Ohio Legislative Service Commission
Wendy Zhan, Director
www.lsc.ohio.gov
Office of Research and Drafting
Legislative Budget Office

# Baseline Forecast of GRF Tax Revenues and Medicaid Expenditures for the FY 2022-FY 2023 Biennial Budget

## Testimony before the Conference Committee on H.B. 110

## June 17, 2021

Chair Oelslager, Vice-Chair Dolan, and members of the Conference Committee, I am Wendy Zhan, Director of the Legislative Service Commission. I am here to testify on the forecasts developed by our Legislative Budget Office (LBO) economists for General Revenue Fund (GRF) tax revenues and Medicaid service expenditures in fiscal years 2021 through 2023. My testimony will focus on the differences between our February and June forecasts. The attachment to this testimony provides more detailed information on the current state and forecast of the economy and forecasts of GRF tax revenues and Medicaid service expenditures. These are baseline forecasts, meaning that LBO economists made these revenue forecasts assuming no changes to the current Revised Code tax structure throughout the next biennium. Changes made in recently enacted S.B. 18, which became effective on March 31, 2021, are incorporated in the June revenue forecasts. The Medicaid service expenditure baseline forecasts also assume no changes to current law or administrative policies during the next biennium.

## Comparison of LBO February and June revenue forecasts

### GRF tax revenue forecasts

Compared with our February baseline forecasts, LBO economists now forecast significantly higher GRF tax revenues for the current fiscal year and for each fiscal year of the next biennium. For fiscal year 2021, GRF tax revenues are now expected to total $26.17 billion. This reflects actual GRF tax receipts through May and estimated tax receipts for June, the final month of the fiscal year. The updated estimate for FY 2021 is $1.38 billion (5.6%) higher than what we presented in February. The increase is split fairly evenly between the two largest taxes, the sales and use tax ($694.9 million) and the personal income tax ($645.9 million). The sales and use tax was expected to weaken before the end of FY 2021, but that simply did not happen. Every month, revenues from the tax exceeded the estimates made by OBM at the beginning of FY 2021. In February, LBO economists thought personal income tax revenue would fall below expectations because of business closures last year, but again that simply did not happen. Combined April and May revenue from the personal income tax was considerably higher than expected, also exceeding the estimates made by OBM at the beginning of FY 2021.

The positive experience of FY 2021 in both the sales and use tax and the personal income tax flowed through to increased expectations regarding the upcoming biennium. GRF tax revenues, after distributions to the two local government funds as specified in the current Revised Code, are now forecast to increase by 0.9% to $26.41 billion in FY 2022 and by 3.3% to $27.28 billion in FY 2023. These forecasts are $1.18 billion (4.7%) and $1.25 billion (4.8%), respectively, higher than our February forecasts for FY 2022 and FY 2023. Similar to the updated estimate for FY 2021, the higher forecasts for FY 2022 and FY 2023 are primarily attributable to the two largest GRF taxes.

The table below summarizes the differences between our February and June revenue forecasts for fiscal years 2021 through 2023. The differences are presented as LBO's June forecast minus the February forecast, so positive numbers indicate a higher updated forecast for each fiscal year.

| Summary of Differences between LBO February and June Revenue Forecasts | | | |
|---|---|---|---|
| | FY 2021 | FY 2022 | FY 2023 |
| GRF tax revenue difference | $1,383.2 million | $1,176.8 million | $1,247.7 million |
| % difference | 5.6% | 4.7% | 4.8% |

## Economic forecasts and risks

In developing our revenue forecasts, LBO economists have relied on IHS Markit, a leading economic forecasting firm, for the macro economic forecasts. Specifically, in our June forecast we have used the company's May baseline forecasts for the nation and Ohio as the source for most input or explanatory variables in our models. The company's December baseline forecasts were used in developing our February forecast. Both the December and May forecasts are for the economic expansion in the nation and Ohio to continue during the period corresponding to state fiscal years 2022 and 2023. However, IHS Markit's May baseline forecast projects higher growth for the economy. The outlook for state government revenues is greatly influenced by the course of Ohio's economy and the economy of the nation.

As is detailed in the accompanying attachment, for the upcoming biennium, IHS Markit's May baseline forecast shows national real GDP (inflation-adjusted gross domestic product) growing by a very robust 6.7% in FY 2022, and by an annual average of 4.6% for the biennium, up from 1.7% growth in FY 2021. Ohio's real GDP is also predicted to show strong growth of 5.8% in FY 2022, and by an annual average of 3.9% for the biennium. In comparison, IHS Markit's December baseline forecast projected average annual growth rates of 3.4% for national real GDP and 2.9% for Ohio's real GDP.

The company's May baseline forecast increases its personal income growth projection for FY 2021 from 2.8% to 6.8% for the nation and from 2.9% to 6.9% for Ohio. Personal income is forecast to continue to grow in the next biennium by about a 2.4% annual rate on average for the nation and about 1.7% for Ohio. Due largely to the revised, higher growth rate for FY 2021, the next biennium's average annual growth rates for the nation and Ohio are both somewhat lower in the May baseline forecast than in the December baseline forecast. The latter projected personal income to grow by 2.8% on average annually for the nation and 2.4% on average annually for Ohio during the next biennium.

The unemployment rate during the next biennium is now anticipated to average around 3.9% annually for the nation, compared with the 4.8% projected in the December baseline forecast. Ohio's unemployment rate is anticipated to average around 4.1% annually in the May baseline forecast, down from 5.3% in December. For the current fiscal year, the unemployment rate is projected to be 6.9% for the nation and 6.0% for Ohio.

Inflation, measured by the consumer price index, is projected to be around 2.0% through the upcoming biennium in the May baseline forecast, in comparison with an average annual increase of 2.3% projected in the December baseline forecast.

Though the economic forecasters upon whom we rely have become more optimistic since the beginning of the year, a number of risks might alter the course of the economy, thus affecting state tax revenue receipts. While COVID-19 vaccination totals increase, there is the possibility of a resurgence of the COVID-19 pandemic, which could interrupt the current economic recovery and expansion and lead to economic dislocation. The experience of 2020 is instructive, as few foresaw the possibility of the pandemic, and its economic consequences, when the current biennial budget was put together in June 2019.

Exports and imports could be reduced or delayed due to events abroad and at home. Container ship congestion since November in California ports in Los Angeles and Long Beach, the busiest U.S. gateway for trade with Asia, and the recent experience of a large container ship blocking the Suez Canal for days are just two examples of unforeseen circumstances impacting the U.S. and global economies. There remains considerable tension between the U.S. and China over trade issues, and trading partners in many parts of the world are emerging from the pandemic more slowly than the U.S.[1] The latest conflict between Israel and Palestine is another example of unforeseen geopolitical risks.

Economic forecasts are uncertain by nature as we all know that "past performance is no guarantee of future results." There are added levels of uncertainty during the unprecedented times that we currently face. LBO economists employed a sound methodology in developing our revenue forecasts for the next biennium. However, our baseline forecast could prove too optimistic regarding economic growth in the nation and Ohio. Alternatively, as it was in February, it could be too pessimistic.

