The Turnaround Ohio Plan in the Executive Budget

The guiding philosophy of the Strickland-Fisher Administration is to live within our means, and to invest in what matters. Our administration was elected with a specific, detailed agenda for action - the Turnaround Ohio Plan. The Executive Budget reflects substantial progress towards translating that plan into action. The Turnaround Ohio Plan is predicated on the assumption that we will create and keep jobs in Ohio by investing in Ohio's strengths, such as energy production and entrepreneurship, while bringing us the jobs of the future by assuring that we have the most educated workforce possible. This budget provides guideposts along the way to begin our state's journey back to prosperity.

Our state's general revenues over the next three years will be constrained significantly as the House Bill 66 tax reforms continue to be phased in. Faced with reduced revenues and resources, the Strickland-Fisher Administration has not raised any taxes or fees to balance the budget. Instead, we have asked state agencies to operate largely at flat levels of funding. The result is that, in total, state spending in this biennial budget has been limited to less than 4.4% over fiscal year 2007. Despite these constraints, we have worked to assure that our proposals do not put the burden of budget cuts on those with the least ability to endure them.

At the heart of the Turnaround Ohio plan is a common sense approach informed by the values of Ohioans. We know that healthy, happy children are able to learn; that good learners in effective schools become educated workers ready to contribute to the economy; and, that able workers stay where there are worthy opportunities. We know that when good jobs are performed well, for fair pay, we start a cycle of success that builds its own momentum, creating opportunities for new investment, a growing tax base, stable families - everything that Ohio has been losing for almost two decades. This budget lays the groundwork to start that cycle of success through these key components:

Provide every child a fair start through access to high quality early care and education.

The Executive Recommendations for early childhood education (ECE) will:

- Improve the quality of early care and education programming by:
  - Effectively using the quality set aside on Child Care Development Block Grant to increase the scope and effectiveness of the Step Up to Quality Program;
  - Assuring adequate resources are available to build and sustain capacity for early care and education by increasing the provider rate for early care and education using federal TANF funding; and
  - Working to develop a statewide early care and education fiscal model that will provide a sustainable funding model for quality care for all Ohio's children.
- Increase access to the Early Care and Education program by:
  - Harmonizing eligibility policies across ECE programs;
  - Removing the work requirement for parents whose children participate in the state's Early Learning Initiative (ELI); and
  - Eliminating the six-month re-determination requirement for the ELI program so that any child who is eligible at the start of a school year may attend for the entire year regardless of changes in family income.
- Extend Access to Better Care (ABC) Initiatives by:
  - Using the Transformation State Incentive Grant (TSIG) grant to extend early childhood mental health consultation services statewide.
- Enhance commitment to public preschool by:
  - Increasing funding for the Early Childhood Education program (i.e., public preschool) by 52.6% in fiscal year 2008 and 8.6% in fiscal year 2009. The additional funding will allow enrollment to increase from 3,734 in fiscal year 2007 to 5,690 in fiscal year 2008 and 6,181 in fiscal year 2009. This represents a 65.5% increase in slots from fiscal year 2008 to fiscal year 2009 and will allow up to 49 new school districts to offer the program in fiscal year 2008 and 12 new districts in fiscal year 2009.
  - Expanding the use of Poverty Based Assistance (PBA) funds so that public preschool will, for the first time, be an allowable expense in fiscal year 2008 and fiscal year 2009.

- Expand early intervention services by:
  - Implementing school readiness enrichment by providing $6.5 million per year for short term intervention to prepare children for kindergarten;
  - Extending early childhood mental health consultation services;
  - Expanding home and community based treatment services by $1.9 million over the biennium; and
  - Increase total funding for the Help Me Grow program by $7.3 million in fiscal year 2008 and by $17.0 million in fiscal year 2009 to serve an additional 3,000 children and to enhance quality of care by increasing the amount available to be spent by child by $450.
- Support All-Day Kindergarten by:
  - Increasing the minimum available funding for all-day kindergarten from $133.6 million in fiscal year 2007 (actual spending will only be $121.6 million) to $139.6 million in fiscal year 2008 and $143.2 million in fiscal year 2009. This is made possible through the Executive Budget's 3% increase in per-pupil funding for FYs 2008 and 2009.

Create Schools that Work for Every Child

The Executive Budget Recommendations are focused on four primary policy goals:

1. Supporting high quality teaching;
2. Promoting and supporting early childhood education and school readiness;
3. Enhancing equity and eliminating disparities throughout the system; and
4. Increasing transparency and accountability, while creating incentives for efficiencies.

The Turnaround Ohio approach will provide our state's education system with more equitable outcomes, targeting limited resources to students who need it most within the existing foundation formula. The Executive Recommendations will:

- Increase the state's resources dedicated to primary and secondary education by 5.5% over fiscal year 2007. The state's foundation formula share in fiscal year 2008 will be 47.5%, increasing to 48.0% in fiscal year 2009. This increase in the state share percentage reduces the local share of special education and vocational education.
- Increase per pupil funding by 3.0% each year to $5,565 in fiscal year 2008 and $5,732 in fiscal year 2009, the largest increases since 2002.
- Increase the hourly rate for building block investments by 3.0% in each fiscal year.
- Simplify the school funding formula to dedicate more resources to Poverty Based Assistance and Parity Aid. Parity Aid millage will increase from 7.5 mills to 8.0 mills in fiscal year 2008 and 8.5 mills in fiscal year 2009. Qualifying districts will be reduced from the 80th percentile to the 60th percentile of lower wealth districts, better directing this aid to districts with the greatest need.
- Create a new incentive within the poverty based assistance program to raise the academic success of districts.
- Poverty-based assistance restrictions are loosened, most components fully funded and a new payment for districts in academic distress is created.
- Hold districts harmless through restructured and simplified guarantee that reduces a district's reliance on guarantees in future years.
- Restore the prior method of current year average daily membership by eliminating the February count.

The table below summarizes the overall impact of the Executive Budget recommendations on K-12 Education:

Impact of Recommendations on K-12 Education			
Indicator	**FY 2007 (*estimate)**	**FY 2008**	**FY 2009**
Per Pupil Amount	$5,403	$5,565 (+3.0%)	$5,732 (+3.0%)
Building Block Rate	$20.40/hour	$21.01 (+3.0%)	$21.64 (+3.0%)
State Share %	44.8%	47.5%	48.0%
Special Education	$438 million*	$472 million (+7.7%)	$513 million (+8.7%)
Parity Aid (@ equity threshold)	$482 million* @ 7.5 mills	$485million @ 8 mills (0.6%)	$521 million @ 8.5mills (7.4%)
Poverty-based Assistance (PBA)	$411 million*	$468 million (+13.8%)	$500 million (+6.8%)
Bottom Line Guarantee:	$87 million*	$360 million	$308 million
# districts with increased funding	--	311 (over FY07)	371 (over FY08)
# districts with decreased funding	--	0	0
Total Appropriation:	**$6,312,222,127**	**$6,357,710,420**	**$6,651,739,647**
Increase over the prior year:	--	$45,488,293 (0.7%)	$294,029,227 (4.9%)

In terms of the Ohio Core, the executive budget recommendations will invest further in those priorities by dedicating resources to high quality teaching, attracting individuals into the profession, and creating a pipeline that directs teachers to hard-to-staff schools. The Executive Recommendations will:

- Increase the investment in the National Board Certified Teachers program by $1 million in each fiscal year. The additional funding will restore stipends to teachers from $1,000 to $2,500. Funding will also increase state assistance for the application fee.
- Provide $6.5 million in new state investment for the Post Secondary Enrollment Option (PSEO) program in fiscal year 2009. Funding will allow over 3,800 students to earn college credit while still in high school. It will also eliminate the current barrier to PSEO enrollment and existing disincentive in school districts.
- Invest an additional $750,000 in the Early College High School program in each fiscal year. These programs provide high school students the opportunity to earn college credit toward an associate or bachelor degree while still in high school.
- Invest and provide incentives to improve teacher instruction in laboratory-based sciences, mathematics, and foreign languages for hard-to-staff schools.
- Increase support for high quality teachers and their professional development.

The Strickland Administration recognizes the difficulty for parents and their children in identifying schools that best meet their academic needs, especially when data are incomplete and there is no penalty for failing to report academic performance. The Executive Budget outlines a comprehensive package of reforms that directly address the concerns raised in the Achieve report as well as other reports, and takes steps to build accountability and efficiency into the education system The Executive Recommendations will:

- Advance the school employees health care board recommendations by establishing a board to develop an implementation plan to create voluntary health care pools and establish best practice standards to improve health care services. The purpose of this action is to restrain health care costs statewide for school districts and save taxpayer dollars. The board estimates that implementing its findings can save $60-120 million per year in healthcare costs for school districts.
- Permitting school districts with an income tax to reduce the assessment as they deem necessary.

- Creating more accountability for community schools by requiring their compliance with the same accountability standards as traditional public schools.
- Establishing a moratorium on the creation of new charter schools.
- Eliminating the EdChoice program. In fiscal year 2007, the first year of the program, fewer than 30% of the funded slots were utilized.
- Providing the Department of Education with the additional authority to impose penalties for school districts that do not submit the required data through the Education Management Information System (EMIS).
- Requiring stronger charter school accountability to ensure that the consumer rights of students and their families are protected and that they benefit from full disclosure.
- Reducing the per-pupil basic aid amount for e-schools to remain consistent with the lower costs of their business model.
- Prohibiting community schools from using for-profit companies as their management company and requiring that existing contracts up for renewal are competitively bid to ensure that taxpayer dollars are protected.
- Enhancing the department of education's authority to oversee charter school sponsors.
- Requiring charter school sponsors to assure the operational capacity of charter schools before the start of each school year.
- Limiting the report card rank of charter schools that do not test high proportions of their students.

Property Tax Relief: A Major Step towards Reforming Ohio's Schools
This Executive Budget proposes to securitize Ohio's tobacco revenues under the Master Settlement Agreement and use the GRF freed up through the proceeds to finance a 20 year expansion of Ohio's homestead exemption for senior citizens and the disabled, as well as to complete the construction commitments to the Ohio School Facilities Commission. The property tax relief proposed will help 775,000 Ohioans, comprising approximately one out of four homeowners. This measure will allow the state to step in and provide over $257 million in additional support, raising the state share of education expenses to the highest rate since 1997. Please see the part II of the Funding Our Future, Supporting Our Seniors special analysis for further detail.

Make college accessible and affordable to all Ohioans; and assure that all Ohioans have the opportunity to attain skills for high-quality jobs.
Funding for the Board of Regents (all funds) totals $2.30 billion in fiscal year 2008 (1.7% above fiscal year 2007) and $2.33 billion in fiscal year 2009 (1.3% above fiscal year 2008). GRF funding for the Board of Regents totals $2.26 billion in fiscal year 2008 (3.6% above fiscal year 2007) and $2.31 billion in fiscal year 2009 (1.3% above fiscal year 2008).

