

State Budgeting Matters

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That Was The Week That Was

The governor faces many challenges in producing and maintaining a balanced budget that meets Ohio's needs.

This series is an opportunity for our readers to get involved by e-mailing their Ohio budget questions to our Ohio budget expert, Richard G. Sheridan, at rsheridan@CommunitySolutions.com.

Please note that Richard G. Sheridan's opinions are not necessarily those of The Center for Community Solutions.



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In a little more than a week, leading up to Christmas, extremely bad state budget news was reported for the rest of Fiscal Year (FY) 2009 and for the subsequent two fiscal years. For some it might appear that someone in the State House is in competition with the “Grinch Who Stole Christmas.” The four reports were:

1. A compilation of agency responses to the question of how they would trim their next biennium's budget by 25 percent.
2. A gubernatorial order announcing \$640 million in budget adjustments in the (belief? hope?) that the state's FY 2009 appropriations will finally be brought back into balance with a reasonable estimate of revenue expectations.
3. The Auditor of State issued an especially critical report listing all of the Medicaid cost containment actions that could have taken place during 2008 and 2009 (thereby lessening the state's budget problems) had the administration followed the recommendations of a performance audit of the program performed by her predecessor.
4. And, possibly on the brighter side (which remains to be seen), Families USA issued a report on how much Ohio, and other states, might receive to aid in their budget problems.

In this, the first issue of *SBM* for the new year, each of these events are analyzed.

Dire Consequences for FY 2010-2011? (Event No. 1)

In late December, the Office of Budget and Management (OBM) issued a report titled, “What Might It Mean If All Agencies Took at (sic) 25% Funding Cut?” The decision to canvas state agencies about how they would react to such a cut for the next biennium was based on the revelation that “if appropriation levels for FY 2010 and 2011 were to remain flat, the State of Ohio would face a \$7.3 billion deficit.” The OBM analysis assumes that every non-exempt agency was to take the same percentage level cut—something that would never happen. Nonetheless, the exercise is useful to demonstrate the magnitude of the budget problem the state is facing for the next biennium, as well as the unspoken reality that the next budget will be impossible to balance without a substantial tax increase and/or the elimination of tax breaks (even if there is some federal economic recovery help forthcoming).

The real questions for the next biennium should be which taxes should be raised, which should be reduced, and what principles should be applied in making those determinations.

Still, the exercise is useful and certainly helps the state make its case to the federal government for help with its General Revenue Fund (GRF) now and for at least the

next two fiscal years. Here are some of the things that could happen, according to the affected agencies, if they were forced to cut one-fourth of their GRF budgets for the coming biennium:

- **The Ohio Department of Education** would cut about \$840 per pupil in aid in FY 2010, and \$870 per pupil in FY 2011.
- **The Ohio Board of Regents**, after exempting legal obligations, would really have to cut 29 percent out of the rest of its budget, which would mean reducing state support per full-time student statewide by \$1,987 (there are 356,000 full-time students enrolled).
- **The Ohio Department of Aging** would not serve 6,480 people in the PASSPORT program, Ohio's home- and community-based services alternative to nursing facility placement, in 2010 and 6,800 in 2011, as well as cutting other programs such as Assisted Living, All-Inclusive Care for the Elderly (PACE), and Senior Community Services and Alzheimer's Respite.
- At the **Department of Mental Health**, the offices of Children's Services and Prevention, Forensic Services and Residency Programs would be closed, eliminating those programs; an additional hospital would have to be closed and/or the operational structure of one hospital would have to be changed.
- **The Ohio Department of Alcohol and Drug Addiction Services** would eliminate alcohol and drug treatment services to more than 10,000, or 10 percent, of those being served.
- **The Ohio Department of Mental Retardation and Developmental Disabilities** would have to cut its developmental center enrollments by half – 725 – and consider reducing Medicaid waiver expenditures affecting up to 18,000 individuals and families.
- **The Ohio Department of Health** would lose federal funds (as would other affected health and human services agencies) and reduce the number of clients served, as well as eliminate some programs and activities completely and reduce subsidy payments to local health departments.
- **The Ohio Department of Rehabilitation and Cor-**

rection would have to cut \$387 million in FY 2010 by eliminating 5,237 corrections officers and other personnel and closing six institutions.

