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TESTIMONY AND FORECAST OF

GRF REVENUES AND PUBLIC ASSISTANCE SPENDING

FOR THE FY 2008 - FY 2009 BIENNIAL BUDGET

BEFORE THE CONFERENCE COMMITTEE ON H.B. 119

TESTIMONY BY LSC FISCAL STAFF
JUNE 21, 2007

LEGISLATIVE SERVICE COMMISSION
TESTIMONY AND FORECAST

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Ohio Legislative Service Commission

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

Testimony before the Conference Committee on H.B. 119

June 21, 2007

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

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

GRF Tax Revenues

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

The revisions in the revenue estimates for FY 2007 mainly reflect the level of receipts of the various taxes since the earlier estimates were developed. The updated revenue forecasts for FY 2008 and FY 2009 mainly reflect the revision in the underlying economic forecast, resulting in lower than anticipated nonauto sales tax revenues and weaker personal income tax revenues. Also, cigarette tax revenues now appear likely to be lower than anticipated in March, as a result of higher prices for taxed cigarettes and the tighter limits on public smoking. These downward revisions are partially offset by an upward revision to the forecast for corporate franchise tax revenues, reflecting the pattern in recent months of stronger than anticipated collections.

Economy

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

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

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

Medicaid

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

TANF

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

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

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

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

Economic Forecast

The outlook for the economy, as measured by expected growth of gross domestic product in the nation and Ohio, has shifted to a somewhat slower pace since January. Prospects still appear favorable for continued expansion through the end of the upcoming biennium. Inflation is projected to ease after turning higher this year. With growth expected to be slower than in earlier years of the economic expansion, unemployment rises slightly in FY 2008 as a share of the labor force. Economic reports recently have tended to be more positive regarding the pace of economic activity. But the latest forecasts show generally slower expansion than the January forecasts that served as the basis for LSC's initial revenue projections for the upcoming biennium. The updated economic forecasts, in conjunction with more complete data on FY 2007, served as the basis for the Legislative Service Commission's revisions to these revenue projections.

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 and May. The Governor's Council of Economic Advisors' forecasts are the consensus outlooks from meetings of that group in January and May. Annual changes shown below are based on the annual average for each fiscal year, from the preceding fiscal year's annual average except for the unemployment rate.

U.S. Gross Domestic Product

Global Insight's forecast for growth of the nation's economy, measured by real gross domestic product, continues to show expansion through FY 2009 and beyond, but the rate of growth has been revised downward by 0.2 to 0.4 percentage point for FY 2008 and FY 2009. The Governor's Council of Economic Advisors has also lowered its consensus forecast for next year, by 0.2 percentage point, but raised its forecast for FY 2009 by the same percentage.

Table 1: U.S. Real GDP Growth

Forecast	FY 2007	FY 2008	FY 2009
	---------------------	percent change	---------------------
Global Insight's			
January forecast	2.6	2.7	3.4
May forecast	2.5	2.3	3.2
change	-0.1	-0.4	-0.2
Economic Advisors'			
January forecast	2.6	2.7	2.9
May forecast	2.6	2.5	3.1
change	0.0	-0.2	0.2

Ohio Gross Domestic Product

Similarly, Ohio's gross domestic product continues to increase over the forecast horizon, but the state's economy is not expected to grow as rapidly as that of the nation. Global Insight's forecast for growth in the state was revised downward by 0.2 to 0.4 percentage point in the next two fiscal years.

Table 2: Ohio Real GDP Growth

Forecast	FY 2007	FY 2008	FY 2009
	----------------------percent change----------------------		
Global Insight's			
January forecast	1.6	2.3	2.7
May forecast	1.0	1.9	2.5
change	-0.6	-0.4	-0.2
Economic Advisors'			
May forecast	1.1	1.8	2.4

U.S. Inflation

Both Global Insight and the Governor's Council of Economic Advisors expect the rate of rise in the general price level, as measured by the consumer price index, to moderate during the next two fiscal years. However, Global Insight projects that increases in this indicator of inflation will slow to less than 2%, while the Governor's Council of Economic Advisors consensus shows less of a slowing, with inflation remaining higher than that rate.

