Forecast of GRF Revenues and Public Assistance Spending for the FY 2010-FY 2011 Biennial Budget

To Accompany Testimony
By LSC Director
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ECONOMIC CONDITIONS AND OUTLOOK

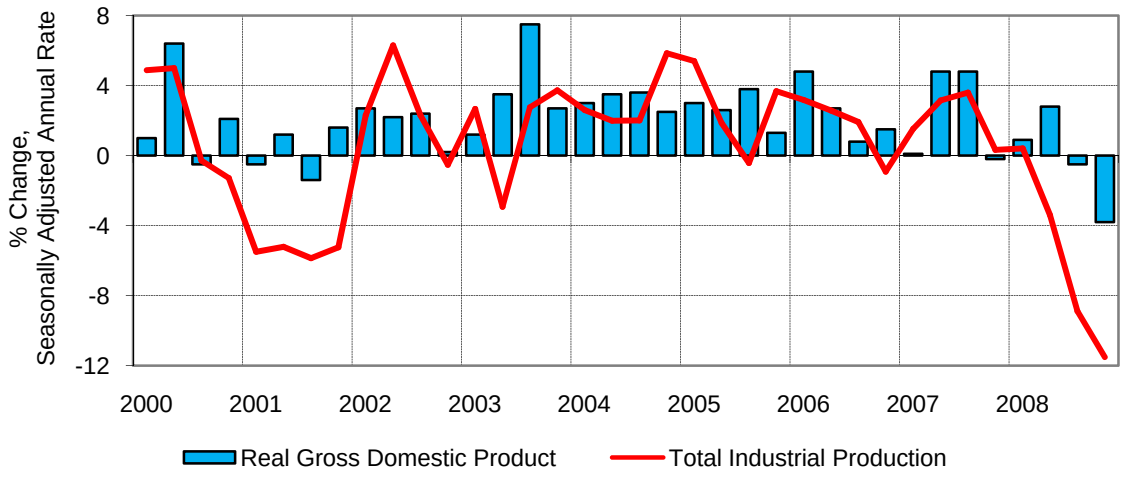
State of the Economy

The nation's economy has been in recession since December 2007, ending an expansion that lasted six years following the previous recession in 2001. The downturn in the economy steepened in last year's second half. The current recession will be long and now appears likely to be deep compared with other post-World War II downturns. Ohio's economy has also weakened, following a recovery earlier in the current decade that was anemic compared with much of the rest of the country.

National

The recession is in part a consequence of the ongoing correction in housing markets, where low interest rates and easy credit availability for years following the 2001 recession drove home prices up to unsustainable levels. Many loans were packaged and sold to investors, whose net worth was subsequently eroded by deflation of the housing bubble and resulting rising numbers of nonperforming loans. The demise of high-profile financial institutions, most notably Lehman Brothers in September, brought credit markets to a virtual standstill. The two large investment banks remaining of the five in existence at the beginning of last year were converted to commercial bank holding companies. Uncertainty regarding the values of nonperforming and underperforming financial assets on others' balance sheets, and consequently of the survival prospects of prospective counterparties, made banks and other financial institutions reluctant to enter into financial transactions with one another. In this environment, the high value placed on cash in hand, coupled with rising uncertainty about borrowers' prospects, led to toughened standards for lending to businesses and consumers. Though financial market conditions have improved somewhat, credit for consumers and businesses remains constrained. These exceptional circumstances in financial markets, added to an ongoing downturn in real economic activity, in the United States and in many foreign countries, have resulted in a recession expected to be especially severe as compared with post-World War II business cycles.

Chart 1: United States Output Measures



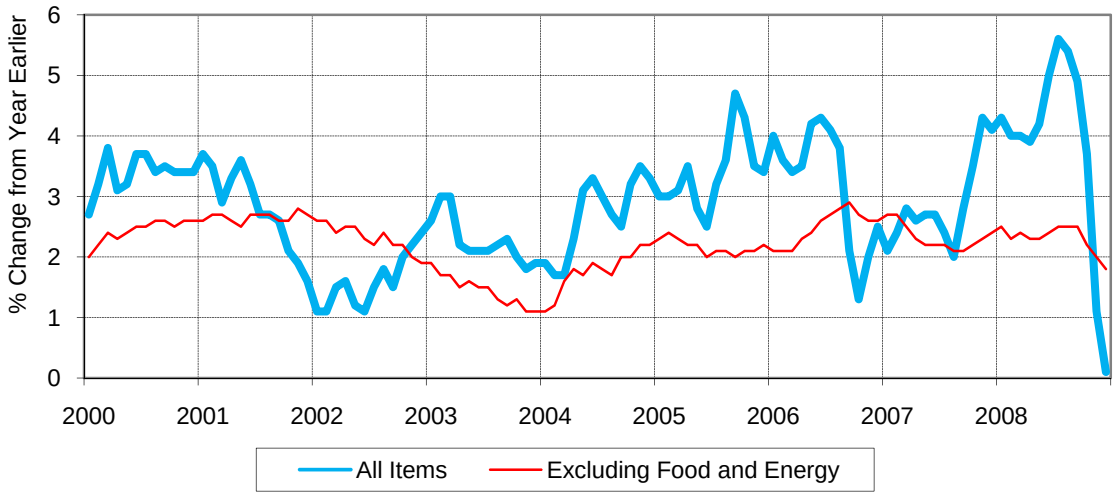
The federal government, along with numerous other governments around the world, responded to the widening financial crisis and economic downturn with programs aimed at supporting financial markets and household and business spending. Tax rebates to individuals last year, most of which were disbursed in the second quarter, may have helped to support consumer spending at a stronger pace than if there had been no rebates. Inflation-adjusted consumer spending nevertheless slowed decisively in the second half of the year. As financial market conditions deteriorated in September and the fourth quarter, the U.S. Treasury used half of the $700 billion Troubled Asset Relief Program (TARP) funds to recapitalize banks and, later, to support General Motors and Chrysler. Another huge federal fiscal stimulus program proposed by the new administration is now being legislated. The Federal Reserve, through various programs, injected massive amounts of funding into capital markets, lowered its short-term interest rate target to a range of zero to 0.25%, purchased large amounts of securities in support of housing markets, initiated programs to support other extensions of credit to households and businesses, and may begin injecting additional money into credit markets through purchases of longer term U.S. Treasury securities.

Though the economic peak that marks the onset of the current recession was in the fourth quarter of 2007, inflation-adjusted (real) gross domestic product (GDP) is currently estimated to have risen in the first half of 2008 before declining in the second half of the year. Consumer spending fell throughout the second half of 2008, residential fixed investment dropped for the twelfth consecutive quarter, and business fixed investment slowed in the third quarter and plunged in the fourth quarter. Inventories accumulated in the fourth quarter, adjusted for inflation, an indication that further downward adjustments in production are likely as businesses struggle to bring their inventories into alignment with reduced sales. Exports of American goods and services fell sharply in the fourth quarter after growing every quarter since 2003. Imports fell for the fifth consecutive quarter. Government spending continued to grow through year-

end, though the fourth quarter increase was more than accounted for by higher federal outlays, as state and local government spending fell slightly.

As economic activity in developed economies around the world turned down, and as growth of less developed economies slowed, demand pressures on resources eased and prices of many commodities fell. Crude oil prices fell by more than two-thirds from peaks last summer. Other commodity prices also declined. Retail gasoline prices dropped by more than half. Weakening demand for other finished goods and services virtually eliminated inflationary pressures, and raised concerns about deflation, in which consumers and businesses anticipate lower prices in the future and so defer spending hoping to buy later at those lower prices. Such deferred spending by large numbers of people would further erode demand.

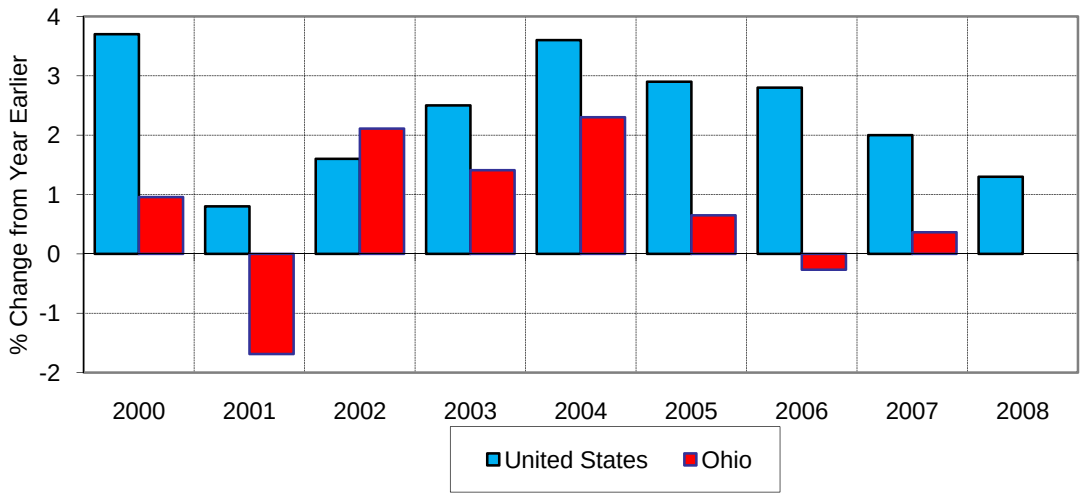
Chart 2: Consumer Price Index



Ohio

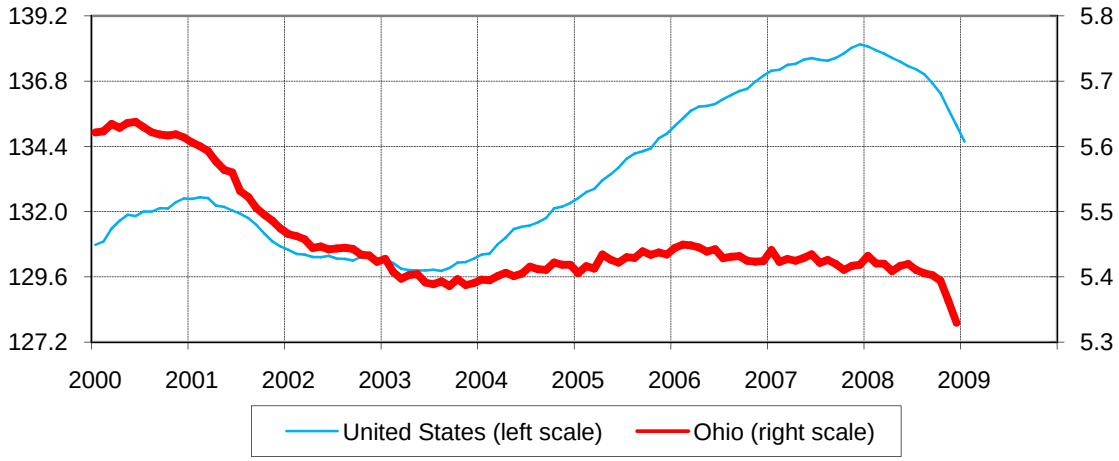
Inflation-adjusted (real) gross domestic product is the broadest measure of statewide economic activity. GDP has risen more slowly in Ohio than nationwide every year since 1998, with the exception of 2002. The state's share of national output has trended lower since the 1960s.[1]

Chart 3: Real Gross Domestic Product



Nonfarm payroll employment in Ohio and the nation fell sharply in late 2008. The decline continued for the nation in early 2009. In the year to December, employment in Ohio declined 89,000 (1.6%). Nationwide, employment dropped by

Chart 4: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted

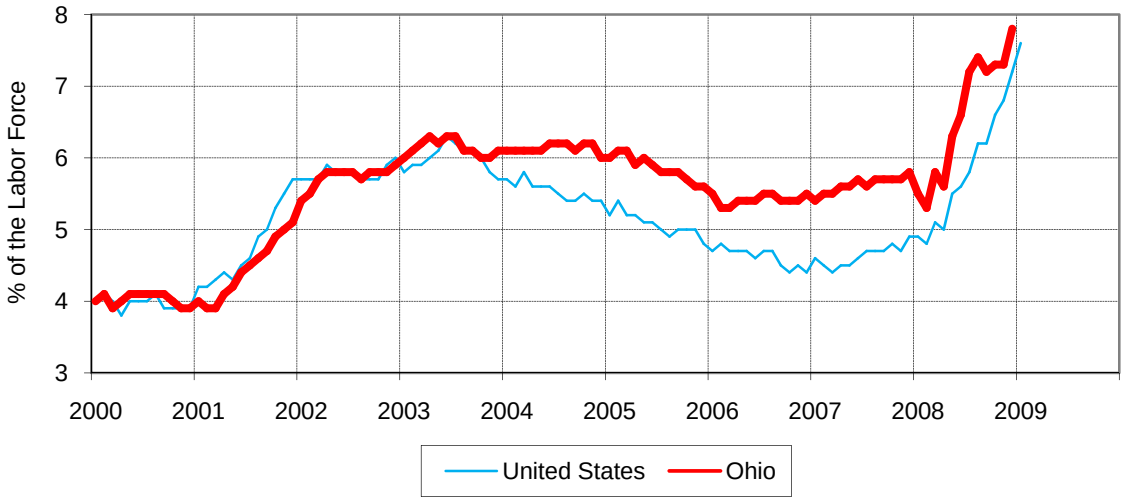


[1] Estimates of state gross domestic product are available from the U.S. Bureau of Economic Analysis only annually and with a long lag; the most recent history currently available from the source agency is for 2007.

3.0 million (2.2%) during 2008, and fell 0.6 million in January 2009. Following the 2001 recession, nonfarm payroll employment in both the state and the nation continued to decline until 2003. Total payroll employment nationwide then rose 6.4% from the 2003 low, peaking in December 2007. Total payroll employment in Ohio climbed much less, rising only 1.2% from the 2003 low, to a peak in February 2006, and has been trending lower ever since.

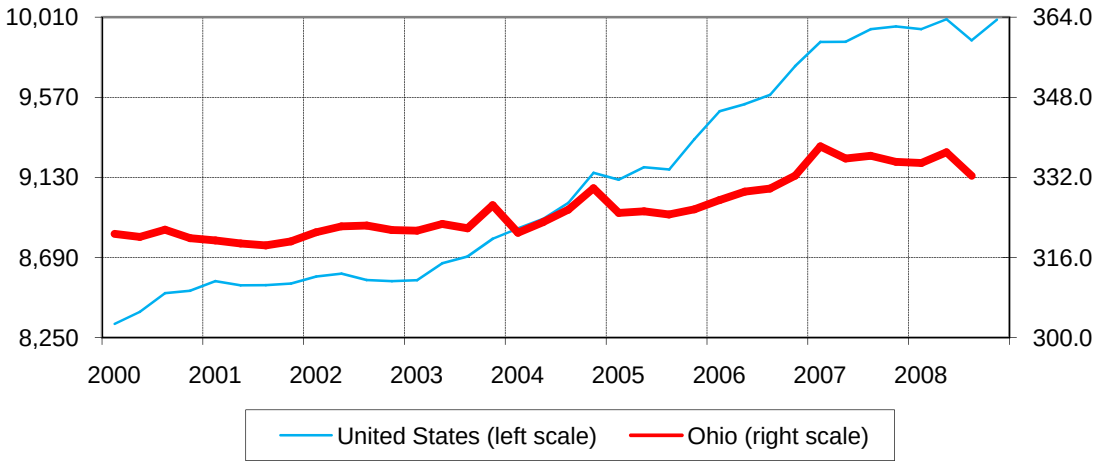
Unemployment as a percent of the labor force, in the nation and in Ohio, has climbed sharply as the recession worsened. Ohio's unemployment rate has been above that for the United States since 2003. The nation's unemployment rate rose in January to 7.6%, up from a low of 4.4% in late 2006 and early 2007. Ohio's unemployment rate climbed to 7.8% in December, up from a low of 5.3% in early 2006 and in February 2008.

Chart 5: Unemployment Rate



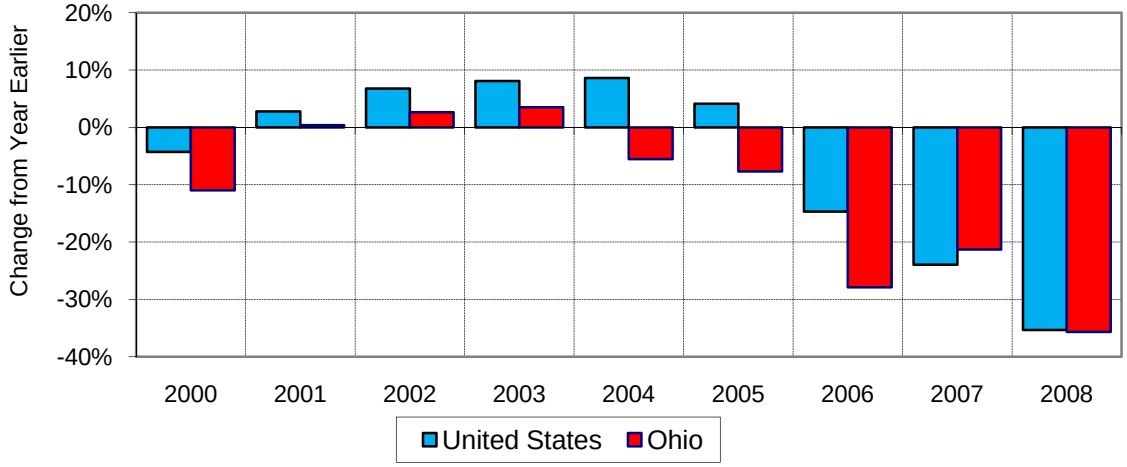
Personal income, adjusted to exclude increases that just offset inflation, has flattened in the nation and declined in Ohio, after increases earlier in the current decade. Growth of personal income in Ohio, for which data are available only through last year's third quarter, has trailed that of the nation for many years. Personal income rose briefly in last year's second quarter reflecting part of the money distributed under the federal fiscal stimulus program. Inflation-adjusted personal income in Ohio fell in the third quarter of 2008 to 1.7% below the peak in the first quarter of 2007. Nationwide, inflation-adjusted personal income rose in last year's fourth quarter as lower prices more than offset a fall in the income's dollar value.

Chart 6: Personal Income
Billions of 2000 Dollars



Housing permits data clearly show the precipitous decline in residential building. Construction activity nationwide has been falling since 2005. In Ohio, residential building barely recovered early in the current decade before turning down in 2004 through 2008. Housing prices have fallen throughout Ohio during the past year and in a majority of local markets around the country, and have plunged in numerous metropolitan areas in California, Florida, Nevada, and Arizona.

