FORECAST OF

GRF REVENUES AND PUBLIC ASSISTANCE SPENDING

FOR THE FY 2008 - FY 2009 BIENNIAL BUDGET

TO ACCOMPANY TESTIMONY
BY LSC FISCAL STAFF
MARCH 20, 2007

LEGISLATIVE SERVICE COMMISSION FORECAST

TABLE OF CONTENTS

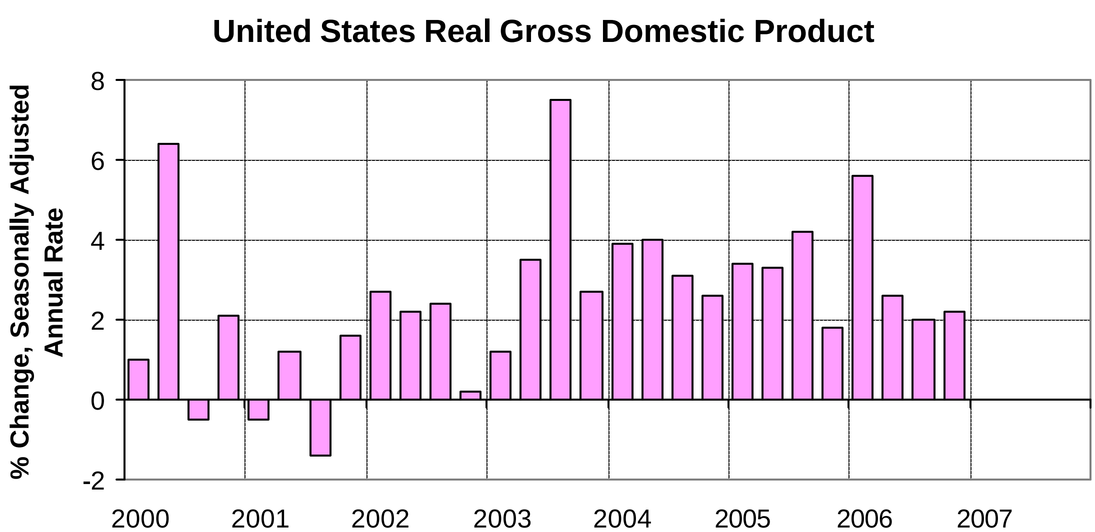
Economic Conditions and Outlook

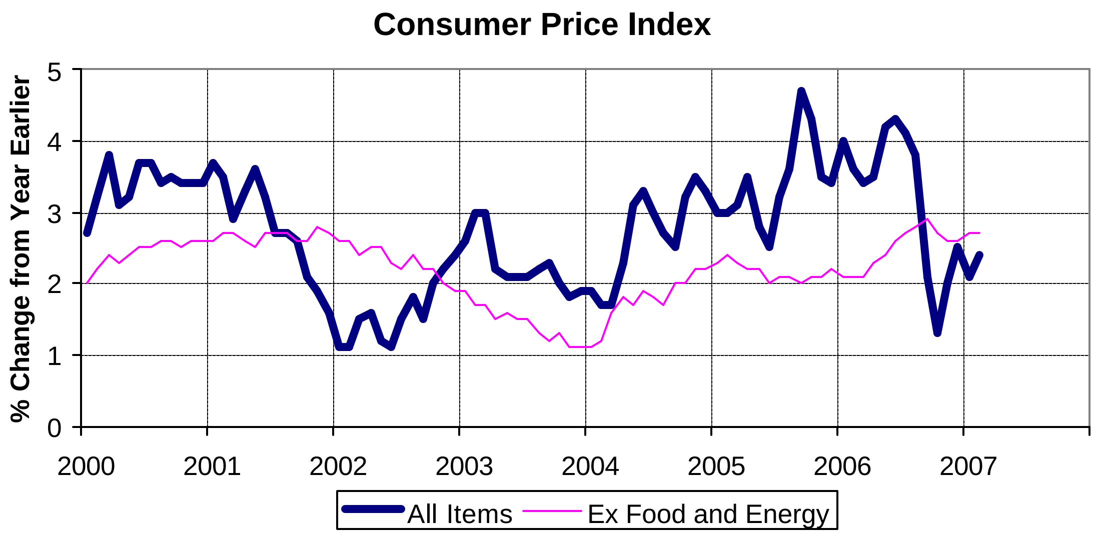
State of the Economy

The nation's economy has been growing for more than five years, following the recession in 2001. Recovery in Ohio has been slower than in much of the rest of the country, and total nonfarm payroll employment here has declined since last March.

National

Growth of the nation's economy slowed during 2006, following generally stronger expansion since mid-2003. The slower rise in inflation-adjusted (real) gross domestic product during the last three quarters of last year reflected mainly weakening in housing markets and related industries, but also slowing in demand for American-nameplate light motor vehicles and for the output of suppliers to manufacturers of those vehicles. Total manufacturing activity nationwide shrank in last year's fourth quarter and in January of this year, but picked up in February. Manufacturing employment in this country is at its lowest level in more than half a century but factory output is near all-time highs reflecting long-term productivity gains. Excess housing inventories continue to restrain construction. Despite the softness in the housing sector, consumer spending on other goods and services, overall, continued to expand at a fairly healthy pace last year, but appears to have flattened in the first quarter. In contrast with the steep slowdown in





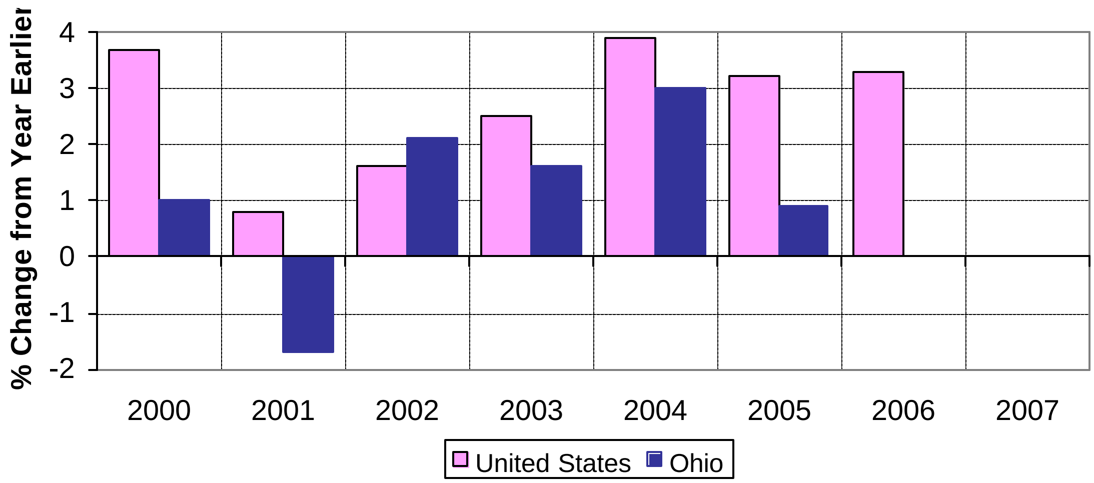
residential construction, nonresidential investment in structures strengthened last year, though investment slowed in the fourth quarter, as construction of commercial and other buildings grew more rapidly while mining activity, particularly oil and gas well drilling, again rose at a double-digit rate. Business investment in equipment trended upward last year though less rapidly than earlier in the expansion, and spending slowed in the fourth quarter. American exports rose more rapidly and import growth slowed. Government spending growth turned higher last year, mainly as a result of more rapid increases in state and local government outlays.

Inflation eased in 2006 as energy prices declined. Since January, crude oil and gasoline prices have again turned higher. Increases in 2006 and early 2007 in prices for finished goods and services, excluding volatile energy and food prices, remained above the 2% year-over-year rate of increase widely seen as the top end of the range preferred by the nation's central bank. Labor cost increases have turned higher as wage and salary gains have been somewhat larger over the past couple of years than earlier, while yearly increases in productivity have slowed after large increases in 2002-2003. Anticipating that slower but continued overall growth of the economy will ease pressures on capacity and bring inflation down to more acceptable rates, the nation's central bank has held its target short-term interest rate, for federal funds, unchanged at 5.25% since mid-2006, following increases from 1% two years earlier.

Ohio

Expansion in this state's economy has generally trailed that of the nation for many years. This is illustrated by data on Ohio's gross domestic product, the broadest measure

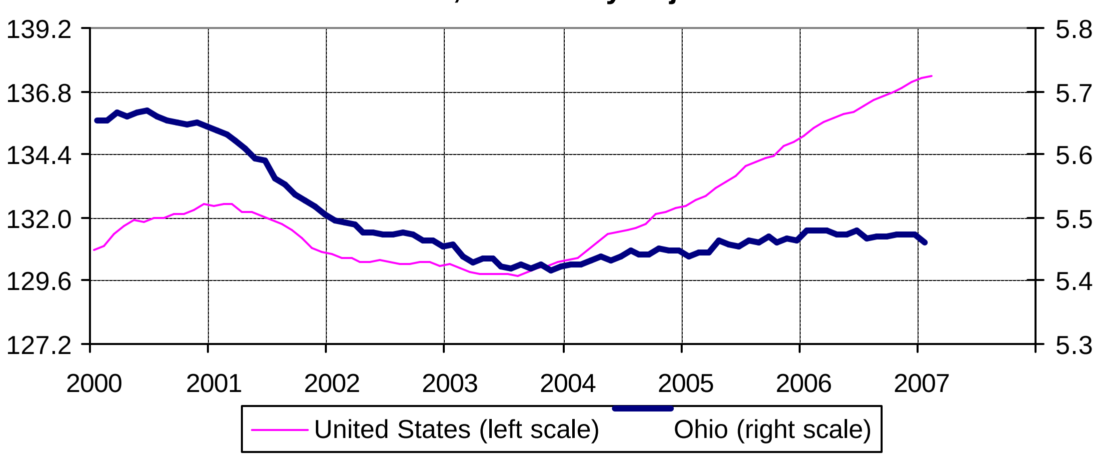
Real Gross Domestic Product



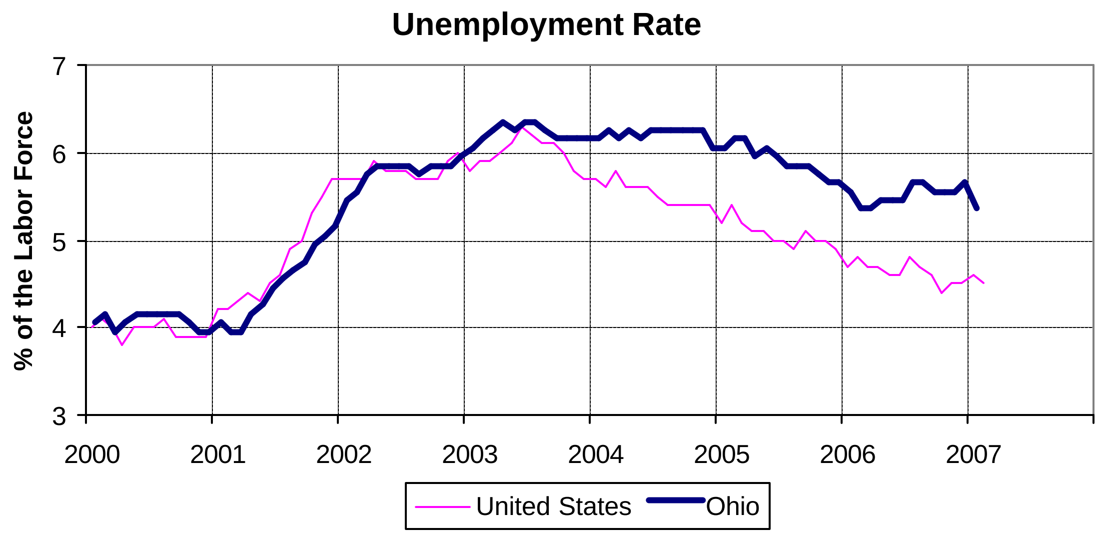
of statewide economic activity. Gross domestic product has risen more slowly in the state than nationwide every year since 1998, with the exception of 2002. The state's share of national output has trended lower since the 1960s. Estimates of state gross domestic product are available from the U.S. Bureau of Economic Analysis only annually and with a long lag; the most recent history currently available is for 2005.

Following the 2001 recession, payroll employment in both the state and the nation continued to decline until 2003. Total payroll employment nationwide has risen 5.8% since the 2003 low, while that in Ohio has climbed only 0.8%. Total payroll employment in the state has fallen since March of last year. The state's economy has been under stress in part because of the greater concentration of motor vehicle and other durable goods production here.

Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted

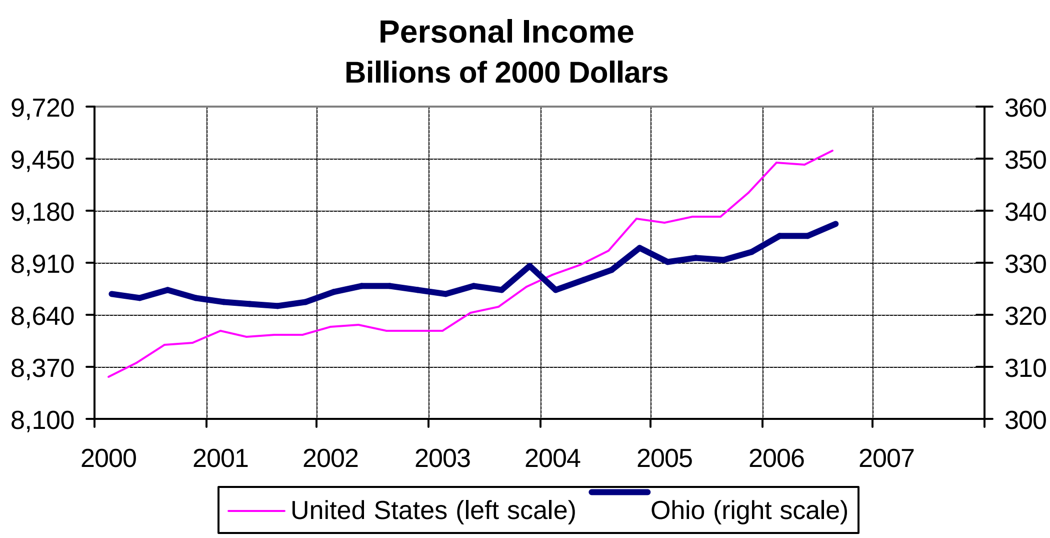


Unemployment as a percent of the labor force, in the nation and in Ohio, peaked in 2003 then began to decline. Since then, the unemployment rate nationwide has been consistently below that for the state. The nation's unemployment rate in February was



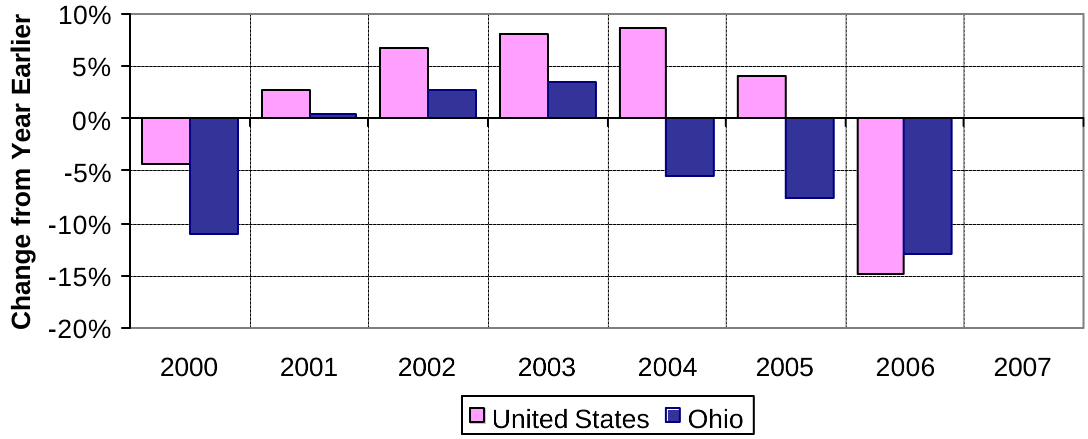
4.5%, near the recent low of 4.4% last October. In Ohio, the unemployment rate in January was 5.3%, equaling the recent low in February and March 2006.

Growth of personal income in Ohio, for which data are available only through last year's third quarter, trailed that of the nation since 2003. Over the last three years, inflation-adjusted personal income rose 4.0% in Ohio, less than half of the 9.3% increase during the same time nationwide.



Housing permits data indicate that new residential construction turned down in the state earlier than in the nation. Last year's decline in housing construction in Ohio, however, was not as sharp as in some other parts of the country.

New Privately Owned Housing Units Authorized by Building Permits



Economic Forecasts

Predictions for the economic outlook from forecasting firm Global Insight and from the Governor's Council of Economic Advisors are shown in the following tables. The Global Insight forecasts shown below for the nation and Ohio were released in January. The Governor's Council of Economic Advisors' forecast is the consensus outlook from a January 2007 meeting of that group. Quarterly changes shown below are from the preceding quarter of the calendar year indicated. Annual changes 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.

U.S. Gross Domestic Product

Both Global Insight and the Governor's Council of Economic Advisors expect the national economy to continue growing during the next two years. Although a recession is a possibility, such an outcome appears less likely. The pace of expansion in economic activity in the current fiscal year and in FY 2008 is expected to be slower than the 3.4% rise in FY 2006.

Table 1 U.S. Real GDP Growth

	2007				2008				2009			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	----------percent change at annual rate----------											
Global Insight	2.0	2.3	2.6	2.8	3.6	3.4	3.5	3.3	3.5	3.6	3.4	3.2
Global Insight		2.6				2.7				3.4		
Economic Advisors	2.2	2.5	2.9	3.1	3.3	3.1	3.1	2.9	3.1	3.0		
Economic Advisors		2.6				2.7				2.9		

Ohio Gross Domestic Product

Global Insight expects Ohio gross domestic product to continue to increase over the forecast horizon, but not as rapidly as the nation's total economic output.

Table 2 Ohio Real GDP Growth

Forecast	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
	percent change at annual rate											
Global Insight	1.9	1.9	2.3	2.5	3.0	2.6	2.6	2.6	2.8	2.8	2.5	2.5
Global Insight		1.6				2.3				2.7		

U.S. Inflation

Both Global Insight and the Governor's Council of Economic Advisors expect the rise in the general price level, as measured by the consumer price index, to moderate from increases of 3.0% and higher during the past two fiscal years.

Table 3 U.S. Consumer Price Index Inflation

Forecast	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
	percent change at annual rate											
Global Insight	3.1	2.5	2.3	2.2	2.1	1.8	2.0	1.9	2.1	1.7	1.9	1.8
Global Insight		2.2				2.1				1.9		
Economic Advisors	2.4	2.7	2.3	2.2	1.6	2.6	2.1	2.1	2.2	2.2		
Economic Advisors		2.2				2.0				2.1		

U.S. Personal Income

Nationwide personal income is forecast to continue to grow during 2007 through 2009. Income growth in the current quarter was boosted by bonus payments, stock option gains, federal pay raises, and cost-of-living adjustments to transfer payments.

Table 4 U.S. Personal Income Growth

Forecast	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
	percent change at annual rate											
Global Insight	6.0	4.6	4.8	4.9	5.7	6.0	6.0	6.1	6.3	6.3	6.2	6.1
Global Insight		5.8				5.1				6.0		
Economic Advisors		5.4				5.1				5.5		

Ohio Personal Income

Income to persons who reside in Ohio is also projected to continue to grow during the next three years, but at a rate somewhat slower than the national average. Ohio personal income increased an estimated 4.0% in FY 2006.

