Testimony Of
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Biennial Budget for Fiscal Years 2026 and 2027
Conference Committee Update

June 17, 2025

Mr. Chairman, members of the Conference Committee, good morning and thank you for the opportunity to testify today on Amended Substitute House Bill 96, the FY 2026 and FY 2027 Biennial Operating Budget. Governor DeWine and the Administration appreciate your collaboration, and we thank all members of the House of Representatives and the Senate for your work on the budget.

ECONOMIC UPDATE

I would like to begin my testimony with an update on the current state of the economy in Ohio and the nation, highlighting changes since the Executive budget was finalized in January.

Nationally, real Gross Domestic Product, or GDP, decreased at an annual rate of 0.2 percent in the first quarter of calendar year 2025. This marks the first decrease following 11 months of growth. The decrease was largely due to a surge in imports by American businesses anticipating potential tariff increases. Despite the first quarter decrease, May 2025 forecasts from Moody's Analytics suggest that both the national and Ohio economies are expected to show resilience through the upcoming biennium. Ohio's real GDP is expected to grow 2.0 percent in FY 2025, 0.7 percent in FY 2026, and 1.5 percent in FY 2027. In comparison to the 2.8 percent growth in FY 2024, these projections paint a picture of a decelerating economy; that said, a recession is not predicted in the Moody's May baseline forecast. On the national level, average annual growth of real GDP is forecasted at 2.3 percent in FY 2025, 1.2 percent in FY 2026, and 1.6 percent in FY 2027.

Since January when the Governor's Executive budget was published, Ohio's labor market has remained stable. While the unemployment rate increased from 4.6 percent in January 2025 to 4.9 percent in April, Ohio's labor force participation rate increased in parallel, from 62.4 percent in January to 62.7 percent in April. This suggests that more people are looking for work. Although more Ohioans are entering the labor market today, long-term concerns about labor market participation, mentioned in my prior testimony, persist.

Additionally, between January and April 2025, Ohio gained an estimated 55,100 nonfarm jobs, bringing total nonfarm employment in Ohio to 5.7 million. However, the Moody's Analytics May 2025 baseline forecast for this indicator has weakened compared to December. Moody's predicts an average of 36,000 fewer jobs in FY 2026 (-0.6%) and an average of 46,000 fewer jobs in FY 2027, compared to their December 2024 forecast. Additionally, Moody's May S2 forecast, which is an alternative downside scenario, projects 133,600 fewer jobs on average in FY 2026 and 10,700 fewer jobs in FY 2027 compared to their May baseline scenario.

After leaving the federal funds rate at more than five percent for more than a year, the Federal Open Market Committee continued their easing cycle in November and December 2024. The current federal funds target rate is 4.25 to 4.5 percent and inflation remains a persistent challenge throughout the United States. Prices in May, compared to one year earlier, increased at an annualized rate of 2.4 percent. Although the rate of inflation decreased over one full percentage point compared to May 2024, inflation continues to remain above the Federal Reserve's long-term target rate of 2 percent.

Uncertainty in the economic environment is affecting consumer opinion. Both the Conference Board's Consumer Confidence Index and the University of Michigan's Consumer Sentiment Index experienced marked declines in the last six months. Although measures of consumer sentiment and confidence rebounded in May relative to April, Moody's May forecast shows decline in both measures compared to their December 2024 predictions.

Across the United States, retail consumption continues to increase, albeit at a slower rate than in recent years. From January through April 2024, consumption increased 8.3 percent compared to the same time frame in 2023. From January through April 2025, retail consumption increased by just 4.3 percent compared to one year earlier, as many consumers have reduced discretionary purchases and other big-ticket items in recent months due to the uncertain economic environment. Moody's May baseline forecast for U.S. retail sales, excluding motor vehicles and parts, continues to show growth over the next biennium. However, these values are lower in FY 2026 and FY 2027 when compared to Moody's December 2024 forecast.

The table on the next page outlines selected key economic variables, some of which underpin our updated revenue forecast.