## Comparison of LBO February and June Medicaid service expenditure forecasts

LBO economists are now forecasting somewhat lower Medicaid service expenditures for the current fiscal year and for each fiscal year of the next biennium, due to the availability of several more months of actual data showing lower than expected caseload and expenditures for FY 2021 and expected continuing economic growth throughout the next biennium. The

[1] China is the third-largest destination for Ohio's exports, accounting for 8.2% of the total in 2020. Canada is the largest, and Mexico is the second-largest, accounting for 38.4% and 11.3%, respectively.

differences between our February and June Medicaid forecasts for fiscal years 2021 through 2023 are summarized in the table below. The differences are presented as LBO's June forecast minus the February forecast, so negative numbers indicate a lower updated forecast for each fiscal year.

As shown in the table, the updated LBO baseline forecast for combined state and federal Medicaid service expenditures is lower by $223.8 million in FY 2022 and $235.5 million in FY 2023, than was presented in February. This reflects a downward revision of 0.9% in each year. The state share of Medicaid service expenditures is now forecast to be $64.9 million lower in FY 2022 and $68.3 million lower in FY 2023.

| Summary of Differences between LBO February and June Medicaid Expenditure Forecasts | | | |
|---|---|---|---|
| | **FY 2021** | **FY 2022** | **FY 2023** |
| Medicaid expenditure difference | -$189.7 million | -$223.8 million | -$235.5 million |
| % difference | -0.8% | -0.9% | -0.9% |
| *State share difference* | *-$55.0 million* | *-$64.9 million* | *-$68.3 million* |

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

Attachment: Section 1 Revenue forecast

Section 2 Medicaid

Section 3 Economic conditions and outlook

# ATTACHMENT: FY 2022-FY 2023 BIENNIAL BUDGET FORECAST

## Section 1: Revenue forecasts

### Summary

The table below summarizes the differences between LBO's February and June baseline forecasts for GRF tax revenue. As seen from the table, the updated forecasts are higher. Revenue since January this year from both the sales and use tax and the personal income tax (PIT) was significantly better than LBO economists expected. The better than expected FY 2021 experience flowed through to the forecast for the upcoming biennium, causing LBO to increase our forecasts for FY 2022 and FY 2023.

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

| | February | | | June | | |
|---|---|---|---|---|---|---|
| | FY 2021 Estimate | FY 2022 Estimate | FY 2023 Forecast | FY 2021 Estimate | FY 2022 Forecast | FY 2023 Forecast |
| Total GRF taxes | $24,788.5 | $25,236.8 | $26,027.2 | $26,171.7 | $26,413.6 | $27,275.0 |
| | | | **Difference** | **$1,383.2** | **$1,176.8** | **$1,247.7** |

### GRF tax revenue forecast

The LBO baseline forecast for FY 2022 and FY 2023 assumes the current statutory tax structure, including tax changes enacted by the 133rd General Assembly. It thereby includes the changes to the PIT and sales and use tax enacted in H.B. 166 of the 133rd General Assembly, including the elimination of the two lowest tax brackets, a 4% reduction in nonbusiness income tax rates for incomes over $21,750, and a change in the nexus standard for the use tax that increased receipts from the sales and use tax by facilitating the collection of use taxes on online purchases.[1] It also accounts for tax changes implemented in S.B. 18 of the 134th General Assembly.

One of the more dramatic recent tax changes was temporary and affects only the FY 2021 PIT estimate: the delay of the April 15, 2020, filing deadline until July. That had the effect of increasing FY 2021 PIT receipts. H.B. 197 of the 133rd General Assembly authorized the Tax Commissioner to delay the filing date.

H.B. 166 included an uncodified provision that temporarily increased the share of GRF tax revenue allocated to the Public Library Fund (PLF) from its statutory level of 1.66% of such revenue to 1.70% for the current biennium; it also included a similar, though slightly different,

[1] Other tax changes, including an enhancement to the earned income tax credit under the PIT, enacted in H.B. 62 of the 133rd General Assembly were also accounted for.

provision for the share (1.68%) of GRF tax revenue allocated to the Local Government Fund (LGF). The House Passed version of H.B. 110 allowed the allocations of both funds to revert to codified law, while the Senate Passed version retained a temporary 1.70% allocation for the PLF during the upcoming biennium. In the absence of an agreement about the issue at this stage of the legislative process, the forecast assumes that the 1.66% shares in codified law will resume for the upcoming biennium for both funds. Based on the updated revenue forecast, a 1.70% share for the PLF would reduce GRF revenue by about $11 million in each fiscal year of the upcoming biennium.

Three taxes that generated some revenue during FY 2020 and FY 2021, the corporate franchise tax (CFT), the business and property tax, and the estate tax, have been repealed. We expect no revenue from these taxes in future years.[2]

GRF tax revenue under current law is forecast to increase by $241.8 million (0.9%) in FY 2022. PIT revenue is expected to decline slightly, due to the roughly $700 million boost to FY 2021 PIT revenue from the delay in the tax year 2019 filing deadline mentioned above. Growth is expected for most other tax revenue sources, as Ohioans' incomes are expected to recover from COVID-19 related economic dislocation. But the growth rate for the sales tax is expected to decline to closer to its long-run growth rate, as consumers' spending habits are gradually expected to return to normal, i.e., spending more on largely untaxed services and less on taxable goods. The auto portion of the sales tax is expected to decline slightly, due largely to this expected change in consumer spending patterns, and due to the remarkable growth shown in revenue from that portion of the tax in FY 2021. Cigarette tax revenue is expected to decline, reverting to a long-run trend that was interrupted in FY 2021.

GRF tax revenue under current law is forecast to increase by $861.4 million (3.3%) in FY 2023. Growth is expected to continue for most tax sources, at rates closer to historical experience. Receipts from the tax on cigarettes and other tobacco products are expected to continue their typical decline, though, and a slight decrease is expected in revenue from the kilowatt-hour (kWh) tax.

The following tables provide overviews of GRF receipts from taxes.

**Table 2. Total Baseline GRF Tax Revenue Growth, FY 2017-FY 2023, ($ in millions)**
**June 2021 Forecast**

| | FY 2017 Actual | FY 2018 Actual | FY 2019 Actual | FY 2020 Actual | FY 2021 Estimate | FY 2022 Forecast | FY 2023 Forecast |
|---|---|---|---|---|---|---|---|
| Revenue | $21,885.6 | $22,422.6 | $23,489.6 | $22,623.2 | $26,171.7 | $26,413.6 | $27,275.0 |
| Growth | 0.3% | 2.5% | 4.8% | -3.7% | 15.7% | 0.9% | 3.3% |

[2] The total GRF revenue collected from the three taxes amounted to less than $500,000 in FY 2020, though FY 2021 revenue through May ($5.9 million) from the CFT was notably higher due to collections resulting from an audit. Recent revenue is due to adjustments to prior filings and audits, and drawn out settling of estates. The financial institutions tax, which first received revenue in FY 2014, replaced the CFT and the business and property tax.

