Testimony on H.B. 153, As Introduced

House Finance & Appropriations Committee
Human Services Subcommittee

April 7, 2011

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Good afternoon Chairman Burke, Ranking Member Goyal, and members of the Human Services Subcommittee. I am Jon Honeck, Director of Public Policy for the Center for Community Solutions. With me is Susan Ackerman, a Senior Fiscal Analyst with our organization and an expert in the financing of human service programs. Thank you for allowing us the opportunity to present the views of The Center for Community Solutions on House Bill 153, a budget framework that will reshape human service programs in our state.

The bill contains some much-needed and long overdue changes to the Medicaid program, including initiatives to establish health homes and to coordinate the care of individuals with chronic diseases, to integrate physical and behavioral health care, and to create a unified long-term care budget. These reforms have the potential to improve health outcomes and control costs. We also support the elevation of behavioral health Medicaid administration and funding to the state level and the consolidation of Medicaid financing for most programs within the Department of Job and Family Services.

Given the state’s fiscal condition we believe that is appropriate to reform the payment systems for hospitals and to complete the phase-in of the price-based reimbursement system for nursing homes.

Unfortunately, some of the long-term goals established by the Office of Health Transformation will be undermined by a lack of resources necessary to provide community based care. Also, the budget continues a trend of cutting basic safety net
services. These shortfalls are caused by a one-sided, unbalanced approach to filling the $8 billion budget gap.

In our 2010 report *Thinking the Unthinkable: Finding Common Ground for Resolving Ohio’s Fiscal Crisis*, we suggested a balanced approach to resolving the state’s budget deficit that relied on a mixture of changes in tax rates, reduced tax expenditures, programmatic reforms, and spending cuts to achieve balance. From this perspective, certain policy choices in HB 153 are very disappointing, especially its overreliance on spending cuts, massive reductions in tangible property tax reimbursements, and continued infusions of one-time revenue. It is worth noting that the proposed lease of the state’s wholesale liquor distribution franchise is not just another example of one-time revenue, it will also create a new revenue gap for future budgets.1

The executive budget could have taken a different path and extended the freeze on the final income tax cut. This would have gained over 400 million dollars per year. With year-to-date income tax receipts up 8.5 percent over last year, it is clear that the freeze is not harming the economy in any way. A smaller revenue gain would occur by freezing the automatic adjustment of tax brackets for inflation. This is estimated to cost the state $25 million in 2010.

Another option for the income tax is to restore the top rate on the highest income bracket. These taxpayers would be able to deduct part of the increase from their federal taxable income. In a previous budget crisis in the early 1990s, a budget deal led to a 7.5 percent top rate for incomes over $200,000. This did not impede a robust recovery in the 1990s that pushed Ohio’s unemployment rate below the national average during the latter half of the decade.

It would also be preferable to raise the rate of the Commercial Activity Tax by 1/10th of one percent to fully cover the costs of the TPPT reimbursement and return some surplus to the GRF. Social service levies received 174.6 million dollars in TPPT reimbursements in 2010 and will lose funding due to the proposed acceleration.

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1 In 2010, 310.5 million dollars in liquor profits were used for both GRF and non-GRF purposes. At this level, a 25-year lease would generate losses of $7.76 billion (nominal dollars). Even assuming that Jobs Ohio assumes some of the economic develop functions currently financed through debt service, losses of this magnitude create even more strain on state finances.
The scenarios we outlined in *Thinking the Unthinkable* relied in part on reducing tax expenditures, which are tax credits, deductions, and exemptions that are built into the tax code. This budget does not close a single tax loophole, and in fact expands the existing Job Retention Tax Credit. The Tax Department has identified 7.4 billion dollars of tax expenditures in Ohio’s tax code, and even this is not a comprehensive list of tax breaks. The state does not review tax breaks in a systematic way and we do not know whether they are achieving their intended purposes.

In an opinion piece published in the *Wall Street Journal* last year, Martin Feldstein, a Chairman of the Council of Economic Advisors under President Reagan, suggested reducing federal tax expenditures as a way to help resolve the federal fiscal crisis. In our view, policymakers at the state level should follow this advice. Feldstein provided a strong argument as to why tax expenditures are just that – spending by another name, and why reducing these expenditures is not equivalent to a tax increase:

But eliminating tax expenditures does not increase marginal tax rates or reduce the reward for saving, investment or risk-taking. It would also increase overall economic efficiency by removing incentives that distort private spending decisions. And eliminating or consolidating the large number of overlapping tax-based subsidies would also greatly simplify tax filing. In short, cutting tax expenditures is not at all like other ways of raising revenue.