The Executive Budget recommendations will make college more accessible and more affordable to all Ohioans, and thus assure that all Ohioans have the opportunity to attain skills for high-quality jobs. The administration also supports and expands the dedication of resources to high-quality teaching in the science, technology, engineering, and mathematics (STEM) disciplines. In higher education and workforce development, the Executive Budget focuses on four primary policy goals of critical importance to Ohio's future:

1. Close the gap in higher education costs for students, making college affordable for all Ohioans.
2. A Compact with Higher Education institutions to control costs, stem tuition growth, increase collaboration and increase cooperation between the state and institutions of higher education.
3. Create "truth in tuition" to eliminate unexpected costs for those attending institutions of higher education.
4. Seamlessly link education, workforce development and the needs of business, so that high school graduates obtain the appropriate level of post-secondary education and high demand skills they need to support the needs of Ohio's growing businesses.

Making Higher Education Affordable: The Turnaround Ohio approach fully funds need-based financial aid, increased institutional funding to help colleges and universities keep tuition down, and aligned higher education with Ohio's economy. The Executive Recommendations will:

- Request that state-supported institutions participate in the Higher Education Compact in order to obtain a 5% increase for fiscal year 2008 and a 2% increase for fiscal year 2009 for the State Share of Instruction. The compact will require campuses to:
  - Restrain tuition growth to 0% in fiscal year 2008 and no more than 3% in fiscal year 2009, and
  - Realize efficiency savings of 1% in fiscal year 2008 and 3% in fiscal year 2009.
- Continue the phased-in implementation of the Ohio College Opportunity Grant (OCOG), which will replace the Ohio Instructional Grant (OIG) completely in fiscal year 2011.
- Target the Student Choice Grants for private colleges and universities to those students eligible for the Ohio College Opportunity Grant, thus making them need-based.
- Supplement the Research Incentive Program (formerly called Research Challenge) with $18 million in Third Frontier funding. GRF support for this program is reduced by $6 million in each fiscal year, however overall dedicated support actually increases by 66% ($12 million in each year).
- Increase funding to expand Ohio College Access Network (OCAN) project sites ($4.25 million in each fiscal year). Expansion of this program will result in higher numbers of at-risk and low-income students and their families preparing for college. It will also be used as a challenge to the private sector to help build a fund to close the gap between tuition and a family's ability to pay.
- Invest $8.2 million in seed funding to Central State University's Speed to Scale Plan over the biennium and restore the university's supplemental funding (earmarked in Access Challenge) to fiscal year 2005 levels (an increase of $2 million in each fiscal year).
- Eliminate the Student Workforce Development Grants ($2.1 million in fiscal year 2007), which consist of grants to proprietary schools not approved by the Board of Regents.
- Increase funding for early college high schools by $750,000 in each fiscal year over fiscal year 2007 levels, which will expand learning opportunities to additional high school students.
- Increase support of the Ohio Agricultural Research and Development Center by 2% or $719,104.
- Provide full funding of the Ohio National Guard Scholarship and increase the Ohio War Orphans Scholarship.
- Increase subsidies to support high quality teachers and their professional development.

The administration will also continue to support the recently enacted Ohio Core initiative and dedicates resources to high quality teaching by offering professional development in math, science and foreign language. The Executive Recommendations will:

- Continue $2,000,000 in funding per year to support ten STEM and foreign language academies, which will benefit 1,000 high schools students over the biennium.
- Fund the following Teacher Incentive programs: Teacher Signing Bonus program ($4 million in fiscal year 2009) and Teacher Loan Forgiveness program ($2.5 million in fiscal year 2009), are projected to increase the number of STEM and foreign language teachers working in hard to staff schools by 1,300.

A Demand-driven Workforce Development System that Works for Ohioans and Ohio's Businesses

More than 60% of the jobs that our businesses will create by the year 2012 will require some college education. The Turnaround Ohio approach features the initial steps towards creating a seamless, demand-driven workforce development system. A transition plan must be developed to move Ohio's workforce training programs to one centralized department to assure responsiveness to Ohio's business needs, and a system that is easy to use for Ohio's workers. The Executive Budget Recommendations will:

- Create AccelerateOhio at the Board of Regents to provide low-cost, flexible entry points to higher education for workers ($2.5 million in FY 2008 and $5 million in fiscal year 2009).
- Create a $6 million program in the Department of Job and Family Services using Workforce Investment Act funds to encourage job training and job creation for young people in low income communities. Participating employers will receive funds to support the training and wages of a young employee. Thousands of young men and women will benefit from this opportunity.
- Strengthen Ohio's workforce training system. Language is included in the Executive Budget to implement the coordination of workforce development activities between the Ohio Department of Job and Family Services and the Ohio Department of Development in support of a unified economic development strategy. Additionally, the

Ohio Department of Education and Board of Regents will work collaboratively to identify programs that are adult and career technical education that can be transferred to the Board of Regents effective July 1, 2008

- Support expansion of the Ohio Workforce Guarantee in fiscal year 2008 under the Department of Development. Additionally, the Ohio Workforce Guarantee will coordinate the resources of other federally funded worker training, Enterprise Ohio, Ohio Investment in Training Program (OITP) and the capabilities of Ohio's diverse training system to provide guaranteed workforce training to any company that provides 20 new jobs in a year.
- Target Resources to industries that provide high growth and good jobs: The Ohio Investment in Training (OITP) program will receive $12.6 million of GRF in each fiscal year and $2 million of non-GRF in fiscal year 2008. This program provides financial assistance and technical resources for customized training involving employees of new and expanding Ohio businesses, with a special emphasis on manufacturing. To extend the programs effectiveness and outreach to Ohio's small and medium sized businesses, an Ohio Investment Training Program coordinator is funded at each ODOD regional office.

Focus on Ohio's Economic Strengths

The Turnaround Ohio plan focuses on boosting new and growing industry sectors in Ohio and takes advantage of the work of countless economic development, business and labor leadership groups already working hard to create and retain jobs in the state, while supporting vibrant downtowns, and putting resources in the hands of Ohio's businesses to compete in a global marketplace. The Executive Recommendations will:

- Provide a $20 million down payment to move Ohio's state network traffic to the NextGen network, laying the groundwork for extending it to all 88 counties.
- Provide additional support for Ohio's Research Challenge, a program to promote world-class research with the ability to commercialize, originating from Ohio's universities.
- Create the Energy Strategy Development Fund that will support the office of the Governor's Energy Advisor. This budget provides an appropriation of $307,000 in each fiscal year for use by the Energy Advisor and his staff to develop energy-related initiatives, projects, and policy.
- Support development of an energy industry by providing an increase to the Advanced Energy program of $5 million in each fiscal year.
- Take advantage of Ohio's central location and the increasing role of air transport in transportation logistics by setting aside $4.0 million to support additional statewide promotion of airport expansions and economic development.
- Allocate an additional $2.0 million in GRF funding in fiscal year 2008 and fiscal year 2009 to support rail improvements to service Ohio's growing logistics and distribution base, an increase of 74.1% over fiscal year 2007 appropriations.
- Provide $20 million in GRF to mass transit in communities, an increase of 24.5% over fiscal year 2007, and represents the highest appropriation for mass transit since 2004.
- Continue support of Ohio Business Development Coalition in its marketing and promotion work for the state with $6 million over the biennium.
- Provide an appropriation of $250,000 in each fiscal year to support the Ohio Main Street Program, allowing the state to bring down federal and private sector investment resources to revitalize Ohio's towns and cities.
- Accelerate the pace of reclaiming brownfields and vacant industrial sites by increasing the Clean Ohio line item by $275,000 in fiscal year 2008 and $200,000 in fiscal year 2009.
- Invest in Ohio's film production industry by re-establishing the Ohio State Film Commission with funding of $400,000 each fiscal year, and provide ongoing support of the Cincinnati and Cleveland Film Commissions at $50,000 per year to each group.
- Provide $800,000 in GRF resources to add new trade offices in Australia and India, as well as an increase in the Shanghai office allocation. Ohio's trade offices coordinate about 500 export projects that support an estimated 25,000 new jobs.

Stabilize healthcare costs for government and businesses alike and advance the health of our citizens.

The Turnaround Ohio plan called for increasing the number of Ohioans who have access to affordable, high-quality healthcare, preventing illnesses and injury and focusing on community-based services for children, families, older adults and persons with disabilities. The Executive Recommendations will:

- Provide access to affordable healthcare for all children in Ohio, serving an additional 20,000 children between 200% - 300% of the Federal Poverty Level (FPL) and 4,000 children above 300% of the FPL.
- Support Healthy Ohio by providing $1.5 million in FY 2008 and $2.9 million in FY 2009 to decrease minority health disparities and use care coordination models to improve health outcomes for individuals with catastrophic and expensive health conditions.
- Implement a Medicaid buy-in program for working people with disabilities, serving 7,300 consumers.
- Expand Medicaid eligibility for pregnant women from 150% to 200% of the FPL, serving an additional 3,800 women.
- Restore Medicaid eligibility for low income working parents from 90% to 100% of the FPL, serving an additional 25,000 Ohioans.
- Provide a 3% per year rate increase for community providers; a 2% per year rate increase for Intermediate Care Facilities for the Mentally Retarded (ICF/MR) providers; and market basket rate increase for inpatient hospitalization services equaling 3.3% in FY 2008 and 2.9% in fiscal year 2009.
- Restore Medicaid funding for dental services, independent psychologists services and chiropractic services.
- Implement the Money Follows the Person program.
- Improve efficiency through numerous initiatives to save over $30 million in fiscal year 2008 and $79 million in fiscal year 2009.
- Overall the state share of Medicaid funding decreases by $265.6 million, or 7.0%, in fiscal year 2008 and increases by $245.8 million, or 7.0%, in fiscal year 2009.

Additionally, the Executive Budget provides concrete assistance to those vulnerable and fragile Ohio citizens in the care or custody of the state—including children, the elderly and disabled. The Executive Recommendations will:

- Increase state support for child protective services by $10.4 million to implement the systemic reforms called for in the administrative review following the death of Marcus Feisel.
- Increase the state subsidy for qualifying adoptions by $50 from $250 to $300 per month, benefiting an estimated 23,700 children.
- Provide sufficient resources to build the capacity of providers of home and community-based care, serving an estimated 5600 older Ohioans.
- Provide state funding of $6.2 million in fiscal year 2008 and $29.0 million in fiscal year 2009 to support 600 new Independent Option waiver slots in fiscal year 2008 and 900 in fiscal year 2009 in compliance with the Martin v. Taft consent order. Additionally, $150,000 will be provided to the Legal Rights Service to comply with this order.