Table 3: U.S. Consumer Price Index Inflation

Forecast	FY 2007	FY 2008	FY 2009
	----------------------percent change----------------------		
Global Insight's			
January forecast	2.2	2.1	1.9
May forecast	2.5	1.8	1.9
change	0.3	-0.3	0.0
Economic Advisors'			
January forecast	2.2	2.0	2.1
May forecast	2.5	2.3	2.3
change	0.3	0.3	0.2

U.S. Personal Income

Revisions to expectations for growth of personal income in the nation and Ohio were mixed, but differences between expected rates of growth are fairly small.

Table 4: U.S. Personal Income Growth

Forecast	FY 2007	FY 2008	FY 2009
	-----------------------percent change-----------------------		
Global Insight's			
January forecast	5.8	5.1	6.0
May forecast	5.8	5.5	5.6
change	0.0	0.4	-0.4
Economic Advisors'			
January forecast	5.4	5.1	5.5
May forecast	5.9	5.6	5.6
change	0.5	0.5	0.1

Ohio Personal Income

Income to persons who reside in Ohio continues to be projected to grow at a rate somewhat slower than the national average.

Table 5: Ohio Personal Income Growth

Forecast	FY 2007	FY 2008	FY 2009
	-----------------------percent change-----------------------		
Global Insight's			
January forecast	4.5	4.3	4.9
May forecast	4.5	4.2	4.6
change	0.0	-0.1	-0.3
Economic Advisors'			
January forecast	3.8	4.1	4.2
May forecast	4.6	4.5	4.6
change	0.8	0.4	0.4

Ohio Wage Disbursements

Ohio wage disbursements are a driver for the personal income tax forecast and the nonauto sales tax forecast. Global Insight's prediction for Ohio wage disbursements was revised significantly lower between January and May.

Table 6: Ohio Wage Disbursements Growth

Forecast	FY 2007	FY 2008	FY 2009
	-----------------------	percent change	-----------------------
Global Insight's			
January forecast	3.8	3.9	4.4
May forecast	3.4	3.2	3.8
change	-0.4	-0.7	-0.6

U.S. Unemployment Rate

Unemployment nationwide as a share of the labor force is expected to rise somewhat, but both Global Insight and the Governor's Council of Economic Advisors slightly lowered the levels to which they expect this rate to rise in the coming year.

Table 7: U.S. Unemployment Rate

Forecast	FY 2007	FY 2008	FY 2009
	------------	percent of the labor force	------------
Global Insight's			
January forecast	4.7	5.0	4.7
May forecast	4.6	4.8	4.8
change	-0.1	-0.2	0.1
Economic Advisors'			
January forecast	4.7	4.9	4.8
May forecast	4.6	4.7	4.7
change	-0.1	-0.2	-0.1

Ohio Unemployment Rate

The two forecast groups are in agreement on the outlook for the unemployment rate in Ohio, on average, in the next two fiscal years.

Table 8: Ohio Unemployment Rate

Forecast	FY 2007	FY 2008	FY 2009
	-----------------percent of the labor force-----------------		
Global Insight's			
January forecast	5.5	5.7	5.5
May forecast	5.4	5.5	5.4
change	-0.1	-0.2	-0.1
Economic Advisors'			
January forecast	5.6	5.5	5.3
May forecast	5.4	5.5	5.4
change	-0.2	0.0	0.1

GRF Tax Revenue Forecasts

Fiscal year 2007 GRF tax revenues are projected to total $19,394.6 million, $78.0 million (0.4%) higher than the March LSC estimates. Estimated revenue from the personal income tax was revised upward by $56.3 million, revenue from the auto sales tax was revised upward by $9.1 million, revenue from the business and property tax was revised upward by $3.3 million, revenue from the corporate franchise tax was revised upward by $34.0 million, and revenue from the estate tax was revised upward by $15.1 million. Partially offsetting these increases, estimated revenue from the cigarette tax was revised downward by $30.5 million, revenue from the nonauto sales tax was revised downward by $11.1 million, and revenue from the public utility excise tax was revised downward by $10.3 million. Additionally, the estimate of earnings on investments was revised upward by $7.3 million and estimated revenue from licenses and fees was revised upward by $1.5 million. FY 2007 GRF tax revenues are estimated to have declined 0.9% from FY 2006, reflecting inclusion of part of commercial activity tax revenues in the GRF in FY 2006 but not in FY 2007. Excluding the CAT from both years, estimated GRF revenues in FY 2007 are 0.1% higher than in FY 2006.

