# Ohio Legislative Service Commission




## Forecast of GRF Revenues and Public Assistance Spending For the FY 2004-FY 2005 Biennial Budget

## Testimony before the Senate Finance and Financial Institutions Committee

***April 22, 2003***


***Testimony of LSC Staff by***
***David Brunson, Division Chief for Education and Taxes***
***With assistance from LSC Tax and Human Services Fiscal Staff***


Chairman Harris and members of the Senate Finance and Financial Institutions Committee, we are here today to present the forecasts of the staff of the Legislative Service Commission (LSC) for fiscal years (FYs) 2004 and 2005. This testimony and information in your packet include forecasts for GRF revenues, for the economy, for the Medicaid program, for TANF (Temporary Assistance for Needy Families), and for the DA (Disability Assistance) program.

Unless stated otherwise, the estimates assume current law continues throughout the next biennium. We will primarily provide baseline forecasts with some added information on Executive or House proposals.

***<u>Summary</u>***

The LSC revenue estimate for FY 2004 GRF income (excluding federal) is $17,209 million ($17.209 billion). The LSC estimate is $18.3 million more than the Executive's estimate. For FY 2005, the LSC estimate is $18,063 million. This is $70.2 million more than the Executive's estimate.

Our baseline forecast on Medicaid expenditures is approximately $9.02 billion in FY 2004 and $9.69 billion in FY 2005. Our estimated expenditures are 1.04% below the Office of Budget and Management's (OBM's) baseline forecast for FY 2004 and 2.78% below their forecast for FY 2005. Legislative Service Commission's forecast is lower than the Executive's forecast by the following amounts:

| | **State** | **Federal** | **Total** |
|---|---|---|---|
| FY 2004 | $ 39.0 million | $ 55.3 million | $ 94.3 million |
| FY 2005 | $ 111.6 million | $ 158.0 million | $ 269.6 million |

LSC estimates were prepared by tax and human services staff. They are in the audience today to assist with the questions following the testimony. In making these forecasts LSC staff attempts to provide a forecast that is in the center of the expected range of outcomes. Thus we try to produce estimates where the chance that the actual outcome will be more or less than the estimate is about 50%. Some cities in Ohio and some states try to estimate very conservatively -- their estimates are such that actual revenues are almost bound to come in above the estimates. Again, we do not do that. We try to put our estimates in the middle of the range.

## ***The Economy***

The end of the long pause in the recovery may finally be just around the corner now that the active phase of the war with Iraq is over. Businesses have been waiting for the cloud of uncertainty to lift before making new commitments. Business investment in new equipment is expected to be a major engine of economic recovery. The federal government and the consumer should also help out. However, consumer help should be modest since consumers have been buying vehicles all through the recession and housing purchases have remained high.

The Ohio and U.S. economies have been performing about as expected in the January forecast. Slow growth the first half of the year was expected to be followed by better growth the second half of the year. The April Global Insight *"U.S. Executive Summary"* included in your packet shows this same pattern. However, compared to the January forecast, slightly weaker growth and lower inflation are forecast for calendar year 2003.

## ***Revenue Estimates***

Fiscal year 2003 revenues appear to be on track with the OBM and LSC January revisions. The corporate and foreign insurance taxes are looking a little stronger than we expected while the non-auto sales and earnings on investments are looking weaker.

Lottery profits are also weaker than expected. Ticket sales are 5.0% higher than last year, but profits are up only 1.4%. Profits are $26.2 million under estimate. All three quarters have been under estimate with two-thirds of the year-to-date shortfall occurring in the most recent quarter.

Tax revenues are estimated to grow 3.8% in FY 2004 and 5.0% in FY 2005. Many categories of receipts should have reasonable growth. Some examples include:

- Personal income taxes are estimated to grow 5.1% in FY 2004 and 6.0% in FY 2005.

- The non-auto sales tax is estimated to grow 3.6% in FY 2004 and 4.6% in FY 2005. This growth is following three years where the tax was essentially flat after adjusting for tax changes.

- Corporate franchise tax revenues are estimated to grow 7.6% in FY 2004 and 10.7% in FY 2005 after a severe multi-year downturn. While we had originally expected the downturn to modestly continue in FY 2003, we have seen hope in recent revenue data that the slide may stop this year and we may see a small increase.

- Insurance taxes are expected to grow from both life and fire and casualty sales. Increases of about 5% per year are expected.

- Slow, steady growth in the kilowatt hour excise tax is forecast. Growth of 2.3% and 2.2% is estimated. This tax is based on usage so the growth rate should be rather slow.

There are some exceptions to this picture of moderate revenue growth. These include:

- The auto sales tax should have no or very slow growth both years due to the high level of sales in FY 2003 caused by the auto manufacturer incentives. High sales levels limit the upside revenue potential as we emerge from the recession. The normal reason for large growth for this source coming out of a recession is consumer pent-up demand. This is where consumers put off making a new purchase during a recession because of the economic uncertainty or because their income is reduced. Due to the large incentives, pent-up demand may exist for those with reduced incomes, but not for most families. In fact the danger is that auto companies have pulled sales forward from the future by the great deals, and that sales may actually decline for a period of time. As with the current year, sales levels during the biennium will be greatly affected by manufacturer decisions on incentives.

- The cigarette tax is estimated to decrease 3.8% in FY 2004 and 1.4% in FY 2005. The decrease in FY 2004 is due to the play-out of the 6.0% decline in consumption caused by the tax increase and the one-time revenue from the floor tax in FY 2003. The FY 2005 decline reflects the general ongoing slow decline in cigarette consumption.

- The estate tax declines 24.0% in FY 2004 due to the tax changes previously enacted for that tax. Growth of 4.3% is estimated for FY 2005.

- The public utility excise tax is estimated to fall slightly at the rate of 0.4% in FY 2005 reflecting slow erosion in the regulated utility market for local telephone service.

***Video Lottery Terminals***

The House assumed that Video Lottery Terminals (VLTs) will be in full operation for five quarters during the next biennium if VLTs are approved by voters. Further, net state revenues would increase by $500 million per year for those five quarters. Also a franchise fee of $112 million was estimated for FY 2004.

LSC plans to examine three main questions on the VLT estimates:

- How long will administrative steps take and when will the seven businesses be open and ready for the public? Will they open in temporary or permanent facilities?
- What profit level can be expected during that first year or so the businesses are open?
- What effect will the businesses have on traditional lottery profits or other state revenue?