| Table 3. LBO Baseline GRF Tax Revenue Forecasts, FY 2022-FY 2023 ($ in millions) June 2021 Forecast | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Tax** | **FY 2020 Actual** | **FY 2021 Estimate** | **Growth Rate** | **FY 2022 Forecast** | **Growth Rate** | **FY 2023 Forecast** | **Growth Rate** |
| Auto Sales & Use | $1,502.7 | $1,830.0 | 21.8% | $1,825.0 | -0.3% | $1,843.0 | 1.0% |
| Nonauto Sales & Use | $9,183.0 | $10,229.8 | 11.4% | $10,464.9 | 2.3% | $10,839.7 | 3.6% |
| **Total Sales & Use** | **$10,685.8** | **$12,059.8** | **12.9%** | **$12,289.9** | **1.9%** | **$12,682.7** | **3.2%** |
| Personal Income | $7,881.3 | $10,024.9 | 27.2% | $9,874.3 | -1.5% | $10,262.8 | 3.9% |
| Commercial Activity | $1,671.7 | $1,668.9 | -0.2% | $1,792.7 | 7.4% | $1,848.8 | 3.1% |
| Cigarette | $913.0 | $924.0 | 1.2% | $895.0 | -3.1% | $876.0 | -2.1% |
| Kilowatt-hour Excise | $331.8 | $293.8 | -11.5% | $316.2 | 7.7% | $315.8 | -0.1% |
| Foreign Insurance | $305.1 | $320.0 | 4.9% | $331.0 | 3.4% | $340.0 | 2.7% |
| Domestic Insurance | $303.0 | $326.0 | 7.6% | $346.0 | 6.1% | $364.0 | 5.2% |
| Financial Institutions | $214.9 | $225.0 | 4.7% | $225.0 | 0.0% | $230.0 | 2.2% |
| Public Utility | $141.0 | $127.4 | -9.7% | $145.8 | 14.5% | $154.1 | 5.7% |
| Natural Gas Consumption | $59.7 | $70.8 | 18.5% | $66.2 | -6.4% | $68.8 | 3.9% |
| Alcoholic Beverage | $53.6 | $61.9 | 15.4% | $62.0 | 0.2% | $62.0 | 0.0% |
| Liquor Gallonage | $53.4 | $57.3 | 7.3% | $59.0 | 3.0% | $59.3 | 0.5% |
| Petroleum Activity | $8.7 | $5.8 | -33.6% | $10.4 | 79.3% | $10.6 | 1.9% |
| Corporate Franchise | ($0.4) | $5.9 | -- | $0.0 | -100.0% | $0.0 | -- |
| Business & Property | $0.4 | $0.2 | -52.6% | $0.0 | -- | $0.0 | -- |
| Estate | $0.1 | $0.1 | -14.1% | $0.0 | -100.0% | $0.0 | -- |
| **Total Tax Revenue** | **$22,623.2** | **$26,171.7** | **15.7%** | **$26,413.6** | **0.9%** | **$27,275.0** | **3.3%** |

| Table 4. FY 2021 GRF Tax Revenue Estimate Comparison ($ in millions) | | | |
|---|---|---|---|
| Tax | February | June | Change |
| Auto Sales & Use | $1,680.0 | $1,830.0 | $150.0 |
| Nonauto Sales & Use | $9,684.9 | $10,229.8 | $544.9 |
| **Total Sales & Use** | **$11,364.9** | **$12,059.8** | **$694.9** |
| Personal Income | $9,379.0 | $10,024.9 | $645.9 |
| Commercial Activity | $1,621.0 | $1,668.9 | $47.9 |
| Cigarette | $945.0 | $924.0 | -$21.0 |
| Kilowatt-hour Excise | $317.9 | $293.8 | -$24.1 |
| Foreign Insurance | $316.0 | $320.0 | $4.0 |
| Domestic Insurance | $330.0 | $326.0 | -$4.0 |
| Financial Institutions | $200.0 | $225.0 | $25.0 |
| Public Utility | $123.0 | $127.4 | $4.4 |
| Natural Gas Consumption | $59.0 | $70.8 | $11.8 |
| Alcoholic Beverage | $61.0 | $61.9 | $0.9 |
| Liquor Gallonage | $58.0 | $57.3 | -$0.7 |
| Petroleum Activity | $7.7 | $5.8 | -$1.9 |
| Corporate Franchise | $6.0 | $5.9 | -$0.1 |
| Business & Property | $0.1 | $0.2 | $0.1 |
| Estate | $0.1 | $0.1 | $0.0 |
| **Total Tax Revenue** | **$24,788.5** | **$26,171.7** | **$1,383.2** |

| Table 5. LBO Baseline GRF Tax Revenue Forecast Comparison, FY 2022 and FY 2023 ($ in millions) | | | | | | |
|---|---|---|---|---|---|---|
| Tax | FY 2022 | | | FY 2023 | | |
| | February | June | Change | February | June | Change |
| Auto Sales & Use | $1,670.0 | $1,825.0 | $155.0 | $1,710.0 | $1,843.0 | $133.0 |
| Nonauto Sales & Use | $10,066.3 | $10,464.9 | $398.6 | $10,358.6 | $10,839.7 | $481.1 |
| **Total Sales & Use** | **$11,736.3** | **$12,289.9** | **$553.6** | **$12,068.6** | **$12,682.7** | **$614.1** |
| Personal Income | $9,348.7 | $9,874.3 | $525.6 | $9,743.1 | $10,262.8 | $519.7 |
| Commercial Activity | $1,712.8 | $1,792.7 | $79.9 | $1,768.0 | $1,848.8 | $80.8 |
| Cigarette | $915.0 | $895.0 | -$20.0 | $895.0 | $876.0 | -$19.0 |
| Kilowatt-hour Excise | $321.3 | $316.2 | -$5.1 | $319.6 | $315.8 | -$3.8 |
| Foreign Insurance | $325.0 | $331.0 | $6.0 | $336.0 | $340.0 | $4.0 |
| Domestic Insurance | $334.0 | $346.0 | $12.0 | $347.0 | $364.0 | $17.0 |
| Financial Institutions | $205.0 | $225.0 | $20.0 | $210.0 | $230.0 | $20.0 |
| Public Utility | $143.0 | $145.8 | $2.8 | $144.0 | $154.1 | $10.1 |
| Natural Gas Consumption | $64.9 | $66.2 | $1.3 | $64.8 | $68.8 | $4.0 |
| Alcoholic Beverage | $62.0 | $62.0 | $0.0 | $61.5 | $62.0 | $0.5 |
| Liquor Gallonage | $59.0 | $59.0 | $0.0 | $59.3 | $59.3 | $0.0 |
| Petroleum Activity | $9.8 | $10.4 | $0.6 | $10.4 | $10.6 | $0.2 |
| Corporate Franchise | $0.0 | $0.0 | -- | $0.0 | $0.0 | -- |
| Business & Property | $0.0 | $0.0 | -- | $0.0 | $0.0 | -- |
| Estate | $0.0 | $0.0 | -- | $0.0 | $0.0 | -- |
| **Total Tax Revenue** | **$25,236.8** | **$26,413.6** | **$1,176.8** | **$26,027.2** | **$27,275.0** | **$1,247.7** |

# ATTACHMENT: FY 2022-FY 2023 BIENNIAL BUDGET FORECAST

## Section 2: Medicaid service expenditure forecast

### Expenditure forecast summary

Compared with LBO's February baseline forecast, the updated forecast for Medicaid service expenditures is lower by $223.8 million in FY 2022 and $235.5 million in FY 2023, or $459.3 million over the biennium (see Table 1 on the following page). The state share is lower by $64.9 million in FY 2022 and $68.3 million in FY 2023, assuming an overall federal reimbursement rate of 71%. Unless noted otherwise, the figures reported in this section include both state and federal shares as Medicaid is a joint state-federal program that provides health care coverage to low-income individuals. The baseline forecast assumes no changes from current law or administrative policies during the next biennium.

