

**House Finance and Appropriations Committee
Ohio Department of Job and Family Services
Barbara Riley, Director
February 16, 2005**

Chairman Calvert and members of the committee, thank you for the opportunity to provide an overview of the Ohio Department of Job and Family Services (ODJFS) SFY 2006-2007 budget.

In many ways this is an austere budget, built around a philosophy of both short-term savings and more strategic long-term approaches to managing and controlling ODJFS expenditures. It has been difficult to balance the very real needs of many vulnerable Ohioans with the reality that we simply cannot afford to do business as usual. The budget proposal before you today does protect services to children and provides basic family and employment services, but reflects hard choices and difficult cut-back decisions.

Millions of Ohioans benefit from our services, but this department is not just a consumer of tax dollars. Instead we are a vital part of Ohio's economy. In SFY 2004:

- \$1.33 billion in unemployment compensation benefits were paid;
- \$2.01 billion in child support payments were collected and disbursed;
- \$329 million in cash assistance benefits were provided; and
- Nearly \$1 billion in food stamps benefits were issued.

These dollars were reinvested into Ohio's economy to purchase food, clothing, shelter, and other essentials.

We return our tax dollars in other ways – by purchasing services from Ohio providers:

- \$9.8 billion was paid directly to health care providers;
- More than \$400 million went to child care and head start providers;
- \$289 million purchased various work support services including: \$139 million for WIA; \$116 million for unemployment compensation activities; \$6.3 million to support veterans' needs; \$27 million for employment services; and \$118 million for Prevention, Retention and Contingency services;
- \$321 million was paid to foster home and residential care providers; and
- \$68 million in GRF was expended for services and subsidies for special needs children who have been adopted.

And we touch lives – millions of lives; in SFY 2004:

- 550,000 unemployment compensation claimants;
- More than 1 million families and 1.4 million children served by the child support system;
- 195,000 Ohio Works First cash assistance recipients;

- Nearly 1 million food stamp recipients;
- 2 million Medicaid enrollees, about 18 percent of our citizens;
- 94,391 unduplicated number of children in subsidized child care;
- 42,545 individuals placed directly into jobs through our new Sharing Career Opportunities and Training Information computer system (SCOTI);
- 34,251 children in foster care experienced over 7 million days of care; and
- Our staff fielded 28.5 million phone calls about all of the above.

These statistics depict the scope and breadth of services provided by or purchased by this department, and the complexity of programs designed to assist Ohio citizens to achieve and maintain self-sufficiency.

The executive budget proposal for ODJFS in SFY 2006 is \$16.95 billion, and the SFY 2007 request is for \$17.3 billion. In General Revenue Funding (GRF) only, the Executive Proposal totals \$10.59 billion for SFY 2006 an increase of \$120 million (1.1 percent) over estimated SFY 2005, and \$10.94 billion for SFY 2007, an increase of \$347.8 million (3.3 percent) over SFY 2006.

The ODJFS budget is unique in state government in that a significant portion of the GRF appropriation is actually federal funds, which are deposited directly into the GRF to support spending.

The growth in the state share only of the GRF from SFY 2005 to SFY 2006 is \$81.7 million, and the growth in the state share of GRF from SFY 2006 to SFY 2007 is \$230.2 million. This GRF growth is primarily in funding for the counties and for Medicaid. These figures factor in the many cost containment initiatives that I will outline this morning.

Excluding the growth in Medicaid, between SFY 2002 and SFY 2004, the ODJFS GRF actual expenditures declined by an average of 7.5 percent per year. As you may recall, under Director Hayes we began the movement away from using expensive MIS contractors to hiring staff in-house. To date, we have converted 281 contractors to ODJFS staff, with an approximate annual savings of \$24 million. Today, contractors are used only to perform either specific, short term functions, or to supplement our expertise, particularly in the medical arena.

In order to better understand our various functions, I would like to take a moment to touch on some of our program areas and the proposed budget implications.

