Baseline Forecast of GRF Revenues & Medicaid Expenditures

For

FY 2014-FY 2015 Biennial Budget

Ohio Legislative Service Commission

February 5, 2013

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ECONOMIC CONDITIONS AND OUTLOOK

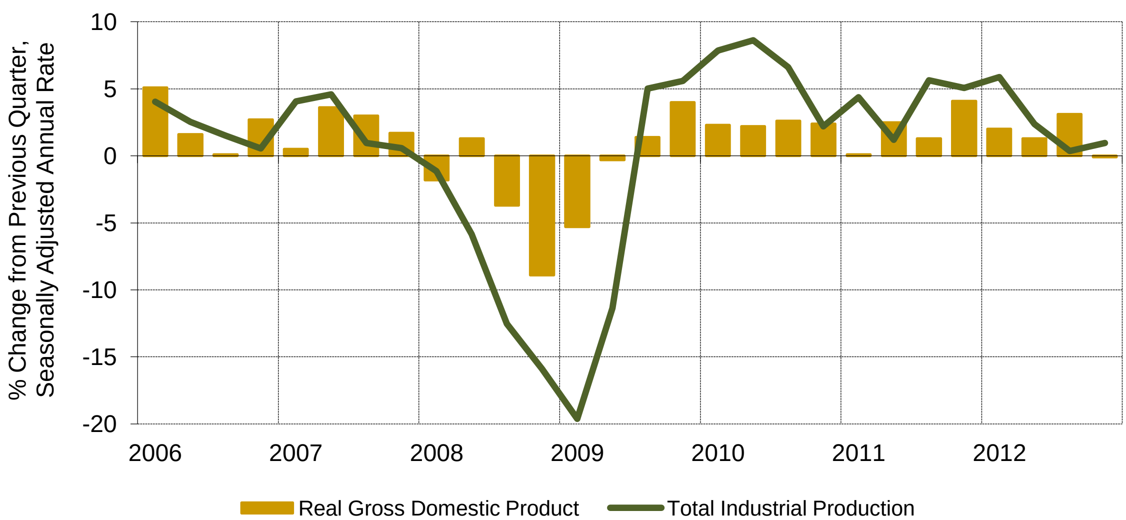
State of the Economy

Expansion in U.S. and Ohio economic activity has been underway since 2009, when the last recession ended. Further growth is predicted for both the nation and the state, as summarized in the economic forecast tables below. Consumer spending has been rising. Employment and incomes have gradually recovered. Household debt and payment obligations have been reduced to more manageable levels relative to incomes. Unmet replacement needs are adding to spending on vehicles and other durables. Housing sales and construction are recovering, though activity remains far below past peaks. Business capital spending has continued to expand in most quarters. Overall economic growth has been slow compared with most past recoveries, and unemployment has come down gradually but remained elevated. Inflation for most finished goods and services is low, though up from even lower rates in 2009 and 2010.

National

Growth of the national economy is continuing, but the expansion remains the slowest of the post-World War II period, averaging only a 2.1% annual rate since the 2007-2009 recession trough. Inflation-adjusted gross domestic product (real GDP), the total output of the economy, reached a new all-time peak at the end of 2011 and rose further in 2012. The initial report on real GDP in last year's fourth quarter showed a small decline. Other broad measures of U.S. economic activity, including industrial production, have not yet recovered to their peaks prior to the last recession. Chart 1 shows changes in real GDP and industrial production through the end of last year.

Chart 1: United States Output Measures



Uncertainties related to prospective large federal tax hikes and spending cuts at the start of this year (the "fiscal cliff") were resolved in part by the deal struck on January 1 by Congress. The payroll tax rate for individuals, reduced in 2011 and 2012, was returned to its prior level, placing a drag on consumer spending. Decisions on federal spending cuts were delayed two months, to March 1. The federal government is up against its debt ceiling, and efforts to reach agreement on an increase may be a further source of uncertainty later this year for business and consumers.

Consumer spending has grown since the recession trough in the second quarter of 2009, but growth has been slow. Outlays by consumers have been held back by the slow recovery in employment. The rise in employment since its post-recession low has offset only part of the decline, during and following the recession, from the previous peak. With rising employment, unemployment has come down gradually. The national unemployment rate remained high at 7.9% of the labor force in January. Growth in the number of people 16 years of age and older who are not in the labor force, neither employed nor counted as unemployed, has nearly kept pace with estimated population increases in this age group. The unemployment rate would be higher, at current employment levels, if more of these people were actively seeking work. Some impediments to consumer spending are easing. Incomes of consumers have been supported by increases in average hours worked by those employed. Households have paid down past borrowings and reduced debt service ratios to more manageable levels. Credit availability has eased somewhat, as indicated by surveys. Replacement needs are contributing to increased spending on consumer durable goods. U.S. sales of cars and light trucks in calendar year 2012 were at the highest rate in five years.

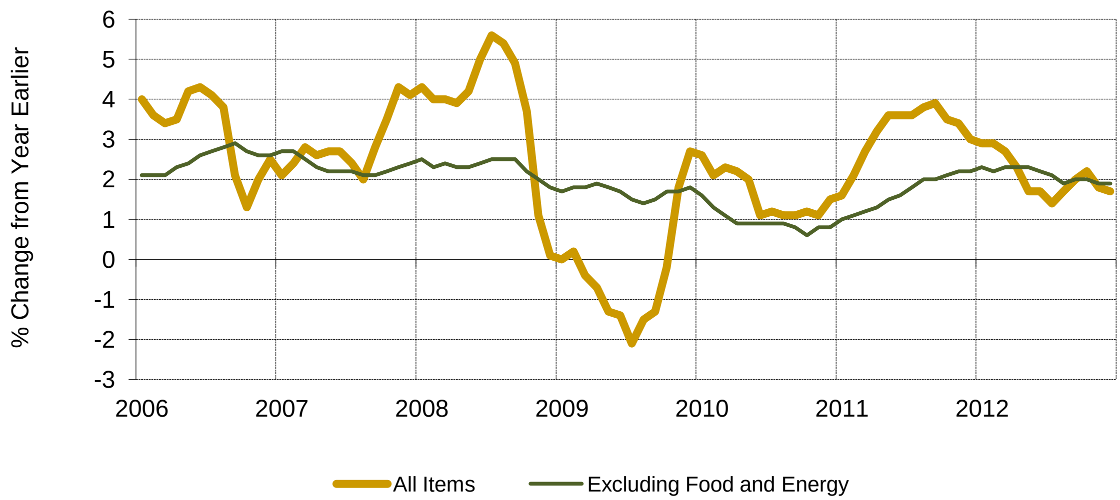
Housing markets are also recovering, though activity remains well below past peaks. Construction starts on new housing units last year were at the highest level since 2008, though they remained less than 40% of the rate in peak year 2005. The upturn was strongest in apartment construction. Sales of new and older homes have increased. Housing prices hit bottom in 2011 and have trended upward since, but remain below past peaks. Conditions vary widely among local markets.

Business investment in equipment and software grew vigorously after the end of the last recession, but increased more slowly last year. In contrast, business investment in structures initially remained weak following the recession but picked up in 2011, then also grew more slowly last year. Concerns about slow growth of demand may have dampened additions to investment outlays in recent quarters. Inventory rebuilding contributed significantly to production growth during the first year of the economy's recovery but has generally been less of a factor since then.

Export growth added substantially to demand for U.S. goods and services earlier in the economic recovery but has lagged in recent quarters. Recession in Europe and slower growth in less developed economies restrained growth of American exports last year. U.S. imports from abroad also grew rapidly early in the recovery but have slowed since then.

With significant productive resources still idle, including unemployed labor resources as well as plant and equipment, finished goods and services inflation remains low, overall, though up compared with even lower rates in 2010 and with deflation in 2009 (mainly reflecting falling energy prices). Wage inflation is also low. Recent trends in consumer prices for all items and excluding food and energy, which tend to be more volatile, are shown in Chart 2.

Chart 2: Consumer Price Index

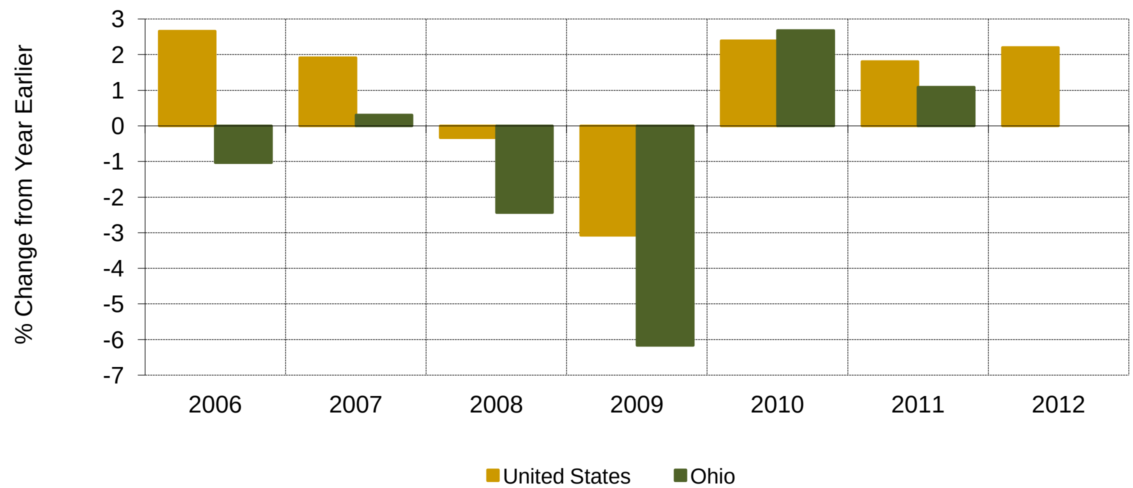


Because unemployment is still high and inflation at the finished goods level has remained low, U.S. monetary policy has held short-term interest rates at very low levels. In addition to keeping its target short-term interest rate, the federal funds rate, in a range of 0% to 0.25%, the Federal Reserve System has been buying U.S. Treasury notes and bonds and federal agency mortgage-backed securities to keep longer-term interest rates low. The central bankers expect to keep the federal funds rate target in this low range at least until the national unemployment rate falls to 6.5%, provided that inflation expectations remain low. Market interest rates remain at exceptionally low levels, but longer-term rates have been edging up in recent months.

Ohio

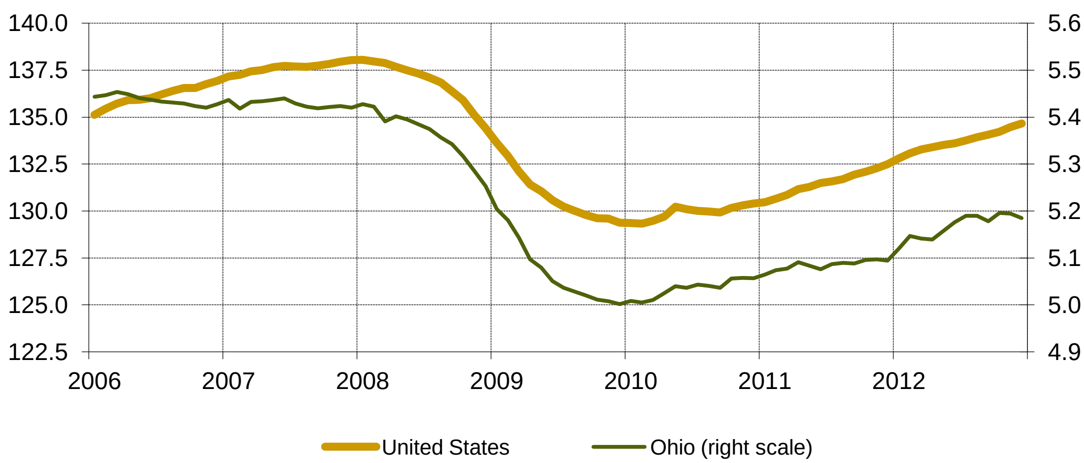
Annual changes in real GDP in Ohio compared with those for the U.S. are shown in Chart 3. The 2007-2009 recession was more severe in Ohio, as state real GDP fell 6.2% in 2009 compared with a 3.1% decline in U.S. real GDP, and as state real GDP also fell more sharply in 2008. Recovery here initially appears slightly stronger, with state real GDP increasing 2.7% in 2010 in comparison with U.S. real GDP growth of 2.4%. But growth in Ohio trailed that of the nation in 2011. GDP has risen more slowly in Ohio than nationwide in most years since the mid-1960s, and the state's share of the nation's output has trended lower since then. State GDP figures are available from the source agency, the U.S. Bureau of Economic Analysis (BEA), only annually and with a long lag. BEA's initial estimate of 2012 Ohio GDP is scheduled for next June. Quarterly estimates up to the present and forecasts are provided by Global Insight.

Chart 3: Real Gross Domestic Product



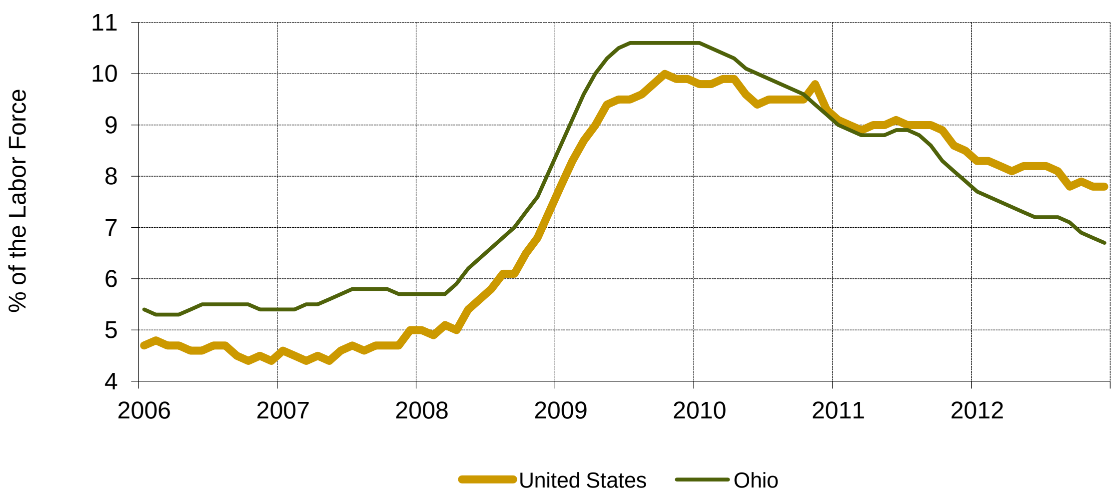
Nonfarm payroll employment in Ohio, compared with that in the U.S., is shown in Chart 4. Ohio nonfarm payroll employment reached a low point in December 2009, and recovered by 3.7%, about 183,000 jobs, in the three years since then. U.S. nonfarm payroll employment reached its low point in February 2010, and through December 2012 had risen 4.1%, 5.3 million jobs. In January (not shown in Chart 4), U.S. nonfarm payroll employment rose an additional 157,000 (0.1%). In both Ohio and the U.S., total nonfarm payroll employment remains below levels prior to the 2007-2009 recession.

Chart 4: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



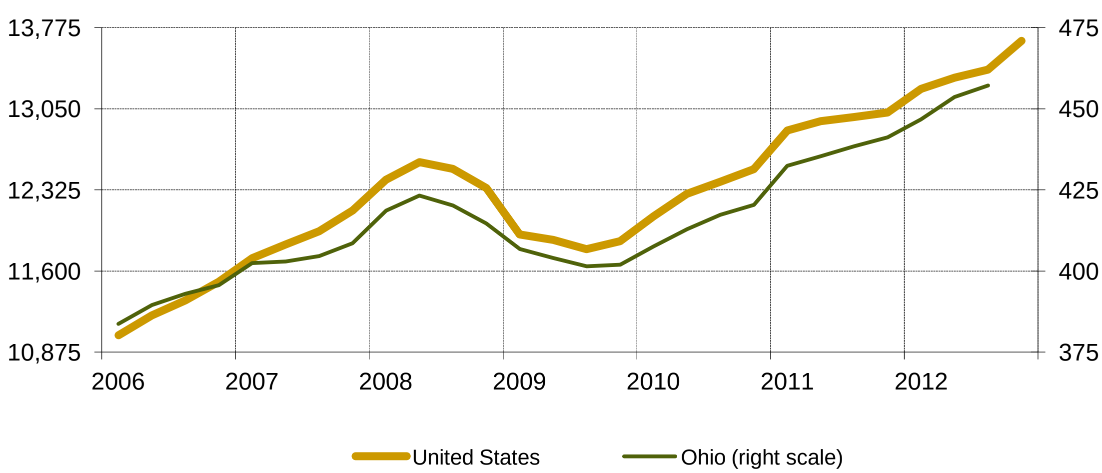
Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 6.7% in December, its lowest level since 2008, as shown in Chart 5. The U.S. unemployment rate was 7.8% in December and 7.9% in January. Ohio's unemployment rate has been lower than the nationwide average since November 2010. The number of persons counted as unemployed has fallen faster in Ohio than nationwide since then, but total employment in this state has grown more slowly.