To begin the hard work of rebalancing Ohio's investment in healthcare and extending access to health insurance for the uninsured, the Executive Recommendations will:

- Provide funds to research the opportunity for an Ohio Healthcare Exchange to link the uninsured with affordable insurance products; and
- Initiate a plan for a unified long term care budget that will help the state balance spending in such a way as to expand the choices available for long term care, eliminate barriers for people moving from institutions to home and community based settings, and assure a wide variety of options in appropriate care for different levels of care.

Provide Strong Support for Community Services by Reforming the Local Government Funds

For over 70 years, the Local Government Fund has represented an extraordinary partnership between state and local government to share in revenues and assure an adequate level of community services. Recent state budgets have not provided the local government fund with the stable, predictable and sustainable funding source they need to be able to provide critical services to their communities. Building on the work of the Local Government Fund Task Force, established by the Legislature in HB 66, the Executive Recommendations will:

- Provide a dependable source of support for local governments and libraries by committing a set percentage of all tax revenues deposited into the General Revenue Fund.
- Combine the Local Government and Local Government Revenue Assistance Funds and develop a new system to allocate these funds based upon population growth.
- Revenue growth for local government funds above fiscal year 2007 levels will be distributed on a per capita basis. Under the new system, beginning in January 2008 the following will occur:
  - Local Governments will receive 3.65 percent of total GRF tax revenues annually;
  - Local Libraries will receive 2.20 percent of total GRF tax revenues annually;
  - As GRF revenues increase, local governments will share in the growth;
  - No entity receives less under the new framework than they did under the freeze in place since fiscal year 2002; and
  - Entities will receive an increase of $16.8 million during the biennium.

Accountability and Results

The Turnaround Ohio plan called for a comprehensive governmental accountability plan to assure that Ohio's citizens and taxpayers are getting value for their investments. In this Executive Budget, we have already begun work on the Ohio Government Accountability Plan—a plan which will hold the entire state government accountable to our goals and committed to seek out every efficiency available.

The essence of the plan is to clearly state priorities, establish performance agreements with agency directors showing how they will pursue those priorities, and, then, measure the outcome to find out what worked and what did not. The budget provides resources to support a statewide effort to focus on core goals of the administration and direct the entire state enterprise toward meeting those goals. It is our roadmap to a lean, competitive, modern government that is a critical element in spurring Ohio's economic growth. The Executive Recommendations will:

- Support the implementation of Advantage Ohio, a regulatory streamlining initiative, led by the Governor's Special Representative on Regulatory Reform. This group will convene teams of stakeholders and others to eliminate redundant regulations, and streamline cumbersome processes throughout state agencies while ensuring the health and safety of Ohio's citizens.
- Support the Performance Management Initiative at the Department of Administrative Services, which will focus on strategic sourcing and bulk purchasing, with a goal of generating significant savings over the biennium.

This Executive Budget advances a strong agenda for change in our state. With its passage into law, we will:

- Reduce the burden on taxpayers while making our school funding more generous and more equitable;
- Bolster Ohio's economy by building a more skilled and more educated workforce and capitalizing on our strengths; and
- Improve access to health care, including offering affordable coverage to every child in Ohio, and in-home assistance for more seniors.

The Strickland-Fisher Administration looks forward to working in partnership with legislative leaders as we begin the journey back to prosperity.

Overview

It is our responsibility, as Ohio's leaders, to provide a system of public education that ensures all children in Ohio have the opportunity to learn and that the education they receive allows them to be competitive in today's world economy. In the ten years since the DeRolph decision, progress has been made in improving our schools and the performance of our students. Standards have been set and expectations have been raised. And more funding has been put into the system. But what is clear today is that the rate of progress is not consistent across Ohio and the needs of students and school districts differ around the state. The state must identify inequities and disparities in order to strategically target resources where the needs are the greatest so that all Ohio's children can receive a high-quality education.

This Executive Budget builds on the work done over the last ten years and takes Ohio closer to achieving a student-centered, results-based system of education where resources are invested strategically to support high academic achievement and lifelong learning for all Ohio students. It acknowledges the research that tells us that student success is increased when children have quality early care and education experiences, high quality teaching in their classrooms and professional leadership in their school buildings.

To that end, this Executive Budget makes strategic investments to move us toward a K-12 funding system that is more equitable, provides universal property tax relief for homeowners over age 65 and homeowners with a permanent total disability, restructures Ohio's long-term debt obligations by securitizing revenues from the Tobacco Master Settlement Agreement, and increases accountability measures. These initial steps begin addressing the concerns expressed by parents, their children, and taxpayers while simultaneously moving Ohio toward an adequately funded, accountable educational system.

I. School Funding

The Executive Budget increases per pupil funding, or base cost, from $5,403 in fiscal year 2007 to $5,565 in fiscal year 2008 and to $5,732 in fiscal year 2009. This is a three percent increase in each fiscal year (Table D-1), which is the largest increase in base cost since fiscal year 2003. This investment increases the state's foundation formula share from 44.8 percent in the current fiscal year to 47.5 percent for fiscal year 2008 and 48.0 percent in fiscal year 2009, again, the largest state share investment since fiscal year 2003. Additionally, the proposal includes a 3.0 percent increase in the hourly rate for the building blocks program allowing schools to provide the needed academic interventions to increase student success.

The Executive Budget will increase funding for 311 school districts in fiscal year 2008 and 371 districts in fiscal year 2009. Continuation of the transitional aid guarantee will ensure that no district loses funding compared to fiscal year 2007.

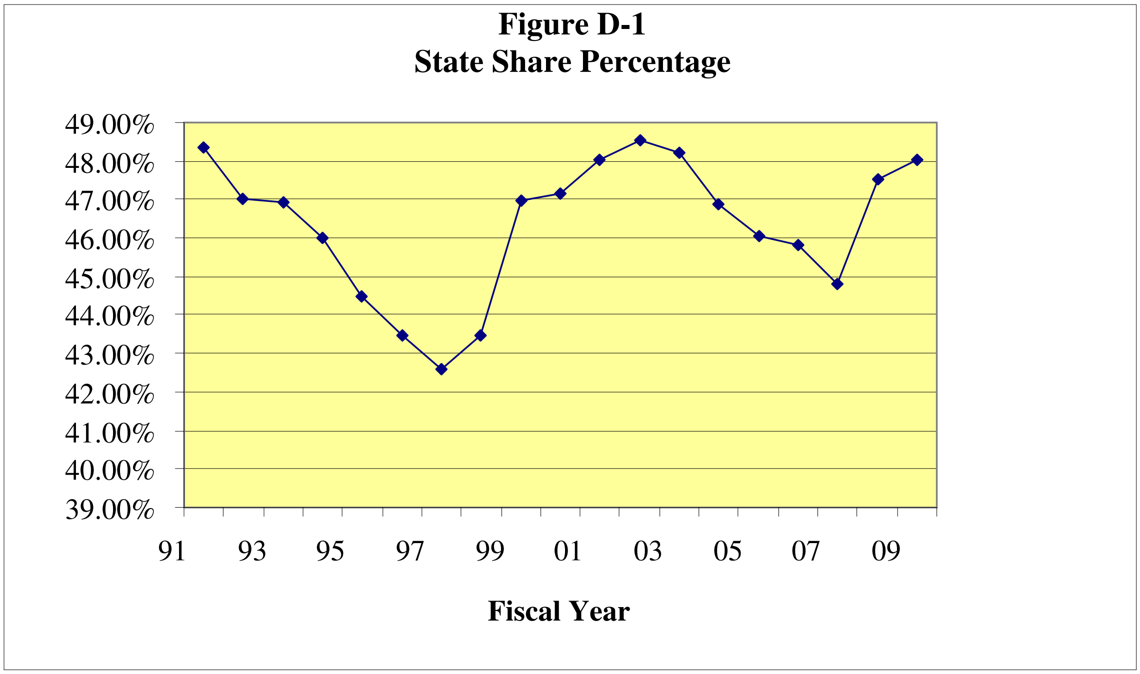


Table D-1
Summary of the Fiscal Year 2008-2009 Foundation Funding Formula and Special Education Funding

Measure	Fiscal Year 2007 (*est.)	Fiscal Year 2008	Fiscal Year 2009
Per Pupil Amount	$5,403	$5,565 (+3.0%)	$5,732 (+3.0%)
Building Block Rate	$20.40 per hour	$21.01 (+3.0%)	$21.64 (+3.0%)
State Share Percentage	44.79%	47.51%	48.04%
Special Education	$438 million*	$472 million (+7.7%)	$513 million (+8.7%)
Parity Aid	$482 million* @ 7.5 mills	$485 million @ 8 mills (0%)	$521 million @ 8.5mills (7.4%)
Poverty Based Assistance	$411 million*	$468 million (+13.8%)	$500 million (+6.8%)
Bottom Line Guarantee:	$87 million*	$360 million	$308 million
Number Of Districts with Increased Funding	--	311 (over fiscal year 2007)	371 (over fiscal year 2008)
Number Of Districts with Reduced Funding	--	0	0
Total Appropriations:	$6,312,222,127	$6,357,710,420	$6,651,739,647
Increase over Prior Year:	--	$45,488,293 (0.7%)	$294,029,227 (4.9%)

Addressing Disparities and Enhancing Equity to Meet the Needs of Children

Despite the progress made in our state, we must address the disparities and inequities that still exist. Ohio's urban and rural school districts often struggle to provide adequate resources for the parents and children they serve. Some districts require additional resources due to the unique needs of their communities. The Executive Budget addresses both issues by increasing the state support for the Poverty Based Assistance (PBA) and Parity Aid programs while including both within the basic aid calculation.

The Executive Budget increases the state's investment in Poverty Based Assistance by 13.8 percent in fiscal year 2008 and 6.8 percent in fiscal year 2009. Additionally, the Executive Budget fully funds various Poverty Based

Assistance components, previously funded at 70 percent, including drop out prevention in the eight largest urban districts, community outreach in the 21 urban districts, and professional development for high quality teachers.

In the Executive Budget proposal, Poverty Based Assistance is enhanced by the addition of preschool as an allowable cost and the creation of a new component providing incentives for districts to close the achievement gap. The new PBA component will assist districts in closing the achievement gap by providing support to districts in academic distress. If a district does not reduce its percentage of buildings in academic watch or emergency, the funding for closing the achievement gap will be restricted in fiscal year 2009. However, if a district reduces the percentage of buildings in academic watch or emergency, it earns a 3.5% bonus – rewarding success.

While some restrictions do remain for Poverty Based Assistance to encourage investments in early childhood education, districts will now be allowed to prioritize how their other PBA funds are spent within the "allowable expenditures menu" to address their unique challenges.

