Tax & Budget

Poor state funding for public transit and counties drives MCO tax fight

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When the federal government told Ohio to bring the Medicaid Managed Care provider tax (MCO tax) into compliance by broadening its base, the state did, but also cut the tax, and left local governments and transit agencies out of the fix.

Ohio uses health care provider taxes like the MCO tax to finance Medicaid, but it also funds other programs through the state General Revenue Fund, The MOC tax also funded local government and transit agencies until last year, when it was changed.

The federal government found the MCO tax, in the base of the state sales tax, was too narrow, because the tax was only applied to Medicaid managed care organizations. Ohio moved it from the sales tax base to the base of the health insuring corporation tax (and renamed it the Medicaid health insuring corporation tax, or "MHIC"). But with the transfer, counties and transit agencies that piggybacked a local sales tax on the state base lost the collections that had be distributed locally from the MCO tax - more than $200 million a year, collectively.

There is a short-term "transition fund" in the state budget for 2018-19 to help with adjustment but for most affected counties (88) and transit authorities (8), the revenue stream just vanishes by 2019. This loss constitutes yet another local government cut, following years of cuts to counties and compounding the long-term underfunding of public transit.

Legislators have proposed restoring the MHIC to its former level for a temporary period of time, six years, by restoring the MHIC to the size it was in its former incarnation. Analysis based on data provided by the Kasich administration shows their proposal meets the requirements of federal rules.

The governor vetoed their proposal, which was in the budget bill for 2018-19. The House overrode the veto. The Senate has not yet decided what to do. It should vote to override, too. The restoration of the tax cuts to counties and transit agencies is fair and needed, and the case for restoration is strong.