Chart 7: New Privately Owned Housing Units Authorized by Building Permits



Economic Forecasts

Predictions for the economic outlook from forecasting firm Global Insight are shown in the following tables. These Global Insight forecasts for the nation and Ohio were released in January. LSC used Global Insight's "very deep recession" scenario to drive its tax revenue forecasts. The very deep recession scenario, also identified as the pessimistic scenario, has real GDP declining for six consecutive quarters, through the end of calendar year 2009, in both the United States and Ohio.

Economic forecasting is inherently fraught with uncertainty, and these projections may prove unduly pessimistic or overly optimistic. Of particular concern for Ohio is the future of the auto industry, because of the important role that the industry and its suppliers play in the state's economy. Ohio's greater reliance than many other states on manufacturing, particularly of durable goods, which historically has been subject to larger fluctuations in output, employment, and incomes than much of the service sector, increases this state's exposure to sharp swings in economic activity when the economy turns down.

Quarterly changes (the first line of each table) shown below are from the preceding quarter of the calendar year indicated. Annual changes (the second line of each table) are based on the annual average for the fiscal year ending in the second quarter of the calendar year indicated, from the preceding fiscal year's annual average. Annual unemployment rates are for the fiscal year.

U.S. Gross Domestic Product

Global Insight's very deep recession scenario, as noted above, shows the national economy in decline through year-end. The pace of recovery in economic activity in FY 2010 and FY 2011 is projected to be slow compared with past post-World War II economic recoveries.

U.S. Real GDP Growth

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-6.4	-3.3	-1.5	-0.4	0.7	2.8	3.5	3.0	2.4	2.5	2.7	2.4
Global Insight		-1.7				-2.0				2.5		

Ohio Gross Domestic Product

As is the case for the nation, real GDP in Ohio is projected to fall through the end of calendar year 2009 before beginning a recovery in 2010. The state's recovery is at a slower pace than nationwide.

Ohio Real GDP Growth

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-5.8	-3.0	-1.5	-0.6	0.4	1.9	2.4	1.9	1.4	1.6	1.9	1.8
Global Insight		-1.6				-2.0				1.6		

U.S. Inflation

In Global Insight's very deep recession scenario, the fall in the general price level, as measured by the consumer price index, comes to an end around the middle of calendar year 2009. Inflation rises into early 2011 before easing. There is no good Ohio measure of inflation comparable to the national consumer price index.

U.S. Consumer Price Index Inflation

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-8.8	-2.4	1.3	1.9	1.8	3.0	3.2	4.3	5.6	5.3	4.7	4.4
Global Insight		0.2				-1.2				3.5		

U.S. Personal Income

Nationwide personal income is forecasted to fall through the end of calendar year 2009 before beginning to rise. The rate of increase approaches 5% by 2011.

U.S. Personal Income Growth

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-0.2	-0.9	-0.3	-0.3	0.4	1.7	3.2	3.7	4.8	4.6	5.1	5.2
Global Insight		1.8				-0.2				2.7		

Ohio Personal Income

Income to persons who reside in Ohio is projected to fall in the second through fourth quarters of calendar year 2009 before turning higher in 2010 and 2011.

Ohio Personal Income Growth

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	1.0	-0.6	-0.1	-0.2	0.2	1.4	2.3	2.7	4.0	4.0	4.6	4.8
Global Insight		1.9				0.1				2.1		

U.S. Unemployment Rate

In Global Insight's very deep recession scenario, nationwide unemployment peaks around 10% of the labor force in the second quarter of 2010, then declines slowly through the end of 2011.

U.S. Unemployment Rate

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	7.7	8.6	9.2	9.7	9.9	10.0	9.9	9.8	9.6	9.5	9.3	9.2
Global Insight		7.3				9.7				9.7		

Ohio Unemployment Rate

The unemployment rate in Ohio rises to a peak above 11% of the labor force in Global Insight's very deep recession scenario, and remains above 10% through the end of 2011.

Ohio Unemployment Rate

	2009				2010				2011			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	8.9	9.8	10.5	11.0	11.2	11.3	11.2	11.0	10.8	10.6	10.4	10.3
Global Insight		8.5				11.0				10.9		

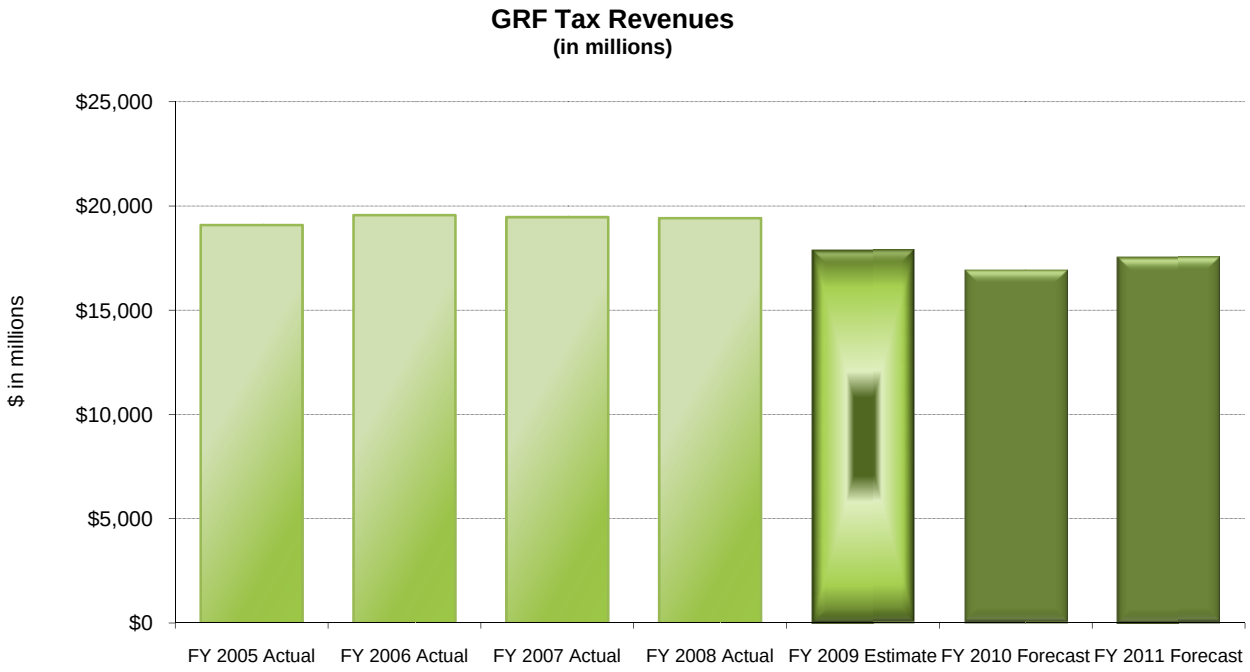
REVENUE FORECASTS

The LSC baseline forecasts for FY 2010 and FY 2011 assume the current statutory tax structure, including phase-in of the tax reform measures enacted in H.B. 66 of the 126th General Assembly, and tax changes enacted in the budget bill for the current biennium, H.B. 119 of the 127th General Assembly. The corporate franchise tax on nonfinancial corporations is phased out starting in FY 2010. Personal income tax rates receive their fifth and final H.B. 66 cut for tax year 2009. In FY 2010, the commercial activity tax (CAT) becomes fully phased in but as in the current biennium, revenues from the CAT are used during the next biennium to replace revenue reductions incurred by local governments as a result of the phase-out of the tangible personal property tax on general business. Various tax credits previously applied against the corporate franchise tax will reduce estimated baseline receipts from the CAT starting in FY 2009. Distributions of GRF tax revenues to the local government funds are assumed to follow the new formula established by H.B. 119. And credits under the personal income tax for military retirement pay, established by H.B. 372 of the 127th General Assembly, and for eligible historical preservation projects, established by H.B. 149 of the 126th General Assembly and amended by H.B. 554 of the 127th General Assembly, are also incorporated into the forecasts.

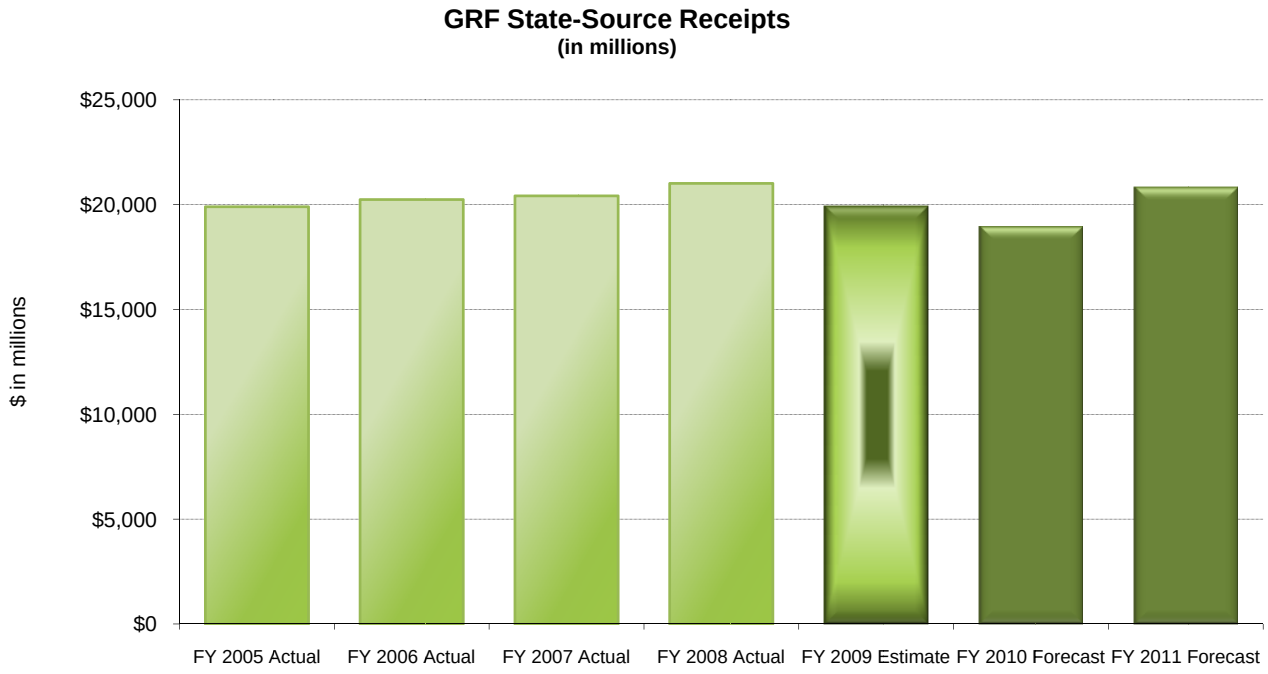
GRF tax revenue under current law is forecast to decrease by $937.0 million (5.2%) in FY 2010. A substantial portion of this decrease is attributable to the phase-out of the corporate franchise tax on nonfinancial corporations and the final cut to personal income tax rates. The effects of the current recession on both these taxes and on the sales and use tax account for most of the rest of the expected reduction. An expected fall in receipts from the public utility excise tax is due to a continuation of recent declines in natural gas prices.

GRF tax revenue under current law is forecast to increase by $627.5 million (3.7%) in FY 2011. Economic recovery is expected to lead to a return to growth in revenues from both the sales and use tax and the personal income tax. Increases in those taxes more than offset the continued decline in collections of taxes on cigarettes and other tobacco products.

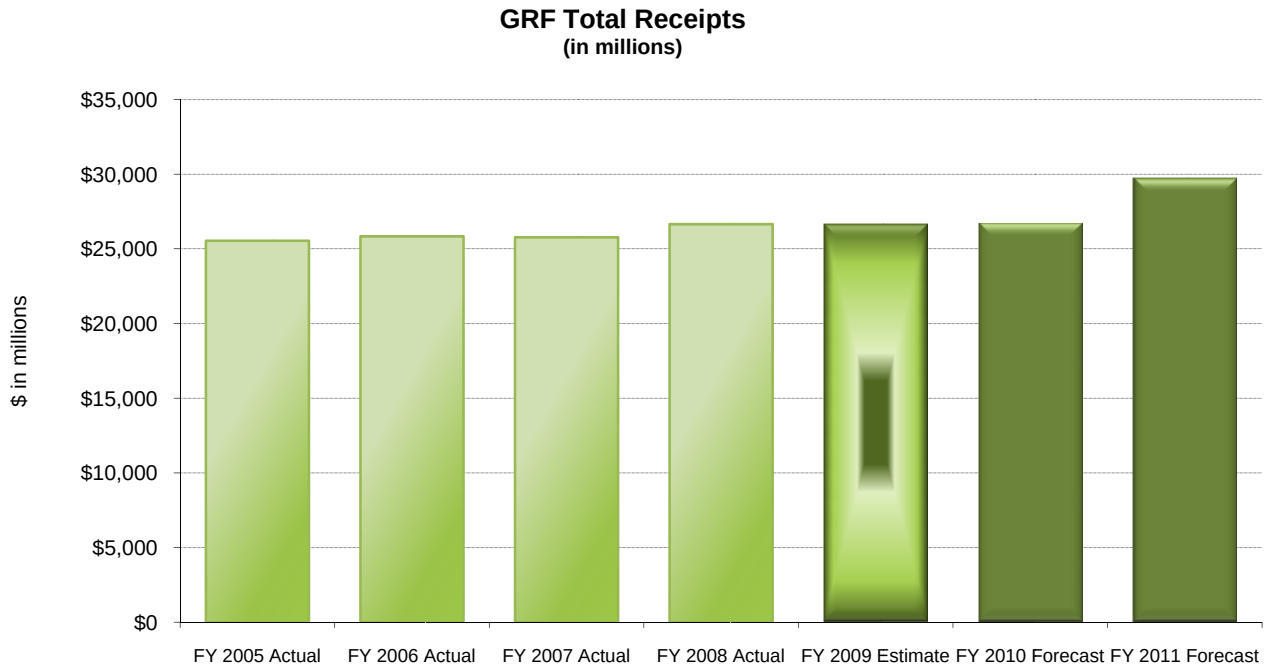
Compared with the FY 2008-FY 2009 biennium, GRF tax revenue for the FY 2010-FY 2011 biennium is forecast to be $2,801.0 million (7.5%) lower. The following charts provide overviews of total GRF receipts and of GRF receipts from taxes and from state sources including earnings on investments, receipts from charges for licenses and fees, and other revenue.



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$19,088.0	$19,563.4	$19,468.9	$19,419.5	$17,865.2	$16,928.2	$17,555.7
Growth	7.6%	2.5%	-0.5%	-0.3%	-8.0%	-5.2%	3.7%



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$19,903.9	$20,250.8	$20,425.9	$21,018.6	$19,909.8	$18,915.2	$20,826.5
Growth	7.5%	1.7%	0.9%	2.9%	-5.3%	-5.0%	10.1%



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$25,550.5	$25,846.0	$25,778.4	$26,662.5	$26,680.9	$26,666.8	$29,700.4
Growth	6.3%	1.2%	-0.3%	3.4%	0.1%	-0.1%	11.4%

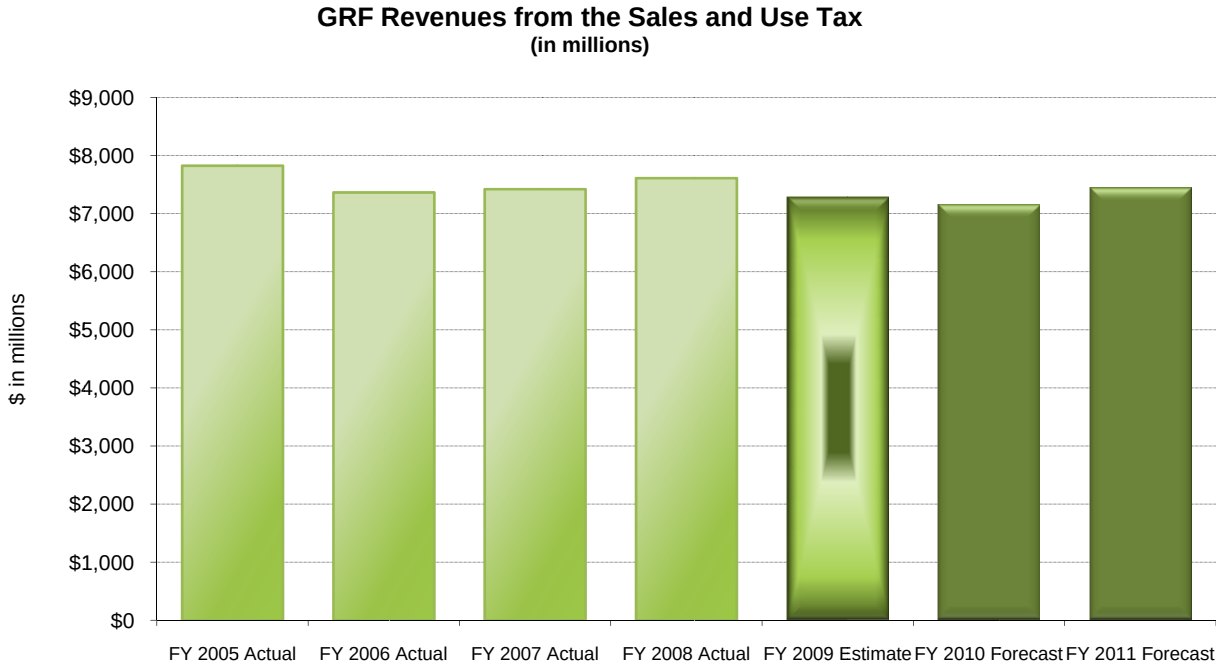
FY 2009 GRF Revenue Estimates Millions of Dollars						
	Original July 2008	OBM Feb 2009	Change	LSC Feb 2009	Change	LSC Minus OBM
TAX REVENUE						
Auto Sales	960.0	875.0	(85.0)	866.0	(94.0)	(9.0)
Nonauto Sales & Use	6,832.2	6,577.1	(255.0)	6,416.4	(415.8)	(160.8)
Total Sales & Use Taxes	7,792.2	7,452.1	(340.0)	7,282.4	(509.8)	(169.8)
Personal Income	9,096.1	8,257.5	(838.6)	8,243.9	(852.2)	(13.6)
Corporate Franchise	470.1	495.0	24.9	488.0	17.9	(7.0)
Public Utility	168.0	177.3	9.3	171.1	3.1	(6.2)
Kilowatt Hour Excise	128.9	132.8	4.0	137.5	8.6	4.6
Foreign Insurance	271.0	264.8	(6.2)	267.5	(3.5)	2.7
Domestic Insurance	172.5	167.7	(4.8)	180.5	8.0	12.8
Business & Property	20.0	20.0	0.0	20.9	0.9	0.9
Cigarette	941.7	917.0	(24.7)	914.4	(27.3)	(2.6)
Alcoholic Beverage	58.5	58.5	0.0	56.9	(1.6)	(1.6)
Liquor Gallonage	36.7	36.7	0.0	35.9	(0.8)	(0.8)
Estate	70.0	65.0	(5.0)	66.2	(3.8)	1.2
Total Tax Revenue	19,225.6	18,044.6	(1,181.0)	17,865.2	(1,360.4)	(179.4)
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	140.0	160.0	20.0	151.4	11.4	(8.6)
Licenses and Fees	71.0	63.0	(8.0)	70.8	(0.2)	7.8
Other Revenue	161.6	261.3	(99.7)	261.3	(99.7)	0.0
Total Nontax State-Source Revenue	372.6	484.3	(87.7)	483.5	(88.5)	(0.8)
TRANSFERS						
Liquor Transfers	135.0	144.0	9.0	144.0	9.0	0.0
Transfers In	119.0	796.4	677.4	796.4	677.4	0.0
Transfers In - Temporary	267.6	620.7	353.1	620.7	353.1	0.0
Total Transfers In	521.6	1,561.1	1,039.5	1,561.1	1,039.5	0.0
TOTAL GRF Before Federal Grants	20,167.6	20,090.0	(77.6)	19,909.8	(257.8)	(180.2)
Federal Grants	5,829.1	6,764.6	935.5	6,771.1	942.0	6.5
TOTAL GRF SOURCES	**25,996.7**	**26,854.6**	**857.9**	**26,680.9**	**684.2**	**(173.7)**

