OHIO LEGISLATIVE SERVICE COMMISSION

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Baseline Forecast of GRF Revenues and Medicaid Expenditures for the FY 2020-FY 2021 Biennial Budget

Testimony before the Conference Committee on H.B. 166

June 25, 2019

Chair Oelslager, Vice-Chair Dolan, and members of the Conference Committee, I am Mark Flanders, Director of the Legislative Service Commission (LSC). I am here to testify on our Legislative Budget Office (LBO) forecasts for General Revenue Fund (GRF) revenues and Medicaid service expenditures in fiscal years 2019 through 2021. My testimony will summarize the differences between our March and June forecasts and briefly explain our thinking about the economy. The attachment to my testimony provides more detail about the updated forecasts and the economy. These are baseline forecasts, LBO's predictions for revenues and expenditures as if current law were to remain unchanged throughout the next biennium.

Comparison of LBO March and June baseline forecasts

Compared with our March baseline forecasts, LBO economists now forecast significantly higher GRF tax revenues and somewhat lower Medicaid expenditures for the current fiscal year and the next biennium. The differences between our March and June forecasts are summarized in the table below. The differences are presented as LBO's June forecast minus the March forecast, so the positive numbers indicate a higher revised forecast for each year and vice versa.

Summary of Differences between LBO March and June Forecasts			
	FY 2019	FY 2020	FY 2021
GRF taxes	$586.5 million	$434.2 million	$260.5 million
Medicaid	-$1.9 million	-$107.9 million	-$148.4 million
GRF State Share	-$0.6 million	-$32.4 million	-$44.5 million

Most of the increase in the forecast for revenue is due to the personal income tax. April revenue from the income tax was considerably higher than expected, increasing our expectations for FY 2019, and that flowed through to increased expectations regarding the upcoming biennium. We have revised upward our forecasts for sales and use tax revenue in all three years as well. Going forward, changes in the economy will have substantial effects on tax revenues, as well as Medicaid caseloads.

The economy

U.S. economic expansion was strong through much of last year, but recent economic indicators have been mixed. Ohio's economy also continued to expand last year, but growth in recent years has been slower than that of the nation. If the economic expansion that began in June 2009 continues past June 2019, this expansion would be the longest in U.S. history, according to statistics from the National Bureau of Economic Research. The economic forecast on which LBO based our revenue projections does have the expansion continuing through the upcoming biennium.

The broadest measure of economic activity is inflation-adjusted gross domestic product (real GDP). Nationwide, real GDP continued to grow through the first quarter of 2019, and increased by 2.9% in all of 2018, its strongest rise since 2015. Ohio's real GDP grew 1.8% during 2018; data for the first quarter of 2019 have not yet been published at the state level. Though slower than the national growth, Ohio's real GDP grew faster in 2018 than any year since 2014.

Some recent economic indicators have been softer, though the expansion remains on track. Nationwide payroll employment rose 75,000 in May, and employment growth has averaged 164,000 per month during the first five months of 2019, down from 223,000 monthly during 2018. Industrial production, the output of the country's factories, mines, and utilities, fell during three of the first four months of the year, but increased 0.4% in May; the manufacturing component of the index showed similar growth and decline patterns. Retail sales growth strengthened in March through May, up 3.6% compared to the corresponding months of 2018. In Ohio, total payroll employment in May was about 42,900 higher than in May 2018, despite a decline in employment from April. Growth of total employment in the state last year was originally reported to have been higher but was revised downward substantially. Unemployment rates in the nation and the state remain low; Ohio's rate was 4.1% in May, the lowest rate since 2001.

In developing our revenue forecasts, LBO economists have relied on IHS Markit for the economic predictions that underlie the forecasts. We also have consulted with Moody's, the other economic forecasting service with which LSC has a contract. In recent months, both IHS and Moody's have grown cautious, attributing an unusually large subjective probability to the likelihood of their pessimistic forecasts occurring rather than their baseline forecasts. In light of that circumstance, LBO economists have used both the IHS Markit May baseline and pessimistic forecasts for the nation and Ohio as the sources for most input or explanatory variables in our models, though we have weighted the baseline forecast more heavily in both years. (See the **Revenue Forecast** section of the attachment for a further discussion of the weights.) The baseline forecasts are for the economic expansion in the nation and Ohio to continue at a moderate pace. As is detailed in the accompanying attachment, the baseline forecast shows national real GDP continuing to grow during the period corresponding to state FY 2020 and FY 2021, at about a 2.1% annual rate on average, down from 3.0% growth in FY 2019. Ohio's real GDP is also predicted to continue growing through the end of the forecast period, but more slowly than in FY 2019. Ohio's growth is seen continuing to trail that of the nation. Personal income in Ohio, in current dollars not adjusted for inflation, is forecast to grow faster, by 4.1% in FY 2020 and 4.2% in FY 2021. Inflation, measured by the consumer price index, is projected to be 2.3% through the upcoming biennium.

A number of risks could alter the course of that expansion. Growth in the economies of many of our trading partners has slowed, reducing demand for our exports. Considerable uncertainty exists regarding the terms of the United Kingdom's exit from the European Union. The outcome of negotiations between the U.S. and China over trade remains uncertain. LBO economists judged it prudent to blend in the pessimistic economic forecasts in light of these risks, but as always, there is the possibility that economic growth will slow even more than we or our economic forecasting services currently foresee.

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

Revenue forecasts

The LBO baseline forecasts for FY 2020 and FY 2021 assume the current Revised Code tax structure. Among the implications is that the personal income tax forecast reflects changes enacted in recent years and in this year's transportation budget, including reduced tax rates, the business income deduction, the earned income credit, and increased personal exemption amounts for lower income taxpayers. The sales tax forecast reflects the exemption enacted in S.B. 8 of the 132nd General Assembly for optical devices, effective July 1, 2019, and a permanent three-day sales tax holiday enacted in S.B. 226 of the 132nd General Assembly. Finally, the Public Library Fund is projected to receive 1.66% of GRF tax receipts, down from 1.68% of such receipts currently, as a temporary provision of H.B. 49 of the 132nd General Assembly that required use of the higher percentage expires. The Local Government Fund's share of GRF tax receipts is also 1.66% under current law.

For FY 2020, LBO forecasts total GRF tax revenue (after distributions to the two local government funds) to be $24.10 billion, a $619 million (2.6%) increase from the revised estimate of $23.48 billion for FY 2019. Economic growth forecast by IHS Markit is expected to lead to moderate growth in most tax sources. Income tax revenue is forecast to grow by 3.3% due to further improvement in labor markets, gains in proprietors' income, and income from investments. Revenue is expected to increase 3.1% from the nonauto sales tax, reflecting steady but slow economic growth. Similarly, revenue from the commercial activity tax (CAT) is forecast to grow 1.5%, reflecting the economic growth forecast. A projected decline in cigarette tax revenue is due to the continuation of a long-term trend. A decline in revenue from the kilowatt-hour tax is due to a trend that has emerged relatively recently with all funds revenue declining in several recent years; growth in revenue from this tax is also sensitive to changes in the allocations to the Public Library Fund, which are debited in part against this tax.