Children and Families

The Office for Children and Families is responsible for the oversight of county and state programs that prevent child abuse and neglect, provide services to abused/neglected children and their families, place children for adoption, provide adult protective services, license foster homes and residential facilities, license child care homes and centers, and administer the subsidized child care and early learning programs. The Office for

Children and Families oversees \$1.3 billion annually in appropriation authority, including \$1.1 billion in federal funds.

Child Welfare

The budget request for child welfare services (prevention, protection and placement services) reflects a slight increase of 1 percent each year including the anticipated increase in payments for adoptions of children with special needs. The request for adoption assistance will support anticipated IV-E adoption caseloads of 21,738 at the close of 2006 and 23,274 at the close of 2007. All other areas of the child welfare budget have remained flat since the 2002-2003 biennium.

Child care

The child care budget reflects serving a monthly average of 95,947 children at a cost of \$497 million in SFY 2006 and a monthly average of 99,553 children at a cost of \$522 million in SFY 2007. Due to a much higher than anticipated drop off rate after our cost containment measures enacted in April 2003, we have taken several steps to assure increased access to subsidized child care in the upcoming biennium. The requested appropriation levels are based on our plan to raise the child care eligibility income threshold to 185 percent of the Federal Poverty Guidelines in the next biennium; to lower parent co-pays (which took effect this month); to remove the cap on co-pays in order to allow those who approach the 185 percent of poverty level to pay an increased percentage of their income so that they do not experience the co-payment “cliff effect” when they reach the cut-off point; and to re-align and increase provider rate reimbursement based on our 2004 market rate survey.

Early Learning Initiatives

The Head Start and Head Start Plus programs have been redesigned into the Early Learning Initiative (ELI), which will be jointly administered with the Ohio Department of Education (ODE). ODE will be responsible for setting standards and monitoring quality and ODJFS will be responsible for the fiscal oversight and monitoring, including making the payments to the contracted ELI agencies, and assuring TANF compliance, as the funding source is 100 percent TANF funding. The program is designed to meet the needs of working parents by supplying child care and the needs of children by providing school readiness programming. Children who are not prepared for school will not succeed in school. This program will improve school readiness with the ultimate goal of future school and work success.

Access to Better Care (ABC) Initiative

This year has seen a very exciting collaborative effort among ODJFS and many of our sister departments, local governments, and the private sector, to provide mental health services for children. It is untenable to require parents to relinquish custody in order to get those services for their children. Consequently, this effort has been developed to build on local community services, to focus on where children are (in schools and their homes), and to involve parents and families. By taking existing resources, such as TANF, and some of our child welfare federal funds, and combining those dollars with other department resources, I believe we have taken a big step in the right direction.

Family Stability

The Office of Family Stability is responsible for the state level development and oversight of programs for economically disadvantaged citizens including: Temporary Assistance for Needy Families (TANF), Disability Assistance, Disaster Assistance, Food Stamps and food assistance.

One bright spot in an otherwise bleak picture is the availability of TANF funds. Over the life of the TANF block grant the preponderance of the dollars have been allocated to the counties for the Prevention, Retention and Contingency program, or have been used for the cash assistance grants. As the caseloads have declined, more has been available for work support services. Also, the counties have been cautious in their use of the dollars, and the result is an ongoing balance in TANF funds. The TANF spending plan detail which will be provided to the Sub-Committee, is based on tapping into the unspent funds, but only to the level that can be sustained into the next biennium. If we allow expenditures to greatly out-pace revenues, we will be forced to make severe cuts in future biennia. In order to strengthen Ohio's TANF program and improve outcomes for low income Ohioans within that sustainable level, we are recommending a number of state budget initiatives including:

Ohio Works First Grant Increase

This proposal seeks to increase the Ohio Works First cash grant amount by 10 percent. The net increase per family would be approximately \$31 per month for a family of three. There has not been a grant increase since SFY 2000, and the request reflects inflation since that time.

TANF Demonstration Projects

ODJFS is proposing to establish a TANF demonstration program to test promising prevention and intervention strategies for high-risk, hard-to-serve populations with specific or multiple barriers to self-sufficiency. These demonstration projects will be available on both a county and statewide basis.