- **The Department of Youth Services** would close two large facilities, eliminate parole, eliminate private facilities support, and cut county subsidies by one-third.
- **The Ohio Department of Development** would close three or four Edison Centers or incubator programs and reduce support for business expansion and for research commercialization activities by Ohio companies and universities.
- In the **Ohio Department of Natural Resources** some state parks would have to be "mothballed" or closed.

In reality, given the magnitude of the revenue shortfall anticipated by the administration for the coming biennium, once necessary agency and line-item exemptions are made, including preservation of federal matching funds that require proof of state "maintenance of effort," the impact on the agencies listed above could be even greater than described (in a lengthier document from which the above list consists only of selected items). Despite apparent insistence that the governor opposes a tax increase, the early exposure of the dire consequences of failing to raise more revenue argue compellingly for just that kind of action.

Salvation for This Biennium?... Perhaps (Event No. 2)

The administration has now officially accepted the most dire of the three state GRF scenarios postulated by the Department of Taxation (which took over revenue projections from the OBM in the Strickland administration) more than a year ago. That means that somehow, in the remaining six months of this biennium, another \$640 million in budget cuts and/or revenue enhancements must be found.

The following table shows the original revenue estimates on which the budget for FY 2009 was based and the latest revision.

Revenue Source	FY 2009 as enacted (in millions)	FY 2009 12/19/08 (in millions)
Auto Sales & Use	\$1,023.90	\$875
Non-Auto Sales & Use	\$6,923.60	\$6,577.20
Personal Income	\$9,201	\$8,257.50
Corporate Franchise	\$521.80	\$495
Public Utility	\$181	\$177.30
Kilowatt-Hour Tax	\$124.90	\$132.90
Foreign Insurance	\$271	\$264.80
Domestic Insurance	\$172.50	\$167.70
Cigarette	\$941.70	\$917
Estate	\$87	\$65
Total Tax Receipts*	\$19,563.60	\$18,044.50

*Totals will not add because of the elimination of some small tax sources from this table.

Since the budget was enacted, then, GRF tax revenues are now expected to be \$1,519 billion less than expected. With these latest projections in hand, in a December 19 press release the governor announced that he had ordered selected state agencies to further reduce their spending for the remainder of this year in order to cut \$180.5 million out of the FY 2009 budget. There were numerous exemptions to the cut order, most notably the gubernatorial initiative to expand the homestead property tax exemption to elderly persons no matter how high their incomes; the gubernatorial initiated freeze on tuition (not fees) at

institutions of higher learning; school districts' basic aid, pupil transportation, and some other education line items; Medicare Part D, Medicaid, TANF (Temporary Assistance to Needy Families), and Child Care; the departments of rehabilitation and correction and youth services; debt service; some boards and commissions; the legislature; and the judiciary.

After all of these exemptions, and others not named here, the responsibility for achieving \$180.5 million in cuts falls on these agencies in the amounts listed (at 5.75 percent for the non-exempt programs in each agency):

Department	Amount (in millions)
Alcohol & Drug Addiction Services	\$2.40
Adjutant General	0.7
Aging	10.6
Attorney General	3.1
Agriculture	1
Auditor of State	1.8
Board of Regents	24.9
Administrative Services	1
Development	4.8
Mental Health	30
Mental Retardation	19.5

Department	Amount (in millions)
Natural Resources	4.4
Health	4.7
Transportation	1.2
Public Safety	0.3
Public Defender	2
Education	30.4
Job and Family Services	31.4
Ohio Historical Society	0.8
Rehabilitation Services Commission	1.3
Secretary of State	0.3
Treasurer of State	0.6
Governor	0.2

As the table shows, almost two-thirds of the cuts will come from the state’s health and human services agencies and programs. In addition, in order to come up with \$362.9 million, the state is counting on congressional passage of an economic recovery package that will include an increased federal Medicaid matching percentage for Ohio, despite the fact that President-elect Obama’s actual proposal has not yet surfaced and there is no guarantee that it will include the anticipated increase in the federal Medicaid matching formula for the states. (This issue is discussed more fully under the topic “Event No. 4,” *sub.*) The rest of the money is made of these actions affecting Medicaid as described by OBM:

- Medicaid cost avoidance and other unspecified program savings (\$21.33 million);
- Use of cash from four Medicaid non-GRF accounts and corresponding federal share that had previously been planned for use in FY 2010 and FY 2011 thus reducing the amount of GRF required in FY 2009 (\$245.6 million);
- GRF federal revenue is reduced due to lowered GRF spending resulting from third party liability recoveries and other cost avoidance and increased use of non-GRF cash; it will be deposited into a federal fund account rather than into the GRF and spent for Medicaid from the federal fund account—add \$165.5 million.

