STATEHOUSE REPORT

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Legislative issues survey responses due next Thursday

Time is running out for you to provide your input to our standing committees with recommendations for legislation that you believe would help counties better serve their constituents and to the Board of Directors regarding what you believe are the most important issues facing county government.

Our Legislative Issues survey response period ends next **THURSDAY, JULY 28**. If you haven't already done so, please access the survey which is also on the Home Page of our web site.

CCAO has a long standing history of being a forefront leader in public policy given our member-driven process. We ask you to take an active role in your association's policy development process by completing the survey and then participating in our standing committees' review and revision of our current platform items as well as to consideration of recommendations from our members reported in the survey.

News stories across Ohio continue to highlight impact of Medicaid MCO sales tax issue on county finances

Local newspaper coverage pertaining to the impact of eliminating Medicaid MCO sales tax continues as local officials examine the loss of sales tax revenue on county budgets. Recent examples of coverage of this issue included articles appearing in the Mansfield Journal, Lima News and the Dayton Daily News.

The *Mansfield Journal* article reported that the federal Centers for Medicare and Medicaid Services (CMS) informed the state that Ohio's sales tax as applied to Medicaid Managed Care Organizations do not comply with federal regulations.

In order for health care related tax to be permissible , according to federal guidelines, it must be broad based and apply to all services with a class; be uniform so that all payers of the tax pay at the same rate; and avoid hold harmless arrangements by which collected taxes are returned directly or indirectly to the taxpayers. Ohio's application of the sales tax to Medicaid MCO's does not apply uniformly to all managed care organizations.

The state has until July 1, 2017 to eliminate the collection of the Medicaid MCO tax. Counties and transit authorities will begin to experience the loss of revenue in the last quarter of 2017. Richland County Commissioner Marilyn John said that the state Office of Budget and Management indicated that the $1.2 million figure is about 6.2 percent of the total estimated local sales tax revenue for 2017. Commissioner John said, “The legislature won’t begin to look at the next state biennial budget until at least January and our budget will be passed by then,” suggesting that Richland County will have already adopted the CY 2017 budget before state action will occur.

Commissioner Tim Wert suggested that CCAO lobby beyond the Ohio legislature. “The Feds cut out the internet sales and now they’re taking this away,” Commissioner Wert pointed out. “Maybe it now time to talk to the feds.” To Commissioners Wert’s point, CCAO has long supported “Market Place Fairness” legislation under consideration by Congress to require remote sellers of goods and services to collect the sales tax. CCAO has also supported efforts by Ohio to promote the Streamlined Sales Tax Project by which states like Ohio reform sales tax laws to accommodate modern sales tax collection practices. Ohio Is a full member of the Streamlined Sales Tax Project, as Governor Kasich adopted an executive order to this effect early in his first term of office.

An article in the *Lima News* reported county auditor Rhonda Eddy-Stienecker as saying, “There will be a slight decline in our (Allen County’s) sales tax in 2017, but we’ll definitely see a decline in 2018. The $800,000 to $900,000 in lost revenue I mentioned will start that year, in 2018.” Auditor Eddy-Stienecker said that due to falling interest rates and drastic cuts to local government funds, Allen County increased its reliance on sales tax to generate revenue. Sales tax rose from 49 percent to 61 percent of the county (general fund) budget within the last few years.

The *Dayton Daily News* referencing documents released by the Ohio Office of Budget and Management reported that Ohio stands to lose $558 million in fiscal year 2018 and 2019 – a total of more than $1 billion over two years – and county governments are looking at losing $195 million. Montgomery County took in $7.2 million in Medicaid Health Insuring Corp. sales taxes from the state in calendar year 2015 – about 9.2 percent of the county’s sales tax revenue, and up from $5.4 million in 2014. Montgomery County estimates that its revenue loss beginning in the 2018 budget will be about $8 billion.

Montgomery County Commissioner Debby Lieberman explained that as a member of the CCAO Board of Directors she and other Board members met with Ohio Office of Budget and Management Director Tim Keen at a board meeting at which Keen discussed the challenge facing the state and local governments who receive sales tax revenue.

Commissioner Lieberman recalled Director Keen as saying, ‘We’re going to work on something. What it is, we don’t know.’ Commissioner Lieberman went on to say, “The change is especially hitting counties that have more people on Medicaid.” Commissioner Lieberman said it is too soon to talk about potential cuts. But since the issue affects state government as well, she’s hoping some sort of solution can be crafted at that level. The commissioner also said, “Next year in the (budget making process), were going to have to be very cautious.”

