Baseline Forecast of GRF Revenues and Medicaid Expenditures for the FY 2016-FY 2017 Biennial Budget

Testimony before the Conference Committee on H.B. 64

June 19, 2015

Mr. Chairman and members of the Conference Committee, I am Mark Flanders, Director of the Legislative Service Commission (LSC). I am here to update you on LSC's forecasts for General Revenue Fund (GRF) revenues and Medicaid expenditures in fiscal years 2015 through 2017. My testimony will summarize the differences between our June and February forecasts and briefly explain our thinking about the economy. The attachment to my testimony provides more detail about the updated LSC forecasts and the economy. The forecasts are baseline forecasts, LSC's predictions for revenues and expenditures if current law were to remain unchanged throughout the next biennium.

Forecast Summary

Revenues

GRF tax revenue has generally been above estimate since February, such that LSC economists now project that FY 2015 GRF tax revenue will be about $226 million greater than we projected in February. The extra revenue that we expect to receive this year, however, is not matched by an increase in our forecasts for the upcoming biennium. The revised GRF tax revenue forecast is higher by $27.2 million (0.1%) in FY 2016, but lower by $16.0 million (0.1%) in FY 2017. Based on the updated forecast, GRF tax revenues are now forecast to increase from FY 2015 to FY 2016 by $1.12 billion (5.2%) and by $820.2 million (3.6%) from FY 2016 to FY 2017.

Medicaid

The revised LSC baseline forecast for Medicaid expenditures is lower by $78 million ($31 million state share) in FY 2016 and $52 million ($21 million state share) in FY 2017. The forecast was lowered primarily to reflect changes in the projected caseload. The revised forecast includes several more months of Medicaid caseload data and also reflects Global Insight's updated forecast projections for Ohio. The monthly caseload forecast for CFC and ABD was revised downward by about 51,174 and 2,681 in FY 2016 and 33,030 and 3,288 in FY 2017, respectively. However, the monthly caseload forecast for the All Other group was revised upward by about 16,643 in FY 2016 and 12,540 in FY 2017. As a result, the total Medicaid caseload is now projected to be lower by about 37,392 in FY 2016 and 23,778 in FY 2017. The downward forecast for the CFC caseload is mainly due to taking into account a policy related to redetermination.

The Economy

The outlook for state government revenues is greatly influenced by the course of Ohio's economy and the economy of the nation. The broadest measure of economic activity is inflation-adjusted gross domestic product (real GDP). Nationwide, real GDP strengthened in the second and third quarters of last year, with growth in the third quarter, at a 5.0% annual rate, the strongest in any quarter since 2003. Growth slowed in the fourth quarter, but for all of 2014, real GDP rose 2.4%, its highest growth for a full year since 2010. Real GDP declined at a 0.7% annual rate in the first quarter of this year, but a resumption of economic growth is expected in the current quarter, with growth continuing through the next two years.

With the economy growing, both Ohio and the U.S. have added to employment. From the low point following the 2007-2009 recession, Ohio nonfarm payroll employment has increased more than 390,000 jobs, an increase of 7.8%. Nationwide, payroll employment has grown about 12.0 million jobs from the low about five years ago, a 9.3% increase.

The employment growth has brought down the unemployment rate. In Ohio, unemployment as a percent of the labor force fell to 5.1% in December, its lowest level since 2001, remained at that rate through March, and edged up to 5.2% in April. Nationwide, the unemployment rate ticked up to 5.5% in May after declining to 5.4% in April. The declines in these unemployment rates are a result not just of the job gains but also of lower rates of participation in the labor force, as more people of working age are neither employed nor looking for work.

LSC's forecasts are based on our expectation that the economic expansion will continue, at a moderate pace, but a number of risks could alter the course of that expansion. Sharply lower prices for crude oil and for gasoline and other products based on petroleum are expected to be a net plus, overall, for the U.S. economy, which is still a net importer of crude oil. But the impact varies greatly among parts of the economy, with gains for most consumers and industries but losses for sectors and regions closely tied to the oil industry. Recent escalation of the value of the dollar in foreign exchange markets is making U.S. exports more expensive for buyers abroad and increasing the attractiveness for U.S. purchasers of buying imported goods and services. This shift in relative prices could slow economic activity in this country, perhaps by more than is reflected in the economic forecast that underlies LSC's revenue forecasts. Economic growth in our trading partners boosts U.S. and Ohio exports, supporting jobs here. The Global Insight forecast assumes about 2.0% economic growth on average in major currency trading partners over the next two years. This feature of the forecast could be overly optimistic if the fiscal situation in Greece is not resolved and economies in Europe are adversely affected. Other potential risks include adverse market reactions when the Federal Reserve begins to raise interest rates.

As you consider our projections, then, please remember that economic forecasts are inevitably uncertain things, just like any other attempt to predict the future. Global Insight itself attaches a 15% probability to a significantly more optimistic economic outcome over coming quarters, and a 15% probability to a significantly more pessimistic outcome. We are confident in our methodology, but we know that the forecast will be wrong in some respects and to some degree. Our baseline forecast could prove too optimistic regarding economic growth in the nation and Ohio. Alternatively, it could be too pessimistic.

In developing our forecasts, LSC economists have relied on the economic consulting firm Global Insight for the economic predictions that underlie the forecasts. Specifically, we have used Global Insight's May baseline forecasts for the nation and Ohio as the sources for input or explanatory variables in our models.

As is detailed in the accompanying forecast materials that served as part of the basis for LSC's projections, this forecast shows national real GDP growing at about a 2.6% annual rate during the period corresponding to state FY 2015, by 2.3% during FY 2016, and by 3.0% during FY 2017. Ohio real GDP also grows through the end of the forecast period, but more slowly. Personal income in Ohio, which is not adjusted for inflation, is forecast to grow faster, by 4.2% during the current fiscal year, by 3.6% during FY 2016, and by 4.3% during FY 2017. Inflation, measured by the consumer price index, increases to 2.4% in FY 2017 from 0.6% in the current fiscal year.