Chart 5: Unemployment Rate



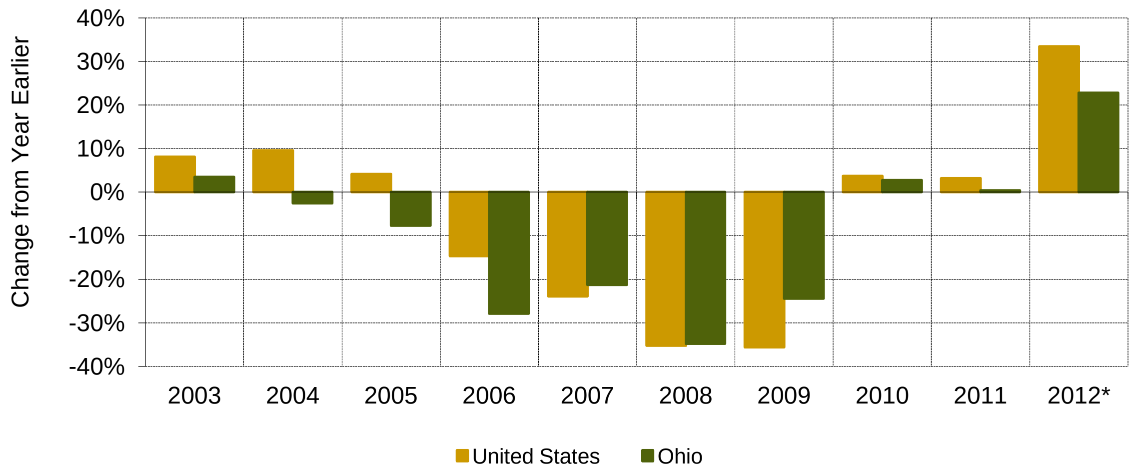
Personal income has been growing in the nation and Ohio since 2009, as shown in Chart 6. Both series in the chart are shown in dollars of current purchasing power. Ohio personal income as well as U.S. personal income rose about 14% from the low point to the third quarter of 2012. U.S. personal income rose further in the fourth quarter.

Chart 6: Personal Income
Billions of Dollars



Housing construction recovered substantially last year, in Ohio and the nation, as indicated by construction permits for new privately owned units, shown in Chart 7. Nationwide residential building activity is up more sharply than in Ohio. Previously, housing construction activity fell in Ohio for six years through 2009, then edged up in 2010 and 2011. U.S. housing construction fell for four years, from a 2005 peak, and also increased modestly in 2010 and 2011. Residential building activity remains far below past peaks, in Ohio and around the country. Average housing prices have been recovering since 2011, in Ohio and the U.S., after falling from peaks in 2006 and 2007.[1]

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



* Through November.

[1] Prices cited here are as reported by the Federal Housing Finance Agency.

Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in January 2013. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues, based in part on some of the variables provided by Global Insight, could in consequence also be either too high or too low.

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

U.S. Gross Domestic Product

Real GDP growth is projected to increase gradually into FY 2014, then rise somewhat more rapidly in FY 2015. Since the recession trough in the second quarter of 2009, through last year's fourth quarter, real GDP growth averaged a 2.1% annual rate.

U.S. Real GDP Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	1.0	2.4	2.1	2.2	2.6	3.3	3.3	3.2	3.6	3.6	3.5	3.1
Global Insight		2.0				2.1				3.2		

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2015 but at a subdued pace. Predicted growth of real GDP in Ohio averages 1.9% per year in FY 2014 and FY 2015.

Ohio Real GDP Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	0.9	2.0	1.6	1.9	1.7	2.2	2.3	2.5	2.6	2.7	2.7	2.4
Global Insight		2.1				1.6				2.3		

U.S. Inflation

In Global Insight's January baseline forecast, consumer price inflation remains at a 2% annual rate or less through 2015.

U.S. Consumer Price Index Inflation

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	0.6	1.2	1.8	1.9	1.9	1.7	1.5	1.5	1.9	1.3	1.4	2.0
Global Insight		1.6				1.6				1.6		

U.S. Personal Income

Nationwide personal income growth is projected to average 4.5% at an annual rate in FY 2014 and FY 2015. These growth rates are based on the dollar amounts of income, not adjusted for inflation. Weakness shown in the table for the current quarter reflects the end of the 2 percentage point reduction in the individual portion of Social Security taxes, which is subtracted in the national income and product accounts in calculating personal income.

U.S. Personal Income Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-1.1	4.6	4.5	4.3	6.6	4.5	4.7	4.6	5.9	4.8	4.7	4.5
Global Insight		3.1				4.1				5.0		

Ohio Personal Income

Income to persons who reside in Ohio also is forecast to grow through 2015, except for the first quarter of 2013 when the end of the temporary reduction in Social Security taxes results in lower total personal income. Growth of Ohio personal income averages 4.0% at an annual rate in FY 2014 and FY 2015, lagging behind growth of personal income nationwide.

Ohio Personal Income Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-1.2	4.2	3.7	3.5	6.3	3.9	4.2	4.0	5.5	4.1	4.0	3.9
Global Insight		3.5				3.5				4.4		

U.S. Unemployment Rate

Unemployment nationwide is expected to decline slowly through the forecast period shown in the table. As job opportunities continue gradually to improve, additional entrants to the labor force are likely to be attracted, which will slow the decline in the unemployment rate.

U.S. Unemployment Rate

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	7.7	7.7	7.6	7.6	7.5	7.4	7.3	7.1	6.9	6.7	6.6	6.4
Global Insight		7.8				7.5				7.0		

Ohio Unemployment Rate

The unemployment rate in Ohio is projected to fall slowly through the end of 2015. The state's unemployment rate remains below that of the nation.

Ohio Unemployment Rate

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	6.8	6.8	6.7	6.7	6.6	6.6	6.6	6.5	6.5	6.5	6.4	6.3
Global Insight		6.9				6.6				6.5		

REVENUE FORECASTS

The LSC baseline forecasts for FY 2014 and FY 2015 assume the current statutory tax structure, including tax changes enacted by the 129th General Assembly, in the budget bill for the current biennium, H.B. 153, and in other legislation, most notably H.B. 510 and H.B. 508. The newly created financial institutions tax (FIT), which will yield revenue for the first time in FY 2014, replaces the corporate franchise tax (CFT) and the dealers in intangibles tax (DIT) which will both be eliminated at the end of 2013.

Under permanent law, a portion of GRF tax receipts are transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF). H.B. 153 fixed the LGF and PLF transfer amounts at predetermined levels for the current biennium, so that any increases in tax receipts during this biennium affect the GRF only. For FY 2014 and subsequent years, transfers to the LGF and the PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues. Subsequent transfers to the LGF and the PLF will be based on those respective ratios.

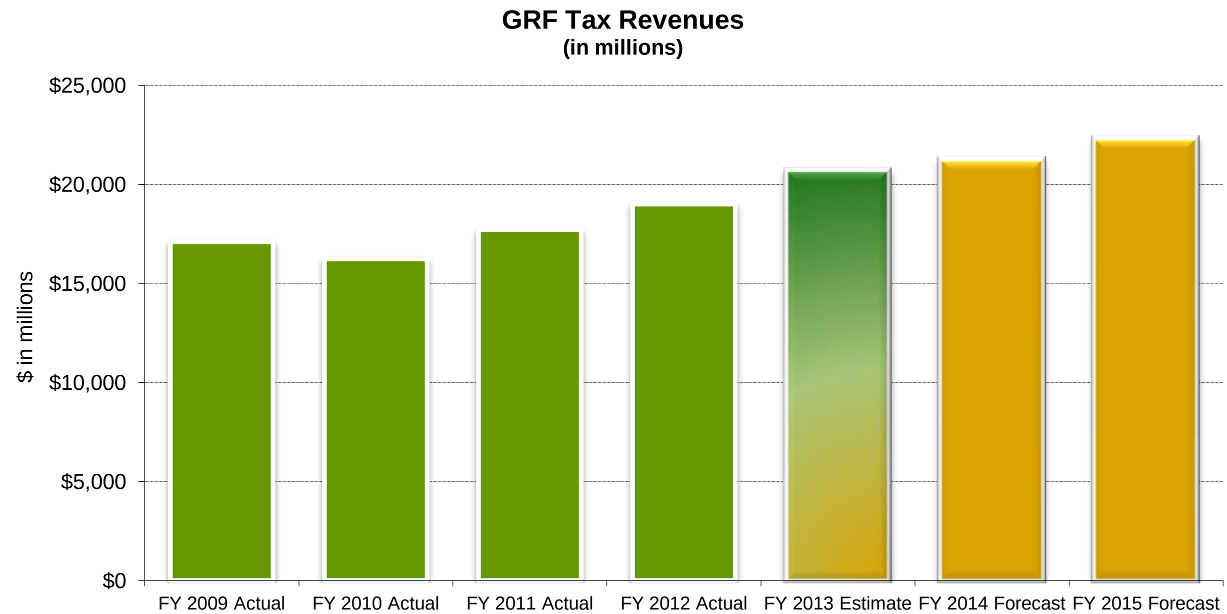
GRF tax revenue under current law is forecast to increase by $523.0 million (2.5%) in FY 2014. Growth is expected for most tax revenue sources, as the economic recovery is expected to continue. The cigarette and other tobacco products tax is a notable exception, as it is expected to continue its steady decline. 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. The drop off of commercial activity tax (CAT) receipts in FY 2014 results from an exclusion of tax revenues from motor fuel sales due to a recent Ohio Supreme Court decision.[2] No revenues are expected from either the CFT or the DIT 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 GRF tax receipts in FY 2014, but all estates are assumed in this forecast to be settled, and any related payments made, prior to FY 2015. The baseline forecast also includes additional sales tax and insurance tax receipts from a delayed implementation of certain Medicaid-related changes included in current law. LSC also forecasts revenue from earnings on investments and from license fees, which are projected to total $57.0 million in FY 2014.

GRF tax revenue under current law is forecast to increase by $1,066.3 million (5.0%) in FY 2015. Growth in revenue from the personal income tax and the sales and use tax, the two largest GRF tax sources, is projected to be fairly robust. The public utility tax and the domestic insurance tax are anticipated to have sizable revenue

[2] On December 7, 2012, the Supreme Court of Ohio ruled that imposing the CAT on gross receipts from the sale of motor vehicle fuel and allocating the revenues to the GRF is unconstitutional. The court precluded such allocations of those revenues after the date of the decision.

growth. Except for declining receipts for the tax on cigarettes and other tobacco products and the kilowatt hour excise tax, the remaining taxes are expected to exhibit smaller rates of revenue growth. Earnings on investments and license revenue are forecast to total $61.8 million in FY 2015.

Compared with the FY 2012-FY 2013 biennium, GRF tax revenue for the FY 2014-FY 2015 biennium is forecast to be $3.82 billion or 9.6% higher. The following chart and tables provide overviews of GRF receipts from taxes and from state sources including earnings on investments and receipts from charges for licenses and fees.

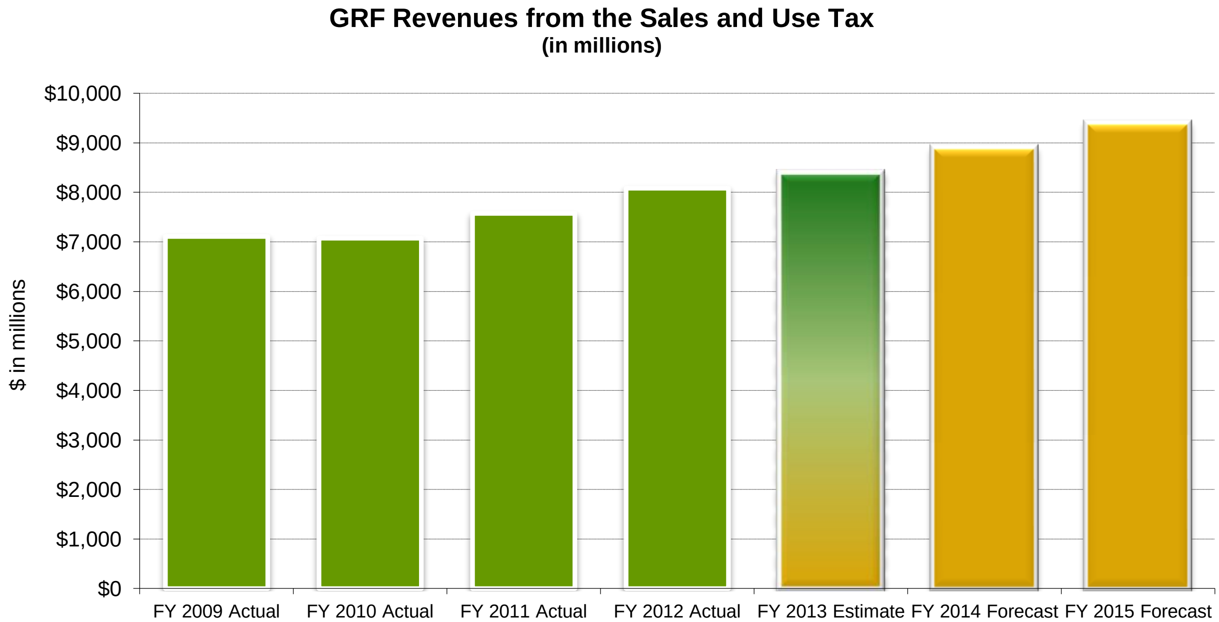


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$17,093.8	$16,233.6	$17,706.2	$19,005.2	$20,711.8	$21,234.8	$22,301.1
Growth	-12.0%	-5.0%	9.1%	7.3%	9.0%	2.5%	5.0%

LSC Baseline Revenue Forecasts, FY 2014-FY 2015 ($ in millions)

GRF	FY 2012 Actuals	FY 2013 Estimates	Growth Rate	FY 2014 Forecast	Growth Rate	FY 2015 Forecast	Growth Rate
TAX REVENUE							
Auto Sales & Use	$1,053.5	$1,080.6	2.6%	$1,128.0	4.4%	$1,179.0	4.5%
Nonauto Sales & Use	$7,033.5	$7,315.4	4.0%	$7,766.2	6.2%	$8,224.5	5.9%
Total Sales & Use Taxes	$8,087.0	$8,396.0	3.8%	$8,894.2	5.9%	$9,403.5	5.7%
Personal Income	$8,432.9	$9,263.1	9.8%	$9,448.7	2.0%	$9,951.7	5.3%
Commercial Activity	$417.1	$842.7	102.0%	$793.8	-5.8%	$826.9	4.2%
Corporate Franchise	$117.1	$201.7	72.3%	$0.0	-100.0%	$0.0	--
Financial Institutions	$0.0	$0.0	--	$200.0	--	$209.0	4.5%
Public Utility	$113.9	$116.4	2.2%	$125.6	7.9%	$138.6	10.4%
Kilowatt Hour Excise	$294.8	$298.9	1.4%	$289.2	-3.2%	$282.0	-2.5%
Natural Gas Consumption	$60.2	$58.3	-3.2%	$60.4	3.7%	$62.4	3.2%
Foreign Insurance	$266.5	$279.0	4.7%	$288.0	3.2%	$299.0	3.8%
Domestic Insurance	$189.1	$206.0	9.0%	$211.0	2.4%	$247.0	17.1%
Business & Property	$19.9	$25.0	25.8%	$0.0	-100.0%	$0.0	--
Cigarette	$843.2	$820.8	-2.7%	$799.2	-2.6%	$778.3	-2.6%
Alcoholic Beverage	$57.6	$58.3	1.2%	$60.7	4.1%	$61.0	0.5%
Liquor Gallonage	$39.4	$40.1	1.7%	$41.0	2.2%	$41.9	2.2%
Estate	$66.5	$105.6	58.7%	$23.0	-78.2%	$0.0	-100.0%
Total Tax Revenue	**$19,005.2**	**$20,711.8**	**9.0%**	**$21,234.8**	**2.5%**	**$22,301.1**	**5.0%**
NONTAX STATE-SOURCE REVENUE							
Earnings on Investments	$5.4	$7.5	38.4%	$8.4	12.0%	$11.3	34.5%
Licenses and Fees	$65.3	$47.0	-28.0%	$48.6	3.4%	$50.5	3.9%

Sales and Use Tax

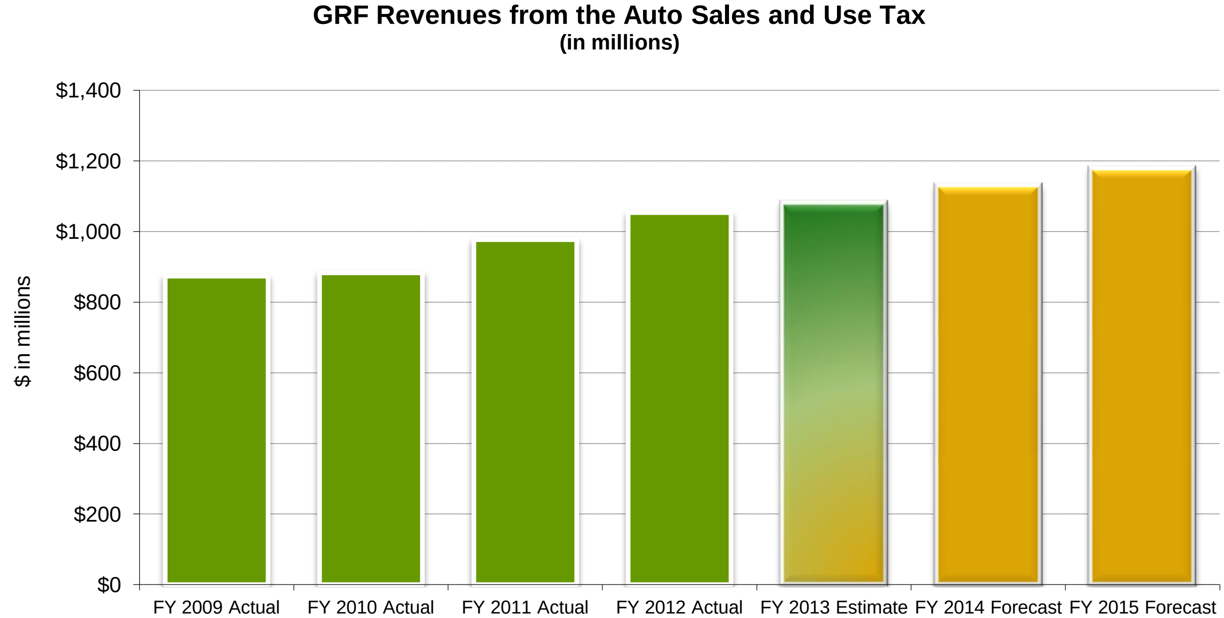


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$7,112.8	$7,077.4	$7,578.2	$8,087.0	$8,396.0	$8,894.2	$9,403.5
Growth	-6.6%	-0.5%	7.1%	6.7%	3.8%	5.9%	5.7%

Under current law, the state sales and use tax is levied at a rate of 5.5% on retail sales of tangible personal property, rental of some tangible personal property, and selected services. Major exemptions to the sales and use tax include: food for human consumption off the premises where sold, newspapers and magazine subscriptions sent by second class mail, motor fuel (taxed separately), packaging and packaging equipment, prescription drugs and medical supplies, and property used primarily in manufacturing or used directly in mining or agriculture. There is also a credit for trade-ins on purchases of new motor vehicles.

