



## Senate Budget Highlights - Substitute HB 1

Friday, May 29, 2009

### *Overall Goals of Senate Republicans for House Bill 1*

- Pass a budget that is balanced and sustainable and which does not sentence Ohioans who are already struggling to a major tax increase two years from now.
- Prioritize primary and secondary education through a plan that is child-centered, preserves local control and gives districts funding stability, while continuing to explore innovations in education that will prepare children for the future.
- Preserve progress made to ensure Ohio is more competitive and attractive for bringing new industries and jobs.
- Protect essential services provided by the state during difficult economic times, while reining in the cost of providing them.

### *The Challenge Facing Senators*

- The Senate began its budget process facing a shortfall of \$1.079 billion due to:
  - A \$912 million shortfall for FY09 (announced on May 5, just days after the Senate received the bill and marking the fourth time revenues have been downgraded).
  - The need to account for the impact of the federal cigarette tax increase on state revenues to the tune of \$107.4 million.
  - A planned lapse in education spending for FY10-FY11, which had been built into the House's budget. By assuming that there will be no unspent funds in the education budget, the Senate had to make up an additional \$60 million.

### *How the Senate Balanced*

- Cash management strategies employed by the Administration reduced the amount of the shortfall, but left the Senate with \$896.7 million still to make up. The Senate, through budget cuts and cost savings, was able to balance the budget.
  - Cut \$650 million in state General Revenue Fund (GRF) spending from the House-passed version of the bill, thereby limiting the amount of one-time funding to balance FY10-FY11, including:
    - Targeted cuts of \$417 million from state agencies;
    - Mandated cost-containment in Medicaid totaling \$42 million in state GRF over the biennium, and
    - Included planned agency service cuts of \$200 million for FY10-FY11 through Executive order 2009-07S.
  - Transfers an additional \$50 million from on-hand money from the Ohio School Facilities Commission.
  - Eliminates \$5 million in transfers from the GRF.
  - Increases by \$185 million the amount transferred into the school funding formula for the state education aid offset due to changes in the Tangible Personal Property Tax valuation as a result of HB 66 tax reforms.

## Balanced, Sustainable Budget to Avoid Future Tax Increases

- Reduced state General Revenue Fund spending by \$650 million by codifying \$200 million in cuts ordered by the Administration, mandating \$42 million in Medicaid cost containment and making targeted cuts of \$417 million to state agencies.
- Including the GRF reduction in spending, cuts more than \$1 billion in all funds from the House-passed version of the bill.
- Eliminates 139 project-specific earmarks to the tune of more than \$150 million over the biennium.
- With the exception of K-12 education and instructional support for state colleges and universities, agency spending was either flat funded or cut below the Governor and the House-passed versions.
  - Adjusts the Senate's own budget to reflect shared sacrifice with fellow agencies by reducing the Senate's GRF spending by 10%.
- Makes it clear that federal stimulus money used in this budget will not be replaced in the next and that the state cannot build these one-time funds into planning for the future. The Senate version prohibits the state from issuing more debt based on the influx of federal dollars.
- Requires oversight of federal stimulus dollars by requiring the Office of Budget and Management to monitor the effectiveness of federal stimulus fund usage by state agencies.
- Ensures the Office of Budget and Management can't increase General Revenue Fund appropriations.
- Ensures the Administration cannot expand Medicaid eligibility without a vote of the General Assembly.
- Eliminates the 10-year phase-in of school funding, which, to date, has no revenue source, but has been conservatively estimated to cost taxpayers \$2.8 billion. Instead, increases funding to all schools over the next two years, using real, on-hand dollars to provide some stability to school districts as they work to weather the slow economy.
- Eliminates 34 proposed fee increases, helping to reduce the burden on Ohio employers in key industries like agriculture, coal and construction.
- Establishes a new budget planning commission to ensure the Administration and General Assembly are facing the state's budget realities out in the open and looking for ways to restructure government spending so that Ohio will not need a tax increase in the future to fund state government.

