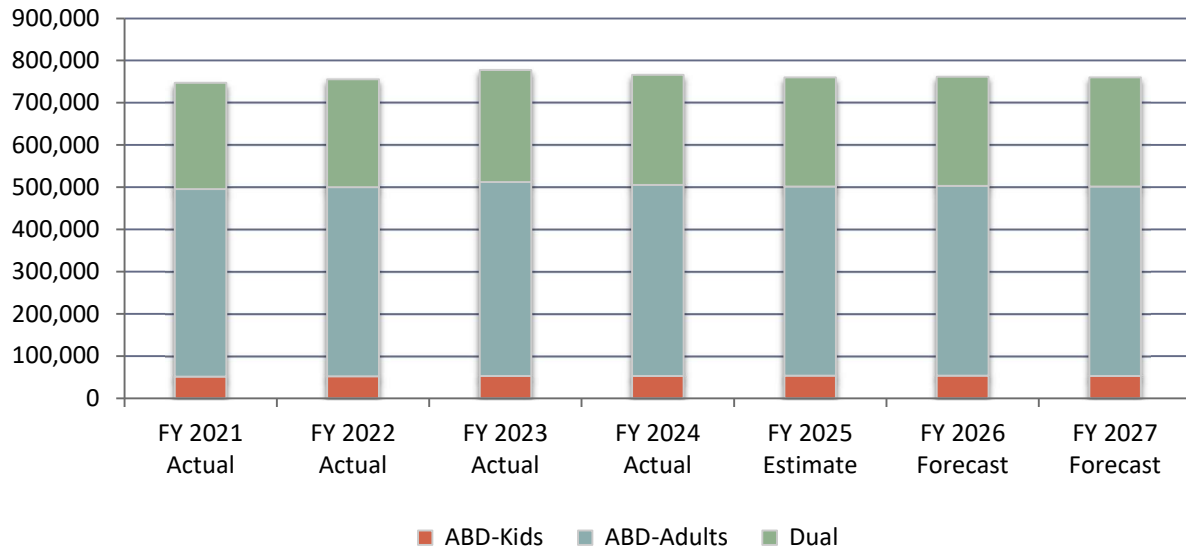


ABD category caseload forecasts are presented in the table and associated chart below. LBO forecasts that the overall ABD caseload will increase by just under 1,500 in FY 2026 and decrease by just over 1,500 in FY 2027. The expected change in ABD caseload totals is not aligned with the CFC or Group VIII Medicaid caseload forecast because of characteristics of ABD Medicaid recipients. These individuals qualify for Medicaid because of traits such as age and disability that are unaffected by overall economic conditions. Ohio's forecasted population changes drive the slight changes projected in ABD caseloads. ABD-Adults tend to be older than the typical Medicaid recipient, so as Ohio's population ages, it is expected that this category will decline less than ABD-Kids.

For forecasting purposes, the ABD category is broken down into children (ABD-Kids), adults (ABD-Adults), and dual eligibles (individuals eligible for both Medicaid and Medicare).

Aged, Blind, and Disabled Caseloads							
	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
ABD-Kids	51,750	51,876	52,728	52,680	53,473	53,575	52,917
Growth	-0.86%	0.24%	1.64%	-0.09%	1.51%	0.19%	-1.23%
ABD-Adults	443,846	448,203	459,563	452,332	448,270	449,284	448,413
Growth	0.65%	0.98%	2.53%	-1.57%	-0.90%	0.23%	-0.19%
Dual	251,469	254,918	264,669	260,926	257,967	258,321	258,325
Growth	0.61%	1.37%	3.83%	-1.41%	-1.13%	0.14%	0.00%
<b>Total ABD</b>	<b>747,065</b>	<b>754,997</b>	<b>776,960</b>	<b>765,938</b>	<b>759,711</b>	<b>761,180</b>	<b>759,655</b>
<b>Growth</b>	<b>0.49%</b>	<b>1.06%</b>	<b>2.91%</b>	<b>-1.42%</b>	<b>-0.81%</b>	<b>0.19%</b>	<b>-0.20%</b>