For FY 2021, LBO forecasts total GRF tax revenue to be $24.55 billion, an increase of $451 million (1.9%) from FY 2020. Revenue growth is forecast to continue for most taxes, with only receipts from the cigarette tax and energy-related taxes expected to decline further.

Medicaid service expenditure forecast

The revised LBO baseline forecast for combined state and federal Medicaid expenditures is lower by $107.9 million ($32.4 million GRF state share) in FY 2020 and $148.4 million ($44.5 million GRF state share) in FY 2021 than was forecast in March. The revised forecast takes into account several more months of caseload data than was available in March. The forecasted expenditures are lower due to decreases in both years in the projected caseload for the aged, blind, and disabled (ABD) category. Although these decreases in projected caseload for the ABD category are offset by increases in projected caseload for other categories, so that total projected caseloads actually increase, the per member per month cost for the ABD category far exceeds that for other categories, resulting in decreases in overall projected expenditures.

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

Attachments: Section 1 Revenue forecast
Section 2 Medicaid
Section 3 Economic outlook

CC forecast testimony/dp

ATTACHMENT: FY 2020-FY 2021 BIENNIAL BUDGET FORECAST

Section 1: Revenue forecast

Summary

The table below summarizes the differences between LBO's March and June baseline forecasts for GRF tax revenue as a whole and for the GRF's two nontax state sources, earnings on investments and licenses and fees. As seen from the table, the updated forecasts are higher. April income tax revenue this year was significantly better than LBO economists expected, and they were happy to be wrong about that. The better than expected experience in FY 2019, primarily under the income tax but also under the sales and use tax, flowed through to the forecast for the upcoming biennium, causing LBO to increase our forecasts for FY 2020 and FY 2021.

Table 1. Comparison of LBO Baseline GRF Revenue Forecasts ($ in millions)

Source	March			June		
	FY 2019 Estimate	FY 2020 Forecast	FY 2021 Forecast	FY 2019 Estimate	FY 2020 Forecast	FY 2021 Forecast
Total GRF taxes	$22,896.9	$23,668.6	$24,293.7	$23,483.4	$24,102.8	$24,554.2
			Difference	**$586.5**	**$434.2**	**$260.5**
Earnings on Investments & Licenses and Fees	$143.8	$150.9	$153.4	$165.0	$169.0	$173.0
			Difference	**$21.2**	**$18.1**	**$19.6**

GRF tax revenue forecast

The LBO baseline forecasts for FY 2020 and FY 2021 assume the current statutory tax structure, including tax changes enacted by the 132nd and 133rd General Assemblies. The largest single tax change during the last two years was imposed administratively via a 3.3% reduction in income tax withholding rates implemented by the Tax Commissioner on January 1 of this year; the withholding rate was reduced to correspond to reductions in income tax rates enacted in H.B. 64 of the 131st General Assembly for which withholding rates had not previously been fully adjusted. Though the withholding rate change did not change income tax liabilities for taxpayers, it reduces income tax revenue during FY 2019 by about $150 million because tax returns that would settle up the tax liabilities for the withholding during the first half of 2019 are not due to be filed before April 15, 2020, i.e., in FY 2020. Also, S.B. 8 of the 132nd General Assembly enacted an exemption for optical devices, e.g., glasses or contact lenses, from the sales tax effective July 1, 2019, reducing sales tax revenue during the upcoming biennium by about $44 million in FY 2020 and $50 million in FY 2021. Furthermore, the recently enacted transportation budget increased the earned income tax credit (EITC) under the personal income tax from 10% of the federal EITC to 30% of the federal EITC. The state EITC is nonrefundable, so the revenue effect of that change depends on the tax rates that would apply to the income in the absence of the increase, and those tax rates differ in the House-passed and Senate-passed versions of H.B. 166; under current law tax rates the EITC increase reduces GRF revenue by an estimated $38 million each year.[1]

The percentages of GRF tax revenue allocated to the Public Library Fund (PLF) and to the Local Government Fund (LGF) are assumed to equal their statutory levels of 1.66% of such revenue in this baseline forecast.

A number of states experienced significant effects on their tax revenue from changes in federal tax law enacted in December 2017. Ohio was not one of those states. The federal changes were oriented primarily toward business taxes, and Ohio's commercial activity tax does not depend on federal definitions of the tax base. Also, the business income deduction allowable under Ohio's individual income tax, combined with the 3% flat tax rate on business income over $250,000, minimized the effects of any changes on Ohio's income tax due to the federal changes.

Economic data have been mixed so far in calendar year 2019, and in response, both of our economic forecasting services, IHS Markit and Moody's, have attributed a rather high subjective probability to their pessimistic forecasts; in the case of IHS Markit's May forecast, they put that probability at 30%. LBO economists share their concerns, due in large part to concern about slowing growth in other countries that buy U.S. exports, so we have blended the IHS Markit May baseline and pessimistic forecasts to determine the economic variables driving our revenue forecasts. For FY 2020 we employed a 95% weight on the baseline forecast (and 5% on pessimistic) and for FY 2021 we employed a 75% weight on the baseline forecast (and 25% on the pessimistic forecast). We are close enough now to FY 2020 with no significant signs of revenue weakness that LBO economists thought that the weight on the pessimistic forecast could be much lighter in that year.

GRF tax revenue under current law is forecast to increase by $619.3 million (2.6%) in FY 2020. Growth is expected for the largest tax revenue sources, as the economic expansion is expected to continue. The cigarette and other tobacco products tax and the kilowatt-hour taxes are notable exceptions. The cigarette tax historically trends downward except when an increase in tax rates is enacted (e.g., FY 2016 due to an H.B. 64 tax increase). Kilowatt-hour tax revenue has fallen in some recent years as electricity usage no longer grows reliably every year, and LBO economists expect it to decrease slightly during the upcoming biennium. LBO also forecasts revenue from earnings on investments and from license fees, which are projected to total $169.0 million in FY 2020.

[1] Three taxes that generated some revenue during FY 2018 and FY 2019, the corporate franchise tax (CFT), the business and property tax, and the estate tax, have been repealed. We expect no revenue from these taxes in future years.