Table 5 Ohio Personal Income Growth

	2007				2008				2009			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	5.3	3.9	4.1	4.6	4.5	4.9	5.0	5.0	5.1	5.3	5.0	5.1
Global Insight		4.5				4.3				4.9		
Economic Advisors	4.3	3.8	4.0	4.1	4.4	4.6	4.5	4.6	4.7	4.7		
Economic Advisors		3.8				4.1				4.2		

U.S. Unemployment Rate

Unemployment nationwide as a share of the labor force is expected to rise somewhat from the February level of 4.5%.

Table 6 U.S. Unemployment Rate

	2007				2008				2009			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	4.7	4.9	5.0	5.0	5.0	4.9	4.9	4.8	4.7	4.6	4.5	4.5
Global Insight		4.7				5.0				4.7		
Economic Advisors		4.7				4.9				4.8		

Ohio Unemployment Rate

The unemployment rate in Ohio rises somewhat initially during the forecast period, from 5.3% in January, then falls in 2009.

Table 7 Ohio Unemployment Rate

	2007				2008				2009			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	5.5	5.7	5.8	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1
Global Insight		5.5				5.7				5.5		
Economic Advisors		5.6				5.5				5.3		

Revenue Forecasts

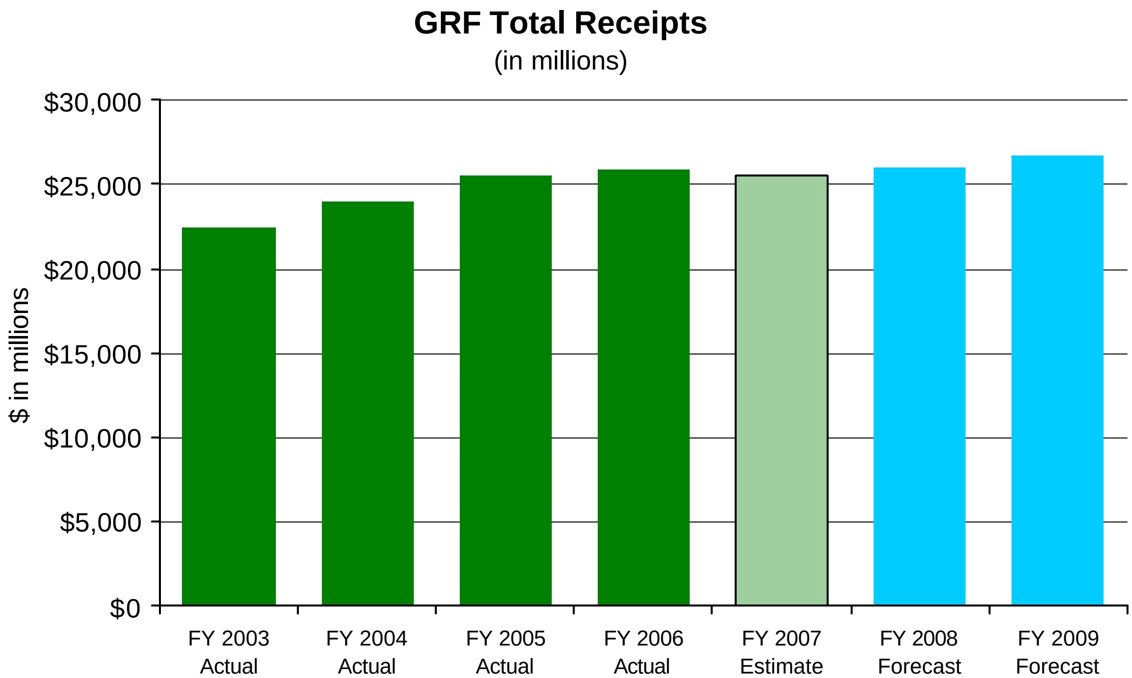
The LSC baseline forecasts for FY 2008 and FY 2009 assume the current statutory tax structure, including phase-in of the tax reform measures enacted in the budget bill for the current biennium, H.B. 66 of the 126th General Assembly. The corporate franchise tax on nonfinancial corporations is phased out over five years. Personal income tax rates adjust downward through tax year 2009. The new Commercial Activity Tax (CAT) continues to increase during the same period, but revenues from the CAT are used during the next biennium to replace the revenue reductions incurred by local governments as a result of phase-out of the tangible personal property tax on general business. CAT receipts in excess of obligations to local governments (for the phase-out of tangible personal property tax) will add to GRF revenues in the biennium. The sales and use tax remains at 5.5%.

Tax revenue under statutory law is forecast to decrease by $54.0 million (0.3%) in FY 2008. The phase-out of the corporate franchise tax and, to a much lesser extent, reduced collections of taxes on cigarettes and other tobacco products more than offset increases in nonauto sales and use tax revenues, and to a lesser extent in personal income tax revenues. Other tax changes are relatively small.

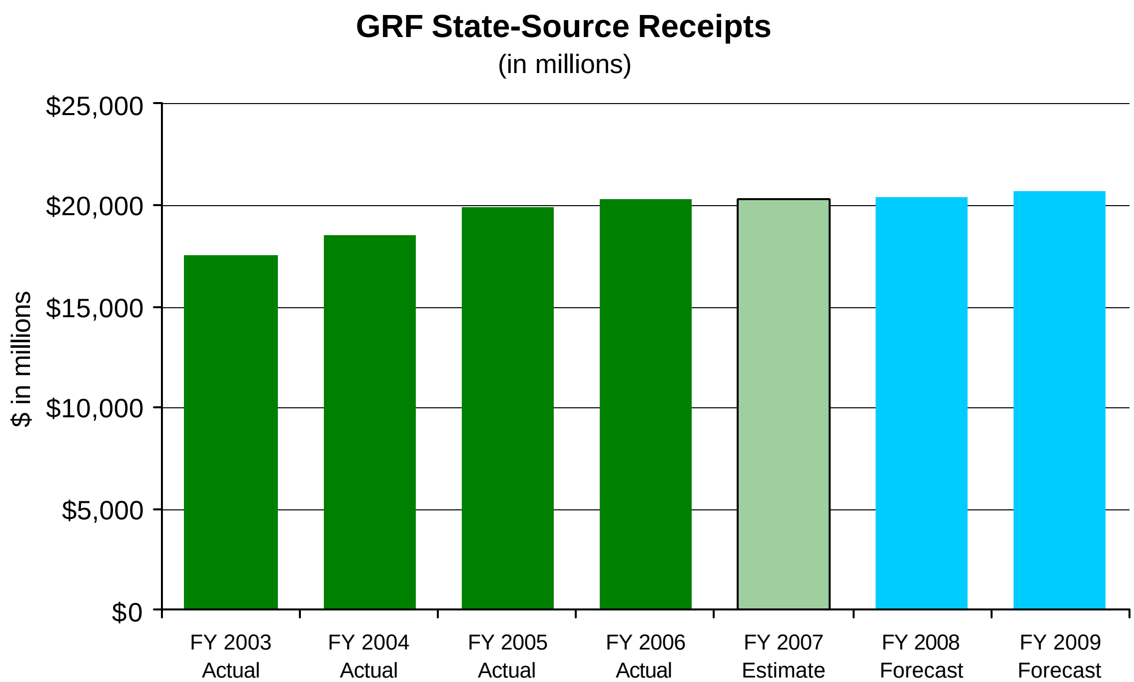
Tax revenue under statutory law is forecast to increase by $102.0 million (0.5%) in FY 2009. Stronger growth of sales and use tax revenues and of personal income tax revenues more than offset the continued decline in corporate franchise tax revenues and in collections of taxes on cigarettes and other tobacco products.

Compared with the FY 2006-2007 biennium, GRF tax revenue for the FY 2008-2009 biennium is forecast to be $252.8 million (0.7%) lower. Most of the difference is attributable to crediting part of the commercial activity tax revenue to the GRF in FY 2006 but not in FYs 2007 - 2009. Also, lower tax revenues from the corporate franchise tax and from taxes on cigarettes and other tobacco products are only partly offset by increases in sales and use tax revenues and in income tax collections.

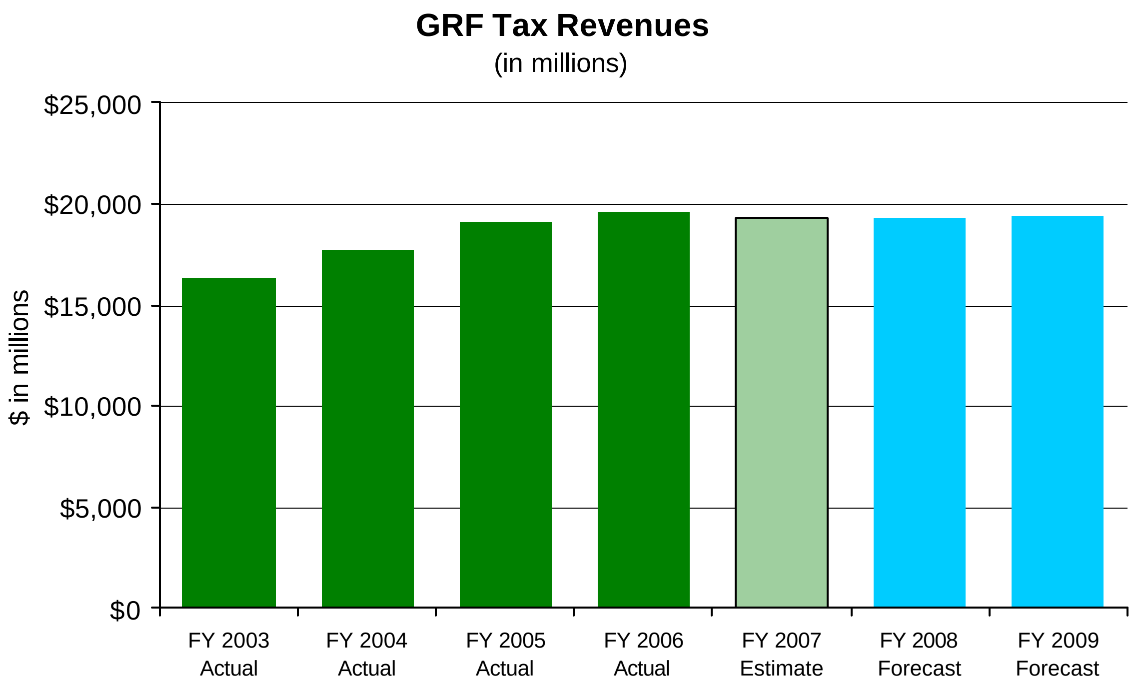
The following charts provide overviews of total GRF receipts and of GRF receipts from taxes and from state sources including earnings on investments, receipts from charges for licenses and fees, and other revenue.



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$22,449.6	$24,030.8	$25,550.5	$25,846.0	$25,581.9	$25,999.3	$26,717.7
Growth	4.6%	7.0%	6.3%	1.2%	-1.0%	1.6%	2.8%



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$17,477.1	$18,514.4	$19,903.9	$20,250.8	$20,251.9	$20,399.3	$20,707.7
Growth	2.2%	5.9%	7.5%	1.7%	0.0%	0.7%	1.5%



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$16,317.9	$17,737.5	$19,088.0	$19,563.4	$19,316.6	$19,262.6	$19,364.6
Growth	5.5%	8.7%	7.6%	2.5%	-1.3%	-0.3%	0.5%

FY 2007 Revenue Estimates
Millions of Dollars

GRF*	Original July 2006	OBM Mar 2007	change	LSC Mar 2007	change	LSC minus OBM
TAX REVENUE						
Auto Sales	920.0	920.0	0.0	904.9	(15.1)	(15.1)
Nonauto Sales & Use	6,690.0	6,550.0	(140.0)	6,513.1	(176.9)	(36.9)
Total Sales & Use Taxes	7,610.0	7,470.0	(140.0)	7,418.0	(192.0)	(52.0)
Personal Income	8,650.0	8,790.0	140.0	8,788.5	138.5	(1.5)
Corporate Franchise	895.0	1,055.0	160.0	1,018.7	123.7	(36.3)
Public Utility	176.2	170.0	(6.2)	170.5	(5.7)	0.5
Kilowatt Hour Excise	330.0	330.0	(0.0)	320.5	(9.5)	(9.5)
Foreign Insurance	255.7	255.3	(0.4)	250.0	(5.7)	(5.3)
Domestic Insurance	173.6	174.7	1.1	170.0	(3.6)	(4.7)
Business & Property	19.0	19.0	0.0	17.7	(1.3)	(1.3)
Cigarette	1,020.0	1,020.0	0.0	1,015.0	(5.0)	(5.0)
Alcoholic Beverage	57.4	57.5	0.1	57.3	(0.1)	(0.2)
Liquor Gallonage	34.3	34.3	0.0	34.5	0.2	0.2
Estate	52.1	56.5	4.4	55.9	3.8	(0.6)
Total Tax Revenue	19,273.3	19,432.3	159.0	19,316.6	43.3	(115.7)
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	140.0	163.0	23.0	164.0	24.0	1.0
Licenses and Fees	71.0	71.0	0.0	76.3	5.3	5.3
Other Revenue	161.6	153.6	(8.0)	153.6	(8.0)	0.0
Nontax State-Source Revenue	372.6	387.6	15.0	393.9	21.3	6.3
TRANSFERS						
Liquor Transfers	135.0	135.0	0.0	135.0	0.0	0.0
Transfers In	119.0	119.0	0.0	119.0	0.0	0.0
Transfers In - Temporary	267.6	287.4	19.8	287.4	19.8	0.0
Total Transfers In	521.6	541.4	19.8	541.4	19.8	0.0
TOTAL GRF before Federal Grants	20,167.6	20,361.3	193.7	20,251.9	84.3	(109.4)
Federal Grants	5,829.1	5,357.0	(472.1)	5,330.0	(499.1)	(27.0)
TOTAL GRF SOURCES	25,996.7	25,718.3	(278.4)	25,581.9	(414.8)	(136.4)

*Revenues to local government funds at "freeze" rates.

FY 2008 Revenue Forecasts
Millions of Dollars
GRF*

	OBM	LSC	difference	percent	Growth from FY 2007 OBM	Growth from FY 2007 LSC
TAX REVENUE						
Auto Sales	929.1	903.4	(25.7)	-2.8%	1.0%	-0.2%
Nonauto Sales & Use	6,678.3	6,652.7	(25.6)	-0.4%	2.0%	2.1%
Total Sales & Use Taxes	7,607.4	7,556.1	(51.3)	-0.7%	1.8%	1.9%
Personal Income	8,851.4	8,830.6	(20.8)	-0.2%	0.7%	0.5%
Corporate Franchise	773.4	766.8	(6.6)	-0.9%	-26.7%	-24.7%
Public Utility	172.3	183.3	11.0	6.4%	1.4%	7.5%
Kilowatt Hour Excise	343.0	333.5	(9.5)	-2.8%	3.9%	4.1%
Foreign Insurance	260.6	257.4	(3.2)	-1.2%	2.1%	3.0%
Domestic Insurance	178.4	175.0	(3.4)	-1.9%	2.1%	2.9%
Business & Property	19.5	16.9	(2.6)	-13.3%	2.6%	-4.5%
Cigarette	1,000.0	996.0	(4.0)	-0.4%	-2.0%	-1.9%
Alcoholic Beverage	58.0	57.0	(1.0)	-1.7%	0.8%	-0.5%
Liquor Gallonage	35.5	35.8	0.3	0.8%	3.5%	3.8%
Estate	57.8	54.2	(3.6)	-6.2%	2.3%	-3.0%
Total Tax Revenue	19,357.3	19,262.6	(94.7)	-0.5%	-0.4%	-0.3%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	142.8	134.6	(8.2)	-5.7%	-12.4%	-17.9%
Licenses and Fees	71.0	78.0	7.0	9.9%	0.0%	2.2%
Other Revenue	103.6	103.6	0.0	0.0%	-32.6%	-32.6%
Nontax State-Source Revenue	317.4	316.2	(1.2)	-0.4%	-18.1%	-19.7%
TRANSFERS						
Liquor Transfers	147.0	147.0	0.0	0.0%	8.9%	8.9%
Transfers In	206.7	206.7	0.0	0.0%	73.7%	73.7%
Transfers In - Temporary	466.8	466.8	0.0	0.0%	62.4%	62.4%
Total Transfers In	820.5	820.5	0.0	0.0%	51.6%	51.6%
TOTAL GRF before Federal Grants	20,495.2	20,399.3	(95.9)	-0.5%	0.7%	0.7%
Federal Grants	5,604.6	5,600.0	(4.6)	-0.1%	4.6%	5.1%
TOTAL GRF SOURCES	26,099.8	25,999.3	(100.5)	-0.4%	1.5%	1.6%

*Share of revenues to local government funds assumed at statutory rates.

FY 2009 Revenue Forecasts
Millions of Dollars
GRF*

	OBM	LSC	difference	percent	Growth from FY 2008 OBM	Growth from FY 2008 LSC
TAX REVENUE						
Auto Sales	948.1	914.0	(34.1)	-3.6%	2.0%	1.2%
Nonauto Sales & Use	6,892.5	6,910.8	18.4	0.3%	3.2%	3.9%
Total Sales & Use Taxes	7,840.6	7,824.8	(15.8)	-0.2%	3.1%	3.6%
Personal Income	8,967.7	8,932.2	(35.5)	-0.4%	1.3%	1.2%
Corporate Franchise	473.5	488.0	14.5	3.1%	-38.8%	-36.4%
Public Utility	172.3	186.3	14.0	8.1%	0.0%	1.6%
Kilowatt Hour Excise	347.0	339.9	(7.1)	-2.0%	1.2%	1.9%
Foreign Insurance	266.6	269.1	2.5	0.9%	2.3%	4.5%
Domestic Insurance	182.5	182.8	0.3	0.2%	2.3%	4.5%
Business & Property	20.0	16.6	(3.4)	-17.0%	2.6%	-1.8%
Cigarette	980.0	978.3	(1.7)	-0.2%	-2.0%	-1.8%
Alcoholic Beverage	58.5	57.0	(1.5)	-2.6%	0.9%	0.0%
Liquor Gallonage	36.7	37.0	0.3	0.8%	3.4%	3.4%
Estate	58.3	52.6	(5.7)	-9.8%	0.9%	-3.0%
Total Tax Revenue	19,403.7	19,364.6	(39.1)	-0.2%	0.2%	0.5%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	146.2	135.3	(10.9)	-7.5%	2.4%	0.5%
Licenses and Fees	71.0	80.1	9.1	12.8%	0.0%	2.7%
Other Revenue	103.6	103.6	0.0	0.0%	0.0%	0.0%
Nontax State-Source Revenue	320.8	319.0	(1.8)	-0.6%	1.1%	0.9%
TRANSFERS						
Liquor Transfers	141.0	141.0	0.0	0.0%	-4.1%	-4.1%
Transfers In	298.0	298.0	0.0	0.0%	44.2%	44.2%
Transfers In - Temporary	585.1	585.1	0.0	0.0%	25.3%	25.3%
Total Transfers In	1,024.1	1,024.1	0.0	0.0%	24.8%	24.8%
TOTAL GRF before Federal Grants	20,748.6	20,707.7	(40.9)	-0.2%	1.2%	1.5%
Federal Grants	6,030.7	6,010.0	(20.7)	-0.3%	7.6%	7.3%
TOTAL GRF SOURCES	26,779.3	26,717.7	(61.6)	-0.2%	2.6%	2.8%

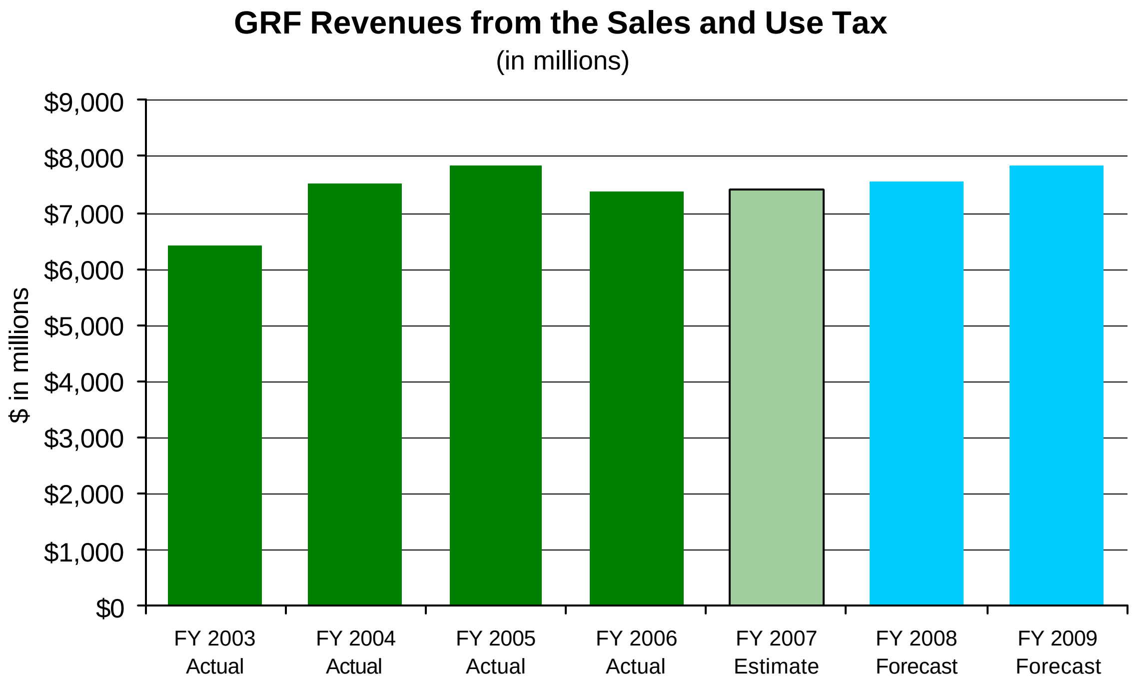
*Share of revenues to local government funds assumed at statutory rates.