## Prioritizing Primary and Secondary Education

While committed to work with the Governor and the House to make further reforms that will improve the quality of education for all children, Senate Republicans believe the proposed “Evidence Based Model” is fundamentally flawed because it is centered on school staffing needs rather than student needs. The reforms proposed by the Governor provided less state funding for Ohio schools, but imposed new, costly mandates with little evidence that they would improve the quality of education in Ohio. The plan went back on the progress made to provide more state aid to low property wealth schools and reduced funding for more than 88,000 public community school students. The House completely rewrote the Governor’s plan and made some improvements. However, overall state funding was cut on the promise of more funding in 10 years, but with no way to pay for it.

Despite the tight budget situation, Senate Republicans placed a priority on K-12 education, giving schools financial stability by increasing state support for schools in each year of the biennium. Funding to schools is student-centered, uses *real*, on-hand dollars and treats all public school children equally.

### *Providing Funding Stability to All Ohio Schools*

- Increases state funding for *all* school districts over the next two years and provides greater funding stability to help schools weather the current economic downturn.
  - Under the House-passed version many schools would receive less state funding over the next two years on the promise of more funding in the future, but with no indication of how it would be funded.
  - Under the Senate version of the bill, all schools will receive a ¼% increase in FY10 over FY09 levels, and a ½% increase in FY11 over FY10 levels.
  - Fast-growing districts, defined as those growing more than 2% per year, will receive a 2% increase in each year of the biennium.
  - Public charter school students are fully funded at the same level as traditional public school students and E-school students are funded just as they are today.
- Ensures state funding is student-centered, rather than based on “adult position codes” and “organizational units.” When funding is focused on what it costs to educate each child, and not to staff a building, *all* public schoolchildren are funded equally no matter where they attend school.
  - Both the Governor and House-passed versions decimated parental choice by providing significantly less funding to educate the more than 88,000 children in public charter schools.
- Maintains current law that allows, but does not mandate all school districts to offer all-day kindergarten and provides *actual funding* to help more high poverty districts cover the cost of providing all-day kindergarten programs for their students.
  - Preserves the state funding provided today for 129 districts serving high numbers of economically-disadvantaged students to cover the cost of all-day kindergarten for 50,000 students.
  - Expands all-day kindergarten with *real* state funding to cover the next tier of districts serving economically-disadvantaged students. This will allow 32 more school districts to offer all-day kindergarten for an additional 5,000 students.

- Establishes a “Student-Centered, Evidence-Based Funding Council” to provide an inclusive and open process to create a per-pupil school funding system where the funding follows students to the schools that best meet their needs. Recommendations are due by September of 2010.
  - The Governor’s model was crafted by private attorneys and shared in advance only with politically-supportive stakeholders.
  - When Allan Odden – one of the architects of the Evidence Based Model approach to school funding – testified before the Senate Finance & Financial Institutions Committee, he indicated that the Evidence Based Model can and has been implemented on a per pupil basis in other states.
- Ensures that local school districts (and local governments) will not have to plan for a reduction in funding as a result of the General Assembly’s decision to eliminate the tangible personal property tax (TPPT) as part of tax reform. The Senate bill proposes continuing to hold schools and local governments harmless from losses in their TPPT reimbursement funding that is currently scheduled to begin phasing down in FY12 (SB 111).

### ***Encouraging Innovation and Focusing on the Talents and Needs of Individual Students***

- Maintains support for existing innovative programs, including STEM schools to place more emphasis on science, technology, engineering and mathematics in grades K-12.
- Continues support for early college high schools, which target student populations that have not traditionally sought a college education and provide them exposure to college courses and credit while earning their high school diplomas.
- Requires the Superintendent of Public Instruction to investigate the establishment of “innovation zones,” as a means to enable school districts to think outside of the box and explore creative instructional approaches that prepare students for a 21<sup>st</sup> Century economy.
- Recognizing the critical role of parents in ensuring their child’s success in Ohio’s public schools, requires the State Board of Education to develop best practices and provide local schools a road map for getting families more involved in education by promoting strategies that are working in schools across the state.
- Provides for scholarships to help the families of approximately 8,000 students who require special education services to choose the school that best fits their individual needs.
- Ratifies the Interstate Compact on Education Opportunity for Military Children, demonstrating Ohio’s commitment to ensuring the children of military families are afforded a smooth transition into Ohio schools. (SB 115)

