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Forecast of GRF Revenues and Public Assistance Spending for the FY 2008 - FY 2009 Biennial Budget

Testimony before the Conference Committee on H.B. 119

June 21, 2007

*Testimony by Chuck Phillips, Division Chief
and LSC tax and human services fiscal staff responsible for producing the forecasts*

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 (Temporary Assistance for Needy Families) spending. This testimony and the other information in your packet includes an overview of the economy and an outlook on future economic performance, forecasts for GRF tax revenues, and forecasts for expenditures in the Medicaid and TANF programs.

GRF Tax Revenues

LSC's revised estimate of GRF tax revenues for FY 2007 is \$19.4 billion, \$78.0 million (0.4%) higher than the March estimates. For FY 2008, the revised forecast of GRF tax revenues is \$19.5 billion, \$75.5 million (0.4%) below the forecast that we provided in March. For FY 2009, the revised forecast of GRF tax revenues is \$19.5 billion, \$157.4 million (0.8%) less than the March forecast. These forecasts are after subtraction of the amounts credited to the local government funds. They are calculated under the new distribution plan proposed by the Executive, as modified by the House and Senate. No other tax changes are assumed.

The revisions in the revenue estimates for FY 2007 mainly reflect the level of receipts of the various taxes since the earlier estimates were developed. The updated revenue forecasts for FY 2008 and FY 2009 mainly reflect the revision in the underlying economic forecast, resulting in lower than anticipated nonauto sales tax revenues and weaker personal income tax revenues. Also, cigarette tax revenues now appear likely to be lower than anticipated in March, as a result of higher prices for taxed cigarettes and

the tighter limits on public smoking. These downward revisions are partially offset by an upward revision to the forecast for corporate franchise tax revenues, reflecting the pattern in recent months of stronger than anticipated collections.

Economy

The outlook for the economy, as measured by expected gross domestic product in the nation and Ohio during the next two years, has shifted to somewhat slower growth. LSC obtains predictions for the economic outlook from the forecasting firm Global Insight and from the Governor's Council of Economic Advisors. Economic forecasts released in January served as the basis for LSC's initial revenue projections for the upcoming biennium. Updated economic forecasts released in May, along with more complete data on FY 2007, served as the basis for the revisions to the revenue projections. Prospects still appear favorable for continued expansion through the end of the upcoming biennium. Inflation is projected to ease after turning higher this year.

Global Insight's forecast for growth of the nation's economy, measured by real gross domestic product, continues to show expansion through FY 2009 and beyond. But the rate of growth in FY 2008 and FY 2009 has been revised downward by two-tenths to four-tenths of a percentage point, compared with the outlook as of January. Similarly, Ohio's gross domestic product continues to increase over the next two fiscal years, but the state's economy is not expected to grow as rapidly as that of the nation. Global Insight's forecast for growth in the state was revised downward by two-tenths to four-tenths of a percentage point in FY 2008 and FY 2009.

Expected Ohio wage and salary disbursements in FY 2008 and FY 2009 are an explanatory variable in predicting personal income tax revenues and nonauto sales tax revenues. Global Insight's prediction for Ohio wage disbursements was revised lower between January and May, by seven-tenths of a percentage point for FY 2008 and by six-tenths of a percentage point for FY 2009.

Medicaid

With regard to total Medicaid spending, LSC now forecasts spending to be lower than our previous forecast by \$13.5 million state share in FY 2008 and lower by \$4.4 million state share in FY 2009. LSC revised the forecast of the Medicaid caseload downward for recipients in the Aged, Blind, and Disabled (ABD) eligibility category for FYs 2008 and 2009 due to the fact that recent caseload growth has tracked lower than originally forecast. Recent experience prompted a similar adjustment downward in forecast caseload under the Covered Families and Children (CFC) category in FY 2009, but the caseload forecast was revised upward slightly in FY 2008, due to further analysis of a federal policy change that affects eligibility determinations. The effects of that policy change are expected to be temporary.

TANF

The revised forecast for cash assistance in the Temporary Assistance for Needy Families (TANF) program is \$9.5 million lower in FY 2007, \$8.8 million lower in FY 2008, and \$9.9 million lower in FY 2009 than was initially forecast. LSC forecasts an average of 678 fewer cases per month in FY 2007, 534 fewer cases per month in FY 2008, and 836 fewer cases per month in FY 2009 compared with the initial forecast.

The forecast was revised in light of actual caseload data for the months of February through May, which showed a larger decline in the OWF cash assistance caseload than that initially forecast. The number of assistance groups receiving cash assistance during the months of February through May was 1,212 less per month, on average, than our original forecast, or about 1.5% less. Inclusion of this additional data in the statistical model, together with an updated forecast of the number of unemployed Ohioans from Global Insight, account for the drop in the number of assistance groups forecast for the biennium.

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

Mr. Chairman and members of the Committee, thank you for the opportunity to present the LSC forecasts. Sitting behind me are the people who did the analysis. We would be happy to answer any questions that you might have.