

State Budgeting Matters

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This is the first edition of a special State Budgeting Matters series that will focus on the implementation of the American Recovery & Reinvestment Act and its impact on Ohio.

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ARRA More Than Just Dollars and Cents

The \$787 billion American Recovery and Reinvestment Act (ARRA) enacted in February, 2009, includes funding for programs, tax cuts, and direct aid to states. The Act's goal is to bolster consumption by individuals, businesses, and government thus improving the economy, preventing layoffs, and creating jobs.

While much of the focus has been on the funding aspects of ARRA, the legislation included numerous other provisions which do not have specific price tags, but make improvements in programs that can have real impacts on states. These include moratoria on the implementation of several Medicaid regulations that could have shifted costs currently borne by the federal government onto states and loosening of restrictions on states' ability to determine eligibility for certain programs.

Program Eligibility Means States Have More Flexibility

Congress and federal agencies set limitations on the use of federal funds to pay for programs. Such limits include eligibility restrictions, definitions of appropriate services, and state or local matching requirements. For many federally funded programs, states are given some degree of latitude to design programs that fit the needs of their communities. The ARRA loosened some restrictions on eligibility for two important programs: Workforce Investment Act (WIA) Youth, and Community Service Block Grants (CSBG). These expansions allow Ohio more flexibility to use federal funds to pay for services provided to low- and moderate-income Ohioans.

The Workforce Investment Act of 1998 requires local workforce development systems to recognize the full spectrum of youth needs and to provide programs and services to meet these needs. Under WIA, Youth programs provide employment and training services to economically disadvantaged youth possessing specific barriers to employment. Services eligible for federal funding under this program include tutoring, dropout prevention strategies, alternative secondary school, summer employment opportunities, occupational skills training, adult mentoring, comprehensive guidance and counseling, and leadership development opportunities. WIA Youth programs are provided by the 90 full-service and satellite One-Stop employment centers across Ohio.

ARRA included \$1.2 billion nationwide in additional WIA Youth funding, much of which will be targeted largely toward summer employment opportunities. Ohio is set to receive more than \$56 million to be distributed by ODJFS to

One-Stops and Workforce Investment Boards across the state.¹ But in addition to the increased funding, ARRA also expanded the definition of “youth” to include individuals ages 14 to 24 years old, up from a ceiling of age 21. In some cases, these services were already available to Ohioans over the age of 21, but could not be paid for with federal dollars. ODJFS has taken the opportunity provided by ARRA and has expanded youth services up through age 24 for summer work programs (see box). The increased eligibility means that more Ohioans can take advantage of employment programs at no additional cost to the state.

Like WIA Youth programs, eligibility for the Community Services Block Grant was also expanded under ARRA. For programs helping low-income working families, the federal government sets income limitations. If individuals or families make over a certain income (based on the official Federal Poverty Level or FPL), federal funds cannot be used to pay for their services. FPL restrictions vary by program. States can expand eligibility beyond federally defined levels, but cannot use federal funds to pay for services provided to families above the income ceiling.

CSBG provides funding directly to Community Action Agencies and to smaller local entities through allocations administered by the Ohio Department of Development. Local agencies have flexibility to determine the best use of these funds in their communities to alleviate the causes and conditions of poverty. CSBG dollars are often used to leverage other public and private resources to support a variety of activities.

With rising unemployment, growing numbers of families are seeking assistance. CSBG funds under ARRA will be used to reduce poverty, revitalize low-income communities, and assist low-income families in becoming and remaining self-sufficient. Ohio will receive approximately \$40 million in additional CSBG funding out of a total of \$1 billion nationwide. In addition, one percent of funds for each state can be used for benefits enrollment coordination activities, such as the Ohio Benefit Bank.

Previously, CSBG-funded services were only available to families up to 125 percent of the FPL. The ARRA increases the eligibility ceiling to 200 percent, or \$44,100 for a family of four. This expansion means that the 3.4 million Ohioans living at or below 200 percent of the FPL will be eligible for assistance from community programs. Credit counseling, job skills training, benefits outreach and enrollment for the newly unemployed, and emergency services including nutrition and shelter can now be provided to greater numbers of low-income Ohioans using federal resources.

The loosening of federal restrictions on the use of WIA Youth and CSBG federal funds adds no

New Work Program for Young Ohioans Possible with ARRA Funding

The 2008 Workforce Indicators report produced by The Center for Community Solutions found that younger workers aged 16 to 24 had a higher unemployment rate than those 25 or older. Therefore, engaging youth in employment and training that leads to permanent employment is particularly important to the health of Ohio's economy.

Ohio is utilizing a portion of its ARRA statewide WIA funds to establish or expand programs for youth.

\$6.7 million will be distributed through open competitive grants for the Urban Youth Works program. The initiative will provide grants ranging from \$50,000 to \$500,000 to local organizations and will serve low-income youth in 18 targeted urban areas. Priority will be given to projects that most often lead to permanent jobs and serve youth during Fiscal Year 2010.

An additional \$2 million will be used for support services for the Recovery Conservation Corps program. The money will provide employment sites for local One-Stops to hire Ohioans aged 16 to 24. These youth will be employed during the summer to improve Ohio's state parks and natural areas. This funding leverages up to \$47 million in local area dollars and focuses on rural and urban areas in economic decline.

additional costs for states or municipalities, but allows services to be provided to additional Ohioans.

