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Utah Can't Rely on Federal Medicaid Promises

As the May 2013 edition of "The Utah Taxpayer" noted, the Supreme Court's Obamacare ruling gave Utah the choice of whether to expand eligibility for Medicaid to include all Utahns who earn up to 138% of the federal poverty level. As an inducement to expand Medicaid, Obamacare offers what is effectively an introductory price.

From 2014 to 2016, the federal government will cover 100% of the Medicaid costs associated with the newly eligible Medicaid population. Beginning in 2017, the federal government will reduce its support of this population, but promises to always cover at least 90% of this population's Medicaid costs.

Unfortunately, the federal treasury isn't capable of keeping those promises. The trajectory of federal entitlement spending is unsustainable. Given the federal government's inability to meet its existing obligations, it is hard to see how Utah can rely on Obamacare's promise to pay its share of expanding Medicaid.

The Trajectory of Federal Entitlement Spending

Last year Nicholas Eberstadt published a short book entitled "A Nation of Takers: America's Entitlement Epidemic," on the long term spending patterns of the federal government. His chilling graphics show the astounding growth in federal welfare spending over the last 50 years. Specifically, he shows that, "in 1960, U.S. government transfers to individuals from all programs totaled about $24 billion. By 2010, the outlay for entitlements was almost 100 times more" (page 4). "Even after adjusting for inflation and population growth, entitlement transfers to individuals have more than septupled" over that time period (Eberstadt, page 8).

Shocking as those statistics are, a response by economist Yuval Levin published in the same book focuses attention on the driver of this phenomenal growth. In 1971, "all *non*-health care federal spending combined (including Social Security, defense, all other benefit programs, everything but interest on the debt) was 17.1 percent of GDP" (Eberstadt, page 122). The same was true in 2011. However, federal health spending as a share of GDP "more than quintupled over that period."

Table 1: CBO Projections of Federal Spending as a Share of GDP

	2012	2022	2037
Federal Healthcare	5.4%	7.2%	9.6%
Social Security	5.0%	5.4%	6.2%
Other, non-interest spending	11.6%	7.3%	6.9%

Source: Congressional Budget Office, "The 2012 Long-Term Budget Outlook," Table 1-2, page 12.

As Table 1 shows, current spending trends reflect similar patterns. Federal healthcare spending (Medicaid, Medicare, and various subsidies associated with Obamacare) will nearly double as a share of GDP by 2037. Social Security will continue to grow, while all other non-interest federal spending will decrease by

nearly 41 percent over the same time period. As Levin puts it, "On the course we are on, … the federal government will become a health-insurance provider with some unusual side ventures, like an army and a navy" (Eberstadt, page 122).

How much will Medicaid expansion really cost at full implementation?

These long-term federal trends matter because they of what they portend for Utah's decision over whether to expand eligibility for Medicaid. Utah's Health Department commissioned a study to show taxpayer costs or savings associated with expanding Medicaid or not. Conducted by PCG, a national public policy consulting group, the study evaluates five scenarios

1. Make only those expansions required by Obamacare.
2. Expand Medicaid to all Utahns earning up to 138% of the federal poverty level (FPL) with traditional Medicaid benefits.
3. Expand Medicaid to all Utahns earning up to 138% of FPL with essential health benefits.
4. Expand Medicaid to all Utahns earning up to 100% of the federal poverty level (FPL) with traditional Medicaid benefits.
5. Expand Medicaid to all Utahns earning up to 100% of FPL with essential health benefits.

Table 2 shows how PCG projects Utah's Medicaid costs to change between 2014 and 2023 for each of those scenarios. During the first 3 years of implementation, when the federal government has promised to pay the full cost of expanding Medicaid, Utah would save about $28.4 million by expanding Medicaid to cover all Utahns up to 138% of FPL. During the same time period, any other choice would cost the state between $39.1 million and $88.3 million. (See the column labeled "3 year total" in Table 2.)

