# Baseline Forecast of GRF Revenues and Medicaid Expenditures for the FY 2018-FY 2019 Biennial Budget

## Testimony before the Conference Committee on H.B. 49

**June 22, 2017**

Chair Smith, Vice-Chair Oelslager, 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 2017 through 2019. 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. With two exceptions, these are baseline forecasts, LSC's predictions for revenues and expenditures as if current law were to remain unchanged throughout the next biennium. Regarding the exceptions, first, while total commercial activity tax (CAT) receipts are forecast based on current law, the GRF share of CAT receipts is assumed to be 85% in both the February and June forecasts, instead of the current 75%; this allocation change is included in the As Introduced, House Passed, and Senate Passed versions of H.B. 49. Second, receipts from the Medicaid health insuring corporation (HIC) sales tax have been removed from both forecasts as this tax is not expected to continue in the next biennium.

### Comparison of LSC February and June Forecasts

LSC forecasts lower baseline GRF tax revenue and higher Medicaid expenditures for the current fiscal year and the next biennium than we forecast in February. The differences between LSC's February and June forecasts are summarized in the table below. The differences are presented as LSC's June forecast minus LSC's February forecast, so the negative numbers indicate a lower June forecast and the positive numbers indicate a higher June forecast.

| Summary of LSC February and June Forecast Differences | | | |
|---|---|---|---|
| | **FY 2017** | **FY 2018** | **FY 2019** |
| **GRF Tax Revenue** | -$466 million | -$501 million | -$520 million |
| | | | |
| **Medicaid** | $199 million | $163 million | $38 million |
| **State Share** | $58 million | $48 million | $11 million |

## 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 U.S. economy has expanded since June 2009, according to the National Bureau of Economic Research, a length to date of 96 months. The average previous expansion since World War II lasted 58 months. Though the expansion has been comparatively long, most economic forecasters expect it to continue for some time yet. The broadest measure of economic activity is inflation-adjusted gross domestic product (real GDP). Nationwide, real GDP continued to grow in the fourth quarter of 2016 and the first quarter of this year, at annualized rates of 2.1% and 1.2%, respectively. As the economy has continued to grow, both Ohio and the U.S. have added to employment. From the low point seven years ago, Ohio nonfarm payroll employment has increased more than 512,000 jobs, an increase of just over 10%. Nationwide, payroll employment has grown about 16.4 million jobs in the last seven years, an increase of over 12%. In the latest year, through May 2017, nonfarm payroll employment in the U.S. grew 1.6% and in Ohio grew 0.8%. The durable goods manufacturing sector and mining sector experienced job losses in 2016, nationally and in Ohio, but employment in both sectors began rising nationally in 2017, and there were indications earlier in the year that Ohio would follow that pattern, though the last two months were disappointing. Most other sectors have seen job gains.

The employment growth has brought down the unemployment rate. In Ohio, unemployment as a percent of the labor force was 4.9% in May. Nationwide, the unemployment rate in May was 4.3%. According to this measure, the labor market appears healthy at the moment for job seekers, but 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, informed by an economic forecast from the consulting firm IHS Economics (formerly known as IHS Global Insight), that the economic expansion will continue at a moderate pace. A number of risks could alter the course of that expansion. Escalation in the value of the dollar in foreign exchange markets has eased somewhat since the beginning of the year, though the dollar is still strong after a significant rise since mid-2014. A strong dollar makes U.S. exports more expensive for buyers abroad and increases the attractiveness for U.S. purchasers of buying imported goods and services. If the dollar begins rising again this could slow economic activity in this country, perhaps by more than is reflected in the economic forecast that underlies LSC's revenue forecasts. Growth in the economies of some of our trading partners has picked up somewhat, but there is still some uncertainty related to the exit of the United Kingdom from the European Union. The new administration in Washington has suggested there will be fiscal stimulus proposals in the near future, but details on any tax reductions or spending increases are few, and there remains the question of how Congress will act on the proposals. As always, there is the possibility of unforeseen geopolitical risks.

As you consider our projections, then, please remember that economic forecasts are inevitably uncertain things, just like any other attempt to predict the future. We are confident in our methodology, but we know that the forecast will be wrong in some respects and to some degree. Our baseline 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 IHS Economics for the economic predictions that underlie the forecasts. Specifically, we have used the company's May baseline forecasts for the nation and Ohio as the sources for most input or explanatory variables in our models.[1]

As is detailed in the accompanying forecast materials, this forecast shows national real GDP growing at about a 2% annual rate during the period corresponding to state FY 2017, by 2.5% during FY 2018, and by 2.6% during FY 2019. 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 3.0% during the current fiscal year, by 3.5% during FY 2018, and by 4.2% during FY 2019. Inflation, measured by the consumer price index, is projected to be 1.9% in FY 2017, and to increase slightly to be stable at about 2.0% annually over the upcoming biennium.

## Revenue Forecasts

The LSC baseline forecasts for FY 2018 and FY 2019 assume the current Revised Code tax structure, though as noted above, the allocation of CAT revenue to the GRF is assumed to increase and the Medicaid HIC sales tax is assumed to be discontinued. Use of current law means that the personal income tax forecast reflects changes enacted in recent years, including reduced tax rates, the business income deduction and separate,

[1] Forecasts based on revenue models that use Ohio personal income and wage and salary income as explanatory variables have employed an alternative, slightly more pessimistic forecast by IHS Economics. In the view of LSC economists, the alternative values track recent experience with income tax withholding revenue better than the values in the baseline forecast.

flat tax rate, the earned income credit, and increased personal exemption amounts for lower income taxpayers. The corporate franchise tax, dealers in intangibles tax, and estate tax, which have continued to generate revenue effects into FY 2017 from delayed filings and refund applications, have been repealed and no revenue is assumed in the upcoming biennium. Finally, the Public Library Fund is projected to receive 1.66% of GRF tax receipts, down from 1.70% of such receipts currently, as a temporary provision of H.B. 64 that required use of the higher percentage expires.

For FY 2017, LSC estimates total GRF tax revenue to be $21.79 billion, after distributions to the local government funds.

For FY 2018, LSC forecasts total GRF tax revenue to be $21.91 billion, an increase of $124.6 million (0.6%) from FY 2017. The weakness in growth is largely attributable to the loss of Medicaid HIC sales tax revenue. Economic growth forecast by IHS Economics is expected to lead to moderate growth in most other tax sources. Income tax revenue is forecast to grow by 5.9% due to further improvement in labor markets, gains in proprietors' income, and income from investments. Revenue from the auto sales tax is projected to decline slightly, as a recent small decline in national car and light truck sales is expected to continue somewhat into FY 2018. A projected decline in cigarette tax revenue is due to the continuation of a long-term trend.

