

# State Budgeting Matters

Volume 5

*Recovery Watch 5*  
November 20, 2009

## Highlights

- Ohio received more than \$800 million in extra federal funds from the Recovery Act in the fiscal year ending June 30, 2009 (FY 2009).
- These funds reached Ohio quickly, helping to close a significant budget gap.
- Recovery dollars saved health coverage for thousands of Ohioans and protected other state services from devastating cuts.
- Services for vulnerable populations including pregnant women, children in foster care, and workers with disabilities were saved thanks to the Recovery Act.

By Emily Campbell, Policy & Planning Associate  
The Center for Community Solutions

## Recovery Act has Prevented Cuts and Protected Services in Ohio

In Fiscal Year (FY) 2009, state government revenues collapsed and the Rainy Day Fund was not enough to cover a growing budget hole. Federal dollars from the American Recovery and Reinvestment Act (ARRA), totaling more than \$800 million, came to Ohio quickly enough to prevent a budget catastrophe during FY 2009.<sup>1</sup> They also allowed the state to protect services for vulnerable Ohioans and services that help those impacted by economic downturn.

### ARRA Provided Support for the State's Ability to Deliver Services to Vulnerable Ohioans

A combination of economic factors and tax changes enacted in 2005 caused dramatic declines in Ohio's revenue collections during FY 2009. Ohio's total General Revenue Fund (GRF) tax receipts posted a loss of 12 percent over FY 2008 collections, a total decline of \$2.3 billion.<sup>2</sup> The remaining balance in Ohio's Fiscal Stabilization (Rainy Day) Fund was not enough to fill this gap. Fortunately, federal stimulus provided additional support for Medicaid and other state programs, allowing Ohio to forgo additional cuts while finishing FY 2009 with a balanced budget.

The Ohio Department of Job and Family Services and the sister Medicaid administering agencies were by far the largest recipients of recovery dollars in FY 2009. The departments of Aging, Development, and Transportation also benefitted from stimulus funding. Additional ARRA funds (not included in the table on page 2) came into Ohio for infrastructure and other projects and were appropriated in H.B. 2, the Transportation Budget for FY 2010 – FY 2011.

### Timing of ARRA Prevented Further Budget Cuts

ARRA had an impact on Ohio state finances even before its passage in mid-February. By December, 2008, Ohio was facing a projected shortfall in tax receipts for FY 2009 of \$640 million, despite previous rounds of adjustments.<sup>3</sup> Rather than instituting cuts that could have reached 10 percent for some programs, Governor Strickland speculated that



THE CENTER FOR  
COMMUNITY SOLUTIONS  
RESEARCH • PLANNING • ACTION

1226 Huron Road East  
Suite 300  
Cleveland, OH 44115  
(216) 781-2944

[www.CommunitySolutions.com](http://www.CommunitySolutions.com)

**Table 1. Ohio GRF Revenue from Federal Stimulus received in FY 2009, by State Program (in millions)**

Dept	Program	TOTAL
ADJ	Sustainment Restoration	\$2.24
AGE	Senior Community Service Employment Program	\$0.25
DEV	Community Services Block Grant	\$9.61
DEV	State Energy Plan	\$0.08
DOT	Highway Infrastructure	\$0.12
JFS	Child Support Incentives	\$1.32
JFS	Enhanced FMAP (for all Medicaid administering agencies)	\$749.70
JFS	Food Stamps (State)	\$1.13
JFS	Social Security Case Out	\$0.97
JFS	TEFAP Administration	\$0.36
JFS	Title IV-E Adoption Assistance	\$3.00
JFS	Title IV-E Foster Care	\$7.28
JFS	Unemployment Insurance Administration	\$2.61
JFS	Workforce Investment Act—Adult	\$1.91
JFS	Workforce Investment Act—Dislocated Workers	\$2.25
JFS	Workforce Investment Act—Youth	\$5.60
	<b>TOTAL for FY 2009</b>	<b>\$808.75</b>

Congress would increase the federal Medicaid match, as it did to good effect in previous recessions. The state estimated that \$362.9 million in stimulus funding would come into Ohio in FY 2009, once a bill was adopted by Congress. This estimate included \$131.9 million additional federal Medicaid funding for the GRF.