GRF tax revenue under current law is forecast to increase by $451.4 million (1.9%) in FY 2021. Growth in revenue from the nonauto sales and use tax, the largest GRF tax source, is projected to decelerate due to a reduction in the tax base: a federal exemption that had allowed Ohio and certain other states to impose a sales tax on Internet access service will expire at the end of FY 2020.[2] Revenue from the personal income tax is projected to grow somewhat faster than in FY 2020. Moderate revenue growth is expected for most other tax sources, except for declining receipts from the tax on cigarettes and other tobacco products and energy-related taxes (including the kilowatt-hour tax). Earnings on investments and license revenue are forecast to total $173.0 million in FY 2021.

GRF tax revenue for the FY 2020-FY 2021 biennium is forecast to be $48.66 billion, 6.0% higher than the revenue received during the current biennium. The following tables provide overviews of GRF receipts from taxes and from two state nontax sources, earnings on investments, and receipts from charges for licenses and fees.

Table 2. Total Baseline GRF Tax Revenue Growth, FY 2015-FY 2021, ($ in millions)
June 2019 Forecast

	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Forecast	FY 2021 Forecast
Revenue	$21,405.1	$21,819.5	$21,885.6	$22,422.6	$23,483.4	$24,102.8	$24,554.2
Growth	6.3%	1.9%	0.3%	2.5%	4.7%	2.6%	1.9%

[2] The resulting decline in nonauto sales tax revenues is estimated to total about $187 million.

Table 3. LBO Baseline GRF Tax Revenue Forecasts, FY 2020-FY 2021 ($ in millions)
June 2019 Forecast

GRF	FY 2018 Actuals	FY 2019 Estimates	Growth Rate	FY 2020 Forecast	Growth Rate	FY 2021 Forecast	Growth Rate
Auto Sales & Use	$1,440.5	$1,512.0	5.0%	$1,558.5	3.1%	$1,596.5	2.4%
Nonauto Sales & Use	$8,707.6	$9,055.9	4.0%	$9,335.9	3.1%	$9,406.7	0.8%
Total Sales & Use	**$10,148.2**	**$10,567.9**	**4.1%**	**$10,894.4**	**3.1%**	**$11,003.2**	**1.0%**
Personal Income	$8,411.0	$8,918.4	6.0%	$9,215.7	3.3%	$9,550.0	3.6%
Commercial Activity	$1,522.8	$1,616.3	6.1%	$1,640.8	1.5%	$1,659.0	1.1%
Cigarette	$939.8	$921.0	-2.0%	$902.6	-2.0%	$881.8	-2.3%
Kilowatt-hour Excise	$342.4	$338.9	-1.0%	$333.1	-1.7%	$320.2	-3.9%
Foreign Insurance	$276.5	$294.0	6.3%	$291.1	-1.0%	$299.5	2.9%
Domestic Insurance	$278.4	$288.0	3.4%	$281.0	-2.4%	$293.0	4.3%
Financial Institutions	$201.1	$202.3	0.6%	$210.0	3.8%	$217.4	3.5%
Public Utility	$119.2	$143.1	20.0%	$137.4	-4.0%	$133.0	-3.2%
Natural Gas Consumption	$69.6	$75.9	9.1%	$78.8	3.8%	$78.0	-1.0%
Alcoholic Beverage	$55.7	$56.5	1.5%	$57.0	0.9%	$57.1	0.2%
Liquor Gallonage	$48.1	$50.5	4.9%	$52.0	3.0%	$53.0	1.9%
Petroleum Activity	$7.8	$9.0	14.7%	$9.0	0.0%	$9.0	0.0%
Corporate Franchise	$2.2	$1.6	-29.1%	$0.0	-100.0%	$0.0	--
Business & Property	-$0.4	$0.0	-100.0%	$0.0	--	$0.0	--
Estate	$0.2	$0.1	-65.7%	$0.0	-100.0%	$0.0	--
Total Tax Revenue	**$22,422.6**	**$23,483.4**	**4.7%**	**$24,102.8**	**2.6%**	**$24,554.2**	**1.9%**

Table 4. FY 2019 GRF Tax Revenue Estimate Comparison ($ in millions)			
Tax	**March**	**June**	**Change**
Auto Sales & Use	$1,479.0	$1,512.0	$33.0
Nonauto Sales & Use	$8,978.0	$9,055.9	$77.9
Total Sales & Use	**$10,457.0**	**$10,567.9**	**$110.9**
Personal Income	$8,465.4	$8,918.4	$453.0
Commercial Activity	$1,586.9	$1,616.3	$29.4
Cigarette	$921.0	$921.0	$0.0
Kilowatt-hour Excise	$347.0	$338.9	-$8.1
Foreign Insurance	$270.0	$294.0	$24.0
Domestic Insurance	$294.6	$288.0	-$6.6
Financial Institutions	$208.6	$202.3	-$6.3
Public Utility	$150.0	$143.1	-$6.9
Natural Gas Consumption	$80.3	$75.9	-$4.4
Alcoholic Beverage	$55.9	$56.5	$0.6
Liquor Gallonage	$51.0	$50.5	-$0.5
Petroleum Activity	$8.0	$9.0	$1.0
Corporate Franchise	$1.2	$1.6	$0.4
Business & Property	$0.0	$0.0	$0.0
Estate	$0.0	$0.1	$0.1
Total Tax Revenue	**$22,896.9**	**$23,483.4**	**$586.5**

Table 5. LBO Baseline GRF Tax Revenue Forecast Comparison, FY 2020 and FY 2021 ($ in millions)

Tax	FY 2020			FY 2021		
	March	June	Change	March	June	Change
Auto Sales & Use	$1,510.0	$1,558.5	$48.5	$1,545.0	$1,596.5	$51.5
Nonauto Sales & Use	$9,303.8	$9,335.9	$32.1	$9,413.4	$9,406.7	-$6.7
Total Sales & Use	**$10,813.8**	**$10,894.4**	**$80.6**	**$10,958.4**	**$11,003.2**	**$44.8**
Personal Income	$8,841.4	$9,215.7	$374.3	$9,290.3	$9,550.0	$259.7
Commercial Activity	$1,626.9	$1,640.8	$13.9	$1,663.5	$1,659.0	-$4.5
Cigarette	$898.0	$902.6	$4.6	$877.0	$881.8	$4.8
Kilowatt-hour Excise	$338.8	$333.1	-$5.7	$320.4	$320.2	-$0.2
Foreign Insurance	$276.0	$291.1	$15.1	$285.0	$299.5	$14.5
Domestic Insurance	$305.6	$281.0	-$24.7	$319.3	$293.0	-$26.3
Financial Institutions	$215.0	$210.0	-$5.0	$220.0	$217.4	-$2.6
Public Utility	$155.0	$137.4	-$17.6	$160.0	$133.0	-$27.0
Natural Gas Consumption	$81.1	$78.8	-$2.3	$81.7	$78.0	-$3.7
Alcoholic Beverage	$57.0	$57.0	$0.0	$57.1	$57.1	$0.0
Liquor Gallonage	$52.0	$52.0	$0.0	$53.0	$53.0	$0.0
Petroleum Activity	$8.0	$9.0	$1.0	$8.0	$9.0	$1.0
Corporate Franchise	$0.0	$0.0	--	$0.0	$0.0	--
Business & Property	$0.0	$0.0	--	$0.0	$0.0	--
Estate	$0.0	$0.0	--	$0.0	$0.0	--
Total Tax Revenue	**$23,668.6**	**$24,102.8**	**$434.2**	**$24,293.7**	**$24,554.2**	**$260.5**