In the tables that follow, GRF tax revenues for FY 2008 and FY 2009 are shown on a current statutory basis except that distribution of local government funds is as proposed by the Executive, with the percentages as revised upward by the House and Senate. This plan would distribute money to the local government funds from the GRF, with 5.9% of total GRF revenues designated for these funds beginning in January 2008. Distributions would continue at "freeze" rates in July-November 2007. The specific taxes from which the distributions would be made in 2008 and thereafter is at the discretion of the Director of Budget and Management; in the tables, 3.68% of total GRF revenues is taken from personal income tax revenues, 1.11% from nonauto sales tax revenues, and 1.11% from the GRF portion of kilowatt-hour tax revenues, and assumed to go to the local government funds. Revised LSC forecasts of GRF tax revenues on this basis are below the March forecast by $75.5 million (0.4%) for FY 2008 and $157.4 million (0.8%) for FY 2009. The revisions in the revenue forecast are a result of the downward revision in the underlying economic forecast, reflected in weaker nonauto sales and use tax revenues and weaker personal income tax revenues. Also, cigarette tax revenues now appear likely to be lower than anticipated in March, as a result of the ongoing adjustment in the consumption of taxed cigarettes from higher prices and tighter limits on public smoking. These downward revisions are partially offset by an upward revision to the forecast for corporate franchise tax revenues, reflecting the pattern that has been evident in FY 2006 and in recent months of stronger than anticipated collections. Revisions to projected revenues from other taxes were smaller.

Not shown are other GRF sources of funds, from federal grants, transfers in, and other revenues.

Table 1 presents a comparison of the initial and revised LSC estimates and forecasts. Table 2 presents a comparison of revenue growth rates based on the revised LSC estimates and forecasts. Table 3 shows revenue for the FY 2008-2009 biennium compared with the FY 2006-2007 biennium.

Table 1: Comparison of Revised LSC with Initial LSC
Millions of Dollars
GRF*

	FY 2007 Estimate			FY 2008 Forecast			FY 2009 Forecast		
	LSC Revised	LSC Initial	Change	LSC Revised	LSC Initial	Change	LSC Revised	LSC Initial	Change
TAX REVENUE									
Auto Sales	914.0	904.9	9.1	943.5	931.2	12.3	974.3	960.1	14.2
Nonauto Sales & Use	6,502.0	6,513.1	(11.1)	6,676.4	6,755.8	(79.4)	6,896.0	7,027.7	(131.7)
Total Sales & Use Taxes	7,416.0	7,418.0	(2.0)	7,619.9	7,687.1	(67.1)	7,870.3	7,987.8	(117.5)
Personal Income	8,844.8	8,788.5	56.3	9,110.6	9,127.4	(16.8)	9,173.2	9,212.5	(39.4)
Corporate Franchise	1,052.7	1,018.7	34.0	835.6	805.8	29.8	539.0	512.6	26.4
Public Utility	160.2	170.5	(10.3)	188.4	189.4	(1.0)	190.2	195.7	(5.5)
Kilowatt Hour Excise	328.6	320.5	8.1	222.5	217.9	4.6	129.5	125.5	4.0
Foreign Insurance	255.5	250.0	5.5	264.4	257.4	7.0	277.2	269.1	8.1
Domestic Insurance	169.5	170.0	(0.5)	174.6	175.0	(0.4)	183.0	182.8	0.2
Business & Property	21.0	17.7	3.3	21.2	16.9	4.3	21.4	16.6	4.8
Cigarette	984.5	1,015.0	(30.5)	943.7	996.0	(52.3)	921.5	978.3	(56.8)
Alcoholic Beverage	56.5	57.3	(0.8)	56.8	57.0	(0.2)	57.0	57.0	0.0
Liquor Gallonage	34.3	34.5	(0.2)	35.6	35.8	(0.2)	36.8	37.0	(0.2)
Estate	71.0	55.9	15.1	71.0	54.2	16.8	71.0	52.6	18.4
Total Tax Revenue	19,394.6	19,316.6	78.0	19,544.5	19,620.0	(75.5)	19,470.1	19,627.5	(157.4)
NONTAX STATE-SOURCE REVENUE									
Earnings on Investments	171.3	164.0	7.3	149.9	134.6	15.3	150.7	135.3	15.4
Licenses and Fees	77.8	76.3	1.5	79.6	78.0	1.6	81.8	80.1	1.7

*Revenue estimates and forecasts on a current statutory basis except distributions to local government funds in FYs 2008-2009 assumed as proposed by the Executive with the modification to rates as passed by the House and Senate.