For FY 2019, LSC forecasts total GRF tax revenue to increase to $22.63 billion, an increase of $718.6 million (3.3%) from FY 2018. Revenue growth is forecast to continue for most taxes. Cigarette tax receipts are expected to decline further, though, and a reduction in forecast kilowatt-hour tax receipts is due entirely to growth in Public Library Fund revenue, which is debited in part against that tax.

## Medicaid Expenditure Forecast

The revised LSC baseline forecast for Medicaid expenditures is higher by $163 million ($48 million state share) in FY 2018 and $38 million ($11 million state share) in FY 2019, than was forecast in February. The forecast is higher for FY 2018 and FY 2019 due to changes in the projected caseload. The Federal Medical Assistance Percentage (FMAP) used in our February forecast is also used in our June forecast. The revised forecast includes several more months of Medicaid caseload data. Increases of 27,586 in FY 2018 and 28,209 in FY 2019 in the monthly caseload forecast in the children and families category, which includes Group VIII, more than offset decreases of 7,082 in FY 2018 and 6,481 in FY 2019 for the aged, blind, and disabled category and 4,169 in FY 2018 and 4,578 in FY 2019 for the all other category. As a result, the total Medicaid caseload is now projected to be higher by about 16,335 in FY 2018 and 17,150 in FY 2019.

Chair Smith 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 2018-FY 2019 BIENNIAL BUDGET FORECAST

## SECTION 1: REVENUE FORECASTS

The LSC baseline forecasts for FY 2018 and FY 2019 assume the current statutory tax structure, except that they include an increase from 75% to 85% in the allocation of receipts from the commercial activity tax (CAT) to the GRF; this policy change is included in the As Introduced, House Passed, and Senate Passed versions of H.B. 49. A number of tax changes enacted by the 131st General Assembly are included in the baseline forecasts as well. The most significant tax changes enacted during the last two years were enacted by the budget act for the current biennium, H.B. 64; those changes are discussed in detail below. One significant change is being required by federal rules, which require Ohio to discontinue applying the sales tax to Medicaid health insuring corporations (HICs). LSC included Medicaid HICs in the sales tax base for purposes of its baseline forecast for House Finance, but has removed this revenue from the updated baseline revenue forecast as this tax is not expected to continue in the next biennium. S.B. 172 enacted a sales tax exemption for investment bullion and coins, and H.B. 340 repealed a tax credit available under the financial institutions tax.

H.B. 64 made substantial changes to the personal income tax that took effect in FY 2016. That act reduced income tax rates by 6.3% across all brackets, expanded the small business income deduction (originally enacted two years earlier), and added means tests for the retirement income credit and the senior citizen credit. H.B. 64 also increased the tax rate on cigarettes from $1.25 per pack of 20 cigarettes to $1.60 per pack. Furthermore, H.B. 64 made a number of smaller changes to the sales and use tax, the CAT, and to tax credits that may be taken against various taxes. Estimates of revenue effects of the business income deduction are substantially improved from estimates made for the February revenue forecast; the Department of Taxation published detailed data in May for tax year 2015 on various sources of income claimed that year as business income.

H.B. 64 also included a provision that temporarily increased the share of GRF tax revenue allocated to the Public Library Fund (PLF) from its statutory level of 1.66%[1] of such revenue to 1.70% for the current biennium. The forecast assumes that the 1.66% share of total GRF tax revenue will resume for the upcoming biennium.

[1] The 1.66% ratio was determined by the Tax Commissioner under the authority of section 131.51 of the Revised Code. The Local Government Fund receives a similar 1.66% share, determined under the same section.

In the 132nd General Assembly, S.B. 9 enacted a three-day sales tax holiday in August 2017, affecting FY 2018 receipts. The forecast does not assume that the holiday is continued in 2019.

Baseline GRF tax revenue is forecast to increase by $124.6 million (0.6%) in FY 2018. Growth is projected to be weak primarily because the nonauto sales and use tax is expected to decline by $514 million (5.6%) due to the discontinuation of sales tax revenue from Medicaid HICs. The auto sales tax is also projected to decline slightly. Sales of light trucks and automobiles nationally set a record in 2016, while 2017 has seen some softening in sales; this is projected to extend into FY 2018. Income tax revenue was very weak during FY 2017, but revenue from that tax is projected to resume growth in FY 2018. Growth is expected for most other tax revenue sources, as the economic recovery is expected to continue. The cigarette and other tobacco products tax is an exception, as it is expected to resume its steady decline after having jumped in FY 2016 due to the H.B. 64 tax increase. No revenues are expected from either the corporate franchise or the business and property taxes as those taxes are eliminated, but late tax reconciliations may result in nonzero revenue. The estate tax, which ended for deaths after December 31, 2012, is projected to yield no GRF tax receipts after FY 2017. LSC also forecasts revenue from earnings on investments and from license fees, which are projected to total $107.4 million in FY 2018, a slight increase over FY 2017 revenue.

Baseline GRF tax revenue is forecast to increase by $718.6 million (3.3%) in FY 2019. Revenue from the personal income tax is projected to grow somewhat more slowly than in FY 2018, but is still projected to be the primary source of tax revenue growth. Growth in revenue from the nonauto sales and use tax, the largest GRF tax source, is projected to resume, as is growth in the auto sales tax, but rather slowly in both cases. The domestic insurance tax is projected to grow strongly, due primarily to growth in taxes paid by Medicaid HICs. Except for declining receipts for the tax on cigarettes and other tobacco products and the kilowatt-hour tax, the remaining taxes are expected to exhibit smaller rates of revenue growth. Earnings on investments and license revenue are forecast to total $128.5 million in FY 2019.

The following four tables provide overviews of estimated GRF receipts from taxes and from state sources including earnings on investments and receipts from charges for licenses and fees. As indicated earlier, Medicaid HIC sales tax receipts were removed from FY 2018 and FY 2019 figures shown in tables one through four. Furthermore, these figures assume that 85% of CAT receipts are allocated to the GRF.