Employment Retention Incentives

This proposal gives ODJFS discretion to establish in SFY 2007 an Employment Retention Incentive program. The Employment Retention Incentive would provide small periodic financial payments for one year to families who are engaged in employment at the time they leave the Ohio Works First (OWF) cash assistance program. Research shows that continuous work participation for one year is a strong indicator of the ability to stay employed and move closer to self-sufficiency and away from ongoing reliance on government funded programs. This program will also give the agency information to determine how former OWF recipients fare after leaving the OWF program. This information may be useful in designing new types of services for current OWF clients.

Faith Based/Strengthening Families Initiative

This activity will be housed in the Governor’s Office of Faith Based and Community Initiatives and will address reducing out-of-wedlock births, supporting healthy families, and local marriage initiatives with the goal of sustaining healthy families.

We also have three Non TANF related initiatives:

Ohio Association of Second Harvest Food banks

ODJFS has requested \$5.5 million in each fiscal year from the Social Services Block Grant (Title XX) to fund a grant agreement with the Ohio Association of Second Harvest Food Banks.

Ohio’s Best Rx Program

The General Assembly provided \$10 million as start-up support for this program to assist low income Ohioans with the cost of prescription drugs. As of January 31, 2005, less than \$250,000 of that amount has been spent. Therefore, we are therefore requesting that the balance of the Best Rx allocation be carried forward into the SFY 2006/2007 biennium. With sufficient enrollment and utilization, the program should be self-supporting. As of February 9, enrollment in the program, which began in January 2005, has reached 7,625.

Disaster Assistance

When a county experiences a disaster which results in the governor declaring them in a state of emergency, ODJFS provides funding which can be used to assist families and individuals. Over the last several months we have had 69 counties declared emergencies by the Governor. In the event of disasters in the upcoming biennium, we have set aside \$5 million in TANF each year to aid families and have requested \$1 million new GRF funding for elderly and disabled individuals who are not TANF eligible.

COUNTY FUNDING/TANF

During SFY 2005 we have come before you both in HB16 and via the Controlling Board to address a problem with the reconciliation of what was known as county consolidated funding. This mechanism allowed a county department of job and family services to receive a single allocation from the state containing funds from various sources including TANF, Medicaid, Food Stamps, Title XX and Child Care for administrative and some program costs.

Last June a reconciliation of the consolidated allocation revealed that a substantial portion of TANF funds were being utilized to support non-TANF activities such as Medicaid and Food Stamp eligibility determinations. This melded funding was allowed under the consolidated funding mechanism, but over time had gotten out of balance due to the increasing Food Stamp and Medicaid caseloads and the decreasing TANF/OWF caseloads. The reconciliation process identified that previous department efforts had failed to identify the problem and properly restore this cash to the TANF account.

The department has taken direct and forthright steps to ensure that this problem is resolved and that these events result in little or no disruption in core services to clients. Working with you, we have addressed the need to repay those TANF funds through SFY 2003. The final reconciliation is taking place now for FFY 2004 and, as a result, it is anticipated that \$150 million remains to be paid to the TANF account. The department is requesting to repay \$30 million in GRF for each year of the biennium, as the first two of five installments, to reimburse the federal account.

The consolidated allocation process has been discontinued but additional resources at the county level are needed to guarantee that administrative costs associated with federal entitlement programs such as Medicaid and Food Stamps, state mandated Disability Cash Assistance and Title XX funded social services will be covered. We are requesting \$88.7 million per year, over the revised SFY 2005 GRF funding for 600-521, which will be allocated to the counties for these purposes. While these are new dollars to the GRF, they actually represent stable funding for the counties compared to previous years funding and expenditures.

Child Support

Ohio has the third largest child support caseload in the nation and ranks second in total collections. State GRF funding has remained flat over the last three years.

