



Testimony of

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Good morning Chairman Carey, Ranking Member Miller, and members of the Finance and Financial Institutions Committee. I am Jon Honeck, a Public Policy Fellow with The Center for Community Solutions, a nonprofit organization that helps policymakers, community leaders, and service providers to identify health, social, and economic challenges facing Ohio and Greater Cleveland, and to target resources toward sound, cost-effective solutions.

I am here today to offer the views of Community Solutions on health and human services programs in House Bill 1. Economic circumstances have made life extremely difficult for many Ohio families and have created a very challenging and complex budget environment. Caseloads are growing in Medicaid, TANF, and other social programs while state revenues are plunging. Safety net service providers are reporting that they are seeing increasing numbers of people needing assistance, many of whom have never accessed public services before.

Despite the crisis, our state must maintain an adequate social safety net that helps Ohioans who are in need. We can do this by shoring up our revenue system to meet immediate challenges, lessen our reliance on one-time funds, and meet our long-term needs. We also need to strive for efficiencies in the spending side of the budget, and I will offer some options that will strengthen the long-term financial structure of Medicaid, the largest state expenditure. These policy choices can lower Medicaid's long-term growth rate while allowing it to meet the needs of the 2.2 million Ohioans who rely on its services.

If we include the IDEA/Title 1 education funds that are being passed through to the school districts for basic operations, the plan for this budget is to rely on more than \$6.8 billion in one-time federal and state revenue over the biennium. With the latest revenue announcement from OBM that this year's budget gap is \$912 million, this plan is no longer feasible. A large portion of the rainy day fund will have to be used in this fiscal year, making it unavailable for H.B. 1. Moreover, both the OBM and LSC revenue forecasts for H.B. 1 were too optimistic and will have to be revised downward for the conference committee.

Need for Medicaid Reform

With no change to current policies Community Solutions estimates that the state will face an \$8 billion shortfall two years from now in the FY 2012-2013 biennium. The policy choices made by the House with respect to Medicaid health care provider fees and reimbursement rates will increase costs. The executive budget used a substantial proportion of increased nursing home franchise fees and new hospital provider fees to support the general operations of the program. The House made changes to return a higher proportion of the fees to the provider organizations through higher reimbursement rates, building an escalating cost structure into the program without extending coverage to uninsured individuals or receiving any promises of higher quality.

Specifically, the House delayed full implementation of the price-based reimbursement system for nursing homes, which should have been fully phased-in in FY 2010, and increased the reimbursement rate. The combined biennial costs of these changes to the formula are \$233.7 million (All Funds). The House also removed a provision that would have limited payments from managed care organizations (MCOs) to hospitals to the Medicaid fee for service rate. This change eliminates an opportunity to save \$145.6 million over the biennium (All Funds). We recommend restoration of the original executive proposal.

We recommend keeping House provisions that further the work of the Unified Long Term Care Budget workgroup by adding flexibility to consumers' long-term care options. The elimination of the 1,800 person cap on the Assisted Living program, the expansion of Choices statewide, and the expansion of PACE to more sites are positive developments. Also, the option to apply for a consolidated Medicaid waiver for these programs will increase home and community based care options to better meet the needs of consumers.

We recommend that this budget also take on the task of long-term Medicaid reform. Building on the unfinished business of two previous Medicaid reform commissions, we urge the Senate to consider the following reforms that will create greater efficiencies and cost containment:

- Beginning in FY 2010, move state and federal Medicaid appropriations into a single set of line items within ODJFS, including unified appropriations for long-term care services to various populations. Interagency agreements should govern management of Medicaid funds flowing to partner agencies and systems. The unified long-term care budget should be accompanied by December 31, 2010 sunset provisions of statutes governing nursing home and other provider payments, as well as Certificate of Need (CON) provisions for long-term care facilities.
- Coordinate the enormous purchasing power of state government to stabilize health care costs on behalf of Ohio taxpayers and businesses. Create a cabinet-level Ohio Department of Health Plans to (1) implement the recommendation of the Ohio Commission to Reform Medicaid (OCRM) and the Ohio Medicaid Administrative Study

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Council (OMASC) to manage Medicaid through a single cabinet level agency beginning July 1, 2010; (2) purchase health services on behalf of state employees; (3) make provision for collaborative health purchasing opportunities for local governments, school boards, and public retirement systems on a voluntary basis.

