

BOARD OF COMMISSIONERS

Sam Bassitt
W. Dan Reiff
Greg Sneary



ADMINISTRATOR

Becky R. Saine

CLERK

Kelli A. Singhaus

301 N. Main Street . P.O. Box 1243 . Lima, Ohio 45802-1243 . 419-228-3700 Ext 8725 . www.allencountyohio.com

TO: Board of Allen County Commissioners
DATE: March 24, 2011
FROM: Becky Saine
RE: Governor's Budget Analysis

I have read through the Governor's biennial budget for the State of Ohio in detail and offer the following to you as an analysis of how it will affect Allen County's budget specifically.

The stated goal of the Governor's budget ("budget") is job creation and there are 5 key areas that are cited: Medicaid Transformation, Education Reform, Higher Education Reform, Local Government Relief and Reform, Prison and Sentencing Reform, and Creating a Permanent Commitment to Job Creation.

Medicaid Transformation

Nationwide, Ohio ranks in the bottom quarter in affordability of health care (37th), hospital care (38th) and nursing homes (45th), affordability of Medicaid for seniors (44th), health outcomes (42nd), preventing infant mortality (42nd), breast cancer deaths (44th), and avoiding Medicare hospital readmissions for preventable conditions (44th). The budget also points out that Medicare is Ohio's largest health payer and its funding has increased 30 percent over the past three years and now consumes 30 percent of Ohio's budget. It is scheduled to grow by 42 percent in FY2012 if nothing is done to adjust the current trend.

Additionally, Ohio currently has seven state agencies that are involved in the administration of Medicaid which leads to higher costs, a lack of coordination, over utilization, poor health outcomes and patient confusion.

The budget points out that four percent of people account for 51 percent of Medicaid spending; that Medicaid beneficiaries with Schizophrenia have three times more hospitalizations for uncontrolled diabetes; and that beneficiaries who receive care primarily from hospitals account for 1.8 percent of enrollment but 13 percent of spending.

Some of the areas that "Medicaid Transformation" will focus on include treating the whole person by integrating behavioral health and physical health care, improving the coordination of care for individuals to achieve better health and cost savings, resetting payment rules to reward

value instead of volume, and modernization strategies. All of the target areas are estimated to save this budget \$1.4 billion compared to the initial trend.

While the Medicaid Reform piece of the budget will certainly affect the citizen's of Allen County as well as the operational budget and staffing of the local Jobs and Family Services agency, I don't see that it will impact our General Fund budget.

Education Reform

According to the budget, "Ohio's financial commitment to education has grown faster than the inflation rate, even as the number of students we serve has gone down. In fact, per-pupil expenditures in Ohio have increased by 98% over the past 15 years, yet student performance has stagnated." While recognizing that community members must also take responsibility for student results, the budget focuses on student results and educators taking responsibility for student success instead of blaming poverty, parents, and poor support for student results. One area of reforms will reward superior educators by providing a bonus for student learning, allowing teacher quality driven employment decisions instead of seniority, test teachers in failing schools, and streamline the teacher dismissal process for poor performing educators.

The budget will also encourage shared services and repeal the Evidence-Based Model for funding as well as encourage technology and technology-based instruction that will be integrated into every aspect of the school experience.

Although there is some mention of sharing certain types of "service center" oriented pieces of school systems with local governments, there does not appear to be anything in this area of the budget that would affect the County's General Fund budget.

Higher Education Reform

To greatly summarize the budget in regards to Higher Education Reform, the budget appears to be focusing on the value and importance of college educated citizens and their value to the State of Ohio in attracting business. It also looks to reduce remediation costs by 50 percent and allowing certain students to obtain a 4-year degree in three years. The outcome of these reforms will be reduced costs for students and increased flexibility for schools, and ultimately allowing Ohio to become a strong economic power in our economy.

Again, there appears to be nothing in this piece that will affect the County's General Fund budget.