**Table 1. Total GRF Tax Revenue Growth, FY 2013-FY 2019 ($ in millions)**

| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Estimate | FY 2018 Forecast | FY 2019 Forecast |
|---|---|---|---|---|---|---|---|
| **Revenue** | $21,015.5 | $20,134.4 | $21,405.1 | $21,819.5 | $21,788.4 | $21,913.0 | $22,631.6 |
| **Growth** | 10.6% | -4.2% | 6.3% | 1.9% | -0.1% | 0.6% | 3.3% |

| Table 2. LSC Baseline Revenue Forecasts, FY 2018-FY 2019 ($ in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|
| GRF | FY 2016 Actuals | FY 2017 Estimates | Growth Rate | FY 2018 Forecast | Growth Rate | FY 2019 Forecast | Growth Rate |
| ***TAX REVENUE*** | | | | | | | |
| Auto Sales & Use | $1,346.3 | $1,390.0 | 3.2% | $1,374.3 | -1.1% | $1,388.9 | 1.1% |
| Nonauto Sales & Use | $9,001.7 | $9,173.2 | 1.9% | $8,658.9 | -5.6% | $8,868.7 | 2.4% |
| Total Sales & Use | $10,348.0 | $10,563.2 | 2.1% | $10,033.2 | -5.0% | $10,257.6 | 2.2% |
| Personal Income | $7,799.3 | $7,589.5 | -2.7% | $8,033.8 | 5.9% | $8,446.4 | 5.1% |
| Commercial Activity | $1,255.3 | $1,287.8 | 2.6% | $1,481.6 | 15.1% | $1,532.0 | 3.4% |
| Petroleum Activity | $6.9 | $6.1 | -11.4% | $7.0 | 14.8% | $7.0 | 0.0% |
| Corporate Franchise | $33.2 | $3.7 | -88.9% | $0.0 | -100.0% | $0.0 | -- |
| Financial Institutions | $213.5 | $190.0 | -11.0% | $195.0 | 2.6% | $200.0 | 2.6% |
| Public Utility | $103.3 | $107.0 | 3.6% | $111.6 | 4.3% | $118.8 | 6.4% |
| Kilowatt-Hour Excise | $338.0 | $342.6 | 1.4% | $349.1 | 1.9% | $343.9 | -1.5% |
| Natural Gas Consumption | $60.7 | $61.8 | 1.8% | $62.7 | 1.4% | $63.6 | 1.5% |
| Foreign Insurance | $293.5 | $302.0 | 2.9% | $304.2 | 0.7% | $314.6 | 3.4% |
| Domestic Insurance | $258.3 | $267.2 | 3.5% | $284.1 | 6.3% | $311.7 | 9.7% |
| Business & Property | $0.1 | -$0.7 | -786.3% | $0.0 | -- | $0.0 | -- |
| Cigarette | $1,007.6 | $964.0 | -4.3% | $946.0 | -1.9% | $929.0 | -1.8% |
| Alcoholic Beverage | $54.4 | $57.1 | 4.9% | $57.4 | 0.5% | $58.4 | 1.7% |
| Liquor Gallonage | $45.1 | $46.4 | 2.8% | $47.3 | 1.9% | $48.5 | 2.5% |
| Estate | $2.2 | $0.7 | -67.5% | $0.0 | -100.0% | $0.0 | -- |
| **Total Tax Revenue** | **$21,819.5** | **$21,788.4** | **-0.1%** | **$21,913.0** | **0.6%** | **$22,631.6** | **3.3%** |
| ***NONTAX STATE-SOURCE REVENUE*** | | | | | | | |
| Earnings on Investments | $35.2 | $46.5 | 32.2% | $50.0 | 7.5% | $71.0 | 42.0% |
| Licenses and Fees | $56.4 | $59.3 | 5.2% | $57.4 | -3.2% | $57.5 | 0.2% |

**Table 3. FY 2017 Revenue Estimate Comparison ($ in millions)**

| GRF | February 2017 | June 2017 | Change |
|---|---|---|---|
| ***TAX REVENUE*** | | | |
| Auto Sales & Use | $1,370.0 | $1,390.0 | $20.0 |
| Nonauto Sales & Use | $9,268.8 | $9,173.2 | -$95.5 |
| Total Sales & Use | $10,638.8 | $10,563.2 | -$75.5 |
| Personal Income | $7,993.4 | $7,589.5 | -$404.0 |
| Commercial Activity | $1,254.8 | $1,287.8 | $32.9 |
| Petroleum Activity | $7.0 | $6.1 | -$0.9 |
| Corporate Franchise | -$0.3 | $3.7 | $4.0 |
| Financial Institutions | $220.0 | $190.0 | -$30.0 |
| Public Utility | $101.0 | $107.0 | $6.0 |
| Kilowatt-Hour Excise | $344.7 | $342.6 | -$2.0 |
| Natural Gas Consumption | $61.4 | $61.8 | $0.4 |
| Foreign Insurance | $294.0 | $302.0 | $8.0 |
| Domestic Insurance | $271.0 | $267.2 | -$3.8 |
| Business & Property | -$0.7 | -$0.7 | $0.0 |
| Cigarette | $964.0 | $964.0 | $0.0 |
| Alcoholic Beverage | $58.0 | $57.1 | -$0.9 |
| Liquor Gallonage | $46.7 | $46.4 | -$0.3 |
| Estate | $0.5 | $0.7 | $0.2 |
| **Total Tax Revenue** | **$22,254.4** | **$21,788.4** | **-$466.0** |
| ***NONTAX STATE-SOURCE REVENUE*** | | | |
| Earnings on Investments | $42.0 | $46.5 | $4.5 |
| Licenses and Fees | $60.0 | $59.3 | -$0.7 |

**Table 4. Baseline Revenue Forecast Comparison, FY 2018-FY 2019 ($ in millions)**

| GRF | FY 2018 February 2017 | FY 2018 June 2017 | FY 2018 Change | FY 2019 February 2017 | FY 2019 June 2017 | FY 2019 Change |
|---|---|---|---|---|---|---|
| ***TAX REVENUE*** | | | | | | |
| Auto Sales & Use | $1,388.0 | $1,374.3 | -$13.7 | $1,379.0 | $1,388.9 | $9.9 |
| Nonauto Sales & Use | $8,786.9 | $8,658.9 | -$128.0 | $9,033.0 | $8,868.7 | -$164.3 |
| Total Sales & Use | $10,174.9 | $10,033.2 | -$141.7 | $10,412.0 | $10,257.6 | -$154.4 |
| Personal Income | $8,394.5 | $8,033.8 | -$360.7 | $8,809.4 | $8,446.4 | -$363.0 |
| Commercial Activity | $1,447.7 | $1,481.6 | $33.9 | $1,501.3 | $1,532.0 | $30.7 |
| Petroleum Activity | $7.0 | $7.0 | $0.0 | $7.0 | $7.0 | $0.0 |
| Corporate Franchise | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Financial Institutions | $225.0 | $195.0 | -$30.0 | $230.0 | $200.0 | -$30.0 |
| Public Utility | $106.6 | $111.6 | $5.1 | $111.7 | $118.8 | $7.1 |
| Kilowatt-Hour Excise | $350.7 | $349.1 | -$1.6 | $345.2 | $343.9 | -$1.3 |
| Natural Gas Consumption | $62.3 | $62.7 | $0.4 | $63.3 | $63.6 | $0.4 |
| Foreign Insurance | $303.0 | $304.2 | $1.2 | $313.0 | $314.6 | $1.6 |
| Domestic Insurance | $290.0 | $284.1 | -$5.9 | $321.0 | $311.7 | -$9.3 |
| Business & Property | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Cigarette | $946.0 | $946.0 | $0.0 | $929.0 | $929.0 | $0.0 |
| Alcoholic Beverage | $57.8 | $57.4 | -$0.4 | $59.1 | $58.4 | -$0.7 |
| Liquor Gallonage | $48.1 | $47.3 | -$0.8 | $49.6 | $48.5 | -$1.1 |
| Estate | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| **Total Tax Revenue** | **$22,413.6** | **$21,913.0** | **-$500.6** | **$23,151.6** | **$22,631.6** | **-$520.0** |
| ***NONTAX STATE-SOURCE REVENUE*** | | | | | | |
| Earnings on Investments | $51.0 | $50.0 | -$1.0 | $72.0 | $71.0 | -$1.0 |
| Licenses and Fees | $59.6 | $57.4 | -$2.2 | $61.3 | $57.5 | -$3.8 |