ATTACHMENT: FY 2020-FY 2021 BIENNIAL BUDGET FORECAST

Section 2: Medicaid service expenditure forecast

Expenditure forecast summary

Compared with LBO's March baseline forecast, the updated forecast for Medicaid service expenditures is lower by $107.9 million in FY 2020 and $148.4 million in FY 2021, or $256.3 million over the biennium (see Table 1, below). The forecast is lower for the FY 2020-FY 2021 biennium due primarily to decreases in the projected caseload for the aged, blind, and disabled (ABD) category. Table 2 on the following page shows the updated forecast by payment category.

The baseline forecast assumes no changes from current law or administrative policies during the next biennium. Medicaid is a joint state-federal program that provides health care coverage to low-income individuals. The forecasted Medicaid service expenditure figures reported in this section include both state and federal shares.

LBO forecasts caseload-driven Medicaid service expenditures. However, our forecast does not include service expenditures for various Medicaid programs administered by the Ohio Department of Developmental Disabilities, which depend partly on caseloads and partly on policies. The Ohio Department of Medicaid (ODM) also incurs some service expenditures that depend more heavily on state and federal policies or other factors than Medicaid caseload. These service expenditures, such as Medicare Buy-In or Medicare Part D, are not included in LBO's baseline Medicaid service expenditure forecast either. In addition to service expenditures, the Medicaid program also incurs administrative costs, which typically account for about 5% of total program expenditures.

LBO's caseload-driven baseline forecast represents around three-quarters of total Medicaid expenditures. Although overall Medicaid program expenditures are higher than the figures reported in this section, they do not affect the comparison of LBO's and ODM's baseline service expenditure forecasts. The caseload-driven forecast is the only source of the difference between the LBO and ODM forecasts.

Table 1. LBO Baseline Forecast of Medicaid Service Expenditures (combined state and federal dollars, $ in millions)

		March			June		
	FY 2018 Actuals	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast
Expenditures	$20,302.1	$20,605.1	$20,783.0	$21,495.7	$20,603.2	$20,675.1	$21,347.3
Growth	3.5%	1.5%	0.9%	3.4%	1.5%	0.3%	3.3%
Total state and federal difference					-$1.9	-$107.9	-$148.4
% Difference					0.0%	-0.5%	-0.7%
GRF state share difference (assuming 70% federal reimbursement)					*-$0.6*	*-$32.4*	*-$44.5*

Table 2. LBO Baseline Forecast of Medicaid Service Expenditures by Payment Category (combined state and federal dollars, $ in millions)							
Category	FY 2018 Actuals	June Forecast					
		FY 2019 Estimates	Growth Rate	FY 2020 Forecast	Growth Rate	FY 2021 Forecast	Growth Rate
Managed Care							
CFC	$5,395.4	$5,912.8	9.6%	$6,070.2	2.7%	$6,231.8	2.7%
Group VIII	$4,088.9	$4,193.9	2.6%	$4,165.0	-0.7%	$4,342.6	4.3%
ABD	$3,211.3	$3,740.8	16.5%	$3,705.7	-0.9%	$3,872.8	4.5%
MyCare	$2,466.1	$2,625.5	6.5%	$2,609.5	-0.6%	$2,699.7	3.5%
Fee-For-Service							
Nursing Facilities	$1,521.5	$1,493.9	-1.8%	$1,519.5	1.7%	$1,522.4	0.2%
Hospitals	$731.6	$686.6	-6.1%	$688.1	0.2%	$708.8	3.0%
Aging Waivers	$342.3	$378.8	10.7%	$388.8	2.7%	$408.1	4.9%
Prescription Drugs	$302.6	$297.7	-1.6%	$310.7	4.4%	$318.9	2.7%
Home Care Waivers	$118.5	$111.5	-5.9%	$112.0	0.5%	$111.6	-0.4%
Behavioral Health	$1,121.7	$115.2	-89.7%	$121.0	5.0%	$127.0	5.0%
All Other	$1,002.2	$1,046.5	4.4%	$984.6	-5.9%	$1,003.6	1.9%
Total	**$20,302.1**	**$20,603.2**	**1.5%**	**$20,675.1**	**0.3%**	**$21,347.3**	**3.3%**

Caseload forecast summary

The following four tables (Tables 3-6) detail the changes in LBO's Medicaid caseload forecasts. The June forecast includes several more months of Medicaid caseload data. As can be seen in Table 3, the June forecast for the total Medicaid caseload is higher than the March forecast by 2,000 in FY 2020 and 12,500 in FY 2021. This overall increase is the net result of an increase in the forecast for the covered families and children (CFC) and other caseload categories, as can be seen in Tables 4 and 6, and a decrease in the ABD category (Table 5). The CFC category includes the expansion (Group VIII) population.

Due to their high medical needs and the associated cost of long-term care, hospital care, and prescribed drugs, the per member per month cost for an ABD Medicaid recipient is much higher than that for the CFC and other categories of Medicaid recipients. For example, ABD accounted for approximately 16% of total Medicaid caseload in FY 2018 but 55% of total Medicaid expenditures in that same year. Our June forecast projects a lower ABD caseload, which leads to a decrease in overall forecasted Medicaid expenditures despite the fact that we project higher caseloads for non-ABD categories and a somewhat higher total Medicaid caseload.

