STATEHOUSE REPORT

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Impact of Federal regulations on Ohio sales tax revenue

As reported in the June 10th and June 24th editions of the Statehouse Report, the federal Centers for Medicare and Medicaid Services have informed the state that Ohio's sales tax law as applied to Medicaid Managed Care Organizations (Medicaid MCO's) is out of compliance with federal regulations.

During CCAO's Board of Director's meeting on June 24th, OBM Director Tim Keen addressed the CCAO Board to provide an update on the extent of the problem. At the meeting Director Keen shared some documents which detail the impact of eliminating the Medicaid MCO sales tax on federal, state and local (county and transit) revenues.

In response to the federal directive, Ohio will have to craft a set of replacement taxes that 1) comply with federal regulations and 2) that replace revenues lost due to the anticipated repeal of the Medicaid MCO tax on July 1, 2017, the beginning of the SFY 2018 – 2019 state budget.

Overall, the state must replace the Medicaid MCO sales tax that generates approximately $850 million per year in sales tax revenue, about $300 million of which is used to match and draw down over $1 billion in federal Medicaid dollars. The portion of the sales tax revenue that is not used to match federal Medicaid dollars (about $550 million per year) is deposited in the state general revenue fund to support state services. In addition to state sales tax dollars and federal Medicaid dollars, Ohio counties and transit authorities received roughly $180 million from the Medicaid MCO sales tax in CY 2015.

In order for a health care related tax to be permissible any tax must be broad based so as to apply to all services within a class; be uniform so that all payers of the tax pay at the same rate; and avoid hold harmless arrangements by which collected tax are returned directly or indirectly to the taxpayers.

In addition to addressing the requirements of federal law, Ohio faces the challenge of distributing replacement dollars to 88 counties and 8 transit authorities which have varying degrees of reliance on the Medicaid MCO sales tax depending on the number of MCO enrollees residing within each county and the scope of otherwise taxable sales transactions occurring within the county. The Department of Taxation distributes Medicaid MCO sales taxes to counties and transit authorities based on the number of MCO enrollees.

The Kasich Administration is expected to offer its plan for addressing the question of replacing the Medicaid MCO sales tax with a permissible tax when the Governor introduces his executive budget in late January/early February 2017. The legislature will then have 5 months or until June 30 to review and revise the administration's recommendations as part of the SFY 2018-2019 state biennial appropriations process.

For additional information regarding this issue, please contact Brad Cole or Kate Neithammer of the CCAO staff at bcole@ccao.org or kneithammer@ccao.org

CCAO's Legislative Priorities – *We need your help!*

Summer is here – we have up-to-date legislative talking points ready for you to use when you have the opportunity to talk to your legislators over the next several months. Our CCAO members are our best legislative advocates. Please mention these critical issues:

Voting Equipment – state funding to replace the current voting equipment purchased under HAVA that is reaching the end of its useful life

Medicaid Managed Care Organization Sales Tax must be replaced – The Federal government has advised Ohio that it has until July 2017 to devise another tax policy that complies with federal rules. This tax represents 7.5% of the total county sales taxes collected. Ohio's solution to this matter must protect counties from the potential revenue lost that will be lost.

Preserving the County Sales Tax Base – The county sales tax is the number 1 source of revenue for counties. CCAO opposes HB 343 exempting employment services from the sales tax and any other bill that would exempt items from the sales tax.

Opiate Epidemic – Counties resources are being significantly impacted as we fight the opiate epidemic. Comprehensive strategies and adequate resources to implement those strategies are need at the county level.

Infrastructure Funding – Counties don't have the resources to address our aging infrastructure. We ask support for HB 528 which provides additional permissive motor vehicle license fees and the allocation of additional public works bonding capacity to provide grants to fund water and sewer projects.

Family and Children First Councils recommended to take on bigger role in serving youth in multiple systems

Limiting the need for parents to relinquish custody to pay for care for children with serious behavioral conditions is among the goals of recommendations made Wednesday by the Joint Legislative Committee for Multi-System Youth. In addition, the committee recommended modernizing Family and Children First Councils (FCFCs).

The report comes after more than six months of meetings in which lawmakers heard from advocates, families, young people and state officials about the problems affecting youths who are served by different systems. Those programs included child welfare, the juvenile justice system, behavioral health authorities, developmental disabilities and more.

Some of the more emotional testimony the committee heard came from parents who were forced to give up custody of their children temporarily because they weren't able to afford intensive residential care for young people who have severe behavioral problems. Often only out-of-state residential programs would accept patients with the most severe conditions, they said.

The committee recommended the following:

- Re-establishment of a safety net for multi-system youth, which had funding of $6.5 million available through Fiscal Year 2005, to help parents pay for needed services that aren't covered by insurance or other payers. A new version of this system could help reduce the necessity of parents relinquishing custody of children.
- Modernize Family and Children First Councils by first requiring the Ohio Family and Children First Cabinet Council to study and make recommendations to the legislature by January 1, 2017, on:
  - How to address variances that exist between local FCFC's across the state;
  - Structural and financial changes needed to modernize the Ohio Family and Children First Cabinet Council and local FCFCs; and
  - The estimated fiscal cost to accomplish these changes.
- Creation of a long-term joint legislative committee or task force to evaluate and oversee implementation of the recommendations and track progress on meeting the needs of multi-system youth.
- Creation of a Children's Congregate Care Study Committee to examine the following topics:
  - Financing mechanisms to sustain residential facilities for complex, multi-system youth;
  - Ability for youth to access appropriate levels of care; and
  - Availability of facilities that can manage a wide range of multi-system youth issues such as behavioral health, developmental disability, and criminogenic.

In general, Senator Randy Gardner, Committee Chair, said he believed helping young people at the front end of the problem will save the state money by reducing the burden on the juvenile justice, the criminal justice, and the mental health systems. Sen. Gardner said he expected recommendations to be included in separate bills and in the next budget, but did not set a timeline for most of the proposals.

For further information, please contact CCAO staffer Kate Neithammer at 614-221-5627 or at kneithammer@ccao.org.