FY 2008-2009 Biennium Forecasts
Millions of Dollars
GRF*

	OBM	LSC	difference	percent	Growth over FY 2006-2007 OBM	Growth over FY 2006-2007 LSC
TAX REVENUE						
Auto Sales	1,877.2	1,817.4	(59.8)	-3.2%	1.1%	-1.3%
Nonauto Sales & Use	13,570.8	13,563.5	(7.3)	-0.1%	4.5%	4.8%
Total Sales & Use Taxes	15,448.0	15,380.9	(67.1)	-0.4%	4.1%	4.0%
Personal Income	17,819.1	17,762.8	(56.3)	-0.3%	1.4%	1.1%
Corporate Franchise	1,246.9	1,254.8	7.9	0.6%	-40.9%	-39.5%
Public Utility	344.6	369.6	25.0	7.3%	-0.5%	6.6%
Kilowatt Hour Excise	690.0	673.4	(16.6)	-2.4%	5.3%	4.3%
Foreign Insurance	527.2	526.5	(0.7)	-0.1%	4.6%	5.6%
Domestic Insurance	360.9	357.8	(3.1)	-0.9%	4.6%	5.1%
Business & Property	39.5	33.5	(6.0)	-15.2%	3.7%	-8.9%
Cigarette	1,980.0	1,974.3	(5.7)	-0.3%	-5.9%	-5.9%
Alcoholic Beverage	116.5	114.0	(2.5)	-2.1%	1.2%	-0.7%
Liquor Gallonage	72.2	72.8	0.6	0.8%	6.7%	7.3%
Estate	116.1	106.8	(9.3)	-8.0%	5.0%	-2.9%
Total Tax Revenue	38,761.0	38,627.2	(133.8)	-0.3%	-0.6%	-0.7%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	289.0	269.9	(19.1)	-6.6%	6.9%	-0.5%
Licenses and Fees	142.0	158.1	16.1	11.3%	-2.0%	5.3%
Other Revenue	207.2	207.2	0.0	0.0%	-39.9%	-39.9%
Nontax State-Source Revenue	638.2	635.2	(3.0)	-0.5%	-16.0%	-17.1%
TRANSFERS						
Liquor Transfers	288.0	288.0	0.0	0.0%	5.5%	5.5%
Transfers In	504.7	504.7	0.0	0.0%	78.2%	78.2%
Transfers In - Temporary	1,051.9	1,051.9	0.0	0.0%	250.3%	250.3%
Total Transfers In	1,844.6	1,844.6	0.0	0.0%	115.3%	115.3%
TOTAL GRF before Federal Grants	41,243.8	41,107.0	(136.8)	-0.3%	1.6%	1.5%
Federal Grants	11,635.3	11,610.0	(25.3)	-0.2%	6.2%	6.3%
TOTAL GRF SOURCES	52,879.1	52,717.0	(162.1)	-0.3%	2.5%	2.5%

*Revenues to local government funds at "freeze" rates in FY 2006-2007 and assumed at statutory rates in FY 2008-2009.

Sales and Use Tax

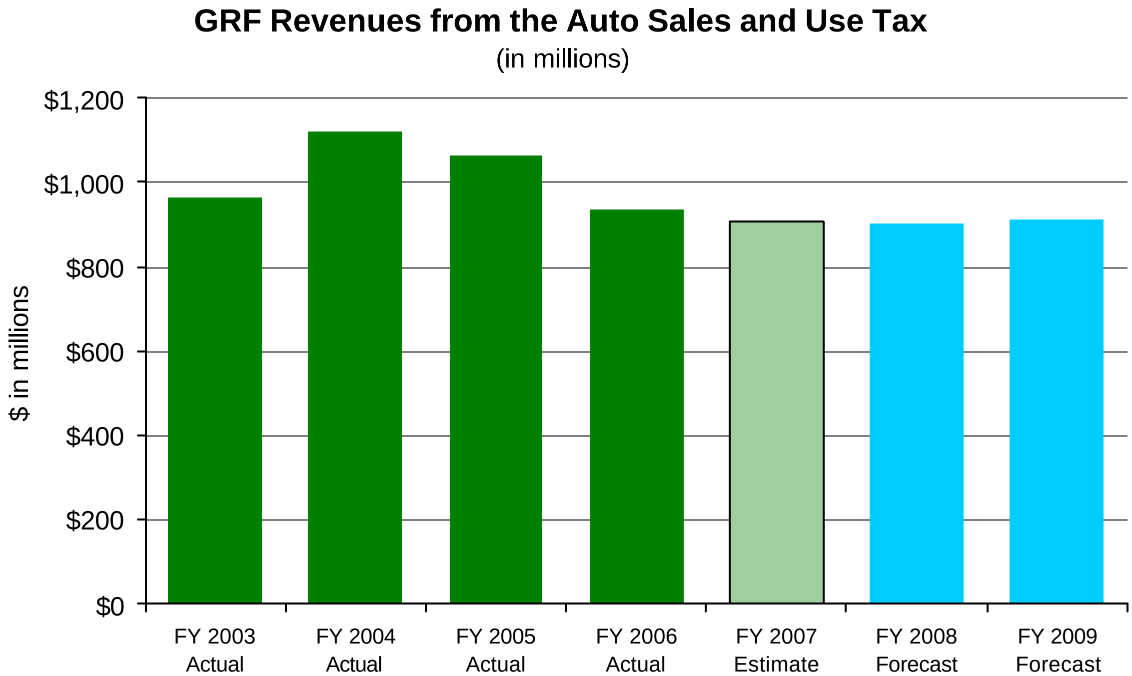


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$6,397.9	$7,530.6	$7,827.1	$7,368.2	$7,418.0	$7,556.1	$7,824.7
Growth	6.0%	17.7%	3.9%	-5.9%	0.7%	1.9%	3.6%

Under statutory 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, and there is a credit for trade-ins on purchases of new motor vehicles. Under statutory law, the revenue collected is disposed of as follows: 95.2% to the General Revenue Fund, 4.2% to the Local Government Fund, and 0.6% to the Local Government Revenue Assistance Fund. However, for FYs 2002-2007, the distributions to these three local government funds have been frozen under temporary law at their FY 2001 levels. The GRF baseline forecast assumes statutory distributions to the local government funds in the next biennium, which decreases GRF revenue growth in FY 2008.

For forecasting purposes, the tax is separated into two parts: auto and nonauto. Auto sales and use tax includes revenue collected from the sale of motor vehicles. Nonauto sales and use tax includes all other sales and use tax collections. Auto taxes arising from auto leases are paid immediately at the lease signing and 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 non-auto 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. Am. Sub. H.B. 95 (125th General Assembly) temporarily increased the tax rate to 6% for FY 2004 and FY 2005. Am. Sub. H.B. 66, the current budget act, increased the previous statutory rate of 5.0% to 5.5%. Growth in the tax base of the sales and use tax has been meek in the last few years. Significant increases and decreases in receipts in the last few years have been due to legislative tax changes.

Auto Sales and Use Tax

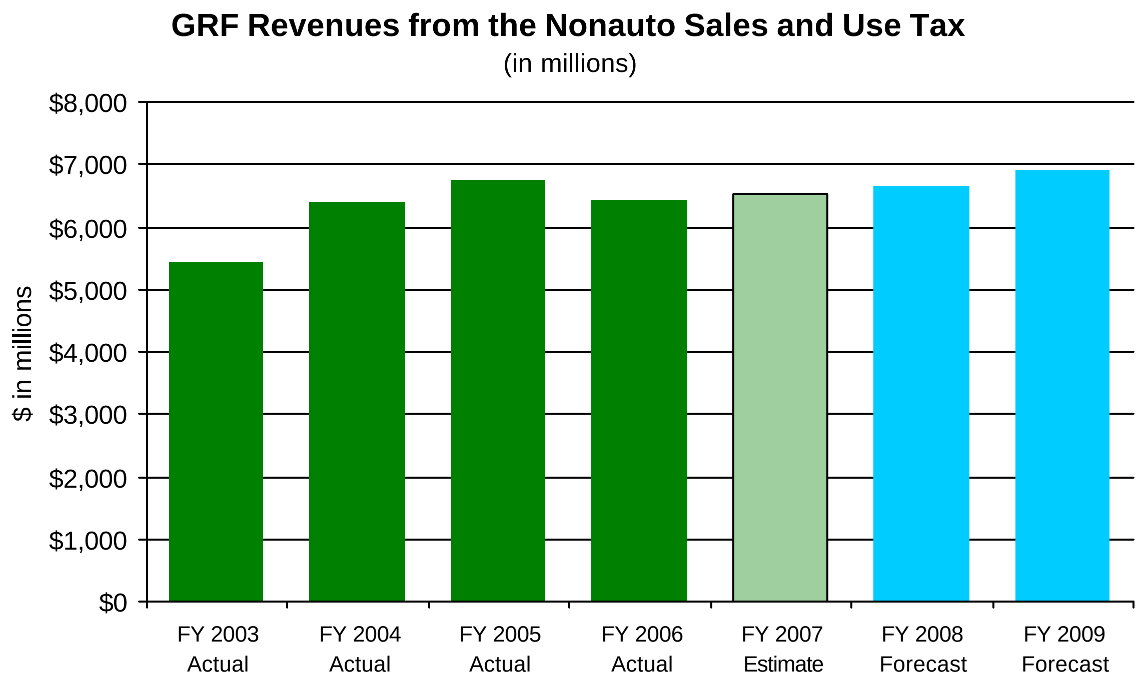


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$966.2	$1,122.9	$1,064.1	$936.4	$904.9	$903.4	$914.0
Growth	4.2%	16.2%	-5.2%	-12.0%	-3.4%	-0.2%	1.2%

The forecast for the auto sales and use tax is based primarily on a regression of auto sales and use tax revenues against nationwide unit sales. Estimates were adjusted to reflect actual performance in FY 2006. Auto sales and use tax revenues grew in FY 2003 and FY 2004 from legislative tax changes. Revenue growth in FY 2004 was due to the increase in the tax rate to 6%, but the auto tax taxable base decreased. The auto tax taxable base shrunk again in FY 2005 and FY 2006. The decline will continue in FY 2007. (The auto tax taxable base in FY 2007 is expected to be just slightly above the level recorded in FY 2001.) However, Ohio auto sales and registrations are expected to stabilize in FY 2008 and improve in FY 2009.

Auto sales and use tax revenues are affected by incentives and gasoline prices. Over the years, incentives from manufacturers and dealers have changed total unit sales and the way consumers decide whether to purchase or lease their vehicles. As incentives 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 appears increasingly limited in Ohio. Changes in gasoline prices mainly affect the sales mix of auto 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

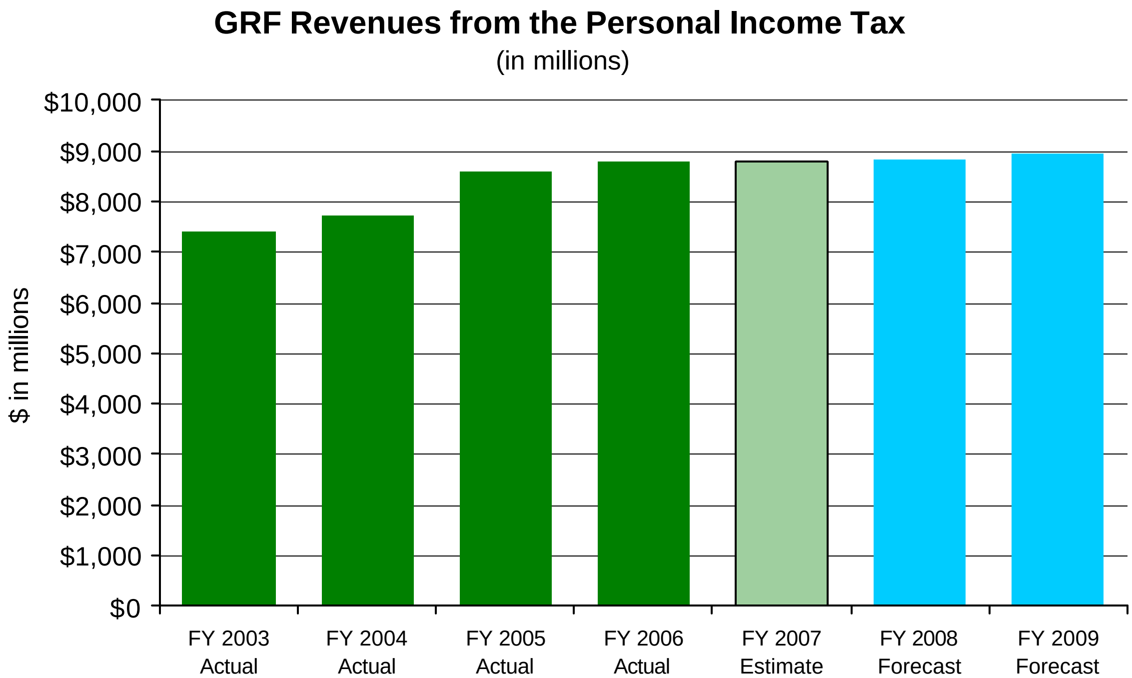


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$5,431.7	$6,407.7	$6,763.0	$6,431.8	$6,513.1	$6,652.7	$6,910.8
Growth	6.3%	18.0%	5.5%	-4.9%	1.3%	2.1%	3.9%

The forecast for the nonauto sales and use tax is primarily based on a regression of quarterly nonauto sales and use tax revenues against Ohio wages and salaries. A dummy variable was used to account for the tax rate changes. Estimates were adjusted to reflect actual performance of the tax in FY 2006.

In the last few years, the nonauto sales and use tax has continued its subpar growth. Nonauto sales and use tax revenues grew 6.3% in FY 2003 from the acceleration in sales tax payments from Am. Sub H.B. 40 (125th General Assembly). Nonauto sales and use tax revenues would have grown by about 1% in FY 2003. Revenue growth in FY 2004 was the result of a tax rate increase to 6.0%, but the taxable base declined. 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 to 5.5% from Am. Sub. H.B. 66 (126th General Assembly). Growth rates in FY 2007 and FY 2008 are expected to be below long-term baseline growth rates.

Personal Income Tax



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$7,420.7	$7,696.9	$8,598.9	$8,786.4	$8,788.5	$8,830.6	$8,932.2
Growth	1.6%	3.7%	11.7%	2.2%	0.0%	0.5%	1.2%

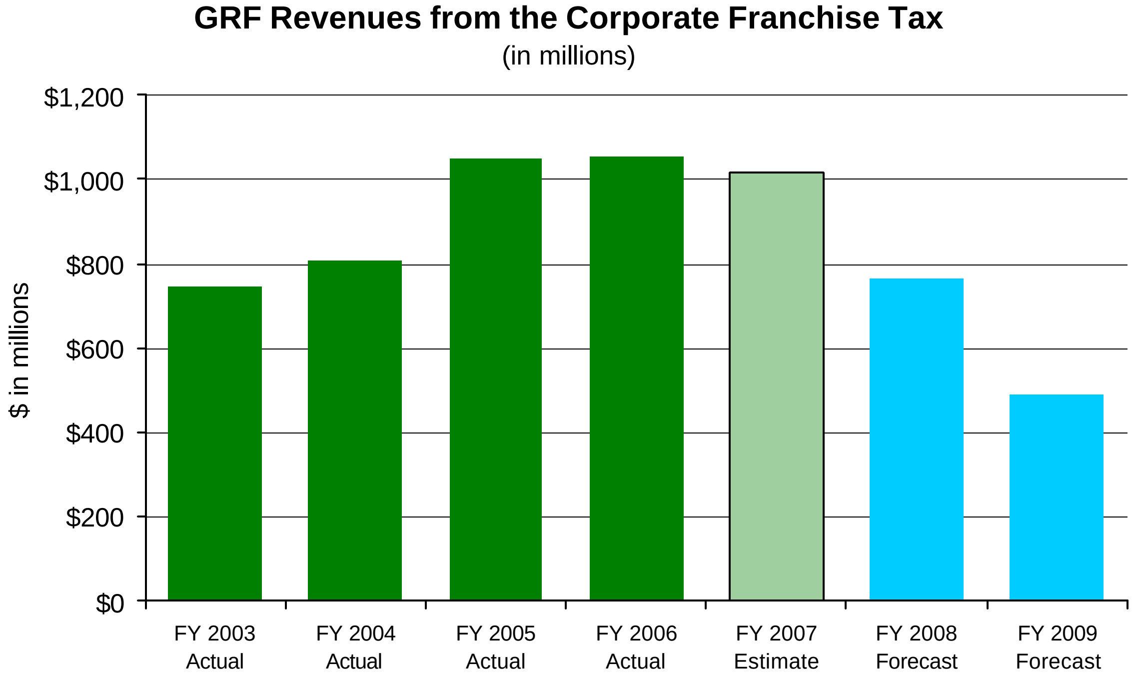
The personal income tax is levied on Ohio taxable income (the amount reported as federal adjusted gross income (FAGI) to the U.S. Internal Revenue Service, with adjustments, minus personal and dependent exemptions). A taxpayer's tax liability before credits is obtained by applying Ohio's graduated tax 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. Under the Revised Code, the revenue collected from the personal income tax is distributed as follows: 89.5% to the General Revenue Fund, 4.2% to the Local Government Fund, 0.6% to the Local Government Revenue Assistance Fund, and 5.7% to the Library and Local Government Support Fund.