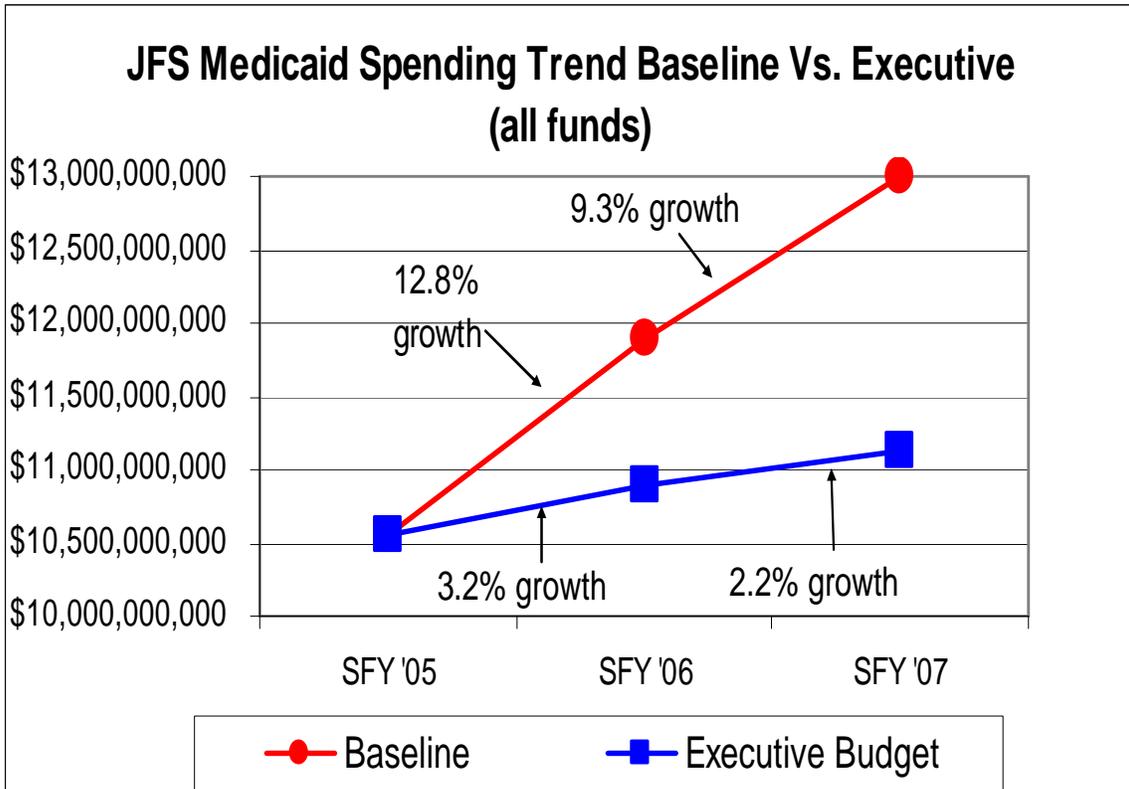
In order to keep GRF costs low, for the last several years, the department budgeted \$5 million of earned reimbursement from the Title XX grant to provide operational expenses for the state Child Support office. This funding has been used to obtain services that all county child support offices access, including but not limited to: DNA testing; the Central Paternity Registry; services to assist in difficult collections; and access to the database where Ohio's employers register new hires. This earned reimbursement funding is no longer available to the state, as it has been primarily used in SFY 2005 to fund county operational expenditures with the elimination of the previously mentioned consolidated funding mechanism.

Over the past two years, the state has earned in excess of \$62 million in child support incentive payments which have been returned to the county child support offices. However, the SFY 2006/SFY 2007 executive budget recommends that the state use \$5 million of the incentive money to replace the Title XX funds and to allow funding to continue to provide these important services. The remaining incentive dollars will be directly sent to the county child support offices.

Medicaid

Currently, Medicaid provides comprehensive health coverage to one in every six Ohioans including one in every three children, and one in every four seniors age 65 and older. Medicaid pays for more than one out of every three births in Ohio and approximately 70 percent of all nursing home care provided in the state. Because of this, Medicaid represents 38 percent of Ohio's GRF budget.

