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A Preview of the 2018-2019 Cuyahoga County Biennial Budget

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County Budgeting Matters
October, 2017

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Key Issues:

- Cuyahoga County General Fund faces pressures due to elimination of Medicaid Managed Care Tax and continuing Local Government Fund reductions.
- Cuyahoga County will seek to manage these reductions by tapping the .25 percent sales tax fund and by moving some allowable General Fund expenditures onto the Health and Human Services Levy fund.
- A shrinking Health and Human Service Fund balance along with growing needs may persuade Cuyahoga County to seek an increase in the 3.9 mil levy likely to face voters in 2018.
- Unknown policy changes at the federal and state levels may place further policy and financial constraints on Cuyahoga County.
- Opiate epidemic is having a fiscal impact on spending in the justice, child welfare, and behavioral health systems.
- The recently adopted 2019-2022 Cuyahoga County Department of Health and Human Services Strategic Plan will likely have some influence over the budget process.

Introduction

In just a couple of weeks, the county executive will deliver to Cuyahoga County Council his proposed 2018 -2019 budget. But last month, Cuyahoga County Fiscal Officer Dennis Kennedy released the 2017 Fiscal Update from the Cuyahoga County Office of Budget Management, which provides a glimpse into the thinking of the county as they prepare the biennial budget for 2018-2019. In this paper, we will review the previous county budget, and analyze the latest budget update to preview the upcoming budget discussions.

This paper focuses on the Health and Human Services Levy Fund budget and, to a lesser extent the General Operating Fund budget. The HHS Levy fund is funded in large part by the two [Health and Human Service Levies](#).

Cuyahoga County 2016-2017 Budget

Two years ago, County Executive Armond Budish was facing an over \$60 million budget shortfall. Despite the tight budget, the administration proposed new spending including, \$3 million to create pathways to poverty through sustainable careers and incomes, \$1.5 million to reduce infant mortality, and \$10 million to expand access to high-quality pre-kindergarten education. At the same time, though, the budget included a 17 percent reduction in funding for the Cuyahoga County Alcohol, Drug Addiction and Mental Health Services (ADAMHS) Board

and a 19 percent reduction in the funding to The MetroHealth System. Ultimately, the county executive and County Council worked together to restore the funding for the ADAMHS Board, and MetroHealth agreed to a reduction in their funding in exchange for county support of their larger transformation effort. This was a recurring theme during the last budget cycle, as cuts were proposed to the Office of Reentry, Tapestry of Care, and other programs that were previously funded by General Fund dollars, which were [restored](#) using money from the Health and Human Services Levy dollars.

The County Reserves Are Running Perilously Low to Ensure Current Staff Levels and Service Quality

Cuyahoga County has tried to maintain a cash reserve balance of between 20-25 percent. Looking ahead to 2018, the county is expected to use \$58 million of the money in the reserves in order to continue *current staffing levels* and *service* levels. This brings the unadjusted cash balance to at-best 12 percent. The fiscal office report says, **“If no adjustments are made to the 2018-2019 budget, this would be contrary to the County’s financial policies and best practices for public sector financial management.”**

General Operating Fund (in millions)	2016 Actual	2017 Budget	2017 1 st Qtr.	2017 2 nd Qtr.	2018 Estimate	2019 Estimate
Beginning Cash Balance	\$116.2	\$99.0	\$99.0	\$99.0	\$108.2	\$43.0
Operating Revenue	\$391.7	\$362.2	\$376.2	\$384.1	\$349.0	\$351.3
Operating Expenditures	\$360.8	\$360.0	\$347.2	\$350.7	\$377.9	\$387.4
Subsidies to Other Funds	\$48.1	\$25.5	\$23.9	\$24.2	\$29.5	\$21.3
Unadjusted Ending Cash	\$99.0	\$75.7	\$104.1	\$108.2	\$43.0	(\$15.7)
% Balance to Expenditures	24%	20%	28%	29%	11%	