Table 2: Comparison of Estimated and Forecast Growth Rates
Millions of Dollars
GRF*

	----------LSC----------		
	FY 2007	FY 2008	FY 2009
TAX REVENUE			
Auto Sales	-2.4%	3.2%	3.3%
Nonauto Sales & Use	1.1%	2.7%	3.3%
Total Sales & Use Taxes	0.6%	2.8%	3.3%
Personal Income	0.7%	3.0%	0.7%
Corporate Franchise	-0.2%	-20.6%	-35.5%
Public Utility	-9.1%	17.6%	1.0%
Kilowatt Hour Excise	1.0%	-32.3%	-41.8%
Foreign Insurance	2.7%	3.5%	4.8%
Domestic Insurance	-0.5%	3.0%	4.8%
Business & Property	10.0%	1.0%	0.9%
Cigarette	-9.2%	-4.1%	-2.4%
Alcoholic Beverage	-1.8%	0.5%	0.4%
Liquor Gallonage	2.8%	3.8%	3.4%
Estate	31.3%	0.0%	0.0%
Total Tax Revenue	-0.9%	0.8%	-0.4%
NONTAX STATE-SOURCE REVENUE			
Earnings on Investments	59.7%	-12.5%	0.5%
Licenses and Fees	5.3%	2.3%	2.8%

*Revenue estimates and forecasts on a current statutory basis except distributions to local government funds in FYs 2008-2009 assumed as proposed by the Executive with the modification to rates as passed by the House and Senate.

Table 3: Biennium Estimates and Forecasts
Millions of Dollars
GRF*

	----------LSC----------			
	FYs 2006-2007	FYs 2008-2009	Change	% Change
TAX REVENUE				
Auto Sales	1,850.4	1,917.8	67.4	3.6%
Nonauto Sales & Use	12,933.9	13,572.5	638.6	4.9%
Total Sales & Use Taxes	14,784.2	15,490.3	706.0	4.8%
Personal Income	17,631.2	18,283.8	652.6	3.7%
Corporate Franchise	2,107.6	1,374.6	(733.0)	-34.8%
Public Utility	336.4	378.6	42.3	12.6%
Kilowatt Hour Excise	653.9	352.1	(301.8)	-46.2%
Foreign Insurance	504.3	541.6	37.3	7.4%
Domestic Insurance	339.8	357.6	17.8	5.2%
Business & Property	40.1	42.6	2.5	6.3%
Cigarette	2,068.6	1,865.2	(203.4)	-9.8%
Alcoholic Beverage	114.0	113.8	(0.2)	-0.2%
Liquor Gallonage	67.7	72.4	4.7	7.0%
Estate	125.1	142.0	16.9	13.5%
Commercial Activity Tax	185.1	0.0	(185.1)	-100.0%
Total Tax Revenue	38,958.0	39,014.6	56.6	0.1%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	278.6	300.6	22.0	7.9%
Licenses and Fees	151.7	161.4	9.7	6.4%

*Revenue estimates and forecasts on a current statutory basis except distributions to local government funds in FYs 2008-2009 assumed as proposed by the Executive with the modification to rates as passed by the House and Senate.

Revisions to the Forecasts

Sales and Use Tax

Estimated revenues for FY 2007 were revised downward $2.0 million (0.0%) because of lower than anticipated revenues in the current fiscal year through May 2007, when compared to the initial estimate primarily from the poor performance by the nonauto sales and use tax. The forecast for the upcoming biennium was also revised downward $67.1 million (0.9%) in FY 2008 and $117.5 million (1.5%) in FY 2009 due to a reduction of projected revenues from the nonauto sales and use tax. Growth in sales and use tax receipts has been generally meek throughout the current fiscal year, and receipts are expected to grow below trend in the next biennium.

Auto Sales and Use Tax

Estimated revenues for FY 2007 were revised upward $9.1 million (1.0%) because of higher revenues in the current fiscal year through May 2007, compared to the initial estimate. The revised forecast for the upcoming biennium is higher by $12.3 million (1.3%) in FY 2008 and $14.2 million (1.5%) in FY 2009. Current projections for sales of new autos and light trucks in Ohio have increased compared to the projections made at the beginning of the year. The decline in new vehicles registrations in Ohio is expected to bottom out this calendar year.