History and May 2025 Moody's Analytics Baseline Forecast of Key Economic Variables, FY 2022-2027						
Annual percent change unless otherwise indicated, annual amounts are averages of quarters						
Output	**FY 2022 Actual**	**FY 2023 Actual**	**FY 2024 Actual**	**FY 2025 Estimate**	**FY 2026 Forecast**	**FY 2027 Forecast**
U.S. Real GDP	4.3	2.2	3.1	2.3	1.2	1.6
Ohio Real GDP	2.8	0.5	2.8	2.0	0.7	1.5
Income						
U.S. nominal personal income	3.9	6.2	5.5	4.6	4.5	4.4
Ohio nominal personal income	2.1	5.3	5.6	4.5	4.4	4.5
U.S. nominal wage and salary income	9.7	6.1	5.8	4.4	4.1	3.7
Ohio nominal wage and salary income	7.5	5.6	5.5	4.1	3.9	3.5
Employment						
U.S. nonfarm employment	4.8	3.2	1.6	1.2	0.4	0.0
Ohio nonfarm employment	3.1	2.0	1.0	0.6	0.3	-0.1
U.S. unemployment rate (percentage)	4.2	3.5	3.8	4.1	4.5	4.9
Ohio unemployment rate (percentage)	4.3	3.8	3.9	4.6	5.2	5.6
Consumer Spending						
U.S. real personal consumption expenditures	6.0	2.2	2.6	2.9	1.2	1.2
U.S. nominal personal consumption expenditures	12.3	7.7	5.5	5.6	4.6	3.6
U.S. light vehicle sales (millions of units)	13.42	14.61	15.57	16.21	15.91	16.21
U.S. Retail and Food Service Sales (excluding Motor Vehicles and Parts)	14.0	6.1	2.8	3.7	3.3	1.9

UPDATE ON AVAILABLE REVENUES

Sound economic performance supported this fiscal year's state tax revenue intake. In particular, the labor market has been driving income tax withholding collections above originally anticipated levels. OBM's revised FY 2025 tax revenue forecast is now $28.66 billion, $214 million, or 0.8 percent, above the forecast provided in the Executive budget "Blue Book," with most of the upward revision coming from personal income tax revenues.

As I discussed in the previous section of my testimony, the underpinning baseline economic forecast is now less optimistic compared to December when revenues for the as-introduced budget were forecast. As a result, the tax revenue forecast for the upcoming biennium is modestly reduced compared to the as-introduced Executive budget. Total GRF baseline tax revenue is now estimated to be $29.6 billion in FY 2026, a slight downward revision of $20 million from the Blue Book. For FY 2027, total baseline tax revenue is estimated at $30.36 billion, a downward revision of $226 million.

OBM continues to forecast tax revenues in a conservative manner. Estimates for major tax sources anticipate only modest growth during the biennium. Non-auto sales tax revenues are expected to grow at a rate in line with historic trend during FY 2026 and at a more reserved pace in FY 2027. The forecasted auto sales tax growth rate is also below trend. Projected commercial activity tax revenues reflect an expected decrease in FY 2026 as the tax policy changes enacted in the last budget become fully implemented. Finally, personal income tax revenues reflect estimated growth rates that are close to the historic growth rates for this source.

Fiscal Year 2025-2027 Baseline GRF Revenue Estimates
Executive Budget Blue Book vs. Conference Estimates
(Dollars in Millions)

Revenue Source	FY 2025 Blue Book	FY 2025 Conference	FY 2026 Blue Book	FY 2026 Conference	FY 2027 Blue Book	FY 2027 Conference
Non-Auto Sales & Use	12,027	11,962	12,578	12,477	12,952	12,696
Auto Sales & Use	1,907	1,949	1,952	1,973	1,963	2,004
Subtotal Sales & Use	**13,934**	**13,911**	**14,530**	**14,450**	**14,915**	**14,700**
Personal Income	9,987	10,124	10,649	10,621	11,068	11,021
Corporate Franchise	0	0	0	0	0	0
Financial Institutions Tax	213	204	217	212	221	217
Commercial Activity Tax	2,180	2,249	2,079	2,148	2,214	2,227
Petroleum Activity Tax	12	12	12	12	12	11
Public Utility	176	169	181	170	187	170
Kilowatt Hour	286	305	278	319	271	335
MCF Tax	61	63	60	62	59	62
Insurance	774	789	818	803	862	834
Other Business & Property Tax	0	0	0	0	0	0
Cigarette and Other Tobacco Tax	704	716	679	688	655	662
Alcoholic Beverage	61	60	61	61	62	61
Liquor Gallonage	56	55	56	55	57	55
Estate	0	0	0	0	0	0
Total Taxes	**28,443**	**28,657**	**29,620**	**29,600**	**30,582**	**30,356**
Earnings/Investments	300	364	250	250	250	250
Licenses and Fees	135	140	135	135	135	135
Other Income	118	116	105	105	105	105
ISTVs & IDCs	28	29	10	10	10	10
Total Non-Tax	**581**	**648**	**500**	**500**	**500**	**500**
Total Sources (Excluding Transfers In and Federal Grants)	**$29,024**	**$29,305**	**$30,120**	**$30,100**	**$31,082**	**$30,856**

As the table above illustrates, across all three years, **OBM's forecast of total state sources to the GRF for this budget is adjusted upward today by $35 million total.** While the forecast is adjusted downward by $20 million in FY 2026 and downward by $226 million in FY 2027, this is offset by a positive $281 million better-than-anticipated finish to current FY 2025.