For forecasting purposes, the tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. One major exception is auto taxes arising from leases, which are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. The level of auto sales is dependent on the level of incentives provided by manufacturers and dealers and changes in gasoline prices. The incentives have also changed the way consumers decide whether to purchase or lease their vehicles. As the share of vehicles leased and manufacturers' incentives have varied over the years, the auto sales tax has become more volatile. Also, those changes have affected the nonauto sales tax because taxes arising from leases are recorded under the nonauto sales tax. Job losses and declines in income growth associated with the most recent economic recession shrank tax receipts in FY 2009 and FY 2010. Growth, which resumed in FY 2011, is expected to continue in the FY 2014-FY 2015 biennium, supported by steady improvements in the labor market and the housing industry.

Auto Sales and Use Tax

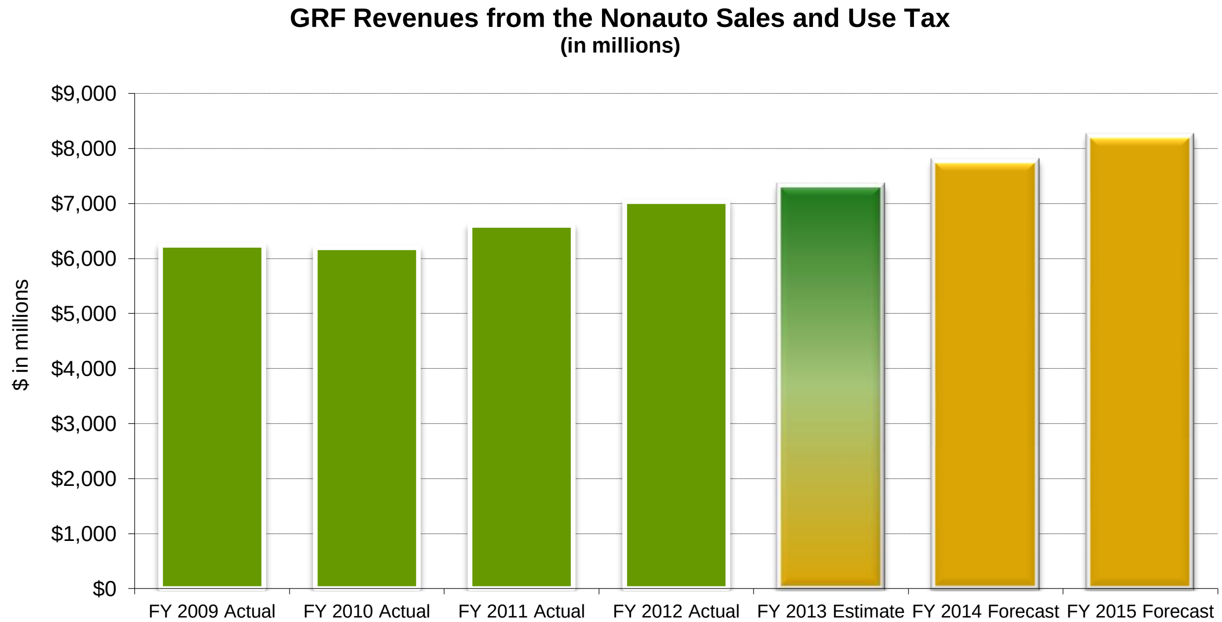


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$873.6	$882.9	$976.9	$1,053.5	$1,080.6	$1,128.0	$1,179.0
Growth	-7.4%	1.1%	10.7%	7.8%	2.6%	4.4%	4.5%

The forecast for the auto sales and use tax is based on regressions of quarterly auto sales and use tax base against Ohio auto registrations, average new vehicle prices, and interest rates. FY 2013 estimates were adjusted to reflect actual performance of the tax through December 2012.

The auto sales and use tax taxable base rebounded in FY 2010 from a multi-year slump exacerbated by the 2007-2009 recession. The following economic recovery and the need to replace aging vehicles led to outsized revenue growth in FY 2011 and FY 2012. This expansion of the auto sales and use taxable base is expected to continue in the FY 2014-FY 2015 biennium, though at a more muted pace than in recent years. Revenue growth will be somewhat dependent on changes in gasoline prices and the continued ability of consumers to obtain loans at favorable interest rates. Higher interest rates would make auto loans more expensive and affect unit sales. On the other hand, high gasoline prices would decrease the sale of light trucks and the average prices of auto sales, which in turn may restrain growth of the taxable base.

Nonauto Sales and Use Tax

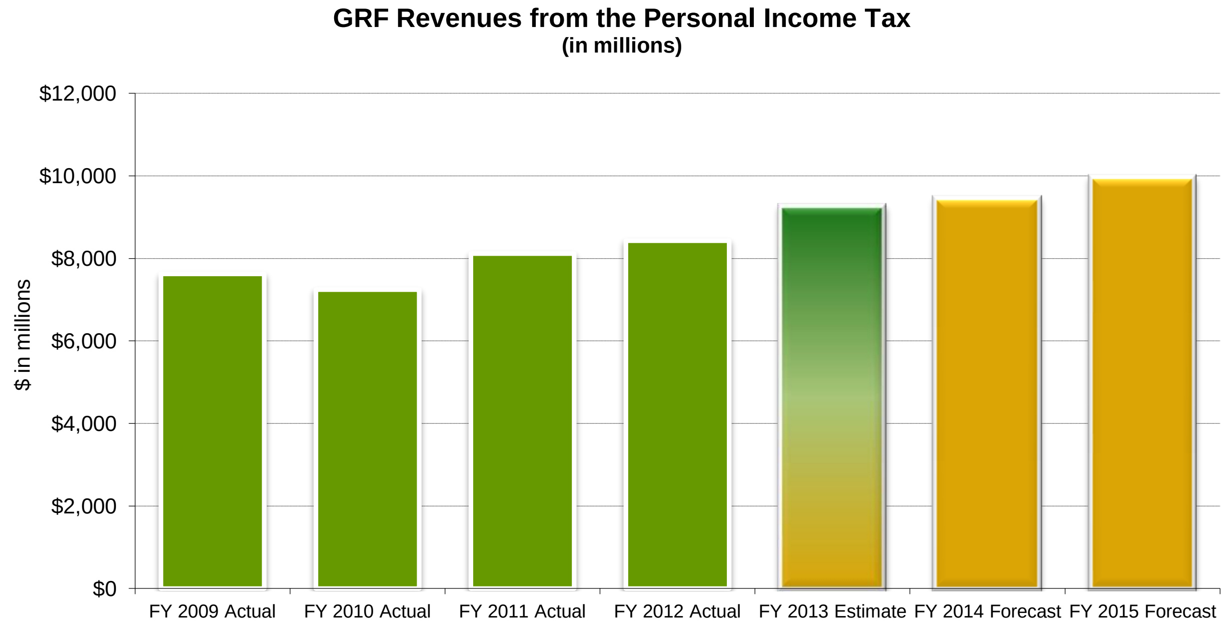


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$6,239.2	$6,194.5	$6,601.3	$7,033.5	$7,315.4	$7,766.2	$8,224.5
Growth	-6.5%	-0.7%	6.6%	6.5%	4.0%	6.2%	5.9%

The forecast for the nonauto sales and use tax is based on statistical regressions of quarterly nonauto sales and use tax revenues against retail sales and Ohio employment, wages and salaries, and housing starts. Estimates were adjusted to reflect actual performance of the tax through December 2012.

Tax receipts fell in FY 2009 and FY 2010 when wage growth and income gain fell, unemployment rose, and spending supported by the housing industry and mortgage equity withdrawals, which boosted sales tax receipts in previous years, vanished during the recession. However, the revenue decline in FY 2010 was mitigated by H.B. 1 of the 128th General Assembly, which included health care services provided by Medicaid health insuring corporations (MHICs) in the nonauto sales and use tax base. Growth in nonauto sales and use tax receipts is expected to be fairly robust in the next biennium, supported by wage growth and a boost from additional payments from MHICs. Forecasted revenue in FY 2014-FY 2015 include additional revenue from expected changes in the administration of Medicaid-related programs. Those changes are understood to result in increased nonauto sales and use tax revenue and effectively would serve as another base expansion.

Personal Income Tax



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$7,628.0	$7,247.2	$8,120.3	$8,432.9	$9,263.1	$9,448.7	$9,951.7
Growth	-16.3%	-5.0%	12.0%	3.8%	9.8%	2.0%	5.3%

The personal income tax is levied on Ohio taxable income, which equals federal adjusted gross income as reported to the U.S. Internal Revenue Service (IRS), plus or minus various adjustments and minus personal and dependent exemptions. A taxpayer's tax liability before credits is determined by applying Ohio's graduated tax rates to the taxpayer's Ohio taxable income. Certain credits may be subtracted from this amount to derive the taxpayer's final tax liability.

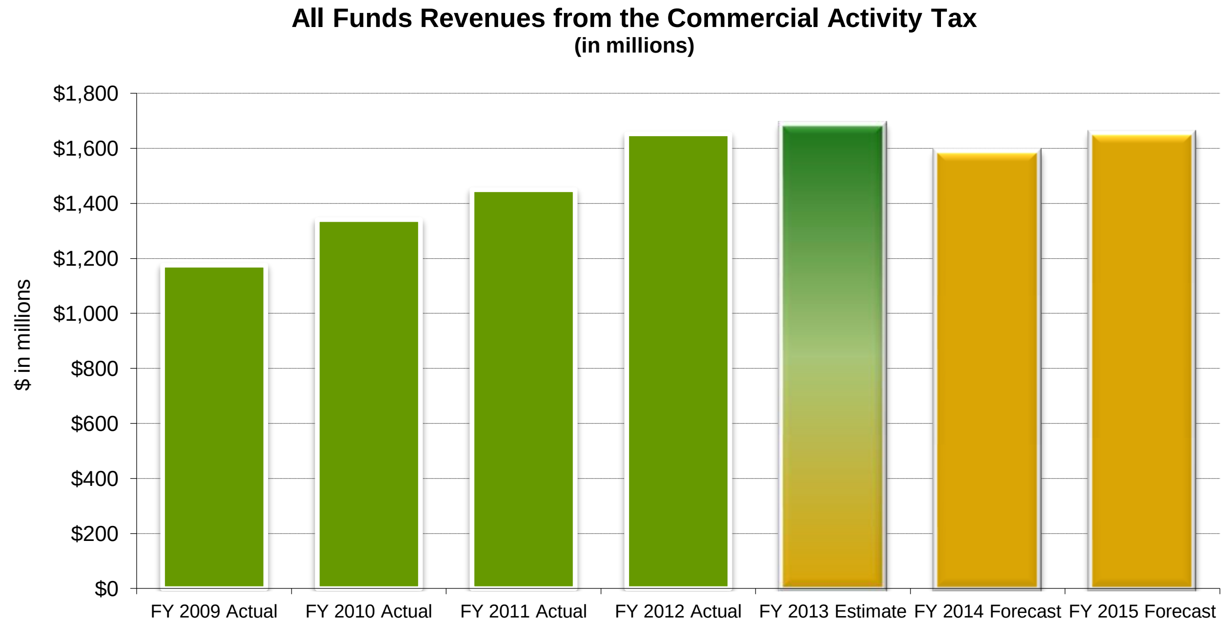
The estimate of personal income tax revenues in FY 2013 and the forecasts for FY 2014 and FY 2015 are based on the results of models of revenue collections. The models work with four components of state income tax collections: employer withholding, payments from individual taxpayers (estimated taxes and annual returns), other revenues (trust income and miscellaneous collections), and refunds. The data are organized on a fiscal year basis. Withholding is estimated as a function of Ohio wage and salary income, nonfarm payroll employment, withholding rates, the amount of wages per employee, and the number of employees per household. The individual taxpayer component is a function of proprietors' income and other taxable nonwage income, the Standard and Poor's (S&P) 500 index (used to represent capital gains), household holdings of equities and nonfinancial assets, and tax rate variables. All other income tax collections are a function of revenue trends in miscellaneous collections and the S&P 500 index (used as a predictor of receipts derived from taxable trusts). Refunds are a function of gross tax collections (withholding plus individual plus other), the change in gross tax collections from the previous year, the value of the personal exemption, and tax rate variables. Forecasts of the explanatory variables are from Global Insight. The estimates reflect inflation adjustment of tax brackets beginning in TY 2010.

Further modifications to revenue estimates incorporate an adjustment for estimated revenue gains in FY 2013 and related losses in FY 2014 and FY 2015 resulting from acceleration of income realization ahead of the "fiscal cliff" at the end of calendar year 2012; revenue losses from refundable tax credits for rehabilitating historical buildings; revenue losses from tax changes for technology investment tax credits enacted in H.B. 1 of the 128th General Assembly; revenue losses for an expansion of the motion picture tax credit enacted by H.B. 508 of the 129th General Assembly; revenue losses from the small business investment credit enacted in H.B. 153 of the 129th General Assembly; revenue losses from reduced depreciation addbacks in TY 2012 resulting from H.B. 365 of the 129th General Assembly; revenue losses from allowing exclusion from Ohio taxable income of the federally taxable portion of certain educational grants as provided in H.B. 167 of the 129th General Assembly; and conformance with IRS code changes.

Through December, FY 2013 GRF revenues from the personal income tax were up 9.3% compared with FY 2012. Gross collections were 2.0% above estimate and 5.8% above FY 2012 levels. Refunds were 5.7% above estimate and 5.7% above FY 2012 levels. Distributions to the LGF were 3.2% above estimate and 41.2% below FY 2012 levels, reflecting the reductions in LGF appropriations enacted for the current biennium. Under current law, distributions to the LGF come from personal income tax revenues.

The FY 2013 estimate for GRF revenues from the personal income tax is $9,263.1 billion, a 9.8% increase from FY 2012 revenues. GRF revenues are projected to rise by 2.0% in FY 2014, and by 5.3% in FY 2015. The last reduction in income tax rates enacted in H.B. 66 of the 126th General Assembly, as modified by H.B. 318 of the 128th General Assembly, lowered tax rates by about 5.0% across all brackets and took place in TY 2011.

Commercial Activity Tax



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
All Funds Revenue	$1,175.8	$1,341.6	$1,450.1	$1,653.3	$1,685.4	$1,587.6	$1,653.8
Growth	22.0%	14.1%	8.1%	14.0%	1.9%	-5.8%	4.2%
GRF Share	$0	$0	$0	$417.1	$842.7	$793.8	$826.9

The commercial activity tax (CAT) forecast is primarily based on changes to Ohio's Industrial Production and Gross State Product, with some adjustments for estimates of tax credits applied against the tax. The high growth rates in revenues in FY 2009 and FY 2010 were essentially due to increases in effective tax rates due to the phasing in of the tax (FY 2006-FY 2010). Annual revenue growth in FY 2011 and in FY 2012 was primarily due to the economic recovery after the 2007-2009 recession. Starting in FY 2014, GRF CAT receipts that are available for the state operating budget are reduced by an estimate of tax paid by motor fuel dealers as a result of a recent Ohio Supreme Court decision.[3] That adjustment resulted in decreased forecasted GRF CAT revenue in FY 2014.

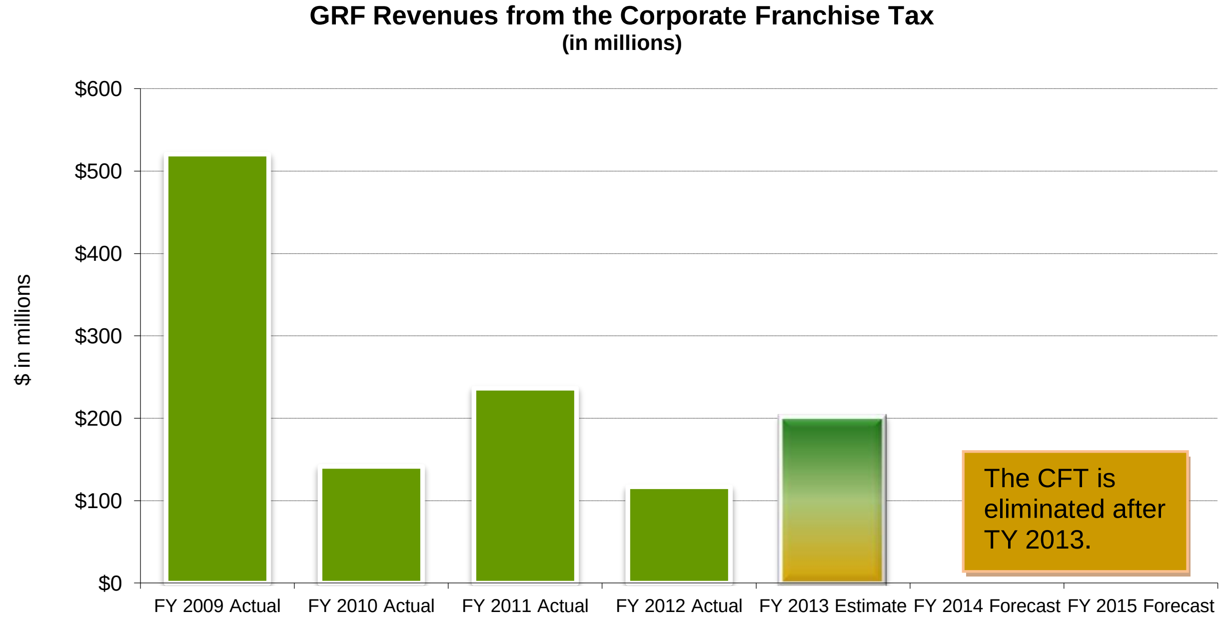
Current law earmarks revenues from the CAT for the GRF and for reimbursing school districts and other local governments for the reductions and phase-out of local

[3] On December 7, 2012, the Supreme Court of Ohio ruled that imposing the CAT on gross receipts from the sale of motor vehicle fuel and allocating the revenues to the GRF is unconstitutional. The court precluded allocations of those revenues after the date of the decision. An estimate of motor fuel CAT receipts will be transferred out of the GRF in FY 2013, according to the Office of Budget and Management.

taxes on most tangible personal property. Starting in FY 2013, 50% of total CAT revenue is distributed to the GRF. From FY 2007 through FY 2011 (H.B. 66 of the 126th General Assembly), revenues from the CAT were distributed only to the School District Tangible Property Tax Replacement Fund (70%) and the Local Government Tangible Property Tax Replacement Fund (30%) for reimbursement purposes. H.B. 153 of the 129th General Assembly prescribed a distribution of 25% of total CAT receipts to the GRF in FY 2012, and 50% in FY 2013. Distributions to school districts decreased to 52.5% in FY 2012 and 35% in FY 2013. Distributions to local governments other than schools decreased to 22.5% in FY 2012 and 15% in FY 2013. Based on projected CAT receipts, distributions to the GRF would be \$793.8 million and \$826.9 million, respectively, in FY 2014 and FY 2015.