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

ATTACHMENT: FY 2016-FY 2017 BIENNIAL BUDGET FORECAST

SECTION 1: REVENUE FORECASTS

The LSC baseline forecasts for FY 2016 and FY 2017 assume the current statutory tax structure, including tax changes enacted by the 130th General Assembly. Among the bills enacted by that General Assembly, there were two that included enough significant changes to GRF taxes to describe them as tax reform acts: the budget act for the current biennium, H.B. 59, and the mid-biennium review act, H.B. 483. Also, S.B. 243 enacted a three-day sales tax holiday in August 2015, affecting FY 2016 receipts. The Medicaid expansion related to the federal Affordable Care Act (ACA) is assumed to continue through the biennium, boosting revenue from the sales and use tax and the domestic insurance tax.

The tax reform provisions enacted in H.B. 59 began to take effect in FY 2014. That act made significant changes to the income tax, including a reduction in tax rates by 8.5% across all brackets, a new small business income deduction, and a new earned income tax credit (EITC), all effective in tax year (TY) 2013. H.B. 483 added an acceleration of a tax rate cut for TY 2014 (to a total 10% reduction as compared to TY 2012 rates), an enhancement of the EITC (to 10% of the federal EITC), and a temporary enhancement of the small business income deduction.[1] A number of smaller changes were also included in both acts, including the beginning of means testing before taxpayers are allowed to claim certain credits. For several of the changes that were made to this tax by H.B. 59, data with which to analyze the revenue effects are still very limited, so estimates of the revenue effects of that act are still rough. Similarly, for certain changes made by H.B. 483 that take effect for TY 2014, solid data on revenue effects will not be available for at least a year.

I will mention just a few other recent changes that affect GRF tax revenues. The forecast assumes that 1.66% of total GRF tax revenue received each month will be transferred to each of the Local Government Fund (LGF) and Public Library Fund (PLF), a percentage that was determined by the Tax Commissioner under the authority of Section 131.51 of the Revised Code. Some taxes have been phased out, including the corporate franchise tax (CFT), the dealers in intangibles tax (DIT), and the estate tax. Although some revenue has been received from these taxes during FY 2015, none was

[1] For baseline purposes for this tax, LSC economists assume that the temporary enhancement to the small business income deduction expires as currently scheduled after TY 2014.

expected at the beginning of the fiscal year, and none is expected in future years.[2] Finally, a new GRF tax source, the petroleum activity tax (PAT), commenced in FY 2015.

GRF tax revenue under current law is forecast to increase by $1.12 billion (5.2%) in FY 2016. Growth is expected for most tax revenue sources, as the economic recovery is expected to continue. Strong growth in income tax receipts is due in part to the baseline assumption that the one-year boost in the small business deduction expires as scheduled. The baseline forecast includes additional sales tax and insurance tax receipts from growth attributable to Medicaid health insurance companies. Revenue declines are projected for the public utility tax and the natural gas consumption (MCF) tax as natural gas prices and usage are projected to decline, in part due to relatively severe weather during the last winter, and for the cigarette and other tobacco products tax, which is expected to continue its trend of several years. A projected decline in kilowatt-hour tax revenue 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. No revenues are expected from either the CFT or the DIT due to the elimination of those taxes noted above, but late tax reconciliations may result in nonzero revenue. The estate tax, which ended for deaths after December 31, 2012, is also projected to yield no GRF tax receipts after FY 2015. LSC also forecasts revenue from earnings on investments and from license fees, which are projected to total $93.8 million in FY 2016.

GRF tax revenue under current law is forecast to increase by $820.2 million (3.6%) in FY 2017. Growth in revenue from the nonauto sales and use tax and the personal income tax, the two largest GRF tax sources, is projected to moderate somewhat, but remain fairly robust. The financial institutions tax (FIT) and the domestic insurance tax are anticipated to have sizable revenue growth. Receipts from the auto sales and use tax are projected to decline slightly, primarily reflecting the effects of increasing interest rates on willingness of consumers to take out loans to finance purchases. Except for declining receipts for the tax on cigarettes and other tobacco products, the kilowatt-hour tax, and the public utility tax, the remaining taxes are expected to exhibit smaller rates of revenue growth. Earnings on investments and license revenue are forecast to total $117.4 million in FY 2017.

GRF tax revenue for the FY 2016-FY 2017 biennium is forecast to be $45.99 billion, 10.5% higher than the revenue received during the current biennium. The following tables provide overviews of GRF receipts from taxes and from state sources including earnings on investments and receipts from charges for licenses and fees.

---

[2] The financial institutions tax (FIT), which first received revenue in FY 2014, replaced the CFT and the DIT.

Table 1: Total GRF Tax Revenue Growth, FY 2011-FY 2017

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast
Revenue	$17,706.2	$19,005.2	$21,015.5	$20,134.4	$21,468.8	$22,585.6	$23,405.8
Growth	9.1%	7.3%	10.6%	-4.2%	6.6%	5.2%	3.6%

Table 2: LSC Baseline Revenue Forecasts, FY 2016-FY 2017
($ in millions)