After that initial 3-year period, the federal government has promised to step down their coverage of the newly eligible Medicaid recipients to 90% by the year 2020. Utah taxpayers would have to cover 10% of the cost of newly eligible Medicaid recipients.

To reflect these separate promises, PCG also calculated the total costs over a 10-year period (see column B). Once the Medicaid expansion is fully implemented and the federal government is paying for their 90% share on going, the cost of not expanding Medicaid becomes the least expensive 10-year option.

Table 2: PCG's Projected Costs with Various Scenarios for Utah to Expand Medicaid

Scenario	A	B	C	D
	3 year total	10 year total	10 year annual	3 year annual
1	$39,082,298	$220,563,690	$22,056,369	$13,027,433
2	($28,399,611)	$376,544,077	$37,654,408	($9,466,537)
3	($28,399,611)	$334,978,321	$33,497,832	($9,466,537)
4	$88,280,630	$581,352,420	$58,135,242	$29,426,877
5	$64,658,768	$511,897,699	$51,189,770	$21,552,923

Source: PCG Health: State of Utah Medicaid Expansion Assessment, page 5.

PCG also provides the annual costs associated with these 10-year and 3-year options, which are represented in Table 2 by columns C and D. However, the 10-year annual does NOT accurately reflect the average annual costs Utah will face in 2023, because the costs and savings in years one through three (when the federal government is paying 100% of the cost of newly eligible Medicaid recipients) are fundamentally different than the costs and savings in the last years, when the federal government is only covering 90% of those costs. Table 3 attempts to approximate those differences.

In Table 3, Columns A and B replicate Columns C and D from Table 2. Column C is the difference between Columns A and B from Table 2. Finally, Column D divides Column C by 7, the number of years within PCG's 10-year analysis that the federal government promises to cover 90% of the cost of newly eligible Medicaid enrollees.

Table 3: Approximating Utah's projected annual costs of Medicaid in 2023

Scenario	A	B	C	D
	10 year annual	3 year annual	Costs in Years 4 through 10	Projected annual estimate in year 10
1	$22,056,369	$13,027,433	$181,481,392	$25,925,913
2	$37,654,408	-$9,466,537	$404,943,688	$57,849,098
3	$33,497,832	-$9,466,537	$363,377,932	$51,911,133
4	$58,135,242	$29,426,877	$493,071,790	$70,438,827
5	$51,189,770	$21,552,923	$447,238,931	$63,891,276

Source: *Calculations by Utah Taxpayers Association based on data from PCG Health: State of Utah Medicaid Expansion Assessment, page 5.*

Column D is a more realistic approximation of Utah's actual annual Medicaid costs beginning in 2023. The 3-year savings Scenarios 2 and 3 generate are fully consumed in the following 7 years. In other words, the total and annual losses in those last 7 years are much larger than the overall and annual 10-year losses. The annual costs calculated by recognizing the full costs over the last 7 years (Column D) are a more accurate reflection of Utah's Medicaid costs beginning in 2023. To be clear, the federal promise to cover 90% of the costs for newly eligible Medicaid enrollees is permanent. PCG's estimates merely reflect the 10 years they evaluated.

For example, PCG projects that the 10-year annual loss for Medicaid will range from $22.1 million to $58.1 million (Column A). However, as Column D notes, the state's annual costs in 2023 will be likely vary between $25.9 million and $70.4 million. For every Scenario PCG modeled, Utah's likely annual Medicaid costs will be significantly higher than the 10-year estimates PCG presented.

In determining whether Utah should expand Medicaid, this analysis is critical, because the state balances its budget every year. Any savings the state may have from a full Medicaid expansion in 2014, 2015 or 2016 is irrelevant to the state's budget in 2023. Policymakers need to appreciate Medicaid's realistic long-term annual budget costs associated with expansion. Unfortunately, PCG's 10-year annual estimate does not help them see that.

Are even these revised Medicaid costs realistic?

As the analysis in PCG's report and in the previous section notes, Obamacare will significantly increase Utah's annual Medicaid costs at full implementation, even if Utah does not expand Medicaid more than federal law requires. However, even this analysis relies on unrealistic assumptions.

