TESTIMONY AND FORECAST OF

GRF REVENUES AND PUBLIC ASSISTANCE SPENDING

FOR THE FY 2006 - FY 2007 BIENNIAL BUDGET

TESTIMONY BY LSC FISCAL STAFF
JUNE 9, 2005

LEGISLATIVE SERVICE COMMISSION TESTIMONY

TABLE OF CONTENTS

Ohio Legislative Service Commission

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

Testimony before the Conference Committee on H.B. 66

June 9, 2005

Testimony of LSC Staff by
Steve Mansfield, Chief of Fiscal Analysis
With assistance from other LSC Tax and Human Services Fiscal Staff

---

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

Revenues

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

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

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

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

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

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

Medicaid

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

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

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

TANF

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

TANF/OWF - LSC Baseline Estimates
(assumes current benefit levels)

	FY 2005	FY 2006	FY 2007
Average monthly cases	86,423	83,854	81,852
Total cash benefits (millions)	$312.5	$302.1	$294.9

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

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

Economic Outlook

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

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

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

Global Insight January 2005 and June 2005 Forecasts

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

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

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

Economic Forecast

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

Global Insight's current forecast for real GDP growth in CY 2005 is unchanged at 3.5%. For CY 2006, that organization's forecast for real GDP growth was revised downward from 3.1% to 3.0%. For CY 2007, Global Insight's real GDP growth forecast was revised from 3.2% to 3.1%. This forecast is similar to the May forecast of the Governor's Council of Economic Advisors. Additional detail on these forecasts, along with a prediction for real GDP from the forecasting firm Economy.com, are shown in Table 1:

Table 1
United States Real Gross Domestic Product Growth

	2005				2006				2007			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------percent change at annual rate---------------------											
House and Senate Testimony												
Global Insight	3.6	3.7	3.3	2.5	2.9	3.6	3.3	3.1	3.0	3.5	3.1	3.3
Global Insight	3.5				3.1				3.2			
6/3/2005												
Global Insight	3.5	3.1	3.8	3.0	2.9	2.9	2.6	3.0	2.9	3.6	3.2	3.6
Global Insight	3.5				3.0				3.1			
Change	-0.1	-0.6	0.5	0.5	0.0	-0.7	-0.7	-0.1	-0.1	0.1	0.1	0.3
Change	0.0				-0.1				-0.1			
Approximately 5/17/2005												
Economy.com	3.1	3.1	3.7	3.6	3.5	3.4	3.0	3.0	2.9	2.7	2.9	3.2
Economy.com	3.5				3.4				3.0			

Global Insight has raised its forecast for consumer price inflation this year from 2.0% to 2.9%. They continue to expect inflation to moderate, forecasting a 2.0% rise in the consumer price index in CY 2006, higher than the 1.6% previously forecast. For CY 2007, Global Insight has slightly lowered its forecast for consumer price inflation from a 2.0% increase to a 1.8% rise. The Governor's Council of Economic Advisors has also raised its expectation for inflation in their May forecast. Additional detail and Economy.com's forecast for consumer prices are shown in Table 2:

Global Insight	1.6	0.7	1.0	2.1	1.4	1.6	1.8	2.1	2.0	2.0	2.0	2.2
Global Insight	2.0				1.6				2.0			
6/3/2005												
Global Insight	2.4	4.4	1.2	2.2	1.8	2.1	1.2	1.8	1.9	1.9	2.0	2.2
Global Insight	2.9				2.0				1.8			
Change	0.8	3.7	0.2	0.1	0.4	0.5	-0.6	-0.3	-0.1	-0.1	0.0	0.0
Change	0.9				0.4				-0.2			
Approximately 5/17/2005												
Economy.com	2.4	2.6	2.1	2.0	2.7	2.6	2.9	2.8	2.8	2.6	2.5	2.4
Economy.com	2.6				2.5				2.7			

Expectations for personal income growth were revised higher in most periods, perhaps reflecting in part the upward revisions to forecasts for inflation, as well as an upward revision to income growth in the fourth quarter of 2004. Increases in personal income were expected to be stronger for the nation than for Ohio by the three groups of forecasters, as indicated in Table 3 and Table 4.

Table 3
United States Personal Income Growth

	2005				2006				2007			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	--------------------percent change at annual rate--------------------											
House and Senate Testimony												
Global Insight	1.3	5.1	5.3	4.8	5.6	5.4	5.5	5.0	5.5	5.7	5.6	5.6
Global Insight		5.0				5.3				5.5		
6/3/2005												
Global Insight	3.2	6.4	5.4	5.1	6.8	5.6	5.3	4.7	5.1	5.5	5.7	5.8
Global Insight		6.5				5.7				5.3		
Change	1.9	1.3	0.1	0.3	1.2	0.2	-0.2	-0.3	-0.4	-0.2	0.1	0.2
Change		1.5				0.4				-0.2		
Approximately 5/17/2005												
Economy.com	2.4	8.8	5.8	5.2	5.3	5.0	4.9	4.4	4.7	4.6	4.2	4.7
Economy.com		6.3				5.4				4.6		

Table 4
Ohio Personal Income Growth

	2005				2006				2007			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	--------------------percent change at annual rate--------------------											
House and Senate Testimony												
Global Insight	2.0	4.9	5.0	4.7	4.8	4.9	4.7	4.8	4.9	5.1	5.1	5.1
Global Insight		4.4				4.8				4.9		
4/28/2005												
Global Insight	1.6	5.3	4.9	5.0	5.6	5.3	5.0	4.4	4.5	4.8	4.7	4.7
Global Insight		4.8				5.2				4.7		
Change	-0.4	0.3	-0.1	0.3	0.9	0.3	0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Change		0.4				0.4				-0.2		
5/13/2005												
Global Insight	2.2	4.2	5.0	4.6	5.5	4.9	4.8					
Change	0.2	-0.7	0.0	-0.1	0.7	0.0	0.1					
Approximately 5/17/2005												
Economy.com	0.0	7.1	4.8	4.2	4.3	4.0	4.1	3.6	3.9	3.9	3.5	3.9
Economy.com		4.7				4.4				3.8		

Revisions to expectations for the unemployment rate—the number of persons unemployed as a percent of the labor force—were generally small. The unemployment rate for the nation was expected to remain higher than that for Ohio through 2007.

Table 5
United States Unemployment Rate

Forecast	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
	percent of the labor force											
House and Senate Testimony												
Global Insight	5.3	5.2	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Global Insight	5.2				5.2				5.2			
6/3/2005												
Global Insight	5.3	5.2	5.1	5.1	5.1	5.1	5.1	5.2	5.2	5.2	5.2	5.1
Global Insight	5.2				5.1				5.2			
Change	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1
Change	0.0				-0.1				0.0			

Table 6
Ohio Unemployment Rate

Forecast	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
	percent of the labor force											
House and Senate Testimony												
Global Insight	6.4	6.3	6.2	6.2	6.1	6.0	6.0	6.0	6.0	6.0	6.1	6.1
Global Insight	6.3				6.0				6.0			
4/28/2005												
Global Insight	6.4	6.2	6.1	6.1	6.1	6.1	6.1	6.2	6.2	6.2	6.2	6.2
Global Insight	6.2				6.1				6.2			
Change	0.0	-0.1	-0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Change	-0.1				0.1				0.1			
5/13/2005												
Global Insight	6.2	6.1	6.1	6.0	6.0	6.0	6.1					
Change	-0.2	-0.2	-0.1	-0.2	-0.1	0.0	0.1					

Revenue Forecasts

Fiscal year 2005 baseline GRF tax revenues are projected to be $540.8 million (2.9%) greater than the February LSC estimates. Estimated revenue from the personal income tax was revised upward by $436.0 million and revenue from the corporate franchise tax was revised upward by $131.8 million. Revenue from the nonauto sales tax was revised upward by $11.5 million and revenue from the auto sales tax was revised downward by $35.3 million. Additionally, the estimate of earnings on investments was revised upward by $10.6 million and estimated revenue from licenses and fees was revised upward by $12.1 million. Estimated FY 2005 tax revenue growth is 7.0% in the revised estimates compared to 4.0% in the initial estimates.

The revised LSC forecasts of baseline GRF tax revenues are above the February forecasts by $369.7 million (2.1%) for FY 2006 and $319.2 million (1.7%) for FY 2007. The revisions in the revenue forecasts reflect both the FY 2005 revenue collections since February and revisions in the underlying economic forecast. The higher than initially estimated growth for FY 2005 creates a higher base from which FY 2006 and FY 2007 revenues can grow. Although both economic growth and revenue growth are projected to be slower than was thought in February, the slower growth from a higher base yields higher revenue.