H.B. 66 of the 126th General Assembly created the CAT, a privilege tax on business entities operating in Ohio. Tax collection, which started in FY 2006, was phased in over five years. In FY 2010, taxpayers paid 100% of their tax liability for the first time. Generally, business entities with annual taxable gross receipts below \$150,000 are exempt from the CAT and those with annual taxable gross receipts above \$150,000 and less than \$1 million pay the minimum tax of \$150. Businesses with annual taxable gross receipts above \$1 million pay \$150 plus the CAT tax rate of 0.26% on gross receipts in excess of \$1 million. Taxpayers who pay the minimum tax pay the CAT once a year. The other CAT taxpayers generally pay the CAT each quarter, based on gross taxable receipts in the previous calendar quarter. Major tax credits against the tax included the job retention, the job creation, the research and development (R&D), the R&D loan repayment, and the credit for net operating losses and other deferred tax assets.

Corporate Franchise Tax



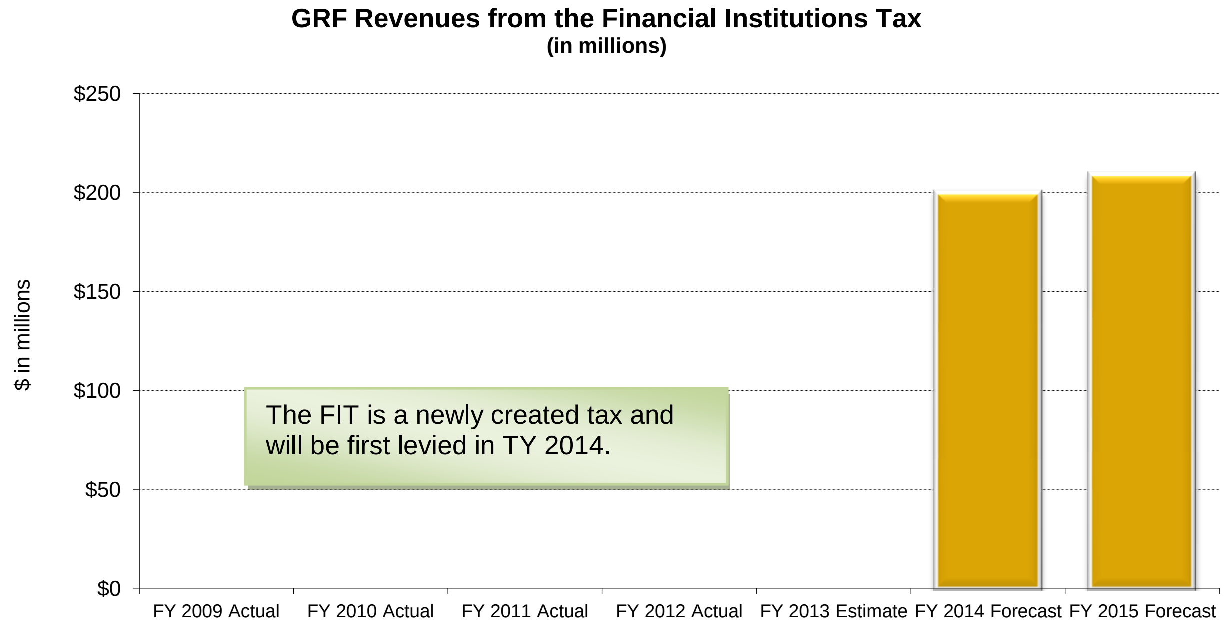
	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$520.8	$141.7	$236.6	$117.1	$201.7	$0.0	$0.0
Growth	-30.9%	-72.8%	66.9%	-50.5%	72.3%	-100.0%	NA

H.B. 510 of the 129th General Assembly eliminated the corporate franchise tax (CFT) at the end of calendar year 2013, and replaced it with the financial institutions tax (FIT). In the forecast above, elimination of the CFT after 2013 is shown as resulting in zero revenues from the tax in FY 2014 and thereafter. However, late payments, refunds, assessments, or other tax reconciliations are likely to result in nonzero revenue after FY 2013. The revenue estimate for FY 2013 reflects year-to-date tax collections through December plus the Office of Budget and Management's estimates of receipts in January through June 2013. The phase-out of the CFT and the creation of the FIT are likely to generate behavioral responses by financial institutions, creating a high degree of uncertainty regarding estimated receipts from both the CFT and the FIT.

Previously, the phase-out of the CFT for nonfinancial corporations, which started in FY 2006 (H.B. 66, 126th General Assembly), was completed in FY 2010. Starting in FY 2010, the CFT became essentially a tax on financial institutions (though affiliates of financial institutions or insurance companies pay the franchise tax, and other nonfinancial corporations may be filing tax returns to claim refundable credits). The tax liability is determined by multiplying the adjusted net worth (net value of stock) by the taxpayer's Ohio apportionment ratio and by the rate of 13 mills (1.3%). For multistate banks, the apportionment ratio is based on the shares of the taxpayer's property, payroll, and receipts in Ohio.

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

Financial Institutions Tax



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$0	$0	$0	$0	$0	$200.0	$209.0
Growth	NA	NA	NA	NA	NA	NA	4.5%

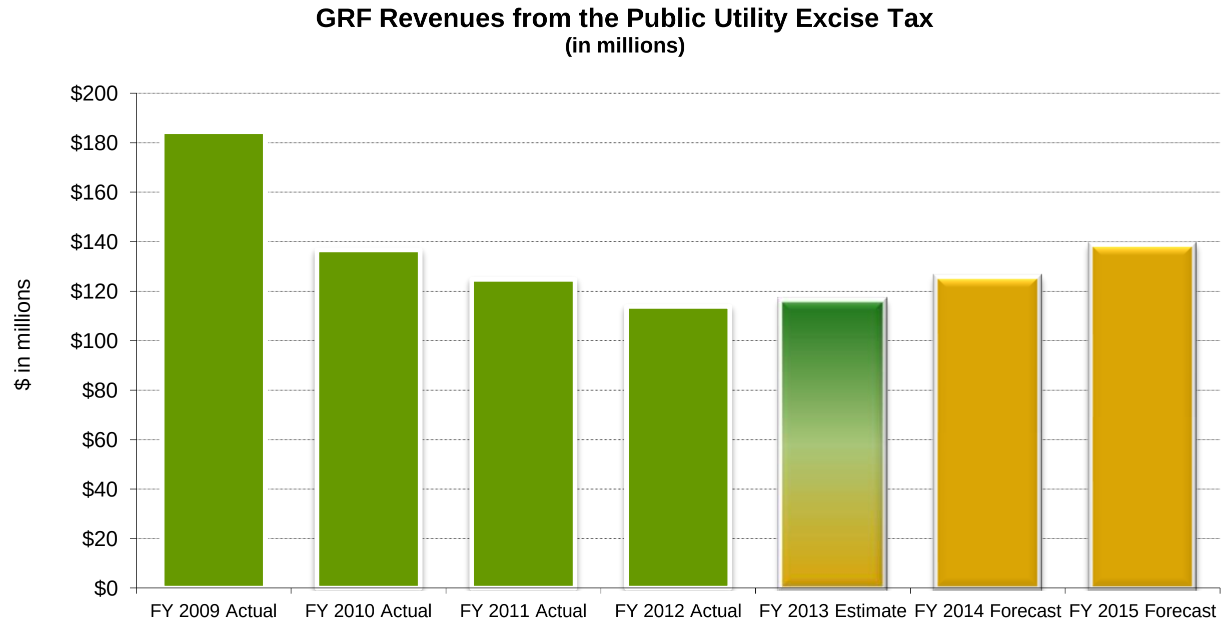
The financial institutions tax (FIT) is a new tax created by H.B. 510 of the 129th General Assembly. Designed as a replacement for both the CFT and the DIT which will be eliminated at the end of 2013, the FIT will be first levied in TY 2014, with receipts credited to the GRF starting in FY 2014. For the purposes of the FIT, financial institutions are defined as either bank organizations (or holding companies of bank organizations) or nonbank financial organizations. Nonbank financial organizations are persons engaged in business primarily as "small loan lenders." Bank organizations subject to the FIT are the same classes of institutions that were subject to the CFT. A number of financial companies are not subject to the FIT, including credit unions, insurance companies, institutions organized under the Federal Farm Loan Act (or a successor), diversified savings and loan holding companies, and grandfathered unitary savings and loan companies. Unlike the CFT, the FIT extends the taxation of financial institutions to noncorporate forms of business organizations.

The FIT is levied on the "total Ohio equity capital" of financial institutions, which includes a firm's common stock, perpetual preferred stock, surplus, retained earnings, treasury stock, and unearned employee stock ownership plan shares. Taxpayers operating in multiple states are required to apportion total equity capital in proportion to gross receipts sitused to Ohio. The FIT specifies three tax rates: a rate of 0.8% (8 mills) which applies to the first $200 million of a taxpayer's total Ohio equity capital; a rate of

0.4% (4 mills) of a taxpayer's total Ohio equity capital between $200 million and $1.3 billion; and a rate of 0.25% (2.5 mills) which applies to the amount of total Ohio equity capital in excess of $1.3 billion. The minimum FIT tax is to be $1,000. Current law specifies a revenue target of $200 million in FY 2014 (which is the basis for the FY 2014 estimate) and prescribes a tax rate adjustment mechanism if revenue in TY 2014, the first year the tax is levied, is more than 110% or less than 90% of $200 million. If revenue exceeds 110% of the first target tax amount or $220 million, the Tax Commissioner must decrease the tax rates for 2015 and subsequent years to the rates that would have provided $200 million in receipts. If the 2014 tax rates generate less than 90% of the target amount (i.e., less than $180 million), only the 0.25% third-tier tax rate for equity capital in excess of $1.3 billion would be adjusted upward for TY 2015 and thereafter; the third-tier rate would be increased by a percentage equal to the difference between (1) the percentage by which the $200 million target exceeded the actual revenue and (2) 10% of the $200 million target. This forecast assumes the initial revenue target is met, and receipts growth in the second year of the biennium is based on an estimate of profits growth of financial companies.

H.B. 510 also provides another test period in TY 2016, and a second target amount of $212 million (106% of the TY 2014 target amount), or if applicable, another target amount if the TY 2014 target amount was modified as described in the previous paragraph. An adjustment mechanism similar to the one for TY 2014 is to occur during TY 2016, with the same consequences for TY 2017 and thereafter if the revenue deviated from the 2016 target amount. Each taxpayer must file an annual report and file all tax payments by October 15 of the tax year. Estimated payments are due on the preceding January 31, March 31, and May 31.

Public Utility Excise Tax



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$184.5	$136.7	$124.8	$113.9	$116.4	$125.6	$138.6
Growth	17.0%	-25.9%	-8.7%	-8.8%	2.2%	7.9%	10.4%

The public utility excise tax is imposed on the gross intrastate receipts of specified utilities. The tax is levied on natural gas utilities, pipeline companies, heating companies, waterworks, and water transportation companies. Other types of public utilities currently operating are exempt from the tax, as are public utilities owned by municipal corporations. Companies subject to the tax pay 4.75% of gross receipts, except for pipeline companies which pay 6.75% of gross receipts. All companies receive an annual deduction of $25,000. Gross receipts from sales of merchandise, interstate transactions, sales to other utilities for resale, sales to federal government entities, and billings on behalf of other entities are exempt from the tax.

Most of the revenue from the public utility excise tax is from natural gas companies. They accounted for about 96% of total public utility excise tax revenue in FY 2012. So changes in natural gas prices and consumption are the main determinants of public utility excise tax revenues.

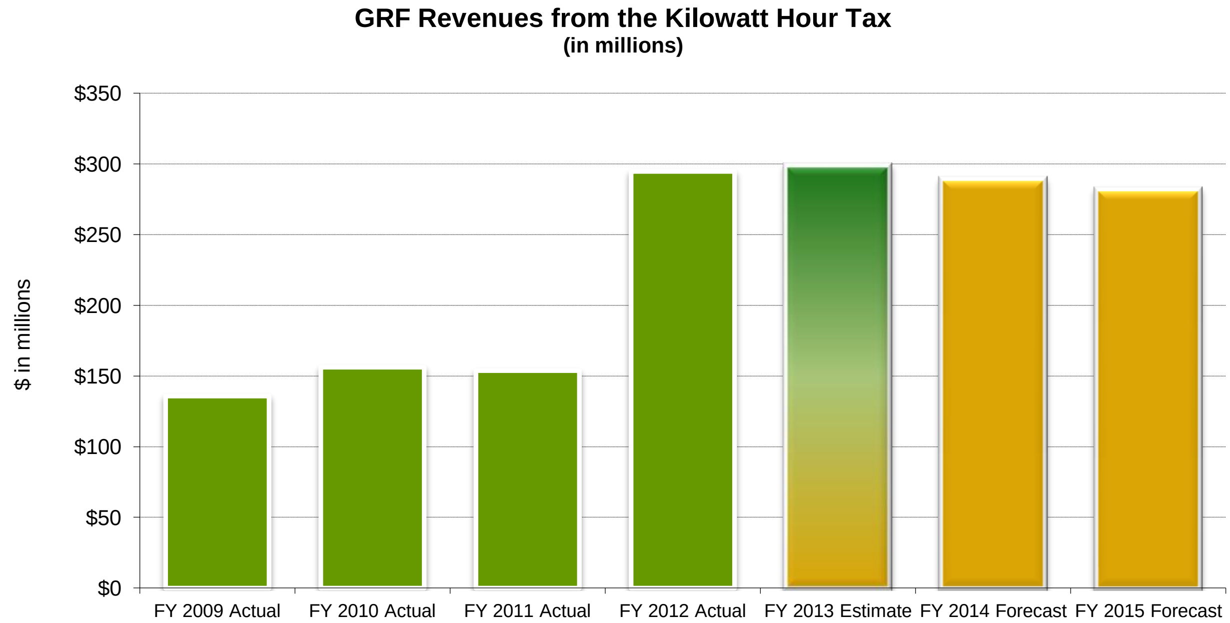
All revenue from the public utility excise tax is distributed to the General Revenue Fund.

Tax revenue from the public utility excise tax fell in FY 2010 by 26%, in FY 2011 by 9%, and in FY 2012 by 9%, mainly reflecting lower tax payments by natural gas companies. Natural gas prices fell following the 2007-2009 recession, recovered somewhat in 2010, then dropped further in early 2012 when unusually mild winter temperatures in Ohio and the U.S. held down heating demand for natural gas. Increased supplies of natural gas from expansion of "fracking" (fracturing of rock formations to free trapped natural gas) likely also contributed to downward pressure on prices. Natural gas prices have since risen as electric utilities increased their use of natural gas to power generators during the hot summer of 2012, and as oil and gas producers shifted drilling rigs to development of oil prospects, and away from natural gas prospects, in response to the low gas prices.

Year-to-date public utility excise tax revenues through December were 20% lower than in the year-earlier period. The fiscal fourth quarter, April through June, accounts for a disproportionate share of annual revenues, 30% to 40% in recent years. Commodity price fluctuations are reflected in public utility excise tax receipts with a lag. Tax revenues are projected to grow in FY 2014 and FY 2015 as average prices rise.

The estimate of public utility excise tax revenue is based on year-to-date tax receipts through December and on a model of public utility excise tax receipts from natural gas companies that relates these receipts to Ohio residential, commercial, and industrial natural gas consumption, to variables representing the quarterly pattern of receipts, and to a time trend. Forecasts for tax receipts from natural gas companies in FY 2014 and FY 2015 are also from this model. The price forecast is provided by Global Insight. The forecast of natural gas consumption volumes is from the U.S. Energy Information Administration (EIA) and is based on that agency's projection for the East North Central states. The time trend represents the effects of the Choice Program, under which gas utility customers may choose to purchase their natural gas from companies other than the utility that delivers the gas. Public utility excise tax receipts from companies other than natural gas utilities are assumed unchanged at FY 2012 levels in FY 2013 through FY 2015.