The estimated revenues for FYs 2007-2009 are based on the results of a model of revenue collections. The model works with the four components of tax collections: employer withholding (partial-weekly, monthly, quarterly, and annual returns), individual taxpayer (quarterly estimated payments and annual returns), other collections, and refunds. The data were organized on a fiscal year basis. Withholding was assumed to be a function of Ohio wage and salary income. The individual taxpayer component was assumed to be a function of the S&P 500 index (used to represent U.S. stock markets) and combined Ohio nonwage and proprietors' income. Other collections were assumed to be a function of the same variables as for the individual taxpayer component. Refunds were assumed to be a function of gross collections (employer withholding + individual taxpayer + other collections) and the value of the personal and dependent exemption. Forecasted values of the explanatory variables were taken from the Global Insight January 2007 release. The model estimates were adjusted to account for the effects of the changes made in H.B. 66 of the 126th General Assembly. Additional adjustments were made for the effects of H.B. 73, H.B. 149, and H.B. 530.

Through February, FY 2007 GRF revenues from the personal income tax are 1.1% greater than estimate and are down 1.5% compared to FY 2006. Gross collections are 1.5% above estimate and 0.8% below FY 2006 levels. Net collections (gross collections minus refunds) are 1.0% above estimate and 1.3% below FY 2006 levels.

The original FY 2007 estimate for GRF revenues from the personal income tax was $8,650.0 million, a 1.5% decrease from FY 2006 revenues. The new FY 2007 estimate assumes that current collection trends continue and is $8,788.5 million, a 1.6% increase over the original estimate, and 0.02% greater than FY 2006 revenues. GRF revenues are projected to grow by 0.5% in FY 2008 and 1.2% in FY 2009.

Corporate Franchise Tax



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$747.2	$809.2	$1,051.6	$1,054.9	$1,018.7	$766.8	$488.0
Growth	4.9%	8.3%	30.0%	0.3%	-3.4%	-24.7%	-36.4%

The corporate franchise tax (CFT) is levied on corporations doing business in Ohio. The CFT has 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). The corporate taxpayer calculates its Ohio 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 corporation, is calculated by multiplying the adjusted Ohio net worth base by the net worth rate of four mills (0.4%). Corporate 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.

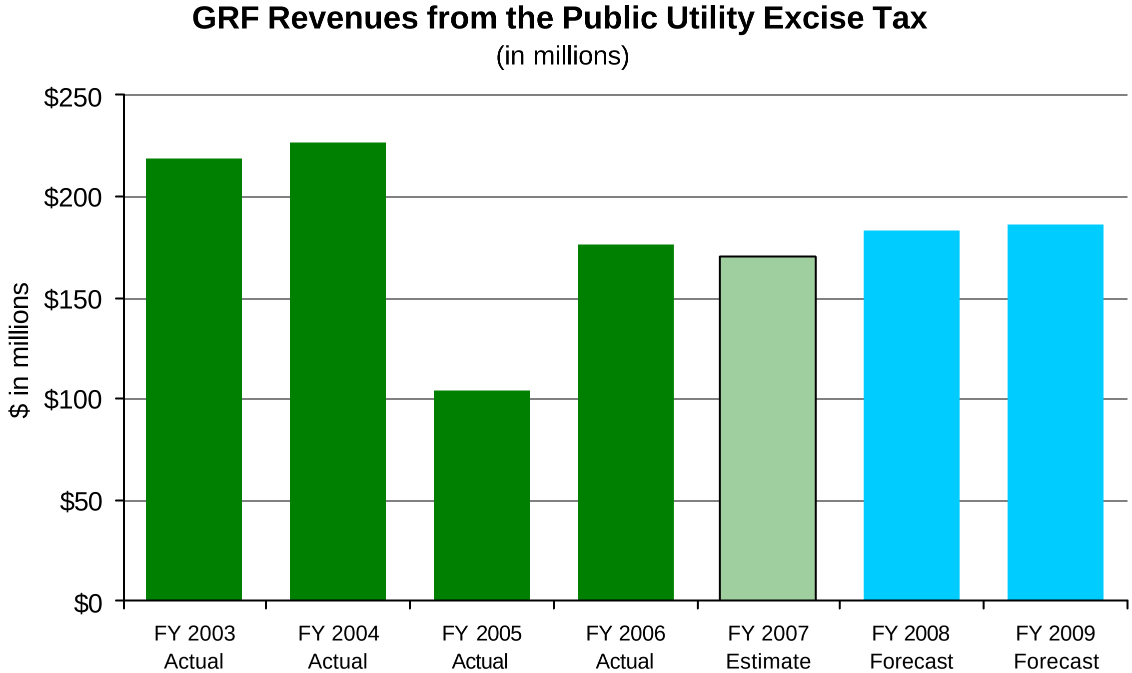
The phase-out of the CFT for nonfinancial corporations, which started in FY 2006 (Am. Sub. H.B. 66, 126th General Assembly) will continue into the next biennium. Nonfinancial corporations will pay a smaller share of the tax computed each year until the tax is totally phased out in FY 2010. These corporations will reduce their tax liability

40% in FY 2007, 60% in FY 2008, and 80% in FY 2009. Financial corporations will continue to pay the CFT. Although corporate profits are expected to grow, the phase-out will reduce CFT revenues this year and the next biennium.

LSC derives its forecasts of baseline CFT revenues primarily from projections of U.S. corporate profits. Then, some adjustments are made for legislated tax changes in the last few years. CFT revenues in a fiscal year generally reflect the previous calendar year corporate profits. The growth in CFT revenues in the last few years mirrors the improvement in corporate profits since the recession of calendar year (CY) 2001. Adopting the UDITPA[1] standards also provided a boost in receipts starting in FY 2005. CFT revenues will decrease in FY 2008 and FY 2009 as a result of both the phase-out and slower growth of corporate profits. 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 forecast.

[1] Am. Sub. H.B. 95 (125th General Assembly) enacted significant franchise tax changes pertaining to the allocation and apportionment of the income of multistate corporations to Ohio. Prior to Am. Sub. H.B. 95, a company would allocate certain types of statutory-listed income whether or not the income was part of the company's active trade or business. Am. Sub. H.B. 95 adopted the distinction between "business" and "nonbusiness" income used by many other states in the Uniform Division of Income for Tax Purposes Act. These changes expanded the corporation franchise net income tax base and substantially increased CFT revenues in FY 2005 and in subsequent years.

Public Utility Excise Tax



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$218.7	$226.4	$104.1	$176.2	$170.5	$183.3	$186.3
Growth	-15.9%	3.6%	-54.0%	69.2%	-3.2%	7.5%	1.6%

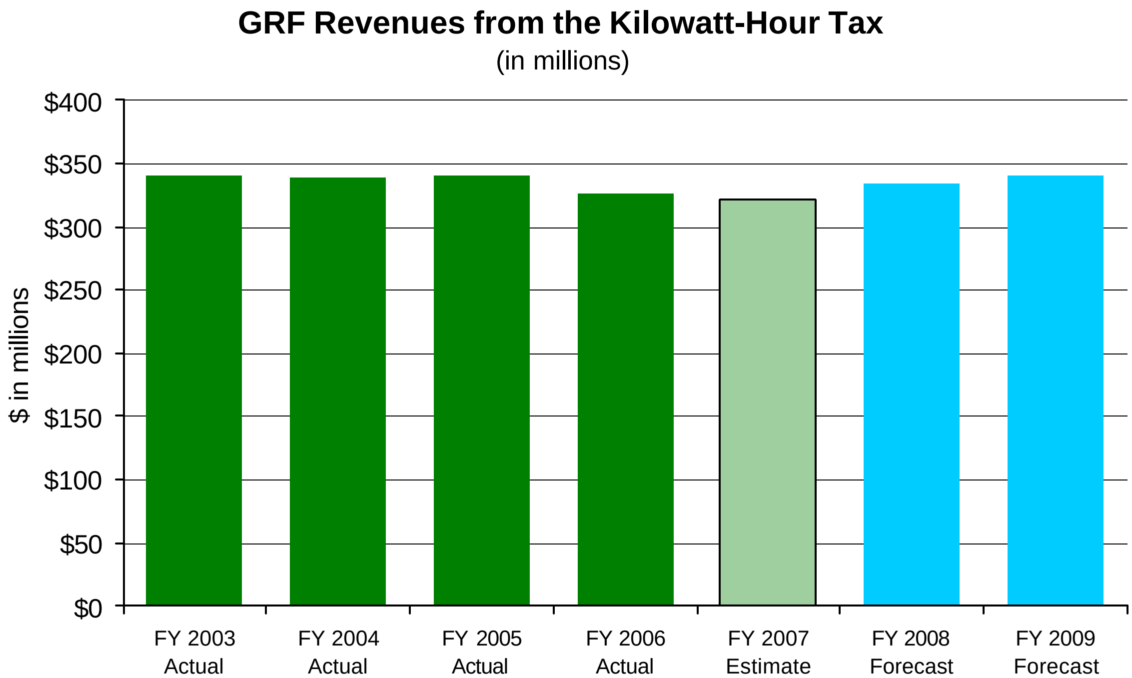
The public utility excise tax, also known as the gross receipts tax, is a tax on the intrastate revenues of public utilities. The tax is levied on natural gas utilities, pipeline companies, heating companies, waterworks, and water transportation companies. All companies subject to the tax pay a tax of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

The significant fluctuations in revenue from the tax shown in the graph above are due to statutory changes in the tax base and to changes made to the local government funds' shares of the tax revenue. Specifically, the local government fund freezes in the main operating budgets enacted by the 124th and 125th General Assemblies froze the revenues allocated to the local government funds in FY 2002 through FY 2005 at a level based on when electric companies paid this tax. Am. Sub. H.B. 66 of the 126th General Assembly changed the way the local government funds' shares were determined, which accounts for a GRF revenue increase of $25.7 million in FY 2006. The revenue declines in FYs 2003 and 2005 are due to changes in the tax base. The decline in FY 2003 is due to the exemption of electric companies from the tax while the decline in FY 2005 is due to the exemption of local telephone companies from the tax.[2] After the exemption of those two industries from the tax, natural gas companies accounted for over 98% of revenue generated by the tax in FY 2006.

The estimate of revenue for FY 2007 is based on analysis of historical temperature data for Columbus compiled by the National Weather Service, and on historical patterns of change in the average residential price of natural gas. Average prices for commercial and industrial customers were estimated using statistical regression analysis of the historical relationship between those prices and prices at the Henry Hub in Louisiana. Prices at the Henry Hub are published by the U.S. Energy Information Administration (EIA) on a more current basis than are average residential, commercial, and industrial prices, making it possible to estimate prices for January and February of this year using actual Henry Hub prices. Revenue estimates for FY 2008 and FY 2009 were based primarily on EIA forecasts of natural gas demand and prices taken from the February 2007 issue of *Short-Term Energy Outlook*.

[2] Electric companies were exempted from the tax by Am. Sub. S.B. 3 of the 123rd General Assembly, the electric restructuring bill. That bill also established the kilowatt-hour tax and subjected electric utilities to that tax, and to the corporate franchise tax (CFT). Local telephone companies were exempted from the tax by Am. Sub. H.B. 95 of the 125th General Assembly, and were simultaneously subjected to the CFT, and their sales were subjected to the sales tax.

Kilowatt-Hour Tax



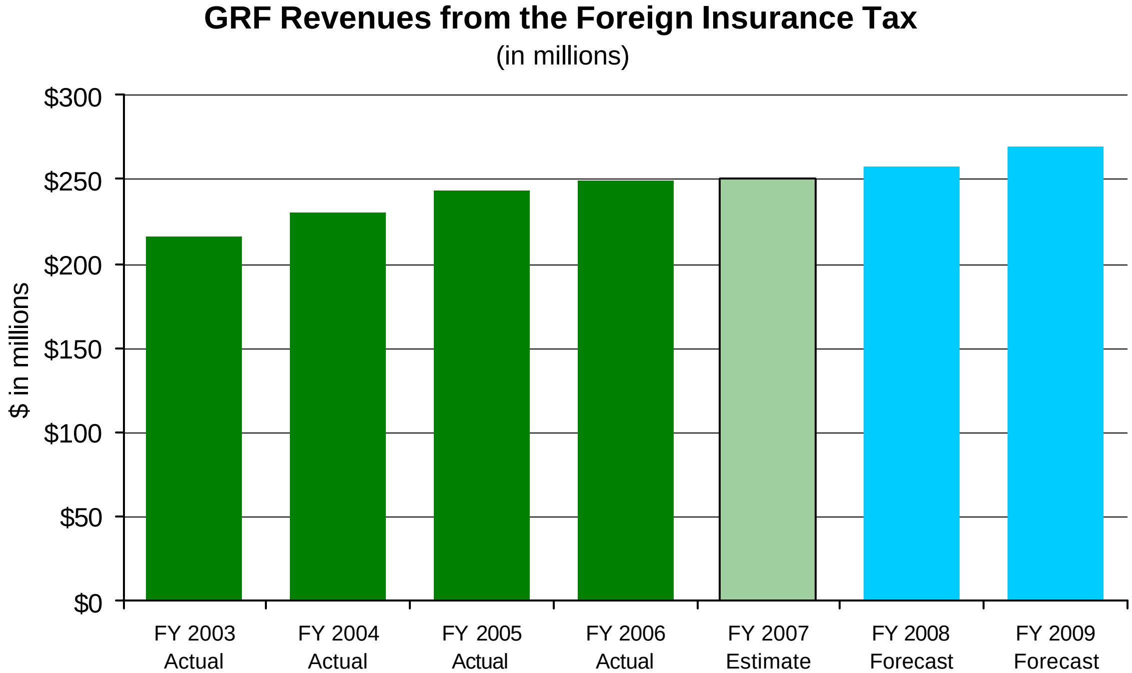
	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$339.9	$339.0	$339.8	$325.3	$320.5	$333.5	$339.9
Growth	5.1%	-0.3%	0.3%	-4.3%	-1.5%	4.1%	1.9%

The kilowatt-hour tax is levied on electric distribution companies, which remain regulated, and 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 still lower rate.

Historical growth in GRF revenue from the tax has been skewed due to the local government fund freezes contained in the last three operating budget bills. Revenue to all funds from the tax decreased by 0.7% in FY 2004, then increased by 0.2% in FY 2005 and 3.3% in FY 2006. The 4.1% increase in revenue shown for FY 2008 is higher than the increase in electricity usage forecast due to the ending of the freeze. Revenue to all funds through the end of February 2007 has decreased by about 2.3% as compared with February 2006. The decline so far this year is likely to be primarily weather related, since receipts from taxpayers that self-assess the tax, the biggest industrial users in the state, have grown by 3.7% between the first seven months of FY 2006 and the comparable period in FY 2007.

The forecast assumes that kilowatt-hours used in Ohio grow by the amount forecast by the U.S. Energy Information Administration for retail sales of electricity in the East North Central region in the February 2007 edition of its publication *Short-Term Energy Outlook*.

Foreign Insurance Tax



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$216.4	$230.5	$242.9	$248.8	$250.0	$257.4	$269.1
Growth	0.9%	6.5%	5.4%	2.4%	0.5%	3.0%	4.6%

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 47%) 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 more slowly in FY 2006 than in the preceding two fiscal years. Econometric analysis indicates that the slowdown is 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.

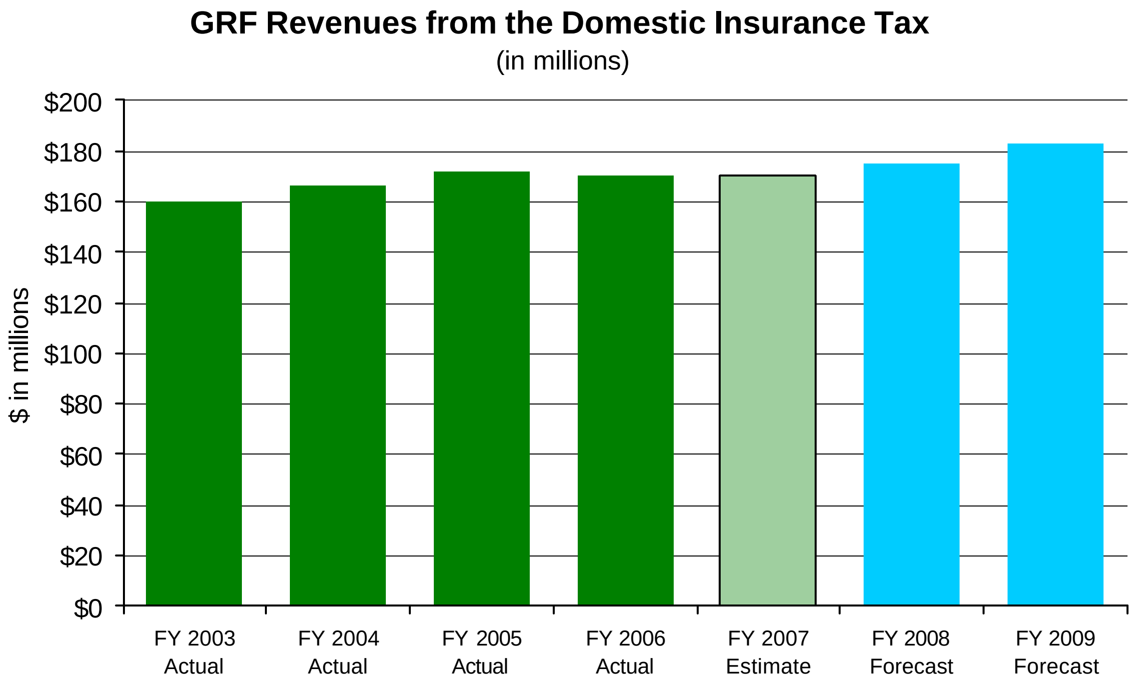
The average rate for six-month U.S. Treasury bills fell from 3.34% in 2001 to 1.68% in 2002 and then to 1.05% in 2003.[3] The rate then rose to 1.58% in 2004, 3.39% in 2005, and 4.81% in 2006. The falling rates from 2001 to 2003 were the primary reason for an acceleration in premium growth that caused revenue from this tax in FYs 2004 and 2005 to grow faster than long-term average growth of about 4.8%.[4] Conversely, the increase in these rates from 2003 to 2005 is the primary reason that revenues grew more slowly in FY 2006 than the long-term average. The slow growth in revenue projected for FY 2007 revenue is primarily due to the increases in these rates from 2004 to 2006. Premium growth is projected to remain below its long-term average in FY 2008 due primarily to the increase in the rate from 2005 to 2006, and to return to very close to its long-term average in FY 2009 due to an expected stability in interest rates for the period 2006 through 2008.[5]

[3] These rates are the average secondary market rates for the calendar year, as reported by the Federal Reserve.

[4] This is the average growth rate in revenue under the tax for the 15 years from FY 1991 to FY 2006, after adjusting for changes in the tax rates enacted by Am. Sub. H.B. 215 of the 122nd General Assembly.

[5] Global Insight forecasts that the six-month Treasury bill rate will average 4.69% in 2007 and 4.49% in 2008.