Nonauto Sales and Use Tax

Estimated revenues for FY 2007 were revised downward by $11.1 million (0.2%) because of lower receipts in the current fiscal year through May 2007, compared to the initial estimate. The forecast for the upcoming biennium was also revised downward $79.4 million (1.2%) in FY 2008 and $131.7 million (1.9%) in FY 2009 due to a deterioration in projected Ohio wage and salary income, employment, and housing starts in the next two years compared to the initial forecast.

Personal Income Tax

Estimated revenue from the personal income tax for FY 2007 was revised upward by $56.3 million (0.6%) over the initial estimate. The revised forecast for FY 2008 is $16.8 million (0.2%) lower than the initial forecast, and the forecast for FY 2009 was revised downwards by $39.4 million (0.4%).

The estimate for FY 2007 was increased to reflect the moderately stronger-than-expected performance of the tax. However, in the second half of FY 2007 weaker growth in employment and wages in Ohio have set in and this declining economic trend is expected to persist for another year. The forecasts for FYs 2008 and 2009 were lowered to reflect this expected trend.

Corporate Franchise Tax

The estimate for FY 2007 was revised upward $34.0 million (3.3%) because of higher than anticipated corporate franchise tax receipts through May in FY 2007. Receipts in FY 2006 were substantially higher than estimates. FY 2007 receipts will also be stronger than projected and may be higher than FY 2006 receipts, despite a reduction in the tax rate. As the result of the phaseout of the franchise tax, some large corporations may have increased their apportionment of taxable income to Ohio because of declining tax rates. This has resulted in outsized corporate franchise tax collections in FY 2006 and FY 2007. This change in corporate behavior is expected to continue in the next biennium. The revised forecast is higher by $29.8 million (3.7%) in FY 2008 and $26.4 million (5.1%) in FY 2009.

Public Utility Excise Tax

GRF revenue from the public utility excise tax for FY 2007 is estimated to be $10.3 million (6.0%) less than was estimated in March. GRF revenue for FY 2008 is forecast to be $1.0 million (0.5%) lower than the March forecast and the forecast for FY 2009 was decreased by $5.5 million (2.8%). The decreases in FY 2008 and FY 2009 are due to the decrease in revenue now estimated for FY 2007. Much of the decrease in FY 2007 is offset, however, due to higher growth in forecasts by Global Insight of natural gas prices and volumes during the remainder of CY 2007 and in 2008.

Kilowatt-Hour Tax

GRF revenue from the kilowatt-hour tax for FY 2007 is estimated to be $8.1 million (2.5%) more than was estimated in March. The forecasts for FY 2008 and FY 2009 were revised upward by $4.6 million and $4.0 million, respectively, compared to the March forecast.

The increases in FY 2008 and FY 2009 are due to the increase in revenue now estimated for FY 2007. The increase attributable to the increase in revenues this year is partially offset, however, due to a reduction in forecast growth in FY 2008. The reduced growth rate better matches historical experience with the tax and may compensate for a significant turnaround in revenue experienced during March and April of this year (relative to the corresponding months in 2006). Revenues from March and April of this year are assumed to be due to one-time weather-related factors in February and March.

Foreign Insurance Tax

GRF revenue from the foreign insurance tax for FY 2007 is estimated to be $5.5 million (2.2%) more than was estimated in March. GRF revenue for FY 2008 is forecast to be $7.0 million (2.7%) greater than the March forecast and revenue for FY 2009 was revised higher by $8.1 million (3.0%). The increases in FY 2008 and

FY 2009 are due to the increase in revenue now estimated for FY 2007. In addition to the fact that revenue growth starts from a higher base than previously estimated, the growth rates were increased for each year due to a re-estimation of the forecast model including the FY 2007 revenue.

Domestic Insurance Tax

GRF revenue from the domestic insurance tax is estimated to be $0.5 million (0.3%) less in FY 2007 than was estimated in March. Forecasted GRF revenue for FY 2008 was revised lower by $0.4 million (0.2%), and the forecast for FY 2009 was increased by $0.2 million (0.1%).

The decrease in FY 2008 is due to the lower revenue now estimated for FY 2007. The increase in revenue forecast for FY 2009 is due to an increase in the assumed growth rate in the tax base, insurance premiums, with the upward revision in the growth rate more than offsetting the reduction in revenues expected for FY 2007 and FY 2008. The revision upward to the growth rate is based on experience with the foreign insurance tax.