**Aged, Blind, and Disabled Caseloads**

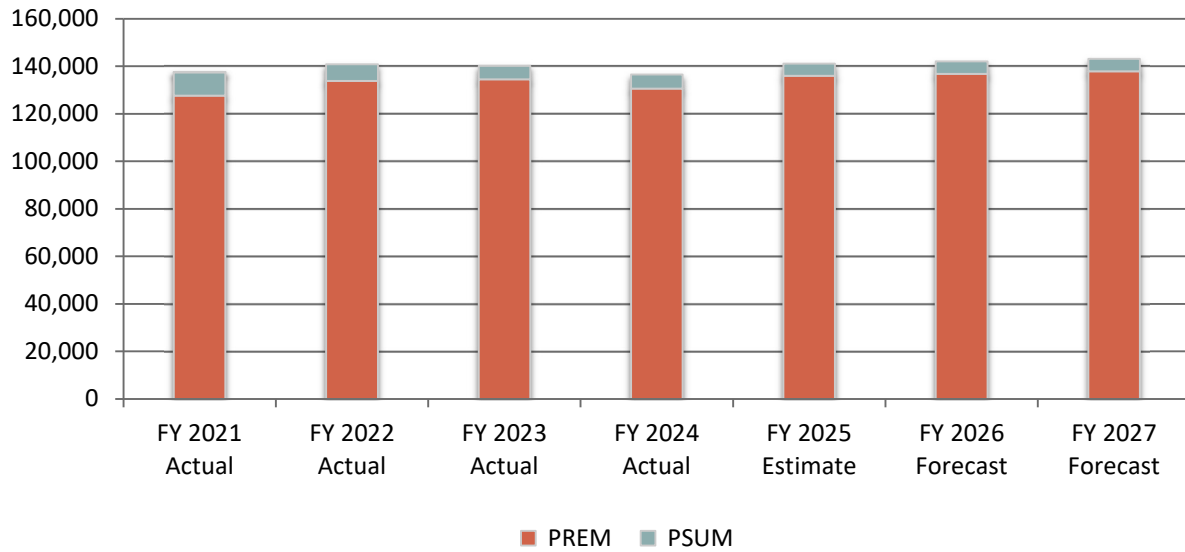


“Other” category caseload forecasts are shown in the table and chart below. The Other category includes two programs: Medicare premium assistance (PREM), which helps certain qualified Medicare beneficiaries pay their Medicare premiums, and the presumptive eligibility (PSUM) group, which includes those who receive immediate health care services through certain Medicaid providers if they are presumed to be eligible. Many of these recipients come to Medicaid through a hospitalization, so the lower use of hospital services during the PHE led to steep declines in the PSUM caseload. The resumption of normal hospital usage combined with the continued suspension of eligibility redeterminations led to the FY 2024 growth, which was followed by the decline associated with the resumption of redeterminations.

Caseloads – Other							
	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
PREM	127,631	133,842	134,568	130,542	136,009	136,801	137,938
Growth	4.89%	4.87%	0.54%	-2.99%	4.19%	0.58%	0.83%
PSUM	9,843	6,938	5,583	6,040	5,159	5,224	5,224
Growth	-8.50%	-29.51%	-19.53%	8.17%	-14.59%	1.26%	0.00%
<b>Total Other</b>	<b>137,475</b>	<b>140,780</b>	<b>140,151</b>	<b>136,582</b>	<b>141,168</b>	<b>142,025</b>	<b>143,162</b>
<b>Growth</b>	<b>3.81%</b>	<b>2.40%</b>	<b>-0.45%</b>	<b>-2.55%</b>	<b>3.36%</b>	<b>0.61%</b>	<b>0.80%</b>