Kilowatt Hour Tax



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$135.9	$156.3	$153.9	$294.8	$298.9	$289.2	$282.0
Growth	-41.2%	15.0%	-1.5%	91.6%	1.4%	-3.2%	-2.5%

The kilowatt hour (kWh) tax is levied on electric distribution companies, which include the tax in the rates they charge for distributing electricity. The tax rate depends on the volume of electricity used by the customer. There are three distinct marginal tax rates, $0.00465 per kWh for the first 2,000 kilowatt hours consumed in a month, $0.00419 per kWh for the next 13,000 kilowatt hours consumed, and $0.00363 per kWh for all kilowatt hours consumed over 15,000. Very large users, those that use over 45 million kWh per year, have the option of self-assessing, which enables them to pay a lower rate. Beginning January 1, 2011, self-assessors have paid a flat tax rate of $0.00257 per kWh for the first 500 million kilowatt hours used in a year and $0.001832 per kWh over 500 million.[4]

GRF revenue from this tax has varied considerably over the years, due primarily to changes in the share of tax revenue that goes to the GRF; total (all funds) revenue from the tax has been actually fairly stable. Beginning in FY 2012, revenues from the kWh tax are distributed as follows: the GRF (88%), the School District Property Tax Replacement Fund

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

(9%), and the Local Government Property Tax Replacement Fund (3%). Previously, the GRF received 63%; the School District Property Tax Replacement Fund, 25.4%; and the Local Government Property Tax Replacement Fund, 11.6%. Also, half of the share of GRF total tax revenue that is transferred to the PLF is debited against this tax source for accounting purposes.

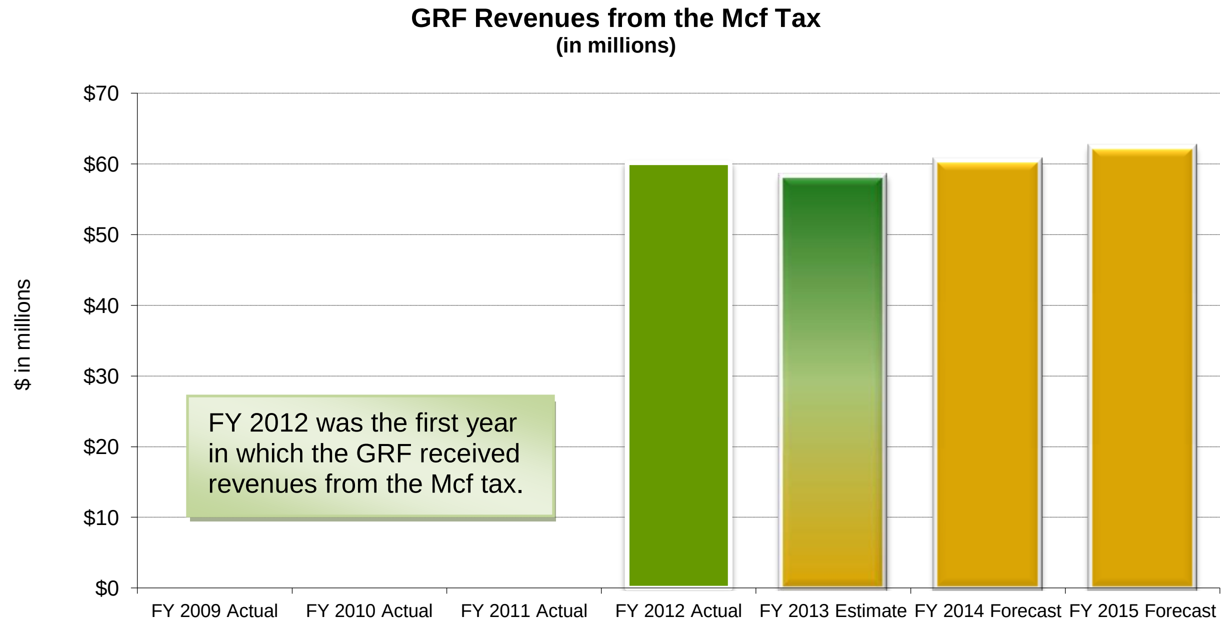
Revenue to all funds from the tax decreased by 4.8% in FY 2010, but increased by 3.4% in FY 2011 and 0.4% in FY 2012. Through December 2012, FY 2013 revenue to all funds has decreased by about 1.1% as compared with the corresponding period in FY 2012. The reason for the decrease so far this year is the decrease in electricity consumption by each type of end-user (i.e., residential, commercial, and industrial). Revenue to all funds from the tax is estimated to increase by 0.2% and 0.4% in FY 2014 and FY 2015, respectively.

GRF revenue from the kWh tax is expected to decline in the next biennium. Forecasted decreases in GRF revenue in FY 2014 and FY 2015 are primarily due to increases in amounts debited against this tax for the PLF.

The forecast of GRF kWh tax revenues was generated in two steps. First, the volume of electricity used by each type of end-user in Ohio was estimated based on trend of retail sales of electricity in the East North Central region as forecasted by the EIA in the January 2013 edition of its publication *Short-Term Energy Outlook*. Then, the estimated tax revenue was calculated by multiplying the marginal tax rates by the estimated volume of electricity used for each type of end-user.[5]

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

Natural Gas Consumption (Mcf) Tax



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$0.0	$0.0	$0.0	$60.2	$58.3	$60.4	$62.4
Growth	NA	NA	NA	NA	-3.2%	3.7%	3.2%

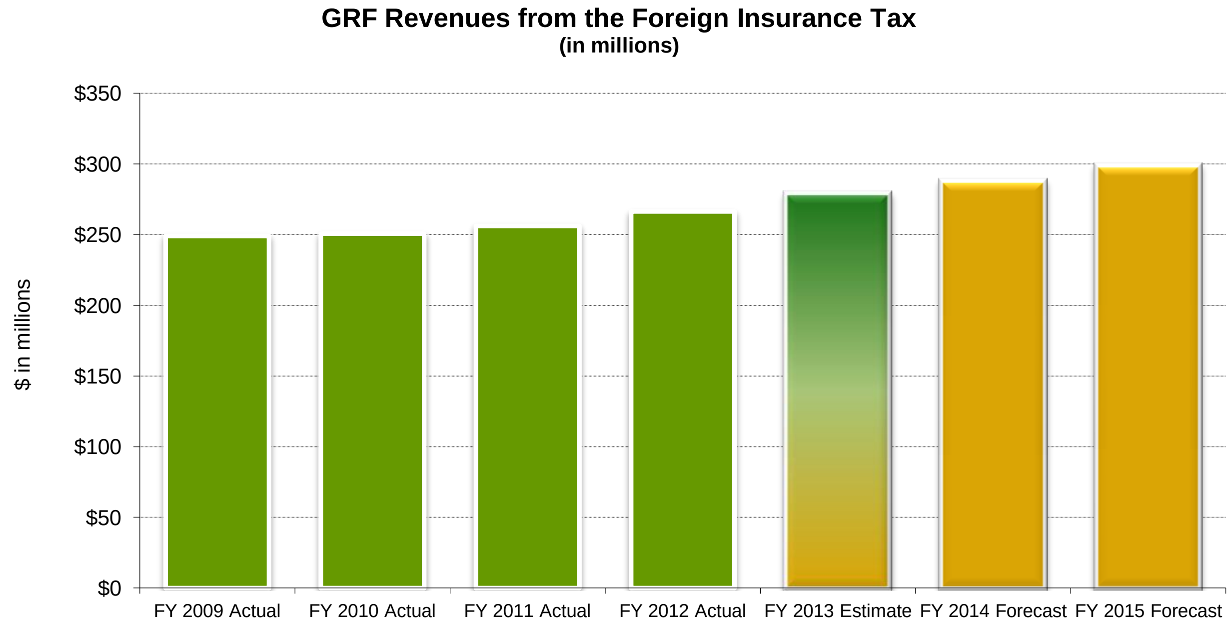
The natural gas consumption tax (also referred to as the Mcf tax) is levied on natural gas distribution companies, based on natural gas distributed through the meters of end users in Ohio. The base for the tax is the volume of natural gas measured in Mcf (1,000 cubic feet). The tax rate depends on the volume distributed to a customer. There are three distinct marginal tax rates: $0.1593 per Mcf for the first 100 Mcfs distributed to an end user in a month, $0.0877 per Mcf for the next 1,900 Mcfs, and $0.0411 per Mcf for all natural gas distributed to the end user in excess of 2,000 Mcfs in the month. Natural gas distributors with 70,000 or fewer customers – up from 50,000 prior to the measurement period that included October 16, 2009 – may pay the rate specified on the total quantity of natural gas distributed in Ohio in a month, as if the distribution was to a single customer. Flex customers, generally industrial or commercial customers with very large natural gas consumption (over one billion cubic feet per year in any of the previous five years) at a single location, or that meet other specified requirements, pay $0.02 per Mcf.

All revenue from the Mcf tax was directed to the GRF by H.B. 153 of the 129th General Assembly, beginning in FY 2012. Previously, the School District Property Tax Replacement Fund (Fund 7053) received 68.7% of revenue from the tax, and the Local Government Property Tax Replacement Fund (Fund 7054) received 31.3%.

Full-year revenue from this tax has ranged from $83.7 million in FY 2003 to $60.2 million in FY 2012. The chart above shows no revenue from this tax prior to FY 2012 because the revenue was directed to funds 7053 and 7054 in the earlier years.

FY 2013 revenue through December 2012 was about 16% lower than in the corresponding period in FY 2012. However, only about 30% of annual revenue from this tax is received in the first half of the fiscal year. Nearly half is received in the April-June quarter as a result of heavy winter consumption of natural gas during January through March coupled with a lag in the required payment of the tax from the natural gas distribution companies to the state. The forecast for the full fiscal year is a combination of growth in anticipated natural gas consumption in the East North Central region as predicted by the EIA in its June 2012 *Annual Energy Outlook*, along with the lower year-to-date actual tax revenues. The EIA forecast drives a regression model based on historical natural gas deliveries to Ohio consumers and natural gas consumption tax revenues. The projection for FY 2014 and FY 2015 revenues from the natural gas consumption tax reflects a return to the regression line as determined by the EIA projection.

Foreign Insurance Tax

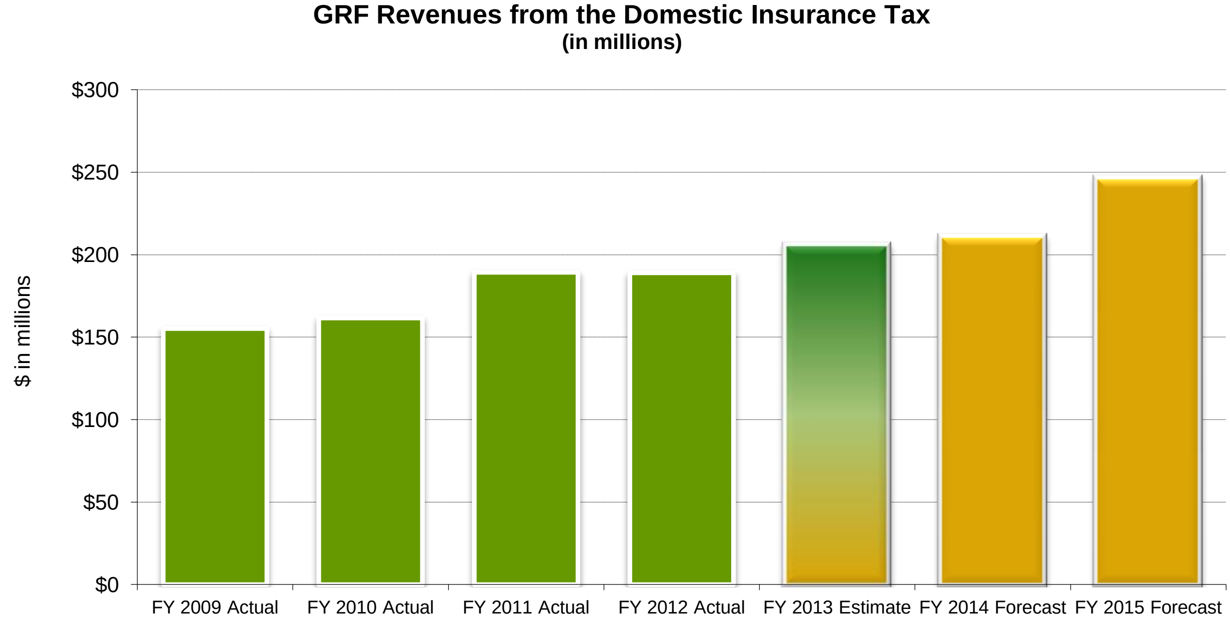


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$249.2	$250.8	$256.3	$266.5	$279.0	$288.0	$299.0
Growth	-6.8%	0.6%	2.2%	4.0%	4.7%	3.2%	3.8%

The foreign insurance tax is levied on premiums collected by insurance companies headquartered in a state other than Ohio. The tax is generally 1.4% of premiums; the primary exception is foreign insurance companies that are health insuring corporations (HICs), which pay 1.0% of premiums. Premiums paid for life and health insurance accounted for approximately half of the revenue from the tax in FY 2012, with premiums paid for property and casualty insurance accounting for a substantial portion of the remainder.

Revenue from the tax fell sharply in FY 2009 due to the recession and recovered slowly through FY 2011. In FY 2012, receipts grew at a rate closer to the long-term average growth rate. Revenue from this tax depends on overall economic conditions and on interest rates. Insurance companies derive revenue from both the premiums they collect and the interest earned from investing those premiums. The forecast is the average derived from several models, which generally used either Ohio personal income or wage and salary disbursements as a proxy for overall economic conditions, and used changes in six-month Treasury bill yields as a proxy for company revenues from the other main source.

Domestic Insurance Tax



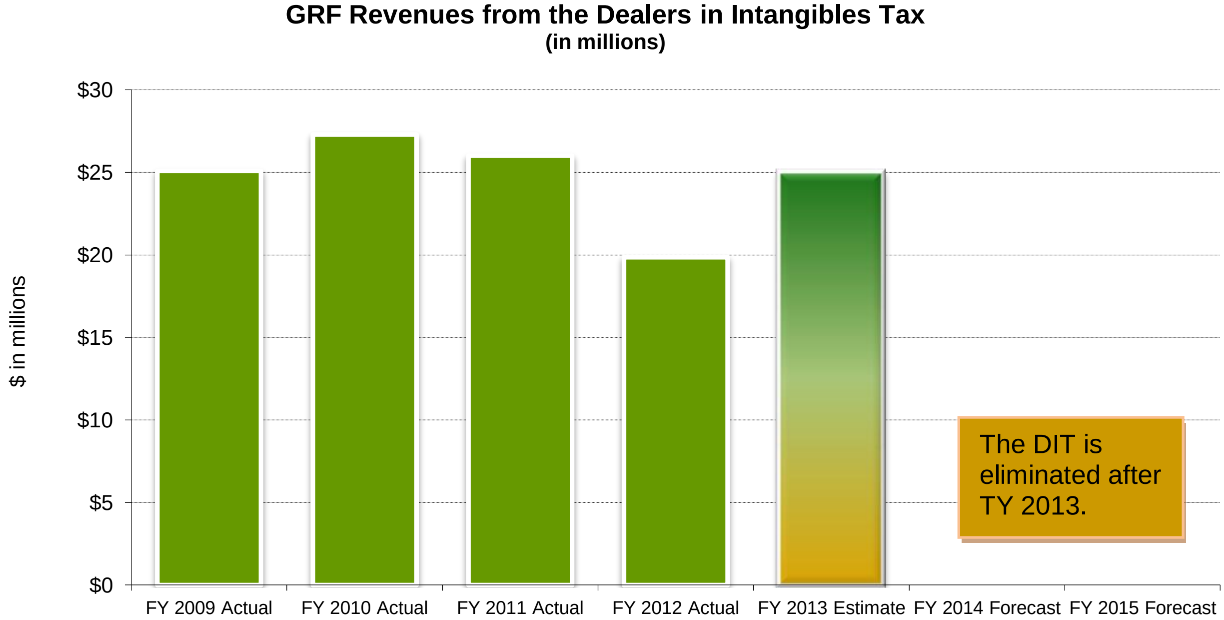
	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$155.3	$161.7	$189.4	$189.1	$206.0	$211.0	$247.0
Growth	0.5%	4.1%	17.1%	-0.2%	9.0%	2.4%	17.1%

The domestic insurance tax is levied on premiums collected by insurance companies headquartered in Ohio. The tax is generally 1.4% of premiums; the primary exception is domestic insurers that are HICs, which pay 1.0% of premiums. This tax structure is the same as the foreign insurance tax structure. About 60% of the tax liability under the tax in FY 2012 was attributable to premiums paid for property and casualty insurance. Premiums paid to HICs were responsible for just over one-third of tax liabilities.

Recent growth in tax revenue has been due to growth in revenue attributable to HICs, which were responsible for less than 9% of total revenue in FY 2009. This growth in turn is due to expansions of the tax base. H.B. 1 of the 128th General Assembly subjected premiums paid to Medicaid HICs to the tax, while H.B. 153 of the 129th General Assembly expanded the base to include pharmacy benefit managers under Medicaid managed care. These base expansions have driven growth in revenue from the tax since FY 2010. The lack of revenue growth in FY 2012 is due to a late payment that was received in September 2012 (thereby providing a one-time boost to growth in FY 2013).

Revenues from this tax in future will be primarily driven by Medicaid managed care. The forecast for revenue paid by HICs is based on the LSC Medicaid forecast for expenditures for managed care, and on Ohio Department of Job and Family Services estimates of growth anticipated from responses to federal health care policy and from covering dual eligibles under managed care. Revenue attributable to other premium sources has declined in recent years, and that decline is expected to continue.

