OHIO LEGISLATIVE SERVICE COMMISSION

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Baseline Forecasts of GRF Tax Revenues and Medicaid Service Expenditures for the FY 2026-FY 2027 Biennial Budget

Testimony Before the Senate Finance Committee

April 1, 2025

Chair Cirino, Vice Chair Chavez, Ranking Member Hicks-Hudson, and members of the Senate Finance Committee, I am Wendy Zhan, Director of the Legislative Service Commission (LSC). I am here to testify on LSC's baseline forecasts for General Revenue Fund (GRF) tax revenues and Medicaid service expenditures for fiscal years 2025 through 2027. The forecasts were developed by LSC's Legislative Budget Office (LBO) in late January. These baseline forecasts were developed according to the current Revised Code tax structure and current law and administrative policies on Medicaid. They do not reflect the effects of any tax or Medicaid policy changes proposed in the executive or House budget. I will briefly summarize our forecasts in my testimony. The accompanying forecast book provides more detailed information on the economy and forecasts of GRF tax revenues and Medicaid service expenditures.

GRF tax revenue forecasts

The outlook for state government revenues is greatly influenced by the course of Ohio's economy and the economy of the nation. In developing our revenue forecasts, LBO economists have relied on the baseline economic forecasts released by Moody's Analytics in December. Moody's December baseline economic forecasts consider the U.S. economy in a fundamentally strong place and poised for another good year in 2025. But they regard growth in the coming year as challenged by economic policies that may result in some combination of higher inflation and interest rates, as well as diminished economic growth.

As detailed in the Economic Forecasts section of the accompanying forecast book, Moody's expects growth in real GDP, the broadest measure of economic activity, and personal income, for both the nation and Ohio to slow somewhat in fiscal years 2026 and 2027 compared with fiscal year 2025. Inflation, as measured by the year-over-year percent change in the consumer price index for all urban consumers, is expected to hover around 2.2% to 2.9%, averaging approximately 2.6% annually. The unemployment rates for the nation and Ohio are forecast to largely remain at current levels. Compared with the national averages, Ohio's real GDP and personal income growth rates are forecast to remain lower than that of the nation while Ohio's unemployment rate is forecast to remain one-half percentage point higher than the national figure.

As you consider our tax revenue projections, please remember that economic forecasts are inherently uncertain, just like any other attempt to predict the future. We are confident in our methodology, but we know that the forecast will be wrong in some respects and to some degree. Our baseline revenue forecast could prove too optimistic regarding economic growth in the nation and Ohio. Alternatively, it could be too pessimistic.

Table 1. LBO Baseline GRF Tax Revenue Forecasts (After Distributions to the PLF and LGF)

	FY 2025	FY 2026	FY 2027
Total	$28,500.4 million	$29,460.9 million	$30,230.9 million
Dollar Growth	$555.9 million	$960.6 million	$769.9 million
Percent Growth	2.0%	3.4%	2.6%

Table 1 summarizes LBO's baseline forecasts for GRF tax revenue, after distributions to the Public Library Fund (PLF) and the Local Government Fund (LGF). The forecasts assume the two local government funds will each receive 1.7% of total GRF tax receipts during the next biennium, which is the percentage currently stipulated in the Revised Code.

As seen from the table, for fiscal year 2025, LBO estimates that GRF tax revenue will total $28.5 billion, an increase of $555.9 million, or 2.0%, from the previous fiscal year. For fiscal year 2026, LBO forecasts GRF tax revenue will total $29.5 billion, an increase of $960.6 million, or 3.4%, from fiscal year 2025. For fiscal year 2027, LBO forecasts GRF tax revenue will total $30.2 billion, an increase of $769.9 million, or 2.6%, from fiscal year 2026. These projected increases reflect the effects of moderate economic expansion and the accompanying growth in Ohioans' incomes.

As detailed on page 12 of the accompanying forecast book, major GRF taxes are generally forecast to grow faster in the first year of the biennium, as economic growth in that year is expected to be stronger. The projected 4.3% decrease in the commercial activity tax for fiscal year 2026 is entirely attributable to tax policy adopted in H.B. 33 of the 135th General Assembly, rather than any contraction in the tax base.