PREM: Medicare premium assistance  
 PSUM: Presumptive eligibility

**Caseloads – Other**



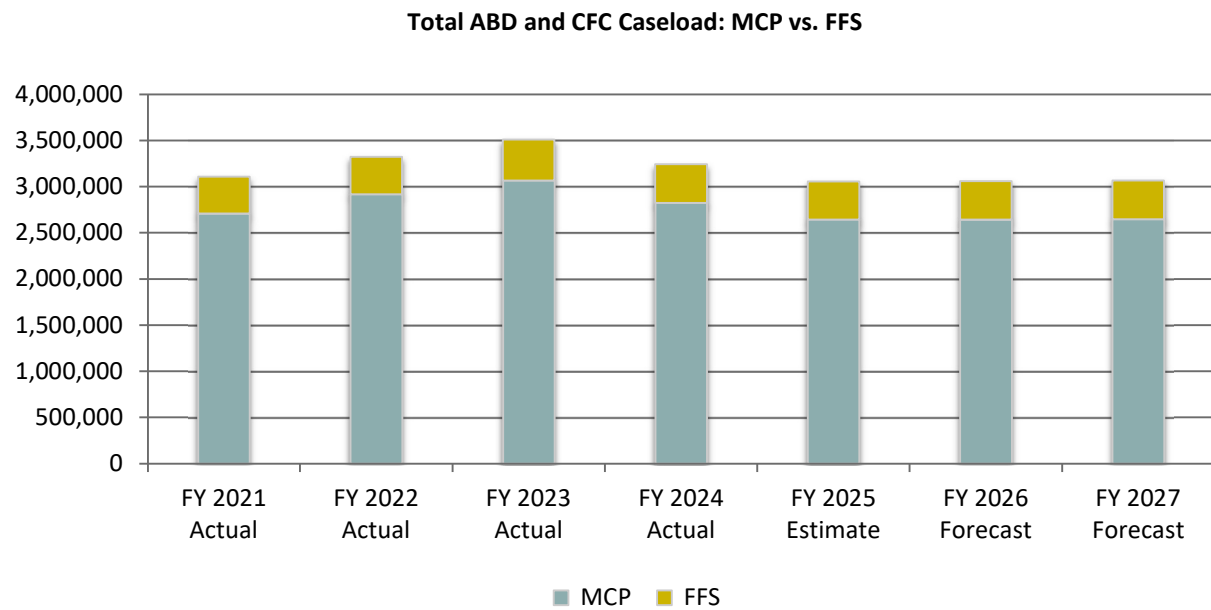
**Caseloads by Service Delivery System**

Two major service delivery systems for Medicaid are managed care plan (MCP) and fee-for-service (FFS). Historically, Medicaid paid most service providers a set fee for the specific type of service rendered to Medicaid enrollees (termed “fee-for-service” reimbursement). Now, Medicaid pays for most services through a MCP. A typical MCP is one in which the beneficiary receives all care through a single point of entry, and the plan is paid a fixed monthly premium per beneficiary (called a “capitated” rate) for any health care included in the benefit package, regardless of the amount of services actually used.

In forecasting Medicaid expenditures, the costs of recipients enrolled in MCPs are generally treated separately from the FFS categories. Managed care has grown steadily since its first implementation in all 88 Ohio counties in 2006. Over time, this implementation has dramatically shifted Medicaid expenditures from the FFS categories to the managed care categories. The structure of the managed care rollout evolved from voluntary enrollment to mandatory enrollment. Most Medicaid recipients are currently required to enroll in managed care, including many who formerly were served on a fee-for-service basis.

Forecasted total caseloads for the two delivery systems are shown in the table and associated chart below. Ohio has consistently used MCPs for most Medicaid delivery for years, with slight variances as new plans or initiatives come online. The managed care share of the total caseload fell from 87.2% in FY 2021 to 86.5% in FY 2025. LBO projects the share to fall slightly more by FY 2027, to 86.3%.