For additional information on this topic, contact CCAO staffers Brad Cole or Kate Neithammer at bcole@ccao.org or kneithammer@ccao.org respectively.

Medicaid Managed Care Organization (MCO) Sales Tax at a Glance

What is the tax?

Since 2009, Ohio has levied state and local sales taxes on Medicaid health and pharmaceutical services provided by MCO's. Services provided by MCO's that are not related to Medicaid are not included in this tax. The state tax revenue is used to draw down federal Medicaid match dollars, reimburse Medicaid MCO's and fund the state GRF. County governments and transit authorities who are also authorized to levy this revenue stream have largely used it to reinforce their operating budgets.

Why is the tax going away?

The federal government has indicated that Ohio's tax is out of compliance because it does not apply broadly to all MCO services. Ohio was notified by the Center for Medicare and Medicaid Services that the tax will need to be turned off or brought into compliance by June 30, 2017.

How will this impact county budgets going forward?

In 2015 the county portion of Medicaid MCO taxes represented 7.5 percent of all sales taxes collected by the state on behalf of counties. However the county by county impact ranges from 2 to 25 percent. (See how much Medicaid MCO tax your county collected in 2015 **here**.) Because the state distributes the county sales tax in arrears, counties are projected to see a 3 month loss in 2017 and a full loss in 2018 and thereafter. In addition, this will result in a slight reduction in LGF funding due to the reduction in the MCO state sales tax collected that goes into the state GRF.

What is being done to address this future shortfall?

The Kasich Administration and Ohio Legislature are currently working to identify solutions to this new challenge. They have confirmed that they understand the impact this will have on counties and plan to take that into account when developing their plans. A significant hurdle will not only be how the foregone revenue stream is replaced, but what mechanism will distribute that stream back to Ohio's 88 counties. Action is anticipated the first half of 2017 when state officials begin to craft the biennial budget bill.

What can I do?

Each county's budget tells a story about the health of their community. Make sure your legislators know your story and how this loss will affect your citizens. CCAO staff can provide talking points to help you with this.

FY 18/19 budget guidance released to state agencies

State agencies have been directed to limit their upcoming two-year budget requests to 90% of their current General Revenue Fund spending levels. The GRF limits, which come with allowances for 10% in "extended funding" requests, and the overall guidelines in general, follow along with prior budget planning guidance documents distributed by the Kasich administration's Office of Budget and Management.

The latest guidance document distributed to state agencies also limits non-GRF appropriations requests to 100% of current levels. In addition, it lays out the general goals of the administration, a brief economic outlook, and a planning schedule designed to have the package ready for presentation to the General Assembly early in the next calendar year.
OBM Director Tim Keen said in a letter accompanying the guidance that the governor would continue with the same themes he has pursued during his first five-and-a-half years in office. "Governor Kasich will use the next biennial budget to continue to enhance the climate of economic competitiveness and job growth in Ohio, restrain State spending; and improve services for taxpayers," Mr. Keen wrote.

Keen also noted in the letter that a recent federal regulatory decision will likely bring to an end the State's targeted collection of sales tax on Medicaid managed care plans, which would dramatically reduce expected revenue growth. The Medicaid MCO issue is expected to result in the loss of some $550 million a year in state revenue and, as commissioners are becoming well aware, a $200 million loss in county and transit sales tax collections absent a replacement mechanism.

Mr. Keen set forth the following schedule for agency leaders to submit their budget requests to OBM: September 16 for professional regulatory boards and commissions and other smaller agencies; October 14 for cabinet and all remaining executive agencies; and November 1 for constitutional statewide officeholders, and legislative and judicial agencies.

Keep talking up the Talking Points

As you know, CCAO has developed "talking points" covering our major legislative priorities. Summer affords many opportunities for you to meet with and talk to your legislators and we encourage you to discuss our major issues with them.   While we have been focusing upon the elimination of the Medicaid Managed Care Sales tax we do have four other issues we want legislators to be familiar with.

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

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.

And, it is also important that you thank your legislators for several key appropriations they included in the state budget bill that support our counties.

Be sure and say THANKS for providing:

- Additional funding to reimburse counties for indigent defense. An additional $12 million per year, along with an additional $1.5 million per year for death penalty cases was appropriated.
- $12.75 million for the pur-chase of electronic poll books, as well as eliminating the February special election and requiring pre-payment for the county to conduct other special elections.
- $20 million for the Local Government Safety Capital Fund to assist local governments with public safety.