# ATTACHMENT: FY 2018-FY 2019 BIENNIAL BUDGET FORECAST

## SECTION 2: MEDICAID EXPENDITURE FORECASTS

The revised LSC baseline forecast for Medicaid expenditures is higher by $163 million ($48 million state share) in FY 2018 and $38 million ($11 million state share) in FY 2019, than was forecast in February. The forecast is higher for FY 2018 and FY 2019 due to changes in the projected caseload.

**Table 5. Total Medicaid Expenditures (combined state and federal dollars, dollars in millions)**

| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Estimate | FY 2018 Forecast | FY 2019 Forecast |
|---|---|---|---|---|---|---|---|
| | | | | | | **February** | |
| **Expenditures** | $18,857 | $20,859 | $23,467 | $25,294 | $26,441 | $27,845 | $28,445 |
| **Growth** | 2.5% | 10.6% | 12.5% | 7.8% | 4.5% | 5.3% | 2.2% |
| | | | | | | **June** | |
| **Expenditures** | $18,857 | $20,859 | $23,462 | $25,300 | $26,640 | $28,007 | $28,483 |
| **Growth** | 2.5% | 10.6% | 12.5% | 7.8% | 5.3% | 5.1% | 1.7% |
| | | | | | | **Difference** | |
| **Expenditures** | -- | -- | -$6 | $7 | $199 | $163 | $38 |
| **Growth** | -- | -- | 0.0% | 0.1% | 0.8% | -0.2% | -0.5% |

The following four tables (Tables 6-9) detail the changes in LSC's Medicaid caseload forecasts. The June forecast includes several more months of Medicaid caseload and economic data. As can be seen in Table 6, the June forecast for the total Medicaid caseload is higher than the February forecast by over 16,000 in FY 2018 and 17,000 in FY 2019. This increase is driven by an increase in the forecast for the covered families and children (CFC) category, as can be seen in Table 7. The CFC category includes the expansion (Group VIII) population. The June forecasts for the other two categories – aged, blind, and disabled (ABD) and all other – are lower than the February forecasts and partially offset the increase in the CFC category. These can be seen in Tables 8 and 9.

**Table 6. Total Medicaid Caseload**

| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Estimate | FY 2018 Forecast | FY 2019 Forecast |
|---|---|---|---|---|---|---|---|
| | | | | | | **February** | |
| **Caseload** | 2,383,712 | 2,650,349 | 2,963,348 | 3,039,635 | 3,059,721 | 3,070,582 | 3,066,472 |
| **Growth** | 7.1% | 11.2% | 11.8% | 2.6% | 0.7% | 0.4% | -0.1% |
| | | | | | | **June** | |
| **Caseload** | 2,383,712 | 2,650,349 | 2,961,789 | 3,049,512 | 3,077,919 | 3,086,917 | 3,083,622 |
| **Growth** | 7.1% | 11.2% | 11.8% | 3.0% | 0.9% | 0.3% | -0.1% |
| | | | | | | **Difference** | |
| | -- | -- | -1,559 | 9,876 | 18,198 | 16,335 | 17,150 |
| | -- | -- | -0.1% | 0.3% | 0.6% | 0.5% | 0.6% |

**Table 7. CFC Medicaid Caseload**

| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Estimate | FY 2018 Forecast | FY 2019 Forecast |
|---|---|---|---|---|---|---|---|
| | | | | | | **February** | |
| **Caseload** | 1,721,135 | 1,961,463 | 2,339,806 | 2,478,797 | 2,490,425 | 2,433,955 | 2,428,194 |
| **Growth** | 2.9% | 14.0% | 19.3% | 5.9% | 0.5% | -2.3% | -0.2% |
| | | | | | | **June** | |
| **Caseload** | 1,721,135 | 1,961,463 | 2,339,806 | 2,490,207 | 2,507,984 | 2,461,541 | 2,456,403 |
| **Growth** | 2.9% | 14.0% | 19.3% | 6.4% | 0.7% | -1.9% | -0.2% |
| | | | | | | **Difference** | |
| | -- | -- | -- | 11,410 | 17,559 | 27,586 | 28,209 |
| | -- | -- | -- | 0.5% | 0.2% | 0.4% | 0.0% |

| Table 8. ABD Medicaid Caseload | | | | | | | |
|---|---|---|---|---|---|---|---|
| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Estimate | FY 2018 Forecast | FY 2019 Forecast |
| | | | | | | February | |
| **Caseload** | 415,778 | 438,015 | 423,244 | 385,061 | 416,616 | 474,944 | 476,009 |
| **Growth** | -2.1% | 5.3% | -3.4% | -9.0% | 8.2% | 14.0% | 0.2% |
| | | | | | | June | |
| **Caseload** | 415,778 | 438,015 | 421,685 | 385,328 | 419,223 | 467,862 | 469,528 |
| **Growth** | -2.1% | 5.3% | -3.7% | -8.6% | 8.8% | 11.6% | 0.4% |
| | | | | | | Difference | |
| | -- | -- | -1,559 | 267 | 2,607 | -7,082 | -6,481 |
| | -- | -- | -0.4% | 0.4% | 0.6% | -2.4% | 0.1% |

| Table 9. All Other Medicaid Caseload | | | | | | | |
|---|---|---|---|---|---|---|---|
| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Estimate | FY 2018 Forecast | FY 2019 Forecast |
| | | | | | | February | |
| **Caseload** | 246,800 | 250,871 | 200,300 | 175,777 | 152,681 | 161,683 | 162,270 |
| **Growth** | 91.2% | 1.6% | -20.2% | -12.2% | -13.1% | 5.9% | 0.4% |
| | | | | | | June | |
| **Caseload** | 246,800 | 250,871 | 200,300 | 173,977 | 150,714 | 157,514 | 157,692 |
| **Growth** | 91.2% | 1.6% | -20.2% | -13.1% | -13.4% | 4.5% | 0.1% |
| | | | | | | Difference | |
| | -- | -- | -- | -1,800 | -1,968 | -4,169 | -4,578 |
| | -- | -- | -- | -0.9% | -0.2% | -1.4% | -0.3% |