The Executive Budget increases Parity Aid by moving the equity threshold from its current rate of 7.5 mills to 8 mills in fiscal year 2008 and 8.5 mills in fiscal year 2009. Additionally, Parity Aid is targeted to the 67 percent of lower wealth districts in fiscal year 2008, and 60 percent in fiscal year 2009.

At the same time, the Executive Budget ensures that no school district receives less in state support from one year to the next by providing a single funding guarantee called Transitional Aid. The other school funding guarantees (Formula Aid, Poverty Based Assistance, and Reappraisal Guarantees) are eliminated in this budget.

The Executive Budget also expands early childhood education and school readiness in our public pre-school program by investing $10.0 million in fiscal year 2008 and $12.5 million in fiscal year 2009. This investment will allow over 2,400 more children to receive an early education.

High quality teaching is vital to the success of Ohio's schools. Through Ohio Core and STEM programs, the Executive Budget dedicates resources to high quality teaching by offering professional development in math and science. The investment will help attract individuals into the profession through incentives, and create a pipeline that directs high quality teachers to hard-to-staff schools. Specifically, funds will support the one-year intensive teacher preparation program, shared teachers, faculty on loan, and hard-to-staff school programs.

This budget also increases the state's investment in the National Board Certified Teachers program by $1 million in each fiscal year, which will restore stipends to teachers from $1,000 to $2,500 and increase state assistance for the application fee. Additionally, this budget continues to support leadership and professional development opportunities for entry-year principals.

Other investments in the Executive Budget for 21st century college and workplace readiness include:

- An additional $750,000 in the Early College High School program in each fiscal year. These programs provide high school students the opportunity to earn college credit toward an associate or bachelor degree while still in high school.
- Continuing support for Project GRAD (Graduation Really Achieves Dreams).
- Creating incentives, such as a teacher signing bonus and loan forgiveness program, to attract and retain qualified teachers that are licensed in hard to staff schools in subject areas such as advanced mathematics, sciences, and foreign language.
- Providing $6.5 million in new state investment for the Post Secondary Enrollment Option program in fiscal year 2009. Funding will allow an additional 3,800 students to earn college credit while still in high school.

School Facilities

As originally planned in the "Rebuilding Ohio's Schools Plan," each of Ohio's school districts would be served under one of the Ohio School Facilities Commission's programs within 12 years, beginning in 2000. As of December 2006, the end of the sixth year of the original plan, approximately 34 percent of the districts have been funded. Through the most recent capital appropriations bill, HB 699 (126th General Assembly), the original 12 year plan has been fully-funded through fiscal year 2008. Even as we move forward with the securitization of revenues from the Tobacco Master Settlement Agreement, the Executive Budget respects prior commitments made for construction.

II. Property Tax Relief

The second plank in the administration's plan to turnaround Ohio's education system is property tax relief. As with all of the administration's budget proposals, the emphasis is on targeting the available resources in order to achieve the greatest possible effect. For this reason, approximately $260 million in additional annual property tax relief will go to senior citizens (and the disabled) in a dramatic expansion of the homestead exemption program. This will increase the number of recipients of homestead exemption relief from 220,000 to 775,000 (about one-quarter of all Ohio homeowners) and increase the amount of tax relief from $70 million to approximately $330 million.

The proposal makes four fundamental changes to the existing homestead exemption program.

(i) First, the executive budget removes the existing income limitations on the homestead exemption and makes the property tax relief available to all senior citizen homeowners, as well as those who are permanently and totally disabled.

(ii) Second, it also gets rid of the three tiers of exemptions in value under the current program and replaces them with a single market value exemption of $25,000 annually.

(iii) Third, it rationalizes the program by multiplying the exemption amount by the actual tax rate in effect on residential real property, rather than by the gross tax rate, which is paid only by business and public utilities on tangible property.

(iv) Fourth, it protects any homeowners currently receiving the homestead exemption from any reduction in their tax relief by ensuring that the new homestead tax relief will be at least as much as what was received under the old program (for a minority of taxpayers, the switch from the old gross tax rate calculation to the new effective tax rate calculation could otherwise result in a reduction in tax relief, even with the higher exemption amount).

As under current law, the homestead exemption tax relief will be reimbursed by the state GRF to schools and to local governments, so that no local entity loses property tax revenue as a result of expansion of the program. The proposed expansion will take effect in the current tax year, 2007, and will thus affect property tax payments made in 2008. Because of the way payments are made, with one half generally due in January and one half in June, with the GRF payments to local entities falling in succeeding months, fiscal year 2008 will have only a half-year impact. Thus, the proposed additional tax relief will cost the state an estimated $128 million in fiscal year 2008, and $257 million its first full fiscal year, fiscal year 2009. After fiscal year 2009 the cost is conservatively estimated to grow at 3 percent annually, so that the additional cost will be $265 million in fiscal year 2010 and $273 million in fiscal year 2011. Of these amounts, approximately 65 percent will be school district tax relief (about $167 million in fiscal year 2009), and approximately 35 percent will be local government tax relief (about $90 million in fiscal year 2009).

Table D-3 illustrates the proposed property tax relief, and also puts the relief in the context of all existing real property tax relief payments.

Table D-3 Current and Proposed Real Property Tax Relief
tax relief amounts rounded to nearest $1 million
eligibility numbers rounded to nearest 5,000

Program	Current homeowner eligibility	Current FY 2009 estimated cost	Proposed homeowner eligibility	Proposed FY 2009 estimated cost
10% rollback on all non-business property	3,150,000	$1,053,000,000	3,150,000	$1,053,000,000
2.5% rollback on owner-occupied homesteads	3,150,000	$201,000,000	3,150,000	$201,000,000
homestead exemption relief for elderly and disabled	220,000	$75,000,000	775,000	$332,000,000
county auditor compensation for homestead administration	NA	$0	NA	$3,000,000
Total cost		$1,329,000,000		$1,589,000,000

Notes
[1] total additional cost in FY 2009 = $260 million
[2] additional cost, including county administrative compensation, is 19.6% of current-law projected real property tax relief

As reflected in Table D-3, while the proposal more than quadruples tax relief under the homestead exemption, the increase in total real property tax relief is slightly less than 20 percent. The homestead exemption will become a bigger tax-relief program than the 2.5 percent rollback for owner-occupied homesteads.

To further illustrate the degree of targeting of the tax relief, a rough calculation of current real property tax relief paid to senior citizens would add together just under one-fourth of the 2.5 percent rollback amount, or $50 million (assuming that senior citizen property tax relief is proportional to the senior-citizen share of owner-occupied homes), one-fourth of 80 percent of the 10 percent rollback amount (owner-occupied homes receive about 80 percent of the total Class I rollback, with the other 20 percent going to agricultural property, rental housing of 3 units or less, etc.), or $210 million, and the current homestead exemption, or $75 million, for a total of $335 million. The proposal would thus increase the total real property tax relief paid to senior citizens by about 77 percent, whereas $257 million in tax relief would be enough to increase tax relief to all homeowners by only about 19 percent.

By targeting tax relief to senior citizens and the disabled through the homestead exemption, the administration proposal is able to achieve several objectives at once.

First, by substituting state tax relief dollars for locally collected school revenues, the proposal reduces school reliance on property tax revenues and increases the state's overall role in paying for education. This at least partially addresses one of the criticisms of the education finance system in the Supreme Court's DeRolph decisions, the over-reliance on local property taxes.

Second, by providing senior citizens with additional tax relief when local voters approve additional millage, the enhanced homestead exemption should result in fewer levies appearing on local ballots, as the levy success rate improves. In this sense, the proposal complements a change made by the General Assembly in House Bill 66 that allows school districts to propose income taxes that apply only to earned income and thus exempt pension income and other types of income that senior citizens rely on.

Third, by choosing to expand an existing tax relief program rather than by creating a new one, the proposal can keep administrative costs down by not requiring new forms, new rules, and new procedures for taxpayers to apply for relief. Existing homestead exemption application procedures cannot only be kept, they can be simplified, because the proposal does away with the income limitations and the calculation of what income must be counted in determining whether a taxpayer qualifies for relief. In recognition of the fact that there will be many more applications than currently (775,000 rather than 220,000), and thus additional work for county auditors, the proposal includes compensation to county auditors in the amount of 1 percent of GRF homestead exemption payments to the county.

The amount of tax relief provided by the proposed $25,000 exemption will vary with the effective tax rate in the senior-citizen homeowner's taxing district (including school taxes, municipal or township taxes, county taxes, and special district taxes). Homes of different values in the same taxing district, facing the same effective tax rate, will all receive the same dollar amount of tax relief. For example, three homes in the Columbus City School District (Columbus CSD) that face the same overall effective tax rate of 50.18 mills will all receive $384 in additional property tax relief. Table D-4 shows the calculation.

Table D-4 Example of tax relief for different-valued homes in the same school district
Assume taxpayer would not have qualified for current-law homestead exemption.

School district	Home value	New homestead exemption	Tax rate in mills *	Tax before exemption, net of 12.5% in rollbacks	Tax after exemption, net of 12.5% in rollbacks	Tax reduction	% tax reduction
Columbus	$70,000	$25,000	50.18	$1,076	$692	($384)	-35.7%
Columbus	$110,000	$25,000	50.18	$1,690	$1,306	($384)	-22.7%
Columbus	$150,000	$25,000	50.18	$2,305	$1,921	($384)	-16.7%

* weighted average tax rate for all overlapping tax jurisdictions in the school district

The dollar amount of tax relief is the same for the three homes, but the percentage tax relief is larger for the lower-valued homes.

When one looks at the amount of property tax relief to senior citizens in school districts across the state, the average relief will then depend on two factors: the average effective millage on residential property in the district, and the average or median home value. Table D-5 has examples of property tax relief for homeowners in five different school districts from different regions of the state with very different average tax rates and very different median home values. As one can see, the dollar amount of tax relief per senior-citizen homeowner is greatest in the higher value and higher tax rate school districts, but the percentage tax relief is greater in the lower value and generally lower tax rate school districts.

Table D-5 Examples of tax relief for different-valued homes in the different school districts

Assume taxpayer would not have qualified for current-law homestead exemption

School district	home value	new homestead exemption	tax rate in mills *	tax before exemption, net of 12.5% in rollbacks	tax after exemption, net of 12.5% in rollbacks	tax reduction	% tax reduction
Columbus	$90,000	$25,000	50.18	$1,383	$999	($384)	-27.8%
Anna	$115,000	$25,000	41.81	$1,472	$1,152	($320)	-21.7%
Meigs	$50,000	$25,000	39.16	$600	$300	($300)	-50.0%
Shaker Heights	$190,000	$25,000	99.58	$5,794	$5,032	($762)	-13.2%
Middletown	$100,000	$25,000	59.35	$1,818	$1,363	($454)	-25.0%

* weighted average tax rate for all overlapping tax jurisdictions in the school district

III. Tobacco Securitization

The Executive Budget enables the State to securitize 100 percent of the payments to be made to Ohio under the Tobacco Master Settlement Agreement (MSA) over the next 40 or more years. Based on current market conditions, this securitization would generate an estimated $5.0 billion in net proceeds. The Executive Budget explicitly limits the use of the net proceeds to the dual priorities of: (1) rebuilding Ohio's elementary and secondary school facilities, and (2) providing property tax relief to the most in need through an expansion of the homestead exemption. This securitization would also eliminate the risk currently borne by the State that MSA payments will continue to decline in value or be subject to significant interruptions or reductions over the term of the bonds.