FY 2010 GRF Revenue Forecasts Millions of Dollars						
			LSC Minus		Growth from FY 2009	
	OBM	LSC	OBM	Percent	OBM	LSC
TAX REVENUE						
Auto Sales	889.2	859.2	(30.0)	-3.4%	1.6%	-0.8%
Nonauto Sales & Use	6,238.2	6,296.6	58.4	0.9%	-5.2%	-1.9%
Total Sales & Use Taxes	7,127.4	7,155.8	28.4	0.4%	-4.4%	-1.7%
Personal Income	7,994.8	7,790.6	(204.2)	-2.6%	-3.2%	-5.5%
Corporate Franchise	163.0	139.0	(24.0)	-14.7%	-67.1%	-71.5%
Public Utility	173.8	142.1	(31.7)	-18.2%	-2.0%	-17.0%
Kilowatt Hour Excise	161.4	147.6	(13.8)	-8.5%	21.4%	7.4%
Foreign Insurance	270.1	303.0	32.9	12.2%	2.0%	13.3%
Domestic Insurance	155.1	187.0	31.9	20.6%	-7.5%	3.6%
Business & Property	20.5	19.7	(0.8)	-3.9%	2.5%	-5.7%
Cigarette	850.0	881.2	31.2	3.7%	-7.3%	-3.6%
Alcoholic Beverage	59.0	57.1	(1.9)	-3.2%	0.9%	0.4%
Liquor Gallonage	38.0	36.8	(1.2)	-3.2%	3.5%	2.5%
Estate	61.5	68.2	6.7	10.9%	-5.4%	3.0%
Total Tax Revenue	17,074.6	16,928.2	(146.4)	-0.9%	-5.4%	-5.2%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	155.0	88.4	(66.6)	-43.0%	-3.1%	-41.6%
Licenses and Fees	61.8	69.8	8.0	12.9%	-1.9%	-1.4%
Other Revenue	428.0	428.0	0.0	0.0%	63.8%	63.8%
Total Nontax State-Source Revenue	644.8	586.2	(58.6)	-9.1%	33.1%	21.2%
TRANSFERS						
Liquor Transfers	143.0	143.0	0.0	0.0%	-0.7%	-0.7%
Transfers In	346.4	346.4	0.0	0.0%	-56.5%	-56.5%
Transfers In - Temporary	911.4	911.4	0.0	0.0%	46.8%	46.8%
Total Transfers In	1,400.8	1,400.8	0.0	0.0%	-10.3%	-10.3%
TOTAL GRF Before Federal Grants	19,120.2	18,915.2	(205.0)	-1.1%	-4.8%	-5.0%
Federal Grants	7,773.5	7,751.6	(21.9)	-0.3%	14.9%	14.5%
TOTAL GRF SOURCES	**26,893.7**	**26,666.8**	**(226.9)**	**-0.8%**	**0.1%**	**-0.1%**

FY 2011 GRF Revenue Forecasts Millions of Dollars						
			LSC Minus		Growth from FY 2010	
	OBM	LSC	OBM	Percent	OBM	LSC
TAX REVENUE						
Auto Sales	925.5	939.4	13.9	1.5%	4.1%	9.3%
Nonauto Sales & Use	6,443.6	6,472.9	29.5	0.5%	3.3%	2.8%
Total Sales & Use Taxes	7,369.1	7,412.3	43.4	0.6%	3.4%	3.6%
Personal Income	7,755.6	8,190.6	435.0	5.6%	-3.0%	5.1%
Corporate Franchise	169.7	136.0	(33.7)	-19.9%	4.1%	-2.2%
Public Utility	167.6	150.1	(17.5)	-10.5%	-3.6%	5.6%
Kilowatt Hour Excise	165.2	142.3	(22.9)	-13.8%	2.4%	-3.5%
Foreign Insurance	278.6	314.0	35.4	12.7%	3.1%	3.6%
Domestic Insurance	171.6	192.0	20.4	11.9%	10.6%	2.7%
Business & Property	21.0	19.0	(2.0)	-9.5%	2.4%	-3.6%
Cigarette	796.4	849.5	53.1	6.7%	-6.3%	-3.6%
Alcoholic Beverage	59.5	57.4	(2.1)	-3.5%	0.8%	0.5%
Liquor Gallonage	39.0	37.6	(1.4)	-3.6%	2.6%	2.2%
Estate	60.5	54.8	(5.7)	-9.4%	-1.6%	-19.6%
Total Tax Revenue	17,053.8	17,555.7	501.9	2.9%	-0.1%	3.7%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	155.0	135.2	(19.8)	-12.8%	0.0%	52.9%
Licenses and Fees	62.0	71.9	9.9	16.0%	0.3%	3.0%
Other Revenue	313.0	313.0	0.0	0.0%	-26.9%	-26.9%
Total Nontax State-Source Revenue	530.0	520.1	(9.9)	-1.9%	-17.8%	-11.3%
TRANSFERS						
Liquor Transfers	136.3	136.3	0.0	0.0%	-4.7%	-4.7%
Transfers In	1,672.2	1,672.2	0.0	0.0%	382.7%	382.7%
Transfers In - Temporary	942.2	942.2	0.0	0.0%	3.4%	3.4%
Total Transfers In	2,750.7	2,750.7	0.0	0.0%	96.4%	96.4%
TOTAL GRF Before Federal Grants	20,334.5	20,826.5	492.0	2.4%	6.4%	10.1%
Federal Grants	8,894.8	8,873.9	(20.9)	-0.2%	14.4%	14.5%
TOTAL GRF SOURCES	**29,229.3**	**29,700.4**	**471.1**	**1.6%**	**8.7%**	**11.4%**

FY 2010 - FY 2011 Biennium GRF Forecasts Millions of Dollars						
			LSC Minus		Growth Over FY 2008-FY 2009	
	OBM	LSC	OBM	Percent	OBM	LSC
TAX REVENUE						
Auto Sales	1,814.7	1,798.6	(16.1)	-0.9%	-0.2%	-0.6%
Nonauto Sales & Use	12,681.8	12,769.5	87.7	0.7%	-4.3%	-2.4%
Total Sales & Use Taxes	14,496.5	14,568.1	71.6	0.5%	-3.8%	-2.2%
Personal Income	15,750.4	15,981.2	230.8	1.5%	-9.3%	-7.9%
Corporate Franchise	332.7	275.0	(57.7)	-17.3%	-73.4%	-77.8%
Public Utility	341.4	292.2	(49.2)	-14.4%	1.9%	-11.1%
Kilowatt Hour Excise	326.6	289.9	(36.7)	-11.2%	-10.3%	-21.3%
Foreign Insurance	548.7	617.0	68.3	12.4%	3.1%	15.4%
Domestic Insurance	326.7	379.0	52.3	16.0%	1.4%	13.1%
Business & Property	41.5	38.7	(2.8)	-6.7%	-1.8%	-10.3%
Cigarette	1,646.4	1,730.7	84.3	5.1%	-11.9%	-7.2%
Alcoholic Beverage	118.5	114.5	(4.0)	-3.4%	2.8%	0.7%
Liquor Gallonage	77.0	74.4	(2.6)	-3.4%	7.5%	5.0%
Estate	122.0	123.0	1.0	0.8%	-3.4%	-3.6%
Total Tax Revenue	34,128.4	34,483.7	355.3	1.0%	-8.9%	-7.5%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	310.0	223.6	(86.4)	-27.9%	-5.9%	-30.3%
Licenses and Fees	123.8	141.7	17.9	14.5%	-5.3%	2.3%
Other Revenue	741.0	741.0	0.0	0.0%	90.9%	90.9%
Total Nontax State-Source Revenue	1,174.8	1,106.3	(68.5)	-5.8%	38.5%	30.5%
TRANSFERS						
Liquor Transfers	279.3	279.3	0.0	0.0%	-12.3%	-12.3%
Transfers In	2,018.6	2,018.6	0.0	0.0%	45.8%	45.8%
Transfers In - Temporary	1,853.6	1,853.6	0.0	0.0%	69.5%	69.5%
Total Transfers In	4,151.5	4,151.5	0.0	0.0%	48.5%	48.5%
TOTAL GRF Before Federal Grants	39,454.7	39,741.7	287.0	0.7%	-4.0%	-2.9%
Federal Grants	16,668.3	16,625.5	(42.8)	-0.3%	34.3%	33.9%
TOTAL GRF SOURCES	**56,123.0**	**56,367.2**	**244.2**	**0.4%**	**4.9%**	**5.7%**

Sales and Use Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$7,827.1	$7,368.2	$7,424.5	$7,614.2	$7,282.4	$7,155.8	$7,412.3
Growth	3.9%	-5.9%	0.8%	2.9%	-4.4%	-1.7%	3.6%

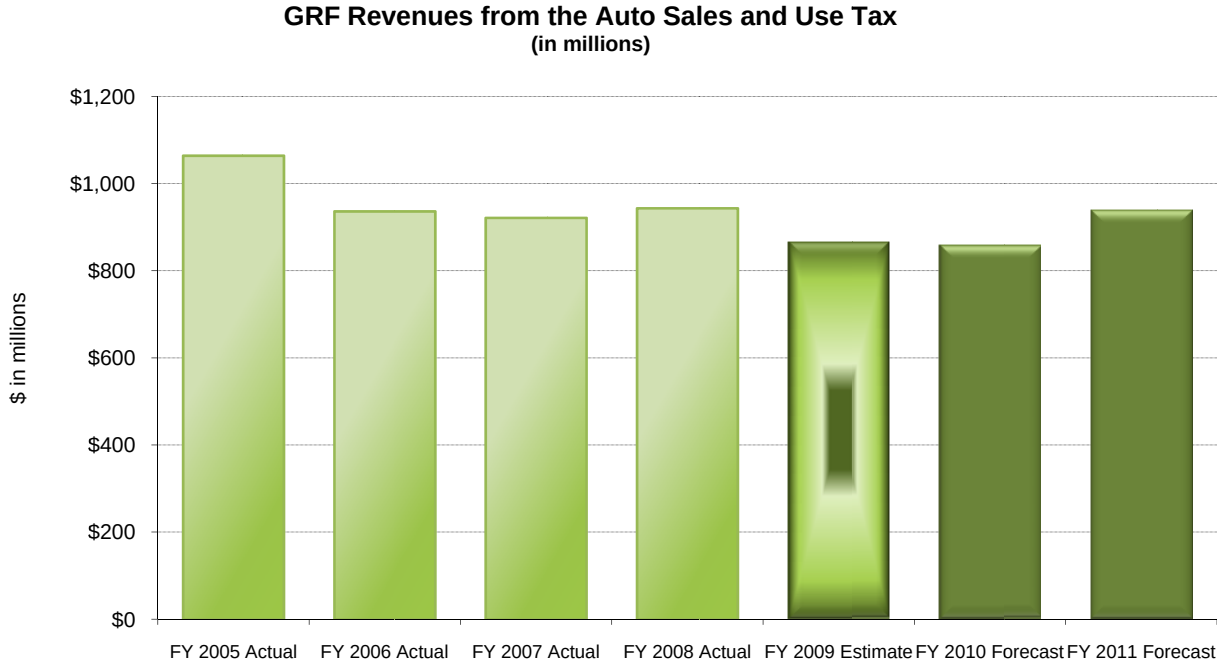
Under current law, the state sales and use tax is levied at a rate of 5.5% on retail sales of tangible personal property, rental of some tangible personal property, and selected services. Major exemptions to the sales and use tax include: food for human consumption off the premises where sold, newspapers and magazine subscriptions sent by second class mail, motor fuel (taxed separately), packaging and packaging equipment, prescription drugs and medical supplies, and property used primarily in manufacturing or used directly in mining or agriculture. There is also a credit for trade-ins on purchases of new motor vehicles.

For forecasting purposes, the tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. One major exception is auto taxes arising from leases, which are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. The level of auto sales has become dependent on the level of incentives provided by manufacturers and dealers. The incentives have also changed the way consumers decide whether to purchase or lease their vehicles. As the share of vehicles leased and manufacturers' incentives have

varied over the years, the auto tax has become more volatile. Also, those changes have affected the nonauto sales tax because taxes arising from leases are recorded under the nonauto sales tax. Although still a small percentage of total sales, the growth in Internet sales on which use tax is not collected affects receipts from the sales and use tax.

Significant increases and decreases in receipts in the last few years have been due to legislative tax changes. Growth in the taxable base of the sales and use tax has been meek. The revenue decline in FY 2006 was due to a new statutory rate of 5.5% (Am. Sub. H.B. 66, 126th General Assembly); the rate had been temporarily increased to 6.0% for FY 2004 and FY 2005 by Am. Sub. H.B. 95 (125th General Assembly). The current economic recession, deepening job losses and associated declines in income growth and consumer spending will substantially shrink tax receipts in FY 2009. The reduction in sales and use tax revenues is likely to continue in FY 2010. Growth is expected to resume in FY 2011.

Auto Sales and Use Tax

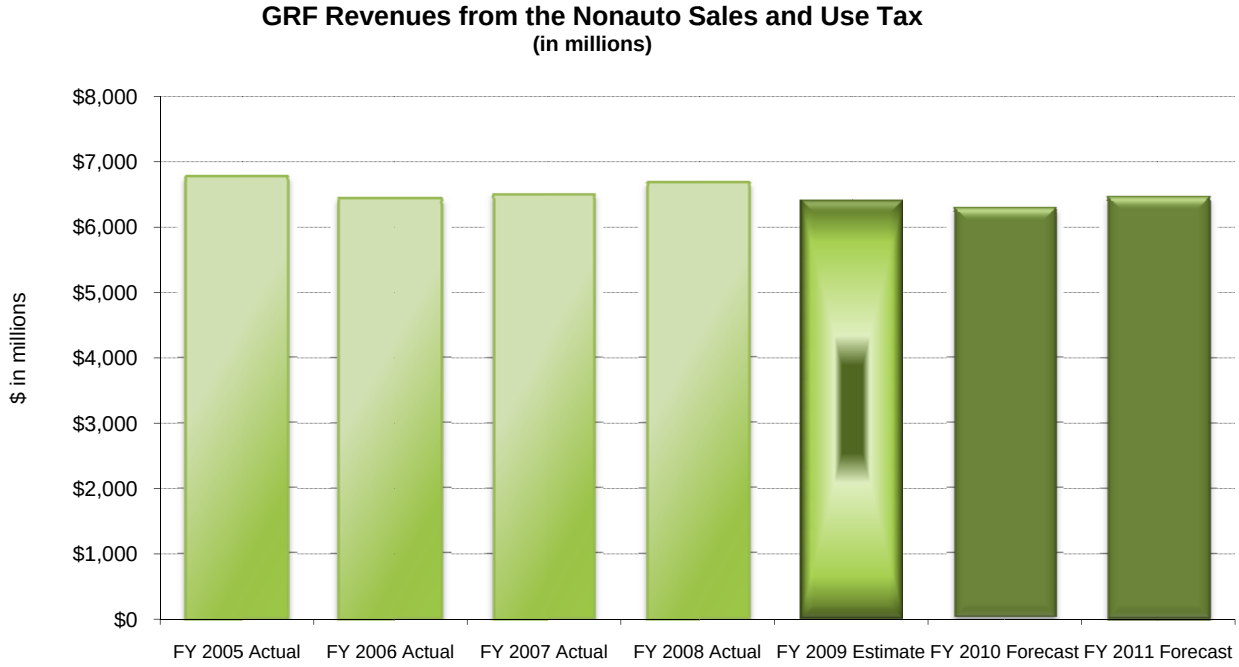


	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$1,064.1	$936.4	$921.5	$943.5	$866.0	$859.2	$939.4
Growth	-5.2%	-12.0%	-1.6%	2.4%	-8.2%	-0.8%	9.3%

The forecast for the auto sales and use tax is based primarily on regressions of quarterly auto sales and use tax revenues against nationwide unit sales and against new auto registrations and average prices. Estimates were adjusted to reflect actual performance of the tax through December 2008. The auto tax taxable base shrank from FY 2002 through FY 2007 before rebounding in FY 2008. The receipts decline in FY 2006 was due to the reduction in the tax rate from 6.0% to 5.5% on July 1, 2005. Growth in FY 2008 was from a new tax on vehicle purchases by nonresidents (Am. Sub. H.B. 119). The revenue decline in FY 2009 reflects the freefall in vehicle sales during the current economic recession. The convergence of stalled consumer spending, higher gasoline prices during the spring and summer of 2008, and difficult credit conditions resulted in nationwide levels of vehicle sales not seen since 1982. The total value of taxable sales in FY 2010 is expected to be just slightly above that of FY 1999. Tax receipts are expected to grow in FY 2011. However, the size of the revenue growth will be dependent on the timing of the economic recovery, gasoline prices, and the ability of consumers to obtain loans.

Economic conditions determine the total demand for vehicles. As incentives from manufacturers and dealers have varied over the years, the auto sales and use tax has become more volatile. However, the effectiveness of those incentives to increase unit sales has become increasingly limited in Ohio. Changes in gasoline prices mainly affect the sales mix of autos and light trucks. Higher gasoline prices decrease the sale of light trucks, which in turn restrains the growth of the auto tax taxable base.