Local Government Relief and Reform

The most powerful part of this piece in regards to Allen County's General Fund budget is the reduction of Local Government Funding. While we are to receive an estimated 3.5 percent increase in Local Government Funding in FY2011 (July 1, 2010 through June 30, 2011), we will see a proposed 21 percent decrease during FY2012 (July 1, 2011 through June 30, 2012) and an additional proposed 36 percent decrease during FY2013 (July 1, 2012 through June 30, 2013). These proposed reductions as well as how they will affect our calendar year budget figures are outlined below. As time goes by, we will get a clearer picture of actual figures rather than estimates.

Allen County General Fund Local Government Funding

Actual FY2010	Estimated FY2011	Estimated FY2012	Estimated FY2013
\$1,568,527	\$1,623,425	\$1,282,506	\$820,804
% of change ----->>	3.50%	-21.00%	-36.00%
Actual CY2009	Actual CY2010	Estimated CY2011	Estimated CY2012
\$1,626,638	\$1,631,776	\$1,452,966	\$1,051,655
% of change ----->>	0.32%	-10.96%	-27.62%
\$ of change ----->>	\$5,138	(\$178,810)	(\$401,311)

We have already budgeted for a 15 percent reduction in Local Government Funding for CY2011 and, based upon the Auditor’s estimate of \$1,381,850 for CY2011, we should collect an estimated \$71,000 over what was budgeted this year. However, as you can see above, our main concern comes next year where I estimate an additional \$400,000 reduction in revenue in Local Government Funding alone, which would be equivalent to a 1.6 percent reduction in our current appropriations.

The Governor’s budget does give local governments “powerful new tools to help control their costs”. Those “tools” and their relevance to Allen County’s General Fund budget are outlined below.

1. Reducing mandates: Although the budget narrative states that the Jobs Budget proposes several initiatives and reforms to help reduce or eliminate some of the most burdensome and outdated mandates, I am unable to determine exactly what they are and how our County budget will be affected by them.
2. Using 21st-century technology: This part of the budget will finally enable the County to post mandatory advertisements on a new statewide public notice website for state agencies, schools, colleges and universities, and local governments at no cost. Newspaper advertisements will still be required but they will be much smaller and less costly. To the best of my knowledge, there was approximately \$20,000 appropriated in the General Fund for public notices and although this is a much welcomed change, I do not anticipate that we will save a significant amount from this piece.
3. Promoting shared services: Part of this piece deals with reforms to enable local governments to share services. Although unclear, it appears that villages and townships will benefit more so in the area of police and fire services than the County will. This piece also allows the Board of County Commissioners to require other non-elected county offices to use centralized services for purchasing, transportation, vehicle maintenance, information technology, human resources, revenue collection, printing and mail operations. We have previously explored having a central purchasing department for office supplies and perhaps we can re-examine that

venture, however, I do believe it will reap much benefits in cost savings as we have already instituted most of these centralized services to some degree.

4. Pooled health care: The budget will create a new combined health insurance program managed by the State Department of Administrative Services known as the Ohio Public Employees Health Care Program in which local governments and schools can join if they choose. While Allen County is already a member of the CEBCO insurance pool and have received outstanding health insurance rates, I do not believe there will be much potential to save costs in this area either.

As you can see, we stand to lose approximately \$400,000, or 1.5 percent of our current estimated General Fund revenue. The “powerful tools” given to us do not appear to provide us with much relief.

Prison and Sentencing Reform

Under the Prison and Sentencing Reform, the State proposes a \$6.6 million savings by selling five prisons by competitive bid to private operators. Those five facilities are in Ashtabula, Lorain, and Marion Counties. The budget states that Ohio counties will benefit from increased tax revenue from the sale of the prisons; however, it is unclear exactly how Allen County will benefit from a sale that takes place in another county.

The sentencing reforming will divert low-level offenders to community based programs, although the budget does not define what those “community based-programs” are. They could be halfway housing programs or they could be county jails. Until this is explained further in the budget, it is unclear if this piece will affect Allen County’s budget. Obviously, if low-level offenders are committed to our jail, it could have a significant impact on our budget. This is one area we will definitely need to keep our eye on.

Four prison camps will be closed across the state, but none are in Allen County.

The Prison and Sentencing Reform also mandates that our local Adult Probation agency write the “pre-sentence investigations” that the State Adult Parole Authority currently writes for the Allen County Court of Common Pleas. There does appear to be funding from the State to Adult Probation to cover this new mandate.