### ***Easing Costly Mandates and Preserving Local Control***

- Preserves local decision-making by reducing the burden of existing state mandates, as well as eliminating many of the proposed mandates and bureaucratic reporting requirements under the Evidence Based Model that are as yet unproven and costly to implement.

- Maintains current law allowing school districts to reduce staff for financial reasons and to continue to contract for bus services.
- Maintains Governor’s proposal to provide school districts the option of seeking “conversion levies” to help cover their local share of school funding.
  - The Senate version removes the limitation that districts use the option within five years but ensures these levies can only be decided in regularly-scheduled general and primary elections.
- Provides for a more fair and accurate picture of districts’ academic progress by revising the procedure for determining district ratings with regard to annual yearly progress (AYP).
  - Specifies that a school district’s rating is impacted only when the same two or more subgroups of students do not consistently make AYP for three or more years and requires that the rating fall one level instead of two.

### ***Holding Schools Accountable for Results***

- The Senate wants to work with the Governor to update Ohio’s academic standards; consider replacement of the Ohio Graduation Test with the ACT or another national standardized test, and explore the possibility of lengthening the school year; however, more details are needed. The Senate version requires the Superintendent of Public Instruction and the State Board of Education to report back to the General Assembly on these concepts for further consideration.
- Maintains the Governor’s proposals to ensure Ohio teachers get the training and support they need to provide a quality education to all Ohio schoolchildren, including establishing a teacher residency program and updating educator standards and licensing.
- Maintains House-added funding for National Board Certified Teachers.
- Affirms Governor’s goal of ensuring school districts have adequate tools to remove teachers whose students aren’t learning, including by extending to nine the number of years spent in the classroom before a teacher can earn tenure, and conforming teacher dismissal standards to mirror those in place for non-teaching school employees.
- Reinstates Governor’s proposal that would require a “value-added” standard to determine teacher performance based on student success.
- Holds *all* public schools to the standards in place for public charter schools. If schools are in academic emergency for three consecutive years, they must be closed.

## **Building on Progress for Jobs and Economic Development**

Senate Republicans believe that the long-term answer to the state's revenue problems is not more state spending but a vibrant economy, a healthy climate for business and more job opportunities for all Ohioans. Tort reform, tax reform and the priority placed on higher education and workforce development in recent years have helped to make Ohio more attractive to new industries and jobs. Despite the shortfall in state revenues, Senate Republicans worked to build on these advancements and avoid costly mandates that would have run counter to the progress that has already been made.

### ***Promoting a Healthy Climate for Business and Jobs***

- Maintains tax reforms adopted in 2005, while passing a balanced, sustainable state budget that doesn't set Ohio up for a tax increase in the future.
- Seeks to reduce the cost of doing business in Ohio by requiring regulatory agencies to eliminate bureaucracy and red tape for the benefit of existing companies and those seeking to do business in Ohio. (SB 3)
- Holds the line on imposing new health care mandates that would have driven up costs to Ohio businesses, not only hurting Ohio's competitive standing, but also threatening the ability of employers to continue providing coverage to their employees.
- Eliminates a proposed fee increase of approximately \$8 million per year for the disposal of construction and demolition debris, which would have driven up the cost of construction during a time when Ohio is ramping up infrastructure projects to create more Ohio jobs and stimulate the economy.
- Eliminates the proposed Energy Resource Extraction Fee that would have had a crippling effect on the production of coal in Ohio and Ohio coal jobs.
- Preserves state funding for the Ohio Agricultural Research and Development Center and the Ohio State University Extension to support continued research and innovation to enhance the state's number one industry, while also removing a number of fees that would have driven up costs for Ohio farmers.