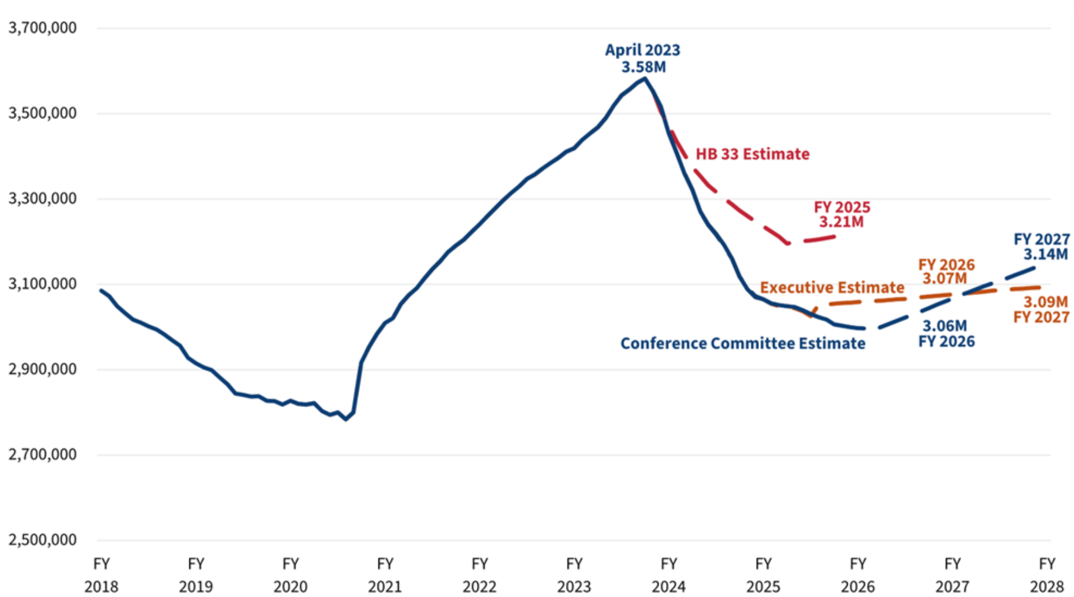
Given the slowing economic growth and moderating consumer spending on the horizon, it is important to maintain a balanced budget, and I appreciate the focus from both chambers on maintaining balance.

REVISED MEDICAID ESTIMATES

I will now turn to our revised forecast for Medicaid caseloads, a major budget driver. Medicaid currently provides services to approximately three million Ohioans. The revised caseload projection, based on updated economic assumptions, foresees a decline of 15,000 individuals at the end of FY 2026 and then an increase of 51,000 individuals at the end of FY 2027, compared to the Executive budget projection. Overall, Medicaid expects caseload to increase 4.8 percent during FY 2026-2027 compared to FY 2025. The main increases are expected in the OhioRISE, Modified Adjusted Gross Income, and Aged, Blind, and Disabled caseload groups.

The updated baseline projection for all-funds Medicaid spending has increased by $297.7 million (0.4%) over the biennium compared to the Executive baseline projection. The state share GRF estimate has increased by $217.6 million (1.4%) over the two fiscal years ($19.1 million in FY 2026 and $198.6 million in FY 2027). The increases are primarily attributable to the updated caseload forecast. Although the total caseload is projected to decline in FY 2026, the OhioRISE FY 2026 caseload is projected to increase to 58,584 compared to 51,433 (13.9%) in the Executive budget forecast. Additionally, the nursing facility FY 2026 caseload is projected to increase to 45,474 compared to 44,815 (1.5%) in the Executive budget forecast. The updated projections are based on additional months of actual caseload data since the budget was introduced. The updated Medicaid caseload and budget projections are aligned with OBM's revised economic forecast for the FY 2026-2027 biennium.