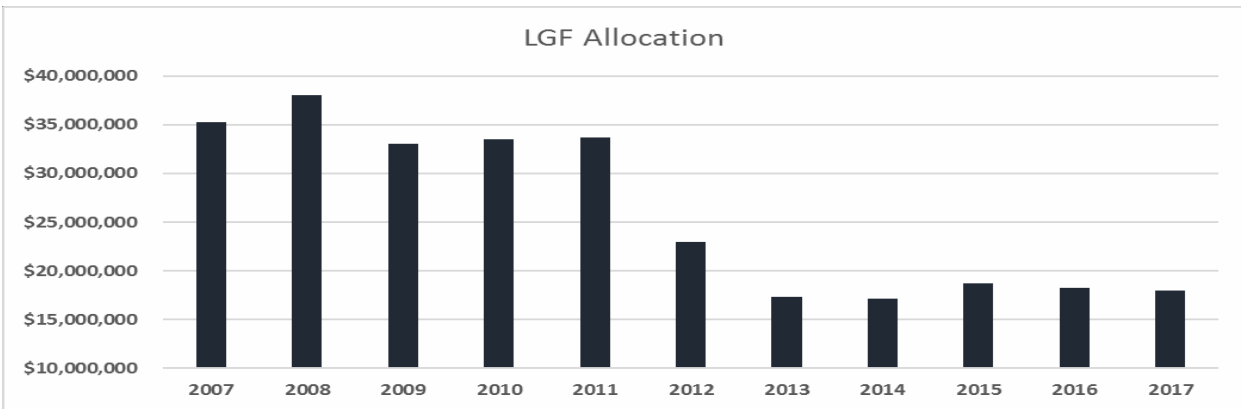
Source: Cuyahoga County Fiscal Office, Office of Budget and Management

General Fund under Continuing Pressure

Local Government Fund

Cuyahoga County calculates that the money it will receive from the Local Government Fund (LGF), which is funded by a formula through the state, will be \$1.3 million lower than what was budgeted.¹ Funding is based on the general tax revenue generated by the state. Because the general tax revenue at the state was lower than what was expected, the local government funds shared with Cuyahoga County will also be lower. In the last iteration of the state budget, the Kasich administration [proposed](#) changing the method of local government funding allocation, so that the distribution would be based on the “capacity” to raise local taxes, instead of basing

the allocation on population. This action would have lowered the amount of money dispersed to major cities and counties in the state. This proposed formula change did not make it into the final state budget. State policy changes have reduced the amount of local government funds that the state shares with Cuyahoga County.



Source: Cuyahoga County Fiscal Office, Office of Budget and Management

Managed Care Organization Sales Tax

Another challenge for the Local Government Fund is the reduction in sales tax revenue resulting from the loss of the Medicaid managed care sales tax. According to Cuyahoga County, Medicaid managed care sales tax proceeds represented 11 percent of all the sales tax generated in Cuyahoga County in 2016. Due to [mandated changes](#) from the U.S. Centers for Medicare and Medicaid (CMS), the State of Ohio is no longer able to charge sales tax on Managed Care Organizations (MCO). In Cuyahoga County, the lost sales tax totals approximately \$20 million. When Ohio adopted its most recent two-year state budget, it included a one-time payment from the state to affected Ohio counties. Cuyahoga County will receive \$18.7 million in 2018, which will lessen the impact of the MCO tax change in the first year of the budget.² A long-term policy change that would have provided a fix to the county and public transit agency budgets that were affected by the federal rule change was passed by the Ohio House and Ohio Senate, but vetoed by Governor Kasich. The Ohio House overruled the veto, and it remains to be seen if the veto override will also take place in the Senate.

Other Noteworthy Developments

Finally, the county suggests that it will propose to move \$5.5 million in revenue in 2017, 2018, and 2019 from the .25 percent sales tax fund to the General Operating Fund to fund county operations.