### ***Recognizing the Importance of a Skilled Workforce to Turning the Economy Around***

- Freezes college tuition at all the state's four-year colleges and universities in FY10 and codifies the proposed 3.5% cap in tuition increases for FY11 in a continued effort to ensure higher education is more affordable and accessible for all Ohioans.
- Freezes tuition at all two-year community and technical colleges over the biennium, marking four consecutive years that tuition will not have increased for students at these institutions, and eliminates the provision that would have allowed the Chancellor of the Board of Regents to set fees for associate degree programs.

- Provides an additional \$19 million in instructional subsidies for higher education over the House-passed budget to account for increased enrollment at Ohio's community and technical colleges.
- Codifies the formula for distributing state aid to state colleges and universities, rewarding not only enrollment, but the success of students via course and degree completion.
- Ensures all eligible students have access to Ohio College Opportunity Grants, regardless of whether they attend state colleges and universities, independent schools or proprietary schools.
  - Under the Senate's version of the bill, \$255 million will be available for students attending state colleges and universities, \$82 million will be available for students attending independent schools and \$58 million for students at proprietary schools over the biennium.
- Preserves \$29 million in state funding for the Choose Ohio Scholarship to continue encouraging students who study science, technology, engineering and mathematics.
- Increases the number of slots for the Ohio National Guard Scholarship Program from 1,000 to 1,200.
- Declares out-of-state National Guard members, their children and spouses as in-state students when they are taking classes at Ohio colleges and universities, consistent with the GI Promise.
- Maintains autonomy of the Ohio Tuition Trust Authority.
- Creates the Ohio "Grants for Grads" program in a continued effort to combat the "brain drain" by providing down-payment assistance to help Ohio graduates purchase a home anywhere in Ohio. (SB 5) The program is funded through existing funds at the Ohio Housing Finance Agency and does not expend state GRF dollars.

### ***Maintaining and Building Upon State Job Creation Programs***

- Targets spending cuts to reduce administrative costs at the Ohio Department of Development, while maintaining funding for the Department's job creation programs.
- Provides a \$100 million film tax credit that is more aggressive than the version in the House-passed bill to attract the motion picture industry and the jobs that come with it to communities throughout Ohio.
  - Provides the Department of Development complete discretion to award a 25 percent, transferrable film tax credit for productions that have a budget of more than \$300,000. The credit would be limited to only the first \$100 million spent on production costs in Ohio. (SB 9)
- Retains the proposed New Markets Tax Credit in an effort to give Ohio cities and towns a new tool to spur investment in multi-use projects to revitalize downtown centers.

- Supports broadening of the Job Retention Tax Credit and the Job Creation Tax Credit so that more businesses can take advantage of these incentives and employ Ohioans.
- Supports expansion of the Technology Investment Tax Credit to attract investors in new start-up technology companies.
- Grants the Ohio Department of Development access to more funding and authority to use Rapid Outreach Grants to attract and retain businesses. The Senate authorized the use of up to \$20 million per fiscal year from liquor proceeds (166 funds) as opposed to using GRF funding. Replaced some of the Department's GRF spending for Tech Action funds and the Thomas Edison program with more authority to use 166 funds.
- Maintains provisions that allow the Department of Development to recoup up to 75% of grant amounts if a business benefiting from a state incentive does not live up to its agreement to create the jobs.

## Quality and *Affordable* Health and Human Services

The Senate version of House Bill 1 invests the state's limited resources in vital health and human services programs for Ohioans in need, while building on efforts from previous budget bills to slow the growth of Medicaid, expand low-cost, long-term care choices and eliminate expensive health care mandates on Ohio consumers and Ohio businesses in an effort to protect jobs.

