

# State Budgeting Matters

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## Highlights

- Ohio's current biennial operating budget is balanced using more than \$2 billion in federal recovery funding.
- This ARRA funding is supporting the largest areas of the state budget, including primary and secondary education, higher education, adult corrections, and Medicaid.
- The one-time support is preventing teacher layoffs, allowing a tuition freeze at public colleges and universities, helping Ohio meet its obligation to provide health care to low-income children and families, and protecting public safety jobs.
- Maintenance of effort requirements mean that Ohio must maintain funding for education and eligibility rules for Medicaid.
- State fiscal relief is helping Ohio at a particularly precarious time for the state budget.

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## Federal Health and Education Assistance Vital in Current State Budget

As the recent recession deepened, state tax collections in Ohio and across the country plummeted. Most states, including Ohio, have a balanced budget requirement that means that they must resort to spending cuts or tax increases to cover the shortfall in revenues. Recognizing the strain on state budgets and the economic harm that draconian cuts would likely cause, Congress included substantial assistance for state budgets in the American Recovery and Reinvestment Act of 2009 (ARRA). This included the State Fiscal Stabilization fund and an expanded federal Medicaid match. To receive the funds, states were required to maintain eligibility levels in Medicaid and minimum spending levels on K-12 education and higher education. Ohio is set to receive around \$4.8 billion in direct state aid including \$3.01 billion in additional federal Medicaid funds,<sup>1</sup> \$1.46 billion to cover education shortfalls, and \$326 million from the general government portion of the State Fiscal Stabilization Fund.

Federal recovery funding makes up approximately 6 percent of total General Revenue Fund (GRF) revenues for the Fiscal Year (FY) 2010-2011 biennium and is an important source of one-time support at a time when other revenue sources are depressed. The \$2.3 billion in federal stimulus for Ohio's GRF meant that other revenue sources did not need to be found to prevent further cuts. The money is supporting the largest programs funded by the state, thus enabling Ohio to maintain state support for key priorities including education, health care, and public safety, protecting jobs in key industries, and preventing further destabilization of Ohio's economy.

State fiscal relief in ARRA comes in two forms – a temporary increase in the Federal Medicaid Assistance Percentage (FMAP) and the formula grants from the newly-created State Fiscal Stabilization Fund (SFSF). Nearly \$500 million in additional FMAP and \$1.8 billion in SFSF will be deposited into GRF during FY10-11. Even with federal stimulus, Ohio's current operating budget represents a decrease of \$3.6 billion in revenues after the adjusted FY 08/09 levels. Additional recovery dollars are supporting other areas of state operations, but are not directly appropriated in the FY 10/11 Main Operating Budget. Rather, these programs are included in the Federal Special Revenue Fund (FED).<sup>2</sup> Recovery funding for more than 60 additional federal grants-in-aid support an array of programs ranging from Workforce Investment Act employment activities to Community Development Block Grants.<sup>3</sup>



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## Recovery Funds are Included in the Budgets of Several State Departments

Medicaid is the fastest growing portion of the state budget and will account for more than \$16 billion per year by FY 2011.<sup>4</sup> The federal government reimburses states for a portion of their spending on this health care program. Under ARRA, the federal government will pick up more of the cost with an across-the-board increase for all states and additional FMAP for states, like Ohio, experiencing high unemployment. Ohio's federal Medicaid match has risen more than 10 cents on every dollar, to 73.47, because of ARRA. Under current law, the ARRA FMAP expires at the end of calendar year 2010 and FMAP will revert to normal levels for the last six months of the biennium.<sup>5</sup>

Medicaid revenues for the ODJFS portions of the program are deposited into the GRF. The increased GRF FMAP means \$219 million in one-time revenue during FY 2010 and \$269 million in FY 2011. Under the budget framework, an additional \$1.3 billion in FY 2010 and \$290 million in FY 2011 is deposited into non-GRF funds.

The federal support of Medicaid is especially important to Ohio as rising unemployment reduced the amount of available state resources at the very moment that more people looked to government to help meet their basic needs. Enrollment in Medicaid has grown by more than 10 percent in Ohio over the past two years as the unemployment rate nearly doubled. Today more than two million Ohioans rely on Medicaid for their health coverage, including one in three Ohio children. The largest increases are in the Covered Children and Families portion of the program, which captures the newly unemployed and workers who have lost health insurance as a result of reduced work hours or employers dropping coverage.