The forecast was lowered primarily to reflect changes in the projected caseload and the per member per month costs for most of the eligible groups. The updated forecast includes several more months of actual data showing lower than expected caseload and expenditures in FY 2021. This experience flowed through to the forecast for the upcoming biennium, lowering our forecasts for FY 2022 and FY 2023. Table 2 on the following page shows the updated forecast by payment category.

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

LBO's caseload-driven baseline forecast represents about 80% of total Medicaid expenditures. Although overall Medicaid Program expenditures are higher than the figures reported in this section, they do not affect the comparison of LBO's and ODM's baseline service expenditure forecasts. The caseload-driven forecast is the only source of the difference between the LBO and ODM forecasts.

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

| Category | FY 2020 Actuals | February | | | June | | |
|---|---|---|---|---|---|---|---|
| | | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast |
| **Expenditures** | $21,577.7 | $24,636.6 | $26,394.7 | $27,354.6 | $24,446.9 | $26,170.9 | $27,119.1 |
| **Growth** | 0.7% | 14.2% | 7.1% | 3.6% | 13.3% | 7.1% | 3.6% |
| **Total state and federal difference** | | | | | -$189.7 | -$223.8 | -$235.5 |
| **% Difference** | | | | | -0.8% | -0.9% | -0.9% |
| ***State share difference (assuming 71% federal reimbursement)*** | | | | | -$55.0 | -$64.9 | -$68.3 |

**Table 2. LBO Baseline Forecast of Medicaid Service Expenditures by Payment Category (combined state and federal dollars, $ in millions)**

| Category | FY 2020 Actuals | June Forecast | | | | | |
|---|---|---|---|---|---|---|---|
| | | FY 2021 Estimates | Growth Rate | FY 2022 Forecast | Growth Rate | FY 2023 Forecast | Growth Rate |
| **Managed Care** | **$17,580.6** | **$20,438.0** | **16.3%** | **$21,946.1** | **7.4%** | **$22,744.0** | **3.6%** |
| Covered Families and Children (CFC) | $6,156.8 | $7,361.3 | 19.6% | $7,864.0 | 6.8% | $8,161.4 | 3.8% |
| Group VIII | $4,823.4 | $6,252.9 | 29.6% | $7,039.8 | 12.6% | $7,295.7 | 3.6% |
| Aged, Blind, and Disabled (ABD) | $3,937.1 | $4,057.6 | 3.1% | $4,168.0 | 2.7% | $4,334.2 | 4.0% |
| MyCare | $2,663.2 | $2,766.2 | 3.9% | $2,874.3 | 3.9% | $2,952.7 | 2.7% |
| **Fee-For-Service** | **$3,997.2** | **$4,008.9** | **0.3%** | **$4,224.7** | **5.4%** | **$4,375.2** | **3.6%** |
| Nursing Facilities | $1,510.6 | $1,345.2 | -10.9% | $1,355.0 | 0.7% | $1,400.4 | 3.4% |
| Hospitals | $664.7 | $666.8 | 0.3% | $680.6 | 2.1% | $699.4 | 2.8% |
| Aging Waivers | $340.1 | $339.3 | -0.2% | $358.7 | 5.7% | $367.1 | 2.3% |
| Prescription Drugs | $304.1 | $292.4 | -3.8% | $317.7 | 8.6% | $321.9 | 1.3% |
| Home Care Waivers | $119.6 | $130.1 | 8.8% | $136.9 | 5.2% | $144.7 | 5.7% |
| Behavioral Health | $101.8 | $100.3 | -1.5% | $104.9 | 4.6% | $105.1 | 0.2% |
| All Other | $956.3 | $1,134.8 | 18.7% | $1,270.9 | 12.0% | $1,336.5 | 5.2% |
| **Total** | **$21,577.7** | **$24,446.9** | **13.3%** | **$26,170.9** | **7.1%** | **$27,119.1** | **3.6%** |

## Caseload forecast summary

The following four tables (Tables 3-6) detail the changes in LBO's Medicaid caseload forecasts. The June forecast for the monthly total caseload is lower than the February forecast by about 22,300 in FY 2022 and 22,000 in FY 2023. The updated forecast includes several more months of actual caseload data. For the months of December 2020 through April 2021, Medicaid caseloads were lower than the February forecast by about 17,000 per month. Subsequently, LBO revised its forecast lower for both the covered families and children (CFC) and aged, blind, and disabled (ABD) categories. The CFC category includes the Affordable Care Act expansion (Group VIII) population.

**Table 3. Comparison of Total Medicaid Caseload Forecasts**

| | | February | | | June | | |
|---|---|---|---|---|---|---|---|
| | FY 2020 Actuals | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast |
| **Caseload** | 2,823,521 | 3,124,376 | 3,298,531 | 3,247,795 | 3,111,261 | 3,276,205 | 3,225,821 |
| **Growth** | -1.1% | 10.7% | 5.6% | -1.5% | 10.2% | 5.3% | -1.5% |
| | | | | **Difference** | -13,115 | -22,326 | -21,974 |
| | | | | **% Difference** | -0.4% | -0.7% | -0.7% |

**Table 4. Comparison of CFC Medicaid Caseload Forecasts**

| | | February | | | June | | |
|---|---|---|---|---|---|---|---|
| | FY 2020 Actuals | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast |
| **Caseload** | 2,198,948 | 2,488,323 | 2,651,315 | 2,597,338 | 2,479,128 | 2,633,196 | 2,579,552 |
| **Growth** | -1.6% | 13.2% | 6.6% | -2.0% | 12.7% | 6.2% | -2.0% |
| | | | | **Difference** | -9,195 | -18,119 | -17,786 |
| | | | | **% Difference** | -0.4% | -0.7% | -0.7% |

| Table 5. Comparison of ABD Medicaid Caseload Forecasts | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | February | | | June | | |
| | FY 2020 Actuals | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast |
| **Caseload** | 491,436 | 498,547 | 506,944 | 506,849 | 494,528 | 502,737 | 502,661 |
| **Growth** | 1.1% | 1.4% | 1.7% | 0.0% | 0.6% | 1.7% | 0.0% |
| | | | | **Difference** | -4,019 | -4,207 | -4,188 |
| | | | | **% Difference** | -0.8% | -0.8% | -0.8% |

| Table 6. Comparison of Other Caseload Forecasts | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | February | | | June | | |
| | FY 2020 Actuals | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast | FY 2021 Estimates | FY 2022 Forecast | FY 2023 Forecast |
| **Caseload** | 133,137 | 137,506 | 140,271 | 143,608 | 137,604 | 140,271 | 143,608 |
| **Growth** | 0.0% | 3.3% | 2.0% | 2.4% | 3.4% | 1.9% | 2.4% |
| | | | | **Difference** | 98 | 0 | 0 |
| | | | | **% Difference** | 0.1% | 0.0% | 0.0% |

