

FORECAST OF GRF REVENUES AND MEDICAID EXPENDITURES FOR THE FY 2012-FY 2013 BIENNIAL BUDGET



TO ACCOMPANY TESTIMONY
BY LSC DIRECTOR
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ECONOMIC CONDITIONS AND OUTLOOK

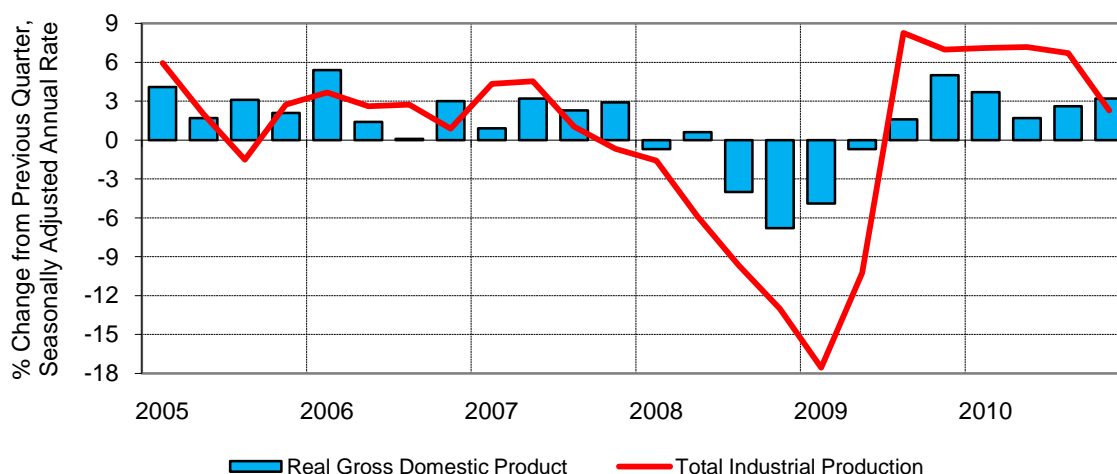
State of the Economy

Recovery in U.S. and Ohio economic activity has been underway since the recession trough in the 2009 second quarter. The rate of recovery in Ohio has been slower than nationwide. Further economic expansion is predicted for both the nation and the state. Growth has been slow compared with most past recoveries, and additions to employment have been small in the U.S. and in Ohio. Unemployment consequently has remained high, though it has come down gradually. Inflation for most finished goods and services has stayed down, though it is up from its lows. Commodity prices have risen sharply. Market interest rates have also been low. As the expansion continues, and as labor and capital resources become more fully utilized next year, borrowing costs are likely to rise.

National

The nation's economy has been recovering since mid-year 2009. By the end of last year, inflation-adjusted gross domestic product (real GDP) is estimated to have risen back to its previous peak three years earlier. Growth slowed in mid-2010 but picked up toward the end of the year, continuing into 2011. The areas of economic growth have shifted from inventory rebuilding toward increases in final demand, including rising consumer spending, business investment in equipment, and exports. However, demand has remained anemic from some sectors including residential building, private nonresidential construction, and government, particularly state and local government. Chart 1 shows growth in real GDP and industrial production, as reported when the forecasts were made by Global Insight that serve as the basis for LSC's projections of Ohio tax revenues. Real GDP growth in the fourth quarter of 2010 has since been revised downward to 2.8%, at an annual rate, while industrial production growth was revised upward slightly.

Chart 1: United States Output Measures



Consumer spending has grown since the end of the recession. The willingness of consumers to spend has been tempered by weak employment growth and high unemployment, by illiquid investments in housing that have fallen in value, by tight credit availability, and by efforts of households to pay down past borrowings. Employment nationwide has risen nearly 1.3 million (1.0%) since the low point in February 2010, and the rate of growth has picked up this year. Incomes of consumers have been supported by increases in average hours worked as well as by modestly higher hourly pay. Replacement needs are also contributing to increased spending on motor vehicles and other durable goods. But the recent escalation in gasoline prices, driven by Mideast turmoil on top of rising worldwide demand for petroleum, is eroding household discretionary incomes that would otherwise be available for spending on other goods and services.

Housing markets generally remain in the doldrums, with new home sales and construction far below peak levels in past years. Nationwide indexes of housing prices are no longer falling sharply as in 2008 but are around levels of 2003-2004.¹ Conditions vary widely among local markets. Residential buying remains constrained by much tougher underwriting standards than during the housing boom in the last decade. Housing investment has fluctuated since mid-2009, rising in three of the last six quarters after falling precipitously earlier, and may be bottoming out.

Business investment in equipment and software has been growing vigorously, with large gains since the end of the recession in transportation equipment, from a very low level, and in information processing equipment and software. Investment outlays for industrial equipment fell through 2009 but have been rising this year. In contrast, business investment in structures has remained weak, with declining investment in most areas except for the mining industry, which includes oil and gas exploration and development, and which has recovered a portion of the fall in activity during the recession. Inventory rebuilding accounted for well over half of the economy's growth during the first year of recovery but now appears to have largely run its course. Inventories were cut sharply during the recession.

Export growth has also contributed importantly to demand for U.S. goods and services in the economic recovery. Growing American exports reflect the recoveries in most foreign developed economies and a resumption of faster growth in less developed economies. As the U.S. economy has recovered following the recession, demand in this country for imports from abroad has been rising again.

¹ Nationwide measures of home prices include indexes from the Federal Housing Finance Agency and from Standard & Poor's (the Case-Shiller Home Price Indices).

With significant productive resources still idle, including unemployed labor resources as well as plant and equipment, finished goods and services inflation remains low, overall, though up from lows in 2009 and 2010. Wage inflation is also low. However, commodity price inflation has been rising over the past year, reflecting growing demand around the world and, in the case of petroleum, concerns about the potential for worsening Middle East instability to disrupt supplies. Consumer prices for gasoline and other energy products have consequently been pushed higher. Recent trends in consumer prices for all items and excluding food and energy, which tend to be more volatile, are shown in Chart 2.

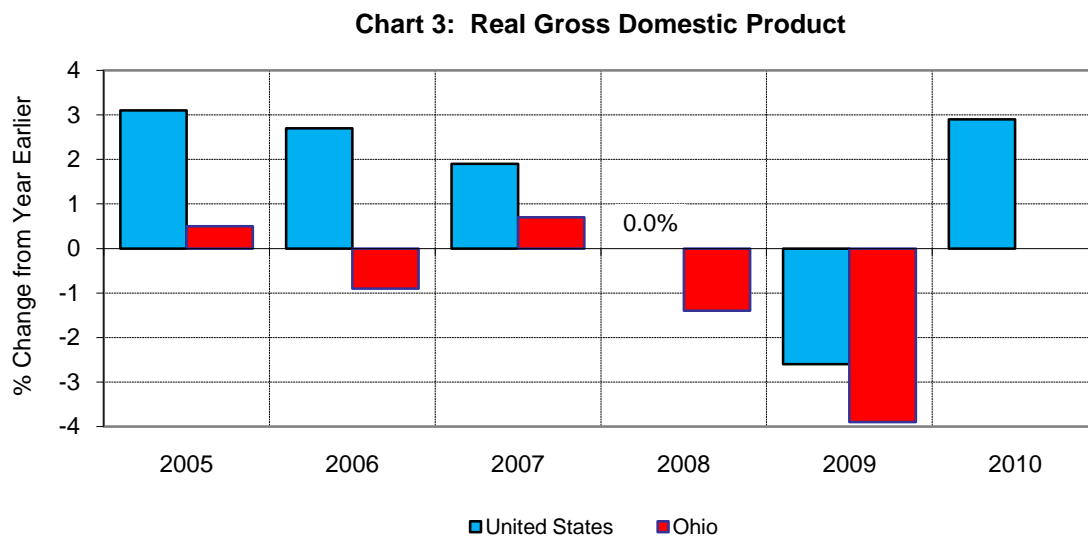
Chart 2: Consumer Price Index



Because unemployment is still high and inflation at the finished goods level has remained low, U.S. monetary policy has held short-term interest rates at very low levels. In addition to keeping its target short-term interest rate, the federal funds rate, in a range of 0% to 0.25%, the Federal Reserve System is buying U.S. Treasury notes and bonds to keep longer-term interest rates low. In spite of these purchases, longer-term market interest rates have risen from lows in last year's second half, in an apparent response by financial markets to evidence of some strengthening in the upturn in the U.S. economy.

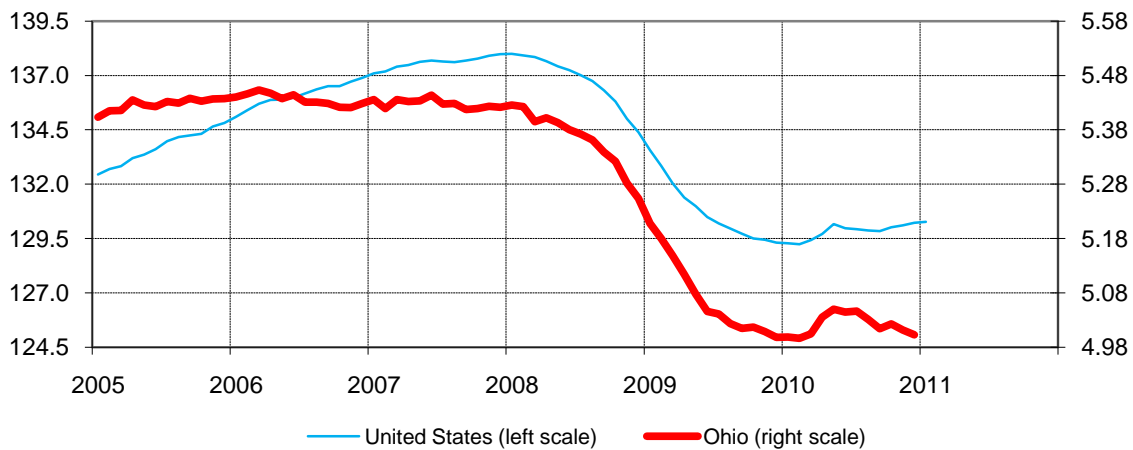
Ohio

Annual changes in Ohio real GDP compared with those for the U.S. are shown in Chart 3. State gross domestic product figures are available from the source agency, the U.S. Bureau of Economic Analysis (BEA), only annually and with a long lag. The most recent history currently available from BEA is for 2009. Quarterly estimates up to the present and forecasts are provided by Global Insight, however, the state history for 2007-2009 was revised February 23, by BEA, and this new history is not yet reflected in the Global Insight forecast. Real GDP has risen more slowly in Ohio than nationwide, or declined more sharply, every year since 1998, with the exception of 2002. The state's share of national output has trended lower since the 1960s.



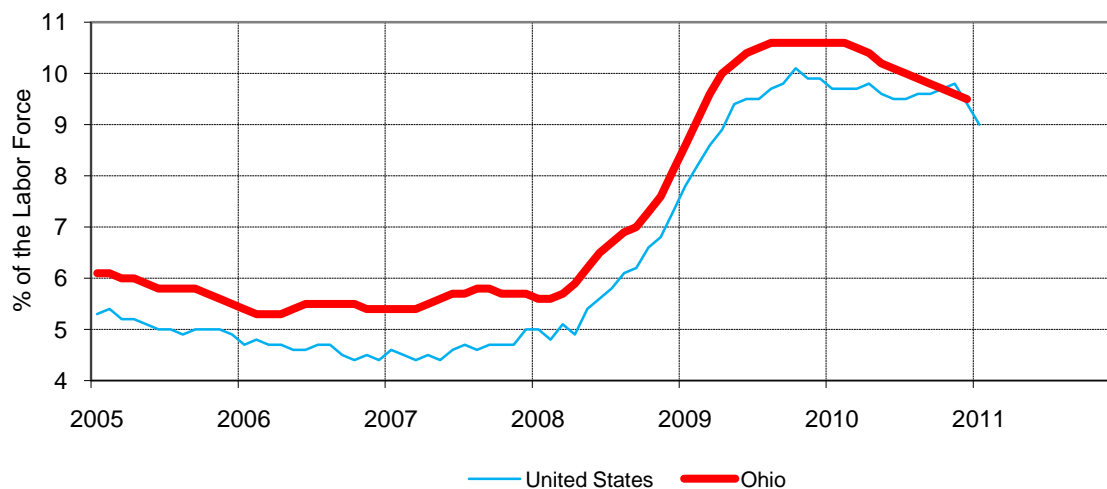
Nonfarm payroll employment in Ohio, compared with the U.S., is shown in Chart 4. The data in the chart are those available at the time that Global Insight's February baseline forecast, used by LSC in predicting Ohio tax revenues, was developed. Ohio nonfarm payroll employment in December, shown in the chart, was subsequently revised upward by 31,300 (0.6%) in an annual benchmark revision. Statewide employment in January rose 31,900 (0.6%) from the upward-revised December level. U.S. payroll employment rose 192,000 in February and private payrolls rose 222,000 (0.2%), among the larger increases since 2006. Nationwide employment in January was revised upward by 58,000.

**Chart 4: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted**



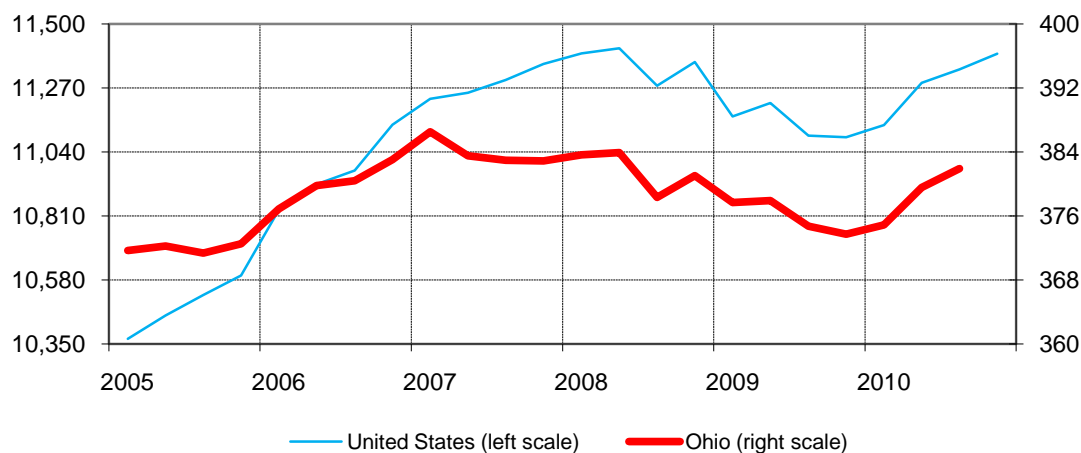
Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 9.4% in January from 9.5% in December, shown in Chart 5. The U.S. unemployment rate declined to 8.9% in February from 9.0% in January.