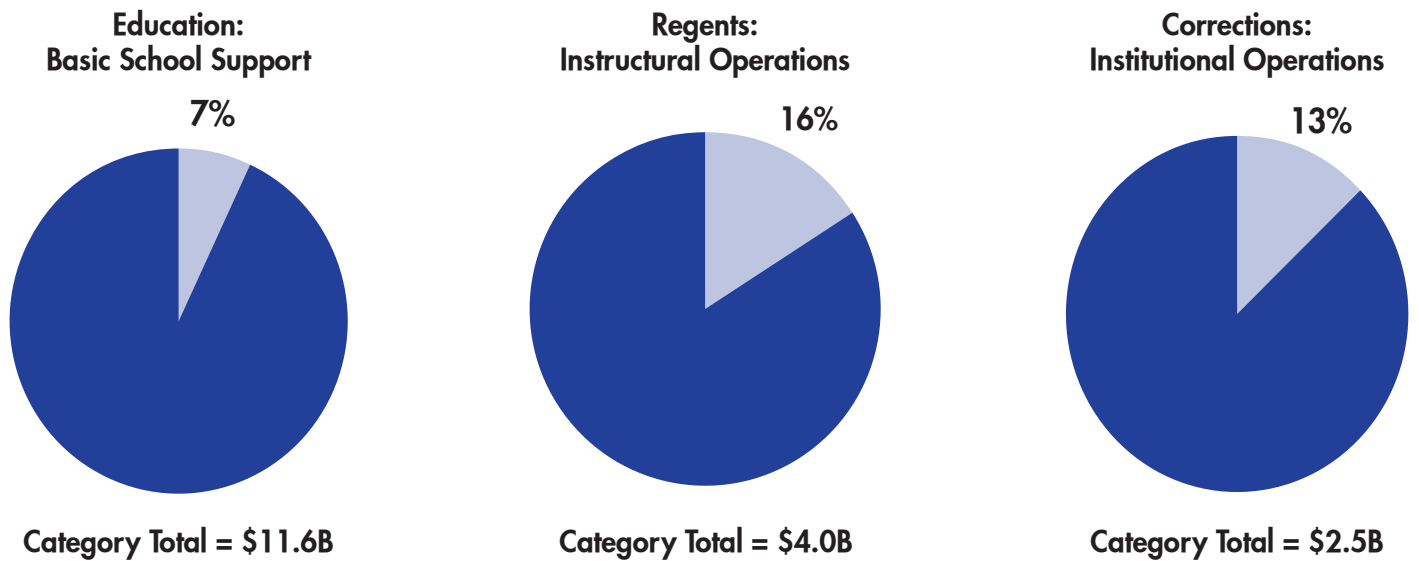
In addition to the increased Medicaid match, Congress created a new grant-in-aid program to support state budgets. The SFSF is split into two parts – the Education Services Fund and the Government Services Fund. The Recovery Act stipulates that 81.8 percent of a state's SFSF allocation must be used for education including elementary, secondary, postsecondary education, and certain early childhood programs. States have a great deal of discretion over the remaining SFSF dollars. According to the U.S. Department of Education, who administers the SFSF, states should use the Government Services Fund to “help create jobs, reduce unemployment, stabilize and improve the State's economy, and avert the need to raise taxes.”<sup>6</sup> Ohio used its entire allocation of Government Services stimulus for the Department of Rehabilitation and Corrections.

In the Ohio Department of Education, Foundation Funding is the state payments to all school districts, community schools, and joint vocational school districts in the state. Individual district allocations are determined by the school funding model. This line item is included in the Basic School Support funding category, along with Career and Technical Education Match, Community Schools, and Pupil Transportation. Federal stimulus accounts for seven percent of the \$875 million in total GRF appropriations for this category in FY 2010/2011.