Medicaid Regulations Would Have Harmed States and Beneficiaries

In 2007 and 2008, the Centers for Medicaid and Medicare Services (CMS) issued seven Medicaid regulations that states and others opposed because of potential harmful effects on Medicaid services. Congress acted to delay implementation of these regulations until April, 2009. Provisions included in the ARRA further delayed implementation through June, 2009, of the four regulations that had already been issued in final form and expressed the Sense of Congress that CMS should not issue final regulations for the remaining three.

Implementation was delayed on the four regulations for which CMS issued final rules:

- *School Based Services (issued 12/28/2007)* – Eliminates federal funds for outreach, enrollment assistance, coordination of health care service, and related activities by school personnel to enroll more eligible poor children in Medicaid.
- *Targeted Case Management (issued 12/4/2007)* – Significantly limits federal Medicaid matching funds for case management service, which helps beneficiaries receive care by identifying needed services, finding providers, and monitoring services delivered.
- *Outpatient Clinic and Hospital Facility Services (issued 9/28/2007)* – Changes the definition of outpatient hospital services to significantly narrow the types of services states can cover under this benefit category, severely restricting reimbursement rates for such services as hospital-based physician service, routine vision services, annual check-ups, and vaccinations.
- *Provider Tax (issued 2/22/2008)* – Makes technical changes to provider tax rules that will limit states' ability to raise federal Medicaid matching funds.

The regulations relating to school-based services and targeted case management (TCM) would have been especially onerous for states. If implemented, federal matching funds would no longer be available for Medicaid-related activities if they are performed by school personnel. Similarly, states would be prohibited from claiming federal reimbursement for care coordination for certain vulnerable populations. Federal TCM funds are currently used by the MR/DD system for case management and by the Ohio Department of Aging through the Residential State Services (RSS) program.

The increased eligibility means that more Ohioans can take advantage of employment programs at no additional cost to the state.

States would not be prohibited from continuing to providing these services. In fact, CMS expected them to continue to be available when issuing the regulations. However, states or local entities would be forced to fully cover the costs of these services previously borne by the federal government.

The ARRA expressed the Sense of Congress that CMS should not issue final regulations for these three:

- *Rehabilitation Services (issued 8/13/2007)* – Limits the types of rehabilitation services that states can cover with federal funds, including special instruction and therapy for children and other beneficiaries who have mental illness or developmental disabilities.
- *Hospital Cost Limits (issued 5/29/2007)* – Limits payments to hospitals and other institutions operated by state or local governments to the cost of providing services to Medicaid beneficiaries.
- *Graduate Medical Education (issued 5/23/2007)* – Eliminates federal Medicaid funding for the costs of graduate medical education (GME) provided by teaching hospitals.²

Taken together, these seven regulatory changes would result in a total reduction in federal Medicaid funding nationally of between \$15 billion and \$21 billion over five years.³ During its initial cost estimates, CMS acknowledged that any savings to

federal Medicaid spending would be offset with corresponding increases in costs to states, local entities, or other federal programs. Because of the economic slowdown and the weakening fiscal conditions in Ohio and elsewhere, states have less capacity to absorb these added costs. Concern about the availability of services and the ability of states and local entities to cover the costs formerly borne by the federal government was a foremost consideration leading to congressional action to delay implementation.

On May 1, 2009, the Department of Health and Human Services announced that it would permanently rescind two of the regulations and partially rescind a third. The formal announcement of the decision in the *Federal Register* stated, "In light of concerns raised about the adverse effects that could result from these regulations, in particular the potential restrictions on services available to beneficiaries, *potential deleterious effect on state partners in the economic downturn*, and the lack of clear evidence demonstrating that the approaches taken in the regulations are warranted, CMS is proposing to rescind the two final rules in full, and to partially rescind the interim final rule."⁴ (emphasis added)

More Than Dollars and Cents

The \$8.2 billion coming to Ohio from ARRA in formula funding is only part of the story. During the current economic downturn, more individuals are seeking assistance from government programs. As state revenues fall below estimates, it is more difficult for Ohio to cover the costs of providing much-needed services.

The ARRA includes additional federal funding for critical programs and also contains provisions to give states more latitude in their use of federal funds for certain services. Congress also used ARRA to delay the implementation of Medicaid regulations that would have harmed states and Medicaid beneficiaries. While they do not carry specific price tags, these provisions can have a real impact in Ohio.

1. See "American Recovery and Reinvestment Act of 2009: Select Health, Education, and Social Service Appropriations" (http://www.communitysolutions.com/images/upload/resources/ARRA-Summary_Updated-040909.pdf) for a comprehensive list of Ohio's share of funding in these program areas.
2. For detailed information about these regulations and their impact, see "Rule Changes are Different, but Both Would Hurt Ohio," (<https://www.communitysolutions.com/images/upload/resources/RulesChanges043008.pdf>) or "Administration's Medicaid Regulations Will Weaken Coverage, Harm State, and Strain Health Care System" (<http://www.cbpp.org/cms/index.cfm?fa=view&id=1050>).
3. Based on estimates from the Office of Management and budget, these regulatory changes, taken together, would reduce federal Medicaid spending by more than \$15 billion over five years. Estimates from the Congressional Budget Office indicated the reductions would be larger and could equal \$21 billion over the first five years (see: <http://www.cbo.gov/budget/factsheets/2008b/medicaremedicaid.pdf>).
4. *Federal Register*, Proposed Rules 6 May 2009. Vol. 74 No. 86, page 21232.

Do You Have Questions about the ARRA?

E-mail your questions to Emily Campbell at
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Answers to your questions could be the topic of future issues!