To fill the rest of the gap, select state agencies were ordered to reduce spending for the remaining six months of the fiscal year. The aggregate GRF spending reduction of \$180.5 million meant that an across-the-board reduction

of 5.75 percent was applied to all line-items not specifically held harmless. Almost two-thirds of the cuts were to the state’s health and human service programs and services. The departments of Aging, Mental Health, and Development Disabilities were hit particularly hard, and even the administration recognized that their strategy would “impose new burdens on local governments and local service providers.”<sup>4</sup> Deeper and more painful cuts would almost certainly have been instituted without the promise of additional federal assistance.

Governor Strickland’s gamble paid off and federal funds authorized by ARRA were deposited in state accounts beginning in March, 2009. Pushing stimulus money to states quickly was a key aim of ARRA, so many well-established methods of federal-to-state transfers were utilized. Since federal reimbursement for Medicaid expenses is paid to states on a regular basis, the increased Federal Medicaid Assistance Percentage (FMAP) was some of the first recovery money to flow to states. This program alone accounted for 93 percent of the total ARRA revenues in the GRF in FY 2009.

In the first months of 2009, tax collections continued to deteriorate, falling more than \$950 million below the December revised estimates. Once again, federal stimulus funds meant that additional cuts were avoided. The state’s December calculations were based on the assumption that a 6 percent increase in FMAP would be effective for 15 months beginning January 1, 2009.<sup>5</sup> When ARRA was enacted, it contained a more generous increase in federal matching funds than the state had expected. Ohio received an increase in FMAP retroactive to October 1, 2009, which covered the final three-quarters of FY 2009.<sup>6</sup>

## *Medicaid Eligibility Expansions Preserved*

The Operating Budget for FY 2008 – FY 2009 (H.B. 119) contained several expansions in Medicaid eligibility for vulnerable Ohioans. Federal ARRA funds enabled the state to maintain these expansions through the biennium in the face of deteriorating revenue collections and growing budget holes. At the time of enactment in June, 2007, the total cost of these three expansions was expected to be \$44.3 million in FY 2009.

### *Pregnant Women (began January, 2008)*

Eligibility for the Healthy Start program under Ohio's Medicaid system was increased from 150 percent of the Federal Poverty Level (FPL) to 200 percent FPL. This program enables expectant mothers to receive pre-natal examinations and care at no cost for up to 60 days after giving birth. Babies born to Healthy Start mothers automatically qualify for Medicaid for their first year of life. This expansion was expected to cover an additional 2,850 pregnant women.

### *Youth Aging Out of Foster Care (began January, 2008)*

Previously, youth in foster care lost health coverage when they turned 18 and aged out of the system. The new provision enabled those young adults to continue to receive coverage under Medicaid until age 21, and was expected to provide coverage for approximately 1,600 youth on an ongoing basis.

### *Workers with Disabilities (began April, 2008)*

H.B. 119 established the Medicaid Buy-In for Workers with Disabilities Program (MBIWD), allowing those with disabilities to maintain their Medicaid coverage even while employed. Under MBIWD, individuals with disabilities with incomes up to 150 percent FPL are eligible for Medicaid. Those with incomes between 150 percent FPL and 250 percent FPL can still obtain Medicaid coverage, but are required to pay a monthly premium. By the end of FY 2009, 7,300 individuals were expected to enroll in MBIWD.