The MSA and Securitization History

In November 1998, Ohio joined 45 other states, the District of Columbia, and several territories in signing the MSA with the nation's largest tobacco manufacturers. Under the MSA, the state settled all pending and future claims against the tobacco industry for health care costs related to smoking. In exchange for this settlement, the tobacco industry makes annual payments to the states in perpetuity. The amount of those annual payments is determined using a predetermined base payment adjusted for the volume of domestic cigarette shipments, inflation, and other factors. Ohio's share of these "base payments" is set at 5.04 percent. In 2008-2017, the MSA also requires tobacco manufacturers to make strategic contribution payments to reimburse states for their legal and settlement related expenses, with Ohio's share of these much smaller payments set at 2.78 percent.

Since the MSA was entered into in 1998, 18 states, the District of Columbia, and two territories have securitized their future payments. Several other states, in addition to Ohio, are actively exploring tobacco securitizations. The most common uses for the tobacco securitizations completed to date have been capital projects and debt service (44%), budget relief (25%), special programs (19%), and endowments (12%). The Executive Budget proposes using the securitization of Ohio's tobacco settlement for capital projects and to reduce future GRF debt service. These purposes enable the securitization to be issued on a tax-exempt basis, thus maximizing the value of the net proceeds to the state.

Conditions Are Favorable for Tobacco Securitizations

The bond market for tobacco securitizations has been very volatile over its relatively short history. Periods of uncertainty over continuing litigation against the tobacco industry and the MSA, rating downgrades, and a limited investor base kept tobacco yields at high levels. For a two-year period in 2003-2005, litigation concerns were so great that new tobacco securitizations could not be executed. Since that time, several key lawsuits have been decided in favor of the tobacco industry. This improved litigation environment, together with enhancements in bond structures and stronger ratings criteria, have combined to significantly expand the base of investors willing to purchase tobacco bonds. As a result of these positive developments and the continuing low level of general interest rates, tobacco bond yields have fallen dramatically and tobacco bonds are pricing at historically low levels. For example, in 2003 forty-year tobacco bond maturities priced with yields in the 6.5 to 7.0 percent range. Following years of relatively steady declines, forty-year tobacco maturities priced in 2007 at yields ranging from 5.0 to 5.25 percent.

Ohio's Current Plan for Allocating Tobacco Settlement Receipts

Ohio's current allocation of its tobacco settlement receipts (TSRs) are set forth in ORC Section 183.02. This statute allocates 100% of annual TSRs through fiscal year 2012, with the education facilities funds receiving fixed dollar amounts and the other funds receiving set percentages of the remaining receipts. The statute makes a further partial allocation of TSRs to be received in 2013-2025, including a set dollar amount to reimburse the Tobacco Use Prevention and Control Foundation in 2013-2015 for previously allocated moneys that were transferred to the GRF and a percentage allocation to the Education Facilities Endowment Fund. No provision has been made for TSRs scheduled to be received after fiscal year 2025.

Net Proceeds Used to Fund School Facilities and Property Tax Relief

The Executive Budget proposes that the State securitize 100 percent of its TSRs over the next 40 or more years by selling the rights to receive those TSRs to investors for a set period of time through the issuance of tobacco bonds.

To implement the securitization, the Executive Budget proposes establishing the Ohio Tobacco Settlement Financing Authority (OTSFA) as a single-purpose authority that would purchase all rights to Ohio's MSA payments and monetize the upfront value of those payments through the issuance of bonds secured solely by a pledge of the TSRs. Investors in those bonds would have no recourse to any other funds of the state. The OTSFA would be comprised of the Governor, Auditor of State, Treasurer of State, Attorney General, Tax Commissioner and the Director of Budget and Management.

The net proceeds from securitizing 100 percent of Ohio's TSRs over the next 40-years are presently estimated at just over $5.0 billion based on current interest rates and existing tobacco market conditions. The Executive Budget proposes applying those net proceeds to accomplish two vital purposes: (i) rebuilding Ohio's elementary and secondary school facilities through the School Facilities Commission building assistance program, and (ii) providing property tax relief to 775,000 Ohioans through an expansion of the homestead exemption funded from GRF debt service savings resulting from the securitization (See Table D-6).

Table D-6 Use of Tobacco Bond Proceeds

$ in Billions	Use of Proceeds	Purpose/Rationale
$2.20	K-12 School Facilities (Fund 032)	K-12 School Facilities. Amount equals the present value of the current ORC 183.02 MSA allocations for education facilities (trust fund and endowment fund) for FYs 2008-2025.
$1.92 $0.92	K-12 School Facilities (Fund 032) Higher Education Facilities (Fund 034)	Debt Service Savings for Tax Relief. Funds capital needs over the next 3 years that would have otherwise been funded from State GRF-backed bonds. Debt service savings used to fund expansion of the homestead exemption.
$5.04		

Increasing Funding for K-12 School Facilities

The Executive Budget proposes using approximately 44 percent ($2.20 billion) of the net proceeds to fully fund, on a present value basis, all of the funding currently allocated by ORC Section 183.02 to the Education Facilities Trust Fund and the Education Facilities Endowment Fund for fiscal years 2008-2025. Those dollars would be allocated for use by the School Facilities Commission to provide financial assistance to local school districts across the State for the acquisition and construction of K-12 school facilities.

Using GRF Debt Service Savings for Property Tax Relief

Funding the expansion of the homestead exemption property tax relief program will not be accomplished directly from the net proceeds because such non-capital expenditures are not eligible to be funded from bond proceeds on a tax-exempt basis. The Executive Budget proposes using approximately 56 percent ($2.84 billion) of the net proceeds to fund state capital needs for elementary and secondary education and higher education facilities that would otherwise be funded through periodic issuances of GRF-backed bonds over the next three fiscal years. The GRF savings from the foregone debt service reaches $257 million per year for the twenty year life of those GRF bonds. The Executive Budget allocates these savings, together with interest earnings on the tobacco bond proceeds, to pay for the enhanced homestead exemption property tax relief program (See Table D-7).

Table D-7 Funding of Expanded Homestead Exemption Property Tax Relief Program

($ in Millions)	FY2008	FY2009	FY2010	FY2011
GRF Debt Service Offset	35.0	126.2	205.6	257.2
Tobacco Bond Funds – Interest Earnings to GRF	93.8	137.1	63.0	16.8
Total GRF Revenue	128.8	263.3	268.6	274.0
Cost of Increased Tax Relief	(128.5)	(257.0)	(265.0)	(273.0)
Difference*	0.3	6.3	3.6	1.0

* Any excess amounts not used to fund the homestead exemption tax relief program would remain in the school building assistance and higher education bond funds and used to fund capital appropriations from those funds.

Transition Funding Provided through FY 2009 for all Tobacco Budget Programs

Other programs funded through MSA payments in the fiscal years 2007-2008 Tobacco Budget will receive their fiscal year 2007 allocations that support their fiscal year 2008 appropriations. The Executive Budget also recommends funding those programs at their current ORC Section 183.02 allocation levels for an additional year in fiscal year 2009. Resources have been made available by reprogramming GRF expenditures and by shifting obligations to other sources of funding. Thus, these programs that are not related to school facilities will have two fiscal years to secure new funding sources or continue their phase-down of activities.

Securitization Positively Impacts State Debt Profile

Using the tobacco receipts to reduce the need for new GRF-supported debt issuances over the next three years will also have the added benefit of reducing growth in the State's debt burden and preserving capacity under the constitutional limit of 5 percent of GRF revenues and net state lottery proceeds. As of March 2007, Ohio's debt service to revenue ratio was 4.54 percent. If the State continues to incur additional GRF-debt at the current pace over the next three-to-four years during which GRF revenues are projected to increase at a much slower pace, the state would reach the constitutional limitation.

IV. Accountability

As we increase our investment in our public schools, we must create a better system for knowing what we're getting for our money. We will weigh seriously the recommendations of experts – including a recent report from Achieve that was commissioned by the state board of education and financed by the Gates Foundation.

This Executive Budget addresses that need with a pilot project in which participating school districts will adopt a common set of guidelines to account for all the pieces of their budget. This effort will increase efficiency and establish financial transparency. As a pilot, this project will serve as a model for developing a set of statewide practices that will help us see exactly where the money goes and what it accomplishes.

Additionally, we have seen a series of reports on Ohio's charter schools that all call for the same reforms—increased transparency and accountability. The Strickland Administration recognizes the difficulty for parents and their children in identifying which schools best meet their academic needs, especially when data are incomplete and there is no penalty for not reporting academic performance. The Executive Budget outlines a comprehensive package of reforms that directly address the concerns raised in the series of reports and proposes the implementation of national and international best practices included in the reports' recommendations.

The comprehensive accountability package proposed by the Strickland Administration includes the following actions:

- Providing the Department of Education additional authority to impose penalties for school districts and community schools that do not properly submit the required data through EMIS.
- Limiting the report card rank of charter schools that fail to test high proportions of their students.

- Advancing the school employees health care board's recommendations by establishing a board to develop an implementation plan to create voluntary health care pools and other best practices for purchasing health care services. The purpose of this action is to help local districts restrain health care costs and save taxpayer dollars.
- Permitting school districts with an income tax to reduce the assessment as they deem necessary. This will allow local leaders to reduce the tax burden on citizens in their communities.
- Establishing a moratorium on the creation of new community schools and an accountability and review commission to conduct an accountability audit of the state's school choice programs, as recommended by the Achieve Report.
- Requiring stronger community school accountability to ensure that the consumer rights of students and their families are protected and that they benefit from full academic and financial disclosure. This means, for example, that buildings in which community schools operate must meet health and life safety standards, teachers must be licensed, and food preparation facilities must pass health inspections.
- Reducing the per-pupil basic aid amount for e-schools to remain consistent with their lower-cost business model.
- Prohibiting community schools from using for-profit companies as the management company of the school and requiring that existing contracts up for renewal be competitively bid to ensure that taxpayer dollars are protected.
- Allowing public school districts to sell their school buildings that are no longer needed at a fair market rate, instead of being forced to offer these buildings first to community schools, which will result in better protection of taxpayer interests.
- Enhancing the Department of Education's authority to oversee community school sponsors.
- Requiring multi-state community school operators in establishing sites in Ohio to show that their out-of-state community schools are achieving at least at a level comparable to Ohio's "continuous improvement" academic status.
- Requiring community school sponsors to verify the operational capacity of community schools before the start of each school year.