Domestic Insurance Tax



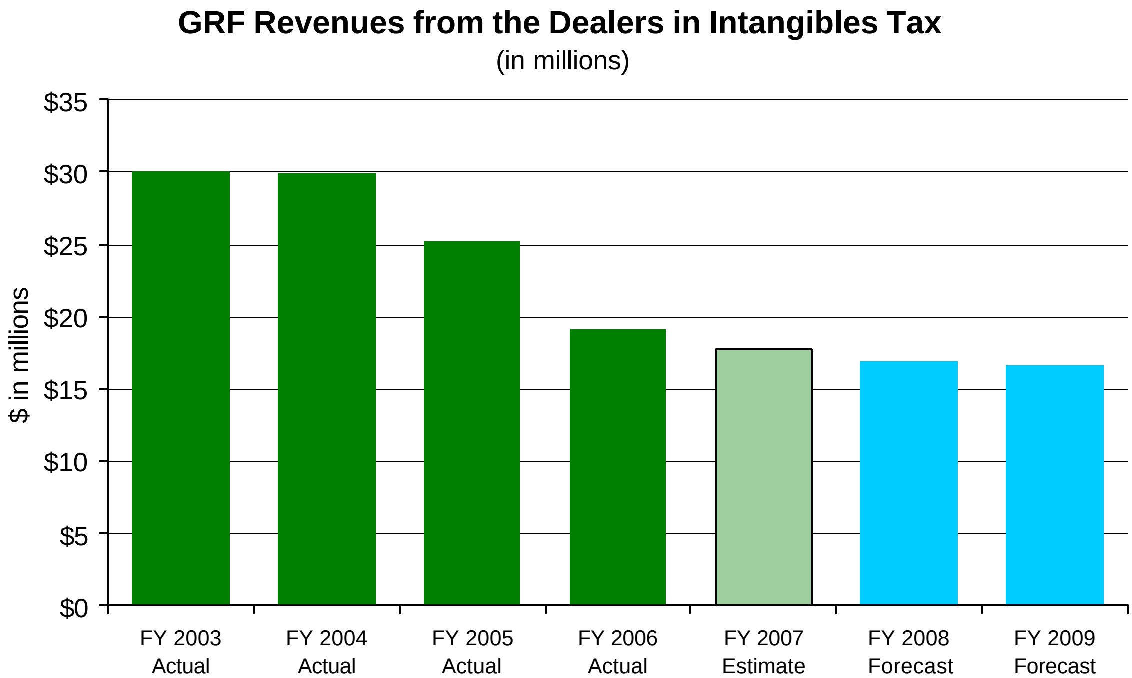
	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$160.1	$165.9	$171.4	$170.3	$170.0	$175.0	$182.8
Growth	20.9%	3.6%	3.3%	-0.6%	-0.2%	3.0%	4.4%

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 11% of the revenue from this tax derives from premiums paid for life insurance, and approximately 12% derives from premiums paid to HICs. The bulk of the revenue, slightly over three-quarters of it, is derived from fire and casualty insurance, a line of business that includes homeowner's insurance, automobile insurance, and other lines of business.

In accounting terms, revenue declined in FY 2006 because premiums paid to HICs declined by approximately $3.7 million, premiums paid to life insurers fell by approximately $0.3 million, and premiums paid to fire and casualty insurers grew by too little (about $1.9 million) to make up for the revenue loss. Premiums paid to HICs declined in both FY 2005 and FY 2004 as well, by approximately $3.0 million and $2.5 million, respectively. A Department of Insurance official indicates that these declines are 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 premiums paid to 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 increases in short-term interest rates in 2005 and 2006 are expected to prevent revenue from the domestic insurance tax from growing in FY 2007. As interest rates stabilize in 2007 and 2008, revenue growth is projected to return to more typical levels.

Dealers in Intangibles Tax



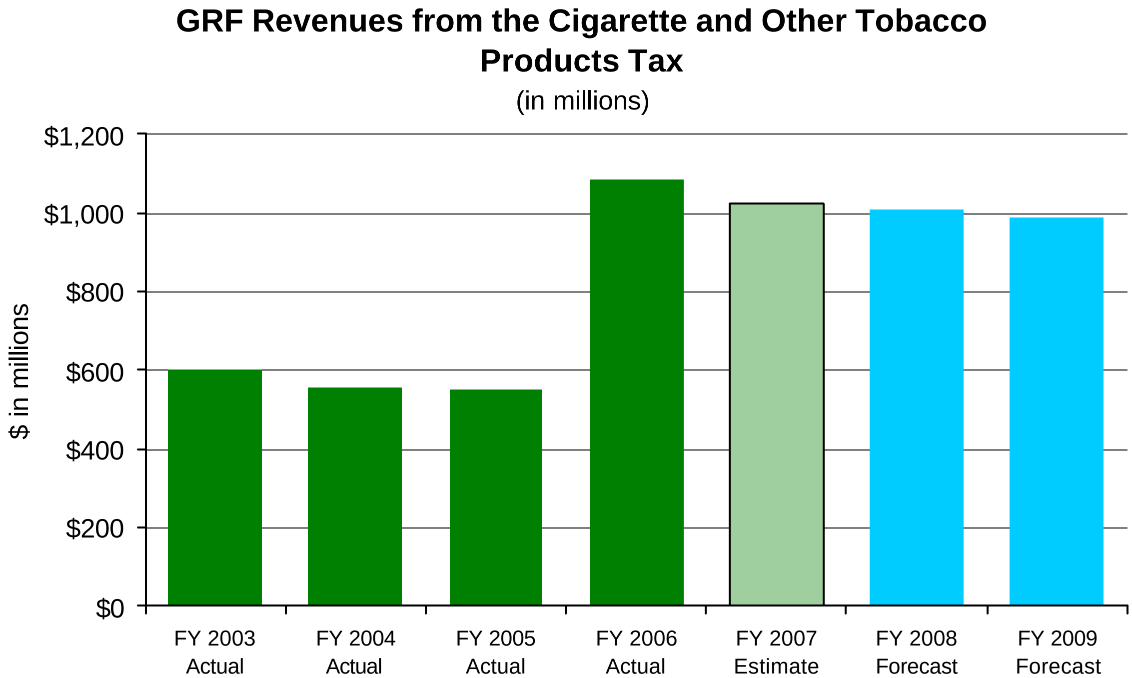
	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$30.0	$29.9	$25.2	$19.1	$17.7	$16.9	$16.6
Growth	322.5%	-0.3%	-15.7%	-24.2%	-7.5%	-4.4%	-1.4%

Ohio law provides for the taxation of shares and capital employed by dealers in intangibles. The tax, which is 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. 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. 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.

Tax policy changes have been the main cause of significant revenue fluctuations for this tax over the years. The forecast for FY 2008 and FY 2009 is based on trend analysis of the contribution to GRF revenues by qualifying and nonqualifying dealers in the last few fiscal years. The tax liability from nonqualifying dealers is expected to grow modestly. Conversely, revenues from qualifying dealers are expected to decline.

Revenues from qualifying dealers are volatile because they are highly dependent on investments by financial institutions and insurance companies in their subsidiary dealers (which are important contributors to the tax base). Business reorganizations, mergers and acquisitions, and other tax planning strategies may also affect the tax. The correction of imbalances in the housing industry and its impact on the consumer finance industry may contribute to declining revenues from the dealers in intangibles tax in the current fiscal year and into the next biennium.

Cigarette and Other Tobacco Products Tax

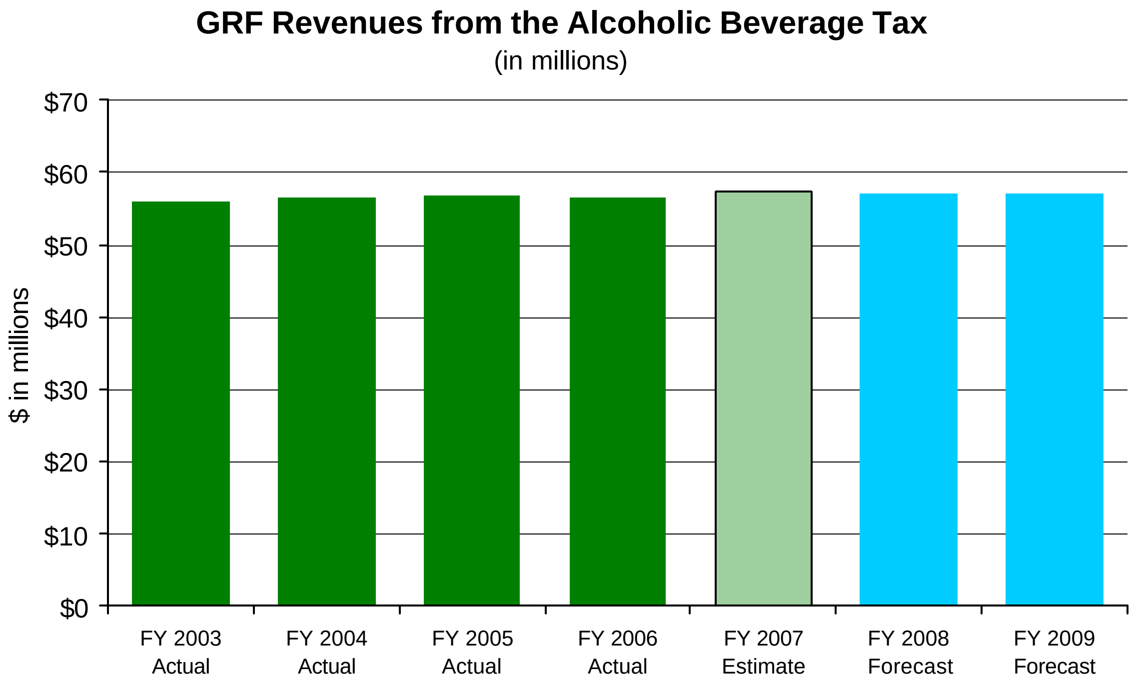


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$599.9	$557.5	$551.0	$1,084.1	$1,015.0	$996.0	$978.3
Growth	113.3%	-7.1%	-1.2%	96.8%	-6.4%	-1.8%	-1.8%

The cigarette and other tobacco products tax is levied on cigarettes, cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. Cigarettes are taxed at a rate of $1.25 per package of 20 cigarettes. Other tobacco products are taxed at 17% of their wholesale price. Revenue collected from the tax is deposited into the GRF. Am. Sub. H.B. 66 increased the tax rate on cigarettes from $0.55 per pack of 20 cigarettes to $1.25 per pack on July 1, 2005. The tax rate on other tobacco products was unchanged. Revenue growth in FY 2006 is due to the tax rate increase.

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 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, which has been between 1% and 2%, 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 states may boost forecasted revenues from the Ohio cigarette and other tobacco products tax.

Alcoholic Beverage Tax

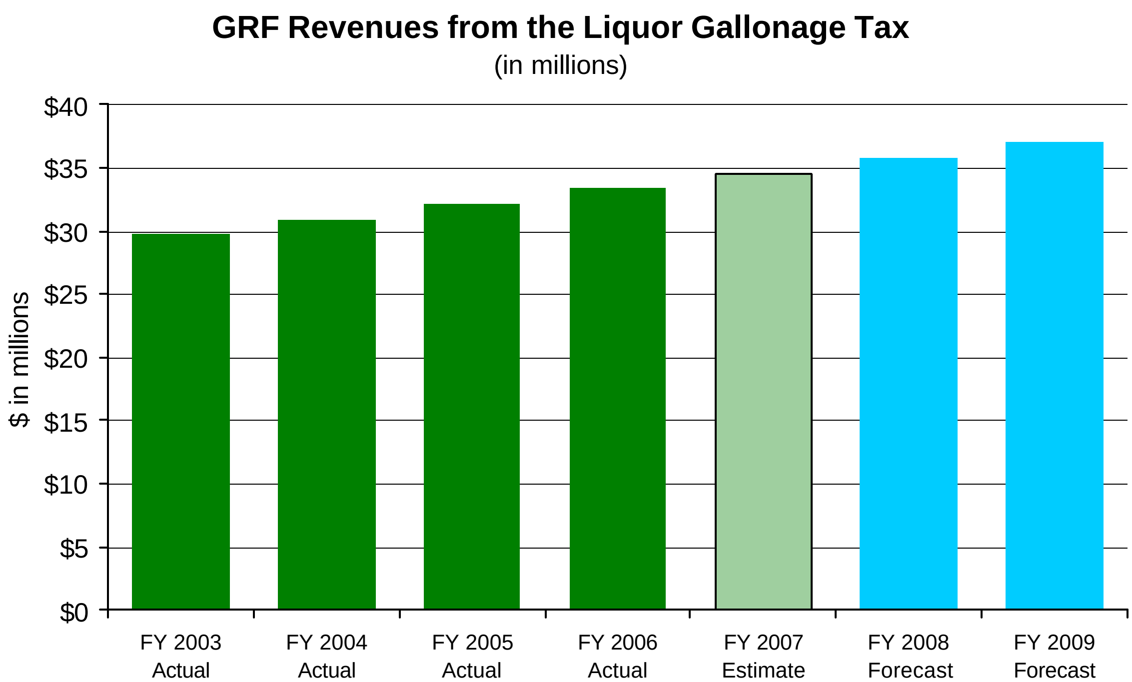


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$56.6	$56.5	$56.8	$57.5	$57.3	$57.0	57.0
Growth	1.5%	-0.2%	0.5%	1.2%	-0.3%	-0.5%	0.0%

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 $1.20 per gallon (or 20.4 cents for a standard 750 ml bottle). Revenue is deposited in the GRF with two exceptions. One percent of the tax is deposited in the Beverage Tax Administration Fund and five cents per gallon of wine is deposited into the Ohio Grape Industries Special Account. About 84% of the tax liability is from the sale of beer and malt beverages. Wine sales contribute 9% of the tax base. Sales of the remaining alcoholic beverages contribute 7% of the tax base.

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 over the next biennium. Trends in alcohol consumption affect tax revenues. The market share for spirits and liquor has been growing at the expense of beer sales which have been generally flat, while sales of wine have been steady.

Liquor Gallonage Tax

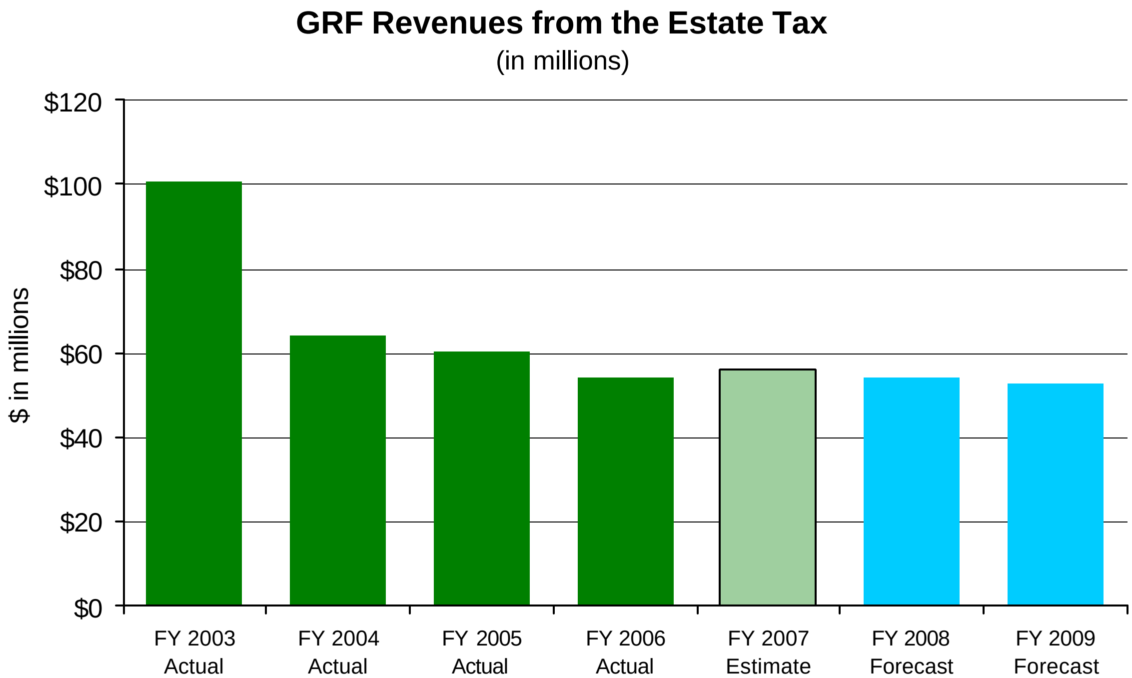


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$29.7	$30.8	$32.2	$33.4	$34.5	$35.8	$37.0
Growth	1.4%	3.7%	4.5%	3.7%	3.3%	3.6%	3.5%

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

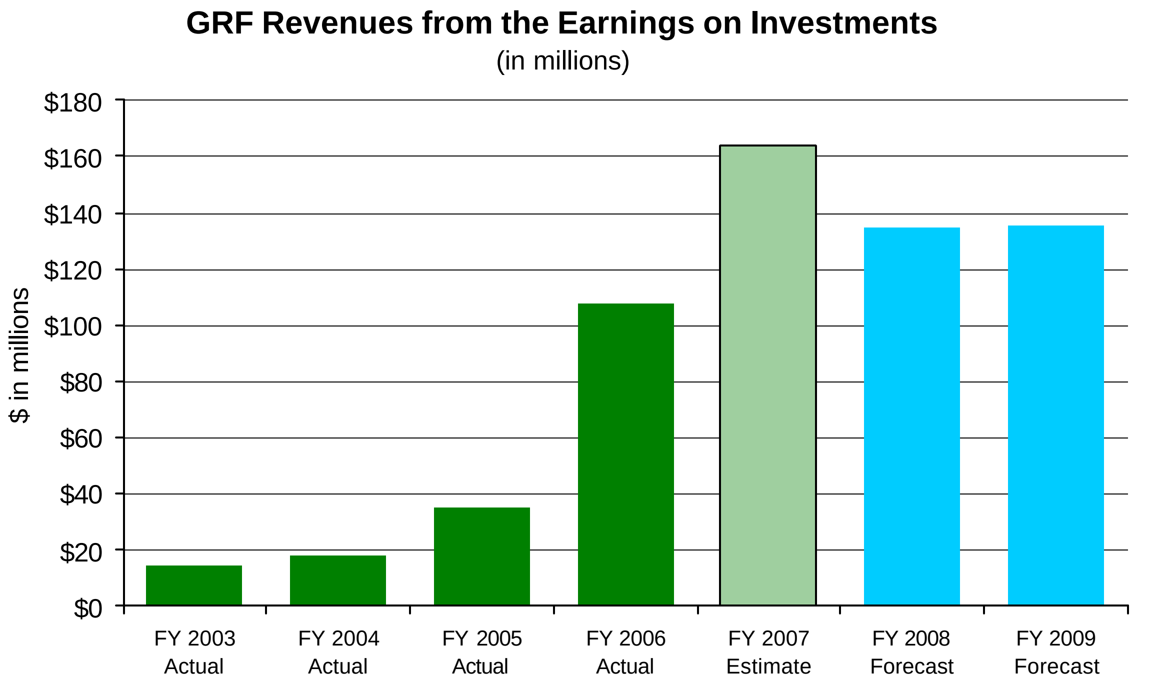


	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$100.8	$64.2	$60.4	$54.1	$55.9	$54.2	$52.6
Growth	-13.3%	-36.3%	-5.9%	-10.4%	3.3%	-3.0%	-3.0%

The forecast for the estate tax is based on historical trend. Estate tax collections show a general downward trend with a slight variation year to year. Estate tax revenues are estimated to increase slightly from $54.1 million in FY 2006 to $55.9 million in FY 2007. However, decreased collections are projected in FY 2008 and FY 2009: $54.2 million and $52.6 million, respectively.

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 months 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 over $500,000. Estates with dates of death 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.