Chart 5: Unemployment Rate



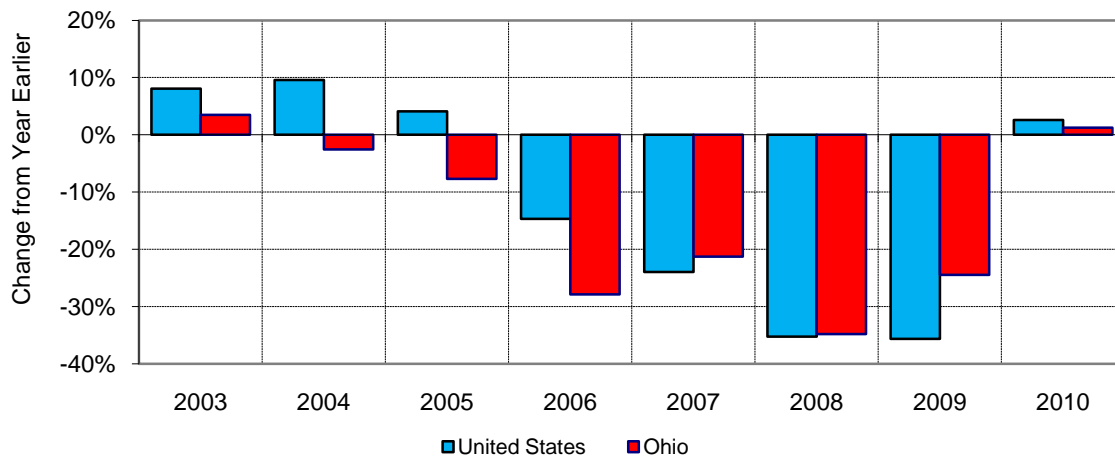
Personal income has been growing in the nation and Ohio since the end of 2009, as shown in Chart 6. Both series in the chart are deflated using the national personal consumption expenditures deflator. State personal income is published with a lag by the source agency, BEA, and is shown in the chart through the 2010 third quarter. Ohio personal income as well as U.S. personal income rose 2.9% from the low point to the third quarter, measured in dollars, and 2.2% after adjustment for inflation – equivalent to nearly a 3% annualized rate of growth. U.S. real personal income rose further in the fourth quarter.

Chart 6: Personal Income
Billions of 2005 Dollars



Residential building activity fell in Ohio for six years through 2009 before edging up last year, as indicated by construction permits for new privately owned units, shown in Chart 7. In the U.S., housing construction activity fell for four years through 2009, then, also rose last year. Residential building activity remains at low levels in Ohio and around the country. Housing prices in Ohio, as reported by the Federal Housing Finance Agency, fell in 2006 through 2008, flattened in 2009, then resumed declining in 2010 though not as rapidly as in 2008.

**Chart 7: New Privately Owned Housing Units
Authorized by Building Permits**



Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in February 2011. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues, based in part on some of the variables provided by Global Insight, could in consequence also be either too high or too low.

Quarterly changes shown, the first line in each table, are from the preceding quarter. Changes shown in the second line compare average values for the four quarters ending in the second calendar quarter, coinciding with Ohio's fiscal year, with average values for the four quarters one year earlier. The unemployment rate tables show average unemployment rates for the quarters indicated (first line) and for the four quarters ending in the second quarter (second line).

U.S. Gross Domestic Product

Real GDP is projected to grow through 2013 at about a 3.1% annual rate on average. In the first six quarters of the recovery, through the end of last year, U.S. real GDP growth averaged 2.9% at an annual rate.

Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	4.1	3.3	2.8	3.5	2.1	2.7	3.2	3.7	2.3	3.3	3.3	3.0
Global Insight		3.0				3.1				3.0		

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2013 but at a somewhat slower rate than nationwide. Predicted growth of real GDP in Ohio averages 2.6% at an annual rate during the 12 quarters shown in the table.

Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	3.5	2.7	2.6	2.6	2.2	2.3	2.5	2.9	2.3	2.9	2.6	2.5
Global Insight		2.3				2.5				2.5		

U.S. Inflation

In Global Insight's February baseline forecast, consumer price inflation edges up slightly in 2011 through 2013 but remains under a 2% annual rate in most quarters and on average.

U.S. Consumer Price Index Inflation												
Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----percent change at annual rate-----												
Global Insight	3.8	-0.2	1.9	1.8	1.9	1.7	1.8	1.9	2.0	1.9	1.9	2.1
Global Insight		1.5				1.7				1.8		

U.S. Personal Income

Nationwide personal income growth during the 12 quarters through the end of 2013 averages 4.5% at an annual rate. These growth rates are based on the dollar amounts of income, not adjusted for inflation. Strong growth of income shown in the table for the current quarter and weakness in the first quarter of 2012 reflect a one-year, 2 percentage point reduction in the individual portion of Social Security taxes, which is subtracted in the national income and product accounts in calculating personal income.

U.S. Personal Income Growth												
Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----percent change at annual rate-----												
Global Insight	8.4	4.8	4.6	3.6	0.3	4.4	4.5	4.9	4.1	5.0	4.7	4.7
Global Insight		4.4				4.3				3.9		

Ohio Personal Income

Income to persons who reside in Ohio also grows through 2013, except for the first quarter of 2012 when the end of the temporary reduction in Social Security taxes results in lower total personal income. Growth of Ohio personal income averages 3.8% at an annual rate in the 12 quarters shown in the table, lagging behind growth of personal income nationwide.

Ohio Personal Income Growth												
Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----percent change at annual rate-----												
Global Insight	7.8	4.0	4.0	2.7	-0.6	4.0	3.8	4.0	3.7	4.3	3.8	3.8
Global Insight		4.0				3.5				3.3		

U.S. Unemployment Rate

Unemployment nationwide is expected to decline gradually through the forecast period shown in the table. The national unemployment rate fell from 9.0% in January to 8.9% in February, so the February forecast of a 9.1% average rate in the first quarter now appears a bit too high. As job opportunities improve, additional entrants to the labor force are likely to be attracted, which will slow the decline in the unemployment rate.

U.S. Unemployment Rate												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent of the labor force-----											
Global Insight	9.1	9.1	9.0	8.8	8.7	8.6	8.5	8.3	8.1	7.9	7.8	7.6
Global Insight		9.4				8.8				8.2		

Ohio Unemployment Rate

The unemployment rate in Ohio in January of 9.4% was 0.4 percentage point higher than the national average. Unemployment in Ohio is projected to fall slowly during the next three years, with the state's unemployment rate remaining above that of the nation.

Ohio Unemployment Rate												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent of the labor force-----											
Global Insight	9.3	9.4	9.4	9.3	9.2	9.1	9.0	8.9	8.8	8.6	8.5	8.3
Global Insight		9.7				9.3				8.8		

REVENUE FORECASTS

The LSC baseline forecasts for FY 2012 and FY 2013 assume the current statutory tax structure, including tax changes enacted in the budget bill for the current biennium, H.B. 1 of the 128th General Assembly. Personal income tax rates receive their fifth and final H.B. 66 cut for tax year (TY) 2011, i.e., the reduction in income tax rates that was delayed until TY 2011 by H.B. 318 of the 128th General Assembly, and tax brackets are indexed for inflation beginning TY 2010. In FY 2012, the GRF begins to receive a share of the commercial activity tax (CAT), receiving 5.3% of receipts in FY 2012 and 10.6% in FY 2013. Distributions of GRF tax revenues to the Public Library Fund (PLF) are assumed to return to the formula established by H.B. 119 of the 127th General Assembly starting in FY 2012, increasing the PLF share from 1.97% to 2.22% of revenues, and decreasing the share retained in the GRF accordingly (i.e., from 94.35% to 94.1%). And credits under the personal income tax for military retirement pay, established by H.B. 372 of the 127th General Assembly, and for eligible historical preservation projects, established by H.B. 149 of the 126th General Assembly and amended by H.B. 554 of the 127th General Assembly, are also incorporated into the forecasts.

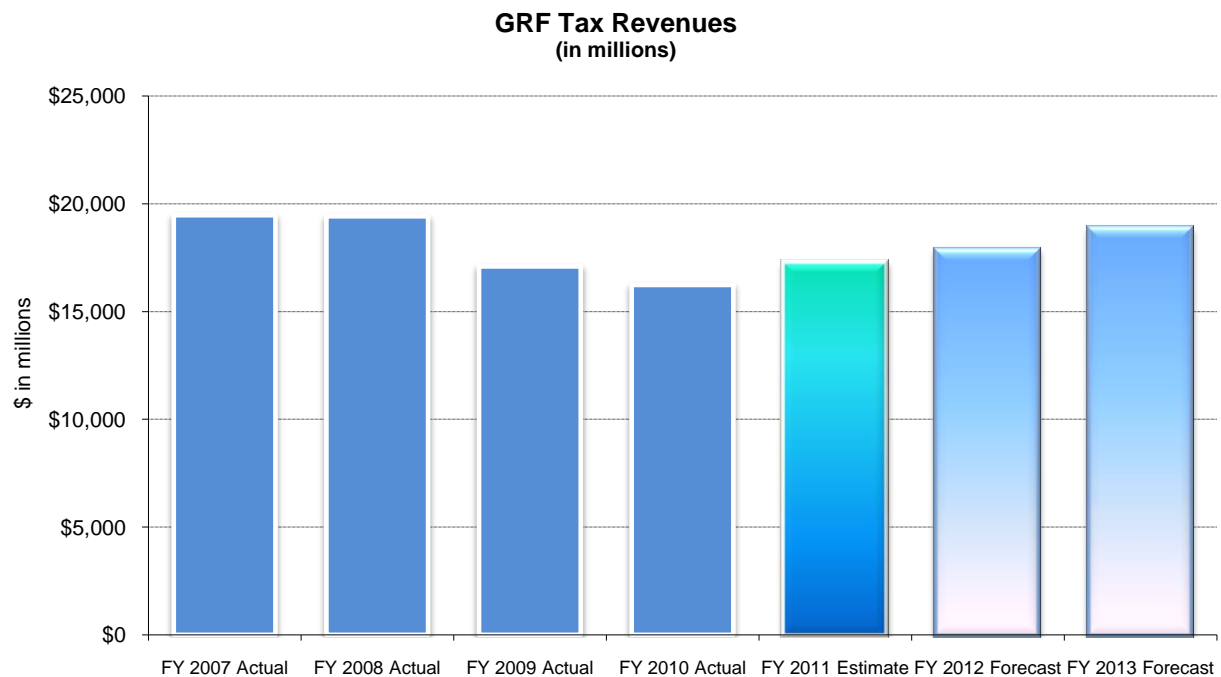
GRF tax revenue under current law is forecast to increase by \$606.3 million (3.5%) in FY 2012. Growth in income tax receipts is held to 3.8% due to the final reduction in income tax rates. Growth is expected to return for most tax revenue sources, as the economy is forecast to continue its recovery. The cigarette tax is a notable exception, as it is expected to continue its steady decline. A projected decline in kilowatt hour tax revenues is due to the growing share of PLF receipts, half of which are debited against this tax, rather than to any changes in its tax base or rates. LSC also forecasts revenue from earnings on investments and from license fees, which are projected to total \$83.7 million in FY 2012.

GRF tax revenue under current law is forecast to increase by \$985.2 million (5.5%) in FY 2013. Growth in revenue from the income tax is projected to accelerate to 7.9% as the effects of economic recovery are not diluted by reductions in tax rates. The auto sales tax is expected to level off due to rising interest rates on auto loans. Other taxes are expected to exhibit revenue growth, again with a notable exception of the tax on cigarettes and other tobacco products. Earnings on investments and license revenue are forecast to total \$111.9 million in FY 2013.

Compared with the FY 2010-FY 2011 biennium, GRF tax revenue for the FY 2012-FY 2013 biennium is forecast to be \$3.20 billion (9.6%) higher. The following charts and table provide overviews of GRF receipts from taxes and from state sources including earnings on investments and receipts from charges for licenses and fees.

As indicated earlier, a portion of CAT receipts is to be deposited into the GRF beginning in FY 2012. The CAT is projected to raise \$77.9 million in FY 2012 and

\$159.7 million in FY 2013 for the GRF. However, current law requires the GRF to make up any CAT shortfalls if the CAT does not generate enough receipts to make required reimbursement payments for schools and local governments for the reductions and phase-out of local taxes on most tangible personal property. Reimbursement payments required GRF subsidies in FY 2009 and FY 2010. GRF subsidies will be required for FY 2011 as well. Based on CAT revenue projections, GRF subsidies for reimbursement payments are expected to continue in the next biennium.



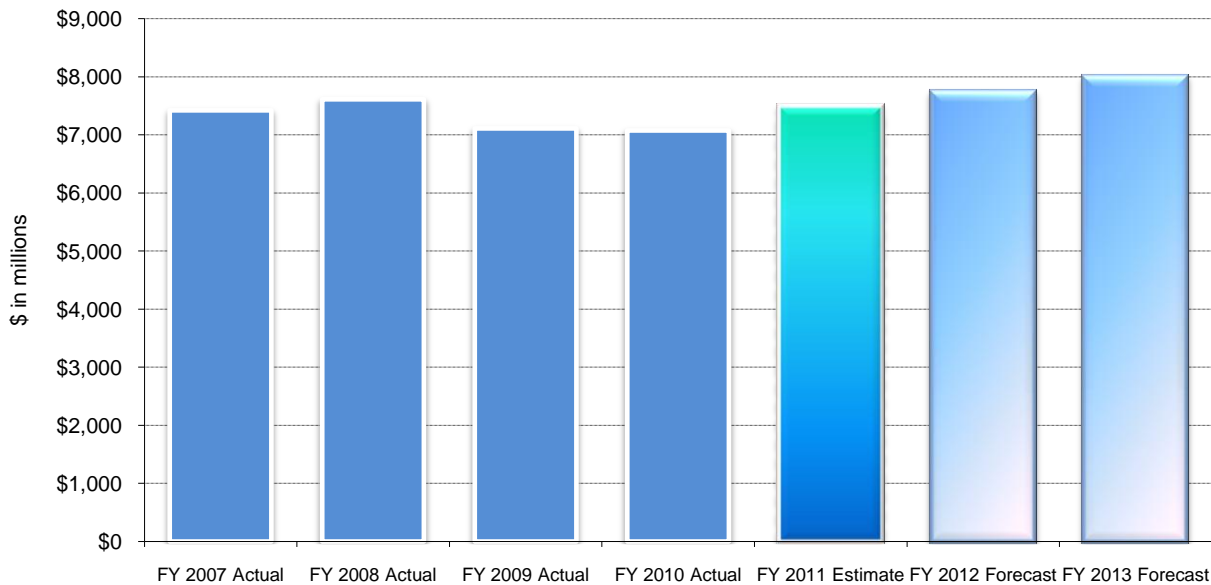
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$19,468.9	\$19,419.5	\$17,093.7	\$16,233.6	\$17,236.3	\$17,842.6	\$18,827.8
Growth	-0.5%	-0.3%	-12.0%	-5.0%	6.2%	3.5%	5.5%

LSC Baseline Revenue Forecasts, FY 2012-FY 2013 (\$ in millions)

GRF	FY 2010 Actuals	FY 2011 Estimates	Growth Rate	FY 2012 Forecast	Growth Rate	FY 2013 Forecast	Growth Rate
TAX REVENUE							
Auto Sales	\$882.9	\$950.0	7.6%	\$983.5	3.5%	\$983.5	0.0%
Nonauto Sales & Use	\$6,194.5	\$6,524.1	5.3%	\$6,744.5	3.4%	\$7,012.9	4.0%
Total Sales & Use Taxes	\$7,077.4	\$7,474.1	5.6%	\$7,728.0	3.4%	\$7,996.4	3.5%
Personal Income	\$7,247.2	\$7,806.9	7.7%	\$8,103.1	3.8%	\$8,743.4	7.9%
Commercial Activity	\$0.0	\$0.0	--	\$77.9	--	\$159.7	105.1%
Corporate Franchise	\$141.7	\$160.0	12.9%	\$165.0	3.1%	\$172.0	4.2%
Public Utility	\$136.7	\$142.7	4.4%	\$153.3	7.4%	\$159.8	4.2%
Kilowatt Hour Excise	\$156.3	\$161.3	3.2%	\$139.2	-13.7%	\$132.2	-5.0%
Foreign Insurance	\$250.8	\$254.0	1.3%	\$258.0	1.6%	\$268.0	3.9%
Domestic Insurance	\$161.7	\$206.0	27.4%	\$209.0	1.5%	\$216.0	3.3%
Business & Property	\$27.3	\$26.7	-2.0%	\$27.0	1.1%	\$27.4	1.5%
Cigarette	\$886.9	\$851.6	-4.0%	\$820.4	-3.7%	\$788.7	-3.9%
Alcoholic Beverage	\$56.1	\$56.0	-0.2%	\$56.3	0.5%	\$56.5	0.4%
Liquor Gallonage	\$36.5	\$37.0	1.2%	\$37.9	2.4%	\$39.0	2.9%
Estate	\$55.0	\$60.0	9.0%	\$67.4	12.3%	\$68.6	1.8%
Total Tax Revenue	\$16,233.6	\$17,236.3	6.2%	\$17,842.6	3.5%	\$18,827.8	5.5%
NONTAX STATE-SOURCE REVENUE							
Earnings on Investments	\$28.8	\$9.1	-68.4%	\$13.1	44.0%	\$38.9	196.9%
Licenses and Fees	\$66.2	\$68.5	3.5%	\$70.6	3.1%	\$73.0	3.4%

Sales and Use Tax

GRF Revenues from the Sales and Use Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$7,424.5	\$7,614.1	\$7,112.8	\$7,077.4	\$7,474.1	\$7,728.0	\$7,996.4
Growth	0.8%	2.9%	-6.6%	-0.5%	5.6%	3.4%	3.5%

Under current law, the state sales and use tax is levied at a rate of 5.5% on retail sales of tangible personal property, rental of some tangible personal property, and selected services, including health care services provided by Medicaid health insuring corporations (H.B. 1, the operating budget act for the FY 2010-FY 2011 biennium). Major exemptions to the sales and use tax include: food for human consumption off the premises where sold, newspapers and magazine subscriptions sent by second class mail, 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.