Business and Property Tax

Estimated receipts for FY 2007 were revised upward by $3.3 million (18.6%) because of higher than expected receipts from the dealers in intangibles tax through May in FY 2007. Changes to the Ohio mortgage lending law are also expected to increase dealers in intangibles taxes paid by certain qualifying dealers. Those taxes are credited to the GRF, and not subject to revenue sharing with counties as are taxes paid by nonqualifying dealers. The forecasts were revised $4.3 million (25.4%) higher in FY 2008 and $4.8 million (28.9%) higher in FY 2009.

Cigarette and Other Tobacco Products Tax

Estimated revenues for FY 2007 were revised downward by $30.5 million (3.0%) because of lower receipts in the current fiscal year through May 2007, compared to the initial estimate. Receipts from the cigarette and other tobacco tax have been on a steep downward trajectory since January 2007. Increases in cigarette prices by manufacturers, a tax increase in Cuyahoga County, and a smoking ban in public places approved in November 2006 have negatively affected consumption of taxed cigarettes. Adjustments to the consumption of taxed cigarettes are expected to continue in the next biennium. The revised forecast is lower by $52.3 million (5.3%) in FY 2008 and $56.8 million (5.8%) in FY 2009.

Alcoholic Beverage Tax

Estimated revenues for FY 2007 were revised downward by $0.8 million (1.4%) because of lower revenues in the current fiscal year through May 2007, compared to the initial estimate. The revised forecast is lower by $0.2 million (0.4%) in FY 2008, on the basis of lower FY 2007 receipts. However, the forecast for FY 2009 is unchanged. Growth in wine consumption is expected to continue while beer consumption is expected to remain flat.

Liquor Gallonage Tax

Estimated revenues for FY 2007 were revised downward by $0.2 million (0.6%) due to lower receipts in the current fiscal year through May 2007, compared to the initial estimate. Projections of consumption of spirituous liquor in FY 2008 and FY 2009 were also lowered, therefore the revenue forecast was decreased $0.2 million each in FY 2008 and in FY 2009 compared to the forecast presented in March.

Estate Tax

Forecasted estate tax revenue was revised upward by $16.8 million for FY 2008 and $18.4 million for FY 2009. The forecast was revised due to higher actual year-to-date revenue collections for FY 2007 compared to the initial estimate. FY 2007 year-to-date estate tax revenue collections are approximately 45% above OBM's estimate made at the start of this fiscal year. It is projected that estate tax receipts in FY 2008 and FY 2009 will be similar to FY 2007 as activity in the housing sector continues to slow, interest rates remain steady, and the strong stock market performance continues.

Earnings on Investments

The forecasts of earnings on investments were revised upward by $15.3 million for FY 2008 and $15.4 million for FY 2009, due to healthy gains in FY 2007. The upward trend in earnings on investments is expected to continue in FY 2008 and FY 2009.

Through May 2007, year-to-date earnings on investments for FY 2007 are $130.7 million, which is $31.3 million (31.4%) above OBM's initial estimate. Higher interest rates and a higher balance in state funds have contributed to the higher earnings on investments.

Licenses and Fees

The forecasts of revenue from licenses and fees were revised upward by $1.6 million in FY 2008 and $1.7 million in FY 2009, or 2% in each fiscal year. The revisions were made due to higher than estimated year-to-date receipts in FY 2007. Receipts in FY 2008 and FY 2009 are expected to continue to grow modestly.

Public Assistance Expenditure Forecasts

Health Care/Medicaid

The revised forecast is $9.4 billion in FY 2008, and $10.0 billion in FY 2009 (including offsets).

The revised forecast is $13.5 million (state share) lower in FY 2008 and $4.4 million (state share) lower in FY 2009.

The changes to the updated forecast generally reflect the additional experience for FY 2007 that has taken place since March. The most significant change attributable to that experience is in the updated caseloads for ABDs. LSC staff now estimate that the average monthly ABD caseload this fiscal year will be approximately 1,941, or 0.5%, less than was estimated in March. This led to corresponding decreases in the average monthly ABD caseload forecast for FY 2008 by 3,183 (0.7%) and for FY 2009 by 2,252 (0.5%).