Medicaid Caseload FY 2026-2027 Forecast

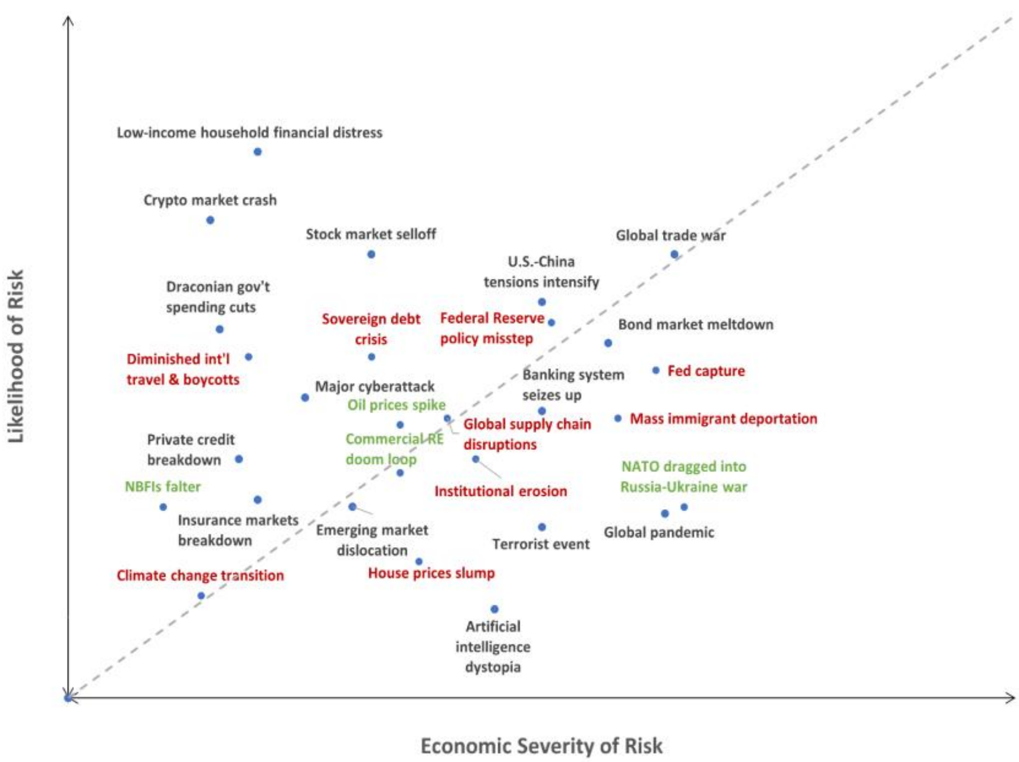


SOURCES OF RISK AND UNCERTAINTY

As I noted in my testimony when the budget was introduced, there are upside and downside risks to the Moody's Analytics baseline forecast. On the upside, a stronger-than-expected labor market could allow for inflation to fall even if job gains exceed expectations. This could allow the Federal Reserve to cut interest rates if inflation approaches the target rate. Additionally, trade uncertainties could resolve more quickly than anticipated, bolstering economic growth.

On the downside, higher-than-expected tariffs could directly reduce business investment and consumer spending, weaking growth throughout the forecast period. Higher tariffs could also contribute to higher inflation and therefore lead to a slower pace of interest rate cuts than is currently expected. If price inflation persists, the Federal Reserve could deem it necessary to manage a wage-price spiral by raising interest rates substantially. Finally, geopolitical events could increase oil and gasoline prices, weakening business and consumer confidence, which could result in slower-than-anticipated spending by both businesses and consumers.

Risks to the Macroeconomic Forecasts



Note: Changes in red are either an increase in the odds of the event occurring or a new downside risk.
Changes in green reflect a decline in the probability of the event occurring.

Source: Moody's Analytics (May 2025) U.S.-Baseline Outlook and Alternative Scenarios

CONCLUSION

Mr. Chairman, members of the Conference Committee, thank you for the opportunity to address you today and for your collaboration throughout the budgeting process. Governor DeWine and Lt. Governor Tressel appreciate your shared commitment to Ohio's families and children, to our local communities and natural resources, to our people and workforce, and to our thriving and innovative economy. Each member of the Cabinet and I stand ready to assist with any information that you need as you work to finalize the biennial budget in the upcoming days.

I look forward to working with you to ensure that our mutual priorities are supported. Together, we remain focused on assisting each Ohioan in reaching his or her God-given potential and on preserving our balanced budget and our state's AAA credit rating, saving taxpayer dollars into the future. I am happy to answer any questions that you have.