Table 3. Comparison of Total Medicaid Caseload Forecasts

		March			June		
	FY 2018 Actuals	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast
Caseload	3,007,971	2,878,460	2,831,807	2,799,822	2,863,083	2,833,939	2,812,312
Growth	-2.6%	-4.3%	-1.6%	-1.1%	-4.8%	-1.0%	-0.8%
				Difference	-15,377	2,132	12,489
				% Difference	-0.5%	0.1%	0.4%

Table 4. Comparison of CFC Medicaid Caseload Forecasts

		March			June		
	FY 2018 Actuals	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast
Caseload	2,375,373	2,252,789	2,206,317	2,172,280	2,242,853	2,215,916	2,194,311
Growth	-5.5%	-5.2%	-2.1%	-1.5%	-5.6%	-1.2%	-1.0%
				Difference	-9,936	9,599	22,032
				% Difference	-0.4%	0.4%	1.0%

Table 5. Comparison of ABD Medicaid Caseload Forecasts							
		March			June		
	FY 2018 Actuals	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast
Caseload	488,929	490,663	492,326	495,641	485,280	483,645	483,998
Growth	15.2%	0.4%	0.3%	0.7%	-0.7%	-0.3%	0.1%
				Difference	-5,383	-8,681	-11,643
				% Difference	-1.1%	-1.8%	-2.4%

Table 6. Comparison of Other Caseload Forecasts							
		March			June		
	FY 2018 Actuals	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast	FY 2019 Estimates	FY 2020 Forecast	FY 2021 Forecast
Caseload	144,293	135,008	133,164	131,902	134,950	134,379	134,003
Growth	-4.0%	-6.4%	-1.4%	-0.9%	-6.5%	-0.4%	-0.3%
				Difference	-58	1,214	2,100
				% Difference	0.0%	0.9%	1.6%

ATTACHMENT: FY 2020-FY 2021 BIENNIAL BUDGET FORECAST

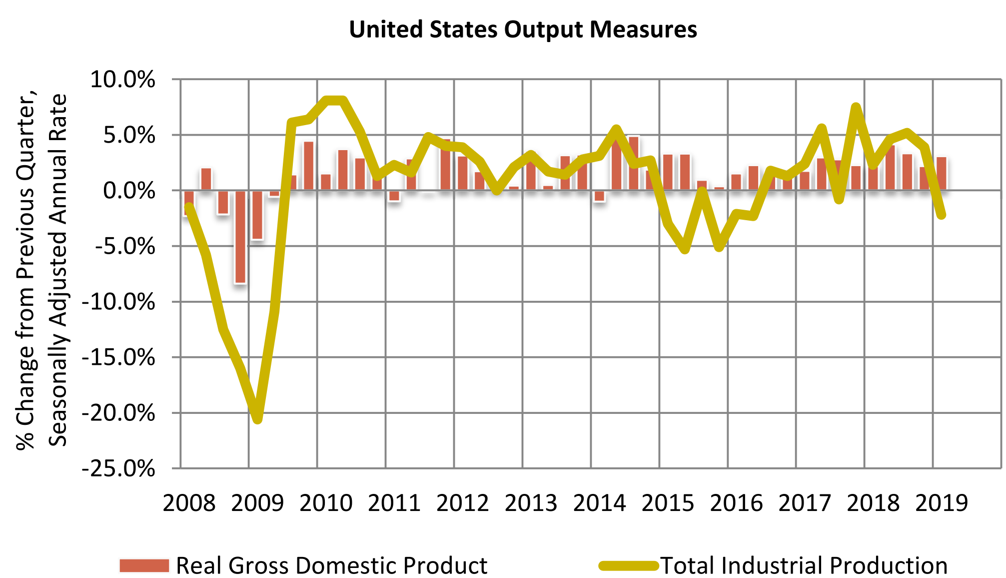
Section 3: Economic conditions and outlook

State of the economy

Economic growth is continuing in the nation and Ohio. Growth of Ohio's economy trails that of the nation. Inflation-adjusted gross domestic product (real GDP) nationwide grew at a 3.1% annual rate during the first quarter of 2019, and rose 2.9% in all of 2018, highest since 2015. Nevertheless, the pace of expansion appears to have slowed since 2018. About one-fifth of first quarter growth was due to a buildup of inventories. Final demand from U.S. buyers grew at the slowest rate in four years. National industrial production and its largest component, manufacturing, decreased in three of the first four months of 2019, but rose in May. Payroll employment growth slowed sharply in May, after slower growth earlier in the year than in 2018. Consumer spending, however, appears to have bounced back this spring, after sluggishness starting in late 2018. Inflation has slowed, and pay increases are on average outpacing inflation, tending to support consumer spending. The nation's central bank, the Federal Reserve, has shelved plans for further increases in the federal funds rate, held the target range for this interest rate unchanged at the June meeting of its committee that sets monetary policy, and is widely expected to cut interest rates in this year's second half.

The national economy

The national economic expansion that began in 2009 will become the longest on record if, as expected, it continues beyond this month. Growth last year was supported by federal tax cuts and spending increases in late 2017 and early 2018, but the impetus from this source of support for the economy has been waning. Industrial production this year has remained below its peak last December, though it rose 0.4% in May. Light motor vehicle sales have plateaued, somewhat below the record pace of 2016. Residential fixed investment has been contracting for more than a year. The chart below shows quarterly changes in real GDP and industrial production since 2008. Industrial production is mostly manufacturing and also includes mining and utility output.



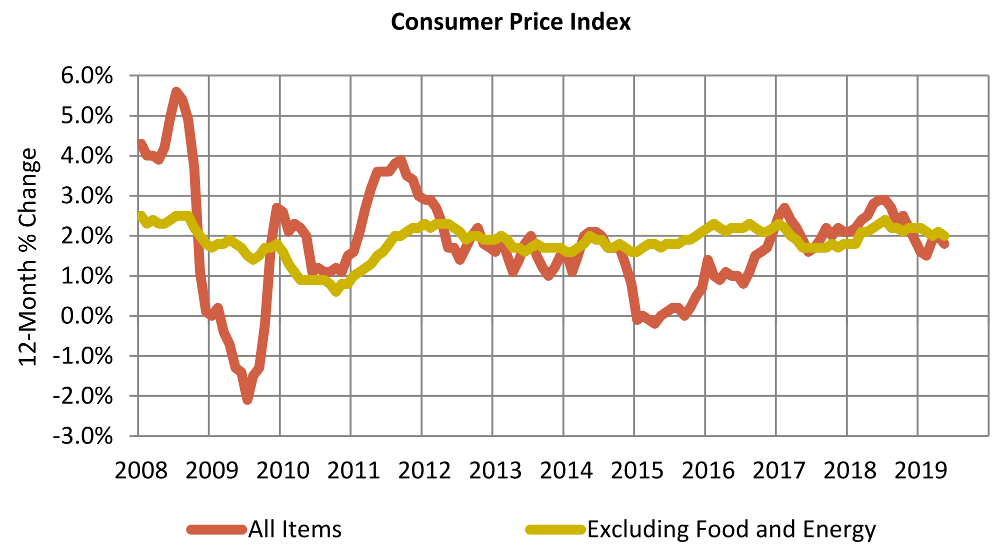
Total nonfarm payroll employment increased by 75,000 in May after stronger gains earlier, averaging 186,000 monthly in January through April and 223,000 in all of 2018. The slowdown in employment growth so far this year has been widespread, affecting goods-producing and service-providing industries. Unemployment remains low. The unemployment rate, measured as the estimated number of persons age 16 and over counted as unemployed (those without jobs and actively seeking work) divided by the number in the labor force (employed plus unemployed), was 3.6% in May, lowest in nearly 50 years. About 5.9 million persons were unemployed in May.