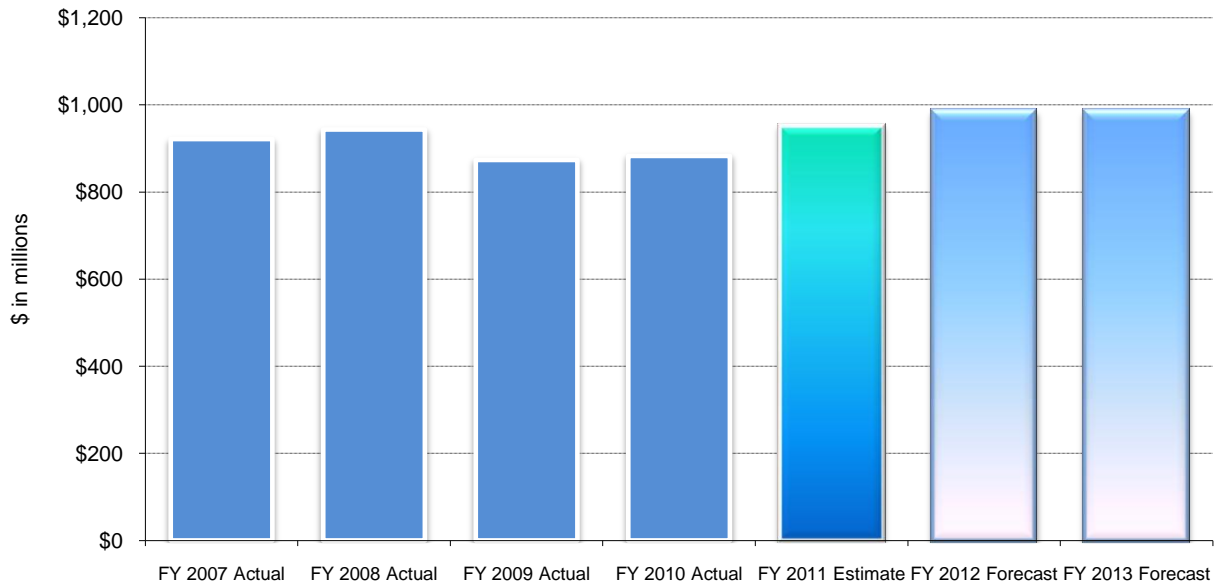
For forecasting purposes, the tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. One major exception is auto taxes arising from leases, which are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. The level of auto sales has become dependent on the level of incentives provided by manufacturers and dealers, and in FY 2010, the federal "Cash for Clunkers" incentive. The incentives have also changed the way consumers decide whether to purchase or lease their vehicles. As the

share of vehicles leased and manufacturers' incentives have varied over the years, the auto tax has become more volatile. Also, those changes have affected the nonauto sales tax because taxes arising from leases are recorded under the nonauto sales tax. Although still a small percentage (about 4.3%) of total retail sales, the growth in electronic commerce sales on which use tax is not collected affects receipts from the sales and use tax.

Prior to the recent economic recession, growth in the taxable base had been weak for a few years. The recession, job losses and associated declines in income growth and consumer spending shrank tax receipts both in FY 2009 and FY 2010. The decline in tax receipts in FY 2010 was reduced by the expansion of the nonauto sales and use tax base in H.B. 1. Though growth has resumed in FY 2011, and is expected to continue in FY 2012 and FY 2013, the baseline taxable base (i.e., before the recent base expansion) would only be returning to its prerecession level.

Auto Sales and Use Tax

GRF Revenues from the Auto Sales and Use Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$921.5	\$943.5	\$873.6	\$882.9	\$950.0	\$983.5	\$983.5
Growth	-1.6%	2.4%	-7.4%	1.1%	7.6%	3.5%	0.0%

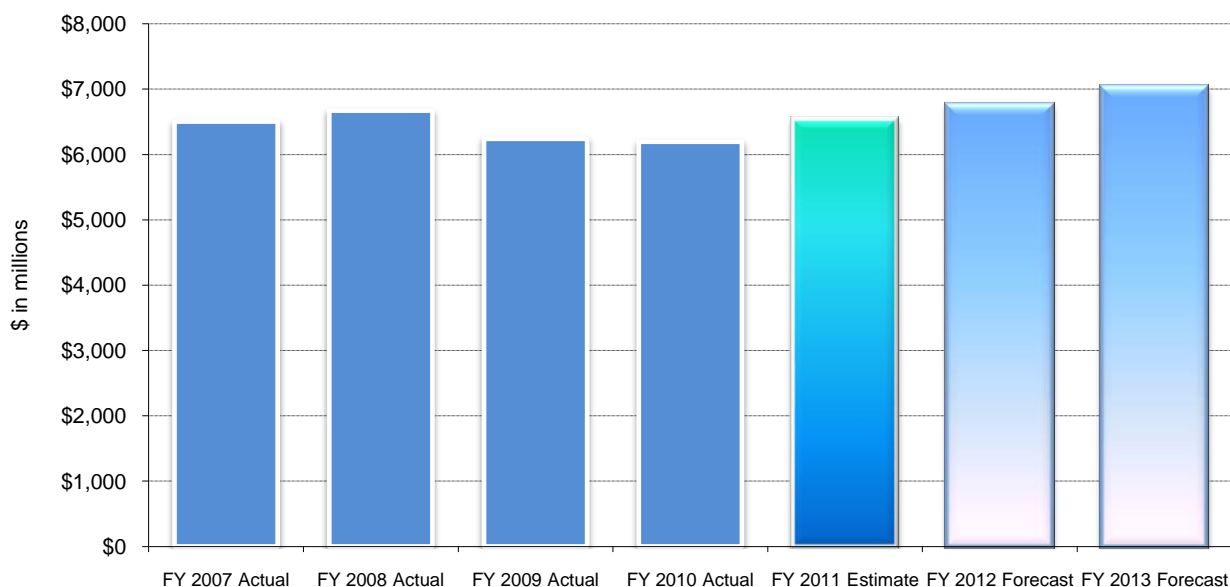
The forecast for the auto sales and use tax is based primarily on regressions of quarterly auto sales and use tax revenues against nationwide unit sales, new Ohio auto registrations, average prices, and interest rates. Estimates were adjusted to reflect actual performance of the tax through February 2011.

The auto sales and use tax taxable base shrank from FY 2002 through FY 2007 before rebounding in FY 2008. Growth in FY 2008 was due to a new tax on vehicle purchases by nonresidents (Am. Sub. H.B. 119 of the 127th General Assembly). Then, vehicle sales plunged during the recent recession and auto sales and use tax receipts fell. The turnaround started in the summer of 2009 with the "Cash for Clunkers" incentive program when buyers received a federal tax credit for trading in old, less efficient vehicles. The economic recovery, the availability of credit to prospective buyers, and the need to replace aging vehicles led to an increase in receipts in FY 2011, and this expansion of the taxable base is expected to continue in FY 2012. However, revenue growth may be dependent on gasoline prices, and the ability of consumers to obtain loans at favorable interest rates. Future interest rates are expected to be higher than current rates, which would make auto loans more expensive and potentially reduce the average purchase price of vehicles sold. Changes in gasoline prices mainly affect the sales mix of autos and light trucks. Higher gasoline prices decrease the sale of

light trucks, which in turn restrains growth of the taxable base. These factors are forecast to cause auto tax receipts to level off in FY 2013.

Nonauto Sales and Use Tax

GRF Revenues from the Nonauto Sales and Use Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$6,502.9	\$6,670.7	\$6,239.2	\$6,194.5	\$6,524.1	\$6,744.5	\$7,012.9
Growth	1.1%	2.6%	-6.5%	-0.7%	5.3%	3.4%	4.0%

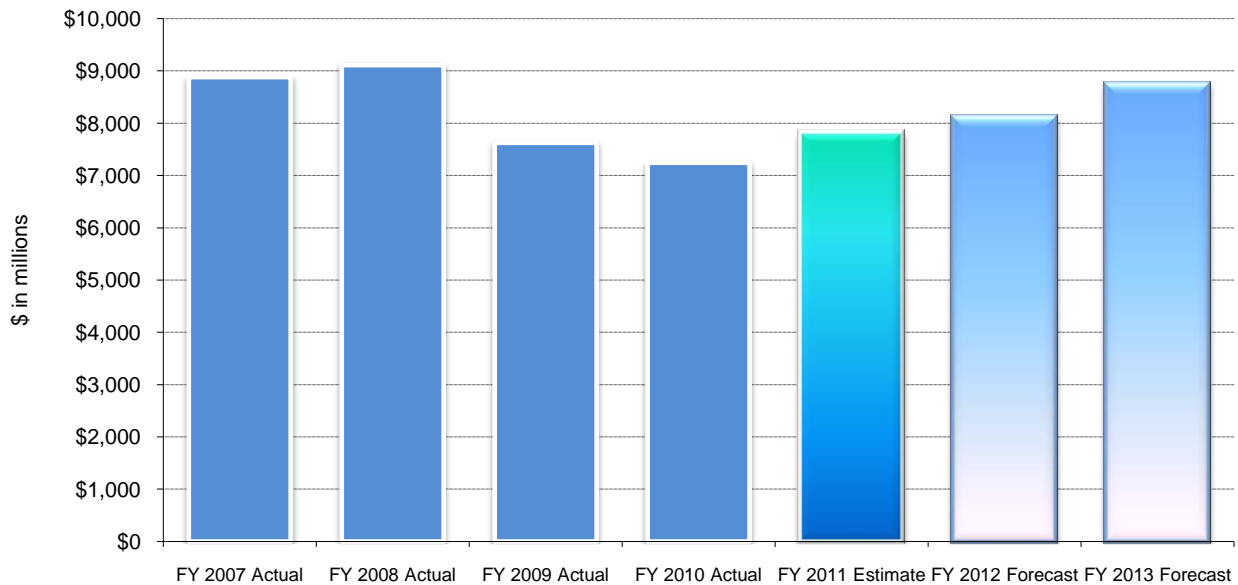
The forecast for the nonauto sales and use tax is primarily based on statistical regressions of quarterly nonauto sales and use tax revenues against retail sales and Ohio employment. Estimates were adjusted to reflect actual performance of the tax through February 2011.

Nonauto sales and use tax receipt growth in FY 2007 and FY 2008 were below long-term baseline growth rates. Receipts fell in FY 2009 and FY 2010 when wage growth and income gains, which largely determine nonauto sales and use tax receipts, fell and unemployment rose during the recent economic recession. Also, spending supported by the housing industry and mortgage equity withdrawals, which buoyed sales tax receipts in previous years, turned into a drag with the collapse of the industry in those fiscal years. The decline in tax receipts in FY 2010 was mitigated by the expansion of the nonauto sales and use tax base in H.B. 1 of the 128th General Assembly, which provided about \$175 million in state sales tax collections that year. Excluding the revenue from the base expansion, FY 2010 taxable spending would have been below FY 2009 by about 3.4%. Growth in nonauto sales and use tax receipts, which resumed this fiscal year, is expected to continue in the next biennium. However, the extent of the rebound in nonauto sales tax receipts in the next biennium is likely to depend on a potential recovery in the housing market. Though wages and incomes are

expected to grow in the next biennium, the housing industry may not provide the historical boost to the nonauto sales and use tax it previously had: home sales are far below their peak and housing prices are still falling, in large part because of outsized distressed sales; also, the share of cash-out mortgage refinancing in 2010 was the least since records began in 1985, and the amount of home equity converted to cash was the lowest in real terms in 13 years. Therefore, the housing industry may continue to be a drag on nonauto sales and use tax revenue in FY 2012 and FY 2013.

Personal Income Tax

GRF Revenues from the Personal Income Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$8,885.4	\$9,114.7	\$7,628.0	\$7,247.2	\$7,806.9	\$8,103.1	\$8,743.4
Growth	1.1%	2.6%	-16.3%	-5.0%	7.7%	3.8%	7.9%

The personal income tax is levied on Ohio taxable income, which equals federal adjusted gross income as reported to the U.S. Internal Revenue Service, 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 income. Certain credits may be subtracted from this amount to derive the taxpayer's final tax liability.

The estimated revenues for FY 2011-FY 2013 are based on the results of models of revenue collections. The models work with four components of state income tax collections: employer withholding, payments from individual taxpayers (estimated taxes and annual returns), other revenues (trust income and miscellaneous collections), and refunds. The data are organized on a fiscal year basis. Withholding is estimated as a function of Ohio wage and salary income, nonfarm payroll employment, withholding rates, the amount of the exemption per taxpayer, and the population ages 19 and under. The individual taxpayer component is a function of proprietors' income and other taxable nonwage income, the Standard and Poor's (S&P) 500 index (used to represent capital gains), the prime lending rate, and tax rate variables. All other income tax collections are a function of revenue trends and qualitative historical events. Refunds are a function of gross tax collections (withholding plus individual plus other), the

change in gross tax collections from the previous year, the value of the personal exemption, and tax rate variables. Forecasts of the explanatory variables are from Global Insight. The estimates reflect inflation adjustment of tax brackets beginning in tax year 2010.