As we look at tax expenditures at the state level, some recent history is in order. In 2003, the Taft Administration proposed ending a number of tax breaks and modernizing the sales tax by extending it to some services to keep up with changes in the economy. In the end, the General Assembly adopted only a few of the administration’s suggestions and opted instead for a temporary sales tax rate increase. Some of the administration’s suggestions are still very relevant today, including:

- Extending the sales tax to entertainment admissions ($55 million/yr), and lobbying and public relations ($13 million/yr);
- Removing the sales tax exemption for items used to prepare food for sale for immediate consumption ($11 million/yr);

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- Limiting the 10% and 2.5% real property tax rollbacks to first 1 million dollars of a home’s market value, (saving about $5 million/yr in GRF expenses)

Some of the other tax expenditures that should be considered for reform are:

- The Homestead property tax credit, which was extended to all senior citizens without regard to income. The expansion cost the state 250 million dollars initially and the expense will only grow as baby boomers retire.
- Tax rates on “other” tobacco products, which are lower than taxes on cigarettes. Current lower levels of taxation on other tobacco products encourage young people to switch to these products in spite of health risks.
- Credits targeted at particular industry or activity. Where authorization limits are in place, allowable credit amounts could be trimmed across the board in light of the state’s fiscal crisis.

Most of all, in the long run, it is vital that we establish mechanisms to evaluate tax expenditures and periodically sunset them.

**Medicaid Budget Preserves Access, Stabilizes the Behavioral Health System and Offers Reforms to Improve Health Outcomes at Lower Costs**

Without significant reform, growth in Ohio’s Medicaid program will overwhelm spending in all other state programs. In fact, over the past decade as Medicaid spending has increased, funding for non-healthcare programs and supports for vulnerable populations has fallen.

While we disagree that government spending is the root cause of Ohio’s economic woes, given the Governor’s refusal to consider revenue options to close the state’s structural deficit, we are pleased with some of the proposals that are included in this cuts-only budget.

Specifically, the budget preserves Medicaid eligibility and access to optional services. Traditionally, these are two areas that states look to first to save money. Reductions to eligibility would have harmed vulnerable populations including more than 1.2 million of Ohio’s 2.9 million children who rely on the Medicaid program for their health coverage. “Optional” Medicaid services such as prescription drugs, hospice care, and
community mental health services provide cost effective care and enable people to avoid care in more expensive settings.

Decentralization of funding and a lack of investment have brought Ohio’s community behavioral health system to the brink of failure and collapse. Currently, fragmented systems have created perverse incentives to provide care for patients in more expensive and, sometimes, inappropriate settings. Relieving counties of this responsibility will enable the state to create consistent and comprehensive policies to ensure better care for Medicaid-eligible individuals with behavioral health disorders.

Whether you agree with federal health reform or not, our current health care system is unsustainable. The creation of the Office of Health Transformation and the agenda that has been set will move Ohio’s Medicaid program in the right direction using a number of strategies to reduce system costs and improve health outcomes.

Deep Cuts Create Areas of Concern

Still, we are concerned about cuts that undermine Medicaid transformation goals and basic safety net services.

✔ **Reductions in the PASSPORT program threaten Long Term Care Rebalancing** – To avoid waiting lists for PASSPORT and stay within current funding levels, a decision was made to reduce service utilization in individual plans, yet 77 percent of all PASSPORT funding is spent on personal care assistance to help recipients perform activities of daily living – bathing, dressing, transferring, toileting, eating, and grooming. Reductions of almost $100 million over the biennium will decrease the frequency of personal care assistance visits, which will threaten the ability of many seniors to remain safely in their homes. The proposed changes will drive utilization towards more intensive and expensive settings – exactly the opposite direction this system needs to go to be sustainable over the long run.

✔ **Funding for the community behavioral health system is inadequate** – While elevating the Medicaid responsibility to the state is a positive move, the funds that remain for allocation to the county boards are insufficient to meet the needs of individuals with behavioral health disorders who do not qualify for Medicaid (roughly 40 percent of individuals in the mental health system and 60 percent of individuals in the alcohol and drug addiction system do not qualify for Medicaid). In order to reduce
spending in our nursing home, hospital, and prison budgets and to improve health outcomes for individuals, we need more, not less community services, particularly for individuals with severe and persistent behavioral health disorders.

- **Reductions to county human services agencies further weaken an already compromised safety net** – Even though county human service agencies (including county departments of job and family services, child support, and child welfare) are facing record demand, funding is reduced by more than $100 million per year. This is on top of a cut of more than $200 million in the last biennium. The Ohio Department of Job and Family Services and county agencies have worked to consolidate and streamline processes to ensure access to the safety net for Ohio’s most vulnerable citizens, but there are limits to what can be accomplished in the current structure. With more than 15 percent of all Ohioans and 25 percent of all children currently living in poverty, it is time to renew discussions about how we combat poverty in this state.

- **Additional funding is needed to support HIV/AIDS programming in FY 2013** – In last week’s subcommittee hearing the Department of Health admitted that while they have sufficient funding through accumulated drug rebates for the OHDAP program through Ryan White in FY 2012, they do not have resources to maintain the program at current levels for FY 2013.

Thank you for the opportunity to testify on House Bill 153 and we are happy to answer any questions.