Nonauto Sales and Use Tax

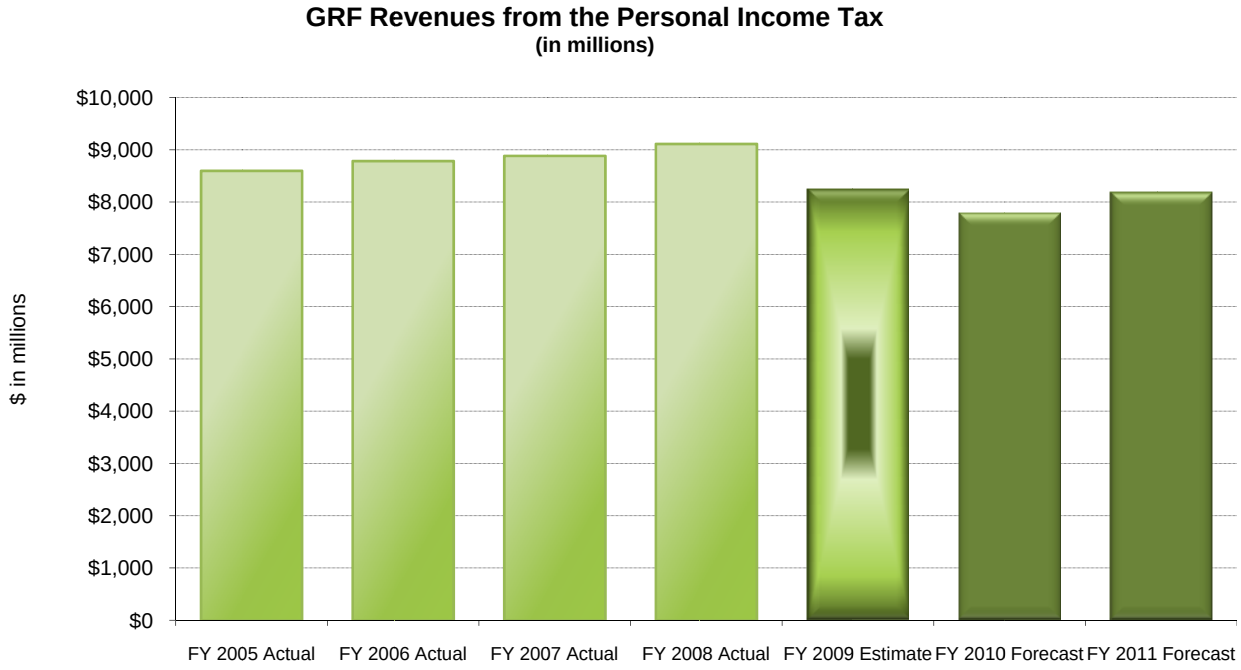


	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$6,763.0	$6,431.9	$6,502.9	$6,670.7	$6,416.4	$6,296.6	$6,472.9
Growth	5.5%	-4.9%	1.1%	2.6%	-3.8%	-1.9%	2.8%

The forecast for the nonauto sales and use tax is primarily based on regressions of quarterly nonauto sales and use tax revenues against Ohio wages and salaries, and against retail sales and Ohio employment. A dummy variable was used to account for the tax rate changes. Estimates were adjusted to reflect actual performance of the tax through December 2008.

Revenue growth in FY 2005 was largely from the base expansion included in Am. Sub. H.B. 95 (125th General Assembly). The decrease in receipts in FY 2006 was due to the tax rate declining from 6.0% to 5.5% (Am. Sub. H.B. 66, 126th General Assembly). Growth rates in FY 2007 and FY 2008 were below long-term baseline growth rates. Employment, unemployment, wage growth, and income gains, which determine nonauto sales and use tax receipts, have continued to deteriorate. Spending supported by the housing industry and mortgage equity withdrawals, which buoyed sales tax receipts in previous years, has vanished. If the recession becomes more entrenched in CY 2009 and the consumer pullback continues as most economic forecasters expect, tax receipts will decline both in FY 2009 and FY 2010. The size of the revenue decline in FY 2010 will be dependent on the timing of the trough of the recession. Growth is expected to resume in FY 2011.

Personal Income Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$8,598.9	$8,786.4	$8,885.3	$9,114.7	$8,243.9	$7,790.6	$8,190.6
Growth	11.7%	2.2%	1.1%	2.6%	-9.6%	-5.5%	5.1%

The personal income tax is levied on Ohio taxable income (the amount reported as federal adjusted gross income to the U.S. Internal Revenue Service, with adjustments, minus personal and dependent exemptions). A taxpayer's tax liability before credits is obtained by applying Ohio's graduated tax rates to the taxpayer's Ohio taxable income. Certain credits may be subtracted from this amount to arrive at the taxpayer's final tax liability.

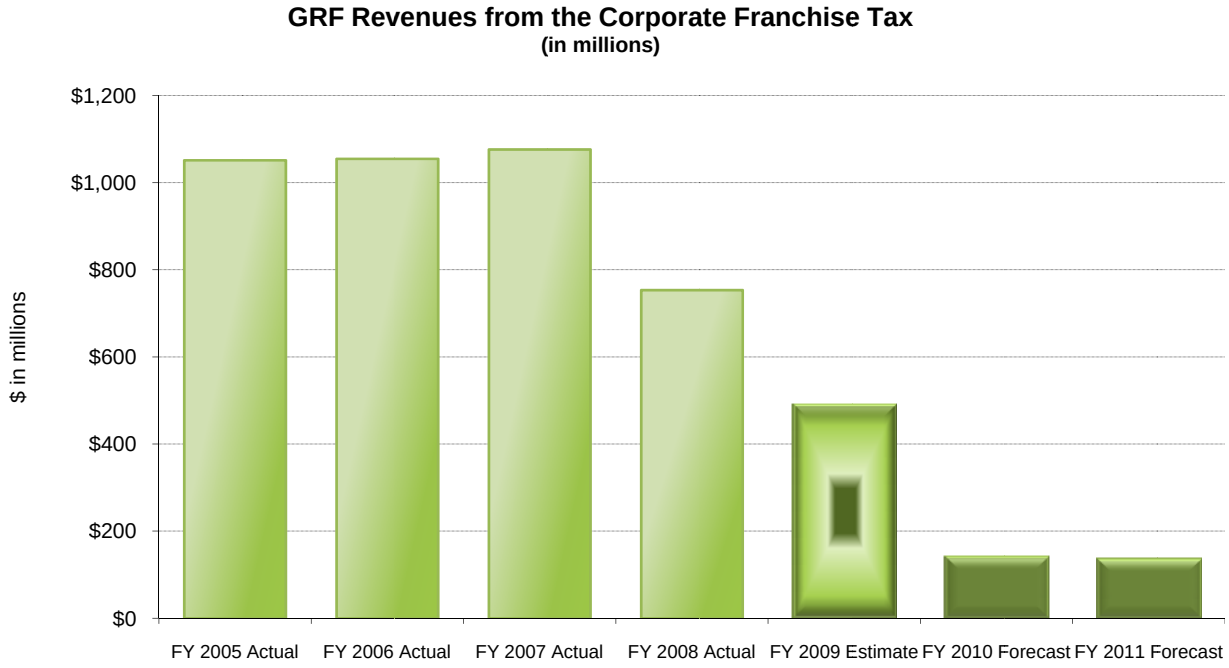
The estimated revenues for FY 2009-FY 2011 are based on the results of a model of revenue collections. The model works with the four components of tax collections: employer withholding, individual taxpayer (quarterly estimated payments and annual returns), other revenues (trust income and miscellaneous collections), and refunds. The data are organized on a fiscal year basis. Withholding is estimated as a function of Ohio wage and salary income, nonfarm payroll employment, withholding rates, and the population ages 19 and under. The individual taxpayer component is a function of proprietors' income and other taxable nonwage income, transfer payments, the Standard and Poor's (S&P) 500 index (used to represent capital gains), the prime lending rate, and tax rate variables. Refunds are a function of employer withholding plus the individual taxpayer component, the change from the previous year in

withholding plus individual payments, and the value of the personal exemption. All other income tax collections are a function of the S&P 500, revenue trends, and qualitative historical events. Forecasted values of the explanatory variables are based upon the "very deep recession" scenario released by Global Insight in January 2009. The model estimates were reduced in FY 2011 to reflect the inflation adjustment of tax brackets in tax year 2010 as provided in H.B. 66 of the 126th General Assembly. Further modifications to revenue estimates incorporate the exemption of retired military personnel pay enacted by H.B. 372 of the 127th General Assembly. The forecast also includes estimated revenue losses arising from H.B. 149 of the 126th General Assembly, as amended by H.B. 554 of the 127th General Assembly, which authorized refundable tax credits for rehabilitating historical buildings.

Through December, FY 2009 GRF revenues from the personal income tax were down 4.2% compared to FY 2008. Gross collections were 0.6% below estimate and 3.2% below FY 2008 levels. Refunds were 14.4% above estimate and 1.1% above FY 2008 levels. Distributions to local government funds were 0.8% below estimate and 6.3% above FY 2008 levels. Under the current system for distribution of local government funds, 3.68% of total tax revenues to the GRF and the local government funds are distributed from the personal income tax to the local government funds.

The FY 2009 estimate for GRF revenues from the personal income tax is $8,243.9 million, a 9.6% decrease from FY 2008 revenues. GRF revenues are projected to decline by 5.5% in FY 2010, and to grow by 5.1% in FY 2011. The revenue declines expected in both FY 2009 and FY 2010 are a result of reductions in income tax rates that were enacted in H.B. 66 of the 126th General Assembly and the current recession. Income tax rates as enacted in H.B. 66 were reduced by approximately 4.8% in tax year 2008, as compared with tax year 2007, mainly affecting FY 2009 receipts. The final income tax rate cut affects tax year 2009, affecting FY 2010 revenue, and the rates will be cut by 5.0% as compared with tax year 2008 rates.

Corporate Franchise Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$1,051.6	$1,054.9	$1,076.5	$753.5	$488.0	$139.0	$136.0
Growth	30.0%	0.3%	2.0%	-30.0%	-35.2%	-71.5%	-2.2%

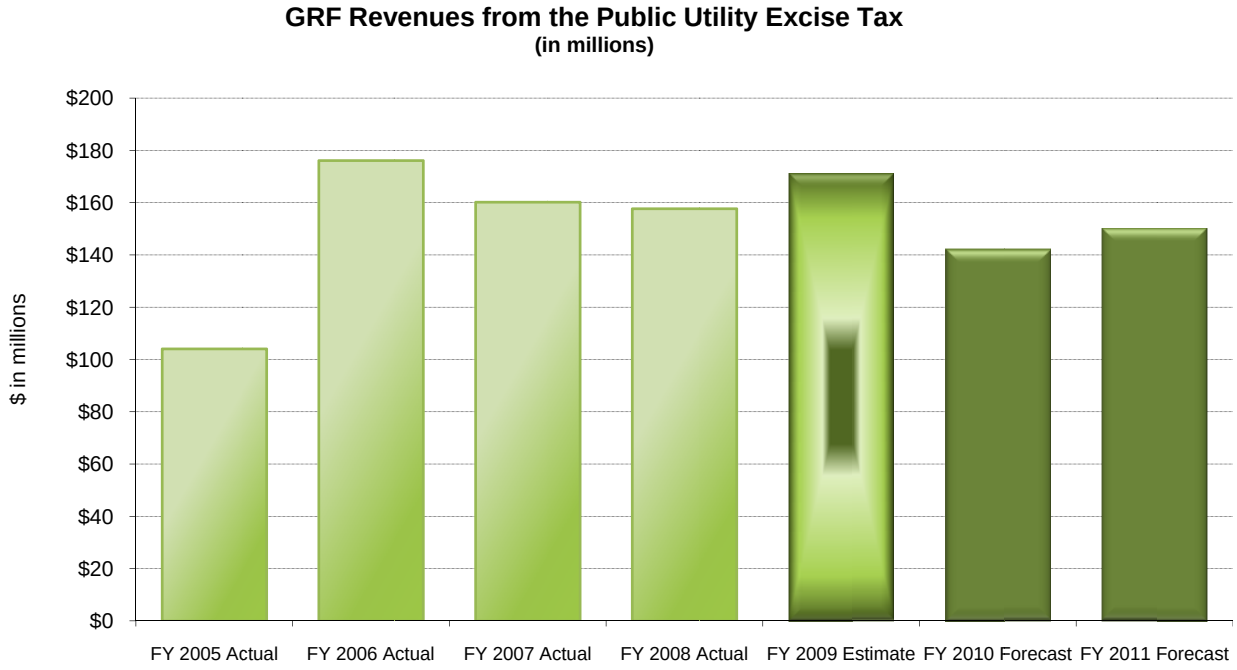
The phase-out of the corporate franchise tax (CFT) for nonfinancial corporations which started in FY 2006 (Am. Sub. H.B. 66, 126th General Assembly) will be completed in FY 2010. Nonfinancial corporations are paying 20% of their tax liability in FY 2009 (this will be the last tax report). The tax liability is calculated on two bases: the net worth base (generally determined as book net worth minus items excluded by statute) and the net income base (generally, the Ohio portion of federal taxable income with exclusions and additions as required by statute). A nonfinancial corporate taxpayer calculates its tax liability under the two bases and pays the higher of the two tax liabilities. Different rules apply to financial institutions, "qualifying" holding companies, and certain "high-technology" start-up companies. Differing tax rates apply to each tax base. The net worth tax, which is capped at $150,000 for each nonfinancial corporation, is calculated by multiplying the adjusted Ohio net worth base by the net worth rate of four mills (0.4%). The net income is taxed at the rate of 5.1% on the first $50,000 of Ohio taxable income, and 8.5% on Ohio taxable income above $50,000.

LSC derives its estimate of baseline CFT revenues primarily from projections of U.S. corporate profits. Then, some adjustments are made for legislated tax changes. The estimate generally reflects the previous calendar year corporate profits. The growth in CFT revenues from FY 2005 to FY 2007 mirrored the improvement in corporate profits since the recession of 2001. Adopting the UDITPA[2] standards also provided a boost in receipts starting in FY 2005. As a result of both the phase-out and slower growth of corporate profits, revenues were expected to fall in FY 2006 and FY 2007. However, receipts increased from taxpayers' response to lower net income rates. The reported tax liability of Ohio nonfinancial corporations increased 23% and 19% in 2006 and 2007, respectively. Estimates of before-tax corporate profits from Global Insight (a national forecasting firm) and the Governor's Council of Economic Advisers were the basis for the CFT estimate for FY 2009.

Starting in FY 2010, the tax is eliminated for nonfinancial corporations and the CFT becomes essentially a tax on financial institutions. Financial corporations are not subject to the tax on net income basis and the cap on net worth tax liability does not apply. The tax liability is determined by multiplying the adjusted net worth (net value of stock) by the taxpayer's Ohio apportionment ratio and by the rate of 13 mills. For multistate banks, the apportionment ratio is based on the shares of the taxpayer's property, payroll, and sales in Ohio. The forecast is based on trend analysis of historical tax liabilities reported by banks and savings and loans. The on-going crisis in the financial markets, which has already led to several bank failures, creates a substantial risk to the forecast for the next biennium. Taxpayers may recognize substantial write-downs and large decreases in their net worth which would affect tax receipts. Funds provided by the federal government to certain financial institutions to alleviate the existing financial crisis will shore up their balance sheets, and possibly, the tax base. Finally, mergers and acquisitions, which are continuing, change the apportionment ratios used by multistate financial institutions in the calculation of the tax and increase the opportunities for tax planning and reduced tax payments.

[2] Am. Sub. H.B. 95 (125th General Assembly) adopted significant franchise tax changes pertaining to the allocation and apportionment of the income of multistate corporations to Ohio. The bill also changed the definition of income. These changes expanded the corporation franchise net income tax base and substantially increased revenues in FY 2005 and in subsequent years.

Public Utility Excise Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$104.1	$176.2	$160.2	$157.7	$171.1	$142.1	$150.1
Growth	-54.0%	69.2%	-9.0%	-1.6%	8.5%	-17.0%	5.6%

The public utility excise tax, also known as the gross receipts tax, is a tax on the intrastate revenues of public utilities. The tax is levied on natural gas utilities, pipeline companies, heating companies, waterworks, and water transportation companies. All companies subject to the tax pay 4.75% of gross receipts except pipeline companies, which pay a tax of 6.75% of gross receipts.