# ATTACHMENT: FY 2018-FY 2019 BIENNIAL BUDGET FORECAST

# SECTION 3: ECONOMIC CONDITIONS AND OUTLOOK

## State of the Economy

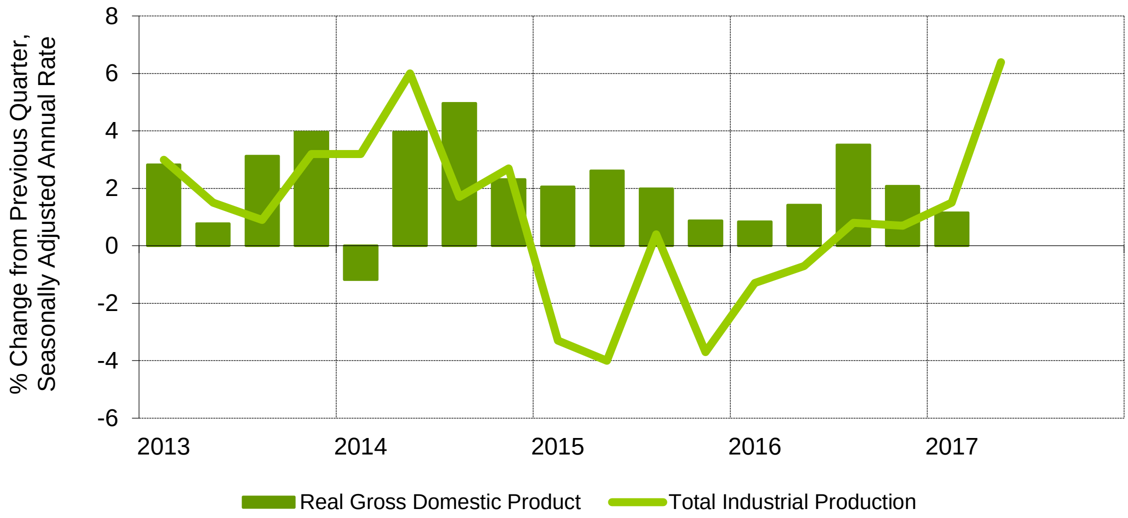
The economic expansion is continuing in 2017 for both the U.S. and Ohio. Growth of output, employment, and incomes in Ohio generally has trailed that nationwide. The pace of growth is likely to remain slow compared with that in past business cycle expansions, for the nation and the state. Growth appears to have picked up in this year's second quarter, after slowing in the first quarter. Price inflation increased last year but has eased somewhat this year. In anticipation of continued growth in the economy and a modest uptick in inflation, the Federal Reserve, the nation's central bank, has raised its short-term interest rate target, which nevertheless remains low compared with past levels.

### National

The national economy has continued to grow in 2017. Inflation-adjusted gross domestic product (real GDP), the broadest measure of goods and services output, rose at a 1.2% annual rate in this year's first quarter, as shown in Chart 1. Output growth appears to have picked up in the second quarter. Industrial production, which includes mining as well as manufacturing industries that support mining, fell in 2015 and the first half of 2016 as energy exploration and development was sharply curtailed following a drop in oil and other commodity prices. Growth of industrial output resumed in last year's second half. The second quarter 2017 increase in industrial production shown in Chart 1 is based on data through May.

In a longer term perspective, real GDP rose in most quarters since the end of the 2007-2009 recession, but real GDP growth has averaged only a 2.1% annual rate, the slowest of any post-World War II economic recovery and expansion. Although the expansion is one of the longest on record, imbalances or overheating that might bring an end to the expansion are not evident. Slow growth appears to reflect both factors, notably demographic factors, that have slowed trend growth of employment, and slower growth of productivity. These longer run patterns appear unlikely to change soon.

**Chart 1: United States Output Measures**

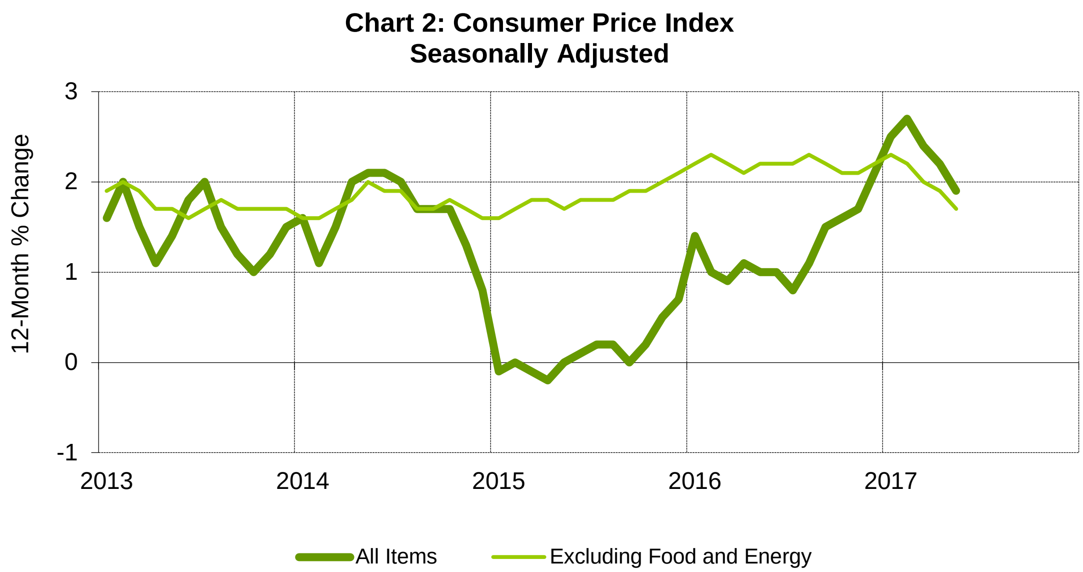



Consumer spending growth was slow in the first quarter, as outlays for durable goods fell and unseasonably mild weather in some regions of the country during part of the quarter reduced demand for utility services. U.S. sales of cars and light trucks this year through May have been below the record pace in 2016. Consumer spending continues to be supported by growth of employment, incomes, and net worth, as well as low unemployment and numerous job openings.