Assuming all of those changes, OBM expects to add \$4.4 million to the state GRF FY 2009 ending balance.

Prescription for Medicaid Salvation (Event No. 3)

Cost Containment in H.B. 119. One way the state could balance its budget is by implementing the various Medicaid cost containment measures required by the state’s budget (Am.Sub. H.B. 119 of the 127th General Assembly) as well as those recommendations in the Auditor of State’s 2006 performance audit. With respect to the legislative cost containment mandates, Section 5111.09.1 of the Revised Code requires the Ohio Department of Job and Family Services to report quarterly on the establishment and implementation of programs designed to control the increase of the cost and increase efficiency of the Medicaid program, and promote better health outcomes. The list of seven cost containment measures, along with the estimated savings assumed in the state budget, and the current status of the recommendation is found in the following table.¹

As this report shows, three of the recommendations have been delayed resulting in zero savings. Of

¹ Source: Ohio Department of Job and Family Services, “Quarterly Cost Management Report on Ohio’s Medicaid Program to the Members of the 127th General Assembly.”

Cost Containment Strategy	Estimated Savings (in millions)	Status Savings (in millions)
Limit the intermediate care facility rate increases to 2 percent each year	\$43.10 in FY 2008 \$57.1 in FY 2009	Completed: Saved \$14.3 so far
Discipline growth in managed care rates	\$104 in FY 2008 \$186.4 in FY 2009	In Progress: \$11.6 through August, 2008
Recalibrate inpatient hospital rates annually	\$3.7 FY 2008 \$11.4 in FY 2009	Delayed: \$0 savings
Enhance current efforts to ensure the Medicaid program is the payer of last resort	\$50 in FY 2008 \$94.4 in FY 2009	In Progress: \$31.4 so far
Implement a medical claims editing system to ungroup claims and identify questionable claims prior to payment	\$9.3 in FY 2008 \$39.7 in FY 2009	Delayed: \$0 savings
Reduce the time required to enroll new Medicaid eligibles in a managed care plan	\$2.6 in FY 2008 \$2 in FY 2009	In Progress: \$586,333 to date
Increase medical support collections related to child support cases	\$12.5 in FY 2008 \$37.5 in FY 2009	Delayed: \$0 savings
Prior approve select anti-psychotic drugs for which there is no generic equivalent	\$20 in FY 2009	Just approved: \$0 savings so far

the rest, none show any likelihood of reaching their expected levels of savings, which were used by the legislature in developing the state Medicaid budget, except possibly the first. What this illustrates is the extreme difficulty in making accurate projections of savings considering the large number of variables involved in such forecasting, the lack of historical data to use as a basis for projections, lack of comparable information from other states, and other tools essential for accurate forecasting. This problem is also important when considering how much the state has “saved” or expects to “save” as a result of implementing certain recommendations of the 2006 performance audit of the Medicaid program.

Cost Containment in the Performance Audit. On December 18, 2008, the Auditor of State issued a report following up on the recommendations of the 2006 performance audit of the Medicaid Program conducted under the supervision of Auditor Mary Taylor’s predecessor.²

The audit follow-up reviews each of the 109 recom-

² Auditor of State, “Ohio Medicaid Program Follow-Up Performance Audit,” December 18, 2008.

mendations issued in the 2006 report. The following table, prepared from the data in the report, lists all of the auditor’s recommendations that have *not* yet been implemented arranged according to four categories. Recommendations that were included in H.B. 119 are excluded from this table since they were described and examined above. Also not included are a total of 18 recommendations in the category of “Program Integrity,” most of which have not been implemented on the grounds that the administration maintains the issues will be resolved with the implementation of the state’s Medicaid Information Technology System (MITS).³ With those caveats, the following table lists the recommendations that are “still up for grabs,” to use the vernacular.⁴

³ The state’s implementation of the Medicaid Information Technology System (MITS) has long been underway and has encountered numerous problems. The latest expectation is that MITS, which is to replace the Medicaid Management Information System (MMIS), will be functional in October, 2009, and have a major impact on Ohio Medicaid technology. Meanwhile, expected savings from numerous recommendations in all categories covered by the audit report are not being realized. It is also noteworthy that the implementation of MITS is expected after the start of the next fiscal year and thus will be controversial in the framing of next biennium’s Medicaid appropriations.