For fiscal year 2005, we are projected to spend \$10.5 billion on Medicaid services, \$9.6 billion of which is supported by GRF, including state and federal funds. If the current rate of growth continues into SFY 2006-2007, Medicaid spending could reach \$11.9 billion in SFY 2006, which would represent growth of 12.8 percent, and \$13 billion or a 9.3 percent increase in SFY 2007. This rate of growth is simply not sustainable. Our proposal will curtail Medicaid expenditure growth and result in all funds growth of 3.2 percent in the first year of the biennium and an additional 2.2 percent in the second year.



This reduction in growth is somewhat deceptive as there has been a change in the federal Medicare program which includes prescription drug coverage, known as Medicare Part D, for those persons who are eligible for both Medicaid and Medicare. Therefore, although we will be required to pay the federal government for the state share of that drug coverage, the corresponding federal share disappears from our GRF expenditure line which gives the false appearance of a decline in expenditures. There are additional fiscal effects which we will cover in more detail during our sub-committee hearing on Medicaid, but the net effect is that we estimate Ohio will spend \$55.7 million more in SFY 2007 for the cost of these pharmacy benefits than if we had continued to cover them under Ohio's Medicaid program.

There are three short-term methods to immediately reduce Medicaid expenditures:

- lower or freeze reimbursement rates such as nursing facilities, in-patient hospitals and ICFs/MR;
- reduce eligibility including moving low income parents from 100 percent to 90 percent of poverty, and discontinuing the Disability Medical Assistance program; and
- eliminate services including adult vision and dental.

The budget before you includes all three approaches. In addition, we have chosen to take several more strategic, long-term actions including: an increase in the use of managed care; seeking supplemental rebates for mental health drugs; an investment in a new Medicaid management information system; and increased emphasis on recovery of provider overpayment or fraud. I hope to work with interested non-profit organizations and foundations to evaluate the impact of these measures in order to provide better data for making cost containment decisions in the future.

Many of these proposals are aligned with the recommendations of the Ohio Commission to Reform Medicaid, and I would like to thank that group for its dedication and hard work on such a complex matter.

Disability Medical Assistance (DMA) Program: One of our proposed cuts in eligibility and services is the phasing out of the DMA program. The DMA program supplies an out-patient health care benefit for persons determined to be medication dependent and not Medicaid eligible. For many of the recipients it is a stop-gap measure while they await a determination of disability based on federal standards set by the federal Social Security Administration (SSA). If eligibility is approved, these individuals can receive Medicaid.

In HB 95, expenditures for this program were capped and ODJFS was authorized to open and close enrollment as necessary. The freeze on new applicants was so effective that we were able to open the door for a short time in the summer of 2004. However, the new enrollees were considerably more expensive to cover than was anticipated and the result has been an inability to sustain the program.

Medicaid Information Technology System (MITS): As I noted earlier, our budget request is designed to result in reduced expenditures not only in the upcoming biennium, but also over time. To that end, we are asking for funds in this budget to replace our Medicaid Management Information System (MMIS), some pieces of which, including our provider claims portion, are 20 years old; and remember, 20 years ago the IBM Selectric typewriter was the word processor of choice and the internet didn't exist. Due to the age of this system our ability to manage Medicaid benefits, provider claims, caseload and expenditure forecasts, fraud detection, payment tracking, etc. is greatly impaired. Once we move away from paper and provide services such as automated billing, we will be more efficient, less labor intensive, and able to provide quick and accurate information to decision makers such as you. At this time the federal reimbursement for a Medicaid Information Technology System (MITS) is 90 percent, which requires a minimal state investment of \$1.6 million in SFY 2006 and \$4.6 million

in SFY 2007. The matching funds will be paid from the Medicaid Administrative Fund, rather than GRF.

Ohio Inspector General Report

I would like to take a few moments and discuss the recent report of the Ohio Inspector General regarding our Surveillance and Utilization Review Section (SURS). The OIG points out that efforts to reduce Medicaid fraud and overpayments are dependent on an approach that includes prevention, detection and recovery, and he is correct that we need to take immediate steps to refocus our efforts to include all three facets of that triad. In the past, we have focused primarily on the prevention of overpayments, but I want to assure you that we have already taken steps to become more aggressive in detecting and recovering fraud and overpayments to providers.