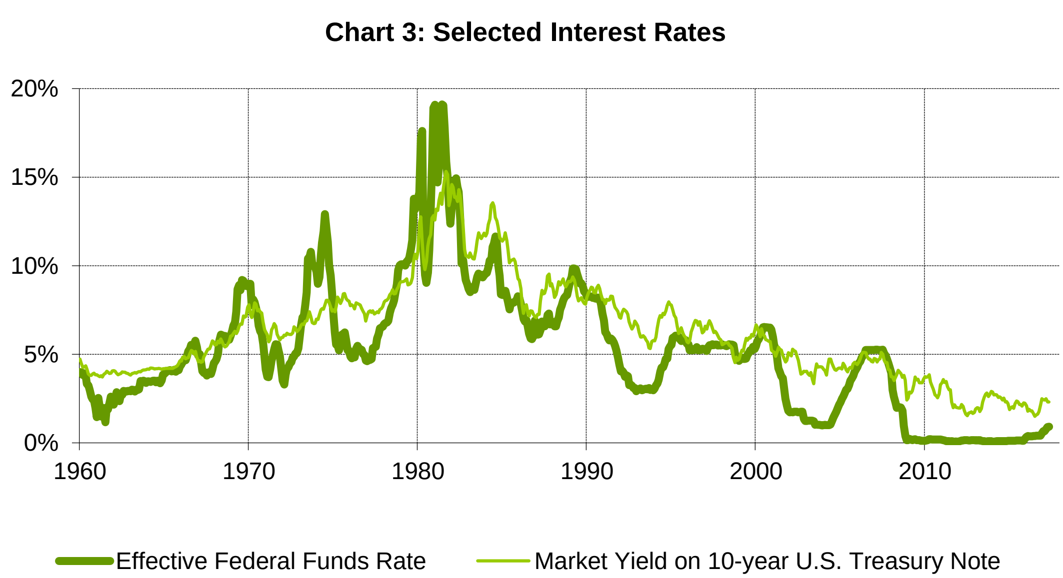
Residential fixed investment growth strengthened in the 2017 first quarter after slowing in 2016. Home starts and sales this year are running ahead of last year, aided by low interest rates and rising incomes, but the pace of advance has slowed recently. Year-to-date starts and permits for construction of new apartment buildings are down from a year ago. Reports continue to indicate that home buying is held back by low inventories of homes for sale.

Business fixed investment growth resumed in the first quarter following a slowdown in 2016. Petroleum and natural gas exploration and well drilling surged, and outlays for equipment grew including electronic, industrial, and transportation equipment. On the other hand, business accumulation of inventories slowed, subtracting from growth of aggregate demand.

Inflation turned higher last year and early this year, but has since slowed, as shown in Chart 2. Changes in the consumer price index (CPI) for all items were strongly influenced over the past few years by fluctuations in energy prices, which rose last year but have fallen since January. The chart shows a slowdown in inflation measured by the all-items index and also slower increases in the CPI excluding food and energy. Year-over-year increases in a related measure of prices for personal consumption expenditures, used by the Federal Reserve in assessing progress toward its 2% inflation target, also declined in March and April, and remain below the target.



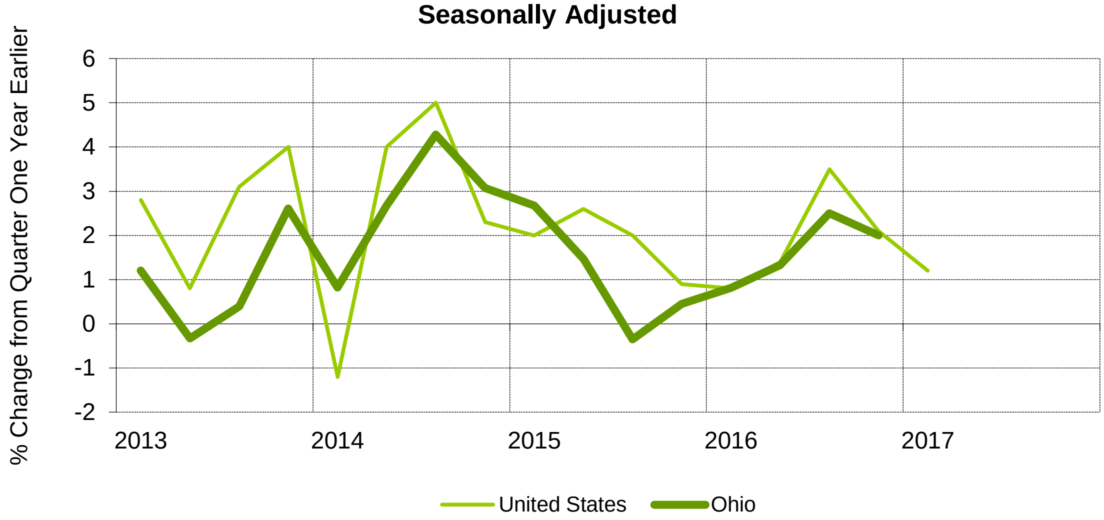

The Federal Reserve raised its target short-term interest rate, the federal funds rate on overnight loans between banks, starting in December 2015 after seven years of holding this rate near zero. The central bank has since raised its target range for federal funds three more times, in quarter-point increments, most recently this month when it increased the range to 1% to 1.25%. A majority of members of the Open Market Committee, the central bank's decision-making body on monetary policy, expects at least one more quarter-point increase later this year. As is clear from Chart 3, which shows monthly average rates through May for federal funds and also for the ten-year U.S. Treasury note, these interest rates remain at exceptionally low levels compared with those of the past more than half a century. In addition to raising its short-term interest rate target, the Federal Reserve is moving toward allowing a portion of its exceptionally large holdings of securities to mature and not be replaced, starting later this year.



## Ohio

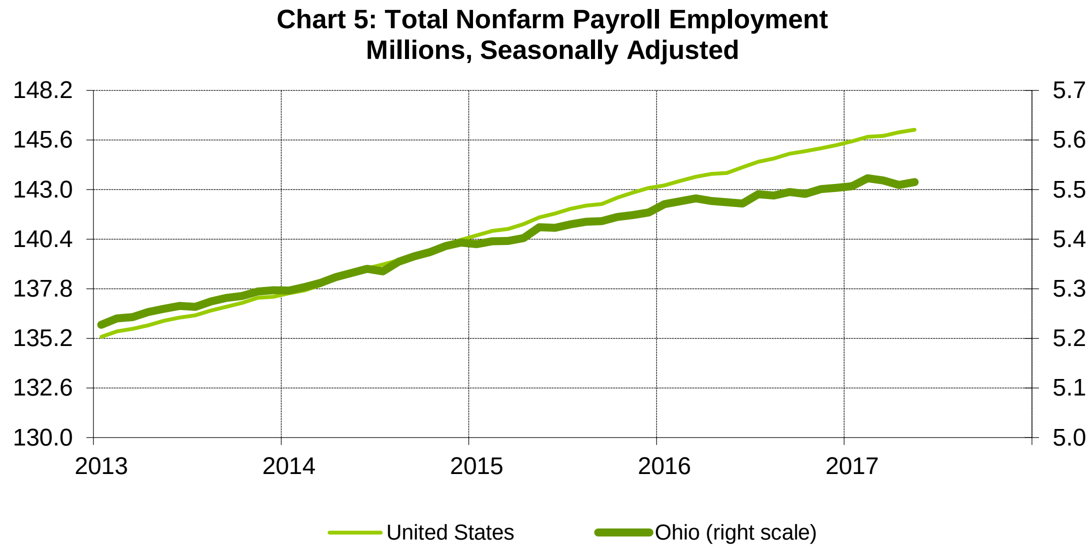
The 2007-2009 recession was more severe in Ohio than nationwide, as indicated by gross domestic product, but the recovery in Ohio initially was stronger. By 2012, Ohio's growth rate of total output generally trailed that of the nation, a pattern that continued through last year as shown in Chart 4.