As the Eberstadt analysis presented in the first section of this this article shows, the current fiscal parameters of federal entitlement spending are not sustainable. And the ability of the federal government to keep its promises of paying 100% of the newly-eligible population's Medicaid costs for the first three years, and 90% at full implementation, hinge on the federal government being able to sustain that level of spending.

That is an absurd assumption, if only because we will be in other wars, which will prevent the federal government from cutting non-healthcare spending. We may wish it isn't true, but the history of American foreign policy notes that American involvement in one war or another is nearly as regular as a heartbeat: Spanish American War, WWI, WWII, Korea, Viet Nam, Grenada, Iraq, Kosovo, Iraq, Afghanistan, etc. Budgeting with a realistic eye on taxpayer costs demands that policy makers assume the federal government won't keep all their spending promises.

Unfortunately, that assumption has a solid foundation. Just this year federal budget cuts associated with sequestration lowered the PILT and mineral lease payments the federal government makes to rural counties throughout the country.

Even in healthcare, the federal government has failed this year to keep its promises. In 2010, the federal government promised to support Utah's high-risk insurance pool, HIPUtah. HIPUtah provides otherwise uninsurable individuals (i.e., those with cancer, diabetes, heart disease and other chronic illnesses) who leave the group insurance market and want to purchase insurance in the individual market.

Without a larger healthy population in this market or taxpayer backing of an insurance pool for uninsurable patients, the costs of insuring these chronically sick patients would overwhelm the individual insurance market. The same sequestration cuts that lowered PILT and mineral lease payments also forced them to stop supporting new enrollees.

Given the foreseeable state of the federal treasury, it is unrealistic to expect that the federal government will follow through on its promises to cover 90% of the costs of newly eligible Medicaid enrollees once Medicaid expansion is fully implemented. Assuming that's true, if Utah lawmakers expand Medicaid now, at some point they'll have to either cut Medicaid benefits or raise taxes. Neither of those options are palatable.

My Corner: Charter School Competition Improves District Schools, but School Boards Build Lavish Buildings while Charters Economize.

Association President Howard Stephenson

This year marks the 15th anniversary of Utah's charter school law. Charter schools enrolled more than 50,786 students in the 2012-13 school year, or about 8.5% of Utah's public school students. Charter enrollments are expected to grow another 6,000 students in the coming school year.

As the senate sponsor of that legislation, I was particularly pleased to hear the report of PhD candidate Michael Martineau, Department of Economics at the University of Utah, which showed that the presence of charter schools actually improves neighboring Utah district schools. The study found that public schools within 10 miles of one or more charter schools saw significant boosts in their test scores in math, science, and language arts.

That's not the only benefit of Utah's charter schools. The growth of charter schools has absorbed half of the student growth in the Beehive state, saving taxpayers hundreds of millions in long-term bonding for school buildings. But the real heroes in reducing borrowing costs for taxpayers are not the charter schools themselves, but the businesses who risk their own capital to build the school buildings and then lease them to the charter schools. Unlike construction companies which build district schools and walk away with their profits when the schools open, charter development companies carry all the risk for years, until the charters prove their business model and qualify for financing to purchase the buildings from the developers. If a charter school was to fail financially and be closed, only the development companies owning the buildings

The new Draper Park Middle School in Draper, Utah

would suffer financial loss.

The difference in cost per student for new district school buildings is estimated to be as much as 50% higher than charter school buildings. As I have met with legislators and education leaders across the nation, I have never heard someone mention that Utah spends less per student than any other state. But I have often heard comments about how beautiful our school buildings are.

Fortunately there are a few Utah school boards that have utilized lower cost tilt-up construction and ground source heating and cooling such as Washington and Iron. Tooele has also emphasized lower cost features. However, Utah taxpayers have increasingly become aware of the fact that too many local school boards continue to spend tax dollars for unnecessary excesses on new school buildings; excesses which have no bearing on student achievement. When visitors see Wasatch High School in Heber they are stunned at its opulence. Canyons district is just completing a new middle school and a new high school in Draper. Both buildings have stunning architecture.