### *Reining in the Cost of Medicaid*

- Implements several recommendations from the Auditor of State's Medicaid Performance Audit designed to reduce Medicaid costs by millions of dollars per year and helps ensure the long-term sustainability of the program. These include:
  - Requiring the development of an electronic prescribing, or "e-prescribing," program to give physicians and pharmacists better access to Medicaid recipients' medical history and streamline information sharing between providers and the state. The move would make writing, filing and receiving prescriptions quicker and easier, while helping to reduce costly prescription errors and adverse drug reactions for patients.
    - Florida has piloted and partially implemented an e-prescribing program, which includes 3,000 physicians who account for nearly 80 percent of the prescriptions covered by the state's Medicaid program. In its first full year, the program is estimated to have saved the state \$700 per doctor per month.
  - Implementing a disease management program for Ohio's fee-for-service recipients to improve health care quality and reduce Medicaid costs, by promoting enhanced screening, monitoring, education and coordination of care among providers for a variety of conditions, such as asthma, diabetes, lung disease, cancer, HIV/AIDS, hypertension, congestive heart failure, chronic kidney disease and sickle cell anemia.
    - By implementing disease management programs for only three conditions for 11,000 recipients, Oregon was able to significantly reduce emergency room visits and hospital admissions, saving the state's Medicaid program \$6 million per year.
  - Creating an automated, pre-emptive coordination of benefits process to help prevent Medicaid from paying claims for patients who have other sources of health insurance. The Auditor found that the Department of Job and Family Services currently has inadequate technological resources to track this information and frequently uses a "pay and chase" method to recover costs from private insurance carriers.
  - Requiring the state to improve information management practices to better identify the true cost of funding Medicaid and help establish goals for the program moving forward.
  - Exploring and piloting alternative care programs, such as fee-for-service, primary care case management and pay-for-performance, to help improve the cost effectiveness of Medicaid services, targeting patients who have multiple, chronic healthcare needs.

- Streamlining case management activities and improves communication among Medicaid agencies and providers to help reduce unneeded, high-cost or duplicative services, while having a positive impact on patients' long-term health and well-being. Currently, several entities provide case management services in Ohio, including state and county agencies, area agencies on aging, managed care plans and direct service providers.
- Preventing fraudulent providers from enrolling in Ohio's Medicaid program by requiring that surety bonds be part of a formal risk assessment planning and measurement process that includes state and federal background and fingerprint checks. A surety bond is an agreement between the provider, the insurance company and the recipient, or ODJFS acting on behalf of the recipient, that ensures the provider will pay for any losses incurred because of fraud, abuse or mismanagement of Medicaid funds.
- Requiring development of an annual Medicaid report on efforts to minimize fraud, waste and abuse in the program, with input from an independent program manager or Medicaid Chief Inspector, the Fraud and Investigation Audit Group (FIAG), the Medicaid Fraud Control Unit (MFCU) and county and regional agencies.
- Mandates that the Strickland Administration move forward with several Medicaid cost-containment strategies included in House Bill 119, the state's operating budget for fiscal years 2008-2009, which was approved with overwhelming bipartisan support during the 127<sup>th</sup> General Assembly. The Administration estimated when HB 119 passed that these efforts could save the state more than \$116 million in Medicaid costs over the biennium. These strategies include:
  - Increasing medical support collections related to child support cases -\$12.5 million in FY10 and \$37.5 million in FY11.
  - Increasing Medicare enrollment for Medicaid recipients who qualify for Medicare - more than \$8.5 million in FY10 and nearly \$37.5 million in FY11.
  - Implementing a medical claims editing system to ungroup claims and identify questionable claims prior to payment - \$20 million in FY11.
- Requires that the General Assembly must approve any future Medicaid expansions.

### ***Expanding Access to Long-Term Care Options for Senior Citizens and Disabled Ohioans***

- Builds upon the progress made to ensure Ohio seniors have options for meeting their individual health care needs and provides more than \$262 million in general revenue funds for long-term care services over the biennium.
- Implements recommendations from the Unified Long-Term Care Budget Workgroup, which was established in the last budget to help develop a plan for creating a more balanced and cost-effective long-term care system in Ohio.