**Figure 1. Appropriation of State Fiscal Stabilization Funds in GRF<sup>7</sup>**

Description	FY 2010	FY 2011	Total
Department of Education: Foundation Funding – Federal Stimulus (200551)	\$417,583,913	\$457,449,362	\$875,033,275
Board of Regents: State Share of Instruction – Federal Stimulus (235644)	\$281,022,236	\$308,802,662	\$589,824,989
Department of Rehabilitation and Correction: Institutional Operations – Federal Stimulus (501620)	\$110,029,321	\$214,488,988	\$324,518,309
<b>TOTAL</b>	<b>\$808,635,470</b>	<b>\$980,741,012</b>	<b>\$1,789,349,482</b>

Figure 2. Proportion of recovery funding in each category (GRF sources only)



At a time when the state is implementing the new Evidence Based Model for school funding, a reduction in Foundation Funding would have derailed the process before it began. The federal funding is preventing teacher layoffs and enabling schools to maintain high quality programs.

Stimulus dollars are also an important part of the higher education budget for FY 2010 and 2011. State Fiscal Stabilization funds are used to prop up the State Share of Instruction in the Board of Regents which provides unrestricted operating subsidies to Ohio's 61 public colleges and universities. In the current budget, around 16 percent of the total college and university Instructional Operations is from recovery funds.

According to the Governor's Office, this revenue has secured the tuition freeze at all public institutions of higher education for FY 2010 and at community colleges and technical colleges and university regional campuses through FY 2011.<sup>8</sup> Higher education has been identified as critical to Ohio's future prosperity and federal stimulus is ensuring that Ohio maintains its commitment to this important priority.

Finally, SFSF dollars are supporting public safety spending in the Department of Rehabilitation and

Corrections. The funding is used for Institutional Operations, which pays for the daily operations of prisons including payroll, purchased services, maintenance, and equipment costs. These operations are critical to public safety, and the Department of Rehabilitation and Corrections has the largest staff of any state agency with more than 13,000 employees. However, that staff has been reduced by more than 1,000 employees since 2007 at a time when correctional facilities are operating well above capacity.<sup>9</sup> The ratio of inmates to corrections officers has increased to seven to one. Without the federal support, the Department may have been forced to close at least one prison and eliminated a large number of staff positions.<sup>10</sup>

### Recovery Funding Includes Maintenance of Effort Requirements

While recovery funding is supporting critical state investments and priorities, it is important to note that the federal dollars come with strings attached. Both the SFSF and increased FMAP require states to meet Maintenance of Effort (MOE) requirements. For education funding, states are required to maintain state support for elementary and secondary education

and Institutes of Higher Education at least at the level of such support in FY 2006. This means that Ohio must maintain spending on education programs or risk losing the entire education portion of SFSF. As education has been largely held harmless during previous rounds of budget adjustments, it is possible that state funding in this area would have been maintained even with the MOE in place. However, the federal dollars meant that fewer state resources were needed for portions of the education budget and can be used to fund other areas.

The MOE requirements have already influenced the decisions of state policy makers. When an Ohio Supreme Court decision meant that estimated revenue from the installation of Video Lottery Terminals at Ohio racetracks would not be received as planned, the need to maintain education funding to protect the SFSF was used as a main argument by proponents of freezing the income tax at 2008 levels.<sup>11</sup> The loss of \$851 million in state revenue from VLTs could have jeopardized the entire \$1.5 billion of education SFSF dollars at risk.

For Medicaid, the MOE requires states to maintain enrollment and eligibility procedures and policies that were in place in July 2008. Specifically, states cannot cut eligibility levels, increase premiums or enrollment fees, or enact more restrictive enrollment policies. The same MOE requirements for Medicaid were extended to 2014 as part of the federal Health Reform Legislation.

Since Medicaid is such a large portion of the state budget, even small changes in the program can have substantial impact on the overall spending levels. The MOE is protecting health coverage for over 2 million Ohioans, but it also limits the state's choices to change the program in ways that would reduce costs.<sup>12</sup> Under the federal Health Reform Law, the MOE continues long after federal support through the increased FMAP expires. This will put pressure on the budget during the next biennium and will be an important consideration during the FY 2012/2013 budget debate.