The new Draper Park Middle School at 1300 East and 13200 South features exterior overhangs, angled walls, and multiple surface structures which leave observers questioning how a school board could approve such excesses. This questionable use of resources is made even more striking when visitors look across the street at the Summit Academy Charter Middle School with its simple but attractive architecture.

Recent charter school building costs have been in the range of $100 to $115 per square foot while some school boards have been spending in the neighborhood of $150 per square foot. Most charter schools cut building costs additionally by having fewer square feet per student.

Some members of the legislature and business leaders are currently looking at ways to rein in local school boards who spend lavishly on school buildings.

They better act quickly because the Jordan School Board is currently considering $930 million in bonds to pay for new buildings – more than twice as large as any school bond in Utah history. Your Taxpayers Association has estimated that if Jordan School District continues to build lavish buildings which are shut down for one-third of the year, local school property taxes will double over the next 15 years.

Is it time for a dose of reality?

Funding Source is Key for Utah's Growing Transportation System

Recently it seems that news articles in Utah have surrounded just two topics: Attorney General John Swallow and transportation. While the former is intriguing to many, the latter is important to all. Your Taxpayers Association has been working consistently with stakeholders in Utah to find a solution for Utah's transportation issues.

As part of the ongoing discussion, the business community in Utah formed a coalition called the Utah Transportation Coalition. This coalition recently released a study to determine what different investment levels in transportation infrastructure could do for Utah's economy. The study explored three investment scenarios, and their effect on the long-term economy in Utah. The Maintain Existing Systems scenario calculates what could be expected if the investment level only maintained the current roads and transportation infrastructure that Utah has today (2011 system). The Business as Usual scenario calculated based on investment supported by current revenue streams to accommodate future demand. The final scenario, which the report recommended be implemented, is called the Unified Plan, which calls for significant new money to be spent.

Under these three scenarios, investment in Utah's transportation system over the next 30 years will range from $18.3 Billion (Maintain Existing Systems) to $54.7 Billion (Unified Plan). What does an additional $36.4 Billion in expenditures over 30 years get the State of Utah? According to the report, a significant savings to the private sector and increased revenue to all levels of government. The report suggests that by spending more to increase capacity, productivity in the private sector can increase and Utah's GDP will grow.

Comparative Outcomes of Different Investment Levels in Utah's Transportation System

	Investment in Transportation System		Effects on Utah's Economy				
Investment Levels	$ Invested in *Unified Plan* ($B)	$ Invested in System Expansion ($B)	$ Private Sector Savings ($B)	Jobs	Household Income ($B)	Business Output ($B)	GDP ($B)
No Investment Whatsoever	*$0*	*$0*	*$0*	*0*	*$0*	*$0*	*$0*
Maintain Existing System	*$18.3*	*$0.0*	*$46.3*	*49,881*	*$25.8*	*$64.8*	*$36.4*
Business as Usual scenario	*$43.4*	*$25.1*	*$77.5*	*139,187*	*$106.1*	*$282.7*	*$149.5*
Unified Plan scenario	*$54.7*	*$36.4*	*$84.8*	*182,618*	*$130.5*	*$347.5*	*$183.6*

Source: Economic Benefits and Impacts of Utah's Unified Plan by Economic Development Research Group

The nearby chart provides a breakdown of the three scenarios studied, and what the outcomes are projected to be with each investment level. The first scenario, Maintaining Existing System, requires $18.3 Billion to be spent over the next 30 years (until 2040). This is estimated to yield $46.3 Billion in private sector savings (time saving, fleet repair savings, employer productivity, etc.), 49,881 jobs, and $36.4 Billion in Utah's GDP over 30 years.