Earnings on Investments



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$14.2	$18.0	$35.0	$107.3	$164.0	$134.6	$135.3
Growth	-82.0%	26.8%	94.4%	206.6%	52.9%	-17.9%	0.5%

In FY 2007, earnings on investments are estimated to increase to $164.0 million from $107.3 million in FY 2006 because of increasing interest rates on short and medium-term investment instruments and slightly higher estimated fund balances than in previous fiscal years. The increase in earnings on investment for FY 2006 and the estimated increase for FY 2007 are largely accredited to higher interest rates and temporary changes in Am. Sub. H.B. 66 of the 126th General Assembly. The enacted bill allows the Director of the Office of Budget and Management to transfer to the GRF all interest earned by all funds 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.

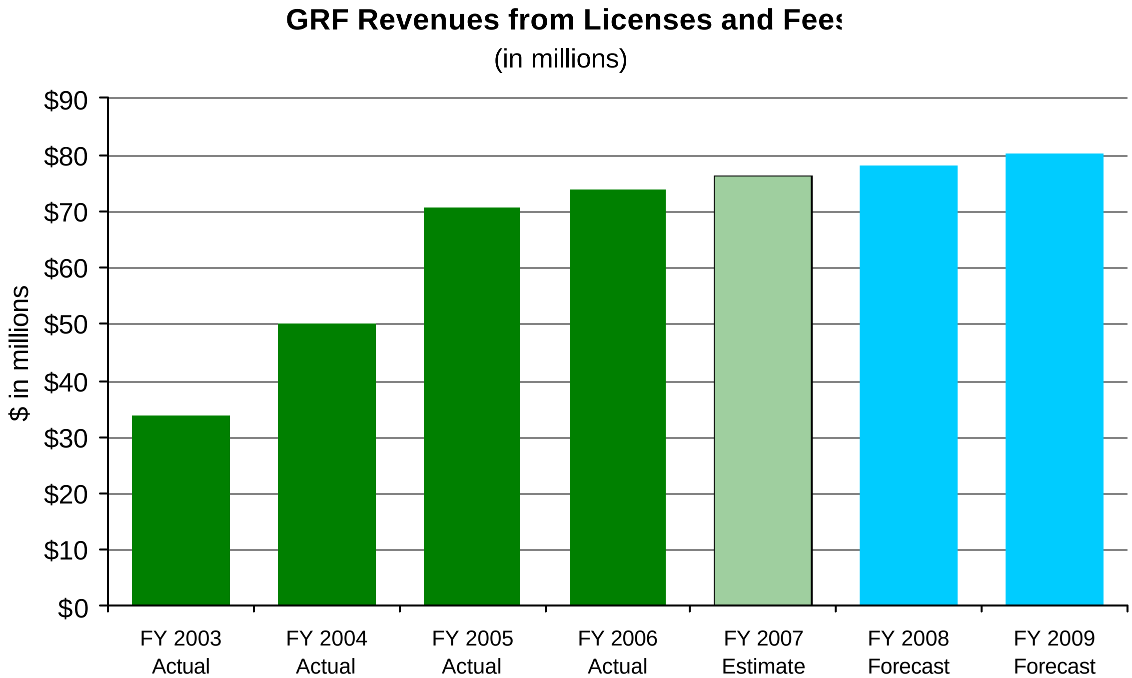
Earnings are expected to decrease in FY 2008 but increase slightly in FY 2009 as interest rates are expected to decline in FY 2008 but rise slightly in FY 2009. Estimated fund balances are expected to increase slightly in both fiscal years. In FY 2008, earnings on investments are estimated to decrease from $164.0 million to $134.6 million. In FY 2009, earnings on investments are estimated to increase to $135.3 million.

The calculations for the forecast were based on interest rate estimates and the average state funds balance that will be available for investment. 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 on the state investment objectives, delegation of authority, and asset diversification policy, including specific types of allowable investments. 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. Some of 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.

Licenses and Fees



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$33.7	$50.1	$70.6	$73.9	$76.3	$78.0	$80.1
Growth	8.4%	48.7%	40.9%	4.7%	3.2%	2.3%	2.7%

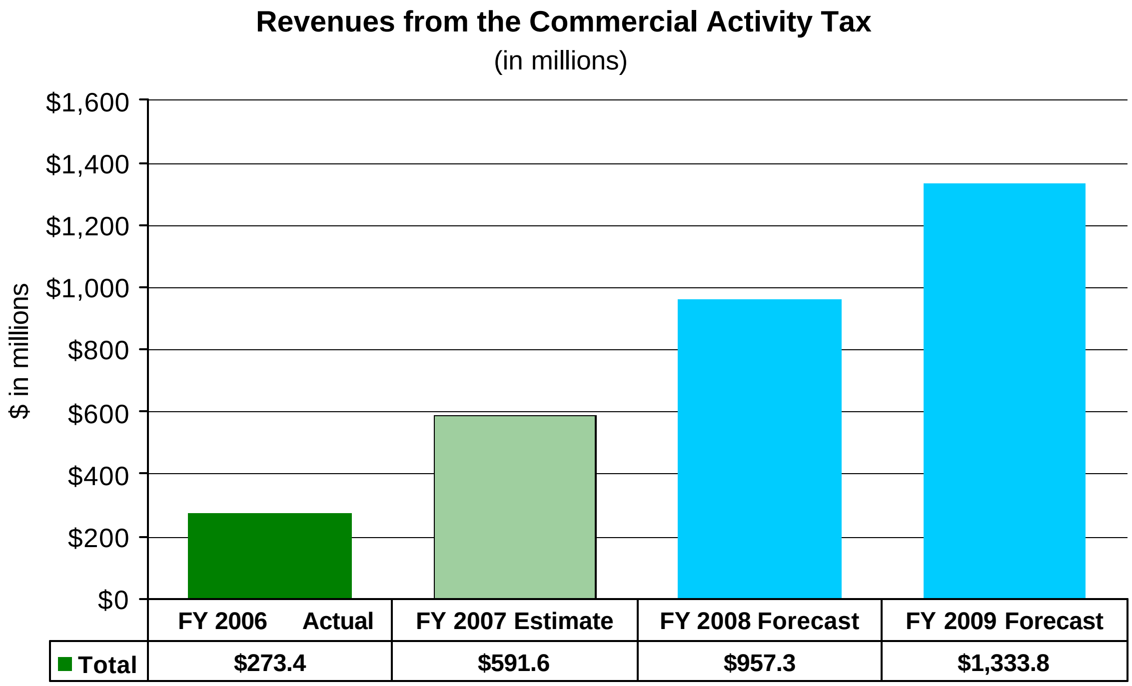
The General Revenue Fund benefits from a number of licenses and fees that are either completely or partially deposited into the GRF. LSC estimates licenses and fees will produce $76.3 million in revenues for FY 2007, $78.0 million in FY 2008, and $80.1 million in FY 2009.

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 licenses, fees, and license revenues deposited by the Environmental Protection Agency, and various business licenses also contribute revenues to the GRF.

The increase in revenue for FY 2006 and the estimated increase for FY 2007 are mostly the result of fee changes in Am. Sub. H.B. 66 of the 126th General Assembly.

The revenue projections for FYs 2008 and 2009 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.

Commercial Activity Tax



	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Total Revenue	$273.4	$591.6	$957.3	$1,333.8
Growth	N/A	116.4%	61.8%	39.3%

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.

For FY 2007, 40% of the tax as calculated is payable. For FY 2008 and FY 2009, 60% and 80% of the tax as calculated will be payable. The CAT will be fully phased in for FY 2010. Generally, Am. Sub. H.B. 66 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. Total CAT revenues were $273.4 million in FY 2006. Distributions to the GRF were $185.1 million, the

School District Replacement Fund (SDRF) received $61.8 million, and the Local Government Replacement Fund (LGRF) received $26.5 million. However, from FY 2007 through FY 2011, revenues from the CAT may be distributed only to the SDRF (70%) and the LGRF (30%). Distributions to the SDRF and LGRF were to replace moneys lost due to the elimination of the tax on most tangible personal property. Required distributions to local entities for replacement of the tangible personal property tax are estimated to be $931.6 million in FY 2008 and $1,275.0 million in FY 2009. CAT receipts are estimated to be above required payments to local entities in FY 2008 and FY 2009. After the obligations to local governments are met, any balance (any excess CAT revenues over required distributions) is to be transferred to the GRF.

The CAT forecast is primarily based on changes to Ohio Gross State Product (GSP) from FY 2007 through FY 2009. 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. Revenues are based on statutory language and the rate of 0.26%. Am. Sub. H.B. 66 (R.C. 5751.032) requires an adjustment to the CAT rate if total collections do not fall within 10% of a targeted amount ($815 million) for the FY 2006-2007 biennium. Current law requires an increase in the CAT rate if total collections during the current biennium are less than $733.5 million. A decrease in the tax rate will be triggered if total collections are more than $896.5 million. Based on FY 2006 actual and FY 2007 estimated receipts, a change in the CAT rate for the next biennium is unlikely. Thus, forecasted revenues for the FY 2008-2009 biennium are calculated using the current 0.26% rate on gross receipts.

Public Assistance Expenditures

Health Care/Medicaid

Overview

The Office of Ohio Health Plans in the Ohio Department of Job and Family Services (ODJFS) operates several state and federally funded programs providing health care coverage to certain low-income and medically vulnerable people of all ages: Medicaid, the State Children's Health Insurance Program (SCHIP, created by the Social Security Act as Title XXI), the Hospital Care Assurance Program (HCAP, also created by the Social Security Act as Title XXI), and the state Disability Medical Assistance (DMA) program.

Medicaid, the largest health program in Ohio, was created by the Social Security Act as Title XIX, and became law in 1965. Medicaid is an entitlement program and is a state-federal partnership, which jointly funds the provision of adequate medical care to eligible needy persons. In this partnership, the federal government establishes broad national guidelines, and each state determines its own eligibility requirements and scope of services, sets payment rates for services, and administers its program.

SCHIP allows Ohio to provide health care coverage to uninsured children whose family income is below 200% of the federal poverty guideline (FPG). Through HCAP, hospitals are reimbursed for some of their costs of providing medical care to persons below 100% of the FPG. The DMA program is state funded and provides limited medical coverage to persons who are not eligible for a federally funded program.

In Ohio, Medicaid and SCHIP provided health care coverage to slightly over 1.7 million Ohioans every month in fiscal year (FY) 2006. These programs apply to people in the following four distinct insurance markets: children in families with incomes at or below 200% of the FPG; pregnant women with incomes at or below 150% of the FPG; parents at or below 90% of the FPG; and low-income elderly and persons with disabilities of all ages, commonly referred to as Aged, Blind, and Disabled (ABD). Many consumers with disabilities have medical needs so extensive that commercial plans would deem them "uninsurable."

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 prescription medications and long-term care. Medicaid also provides assistance with Medicare premiums, copayments, and deductibles to certain low-income seniors.

Although other state agencies provide Medicaid services, the majority of Medicaid spending occurs within the budget of ODJFS. Recognized by the federal government as Ohio's single Medicaid agency, ODJFS provides long-term care and basic medical services with state and federal moneys through GRF line item 600-525, Health Care/Medicaid. In addition to the funding from the GRF, several provider tax programs and other special revenues are used to pay for Medicaid services.[6]

The federal financial share of Ohio's Medicaid program changes every federal fiscal year. In accordance with federal law, the federal government shares in the states' cost of Medicaid at a matching rate known as the Federal Medical Assistance Percentage (FMAP). The FMAP is calculated for each state based upon the state's per capita income in recent years relative to the entire nation. The general description of how this cost-sharing mechanism works has traditionally been as follows: for every one dollar Ohio spends on Medicaid, the federal government gives Ohio 59 cents. However, while the majority of the spending in line item 600-525, Health Care/Medicaid, is reimbursed at the FMAP, a few items, primarily contracts, are reimbursed at 50%, and all family planning services are reimbursed at 90%. In addition, the State Children's Health Insurance Program is reimbursed at an enhanced FMAP of about 71%.

Forecast Summary

The total number of persons eligible for Medicaid grew by 2.5% from 1,686,670 in FY 2005 to 1,729,103 in FY 2006. The total number of eligibles is estimated to reach 1,741,065 in FY 2007, a 0.7% increase over FY 2006. LSC forecasts that the number of persons eligible for Medicaid will decline to 1,724,593 in FY 2008, a 0.9% decrease, before falling to 1,684,897 in FY 2009, a 2.3% decrease.

Spending within the 525 line item 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 projects an increase in health care expenditures in FY 2008 of 3.1%, or $326 million, in combined state and federal dollars, with a state share increase of $130 million. For FY 2009, LSC projects total health care expenditures will go up by

[6] Provider tax programs refer to assessments on hospitals and managed care providers, as well as bed taxes on nursing facilities and intermediate care facilities for the mentally retarded. The programs serve as a mechanism by which to draw additional federal reimbursement. Other special revenues include funds for the Disproportionate Share Hospital (DSH) offset and drug rebates.

another 4.5%, or $495 million, in combined state and federal dollars, with a state share increase of $197 million.

Eligibility

While individuals can become eligible for Medicaid programs that are funded out of the 525 line item by meeting any one of many sets of eligibility criteria, all of these various eligibility groups can be categorized into seven major types: (1) Aged, Blind, and Disabled (ABD), (2) Qualified Medicare Beneficiaries (QMBs), (3) Specified Low-Income Medicare Beneficiaries (SLMBs), (4) Healthy Families (HF), (5) Healthy Start (HS), (6) uninsured children in families with incomes at or below 150% of the FPG known as CHIP-I, and (7) uninsured children in families with incomes between 150% and 200% of the FPG known as CHIP-II. Generally, Healthy Families, Healthy Start, CHIP-I, and CHIP-II are grouped as Covered Families and Children (CFC). Each of these groups will be discussed briefly in turn.

ABD. The ABD eligibility group is loosely based on the Supplemental Security Income (SSI) program. Although SSI eligibility generally leads to Medicaid eligibility in most states, Ohio and 11 other states exercise what is known as the "spend-down" option. In other words, Ohio has opted to use a more restrictive income test than that incorporated in the eligibility guidelines of the SSI program (100% of the FPG); however, once individuals who do not meet the initial ABD income test spend an amount on medical care such that their income after medical expenses is at or below the more restrictive ABD income level of about 63% of the FPG, they "spend-down" to Medicaid eligibility for the month. This allows individuals who have expensive medical needs, but who may have incomes over the SSI level, to receive Medicaid coverage for the remainder of the month.

The ABD eligibility group is the most costly of the seven groups. Not only do ABD eligibles generate more costly acute care services than the other groups, almost all of the Medicaid long-term care recipients come from the ABD eligibility group.

QMBs and SLMBs. The following two eligibility groups, Qualified Medicare Beneficiaries (QMBs) and Specified Low-Income Medicare Beneficiaries (SLMBs), are created by a federal mandate that states' Medicaid programs must "buy-in" to Medicare coverage for certain individuals. QMBs have incomes below 100% of the FPG, and Medicaid must pay for their Medicare premiums, copayments, and deductibles.[7] For SLMBs, Medicaid covers the Medicare Part B premiums only for those with incomes

[7] The QMB grouping in the eligibility table refers only to those QMB individuals who do not "spend-down" to ABD eligibility. Because many individuals who are initially eligible for Medicaid through the QMB program spend-down to ABD eligibility during the month, the reported QMB population is understated.

between 100% and 120% of the FPG. Premiums for both of these eligibility groups (and for Medicare-eligible ABD eligibles for whom the state chooses to buy-in to Medicare)[8] are reflected in the Medicare buy-in service category. The copayments and deductibles of QMBs are reflected in the appropriate service categories, which Medicare covers.

Healthy Start. Children up to age 19 and pregnant women, whose families' incomes are below 150% of the FPG, are Medicaid eligible through the Healthy Start program.

Healthy Families. Apart from Healthy Start eligibles, Medicaid provides health care to other families and children. Prior to the enactment of the federal Personal Responsibility and Work Opportunity Act of 1996, which created the TANF program (implemented in Ohio as Ohio Works First) to provide income maintenance services to low-income families, recipients of Aid to Dependent Children (ADC) were automatically eligible for Medicaid. Although TANF severs the link between cash assistance and Medicaid eligibility, a provision of the federal law requires states to provide Medicaid coverage to families who meet guidelines for ADC eligibility as they were on July 16, 1996. In fact, federal law mandates that eligibility for a state's Medicaid program cannot be more restrictive than the ADC guidelines that existed in each state on July 16, 1996. "Ohio has designed OWF and made the allowable modifications to the July 1996 ADC plan in order to meet Ohio's goal that all OWF cash assistance recipients also automatically receive Medicaid. In addition, in some instances where OWF is more restrictive than the July 1996 ADC rules, individuals who will not be eligible to receive cash will be eligible for Medicaid under the Low-Income Families group which uses the July 1996 ADC policy."[9] These Low-Income Families, who would have previously received cash assistance, continue to grow as a subset of an eligibility group referred to as Healthy Families.

In addition to individuals who meet eligibility guidelines for 1996 ADC cash assistance, Medicaid eligibility is given to individuals who no longer meet ADC eligibility guidelines due to increased income, but previously received OWF cash assistance. Transitional Medicaid eligibles receive an additional six months of health care coverage that can be extended for an additional six months if monthly income is less than or equal to 185% of the FPG. Families whose incomes exceed ADC guidelines due to the collection, or increased collection, of child or spousal support payments receive

[8] Under Medicare, eligibility is not limited to age alone. Eligibility is also based on work history (individual's payroll deductions while they were working, similar to Social Security qualifications). Ohio's Medicaid program allows a buy-in into Medicare for Medicaid eligibles who do not have the necessary work history, for example, to qualify for Medicare and purchases Medicare hospital coverage.

[9] Source: *Ohio Medicaid Report*, December 1998, Ohio Department of Human Services.

Medicaid coverage for four months and are referred to as Extended Medicaid. As a subset of Extended Medicaid, coverage is provided to individuals eligible for Title IV-E foster care and other miscellaneous groups.

CHIP-I. The Balanced Budget Act of 1997 added a sixth eligibility group to the Medicaid population that Ohio funds out of the 525 line item. The Act created the State Children's Health Insurance Program (SCHIP), Title XXI of the Social Security Act, giving states another option to initiate or expand health care to uninsured low-income children. The program affords states increased flexibility in designing and implementing SCHIP programs and provides states a higher federal reimbursement rate than under the regular Medicaid program. Prior to the passage of the Federal Balanced Budget Act of 1997, which included SCHIP, Ohio included in its biennial budget a children's health insurance expansion for children up to the age of 19 in families at or below 150% of the FPG. Combining the state's initiative with the federal SCHIP opportunity, Ohio submitted an SCHIP State Plan to the Center for Medicare and Medicaid Services (CMS) to implement a Medicaid expansion under SCHIP. CMS approved Ohio's SCHIP State Plan on March 23, 1998—making Ohio the fifth state approved to draw down SCHIP funding. Ohio implemented its Children's Health Insurance Plan (CHIP-I) by expanding Healthy Start, to include Medicaid coverage for low-income children up to age 19 in families at or below 150% of the FPG.

CHIP-II. Am. Sub. H.B. 283 of the 123rd General Assembly, the main appropriations act, appropriated funds for the Children's Health Insurance Plan II (CHIP-II) under Title XXI, for uninsured children under age 19 in families with incomes between 150% and 200% of the FPG. CHIP-II commenced on July 1, 2000.

Caseload Forecast

Total Caseload. The total number of persons eligible for Medicaid grew by 2.5% from 1,686,670 in FY 2005 to 1,729,103 in FY 2006. The total number of eligibles is estimated to reach 1,741,065 in FY 2007, a 0.7% increase over FY 2006. LSC forecasts that the number of persons eligible for Medicaid will decline to 1,724,593 in FY 2008, a 0.9% decrease, before falling to 1,684,897 in FY 2009, a 2.3% decrease.