# ATTACHMENT: FY 2022-FY 2023 BIENNIAL BUDGET FORECAST

## Section 3: Economic conditions and outlook

### State of the economy

The economy is recovering vigorously from the recession that started last year. The longest economic expansion in the nation's history ended during FY 2020, and many businesses and households struggled financially during the COVID-19 pandemic. Nonfarm payroll employment dropped by 22 million (-15%) in the recession, and in May 2021 remained 7.6 million below the all-time peak in February 2020. The national unemployment rate jumped to historic levels during 2020, with the substantial majority of job losses in the service sector. Inflation-adjusted gross domestic product (real GDP) fell 3.5% in 2020, including a record-breaking contraction in the spring (-31.4% at an annual rate), but had recovered nearly to its previous peak by the first quarter of this year. Despite job losses, the wages and salaries component of personal income ended 2020 above its 2019 level. Total personal income was 6.3% greater in 2020 than the year prior, principally because of substantial federal income support programs. In response to the economic shutdowns early in the pandemic, the Federal Reserve supported financial markets, cutting short-term interest rates to near zero.

Nonfarm payroll employment in Ohio fell 890,000 (-16%) from its January 2020 peak to the recession low point that April. Employment in the state has since recovered but in April 2021 was still 305,000 below the level prior to pandemic shutdowns. Unemployment in the state has fallen precipitously from the peak during the pandemic, but many people who were in the labor force prior to the pandemic are neither employed nor looking for work and are, therefore, not counted in the unemployment rate. Labor force participation has declined more than 130,000 persons compared with that prior to the pandemic. The state's economic performance was similar to that of the nation during 2020, with an exceptionally rapid decline in real GDP in the second quarter (-33.0% annualized rate) followed by a record-setting rise in the third quarter (+36.9% annualized rate) and a further increase in last year's fourth quarter. Housing demand and residential construction activity both grew in 2020 and into 2021 as the market for homes became heated, supported by strong income growth.

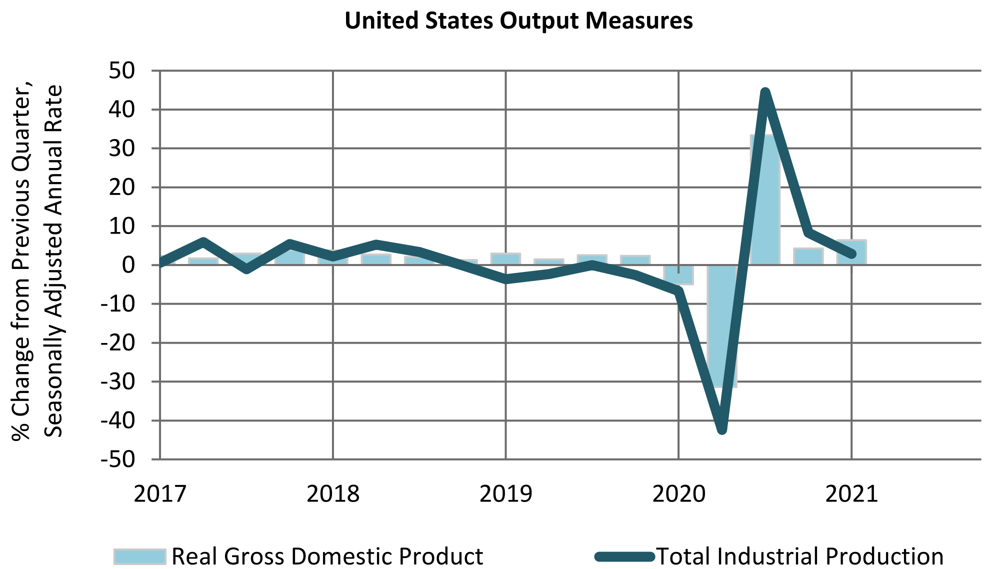
### The national economy

On the shoulders of a continuing COVID-19 vaccination program, the nation's economy is growing rapidly. Economic conditions vary widely among industries. Just prior to the pandemic, the nation had reached all-time peaks in real GDP and total employment (152.5 million); the national unemployment rate (3.5%) was the lowest on record since the 1960s. These peaks were incubated by high levels of consumer confidence, but also by financial and credit market conditions and corporate tax incentives that encouraged business fixed investment in the preceding years. In the second quarter of 2020, real GDP fell at an annualized rate of 31.4%, the most rapid contraction in records kept since 1947.

The chart below shows growth of real GDP and industrial production in recent years.[1] The average annualized rate of real GDP growth from 2017 to 2019 was 2.5%. National real GDP

[1] Industrial production as measured by the Federal Reserve Board's Industrial Production Index.

underwent record-setting swings in 2020, with the plunge in the second quarter at a -31.4% annual rate followed by growth in the third quarter at a 33.4% rate. Real GDP continued to recover in last year's fourth quarter and in the 2021 first quarter, and appears to be growing rapidly in the current quarter based on monthly indicators. Similarly, industrial production fell precipitously during the first half of 2020, then recovered rapidly.




The nation reached its highest-ever level of seasonally adjusted total nonfarm payroll employment in February 2020 (152.5 million). Since then, the national labor market has undergone an overhaul that has changed the industrial and commercial mix, while the pandemic and efforts to mitigate its spread have caused havoc among small business employers. The pandemic influenced all areas of economic activity, though its effects reverberated more in service-sector employment than in the goods-producing sector. Service-sector employment in May 2021 remained 6.8 million (5.2%) below its peak in February 2020; employment in goods-producing industries was about 0.8 million (3.8%) lower.

The pandemic and business closures resulted in weakness in real consumer spending during 2020 (-3.9%), following growth of 2.4% in 2019. The service sector (-7.3%) bore the brunt of the restrictions, while the jump in real disposable income during 2020 led to strength in the durable (+6.3%) and nondurable goods (+2.6%) sectors. Residential fixed investment rose 6.1% last year. Nonresidential fixed investment declined 4.0% during 2020; outlays in this sector picked up in the most recent three quarters.