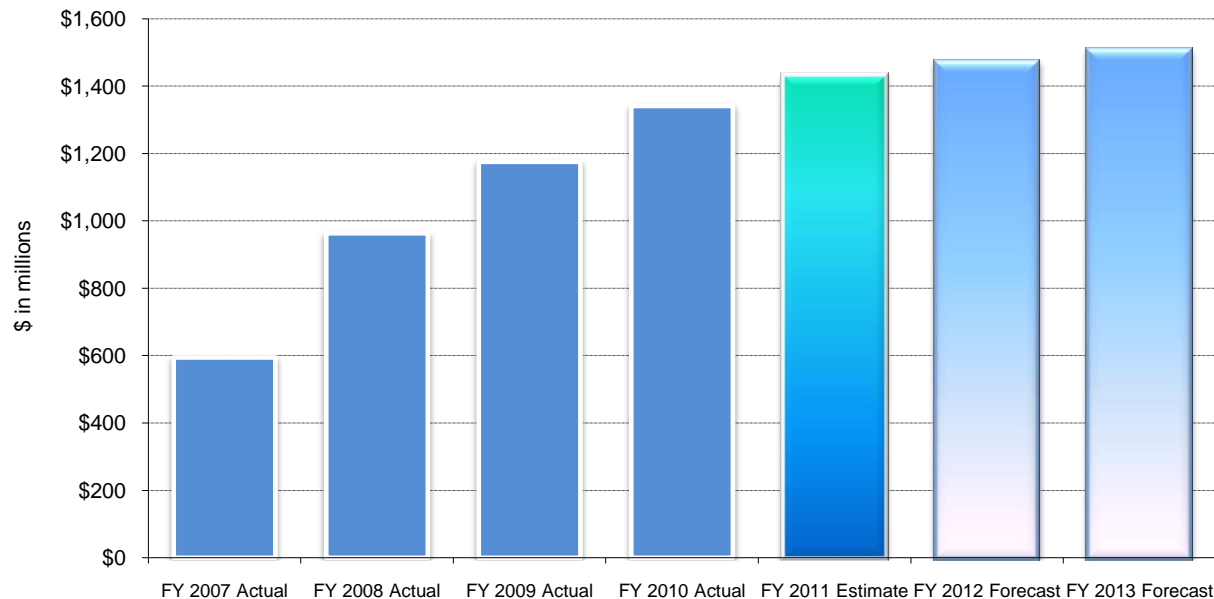
Further modifications to revenue estimates incorporate the exemption of retired military personnel pay enacted in H.B. 372 of the 127th General Assembly; revenue losses from refundable tax credits for rehabilitating historical buildings, as enacted in its current form by H.B. 554 of the 127th General Assembly; revenue losses from several tax changes enacted in H.B. 1 of the 128th General Assembly, including motion picture tax credits, technology investment tax credits, and a tax deduction for employer paid health coverage for some children to age 29; and conformance with IRS code changes.

Through February, FY 2011 GRF revenues from the personal income tax were up 8.5% compared with FY 2010. Gross collections were 4.7% above estimate and 7.5% above FY 2010 levels. Refunds were 1.4% below estimate and 0.7% below FY 2010 levels. Distributions to local government funds were 4.2% above estimate and 8.0% above FY 2010 levels. Under the current system for distribution of local government funds, 3.68% of total revenues from the personal income tax and all other GRF taxes is distributed from the personal income tax to the Local Government Fund.

The FY 2011 estimate for GRF revenues from the personal income tax is \$7.81 billion, a 7.7% increase from FY 2010 revenues. GRF revenues are projected to rise by 3.8% in FY 2012, and by 7.9% in FY 2013. The last reduction in income tax rates enacted in H.B. 66 of the 126th General Assembly, as modified by H.B. 318 of the 128th General Assembly, lowers tax rates by about 5.0% across all brackets and takes place in tax year 2011, which will reduce tax revenue growth mainly in FY 2012.

Commercial Activity Tax

All Funds Revenues from the Commercial Activity Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
All Funds Revenue	\$595.0	\$963.7	\$1,175.8	\$1,341.6	\$1,429.8	\$1,469.5	\$1,507.0
Growth	117.6%	62.0%	22.0%	14.1%	6.6%	2.8%	2.6%
GRF Share	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$77.9	\$159.7

In FY 2012 and FY 2013, most of the receipts from the commercial activity tax (CAT) will be distributed to non-GRF funds. Current law earmarks revenues from the CAT 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. From FY 2007 through FY 2011, revenues from the CAT are to be distributed only to the School District Tangible Property Tax Replacement Fund (70%) and the Local Government Tangible Property Tax Replacement Fund (30%) for reimbursement purposes. The share of CAT receipts to local governments other than schools is to decrease to 24.7% in FY 2012 and 19.4% in FY 2013. The GRF share will rise from 0% in FY 2011 to 5.3% in FY 2012 and 10.6% in FY 2013. Based on projected CAT receipts, distributions to the GRF would be \$77.9 million and \$159.7 million, respectively, in FY 2012 and FY 2013.

Under current law, if revenues from the CAT are less than required payments to local governments, the GRF will subsidize the required distributions. Due to the CAT falling short in making the reimbursements, the GRF subsidized the replacement funds in FY 2009 (\$96 million) and FY 2010 (\$282 million). Current estimates of required TPP

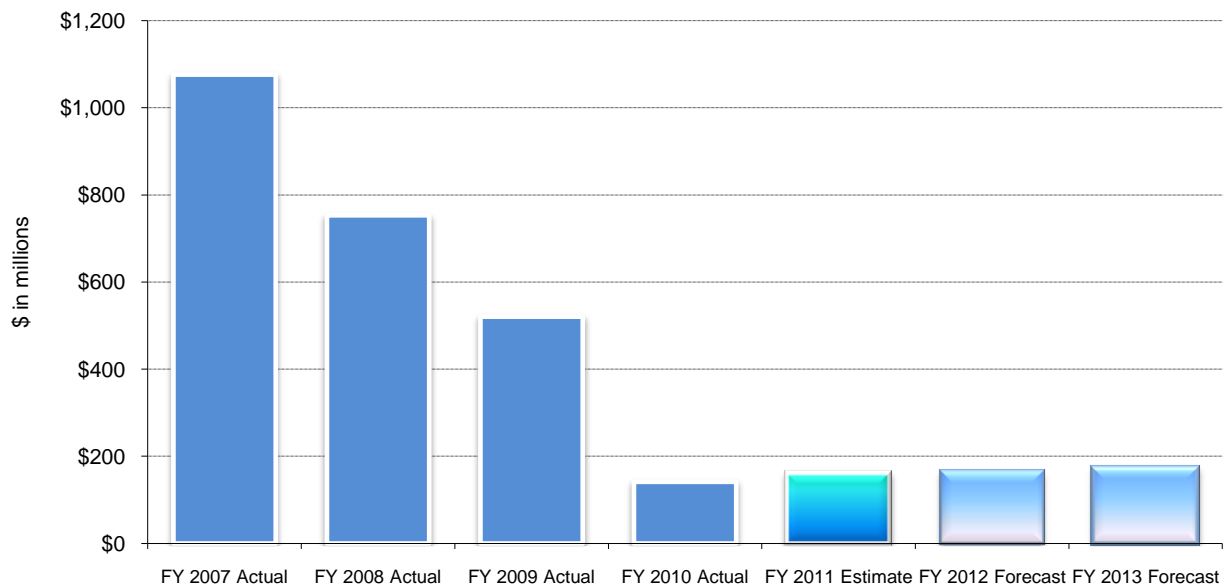
reimbursement obligations are \$1.65 billion in FY 2011, \$1.60 billion in FY 2012, and \$1.51 billion in FY 2013. Based on CAT revenue projections, subsidies to the replacement funds are expected to continue in the next biennium.

The CAT forecast is primarily based on changes to Ohio's Industrial Production, coupled with adjustments from estimates of tax credits applied against the tax. The high growth rates in revenues from FY 2007 through FY 2010 were due primarily to increases in effective tax rates due to the phasing in of the tax. Annual growth in CAT revenues starting in FY 2011 is primarily the result of the expansion of the tax base. In FY 2009, the job retention, the job creation, the research and development (R&D), and the R&D loan repayment credits migrated from the corporate franchise tax to the CAT. Also, the credit for net operating losses and other deferred tax assets, which also transferred from the corporate franchise tax, was claimed for the first time in FY 2010. Thus, CAT receipts have been reduced by the new tax credits since FY 2009. However, not enough data on taxpayers' behavior regarding the use of tax credits has been published, which creates an additional risk to the forecast.

Am. Sub. H.B. 66 of the 126th General Assembly created the CAT, a new privilege tax on business entities operating in Ohio. Tax collection, which started in FY 2006, was phased in over five years. In FY 2010, taxpayers paid 100% of their tax liability for the first time. Generally, business entities with annual taxable gross receipts below \$150,000 are exempt from the CAT and those with annual taxable gross receipts above \$150,000 and less than \$1 million pay the minimum tax of \$150. Businesses with annual taxable gross receipts above \$1 million pay \$150 plus the CAT tax rate of 0.26% on gross receipts in excess of \$1 million. Tax taxpayers who pay the minimum tax pay the CAT once a year. The other CAT taxpayers generally pay the CAT each quarter, based on gross taxable receipts in the previous calendar quarter.

Corporate Franchise Tax

GRF Revenues from the Corporate Franchise Tax
(in millions)



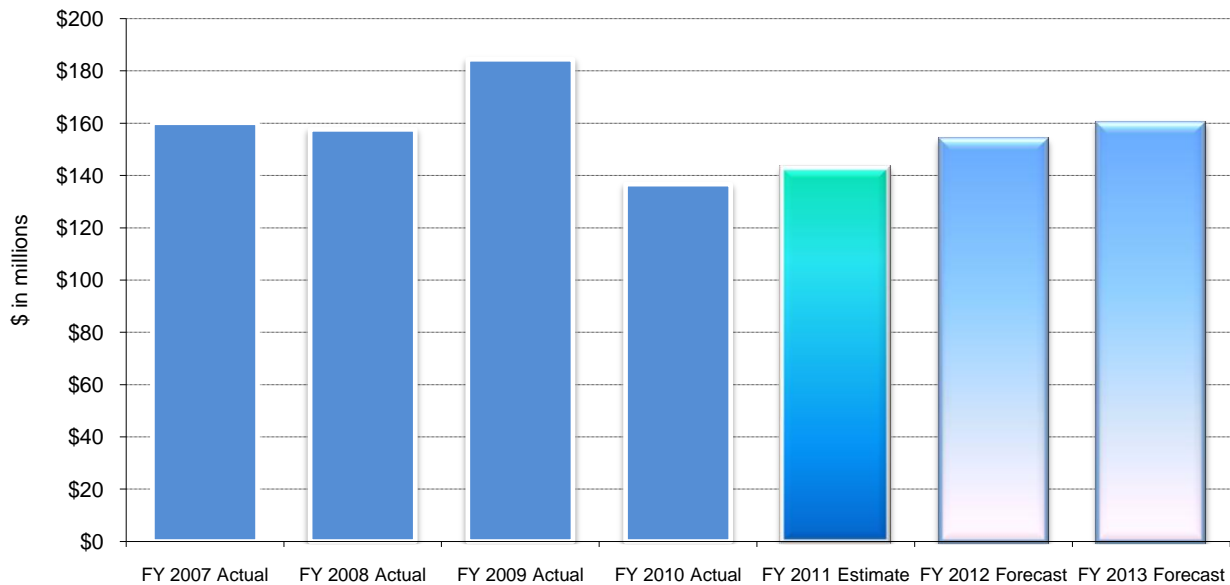
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$1,076.5	\$753.5	\$520.8	\$141.7	\$160.0	\$165.0	\$172.0
Growth	2.0%	-30.0%	-30.9%	-72.8%	12.9%	3.1%	4.2%

The phase-out of the corporate franchise tax (CFT) for nonfinancial corporations, which started in FY 2006 (Am. Sub. H.B. 66, 126th General Assembly), is reflected in the revenue declines shown in the chart above, and was completed in FY 2010. Starting in FY 2010, the CFT became essentially a tax on financial institutions (though affiliates of financial institutions or insurance companies pay the franchise tax, and other nonfinancial corporations may be filing tax returns to claim refundable credits). The tax liability is determined by multiplying the adjusted net worth (net value of stock) by the taxpayer's Ohio apportionment ratio and by the rate of 13 mills (1.3%). For multistate banks, the apportionment ratio is based on the shares of the taxpayer's property, payroll, and receipts in Ohio. The forecast is based on a regression of tax liabilities on changes in the yield of U.S. Treasury notes and dividends paid by the S&P 500 Index's largest companies. LSC expects an expansion of the CFT tax base in the next biennium.

The forecast is subject to substantial risk. The recent financial crisis affected the balance sheet of financial institutions. Some taxpayers recognized write-downs and decreases in their net worth, which affected their tax liabilities. However, funds provided by the federal government to alleviate the financial crisis, including funds from the Troubled Asset Relief Program, helped shore up balance sheets. Published reports indicated large banks with Ohio presence raised new capital when they began repaying the federal government the borrowed funds, which mitigated the decrease in their net worth tax base from the repayment. Due to long delays in the publication of tax data, the size of the CFT tax base for the most recent tax year is uncertain. Finally, the potential use of refundable tax credits (rehabilitation of historic buildings, motion picture, and venture capital credits) and the new markets tax credit (H.B. 1 of the 128th General Assembly) by financial institutions and certain qualified nonfinancial corporations creates an additional risk to the forecast.

Public Utility Excise Tax

GRF Revenues from the Public Utility Excise Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$160.2	\$157.7	\$184.5	\$136.7	\$142.7	\$153.3	\$159.8
Growth	-9.0%	-1.6%	17.0%	-25.9%	4.4%	7.4%	4.2%

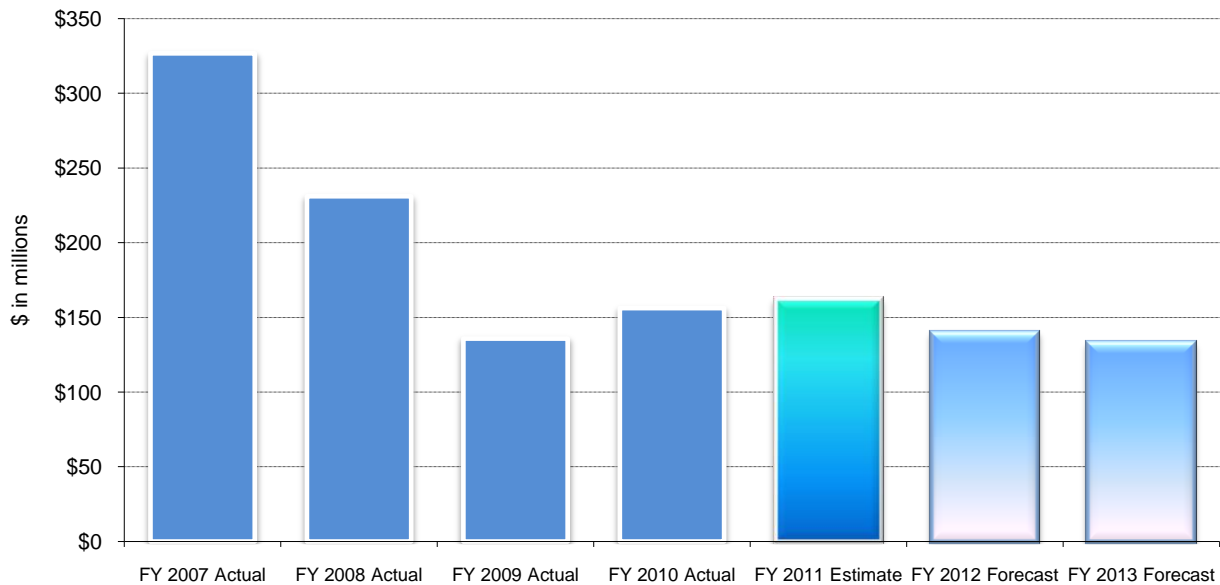
The public utility excise tax is imposed on the gross intrastate receipts of specified utilities. The tax is levied on natural gas utilities, pipeline companies, heating companies, waterworks, and water transportation companies. Companies subject to the tax pay 4.75% of gross receipts with the exception of pipeline companies, which pay 6.75% of gross receipts.

