Forecast of GRF Revenues and Medicaid Expenditures for the FY 2012-FY 2013 Biennial Budget

Testimony before the Conference Committee on H.B. 153

June 15, 2011

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 2011 through 2013. My testimony will summarize the differences between our June and March forecasts and briefly explain our thinking about the economy. The accompanying LSC forecast book provides much greater detail about the 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 revenues exceeded estimate in March and April, and, after adjusting for timing issues, in May. Consequently, LSC economists have revised upward our revenue estimate for FY 2011 and our forecasts for the upcoming biennium. The revised GRF tax revenue forecast is higher by $491.5 million (2.9%) in FY 2011, $271.5 million (1.5%) in FY 2012, and $218.4 million (1.2%) in FY 2013. Based on the updated forecast, GRF tax revenues are now forecast to increase from FY 2011 to FY 2012 by $386.2 million (2.2%) and by $932.1 million (5.1%) from FY 2012 to FY 2013.

Medicaid

The revised LSC forecast for Medicaid spending is $43 million (state share) lower in FY 2012 and $9 million (state share) lower in FY 2013. The revised forecast of the Medicaid caseload is lower by about 40,000 individuals in FY 2012 and 34,000 in FY 2013. LSC forecasts a lower Covered Families and Children (CFC) caseload of 44,000 individuals in FY 2012 and 43,000 in FY 2013. However, the revised forecast for the Aged, Blind, and Disabled (ABD) caseload is higher by about 4,000 individuals in FY 2012 and 9,000 in FY 2013. The revisions in the CFC caseload forecast are generally attributable to an expected decrease in the number of unemployed Ohioans, and the fact that the actual CFC caseload in recent months has tracked below the March forecast. The revisions in the ABD caseload forecast are generally attributable to an increase in the forecast of dual eligibles who are eligible for both Medicaid and Medicare.

The Economy

Growth in state tax revenues has recently been reflecting the continuing economic recovery in Ohio. But other indicators, while pointing to the same conclusion, reflect how painfully slowly the recovery has proceeded. Ohio has added about 93,000 jobs since payroll employment reached its cyclical low point in December 2009; that represents growth of about 1.9% in payroll employment during that year and a half. The unemployment rate fell fairly steeply recently, by a full percentage point over the five months ending in April, but is still 8.6%.

In the broader national economy, a number of economic indicators have been disappointing in the last month. National payroll employment grew by just 54,000 in May. Average prices of regular gasoline in Ohio have remained over $3.80 per gallon for most of the period since early April, and have risen as high as $4.11 per gallon in May. Sales of automobiles in the U.S. exceeded a 13 million unit annual rate for three months before falling to an 11.8 million unit rate in May, though this likely is due in part to some lack of availability of desirable models, given the disruptions in automotive manufacturing supply chains since Japan's earthquake and tsunami.

For some commentators, weak indicators like these have given rise to renewed concerns about a double dip recession. As I explained in March, LSC subscribes to two economic forecasting services to aid us in preparing our forecasts. Our updated forecasts rely heavily on the May forecast produced by Global Insight, one of the two services. While Global Insight's June forecast for Ohio is not yet available, their national forecast indicates that they believe that "the current soft patch represents a bump in the road on a prolonged and subdued recovery, rather than the precursor of a double dip."

As is detailed in the accompanying forecast materials, the May forecast shows national inflation-adjusted gross domestic product growing at about a 2.9% annual rate on average during the two years of the upcoming biennium. Ohio's economy also continues to grow over this period, at a 2.5% annual rate. These growth rates are strong enough to bring down unemployment, but only slowly. By the end of 2013, the average unemployment rate nationwide falls to 7.6%, and Ohio's statewide average unemployment rate falls to 8.0%. Personal income also continues to grow, at a 4.1% rate nationally and a somewhat lower rate in Ohio. Taken together, these modestly positive trends form the basis of our modestly positive revenue projection revisions.

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.

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