The County Health and Human Service Levy Fund Balance Continues to Shrink

Cuyahoga County is projecting that the Health and Human Services Levy fund balance will be in the red by 2019 unless there are changes in spending or revenue policy. The former might mean cuts in services while the latter might mean that Cuyahoga County seeks to increase the amount of the current 3.9 mil Health and Human Services Levy that voters are likely to consider next year. The Second Quarter Fiscal Office report suggests that as early as 2018, the Health and Human Services Levy fund balance percentage will drop to 9 percent.³ **Cuyahoga County Code dictates that the county must maintain at least 10 percent of balance to reserves.**

HHS Levy Fund (in millions)	2016 Actual	2017 Budget	2017 2nd Qtr. Estimate	2018 Estimate	2019 Estimate
Beginning Cash Balance	\$45.1	\$38.8	\$38.8	\$39.9	\$22.0
Operating Revenue	\$231.0	\$231.0	\$231.8	\$231.8	\$231.8
Operating Expenditures	\$75.4	\$75.4	\$75.8	\$75.8	\$75.8
Subsidies to Other Funds	\$161.8	\$157.5	\$154.9	\$173.9	\$186.2
Unadjusted Ending Cash Balance	\$38.8	\$36.9	\$39.9	\$22.0	(\$8.2)
% Balance to Expenditures	16%	16%	17%	9%	

Source: Cuyahoga County Fiscal Office, Office of Budget and Management

Federal and State Policy Changes May Further Strain Cuyahoga County Budget

Much uncertainty remains at both state and federal levels of government. The future of the Affordable Care Act remains tenuous because of continued attempts to either repeal the health care law or to sabotage it. Pending budget proposals in Congress would cut funding for a wide range of health, human service, and community development programs that benefit Cuyahoga County. At the same time, the Ohio General Assembly is still weighing whether to try and overturn a veto by Governor John Kasich of a Medicaid state budget provision which would end the Medicaid expansion in Ohio and result in well over 600,000 Ohioans losing their Medicaid coverage. Several candidates running for governor in Ohio have expressed interest in either ending the expansion or in cutting Medicaid expenditures. If any of these measures were to become law, they would increase the number of individuals seeking assistance from the county's health and human services system.

Impact of Opiate Epidemic

Cuyahoga County continues to face an alarming rate of heroin and fentanyl-related overdoses. According to the Cuyahoga County Medical Examiner, as reported in the *Cleveland Plain Dealer*, there were 60 confirmed fatal overdoses in February, 2017, alone. The county is on pace for 650 deaths in 2017. The net effect of the epidemic is not limited to the allocation of financial resources for prevention and treatment, but also has a secondary effect, as an increasing number of children are placed in foster care due in large part to the opiate epidemic.

Cuyahoga County Adopts Strategic Plan for Health and Human Services

In August, Thomas D. Pristow, the former director of the Cuyahoga County Department of Health and Human Services (DHHS), presented to the Cuyahoga County Council the results of a nine-month planning process that resulted in the development of the first-ever Cuyahoga County DHHS Strategic Plan. The plan was developed with the assistance of The Center for Community Solutions and Main Stream Enterprises, Inc. Through the planning process, over 2,200 stakeholders, including community leaders, employees, customers, service providers, and funders, were engaged. An overwhelming majority of stakeholders believed the most important thing DHHS does is to address residents' basic needs. They felt that "programs and services relating to the individual well-being of residents are what DHHS does best and should be a top priority." There was also strong support for county programs related to employment and training, education, and efforts to better support DHHS workers so that the customer experience can be improved. Finally, the other area which was discussed was moving health and human services payments away from "fee for service" towards a value-based or outcomes-based payment system. Providers expressed a willingness to move towards value-based payments if they can have a role in defining indicators and outcomes. While Mr. Pristow indicated during his testimony that the plan could be implemented with existing resources, it's likely that some of the issues identified in the plan will be raised during the budget process.

2018 - 2019 County Budget Process & Schedule

The County Budget process begins in early October. The county executive is set to present the budget to County Council for the first time on Tuesday, October 10. The budget will be referred to the Committee of the Whole. Councilman Dale Miller, chairman of the Finance Committee, will be presiding. Beginning on October 16, and continuing throughout the month of October, County Council will hear presentations from various departments across the county on their needs and interests. In November, the County Council will begin to offer amendments to the budget, with the hopes of passing a final budget by the end of the month.