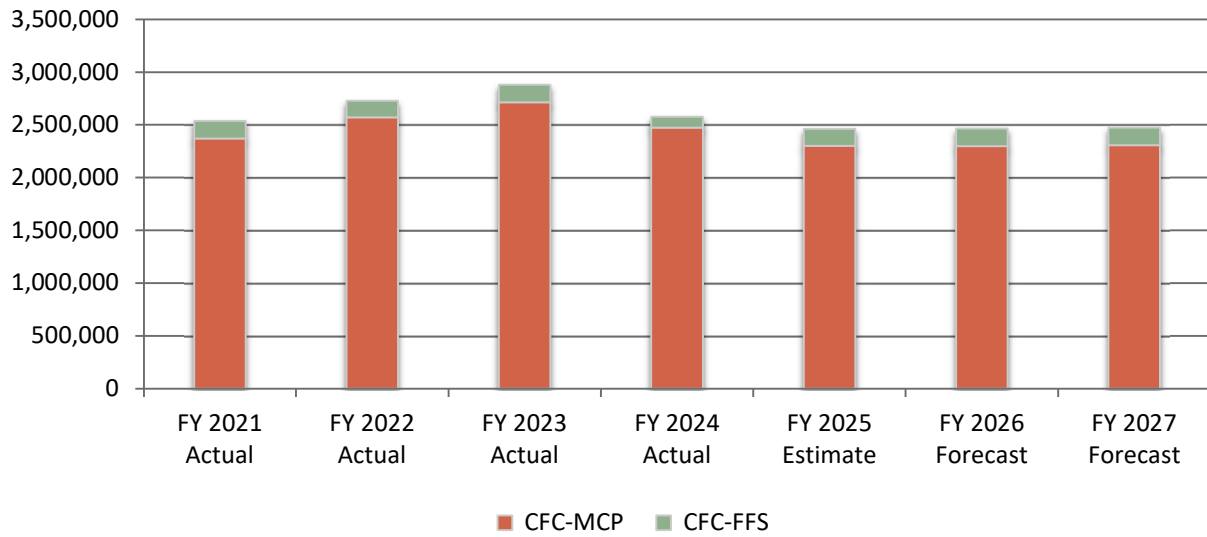
Total ABD and CFC Caseload: MCP vs. FFS							
	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
MCP	2,709,109	2,918,605	3,067,690	2,824,531	2,644,534	2,641,662	2,648,057
Growth	15.19%	7.73%	5.11%	-7.93%	-6.37%	-0.11%	0.24%
FFS	397,318	405,002	441,196	417,885	411,428	416,839	419,390
Growth	-15.37%	1.93%	8.94%	-5.28%	-1.55%	1.31%	0.61%



The following two tables and associated charts detail forecasted caseloads for the two service delivery systems for the CFC and ABD populations. The managed care share of the CFC population decreases from 93.5% in FY 2021 to 93.2% in FY 2027. The managed care share of the ABD population also decreases, from 78.0% in FY 2021 to 76.0% in FY 2027.

CFC Caseload: MCP vs. FFS							
	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
CFC-MCP	2,372,238	2,572,289	2,714,730	2,473,393	2,299,691	2,297,519	2,306,616
Growth	17.24%	8.43%	5.54%	-8.89%	-7.02%	-0.09%	0.40%
CFC-FFS	165,080	156,890	164,905	104,827	161,753	167,816	168,118
Growth	-26.93%	-4.96%	5.11%	-36.43%	54.30%	3.75%	0.18%