Most of the revenue from the public utility excise tax is from natural gas companies. They accounted for about 97% of total public utility excise tax revenue in FY 2010. So changes in natural gas prices and consumption are important determinants of public utility excise tax revenues. Natural gas prices in commodity markets rose sharply to mid-2008, fell sharply as the recession deepened, and then recovered somewhat from 2009 lows. This pattern is expected to result in a rise in public utility excise tax revenues in FY 2011. Year-to-date public utility excise tax revenues through February were 7.3% lower than in the year-earlier period. However, the fiscal fourth quarter, April through June, accounts for a disproportionate share of annual revenues, 34% to 46% in recent years. Commodity price fluctuations are reflected in public utility excise tax receipts with a lag. Tax revenues are projected to grow in FY 2012 and FY 2013 as average prices rise.

The estimate of public utility excise tax revenue for FY 2011 is based on year-to-date tax receipts through February, estimated receipts in March (when receipts are typically low), and on a model of public utility excise tax receipts from natural gas companies that relates these receipts to average prices paid by Ohio residential, commercial, and industrial natural gas consumers, to variables representing the quarterly pattern of receipts, and to a time trend. Forecasts for tax receipts from natural gas companies in the fourth quarter of FY 2011 and in FY 2012 and FY 2013 are from this model. The price history and forecast is provided by Global Insight. The time trend represents the effects of the Choice Program, under which gas utility customers may choose to purchase their natural gas from companies other than the utility that delivers the gas. Growth in the number of customers enrolled in the Choice Program continues to erode the customer base of the utilities and, therefore, receipts from this tax. Public utility excise tax receipts from companies other than natural gas utilities are assumed unchanged at FY 2010 levels in FY 2011 through FY 2013.

Kilowatt Hour Tax

GRF Revenues from the Kilowatt Hour Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$326.9	\$231.2	\$135.9	\$156.3	\$161.3	\$139.2	\$132.2
Growth	0.5%	-29.3%	-41.2%	15.0%	3.2%	-13.7%	-5.0%

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

GRF revenue from this tax has varied considerably, due primarily to changes in the share of tax revenue that goes to the GRF; total revenue from the tax is actually fairly stable. Revenue to all funds from the tax increased by 1.9% in FY 2008, but

² Prior to January 1, 2011, the self-assessor tax was calculated as the sum of 3.5% of the total price of all electricity plus \$0.00075 per kWh on the first 504 million kWh of annual consumption. The rate applicable to the price component of the kWh tax paid by self-assessing purchasers was 4.0% prior to July 1, 2008.

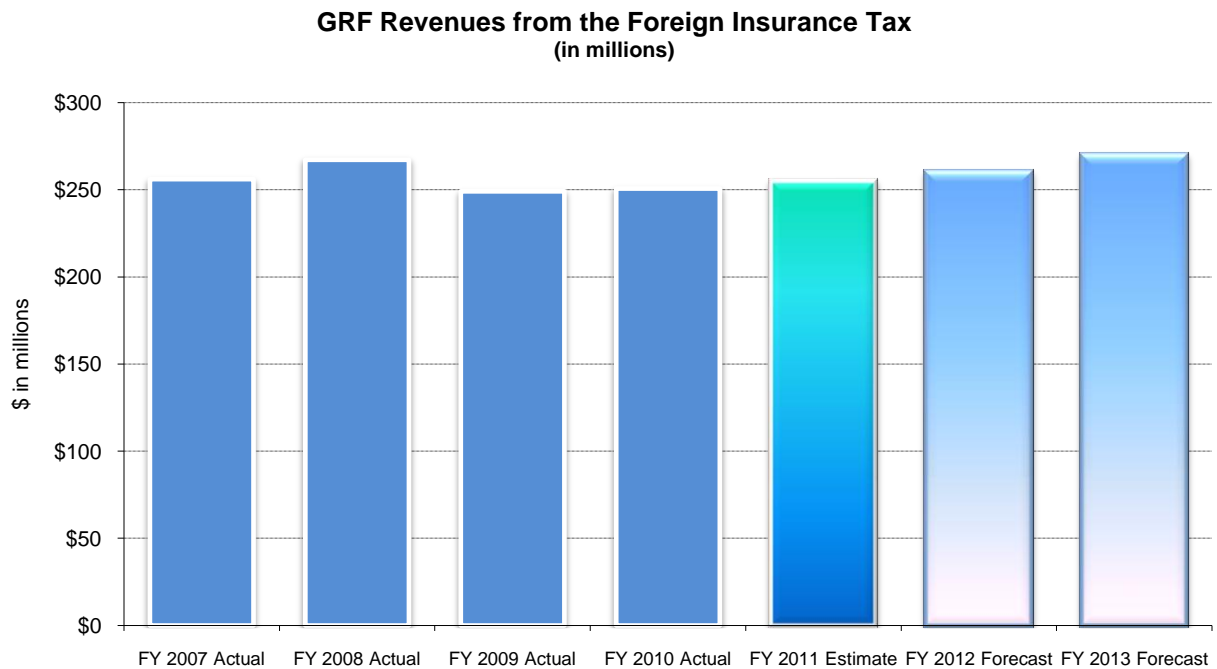
decreased by 4.6% in FY 2009 and 4.8% in FY 2010. Through February 2011, FY 2011 revenue to all funds has increased by about 3.3% as compared with the corresponding period in FY 2010. The reason for the increase so far this year is the increase in electricity consumption by each type of end-user (i.e., residential, commercial, and industrial).

The forecast of GRF kilowatt hour tax revenues was generated in two steps. First, the volume of electricity used by each type of end-user in Ohio was estimated based on the growth rates of retail sales of electricity in the East North Central region as forecasted by the U.S. Energy Information Administration in the February 2010 edition of its publication *Short-Term Energy Outlook*. Then, the estimated tax revenue was calculated by multiplying the marginal tax rates by the estimated volume of electricity used for each type of end-user.³

Half of the share of GRF tax revenue that is transferred to the Public Library Fund (PLF) is debited against this tax source for accounting purposes. The forecast for the biennium assumes that the PLF share of GRF tax revenue is 2.22% as provided by section 131.51 of the Revised Code, rather than 1.97% as provided in temporary law for the current biennium (section 381.20 of H.B. 1 of the 128th General Assembly). Increases in revenue from all GRF tax sources increase the amount debited against this tax, which accounts for the decreases forecast in FY 2012 and FY 2013.

³ In performing the second step, it was assumed that the highest marginal tax rate (\$0.00465 per kWh) applied to residential users, the second-highest rate applied to commercial users, and the lowest rate applied to industrial users. Although the correspondence between the electricity usage by these end-user categories and the usage categories represented in the structure of the tax are thought to be close, this is an approximation as the categories are not likely to align perfectly.

Foreign Insurance Tax



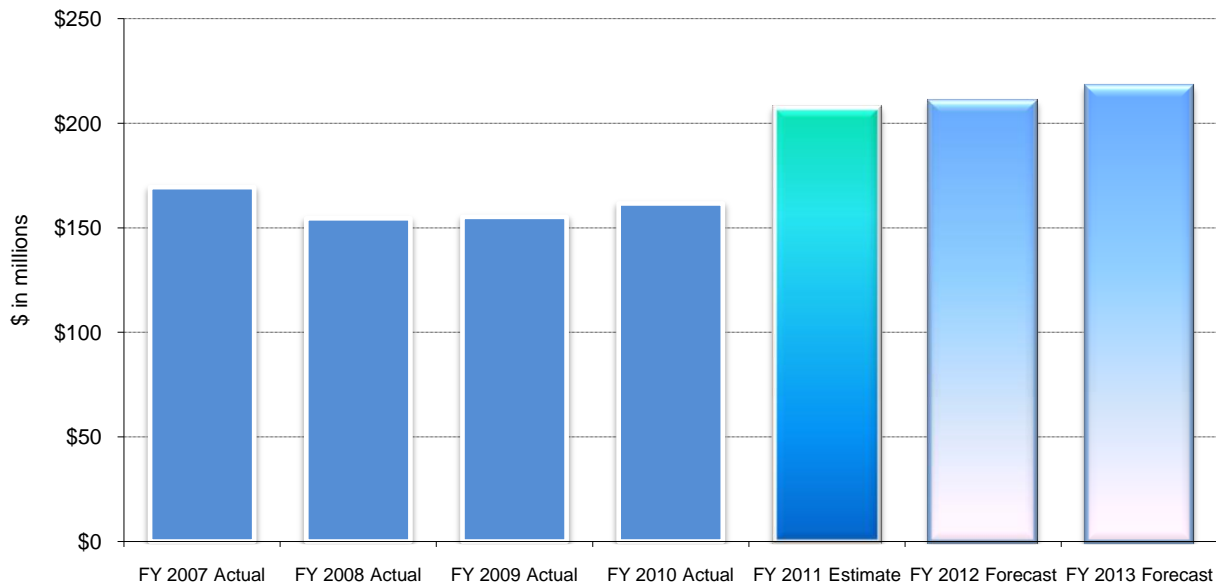
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$256.2	\$267.3	\$249.2	\$250.8	\$254.0	\$258.0	\$268.0
Growth	3.0%	4.3%	-6.8%	0.6%	1.3%	1.6%	3.9%

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 life and health insurance accounted for nearly half of the revenue from the tax in FY 2010, with premiums paid for fire, property, and casualty insurance accounting for another 45%.

Revenue from the tax fell sharply in FY 2009 due to the recent recession, and was essentially flat through FY 2010. 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 the average derived from several models, which generally used either Ohio personal income or wage and salary disbursements as a proxy for overall economic conditions, and used changes in six-month Treasury bill yields as a proxy for company revenues from the other main source. The FY 2011 estimate was adjusted to reflect actual performance of the tax through early March 2011. The FY 2012 and FY 2013 forecasts are adjusted slightly to account for the potential use of new markets tax credits authorized by H.B. 1 of the 128th General Assembly.

Domestic Insurance Tax

GRF Revenues from the Domestic Insurance Tax
(in millions)



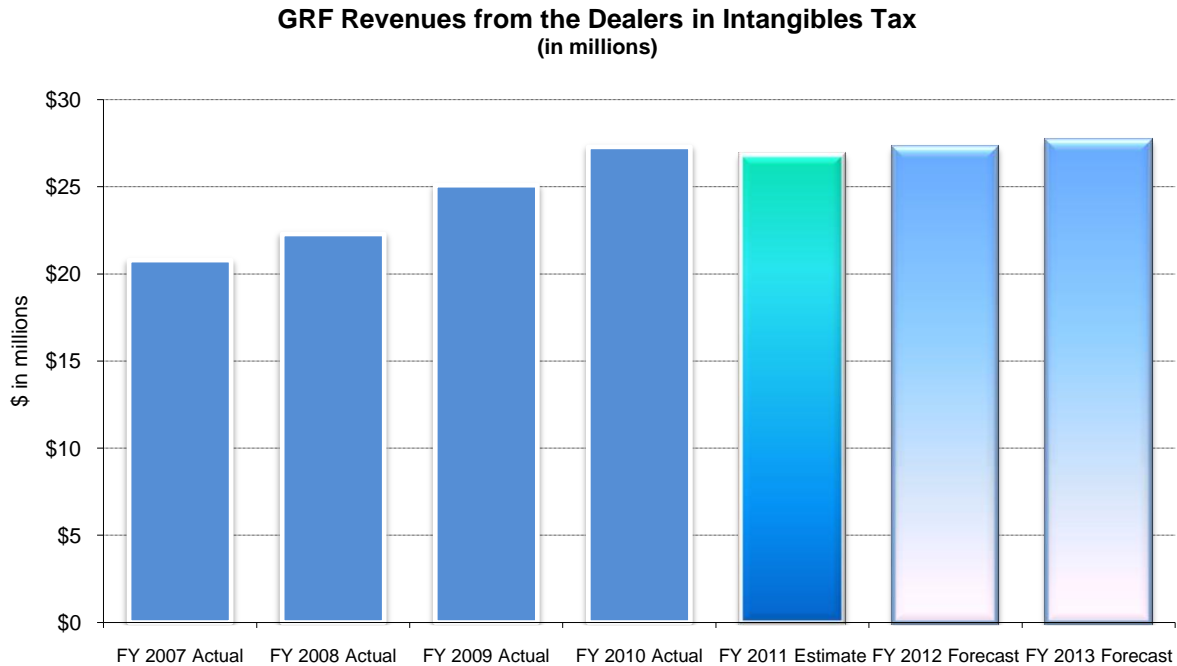
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$169.5	\$154.6	\$155.3	\$161.7	\$206.0	\$209.0	\$216.0
Growth	-0.5%	-8.8%	0.5%	4.1%	27.4%	1.5%	3.3%

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 health insuring corporations (HICs), which pay 1.0% of premiums. This tax structure is the same as the current foreign insurance tax structure. Nearly 74% of the revenue from the tax in FY 2010 was attributable to premiums paid for property and casualty insurance. Life insurers and HICs were also responsible for significant percentages.

The growth in tax revenue in FY 2010 was due to an expansion of the tax base enacted in H.B. 1 of the 128th General Assembly. H.B. 1 subjected premiums paid by Medicaid HICs to the tax. The base expansion was effective October 1, 2009, meaning that it had some impact in FY 2010, but FY 2011 is the first full year it is in effect. The increase in revenues shown for FY 2011 is primarily attributable to the full phase-in of the base expansion.

Revenues from this tax are influenced by overall economic conditions and by interest rates. Insurance companies derive revenue from both the premiums they collect and the interest earned from investing those premiums. The forecast method was the same as that used for the foreign insurance tax, but with some adjustments for the difference in the mix of lines of business that generate premiums under the two taxes.

Dealers in Intangibles Tax



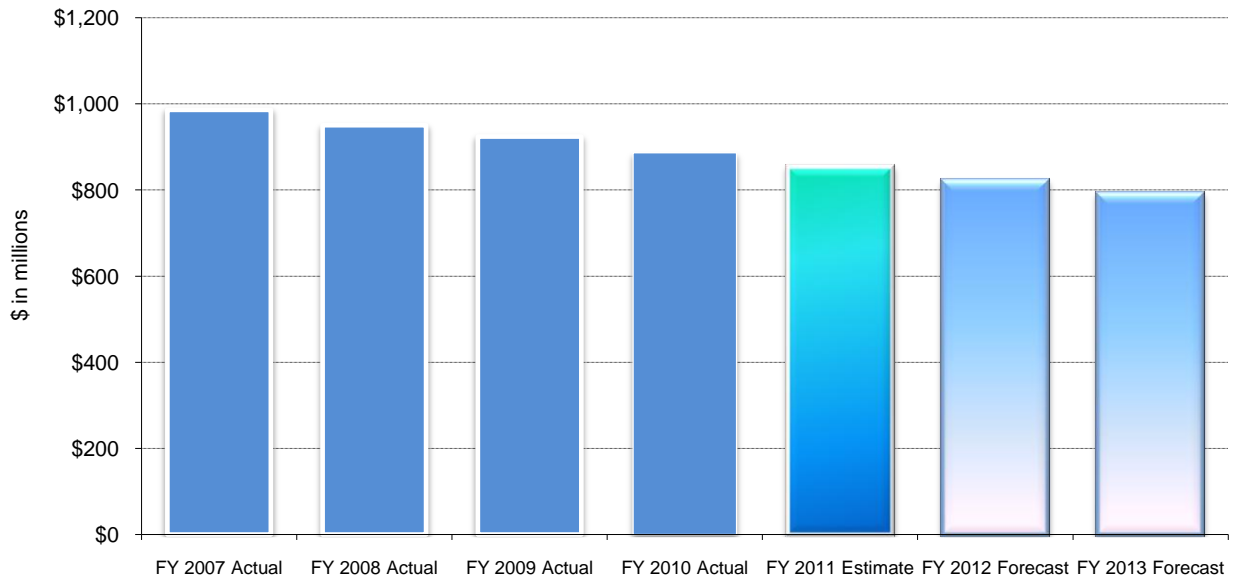
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$20.8	\$22.3	\$25.1	\$27.3	\$26.7	\$27.0	\$27.4
Growth	8.9%	7.2%	12.6%	8.8%	-2.0%	1.1%	1.5%

The business and property tax, which is also known as the dealers in intangibles tax, is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money; buying and selling notes, mortgages, and other evidences of indebtedness; and firms buying and selling securities. The tax rate is 8 mills (0.8%) on the value of shares or capital employed by the dealers. All taxes paid by "qualifying" dealers are credited to the GRF. A "qualifying" dealer is a dealer that is a member of a controlled group of which a financial institution or insurance company is also a member. The distribution of receipts from this tax depends on the type of taxpayer. For "nonqualifying" dealers, 3 mills (0.3%) are deposited in the GRF. The remainder, 5 mills (0.5%), is distributed to the counties.