The LSC forecasts of baseline GRF tax revenues are below the revised OBM forecasts by $94.9 million (0.5%) in FY 2006 and $245.6 million (1.3%) in FY 2007. The major differences are in three of the "major" taxes. The OBM forecasts of revenue from the personal income tax are $138.4 million higher in FY 2006 and $141.5 million higher in FY 2007 and the OBM forecasts of corporate franchise tax revenue are $66.9 million higher in FY 2006 and $152.3 million higher in FY 2007. LSC forecasts of sales tax revenue are $93.9 million higher in FY 2006 and $23.4 million higher in FY 2007.

Table 1 presents a comparison of the LSC revised estimates and forecasts of baseline GRF revenue with the revised OBM estimates and forecasts. Table 2 is a comparison of the initial and revised LSC estimates and forecasts. Table 3 presents a comparison of revenue growth rates based on the revised LSC and OBM estimates and forecasts.

Table 1: Comparison of Revised OBM with Revised LSC

	FY 2005 Estimate			FY 2006 Forecast			FY 2007 Forecast		
	OBM Revised	LSC Revised	OBM - LSC	OBM Revised	LSC Revised	OBM - LSC	OBM Revised	LSC Revised	OBM - LSC
TAX REVENUE									
Auto Sales	$1,055.5	$1,060.0	-$4.5	$871.0	$900.0	-$29.0	$880.0	$898.2	-$18.2
Nonauto Sales & Use	$6,750.0	$6,761.5	-$11.5	$5,865.0	$5,929.9	-$64.9	$6,150.0	$6,155.2	-$5.2
Total Sales & Use Taxes	$7,805.5	$7,821.5	-$16.0	$6,736.0	$6,829.9	-$93.9	$7,030.0	$7,053.4	-$23.4
Personal Income	$8,600.0	$8,555.1	$44.9	$8,790.0	$8,651.6	$138.4	$9,210.0	$9,068.5	$141.5
Corporate Franchise	$1,054.0	$1,020.0	$34.0	$1,115.9	$1,049.0	$66.9	$1,228.6	$1,076.3	$152.3
Public Utility	$104.0	$104.0	$0.0	$150.0	$156.0	-$6.0	$150.0	$154.0	-$4.0
Kilowatt-Hour Excise	$337.0	$340.0	-$3.0	$325.0	$331.0	-$6.0	$329.2	$336.0	-$6.8
Total Major Taxes	**$17,900.5**	**$17,840.6**	**$59.9**	**$17,116.9**	**$17,017.5**	**$99.4**	**$17,947.8**	**$17,688.2**	**$259.6**
Foreign Insurance	$239.0	$239.0	$0.0	$245.0	$242.0	$3.0	$252.3	$254.0	-$1.7
Domestic Insurance	$170.0	$172.0	-$2.0	$174.3	$175.0	-$0.7	$179.5	$183.0	-$3.5
Business & Property (DIT)	$26.4	$30.0	-$3.6	$26.4	$30.1	-$3.7	$27.0	$30.4	-$3.4
Cigarette	$551.0	$551.0	$0.0	$540.0	$543.0	-$3.0	$529.2	$536.5	-$7.3
Alcoholic Beverage	$57.0	$57.0	$0.0	$57.5	$57.5	$0.0	$58.0	$57.8	$0.2
Liquor Gallonage	$32.0	$32.0	$0.0	$32.6	$32.5	$0.1	$33.3	$33.0	$0.3
Estate	$62.0	$63.1	-$1.1	$64.2	$64.4	-$0.2	$66.4	$65.0	$1.4
Total Other Taxes	**$1,137.4**	**$1,144.1**	**-$6.7**	**$1,140.0**	**$1,144.5**	**-$4.5**	**$1,145.7**	**$1,159.7**	**-$14.0**
Total Tax Revenue	**$19,037.9**	**$18,984.7**	**$53.2**	**$18,256.9**	**$18,162.0**	**$94.9**	**$19,093.5**	**$18,847.9**	**$245.6**
NONTAX STATE-SOURCE REVENUE									
Earnings on Investments	$30.0	$29.5	$0.5	$40.0	$43.2	-$3.2	$55.0	$46.3	$8.7
Licenses and Fees	$69.4	$72.1	-$2.7	$57.7	$62.6	-$4.9	$57.7	$64.6	-$6.9
Other Revenue	$152.1	$157.0	-$4.9	$136.7	$149.0	-$12.3	$136.6	$149.0	-$12.4
Nontax State-Source Revenue	**$251.5**	**$258.6**	**-$7.1**	**$234.4**	**$254.8**	**-$20.4**	**$249.3**	**$259.9**	**-$10.6**
TRANSFERS									
Liquor Transfers	$112.0	$117.0	-$5.0	$107.0	$113.0	-$6.0	$101.0	$110.0	-$9.0
Budget Stabilization	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other Transfers In	$433.1	$436.4	-$3.3	$101.3	$111.3	-$10.0	$88.0	$98.0	-$10.0
Total Transfers In	**$545.1**	**$553.4**	**-$8.3**	**$208.3**	**$224.3**	**-$16.0**	**$189.0**	**$208.0**	**-$19.0**
TOTAL GRF before Federal Grants	**$19,834.5**	**$19,796.7**	**$37.8**	**$18,699.6**	**$18,641.1**	**$58.5**	**$19,531.8**	**$19,315.8**	**$216.0**

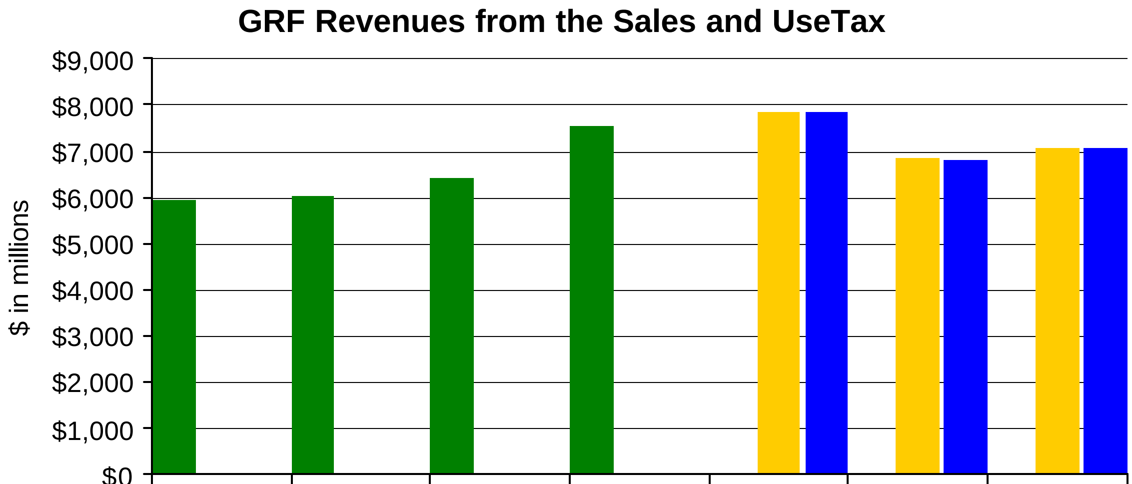
Table 2: Comparison of Revised LSC with Initial LSC