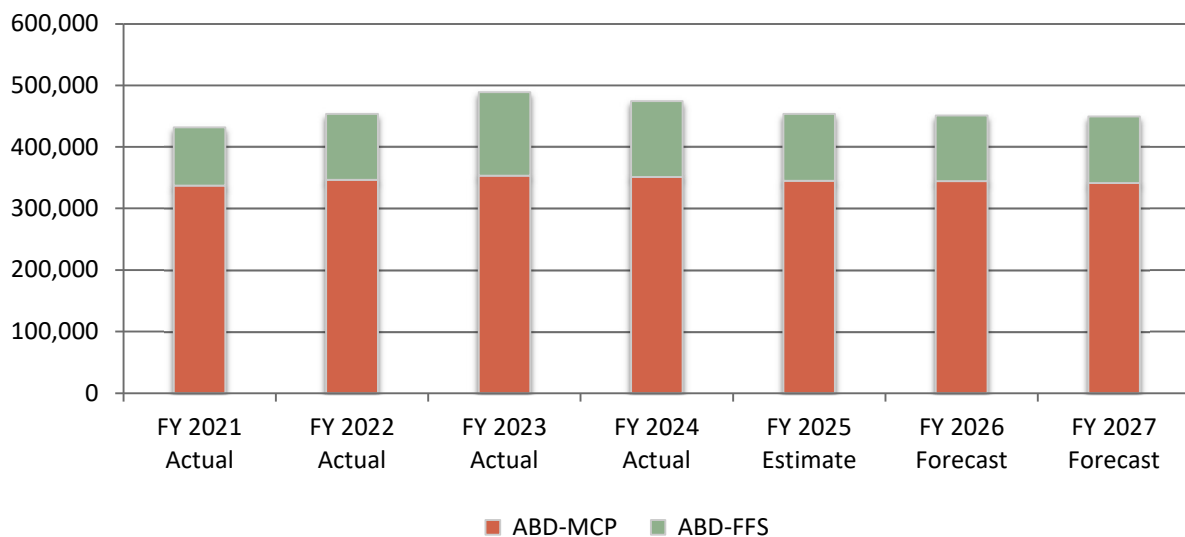
**CFC Caseload: MCP vs. FFS**



**ABD Caseload: MCP vs. FFS**

	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
ABD-MCP	336,870	346,316	352,960	351,138	344,843	344,144	341,441
Growth	2.57%	2.80%	1.92%	-0.52%	-1.79%	-0.20%	-0.79%
ABD-FFS	94,763	107,333	136,140	123,292	108,508	106,998	108,110
Growth	-14.71%	13.26%	26.84%	-9.44%	-11.99%	-1.39%	1.04%

**ABD Caseload: MCP vs. FFS**



## Per Member Per Month Cost Forecast

The second component of the forecast equation is the PMPM cost. These costs depend on the services required for each member type and reimbursement rates set by ODM. Although generally the ABD population makes up less than 20% of the total caseload, it comprises almost 50% of the total service costs. This is because the ABD population's health care needs are generally higher. The service delivery system also affects the PMPM cost forecast. The state pays for services through MCPs at a fixed capitation rate, whereas the state pays for the FFS population based on the cost of services received. Generally, PMPM costs are forecasted based on the trends in the data and current policies. Following is a discussion of factors affecting the PMPM forecast for the largest service categories.

### Managed Care

LBO's forecast assumes annual capitation rate growth of between 4.6% and 5.3% in 2026 and between 4.9% and 5.6% in 2027 for ABD and CFC populations. In addition, the forecast assumes growth of 3.9% in 2026 and 4.2% in 2027 for Group VIII. These growth rates were calculated by the independent risk management, benefits, and technology firm Milliman, the state's contracted actuary for Medicaid. Federal regulations require each state's managed care capitation rate to be actuarially sound. Generally, the MCP capitation rates are set at the beginning of each calendar year.

During the FY 2022-FY 2023 biennium, two additional categories of Medicaid Managed Care were introduced as part of ODM's Next Generation Managed Care redesign. These categories are the Single Pharmacy Benefit Manager (SPBM) and the Ohio Resilience through Integrated Systems and Excellence (OhioRISE) programs.

The SPBM provides pharmacy benefits across all Medicaid MCPs with the goal of improving management and administration of pharmacy benefits, gaining increased financial accountability, and assuring alignment with clinical and policy goals while improving transparency. As recipients began receiving services through SPBM, payments made to other MCPs became lower because they are no longer being compensated for care that is now provided by the SPBM. Between 2022 and 2024, the ABD capitation rate fell by more than 30%.

OhioRISE aims to keep families together by creating more in-home and community-based services for children with the most complex behavioral health challenges. As OhioRISE moves toward maturity, its enrollment and capitation continue to grow. The January 2025 capitation increase for OhioRISE is expected to exceed 30%, while caseload growth is projected to be 11% in FY 2026 and 12% in FY 2027.

### Nursing Facilities

The Ohio Revised Code determines the rates paid to nursing facilities (NF). ODM calculates rates for ancillary and support costs, tax costs, and quality incentive payments based on the statute. LBO's baseline forecast assumes the current reimbursement rate will continue throughout the FY 2026-FY 2027 biennium.

Monthly NF caseload (both FFS and MyCare<sup>7</sup>) decreased by 8,300 or 17% from February 2020, the start of the COVID-19 PHE, through February 2021, when the caseload was at its lowest point during the pandemic. According to Milliman, the timing of this NF caseload decrease is consistent with an increase in deaths attributed to COVID-19 in the state's data. Since the end of the PHE, the state's NF population has stabilized at around 44,000. LBO's projection assumes this stability will continue through FY 2027, with slight growth reflecting the aging population.

H.B. 33 introduced various changes to the NF reimbursement methodology, most of which are incorporated into the per diem calculation formula. It also established a \$30 per-day payment rate for services provided to residents in private NF rooms, which results in increases of \$80 million for FY 2025 and \$160 million per year for FY 2026 and FY 2027.

## **Hospitals**

For FY 2026, FFS hospital spending is projected to increase by 31.7% to \$1.14 billion, followed by an additional 15.9% rise to \$1.33 billion in FY 2027. This growth is driven by increases in PMPM costs and the hospital franchise fee. PMPM costs are expected to grow by 6.1% in FY 2026 and 5.0% in FY 2027.