Consumer spending expanded at a healthy pace during 2018, supported by employment and wage gains and the tax cuts in late 2017. Outlays by consumers slowed in late 2018 and early 2019, then picked up starting in March. Overall sales of new cars and light trucks totaled 17.2 million units in 2018, up 0.5% from 2017, but motor vehicle sales have lagged this year. The market share of light trucks and SUVs climbed sharply during the past decade.

Housing construction slowed this year after a lengthy recovery from the depths of the steepest downturn in the post-World War II era, during the 2007-2009 recession. Building of homes and apartments was constrained by rising mortgage interest rates through late 2018. Longer-term interest rates have since eased, which may re-energize housing. Real private residential fixed investment spending reached its highest level (seasonally adjusted) in ten years in the fourth quarter of 2017, then declined through the first quarter of 2019.

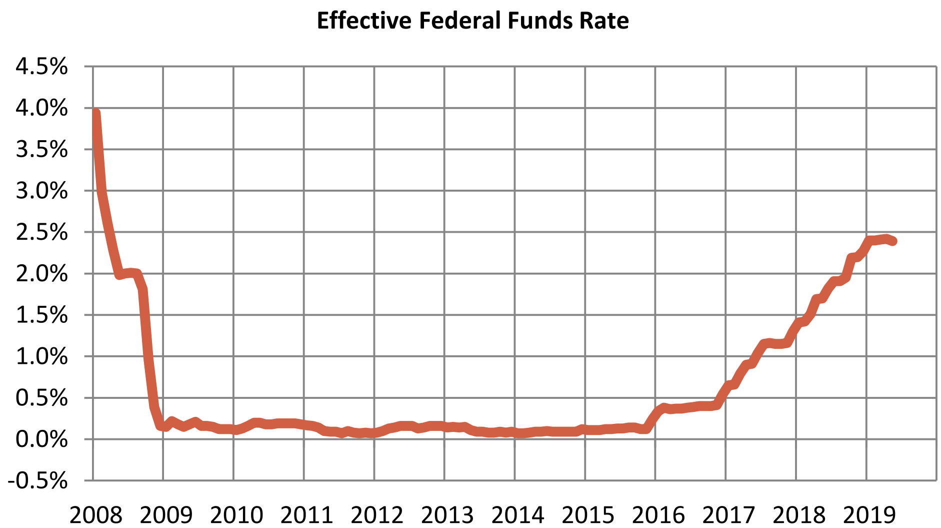
Other sectors of the national economy continued to expand. Nonresidential fixed investment strengthened in 2017 and 2018, and increased further in this year's first quarter, with particular strength in intellectual property products. Foreign buying of U.S. exports increased, despite concerns about adverse effects from slower economic growth abroad. Government spending rose in this year's first quarter on higher state and local government spending. Inventory building accounted for part of the economy's continued expansion in the first quarter; excluding inventories, final sales to domestic purchasers rose at only a 1.5% annual rate in the first quarter, the slowest rise since 2015.

Inflation has remained tame despite generally tight labor markets and upward pressures on prices from tariff increases. Inflation trended higher in recent years but has eased since mid-2018. This is evident in the accompanying chart, which shows trends in consumer price index changes from a year earlier. By another measure, the personal consumption expenditures price index, consumer goods and services prices were 1.5% higher in April than a year earlier, down from year-over-year increases of 2% or more last year. Excluding often volatile prices for food and energy, prices paid by consumers were 1.6% above a year earlier in April, under the Federal Reserve's 2% target. Excluding duties, prices of imported goods were below year-earlier levels in this year's first five months. Average pay increases have trended gradually and irregularly higher for nearly a decade, as indicated by the employment cost index for wages and salaries of private industry workers. In this year's first quarter, wages and salaries nationwide averaged 3.0% higher than a year earlier. Pay raises in excess of the rate of inflation tend to support further increases in real consumer spending.



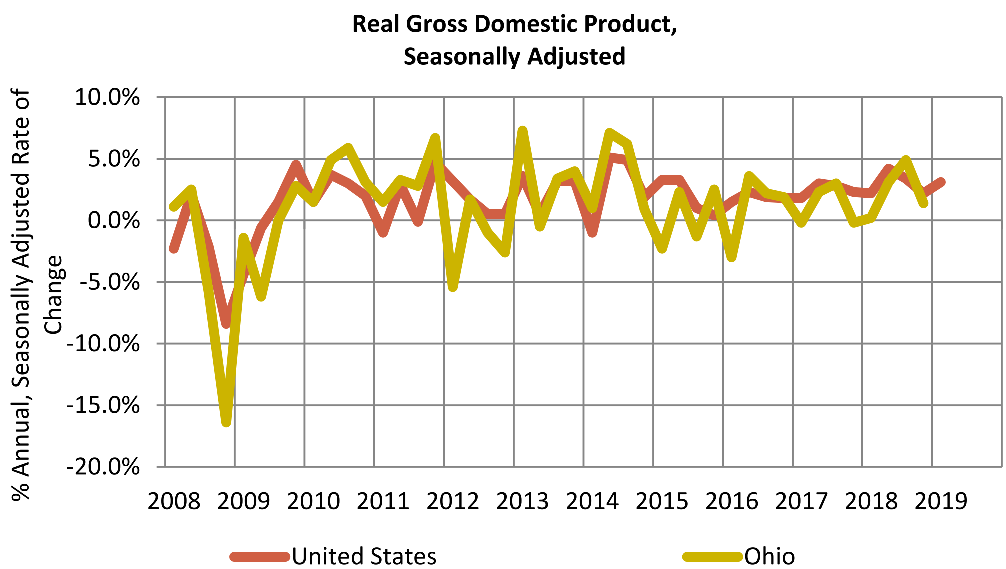
At the June 18-19 meeting of the Federal Open Market Committee (FOMC), the central bank's monetary policy-setting body, the group decided to hold the target range for federal funds unchanged at 2.25% to 2.5%. The Federal Reserve began raising short-term interest rates in December 2015, and by last December had increased its target range for overnight federal funds a total of 2.25 percentage points, as shown in the accompanying chart. At that time, most FOMC members expected further interest rate increases this year, but that expectation has been revised sharply downward. The FOMC now expects to hold short-term interest rates unchanged this year, as indicated by the median forecast of its members, but most members whose forecasts differed from that median projection thought rates at the end of this year would be lower. In contrast, at the March FOMC meeting members whose forecasts differed from the median expected higher rates at year end. Among financial market participants, interest rate reductions in this year's second half are now widely expected.[3]

[3] One indicator of this is federal funds futures trading, as reported by the CME Group, for which see https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html. As of June 20, participants in this market thought the FOMC was most likely to cut its federal funds range by 0.25 percentage point at each of its July, September, and December meetings, to a range of 1.5% to 1.75%.