**Chart 4: Real Gross Domestic Product Seasonally Adjusted**

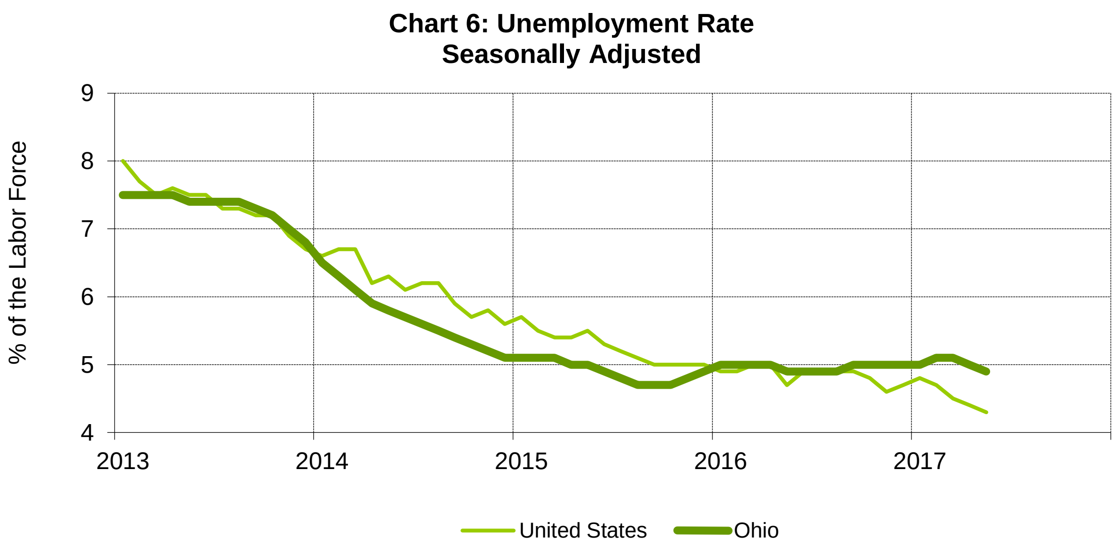



Ohio nonfarm payroll employment has grown since reaching a low point in 2010, but the pace of growth has slowed from 1.8% per year (93,900 jobs) in 2012 to less than 1% in recent months (compared with the year-earlier month). Ohio added 57,400 jobs in 2016 (based on annual average employment), the lowest increase for a calendar year since 2010. Job growth this year, from year-ago levels, has been in both private goods-producing and service-providing industries. In the goods-producing sector, employment growth has been strongest in construction and nondurable goods manufacturing. In the service sector, industries adding to employment have included education and health services; wholesale trade; real estate; professional, scientific, and technical services; finance and insurance; and accommodation and food services. State and local government, and mining and logging, reduced employment compared with last year.

Employment growth in Ohio has trailed that nationwide for the past four years. Earlier in the expansion, in 2011 and 2012, employment growth was stronger in the state. Recent trends in total nonfarm payroll employment in the nation and in Ohio are shown in Chart 5.

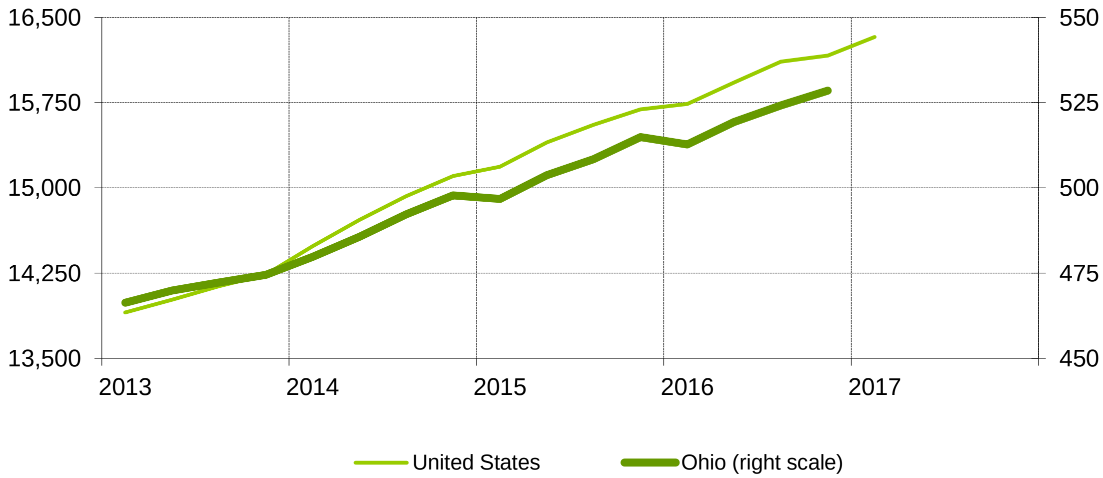



Ohio's statewide unemployment rate in May was 4.9%, the same as a year earlier. The state's unemployment as a share of the labor force peaked at 11% in December 2009 and January 2010. It subsequently fell reaching a low of 4.7% in 2015, and has since remained above that level. Ohio's unemployment rate has been equal to or above the corresponding rate for the U.S. since 2015, as shown in Chart 6. Historically, unemployment rates at recent levels have denoted fairly full employment of available labor resources and have been associated with upward pressures on wage and salary rates. While pay rates have edged higher, upward pressures have been modest in the aggregate, though reports indicate higher pay being offered to retain and attract workers in occupational categories and parts of the country short of workers with needed qualifications.