Tax policy changes and behavioral responses by taxpayers have been the main cause of significant revenue fluctuations for this tax over the years. The forecast for FY 2012 and FY 2013 is based on trend analyses of the contribution to GRF revenues by qualifying and nonqualifying dealers in the last few fiscal years. Revenues from both types of dealers are expected to grow modestly in FY 2012 and FY 2013.

Cigarette and Other Tobacco Products Tax

GRF Revenues from the Cigarette and Other Tobacco Products Tax
(in millions)



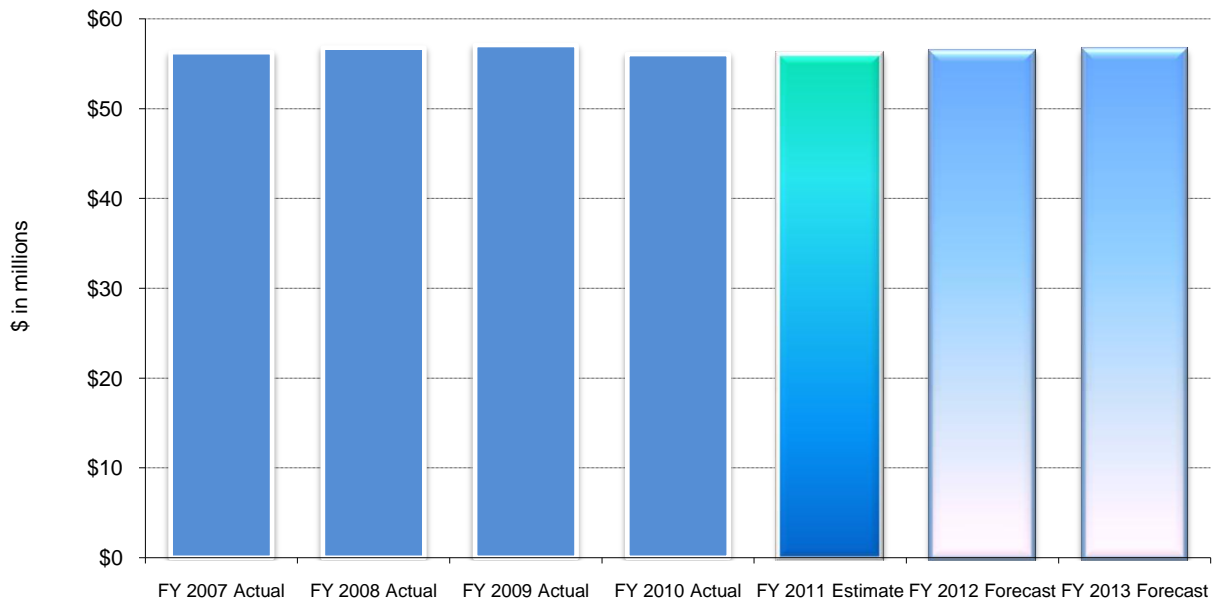
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$986.6	\$950.9	\$924.8	\$886.9	\$851.6	\$820.4	\$788.7
Growth	-9.0%	-3.6%	-2.8%	-4.1%	-4.0%	-3.7%	-3.9%

The cigarette and other tobacco products tax is levied on cigarettes, cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. Receipts from the sales of cigarettes are about 95% of total receipts. Cigarettes are taxed at a rate of \$1.25 per pack of 20 cigarettes. Other tobacco products (OTP) are taxed at 17% of their wholesale value. The tax rate on cigarettes increased from \$0.55 to \$1.25 per pack of 20 cigarettes on July 1, 2005, while the tax rate on other tobacco products was unchanged. Revenue collected from the tax is deposited into the GRF. Revenue in FY 2006 included one-time receipts from an additional \$.70 per pack tax on inventory at the time of the rate increase for which dealers had paid the previous tax rate. FY 2007 receipts did not include such proceeds, thus resulting in the outsized revenue decline that fiscal year. The federal cigarette tax increased \$0.62 per pack on April 1, 2009, up from \$0.39 per pack, and was expected to reduce Ohio cigarette tax receipts by a large amount in FY 2010. The negative effects of the federal tax increase on receipts were partially offset by cigarette tax increases in a number of states in 2009, including Kentucky and Pennsylvania, and the rise in the wholesale value of OTP from various federal tax rate increases.

The forecast for the cigarette and other tobacco products tax is primarily based on trend analysis of the consumption of both cigarettes and other tobacco products. Smokers are expected to continue to make downward adjustments to their consumption of taxed cigarettes for various reasons, including more expensive cigarettes and health reasons. Revenue from the tax on tobacco products other than cigarettes generally increases each year, primarily from increases in the wholesale price of those products. The long-term annual decline in cigarette consumption is expected to continue. Additional factors, such as increases in cigarette prices, increases in the share of nontaxed cigarettes (smuggling and Internet purchases) may create an even steeper decline in consumption of taxed cigarettes in future years. Conversely, tax increases in neighboring lower tax states may reduce losses from out-of-state nontaxed purchases and boost forecasted revenues from the cigarette and other tobacco products tax.

Alcoholic Beverage Tax

GRF Revenues from the Alcoholic Beverage Tax
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$56.3	\$56.8	\$57.1	\$56.1	\$56.0	\$56.3	\$56.5
Growth	-2.1%	0.9%	0.4%	-1.8%	-0.2%	0.5%	0.4%

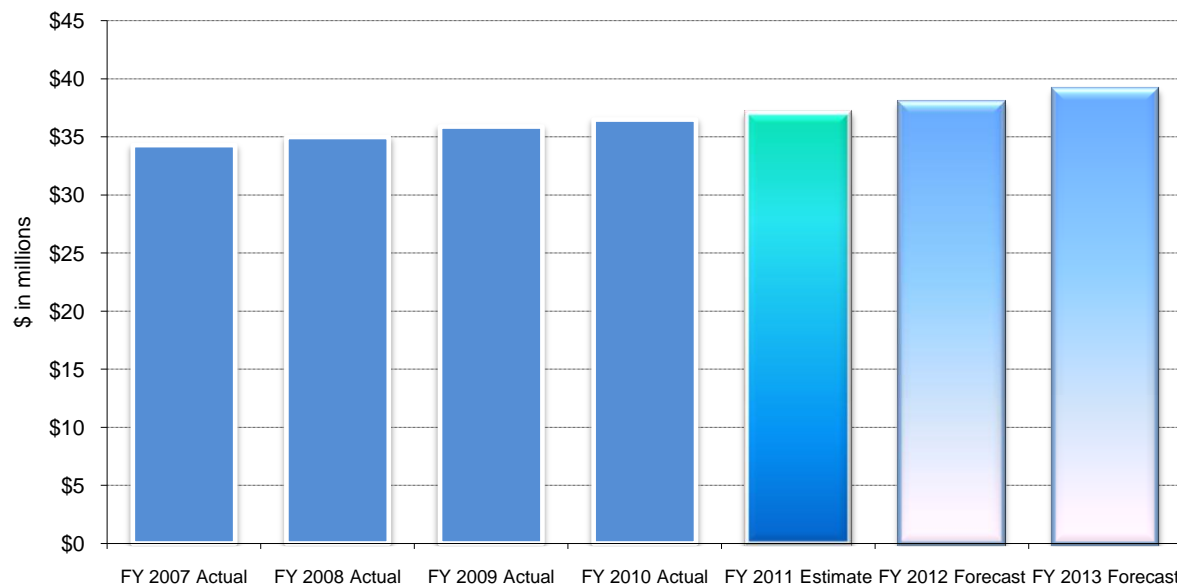
The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. The tax is based on a per-container rate depending on the type of beverage sold. Beer is taxed at varying rates that are equivalent to 0.14 cents per ounce for bottles and cans with less than 12 ounces (about 10 cents for a six-pack of 12 oz. containers). Wine containing less than 14% alcohol by volume is taxed at 32 cents per gallon (about 5.4 cents for a standard 750 ml bottle). Wine with between 14% and 21% alcohol by volume is taxed at \$1.00 per gallon (or 17.0 cents for a standard 750 ml bottle). Mixed beverages are taxed at \$1.20 per gallon (or 20.4 cents for a standard 750 ml bottle). Five cents of the tax 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. About 81% of the tax revenue is from the sale of beer and malt beverages. Wine sales contribute 11%. Sales of all other alcoholic beverages contribute the remaining 8%.

The forecast for the alcoholic beverage tax revenue is based on a trend analysis of the contribution of each alcoholic beverage to the tax base in the last few years. Revenues from the tax are expected to change little in the next biennium. Trends in alcohol consumption and increased alcoholic beverage competition affect revenues from this tax. The market share for spirits and liquor has been growing at the expense

of beer sales, while sales of wine have increased slightly. In 2010, nationwide beer sales fell below 50% of total alcoholic beverages down from 55.8% in 2001, as consumers continue their decade long migration from beer to cocktails. In the corresponding period, spirits sales grew from 28.7% to 33.3%, and wine sales increased from 15.5% to 17.0%.

Liquor Gallonage Tax

GRF Revenues from the Liquor Gallonage Tax
(in millions)



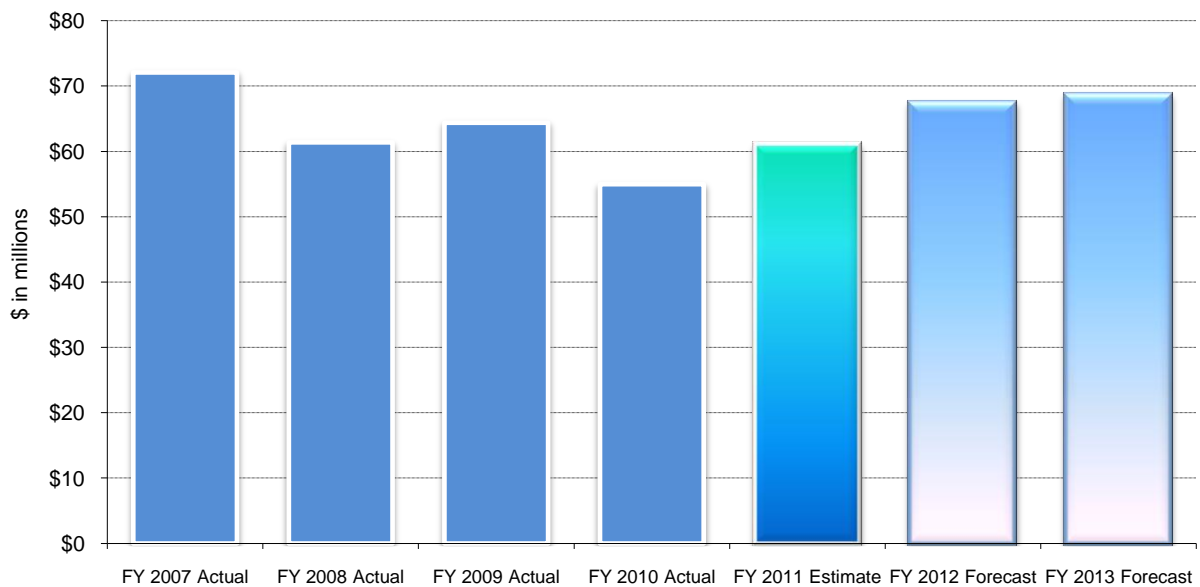
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$34.3	\$35.0	\$35.9	\$36.5	\$37.0	\$37.9	\$39.0
Growth	2.7%	2.0%	2.6%	1.7%	1.2%	2.4%	2.9%

The liquor gallonage tax is levied at the rate of \$3.38 per gallon of spirituous liquor. This is the equivalent of 57.6 cents per standard 750 ml bottle. Revenue from this tax is deposited into the GRF.

The forecast of liquor gallonage tax receipts is based on trend analysis of wholesale and retail gallonage sales of liquor in Ohio. The market share for spirits has been growing, mostly at the expense of beer sales, while sales of wine have been increasing slowly. A thriving cocktail culture, a larger selection of liquor brands, increased cultural acceptance, and increased advertising expenditures have all contributed to a steady growth in liquor gallonage tax revenues. Growth rates decreased in FY 2010 and FY 2011 due to reduced purchases by the hospitality industry from a recession-induced slowdown in consumers' visits to restaurants, bars, and other drinking establishments.

Estate Tax

GRF Revenues from the Estate Tax
(in millions)



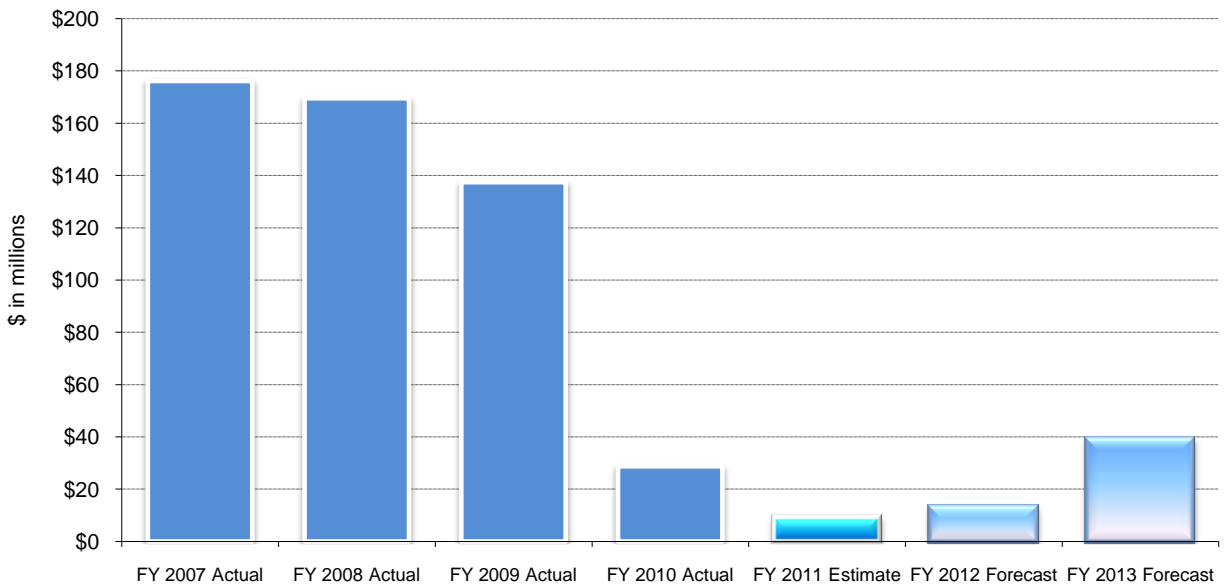
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$72.1	\$61.4	\$64.4	\$55.0	\$60.0	\$67.4	\$68.6
Growth	33.4%	-14.9%	5.0%	-14.6%	9.0%	12.3%	1.8%

The estate tax is levied on the gross value of a decedent's estate less allowable deductions. The tax is progressive, with marginal rates ranging from 2% of the taxable estate to 7% of the value of the taxable estate in excess of \$500,000. A nonrefundable credit of up to \$13,900 is allowed against the tax, which effectively exempts estates with net taxable value less than \$383,333 from the tax. Revenues are divided between the state General Revenue Fund (GRF) and the township or municipality in which the tax originates. The distribution of tax revenues for dates of death on or after January 1, 2002 is 20% to the GRF and 80% to the township or municipality.