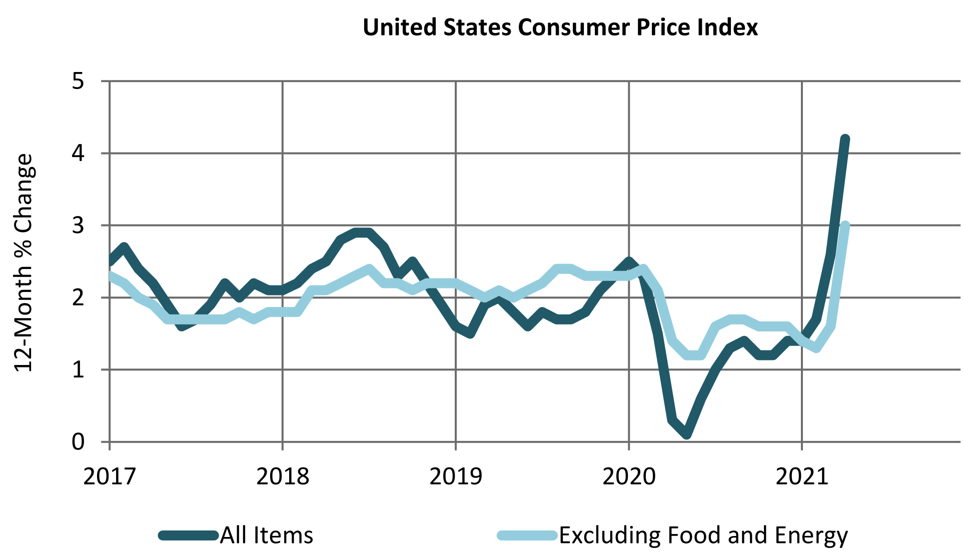
National personal income growth ran counter-cyclical to real GDP growth in 2020;[2] annualized growth in personal income jumped from 4.1% in the first quarter to 35.8% in the second quarter, followed by decreases in the third (-11.3%) and fourth (-4.0%) quarters. On an annual basis, personal income increased by nearly $1.2 trillion (+6.3%) in 2020. Transfer receipts (+36.6%) comprised most of the increase in personal income, but were not the only

[2] Personal income is income received from all sources: labor compensation, rental and proprietorship income, income from financial assets, and government transfer receipts.

source of rising income during the year.[3] Wages and salaries (+0.7%), proprietors' income (+2.3%), and rental income (+1.9%) were all higher in 2020 than the previous year.

During the first quarter of 2021, personal income increased at an annualized rate of 59.7%, mainly the result of multiple rounds of federal stimulus payments to individuals, though wage and salary income also rose (at an annual rate of 8.7%) during the quarter. The quarter's federal stimulus was part of the incentive packages in December's H.R. 133, as well as the American Rescue Plan Act passed in March.

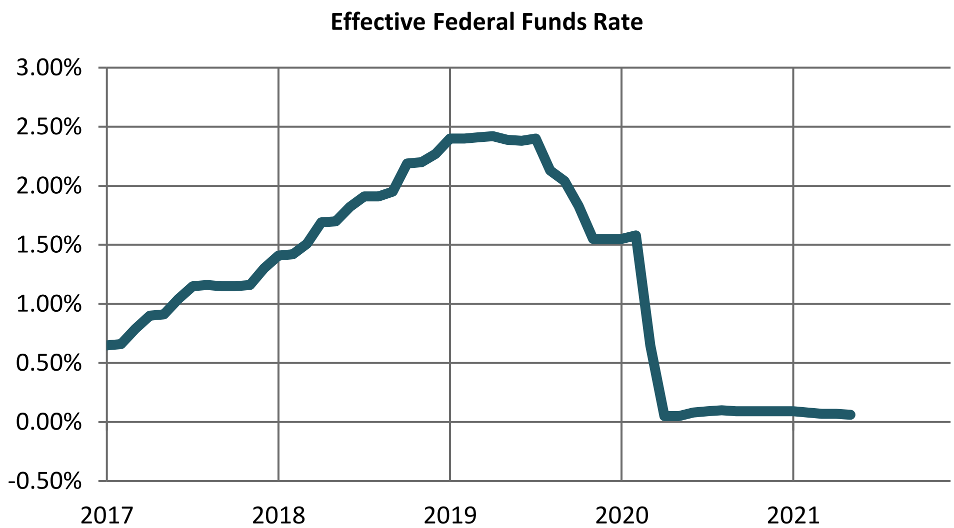
Average inflation, as measured by the consumer price index (CPI) for all items, has generally run below 2% in recent years; annual inflation rates from 2017 through 2020, displayed in the following chart, averaged 1.9%. The average annual inflation rate from 2013 to 2016 was 1.3%.[4] During 2021, however, inflationary pressures have become more widespread. In the first four months of 2021, the CPI for all items increased at a 6.2% annual rate. The upturn in part reflects sharply higher energy prices. Excluding energy prices and also food prices, the CPI rose at a 4.2% annual rate in the year's first four months, up from 1.6% for all of 2020.




[3] Transfer receipts include federal economic impact payments, unemployment insurance receipts, lost wages supplemental payments, Medicare, Medicaid, Social Security, and select other pandemic-specific federal money.

[4] Annual rates measured by the December-to-December change in the CPI for all items.

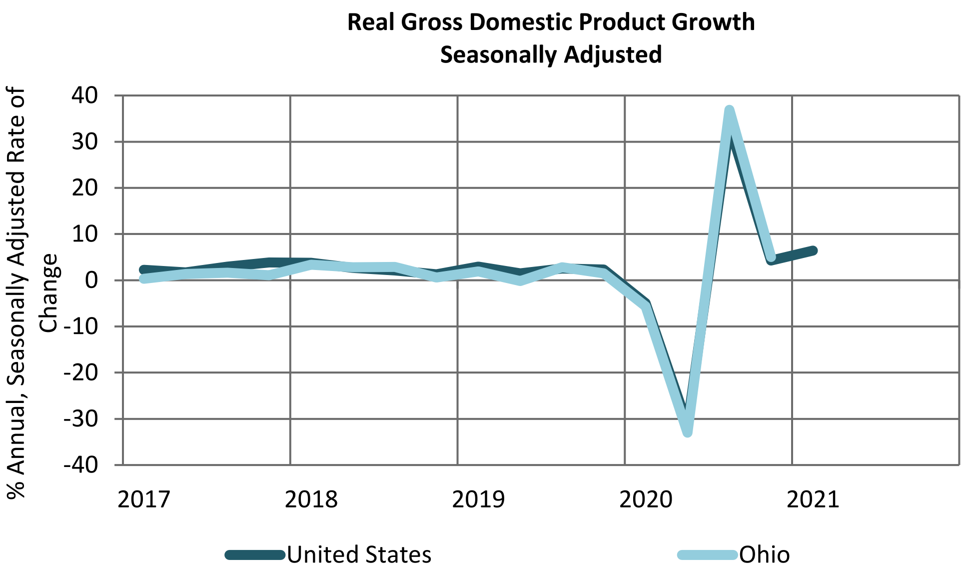
The Federal Reserve ceased raising short-term interest rates at the first meeting of its Open Market Committee (FOMC) in 2019, when the committee determined that inflation remained muted near the central bank's target, domestic job growth was strong, and unemployment low. Beginning in August 2019, the FOMC began lowering short-term interest rates citing muted inflation and concerns about slowing economic growth abroad. Following sequential 0.25 percentage point rate reductions, the FOMC slashed its target short-term interest rate to near zero in March 2020 as the nation began efforts to contain the COVID-19 pandemic. During the most recent meeting in late April, the FOMC committed to maintain the current target for the overnight federal funds interest rate, set between zero and 0.25%, as well as their current course of securities purchases. The Committee expects the economic outlook to depend on progress against the pandemic, and anticipates this year's upturn in inflation to prove transitory.