GRF	FY 2014 Actuals	FY 2015 Estimates	Growth Rate	FY 2016 June Forecast	Growth Rate	FY 2017 June Forecast	Growth Rate
TAX REVENUE							
Auto Sales & Use	$1,209.9	$1,305.0	7.9%	$1,330.0	1.9%	$1,323.0	-0.5%
Nonauto Sales & Use	$7,955.9	$8,710.7	9.5%	$9,149.1	5.0%	$9,574.1	4.6%
Total Sales & Use	$9,165.8	$10,015.7	9.3%	$10,479.1	4.6%	$10,897.1	4.0%
Personal Income	$8,064.9	$8,531.4	5.8%	$9,154.3	7.3%	$9,504.1	3.8%
Commercial Activity	$794.2	$850.6	7.1%	$863.9	1.5%	$899.9	4.2%
Petroleum Activity	$0.0	$4.6	NA	$10.0	117.4%	$10.0	0.0%
Corporate Franchise	$(11.4)	$2.2	119.3%	$0.0	-100.0%	$0.0	--
Financial Institutions	$197.8	$182.9	-7.6%	$191.5	4.7%	$200.0	4.4%
Public Utility	$106.0	$98.6	-7.0%	$95.0	-3.7%	$93.5	-1.5%
Kilowatt-Hour Excise	$306.3	$290.4	-5.2%	$283.5	-2.4%	$282.6	-0.3%
Natural Gas Consumption	$76.1	$74.8	-1.8%	$71.7	-4.1%	$72.1	0.6%
Foreign Insurance	$286.5	$267.0	-6.8%	$287.0	7.5%	$291.0	1.4%
Domestic Insurance	$196.9	$252.6	28.3%	$270.0	6.9%	$287.0	6.3%
Business & Property	$0.5	$0.0	-91.2%	$0.0	-100.0%	$0.0	--
Cigarette	$814.0	$795.0	-2.3%	$779.1	-2.0%	$765.4	-1.8%
Alcoholic Beverage	$55.5	$56.8	2.3%	$57.0	0.4%	$58.0	1.8%
Liquor Gallonage	$41.8	$43.2	3.3%	$44.0	1.9%	$45.0	2.3%
Estate	$39.4	$3.0	-92.3%	$0.0	-100.0%	$0.0	-100.0%
Total Tax Revenue	**$20,134.4**	**$21,468.8**	**6.6%**	**$22,585.6**	**5.2%**	**$23,405.8**	**3.6%**
NONTAX STATE-SOURCE REVENUE							
Earnings on Investments	$17.3	$23.4	34.9%	$34.0	45.3%	$55.0	61.8%
Licenses and Fees	$57.3	$57.7	0.7%	$59.8	3.6%	$62.4	4.3%

Table 3: FY 2015 Revenue Estimate Comparison
($ in millions)

GRF	February 2015	June 2015	Change
TAX REVENUE			
Auto Sales & Use	$1,310.2	$1,305.0	($5.2)
Nonauto Sales & Use	$8,712.6	$8,710.7	($1.9)
Total Sales & Use	$10,022.8	$10,015.7	($7.1)
Personal Income	$8,315.2	$8,531.4	$216.2
Commercial Activity	$825.2	$850.6	$25.5
Petroleum Activity	$6.0	$4.6	($1.4)
Corporate Franchise	$(25.7)	$2.2	$27.9
Financial Institutions	$182.2	$182.9	$0.7
Public Utility	$102.4	$98.6	($3.8)
Kilowatt-Hour Excise	$293.9	$290.4	($3.5)
Natural Gas Consumption	$71.2	$74.8	$3.6
Foreign Insurance	$296.0	$267.0	($29.0)
Domestic Insurance	$255.0	$252.6	($2.4)
Business & Property	$0.0	$0.0	$0.0
Cigarette	$798.2	$795.0	($3.2)
Alcoholic Beverage	$55.7	$56.8	$1.1
Liquor Gallonage	$42.5	$43.2	$0.7
Estate	$2.2	$3.0	$0.8
Total Tax Revenue	**$21,242.7**	**$21,468.8**	**$226.1**
NONTAX STATE-SOURCE REVENUE			
Earnings on Investments	$22.0	$23.4	$1.4
Licenses and Fees	$56.3	$57.7	$1.4

Table 4: Baseline Revenue Forecast Comparison, FY 2016-FY 2017
($ in millions)

	FY 2016			FY 2017		
GRF	**February 2015**	**June 2015**	**Change**	**February 2015**	**June 2015**	**Change**
TAX REVENUE						
Auto Sales & Use	$1,327.7	$1,330.0	$2.3	$1,311.3	$1,323.0	$11.8
Nonauto Sales & Use	$9,168.6	$9,149.1	($19.5)	$9,610.8	$9,574.1	($36.8)
Total Sales & Use	$10,496.3	$10,479.1	($17.2)	$10,922.1	$10,897.1	($25.0)
Personal Income	$9,077.3	$9,154.3	$76.9	$9,464.7	$9,504.1	$39.5
Commercial Activity	$858.4	$863.5	$5.1	$889.3	$899.9	$10.7
Petroleum Activity	$10.0	$10.0	$0.0	$10.0	$10.0	$0.0
Corporate Franchise	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Financial Institutions	$191.5	$191.5	$0.0	$200.0	$200.0	$0.0
Public Utility	$100.7	$95.0	($5.8)	$100.1	$93.5	($6.6)
Kilowatt-Hour Excise	$289.0	$283.5	($5.5)	$287.6	$282.6	($5.0)
Natural Gas Consumption	$75.7	$71.7	($4.0)	$78.3	$72.1	($6.2)
Foreign Insurance	$306.0	$287.0	($19.0)	$315.0	$291.0	($24.0)
Domestic Insurance	$271.0	$270.0	($1.0)	$284.0	$287.0	$3.0
Business & Property	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cigarette	$782.2	$779.1	($3.1)	$768.5	$765.4	($3.1)
Alcoholic Beverage	$56.3	$57.0	$0.7	$57.3	$58.0	$0.7
Liquor Gallonage	$44.0	$44.0	$0.0	$45.0	$45.0	$0.0
Estate	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Tax Revenue	**$22,558.5**	**$22,585.6**	**$27.2**	**$23,421.8**	**$23,405.8**	**($16.0)**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$34.0	$34.0	$0.0	$58.0	$55.0	($3.0)
Licenses and Fees	$58.3	$59.8	$1.5	$60.3	$62.4	$2.1

SECTION 2: MEDICAID EXPENDITURE FORECASTS

The revised LSC baseline forecast for Medicaid expenditures is lower by $78 million ($31 million state share) in FY 2016 and $52 million ($21 million state share) in FY 2017, than was forecasted in February. The forecast was lowered for FY 2016 and FY 2017 primarily to reflect changes in the projected caseload.

The Medicaid caseload is generally divided into three groups: (1) Covered Families and Children (CFC), which includes families, children, and pregnant women; CFC is itself made up of several categories, including Healthy Start and Healthy Families, (2) Aged, Blind, and Disabled (ABD), which includes the elderly and persons with disabilities of all ages, and (3) All Other, which includes Group VIII, presumptive eligibility, and individuals such as Medicare beneficiaries whose Medicare premiums, deductibles, and coinsurance are paid by Medicaid, or men and women of any age receiving family planning and related services.

