OHIO BUDGET PLANNING AND MANAGEMENT COMMISSION

By the House Majority and Senate Minority Members

December 8, 2010

Commission Members

Representative Vernon Sykes, (D-Akron), Co-Chair	Senator Shannon Jones, (R-Springboro), Co-Chair
Representative Ron Amstutz (R-Wooster)	Senator Dale Miller (D-Cleveland)
Representative Jay Goyal (D-Mansfield)	Senator Chris Widener (R-Springfield)

Overview

HB 1 of the 128th General Assembly, Ohio's biennial operating budget, created the Budget Planning and Management Commission (BPMC). The commission's stated goal is to present a menu of items detailing options for balancing the state's FY 12 – FY 13 budget. The language creating the commission is included in Appendix A.

The primary rationale for the creation of the BPMC was the expected budget deficit due to the national recession, previous Ohio tax law changes that failed to generate projected revenues, and the use of non-recurring, one-time revenues to support ongoing expenses in the operating budget. The concern amongst legislators was that post-recession growth in state revenues due to increased economic activity would be insufficient in the FY 12 – FY 13 biennium to fill the expected budget deficit.

Ohio is constitutionally prohibited from having annual budget deficits (Article VIII, Section 3 and Article XII, Section 4). In the case where revenues fall short during a fiscal year, the legislature may take additional actions or the Governor is required to order spending reductions to prevent a deficit (126.05 of the Ohio Revised Code). However, in many instances Ohio has balanced its budgets with the use of non-recurring revenue to support appropriations.

Discussions have been occurring across Ohio about the state's FY 12 – FY 13 budget 'shortfall.' At the moment, that is not an accurate description of the circumstances. Until a spending plan for the upcoming biennium is completed and measured against revenues available to support that plan, there is no surplus or shortfall. As of the date of this report, the BPMC has not received a spending plan or revenue estimates for the FY 12 – FY 13 biennium.

The measure that has been used by the commission instead attempts to quantify how much of Ohio's current operating budget is being funded by one-time revenues. This benchmark estimates, upon depletion of those non-recurring sources, the amount of the current spending plan that may no longer be able to be supported without additional revenue. This number represents an estimate of Ohio's structural imbalance.

In determining the amount of one-time revenues in the current operating budget there was discussion about what should constitute a non-recurring source given that in some instances a determination of non-recurring could be deemed a policy decision of the next Governor and General Assembly. Thus, the co-chairs publicly agreed to accept a range for estimates of one-time money, ranging from $4 billion to $8 billion.

Attached in Appendix B are estimates of one-time sources by the Office of Budget and Management, released shortly after the passage of HB 1, and estimates by the Senate majority caucus that have been updated throughout FY 10.

The state's usage of non-recurring revenues has occurred frequently over the past decade, with Governors and legislators of both parties affirming the practice through budget enactments (see below):

Historical Use of One-Time Funds in Recent Ohio Operating Budgets

- The FY 02 – FY 03 budget contained $2.3 billion in non-recurring revenue, including accelerated sales tax payments, tobacco settlement funds, federal block grants, freezes or cuts to the local government fund, and transfers from the state's Budget Stabilization Fund (BSF) and other non-GRF funds.

- The FY 04 – FY 05 budget contained $3.6 billion in non-recurring revenue, including a temporary sales tax rate increase, tobacco settlement funds, federal Medicaid dollars, federal block grants, freezes or cuts to the local government fund, and transfers from non-GRF funds.

- The FY 06 – FY 07 budget contained $650 million in non-recurring revenue, including freezes or cuts to the local government fund, and transfers from non-GRF funds. Additionally, the budget made changes to Ohio's tax code. The tangible personal property tax and corporate franchise tax were phased-out, the income tax was reduced, 0.5% of the temporary sales tax increase was made permanent, and a new Commercial Activity Tax (CAT) was phased-in to partially offset lost revenue. The failure of these tax changes to generate projected revenues has left the state with less recurring revenue.

- The FY 08 – FY 09 budget contained $1.8 billion in non-recurring revenue, including federal Medicaid dollars, and transfers from the BSF and other non-GRF funds. Additionally, the bill securitized the Tobacco Master Settlement Agreement (MSA), which produced $5.5 billion in one-time proceeds. The proceeds were used to fund the expansion of the homestead tax-exemption for seniors and to construct new school buildings statewide.

- For one-time funds in the FY 10 – FY 11 operating budget see Appendix B.

While the next budget will undoubtedly contain some one-time funding, the divide between appropriations and revenues is anticipated to be too large to manage with only stopgap, one-time measures. The current recessionary economic climate, the base of state appropriations, and the likely recurring revenue totals for the next biennium will make it difficult to only utilize non-recurring revenues to balance the budget.