	FY 2005 Estimate			FY 2006 Forecast			FY 2007 Forecast		
	LSC Revised	LSC Initial	Change	LSC Revised	LSC Initial	Change	LSC Revised	LSC Initial	Change
TAX REVENUE									
Auto Sales	$1,060.0	$1,095.3	-$35.3	$900.0	$940.0	-$40.0	$898.2	$938.1	-$39.9
Nonauto Sales & Use	$6,761.5	$6,750.0	$11.5	$5,929.9	$5,920.0	$9.9	$6,155.2	$6,147.9	$7.3
Total Sales & Use Taxes	$7,821.5	$7,845.3	-$23.8	$6,829.9	$6,860.0	-$30.1	$7,053.4	$7,086.0	-$32.6
Personal Income	$8,555.1	$8,119.1	$436.0	$8,651.6	$8,379.5	$272.1	$9,068.5	$8,842.8	$225.7
Corporate Franchise	$1,020.0	$888.2	$131.8	$1,049.0	$933.5	$115.5	$1,076.3	$958.0	$118.3
Public Utility	$104.0	$123.0	-$19.0	$156.0	$160.0	-$4.0	$154.0	$158.0	-$4.0
Kilowatt-Hour Excise	$340.0	$342.0	-$2.0	$331.0	$334.0	-$3.0	$336.0	$341.0	-$5.0
Total Major Taxes	**$17,840.6**	**$17,317.6**	**$523.0**	**$17,017.5**	**$16,667.0**	**$350.5**	**$17,688.2**	**$17,385.8**	**$302.4**
Foreign Insurance	$239.0	$232.1	$6.9	$242.0	$233.8	$8.2	$254.0	$245.5	$8.5
Domestic Insurance	$172.0	$168.4	$3.6	$175.0	$170.9	$4.1	$183.0	$179.0	$4.0
Business & Property (DIT)	$30.0	$30.0	$0.0	$30.1	$30.1	$0.0	$30.4	$30.4	$0.0
Cigarette	$551.0	$551.0	$0.0	$543.0	$543.0	$0.0	$536.5	$536.5	$0.0
Alcoholic Beverage	$57.0	$57.0	$0.0	$57.5	$57.5	$0.0	$57.8	$57.8	$0.0
Liquor Gallonage	$32.0	$31.7	$0.3	$32.5	$32.1	$0.4	$33.0	$32.6	$0.4
Estate	$63.1	$56.1	$7.0	$64.4	$57.9	$6.5	$65.0	$61.1	$3.9
Total Other Taxes	**$1,144.1**	**$1,126.3**	**$17.8**	**$1,144.5**	**$1,125.3**	**$19.2**	**$1,159.7**	**$1,142.9**	**$16.8**
Total Tax Revenue	**$18,984.7**	**$18,443.9**	**$540.8**	**$18,162.0**	**$17,792.3**	**$369.7**	**$18,847.9**	**$18,528.7**	**$319.2**
NONTAX STATE-SOURCE REVENUE									
Earnings on Investments	$29.5	$18.9	$10.6	$43.2	$21.6	$21.6	$46.3	$23.8	$22.5
Licenses and Fees	$72.1	$60.0	$12.1	$62.6	$61.9	$0.7	$64.6	$64.0	$0.6
Other Revenue	$157.0	$157.0	$0.0	$149.0	$149.0	$0.0	$149.0	$149.0	$0.0
Nontax State-Source Revenue	**$258.6**	**$235.9**	**$22.7**	**$254.8**	**$232.5**	**$22.3**	**$259.9**	**$236.8**	**$23.1**
TRANSFERS									
Liquor Transfers	$117.0	$117.0	$0.0	$113.0	$113.0	$0.0	$110.0	$110.0	$0.0
Budget Stabilization	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other Transfers In	$436.4	$436.4	$0.0	$111.3	$111.3	$0.0	$98.0	$98.0	$0.0
Total Transfers In	**$553.4**	**$553.4**	**$0.0**	**$224.3**	**$224.3**	**$0.0**	**$208.0**	**$208.0**	**$0.0**
TOTAL GRF before Federal Grants	**$19,796.7**	**$19,233.2**	**$563.5**	**$18,641.1**	**$18,249.1**	**$392.0**	**$19,315.8**	**$18,973.5**	**$342.3**

Table 3: Comparison of Estimated and Forecasted Growth Rates

	LSC			OBM		
	FY 2005	FY 2006	FY 2007	FY 2005	FY 2006	FY 2007
TAX REVENUE						
Auto Sales	-5.6%	-15.1%	-0.2%	-6.0%	-17.5%	1.0%
Nonauto Sales & Use	5.5%	-12.3%	3.8%	5.3%	-13.1%	4.9%
Total Sales & Use Taxes	3.9%	-12.7%	3.3%	3.7%	-13.7%	4.4%
Personal Income	11.1%	1.1%	4.8%	11.7%	2.2%	4.8%
Corporate Franchise	26.1%	2.8%	2.6%	30.3%	5.9%	10.1%
Public Utility	-54.1%	50.0%	-1.3%	-54.1%	44.2%	0.0%
Kilowatt-Hour Excise	0.3%	-2.6%	1.5%	-0.6%	-3.6%	1.3%
Total Major Taxes	**7.5%**	**-4.6%**	**3.9%**	**7.8%**	**-4.4%**	**4.9%**
Foreign Insurance	3.7%	1.3%	5.0%	3.7%	2.5%	3.0%
Domestic Insurance	3.7%	1.7%	4.6%	2.5%	2.5%	3.0%
Business & Property (DIT)	0.4%	0.3%	1.0%	-11.7%	0.0%	2.3%
Cigarette	-1.2%	-1.5%	-1.2%	-1.2%	-2.0%	-2.0%
Alcoholic Beverage	1.0%	0.9%	0.5%	1.0%	0.9%	0.9%
Liquor Gallonage	3.7%	1.6%	1.5%	3.7%	1.9%	2.1%
Estate	-1.8%	2.1%	0.9%	-3.5%	3.5%	3.4%
Total Other Taxes	**0.8%**	**0.0%**	**1.3%**	**0.2%**	**0.2%**	**0.5%**
Total Tax Revenue	**7.0%**	**-4.3%**	**3.8%**	**7.3%**	**-4.1%**	**4.6%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	64.2%	46.4%	7.2%	67.0%	33.3%	37.5%
Licenses and Fees	43.8%	-13.2%	3.2%	38.4%	-16.9%	0.0%
Other Revenue	-16.5%	-5.1%	0.0%	-19.1%	-10.1%	-0.1%
Nontax State-Source Revenue	**1.0%**	**-1.5%**	**2.0%**	**-1.8%**	**-6.8%**	**6.4%**
TRANSFERS						
Liquor Transfers	-0.8%	-3.4%	-2.7%	-5.1%	-4.5%	-5.6%
Budget Stabilization	na	na	na	na	na	na
Other Transfers In	8.3%	-74.5%	-11.9%	7.5%	-76.6%	-13.1%
Total Transfers In	**6.2%**	**-59.5%**	**-7.3%**	**4.7%**	**-61.8%**	**-9.3%**
TOTAL GRF before Federal Grants	**6.9%**	**-5.8%**	**3.6%**	**7.1%**	**-5.7%**	**4.5%**

Sales and Use Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$5,935.6	$6,037.9	$6,397.9	$7,530.6			
Initial					$7,845.3	$6,860.0	$7,086.0
Revised					$7,821.5	$6,829.9	$7,053.4

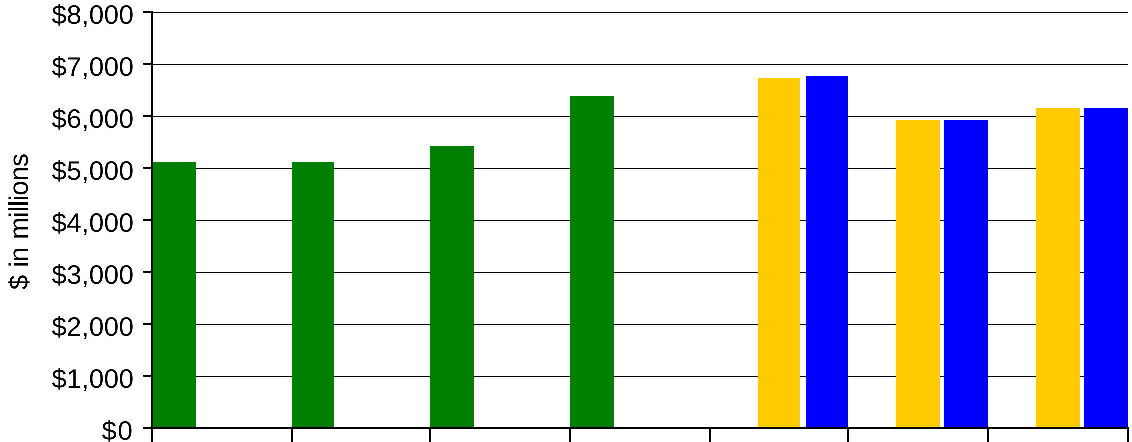
The initial baseline forecast for FY 2005 was $7,845.3 million in FY 2005, $6,860.0 million in FY 2006, and $7,086.0 million in FY 2007. Projected revenues for FY 2005 were revised downward because of lower-than-anticipated revenues in the current fiscal year through May 2005, when compared to the initial forecast primarily from the poor performance by the auto sales tax. The baseline forecast for FY 2006 and FY 2007 was also revised downward due to a reduction on projected revenue from the auto sales tax in the next two years. The revised forecast estimates GRF revenues of $6,829.9 million in FY 2006 and $7,053.4 million in FY 2007.

The proposed budget increases the sales and use tax rate to 5.5% permanently. Under current law, the sales and use tax rate would return to 5% on July 1, 2005. The rate increase to 5.5% would increase sales and use tax revenues by $715.6 million in FY 2006 and $739.2 million in FY 2007.

H.B. 66, As Passed by the Senate, increases the vendor discount to 0.9% for a vendor promptly filing sales and use tax returns. Under current law, the vendor discount was to return to 0.75% beginning July 1, 2005. This provision would reduce sales and use tax revenues by about $16.4 million in FY 2006 and $17.2 million in FY 2007.