On October 16, the Committee on the Whole will hear presentations for the following boards and commissions at 1:00 p.m.:

- Board of Developmental Disabilities
- Veterans Services Commission
- Workforce Development
- Law Library Resource Board
- Solid Waste Management District
- Regional Collaboration
- Office of Sustainability
- Ohio State University Extension
- Internal Audit

Thursday, October 19

Committee of the Whole

10:00am – 1:00 pm

- Health & Human Services Overview
 - Senior & Adult Services
 - ADAMHS Board
 - Children & Family Services
 - Cuyahoga Job & Family Services
 - Office of Child Support Services
- Dr. Richard Jones
Valeria A. Harper
Cynthia Weiskittel
David Merriman
Deborah Watkins

Committee of the Whole

2:00pm - 5:00 pm

- Health & Human Services (Continued)
- Office of Homeless Services
 - Early Childhood/Invest in Children
 - Family & Children First Council
 - HHS Office of Re-Entry
- Ruth Gillett
Dr. Rebekah Dorman
Robin Martin
Crystal Bryant
- General Government & Supportive Services
- County Council
 - County Executive
 - Communications
 - Board of Elections
 - Inspector General
- Joseph Nanni
Sharon Sobol Jordan
Eliza Wing
Patrick McDonald
Mark Griffin

Monday, October 23

Committee of the Whole

1:00pm – 3:00 pm

- General Government & Supportive Services (continued)
- Information Technology (ERP Budget)
 - Fiscal Office
 - Board of Revision
 - Treasury
 - Office of Innovation & Performance
 - Human Resources
 - Healthcare Benefits
 - Personnel Review Commission
- Scot Rourke
Dennis Kennedy
Shelley Davis
W. Christopher Murray
Scot Rourke
Douglas Dykes
Holly Woods
Rebecca Kopcienski

Tuesday, October 24**Committee of the Whole****1:00pm – 5:00 pm**

- Justice Services & Public Safety Brief Overview Administration
- Court of Common Pleas The Hon. John J. Russo
- Juvenile Court The Hon. Kristin W. Sweeney
- Domestic Relations Court The Hon. Rosemary Grdina Gold
- Probate Court The Hon. Anthony J. Russo
- 8th District Court of Appeals The Hon. Kathleen A. Keough
- Prosecutor's Office The Hon. Michael C. O'Malley
- Public Defender Mark A. Stanton
- Law Department Robert Triozzi
- Clerk of Courts Nailah Byrd
- Medical Examiner Dr. Thomas Gilson
- Sheriff Clifford Pinkney
- Public Safety & Justice Affairs Brandy Carney

Monday, October 30**Committee of the Whole****1:00pm – 3:00 pm**

- Development Ted Carter
- County Planning Commission Glenn Coyne
- Public Works Michael Dever
- Soil & Water Conservation District Jan Rybka
- Soldiers' & Sailors' Monument Tim Daley

Conclusion

As in any budget process, Cuyahoga County will have choices to make in the upcoming biennium budget deliberations. The loss of the Medicaid managed care tax, and continuing Local Government Fund reductions will make balancing the General Fund portion of the budget harder. Past, current, and future capital projects represent another continuing and possibly growing draw on the General Fund. These and other challenges are likely why the 2017 Second Quarter Financial Update issued by the county executive's Fiscal Office paints such a bleak picture of the General Fund in the future.

In terms of the Health and Human Services Fund, the County made workforce development, universal pre-K, and reducing infant mortality in the last two-year budget a top priority. One question is whether those will continue to be priorities in the upcoming budget – each of them were identified in the recently approved DHHS Strategic Plan. Cuyahoga County also has a growing number of older adults, and they will likely seek a larger share of the health and human services spending. The opiate epidemic continues to take a heavy toll in Cuyahoga County and will likely fuel increased HHS spending. These and other challenges may lead the county to ask voters to increase the Health and Human Services Levy which is likely to be on the ballot in 2018.

¹ 2017 2nd Quarter Update, Page 5 http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/obm/2017/2017-2ndQuarter.pdf

² 2017 2nd Quarter Update, Page 4 http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/obm/2017/2017-2ndQuarter.pdf

³ 2017 2nd Quarter Update, Page 19 http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/obm/2017/2017-2ndQuarter.pdf

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