It appears unlikely the federal government will provide stimulus funding at an amount near that provided in the current biennium, and while other securitization measures may be available, policymakers will need to make very difficult decisions about how to balance the upcoming budget.

Ohio has budgeted in an incremental fashion – gradually increasing spending – for decades. The FY 10 – FY11 budget was the first in many years to actually be reduced. Generally, previous budgets had been created by determining what appropriation levels should be, followed by adjusting revenue sources to fund those levels of spending.

In its hearings, the BPMC repeatedly expressed support for continued fiscal restraint when balancing the next budget. By planning appropriations within available resources, the pressures will be to reduce outlay and improve efficiencies, while maintaining needed services. Steps should be taken to avoid using one-time monies for ongoing purposes.

Due to the scope of the commission's charge, there was general agreement by the BPMC members that the focus of the commission should be on creative budget solutions in order to most effectively identify options not immediately thought of when dealing with potential budget shortfalls. The current budget situation creates a unique opportunity for the state to review its priorities and examine its strengths and weaknesses in order to be more efficient and effective in providing services to the citizens of the state. Options recommended by the commission should be taken into consideration by policymakers and subjected to additional critical analysis to determine how these proposals impact the state of Ohio, individuals, organizations and institutions affected by them.

The co-chairs agreed that the commission would focus on proposals where there was consensus that the proposals warranted further study and to avoid other obvious options, such as tax increases and other approaches. However, some independent groups and citizens did propose such options. The commission does not take a position on or advocate for or against any proposals submitted to the commission that are not listed in this report.

Committee Hearings and Public Input

In order to achieve the greatest level of productivity, the commission took a comprehensive approach in addressing its duty, recognizing the need to hear diverse voices and look at the budget from many points of view. The commission scheduled leading organizations and national experts to testify at four public hearings held June - August 2010. In total, 12 organizations participated in the commission's comprehensive public discussion (listed below):

Ohio Legislative Service Commission
National Conference of State Legislatures
Office of Budget and Management
Council of State Governments
Ohio Society of CPAs
Health Policy Institute of Ohio
The Center for Community Solutions
Summit County Fiscal Office
Council of State Governments Justice Center

Ohio Prosecuting Attorneys Association
Center for Public Administration and Public Policy
Fund for Our Economic Future

The Ohio Chamber of Commerce submitted a letter to the commission stating that it was working towards its own recommendations for the commission and that these recommendations would be available sometime in October 2010. In addition, the KnowledgeWorks Institute is working on its Ohio Smart Schools initiative to prepare recommendations by the end of the year for state leaders to consider in the next budget process to help increase student performance and reduce costs. Similarly, the Ohio Commission on Local Government Reform and Collaboration has developed recommendations on ways to increase efficiency and effectiveness of local government. While the work of these groups was not submitted to the BPMC, the commission recommends that policymakers examine their work.

Additionally, the commission created a public website where public input could be received, requesting individuals and organizations to post suggestions and view testimony provided to the commission. In all, the commission received 96 submissions through the website and incorporated many of those recommendations into this report.

To review all submissions and testimony in their entirety, please visit: https://bpmc.legislature.state.oh.us/.

Menu of Options

The following is a list of options on which there is consensus by the commission to include as recommendations for further consideration by policymakers to address the upcoming FY 12 – FY 13 operating budget. As previously stated, policymakers should critically analyze these proposals to determine their impact on the state, individuals, organizations and institutions. The options are not listed in any particular order.

- **Reductions in state spending.** Each board, commission, agency, and subdivision of the state is already responsible for elimination of waste, fraud, and abuse. Additionally, managers must ensure efficient use of funds. Even with safeguards in place and improved management functions, the state will likely need to reduce its appropriations. Policymakers should decide on which method or combination of methods to employ.

    - **Proportional –** By reviewing how much each category of state government costs, one could establish a budget by proportionally reducing each of those categories to fit within available revenue.

    - **Program specific –** A variant of what some would term "zero-based budgeting," a program specific budget review would incorporate a complete review of all spending, revenue-sharing, and money transfers to determine what should be trimmed or eliminated and could even produce suggestions for programs that should be bolstered or initiated. (ORC 126.02 already requires incorporation of zero-based budgeting principles into budget preparation.)

- **Prior-year as base-year** – Upon receiving revenue estimates, policymakers could review actual spending from past fiscal years to see if a framework exists for a lower spending base. While this would not work for all appropriations (debt service, entitlements, formulaic pass-throughs), it would provide a reasonable starting point for review.