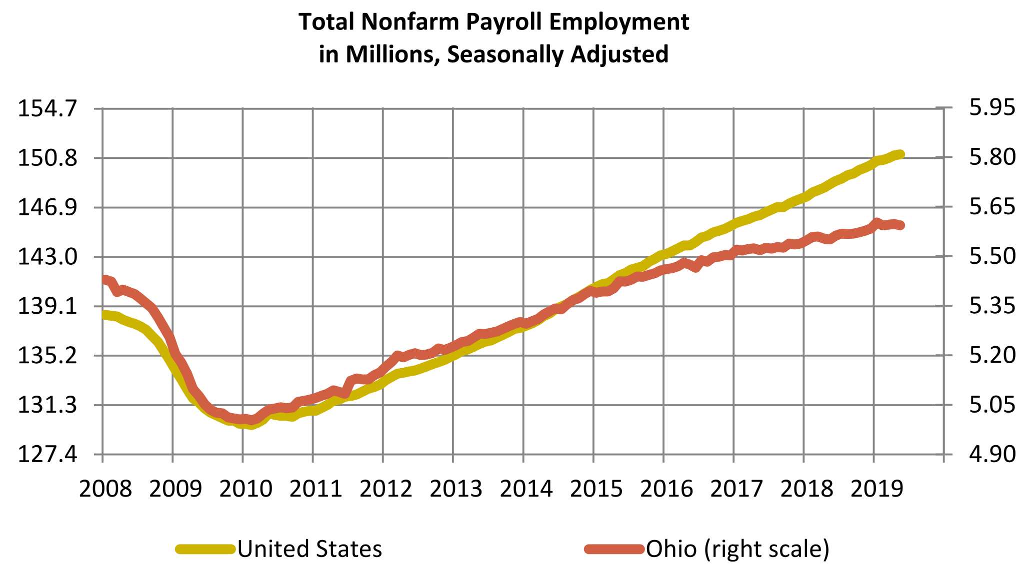


The Ohio economy

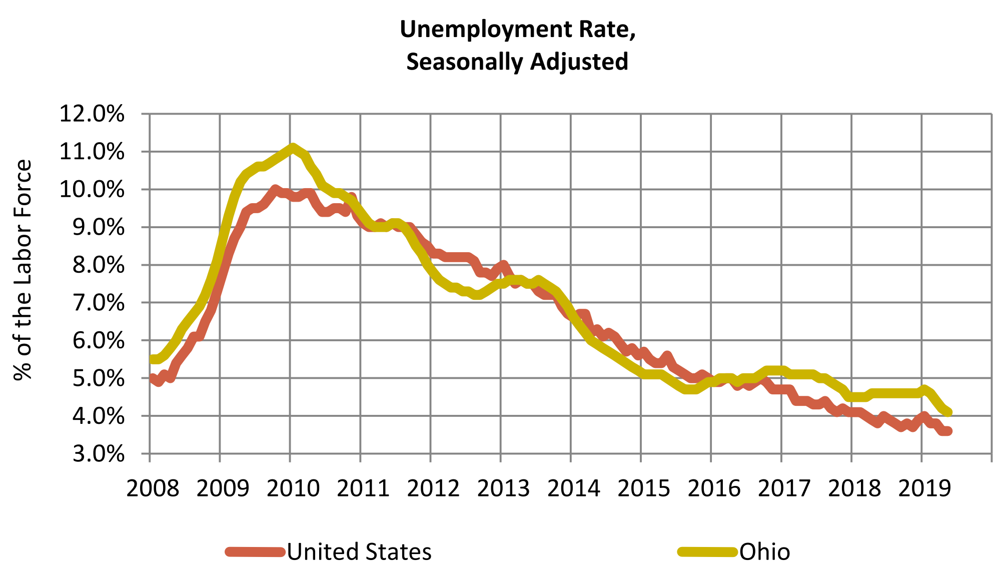
Ohio's economy has expanded since the end of recession in 2009. Ohio recovered from recession faster than the nation, but growth here has generally trailed that of the national economy since 2015. Trends in real GDP of the United States and Ohio are shown in the accompanying chart.



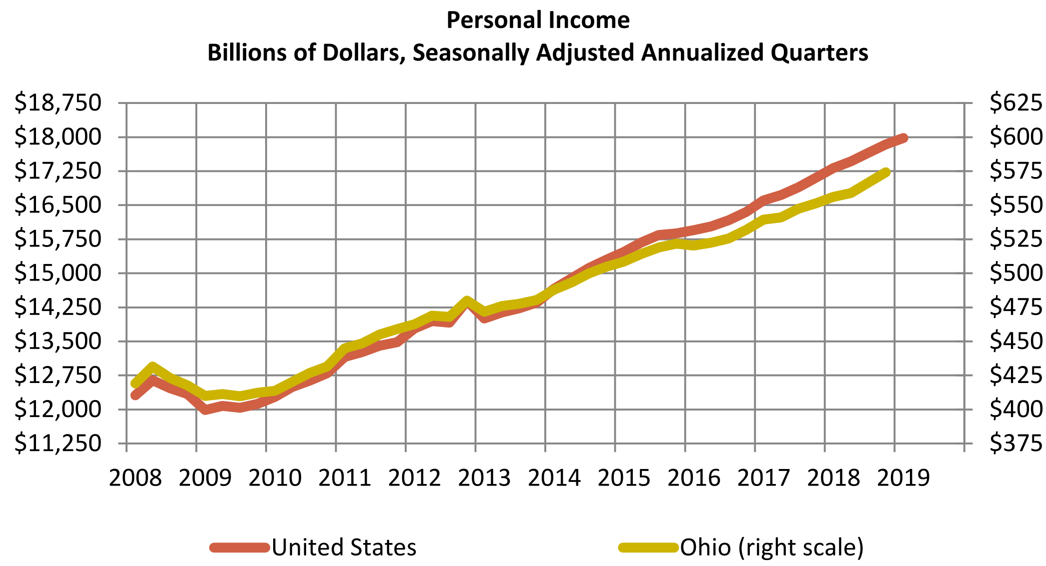
A broadly similar pattern is evident in Ohio employment, which initially recovered faster than that nationwide from the sharp drop in the 2007-2009 recession, but then reverted to the prior trend of slower growth. In the year to May, total nonfarm payroll employment in Ohio grew 0.8% while that nationwide rose 1.6%. These trends are evident in the accompanying chart.