- Pursuant to the OMASC recommendations, establish a physician-led medical division within the new department that is charged with (1) adopting evidence-based protocols for prevention and disease management, (2) aligning payments with protocols, (3) providing large-scale physician, nurse and allied health training on protocols and payment reforms, and (4) tracking results for preventive and primary care services, as well as care management for chronic conditions beginning with diabetes, COPD, and chronic heart disease.
- Adopt competitive purchasing procedures to become effective no later than July 1, 2011, including (1) direct contracting with integrated health systems as well as managed care organizations; and (2) selective contracting with providers based upon quality and price (which will require repealing any-willing-provider provisions for behavioral health services).
- Adopt, *and manage to*, rolling 5 year health care spending targets for Medicaid and public employees, aimed at bringing changes in health care costs into line with changes in the overall economy, including incomes and state revenues. Factors used in establishing spending targets might include (1) Medicaid per member/per month (PMPM) costs for each category of consumers, (2) the Consumer Price Index – All Urban Consumers, and (3) projected changes in state revenues.

The adoption of these changes will go a long way toward ensuring the long-run financial stability of the Medicaid program. They will not, however, close the enormous budget gap that the state faces in the FY 2010-2011 or the even greater gap likely for FY 2012-2013. After three rounds of program cuts over the last year and a half, it is time to recognize that increased revenues must be part of the solution. The situation we are in is not unprecedented; we have seen similar situations in previous recessions, and we have dealt with them through a mix of tax hikes and spending cuts.

Need for Increased Revenues

Irrespective of the current economic crisis, our revenue system has been severely damaged by five years of tax cuts. In FY 2010, the tax changes set in motion by H.B. 66 (126th G.A.) will remove over two billion dollars from the General Revenue Fund. The concepts of fairness and equity are fundamental to tax policy. As we look at the need for new revenues, we need to improve fairness and equity in our tax system.

In our recent report on state tax policy, *Taxing Issues (Redux)*, we found that over the past three decades the responsibility for financing state and local government has shifted from businesses to individuals.¹ These policies should not be continued. Three

¹ In 1975, business paid 40 percent of all state and local taxes. The business share declined to 30 percent in 2003 and we estimate that it will fall to 26.5 percent in FY 2010.

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decades of experience in Ohio proves that reduced business taxes do not lead to economic development. We should address this imbalance between business and individual taxes by increasing the rate on the commercial activity tax (CAT) to 0.34 percent, which would raise \$800 million over the biennium. The CAT is a new tax with few parallels in other states. The CAT rate is currently set too low, and we should recalibrate it to ensure that it meets the reimbursement schedule for local tangible personal property tax losses and returns a significant amount of funds to the state GRF.

Restoring the top rate of the income tax would raise revenue in a progressive manner by taxing those most able to pay (with household incomes over \$200,000) and who have seen the greatest benefits from recent tax cuts. Restoring the top rate of the income tax would raise \$940 million over the biennium. The homestead property tax credit expansion is another policy choice that is unsustainable in the current environment. The expansion of this credit to all seniors is not supported through the GRF. Its \$257 million cost in FY 2009 is financed with investment earnings on the securitized tobacco funds and, ostensibly, savings on avoiding general obligation debt service due to securitization. Given the recent emergency refinancing of \$53 million in debt service to balance the FY 2009 budget, and the planned transfer of an additional \$400 million in FY 2010-2011, the state is having difficulty in managing its debt service obligations. If the homestead exemption is limited to households with less than \$40,000 annual income, the state can avoid \$288 million in costs over the biennium.

Other options include adding additional services to the sales tax base, which must continue to change as our economy relies less on the purchase of tangible goods. Although Ohio has used temporary sales tax rate increases in the past to get through tough economic times, this regressive tax is less desirable because the poor and unemployed would shoulder a greater share of the burden.

Some potential revenue and cost avoidance scenarios are outlined in the table below.

Some potential revenue options for FY 2010-2011

Option	Biennial Amount (millions)
Restore top income tax rate to 2004 level (7.5 percent)	\$ 940
Eliminate \$20 personal exemption credit (Income Tax)	\$ 305
Extend sales tax to additional services	
Entertainment Events (Admissions)	\$ 110
Lobbying and Public Relations	\$ 23.2
Debt Collection	\$ 43
Raise sales tax rate by ½ percentage point	\$1.35 Billion
Means-test homestead exemption credit (property tax)	\$ 288
Raise Commercial Activity Tax Rate to 0.34 percent	\$ 800

These are just some of the available options. The OBM Tax Expenditure Report lists over 100 separate tax breaks that will remove \$15 billion from state revenues in the next biennium. These existing tax breaks, as well as all of the new tax breaks in H.B. 1,

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should be scrutinized very carefully. Another option, restoration of all income tax rates to 2008 levels, would raise more than \$800 million over the biennium. The key point is that we act responsibly and take steps now to start dealing with our structural deficit.

A revenue package that raises at least \$1 billion per year will allow us to meet critical social safety net needs as well as avoid the use of some one-time funds, such as the \$400 million transfer of debt service that will increase costs in future budgets. Given the worsening economic situation and the likely downward adjustment of the FY 2010-2011 revenue projections, some additional revenue will be needed to balance the budget.

Thank you for allowing me the opportunity to testify today. I would be pleased to answer any questions you may have.