Nonauto Sales Tax

GRF Revenues from the Nonauto Sales and Use Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$5,124.1	$5,110.4	$5,431.7	$6,407.7			
Initial					$6,750.0	$5,920.0	$6,147.9
Revised					$6,761.5	$5,929.9	$6,155.2

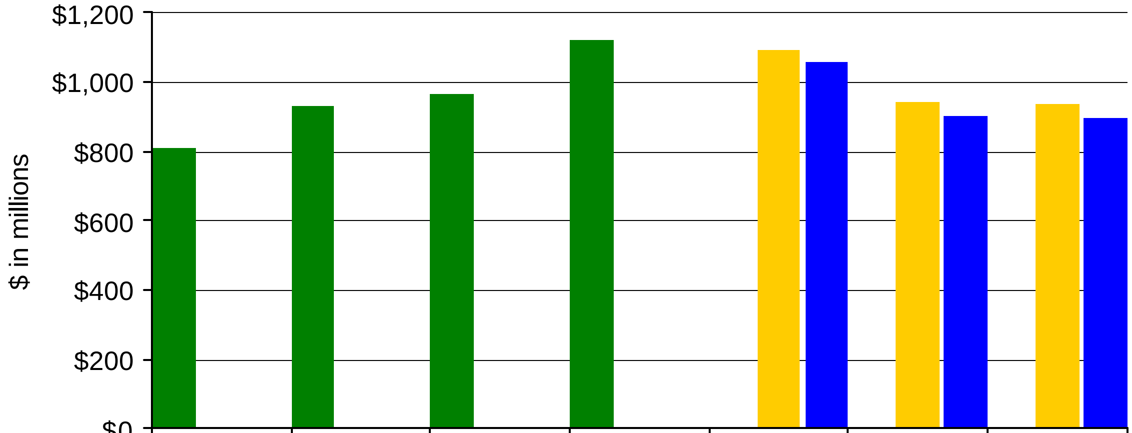
The initial baseline forecast estimated GRF revenues of $6,750.0 million in FY 2005, $5,920.0 million in FY 2006, and $6,147.9 million in FY 2007. Projected revenues for FY 2005 were revised upward because of higher revenues in the current fiscal year through May 2005, compared to the initial baseline forecast.

The baseline forecast was also revised upward to $5,929.9 million in FY 2006 and $6,155.2 million in FY 2007 due to a slight improvement in projected Ohio personal income and employment in the next two years compared to the initial forecast.

The proposed budget increases the sales and use tax rate to 5.5% permanently. Under current law, the sales tax rate would return to 5% on July 1, 2005. The rate increase to 5.5% would increase GRF revenues from the nonauto sales and use tax by $625.7 million in FY 2006 and $649.4 million in FY 2007.

Auto Sales and Use Tax

GRF Revenues from the Auto Sales and Use Tax



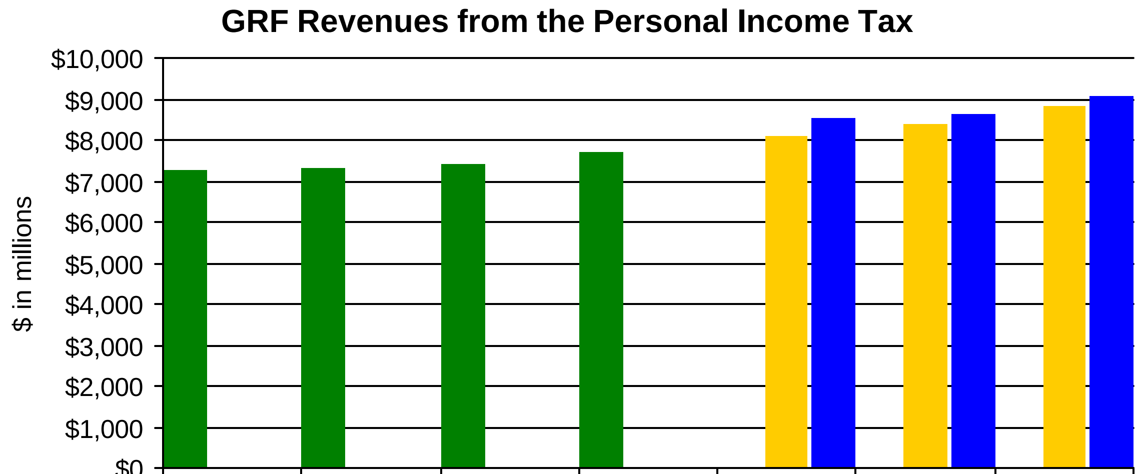
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$811.5	$927.5	$966.2	$1,122.9			
Initial					$1,095.3	$940.0	$938.1
Revised					$1,060.0	$900.0	$898.2

Estimated GRF revenues for FY 2005 were revised to $1,060.0 million, down from $1,095.3 million in the initial baseline forecast. The initial baseline forecast estimated GRF revenues of $940 million and $938.1 million in FY 2006 and FY 2007, respectively. The revised baseline forecast is lower. GRF revenues from the auto sales tax are estimated at $900.0 million in FY 2006 and $898.2 million in FY 2007.

Current projections for sales of new autos and light trucks in Ohio in the next two years have decreased compared to the projections at the beginning of the year. Also, due to the rise in interest rates that has increased the cost of financing auto purchases and certain types of manufacturers' incentives, the outlook for vehicle leasing has improved compared to the initial forecast. Revenues from auto leases are distributed to the nonauto sales and use tax, which decreases revenues from the auto sales tax. These two factors lead to the downward revisions to estimated revenues from the auto sales tax during the biennium.

The proposed budget increases the sales and use tax rate to 5.5% permanently. Under current law, the sales and use tax rate is to return to 5% on July 1, 2005. The increase in the sales and use tax rate would increase revenues from the auto sales tax by $90.0 million in FY 2006 and $89.8 million in FY 2007.

Personal Income Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$7,263.4	$7,304.1	$7,420.7	$7,696.9			
Initial					$8,119.1	$8,379.5	$8,842.8
Revised					$8,555.1	$8,651.6	$9,068.5

The initial FY 2005 forecast for GRF revenue from the personal income tax was $8,119.1 million, a 5.5% increase over FY 2004 revenues. For FY 2006, GRF revenue was projected to be $8,379.5 million, a 3.2% increase over the projected revenue for FY 2005, and for FY 2007, GRF revenue was projected to be $8,842.8 million, a 5.5% increase over the projected revenue for FY 2006.

In the revised forecast, GRF revenue from the personal income tax for FY 2005 is estimated to be $8,555.1 million, a 5.4% increase over the initial estimate, and 11.2% greater than FY 2004 GRF revenue. GRF revenue for FY 2006 is projected to be $8,651.6 million, a 3.2% increase over the initial forecast, and an increase of 1.2% over FY 2005.[1] GRF revenue for FY 2007 is projected to be $9,068.5 million, a 2.6% increase over the initial forecast, and an increase of 4.8% over FY 2006.

The forecast was changed to reflect stronger than expected performance in FY 2005, and increased estimates for future wage and income growth. In FY 2005, receipts from the personal income tax have been much higher than projected, which is mainly due to quarterly estimated payments and tax dues being well above estimate for the year.

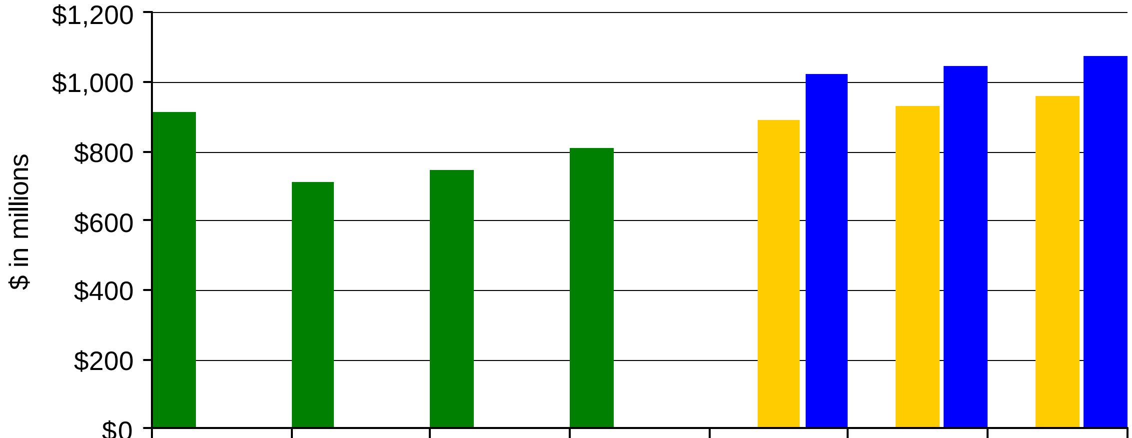
The proposed budget affects the personal income tax by reducing total revenue by an estimated $325.6 million in FY 2006 and $656.3 million in FY 2007. The reductions in

[1] Total revenue will increase an estimated 3.1% in FY 2006, but because of the end of the Local Government Fund freeze, the GRF will receive less revenue than it would if the freeze was still in effect.

revenue result from the 21% reduction, over five years, in the personal income tax rates and the tax credit for taxpayers earning under $10,000 per year. Additions to personal income tax revenue include: renewing the trust tax, eliminating the deduction for college tuition, and delaying the indexing of the tax brackets until 2010.