- **Across-the-board** – This method, used many times over the past few decades, reduces the vast majority of line items by a set percentage or range of percentages to achieve budget balance. Exemptions for certain purposes such as primary & secondary education and debt service are generally employed, but the more that is exempted will require larger reductions to the non-exempt line items.

The BPMC would recommend continued use of the "program specific" method as the primary method for paring spending. If, after careful review of spending cuts and revenue options, it becomes clear that additional reductions are needed, a modest "across-the-board" reduction could be used to get to the final balance. However, care must be taken to maintain needed services, so as not to unduly harm Ohioans, particularly those who are most vulnerable.

- **Performance Audits –** Performance audits can be a valuable management tool to evaluate the efficiency and effectiveness of state programs. Such audits would measure actual program outcomes with stated goals and objectives. This can be a useful tool in helping policymakers determine what program cuts should be made when working to reduce spending.

- **Medicaid Reforms**

  - **Managed Care Expansion** – Enrolling more of the existing caseload into a managed care setting could improve health outcomes and reduce costs for the program. However, care must be taken to protect patient choice and avoid third party rationing.

  - **Re-aligning Ohio's Long-Term Care Spending** – As testimony before the BPMC detailed, Ohio's spending on long-term care is not aligned with national spending trends. As consumers demand different options and providers change delivery models to reduce costs while improving care, our Medicaid system must change, too. An evaluation and modernization of how Ohio pays for long-term care services should be pursued, while ensuring a quality continuum of care.

- **Seek Federal Reimbursement for Prisoner In-Patient Health Services** The state and local political subdivisions currently pay the medical expenses of Ohio's incarcerated population. For Medicaid eligible populations, this could be a significant cost-savings for both the state and local governments.

- **Review Ohio Commission to Reform Medicaid Report** - Reviewing recommendations of the reports released in 2000 and 2004 (http://ohiomedicaidreform.gov/) would be very worthwhile.

- **Third Party Payments** – The state should continue to identify and capture third party payments to providers in order to contain costs.

- **Federal Assistance**

  - **Medicaid funding** – It is important to fully understand the impact of the recently enacted federal Patient Protection and Affordable Care Act (PPACA), including any impact on Ohio's future budgets. Even with the federal government paying for newly eligible people, JFS estimated in April that 279,000 of the 554,000 new enrollees are currently eligible individuals that the state will need to cover. Ohio could request that the federal government pay for the costs of any enrollee who signs up for Medicaid due to the passage of the PPACA. The Kaiser Foundation put out this useful memo with regards to additional costs due to the passage of the health reform act: http://www.kff.org/healthreform/upload/7952-03.pdf

  - **Medicaid relief** – If enhanced FMAP funding is not continued, the state could request the federal government grant states the ability to limit eligibility to levels lower than those mandated by the health reform act, while keeping in mind the need to protect the state's most vulnerable citizens.

  - **Unemployment Compensation fund** – Ohio's negative balance exceeds $2.3 billion. OBM estimated in a BPMC hearing that the interest alone on this borrowing may cost the state over $290 million in the next biennium. The state could ask Congress to extend the waiver of interest payments. The latest figures for Ohio's borrowed balance can be seen at: http://workforcesecurity.doleta.gov/unemploy/budget.asp

  - **Ensure maximization of federal match** – For all programs run by the state that draw a federal match, Ohio must ensure that every dollar it expends that is eligible for match is being matched.

  - **Review Child Support Guidelines** – The state should review the 2009 ODJFS Child Support Guidelines Report to determine the possibility of obtaining increased federal child support funding.

- **Securitization of Assets/Lease-Back Proposals –** As in HB 119 (127^{th} General Assembly) when the state's tobacco master settlement revenue stream was securitized, the state could consider similar proposals. The following is a list of assets that have been securitized by other states: roadways, concession sales, lotteries, revenue streams (fees and taxes), and even long-term leases of state-owned buildings and lands. (Lease rights could be extended to state-owned equipment, too. Placement of private company equipment on state-owned lands or towers could provide a non-GRF revenue stream.) However, given the current recessionary economic climate, these assets may be undervalued at this time. In addition, these types of arrangements produce a large up-front payment of one-time funds. Great caution should be taken to ensure, if any of these methods are used, that these one-time moneys are not used for ongoing purposes, and that future budget imbalances are not created by eliminating on-going revenue streams (such as annual lottery sales).

- **Regulatory/Mandate Relief** –The state should continue efforts to identify and remove costly unnecessary regulations and mandates as an alternative to increased appropriations.