The forecast for estate tax revenues is based on regression results that include estimates of the total number of Ohioans that die each year, the Standard and Poor's (S&P) 500 Index, and per capita personal income. Estate tax revenues in FY 2012 and FY 2013 are expected to increase slightly above the FY 2011 amount. The estate tax is a volatile revenue source. Estate tax receipts vary from year to year because they depend on the net taxable value of a decedent's estate at the time of death, which closely tracks financial market conditions, and the time of settlement made to each county probate court.

Earnings on Investments

GRF Revenues from Earnings on Investments
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$176.2	\$169.6	\$137.5	\$28.8	\$9.1	\$13.1	\$38.9
Growth	64.2%	-3.8%	-18.9%	-79.1%	-68.4%	44.0%	196.9%

The Treasurer of State is responsible for managing the state's portfolio and investing state funds. All state funds are invested conservatively with safety of the funds as the number one investment priority. State law and investment policy provide an outline of state investment objectives, delegation of authority, and asset diversification policy, and restrict the types of investments allowed. Some of the allowable instruments are short-term and medium-term fixed-income instruments, such as United States Treasury securities, federal agency obligations, and highly rated commercial paper. Among the instruments that are not allowable for state fund investment are domestic or international equities, real estate, and venture capital. All earnings on investments from state funds are credited to the GRF unless stated otherwise in the Ohio Revised Code.

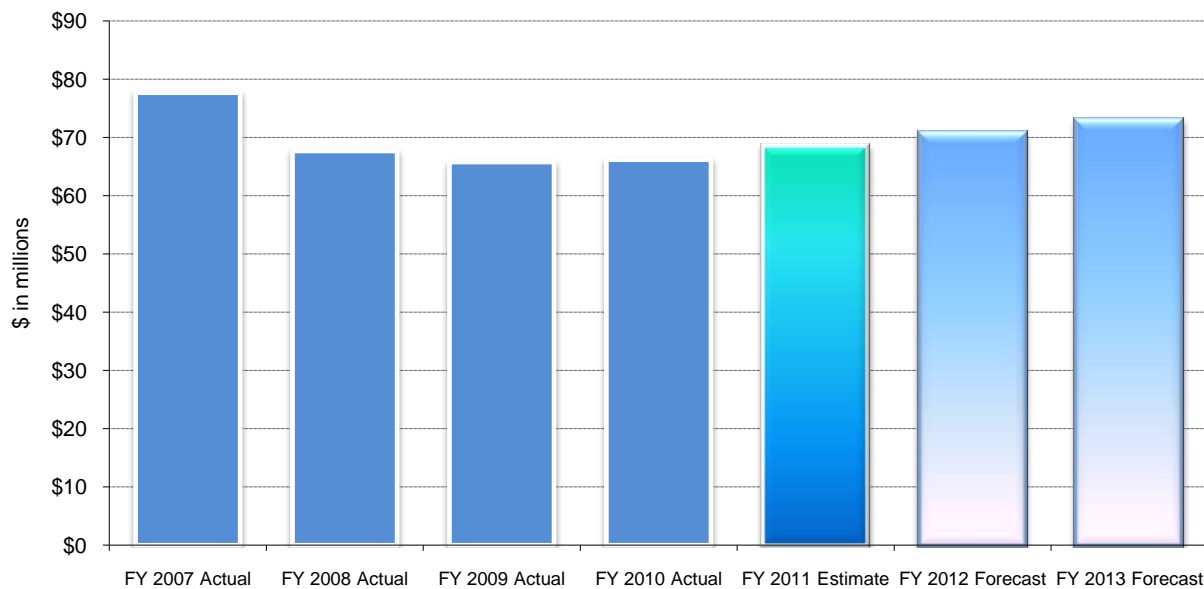
In FY 2011, earnings on investments are estimated to decrease to \$9.1 million from \$28.8 million in FY 2010 because of decreasing interest rates on short and medium-term investment instruments and lower estimated fund balances than in previous fiscal years. A portion of earnings on investments during FY 2007 through FY 2010 was due to transfers of interest earned by all state funds to the GRF (except for interest earned by funds that are restricted or protected by the Ohio Constitution, federal tax law, or the federal Cash Management Improvement Act) under temporary law provisions in H.B. 1

of the 128th General Assembly (section 512.10) and H.B. 119 of the 127th General Assembly (section 512.06).

In FY 2012 and FY 2013 interest rates are expected to rise. Estimated fund balances are expected to increase slightly in FY 2012 and FY 2013. Baseline earnings on investments for FY 2012 and FY 2013 are estimated at \$13.1 million and \$38.9 million, respectively. The calculations for the baseline forecast were based on interest rate estimates and the estimated state funds balance that will be available for investment.

Licenses and Fees

GRF Revenues from Licenses and Fees
(in millions)



	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
Revenue	\$77.7	\$67.7	\$65.8	\$66.2	\$68.5	\$70.6	\$73.0
Growth	5.2%	-12.9%	-2.7%	0.6%	3.5%	3.1%	3.4%

The General Revenue Fund receives revenue from a number of licenses and fees that are either completely or partially deposited into the GRF. The two largest contributors of license and fee revenue have historically been the license fees deposited by the Department of Insurance and liquor permit fees deposited by the Department of Commerce. Motor vehicle license fees, license revenue deposited by the Environmental Protection Agency, and various business licenses also contribute revenues to the GRF.

LSC estimates licenses and fees will produce \$68.5 million in GRF revenues for FY 2011, \$70.6 million in FY 2012, and \$73.0 million in FY 2013. The revenue projections for FY 2012 and FY 2013 are based on expected growth in Ohio's gross state product, which is a measure of a state's total output, and do not reflect any fee changes that may occur over the next biennium.

MEDICAID EXPENDITURE FORECAST

Overview

Established in 1965, Medicaid is a joint state-federal program that provides health care coverage to the poor. The federal government establishes broad national guidelines for the program, while states determine their own eligibility requirements and scope of services, set provider payment rates, and administer their own programs.

The Medicaid/SCHIP⁴ Program in Ohio provides health care coverage to children up to age 19 with family income up to 200% of the federal poverty guideline (FPG), pregnant women with incomes up to 200% FPG, parents with incomes up to 90% FPG, and the elderly and persons with disabilities of all ages with incomes up to 64% FPG.

Medicare provides health care coverage for most of Ohio's elderly population; however, many of the elderly are "dually eligible." The Medicaid Program supplements dual eligibles' Medicare benefits by providing coverage for services such as long-term care and by providing assistance with Medicare premiums, copayments, and deductibles to certain low-income seniors.

As of April 1, 2008, health care coverage is also provided under the state-funded Children's Buy-In Program (CBI) to individuals under age 19 who have countable income exceeding 300% FPG, have not had creditable health insurance for at least six months, and meet other eligibility requirements. Each individual enrolled in CBI pays an insurance premium. The amount of the premium varies depending on household size and household annual income.

As of April 1, 2008, health care coverage is available to working Ohioans with disabilities through the Medicaid Buy-In for Workers with Disabilities (MBIWD) Program. Under this program, individuals with income greater than 150% FPG pay a monthly premium.

Medicaid Forecast Summary

Medicaid services are an "entitlement" for those who meet eligibility requirements. This means that if an individual is eligible for the program then he or she is guaranteed the benefits and the state is obligated to pay for them. It is for this reason that LSC staff forecast Medicaid expenditures.

In FY 2011, Medicaid is expected to provide health care coverage to 2.17 million Ohioans. LSC forecasts that the total number of persons eligible for Medicaid will increase by 78,756 persons, or 3.62%, in FY 2012, and by 28,072 persons, or 1.25%, in FY 2013. In FY 2011, Medicaid expenditures, in combined state and federal dollars, are

⁴ State Children's Health Insurance Program. Ohio has implemented SCHIP as a Medicaid expansion.

estimated to be \$13.85 billion. LSC forecasts that Medicaid expenditures will increase by \$1,005 million, or 7.3%, in FY 2012, and by \$935 million, or 6.3%, in FY 2013.

Caseload Forecast

As shown in Table 1 below, the total number of persons eligible for Medicaid grew from 1.88 million in FY 2009 to 2.04 million in FY 2010, an 8.53% increase. The total number of persons eligible is estimated to reach 2.17 million in FY 2011, a 6.68% increase over FY 2010. LSC forecasts that the number of persons eligible for Medicaid will increase to 2.25 million in FY 2012, a 3.62% increase, before reaching 2.28 million in FY 2013, a 1.25% increase.

Table 1. Total Medicaid Caseloads

Fiscal Year	Monthly Average	Growth Rate
2004	1,630,730	--
2005	1,701,024	4.31%
2006	1,749,765	2.87%
2007	1,757,518	0.44%
2008	1,780,564	1.31%
2009	1,878,395	5.49%
2010	2,038,707	8.53%
2011	2,174,902	6.68%
2012	2,253,658	3.62%
2013	2,281,730	1.25%

Medicaid caseload is driven by a number of factors. The business cycle is an important determinant particularly for nondisabled adults and children. As unemployment increases, workers and their dependants may lose access to employer coverage. This can happen because of unemployment, reduced employer contributions to health insurance, reduced eligibility for employer-sponsored insurance, and movement from full-time to part-time work. Individuals may become eligible and enroll in public coverage, purchase nongroup coverage, or become uninsured. Recovery from the latest recession has been slow compared with typical business cycle recoveries since World War II. Ohio's unemployment rate remains high at 9.4% of the labor force in January 2011. Global Insight's February 2011 baseline forecast projects that the Ohio unemployment rate will decrease to 9.32% in the first quarter of calendar year (CY) 2011 and to 8.62% by the second quarter of CY 2013. Global Insight projects that Ohio's unemployment rates will remain above 9% until the third quarter of CY 2012.

Changes in state and federal eligibility standards, health care costs, employer offers of health insurance coverage, and income can also affect the Medicaid caseload. The following is a list of recent Medicaid policies affecting eligibility:

1. Beginning January 1, 2008, implementation of a federal option under which an individual under age 21 qualifies for Medicaid if the individual (a) was in

- foster care under the responsibility of the state on the individual's 18th birthday, (b) received Title IV-E foster care maintenance payments or independent living services before turning age 18, and (c) meets all other applicable eligibility requirements.
2. Effective January 2008, the raising of the income eligibility limit for pregnant women to income of 200% (from 150%) FPG.
 3. Not earlier than January 1, 2008, expansion of SCHIP to include persons under age 19 with family incomes up to 300% FPG as authorized under H.B. 119 of the 127th General Assembly (the FY 2008-FY 2009 biennial budget act). The program has yet to be implemented. Therefore, LSC's baseline forecast does not include this expansion.
 4. Starting April 2008, establishment of the CBI Program.
 5. Starting April 2008, establishment of the MBIWD Program.
 6. Beginning March 2009, implementation of Reinstatement of Medicaid for Public Institution Recipients (RoMPIR). This policy provides for suspension, rather than termination, of Medicaid benefits for persons entering adult and youth correctional facilities and state psychiatric hospitals, and who are subsequently discharged within one year.
 7. Effective October 1, 2009, the extension of initial eligibility for transitional medical assistance to 12 months and the elimination of the quarterly income reporting requirement. This option is the result of the American Recovery and Reinvestment Act of 2009 (ARRA).
 8. Implementation of the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA).
 9. Beginning April 1, 2010, implementation of 12-month continuous eligibility for children. Any child who is found to be eligible for Medicaid remains eligible for one year regardless of changes in family income, household size, household composition, or any other circumstances unless the child is no longer an Ohio resident, dies, reaches age 19, or fails to pay a premium (if the child receives Medicaid under any category of assistance that requires payment of a premium).⁵ The Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) encourages states to implement changes to increase the enrollment and retention of Medicaid-eligible children. This policy is one of the changes Ohio has chosen to implement in response to CHIPRA.

⁵ Prior to the change, children in Ohio receiving Medicaid services needed to re-apply every 12 months to maintain their eligibility. During this 12-month period, a child could become ineligible for Medicaid for a variety of reasons such as not keeping their redetermination appointment.

10. Beginning April 1, 2010, implementation of presumptive eligibility for children. This policy allows medical providers such as hospitals or community clinics to screen a child's eligibility for Medicaid. If presumed eligible, a child can receive immediate access to care. Providers are guaranteed payment should the application later be denied. This policy is also encouraged under CHIPRA.

Caseload by Eligibility Category

Individuals eligible for Medicaid are grouped into two major categories. Generally, children up to age 19 whose families' incomes are below 200% FPG, pregnant women with incomes up to 200% FPG, and parents with incomes up to 90% FPG are grouped as Covered Families and Children (CFC). The aged, blind, and disabled (ABD) category includes the low-income elderly who are age 65 or older and individuals with disabilities. The forecasted caseload for each of these two categories is discussed below.

Covered Families and Children

LSC forecasts that the overall CFC caseload will continue to grow by 66,757, or 4.02%, in FY 2012, and by 22,076, or 1.28%, in FY 2013 (see Table 2 below). The growth is due mostly to the following factors: (1) post-recession growth,⁶ (2) continued high unemployment, (3) transitional medical assistance, (4) 12-month continuous eligibility for children, (5) presumptive eligibility for children, (6) the increase in the income eligibility for pregnant women, (7) coverage for aged-out foster care children, and (8) RoMPIR.

Table 2. Medicaid Caseloads – Covered Families and Children (CFC)

Fiscal Year	Families & Other		Children		Pregnant Women		Total CFC	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2004	925,464		279,818		21,865		1,227,146	
2005	980,036	5.90%	279,002	-0.29%	22,097	1.06%	1,281,135	4.40%
2006	1,005,886	2.64%	285,332	2.27%	23,088	4.48%	1,314,306	2.59%
2007	983,088	-2.27%	303,396	6.33%	24,790	7.37%	1,311,274	-0.23%
2008	996,112	1.32%	301,375	-0.67%	25,497	2.85%	1,322,984	0.89%
2009	1,078,957	8.32%	304,319	0.98%	27,375	7.37%	1,410,651	6.63%
2010	1,214,987	12.61%	308,882	1.50%	27,512	0.50%	1,551,381	9.98%
2011	1,333,642	9.77%	299,474	-3.05%	26,877	-2.31%	1,659,993	7.00%
2012	1,397,271	4.77%	302,064	0.86%	27,415	2.00%	1,726,750	4.02%
2013	1,419,211	1.57%	301,564	-0.17%	28,051	2.32%	1,748,826	1.28%

⁶ Historically, caseloads continue to rise as the economy recovers from a recession. The CFC caseload continued to grow following both the 1990-1991 and 2001 recessions.