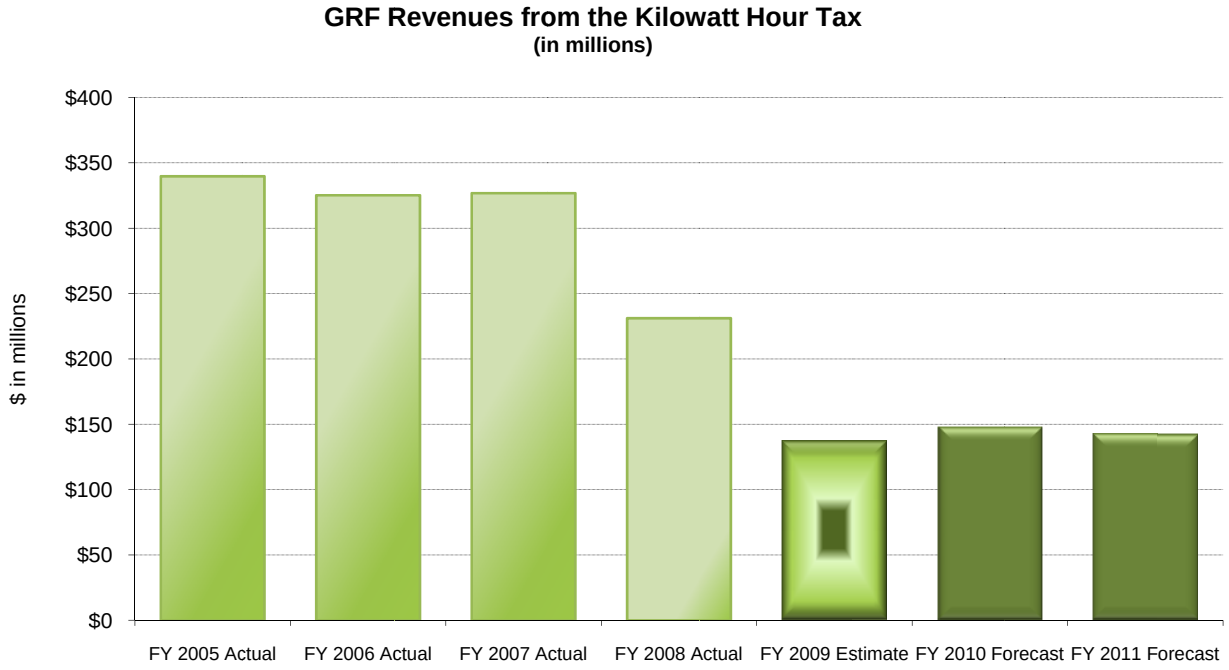
Most of the revenue from the public utility excise tax is from natural gas companies. They accounted for about 98% of public utility excise tax revenue in FY 2008. So changes in natural gas prices and consumption are important determinants of public utility excise tax revenues. From lows in 2006, natural gas prices in commodity markets rose sharply until mid-2008, then fell sharply. This pattern contributed to a rise in year-to-date tax revenues in FY 2009, as commodity price fluctuations are reflected in tax receipts with a lag. But the natural gas price decline since mid-2008 is expected to result in a drop in tax revenues in the April-June quarter of FY 2009, compared with a year earlier, and in FY 2010. Natural gas consumption is also expected to be lower in FY 2010. Tax revenues are projected to grow in FY 2011 as prices are expected to rise.[3]

[3] The large tax revenue decline in FY 2005 shown in the table above was due to a change in the tax base as

The estimate of public utility excise tax revenue for FY 2009 is based on year-to-date tax receipts through December; on Ohio residential, commercial, and industrial consumption of natural gas and average prices through October; and on projected natural gas usage and prices in the East North Central states. The Ohio data and East North Central state projections are from the United States Energy Information Administration (EIA). The projections are from the EIA's January 2009 Short Term Energy Outlook. Year-to-year percent changes projected for East North Central state natural gas consumption and prices are used as an indicator of changes in Ohio. A further small downward adjustment is made to projected tax revenues in the second half of the current fiscal year for the continued shift of natural gas industry customers to nontraditional suppliers under the Choice program. Revenues under the Choice program are subject to the sales tax rather than the public utility excise tax. The tax revenue estimates for FY 2010 and FY 2011 are based on the EIA projections. Public utility excise tax receipts from utility companies other than those in the natural gas industry are assumed, in FY 2009 through FY 2011, to remain at a level comparable to tax receipts from these companies in FY 2007 and FY 2008.

provided by Am. Sub. H.B. 95 of the 125th General Assembly, exempting local telephone companies from the tax. They were simultaneously subjected to the corporate franchise tax, and their sales were subjected to the sales tax. The increase in GRF tax revenue in FY 2006 was due primarily to a change in the share of total public utility excise tax revenue going to the local government funds.

Kilowatt Hour Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$339.8	$325.3	$326.9	$231.2	$137.5	$147.6	$142.3
Growth	0.3%	-4.3%	0.5%	-29.3%	-40.5%	7.3%	-3.6%

The kilowatt hour tax is levied on electric distribution companies, which include the tax in the rates they charge for distributing electricity. The tax rate depends on the volume of electricity used by the customer. There are three distinct marginal tax rates, $0.00465 per kilowatt hour (kWh) for the first 2,000 kilowatt hours consumed in a month, $0.00419 per kWh for the next 13,000 kilowatt hours consumed, and $0.00363 per kWh for all kWh consumed over 15,000. Very large users, those that use over 45 million kWh per year, have the option of self-assessing, which enables them to pay a lower rate. The self-assessor tax is calculated as the sum of 3.5% of the total price of all electricity plus 0.075 cents per kWh on the first 504 million kWh of annual consumption. Prior to July 1, 2008, the rate applicable to the price component of the kWh tax paid by self-assessing purchasers was 4.0%.

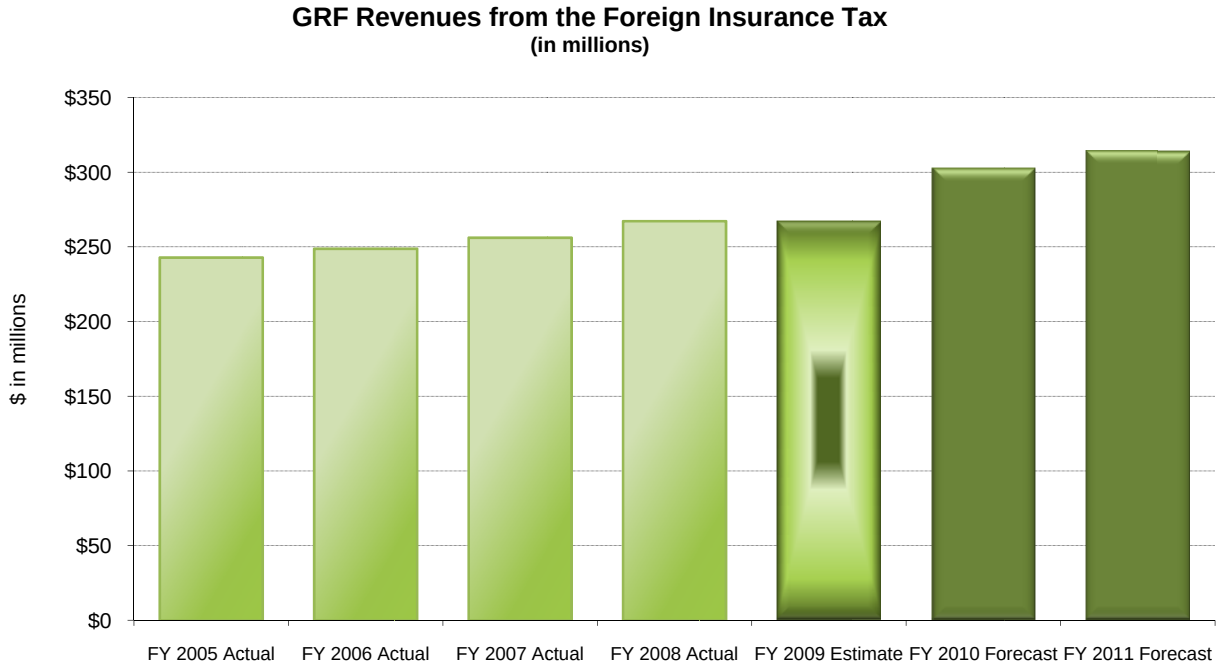
The tax base of the kilowatt hour tax is one of the more stable among state taxes. The sharp falls in GRF revenue shown above for FY 2008 and FY 2009 are due to a shift in the distribution of revenue from the tax; since H.B. 119, more of the revenue from the tax is credited to the Public Library Fund, leaving a smaller share for the GRF.

Revenue to all funds from the tax increased by 3.3% in FY 2006, 0.4% in FY 2007, and 1.9% in FY 2008. Through December 2008, FY 2009 year-to-date revenue to all funds has decreased by about 5.2% as compared with the same period in FY 2008. One reason for the decline so far this year is the reduction in the tax rate for self-assessors, noted above, that went into effect at the beginning of FY 2009. Other reasons for the decline include weather-related changes in electricity usage and the effects of the economic slowdown.

The forecast of GRF kilowatt hour tax revenues was generated in two steps. First, the volume of electricity used by each type of end-user in Ohio (i.e., residential, commercial, and industrial) was estimated based on the growth rates of retail sales of electricity in the East North Central region as forecasted by the U.S. Energy Information Administration in the January 2009 edition of its publication *Short-Term Energy Outlook.* Then, the estimated tax revenue was calculated by multiplying the marginal tax rates by the estimated volume of electricity used for each type of end-user.[4]

[4] In performing the second step, it was assumed that the highest marginal tax rate ($0.00465 per kWh) applied to residential users, the second-highest rate applied to commercial users, and the lowest rate applied to industrial users. Although the correspondence between the electricity usage by these end-user categories and the usage categories represented in the structure of the tax are thought to be close, this is an approximation as the categories are not likely to align perfectly.

Foreign Insurance Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$242.9	$248.8	$256.2	$267.3	$267.5	$303.0	$314.0
Growth	5.4%	2.4%	3.0%	4.3%	0.1%	13.3%	3.6%

The foreign insurance tax is levied on premiums collected by insurance companies headquartered in a state other than Ohio. The tax is generally 1.4% of premiums; the primary exception is foreign insurance companies that are health insuring corporations (HICs) which pay 1.0% of premiums. This tax structure is the same as the current domestic insurance tax structure. Approximately half of the revenue from this tax derives from premiums paid for life insurance, with slightly less (about 44% in FY 2008) deriving from premiums paid to fire and casualty insurers, a line of business that includes homeowner's insurance, automobile insurance, and other lines of business.

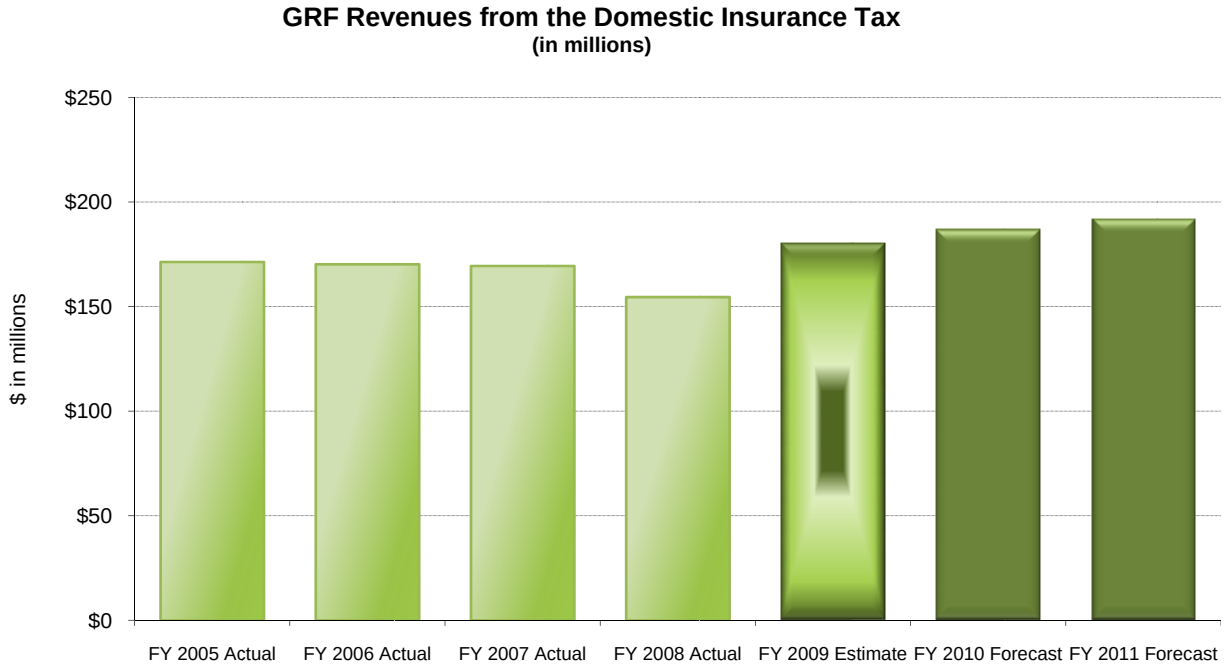
Revenue from this tax grew slightly faster in FY 2008 than in the preceding two fiscal years. However, this was due to a misclassification of revenue; some domestic insurance tax receipts were classified as receipts under the foreign insurance tax. Adjusting for the misclassification, revenue from the foreign insurance tax grew by just 1.0% in FY 2008, more slowly than in the two preceding years. Econometric analysis indicates that the slowdown was due primarily to the effect of short-term interest rates on insurance premiums. Insurance companies receive revenue to pay claims and administrative costs from two primary sources: premiums and earnings on

investments. When interest rates fall, premiums need to rise faster for insurance companies to avoid financial losses; conversely, when interest rates rise, insurance companies do not need to increase premiums as much in order to make profits.

The deceleration in growth of receipts under the tax (after adjusting for the misclassification of receipts) is due primarily to the delayed effect of an increase in the average rate for six-month U.S. Treasury bills from 3.39% in 2005 to 4.81% in 2006. The growth in revenue projected for FY 2009 is primarily due to the decreases in these rates from 2006 to 2008; a strong increase due to falling interest rates is offset partially by an expected correction for the misclassification of receipts this year. Premium growth is projected to be above its long-term average in FY 2010 due primarily to the decrease in the rate from 2007 to 2008, and to return to very close to its long-term average in FY 2011 due to an expected increase in interest rates from 2009 to 2010.[5]

[5] According to Federal Reserve data, the six-month Treasury bill rate averaged 4.44% during 2007 in the secondary market, and 1.62% during 2008. Global Insight forecasts that the rate will average 0.74% in 2009 and 2.09% in 2010.

Domestic Insurance Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$171.4	$170.3	$169.5	$154.6	$180.5	$187.0	$192.0
Growth	3.3%	-0.6%	-0.5%	-8.8%	16.8%	3.6%	2.7%

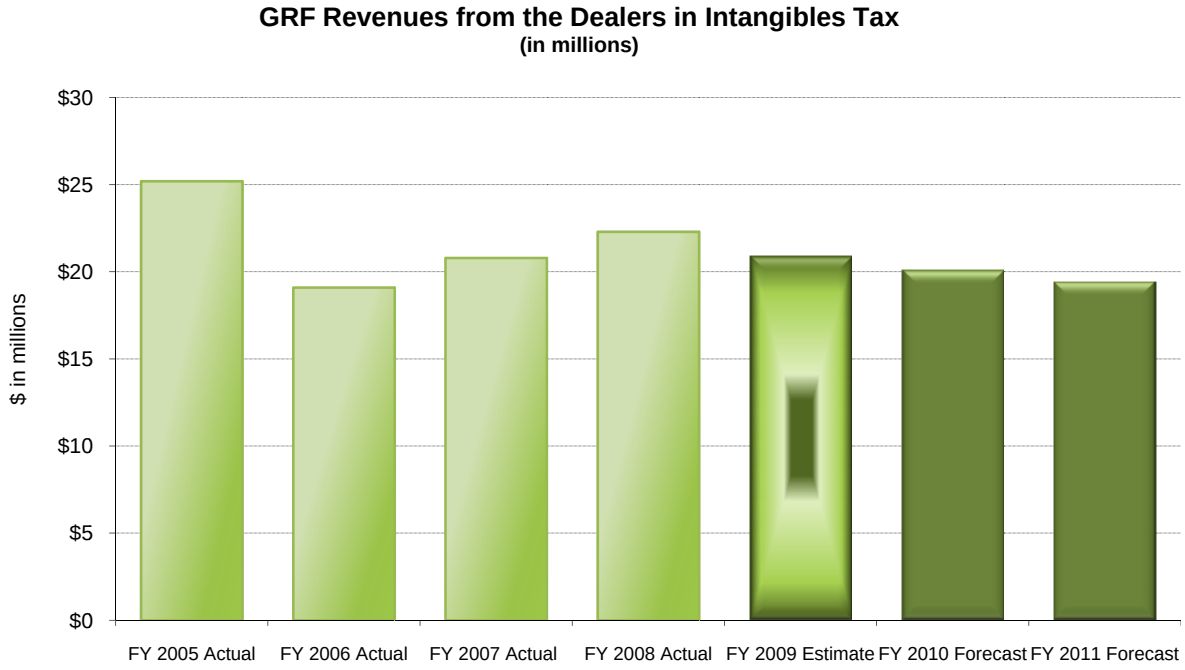
The domestic insurance tax is levied on premiums collected by insurance companies headquartered in Ohio. The tax is generally 1.4% of premiums; the primary exception is domestic insurance companies that are health insuring corporations (HICs) which pay 1.0% of premiums. This tax structure is the same as the current foreign insurance tax structure. Approximately 12% of the revenue from this tax derives from premiums paid for life insurance, and approximately 9% derives from premiums paid to HICs. Nearly 80% of the revenue is derived from property and casualty insurance, a line of business that includes homeowner's insurance, automobile insurance, and other lines of business.

The revenue decrease in FY 2008 was primarily due to a misclassification of revenue: approximately $8.5 million in receipts under the domestic insurance tax were misclassified as foreign insurance tax receipts. In addition to that, revenue attributable to premiums paid to HICs declined by approximately $3.2 million, and revenue attributable to property and casualty insurance premiums fell by about $4.2 million. Revenue attributable to HIC premiums has fallen by approximately $3 million per year since FY 2003. A Department of Insurance official indicates that this trend is probably due to changes in consumer preferences regarding the type of health coverage desired,

from HICs to preferred provider organizations (PPOs) and more traditional insurance. This would imply that a turnaround to premium growth in this line of business is unlikely.

Other than the special situation of HICs, revenues under this tax are influenced by the same factors as revenues under the foreign insurance tax. As explained in the section on that tax, interest rates play a significant role in premium growth, and decreases in short-term interest rates in 2007 and 2008 are expected to boost revenue from the domestic insurance tax significantly in FY 2009. The boost should be reinforced by a correction in the classification of revenue sources. A further reduction in interest rates in 2009 should help boost revenue strongly in FY 2010. Revenue growth is projected to return to more typical levels in FY 2011, due primarily to a forecast that interest rates will begin to rise again in calendar year 2010.