- **Prison/Sentencing Reform –** To achieve cost savings in the corrections portion of the budget, and to not make the jobs of Ohio's excellent correctional officers any more difficult, sentencing reforms should be considered. The BPMC heard testimony from Sen. William Seitz advocating for the passage of SB 22 of the 128^{th} General Assembly, and from the Council of State Governments Justice Center on their work in Ohio. When creating a unified corrections plan for the FY 12 – FY 13 budget, reforms should be considered as part of the budget, while continuing to ensure the public's safety.

- **Revising Definition of Independent Contractor –** In February of 2009, the Ohio Attorney General's office released a report on the Economic Impact of Misclassified Workers for State and Local Governments in Ohio. A summary of the report's findings indicate that the practice of employee misclassification has cost the state an estimated $223 million annually in foregone state income tax revenues and more than $510 million in workers' compensation premiums annually. Additionally, the report estimated that employee misclassification could cost Ohio cities and villages more than $100 million in local income tax revenues annually and that all school districts can lose a total of millions each year. The state could review current policies to address the misclassification of workers.

- **Purchasing Consortia for Public Sector Entities/Procurement Reform** – The state should provide options, rather than mandates, which would allow for public sector purchasers to join together in the buying of goods. The state should review the Advantage Ohio report released in April of 2008 that outlined a procurement reform process which would streamline processes and potentially create significant savings. http://procure.ohio.gov/pdf/AdvantageOhio.pdf

- **Information Technology Sharing** – Advances in utilizing computer technologies, such as server virtualization, hold promise for lowering costs, while improving service levels, for many state agency, university and local governmental functions. The state should continue to pursue strategies to lower state expenditures for information technology by employing shared, scalable computing services. Savings could be divided between budget balancing and re-investment for further deployment of more efficient technology platforms to generate further savings in the future.

- **Cross-entity Service Agreements** – Significant discussions, spawned in part by meetings of the BPMC and proposals included in HB 1, have been occurring around concepts that involve sharing management level services. The state should examine the possibility of generating cost savings through the use of shared management level services.

- **Institutionalized versus Home/Community Based Long Term Care -** The state should examine the current structure of state services for long-term care of the elderly and disabled for potential streamlining opportunities and cost savings. Any such examination should be sure to balance the need to ensure quality care for Ohio's citizens with the desire to reduce state costs.

- **Long-Term Energy Savings Investments** The state should review the possibility of investing in energy saving projects for state and local government buildings (wind/solar production). Such projects could result in long-term savings, thereby reducing the costs of new state capital projects and related debt service payments.

Appendix A

SECTION 509.10. (A) There is hereby created the Budget Planning and Management Commission, consisting of six members. The Speaker of the House of Representatives shall appoint three members of the House of Representatives, not more than two of whom shall be members of the same political party, and the President of the Senate shall appoint three members of the Senate, not more than two of whom shall be members of the same political party. The initial appointments shall be made not later than ninety days after the effective date of this section. Vacancies shall be filled in the manner provided for original appointments.

(B) The commission shall complete a study and make recommendations that are designed to provide relief to the state during the current difficult fiscal and economic period. In developing the recommendations, the commission shall develop a strategy for balancing the state budget for fiscal years 2012 and 2013.

(C) The commission shall appoint two of its members to serve as co-chairpersons for the commission. One co-chairperson shall be a member of the majority party of the House of Representatives, and one co-chairperson shall be a member of the majority party of the Senate. Commission meetings shall take place at the call of the co-chairpersons of the commission. The commission shall conduct meetings during the period of July 1, 2009, through November 30, 2010.

(D) Not later than November 30, 2010, the commission shall submit a written report of its recommendations to the Speaker of the House of Representatives, the President of the Senate, and the Governor. The commission ceases to exist upon submission of its report.

(E) The Legislative Service Commission shall provide technical, professional, and clerical support necessary for the Budget Planning and Management Commission to perform its duties.

Appendix B

FY 10 – FY 11 One-Time Revenue Lists

OBM one-time revenue sheet – available online at http://obm.ohio.gov/SectionPages/Budget/FY1011/EstimatedOneTimeRevenueSource.aspx