Dealers in Intangibles Tax

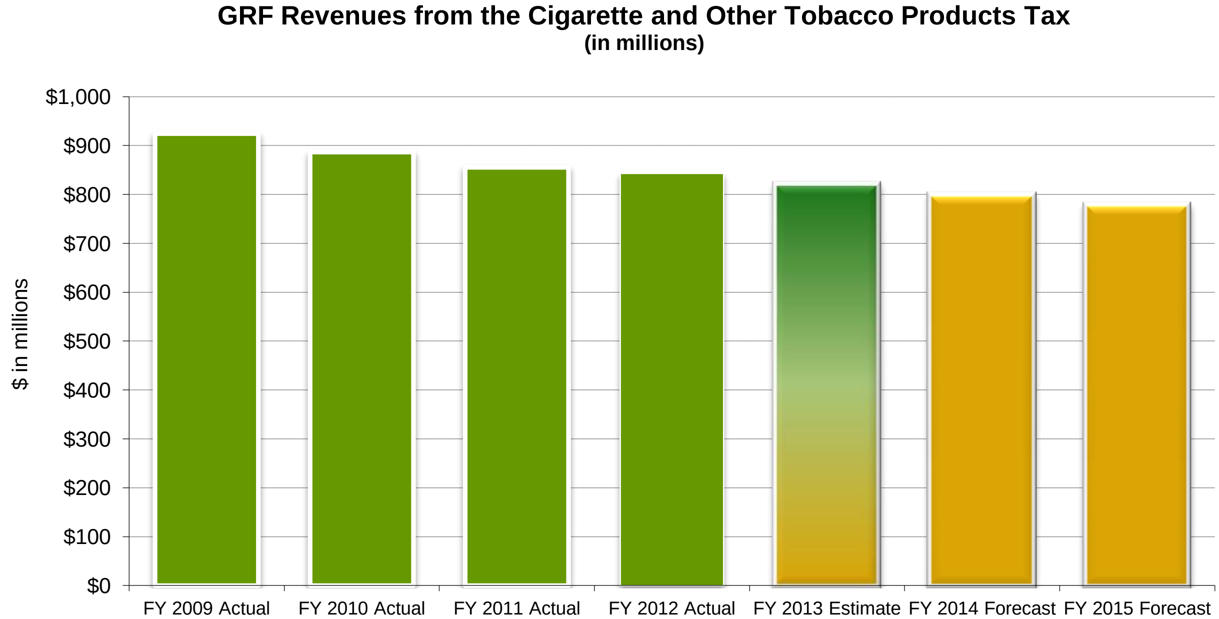


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$25.1	$27.3	$26.0	$19.9	$25.0	$0	$0
Growth	12.6%	8.8%	-4.5%	-23.6%	25.8%	-100%	NA

The business and property tax, which is also known as the dealers in intangibles tax (DIT), is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money; buying and selling notes, mortgages, and other evidences of indebtedness; and firms buying and selling securities. The tax rate is 8 mills (0.8%) on the value of shares or capital employed by the dealers. All taxes paid by "qualifying" dealers are credited to the GRF. A "qualifying" dealer is a dealer that is a member of a controlled group of which a financial institution or insurance company is also a member. Receipts from "qualified" dealers in FY 2012 were less than $5,000, down from $19.0 million in FY 2011. This phenomenon was mostly due to higher refunds in FY 2012 ($13.1 million) than in the previous year ($1.2 million). For "nonqualifying" dealers, 8 mills (0.8%) are deposited in the GRF. Prior to FY 2012, 3 mills (0.3%) of "nonqualifying" dealer receipts were deposited in the GRF, and the remaining 5 mills (0.5%) were distributed to the counties.

Tax policy changes and behavioral responses by taxpayers have been the main cause of significant revenue fluctuations for this tax over the years. The forecast for FY 2014 and FY 2015 is based on the tax changes enacted by H.B. 510 of the 129th General Assembly. The bill enacted law that generally subjects dealers in intangibles to the CAT unless they are affiliated with other financial institutions or are classified as "small dollar lenders." If the dealer is affiliated with a financial institution, the dealer affiliate is subject to the new financial institutions tax as part of its parent financial institution's reporting group. The new tax would first apply to TY 2014; it terminates the dealers in intangibles tax at the end of 2013. LSC assumes no revenue from this tax in the next biennium.

Cigarette and Other Tobacco Products Tax

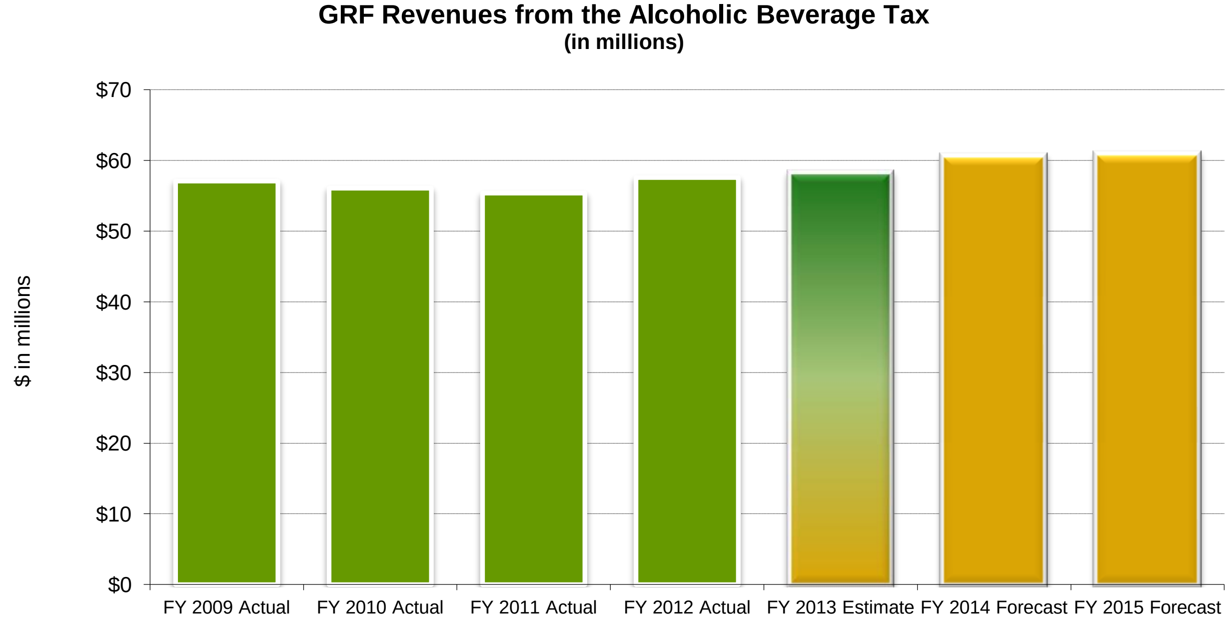


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$924.8	$886.9	$855.6	$843.2	$820.8	$799.2	$778.3
Growth	-2.8%	-4.1%	-3.5%	-1.5%	-2.7%	-2.6%	-2.6%

The cigarette and other tobacco products tax is levied on cigarettes, cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. Receipts from the sales of cigarettes are about 94% of total receipts. Cigarettes are taxed at a rate of $1.25 per pack of 20 cigarettes. Other tobacco products (OTP) are taxed at 17% of their wholesale value. Revenue collected from the tax is deposited into the GRF. The federal cigarette tax increased $0.62 per pack on April 1, 2009 to $1.01, up from $0.39 per pack. The federal tax increase reduced Ohio cigarette tax receipts by large amounts in FY 2010 and FY 2011. The negative effects of the federal tax increase on receipts were partially offset by cigarette tax increases in two neighboring states in 2009 – Kentucky and Pennsylvania – and the rise in the wholesale value of OTP from various federal tax rate increases, of which the most recent was enacted in April 2009.

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

Alcoholic Beverage Tax

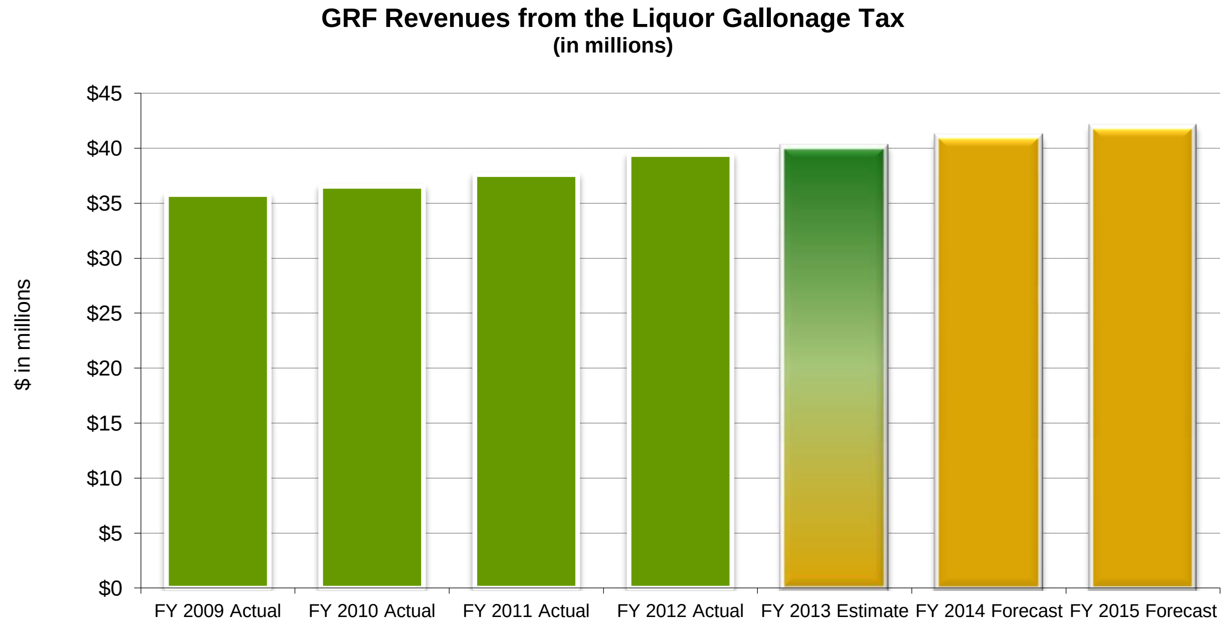


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$57.1	$56.1	$55.4	$57.6	$58.3	$60.7	$61.0
Growth	0.4%	-1.8%	-1.2%	4.0%	1.2%	4.1%	0.5%

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

The forecast for the alcoholic beverage tax revenue is based on a trend analysis of the contribution of each alcoholic beverage to the tax base in the last few years. Revenues from the tax are expected to increase about 5% in the next biennium compared to the current biennium. Trends in alcohol consumption and increased alcoholic beverage competition affect revenues from this tax. The market share for spirits and liquor has been growing at the expense of beer sales, while sales of wine have increased slightly.

Liquor Gallonage Tax

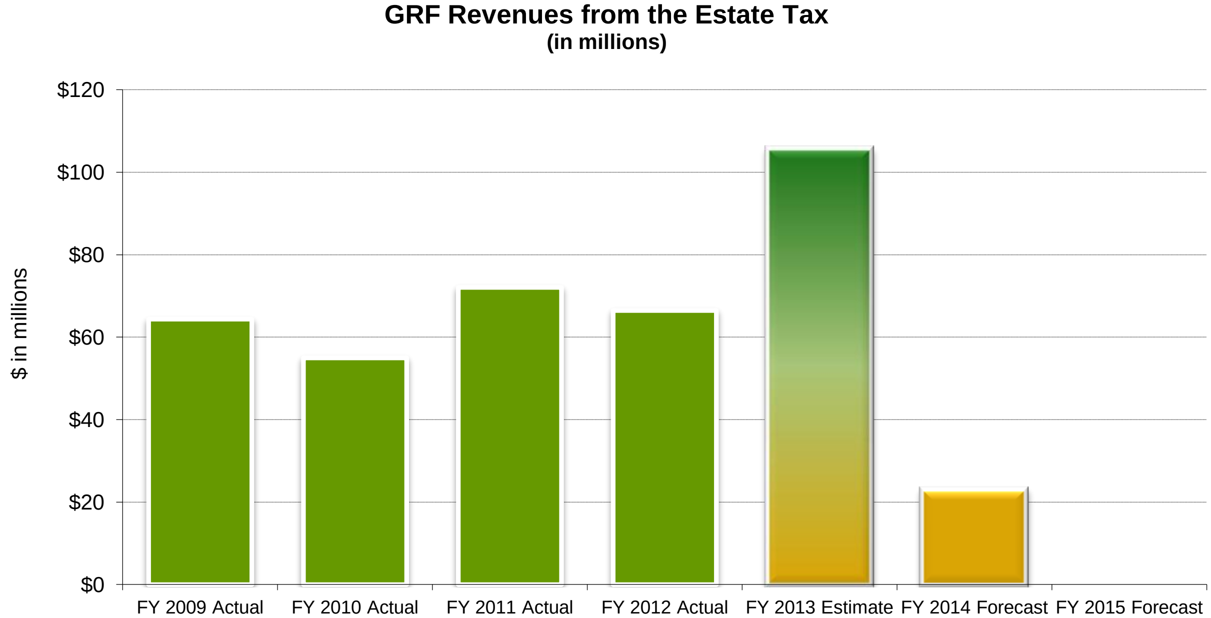


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$35.9	$36.5	$37.6	$39.4	$40.1	$41.0	$41.9
Growth	2.6%	1.7%	2.9%	4.8%	1.7%	2.2%	2.2%

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

The forecast of liquor gallonage tax receipts is based on trend analysis of wholesale and retail gallonage sales of liquor in Ohio. The market share for spirits has been growing, mostly at the expense of beer sales, while sales of wine have been increasing slowly. Liquor gallonage tax receipts are estimated to grow modestly in FY 2014 and FY 2015.

Estate Tax

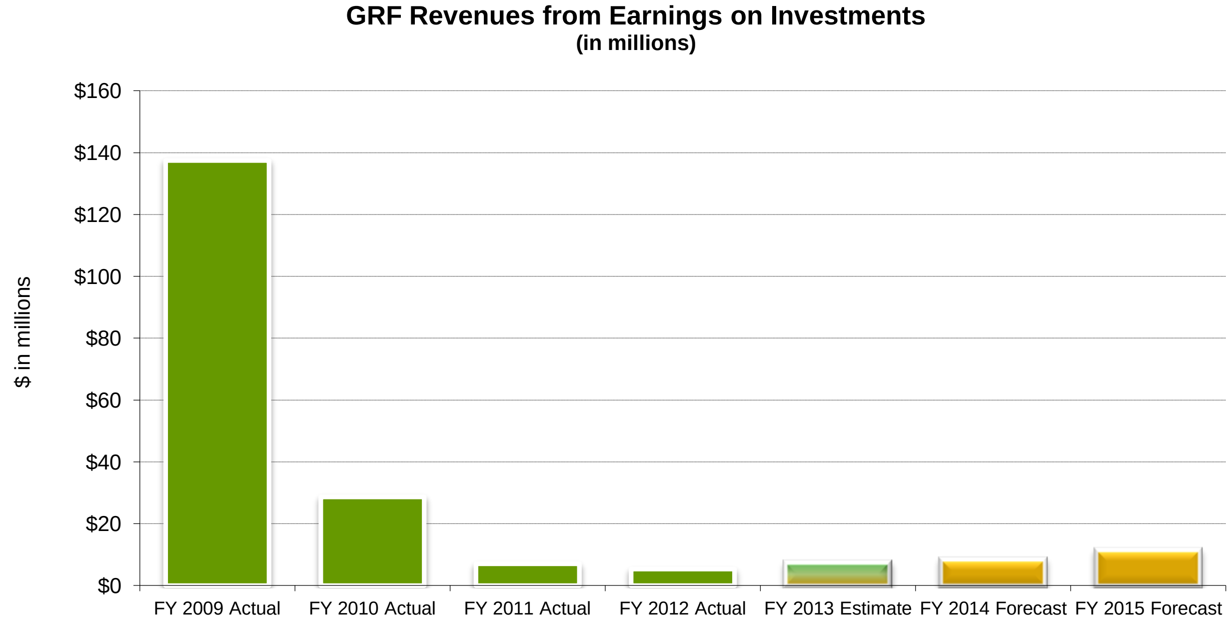


	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$64.4	$55.0	$72.1	$66.5	$105.6	$23.0	$0
Growth	5.0%	-14.6%	31.0%	-7.7%	58.7%	-78.2%	-100.0%

The estate tax is levied on the gross value of a decedent's estate less allowable deductions. The tax is progressive, with marginal rates ranging from 2% of the taxable estate to 7% of the value of the taxable estate in excess of $500,000. A nonrefundable credit of up to $13,900 is allowed against the tax, which effectively exempts estates with net taxable value less than $383,333 from the tax. Tax payments are due within nine months of the decedent's death, unless an extension is granted. Revenues are divided between the state GRF and the township or municipality in which the tax originates. The distribution of tax revenues is 20% to the GRF and 80% to the township or municipality. H.B. 153 of the 129th General Assembly repealed the state estate tax for the estates of individuals dying on or after January 1, 2013.

The forecast for estate tax revenues is based on regression results that include estimates of the total number of Ohioans that die each year, the Standard and Poor's 500 Index, and per capita personal income. Estate tax revenues in FY 2014 are expected to decrease significantly below the FY 2013 amount due to the repeal. Beginning in FY 2015, no revenue is expected from the estate tax. The estate tax is a volatile revenue source. Estate tax receipts vary from year to year because they depend on the net taxable value of a decedent's estate at the time of death, which closely tracks financial market conditions, and the time of settlement made to each county probate court.