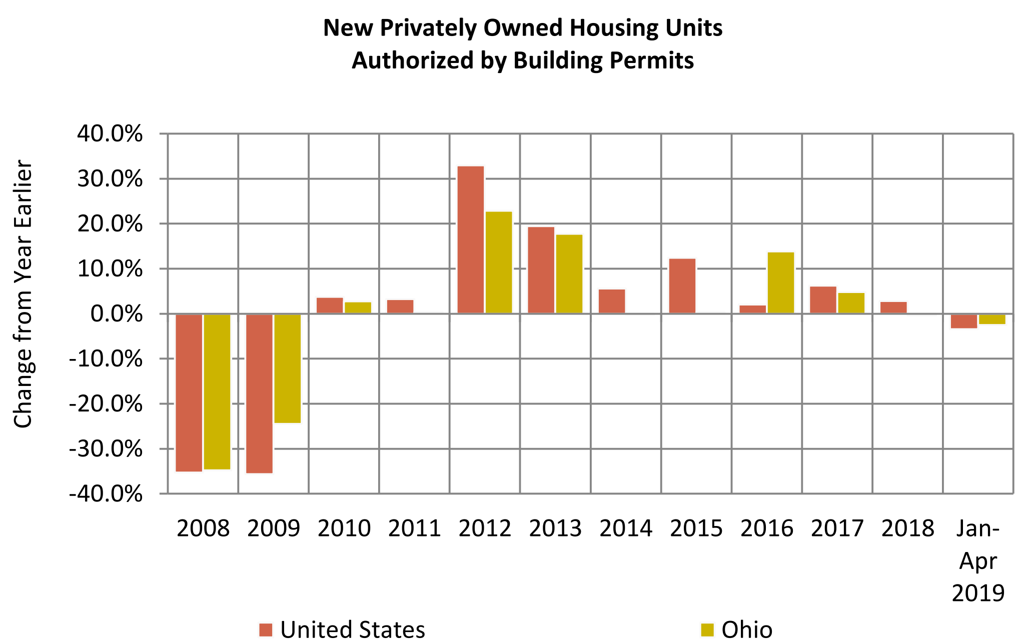
Ohio's unemployment rate fell to 4.1% in May, lowest since 2001. The nationwide average unemployment rate fell to 3.6% in April and remained at that level in May, lowest since 1969. Ohio's unemployment rate has been higher than the national average since 2016. The number of persons counted as unemployed in Ohio in May was 239,000.



Personal income, total earnings from wages, investments, transfer payments, and business income, has grown in Ohio and nationally in nearly every quarter since 2009, as seen in the chart below. Figures in the chart reflect dollars of current purchasing power. Since the recession low, Ohio's personal income grew at a 3.5% annual rate through the end of 2018. The comparable figure for the U.S. is 4.2%. In the latest year, Ohio personal income grew 4.1%.



Ohio housing construction turned down in 2018 and in this year's first four months, as indicated by building permits for new privately owned units (the chart below). Construction activity slowed nationally as well. Housing markets were buffeted by a run-up in mortgage interest rates in 2017 and 2018. Interest rates for home purchases have since eased. Ohio unit home sales decreased 0.1% in the first four months of 2019, after falling 1.0% in 2018, according to data from Ohio Realtors.



Economic forecasts

The following are forecasts of key indicators of the economic environment that will determine state revenues during the next biennium. Some of the indicator forecasts were inputs to LBO models used to make state revenue forecasts. Both these economic indicator forecasts and LBO's forecasts for state revenues are inherently subject to uncertainty. The economic indicator projections are from IHS Markit's baseline forecasts released in May 2019.

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

U.S. Gross Domestic Product

U.S. real GDP is projected to increase about 2.1% annually on average in the next biennium, as shown below.

U.S. Real GDP Growth												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----------------------------------Percent change at annual rate ----------------------------------											
Quarterly	3.2	2.0	2.2	2.1	2.2	2.3	1.8	1.9	1.8	1.7	1.6	1.5
Fiscal Year		3.0				2.3				2.0		

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2021 but at a slower pace than the nation. Ohio real GDP is projected to increase about 1.4% annually on average in the next biennium.

Ohio Real GDP Growth												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	2.8	1.3	1.6	1.6	1.8	1.5	0.5	1.1	1.1	1.1	0.8	0.9
Fiscal Year		2.5				1.7				1.1		

U.S. inflation

IHS Markit's May baseline forecast projects that inflation measured by the rate of increase in the CPI will average about 2.3% annually in the next biennium.

U.S. Consumer Price Index Inflation												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	0.9	4.4	3.0	2.2	1.9	1.5	2.3	1.5	2.7	2.6	2.3	2.4
Fiscal Year		2.2				2.5				2.0		

U.S. personal income

Nationwide personal income is projected to grow about 4.6% annually in the next biennium. These growth rates are based on the dollar amounts of income, not adjusted for inflation.

U.S. Personal Income Growth												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	3.3	3.3	4.1	4.8	5.6	5.1	4.8	4.7	5.1	4.5	4.3	4.2
Fiscal Year		4.3				4.3				5.0		

Ohio personal income

Income to persons who reside in Ohio also is forecast to grow in the next biennium, at 4.2% annually on average, a little less than the pace of growth projected for the U.S.

Ohio Personal Income Growth												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	4.3	3.3	3.7	4.4	5.0	4.2	3.9	3.9	4.5	3.8	3.7	3.7
Fiscal Year		4.2				4.1				4.2		

U.S. unemployment rate

IHS Markit's May baseline forecast projects the nationwide unemployment rate to remain near recent levels through the next biennium. The U.S. unemployment rate in May, reported after this forecast was completed, was 3.6%, unchanged from April.

U.S. Unemployment Rate												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	3.9	3.7	3.5	3.5	3.5	3.4	3.5	3.5	3.5	3.5	3.6	3.7
Fiscal Year		3.8				3.5				3.5		

Ohio unemployment rate

Ohio's unemployment rate is projected in the IHS Markit's May baseline to decline to around 4.1% during the biennium. The statewide unemployment rate in May, reported subsequent to that forecast, declined to 4.1%, lowest since 2001.

Ohio Unemployment Rate												
	2019				2020				2021			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	4.6	4.4	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Fiscal Year		4.5				4.1				4.1		