The last time the Medicaid program had major expansions was in July 2000. At that time, ODJFS implemented two expansions. First, coverage was extended to parents with enrolled children for families with incomes at or below 100% of the FPG under the Healthy Families program. Second, ODJFS rolled out CHIP-II, expanding eligibility to uninsured children from families with incomes between 150% and 200% of the FPG. However, the expansion to parents with enrolled children for families with incomes at or below 100% of the FPG was rolled back to 90% on January 2006. No other program reductions or expansions were implemented during the FY 2006-2007 biennium or the preceding biennium. The forecast assumes that no program reductions or expansions will be implemented during the coming biennium.

Two factors have been primarily responsible for changes in the rate of growth of the Medicaid caseload during FYs 2006 and 2007: overall labor market conditions and the roll back of eligibility for parents mentioned above. Labor market conditions in Ohio have remained weak since the recent recession (which officially ended for the nation as a whole in late 2001), but Ohio employment began to increase again, although not steadily, in late 2003 according to seasonally adjusted data from the U.S. Bureau of Labor Statistics. The combination of improving labor market conditions and the eligibility restriction for parents reduced rates of growth of the Medicaid caseload. Growth in overall caseload, both CFC and ABD, fell from 6.0% in FY 2004[10] to 4.2% in FY 2005 and, 2.5% in FY 2006. LSC expects the overall caseload to grow even more slowly, by 0.7% in FY 2007, before declining in FYs 2008 and 2009.

One additional factor has been affecting caseload since September 2006. Starting that month, the federal government imposed a policy requiring individuals applying (or reapplying) for Medicaid to prove their citizenship. Officials at ODJFS and at OBM indicate that this is the primary reason for the decline in caseload seen since September 2006. Due to this policy change, LSC staff have reduced the forecast caseload growth for the remainder of FY 2007 and increased the forecast caseload growth for the four quarters beginning the second quarter of FY 2008. The latter adjustment is to capture individuals who should be eligible but are having trouble documenting their citizenship; however, these individuals will eventually provide documentation and gain (or regain) eligibility.

***Covered Families and Children*.** LSC forecasts that recent declines in the overall CFC caseload will continue through the biennium. The rate of decline is forecast to decelerate slightly during the first two quarters of FY 2008, then to accelerate again. The rate of decline is predicted to remain below 1% per quarter until the second quarter of FY 2009, at which time the decline is projected to accelerate to over 1% per quarter. This forecast is based on a statistical model of the relationship between the Healthy Families caseload and the unemployment rate. Forecasts of future unemployment rates used for the caseload projections are taken from the winter 2007 economic forecast for Ohio by Global Insight.

***Aged, Blind, and Disabled*.** Growth in the ABD caseload decelerated in FY 2006, but LSC staff believe that the rate of growth will be more stable for the coming biennium. Those eligible due to disability are the largest single subcategory within the ABD category of eligibility. The Social Security Administration forecast acceleration in the number of blind or disabled recipients of federally administered SSI benefits in CY 2006 and again in CY 2007 in its *2006 Annual Report of the Supplemental Security Income Program.* While this forecast is for a national figure, statistical analysis conducted by

[10] That is, the average monthly caseload in FY 2004 was 6.0% higher than the average monthly caseload in FY 2003.

LSC staff indicates that growth in Ohio's blind and disabled caseload is highly correlated with this national data historically. LSC forecasts the number of ABD eligibles to grow by 2.5% from FY 2006 to FY 2007, with growth remaining stable at 2.5% in FY 2008, and then decelerating to 2.3% in FY 2009. The Aged subcategory is projected to increase at average historical rates.

Managed Care. Primary care services include prescription drugs, inpatient hospital services, outpatient hospital services, and physician services. 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.

Ohio Medicaid has incorporated the use of managed care since 1978. Although Ohio has contracted with managed care plans since the late 1970s to provide care for certain Medicaid eligibles, the use of capitated rates was not given major emphasis in Ohio's program until the state received an 1115 demonstration waiver in January 1995. As one initiative of the federally approved OhioCare proposal, the state was given the freedom to require mandatory managed care enrollment by CFC Medicaid eligibles.

In FY 2004, Medicaid provided health care coverage to approximately 500,000 Ohioans per month through managed care. The Department of Job and Family Services contracted with 6 MCPs that served 15 Ohio counties. MCP membership was mandatory for the CFC population in 4 counties (Cuyahoga, Stark, Lucas, and Summit) and optional in the other 11 (Butler, Clark, Franklin, Greene, Hamilton, Lorain, Montgomery, Pickaway, Warren, and Wood).

H.B. 66 of the 126th General Assembly, the FY 2006-2007 biennial budget act, required the MCP to be implemented in all counties and required ODJFS to designate the CFC population for participation. The bill also required that ODJFS designate the participants not later than January 1, 2006. Not later than December 31, 2006, all designated participants were required to enroll in Medicaid MCPs.

The FY 2006-2007 biennial budget act also required ODJFS to implement the MCPs 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) dual eligibles, and (5) Medicaid waiver recipients. Not later than December 31, 2006, all designated participants were required to enroll in Medicaid MCPs.

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 includes rural areas such as Appalachia where access to health care is more difficult. And for the first time, the elderly population is included in managed care. As of February 1, 2007, 1.1 million CFC and 23,662 ABD Medicaid recipients are receiving their health care via participating MCPs. According to ODJFS's February 2007 issue of the "Medicaid Managed Care Weekly," Ohio's Medicaid managed care expansion is almost complete for the CFC population and is well underway for the ABD population. All participating Medicaid recipients will be enrolled in managed care arrangements by June 2007.

LSC's baseline forecast uses the penetration rates anticipated by ODJFS. Penetration rate is the percentage of managed care recipients of the total population. There are two definitions of "penetration rate." One is the number of managed care recipients divided by total Medicaid recipients. The other is the number of managed care recipients divided by the number of eligibles for managed care. According to both state and federal regulations, managed care enrollment is optional for children receiving adoption assistance under the Federal Title IV-E program, foster care assistance, or out of home placement. In addition, as mentioned above, the managed care expansion only applies to certain aged, blind, and disabled Medicaid recipients. Table 3 shows the penetration rates using the first definition. If ODJFS is to accomplish its plan according to its schedule, the penetration rates will reach about 28% for ABD and almost 90% for CFC in FY 2008. In other words, about 28% of all ABD recipients and almost 90% of all CFC recipients are expected to enroll in a Medicaid MCP during the next biennium. Table 4 shows the penetration rates using the second definition. If ODJFS is to accomplish its plan according to its schedule, the penetration rates will reach 95% for both ABD and CFC in FY 2008. In other words, about 95% of ABD recipients who are eligible for ABD MCPs and 90% of CFC recipients who are eligible for CFC MCPs are expected to enroll in a Medicaid MCP during the next biennium.

Cost Forecast for the Medicaid Program

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. Traditionally, 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 traditional 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 which 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. Although the expenditures for managed care were not highest in FY 2006, managed care becomes the biggest factor in forecasting Medicaid expenditures in the upcoming biennium due to the managed care expansions for both the CFC and ABD populations.

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.

Consequently, for the typical expenditure category, LSC staff generates a separate forecast for the average number of claims per recipient (corresponding to average utilization) and another separate forecast for average cost per claim submitted (corresponding to price). LSC staff employs two approaches in its forecasts of the average number of claims per recipient and average cost per claim submitted for each expenditure category and its subcategories. The principal method is time series regression models. The other approach utilizes time series forecasting techniques such as simple moving averages and exponential smoothing.

Moving averages predict the next value in a time series based on the average of some finite number of previous observations. Moving averages that count recent values more are weighted moving averages.

Exponential smoothing is a form of a weighted moving average applied to time series data. An exponential smoothing model is a special case of a weighted moving average: the weight for the most recent observation in the time series is the largest, and the other weights decline in size as other observations become more distant in time (declining at a rate resembling an exponential function). In addition, exponential smoothing models can be adjusted to take trends and seasonal effects in the time series data into account. Exponential smoothing forecasts can be very sensitive to the choice of model parameters. Further, the values of these parameters that maximize the fit of the model to the actual data may change over time. Thus, if a statistically significant change in the time series trend is found, then LSC staff would use a regression model that uses time as an independent variable and that explicitly allows for changes in trend. If a statistically significant change in the time series trend is not found, then the moving average approach would be used.

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 from the 525 line item reflect the payment of claims and not the provision of services, it is necessary to incorporate the appropriate payment lags when estimating spending from the 525 line item.

In short, forecasting Medicaid spending involves the estimation of the number of Medicaid eligibles in each month. Then 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 necessary to apply the appropriate payment lags before the estimates are complete.

The forecasts for several of the service categories are summarized in the following sections.

***Nursing Facilities*.** Expenditures for the Nursing Facilities category were \$2.65 billion and represented approximately 28.6% of the total Medicaid expenditures from line item 600-525, Health Care/Medicaid, in FY 2006.

The formula for determining per diem reimbursements to nursing facilities was changed by Am. Sub. H.B. 66, so there is insufficient history with which to conduct an econometric analysis of historical rates. Based on the observed per diem rate during the first two quarters of FY 2007, LSC staff projects an average per diem rate statewide for FY 2007 of \$161.84. The FY 2007 rate is based on the new formula, subject to a provision that no facility's reimbursement rate will be increased or decreased by more than 2% from its June 30, 2006, level as a result of implementing the new formula. ODJFS officials report that the removal of this stop loss/stop gain provision for FY 2008 will have no effect on the statewide average per diem rate for FYs 2008 and 2009. Accordingly, average FY 2008 and FY 2009 per diem rates were increased from the FY 2007 average using the inflation adjustment factors for the direct care cost center and the ancillary and support cost center contained in the new formula. The per diem rates assumed for FY 2008 average \$164.64 and for FY 2009 they average \$167.29. Estimated expenditures for Nursing Facilities are \$2.67 billion in FY 2008 and \$2.68 billion in FY 2009.

***Managed Care*.** The statewide expansion of Medicaid managed care began in July 2005 with the enactment of H.B. 66. Within a period of 18 months, Ohio Medicaid is required to transfer an additional 800,000 Medicaid recipients from fee-for-service to managed care. This expansion dramatically shifts expenditures from the fee-for-service categories to the Managed Care categories.

In addition to the increase in the managed care population, MCP capitation rates are also rising. Ohio Medicaid chose Mercer as its state contracted actuarial firm. The actuaries perform 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 MCPs. Historically, MCP capitation rates have been annually adjusted at the beginning of each calendar year. The capitation rates for the CFC population on average increased 4.9% in FY 2005, 9.5% in FY 2006, and 11.4% in FY 2007. For CFC, the average capitation rate paid was $162.75 in FY 2004, $170.77 in FY 2005, and $187.03 in FY 2006. For CY 2007, ODJFS assumed the CFC capitation rate would be $208.30, and the ABD capitation rate would be $1,054 per member per month.

LSC's forecast includes growth rates of 8.5% for ABD, and 6.8% for CFC for CYs 2008 and 2009. Theses growth rates are provided by ODJFS, and were calculated by Mercer. Estimated expenditures for ABD Managed Care are $1.6 billion in FY 2008 and $1.8 billion in FY 2009. Estimated expenditures for CFC Managed Care are $3.1 billion in FY 2008 and $3.2 billion in FY 2009. The total Managed Care expenditure represents approximately 43.4% of total Medicaid expenditures from the 525 line item in FY 2008 and approximately 43.7% in FY 2009.

***Inpatient and Outpatient Hospital Services*.** Expenditures for Inpatient and Outpatient Hospital Services categories were $2.2 billion and represented approximately 20.66% of total Medicaid expenditures from the 525 line item in FY 2006. The mandated managed care expansions are projected to reduce expenditures in the Inpatient and Outpatient Hospital Services categories substantially. Estimated expenditures for Inpatient and Outpatient Hospital Services are $933 million in FY 2008 and $960 million in FY 2009, and represent approximately 8.5% of total Medicaid expenditures from the 525 line item in FY 2008 and approximately 8.3% in FY 2009.

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. Health economists are predicting increased health care inflation in the coming years. In addition, demand for more and expanded health care services continues to push up the costs. Thus, LSC's projection is that after a sharp drop in expenditures in the Inpatient and Outpatient Hospital Services categories in FY 2008 due to the managed care expansions, expenditures in both categories is anticipated to grow in FY 2009.

Physician Services. The cost estimates for the Physician Services category reflect the historical costs of providing medical care. Estimated expenditures for the Physician Services category are $290.0 million in FY 2008 and $302.0 million in FY 2009.

The utilization in the Physician Services category declined significantly in response to the managed care expansions. Absent managed care expansions increasing utilization started to cause an increase in expenditures starting in FY 2009. The FY 2008 expenditures in this category are projected to decrease primarily because of the managed care expansions. After FY 2008, increasing utilization and the expenditures for physician services are expected to continue.

Prescription Drugs. Expenditures for the Prescription Drug Services category were $1.7 billion and represented approximately 15.70% of total Medicaid expenditures from the 525 line item in FY 2006. Medicare Part D is having a substantial effect on Prescription Drug Services category expenditures in the 525 line item in FY 2007. Estimated expenditures for the Prescription Drug Services category are $938 million in FY 2007, and represent approximately 8.76% of total Medicaid expenditures from the 525 line item.

The *Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)* establishes "Part D" in Medicare that gives people access to a private Medicare prescription drug plan. The MMA requires state Medicaid programs to determine eligibility for new groups of low-income Medicare beneficiaries, and to contribute to the cost of federal prescription drug coverage for dual eligibles.

The mechanism through which the states will help finance the new Medicare drug benefit is popularly known as the "clawback" (the statutory term is "phased-down State contribution"). In brief, the clawback is a monthly payment made by each state to the federal Medicare program beginning in January 2006. The amount of each state's payment roughly reflects the expenditures of its own funds that the state would make if it continued to pay for outpatient prescription drugs through Medicaid on behalf of dual eligibles.

Prior to the implementation of Medicare Part D, outpatient prescription drug coverage was provided to dual eligibles through Medicaid; in Ohio, the federal government pays its financial share of about 59% (the FMAP), and the state pays the remaining 41% of the cost of this coverage. Approximately 175,000 monthly low-income Medicare beneficiaries were enrolled in Medicaid in 2006 in Ohio for full coverage, including nursing home care and outpatient prescription drugs. Beginning January 2006, line item 600-526, Medicare Part D, is used to make the clawback payment to the federal government.

The mandated managed care expansions will result in a sharp reduction the Prescription Drug Services category expenditures. Estimated expenditures for

Prescription Drug Services are $464 million in FY 2008 and $509 million in FY 2009, and represent approximately 4.2% of total Medicaid expenditures from the 525 line item in FY 2008 and approximately 4.4% in FY 2009. Higher prescription drugs utilization and the introduction of new expensive drugs into the market have and will continue to contribute to expenditure growth in FY 2009.

Medicare Buy-In. Medicaid covers the monthly Medicare premiums for the Medicare/Medicaid dual eligible population. The number of individuals for whom premiums are paid has increased steadily in recent years. The cost of the premiums is adjusted each January when the federal government revises the Medicare rates. The rate increase for Part B premiums in recent years has been significantly higher than past history. The Part B premiums increased 13.5% in January 2004, 17.4% in January of 2005, and 13.2% in January 2006. On September 12, 2006, the U.S. Department of Health and Human Services announced another increase of 5.6% in Medicare Part B monthly premiums. The projections for FY 2008 and forward is higher due to continued increases in Part B premiums and recent outreach efforts to ensure that all dual eligible recipients are enrolled in Medicare. The managed care expansion does not impact the expenditure for Medicare Buy-In Services category since dual eligibles are exempted from the mandated expansion population.

The cost estimates for Medicare Buy-In Services reflect the historical trend and the above policy changes. The growth rate in spending is projected to be 15.14% from FY 2007 to FY 2008, and 13.23% from FY 2008 to FY 2009. Estimated expenditures for Medicare Buy-In Services are $316 million in FY 2008 and $358 million in FY 2009.

Medicaid Table 1

Health Care Spending (ALI 600-525 Only)

	FY 2007			FY 2008			FY 2009		
	LSC Estimated	**JFS Estimated**	**LSC minus JFS**	**LSC Estimated**	**JFS Estimated**	**LSC minus JFS**	**LSC Estimated**	**JFS Estimated**	**LSC minus JFS**
Nursing Facilities	$2,622,413,608	$2,619,417,333	$2,996,275	$2,671,949,151	$2,668,329,500	$3,619,651	$2,678,961,432	$2,656,034,976	$22,926,456
ICFs/MR	$516,007,293	$518,757,863	($2,750,570)	$563,272,349	$574,855,755	($11,583,405)	$581,813,889	$597,632,092	($15,818,203)
Inpatient	$1,234,317,995	$1,200,046,215	$34,271,779	$644,971,790	$673,186,466	($28,214,676)	$661,992,271	$662,991,794	($999,523)
Outpatient	$553,156,910	$531,499,481	$21,657,429	$288,148,257	$251,380,147	$36,768,110	$298,618,636	$248,909,871	$49,708,765
Physicians	$510,119,679	$523,593,685	($13,474,006)	$289,684,785	$265,367,260	$24,317,526	$301,993,322	$264,861,805	$37,131,517
Prescription Drugs	$937,732,792	$913,613,370	$24,119,422	$463,573,338	$425,831,835	$37,741,503	$509,369,039	$472,605,448	$36,763,591
Waiver	$297,923,682	$331,226,316	($33,302,634)	$281,772,051	$326,994,607	($45,222,556)	$302,334,923	$332,486,253	($30,151,330)
Managed Care - ABD	$401,045,081	$463,064,564	($62,019,483)	$1,637,918,545	$1,628,815,967	$9,102,578	$1,815,046,190	$1,780,838,279	$34,207,912
Managed Care - CFC	$2,416,612,584	$2,473,454,618	($56,842,034)	$3,136,295,669	$3,049,185,076	$87,110,593	$3,212,325,506	$3,262,410,224	($50,084,718)
All Other Care	$922,092,445	$903,883,991	$18,208,454	$718,519,897	$837,257,541	($118,737,644)	$786,784,838	$906,738,308	($119,953,470)
Medicare Buy-In	$274,846,860	$278,409,748	($3,562,888)	$316,455,520	$323,124,474	($6,668,954)	$358,328,655	$368,657,089	($10,328,434)
Total	$10,686,268,929	$10,756,967,184	($70,698,255)	$11,012,561,353	$11,024,328,627	($11,767,274)	$11,507,568,701	**$11,554,166,138**	($46,597,436)
State share	$4,257,409,541	$4,285,575,726	($28,166,185)	$4,374,189,369	$4,378,863,331	($4,673,961)	$4,422,358,652	$4,440,266,047	($17,907,395)
Federal share	$6,428,859,388	$6,471,391,458	($42,532,070)	$6,638,371,983	$6,645,465,296	($7,093,313)	$7,085,210,049	$7,113,900,091	($28,690,041)

1. This table only includes health care spending through the Department of Job and Family Services' 600-525 line item. It includes spending for Medicaid, CHIP-I, and CHIP-II.
2. The forecasts are baseline, which assume no change in the state health care policies and program for the upcoming biennium.
3. "All Other Care" includes services such as dental care, home health care, and other practitioners, and includes various contracts.
4. The FMAP rate used here is a blended FMAP.