A similar (but secondary) reason for the changes is that the updated estimate of the average monthly CFC caseload in the current fiscal year is 7,347 (or 0.6%), less than was estimated in March. Despite this, a more complete analysis of the role played by a federal policy change[1] led to a revision upward in the forecast of the CFC caseload in FY 2008, by 3,192 (or 0.2%). The increase was due almost entirely to a reconsideration of the timing of an expected reversal of the effects of the policy change on caseload—the reversal is now forecast to begin in the first quarter of FY 2008 rather than the second quarter. That reversal of the effects is expected to be temporary (as it was in our March forecast), so that the FY 2007 experience with caseload again becomes the lead factor underlying changes in the forecast caseload. The CFC average monthly caseload is forecast to be 7,188 (or 0.6%) less in FY 2009 than was forecast in March.

A final change worth noting affects the allocation of Medicaid costs across categories of service as well as the bottom line. LSC's baseline forecast uses the managed care penetration rates anticipated by ODJFS. The "penetration rate" is the percentage of the total Medicaid population enrolled in managed care. ODJFS has revised these rates downward for the CFC caseload from its earlier 89.7% at peak to 85.6%, and for the ABD caseload from its earlier 28.4% to 28.1%. This is expected to

[1] Starting in September 2006, the federal government imposed a policy requiring individuals applying or reapplying for Medicaid to prove citizenship. Officials at ODJFS and OBM indicated to LSC staff in March that this is the primary reason for the decline in caseload that has occurred since September. The time elapsed since this information was reported has enabled LSC staff to conduct a more complete analysis of the effects of the policy change on our caseload forecast.

increase costs slightly, but also explains why costs for managed care are revised downward each year while costs for several other categories of service are revised upward. This reflects that the shift toward managed care is now expected to proceed a little more slowly, so that savings in other categories of service will be less than was previously expected.

Temporary Assistance for Needy Families

The initial forecast was $314.8 million in FY 2007, $308.5 million in FY 2008, and $301.2 million in FY 2009. The initial cash assistance estimates were based on a forecast of average monthly caseload of 79,479 assistance groups in FY 2007, 77,884 in FY 2008, and 76,053 in FY 2009.

Under the revised forecast, LSC expects the total number of TANF cases (or assistance groups) to decrease in FY 2008 to an average of 77,350 monthly cases from a FY 2007 average of 78,802. If current benefit levels remain the same, the decline in the total number of TANF cases will result in approximately $5.6 million less being spent on TANF cash benefits in FY 2008 ($299.6 million) than in FY 2007 ($305.2 million). 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 75,217. That estimate brings total spending for cash benefits, assuming current eligibility and benefit levels, to $291.3 million for FY 2009.

The revised forecast is $9.5 million lower in FY 2007, $8.8 million lower in FY 2008, and $9.9 million lower in FY 2009. LSC forecasts an average of 678 fewer cases per month in FY 2007, 534 fewer cases per month in FY 2008, and 836 fewer cases per month in FY 2009 compared with the initial forecast.

The forecast was revised in light of actual caseload data for the months of February through May, which showed a larger decline in the OWF cash assistance caseload than that initially forecast. The number of assistance groups receiving cash assistance during the months of February through May was 1,212 less per month, on average, than our original forecast, or about 1.5% less. Inclusion of this additional data in the statistical model, together with an updated forecast of the number of unemployed Ohioans from Global Insight,[2] account for the drop in the number of assistance groups forecast for the biennium.

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[2] The current forecast uses the number of unemployed Ohioans projected by Global Insight in its spring 2007 forecast, while the previous LSC forecast used numbers from Global Insight's winter forecast.

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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.

The budget bill provides for a cost of living adjustment (COLA) for cash benefits beginning January 1, 2009. The increase is to be the same as the COLA the federal government applies to Social Security benefits. Increasing the cash benefit is estimated to cost approximately $4.3 million for the last six months of FY 2009. This estimate was based on the assumption that the COLA will be 3%. Since the bill requires an increase in the benefit every year thereafter, it will have the effect of increasing costs for OWF in years beyond FY 2009.

If spending for cash benefits in FY 2008 is $299.6 million as forecast, and $295.7 million in FY 2009 (this includes the COLA), based on the appropriation levels in the bill for line items that support cash payments, there will be approximately $1,037.4 million in FY 2008 and $1,089.5 million in FY 2009 that can be used for other TANF-eligible services and program expenditures.

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