The second scenario, Business as Usual, requires $43.4 Billion to be spent over the next 30 years and $25.1 to be spent in expanding the current transportation system ($68.5 Billion total). The difference between the Maintaining Existing Systems scenario and the Business as Usual scenario is the expenditure of $25.1 Billion for future growth; where as the Maintaining Existing Systems would only maintain the current transportation system as it stands today. This is estimated to yield $77.5 Billion in private sector savings, 139,187 jobs, and $149.5 Billion in Utah's GDP.

The final scenario, the Unified Plan, requires that $54.7 Billion be spent and an additional $36.4 Billion on expanding Utah's

current transportation system ($91.1 Billion total). This is expected to yield $84.8 Billion in private sector savings, 182,618 jobs and $183.6 Billion in Utah's GDP. While a transportation system that promotes growth in the economy is critical, the first step needs to be deciding how to properly fund that system.

Having a robust transportation system is critical for Utah's economy. Road conditions affect how efficiently products can be moved and how much money needs to be spent on repairs and maintenance for fleets. The importance of efficiently transporting goods and doing so on good roads is highlighted in the report, considering that 69% of Utah's export value is shipped using trucks. Fortunately, Utah has maintained it's urban roads relatively well. In fact, a new report from the Reason Foundation ranks Utah's urban interstate pavement condition first in the nation.

The analysis in the report highlights the importance of a good, reliable, and efficient transportation system. There is no question that in order to grow Utah's economy, its transportation system must be robust. But, a critical issue in addressing Utah's transportation system is determining how it should be paid for. Currently, Utah's transportation system is funded through a combination of methods, including sales taxes, user fees and General Fund money.

A recent report from the Utah Foundation recommended a number of funding mechanisms to generate revenue for the 3 proposed scenarios in the Utah Transportation Coalition report. Using methods from other states, the federal government and other countries, the Utah Foundation listed over 20 options to generate more revenue. Some of these methods include increase the gas tax, either through a straight dollar amount or indexing based on CPI, infrastructure costs or the price of gasoline. Additional methods include increasing severance taxes, motor vehicle registration fees, allowing local and regional governments to exercise additional sales tax options, taxing vehicle miles traveled, congestion pricing and public private partnerships.

Investing in Utah's transportation system is critical, and that's why your Taxpayers Association has been working hard to find new, sustainable ways to pay for these projects. The ideal funding source is from user fees, which encourages responsible use of these systems and results in safer, smoother, and less congested roads. For example, toll roads rarely have potholes or traffic. Your Taxpayers Association recently put forward a proposal to move in that direction. Under this proposal, the current sales taxes being spent on transportation (roughly $440 million) would be shifted to higher education. Then, $440 million in income taxes being spent on higher education would be reduced in the form of an income tax cut. And to replace the sales taxes shifted from transportation funding to higher education, the gas tax would be increased by $0.42 per gallon.

As Utah cannot rest on its laurels, your Taxpayers Association is working hard on all fronts to maintain our position as the #1 Place for Business (Forbes), #1 for Economic Outlook (ALEC), Best Value for Education (US Chamber of Commerce), etc. Reducing Utah's income tax while improving Utah's transportation system is the just one of those win-win solutions.

Update on Bonds Considered on the June Ballot
From Now on, June Bond Elections will be Prohibited

In the July 2012 edition of The Utah Taxpayer, your Taxpayers Association expressed concern over the amount of June bond elections in Utah. As a result, Senate Bill 34 was introduced and passed during the 2013 General Session of the Legislature. SB 34 mandates that all bond, leeway, levy, or tax propositions must take place in the November election to ensure the highest voter turnout for crucial issues, unless the bond in question is addressing an emergency infrastructure issue. SB 34 took effect on July 1, but there were 3 final bonds considered in June.

Weber County voters approved a $45 million bond (54.3% in favor) to update the main library in Ogden, replace the Southwest branch with an updated branch located in Roy, modernize the North Branch, and add additional parking in the Ogden Valley Branch located in Huntsville.

Ogden City voters approved a swimming pool bond for $1.1 million (57.58% in favor). The bond will be used to repair and update the Ogden City and Ben Lomond High School swimming pool.