Dealers in Intangibles Tax



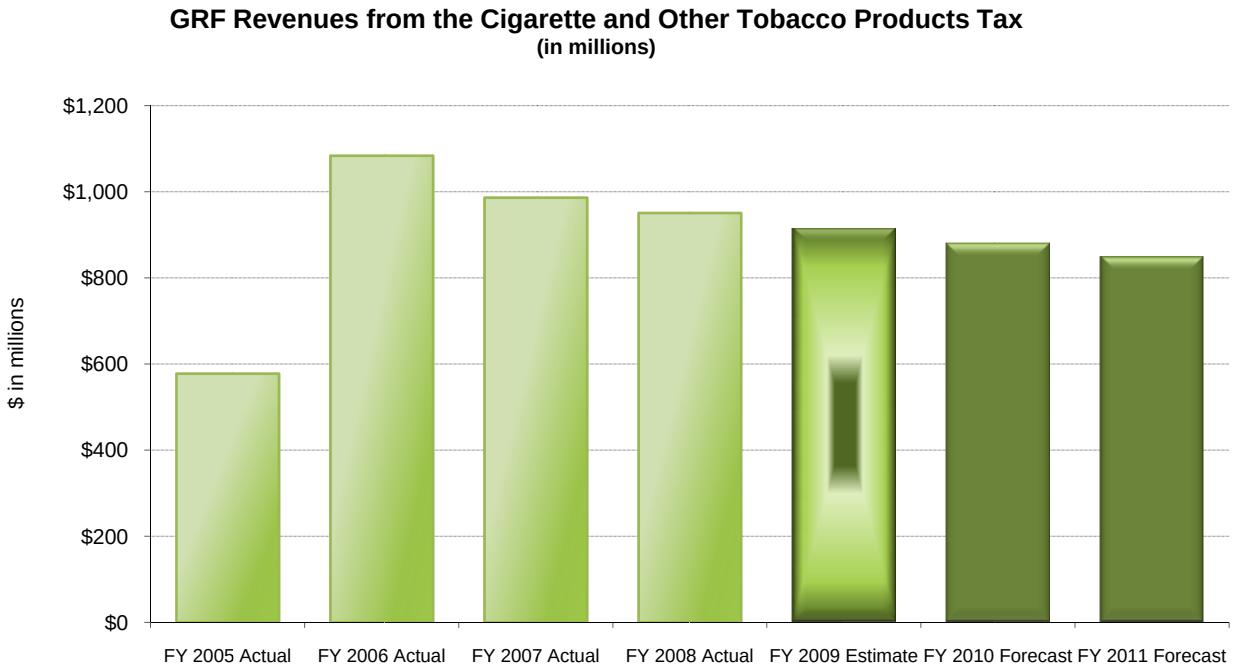
	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$25.2	$19.1	$20.8	$22.3	$20.9	$19.7	$19.0
Growth	-15.7%	-24.2%	8.9%	7.2%	-6.3%	-5.7%	-3.6%

The business and property tax, which is also known as the dealers in intangibles tax, is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money; buying and selling notes, mortgages, and other evidences of indebtedness; and firms buying and selling securities. The tax rate is 8 mills on the value of shares or capital employed by the dealers. All taxes paid by "qualifying dealers" are credited to the GRF. A "qualifying" dealer is a dealer that is a member of a "controlled group" of which a financial institution or insurance company is also a member. The distribution of receipts from this tax depends on the type of taxpayer. For "nonqualifying" dealers, 3 mills are deposited in the GRF. The remainder, 5 mills, is distributed to the counties.

Tax policy changes and behavioral responses by taxpayers have been the main cause of significant revenue fluctuations for this tax over the years. The forecast for FY 2010 and FY 2011 is based on trend analysis of the contribution to GRF revenues by qualifying and nonqualifying dealers in the last few fiscal years. Revenues from nonqualifying dealers are expected to grow modestly. Revenues from qualifying dealers are expected to decline. They are more volatile because they are highly dependent on investments by financial companies in their subsidiary dealers. Business

reorganizations, mergers, acquisitions, and tax planning strategies also affect the tax. The ongoing crisis in the financial industry and its impact on the balance sheet of dealers in intangibles creates a substantial risk to the forecast.

Cigarette and Other Tobacco Products Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$577.7	$1,084.1	$986.6	$950.9	$914.4	$881.2	$849.5
Growth	3.6%	87.7%	-9.0%	-3.6%	-3.8%	-3.6%	-3.6%

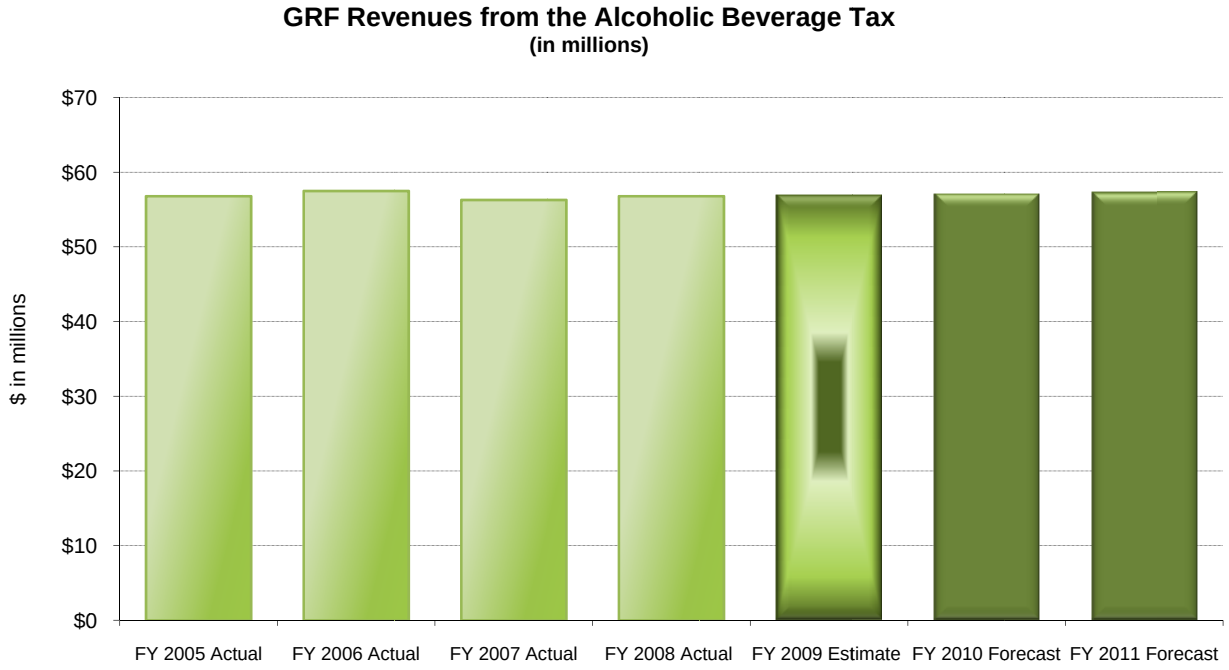
The cigarette and other tobacco products tax is levied on cigarettes, cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. Receipts from the sales of cigarettes are about 96% of total receipts. Cigarettes are taxed at a rate of $1.25 per pack of 20 cigarettes. Other tobacco products are taxed at 17% of their wholesale price. The tax rate on cigarettes increased from $0.55 per pack of 20 cigarettes on July 1, 2005, while the tax rate on other tobacco products was unchanged. Revenue collected from the tax is deposited into the GRF. Revenue growth in FY 2006 was largely due to the cigarette tax rate increase. Revenue in FY 2006 also included one-time receipts from an additional $.70 per pack tax on inventory, referred to as a "floor tax," for which dealers had paid the previous tax rate. FY 2007 receipts did not include such proceeds from the tax on inventory, resulting in an outsized revenue decline in that fiscal year.

The forecast for the cigarette and other tobacco products tax is primarily based on trend analysis of the consumption of both cigarettes and other tobacco products. Smokers are expected to continue to make downward adjustments to their consumption of taxed cigarettes for various reasons, including health. Revenue from the tax on tobacco products other than cigarettes has increased 4% to 5% per year, primarily from

increases in the wholesale price of those products. The long-term annual decline in cigarette consumption is expected to continue. Additional factors, such as increases in cigarette prices, increases in the share of nontaxed cigarettes (smuggling and Internet purchases), and smoking bans in public places may create an even steeper decline in consumption of taxed cigarettes in future years. Conversely, tax increases in neighboring lower tax states may reduce losses from out-of-state nontaxed purchases and boost forecasted revenues from the cigarette and other tobacco products tax.

This forecast was prepared prior to the recent reauthorization of the federal Children's Health Insurance Program, which includes an increase of 61 cents in the federal excise tax on cigarettes and various rate increases on other tobacco products, starting on April 1, 2009. This increase is likely to result in an additional decrease in the consumption of taxed cigarettes and in revenues from the state cigarette tax. Preliminary analysis of the federal legislation suggests that the revenue loss could range from $50 to $55 million per year.

Alcoholic Beverage Tax

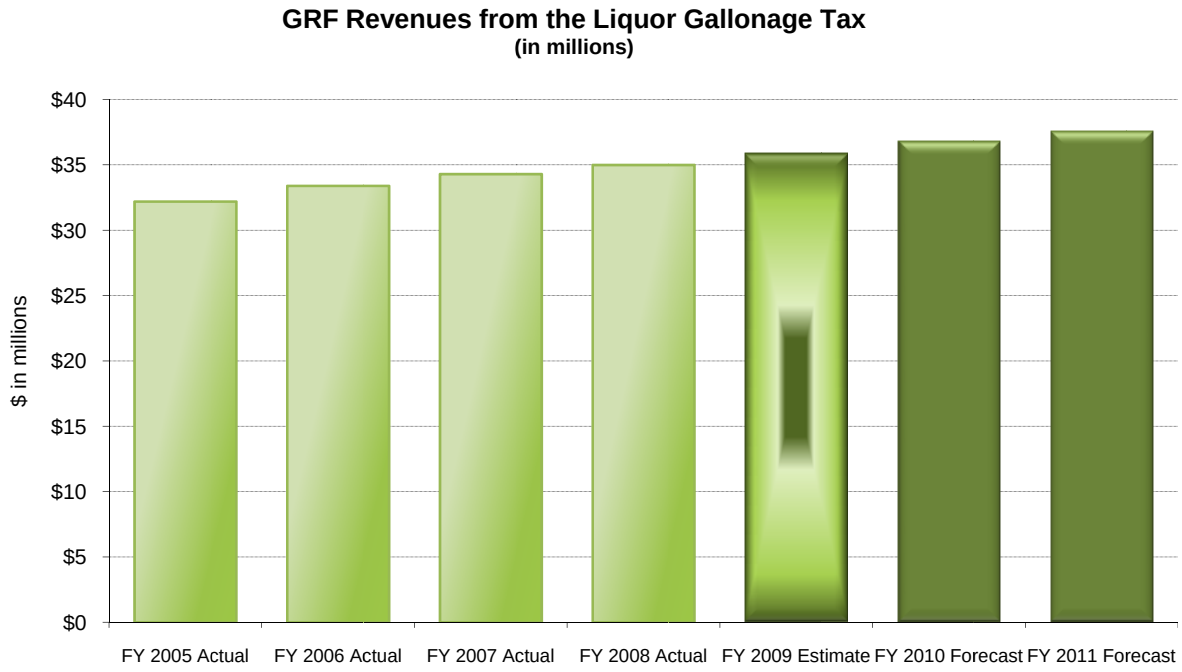


	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$56.8	$57.5	$56.3	$56.8	$56.9	$57.1	$57.4
Growth	-0.5%	1.2%	-2.1%	0.9%	0.2%	0.4%	0.5%

The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. The tax is based on a per-container rate depending on the type of beverage sold. Beer is taxed at varying rates that are equivalent to 0.14 cents per ounce for bottles and cans with less than 12 ounces (about 10 cents for a six-pack of 12 oz. containers). Wine containing less than 14% alcohol by volume is taxed at 32 cents per gallon (about 5.4 cents for a standard 750 ml bottle). Wine with between 14% and 21% alcohol by volume is taxed at $1.00 per gallon (or 17.0 cents for a standard 750 ml bottle). Mixed beverages are taxed at $1.20 per gallon (or 20.4 cents for a standard 750 ml bottle). Five cents of the tax on each gallon of wine which is deposited into the Ohio Grape Industries Fund. All other revenue from the alcoholic beverage tax is deposited into the GRF. About 83% of the tax revenue is from the sale of beer and malt beverages. Wine sales contribute 10%. Sales of all other alcoholic beverages contribute the remaining 7%.

The forecast for the alcoholic beverage tax revenue is based on a trend analysis of the contribution of each alcoholic beverage to the tax base in the last few years. Revenues from the tax are expected to be flat in the next biennium. Trends in alcohol consumption and increased alcohol beverage competition affect revenues from this tax. The market share for spirits and liquor has been growing at the expense of beer sales, while sales of wine have been somewhat steady.

Liquor Gallonage Tax

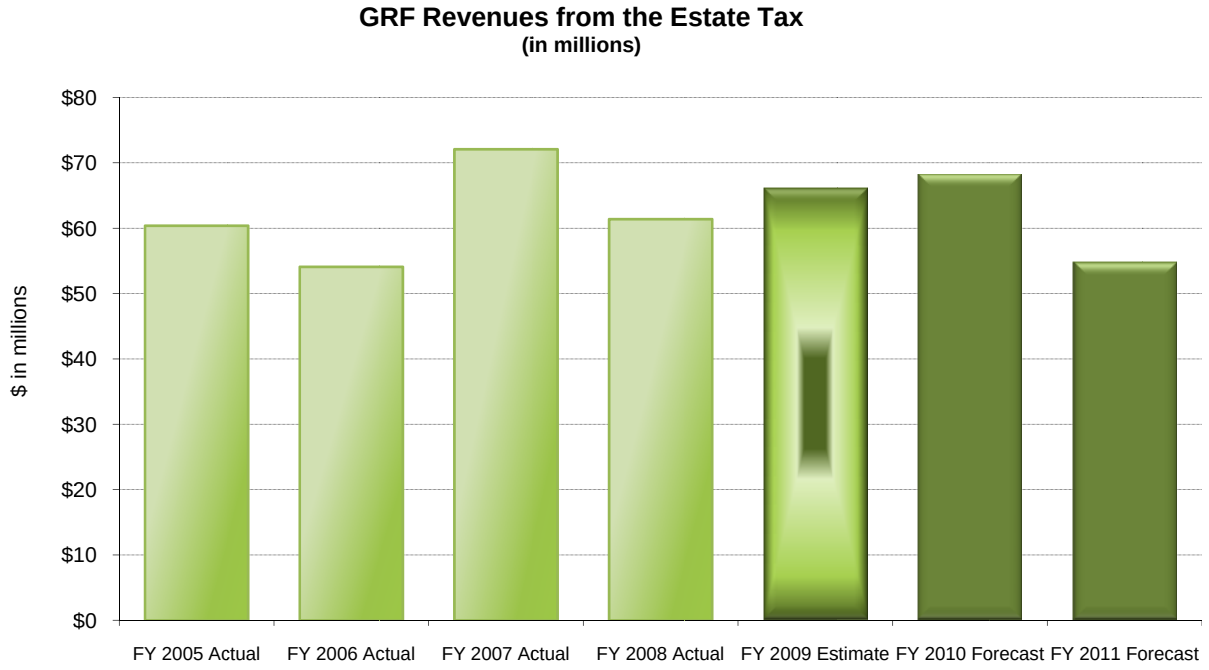


	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$32.2	$33.4	$34.3	$35.0	$35.9	$36.8	$37.6
Growth	4.2%	3.7%	2.7%	2.0%	2.6%	2.5%	2.2%

The liquor gallonage tax is levied at the rate of $3.38 per gallon of spirituous liquor. This is the equivalent of 57.6 cents per standard 750 ml bottle. Revenue from this tax is deposited into the GRF.

The forecast of liquor gallonage tax receipts is based on trend analysis of wholesale and retail gallonage sales of liquor in Ohio. The market share for spirits has been growing at the expense of beer sales, while sales of wine have been steady or increasing slightly. A thriving cocktail culture, a larger selection of liquor brands, increased cultural acceptance, and increased advertising expenditures have all contributed to a steady growth in liquor gallonage tax revenues.

Estate Tax

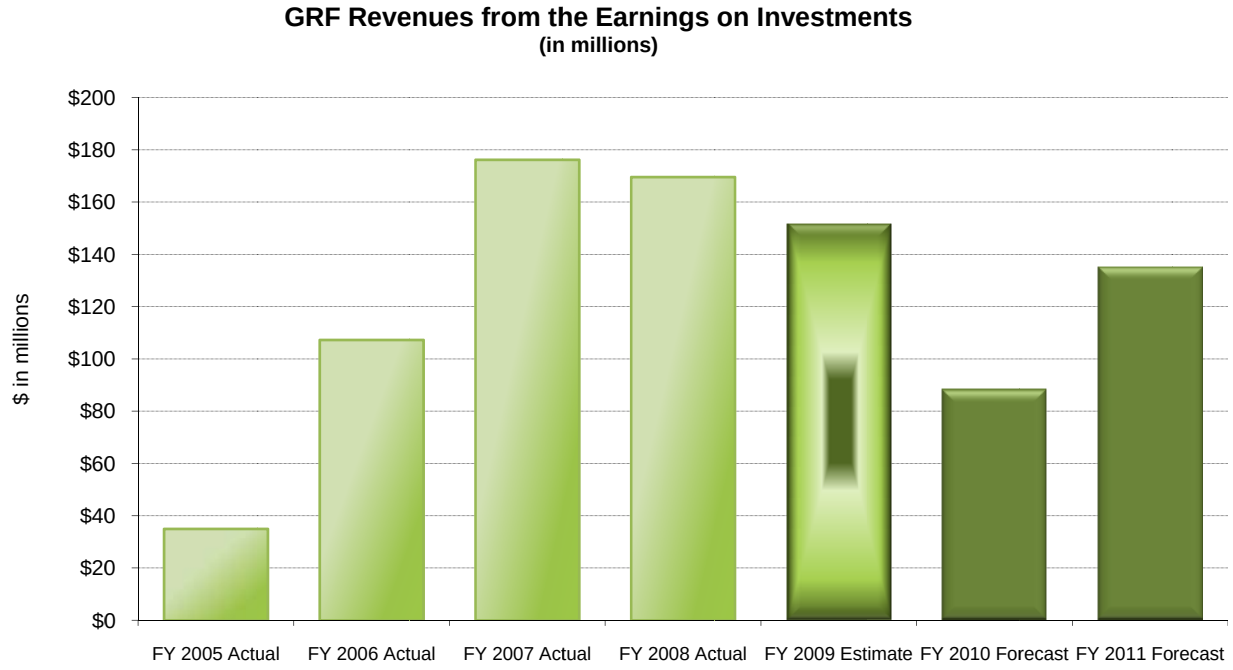


	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$60.4	$54.1	$72.1	$61.4	$66.2	$68.2	$54.8
Growth	-6.0%	-10.5%	33.4%	-14.9%	7.9%	3.0%	-19.7%

The estate tax is one of the more volatile state revenue sources as the estate of a very wealthy individual can account for a significant amount of the total revenue. Estate tax payment is due at the expiration of nine months from the date of death to the county treasurer where the estate tax return was filed. However, an automatic six month's extension is granted to all estates. The tax is progressive with rates ranging from 2% of the taxable estate to 7% of the value of the taxable estate in excess of $500,000. Estates of individuals whose dates of death were on or after January 2002 receive a $13,900 credit, which effectively exempts the first $338,333 of estate value from taxation. The municipal corporation or township of origin receives 80% of the revenue and the GRF receives the remaining 20%, less the cost of local administration for estates with dates of death on or after January 1, 2002.

The forecast for the estate tax is based on regression results that incorporate forecasts of the total number of Ohioans that die each year, the Standard & Poor's 500 Stock Index (S&P 500 Index), and per capita personal income. Estate tax revenues are estimated to increase slightly from $61.4 million in FY 2008 to $66.2 million in FY 2009. Estate tax collections are projected to increase to $68.2 million in FY 2010, then decrease to $54.8 million in FY 2011. The predicted revenue decline in FY 2011 is primarily based on a lagged response to recent decreases in the S&P 500 Index.