Medicaid Table 2
Medicaid Caseload by Eligibility Group

	Healthy Families		Healthy Families Expansion		Healthy Start Pregnant Women		Healthy Start		CHIP-I		CHIP-II		Adopted Children & Foster Care Children		Dual CFC		Total CFC	
SFY	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates
2002	721,962		989		21,835		131,429		70,073		38,494		26,977		360		1,012,119	
2003	701,976	-2.8%	127,157	12758.2%	21,512	-1.5%	143,294	9.0%	76,914	9.8%	44,933	16.7%	28,309	4.9%	1,915	432.2%	1,146,011	13.2%
2004	709,136	1.0%	182,475	43.5%	21,805	1.4%	147,364	2.8%	82,866	7.7%	48,856	8.7%	29,211	3.2%	3,230	68.6%	1,224,942	6.9%
2005	739,070	4.2%	206,081	12.9%	22,025	1.0%	141,983	-3.7%	85,508	3.2%	50,754	3.9%	29,886	2.3%	4,075	26.2%	1,279,382	4.4%
2006	784,889	6.2%	185,558	-10.0%	22,892	3.9%	144,451	1.7%	87,714	2.6%	52,071	2.6%	30,054	0.6%	4,098	0.6%	1,311,728	2.5%
2007*	803,884	2.4%	144,662	-22.0%	24,409	6.6%	158,529	9.7%	93,372	6.5%	54,069	3.8%	30,230	0.6%	3,988	-2.7%	1,313,142	0.1%
2008*	775,411	-3.5%	138,935	-4.0%	24,754	1.4%	160,990	1.6%	95,935	2.7%	54,599	1.0%	31,337	3.7%	3,980	-0.2%	1,285,942	-2.1%
2009*	736,158	-5.1%	131,902	-5.1%	24,502	-1.0%	159,019	-1.2%	94,832	-1.1%	53,407	-2.2%	32,349	3.2%	3,970	-0.2%	1,236,139	-3.9%

	ABD		Dual ABD		QMBO		SLMB		Total ABD	
SFY	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates	Monthly Average	Growth Rates
2002	170,215		158,291		21,576		18,019		368,101	
2003	176,562	3.7%	164,418	3.9%	22,280	3.3%	17,784	-1.3%	381,044	3.5%
2004	183,987	4.2%	171,909	4.6%	22,505	1.0%	15,528	-12.7%	393,928	3.4%
2005	187,988	2.2%	179,217	4.3%	24,079	7.0%	16,004	3.1%	407,288	3.4%
2006	191,408	1.8%	175,433	-2.1%	32,076	33.2%	18,458	15.3%	417,375	2.5%
2007*	195,984	2.4%	166,085	-5.3%	42,430	32.3%	23,424	26.9%	427,922	2.5%
2008*	199,797	1.9%	167,799	1.0%	44,614	5.1%	26,442	12.9%	438,652	2.5%
2009*	204,263	2.2%	170,119	1.4%	45,644	2.3%	28,733	8.7%	448,758	2.3%

Total ABD & CFC		
SFY	Monthly Average	Growth Rates
2002	1,380,220	
2003	1,527,055	10.6%
2004	1,618,870	6.0%
2005	1,686,670	4.2%
2006	1,729,103	2.5%
2007*	1,741,065	0.7%
2008*	1,724,593	-0.9%
2009*	1,684,897	-2.3%

MCP				
	CFC		ABD	
SFY	Monthly Average	Growth Rates	Monthly Average	Growth Rates
2002	334,043		10	
2003	403,717	20.9%	13	30.0%
2004	483,346	19.7%	18	38.5%
2005	521,929	8.0%	773	4194.4%
2006	621,096	19.0%	952	23.2%
2007*	958,261	54.3%	26,687	2703.0%
2008*	1,150,577	20.1%	123,165	361.5%
2009*	1,103,806	-4.1%	126,461	2.7%

FFS				
	CFC		ABD	
SFY	Monthly Average	Growth Rates	Monthly Average	Growth Rates
2002	678,076		368,091	
2003	742,294	9.5%	381,031	3.5%
2004	741,596	-0.1%	393,910	3.4%
2005	757,453	2.1%	406,515	3.2%
2006	690,632	-8.8%	416,423	2.4%
2007*	354,882	-48.6%	401,236	-3.6%
2008*	135,365	-61.9%	315,486	-21.4%
2009*	132,333	-2.2%	322,297	2.2%

*LSC baseline estimates

Medicaid Table 3

Percentage of Total Caseload		
	Penetration Rate	
Date	ABD	CFC
Jul-04	0.0%	40.7%
Aug-04	0.0%	40.6%
Sep-04	0.0%	40.5%
Oct-04	0.0%	40.7%
Nov-04	0.1%	40.7%
Dec-04	0.1%	40.8%
Jan-05	0.1%	40.8%
Feb-05	0.2%	41.1%
Mar-05	0.4%	40.9%
Apr-05	0.5%	41.0%
May-05	0.7%	41.0%
Jun-05	0.9%	41.1%
Jul-05	1.2%	41.3%
Aug-05	1.2%	41.3%
Sep-05	0.9%	41.0%
Oct-05	0.1%	42.5%
Nov-05	0.0%	46.8%
Dec-05	0.0%	47.3%
Jan-06	0.0%	48.7%
Feb-06	0.0%	49.3%
Mar-06	0.0%	52.1%
Apr-06	0.0%	52.5%
May-06	0.0%	52.5%
Jun-06	0.0%	52.9%
Jul-06	0.0%	52.9%
Aug-06	0.0%	53.2%
Sep-06	0.0%	57.0%
Oct-06	0.0%	62.1%
Nov-06	0.0%	68.9%
Dec-06	0.0%	73.3%
Jan-07	0.4%	78.5%
Feb-07	3.9%	84.2%
Mar-07	8.1%	85.2%
Apr-07	13.2%	86.8%
May-07	21.9%	87.6%
Jun-07	26.8%	88.4%
Jul-07	27.9%	89.7%
Aug-07	28.4%	89.7%
Sep-07	28.2%	89.7%
Oct-07	28.2%	89.7%
Nov-07	28.1%	89.7%
Dec-07	28.1%	89.7%
Jan-08	28.1%	89.7%
Feb-08	28.1%	89.7%
Mar-08	28.2%	89.7%
Apr-08	28.1%	89.7%
May-08	28.1%	89.7%
Jun-08	28.1%	89.7%
Jul-08	28.0%	89.7%
Aug-08	28.0%	89.7%
Sep-08	27.9%	89.7%
Oct-08	27.9%	89.7%
Nov-08	27.8%	89.7%
Dec-08	27.8%	89.7%
Jan-09	27.8%	89.7%
Feb-09	27.8%	89.7%
Mar-09	27.8%	89.7%
Apr-09	27.8%	89.7%
May-09	27.8%	89.7%
Jun-09	27.8%	89.7%

Medicaid Table 4

Percentage of Those Eligible for Managed Care		
	Penetration Rate	
Date	ABD	CFC
Jul-04	0.0%	43.1%
Aug-04	0.0%	43.2%
Sep-04	0.0%	43.0%
Oct-04	0.0%	43.1%
Nov-04	0.1%	43.1%
Dec-04	0.2%	43.1%
Jan-05	0.3%	43.3%
Feb-05	0.5%	43.4%
Mar-05	0.9%	43.2%
Apr-05	1.4%	43.3%
May-05	1.7%	43.3%
Jun-05	2.3%	43.4%
Jul-05	3.2%	43.7%
Aug-05	3.1%	43.8%
Sep-05	2.5%	43.5%
Oct-05	0.1%	45.0%
Nov-05	0.0%	49.4%
Dec-05	0.0%	49.9%
Jan-06	0.0%	51.6%
Feb-06	0.0%	51.9%
Mar-06	0.0%	55.1%
Apr-06	0.0%	55.4%
May-06	0.0%	55.3%
Jun-06	0.0%	55.9%
Jul-06	0.0%	55.9%
Aug-06	0.0%	56.1%
Sep-06	0.0%	60.1%
Oct-06	0.0%	65.5%
Nov-06	0.0%	72.6%
Dec-06	0.0%	77.3%
Jan-07	1.1%	82.9%
Feb-07	13.1%	88.9%
Mar-07	27.0%	89.9%
Apr-07	44.2%	91.7%
May-07	73.1%	92.5%
Jun-07	89.6%	93.3%
Jul-07	93.3%	94.7%
Aug-07	95.0%	94.7%
Sep-07	95.0%	94.7%
Oct-07	95.0%	94.7%
Nov-07	95.0%	94.7%
Dec-07	95.0%	94.7%
Jan-08	95.0%	94.7%
Feb-08	95.0%	94.7%
Mar-08	95.0%	94.7%
Apr-08	95.0%	94.7%
May-08	95.0%	94.7%
Jun-08	95.0%	94.7%
Jul-08	95.0%	94.7%
Aug-08	95.0%	94.7%
Sep-08	95.0%	94.7%
Oct-08	95.0%	94.7%
Nov-08	95.0%	94.7%
Dec-08	95.0%	94.7%
Jan-09	95.0%	94.7%
Feb-09	95.0%	94.7%
Mar-09	95.0%	94.7%
Apr-09	95.0%	94.7%
May-09	95.0%	94.7%
Jun-09	95.0%	94.7%

Note: Tables 3 & 4 - March 2007 to June 2009 provided by ODJFS and based on ODJFS's roll-out plans for the statewide expansions.

Temporary Assistance for Needy Families

Overview

The Temporary Assistance for Needy Families (TANF) program was created by the federal government in the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. To accomplish the goals of TANF, Ohio developed and implemented two main programs that provide time limited cash assistance to needy families with children and also provide an array of services that furnish parents with work training and other supports to help them attain permanent self-sufficiency. Ohio's two main programs that are administered by the Ohio Department of Job and Family Services (ODJFS) are the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program. In addition, Ohio also operates some specific programs in which TANF-eligible individuals receive services (TANF funds may fully or partially fund these programs). These include the Head Start program in the Department of Education, the TANF Family Planning program in the Department of Health, the TANF Housing Program in the Department of Development, the AdoptOhio program in the Department of Job and Family Services, and the Substance Abuse, Treatment and Mentoring program in the Department of Alcohol and Drug Addiction Services.

The purposes of the program as it now exists are to:

- Provide assistance to needy families so that children may be cared for in their own home or in the homes of relatives;
- End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- Encourage the formation and maintenance of two-parent families.

The Deficit Reduction Omnibus Reconciliation Act of 2005 (DRA) reauthorized the TANF program through 2010 and level funded the program. The DRA eliminated the high performance bonuses but added new funding for healthy marriage and responsible fatherhood initiatives. While there were discussions about the possibility of changes to the work participation rate, the DRA kept the current work participation rate requirements. The DRA also recalibrates the caseload reduction credit, with the base year now being federal fiscal year (FFY) 2005. Perhaps most significantly, the DRA directs the U.S. Department of Health and Human Services to regulate and review activities that count toward work and how to count and verify reporting hours and who is work eligible. The DRA additionally requires states to establish verification procedures and establishes a new federal penalty for failure to comply with the verification process.

TANF

The PRWORA eliminated the Aid to Families with Dependent Children program (or AFDC; in Ohio this was called Aid to Dependent Children or ADC), the Job Opportunity and Basic Skills (JOBS) program, and the Family Emergency Assistance (FEA) program. Congress replaced these programs with the TANF program. Prior to TANF, under the AFDC program, the federal government provided states with open-ended matching funds for cash welfare payments to all families who qualified. Cash benefits were an "entitlement" and had no time limit. Under an entitlement, qualified recipients have a "right" to receive benefits and appropriations must be provided in case of a shortfall. In the old AFDC program the federal government reimbursed states for welfare spending between 50% and 80%—depending on per capita income. In Ohio, this reimbursement averaged approximately 60% over the decade prior to PRWORA.

The focus of public assistance has now shifted from "entitlement" to temporary assistance that encourages self-sufficiency by requiring recipients to work or participate in a developmental activity. PRWORA established a five-year maximum lifetime limit on a family's receipt of federally funded cash benefits. The TANF program requires that states impose stricter work requirements on recipients than under AFDC, and eliminated all but a few of the exemptions from participation in work for adult welfare recipients. The PRWORA prescribes little in the way of eligibility requirements, while being very prescriptive in the amount of work activity required of adult TANF recipients. Exercising the flexibility that PRWORA allows, OWF further limits receipt of cash benefits to three years, with a possible hardship extension of two years, if a minimum of two years has passed since the last receipt of benefits.

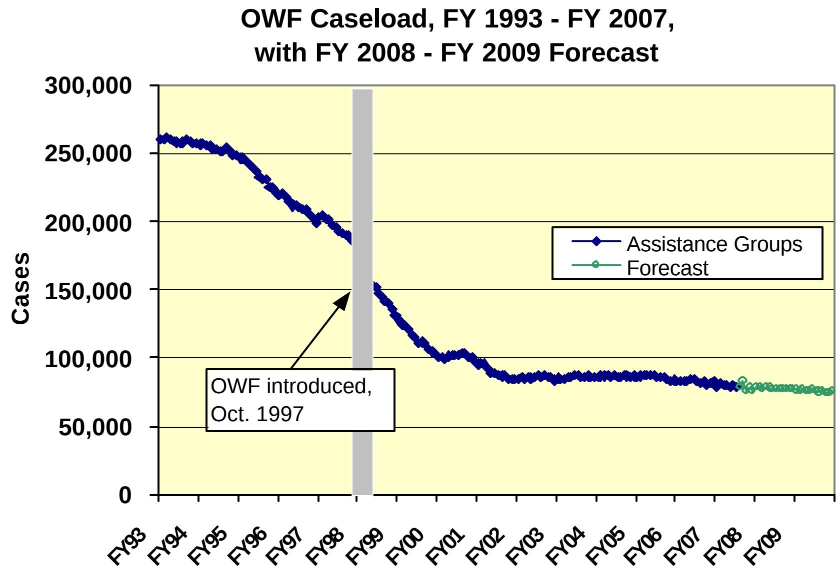
Ohio's annual TANF block grant award of approximately $728 million is based on the amount of federal funds expended in federal fiscal year (FFY) 1994 for the three eliminated programs (AFDC, JOBS, and FEA). Ohio is required to meet a minimum maintenance of effort (MOE) requirement of 80% of what it spent in FFY 1994 on the three eliminated programs (80% of that amount is approximately $417 million). The MOE can be lowered to 75% ($390.8 million) if the state meets its participation requirement. Ohio was meeting the participation rate requirements until the end of FFY 2007 and MOE was set at 75%. However, due to the DRA changes, Ohio is experiencing challenges to meeting the work participation requirements for FFY 2008. If the state fails to meet the MOE, its TANF grant for the next federal fiscal year will be reduced by the amount of the deficit, and the state will be required to increase its TANF spending by an amount equal to the penalty. To ensure that MOE is met during the current fiscal year and for the next biennium, ODJFS has planned for MOE at the 80% level ($416.9 million).[11]

One of the consequences of the block grant funding arrangement is that reductions in recipient caseloads reduce the amount of "baseline" cash benefits, thus leaving more funds available for other TANF-related program services or activities. If TANF grant funds go unspent in a particular year, the PRWORA legislation provides that "a State may reserve amounts paid to the State under [this legislation] for any fiscal year for the purpose of providing, without fiscal year limitation, assistance under the State program funded under [this legislation]."[12] As of December 31, 2006, Ohio's TANF balance was $801.9 million, with $399.4 million reported as unliquidated obligations, and $402.5 million as the unobligated balance. These figures do not include funds that have been transferred to the Social Services Block Grant and the Child Care Development Fund or planned current year expenditures (i.e., cash assistance payments or early learning initiative costs), but which had not yet been spent as of that date. The unspent balance is held at the federal level and is available to be spent on cash benefits or on other services or activities during the period in which the funds may be obligated.

[11] The state meets its MOE requirement from spending at the state and local level. The counties contribute about $28.5 million toward MOE; the remaining MOE is met through allowable expenditures made by the Department of Job and Family Services and several other state agencies such as the Department of Alcohol and Drug Addiction Services and the Board of Regents.

[12] H.R. 3734, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, sec. 404(e).

TANF/OWF Forecast



As the chart detailing the trend in the OWF combined caseload indicates, the number of OWF (formerly ADC) cases began to decline in Ohio prior to the passage of PRWORA and the establishment of OWF. The mid-1990s was a period of business cycle expansion, which was the likely cause of the decline at that time. The rate of decline accelerated around the time of the introduction of OWF. Certainly one reason for the acceleration was the imposition of time limits on the receipt of benefits. There is a natural limit to the decline that can be expected, due in part to the exemption of certain subgroups from the time limits. In particular, "child only" cases are exempted from the limits. These cases are typically instances when a child is living with a specified relative caregiver or when the adults in the household are recipients in other programs such as Supplemental Security Income (SSI). The number of "child only" cases in December 2006 was 52.5% of the total caseload. Because the children in these cases remain eligible until age 18 and they are not subject to adult participation requirements, they form a stable core of the OWF caseload.

LSC expects the total number of TANF cases (or assistance groups) to decrease in FY 2008 to an average of 77,884 monthly cases from a FY 2007 average of 79,479. This decline in the total number of TANF cases will result in approximately $6.3 million less being spent on TANF cash benefits in FY 2008 than LSC estimates for FY 2007 expenditures. The total spending on cash benefits is forecast to be $308.5 million for FY 2008.

The decline in the number of TANF cases is expected to continue into FY 2009. The monthly average of cases is expected to decline to 76,053, representing a decrease in spending for TANF cash benefits of $7.2 million for the year. That estimate brings total spending for cash benefits, assuming current eligibility and benefit levels, to $301.2 million for FY 2009.

TANF/OWF - LSC Baseline Estimates			
	FY 2007	**FY 2008**	**FY 2009**
Average monthly cases	79,479	77,884	76,053
Total cash benefits (in millions)	$314.8	$308.5	$301.2

The TANF cash benefits are paid from line items 600-410, TANF State; 600-658, Child Support Collections; and 600-689, TANF Block Grant. The Executive has recommended FY 2008 total funding for the combination of these three line items at $1,337.0 million. The total recommended funding level for these three line items in FY 2009 is $1,385.2 million.

Funding cash benefits for FY 2008 at the forecast level of $308.5 million, and at $301.2 million for FY 2009 leaves $1,028.5 million in FY 2008 and $1,084.0 million in FY 2009 from these three line items for employment services, work activities, PRC services, transitional services, direct payments from TANF federal funds for child day care (in addition to receiving funds directly from the TANF federal block grant, child care receives funding from other sources), and other allowable activities.

Methodology

The forecast of TANF Assistance Groups was based on a regression of the TANF caseload against the number of unemployed Ohioans, and a trend term. The regression included caseload observations starting in January of 2000 in order to exclude the most dramatic effects resulting from the policy change of imposing time limits on benefits. Experimentation with several specifications led to the selection of a model in which the effects of unemployment on caseload appeared with both a two-month lag and a three-month lag. The trend term captures the effects that time limits on benefits have on the number of eligible assistance groups, as well as other factors.

The TANF forecast is based on forecasts of the explanatory factors, Ohio unemployment, and the trend effect, under the assumption that the historical relationships in the model will continue into the future. Guided by economic forecasts, notably by Global Insight, LSC assumes that the number of unemployed Ohioans peaks in the fourth quarter of CY 2007, then begins to decline.

The total cash benefits for a fiscal year are based on the historical trend of the average cost per recipient over the last three biennia, projecting this model into the future, then multiplying the forecast cost per assistance group each month by the forecast of TANF assistance groups. This forecast assumes the continuation of current eligibility requirements and benefit levels.

g:\budget\budget.127\forecast\finals\housefinanceforecast.doc/cm