The monthly caseload forecast for CFC and ABD was revised downward by about 51,174 and 2,681 in FY 2016 and 33,030 and 3,288 in FY 2017, respectively. However, the monthly caseload forecast for the All Other group was revised upward by about 16,643 in FY 2016 and 12,540 in FY 2017. As a result, the total Medicaid caseload is now projected to be lower by about 37,392 in FY 2016 and 23,778 in FY 2017.

The downward forecast for the CFC caseload is mainly due to taking into account a policy related to redetermination. Federal Medicaid law requires state Medicaid programs to redetermine eligibility every 12 months. However, another federal law temporarily prohibited states from performing Medicaid eligibility redeterminations for the first three months of 2014 for people in the new modified adjusted gross income (MAGI) group. Additionally, Ohio Medicaid requested and was granted a nine-month waiver of redetermination while it implemented the new Ohio Benefits eligibility system. LSC was not aware of this policy change while preparing its February forecast, and thus did not factor in the impact of this policy change on CFC caseloads. The redetermination waiver expired December 2014 and Ohio was required to restart the redetermination process. For the first five months of 2015 there were, on average, 39,000 individuals disenrolled from Medicaid every month. LSC has included the redetermination policy in its updated forecast and thus reduced its CFC caseloads accordingly.

The revised forecast also includes several more months of Medicaid caseload data. For the months of October 2014 through April 2015, ABD caseloads were lower than the February forecast by about 5,000 per month. However, during the same period, the "presumptive eligibility" caseload in the All Other category was, on average, 4,500 higher per month. The four tables at the end of this section detail the changes in LSC's Medicaid caseload forecasts.

In addition to the revision of the caseload forecast, LSC revised upward the per member per month cost for both the CFC and the ABD managed care population based on the more recent months of data available for the June forecast. Furthermore, due to less than expected enrollment in the MyCare Ohio program, as revealed in the most recent months of data, LSC revised downward the expenditure for MyCare Ohio. Consequently, a related increase for Nursing Facility payments was made.

The baseline Medicaid expenditures in the table below do not include add-ons or any proposed policy changes.

Medicaid Baseline All-Funds Expenditures
($ in millions)

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast
						February	
Expenditure	$15,757	$16,184	$16,346	$17,751	$21,162	$22,728	$24,112
Growth		2.7%	1.0%	8.6%	19.2%	7.4%	6.1%
						June	
Expenditure	$15,757	$16,184	$16,346	$17,751	$21,182	$22,650	$24,060
Growth		2.7%	1.0%	8.6%	19.3%	6.9%	6.2%
						Difference	
					$20	-$78	-$52
					0.1%	-0.3%	-0.2%

Total Medicaid Caseload

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast
						February	
Caseload	2,151,492	2,215,416	2,383,712	2,515,056	2,933,694	3,083,504	3,133,535
Growth		3.0%	7.6%	5.5%	16.6%	5.1%	1.6%
						June	
Caseload	2,151,492	2,215,416	2,383,712	2,515,056	2,940,705	3,046,112	3,109,758
Growth		3.0%	7.6%	5.5%	16.9%	3.6%	2.1%
						Difference	
					7,010	-37,392	-23,778
					0.24%	-1.23%	-0.76%

CFC Medicaid Caseload

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast
						February	
Caseload	1,631,323	1,663,324	1,721,135	1,691,833	1,795,568	1,839,041	1,810,774
Growth		2.0%	3.5%	-1.7%	6.1%	2.4%	-1.5%
						June	
Caseload	1,631,323	1,663,324	1,721,135	1,691,833	1,799,151	1,787,867	1,777,744
Growth		2.0%	3.5%	-1.7%	6.3%	-0.6%	-0.6%
						Difference	
					3,583	-51,174	-33,030
					0.2%	-2.86%	-1.86%

Includes: Covered Families and Children (including Healthy Start/Healthy Families), CHIP: Children's Health Insurance Program, ADFC: Adopted and Foster Care Children

ABD Medicaid Caseload

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast
						February	
Caseload	416,771	423,497	415,777	438,090	429,697	427,869	428,363
Growth		1.6%	-1.8%	5.4%	-1.9%	-0.4%	0.1%
						June	
Caseload	416,771	423,497	415,777	438,090	427,184	425,188	425,076
Growth		1.6%	-1.8%	5.4%	-2.5%	-0.5%	0.0%
						Difference	
					-2,513	-2,681	-3,288
					-0.59%	-0.63%	-0.77%

Includes: Aged, Blind, and Disabled children and adults, and dual eligibles

All Other Medicaid Caseload

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast
						February	
Caseload	109,494	129,073	246,800	385,133	708,429	816,594	894,398
Growth		17.9%	91.2%	56.1%	83.9%	15.3%	9.5%
						June	
Caseload	109,494	129,073	246,800	385,133	714,370	833,057	906,938
Growth		17.9%	91.2%	56.1%	85.5%	16.6%	8.9%
						Difference	
					5,941	16,463	12,540
					0.83%	1.98%	1.38%

Includes: Premium Assistance, Family Planning, Presumptive Eligibility, Breast and Cervical Cancer Program, and Group VIII

SECTION 3: ECONOMIC CONDITIONS AND OUTLOOK

State of the Economy

U.S. economic activity slowed in the first quarter, but growth is seen resuming in the current quarter and continuing through 2016 and 2017. Expansion in U.S. and Ohio economic activity has been underway since the end of the recession in 2009. Growth in Ohio outpaced that in the U.S. in 2011 but was slower in other recent years. The economic forecasts for the nation and the state are summarized in the tables below.[1] Energy prices fell sharply last year, particularly for crude oil and oil products including gasoline, cutting costs for many industries and consumers but hurting oil producers. Crude oil and gasoline prices have risen from lows early this year but remain well below peaks in last year's first half. Responses to the drop in energy prices were a factor in the first quarter economic weakness, but the price decline is expected on balance to be a plus for the U.S. economy, still a net petroleum importer. Consumer spending growth slowed early this year, after strengthening in 2013 and 2014 along with employment, but light motor vehicle sales rose sharply in May to the highest rate in nearly ten years. Housing sales and starts on new construction continued to recover in early 2015. The upturn from the 2009 low has been strongest in apartment construction. Business capital spending growth slowed in this year's first quarter, as the plunge in crude oil prices caused sharp cutbacks in oil-related industries. Renewed growth of total business capital outlays is anticipated. Unemployment has come down. Price inflation is low, held down in part by the drop in energy prices. Wage gains also were low following the recession but have turned higher, particularly for workers with needed skills, as hiring has increased.