Table 2 summarizes the differences between the LBO and executive baseline GRF tax revenue forecasts. The differences are presented as LBO's forecast minus the executive's forecast, so the positive numbers indicate a higher LBO forecast and the negative numbers indicate a lower LBO forecast.

Table 2. Summary of LBO and OBM Baseline GRF Tax Revenue Forecast Differences

	FY 2025	FY 2026	FY 2027
Dollar Difference	$57.6 million	-$158.7 million	-$351.0 million
Percent Difference	0.2%	-0.5%	-1.1%

As seen from the table, compared with the executive's forecast, LBO's forecast is higher for the current fiscal year but lower for both fiscal years 2026 and 2027. For fiscal year 2025, the difference amounts to $57.6 million, or 0.2%. For the next biennium, the overall difference is $509.7 million, or 0.8%. As stated earlier, LBO economists forecast total GRF tax revenue to increase by 3.4% in fiscal year 2026 and 2.6% in fiscal year 2027. This compares with the executive baseline forecast of 4.1% in fiscal year 2026 and 3.2% in fiscal year 2027. The executive forecast also started with a somewhat lower fiscal year 2025 base. Essentially, LBO economists anticipate slightly higher revenue growth during the second half of the current fiscal year but a slightly slower acceleration of growth over the next biennium.

Medicaid service expenditure forecast

Medicaid services are an entitlement for individuals who meet eligibility requirements. This means that an individual eligible for Medicaid is guaranteed the benefits, and that the state is obligated to pay. Medicaid expenditures also comprise a significant portion of the state GRF budget. It is for these two reasons that both LBO and the executive forecast Medicaid caseload and expenditures.

Ohio's Medicaid caseloads increased by over 800,000 during the pandemic due largely to the suspension of eligibility redeterminations and associated disenrollments. In May 2023, Ohio restarted redeterminations and saw caseloads decline steadily over the following 19 months. By December 2024, the caseload numbers had declined by a total of about 550,000, or 15.3%. In developing this baseline forecast, LBO economists expect caseloads to hover around the December 2024 level in the second half of fiscal year 2025, with an estimated annual average of approximately 3.06 million for the fiscal year as a whole.

For the next biennium, LBO economists expect total Medicaid caseload to largely remain at the estimated fiscal year 2025 level. The total number of persons enrolled in Ohio Medicaid is forecast to increase by fewer than 3,000 (0.1%) in fiscal year 2026 and by about 9,000 (0.3%) in fiscal year 2027.

Based on these caseload forecasts, LBO's baseline forecast for Medicaid service expenditures, excluding administrative expenditures, totals $44.1 billion in combined state and federal dollars for fiscal 2026. This is a $3.3 billion, or 8.0%, increase from estimated service expenditures of $40.8 billion for fiscal year 2025. For fiscal year 2027, combined state and federal Medicaid service expenditures are projected to total $46.6 billion. This is a $2.5 billion, or 5.6%, increase from fiscal year 2026.

Table 3. Summary of LBO and Executive Baseline Medicaid Service Expenditure Forecast Differences

	FY 2025	FY 2026	FY 2027
Dollar Difference	-$190.6 million	$17.1 million	-$538.6 million
State Share	*-$55.5 million*	*$4.9 million*	*-$153.2 million*
Percent Difference	-0.6%	0.1%	-1.5%

Table 3 summarizes the differences between the LBO and executive baseline forecasts for Medicaid service expenditures. Again, the differences are presented as LBO's forecast minus the executive's forecast, so the negative numbers indicate a lower LBO forecast and the positive numbers indicate a higher LBO forecast.

As seen from the table, compared with the executive baseline forecast, LBO's baseline service expenditure forecast is lower for fiscal years 2025 and 2027 but slightly higher for fiscal year 2026. For fiscal year 2025, the difference amounts to $190.6 million, or 0.6%, in combined federal and state expenditures. The difference in the state share of those expenditures is $55.5 million. For the next biennium, in dollar terms, the net difference is $521.5 million in total expenditures and $148.3 million in the state share of those expenditures. In percentage terms, the total forecast difference is just under 0.8% over the biennium. The differences between the two forecasts are largely influenced by somewhat different estimates in per member per month costs.

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