Estimated 'One-Time' GRF Sources FY 2010-11

	Non-Federal 'One-Time' Sources Deposited to GRF	FY 2010	FY2011	Biennium Total
1	Ohio School Facilities Loan	200,000,000	50,000,000	250,000,000
2	Rotary Transfers - (See Note A)	22,500,000	22,500,000	45,000,000
3	Fund 4K9 Rotary Transfer	-	30,000,000	30,000,000
4	Human Resources Rotary Transfer - (See Note B)	71,000,000	71,000,000	142,000,000
5	Human Resources Lapse in GRF - (See Note B)	65,000,000	65,000,000	130,000,000
6	Tobacco Interest from Bond Fund	40,000,000	25,000,000	65,000,000
7	Temporary Reduction to Public Library Fund Allocation	41,005,872	43,311,748	84,317,620
8	Unclaimed Funds Transfer - (See Note C)	225,000,000	110,000,000	335,000,000
	Subtotal	**664,505,872**	**416,811,748**	**1,081,317,620**
	Federal 'One-Time' Sources Deposited to GRF			
9	State Fiscal Stabilization Funds for Education	697,457,939	766,252,024	1,463,709,963
10	State Fiscal Stabilization Funds for Government Services	111,177,532	214,488,988	325,666,520
11	Enhanced Fed. Medical Asst. Pct. (eFMAP) - (See Note D)	219,052,362	269,712,379	488,764,741
	Subtotal	**1,027,687,833**	**1,250,453,391**	**2,278,141,224**
12	Prior Fiscal Year Roll-forward Balances	**222,500,000**	**141,800,000**	**364,300,000**
13	Assumed Spending Lapses	**25,000,000**	**403,185,965**	**428,185,965**
14	Debt Restructuring	**376,700,000**	**359,200,000**	**735,900,000**
15	**Total 'One-Time' Resources Affecting GRF**	**2,316,393,705**	**2,571,451,104**	**4,887,844,809**

Notes:

A Rotary Transfers amount (line 2) adjusted from framework to assume $35 million annually in recurring transfers consistent with historical budget framework

B Human Resources Transfers and Lapses (lines 4, 5) related to measures for containing or reducing state employee payroll and related costs

C Unclaimed Funds Transfer amount (line 8) adjusted to assume $25 million annually in recurring transfers consistent with historical budgeting framework

D eFMAP (line 11) amount reflects only that which is deposited to GRF. Under budget framework, an additional $1.3 billion in FY 2010 and $590 million in FY 2011 is deposited in non-GRF funds

The Senate majority caucus' spreadsheet of one-time funds is on the following page.

	biennial total	*source of number*
revenue		
Ohio School Facilities Commission 'loan'	$250,000,000	OBM Budget Highlights document
Rotary transfers (portion which OBM deems non-recurring only)	$45,000,000	OBM Budget Highlights document
Fund 4K9 transfer from Board & Commission funds	$30,000,000	OBM Budget Highlights document
Human Resource Savings from non-GRF sources	$142,000,000	OBM Budget Highlights document
Human Resource Savings from GRF sources	$130,000,000	OBM Budget Highlights document
Tobacco Interest from Bond Fund	$65,000,000	OBM Budget Highlights document
Public Library Fund temporary reduction	$84,317,620	OBM Budget Highlights document
Temporary income tax rate 'freeze'	$844,000,000	OBM HB 318 testimony Oct. 19, 2009
Unclaimed Funds transfer (portion deemed non-recurring by OBM)	$335,000,000	OBM Budget Highlights document
Federal stimulus for Education in GRF	$1,463,709,963	OBM Budget Highlights document
Federal stimulus for government services in GRF	$325,666,520	OBM Budget Highlights document
Enhanced Federal Medicaid Assistance Percentage (eFMAP) in GRF	$488,764,741	OBM Budget Highlights document
Enhanced Federal Medicaid Assistance Percentage (eFMAP) in non-GRF	$1,890,000,000	OBM Budget Highlights footnote
Prior fiscal year 'roll-forward' balances	$364,300,000	OBM Budget Highlights document
Assumed spending lapses	$428,185,965	OBM Budget Highlights document
Medicare Part D excess federal payment/"clawback"	$151,000,000	Gov's Office e-mail of May 6, 2010
Tobacco Master Settlement funding redirected for human services	$257,600,000	OBM e-mail of Aug. 11, 2009
Federal funds drawn down from the tobacco master settlement funding	$369,000,000	JFS e-mail of Apr. 9, 2010
eFMAP extension by feds for JFS Medicaid program spending*	$150,000,000	Gov's office press release Sept. 2, 2010
eFMAP extension by feds for Mental Health programs	$32,600,000	Gov's office press release Sept. 2, 2010
eFMAP extension by feds for Ryan White drug assistance program	$12,800,000	Gov's office press release Sept. 2, 2010
eFMAP extension by feds for ODADAS, EDU, Aging, DDD, and MH	$73,300,000	Gov's office press release Sept. 2, 2010
eFMAP extension by feds for Medicare Part D	$24,700,000	Gov's office press release Sept. 2, 2010
Debt Restructuring	$735,900,000	OBM Budget Highlights document
subtotal	$8,692,844,809	