Earnings on Investments



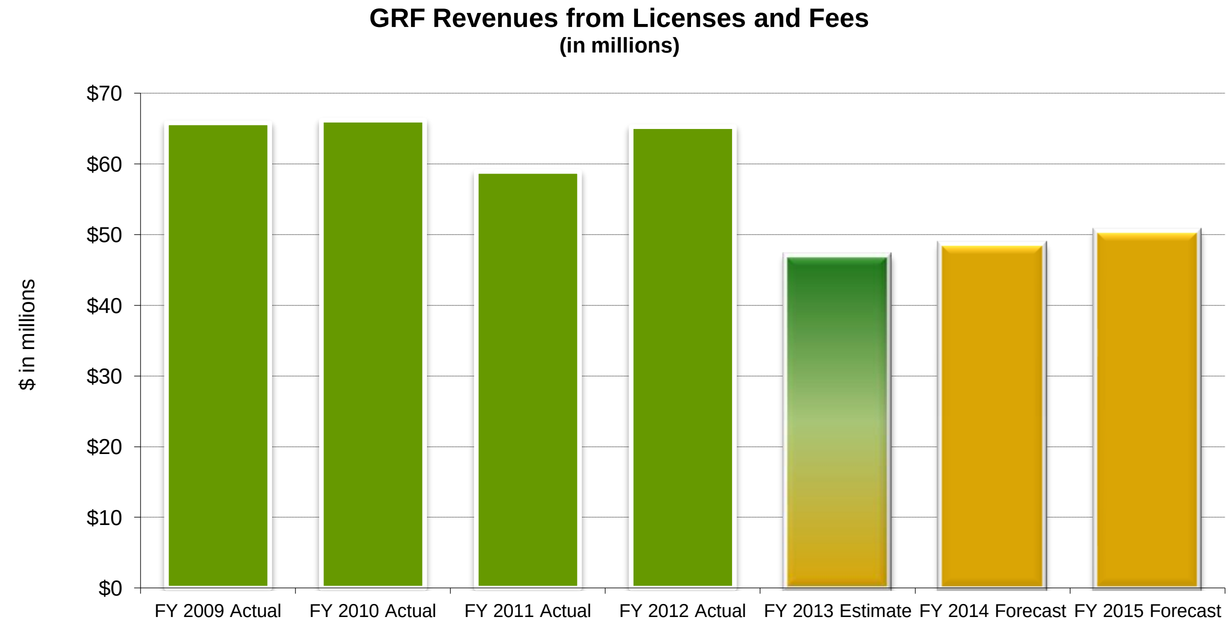
	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$137.5	$28.7	$7.1	$5.4	$7.5	$8.4	$11.3
Growth	-18.9%	-79.1%	-75.3%	-23.9%	38.4%	12.0%	34.5%

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

In FY 2013, earnings on investments are estimated to increase to $7.5 million from $5.4 million in FY 2012 because of slightly higher estimated fund balances than in the previous two fiscal years. A portion of earnings on investments in FY 2009 and FY 2010 was due to transfers of interest earned by all state funds to the GRF (except for interest earned by funds that are restricted or protected by the Ohio Constitution, federal tax law, or the federal Cash Management Improvement Act) under temporary law provisions in H.B. 1 of the 128th General Assembly (section 512.10) and H.B. 119 of the 127th General Assembly (section 512.06).

In FY 2014 and FY 2015 interest rates are expected to rise slightly and estimated fund balances are expected to increase moderately in FY 2013 and FY 2014. Baseline earnings on investments for FY 2014 and FY 2015 are estimated at $8.4 million and $11.3 million, respectively. The calculations were based on interest rate estimates and the estimated state funds balance that will be available for investment.

Licenses and Fees



	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Forecast	FY 2015 Forecast
Revenue	$65.8	$66.2	$59.0	$65.3	$47.0	$48.6	$50.5
Growth	-2.7%	0.6%	-11.0%	10.8%	-28.0%	3.4%	3.9%

The GRF receives revenue from a number of licenses and fees that are either completely or partially deposited into the GRF. The two largest contributors of license and fee revenue have historically been the license fees deposited by the Department of Insurance[6] and liquor permit fees deposited by the Department of Commerce. Motor vehicle license fees, license revenue deposited by the Environmental Protection Agency, and various business licenses also contribute revenues to the GRF.

LSC estimates licenses and fees will produce $47.0 million in GRF revenues for FY 2013, $48.6 million in FY 2014, and $50.5 million in FY 2015. The revenue projections for FY 2014 and FY 2015 are based on expected growth in Ohio's gross state product, which is a measure of a state's total output, and do not reflect any fee changes that may occur over the next biennium. FY 2013 estimates reflect the yield of the licenses and fees through December 2012.

[6] H.B. 300 of the 128th General Assembly required resident and nonresident insurance agents to renew their licenses biennially.

MEDICAID EXPENDITURE FORECAST

Overview

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

The Medicaid/SCHIP Program in Ohio provides health care coverage to children up to age 19 with family income up to 200% of the federal poverty guideline (FPG), pregnant women with incomes up to 200% FPG, parents with incomes up to 90% FPG, and the elderly and persons with disabilities of all ages with incomes up to 64% FPG.[7] Medicaid coverage is also available to working Ohioans with disabilities through the Medicaid Buy-In for Workers with Disabilities Program. Under this program, individuals with income greater than 150% FPG pay a monthly premium. Starting January, 2012, men and women of childbearing age who are under 200% FPG can receive family planning and related services under Medicaid.

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

The Patient Protection and Affordable Care Act

Medicaid has expanded since its establishment, most recently with the enactment of the Patient Protection and Affordable Care Act of 2010 (the ACA). The ACA increases access to health insurance beginning in 2014 through a coordinated system of "insurance affordability programs," including the expansion of Medicaid to all individuals under age 65 whose family income is at or below 138% FPG, and the creation of health insurance exchanges.[8]

On June 28, 2012, the Supreme Court of the United States upheld the ACA's constitutionality, with one exception: the Court prohibited the federal government from denying all Medicaid funding to a state that does not implement the law's expansion of Medicaid eligibility to all individuals with incomes up to 138% FPG.

The Supreme Court's decision has the effect of allowing states to choose whether or not to expand eligibility for coverage under their Medicaid Program pursuant to the ACA.

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

[8] Under the ACA, Medicaid eligibility is to be expanded to 133% FPG, plus 5% income disregard. Thus, it is effectively 138% FPG.

In addition to the expansion, the ACA makes several other changes that influence Medicaid operations and the program's cost to states. Specifically, the ACA:

- Modifies how income is calculated for most Medicaid applicants, including those in the new eligibility group. Beginning in 2014, states must use modified adjusted gross income (MAGI) to determine eligibility of most applicants. MAGI is adjusted gross income as defined in the Internal Revenue Code, modified by applying a 5% "disregard." This method eliminates resource tests.
- Requires that states maintain eligibility standards that were in place as of March 23, 2010.
- Provides all newly eligible adults with a benchmark benefit package that meets the minimum essential health benefits that will be available in the new health insurance exchanges.
- Requires states to improve outreach and enrollment for Medicaid and to coordinate Medicaid eligibility with the new health benefit exchange, which must be operational by 2014.
- Reduces Medicaid disproportionate share hospital (DSH) allotments.
- Increases primary care provider payments for 2013 and 2014.

Medicaid Forecast Summary

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

LSC's baseline forecast shows the expected cost of this entitlement program given current policies. It does not take into account the optional expansion under the ACA or other ACA changes such as use of MAGI. However, the "woodwork" effect of the ACA and the ACA physician rate increases are added to LSC's baseline forecast and are discussed in more detail in the **Add-ons to the Baseline** section.

The majority of the Medicaid spending is in the Office of Medical Assistance (OMA). Table 1 summarizes the Medicaid service expenditures under OMA.[9]

[9] H.B. 487 of 129th General Assembly created the OMA as a work unit within the Ohio Department of Job and Family Services (ODJFS) and transferred the legal authority for the Medicaid Program from the ODJFS director to the OMA director.

Table 1. Summary of Medicaid Service Expenditures Under OMA (combined state and federal dollars, dollars in millions)							
	FY 2013 Estimate	FY 2014 Projection	FY 2013-FY 2014		FY 2015 Projection	FY 2014-FY 2015	
			Dollar Growth	Percent Growth		Dollar Growth	Percent Growth
LSC Baseline	$14,287	$15,171	$884	6.2%	$15,734	$563	3.7%
OMA Add-ons	$2,048	$3,669	$1,621	79.2%	$3,978	$308	8.4%
Total	**$16,334**	**$18,840**	**$2,506**	**15.3%**	**$19,712**	**$872**	**4.6%**

In FY 2013, Medicaid is expected to provide health care coverage to 2.37 million Ohioans. LSC forecasts that the total number of persons expected to enroll in Medicaid will decrease by 10,440 persons (0.44%) in FY 2014, but increase by 18,684 persons (0.79%) in FY 2015. In FY 2013, Medicaid service expenditures, in combined state and federal dollars, are estimated to be $16.33 billion. LSC forecasts that Medicaid expenditures will increase by $2.5 billion, or 15.3%, in FY 2014 and by $872 million, or 4.6%, in FY 2015.

Caseload Forecast

As shown in Table 2 below, the total number of persons expected to enroll in Medicaid grew from 2.16 million in FY 2011 to 2.22 million in FY 2012, a 2.55% increase. The total number of persons expected to enroll is estimated to reach 2.37 million in FY 2013, a 6.63% increase over FY 2012. LSC forecasts that the number of persons expected to enroll in Medicaid will decrease to 2.36 million in FY 2014, a 0.44% decrease, but increase to 2.37 million in FY 2015, a 0.79% increase.[10]

Table 2. Total Medicaid Caseloads		
Fiscal Year	Monthly Average	Growth Rate
2006	1,764,620	--
2007	1,768,356	0.21%
2008	1,784,476	0.91%
2009	1,883,368	5.54%
2010	2,047,397	8.71%
2011	2,163,317	5.66%
2012	2,218,507	2.55%
2013	2,365,545	6.63%
2014	2,355,105	-0.44%
2015	2,373,789	0.79%

Medicaid caseload is driven by a number of factors. The business cycle is an important determinant particularly for nondisabled adults and children. As unemployment increases, workers and their dependants may lose access to employer

[10] LSC's baseline caseload forecast excludes the ACA woodwork effect estimated by Mercer, the state contracted actuary.

coverage. This can happen because of unemployment, reduced employer contributions to health insurance, reduced eligibility for employer-sponsored insurance, and movement from full-time to part-time work. Individuals may become eligible and enroll in public coverage, purchase nongroup coverage, or become uninsured. Economic growth in Ohio is expected to continue through 2015 but at a subdued pace. The unemployment rate in Ohio is projected to fall slowly through the end of 2015. The state's unemployment rate remains below that of the nation. The predictions for the unemployment rate used in the forecast are from Global Insight's baseline forecasts released in January 2013.

Changes in state and federal eligibility standards, health care costs, employer offers of health insurance coverage, and income can also affect the Medicaid caseload. The ACA adds a new Medicaid eligibility option for states to improve access to family-planning care without applying for waivers from the federal government. States can amend their Medicaid plans to create a new eligibility group of low-income individuals through a state plan amendment. On January 8, 2012, Ohio Medicaid implemented a new eligibility category that allows men and women of childbearing age who are under 200% FPG to receive family planning services.

Caseload by Eligibility Group

Individuals eligible for Medicaid are grouped into three major groups. Generally, children up to age 19 whose families' incomes are below 200% FPG, pregnant women with incomes up to 200% FPG, and parents with incomes up to 90% FPG are grouped as Covered Families and Children (CFC). The aged, blind, and disabled (ABD) category includes the low-income elderly who are age 65 or older and individuals with disabilities. The third includes individuals who receive premium assistance from Ohio Medicaid.

LSC forecasts that the overall CFC caseload will decrease by 32,969, or 1.92%, in FY 2014, and by 6,058, or 0.36%, in FY 2015 (see Table 3 below). The decrease is due mostly to the projected decrease in unemployment in Ohio.

Table 3. Caseloads – Covered Families and Children (monthly average and growth rate)

Fiscal Year	HFAM		CHIP		ADFC		Total CFC	
2006	1,143,119	--	140,140	--	29,441	--	1,312,700	--
2007	1,135,919	-0.63%	144,633	3.21%	29,611	0.58%	1,310,164	-0.19%
2008	1,141,901	0.53%	144,781	0.10%	30,038	1.44%	1,316,721	0.50%
2009	1,218,459	6.70%	152,209	5.13%	35,496	18.17%	1,406,163	6.79%
2010	1,352,346	10.99%	159,047	4.49%	38,971	9.79%	1,550,363	10.25%
2011	1,438,259	6.35%	161,212	1.36%	37,646	-3.40%	1,637,116	5.60%
2012	1,471,354	2.30%	162,200	0.61%	31,936	-15.17%	1,665,490	1.73%
2013	1,523,125	3.52%	165,903	2.28%	28,742	-10.00%	1,717,770	3.14%
2014	1,492,562	-2.01%	163,471	-1.47%	28,768	0.09%	1,684,802	-1.92%
2015	1,487,121	-0.36%	162,854	-0.38%	28,768	0.00%	1,678,743	-0.36%

HFAM: Healthy Families and Children
CHIP: Children Health Insurance Program
ADFC: Adopted and Foster Care Children

ABD growth is expected to increase 5.11% in FY 2014, and reach 459,461 in FY 2015 largely due to the aged population (see Table 4 below).

Table 4. Caseloads – Aged, Blind, and Disabled (monthly average and growth rate)						
Fiscal Year	ABD (non-dual)		Dual		Total ABD	
2006	197,626	--	180,424	--	378,050	--
2007	202,001	2.21%	170,420	-5.54%	372,421	-1.49%
2008	203,281	0.63%	174,831	2.59%	378,112	1.53%
2009	203,116	-0.08%	181,142	3.61%	384,258	1.63%
2010	209,846	3.31%	188,749	4.20%	398,595	3.73%
2011	219,299	4.50%	196,339	4.02%	415,637	4.28%
2012	218,182	-0.51%	203,848	3.82%	422,030	1.54%
2013	210,125	-3.69%	210,447	3.24%	420,572	-0.35%
2014	222,877	6.07%	219,207	4.16%	442,084	5.11%
2015	231,193	3.73%	228,267	4.13%	459,461	3.93%

Ohio Medicaid participates in Part A and Part B premium assistance through its Qualified Medicare Beneficiary (QMB) and Specified Low-Income Medicare Beneficiary (SLMB) programs. Table 5 below shows the caseload of these populations and other eligibility group that are not in CFC or ABD.

Table 5. Caseloads – Premium Assistance and Other (monthly average and growth rate)						
Fiscal Year	Premium (QMB, SLMB)		Family Planning		Other	
2006	58,538	--	--	--	15,332	--
2007	74,169	26.70%	--	--	11,602	-24.33%
2008	79,863	7.68%	--	--	9,780	-15.70%
2009	83,966	5.14%	--	--	8,980	-8.18%
2010	89,265	6.31%	--	--	9,174	2.15%
2011	98,958	10.86%	--	--	11,605	26.50%
2012	106,704	7.83%	19,903	--	4,380	-62.25%
2013	113,316	6.20%	109,325	449.29%	4,561	4.12%
2014	118,416	4.50%	105,412	-3.58%	4,391	-3.72%
2015	125,712	6.16%	105,412	0.00%	4,461	1.59%

Caseload by Service Delivery System

In FY 2012, Medicaid provided health care coverage to 146,582 CFC and 90,389 ABD per month through fee-for-service (FFS) and 1.5 million CFC and 127,793 ABD per month through managed care plans (MCPs). LSC's baseline forecast assumes current penetration rates for fiscal years 2013 through 2015. Tables 6 and 7 below summarize Medicaid caseloads under FFS and managed care.

Table 6. Caseloads – FFS and MCP (monthly average and growth rate)

Fiscal Year	CFC – FFS		CFC – MCP		ABD – FFS		ABD – MCP	
2006	1,138,652	--	174,047	--	195,819	--	1,807	--
2007	363,988	-68.03%	946,176	443.63%	175,887	-10.18%	26,114	1345.30%
2008	191,138	-47.49%	1,125,583	18.96%	97,362	-44.65%	105,919	305.60%
2009	189,705	-0.75%	1,216,459	8.07%	112,123	15.16%	90,993	-14.09%
2010	172,109	-9.28%	1,378,255	13.30%	94,778	-15.47%	115,067	26.46%
2011	152,861	-11.18%	1,484,255	7.69%	95,493	0.75%	123,806	7.59%
2012	146,582	-4.11%	1,518,908	2.33%	90,389	-5.34%	127,793	3.22%
2013	147,473	0.61%	1,570,297	3.38%	82,793	-8.40%	127,332	-0.36%
2014	141,992	-3.72%	1,542,809	-1.75%	91,650	10.70%	131,227	3.06%
2015	141,578	-0.29%	1,537,165	-0.37%	95,070	3.73%	136,124	3.73%

Table 7. Total Caseloads – FFS and MCP (monthly average and growth rate)

Fiscal Year	Total FFS		Total MCP	
2006	1,334,472	--	175,854	--
2007	539,874	-59.54%	972,290	452.9%
2008	288,500	-46.56%	1,231,502	26.66%
2009	301,827	4.62%	1,307,452	6.17%
2010	266,887	-11.58%	1,493,322	14.22%
2011	248,354	-6.94%	1,608,061	7.68%
2012	236,971	-4.58%	1,646,701	2.40%
2013	230,267	-2.83%	1,697,629	3.09%
2014	233,642	1.47%	1,674,036	-1.39%
2015	236,648	1.29%	1,673,289	-0.04%

Expenditure Forecast

Driven primarily by the caseload growth in ABD and monthly per member costs, the Medicaid expenditure is projected to grow over the biennium. The LSC baseline forecast assumes no new changes in Medicaid policy for the upcoming biennium. The forecast does include utilization and cost increases.

Medicaid service expenditures in the OMA can generally be placed into one of the following major categories: Managed Care Plans, Nursing Facilities (NFs), Inpatient and Outpatient Hospital Services, Prescription Drugs, Physician Services, Medicare Buy-In, Ohio Home Care Waiver, and All Other Care. LSC forecasts expenditures for each of these categories. Table 8 below summarizes Medicaid expenditures by service category.