Beyond direct care costs, hospital spending will also rise due to increases in the hospital franchise fee. ODM assesses this fee on hospitals that meet the conditions outlined in the Ohio Revised Code. A portion of the collected revenue is returned to hospitals, qualifying as medical spending eligible for federal FMAP payments. As franchise fee revenue grows, the amount returned to hospitals increases, contributing to the projected Medicaid hospital expenditure growth.

## **Behavioral Health**

The upcoming biennium has large, forecasted increases in behavioral health spending, as new crisis-infrastructure and mobile-response initiatives begin. Spending is projected to grow 35.3% in FY 2026 and 79.0% in FY 2027. These new developments are expected to provide timely assistance to Ohioans experiencing mental-health crises, with on-call professionals ready to respond at all hours.

## **Assumptions and Methodology**

As indicated earlier, the Medicaid service expenditure and enrollment projections made by LBO economists are "baseline" or based on current law; that is, they are consistent with current legislation and administrative policy. These projections did not analyze any proposed changes included in the executive budget or future changes in state or federal policy that would affect the Medicaid Program. Furthermore, various "add-ons," including Medicaid Part D and Medicare Buy-In, were projected by ODM and added to the LBO baseline forecast; LBO economists did not forecast the add-ons.

## **Assumptions and Data Sources**

Projections of Medicaid service expenditures and enrollment are dependent on demographic and economic assumptions such as economic growth, population growth, and the

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<sup>7</sup> MyCare is the name for Ohio's program for people eligible for both Medicare and Medicaid.

growth in health care prices. In addition, assumptions regarding participation rates and the coverage of and enrollment in other health insurance programs affect Medicaid expenditures and enrollment projections. The nature and quality of the available data also affect the projections.

The data on which the LBO forecast is based are provided by ODM. ODM data sources include the following:

- Ohio MITS (Medicaid Information Technology System);
- OMES (Ohio Medicaid Enterprise System);
- DataOhio;
- Data Warehouse;
- OAKS (Ohio Administrative Knowledge System); and
- ADAT (Advanced Data Analytics Tool).

Ohio MITS is a browser-based healthcare administration platform that allows FFS providers to submit claims and other relevant data electronically. Providers also use OMES for submitting reimbursements. DataOhio is a single source for the most critical and relevant data sets from state agencies and entities. The Data Warehouse stores data accumulated from various sources within ODM. OAKS is a system used by the state to manage its purchasing, general ledger, accounts receivable, and accounts payable information. Lastly, ADAT by IBM Health Insights/Merative Health Insights accesses Medicaid data from the Data Warehouse and provides software tools to analyze aspects of the Medicaid Program.

## **Methodology Summary**

To forecast Medicaid service expenditures for the FY 2026-FY 2027 biennium, LBO economists used both trend analysis and regression analysis. Trend analysis uses historical results to predict future outcomes. Regression analysis predicts the value of one variable from known or assumed values of other variables related to it.

Regression analysis is used for estimating the relationship between a dependent variable and one or more independent variables when historical data is available. For example, the unemployment rate was included in a regression analysis as an independent variable when forecasting Medicaid caseloads (i.e., the dependent variable). Likewise, trend analysis might be employed to estimate the change in the cost of providing a specific set of benefits over time. In order to estimate this change, trend factors may also be applied. To select appropriate trend factors, the forecaster consults sources that provide regional and national economic indicators and indexes that offer broad perspectives of industry trends in the U.S., the Midwest region, and Ohio, such as those provided by Moody's Analytics or government agencies.

Forecasting always includes difficulty and uncertainty. Additional difficulty arises when the effects of certain recent statutory or administrative policy changes on the dependent variable or on trends are not yet apparent. For instance, this forecast was developed following an unprecedented period of special events that had material impacts on Medicaid usage in Ohio. The COVID-19 PHE and the suspension of eligibility redeterminations, followed by a 15% caseload reduction once redeterminations and disenrollments were once again permitted after having been suspended for nearly three years had a large impact on Ohio Medicaid. The past two years

also saw structural changes in Ohio’s Medicaid Program, as ODM implemented aspects of Next Generation Medicaid such as the SPBM and OhioRISE. While these programs have had major effects on Medicaid caseloads and costs, historical data do not yet exist to allow for regression or trend analysis. LBO economists used related data and their knowledge of economic principles to develop a forecast that has the greatest likelihood of accuracy among the options available.