## Additional Fiscal Relief Would Help Ohio

Congress is currently considering an extension of the increased FMAP. A six-month extension, which would take ARRA FMAP to the end of FY 2011, is included in bills that have passed by the U.S. House and U.S. Senate. However, the legislation is held-up in the House over negotiations on additional offsets for non-emergency provisions unrelated to stimulus. An FMAP extension would mean around \$750 million for Ohio, some of which would be deposited in the GRF. Proposals have also been made to provide more support for state budgets through an education and public safety jobs fund similar in design to the SFSF. Even if these extensions are approved, federal recovery funds will not be available at the same levels for the next biennium. The \$2.3 billion that is currently being used to maintain services in these critical areas will need to be replaced. Cuts in other areas cannot make up for the shortfall that will result from the expiration of federal recovery assistance, depressed tax collections, and Ohio's structural deficit.

State fiscal relief in ARRA is helping Ohio at a particularly precarious time for the state budget. Without the federal funds, Ohio would have been required to fill an additional \$2.3 billion budget hole on top of revenue increases and spending cuts. Meanwhile, direct state aid is having a substantial impact on jobs.<sup>13</sup> The SFSF dollars were used to preserve funding and jobs in government agencies, correctional facilities, and schools. Medicaid paid for services at hospitals, doctors' offices, and nursing facilities across the state. Recovery dollars in GRF are supporting the largest portions of the operating budget and those that are critical for Ohio's future.

### Notes:

1. Only a portion of federal Medicaid funds are deposited into GRF.
2. Ohio deposits federal reimbursements earned on GRF spending for programs administered by ODJFS, such as Medicaid. Other federal funds are deposited into Federal Special Revenues Funds and appropriated by name of the grant-in-aid that produced the funds.
3. For more information on expected Ohio allocations under additional ARRA programs see “American Recovery and Reinvestment Act of 2009: Select Health, Education, and Social Service Appropriations” [http://www.communitysolutions.com/assets/1/AssetManager/ARRA%20Summary\\_Updated%20040909.pdf](http://www.communitysolutions.com/assets/1/AssetManager/ARRA%20Summary_Updated%20040909.pdf).
4. Medicaid is administered by five state agencies, the Departments of Job and Family Services, Aging, Developmental Disabilities, Mental Health, and Alcohol and Drug Addiction Services, with the largest portion (84 percent) administered by Job and Family Services. For a description of Ohio’s Medicaid spending see *State Budgeting Matters* “FY 2010-2011 Medicaid Budget” The Center for Community Solutions, 16 April 2009.
5. For a full discussion of the impact of the Medicaid match, see Campbell, Emily “Impact of the Increased Federal Medicaid Match” *State Budgeting Matters*, 24 August 2009.
6. U.S. Department of Education, “Guidance on the State Fiscal Stabilization Fund Program.” April 2009. <http://www2.ed.gov/programs/statestabilization/guidance.pdf>
7. The appropriation of SFSF funds was modified through Controlling Board request #OBM0100041 in April 2010 to ensure that the state would meet the maintenance of effort and Use of Funds provisions for ARRA. This chart reflects the updated appropriations. The modifications did not result in an overall change in SFSF appropriations for the state as a whole.
8. Ted Strickland, Governor. Letter to Arne Duncan, Secretary of Education, “Application for Initial Funding Under the State Fiscal Stabilization Fund Program.” 1 June 2009. [http://recovery.ohio.gov/docs/certifications/ARRA\\_SFSF\\_060109.pdf](http://recovery.ohio.gov/docs/certifications/ARRA_SFSF_060109.pdf)
9. Ohio’s prisons have a capacity of 38,665 beds but currently house nearly 50,889 prisoners.
10. Rogers, Joseph. “LSC Greenbook, Analysis of the Enacted Budget: Department of Rehabilitation and Correction.” Ohio Legislative Service Commission, September 2009. <http://www.lbo.state.oh.us/fiscal/Budget/greenbooks128/drc.pdf>
11. For an example of the arguments used, see “Budget Deliberations Remain Stalled as Strickland Makes Case, Senate GOP Looks at Options.” *The Hannah Report*, 15 December 2009.
12. The MOE for Medicaid applies only to eligibility. The state has other options to control spending including reducing the price and utilization for many services
13. For more information on the jobs impact of state fiscal relief see: Campbell, Emily “State Fiscal Relief Has Helped Ohio” The Center for Community Solutions 7 January 2010, <http://www.communitysolutions.com/assets/1/AssetManager/StateFiscalReliefHasHelpedOhio010710.pdf>

### 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>