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Forecast of GRF Revenues and Public Assistance Spending For the FY 2006 - FY 2007 Biennial Budget

Testimony before the Conference Committee on H.B. 66

June 9, 2005

Testimony of LSC Staff by

Steve Mansfield, Chief of Fiscal Analysis

With assistance from other LSC Tax and Human Services Fiscal Staff

Mr. Chairman and members of the Conference Committee, I will be presenting the Legislative Service Commission's updated baseline forecast of revenues, and Medicaid and TANF spending. This testimony and the other information in your packet includes forecasts for GRF revenues, forecasts for expenditures in the Medicaid and TANF (Temporary Assistance for Needy Families) programs, and an outlook on future economic performance.

Revenues

As you know, LSC's baseline revenue forecast was relied upon in the House- and Senate-passed versions of H.B. 66. LSC's baseline forecast of Medicaid expenditures was relied upon by the Senate, while the House "split the difference" between LSC's Medicaid forecast and OBM's forecast.

In our previous testimony LSC forecast total tax revenue to be \$18.44 billion in FY 2005, \$17.79 billion in FY 2006, and \$18.53 billion in FY 2007. Today, on the basis of recent data, LSC forecasts total tax revenue to be \$18.98 billion in FY 2005, \$18.16 billion in FY 2006, and \$18.85 billion in FY 2007. Our new forecasts of tax revenues are thus higher than our previous estimates by \$540.8 million in FY 2005, by \$369.7 million in FY 2006, and by \$319.2 million in FY 2007. When nontax sources of revenue are included, the increases in revenue over our previous forecast are \$563.5 million in FY 2005, \$392.0 million in FY 2006, and \$342.3 million in FY 2007.

Virtually all of the increase from our earlier forecast is traceable to changes in our forecast of receipts from the personal income tax and from the corporate franchise tax. The increases in forecast receipts from the personal income tax stem largely from higher payments of estimated tax on investment income and from the self-employed, although withholding on wages and salaries is up slightly. Another significant source of the increase is from "taxes due" payments where for one reason or another an insufficient amount was withheld. The source of an increase in actual receipts from the corporate franchise tax is hard to pin down at this point. While corporate profits have been strong in the previous two calendar years, and franchise tax revenue growth is exceptional this year, we will not be able to fully analyze the reasons until probably next year when aggregate data on the corporate franchise tax are available. While receipts in FY 2005 have risen above our earlier estimate, LSC's revised forecast of revenues from the corporate franchise tax for FY 2006 and FY 2007 applies unchanged growth rates to this higher base.

The increased receipts from the personal income tax and the corporate franchise tax are offset somewhat by lower tax collections from the auto sales tax, the public utility tax, and the kilowatt-hour excise tax.

In testimony just heard, OBM has also revised its estimates for revenues upward; and in contrast to the previous forecasts, OBM's estimates are now higher than LSC's for each fiscal year. The difference between the OBM and LSC estimates for total GRF revenue for FYs 2005, 2006, and 2007 is now \$37.8 million, \$58.5 million, and \$216.0 million, respectively.

It turns out that revenue performance in the personal income tax and the corporate franchise tax in FY 2005 is much stronger than either OBM or LSC anticipated in our earlier forecasts. If you will look at Table 3 on page 12 of your packet, you will see relatively high rates of growth forecast by both LSC and OBM for FY 2005 in these particular tax revenues. So although the growth rate for those taxes slows considerably in FY 2006 and FY 2007, the FY 2005 performance has put those tax revenues at a much higher level than was expected, and then this higher level is sustained with slower but continued growth.

Medicaid

With regard to total Medicaid spending (before offsets), LSC now forecasts spending to be \$10.5 billion in FY 2005 (\$55.9 million lower than our previous forecast), \$11.8 billion in FY 2006 (\$56.0 million lower than our previous forecast), and \$12.7 billion in FY 2007 (\$177.7 million lower than our previous forecast). LSC revised the forecast of the Medicaid caseload downward for both Covered Family and Children and Aged, Blind, and Disabled for FYs 2005 to 2007 due to the fact that recent caseload growth has tracked lower than originally forecast. In addition, the Department of Job and Family Services anticipates amending rules to update the relative weights for Diagnostic Related Groups used in the prospective payment system for hospital services. The Department has increased its hospital recalibration savings estimate significantly to \$65.7 million in

FY 2006 and \$170.2 million in FY 2007. LSC has adjusted its updated forecast to reflect this change in estimate, accordingly.

