Medicaid Provider tax fix must not hurt counties, transit agencies

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Unless Ohio changes a tax that helps people without insurance get health care, hundreds of thousands could have trouble getting medical services. In making changes required by the federal government, it is crucial to make sure local governments and transit agencies – which also benefit from this revenue – do not lose much-needed financial support.

Key findings

- The federal government tells Ohio to fix its Medicaid Managed Care Organization tax, part of the sales tax that also funds state and local services.
- Revenues from this tax draw hundreds of millions of federal funds for Medicaid services into the state.
- This tax also provides close to $200 million a year to counties and transit agencies.
- The state must find a fix that protects health care yet does not deepen cuts to local government and public transit.

Medicaid managed care companies in Ohio pay sales tax on the health services they provide. The tax that they pay is calculated into the Medicaid payments they receive for delivering those services. The tax is referred to as an MCO (managed care organization) tax. Collections of this type, in Ohio and nationally, are used to draw down hundreds of millions of dollars in federal matching funds for Medicaid services.

A July 2014 letter from the Center for Medicare and Medicaid Services warned all state Medicaid directors that taxing a subset of providers (like Medicaid managed care organizations) within a broad tax, like the sales tax, might no longer conform to federal rules. Several states with taxes like Ohio's, including Michigan, California and Pennsylvania, have changed or are changing their MCO taxes. Ohio will as well.

In state fiscal year 2018, tax collections from the Medicaid MCO tax will be just over a billion dollars. The state uses $303 million to draw down $756 million in federal matching funds. The remaining $558 million in MCO tax collections go in the state's general revenue fund (GRF). The net impact of the tax on the MCOs is negligible because the tax payment is calculated into the MCO "capitation" rate, their payment for Medicaid services.

Local governments – counties and transit authorities – will collect an estimated $195 million dollars in fiscal year 2018 from this component of the sales tax base.

In Ohio, counties and transit authorities are authorized to levy a local sales tax on the state tax base. (commonly referred to as a "piggyback tax"). Such local taxes ranging from a half percent to 2¼ cents. Counties in Ohio's Appalachian region, some of the poorest places in the state, are the most reliant on the Medicaid MCO sales tax collections because many residents are enrolled in Medicaid. The largest impact in terms of dollars, however, is on urban and suburban counties.

MCO tax collections are magnified by their role in financing public transit. Hundreds of thousands depend on public transit to get to work and the grocery store. Public transit has been badly cut by state government in the past two decades. If the MCO tax was removed from the sales tax base, transit agencies could lose more than $30 million a year.

Statewide, the share of the MCO revenue in the local sales tax base increased from $81 million in 2013, about 5 percent of the local sales tax base that year, to $148 million in 2015, about 7.5 percent. In dollar terms, this represents growth of almost 83 percent. Growth remains robust: The MCO tax is forecast to bring $195 million to these local governments in 2018 and $202 million in 2019.

The problem Ohio and other states must fix in their MCO tax structure has nothing to do with the Affordable Care Act or the extension of Medicaid to low-income adults without custody of children; it has to do with federal rules that have changed over time. Other states have aligned their MCO taxes with federal requirements, ensuring solid, adequate finances for health services. Ohio can do the same. What is different about Ohio, and critical to any solution here, is that local governments depend on a local sales tax to fund services. Safety, fire, emergency services, road maintenance, snow plowing and all the civic services that underpin our daily lives must be protected.

This is not all that state government should do for Ohio localities. The budget for 2018-19 should restore levies that fund seniors' and children's services which have been hollowed out by loss of tax reimbursements; restore revenue sharing with cities, villages, townships, counties and special districts that have lost, on average, 50 percent of state local government funds; and restore the estate tax, which was an important source of funding for capital equipment for Ohio's communities, on the heirs of Ohio's wealthiest estates – those over a million dollars. These should remain a priority. This history of damage to local finances, however, highlights why it is essential that the solution crafted for Ohio's MCO tax does not further harm Ohio's communities and local public services.

Local governments have already been cut too deeply in Ohio. Ohio's counties provide many important services in which state funding plays too small of a role. Ohio ranks 50th among states in support of children's services, leaving poor counties struggling to protect their most vulnerable. The state budget supports adult protective services at a level far below needs at a time when the population is aging and more elders than ever need protection from abuse. Since 2010, the state has cut almost a billion dollars a year in resources of local governments through cuts in revenue sharing and changes in tax policy.

Any "fix" to the MCO tax that exposes local public services to further loss is not a comprehensive solution. It is the responsibility of state government to fix the MCO tax problem in ways that bring state health care taxes into conformance with federal standards, without hurting Ohioans who depend on local services. The lesson from other states is that this can be done.