With additional basic aid funding, additional parity aid and poverty based assistance, and with the Homestead rebate, this Executive Budget proposes the biggest single advance toward an equitable education system in our state's history.

A generation of Ohio students will benefit, and so too will parents and taxpayers.

State Appropriation Limitation

This Special Analysis provides a detailed examination of the State Appropriations Limitation (SAL), but also satisfies the requirements of ORC 107.33 which requires the following:

"As part of the state budget the governor submits to the general assembly under section 107.33 of the Revised Code, the governor shall include the state appropriation limitations the general assembly shall not exceed when making aggregate general revenue fund appropriations for each respective fiscal year of the biennium covered by that budget."

The SAL was enacted in the spring of 2006 with the intent of limiting growth in General Revenue Fund (GRF) spending by imposing the following restrictions:

- Limits the growth of most GRF appropriations to the greater of 3.5 percent or the sum of the inflation rate plus rate of population change (Combination Rate).
- Permits exceptions to the limitation only in response to specifically eligible emergencies declared by the Governor.
- Requires the approval of at least three-fifths of the General Assembly to exceed the limitation in any year.
- Recasts the limitation every fourth year to prevent the build up of excess capacity that could result in large appropriation increases in certain years.

As outlined above, among the several non-tobacco budget related items contained in Amended Substitute Senate Bill 321 of the 126th General Assembly (the tobacco budget bill), was a provision setting a limitation on the amount of GRF appropriations that can be recommended to and enacted by the General Assembly. This restriction, referred to as the SAL has the potential to limit the discretion of future administrations by imposing a limit on the annual growth of most GRF appropriations to the greater of 3.5 percent or the sum of the rate of inflation plus the rate of population change, referred to in this special analysis as the Combination Rate. The intent of this analysis is to provide a general overview of the provisions of the SAL, establish the SAL for the FY 2008 – 2009 biennium, describe the method behind the SAL's calculation, and discuss what effects it might have on both the upcoming biennium as well as how it might have functioned and affected the GRF appropriation levels had it been in effect in previous biennia.

What the SAL Covers

While most GRF appropriations are governed under the restrictions imposed by the SAL (approximately 73% in FY 2007), there are three specific categories exempted from the limitation. While one of these exempted categories (appropriation of moneys received as gifts) is insignificant in terms of the amount of money involved (approximately $29,000 in FY 2007), the other categories represent more than one-fourth of total GRF appropriations and have been growing more rapidly than the GRF as a whole in recent years. These categories are the appropriations of moneys received from the federal government and appropriations made for tax relief, tax refunds, or refunds of other overpayments. These three exempted categories are significant in that in FY 2007, they represent an estimated $7.1 billion or 27.1 percent of all FY 2007 GRF appropriations.

After accounting for the exempted categories identified above, the GRF appropriations to which the SAL will apply are defined in statute as "aggregate General Revenue Fund appropriations." In order to prevent exempting aggregate GRF appropriations from the limitation in future years by shifting them from the GRF to non-GRF funding, any item identified as comprising part of the aggregate GRF appropriations either at the setting of the SAL in 2007 or at any point in the future, will always be considered as counting toward the SAL, a label that will apply even if the item is eventually moved to a non-GRF fund.

The Role of the Governor and the Office of Budget and Management

As part of the responsibility of submitting the Executive Budget Recommendations to the General Assembly, the laws governing the SAL require the Governor to identify and set the limitation for each year of the biennium. Once the limitation is set, the General Assembly is generally prohibited from exceeding it in the appropriations it makes during the course of the biennium. As a result, in preparing recommendations for the FY 2008 – 2009 biennium, the

Office of Budget and Management (OBM), under direction from the Governor, calculated the limitation by estimating the total FY 2007 GRF appropriations and deducting estimated FY 2007 appropriations for the exempted categories identified above. Once the FY 2007 aggregate GRF appropriation amount was identified, thereby establishing the base, OBM determined the inflation factor that should be applied for FY 2008. This inflation factor was selected after determining whether 3.5 percent or the Combination Rate previously described was greater. The calculation of the SAL for the second year of the biennium, in this case, FY 2009, was then made by increasing the FY 2008 SAL by the greater of either 3.5 percent or the Combination Rate as estimated by OBM, using forecast data from Global Insight.

Calculating the SAL: Establishing the Limitation for the FY 2008 – 2009 Biennium

Under direction from the Governor, OBM has applied the statutory framework discussed above and calculated the SAL for both FY 2008 and 2009. Assuming GRF appropriations for FY 2007 remain unchanged at $26.1 billion, plus $107.3 million in contingent Medicaid appropriations that are authorized in Amended Substitute H.B. 66, total GRF appropriations for the base year are estimated at $26.2 billion. OBM's next step in carrying out this calculation was to deduct from the total appropriations, those appropriations that are specifically exempt from the SAL – appropriation of federal grant moneys, tax relief and refund payments, and appropriation of moneys received as gifts. Assuming that current appropriation levels for those items remain unchanged at just under $7.1 billion, the estimated aggregate GRF appropriations amount for FY 2007 that will serve as the base for FY 2008 and 2009 are set at $19.1 billion.

Having established the base of $19.1 billion, the next step in calculating the SAL was to determine the growth rate that would be applied in both FY 2008 and 2009. Per statutory requirements, OBM determined whether an increase of 3.5 percent or the combination rate would be greater for FY 2008. Using the required data from the Consumer Price Index and population growth data available for Ohio, OBM estimated that the combination rate for FY 2008 would be 2.5 percent, thus the 3.5 percent increase was applied to the FY 2007 base amount, thereby setting FY 2008 SAL at $19.8 billion. In estimating the increase in order to set the SAL for FY 2009, OBM relied on forecasts provided by Global Insight which estimates that the combination rate of inflation and population growth for Ohio in that year will be 2.06 percent, thus a 3.5 percent increase was again applied in setting the SAL for FY at $20.5 billion (see Table 1).

Table 1 – State Appropriations Limitation FY 2007 – 2009	
FY 2007 Estimated Total GRF Appropriations	**$26,189,419,046**
Minus Adjustments	**$7,091,425,064**
Tax Relief & Refunds Adjustment	$1,243,753,516
Other Refunds Adjustment	$15,493,049
Gifts Adjustment	$28,726
Federal Grants Adjustment	$5,832,149,774
FY 2007 Aggregate GRF Appropriations (Base)	**$19,097,993,982**
FY 2008 State Appropriations Limitation	**$19,766,423,771**
FY 2009 State Appropriations Limitation	**$20,458,248,603**

Estimated Impact of the SAL for FY 2008 and 2009

As would have been the case with budgets enacted in recent years (see below), the presence of the SAL will have no impact on the Executive Budget Recommendations for either FY 2008 or 2009. Specifically, while the SAL is set at $19.8 billion in FY 2008 and $20.5 billion in FY 2009, recommended aggregate GRF appropriations for those years are set at $18.9 billion and $19.7 billion respectively (see Table 2). As a result, the Executive Recommendations will be $839.4 million below the SAL in FY 2008 and $747.5 million below in FY 2009. This is due to the fact that while the SAL increases by 3.5 percent in each year and 7.1 percent over the biennium, recommended aggregate GRF appropriations decrease by 0.9 percent in FY 2008, increase by 4.1 percent in FY 2009, a net increase of only 3.2 percent over course of the biennium. Therefore, barring a significant increase in aggregate GRF appropriations during the legislative process, Ohio should end the FY 2008-2009 biennium with considerable capacity under the SAL.

Table 2 - State Appropriations Limitation vs Appropriations FY 2008 – 2009			
	2007	**2008**	**2009**
Total General Revenue Fund Appropriations	**$26,189,419,046**	**$25,668,936,025**	**$27,221,894,754**
Minus - Tax Relief	$1,243,753,516	$1,272,129,775	$1,344,778,875
Minus - Estimated Refunds	$15,493,049	$0	$0
Minus - Estimated Gifts	$28,726	$0	$0
Minus - Federal Grants	$5,832,149,774	$5,469,761,495	$6,166,326,197
Aggregate GRF Appropriations	**$19,097,993,982**	**$18,927,044,755**	**$19,710,789,682**
State Appropriations Limitation		**$19,766,423,771**	**$20,458,248,603**
Over (Under)	**N/A**	**($839,379,016)**	**($747,458,921)**

Limitations and Exceptions Available to the General Assembly

In addition to the discussing the process of establishing the SAL for the current biennium, this special analysis also addresses what happens once the SAL is set. Specifically, once the Governor has set the SAL, the General Assembly, through the appropriations process, may only exceed the limit under certain specified conditions. The first of these conditions would be to respond to a proclamation of emergency issued by the Governor in response to an act of God, pandemic disease, or infestation of destructive organisms, or for repelling invasion, suppressing insurrection, defending the state in time of war, or responding to terrorist attacks. Excess appropriations made for the specified purposes may only be used to respond to the emergency identified. In addition to responding to an emergency declared by the Governor, the General Assembly may also make excess appropriations that are approved by a two-thirds vote in each chamber that specifically identifies the purpose of each excess appropriation and states whether the appropriations are to be included as aggregate GRF appropriations with respect to future determinations of the SAL (i.e. whether they adjust the base).

The implications of the above restrictions on the budgeting process could be considerable in certain years, as once the limitation is set, it cannot be exceeded by the General Assembly without either having to respond to a qualifying declared emergency or mustering a two-thirds majority in each chamber. That being said, while a super majority would be required in order to exceed the limit absent a declared emergency, a simple majority is all that would be needed to remove the limitation by repealing the sections of the Ohio Revised Code that established it. In addition to having the authority to exceed or repeal the SAL, the enforceability of the SAL with respect to the General Assembly exceeding it on its own is also in question. Specifically, in question is whether either the executive or judicial branch would or could enforce its provisions without raising separation of powers issues under the Ohio Constitution.

Reset Year Two and Set SAL for Second Biennium

While the above process would set the SAL for the first biennium, during the second year of the biennium (FY 2009), OBM will be required to do a new set of calculations to determine the SAL for the next biennium (2010-2011). In carrying out these calculations, the statute requires reexamining the estimate originally used to set the SAL for the second year (i.e., 2009) of the biennium the state is in at that time. This reexamination using the most recently published data on inflation and population growth would determine whether the SAL established for the second year of the biennium should have been set using an alternative method. For example, it is possible that in FY 2007, the Combination Rate identified for 2009 may have been estimated to be too low (due most likely to inflation) and as a result the SAL for 2009 was set assuming a 3.5 percent increase. If in the reexamination, it is determined that the Combination Rate was in excess of 3.5 percent, the Governor would be required to effectively recalibrate the SAL by adjusting the base of 2009 to reflect an increase greater than 3.5 percent. This base would then serve as the estimated aggregate GRF appropriation level used to set the SAL for 2010 and 2011, regardless of the actual FY 2009 appropriations.