Earnings on Investments



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$35.0	$107.3	$176.2	$169.6	$151.4	$88.4	$135.2
Growth	94.7%	206.6%	64.2%	-3.8%	-10.7%	-41.6%	52.9%

The Treasurer of State is responsible for managing the state's portfolio and investing state funds. All state funds are invested conservatively with safety of the funds as the number one investment priority. State law and investment policy provide an outline of state investment objectives, delegation of authority, and asset diversification policy, and restrict the types of investments allowed. Some of the allowable instruments are short-term and medium-term fixed-income instruments, such as United States Treasury securities, federal agency obligations, and highly rated commercial paper. Among the instruments that are not allowable for state fund investment are domestic or international equities, real estate, and venture capital.

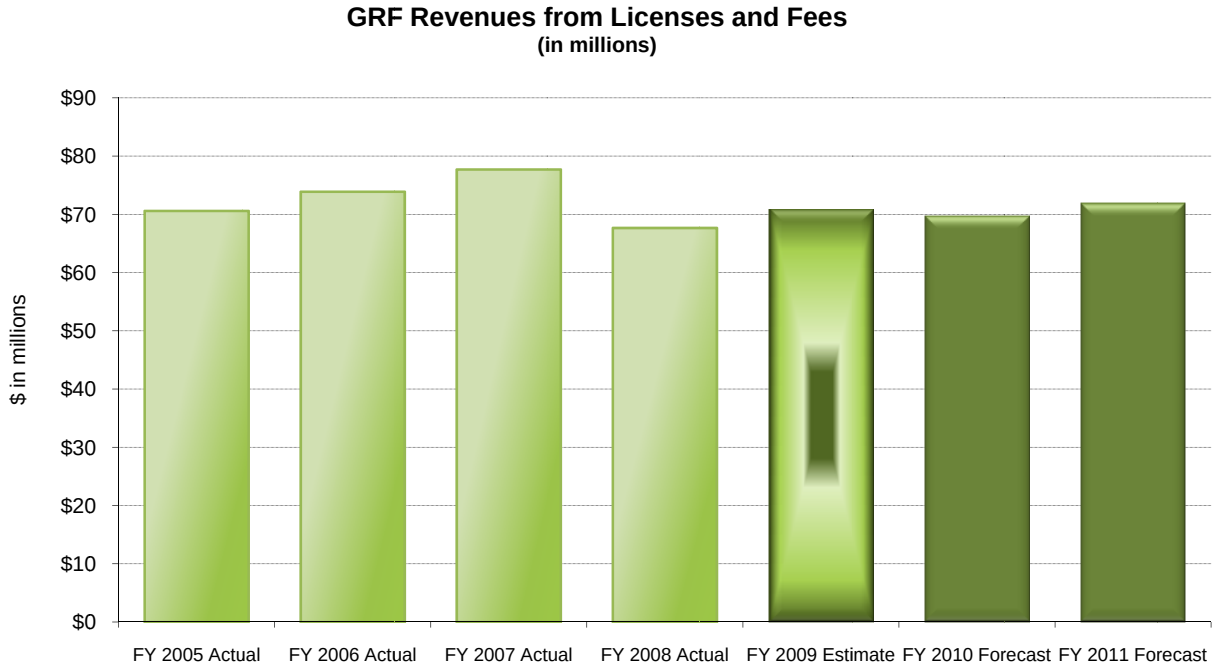
All earnings on investments from state funds are credited to the GRF unless stated otherwise in the Ohio Revised Code.

In FY 2009, earnings on investments are estimated to decrease to $151.4 million from $169.6 million in FY 2008 because of decreasing interest rates on short and medium-term investment instruments and lower estimated fund balances than in previous fiscal years. The increase in earnings on investments after FY 2006 is largely due to higher interest rates and transfers of all interest earned by all funds to the GRF

(except for interest earned by funds that are restricted or protected by the Ohio Constitution, federal tax law, or the federal Cash Management Improvement Act).

In FY 2010 and FY 2011 interest rates are expected to rise. Estimated fund balances are expected to decrease in FY 2010 but increase in FY 2011. Baseline earnings on investments for FY 2010 and FY 2011 are estimated at $88.4 million and $135.2 million, respectively. The calculations for the baseline forecast were based on interest rate estimates and the estimated state funds balance that will be available for investment.

Licenses and Fees



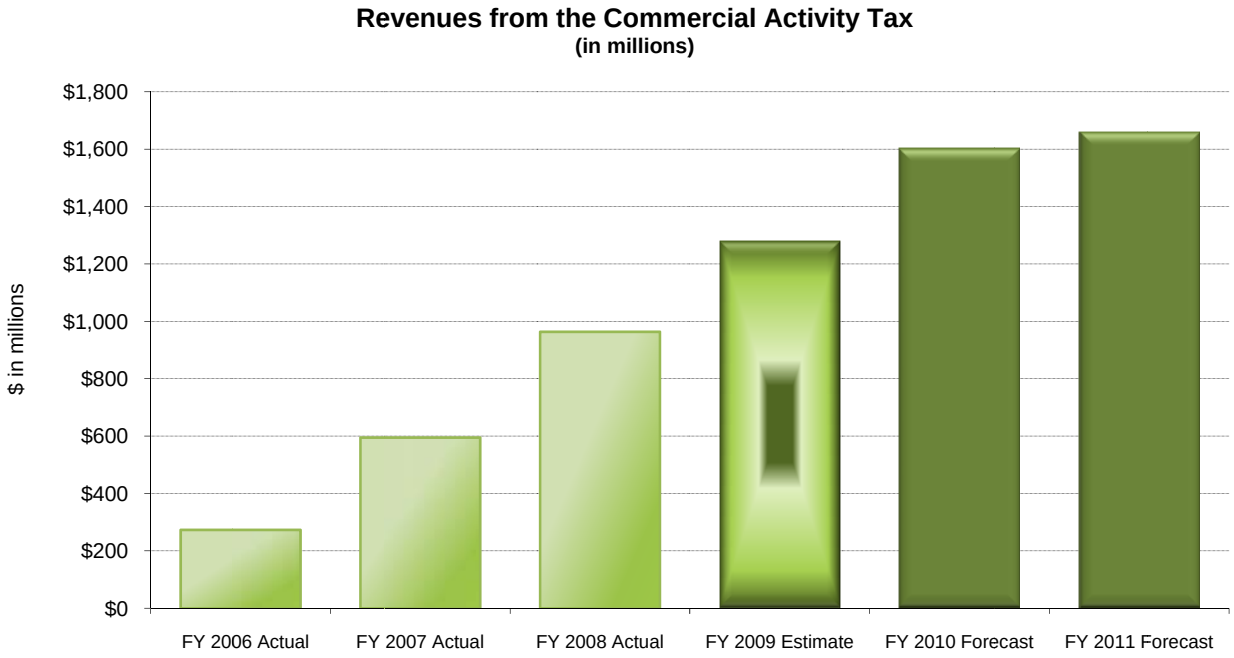
	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$70.6	$73.9	$77.7	$67.7	$70.8	$69.8	$71.9
Growth	40.8%	4.7%	5.2%	-12.9%	4.6%	-1.4%	3.0%

The General Revenue Fund benefits from a number of licenses and fees that are either completely or partially deposited into the GRF.

The two largest contributors of license and fee revenue have traditionally been the license fees deposited by the Department of Insurance and liquor permit fees deposited by the Department of Commerce. Motor vehicle license fees, license revenues deposited by the Environmental Protection Agency, and various business licenses also contribute revenues to the GRF.

LSC estimates that licenses and fees will produce $70.8 million in revenues for FY 2009, $69.8 million in FY 2010, and $71.9 million in FY 2011. The revenue projections for FY 2010 and FY 2011 are based on expected growth in Ohio's gross state product, which is a measure of a state's total output, and do not reflect any fee changes that may occur over the next two fiscal years. The decline in revenue in FY 2008 appears to be due to lower county recordation fees credited to the GRF. County recordation fees are collected by county recorders for real estate transactions, so the decline is apparently due to the sharp slowdown in housing markets.

Commercial Activity Tax – Non-GRF



	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$273.4	$595.0	$963.7	$1,278.0	$1,603.2	$1,657.7
Growth	N/A	117.6%	62.0%	32.6%	25.4%	3.4%

Am. Sub. H.B. 66 created the commercial activity tax (CAT), a new privilege tax on business entities operating in Ohio. Collections from the CAT, which is being phased in over five years, started in FY 2006. Generally, business entities with annual taxable gross receipts below $150,000 are exempt from the CAT and those with annual taxable gross receipts above $150,000 and less than $1 million pay the minimum tax of $150. Businesses with annual taxable gross receipts above $1 million pay $150 plus the CAT tax rate of 0.26% on gross receipts in excess of $1 million. Minimum tax taxpayers pay the CAT once a year. The other CAT taxpayers generally pay the CAT each quarter, based on taxable receipts in the previous calendar quarter.

In the first three quarters of FY 2009, 80% of the tax liability as calculated is payable. Starting on April 1, 2009, and in FY 2010, taxpayers pay 100% of the tax liability. Current law earmarks revenues from the CAT for the GRF and for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property. From FY 2007 through FY 2011, revenues from the CAT are to be distributed only to the School District Replacement Fund (70%) and the Local Government Replacement Fund (30%) for reimbursement purposes. After the obligations to school districts and local governments are met, any

balance (any excess CAT revenues over required distributions) is to be transferred to the GRF. If revenues from the CAT are less than needed payments to local governments, the GRF will subsidize the required distributions.

The CAT forecast is primarily based on changes to Ohio's Gross State Product (GSP), coupled with adjustments from legislated tax changes. Annual growth in CAT revenues is the result of the interaction of GSP growth rates and the percentage of tax liability payable for each fiscal year. The high growth rates in revenues from FY 2006 through FY 2009 are due primarily to increases in effective tax rates due to the phasing in of the tax. In FY 2009, the following tax credits will be applied against the CAT for the first time: the job retention credit, the job creation credit, as well as the research and development credit. In addition, taxpayers will claim the net operating loss credit starting in FY 2010.

Ohio's Tenth District Court of Appeals, on September 2, 2008, ruled that the inclusion of gross receipts from wholesales of food and retail sales of food for off-premise consumption in the tax base violates Ohio's constitution. The state has appealed. This forecast assumes taxable receipts from food sales remain in the CAT taxable base. Revenues from food sales are estimated to be about 12% of overall CAT receipts in FY 2010.

PUBLIC ASSISTANCE EXPENDITURE FORECASTS

Health Care/Medicaid

Overview

Established in 1965, Medicaid is a joint state-federal program that provides health care coverage to the poor. The federal government establishes broad national guidelines for the program, while states determine their own eligibility requirements and scope of services, set provider payment rates, and administer their own programs. The Medicaid Program in Ohio provides health care coverage to children up to age 19 whose families' incomes are below 150% of the federal poverty guideline (FPG), pregnant women with incomes up to 200% of the FPG, parents with incomes up to 90% of the FPG, and the elderly and persons with disabilities of all ages with incomes up to 64% of the FPG.

Even though Medicare provides coverage for most of Ohio's elderly population, many of these individuals are "dually eligible," and Medicaid supplements their Medicare benefits by providing Medicaid coverage for services such as long-term care. Medicaid also provides assistance with Medicare premiums, copayments, and deductibles to certain low-income seniors.

Medicaid services are an entitlement for those who meet eligibility requirements. Entitlement means that if an individual is eligible for the program then they are guaranteed the benefits. The state is obligated to pay for these benefits. It is for this reason that LSC staff forecast Medicaid expenditures.

The State Children's Health Insurance Program (SCHIP) currently provides health care coverage under Medicaid to *uninsured* children whose family income is below 200% of the FPG and who otherwise do not qualify for Medicaid. SCHIP is expected to expand starting July 1, 2009 to include uninsured children whose family income is up to 300% of the FPG.

Forecast Summary

In FY 2008, Medicaid provided health care coverage to over 1.76 million Ohioans. In FY 2009, Medicaid is expected to cover 1.86 million Ohioans. LSC forecasts that the total number of persons eligible for Medicaid will increase by 5.6%, or 104,999 persons, in FY 2010, and by 3.1%, or 61,764 persons, in FY 2011.

Medicaid expenditures, in combined state and federal dollars, totaled $10.75 billion in FY 2008. Estimated FY 2009 combined state and federal Medicaid expenditures are $12.38 billion. LSC forecasts that Medicaid expenditures, in combined state and federal dollars, will increase by 3.4%, or $417.9 million, in FY 2010, and by 6.1%, or $780.3 million, in FY 2011.

Caseload Forecast

Total Caseload

As can be seen in Table 1 below, the total number of persons eligible for Medicaid grew by 1.4% from 1.74 million in FY 2007 to 1.76 million in FY 2008. The total number of persons eligible is estimated to reach 1.86 million in FY 2009, a 5.9% increase over FY 2008. LSC forecasts that the number of persons eligible for Medicaid will increase to 1.97 million in FY 2010, a 5.6% increase, before increasing to 2.03 million in FY 2011, a 3.1% increase.

Table 1: Total Medicaid Caseloads

Fiscal Year	Monthly Average	Growth Rate
2002	1,380,235	--
2003	1,527,076	10.64%
2004	1,618,900	6.01%
2005	1,687,462	4.24%
2006	1,730,075	2.53%
2007	1,736,143	0.35%
2008	1,759,873	1.37%
2009	**1,863,917**	**5.91%**
2010	**1,968,916**	**5.63%**
2011	**2,030,680**	**3.14%**

H.B. 119 of the 127th General Assembly, the FY 2008-FY 2009 biennial budget act, required the Ohio Department of Job and Family Services (ODJFS) to do all of the following:

1. Implement, beginning January 1, 2008, a federal option under which an individual under age 21 qualifies for Medicaid if the individual (a) was in foster care under the responsibility of the state on the individual's 18th birthday, (b) received Title IV-E foster care maintenance payments or independent living services before turning age 18, and (c) meets all other applicable eligibility requirements.
2. Raise the income eligibility limit for pregnant women to family income of 200% (from 150%) of the FPG.
3. Establish a new component of the Medicaid Program to be known as the Medicaid Buy-In for Workers with Disabilities Program.
4. Expand SCHIP to include persons under age 19 with family incomes up to 300% of the FPG starting not earlier than January 1, 2008.
5. Establish the Children's Buy-In Program for individuals under age 19 who have countable income exceeding 300% of the FPG, have not had creditable health insurance for at least six months, and meet other eligibility requirements.

The expansions for young adult foster children and pregnant women went into effect January 1, 2008. Starting April 2008, the Children's Buy-In Program became available for individuals under age 19 at 300% FPG, and the Medicaid Buy-In Program for Workers with Disabilities became available to individuals with incomes up to 250% of the FPG. The forecast assumes that SCHIP expansion will be implemented during the upcoming biennium.

Medicaid caseload is driven by a number of factors. These include changes in state eligibility standards, health care costs, employer offers of health insurance coverage, and changes in income. The business cycle is also an important determinant particularly for nondisabled adults and children. As unemployment increases, workers and their dependants may lose access to employer coverage. This can happen because of unemployment, reduced employer contributions to health insurance, reduced eligibility for employer sponsored insurance, and movement from full-time to part-time work. Individuals then either become eligible and enroll in public coverage, purchase nongroup coverage, or become uninsured.

The U.S. economy continues to decline. The Ohio unemployment data released on January 29, 2009 by the Bureau of Labor Statistics shows that the December 2008 unemployment rate had increased to 7.8% and that 464,800 people had either become unemployed or left the labor force. Global Insight January 2009 baseline forecast projected that the Ohio unemployment rate will continue to increase to 10.44% in the first quarter of calendar year (CY) 2010 and decline to 9.54% by the second quarter of CY 2011.

Individuals eligible for Medicaid are grouped into two major categories. Generally, children up to age 19 whose families' incomes are below 200% of the FPG, pregnant women with incomes up to 200% of the FPG, and parents with incomes up to 90% of the FPG are grouped as Covered Families and Children (CFC). The aged, blind, and disabled (ABD) category includes the low-income elderly who are age 65 or older and individuals with disabilities. The forecasted caseload for each of these two categories is discussed below.

Covered Families and Children

LSC forecasts that the recent increase in the overall CFC caseload will continue through the biennium (see Table 2 below). The rate of increase is projected to decelerate in FY 2011. This forecast is based on a statistical estimation of the relationship between the Healthy Families (families with incomes up to 90% of the FPG, which include a child up to age 19) caseload and the unemployment rate. Forecasts of future unemployment rates used for the caseload projections are taken from the winter 2008 economic forecast for Ohio by Global Insight.

Table 2: Medicaid Caseloads – Covered Families and Children (CFC)

Fiscal Year	Healthy Families		Healthy Start		SCHIP		Total CFC	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2002	750,288	--	153,264	--	108,567	--	1,012,119	--
2003	859,358	14.54%	164,806	7.53%	121,847	12.23%	1,146,011	13.23%
2004	924,052	7.53%	169,169	2.65%	131,722	8.10%	1,224,942	6.89%
2005	979,112	5.96%	164,008	-3.05%	136,262	3.45%	1,279,382	4.44%
2006	1,004,599	2.60%	167,343	2.03%	139,785	2.59%	1,311,728	2.53%
2007	982,058	-2.24%	182,566	9.10%	144,227	3.18%	1,308,851	-0.22%
2008	995,854	1.40%	179,770	-1.53%	144,460	0.16%	1,320,084	0.86%
2009	**1,078,693**	**8.32%**	**176,744**	**-1.68%**	**148,268**	**2.64%**	**1,403,705**	**6.33%**
2010	**1,160,781**	**7.61%**	**183,600**	**3.88%**	**149,848**	**1.07%**	**1,494,229**	**6.45%**
2011	**1,205,872**	**3.88%**	**185,959**	**1.29%**	**150,920**	**0.72%**	**1,542,751**	**3.25%**

Aged, Blind, and Disabled

Growth in the ABD caseload accelerated in the first quarter of FY 2009. LSC forecasts that the total ABD caseload will increase by 4.6% in FY 2009, 3.2% in FY 2010, and 2.8% in FY 2011. Individuals who become eligible for Medicaid due to disability are the largest single subcategory within the ABD Only eligibility category. The Social Security Administration forecasted acceleration in the number of blind or disabled recipients of federally administered supplemental security income (SSI) benefits in CY 2008 and again in CY 2009 in its 2008 Annual Report of the Supplemental Security Income Program. While this forecast is for a national figure, statistical analysis conducted by LSC staff indicates that historically, growth in Ohio's blind and disabled caseload is highly correlated with this national trend.