After numerous forecasts are produced using the methodologies described above, LBO economists choose the most appropriate models by employing statistical tests for goodness of fit and considering expected growth patterns. The models with the poorest fit are eliminated. LBO economists also consider historical patterns, along with economic and policy expectations when determining the best model and producing the final forecasts.

LBO economists generate baseline forecasts for major expenditure categories by first calculating the PMPM costs for each category. For each typical expenditure category and subcategory, separate forecasts are done for the average cost per member.

## Background on Medicaid

Medicaid, established in 1965 in Title XIX of the Social Security Act, is a joint state-federal program that provides health care coverage to low-income individuals. State agencies administer Medicaid subject to oversight by the Centers for Medicare and Medicaid Services in the U.S. Department of Health and Human Services (HHS). State participation in Medicaid is voluntary, but since 1982, all states have participated. The federal government provides reimbursement to the states and offers guidance on how to use federal funds, but each state shapes and administers its program to suit the needs of its own population. For instance, states determine their own eligibility requirements and scope of services, set provider payment rates, and administer their own programs. Consequently, Medicaid operates as more than 50 distinct programs – one for each state and territory, and the District of Columbia.

### Federal Poverty Guidelines (FPGs)

States use FPGs in developing their income-eligibility criteria for various Medicaid groups. FPGs are the income guidelines established and issued each year in the Federal Register by HHS. Public assistance programs usually define income standards in relation to the FPGs. The table below provides the 2024 poverty guidelines for various family sizes for the 48 contiguous states and the District of Columbia. Alaska and Hawaii have unique living costs and are provided a different set of guidelines not shown here.

2024 Federal Poverty Guidelines	
Family Size	Poverty Guidelines
1	\$15,060
2	\$20,440
3	\$25,820
4	\$31,200
5-14	An additional \$5,380 per person

## Changes to the Medicaid Program over Time

Medicaid has undergone many changes since its inception. The program was initially established to provide medical assistance only to those individuals receiving assistance through Aid to Families with Dependent Children (AFDC) and state programs for the elderly. Over the years, Congress has incrementally expanded Medicaid eligibility to reach more Americans living below or near poverty, regardless of their welfare eligibility.

In 1972, Congress enacted a federal cash assistance program for ABD people called SSI, which broadened Medicaid coverage to include this population. A significant expansion of Medicaid was to provide health insurance coverage not just to the welfare population but also to other low-income families, especially low-income children and pregnant women.

In 1996, Medicaid was delinked from welfare with the enactment of the Temporary Assistance to Needy Families (TANF) Program. Families who receive TANF benefits do not automatically qualify for Medicaid as they did under the AFDC Program.

In 1997, the State Children's Health Insurance Program (SCHIP) was created. When it was reauthorized in 2007, it was renamed CHIP. Title XXI of the Social Security Act added health care coverage for children in low- and moderate-income families who were ineligible for Medicaid but could not afford private insurance. Under CHIP, states were offered the option of implementing this health care coverage as a stand-alone program with different benefit packages or as part of their existing Medicaid benefit. Ohio opted to implement CHIP as a Medicaid expansion beginning in 1998.

The most recent changes to Medicaid came with the enactment of the ACA of 2010. The goal of the ACA was to increase access to health insurance through a coordinated system of "insurance affordability programs," including a mandatory expansion of Medicaid to all individuals under age 65 whose income is at or below 133% FPG,<sup>8</sup> and the creation of health insurance exchanges. A 2012 U.S. Supreme Court decision made the expansion voluntary. Ohio implemented its expansion in 2014, and by early 2023 it had been implemented by 29 states and the District of Columbia. The ACA also modified how income is calculated for most Medicaid applicants, including those in the new eligibility group, known as Group VIII because of the section of the law granting eligibility. In 2014, states began using modified adjusted gross income (MAGI) to determine the eligibility of most applicants. MAGI is adjusted gross income as defined in the Internal Revenue Code, modified by applying a 5% "disregard." This method of determining eligibility eliminated resource tests.

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<sup>8</sup> Under the ACA, the eligibility is 133% FPG. However, a 5% income disregard is allowed, which makes the effective minimum threshold 138% FPG.