Corporate Franchise Tax

GRF Revenues from the Corporate Franchise Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$915.3	$712.3	$747.2	$809.2			
Initial					$888.2	$933.5	$958.0
Revised					$1,020.0	$1,049.0	$1,076.3

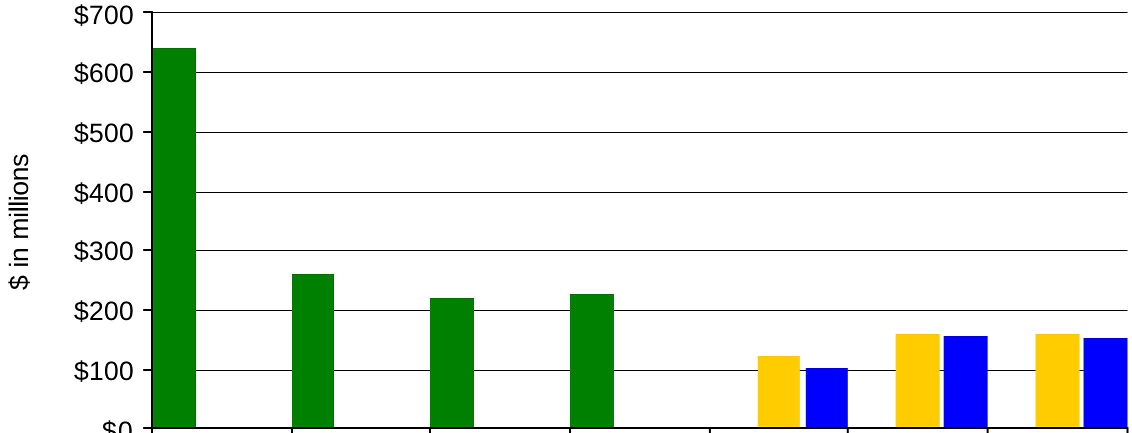
The initial baseline forecast was for GRF revenues of $888.2 million in FY 2005, but the forecast was revised upward to $1,020.0 million because of an unanticipated receipt of a large settlement by a taxpayer, and higher than anticipated corporate franchise tax receipts. The initial baseline forecast for FY 2006 and FY 2007 was $933.5 million and $958.0 million, respectively. These estimates were revised upward to $1,049.0 million and $1,076.3 million in FY 2006 and FY 2007, respectively.

The unanticipated large payment during FY 2005 will probably not be repeated the following fiscal year, which reduces the CFT revenue growth rate for FY 2006 to 2.8% instead of 5.1% in the February forecast. CFT revenue growth rate remains at 2.6% for FY 2007 as it was in the initial forecast in February.

The proposed budget phases-out the corporate franchise tax for nonfinancial corporations over five years. Nonfinancial corporations would be required to pay 80% and 60% of the CFT liability in FY 2006 and FY 2007, respectively. Thus, the proposed budget reduces projected revenues by $176.2 million in FY 2006 and $361.6 million in FY 2007.

Public Utility Excise Tax

GRF Revenues from the Public Utility Excise Tax



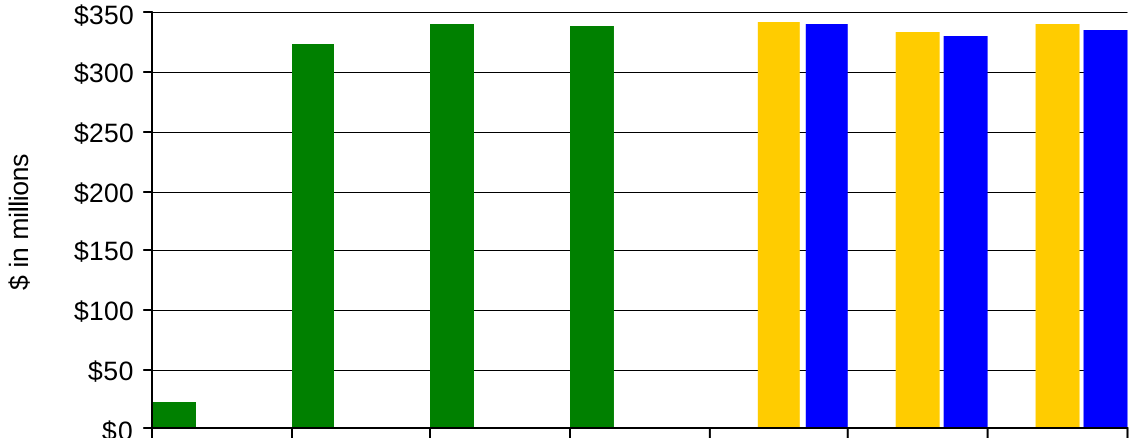
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$640.5	$260.1	$218.7	$226.4			
Initial					$123.0	$160.0	$158.0
Revised					$104.0	$156.0	$154.0

The initial forecast was $160.0 million in FY 2006 and $158.0 million in FY 2007. The revised forecast is $156.0 million in FY 2006 and $154.0 million in FY 2007. The forecast was changed because revenues in FY 2005 have been below estimate, and because of changes in forecasts by Global Insight of natural gas prices and demand for natural gas.

The proposed budget affects this tax by overriding the statutory share of the revenue that goes to the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF) for the FY 2006-2007 biennium. The amounts that are stipulated for the two funds are different in the House-Passed and the Senate-Passed versions of Am. Sub. H.B. 66. However, both versions would increase the amounts going to the LGF and LGRAF slightly, as compared with the forecast shares of the revenue based on their statutory shares, and would cause a corresponding reduction in the amounts going to the GRF.

Kilowatt-Hour Tax

GRF Revenues from the Kilowatt-Hour Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$22.8	$323.3	$339.9	$339.0			
Initial					$342.0	$334.0	$341.0
Revised					$340.0	$331.0	$336.0

The initial forecast was $334.0 million in FY 2006 and $341.0 million in FY 2007. The revised forecast is $331.0 million in FY 2006 and $336.0 million in FY 2007. The forecast was reduced both because revenues in FY 2005 have been below the estimate, and because Global Insight has reduced its forecast of electricity demand.

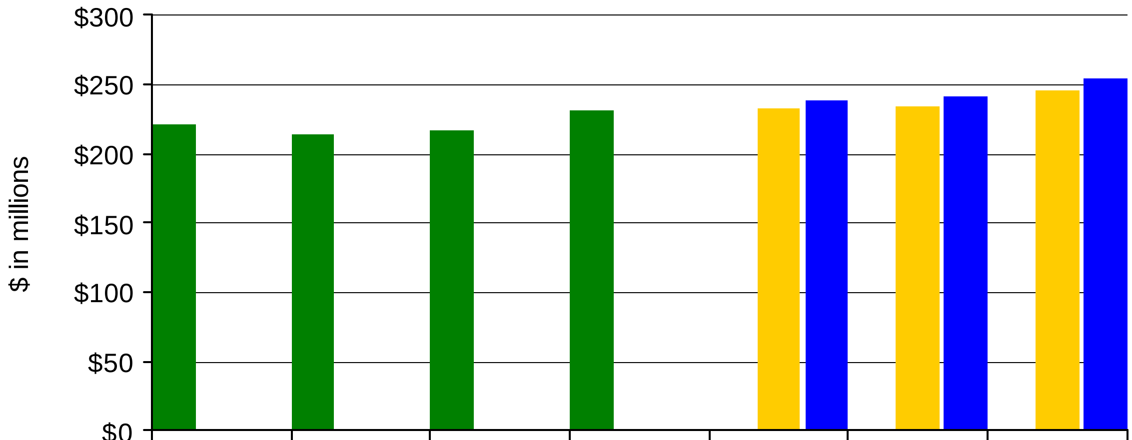
The Governor's proposed budget increased tax rates under this tax and changed the formula for distribution of the revenues, increasing the share received by the GRF. Both the House-Passed and Senate-Passed versions of Am. Sub. H.B. 66 left the Governor's proposal intact in its essentials. The tax rates paid by the majority of taxpayers would increase by approximately 30% beginning in July 2005. For the largest users of electricity, those who use more than 45 million kWh in a year, the tax rate paid based on the total price of electricity purchased would increase by 25%. The Senate-Passed version of the budget would allow self-assessors a tax credit to cap the increase in their taxes at $10 million, although this cap would increase with inflation. Both the House-Passed and the Senate-Passed versions of the budget contain provisions under which revenue deriving from the rate increase on customers of municipal electric companies would go to the GRF; under current law that revenue would have gone to the municipality's general fund.

