

## Ohio Budget Update

July 6, 2017

**Budget Overview** The Conference Committee for the HB 49 (Smith) Operating Budget finalized its work at the end of June with a vote 4-2 along party lines. The Conference Committee had to reconcile more than 600 differences between the Executive, House and Senate versions of the budget bill. The Conference Committee report was approved by the Ohio House by a vote of 59-38 and the Ohio Senate approved it 24-8. The bill was sent to Gov. John Kasich for his signature on June 30. Just before midnight, the governor signed the bill, but not before vetoing 47 provisions. Click [here](#) for the governor's veto message. This is the final budget of Gov. Kasich's two-term administration and it was a challenging budget for the legislature and the administration, with an ongoing decline in state revenue during the current fiscal year. With the initial announcement in March, state leaders proposed that the pending budget would need to be reduced by \$800 million in general revenue funds over the biennium. This total grew to nearly \$1 billion by mid-June. As a result, most state agencies received a 4-6 percent across-the-board cut and Medicaid reimbursement rates for nursing homes and hospitals are frozen at January 1, 2017, levels.

### Medicaid Budget Overview

The Medicaid budget is always the most challenging and controversial portion of the budget, which makes up over 30 percent of the state budget. The need to reduce the state share of the General Revenue Fund was challenging enough in Medicaid because every dollar you reduce in the state share has a larger impact on the federal match for Medicaid, which in Ohio is a 60 percent match. In this budget process, it was even a greater challenge with the added political debate over Medicaid expansion playing out at the federal level over the repeal and replace of the Affordable Care Act; the budget debate focused on the impact on expansion states such as Ohio. Since the governor expanded Medicaid in Ohio for the working poor in 2014 without the support of the legislature, it has been an ongoing point of contention. The legislature contends that the numbers the administration estimated that would enroll in the Group VIII expansion population would not be greater than 447,000. However, the current number of enrollees is over 700,000. With the federal match being reduced in 2020 from 100 percent to 90 percent, legislators are worried that the state cannot afford their growing share to maintain that population going forward. In particular, there is an amendment that was included in the final version of the bill that would prohibit any new eligible expansion enrollee from entering the program beginning in January 1, 2018. With the governor's belief in expansion to ensure Ohio's working poor can have access to health care as an opportunity to be lifted out of poverty, this may be a provision he will not support. For more detailed information, [click here](#).

### Opioid Crisis

Further complicating the issue is Ohio's growing opioid epidemic, with some of the rural areas of the state being the hardest hit in the country. The additional federal funding Ohio receives for Medicaid expansion has provided

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more than \$1 billion for Ohio to help combat the crisis; this has been important to even conservative legislators, who otherwise do not support expansion. The House and Senate both identified \$170 million in funding for additional efforts to fight the growing epidemic. For more detailed information, [click here](#).

## K-12 and Higher Education

The Education budget traditionally centers on the school funding formula, and this budget was no exception. Overall, the FY2018 appropriated amount of \$6.799 billion for the foundation formula in the final version of the conference report is above the FY2017 appropriation of \$6.655 billion. FY2019 appropriations for the foundation formula were increased nearly \$300 million over FY2017 levels to \$6.937 billion. The General Assembly limited increases on a district level to a modest 3 percent over the prior fiscal year, with exceptions for those districts who saw substantial student growth in the previous three years that exceeded 5.5 or 6 percent or greater. In these cases, funding increases were capped at 6 percent of the prior year's funding. Also of note are changes coming to Ohio's graduation system with the General Assembly authorizing additional pathways towards a high school diploma amid concerns from educators that far fewer students, particularly within the class of 2018, would be able to meet recently implemented graduation requirements. The budget also eliminated the Straight A Program and removed two controversial proposals placing three non-voting "business" members on each school district's board of education, and a requirement that teachers undergo an externship experience to have their licenses renewed. On the higher education front, the most controversial proposal removed from the budget would have required all state institutions of higher education to provide textbooks to all undergraduate students, while capping a textbook fee of no more than \$300 per year for a full-time student. In the tight budget environment, higher education also came away with flat funding on their State Share of Instruction fight, which is particularly harmful given restrictions on tuition increases. [Click here](#) for more education information.

## Tax Policy

In the area of tax policy, the legislature once again removed the governor's proposal to increase Ohio's sales tax rate; removed the proposal to expand the sales tax to professional services; and eliminated the proposed increases on oil and gas severance tax, and the excise tax increase on alcohol, beer and cigarettes. [Click here](#) for more tax information. For more information, please contact the following: C. David Paragas at 614-628-1407 or [David.Paragas@btlaw.com](mailto:David.Paragas@btlaw.com); Bridget McAuliffe at 614-628-1415 or [Bridget.McAuliffe@btlaw.com](mailto:Bridget.McAuliffe@btlaw.com); or Jimmy Sheppard at 614-628-1463 or [Jimmy.Sheppard@btlaw.com](mailto:Jimmy.Sheppard@btlaw.com)

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