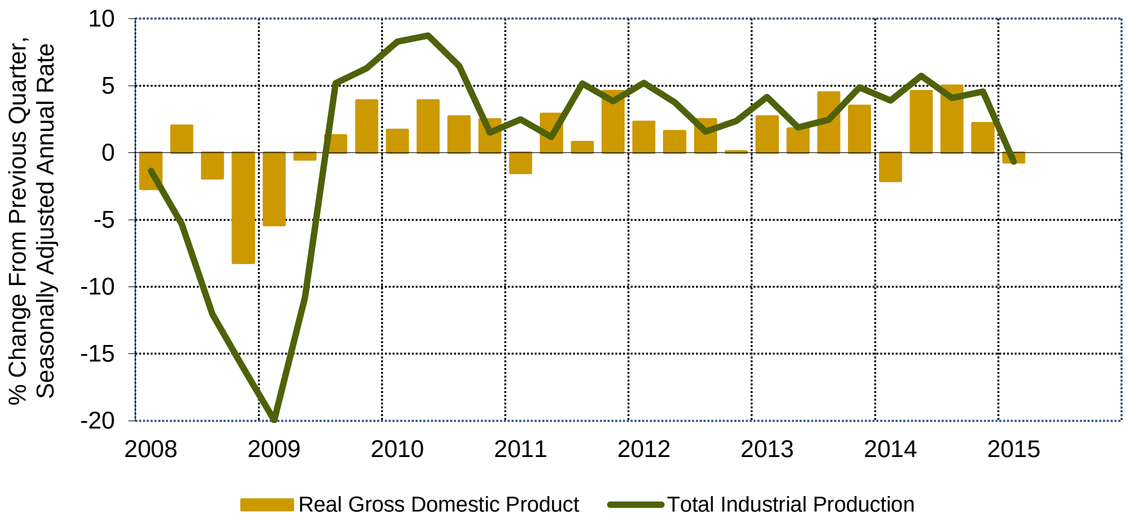
National

National economic activity fell early this year, due in part to temporary factors. Inflation-adjusted gross domestic product (real GDP), the total output of the economy, declined at a 0.7% annual rate in the first quarter, according to the U.S. Department of Commerce's latest estimate. A resumption of economic growth is expected in the current quarter, with growth continuing through the next two years. In this year's first quarter, severe winter weather in parts of the country disrupted economic activity. Also, a slowdown at West Coast ports due to a labor action backed up supply chains. Gains in consumer purchasing power from sharply lower gasoline prices appeared to be outweighed in the short term by cutbacks at oil exploration companies and their suppliers in response to depressed crude oil prices. The strong U.S. dollar may have contributed to slower exports.

[1] Economic forecasts shown in this document are Global Insight's May 2015 baseline predictions.

Industrial production also fell at a 0.7% annual rate in the 2015 first quarter, reflecting lower overall factory output and the sharp cutbacks in the oil and gas sector, partly offset by increased utility output in response to especially cold temperatures. Total industrial output continued to slip in April, but growth is projected to resume this year and in 2016 and 2017. Chart 1 shows changes in real GDP and industrial production from the recession that began at the end of 2007 through this year's first quarter.

Chart 1: United States Output Measures



The current U.S. recovery and expansion remains the slowest in any business cycle in the post-World War II era. Growth of real GDP averaged a 2.2% annual rate from the 2009 second quarter through the 2015 first quarter, less than half of the average growth rate in upturns earlier in the period since 1947.[2]

Consumer spending, adjusted for inflation, grew more slowly in this year's first quarter, at a 1.8% annual rate after averaging 2.8% over the prior two years. Real consumer spending in April was about unchanged from March and up from the first quarter average at only a 1.2% annual rate. Car and light truck sales were disrupted early in 2015 by the harsh winter weather but rose in May to the highest rate since July 2005. Renewed growth of consumer spending in the months ahead is expected, supported by employment and income gains. The national economy added 217,000 jobs per month on average in the first five months of 2015 after increases averaging 260,000 per month in 2014, the best year for job growth since 1999. Growth of real disposable income picked up last year, after weakness in 2013, and continued in this year's first quarter as lower prices added to the buying power of consumers' incomes. Household

[2] Business cycle trough and peak dates used in calculating the numbers on which these statements are based are from the National Bureau of Economic Research.

debt service levels have been reduced to more manageable levels. Replacement needs have contributed to increased spending on consumer durables.

Recovery in housing sales and construction is continuing. Residential fixed investment grew more slowly in 2014 and early 2015, after double-digit growth in 2012 and 2013 from very low levels. The collapse in home values and housing construction was one of the drivers of the 2007-2009 recession. Housing starts appear to have been disrupted by severe weather in February but were nevertheless 6% higher in the first five months of 2015 than a year earlier. In all of 2014, starts on new housing construction, at 1.0 million units, were 8% higher than a year earlier and the highest since 2007, but still at less than half the rate in peak year 2005. Strength in residential construction has been particularly pronounced in apartments. New home sales in January through April were 24% higher than a year earlier. Sales of new homes recovered by 43% from 2011 to 2014, after plummeting 76% from 2005 to 2011. Sales of older homes in January through April were 6% higher than a year earlier, after a 3% decline in all of last year.[3] Home prices on average nationwide are up from post-recession lows in 2011 but still short of the 2007 peak.[4]

Business fixed investment fell in this year's first quarter after strengthening last year. Most of the first quarter decline was a result of cutbacks in petroleum and natural gas exploration, recorded in the national income and product accounts as part of fixed investment. The number of active oil and gas drilling rigs continued to drop in April and May.[5] With capacity utilization in manufacturing close to the peak levels reached in 2005 to 2007, with financing conditions exceptionally attractive as indicated by low long-term interest rates, and with corporate cash still ample, further increases in investment spending in many industries can be expected.