⁴ Excluded from this table are the list of actions taken,

Organizational	Service Provision	Managed Care	Technology
The General Assembly should establish a long-term perspective for the program.	Ohio should review its eligibility coverage for all recipients in relation to Program goals.	The State Medicaid Agency should develop and use a meaningful evaluation system to monitor managed care and fee-for-service delivery systems.	
The General Assembly should evaluate if a second tier of reporting structures or processes would help future elected officials maintain an appropriate scope of decision-making.	The State Medicaid Agency should use the flexibility of the Deficit Reduction Act to reshape the Ohio Medicaid Program coverage.	The State Medicaid Agency should pilot and evaluate alternative care models to determine which programs would be most effective in Ohio.	
The General Assembly and the Governor's Office should devise a process to prioritize the goals of Medicaid to provide guidance and direction.	The State Medicaid Agency should implement the Disability Determination Consolidation Study Council's recommendation.	The State Medicaid Agency should implement pay-for-performance programs within the Ohio Medicaid Program and encourage the adoption of pay-for-performance within the sub-recipient agency programs.	
The General Assembly should provide the State Medicaid Agency authority to centralize claims processing.	The State Medicaid Agency should opt to implement an employer-sponsored premium assistance program and use Medicaid funds to purchase employer-sponsored group health insurance.	The State Medicaid Agency should closely examine other states' practices of managing behavioral health and pilot different types of "carve in" and behavioral health managed care programs.	
The General Assembly should base Medicaid reorganization decisions on a clear purpose for the State's publicly funded health care system and social safety net programs.	Ohio should eliminate certificate of need and lift the moratorium of beds in Ohio.	The State Medicaid Agency should improve the use of the consumer survey (CHAPS) to monitor recipients' access to care, customer service concerns, and perceptions of unmet medical needs.	

most of which are based on affected agency responses. Thus, while the table purports to list recommendations completely not taken since the report was made, agency responses may help to explain why such actions were not taken and should be examined by readers especially interested in particular recommendations and why they might not have been implemented. In addition, there is little doubt that the administration may take umbrage with the designation of "not implemented" with respect to some of the recommendations.

Organizational	Service Provision	Managed Care	Technology
Once a structure for publicly funded health care is implemented, the General Assembly should cease Medicaid redesign efforts for an extended period of time.	With the removal of certificate of need, Ohio should ensure quality standards are met and readily available for comparison. Ohio may also consider quality of care fines.	The State Medicaid Agency should examine the time and distance standards, as well as the usefulness of its ratios, in determining appropriate numbers of physicians and dentists required under contract with its managed care plans.	
The General Assembly should centralize the core functions of Medicaid contract management within the State Medicaid Agency.	Work with the long-term care industry to implement policies that reduce the number of beds in the system and redistribute them in a manner that provides access to Medicaid.	The State Medicaid Agency should implement a case management program for all Medicaid recipients remaining in fee-for-service and not enrolled in a waiver program in which case management is already a component.	The State Coordinator for Health Information Technology should facilitate a long-term strategic plan which identifies the state's technology needs for the next five years.
The State Medicaid Agency should decentralize internal authority so that it is sufficiently flexible to respond to its operating environment.	The State should collect and publish quarterly occupancy by levels by county.	The State Medicaid Agency should mandate the managed care plans to expand their case management programs to include the same diseases as the fee-for-service case management model.	The State Medicaid Agency should adopt a policy requiring the electronic storage of recipient eligibility verification information in county-level offices.
The State Medicaid Agency should seek feedback when revising (or developing) its strategic plan.	The single State Medicaid Agency should monitor the nursing home industry for quality and the condition of its facilities.	The State Medicaid Agency should work with sub-recipient agencies to develop a program-wide case management system.	The State Medicaid Agency should pilot an initiative to streamline the eligibility process by installing kiosks at county offices with high caseloads.
The State Medicaid Agency should revise its approach to strategic management.	The nursing home reimbursement formula should be removed from the Ohio Revised Code (ORC).	The State Medicaid Agency should implement a disease management program for fee-for-service recipients.	As part of the implementation of the new Medicaid Information Technology System, the State Medicaid Agency should design a workflow model which centralizes claims acceptance with the State Medicaid Agency but pulls information from systems used by Ohio Department of Aging and Ohio Department of MR/DD.