The combined effects of the tax rate changes and the revenue distribution changes would increase revenue to the GRF by slightly more than $160 million per year without considering the cap in the Senate-Passed version of the budget, and by slightly less than $160 million if the cap is retained in the bill. The change in the distribution of revenue collected by municipal electric companies would raise an additional approximately

$10 million for the GRF. Also, both versions of the budget override the existing formula for determining the shares of revenue going to the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF) for the FY 2006-2007 biennium. The amounts going to the LGF and the LGRAF differ in the two versions of the budget bill. The House-Passed version would increase the share of revenue going to the GRF slightly, while the Senate-Passed version would decrease that share.

Foreign Insurance Tax

GRF Revenues from the Foreign Insurance Tax



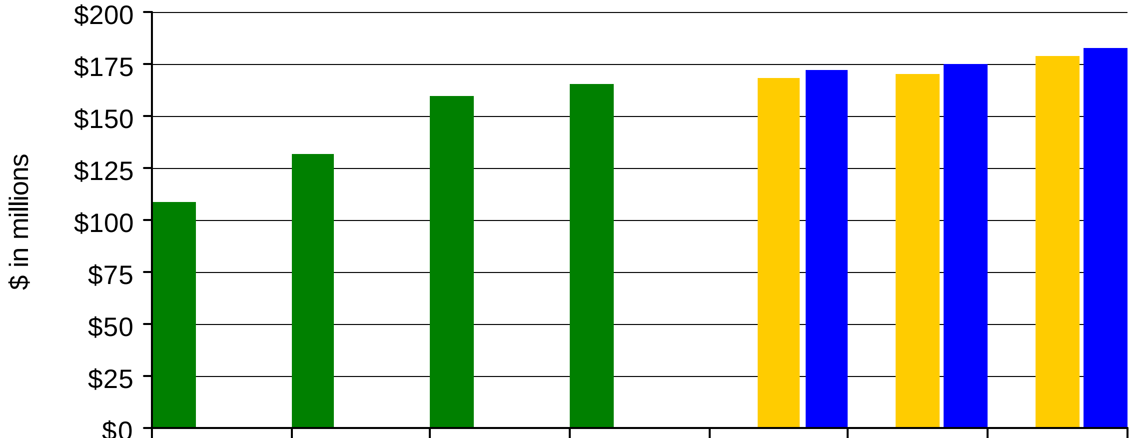
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$220.6	$214.3	$216.4	$230.5			
Initial					$232.1	$233.8	$245.5
Revised					$239.0	$242.0	$254.0

The initial forecast was $233.8 million in FY 2006 and $245.5 million in FY 2007. The revised forecast is $242.0 million in FY 2006 and $254.0 million in FY 2007. The increase in the forecast is due to FY 2005 revenues being higher than were estimated in January.

The proposed budget does not contain any statutory changes to the foreign insurance tax that would affect this forecast.

Domestic Insurance Tax

GRF Revenues from the Domestic Insurance Tax

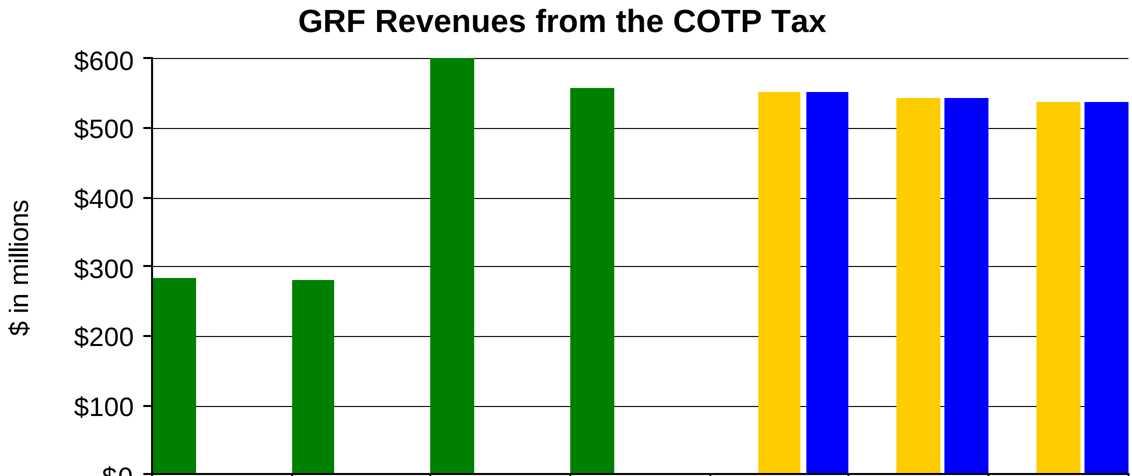


	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$109.3	$132.4	$160.1	$165.9			
Initial					$168.4	$170.9	$179.0
Revised					$172.0	$175.0	$183.0

The initial forecast was $170.9 million in FY 2006 and $179.0 million in FY 2007. The revised forecast is $175.0 million in FY 2006 and $183.0 million in FY 2007. The increase in the forecast is due to FY 2005 revenues being higher than LSC staff estimated in January.

The proposed budget does not contain any statutory changes to the domestic insurance tax that would affect this forecast.

Cigarette and Other Tobacco Products Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$282.5	$281.3	$599.9	$557.5			
Initial					$551.0	$543.0	$536.5
Revised					$551.0	$543.0	$536.5

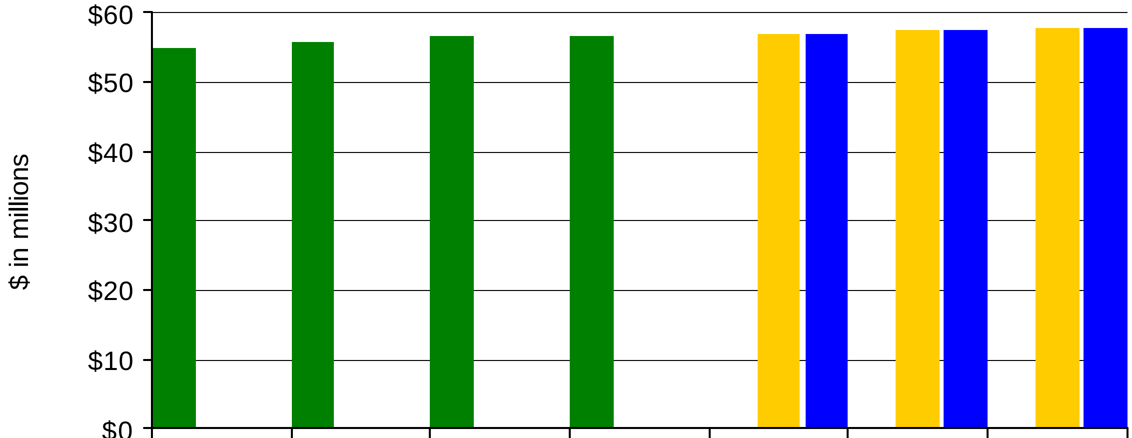
The baseline forecast for cigarette and other tobacco products is unchanged from the February baseline forecast. GRF revenues from the cigarette and other tobacco products is estimated at $551.0 million in FY 2005, $543.0 million in FY 2006, and $536.5 million in FY 2007.

The Executive proposal increases the cigarette tax rate from $0.55 per pack of 20 cigarettes to $1.00 per pack, and imposes a "floor tax" on cigarettes in inventory on July 1, 2005. GRF revenues would increase by $304.0 million in FY 2006 and $296.0 million in FY 2007 from the cigarette tax rate increase. The floor tax is expected to boost revenues by $44.0 million in FY 2006 only. The Executive proposal also increases the tax on other tobacco products from 17% to 30% of wholesale value. This would augment GRF revenues by $18.0 million in FY 2006 and $19.5 million in FY 2007.

H.B. 66, As Passed by the Senate, increases the cigarette tax rate from $0.55 to $1.25 per pack, and eliminates the proposed increase in the tax rate of other tobacco products. The increase in the cigarette tax rate to $1.25 per pack would increase cigarette revenues over the baseline forecast by about $457 million in FY 2006 and $443 million in FY 2007. The floor tax would add another $64.0 million in FY 2006 only.