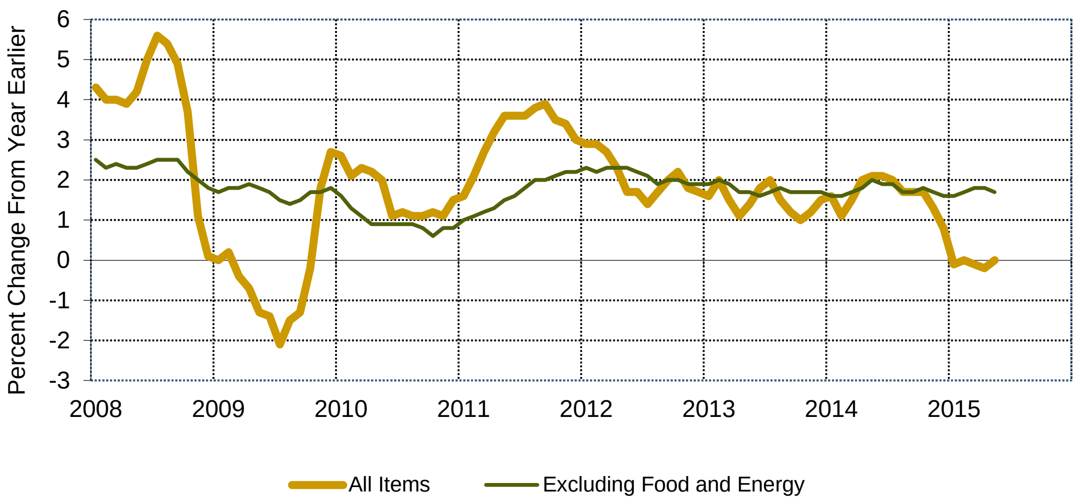
[3] Data on existing home sales are from the National Association of Realtors.

[4] Home prices cited in this document are as reported by the Federal Housing Finance Agency.

[5] Rig count data from Baker Hughes Inc.

Finished goods price inflation remains below the Federal Reserve's 2% target. Recent trends in consumer prices for all items and excluding food and energy are shown in Chart 2. The all items index in May 2015 was unchanged from a year earlier, held down by energy prices, particularly gasoline which was 25% lower in price in May than a year earlier (but up 10% from April). The index for all food prices, in contrast, was 1.6% higher in May than a year earlier, and the index for all items other than food and energy was 1.7% higher.

Chart 2: Consumer Price Index



Wage gains also are generally slow but turned higher last year as indicated by the Employment Cost Index for private industry wages and salaries, which rose 2.8% in the year ended in March, the largest increase since 2008. Pay increases are outpacing inflation, adding to the real purchasing power of incomes. Reports indicate wages are rising for skills that are in demand.[6]

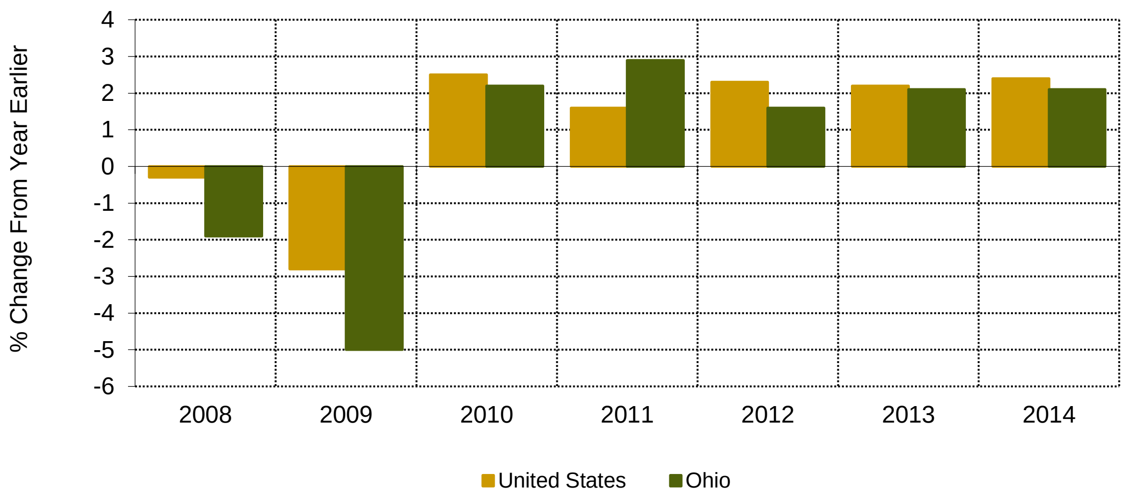
U.S. monetary policy has held short-term interest rates at near-zero levels since late 2008. In October 2014, the Federal Reserve System ended a program of adding to holdings of U.S. Treasury notes and bonds and federal agency mortgage-backed securities to keep longer-term interest rates low. Almost all of the members of the Federal Reserve's main policy-making group, the Open Market Committee, indicated this month that they expect to begin raising the central bank's target short-term interest rate this year.

[6] For example, Federal Reserve System, "Summary of Commentary on Current Economic Conditions by Federal Reserve District," June 2015.