Organizational	Service Provision	Managed Care	Technology
The State Medicaid Agency should manage its information needs based on its desired end goals, outcomes, and clinical measures.	The State Medicaid Agency should develop a medication therapy management pilot program for aged, blind and disabled Medicaid recipients that will not be enrolled in a managed care plan.	The State Medicaid Agency should investigate means to assist its transitioning recipients in continuing their disease management program.	ODA and the State Medicaid Agency should review the processes which result in the manual entry of Medicaid eligibility data and should transfer this information through electronic file transfer.
	The State Medicaid Agency should pursue pioneering approaches to services and coverage through federal waivers.	The State Medicaid Agency should apply for a federal demonstration waiver to implement a Premium Assistance/Covered at Work program for uninsured Ohioans.	The State Medicaid Agency should consolidate the data warehousing activities of various state agencies and centralize the data warehouse environment.
		The State Medicaid Agency should use Ohio state-funded universities to examine programs for the uninsured in Ohio, their financial impact, and the impact of the uninsured on Medicaid.	The State Medicaid Agency should pursue changes to the ORC to emphasize the change to electronic processes and allow the State Medicaid Agency to regulate claims submissions.

It should be noted that a number of the recommendations not implemented require action by the General Assembly which has not been taken and therefore could not be implemented by the current administration.

How Much Could Full Implementation “Save?” The auditor’s follow-up report recognizes that the administration fully implemented 15 recommendations and the budget bill incorporated eight changes resulting from the 2006 audit, but “Ohio has not implemented initial audit recommendations that potentially could have yielded \$302.8 million in savings (75.0 percent of the total financial implications identified).” With respect to the rest of the recommendations, the report states that “Ohio has either implemented or partially implemented recommendations that could have yielded \$100.7 million in savings (25.0 percent of the total financial implications identified); however, actual savings could not be quantified due to the various stages of implementation, as well as the time needed to realize savings to the Program” (Emphasis supplied).

Aye, there’s the rub!

When I was working as Deputy State Auditor under Jim Petro, his office initiated the state’s first performance audit. It was a massive undertaking involving three of the office’s five divisions examining the state’s public education system. One, perhaps the major, difficulty we encountered concerned making estimates of how much “cost avoidance” (we preferred that usage to “savings”) would result from implementation of the many recommendations made. I will be honest and say that much of what we estimated as cost avoidance, because of the lack of any usable data, was pure guesswork. Usually we made those estimates in terms of ranges recognizing the imprecision of that kind of projection and the vagaries of timing of implementation, phasing-in

of recommendations, changes in salaries and benefits, and a host of other variables.

It is in recognition of that work that I would suggest to readers not to make too much of the suggestion that the state could save \$302.8 million by implementing all of the remaining recommendations included in the original audit report. At the same time, the auditor is to be commended for following up on the important performance audit conducted by her predecessor and placing the ODJFS’ “feet to the fire” so to speak. And, as the report so aptly notes, “few of the recommendations have been ignored or wholly rejected.” Having said that, one of the recommendations not implemented stands out as especially important and worthy of studied action:

“Very little has been done to implement these longer-term recommendations. Neither the General Assembly nor the Governor’s Administration has engaged in discussions about a long-term vision or specific priorities for Medicaid. No dedicated efforts have been undertaken to define the role of Medicaid relative to Ohio’s overall public health system. As illustrated in the initial performance audit, without these efforts at long-term planning, there is no foundation for selecting an appropriate organizational structure or imposing a level of stability in terms of statutory and rule changes.”

The Feds to the Rescue?...Maybe Yes, Maybe No. (Event No. 4)

In the press release describing the most recent downward revision of state GRF tax receipts, and the proposal to partially cover it with selected budget cuts, the Governor is quoted as saying:

“It appears clear that the federal government will include aid to states in any economic recovery package.... While we do not yet know what the full scope of that aid will be, we believe it is reasonable to plan for an increase in federal Medicaid funding.”