Table 3: Medicaid Caseloads – Aged, Blind and Disabled

Fiscal Year	ABD Only		Dual ABD		QMB		SLMB		Total ABD	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2002	170,230	--	158,291	--	21,576	--	18,019	--	368,116	--
2003	176,584	3.73%	164,418	3.87%	22,279	3.26%	17,784	-1.30%	381,065	3.52%
2004	184,016	4.21%	171,909	4.56%	22,505	1.01%	15,528	-12.69%	393,958	3.38%
2005	188,780	2.59%	179,217	4.25%	24,079	6.99%	16,004	3.07%	408,079	3.58%
2006	192,380	1.91%	175,433	-2.11%	32,076	33.21%	18,458	15.34%	418,347	2.52%
2007	196,247	2.01%	165,752	-5.52%	42,157	31.43%	23,136	25.34%	427,292	2.14%
2008	197,168	0.47%	170,438	2.83%	45,931	8.95%	26,253	13.47%	439,790	2.92%
2009	**201,848**	**2.37%**	**175,682**	**3.08%**	**47,380**	**3.15%**	**35,302**	**34.47%**	**460,212**	**4.64%**
2010	**207,220**	**2.66%**	**181,744**	**3.45%**	**49,130**	**3.69%**	**36,592**	**3.65%**	**474,687**	**3.15%**
2011	**211,910**	**2.26%**	**186,860**	**2.81%**	**51,397**	**4.61%**	**37,763**	**3.20%**	**487,929**	**2.79%**

QMB – Qualified Medicare Beneficiaries
SLMB – Specified Low-income Medicare Beneficiaries

Managed Care

H.B. 66 of the 126th General Assembly, the FY 2006-FY 2007 biennial budget act, required managed care to be implemented in all counties. Prior to this, Medicaid services were largely provided under a fee-for-service system. H.B. 66 required ODJFS to designate the CFC population for participation. All designated CFC participants were required to enroll in Medicaid MCPs by December 31, 2006. It also required ODJFS to implement managed care for certain aged, blind, and disabled Medicaid recipients in all counties. The requirement did not apply to: (1) persons under age 21, (2) institutionalized persons, (3) persons eligible for Medicaid by spend-down, (4) individuals eligible for both Medicaid and Medicare, and (5) Medicaid waiver recipients. All designated ABD participants were also required to enroll in Medicaid MCPs by December 31, 2006.

Prior to the mandated expansions in H.B. 66, Ohio Medicaid MCPs were limited to large metro areas and exclusively focused on the CFC population. The statewide expansion included rural areas such as Appalachia where access to health care is more difficult. And for the first time, the elderly population was included in managed care.

In FY 2008, Medicaid provided health care coverage to approximately 1.1 million CFC and 336,000 ABD per month through managed care. According to ODJFS, Ohio's Medicaid managed care expansion is complete for the CFC population.

LSC's baseline forecast uses the penetration rates anticipated by ODJFS. Penetration rate is the percentage of managed care recipients of the total population. LSC's baseline forecast uses penetration rates of about 19% for ABD and 86% for CFC throughout the upcoming biennium.

Tables 4 and 5 below summarize Medicaid caseloads under managed care plans and under the fee-for-service system.

Table 4: Medicaid Caseloads – Fee-For-Services (FFS) vs. Managed Care Plans (MCP)

Fiscal Year	CFC-FFS		CFC-MCP		ABD-FFS		ABD-MCP	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2002	677,824	--	334,295	--	368,116	--	0	--
2003	742,041	9.47%	403,970	20.84%	381,065	3.52%	0	--
2004	741,352	-0.09%	483,590	19.71%	393,958	3.38%	0	--
2005	757,197	2.14%	522,185	7.98%	408,079	3.58%	0	--
2006	690,363	-8.83%	621,364	18.99%	418,347	2.52%	0	--
2007	364,846	-47.15%	944,005	51.92%	401,735	-3.97%	25,556	--
2008	196,253	-46.21%	1,123,830	19.05%	335,552	-16.47%	104,237	307.88%
2009	**193,079**	**-1.62%**	**1,210,625**	**7.72%**	**370,755**	**10.49%**	**89,457**	**-14.18%**
2010	**205,495**	**6.43%**	**1,288,735**	**6.45%**	**386,382**	**4.21%**	**88,304**	**-1.29%**
2011	**212,068**	**3.20%**	**1,330,683**	**3.26%**	**397,626**	**2.91%**	**90,303**	**2.26%**

Table 5: Total Medicaid Caseloads – FFS vs. MCP

Fiscal Year	Total FFS		Total MCP	
	Monthly Average	Growth Rate	Monthly Average	Growth Rate
2002	1,045,940	--	334,295	--
2003	1,123,107	7.38%	403,970	20.84%
2004	1,135,310	1.09%	483,590	19.71%
2005	1,165,277	2.64%	522,185	7.98%
2006	1,108,710	-4.85%	621,364	18.99%
2007	766,582	-30.86%	969,561	56.04%
2008	531,806	-30.63%	1,228,068	26.66%
2009	**563,835**	**6.02%**	**1,300,082**	**5.86%**
2010	**591,877**	**4.97%**	**1,377,039**	**5.92%**
2011	**609,694**	**3.01%**	**1,420,986**	**3.19%**

Expenditure Forecast

Summary

Medicaid expenditures in ODJFS can generally be placed into one of the following major categories: long-term care (nursing facilities, or NFs, and Intermediate Care Facilities for the Mentally Retarded, or ICFs/MR), hospitals (inpatient and outpatient), physician services, prescription drugs, managed care plans (MCP), Medicare buy-in, waiver, and all other care. LSC forecasts expenditures for each of these categories. Table 6 below summarizes Medicaid expenditures by service category.

Table 6: Projected Medicaid Expenditures for FY 2010 and FY 2011

(Baseline Assumptions, Combined State and Federal Dollars)

Category	FY 2009	FY 2010			FY 2011		
	Estimate	Forecast	Dollar Increase	% Increase	Forecast	Dollar Increase	% Increase
Nursing Facilities	$2,570,831,252	**$2,567,679,030**	($3,152,222)	-0.12%	**$2,562,521,616**	($5,157,414)	-0.20%
ICFs/MR	$544,720,182	**$544,035,450**	($684,732)	-0.13%	**$542,839,162**	($1,196,287)	-0.22%
Inpatient	$1,062,428,250	**$1,148,249,508**	$85,821,258	8.08%	**$1,237,363,734**	$89,114,225	7.76%
Outpatient	$398,525,770	**$429,354,053**	$30,828,284	7.74%	**$460,215,030**	$30,860,977	7.19%
Physicians	$344,733,742	**$363,469,270**	$18,735,528	5.43%	**$381,089,030**	$17,619,760	4.85%
Prescription Drugs	$593,100,010	**$654,796,839**	$61,696,829	10.40%	**$703,992,442**	$49,195,603	7.51%
Home Care Waiver	$339,243,620	**$375,595,832**	$36,352,212	10.72%	**$419,401,400**	$43,805,568	11.66%
Managed Care - ABD	$1,371,952,129	**$1,274,800,440**	($97,151,690)	-7.08%	**$1,378,249,059**	$103,448,619	8.11%
Managed Care - CFC	$3,369,959,067	**$3,517,004,347**	$147,045,281	4.36%	**$3,853,271,674**	$336,267,327	9.56%
All Other	$1,201,020,572	**$1,306,011,657**	$104,991,085	8.74%	**$1,381,753,237**	$75,741,579	5.80%
Medicare Buy-In	$317,388,167	**$336,775,321**	$19,387,154	6.11%	**$368,174,995**	$31,399,674	9.32%
Disability Medical	$10,994,732	**$8,470,724**	($2,524,008)	-22.96%	**$2,231,691**	($6,239,033)	-73.65%
Medicare Part D	$255,205,839	**$271,746,617**	$16,540,778	6.48%	**$287,194,790**	$15,448,173	5.68%
Total Expenditures	$12,380,103,332	**$12,797,989,090**	$417,885,758	3.38%	**$13,578,297,860**	$780,308,770	6.10%

Methodology

A key distinction made in forecasting Medicaid expenditures is between "fee-for-service" and "managed care." Medicaid does not directly provide medical services to eligible individuals enrolled in the program. It provides financial reimbursement to health care professionals and institutions for providing approved medical services, products, and equipment to Medicaid enrollees. Until recent years, Medicaid has paid most service providers a set fee for the specific type of service rendered to Medicaid enrollees (termed "fee-for-service" reimbursement). Payments are based on the lowest of the state's fee schedule, the actual charge, or federal Medicare allowances.

An alternative to fee-for-service reimbursement is managed care. A typical managed care plan, called capitated at-risk plans, is one in which the beneficiary receives all care through a single point of entry, and the plan is paid a fixed monthly premium per beneficiary for any health care included in the benefit package, regardless of the amount of services actually used. The beneficiary is responsible for, at most, modest copayments for services; the provider is at risk for the remaining cost of care. A capitated plan can be a network of physicians and clinics, all of whom participate in the plan and also participate in other plans or fee-for-service systems, or it can be one that hires all the physicians who provide all the care required.

In forecasting Medicaid expenditures, the costs of recipients enrolled in managed care plans are generally treated separately from the fee-for-service categories. This practice means that services provided to managed care enrollees are not to be included when forecasting the large fee-for-service categories such as Inpatient Hospital Services and Physician Services. Due to the managed care expansions for both the CFC and ABD populations, managed care has become the biggest factor in forecasting Medicaid expenditures in the upcoming biennium.

LSC staff generates baseline forecasts for major expenditure categories described in the Forecast Summary section using the "classic expenditure model" suggested by the U.S. Department of Health and Human Services. This classic expenditure model can be characterized as:

Expenditures = Caseload x Average Utilization x Price

For each typical expenditure category and subcategory, separate forecasts are done for the average number of claims per recipient (corresponding to average utilization) and for the average cost per claim submitted (corresponding to price). Time series regression models are used in these forecasts.

Due to the delayed submissions of claims by providers and delays in processing payments, claims are not always paid in the same month in which services are given to Medicaid eligibles. In fact, it is generally the case that providers are not completely reimbursed for all of the services they give to Medicaid eligibles until well over a year following the date of service. Thus, it is necessary to make the distinction between the date of service and the date of payment. Because disbursements for Medicaid reflect

the payment of claims and not the provision of services, it is necessary to incorporate the appropriate payment lags when estimating Medicaid spending.

In short, forecasting Medicaid spending involves two steps. The first step is to estimate the number of Medicaid eligibles in each month. In this step it is necessary to estimate the demand each eligibility group will have for each category of service. The next step is to estimate the relevant cost per claim. Taken together, these estimates can be used to predict the cost of services in a given period (in this case, monthly). However, disbursement estimates reflect the payment of claims. So it is also necessary to apply the appropriate payment lags before the forecasts are complete.

Medicaid Expenditures for Selected Service Categories

Managed Care. The statewide expansion of Medicaid managed care that began in July 2005 has dramatically shifted expenditures from the fee-for-service categories to the managed care categories. Generally speaking, managed care has been shown to achieve an initial spending reduction of 3% to 5% compared to the traditional fee-for-service model of health care delivery. In FY 2008, expenditures for the managed care categories were $3.9 billion and represented approximately 37.3% of the total Medicaid expenditures in ODJFS.

In addition to the increase in the managed care population, MCP capitation rates are also rising. Ohio Medicaid chose Milliman as its state contracted actuarial firm. The actuary performs analyses of historic Medicaid spending and consumer utilization patterns for Ohio's Medicaid populations. Separate analyses have to be done for the CFC and ABD populations because of the differences in their health care needs, utilization patterns, and overall Medicaid costs. After this rate-setting process is completed, per-member monthly payment rates are ready to be measured against the required federal standard of "actuarial soundness" and released to the managed care companies. Historically, MCP capitation rates have been adjusted at the beginning of each calendar year. The capitation rates on average increased 4.2% for CFC and 6.2% for ABD, from 2008 to 2009. In 2009, the average capitation rate is $225.7 for CFC and $1,211 for ABD.

LSC's forecast includes annual growth rates of 7.2% for ABD, and 5.2% for CFC for 2010 and 2011. These growth rates were calculated by Milliman. In addition, LSC's baseline forecast includes a 5.5% rate reduction effective October 1, 2009 due to the termination of the managed care assessment. Forecasted expenditures for ABD managed care are $1.3 billion in FY 2010 and $1.4 billion in FY 2011. Forecasted expenditures for CFC managed care are $3.5 billion in FY 2010 and $3.9 billion in FY 2011.

Nursing Facilities. In FY 2008, expenditures for the Nursing Facilities category were $2.5 billion and represented approximately 24.2% of the total Medicaid expenditures in ODJFS.

The formula for determining per diem reimbursements to nursing facilities was changed by H.B. 66. There is insufficient history with which to conduct an econometric analysis of historical rates. The average per diem for FY 2007 was $162.50 and was based on the new formula, subject to a provision that no facility's reimbursement was increased or decreased by more than 2% from its June 30, 2006 level as a result of implementing the new formula. The average per diem for FY 2008 was $164.60 and was based on the new formula, subject to a provision that no facility's reimbursement was increased by more than 2.75% or no facility's reimbursement was decreased from its June 30, 2007 level. LSC projects the average per diem for FY 2009 to be $166.60. The per diem increase from FY 2008 to FY 2009 is due to the capital compensation that Am. Sub. H.B. 562 of the 127th General Assembly provided for qualifying nursing facilities to receive additional quarterly payments for its capital compensation. As assumed in the Governor's proposed budget, LSC's baseline forecast assumes no rate increase in the per diem for the upcoming biennium.

Inpatient and Outpatient Hospital Services. In FY 2008, expenditures for Inpatient and Outpatient Hospital Services categories were $1.3 billion and represented approximately 12.2% of total Medicaid expenditures in ODJFS. Forecasted expenditures for Inpatient and Outpatient Hospital Services are $1.6 billion in FY 2010 and $1.7 billion in FY 2011.

The Ohio Administrative Code requires an annual inflationary update to inpatient rates; however, outpatient rates are based on a fee schedule that is not automatically inflated. As assumed in the Governor's proposed budget, LSC's baseline forecast assumes no inflation adjustment for the upcoming biennium. However, the demand for more and expanded health care services continues to push up the costs. Thus, LSC anticipates expenditures in both categories to grow in FY 2010 and FY 2011.

Ohio Home Care Waiver. Forecasted expenditures for the Ohio Home Care Waiver are $375.6 million in FY 2010 and $419.4 million in FY 2011.

Ohio Home Care is Medicaid's integrated program of home care services, consisting of three benefit packages: Core, Ohio Home Care Waiver, and Transitions Waiver. All three packages include "core" services of nursing, daily living, and skilled therapies. As assumed in the Governor's proposed budget, LSC's baseline forecast assumes 600 new waiver slots each year for the upcoming biennium.

Temporary Assistance for Needy Families

Administered by ODJFS, Temporary Assistance for Needy Families (TANF) is a federal program that provides cash assistance and noncash supports to needy families. Ohio's cash assistance program, called Ohio Works First (OWF), is an entitlement program, meaning that families are guaranteed to receive benefits as long as they meet eligibility requirements. LSC staff forecasts OWF caseloads and expenditures in order to estimate the amount of TANF dollars that will be spent on cash assistance. The availability of TANF dollars for other noncash supports, such as the Prevention, Retention, and Contingency (PRC) Program and publicly funded child care, depends on the amount of funds that remain once the dollars needed to pay for OWF cash assistance benefits are first taken into account.

OWF Caseload Forecast

As shown in Table 7 below, in FY 2008, the average caseload of OWF assistance groups was 79,400. OWF caseloads are projected to increase to an average of 85,400 in FY 2009, an increase of 8% (as of December 2008 the current average for FY 2009 is 82,082). Into the next biennium, caseloads are projected to increase in FY 2010 to an average of 93,400 (a 9% increase from FY 2009) and slightly decrease in FY 2011 to an average of 92,900 (a 1% decrease from FY 2010).

Table 7: OWF Caseload Forecast

	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Average Caseloads	79,400	85,400	93,400	92,900
% Change from Previous Year	1%	8%	9%	-1%

The forecast of OWF assistance group caseloads was based on a regression of the monthly OWF caseloads against the number of unemployed Ohioans and the number of terminated OWF cases. The number of terminated cases was forecasted by LSC staff based on the historical trend. The forecasts for the number of unemployed in the state were provided by Global Insight. As of December 2008, the Bureau of Labor Statistics estimated that the number of unemployed in the state was 464,800. In January 2009, Global Insight forecasted that the number of unemployed in Ohio will peak in the first quarter of CY 2010 to 628,400 before declining to 575,400 by the second quarter of CY 2011 (the end of the upcoming biennium).

The regression analysis included observations starting in January of 2001 in order to exclude the most dramatic effects resulting from the policy change of imposing the 36-month time limit on benefits. Preliminary regressions indicated that caseload increases lag increases in unemployment by up to five months. Regressions also showed that the number of monthly terminated cases captured the effects that time

limits have on the number of enrolled assistance groups. Three-month moving averages of all variables were used in the regressions to smooth small monthly fluctuations and capture the broader quarterly trends.

OWF Expenditure Forecast

As shown in Table 8 below, in FY 2008, the state spent $317 million for OWF cash assistance benefits. OWF expenditures are expected to total $358 million in FY 2009, an increase of 13% from FY 2008. Into the next biennium, OWF expenditures are projected to increase in FY 2010 to $406 million, an increase of 13% from FY 2009, and to increase in FY 2011 to $415 million, an increase of 2% from FY 2010.

Table 8: OWF Expenditure Forecast

	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Expenditures	$317 million	$358 million	$406 million	$415 million
% Change from Previous Year	3%	13%	13%	2%

The projected increases in expenditures are based on both the forecasted increase in caseload and the mandated cost-of-living adjustment (COLA) in section 5107.04 of the Revised Code. This section requires ODJFS to increase cash assistance payments in January of each year based on a COLA as determined by the federal Social Security Administration. The annual COLA rate is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers. In January 2009, benefits increased 5.8%, and the forecast assumes a 2.5% increase in January 2010 and a 2.8% increase in January 2011.[6]

In CY 2008 the average payment per assistance group was $338 per month. In January 2009, this increased to $358 per assistance group per month based on the 5.8% COLA increase. The monthly payment per assistance group is projected to be $367 for CY 2010 and $377 for CY 2011, based on the estimated 2.5% and 2.8% increases, respectively.

HouseFinanceForecast.docx/cm

[6] Social Security Administration's Board of Trustees for the Social Security Trust, 2008 Trustees Report.