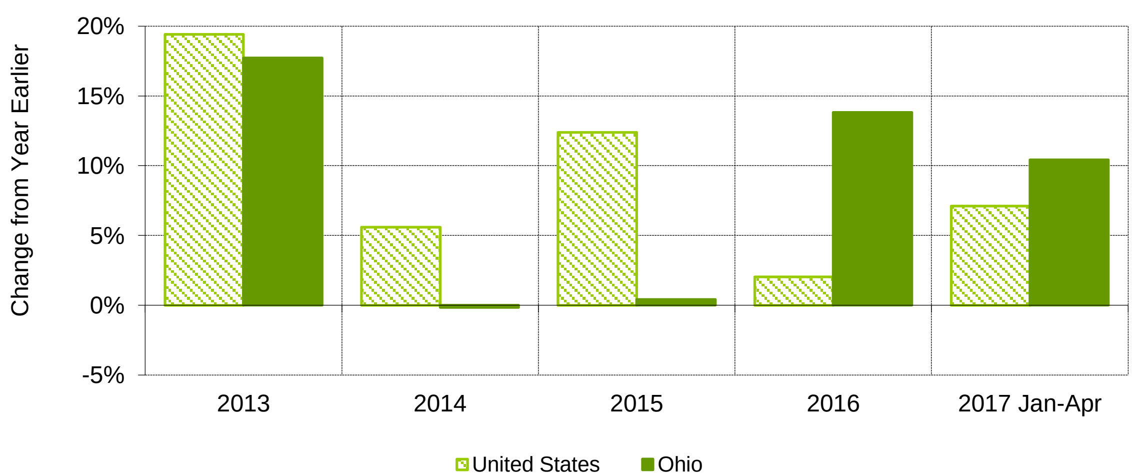
Personal income has been growing in Ohio and nationwide since 2009. The rate of personal income growth in Ohio has generally trailed that of the nation for the past five years. Personal income in the U.S. and Ohio are shown in Chart 7. Figures in the chart reflect dollars of current purchasing power, not adjusted for inflation.

**Chart 7: Personal Income**
**Billions of Dollars, Seasonally Adjusted Annualized Quarters**




Ohio home and apartment construction continues to advance in 2017, and home sales remain at high levels. Permits for construction of new housing units in Ohio rose strongly in 2016 and continued a strong year-over-year rate of increase in 2017 through April. Even with the vigorous upturn in residential building in the state since the low point in 2009, the number of units for which permits are being issued is up to only about half of the rate in peak year 2003. The number of Ohio homes sold in the first four months of 2017 was about the same as a year earlier, according to figures from the Ohio Association of Realtors. In 2016, home sales were at the highest level on record.

**Chart 8: New Privately Owned Housing Units**
**Authorized by Building Permits**



## Economic Forecasts

The following forecasts of key economic indicators are from IHS Economics' baseline forecasts released in May 2017, with the exception of Ohio personal income. The forecast of Ohio personal income is based in part on an alternative forecast from IHS Economics, generated in response to the persistent weakness in Ohio's tax revenue. Forecasts for the variables shown below were either used directly in LSC's state revenue projections for the next biennium or illustrate the economic environment in which those revenue forecasts were made. The forecasts are point estimates, which do not indicate the sizable, and varying, uncertainty involved in each forecast. LSC's forecasts for state revenues also reflect the inherent uncertainties of economic indicator forecasts.

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

### U.S. Gross Domestic Product

U.S. real GDP is projected to increase about 2.5% annually on average in the next biennium, as shown below.

**U.S. Real GDP Growth**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent change at annual rate | | | | | | | | | | | |
| Quarterly | 1.2 | 3.4 | 2.9 | 2.4 | 2.7 | 2.6 | 2.6 | 2.6 | 2.5 | 2.1 | 2.1 | 1.9 |
| Fiscal Year | | 2.0 | | | | 2.5 | | | | 2.6 | | |

### Ohio Gross Domestic Product

Ohio's economy is expected to continue to grow through 2019 but at a slower pace than the national economy. Ohio real GDP is projected to increase about 1.9% annually on average in the next biennium.

**Ohio Real GDP Growth**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent change at annual rate | | | | | | | | | | | |
| Quarterly | -0.1 | 2.4 | 1.9 | 1.9 | 2.6 | 2.2 | 2.0 | 2.0 | 1.8 | 1.6 | 1.7 | 1.6 |
| Fiscal Year | | 1.5 | | | | 1.8 | | | | 2.0 | | |

### U.S. Inflation

IHS Economics' May baseline forecast projects consumer price inflation to remain low in the next biennium, averaging about 2.0% annually, and to edge higher in calendar year 2019.

**U.S. Consumer Price Index Inflation**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent change at annual rate | | | | | | | | | | | |
| Quarterly | 3.1 | 0.7 | 2.8 | 1.9 | 1.3 | 1.6 | 2.1 | 2.0 | 2.2 | 2.3 | 2.6 | 2.7 |
| Fiscal Year | | 1.9 | | | | 2.0 | | | | 1.9 | | |

### U.S. Personal Income

Nationwide personal income is projected to grow about 4.8% annually on average in the next biennium. These growth rates are based on the dollar amounts of income, not adjusted for inflation.

**U.S. Personal Income Growth**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent change at annual rate | | | | | | | | | | | |
| Quarterly | 4.0 | 4.4 | 4.6 | 4.7 | 5.1 | 4.8 | 4.9 | 5.4 | 5.7 | 5.2 | 5.1 | 4.9 |
| Fiscal Year | | 4.0 | | | | 4.5 | | | | 5.1 | | |

### Ohio Personal Income

Income to persons who reside in Ohio also is forecast to grow in the next biennium, at 3.8% annually on average, a lower rate of growth than expected for the U.S. These projections reflect an alternate, slightly more pessimistic forecast relative to IHS Economics' May baseline forecast.

**Ohio Personal Income Growth**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent change at annual rate | | | | | | | | | | | |
| Quarterly | 1.2 | 3.7 | 3.7 | 3.8 | 4.3 | 4.0 | 4.1 | 4.4 | 4.8 | 4.2 | 4.6 | 4.3 |
| Fiscal Year | | 3.0 | | | | 3.5 | | | | 4.2 | | |

## U.S. Unemployment Rate

IHS Economics' May baseline forecast projects the nationwide unemployment rate will decline slowly through the next biennium.

**U.S. Unemployment Rate**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent of the labor force | | | | | | | | | | | |
| Quarterly | 4.7 | 4.5 | 4.4 | 4.4 | 4.3 | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Fiscal Year | | 4.7 | | | | 4.3 | | | | 4.0 | | |

## Ohio Unemployment Rate

Ohio's unemployment rate is also projected to decline throughout the next biennium, as shown below, and to remain above the rate for the nation.

**Ohio Unemployment Rate**

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | percent of the labor force | | | | | | | | | | | |
| Quarterly | 5.1 | 4.8 | 4.7 | 4.7 | 4.6 | 4.5 | 4.4 | 4.3 | 4.2 | 4.2 | 4.2 | 4.2 |
| Fiscal Year | | 5.0 | | | | 4.6 | | | | 4.3 | | |