That expectation appears warranted. But there is the outside chance that, when President Obama introduces his economic package, it may encounter

opposition in the Senate where minority members could garner enough votes to cause a filibuster—at least on the portion of the package expected to include a provision temporarily increasing the federal matching rate for Medicaid (thereby releasing state funds for other uses).

On November 17, 2008, 64 organizations⁵ signed an open letter to the Members of Congress saying, among other things, that “state and local government budgets should not be balanced on the backs of federal taxpayers. Doing so would set a horrible precedent, discourage responsible budgeting in the future, and place a strain on America’s hard-working families and businesses....We believe that if troubled states and local entities seek lasting relief and stability, they should restructure their activities the way millions of families have had to restructure their budgets.”

Opposition from these sources is not unexpected (pardon the double negative) but it does signal that despite massive state and local government lobbying, passage of state government aid is not going to be a “slam dunk.” In a November 24 press conference, where Obama unveiled his economic team, he failed to mention state aid. Before being elected, he called “for at least \$25 billion in nonspecific state relief and another \$25 billion to help states build and fix highways, roads, bridges, airports and rail systems.”⁶ Furthermore, a number of states⁷ have passed or proposed their own state stimulus packages to reinvigorate their economies with new construction, loans to hometown banks, and other job-creating activities.

The Ohio legislature, in a lame-duck session, recently passed legislation (vetoed by the Governor) that

⁵ Including all of the leading national conservative organizations such as the National Taxpayers Union, Americans for Tax Reform, Center for Individual Freedom, American Policy Center, Center for Fiscal Accountability, and Log Cabin Republicans, as well as state taxpayers organizations from almost every one of the 50 states.

⁶ Pamela M. Prah, “States Eye Their Share of Federal Bailout,” Stateline, November 25, 2008.

⁷ Including California, Michigan, New Jersey, Wisconsin, and others.

purported to promote jobs and improve the economy to woo Hollywood film makers to the state. Examples such as these provide fodder to those who would oppose federal aid to the states.

However, there is precedent for expecting federal aid.

In 2003, Congress gave states \$20 billion, half of which was in the form of increased federal Medicaid matching funds to help them balance their budgets after the 2001 economic downturn. But, in doing so, the federal government prohibited states from cutting Medicaid or restricting eligibility.

There continues to be much uncertainty about:

- whether President Obama will ask for operating budget aid to the states in addition to infrastructure aid;
- whether such aid will include an increase in the federal Medicaid matching formula;
- how much Ohio would receive if such an increase is recommended; and, most importantly,
- whether Congress will include such aid in any economic stimulus package it prepares.

Quick action by Congress, even on this important issue, is possible but not a certainty by any means. Meanwhile, the longer Ohio delays in filling the rest of the latest projected budget hole in the rest of the year, the more severe and harmful budgetary actions will have to be.

Commentary

Re-Re-Re-Re (?) Balancing the Budget. This biennium's budget has been re-balanced three times. If the economy slides further, or if the federal government does not provide Ohio and other states with GRF aid, it will have to be balanced a fourth time.

The actions taken so far consist of about two-thirds one-time, non-recurring "revenue enhancements" and "Medicaid creative accounting," and one-third actual cuts. California is now in the direst fiscal straits of any state; its multi-billion dollar problem

results from a failure to recognize that a state, unlike the government, cannot spend more money than it takes in. It's that simple. In his 2008 recap, renowned political analyst George Will referred to California Governor Arnold Schwarzenegger as being like Mrs. Jellyby in Dickens' "Bleak House," who practiced "telescopic philanthropy:"

"She neglected her chaotic family so she could devote herself to improving conditions in distant Borriboola-Gha. With California chin-deep in red ink, Schwarzenegger summoned an international conference to tweak the planet's thermostat."⁸

Let us pray that whatever is in the waters of California is not contagious.

Medicaid Creative Accounting. Much of the current state budget is based on continuing spending levels for the Medicaid program, including especially the expansion of the program for children (CHIP). In the budget-rebalancing scheme for last year, as described in the October, 2008, issue of *SBM*, instead of paying \$434 million in Medicaid bills due for services provided in FY 2008, the state paid the bills out of this year's (FY 2009) appropriations. At the same time, they had \$303 million "left over" at the end of the FY 2008's Medicaid appropriation but, instead of using that to deal with the \$434 million program, they encumbered it (an encumbrance that has recently been cancelled).