Ohio

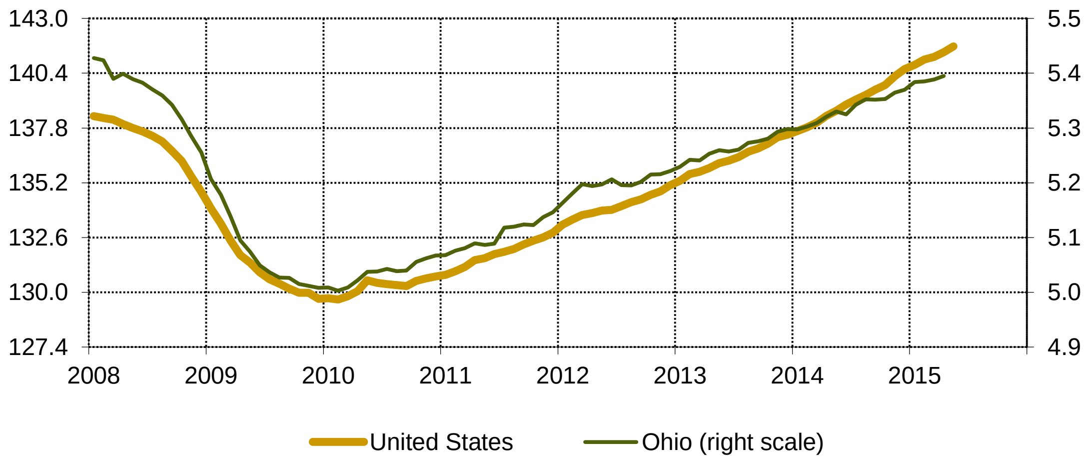
Annual changes in real GDP in Ohio compared with those for the U.S. are shown in Chart 3. The 2007-2009 recession was more severe in Ohio than nationwide. State real GDP fell 1.9% in 2008 and 5.0% in 2009, compared with declines in U.S. real GDP of 0.3% and 2.8% in those years. Following the end of the recession in mid-2009, recovery in Ohio appears to have been somewhat stronger than in the rest of the U.S., on average, in 2011, but less strong in other recent years. In 2014, Ohio's real GDP grew 2.1%, a little less than U.S. real GDP growth of 2.4%. State GDP figures are available from the U.S. Bureau of Economic Analysis (BEA) only annually and with a lag. Estimates of Ohio GDP on a quarterly basis are not from the source agency but are provided by Global Insight.

Chart 3: Real Gross Domestic Product



Nonfarm payroll employment in Ohio, compared with that in the U.S., is shown in Chart 4. Ohio nonfarm payroll employment reached a low point in February 2010, and had recovered by 7.8%, 390,000 additional jobs, by April of this year. U.S. nonfarm payroll employment also reached its low point in February 2010, and through May 2015 had risen 9.3%, 12 million more jobs. Employment growth in Ohio outpaced that in the U.S. in the first two years of recovery but has since lagged, as shown in the chart.

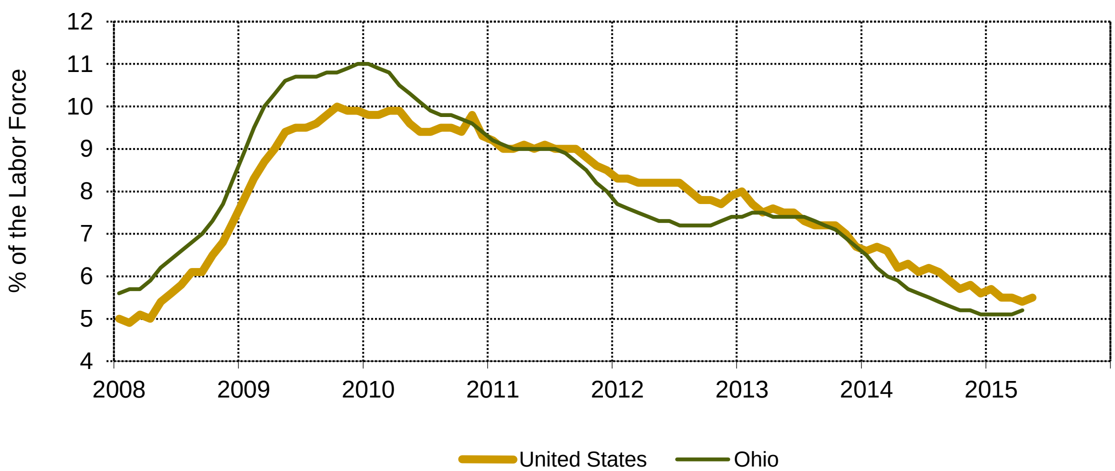
Chart 4: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



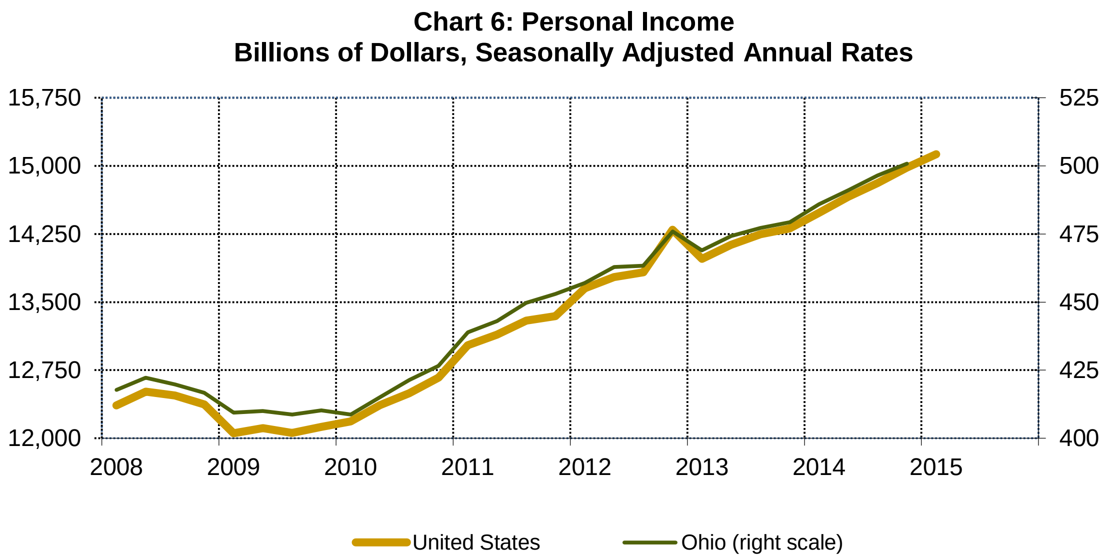
Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 5.1% in December through March, its lowest level since 2001, and edged up to 5.2% in April. The U.S. unemployment rate ticked up to 5.5% in May after declining to 5.4% in April, lowest since 2008. Unemployment rates during and since the 2007-2009 recession are shown in Chart 5. Ohio's unemployment rate fell below the nationwide average in late 2010 and has been lower in most months since then.

Labor markets appear to have more slack than these unemployment rates suggest. Since the end of the recession in June 2009, most of the growth in the U.S. population of working age (16 and over) was accounted for by an increase in the number of people not in the labor force (neither working nor looking for work). In Ohio, the increase since mid-2009 in the number of working-age persons not in the labor force exceeded growth of population in this age group, as Ohio's labor force declined. The fall in labor force participation by people of working age has tended to hold down the reported rate of unemployment, since some of those not in the labor force would plausibly otherwise be searching for work. Only part of the decline in the labor force participation rate among all working-age persons is due to increasing numbers of retirees, as the labor force participation rate has declined among persons younger than 55.