Four Year Recast of the SAL

In addition to recalculating or resetting the SAL in the second year of a biennium, as part of the process of setting the limitation for the next biennium, the Governor and OBM are required to recast the limitation every four years beginning with FY 2012. Specifically, while the SAL in effect for the years 2008-2011 will be increased from the base year of FY 2007 regardless of aggregate GRF appropriation levels, the recast requirement mandates that the SAL for 2012 be based on the 2011 estimated aggregate GRF appropriations, not on an inflation adjusted figure of the 2011 SAL. By recasting the SAL every fourth year, spikes in appropriations resulting from a building up of previously unused capacity would potentially be limited.

Application of the SAL - Would Spending Levels Have Differed?

An argument cited by those that promoted the Tax Expenditure Limitation (TEL) and later the SAL was that they were necessary in order to restrain excessive growth in state government spending. To determine if this is accurate and identify what the implications on state GRF spending might have been had the SAL been in effect during the past six years, this analysis examines the three most recently enacted operating budgets.

Fiscal Years 2001 – 2007

To determine what the impact might have been had the SAL been in effect beginning in FY 2002, it is necessary to begin with FY 2001 as the base year. Based on the aggregate GRF appropriations for FY 2001 of $16.4 billion and considering either the 3.5 percent growth rate or the Combination Rate, the 3.5 percent increase would likely have been applied and the SAL would have been set at $17.0 billion and $17.6 in FY 2002 and 2003 respectively (see Table 3).

Table 3 – State Appropriations Limitation – Estimated Impact on Prior Years FY 2001 – 2007

Fiscal Year	State Appropriations Limitation	Aggregate GRF Appropriations	% Increase	Variance
2001 (Base Year)	N/A	$16,392,711,221	N/A	N/A
2002	$16,966,456,114	$16,387,550,467	0.0%	-$578,905,647
2003	$17,560,282,078	$16,873,955,588	3.0%	-$686,326,490
2004	$18,174,891,950	$17,453,284,407	3.4%	-$721,607,543
2005	$18,811,013,169	$18,259,748,218	4.6%	-$551,264,951
2006 (Recast Year)	$19,081,436,888	$18,351,104,213	0.5%	-$730,332,675
2007	$19,749,287,179	$19,097,993,982	3.8%	-$651,293,197

The FY 2002 – 2003 budget was constructed in a tight fiscal environment wherein slumping revenues required two rounds of cuts in the last six months of FY 2001. As a result of this climate and additional budget corrections, GRF appropriations growth during these years was more modest than in the years immediately preceding them, with total GRF appropriations of $21.9 billion in FY 2002 and $22.8 billion in FY 2003, representing increases of 2.0 percent and 3.8 percent respectively. Of these amounts, aggregate GRF appropriations as it is estimated that they would have been identified under the SAL totaled $16.4 billion in FY 2002 and $16.9 billion in FY 2003, which would have represented increases of 0 percent and 3.0 percent respectively. Thus, had the SAL been in place beginning with FY 2002, aggregate GRF appropriations would not have exceeded its limits in either year and at the end of the biennium would have in fact been $686.3 million below the limit.

Similar to FY 2002 and 2003, the FY 2004 – 2005 budget was also constructed in a challenging fiscal environment where again the presence of the SAL would not have been a factor. Had the SAL been in effect for that biennium, it is estimated that it would have restricted aggregate GRF appropriations to no more than $18.2 billion in FY 2004 and $18.8 billion in FY 2005. By comparison, actual aggregate GRF appropriations during these two years totaled $17.5 billion and $18.3 billion respectively, which represented increases of 3.4 percent in FY 2004 and 4.6 percent in FY 2005. While the aggregate GRF appropriation increases during this biennium were close to or would have exceeded the 3.5 percent increase that would have likely been applied in setting the SAL for this period, these increases would have been permitted by the unused capacity carried over from the FY 2002-2003 biennium and would have resulted in the state being $551.3 million under the SAL at the end of FY 2005.

Recast and Fiscal Years 2006-2007

As discussed in the introduction to how the limitation is supposed to function, as part of preparing budget recommendations, the Governor is required to recast the SAL every four years. Had the SAL been in effect beginning with FY 2002, it would have been recast early in calendar year 2005 for the FY 2006-2007 biennium. Applying the estimated aggregate GRF appropriations for FY 2005, it is estimated that the Governor would have recast the SAL for FY 2006 and 2007 at $19.1 billion[1] and $19.8 billion respectively. While it is estimated that the factor used to set the SAL for FY 2006 would have been the Combination Rate of 4.5 percent, the actual increase over the FY 2005 SAL was only 1.4 percent due to the recasting. Even with the recasting however, aggregate GRF appropriations would still not have exceeded the SAL for either FY 2006 or 2007 as they are currently estimated to be $18.4 billion and $19.1 billion or $730.3 million and $651.3 million below the limitation (see Table 4).

Table 4 – Comparison All GRF and Aggregate Appropriations
FY 2001 – 2007

Fiscal Year	All GRF Appropriations	% Increase – All GRF	Aggregate GRF Appropriations	% Increase – Aggregate GRF
2001 (Base Year)	$21,481,521,353	N/A	$16,392,711,221	N/A
2002	$21,920,110,478	2.0%	$16,387,550,467	0.0%
2003	$22,742,877,938	3.8%	$16,873,955,588	3.0%
2004	$24,065,271,211	5.8%	$17,453,284,407	3.4%
2005	$25,206,812,738	4.7%	$18,259,748,218	4.6%
2006 (Recast Year)	$25,371,180,139	0.7%	$18,351,104,213	0.5%
2007	$26,082,146,780	2.8%	$19,097,993,982	4.1%

Therefore as estimated here, the SAL will not be exceeded in the FY 2008 – 2009 biennium and would not have been exceeded in any of the previous six years examined. This outcome is and would have been the result of three factors – sluggish revenue growth (especially for the period 2002-2004), fiscal restraint and the implications on revenues of tax reform (FY 2005-2009), and the statutory structure of the SAL itself and the items that are exempted from its calculation. Aside from the impact of sluggish revenue growth, it was the exemption of federal moneys and to a lesser degree tax relief and refunds that would have played a major role, since together they grew at an average rate of more than 8.1% annually between FY 2002 and 2005. Thus in exempting these high growth items from the SAL calculation, the average rate of growth for the entire GRF of 4.1 percent was diluted as what would have been defined as aggregate GRF appropriations grew at an average rate of only 2.8 percent.

[1] FY 2006 is the only year during the period that the SAL would increase by more than 3.5%. FY 2006 inflation plus population growth rate was estimated at 4.5%.

Overview

The Medicaid Special Analysis provides an overview of the social impact of Ohio's Medicaid program and a brief survey of the range of services it provides through several departments of state government. Subsequently, the analysis will provide a summary of the Department of Job and Family Services' Medicaid budget for fiscal years 2008 and 2009. Sections describing the initiatives in the Executive Budget relating to the Auditor of State's Medicaid Performance Audit and the recommendations of the Medicaid Administrative Study Council are included. Lastly, this analysis will highlight major Medicaid policy initiatives funded in Governor Strickland's budget, including several Turnaround Ohio initiatives.

Medicaid: A Broad Health Plan For Ohio's Most Vulnerable Populations

Medicaid provides healthcare and related services to over 2 million low income Ohioans as well as those with medical disabilities. In particular, Ohio Medicaid covers over 1 million children and approximately 170,000 adults 65 years and older. The Medicaid program provides a broad suite of services to meet medical needs ranging, for example, from paying for approximately one in three births in Ohio to covering 70 percent of all nursing home care.

In fiscal year 2006, the cost of providing coverage to Ohio's Medicaid population exceeded $13 billion, in state and federal funds. The $13 billion includes funds for healthcare services, administration, and other payments such as those to hospitals for care provided to indigent individuals not eligible for Medicaid. The majority of these funds, over $11 billion or 85 percent, flow through the Department of Job and Family Services' budget. The remaining funds flow through seven other agencies, primarily the departments of Mental Retardation and Developmental Disabilities, Aging, Mental Health, and Alcohol and Drug Addiction Services.

The Department of Job and Family Services (JFS) is responsible for managing the vast majority of the state's Medicaid budget. This includes paying for most of the state plan services, including: managed care, nursing facilities, hospitals, and physician provided care to name just a few. JFS is also designated as the Single State Agency which means the department is responsible for managing the state's Medicaid relationship with the federal government, adjudicating all Medicaid claims, and drawing down all Medicaid reimbursements from the federal government.

The Department of Mental Retardation and Developmental Disabilities provides both institutional and community based Medicaid services. The department runs ten Developmental Centers which provide institutional services to approximately 1,200 citizens. In partnership with county boards, the department manages two Medicaid waivers which serve approximately 17,000 individuals. Both the Level One Waiver and Individual Options waiver are designed to allow consumers to live in a community setting instead of having to reside in an institution. The Individual Options Waiver is targeted for consumers requiring a higher level of care to remain in the community. In fiscal year 2006, the department's Medicaid expenditures were approximately $1 billion.

The Department of Mental Health in partnership with county boards provides community mental health services to approximately 160,000 Medicaid consumers. These services include counseling, psychotherapy, diagnostic assessments and crisis intervention. The department's Medicaid expenditures in fiscal year 2006 were $350 million.

The Department of Aging manages several Medicaid programs, including the PASSPORT and assisted living programs. PASSPORT provides care to individuals in their own homes, while assisted living provides care in a setting that gives the person a private, home-like environment while residing in a community-living setting. Through the department's relationship with the Area Agencies on Aging, the PASSPORT program provides services allowing approximately 26,000 consumers to safely live in a community setting. The department's fiscal year 2006 Medicaid expenditures were approximately $345 million.

The Department of Alcohol and Drug Addiction Services and the county boards provide community addiction and treatment services to over 33,000 Medicaid consumers. The department's fiscal year 2006 Medicaid expenditures were approximately $60 million.

Fiscal Years 2008 and 2009 JFS Medicaid Spending

The Department of Job and Family Services' Medicaid GRF projected spending for healthcare services (not including administrative or non-Medicaid indigent care) in fiscal year 2007 is $9.5 billion in state and federal funds. Fiscal year 2008 projected spending for these services is $9.6 billion, a 1.8 percent increase. In fiscal year 2009 spending projections increase 5.4 percent to $10.1 billion.