To balance the budget, Ohio emptied its Rainy Day Fund.<sup>7</sup> State dollars alone would not have been enough to balance the budget in the absence of federal recovery spending. Had Congress not acted to stabilize state finances, Ohio would have faced additional devastating spending cuts with only a few months left in the fiscal year.<sup>8</sup>

## **ARRA Funds Preserved Vital Health Care Services**

By providing additional Medicaid support, ARRA helped Ohio protect vital health care services at a time when increasing numbers of Ohioans needed help.<sup>9</sup>

Since the beginning of the current recession in December, 2007, the number of Ohioans enrolled in Medicaid has increased nearly 10 percent. Around 1.9 million people, or one in six Ohioans, now rely on Medicaid for their health care.<sup>10</sup>

At the same time, the recession has caused state revenue to decline sharply. Without the additional federal Medicaid support in the ARRA, Ohio likely would not have been able to handle the increased demand for health care. Fewer Ohioans would have access to health care as a result.

Without the extra Medicaid support, Ohio also would have been forced to eliminate services that help disabled people, foster children, and pregnant women that were enacted as part of H.B. 119, the Operating Budget for FY 2008 – FY 2009. (See box for details.<sup>11</sup>)

## **Temporary Nature of ARRA Presents Dangers**

Under ARRA, the increase in FMAP is scheduled to expire in the middle of FY 2011, on December

31, 2010. By that point, Ohio will have also exhausted the ARRA funds it received for education and other services. State revenue collections are expected to lag even a robust economic recovery. Even assuming robust growth of 5 percent per year, GRF revenues will not exceed FY 2008 levels until 2015.

Federal aid to strapped states provided significant economic benefits in the face of the largest tax revenue decline in decades. Cash management activities been stretched to the limit and Ohio has exhausted its resources with the emptying of the Rainy Day Fund. During FY 2009, ARRA saved jobs, boosted the economy, and reduced hardship. Extending state fiscal relief would strengthen the economic recovery and help ensure that Ohio is not forced to undermine ARRA investments with another round of deep budget cuts.

rapid program enrollment growth, which is currently about 20,000 new enrollees per month.”

10. Ohio Department of Jobs and Family Services
11. A description of all changes to the Medicaid program in H.B. 119 and their associated costs can be found in: Ohio Legislative Service Commission, *LSC Final Fiscal Analysis: The FY 2008-2009 State of Ohio Operating Budgets*. October 2007.

---

**References:**

1. “Monthly Financial Report.” Ohio Office of Budget and Management, 13 October 2009.
2. “Monthly Financial Report.” Ohio Office of Budget and Management, 10 July 2009.
3. *Budget Directive #9: Revised Revenue Estimates FY09*. Ohio Office of Budget and Management, 19 December 2008.
4. *Budget Directive #10: Process to Reduce Authorized Expenditures*. Ohio Office of Budget and Management, 19 December 2008.
5. *ibid.*
6. For a full description of FMAP changes under ARRA and expected impact on Ohio see: Campbell, Emily. “Impact of the Increased Federal Medicaid Match”, *State Budgeting Matters: Volume 5, Recovery Watch 4*, 24 August 2009.
7. Ohio ended FY 2009 with an unobligated GRF balance of \$389.1 million due to higher than expected federal grants and transferring the remainder of the Rainy Day Fund.
8. Spending reductions made near the end of a fiscal period have a greater impact than cuts near the beginning. Any cuts must be applied to annual appropriations amounts, but must be implemented during the remainder of the fiscal year. Therefore cuts with only six months left in the fiscal year have twice the impact.
9. Ohio officials reported to the Government Accountability Office that, “Funds made available as a result of the increased FMAP will be used to offset the state budget deficit, allowing the state to maintain Medicaid eligibility, attempt to avoid reductions in services, and assist the state in responding to

**Do You Have Questions about the ARRA?**

E-mail your questions to Emily Campbell at [ecampbell@CommunitySolutions.com](mailto:ecampbell@CommunitySolutions.com), or post a comment on our Discussion Board at: <http://boards.CommunitySolutions.com>