- Expands eligibility for Ohio's Home First program to include Ohio seniors who are on a waiting list for PACE (Program for All-Inclusive Care for the Elderly). Established in House Bill 66 during the 126<sup>th</sup> General Assembly, Home First gives individuals in a nursing facility the option to pursue several low-cost, home and community-based care options, including PASSPORT, Assisted Living and the Residential State Supplement program.
- Allows the Director of the Department of Aging to expand PACE to serve all regions of Ohio, while preserving slots for counties that are currently participating in the program at sites in Cleveland and Cincinnati.
- Includes nearly \$17 million over the biennium to support Senior Community Services, which provide critical services for low-income, Ohio seniors in need, including home-delivered meals, adult day health services, counseling, home repairs and some respite care.
- Makes the Choices program available statewide—pending federal approval—as another home-based care option for older Ohioans. The program, which is open to individuals currently on PASSPORT, gives consumers the freedom to choose their health care provider, including agency or non-agency professional care givers, as well as friends and family members.
- Directs more than \$14.6 million over the biennium to support the Residential State Supplement program, which helps pay room and board for low-income aged, blind and disabled adults who need supervision, but do not need a nursing home level of care.
- Creates the Residential State Supplement Workgroup to study the RSS program and determine which state agency should be responsible for administering the program in the future.
- Allows the Director of the Ohio Department of Aging to seek federal approval to consolidate the Assisted Living program, Choices program and PASSPORT program into one Medicaid waiver, in an effort to provide more flexibility for seniors to get the level of long-term care they need.
- Adds members of managed care organizations to the Unified Long-Term Care Budget Workgroup and requires the Department of Aging and ODJFS to submit a feasibility report on adding aged, blind and disabled Ohioans into the managed care program.
- Recognizes the continued importance of skilled nursing facilities to providing critical care for thousands of seniors and disabled Ohioans across the state by ensuring they have the funding to continue to serve patients that need the highest level of care. Maintains funding levels adopted by the Ohio House and allows nursing homes to draw down more federal Medicaid dollars without spending more GRF.

### ***Preserving Funds for Critical Health and Human Services for Ohioans in Need***

- Preserves \$100 million over the biennium for child, family and adult protective services, which was added in the House version of HB 1.

- Provides more than \$17.5 million over two years to support programs for medically-handicapped children and allows the director of the Ohio Department of Health to establish a drug rebate program for the Bureau of Children with Medical Handicaps.
- Ensures that children in Ohio's intermediate care facilities for the developmentally disabled have access to critical oxygen services.
- Gives the Governor the authority to use Temporary Assistance for Needy Families (TANF) dollars to fund Help Me Grow at a level of up to \$10 million per year and kinship care at a level of up to \$10 million per year.
- Maintains current prohibition that certain felony convictions exclude participation in the TANF program.
- Preserves the expansion of the State Children's Health Insurance Program from covering children at 200 percent of the federal poverty level to 300 percent of the federal poverty level. Maintains current eligibility levels for the Children's Buy-In Program.
- Preserves funding to support the Ohio Association of Second Harvest Food Banks.

### ***Eliminating Costly Health Insurance Mandates to Protect Ohio Consumers and Small Businesses***

- Eliminates several costly health care mandates that could impact the financial stability of Ohio businesses, raise insurance premiums on average Ohioans and significantly increase Medicaid costs at a time when the state can least afford it.
  - Holds the line on an expensive expansion of Ohio's open enrollment program that would dramatically increase health insurance costs for business and the state, while raising premium rates on average Ohioans.
  - Eliminates a potentially costly mandate in the Governor's as introduced budget that would have required private businesses to offer "cafeteria" health insurance plans if they have 10 or more employees.
  - Removes a requirement that health insurance companies offer coverage for autism spectrum disorders, which would cost businesses and Medicaid tens of millions of dollars every year, while remaining open to future discussion about how to improve care for families and children dealing with autism.
  - Eliminates a mandate that private insurance companies offer coverage for dependants up to age 29.