Creating Jobs is Job One

The three steps to economic development reform are:

- 1) Create “JobsOhio”, a private not-for-profit, which will be able to “work at the speed of business and be free from bureaucratic delays and restrictions that are more common for government agencies”;
- 2) Provide sustainable funding by allowing Ohio’s liquor enterprise to provide an ongoing revenue stream to fund economic development activities well into the future which will be more like to attract private investors who will know that there is a long-term commitment to Ohio’s job-creation efforts;
- 3) Equip JobsOhio with top talent and manage a balanced economic development toolbox emphasizing return on its investments.

Under this piece of the budget, the State will transfer the Ohio's Liquor Enterprise to JobsOhio for a period of 20 to 25 years on approximately January 1, 2013. Basically, JobsOhio will issue revenue bonds to purchase it and will provide the State with an upfront payment of approximately \$1.2 billion of which \$500 million will go the State's General Fund to compensate the state for the lost liquor revenue. JobsOhio will then use the liquor profits to fund their ongoing operational expenses and debt service requirements as well as to make annuity payments to the State. JobsOhio will contract with the Department of Commerce to manage the day-to-day operation of the Liquor Enterprise.

It has been agonizingly obvious for a long time that Ohio needed to do something different in terms of attracting business. This appears to be a good, solid plan that will better enable us to attract new business and jobs.

In conclusion, there is nothing in the Governor's biennial budget that should come as a surprise to us. We have properly budgeted for the decreased Local Government Funding during our current calendar year; however, we are definitely going to face challenges in budgeting for CY2012. As you recall, we did a multi-year budget projection (see attached) and our anticipated deficit at December 31, 2012 is \$2.95 million, or almost 13 percent of our current appropriations. Included in that projection is estimated revenue as prepared by the Allen County Budget Commission, which contains a 29.4 percent reduction in Local Government Funding. Therefore, it appears as if the \$2.95 million projected deficit is a fairly accurate projection at this point and includes the appropriate reduction in Local Government Funding. While Sales Tax revenue is coming in slightly higher than anticipated, it does not appear at this point to be a material reduction in the projected deficit. Fortunately, the Reserve Fund remains fully funded at \$1.27 million, however, assuming we inject 100 percent of that into next year's budget, you are still faced with draconian cuts to be made next year and the following year as well. My suggestion is that we immediately begin to examine areas in which budget reductions and/or elimination of expenses can be made now instead of waiting to shoulder an approximate 13 percent reduction in a 12-month time period. Since several of the General Fund offices are still operating on a 21 percent reduction plus furloughs, an additional 13 percent is going to be extremely difficult to bear.

Should you have any questions or comments, please feel free to discuss them with me.

Allen County, Ohio
Summary of 2012 Budget

GENERAL FUND ONLY

ACTUAL CASH BALANCE AT JANUARY 1, 2012	\$1,999,501
CASH NEEDED AT DECEMBER 31, 2012 FOR JANUARY 2013 OPERATIONS	(2,000,000)
SET ASIDE 1/4 OF AMOUNT NEEDED FOR 27TH PAY IN 2014	(135,000)
ESTIMATED REVENUE BY BUDGET COMMISSION FOR 2012	<u>23,264,981</u>
TOTAL AVAILABLE FOR APPROPRIATION	23,129,482
APPROPRIATIONS AT 2011 LEVELS	(25,725,952)
6% INCREASE ON UTILITIES	(57,000)
5% INCREASE ON HEALTH INSURANCE	(73,200)
5% INCREASE ON LIABILITY INSURANCE	(38,500)
CASA INCREASE	(30,000)
CONTINUATION OF OSU EXTENSION FUNDING AT 2011 LEVEL	(25,000)
ESTIMATED CARRYOVER ENCUMBRANCES AT DECEMBER 31, 2012	<u>(125,000)</u>
ESTIMATED DEFICIT AT DECEMBER 31, 2012	<u><u>(2,945,170)</u></u>

*Note that the \$1.267 million in the Reserve Fund is not included in the figures above.