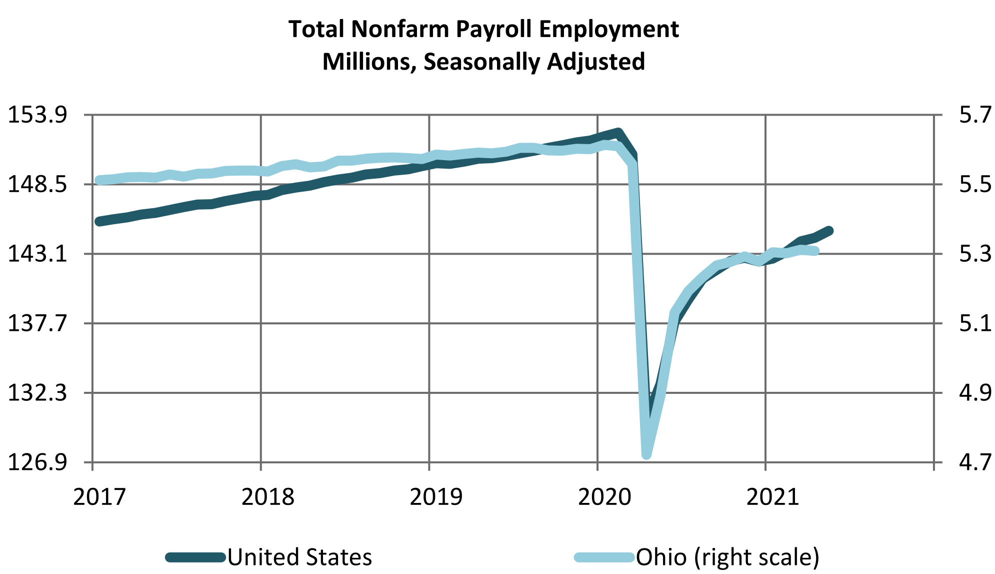

## The Ohio economy

The economy in Ohio has grown at a slower rate than the national economy in recent years. From 2017 to 2019, the average growth rate of real GDP was 1.7% in Ohio and 2.5% nationally.[5] Ohio's economy also tends to be more volatile. In the second quarter of 2020, Ohio's real GDP contracted more sharply than the nation's real GDP, and in the third quarter, real GDP growth in Ohio was stronger than that of the nation.

[5] Annualized quarter-to-quarter growth rates of real GDP.



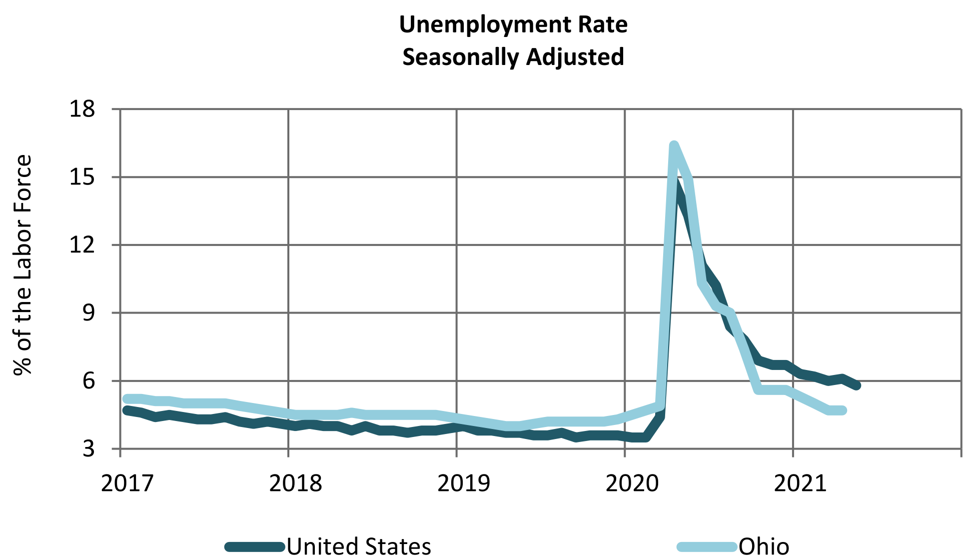

As with GDP, job growth in Ohio has generally lagged behind that of the country in recent years. From 2017 to 2019, average annualized employment growth in the service sector was 0.5% in Ohio compared to 1.4% nationally; in the same years, average employment growth in goods-producing industries was 1.2% in Ohio and 2.1% nationally.[6] In February 2020, there were just over 5.6 million nonfarm payroll workers in Ohio; as of April 2021, there were just over 5.3 million nonfarm payroll workers, a decrease in the working population of 5.4%.[7]




[6] Annualized quarter-to-quarter growth rates of nonfarm payroll employment.

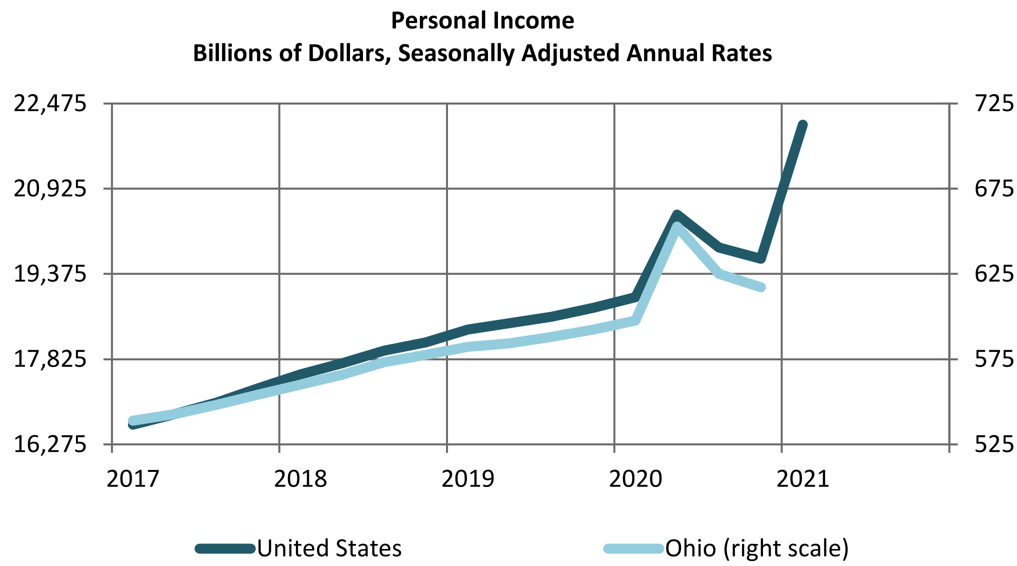
[7] Change calculated from the seasonally adjusted number of workers, as published by the U.S. Bureau of Labor Statistics.

Ohio's unemployment rate was generally higher than the national unemployment rate from 2016 until September 2020; the pandemic has reversed this trend, at least temporarily, and in April, Ohio's unemployment rate was 4.7%, low compared to the national rate of 6.1%. In May, the nationwide unemployment rate fell to 5.8%. As of April 2021, the state's civilian labor force was down by 132,000 participants (-2.2%) from the pre-pandemic level in February 2020, while the United States lost 2.1% of its labor force during that time.[8] The Ohio and national seasonally adjusted unemployment rates from 2017 through current are charted in the figure below.