JFS GRF Spending by Line Item

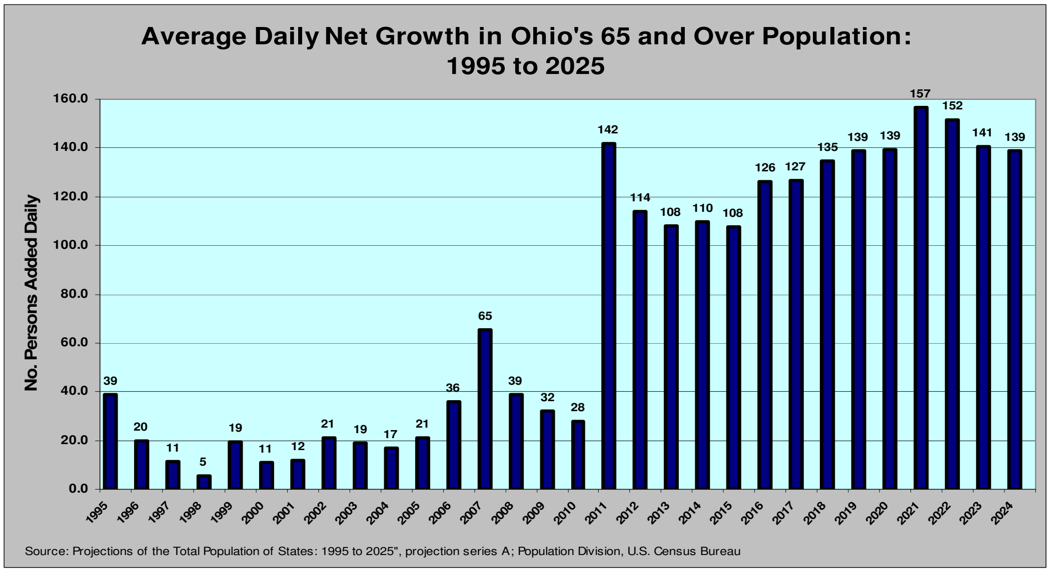
Line Item	FY 2007 - Est.	FY 2008 Appropriation		FY 2009 Appropriation	
600-525 – Healthcare / Medicaid	$9,157,150,368	$9,338,655,406	2.0%	$9,838,135,512	5.3%
State Share	$3,673,848,727	$3,711,477,365	1.0%	$3,781,240,317	1.9%
600-526 – Medicare Part D	$239,504,892	$254,397,401	6.2%	$271,854,640	6.9%
600-513 – Disability Medical Assistance	$24,088,991	$ -		$ -	
Total	**$9,420,744,251**	**$9,593,052,807**	**1.8%**	**$10,109,990,152**	**5.4%**

Line Item Notes:

- The fiscal year 2007 numbers in the table reflect estimated spending. Combined the estimate is approximately $448 million less than appropriations which are shown in Section E.
- The Executive Budget assumes $437 million of the fiscal year 2007 unspent funds will be encumbered and used in fiscal year 2008 to pay Medicaid obligations. This encumbrance is included in the fiscal year 2008 figures in the table. The fiscal year 2008 figures in Section E do not include the encumbered funds.
- In fiscal years 2008 and 2009, disability medical assistance spending has been moved from line item 600-513, Disability Medical Assistance, to line item 600-525, Healthcare / Medicaid.
- The growth rates in fiscal year 2009 are higher due to the time it takes to see the full impact of eligibility expansions.

Caseloads

Medicaid caseloads are separated into two basic groups: the Covered Family and Children (CFC) group and the Aged, Blind, or Disabled (ABD) group. The CFC population represents 75 percent of total Medicaid enrollees and the ABD group accounts for the remaining 25 percent However, spending on the ABD group accounts for over 70 percent of all spending. The ABD population is projected to grow slightly less than 2 percent per year in fiscal years 2008 and 2009. But in 2011, Ohio will experience a significant rise in citizens over the age of 65, as shown in the chart below, which was produced by the Ohio Department of Development, Office of Strategic Research.



While not all of these people will enroll in Medicaid, undoubtedly this increase will have an impact on the Medicaid caseloads. This trend highlights the importance of developing a continuum of cost effective options for people requiring long-term care services now to ensure Ohio has the infrastructure and resources needed to serve this important population in the future.

The Growth of Managed Care

The state budget bill enacted in June 2005 (Am. Sub. HB 66 of the 126th General Assembly) mandated the swift conversion from a fee for service model to managed care for the Medicaid program. As a result of this legislation, fiscal year 2009 spending in managed care will be $3.9 billion more than in fiscal year 2005. This represents an increase of 262 percent Approximately $5 billion will be paid to eight companies to provide care for over 1.3 million Medicaid enrollees. To ensure proper management of this significant portion of the Medicaid program, the Executive Budget provides funding for the hiring of a full-time actuary to provide detailed analysis of the program and proper rate setting methods.

The Auditor of State's Medicaid Performance Audit

The Auditor of State spent almost an entire year completing a performance audit of Ohio's Medicaid program. The audit was released in December 2006 and produced a report that exceeded 800 pages and contained over 100 individual recommendations. Many of the Auditor's recommendations were being implemented at the time of the report or have since been undertaken.

The Governor's budget continues funding for many of those recommendations currently being implemented. Additionally, Governor Strickland's budget supports many new initiatives. Some of the most important include:

- The performance audit called for increased stakeholder involvement in the Medicaid planning process. External stakeholders have had an unprecedented role in providing analysis of current government operations and have provided numerous recommendations to the administration. The administration is committed to continuing this increased and transparent level of stakeholder involvement.
- As mentioned above, the Governor's budget includes funding for Medicaid buy-in programs, both for people with disabilities who want to work as well as for children whose family income is over 300 percent of the federal poverty level.
- The performance audit calls for expanding community based services and rebalancing long-term care services. Governor Strickland believes consumers should have the opportunity to choose which setting is best for them

whether it's an institutional setting or a community setting. To achieve this goal the Executive Budget implements a long-term care budget, implements the Money Follows the Person Grant and increases funds for the PASSPORT program.

- The Auditor's report had numerous recommendations regarding enhancing Medicaid's technology assets. The Executive Budget funds the implementation of the Medicaid Information Technology System (MITS) and the expansion of the data warehouse and decision support system.
- Both the audit report and the Executive Budget call for increased provider management through requiring regular re-enrollment and purging inactive providers from the system.

The Medicaid Administrative Study Council

The Medicaid Administrative Study Council's final report included recommendations on the structure and management of a cabinet level Department of Medicaid. The Executive Budget contains many of the building blocks for a new department. The Executive Budget includes funding for the completion of the Medicaid Information Technology System, expanding the use and access to the data warehouse and decision support systems, and the implementation of a unified long-term care budget. Additionally, the Governor's budget provides funding in fiscal year 2009 to begin work on developing the new department and separating the Medicaid program from the Department of Job and Family Services.

Governor Strickland's Turnaround Ohio Plan

Governor Strickland's Turnaround Ohio Plan includes numerous initiatives related to the Medicaid program. Following is a brief overview of the Turnaround Ohio initiatives included in the Medicaid portion of the Executive Budget. Additional details on Turnaround Ohio budget initiatives can be found in the Turnaround Ohio Special Analysis, see page D-7.

Providing access to affordable healthcare coverage is a cornerstone of the Turnaround Ohio plan. The Executive Budget provides access to affordable healthcare to all children in Ohio. This will be accomplished through the expansion of the SCHIP program and by allowing other families to buy into the Medicaid program. Currently, Ohio's SCHIP program eligibility is limited to children whose family income is 200 percent of the federal poverty level or lower. The Executive Budget increases the SCHIP eligibility level to 300 percent of the federal poverty level. For those children whose income is over 300 percent of the federal poverty level, Governor Strickland's plan will allow them to buy Medicaid coverage using sliding scale premiums based on the family's income level and co-payments.

Governor Strickland's budget will allow people with medical disabilities who want to work to continue receiving Medicaid coverage. Many people with disabilities prefer to work, but are discouraged from gaining employment because doing so would result in a high cost of coverage due to their disability or even in a total loss of healthcare coverage. This program will permit these citizens to overcome these obstacles by allowing them to pay a premium to retain their medical coverage through the Medicaid program.

Improving the efficiency of government operations is another focus of the Turnaround Ohio plan. The Medicaid budget contains numerous initiatives focused on improving the efficiency of the program. One example is an emphasis on improved management of Medicaid's Third Party Liability (TPL) program. This program ensures Medicaid is the payer of last resort, which means other insurers must pay their share of a claim prior to Medicaid making a payment. The Governor's plan includes improving the identification of these insurers and requiring them to pay their share of claims before Medicaid makes a payment.

Additional Medicaid Initiatives

The Governor's budget includes several other noteworthy Medicaid policy initiatives. The Executive Budget provides funding to increase the parent income eligibility level from 90 percent to 100 percent of the federal poverty level. This initiative restores coverage to approximately 25,000 parents who lost coverage in fiscal year 2006.

Currently, the income eligibility ceiling for pregnant women to enroll in Ohio Medicaid is 150 percent of the federal poverty level. The Executive Budget will increase this limit to 200 percent of the federal poverty level.

Ohio was selected by the U.S. Department of Health and Human Services to receive a Money Follows the Person grant. This five year grant will allow Ohio to provide more choice and flexibility to consumers wishing to stay or move to a community setting. Governor Strickland's budget provides the matching funds for the Money Follows the Person grant.

The Executive Budget provides increased funding for the PASSPORT program. The additional funding provides the resources needed to serve over an additional 5,600 people through the PASSPORT program.

To comply with the Martin vs. Taft consent order, the budget also includes funding to serve 1,500 new people to be served via the Individual Options Waiver.

Developing a Unified Long-Term Care Budget

Governor Strickland strongly supports providing a choice of long-term care services to Medicaid consumers. This includes offering a continuum of services which meets the consumers' needs throughout their lives. A critical step in achieving this choice is the development of a unified long-term care budget. The Governor has instructed the Director of the Department of Aging to convene a workgroup consisting of state policy makers, consumer advocates, and industry leaders. This workgroup will develop an implementation plan to create a state-wide long-term care budget. This implementation plan will outline action steps to begin implementation in fiscal year 2009 with a goal of full implementation in fiscal year 2010.

Provider Rate Increases

The Governor's Executive Budget includes rate increases for several provider categories. Providers of State Plan community services will receive a 3 percent per year increase in both fiscal years 2008 and 2009. ICF/MR providers will receive a 2 percent per year increase each year. Rates for inpatient hospitalization services will increase approximately 3.3 percent in fiscal year 2008 and 2.9 percent in fiscal year 2009.

Conclusion

The Medicaid budget reflects the goals of the Governor Strickland's Turnaround Ohio plan. The budget includes providing access to affordable healthcare to all children in Ohio. It expands Medicaid coverage for parents, pregnant women, and working people with disabilities. The budget includes judicious provider rate increases and addresses many of the recommendations of the Auditor's Performance Review and the Medicaid Administrative Study Council.