Table 8. Baseline Medicaid Expenditures by Service Category
(combined state and federal dollars, dollars in millions)

	FY 2013 Estimate	FY 2014 Projection	FY 2013-FY 2014		FY 2015 Projection	FY 2014-FY 2015	
			Dollar Growth	Percent Growth		Dollar Growth	Percent Growth
Managed Care Plan							
MCP – ABD	$2,171	$2,431	$260	12.0%	$2,645	$214	8.8%
MCP – CFC	$4,885	$5,135	$250	5.1%	$5,338	$204	4.0%
Nursing Facilities	$2,490	$2,492	$2	0.1%	$2,492	$0	0.0%
Hospitals							
Inpatient	$923	$1,020	$97	10.5%	$1,052	$31	3.1%
Outpatient	$357	$393	$36	10.2%	$398	$5	1.3%
Prescription Drugs	$467	$517	$50	10.8%	$524	$7	1.3%
Medicare Buy-In	$415	$454	$39	9.5%	$495	$41	8.9%
Physicians	$302	$323	$21	6.9%	$328	$5	1.5%
Ohio Home Care Waiver	$247	$260	$12	5.1%	$261	$1	0.4%
All Other	$2,030	$2,146	$116	5.7%	$2,201	$55	2.6%
Total	**$14,287**	**$15,171**	**$884**	**6.2%**	**$15,734**	**$563**	**3.7%**

Methodology

LSC staff generate baseline forecasts for major expenditure categories by first calculating the per member per month costs for each category. For each typical expenditure category and subcategory, separate forecasts are done for the average cost per recipient. The methodology is based on the "classic expenditure model" suggested by the U.S. Department of Health and Human Services (HHS). This classic expenditure model can be characterized as:

Expenditures = Caseload x Average Utilization x Price

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

A key distinction made in forecasting Medicaid expenditures is between FFS and managed care. Medicaid does not directly provide medical services to eligible individuals enrolled in the program. Instead, it provides financial reimbursement to health care professionals and institutions for providing approved medical services, products, and equipment to Medicaid enrollees. Until recent years, Medicaid has paid most service providers a set fee for the specific type of service rendered to Medicaid enrollees (termed "fee-for-service" reimbursement). Payments are based on the lowest of the state's fee schedule, the actual charge, or federal Medicare allowances.

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

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

Medicaid Expenditures for Selected Service Categories

Due to a coding problem in the Medicaid Information Technology System, there were about 37,000 children in ABD that were coded in CFC starting May 2012. Those children were enrolled in CFC managed care for a few months. Because of this coding problem, the expenditure for CFC managed care was higher than usual while the expenditures for FFS are lower than usual in FY 2013. The forecasted expenditures for selected service categories are discussed below.

Managed Care Plans

The statewide expansion of Medicaid managed care that began in July 2005 has dramatically shifted expenditures from the FFS categories to the managed care categories. In FY 2012, expenditures for the managed care categories were $6.4 billion and represented 44% of the total Medicaid service expenditures in OMA.

LSC's forecasted expenditures for ABD managed care are $2.43 billion in FY 2014 and $2.65 billion in FY 2015. Forecasted expenditures for CFC managed care are $5.13 billion and $5.34 billion, respectively. LSC's forecast assumes annual capitation rate growth of 3.6% for ABD and 3.1% for CFC in 2014, and 4.8% for ABD and 4.2% for CFC in 2015. These growth rates were calculated by Mercer, the state's contracted actuarial firm. LSC's forecast also includes increases of 1.1% in 2014 and 1.5% in 2015 for the health insurer fee under the ACA.[11]

[11] The ACA levies an annual fee on health insurers starting in 2014, which increases over time. The fee applies to all health insurance risk revenue, including Medicaid and SCHIP. The cost of the annual insurer fee will be passed along to states and the federal government, raising costs in the program.

Generally, the MCP capitation rates are set at the beginning of each calendar year. However, as a result of a lawsuit challenging the selection of plans for the new Medicaid managed care program, OMA contracted with Mercer to develop actuarially sound capitation rates for the January through June 2013 period. For the first half of 2013, the statewide capitation rate is $263.44 for CFC and $1,457.57 for ABD.

Recent policy changes that have affected managed care payments are the managed care prescription drug carve-out and then carve-back-in. On February 1, 2010, prescription drug coverage for members of Medicaid MCPs was transferred from plans to the Medicaid FFS program. However, starting October 1, 2011, due to a provision in the ACA, the Medicaid MCPs resumed responsibility for pharmacy coverage and payment for their members. Prior to the ACA, state Medicaid programs were not able to receive federally allowed prescription drug rebates for their enrollees' drug benefit plans in MCPs. The ACA allows states to get those rebates even if the enrollees receive drug benefits through MCPs.

Another recent policy change affecting managed care is the change in the managed care assessment.[12] Due to changes in the Deficit Reduction Act of 2005, Ohio was no longer allowed to collect the Medicaid managed care assessment effective October 1, 2009. To replace the loss of the assessment revenue and the corresponding federal reimbursement, H.B. 1 of the 128th General Assembly (the FY 2010-FY 2011 biennial budget act), subjected MCPs to the state and local sales and use tax and to the existing health insuring corporation tax.

Nursing Facilities

In FY 2012, expenditures for the Nursing Facilities (NFs) category were $2.5 billion and represented approximately 17% of the total Medicaid service expenditures in OMA. LSC forecasted expenditures for NFs are $2.49 billion each year in FY 2014 and FY 2015. LSC's baseline forecast assumes no rate increase in the NF per diem for the upcoming biennium. The average per diem for FY 2011 was $177, and for FY 2012 was $168. The per diem decrease from FY 2011 to FY 2012 was largely due to the payment methodology changes in H.B. 153 of the 129th General Assembly (the FY 2012-FY 2013 biennial budget act). H.B. 153, in place of the cost-based payment methodology, uses a price-based system for reimbursing nursing facilities. H.B. 153 also links more of the Medicaid payment to quality measures and increases the amount of funding for services provided directly to residents.

[12] The cost of the Medicaid managed care assessment was reimbursed to Medicaid MCPs through the capitation rate payments.

Inpatient and Outpatient Hospital Services

In FY 2012, expenditures for the Inpatient and Outpatient Hospital Services categories were $1.4 billion and represented approximately 10% of total Medicaid service expenditures in OMA. LSC forecasted expenditures for Inpatient and Outpatient Hospital Services are $1.41 billion in FY 2014 and $1.45 billion in FY 2015. The Ohio Administrative Code requires an annual inflationary update to inpatient rates; however, outpatient rates are based on a fee schedule that is not automatically inflated. There were no inflation adjustments for inpatient hospital services in 2006 and 2007.

H.B. 1 of the 128th General Assembly increased, for the period beginning October 1, 2009, and ending June 30, 2011, the Medicaid reimbursement rates for Medicaid-covered hospital inpatient and outpatient services that were paid under a prospective payment system. Beginning October 1, 2009, hospital payment rates were increased by 5% based on the rates in effect on September 30, 2009. H.B. 153 of the 129th General Assembly continued the increases. LSC's baseline forecast assumes the continuation of the prior 5% in the rate increase for the upcoming biennium.

Prescription Drugs

In FY 2012, expenditures for Prescription Drugs were $893 million and represented approximately 6% of total Medicaid service expenditures in OMA. LSC forecasted expenditures for Prescription Drugs are $517 million in FY 2014 and $524 million in FY 2015.

Ohio Home Care Waiver

Ohio Home Care Waiver is Medicaid's integrated program of home care services, consisting of benefit packages such as nursing services, daily living, and skilled therapies. LSC forecasted expenditures for the Ohio Home Care Waiver are $260 million in FY 2014 and $261 million in FY 2015. LSC's baseline forecast assumes 600 new recipients each year for the upcoming biennium.

Physician Services

LSC forecasted expenditures for the Physicians Services category are $323 million in FY 2014 and $328 million in FY 2015. These numbers exclude the ACA primary rate increase as described in the **ACA Physician Rate Increase** section below.

All Other Care

LSC's forecasted expenditures for the All Other Care service category are $2.1 billion in FY 2014 and $2.2 billion in FY 2015. The services in this category include services such as mental health, home health, private duty nurse, durable equipment, hospice, dental, and Federally Qualified Health Centers.

Add-ons to the Baseline

In addition to the expenditures projected above, there are other expenditures in the OMA's proposed budget for Medicaid services that are outside of LSC's baseline forecast. Some of the estimated expenditures provided by OMA are done by Milliman, the state's previous contracted actuarial firm, or Mercer, the state's current contracted actuarial firm. Table 9 lists the add-ons and the estimated expenditures. Details are provided in the sections below.

Table 9. Add-ons to LSC Baseline Forecast (combined state and federal dollars, dollars in millions)

	FY 2013 Estimate	FY 2014 Projection	FY 2013-FY 2014		FY 2015 Projection	FY 2014-FY 2015	
			Dollar Growth	Percent Growth		Dollar Growth	Percent Growth
ACA Woodwork Effect	--	$531	--	--	$996	$464	87.4%
ACA Physician Rate Increase	$77	$321	$244	315.7%	$262	-$59	-18.4%
Health Homes	$25	$215	$191	768.1%	$303	$88	40.9%
Pediatric Accountable Care	--	$87	--	--	$41	-$46	-53.0%
ICDS	--	$493	--	--	$299	-$194	-39.4%
Department of Aging's Waivers	$616	$633	$17	2.8%	$682	$49	7.7%
Hospital UPL Program	$485	$503	$17	3.5%	$503	$0	0.0%
HCAP	$555	$577	$22	4.0%	$568	-$10	-1.7%
Medicare Part D	$289	$309	$19	6.7%	$325	$16	5.2%
Total Add-ons	**$2,048**	**$3,669**	**$510**	**79.2%**	**$3,978**	**$308**	**8.4%**

ACA Woodwork Effect

Whether or not a state implements the Medicaid expansion, states will see increased enrollment among currently eligible people, most of whom were previously uninsured. States will be required to pay their standard share of Medicaid costs to cover this population. This is sometimes called the "woodwork" effect.

The woodwork effect could be a result of the new requirement under the ACA that most individuals must have health care coverage. Many people who are currently eligible for Medicaid but not enrolled in Medicaid may think they are subject to the mandate and thus come forward applying for Medicaid. However, according to a report of the Congressional Budget Office (CBO), first, many of the people who will not become eligible for Medicaid if their state does not choose to implement the expansion will have income that falls below the mandatory tax-filing threshold (projected by CBO and the Joint Committee on Taxation to be about $10,000 for a single filer and about $19,000 for a married couple in 2016) and will therefore be exempt from penalties associated with the mandate.[13] Second, the ACA exempts individuals who would have to pay more than 8%

[13] Congressional Budget Office, "Estimates for the Insurance Coverage Provisions of the Affordable Care Act Updated for the Recent Supreme Court Decision," July 2012.

of their income for health insurance. Third, people who will not be exempt under those criteria will probably receive a hardship exemption as provided in the ACA.

The woodwork effect could also be a result of other provisions of the ACA including the outreach through the no-wrong-door interface for Exchange and Medicaid/SCHIP coverage, eligibility simplification, new subsidies in the Exchange, and other aspects of the ACA.

Mercer estimates that the woodwork effect will have a cost of $531.3 million in FY 2014 and $995.6 million in FY 2015.

ACA Physician Rate Increase

The ACA requires states to raise their Medicaid physician fees to at least Medicare levels, for family physicians, internists, and pediatricians for many primary care services. Physicians in both FFS and managed care environments get the enhanced rates. The primary care fee increase, which applies in 2013 and 2014, is fully federally funded up to the difference between a state's Medicaid fees in effect on July 1, 2009 and Medicare fees in 2013 and 2014.

Physicians who are approved by the OMA can expect to see increased payments beginning in April 2013 when OMA anticipates CMS will approve Ohio's State Plan Amendment to implement the primary care rate increase. Qualified physicians approved by OMA who contract with an MCP will receive the enhanced payment directly from the MCP. These payments may be made retrospectively.

Mercer estimates that this rate increase will have additional costs of $77.2 million in FY 2013, $320.9 million in FY 2014, and $261.9 million in FY 2015. Mercer assumes one quarter of payments in FY 2013, four quarters of payments in FY 2014, and three quarters of payments in FY 2015.

Health Homes

H.B. 153 authorized Ohio Medicaid to implement a system under which Medicaid recipients with chronic conditions are provided with coordinated care through health homes. Beginning in October 2012, Ohio Medicaid received federal approval for enhanced federal match to pay for care coordination in serious and persistent mental illness (SPMI)-focused health homes. Under the new system, care managers in Patient-Centered Medical Homes provide intensive care coordination and develop an individualized care plan for each consumer to address both medical and nonmedical needs.

"Health homes" are authorized under the ACA. Health homes are an intense form of care management that includes a comprehensive set of services and meaningful use of health information technology. A health home can operate within FFS, managed care, or other service delivery systems. The ACA allows states to claim a 90% federal match for eight quarters for a defined set of care coordination services for individuals who are severely chronically ill or have multiple chronic conditions.

Mercer estimates that the net cost of health homes is $215.3 million in FY 2014 and $303.4 million in FY 2015.

Pediatric Accountable Care Organizations

H.B. 153 required Ohio Medicaid, not later than July 1, 2012, to establish a pediatric accountable care organization recognition system for children under age 21 who are blind or disabled. The standards of recognition are to be the same as, or not conflict with, those adopted under the ACA. Assuming a start date of July 1, 2012, Milliman estimated that this program would have a net cost of $87 million for the FY 2012-FY 2013 biennium. OMA anticipates establishing a pediatric accountable care organization in the FY 2014-FY 2015 biennium. It is estimated that a pediatric accountable care organization will have a net cost of $87.1 million in FY 2014 and $40.9 million in FY 2015.

Integrated Care Delivery System

On December 12, 2012, HHS announced that Ohio will partner with the Centers for Medicare & Medicaid Services (CMS) in the Financial Alignment Demonstration to test a new model for providing dual enrollees with a more coordinated, person-centered care experience.

Under the demonstration, Ohio and CMS will contract with Integrated Care Delivery System (ICDS) plans that will coordinate the delivery of and be accountable for all covered Medicare and Medicaid services for participating dual enrollees. ICDS plans will be responsible for conducting a comprehensive assessment of dual enrollees' medical, behavioral health, long-term services and supports, and social needs in seven regions (29 counties) of the state for about 115,000 dual enrollees. Dual enrollees and their caregivers will work with a care management team to develop person-centered, individualized care plans.

The demonstration will be available to individuals who meet all of the following criteria:

- Age 18 and older at the time of enrollment;
- Eligible for full Medicare Parts A, B, and D and full Medicaid, and
- Reside in an ICDS demonstration county.

Mercer estimates that the net cost of ICDS is $492.9 million in FY 2014 and $298.5 million in FY 2015.

Department of Aging's Waivers

H.B. 153 consolidated the Medicaid waiver expenditures of the Department of Aging (ODA) into the OMA's budget and thus created a new category for OMA's Medicaid service expenditures. ODA currently administers the following waivers:

- PASSPORT – home and community based services (HCBS) waiver for individuals age 65 and over or age 60 and over with a disability;

- Ohio Home Care/Transitions Aging Carve-out – HCBS waiver for individuals 60 or older who were enrolled in Ohio Home Care and who have service needs that cannot be met with the PASSPORT service package;
- CHOICES – HCBS waiver for individuals age 65 and over or age 60 and over with a disability with a self-direction component available in selected regions of the state;
- Assisted Living – HCBS waiver for the aged and individuals with disabilities age 21 and over who live in assisted living facilities;
- Program of All-Inclusive Care for Elders (PACE) – a capitated program with an all-inclusive service package that serves individuals age 55 and over in Cleveland and Cincinnati.

ODA estimates that the costs of providing these waiver services are $633.1 million in FY 2014 and $682.1 million in FY 2015.

Hospital Inpatient and Outpatient Supplemental Upper Payment Limit Program

H.B. 1 of the 128th General Assembly required ODJFS to seek federal approval for a Hospital Inpatient and Outpatient Supplemental Upper Payment Limit Program. The program was approved. It provides supplemental payments to hospitals for Medicaid-covered inpatient and outpatient service. H.B. 153 of the 129th General Assembly continued the program and provided that a portion of the hospital assessments is to be used for the program. OMA assumes the continuation of the program and assumes the FY 2013 spending level for FY 2014 and FY 2015. The costs of the program are assumed to be $502.6 million each year in FY 2014 and FY 2015.

Hospital Care Assurance Program

The federal government requires state Medicaid programs to make subsidy payments to hospitals that provide uncompensated, or charity, care to low-income and uninsured individuals at or below 100% FPG under the Disproportionate Share Hospital (DSH) Program. The Health Care Assurance Program (HCAP) is the system Ohio uses to comply with the DSH Program requirement. Under HCAP, hospitals are assessed an amount based on their total facility costs, and government hospitals make intergovernmental transfers to ODJFS. ODJFS then redistributes back to hospitals money generated by the assessments, intergovernmental transfers, and federal matching funds based on uncompensated care costs. In federal fiscal year 2010, HCAP collected $208 million from Ohio hospitals, matched it with federal dollars, and redistributed $568 million back to the hospitals.

OMA estimates that the state will redistribute $577.3 million in FY 2014 and $567.6 million in FY 2015 under HCAP.[14]

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[14] Under the ACA, the Secretary of HHS is required to develop a methodology that will reduce DSH payments during the period 2014 to 2019. These reductions increase over time, and by 2019

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) established the "Part D" in Medicare that gives people access to a private Medicare prescription drug plan. The MMA requires state Medicaid programs to contribute to the cost of federal prescription drug coverage for dual eligibles known as the "clawback" (the statutory term is "phased-down state contribution"). The clawback is a monthly payment made by each state to the federal Medicare Program. The amount of each state's payment roughly reflects the expenditures of its own funds that the state would have made if it continued to pay for prescription drugs through Medicaid on behalf of dual eligibles.

OMA estimates that the state's clawback payment will be $308.7 million in FY 2014 and $324.9 million in FY 2015.

represent approximately a 50% reduction over baseline projections. The methodology has not yet been published.