Chart 5: Unemployment Rate
Seasonally Adjusted

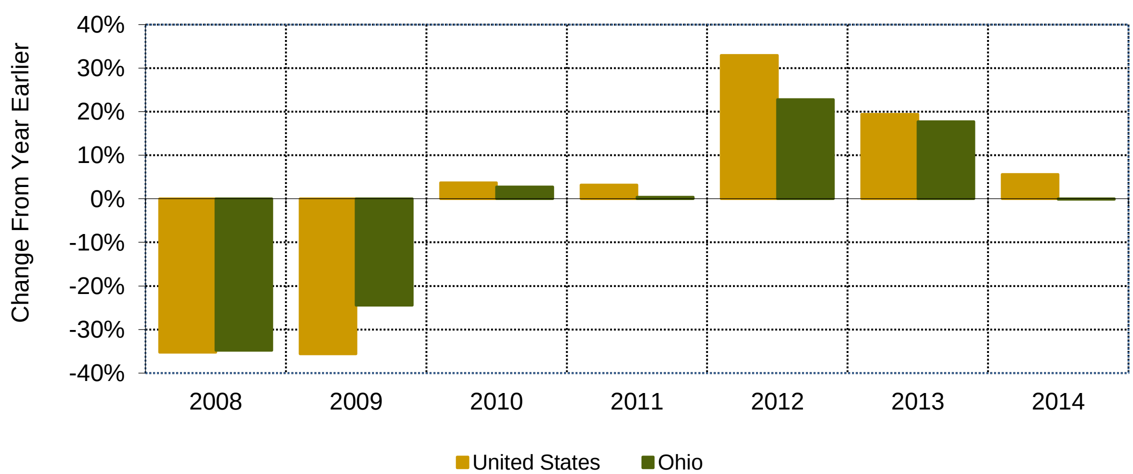


Personal income has been growing in the nation and Ohio since 2009, as shown in Chart 6. The numbers plotted in the chart are measured in dollars of current purchasing power. Ohio personal income rose 4.5% in the year to the fourth quarter of 2014. U.S. personal income rose 4.7% in the same time period, and increased at a 4.1% annual rate in the first quarter of 2015.



Housing construction has strengthened from lows six years ago but remains well short of previous peaks. Residential construction activity last year, as indicated by building permits for new privately owned units, was 79% higher nationwide than in 2009, but 51% below the peak in 2005. In Ohio, residential building in 2014 was 49% higher than in 2009 but 63% lower than in peak year 2003. Year-to-year changes in permit issuance are shown in Chart 7. In the first four months of 2015, building permit issuance for new housing units was 9% higher than a year earlier nationwide, but 11% lower in Ohio likely reflecting in part the impact of severe winter weather. The trend for housing construction and sales appears to be upward, albeit gradually, spurred by low mortgage interest rates and improved finances for many households. Average housing prices have recovered substantially from lows in 2011, in Ohio and the U.S., but remain below pre-recession peaks in 2006 and 2007.

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 May 2015. 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 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

U.S. real GDP declined in this year's first quarter but is projected to increase at about a 2.7% annual rate on average over the rest of the forecast horizon through 2017. The first quarter 2015 figure shown below is updated to reflect data published subsequent to release of Global Insight's May forecast.

U.S. Real GDP Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	-0.7	2.1	2.9	2.6	3.0	2.9	3.1	3.2	2.7	2.6	2.6	2.4
Fiscal Year		2.6				2.3				3.0		

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2017 but at a somewhat slower pace than the U.S. Predicted growth of real GDP in Ohio averages 2.2% per year from the second quarter of 2015 through 2017.

Ohio Real GDP Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	-0.2	1.6	2.7	2.4	2.0	2.2	2.7	2.6	2.1	1.9	2.0	1.8
Fiscal Year		1.6				1.9				2.4		

U.S. Inflation

The consumer price index for all items fell in this year's first quarter, reflecting lower energy prices. Inflation turns higher in Global Insight's May 2015 forecast, averaging about 2.5% per year in 2016 and 2017.

U.S. Consumer Price Index Inflation

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	-3.1	1.0	1.5	1.2	1.6	2.9	2.8	2.8	1.6	2.6	2.7	2.6
Fiscal Year		0.6				0.7				2.4		

U.S. Personal Income

Nationwide personal income growth is projected to increase over the forecast horizon, averaging 5.0% at an annual rate in 2016 and 5.7% in 2017. These growth rates are based on the dollar amounts of income, not adjusted for inflation.

U.S. Personal Income Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	4.0	3.7	3.4	3.7	5.2	4.5	4.7	5.4	6.4	5.6	5.3	5.3
Fiscal Year		4.2				3.9				5.1		

Ohio Personal Income

Income to persons who reside in Ohio also is forecast to grow through 2017. Growth of Ohio personal income averages 4.2% at an annual rate in 2016 and 4.9% in 2017, lagging behind growth of personal income nationwide.

Ohio Personal Income Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	4.4	3.7	2.9	3.1	4.7	3.9	4.0	4.4	5.7	4.7	4.7	4.5
Fiscal Year		4.2				3.6				4.3		

U.S. Unemployment Rate

Unemployment nationwide as a percent of the labor force is expected to decline to 5.0% by the second half of 2016 and to 4.9% in 2017. In May, the U.S. unemployment rate was 5.5%, up from 5.4% in April.

U.S. Unemployment Rate

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Quarterly	5.6	5.4	5.3	5.3	5.2	5.1	5.0	5.0	5.0	4.9	4.9	5.0
Fiscal Year		5.7				5.2				5.0		

Ohio Unemployment Rate

The unemployment rate in Ohio is projected to fall further over the forecast horizon, to 4.8% in 2017. In April, the statewide average unemployment rate was 5.2%, up from a 13-year low of 5.1% in December through March.

Ohio Unemployment Rate

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Quarterly	5.1	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.9
Fiscal Year		5.2				5.0				4.9		