Our revised forecast for total Medicaid expenditures for FY 2006 is higher than OBM's forecast by \$11.7 million (\$4.7 million in state share). For FY 2007, LSC's revised forecast is \$114.2 million lower than OBM's forecast (\$46.1 million in state share). The difference in FY 2007 stems largely from LSC's lower caseload estimate.

TANF

Turning to our forecast of cash assistance in the Temporary Assistance for Needy Families (TANF) program, LSC expects the total number of TANF cases (or assistance groups) to decrease in FY 2006 to an average of 83,854 monthly cases from a FY 2005 average of 86,423. If current benefit levels remain the same, the decline in the total number of TANF cases will result in approximately \$10.4 million less being spent on TANF cash benefits in FY 2006 (\$302.1 million) than in FY 2005 (\$312.5 million). The decline in the number of TANF cases is expected to continue into FY 2007. The monthly average of cases is expected to decline to 81,852. That estimate brings total spending for cash benefits, assuming current eligibility and benefit levels, to \$294.9 million for FY 2007.

TANF/OWF - LSC Baseline Estimates			
(assumes current benefit levels)			
	FY 2005	FY 2006	FY 2007
Average monthly cases	86,423	83,854	81,852
Total cash benefits (millions)	\$312.5	\$302.1	\$294.9

The budget bill provides for an increase in cash benefits of 10% beginning October 1, 2005. With that increase, the total cost for TANF cash benefits in FY 2006 would be \$324.7 million, an increase of \$12.2 million over FY 2005 expenditures. Spending for cash benefits in FY 2007 would reach \$324.4 million, a slight decrease from FY 2006.

Comparing these expenditures for cash assistance with the appropriation levels in the bill for the line items that support cash payments, shows a difference of \$735.3 million in FY 2006 and \$767.7 million in FY 2007 that can be used for other TANF eligible services and program expenditures.

Economic Outlook

Revisions to the economic outlook since LSC's budget testimony in February have in most cases been small. In general, economic growth in calendar year (CY) 2006 and CY 2007 is expected to be slightly slower than it was three to four months ago, and inflation is expected to be somewhat higher.

Global Insight's current forecast for real gross domestic product growth in CY 2005 is unchanged at 3.5%. For CY 2006, that organization's forecast for real gross domestic product (GDP) growth was revised downward from 3.1% to 3.0%. For CY 2007, Global Insight's real GDP growth forecast was revised from 3.2% to 3.1%. This forecast is similar to that of the Governor's Council of Economic Advisors, which in May made similar downward revisions.

Below is a table comparing Global Insight's January and June forecasts on several key economic variables for each quarter through CY 2007.

Global Insight January 2005 and June 2005 Forecasts												
	CY 2005				CY 2006				CY 2007			
	1	2	3	4	1	2	3	4	1	2	3	4
U.S. Real GDP Growth (percent change at annual rate)												
January Forecast	3.6	3.7	3.3	2.5	2.9	3.6	3.3	3.1	3.0	3.5	3.1	3.3
June Forecast	3.5	3.1	3.8	3.0	2.9	2.9	2.6	3.0	2.9	3.6	3.2	3.6
U.S. CPI Inflation												
January Forecast	1.6	0.7	1.0	2.1	1.4	1.6	1.8	2.1	2.0	2.0	2.0	2.2
June Forecast	2.4	4.4	1.2	2.2	1.8	2.1	1.2	1.8	1.9	1.9	2.0	2.2
U.S. Personal Income Growth												
January Forecast	1.3	5.1	5.3	4.8	5.6	5.4	5.5	5.0	5.5	5.7	5.6	5.6
June Forecast	3.2	6.4	5.4	5.1	6.8	5.6	5.3	4.7	5.1	5.5	5.7	5.8
Ohio Personal Income Growth												
January Forecast	2.0	4.9	5.0	4.7	4.8	4.9	4.7	4.8	4.9	5.1	5.1	5.1
June Forecast	1.6	5.3	4.9	5.0	5.6	5.3	5.0	4.4	4.5	4.8	4.7	4.7
Ohio Unemployment (percent of the labor force)												
January Forecast	6.4	6.3	6.2	6.2	6.1	6.0	6.0	6.0	6.0	6.0	6.1	6.1
June Forecast	6.4	6.2	6.1	6.1	6.1	6.1	6.1	6.2	6.2	6.2	6.2	6.2

Additional detail on the economic forecasts, along with detailed analysis of LSC's forecasts on revenues, Medicaid, and TANF, are contained in your packet.

I will be happy to try to answer any questions. Also present and available for questions are a number of my colleagues who actually did the hard work and number crunching for these forecasts.