Aged, Blind, and Disabled

ABD growth is expected to increase 5.66% in FY 2011, up from 4.19% in FY 2010, and reach 532,904 in FY 2013 largely due to (1) post-recession growth, (2) continued high unemployment, (3) the aged population, (4) the implementation and outreach effort for the MBIWD Program, and (5) the implementation and outreach effort for MIPPA. One key provision of MIPPA is to allow applications for the Medicare Part D Program to also be accepted for the Medicare Part A and Part B programs, should the applicant show an interest. This change was effective January 1, 2010. Ohio Medicaid participates in Part A and Part B premium assistance through its Qualified Medicare Beneficiary (QMB) and Specified Low-Income Medicare Beneficiary (SLMB) programs.

Table 3. Medicaid Caseloads – Aged, Blind, and Disabled

Fiscal Year	ABD (Medicaid Only) & MBIWD		Duals		QMB		SLMB		Total ABD	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2004	185,419	--	174,934		22,516		20,715		403,584	
2005	190,521	2.75%	182,907	4.56%	24,100	7.04%	22,361	7.94%	419,888	4.04%
2006	197,055	3.43%	179,814	-1.69%	32,082	33.12%	26,509	18.55%	435,459	3.71%
2007	201,693	2.35%	170,346	-5.27%	42,175	31.46%	32,030	20.83%	446,244	2.48%
2008	202,977	0.64%	174,711	2.56%	45,951	8.95%	33,942	5.97%	457,580	2.54%
2009	204,617	0.81%	179,137	2.53%	47,862	4.16%	36,127	6.44%	467,744	2.22%
2010	212,518	3.86%	185,517	3.56%	49,710	3.86%	39,581	9.56%	487,326	4.19%
2011	224,079	5.44%	191,652	3.31%	54,054	8.74%	45,124	14.00%	514,909	5.66%
2012	231,584	3.35%	191,803	0.08%	55,526	2.72%	47,995	6.36%	526,908	2.33%
2013	235,260	1.59%	190,524	-0.67%	56,318	1.43%	50,802	5.85%	532,904	1.14%

QMB – Qualified Medicare Beneficiaries

SLMB – Specified Low-Income Medicare Beneficiaries

Caseload by Service Delivery System

In FY 2010, Medicaid provided health care coverage to 173,000 CFC and 373,000 ABD per month through fee-for-service and 1.4 million CFC and 115,000 ABD per month through managed care. LSC's baseline forecast assumes current penetration rates for fiscal years 2011 through 2013. Tables 4 and 5 below summarize Medicaid caseloads under fee-for-service and managed care.

Table 4. Medicaid Caseloads – Fee-For-Service (FFS) and Managed Care Plans (MCP)

Fiscal Year	CFC-FFS		CFC-MCP		ABD-FFS		ABD-MCP	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2004	742,019		485,128		403,471		113	
2005	764,576	3.04%	516,559	6.48%	419,740	4.03%	148	
2006	700,206	-8.42%	614,101	18.88%	435,331	3.71%	128	
2007	364,786	-47.90%	946,488	54.13%	420,408	-3.43%	25,835	
2008	197,028	-45.99%	1,125,956	18.96%	351,946	-16.28%	105,634	
2009	193,737	-1.67%	1,216,914	8.08%	377,149	7.16%	90,595	
2010	172,696	-10.86%	1,378,686	13.29%	372,697	-1.18%	114,629	26.53%
2011	158,844	-8.02%	1,501,149	8.88%	391,324	5.00%	123,585	7.81%
2012	160,054	0.76%	1,566,696	4.37%	399,240	2.02%	127,668	3.30%
2013	161,332	0.80%	1,587,494	1.33%	403,210	0.99%	129,694	1.59%

Table 5. Total Medicaid Caseloads – FFS and MCP

Fiscal Year	Total FFS		Total MCP	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2004	1,145,490		485,241	
2005	1,184,316	3.39%	516,707	6.48%
2006	1,135,536	-4.12%	614,229	18.87%
2007	785,194	-30.85%	972,323	58.30%
2008	548,974	-30.08%	1,231,590	26.66%
2009	570,886	3.99%	1,307,509	6.16%
2010	545,392	-4.47%	1,493,314	14.21%
2011	550,168	0.88%	1,624,734	8.80%
2012	559,295	1.66%	1,694,363	4.29%
2013	564,542	0.94%	1,717,188	1.35%

Expenditure Forecast

Driven primarily by the caseload growth and monthly per member costs, the Medicaid expenditure is projected to grow over the biennium. With the exception of rate increases for physicians in 2013 required under the recent federal health care reform, the LSC baseline forecast assumes no new changes in Medicaid policy for the upcoming biennium. The forecast does include utilization and cost increases.

Medicaid expenditures in the Ohio Department of Job and Family Services (ODJFS) can generally be placed into one of the following major categories: managed care plans (MCP), long-term care (nursing facilities, or NFs, and Intermediate Care Facilities for the Mentally Retarded, or ICFs/MR), prescription drugs, hospitals (inpatient and outpatient), physician services, Medicare buy-in, Ohio Home Care Waiver, and all other care. LSC forecasts expenditures for each of these categories. Table 6 below summarizes Medicaid expenditures by service category.

Table 6. Projected Medicaid Expenditures for FY 2012 and FY 2013
 (Baseline Assumptions, Combined State and Federal Dollars, Dollars in Millions)

Category	FY 2011	FY 2012			FY 2013		
	Estimate	Forecast	Dollar Increase	Percent Increase	Forecast	Dollar Increase	Percent Increase
Managed Care Plan (MCP)							
MCP - ABD	\$1,452	\$1,579	\$127	8.8%	\$1,706	\$128	8.1%
MCP - CFC	\$3,593	\$3,952	\$359	10.0%	\$4,247	\$295	7.5%
Long-Term Care							
Nursing Facilities	\$2,681	\$2,686	\$5	0.2%	\$2,678	(\$8)	-0.3%
ICF/MRs	\$505	\$591	\$86	17.1%	\$543	(\$48)	-8.2%
Prescription Drugs	\$1,702	\$1,836	\$134	7.9%	\$1,967	\$131	7.1%
Hospitals							
Inpatient	\$1,060	\$1,117	\$57	5.4%	\$1,152	\$35	3.1%
Outpatient	\$440	\$450	\$10	2.4%	\$459	\$9	2.0%
Physicians	\$338	\$342	\$4	1.2%	\$561	\$219	63.9%
Ohio Home Care Waiver	\$329	\$339	\$10	3.0%	\$357	\$18	5.4%
Medicare Buy-In	\$407	\$450	\$44	10.7%	\$477	\$27	6.0%
All Other Care	\$1,156	\$1,235	\$79	6.8%	\$1,341	\$106	8.6%
Medicare Part D	\$188	\$280	\$92	49.3%	\$305	\$25	8.9%
Total Expenditures	\$13,852	\$14,857	\$1,005	7.3%	\$15,792	\$935	6.3%

Methodology

LSC staff generate baseline forecasts for major expenditure categories described in the Forecast Summary section using the "classic expenditure model" suggested by the U.S. Department of Health and Human Services. This classic expenditure model can be characterized as:

$$\text{Expenditures} = \text{Caseload} \times \text{Average Utilization} \times \text{Price}$$

For each typical expenditure category and subcategory, separate forecasts are done for the average number of claims per recipient (corresponding to average utilization) and for the average cost per claim submitted (corresponding to price).

Due to the delayed submissions of claims by providers and delays in processing payments, claims are not always paid in the same month in which services are given to Medicaid eligibles. In fact, it is generally the case that providers are not completely reimbursed for all of the services they give to Medicaid eligibles until well over a year following the date of service. Thus, it is necessary to make the distinction between the date of service and the date of payment. Because disbursements for Medicaid reflect the payment of claims and not the provision of services, it is necessary to incorporate the appropriate payment lags when estimating Medicaid spending.

A key distinction made in forecasting Medicaid expenditures is between fee-for-service and managed care. Medicaid does not directly provide medical services to eligible individuals enrolled in the program. Instead, it provides financial reimbursement to health care professionals and institutions for providing approved

medical services, products, and equipment to Medicaid enrollees. Until recent years, Medicaid has paid most service providers a set fee for the specific type of service rendered to Medicaid enrollees (termed "fee-for-service" reimbursement). Payments are based on the lowest of the state's fee schedule, the actual charge, or federal Medicare allowances.

An alternative to fee-for-service reimbursement is managed care. A typical managed care plan, called capitated at-risk plans, 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 for any health care included in the benefit package, regardless of the amount of services actually used. The beneficiary is responsible for, at most, modest copayments for services; the provider is at risk for the remaining cost of care. A capitated plan can be a network of physicians and clinics, all of whom participate in the plan and also participate in other plans or fee-for-service systems, or it can be one that hires all the physicians who provide all the care required.

In forecasting Medicaid expenditures, the costs of recipients enrolled in managed care plans are generally treated separately from the fee-for-service categories. This practice means that services provided to managed care enrollees are not to be included when forecasting the large fee-for-service categories such as Inpatient Hospital Services and Physician Services. Due to the recent managed care expansions for both the CFC and ABD populations, managed care has become the biggest factor in forecasting Medicaid expenditures in the upcoming biennium.

Medicaid Expenditures for Selected Service Categories

Managed Care Plans

The statewide expansion of Medicaid managed care that began in July 2005 has dramatically shifted expenditures from the fee-for-service categories to the managed care categories. In FY 2010, expenditures for the managed care categories were \$4.8 billion and represented 38% of the total Medicaid expenditures in ODJFS.

LSC's forecasted expenditures for ABD managed care are \$1.58 billion in FY 2012 and \$1.70 billion in FY 2013. Forecasted expenditures for CFC managed care are \$3.95 billion and \$4.25 billion, respectively. LSC's forecast assumes annual capitation rate growth of 6.4% for ABD, and 5.7% for CFC for 2012 and 2013. These growth rates were calculated by Milliman, the state's contracted actuarial firm.

Generally, the MCP capitation rates are set at the beginning of each calendar year. In 2011, the statewide capitation rate is \$213.29 for CFC and \$998.45 for ABD. One major policy change that has affected managed care payments in 2011 is the managed care prescription drug carve-out. Beginning with the date of service of February 1, 2010, prescription drug coverage for members of Medicaid MCPs was transferred from plans to the Medicaid fee-for-service program. This change means that all Medicaid recipients have the same list of covered drugs and are under the same

prior authorization policy. This change is only for prescription drugs that are administered in the patient's home, not for any drugs that are administered in a provider setting such as a physician's office, hospital outpatient department, clinic, dialysis center, or infusion center.

Another policy change affecting managed care is the change in the managed care assessment.⁷ Due to changes in the Deficit Reduction Act of 2005, Ohio was no longer allowed to collect the Medicaid managed care assessment effective October 1, 2009. To replace the loss of the assessment revenue and the corresponding federal reimbursement, H.B. 1 of the 128th General Assembly, (the FY 2010-FY 2011 biennial budget act) subjected MCPs to the state and local sales and use tax and to the existing health insuring corporation tax.

Nursing Facilities

In FY 2010, expenditures for the Nursing Facilities (NF) category were \$2.68 billion and represented approximately 21% of the total Medicaid expenditures in ODJFS. LSC forecasted expenditures for NFs are \$2.69 billion in FY 2012 and \$2.68 billion in FY 2013. LSC's baseline forecast assumes no rate increase in the NF per diem for the upcoming biennium. The average per diem for FY 2009 was \$167, and for FY 2010 was \$177. The per diem increase from FY 2009 to FY 2010 was largely due to the increase in the franchise fee and the bundling services policies described below. H.B. 1 increased the NF franchise fee from \$6.25 to \$12.01 based on a formula created by ODJFS. The formula was based in part on 5.5% of net patient revenues of nursing homes and hospital long-term care units and a base of \$11.95. H.B. 1 also added the costs of oxygen, rather than just emergency oxygen, over-the-counter pharmacy products, services provided by physical therapists, physical therapy assistants, occupational therapists, occupational therapy assistants, speech therapists, and audiologists to the costs that were reimbursable as part of an NF's direct care costs. It also added wheelchairs and resident transportation to the costs that were reimbursable as part of an NF's ancillary and support costs.

Intermediate Care Facilities for the Mentally Retarded

LSC forecasted expenditures for Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) are \$591 million in FY 2012 and \$543 million in FY 2013. The projected expenditure increase in FY 2012 is primarily due to the policy assumed in H.B. 1 to delay one payment from FY 2011 to FY 2012. This one payment is estimated to be about \$45 million.

⁷ The cost of the Medicaid managed care assessment is reimbursed to Medicaid MCPs through the capitation rate payments.

Prescription Drugs

In FY 2010, expenditures for Prescription Drugs were \$841 million and represented approximately 7% of total Medicaid expenditures in ODJFS. LSC forecasted expenditures for Prescription Drugs are \$1.84 billion in FY 2012 and \$1.97 billion in FY 2013. The forecasted increases in prescription drug expenditures are primarily due to the carving out of the pharmacy benefit from Medicaid MCPs as described above in the Managed Care Plans section. One other change to note regarding prescription drug expenditures was that the Medicaid dispensing fee was reduced from \$3.70 to \$1.80 beginning January 2010.

Inpatient and Outpatient Hospital Services

In FY 2010, expenditures for the Inpatient and Outpatient Hospital Services categories were \$1.50 billion and represented approximately 11% of total Medicaid expenditures in ODJFS.⁸ LSC forecasted expenditures for Inpatient and Outpatient Hospital Services are \$1.57 billion in FY 2012 and \$1.61 billion in FY 2013. The Ohio Administrative Code requires an annual inflationary update to inpatient rates; however, outpatient rates are based on a fee schedule that is not automatically inflated. LSC's baseline forecast assumes no inflation adjustment for the upcoming biennium. However, the demand for more and expanded health care services continues to push up the costs. Thus, LSC anticipates expenditures in both categories to grow in FY 2012 and FY 2013.

Physicians

LSC forecasted expenditures for the Physicians Service category are \$342 million in FY 2012 and \$561 million in FY 2013. The projected spike in expenditures in FY 2013 is largely due to rate increases required under the Patient Protection and Affordable Care Act (PPACA) of 2010. PPACA mandates that Medicaid physician reimbursement rates for certain primary care services be at least 100% of the applicable Medicare rate in 2013 and 2014. The federal government will pay 100% of the incremental cost for those two years. In 2015, states will either have to pay their share of the higher reimbursement rates without the additional federal funding or reduce their rates. Ohio's Medicaid reimbursement rate for primary care is about 66% of Medicare rates.

Ohio Home Care Waiver

Ohio Home Care Waiver is Medicaid's integrated program of home care services, consisting of benefit packages such as nursing services, daily living, and skilled therapies. LSC forecasted expenditures for the Ohio Home Care Waiver are

⁸ October 1, 2009, the inpatient and outpatient hospital payment rates were increased by 5%. In addition, a new hospital assessment was established at 1.52% and 1.61% of total facility costs for FY 2010 and FY 2011, respectively.

\$339 million in FY 2012 and \$357 million in FY 2013. LSC's baseline forecast assumes 600 new recipients each year for the upcoming biennium.

All Other Care

LSC's forecasted expenditures for the All Other Care service category are \$1.2 billion in FY 2012 and \$1.3 billion in FY 2013. As mentioned above under Nursing Facilities section, H.B. 1 has changed how Medicaid reimburses some services provided to NF residents, such as oxygen, custom wheelchairs, therapies (physical, occupational, and speech-language pathology/audiology), medically related transportation, and some over-the-counter drugs. These services were previously provided by, and reimbursed to, fee-for-service providers. NFs are now responsible for providing these services to Medicaid NF residents, for which they will be reimbursed through an additional per diem payment.

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