Alleviating Beverage Tax

GRF Revenues from the Alcoholic Beverage Tax

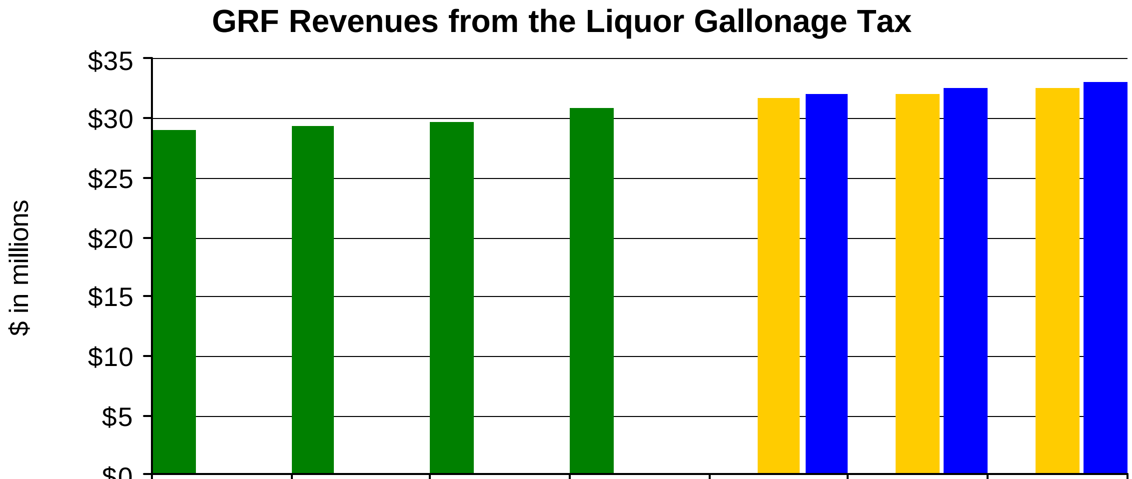


	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$55.0	$55.7	$56.6	$56.5			
Initial					$57.0	$57.5	$57.8
Revised					$57.0	$57.5	$57.8

The baseline forecast for the alcoholic beverage tax is unchanged from the February estimates.

The proposed budget doubles the tax rates for all alcoholic beverages. This would increase GRF revenues from the tax by approximately $51 million in each year of the biennium.

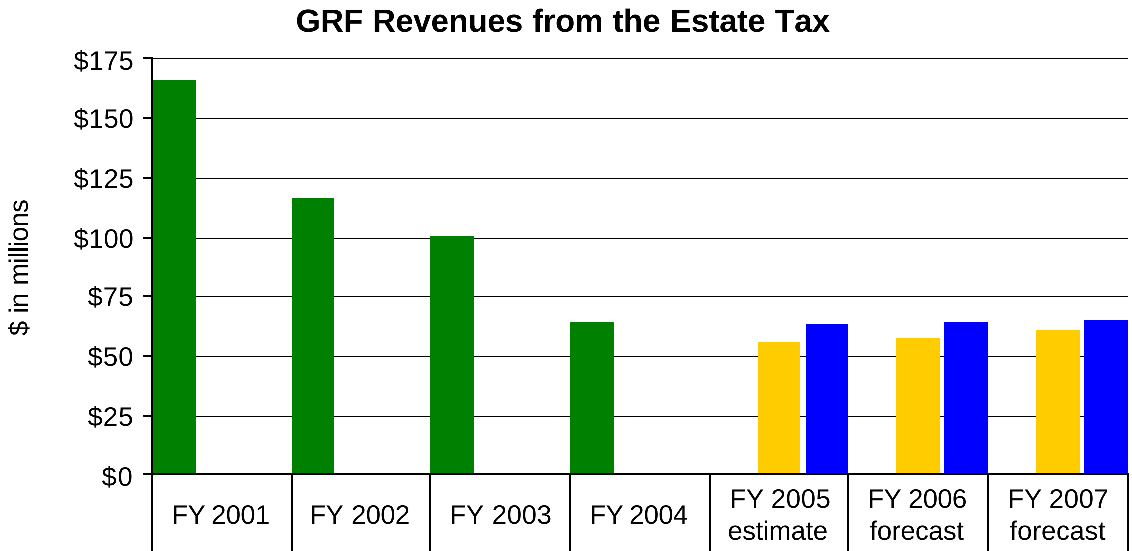
Liquor Gallonage Tax



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$29.0	$29.3	$29.7	$30.8			
Initial					$31.7	$32.1	$32.6
Revised					$32.0	$32.5	$33.0

The initial baseline forecast for the liquor gallonage tax was revised slightly upward from the February estimates. Estimated FY 2005 revenues were increased due to higher than anticipated revenue in the fiscal year through May 2005. GRF revenues from the tax are now estimated at $32.5 million in FY 2006 and $33.0 million in FY 2007.

Estate Tax

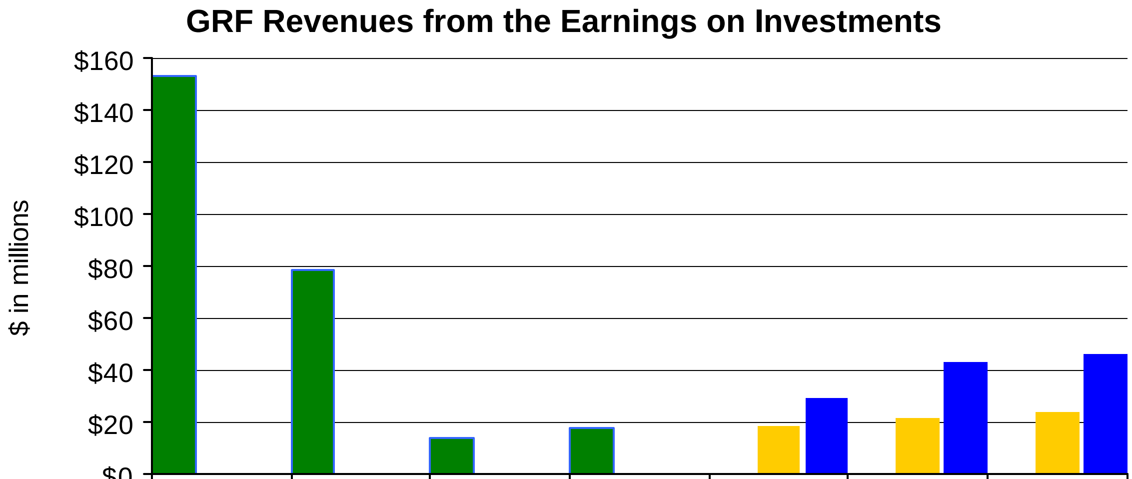


	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$166.0	$116.3	$100.8	$64.2			
Initial					$56.1	$57.9	$61.1
Revised					$63.1	$64.4	$65.0

The baseline forecast for the estate tax is revised upwards from the initial forecast made in February. The revision is due to higher than anticipated revenue in the fiscal year through May 2005.

The proposed budget affects the estate tax by updating the state estate tax law to incorporate changes in the federal estate tax law and by eliminating the deduction for family-owned business. These changes are estimated to reduce revenue from the estate tax by $2 million in FY 2006 and $8 million in FY 2007.

Earnings on Investments



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$153.3	$79.0	$14.2	$18.0			
Initial					$18.9	$21.6	$23.8
Revised					$29.5	$43.2	$46.3

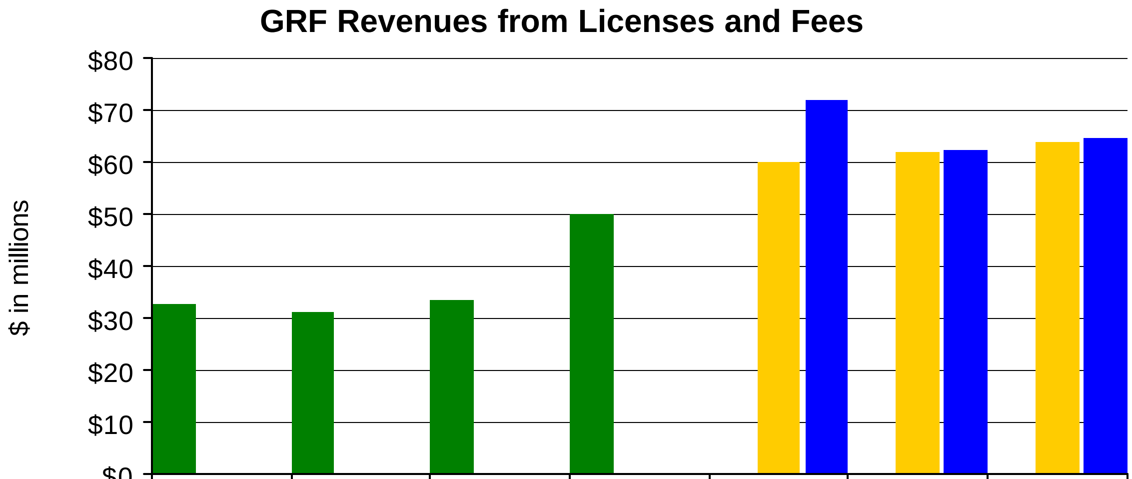
The initial forecast was $21.6 million in FY 2006 and $23.8 million in FY 2007. The revised forecast is $43.2 million in FY 2006 and $46.3 million in FY 2007.

The forecast was changed due to the steady increase in short-term interest rates by the Federal Reserve, and a boost in the amount of funds available for investment. With less than a month to go in FY 2005, accumulated state earnings on investments were above the FY 2004 year-to-date by $6.1 million or 41%. Year-to-date earnings on investments for FY 2005 are slightly over $21 million.