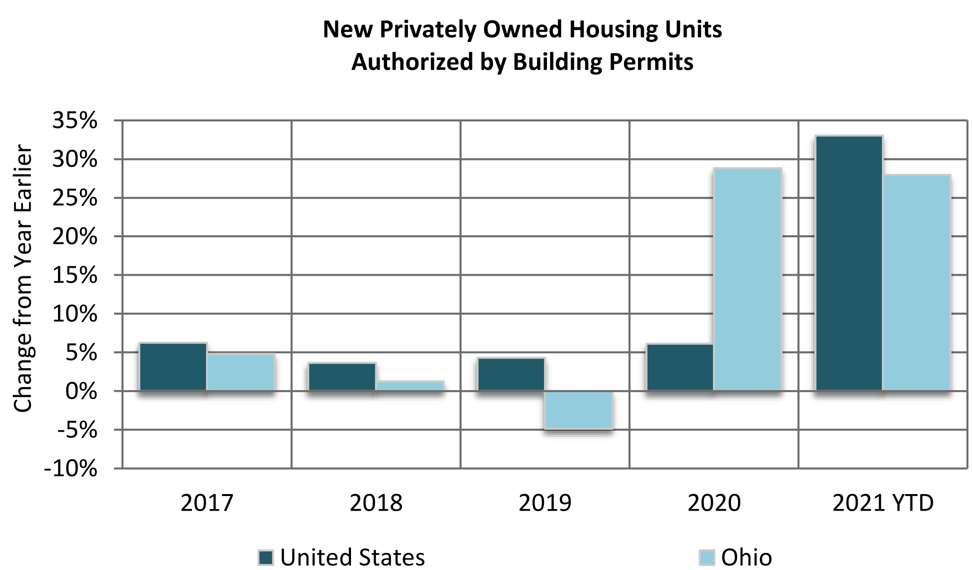



Personal income grew fairly steadily in Ohio and nationally in the years immediately prior to 2020. Between 2017 and 2019, personal income grew at an average annualized rate of 3.7% in Ohio, compared with 4.6% nationally; the growth can be viewed in the following chart, which displays personal income in Ohio and the United States. In 2020 and the first quarter of 2021, personal income grew sharply in some months, and contracted in other months, as federal stimulus, including Payroll Protection Program payments and enhanced unemployment benefits, temporarily bolstered incomes.

[8] Civilian, noninstitutionalized individuals over the age of 16 are counted as labor force participants if they currently hold a job or are unemployed and have searched for work during the most recent four-week period.




Markets for new and previously occupied housing are strong. Annual new housing completions nationwide during the last four years exceeded those in any prior year since 2007, the year of the business cycle peak at the start of the Great Recession of 2007-2009. New housing construction in Ohio, as indicated by the number of building permits issued, soared 29% in 2020 and is up 28% through the first four months of this year compared with a year earlier.




## Economic forecasts

The following are forecasts of key indicators of the economic environment that will determine state revenues during the next biennium. Some of the indicator forecasts were inputs to LBO models used to make state revenue forecasts. Both these economic indicator forecasts and LBO's forecasts for state revenues are subject to uncertainty. The economic indicator projections shown below are from IHS Markit's baseline forecasts released in May 2021.

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

### U.S. Gross Domestic Product

U.S. real GDP growth is projected to reach 6.7% in FY 2022, but then slow to 2.5% in FY 2023, increasing about 4.6% annually on average in the next biennium, as shown below.

| U.S. Real GDP Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 6.4 | 9.0 | 7.2 | 7.7 | 4.2 | 2.7 | 1.6 | 1.6 | 1.7 | 2.0 | 1.9 | 2.3 |
| Fiscal Year | | 1.7 | | | | 6.7 | | | | 2.5 | | |

### Ohio Gross Domestic Product

Economic growth in Ohio is projected also to continue through FY 2023 but at a pace which slows from FY 2022. Ohio real GDP is projected to increase about 3.9% annually on average in the next biennium.

| Ohio Real GDP Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 6.4 | 7.8 | 5.9 | 7.3 | 2.7 | 2.2 | 0.9 | 1.5 | 1.0 | 1.5 | 0.9 | 1.7 |
| Fiscal Year | | 1.8 | | | | 5.8 | | | | 1.9 | | |

## U.S. Inflation

Inflation, as measured by the rate of increase in the CPI for all urban consumers, is predicted to average around 2.0% annually during the next biennium.

| U.S. Consumer Price Index Inflation | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 3.7 | 2.5 | 1.8 | 1.6 | 1.8 | 1.6 | 1.6 | 1.6 | 2.2 | 2.0 | 1.9 | 2.0 |
| Fiscal Year | | 1.9 | | | | 2.2 | | | | 1.7 | | |

## U.S. Personal Income

Nationwide personal income is projected to grow about 2.4% on average annually during the upcoming biennium.

| U.S. Personal Income Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 59.0 | -20.2 | -3.2 | -1.9 | 6.0 | 4.8 | 4.1 | 3.2 | 3.8 | 4.2 | 4.1 | 4.3 |
| Fiscal Year | | 6.8 | | | | 0.9 | | | | 3.9 | | |

## Ohio Personal Income

Income to persons who reside in Ohio is forecast to decline early in the next biennium, before growth resumes, as unemployment compensation and other transfer payments to persons tapers off. Ohio personal income growth in the biennium is projected to be below the pace for the U.S.

| Ohio Personal Income Growth | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent change at annual rate ---------------------------------- | | | | | | | | | | | |
| Quarterly | 67.2 | -24.3 | -3.8 | -3.2 | 5.4 | 4.4 | 3.8 | 2.8 | 3.4 | 3.8 | 3.5 | 3.9 |
| Fiscal Year | | 6.9 | | | | 0.1 | | | | 3.4 | | |

## U.S. Unemployment Rate

The national unemployment rate is anticipated to decline through the end of FY 2023. The unemployment rate is projected to average around 3.9% annually during the upcoming biennium.

| U.S. Unemployment Rate | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent of the labor force ---------------------------------- | | | | | | | | | | | |
| Quarterly | 6.2 | 5.7 | 4.9 | 4.2 | 4.0 | 3.8 | 3.7 | 3.6 | 3.6 | 3.5 | 3.5 | 3.5 |
| Fiscal Year | | 6.9 | | | | 4.3 | | | | 3.6 | | |

## Ohio Unemployment Rate

Ohio's unemployment rate is projected to decline to a low of 3.8% during the biennium. The statewide unemployment rate in April 2021, released subsequent to this forecast, was 4.7%.

| Ohio Unemployment Rate | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | |
| Forecast | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | ---------------------------------- Percent of the labor force ---------------------------------- | | | | | | | | | | | |
| Quarterly | 5.0 | 5.0 | 4.6 | 4.3 | 4.3 | 4.1 | 4.0 | 4.0 | 3.8 | 3.8 | 3.8 | 3.8 |
| Fiscal Year | | 6.0 | | | | 4.3 | | | | 3.9 | | |