This smacks of "Medicaid creative accounting" but to what end?

Why wasn't the \$303 million in unspent FY 2008 money used to pay that amount of the \$434 million of overspending the state incurred that year?

The effect of what is being done is to make FY 2008 spending look smaller than it really was and, by using FY 2009 money in FY 2008, make FY 2009 spending look smaller also. It also helps to bolster the argument that the current biennial budget has the least increase in spending in decades. Adding
8 George F. Will, "2008: Rod, Eliot, Yuck," The Last Word, Newsweek, December 29, 2008/January 5, 2009.

the Medicaid spending back to the year in which it belongs would certainly soften that argument.

Oddly, what the administration is doing amounts to continuing to push current year spending farther and farther into the future. This administration did not originate the practice, but it has expanded it to the point where auditors (federal or state) may begin to question the extent to which a statutory provision permitting extending spending three months after the end of the biennium permits pushing more and more of one year's spending into the next year and then into the next biennium.

The State Constitution is clear in stating that appropriations (authority to spend) cannot extend beyond 24 months. Yet the practice of pushing Medicaid obligations for one biennium into the next has been expanded to the point of fiscal irresponsibility---the effect of which is to disguise the need for more state revenue, much as the use of other one-time revenue enhancements disguises the reality of a state in deep fiscal problems. Postponing an examination of the structural defects of Ohio's tax system and the reality of its appropriation needs does no service to any of its citizens

And then there is the creative accounting involving Medicaid GRF and Medicaid Non-GRF funds.

Increasingly, the state is taking more and more of its Medicaid spending out of the GRF and putting it into special accounts. Thus, when Medicaid spending is reported, it is almost always restricted to GRF spending, excluding the now-15 percent of the ODJFS Medicaid budget that is outside of the GRF, as well as the Medicaid spending by five other state agencies. Thus, growth in Medicaid spending is understated when limited in this way as is total state GRF spending. It is similar to enacting an expansion of the homestead property tax exemption for senior citizens and then counting that spending as applied to the state's support for primary and secondary education.

But the problem is even greater. What the state is proposing to do is explained in a footnote in OBM's

Budget Directive #9 (December 19, 2008):

"Non-GRF spending will be increased to offset GRF spending. Non-GRF funds are available because of increased collections from third party liability, prescription drug rebates, nursing home and managed care franchise fees. A total of \$93 million (state share) is available from these sources. We had planned to use these sources to offset GRF spending in FY 2010; however, we now expect that projected enhanced FMAP from the federal stimulus legislation will continue for at least 15 months, so enhanced FMAP is now expected to offset the need that these non-GRF funds would have otherwise supported in FY 2010. Taking the effects of federal reimbursement into account, this change reduces total GRF spending by \$311.1 million and increases non-GRF spending by the same amount in FY 2009."

These shifts, summarized in the previous table, will further make GRF Medicaid spending appear lower than it really is. It also relies on an expected \$362.9 million in federal matching rates going from an average of 62 percent of spending to 68 percent. If this is not forthcoming, the budget for FY 2009 will need to be rebalanced and that will occur under legislative supervision when the FY 2010 – FY 2011 biennial budget is under consideration. Hopefully, at that time there will be a full analysis and discussion of "Medicaid creative accounting."

Disaster or Increased Taxes? The state's next biennial budget will be the most difficult, and probably most contentious with newly politically split legislative chambers, since Governor Gilligan faced the legislature with a similar fiscal disaster in 1971. That time the result was a long and bitter budget not completed until well into the biennium when major changes in the state's revenue structure were enacted, including the imposition of the individual income tax.

Now, 37 years later, the state is in an even worse fiscal bind.

The end result will, this author predicts, be a significant increase in tax revenues, but that will occur only if the governor supports such action which—so

far—he has refused to do. The next budget will be the one on which the governor runs for re-election as will all of the members of the House and half of the Senators. How that plays into the production of a responsible budget for the next biennium remains to be seen.

New Year's Wish

My New Year's Wish for the state is that the next biennium's budget is somehow enacted by June 30, 2009.

My New Year's Wish for my readers is that you continue to read these reports so that I can justify continuing to write them.

Dick Sheridan

Do You Have Questions about Ohio's Budget?

E-mail your questions to budget expert Richard Sheridan at rsheridan@CommunitySolutions.com.

Answers to your questions could be the topic of future issues!