The proposed budget affects the earnings on investments by allowing the Director of Budget and Management, through June 30, 2007, to transfer interest earned by any fund in the Central Accounting System to the GRF. Under current law, many sections of the Revised Code specify that interest earnings of particular funds are to be credited to those funds. The bill provides that, in spite of any such law, this authority, however, does not apply to funds whose source of revenue is restricted or protected by the Ohio Constitution, federal tax law, or the federal "Cash Management Improvement Act of 1990."

The state may receive additional revenue to earnings on investments due to these changes. The estimated increase in additional revenues to earnings on investments is $16.6 million in FY 2006 and $17.6 million in FY 2007, respectively. These additional earnings would also increase available cash for investments.

Licenses and Fees



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$32.9	$31.1	$33.7	$50.2			
Initial					$60.0	$61.9	$64.0
Revised					$72.1	$62.6	$64.6

The initial forecast for GRF revenue, from licenses and fees, for FY 2005 was $60.0 million, a 19.6% increase over FY 2004 GRF revenue. For FY 2006 and FY 2007, GRF revenue was projected to be $61.9 million and $64.0 million, which were increases of 3.2% and 3.4%, respectively.

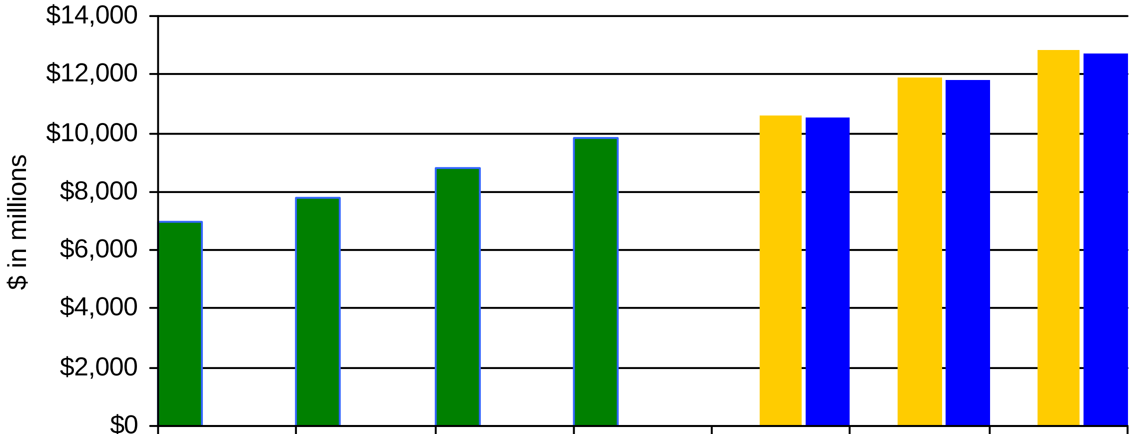
The revised forecast is $72.1 million in FY 2005, $62.6 million in FY 2006, and $64.6 million in FY 2007. These forecasts represent increases over the initial forecast of 20.2%, 1.1%, and 0.9%.

The forecast was changed because receipts from licenses and fees have been much higher than expected for FY 2005. The new forecast takes this information into account.

The proposed budget affects licenses and fees by eliminating the tax exemption on premiums written by surplus line insurers, risk purchasing groups, and risk retention groups. Elimination of this exemption is expected to increase revenue from licenses and fees by $12.0 million per fiscal year.

Public Assistance Expenditure Forecasts
Health Care/Medicaid

Health Care/Medicaid Spending (ALI 600-525 Only)



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$6,939.8	$7,818.3	$8,779.5	$9,822.4			
Initial					$10,561.0	$11,864.0	$12,862.0
Revised					$10,505.1	$11,808.0	$12,684.3

The initial forecast was $10.56 billion in FY 2005, $11.86 billion in FY 2006, and $12.86 billion in FY 2007.

The revised forecast is $10.51 billion in FY 2005, $11.81 billion in FY 2006, and $12.68 billion in FY 2007.

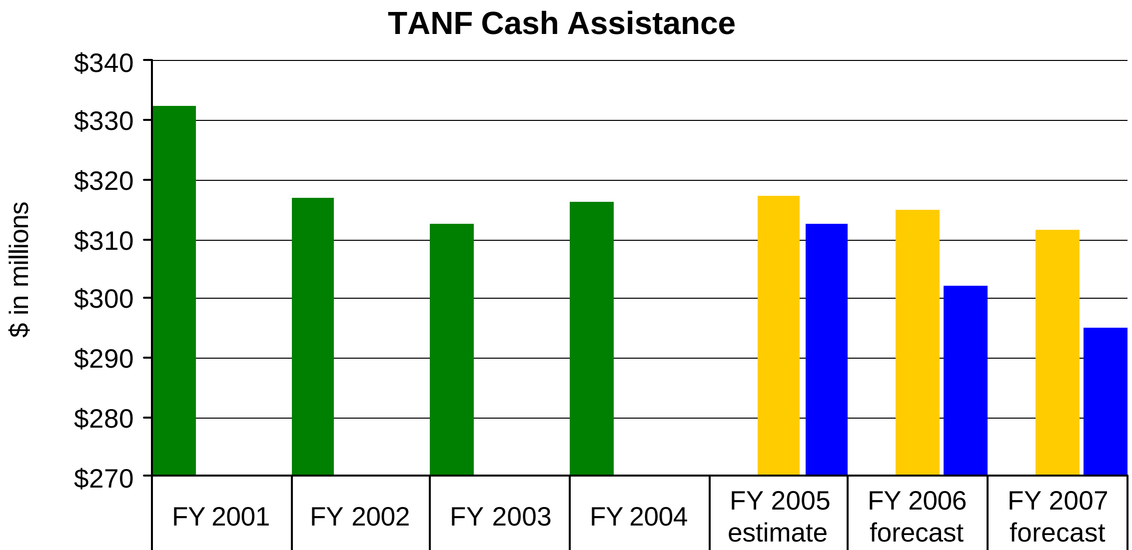
The difference is $55.94 million lower in FY 2005, $55.96 million lower in FY 2006, and $177.71 million lower in FY 2007.

The forecast was changed because:

(1) LSC revised the forecast of the Medicaid caseload downward for both Covered Family and Children, and Aged, Blind, and Disabled for FYs 2005 to 2007 due to the fact that recent caseload growth has tracked lower than originally forecasted.

(2) The Department of Job and Family Services anticipates amending rules to update the relative weights for Diagnostic Related Groups used in the prospective payment system for hospital services. The Department has increased its hospital recalibration savings estimate significantly to $65.7 million in FY 2006 and $170.2 million in FY 2007. LSC has adjusted its updated forecast to reflect this change in estimate, accordingly.

Temporary Assistance for Needy Families (TANF)



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 estimate	FY 2006 forecast	FY 2007 forecast
History	$332.5	$316.9	$312.4	$316.3			
Initial					$317.3	$315.0	$311.5
Revised					$312.5	$302.1	$294.9

The initial forecast was $317.3 million in FY 2005, $315.0 million in FY 2006, and $311.5 million in FY 2007. The initial cash assistance estimates were based on a caseload forecast of 86,919 in FY 2005, 86,514 in FY 2006, and 86,162 in FY 2007.

The revised forecast is $312.5 million in FY 2005, $302.1 million in FY 2006, and $294.9 million in FY 2007. The revised cash assistance estimates are based on a caseload forecast of 86,423 in FY 2005, 83,854 in FY 2006, and 81,852 in FY 2007.

The revised forecast is $4.8 million lower in FY 2005, $12.9 million lower in FY 2006, and $16.6 million lower in FY 2007. LSC forecasts 496 fewer cases in FY 2005, 2,660 fewer cases in FY 2006, and 4,310 fewer cases in FY 2007.

The forecast was changed because:

(1) More recent caseload data indicate a continued decline in the OWF cash assistance caseload. A drop of more than 1,500 cases since our initial forecast put downward pressure on LSC's model.

(2) LSC revised its forecasting model to apply the forecast formula only to assistance groups that include adults, while holding child-only cases steady throughout the upcoming biennium. Child-only assistance groups form the stable core of the OWF caseload and LSC believes this stability will continue as other variables work on the adult OWF caseload.

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 recommended FY 2006 total funding for the combination of these three line items at $1,055.9 million. The total recommended funding level for these three line items in FY 2007 is $1,081.3 million.[2] Funding cash benefits for FY 2006 at the forecast level of $302.1 million, and at $294.9 million for FY 2007 leaves $753.8 million in FY 2006 and $786.4 million in FY 2007 from these three line items for all other TANF activities, including employment services, work activities, PRC services, direct payments from TANF for child care, and other allowable activities.

[2] Funds from administrative line items and county expenditures will be included in the state's MOE each year.