I have met with the Attorney General and State Auditor, and greatly appreciate their willingness to assist us in finding cost effective ways to work together to protect valuable taxpayer dollars. In addition, we are moving the SUR Section to our Office of Research, Assessment and Accountability in order to assure an independent perspective. All decisions related to settling of accounts will be cleared through my office. In such tight times, it is essential that we spend every dollar wisely, prevent mis-spending, and recover anything that is owed us.

Unemployment Compensation

There were 739,456 initial claims filed for Unemployment Compensation in SFY 2004, as compared to 797,596 in 2003. Actual claimants increased in 2004 to 544,533 from 539,600, while payments remained fairly constant from \$1.34 to \$1.33 billion. The significance of these continuing high levels is more easily demonstrated by contrast with pre-recession levels. During SFY 2000 we had 488,742 initial claims. During that period we paid \$663 million to 437,940 claimants. The current Ohio trust fund balance is \$564 million which has declined from \$962 million at the end of SFY 2003. By contrast, at the end of SFY 2000, the trust fund balance was \$2.16 billion.

Due to the continuing large numbers of claims paid through the fund, an average increase of \$9 per employee in unemployment taxes on employers was triggered for calendar year 2005 by a formula prescribed in the Ohio Revised Code. Despite this increase, Ohio's unemployment tax rates remain below the national average and lower than all but one of our neighboring states. All reliance on the state GRF to administer this program has been eliminated in the proposed budget and has been replaced by \$14 million in each year from the Special Administrative Fund. That fund derives its revenue from penalties, forfeiture and interest collected from employers due to late or non-payment of required unemployment taxes, or the repayment of fraudulently obtained benefits.

Operational Expenditures

Within our operational budget are new and ongoing information technology reforms. Earlier in my testimony I referenced the need for a new Medicaid Management Information system, but ODJFS has a number of other antiquated technology systems that are limited in capability. Over the last two years, we have been evaluating our systems and have a plan in place to develop or acquire new systems. Some of the systems such as Ohio Job Insurance (OJI), our unemployment insurance system and SCOTI, our workforce system, require additional enhancements and ongoing maintenance.

In addition to those enhancements, our MIS office is working on the development of SACWIS, which is our statewide child welfare system; beginning to replace CRIS-E, which is our statewide public assistance eligibility computer system; and building ERIC, which will be our new unemployment taxation system. Also in SFY 2006/2007 we will be developing a new County Finance Information System that will assist in better management of federal and state dollars.

Additional funding has been included in order to enable the agency to centralize its facilities into three locations from seven. Our plan includes the renovation of 145 South Front Street and moving the administrative offices to that location. This will improve our efficiency and coordination of services.

Another area of concern is increased federal scrutiny and enforcement activity in all program areas for which we receive federal funds. For instance, we currently have one federal Medicaid auditor in the Columbus area, but that soon will be increased to three. In a state supervised and county administered system such as Ohio's, this intense oversight puts both state and county funds at risk. Therefore, we must enhance our ability to provide technology, technical assistance and oversight to those who receive and administer federal funds. New management information systems and improved staffing to augment our monitoring and technical assistance capacity are part of this budget request.

In order to be certain that ODJFS is accountable, along with efficient, we have developed 115 performance measures that we regularly report on to the governor and post to our website. Attached to my testimony is a sample of a scorecard so that you can get a flavor for how we measure our outcomes, both internally and in relation to customer service. If you would like to see the full array of our performance measures, please see our website at www.performanceohio.gov.

In conclusion, I want to emphasize that many difficult decisions were made in proposing this budget, and I realize that you have many difficult decisions to make on behalf of the citizens of Ohio. We will do whatever we can to provide you with the information you need as you proceed, and will be available as you need us.

Please know that even with the many challenges we face as an agency, our dedicated and capable staff remain committed to serving the millions of Ohioans who rely on the services this agency provides.

Thank you. I will be happy to answer any questions you may have.