The Sevier County Board of Education put forward a general obligations $46 million bond that passed with 70% of voters approving it. This bond will be used for renovations, repairs, and additions to school facilities.

The Cache County School District had proposed a $124 million bond, but it was postponed until November 2013 due to not fulfilling all election laws.

One Third of Utah's Expenditures Come from the Federal Government

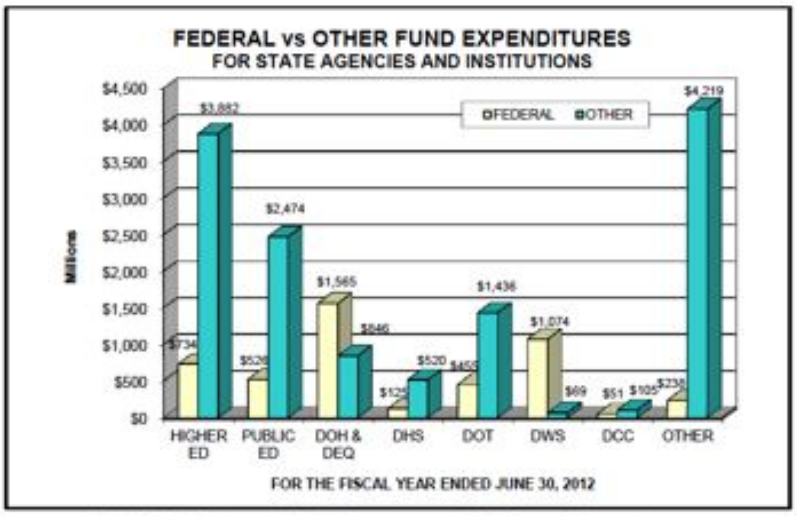
This year, the Utah Legislature passed its largest budget ever, topping $13 billion. This money is appropriated for education, transportation, public safety, healthcare, etc. The majority of this money comes from income taxes (which goes solely to education), sales taxes and user fees. But, according to the Tax Foundation, 31.6% comes from money sent to the state from the federal government. The map below shows that Utah ranks 39th in the country for federal aid.

There is a minor conflict between the numbers that the Tax Foundation uses and what the State of Utah's budget shows. As you can see in the nearby chart, Utah's budget includes $4.7 billion from the federal government. As a percentage of the total state budget, that percent is more accurately stated as 35%.

As you can see in the nearby chart Utah spends its lion share of federal money through the Department of Health and the Department of environmental quality. Education in Utah also receives a significant amount of money from the federal government. In fact, over $500 million of the public education fund is from federal money and almost $750 million dollars of the higher education expenditures in Utah are from the Federal government. One thing that is important to note however is that there is nearly $2 billion that is not accounted for in the Utah State budget. This $2 billion comes in the form of student loans, academic research, and other grants to

Utah's university system.

Should Utahns be worried that such a large portion of its budget comes from the federal government? Utah is being proactive on this front and attempting to answer this question. In fact, just this month the legislature convened the inaugural Commission on Federalism to study how Utah can maintain the proper balance in governance with the federal government. The first witness that addressed the Commission, made up of members of the Utah Senate and the Utah House of Representatives, was Congressman Rob Bishop. During his testimony, Congressman Bishop pointed out that when you accept federal money you must comply with federal requirements, or in other words when you accept federal money there are strings attached. Recognizing this is critical for Utah legislators to be cautious when considering the expansion of programs that are encouraged and incentivized by additional federal money. Such is the case with the expansion of Medicaid, where the costs are unclear. As the first article in this edition of the Utah Taxpayer argues, cutting benefits and raising taxes are not palatable, but given the federal governments track record, it's not likely to follow through on its promises.



HIGHER ED – Colleges and Universities
PUBLIC ED – Office of Education
DOH & DEQ – Dept. of Health and Dept. of Environmental Quality
DHS – Dept. of Human Services
DOT – Dept. of Transportation
DWS – Dept. of Workforce Services
DCC – Dept. of Community & Culture
OTHER – Other state agencies

Source: Utah State Auditor Report No. 12-40