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UNCOVER OBAMACARE

Promises Made, Promises Broken

STATES CANNOT TRUST WASHINGTON'S PROMISE TO FUND OBAMACARE MEDICAID EXPANSION

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OVERVIEW

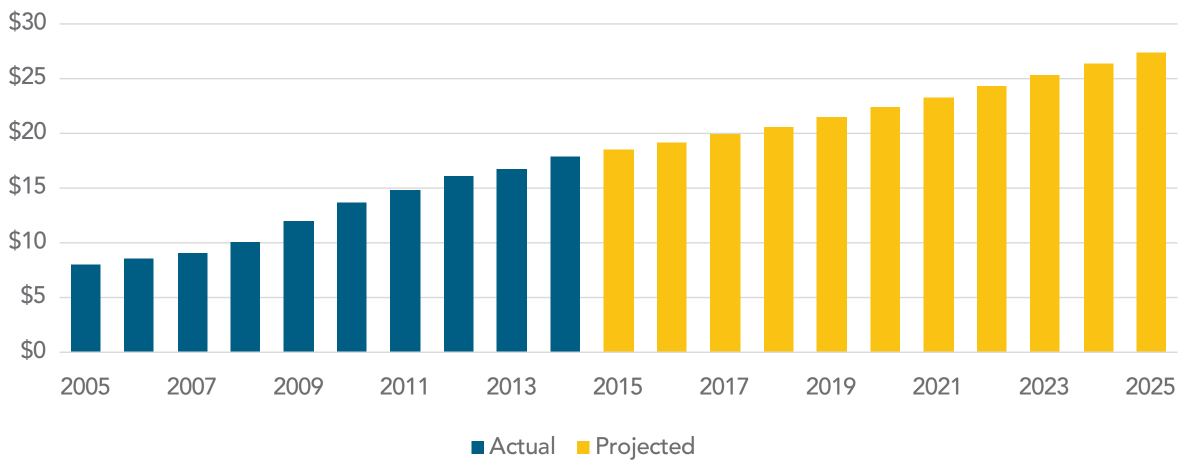
Former U.S. Health and Human Services Secretary Kathleen Sebelius calls ObamaCare's Medicaid welfare expansion "the most generous federal offer ever put on the table." For states that expand their Medicaid programs to enroll individuals earning up to 138 percent of the federal poverty level, ObamaCare promises to cover the full cost of that expansion through 2016, then ratchet down the portion of costs it will cover over four years to 90 percent, indefinitely. This promise of federal funding may seem alluring, but policymakers should prepare themselves for the possibility that "the most generous federal offer ever put on the table" is likely just another empty federal promise.

THE FEDERAL GOVERNMENT CANNOT AFFORD ITS MEDICAID EXPANSION PROMISE

The federal government is already more than $18 trillion in debt.[1] The Congressional Budget Office projects that this debt will rise to more than $27 trillion by 2025.[2] This is hardly surprising considering the federal government has run annual deficits exceeding $1 trillion for four of the last six years.[3]

Federal debt is expected to grow to more than $27 trillion within the next decade

Gross federal debt, in trillions

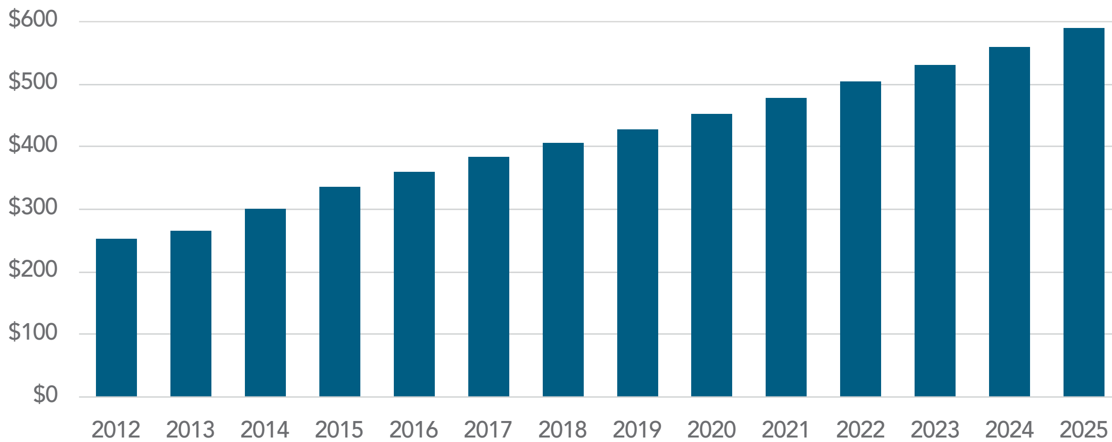


Source: Office of Management and Budget; Congressional Budget Office

Federal taxpayers can expect to pay $588 billion for Medicaid alone by 2025.[4] For comparison, federal taxpayers paid $251 billion for Medicaid welfare benefits in 2012.[5] During the next decade, Medicaid spending is projected to grow significantly faster than either federal revenue or the U.S. economy, eating into other core government priorities.[6]

Medicaid spending will nearly double over the next decade

Federal Medicaid spending, in billions



Source: Congressional Budget Office

The Government Accountability Office has called this debt trajectory an "unsustainable long-term fiscal path" that must be addressed immediately.[7] Ben Bernanke, former chairman of the Federal Reserve, testified before Congress that this unsustainable debt trajectory "cannot actually happen," as creditors would stop lending to the federal government before such levels were ever reached.[8]

The Congressional Budget Office has previously estimated that balancing the budget long-term with tax hikes would require tax rates to more than double on all income tax brackets, but that assumes there would be no economic decline from such massive tax hikes.[9]

It is inevitable then that the federal government will be forced to reduce budget deficits and that substantial spending cuts will be required to balance the budget. Given that welfare spending is the core driver of the deficit, states must assume that federal Medicaid spending will be greatly reduced from projected levels.

States simply cannot afford to absorb more of these costs. Medicaid is already the largest line-item in state budgets, crowding out resources for other state priorities such as education, tax relief, infrastructure, and public safety.[10] States are already struggling to find the resources necessary to pay for the Medicaid obligations they already have. They cannot afford to make up for Washington's broken promises, too.

THE FEDERAL GOVERNMENT IS ALREADY TRYING TO SHIFT MEDICAID COSTS TO STATES

As the national debt continues to skyrocket, cutting ObamaCare's immoral funding formula is a prime target for Congress.[11]

Congressman Paul Ryan, chairman of the House Ways and Means Committee, has already warned governors and state legislators that ObamaCare's enhanced funding for Medicaid expansion will not last forever.[12]

"The fastest thing that's going to go when we're cutting spending in Washington is a 100 or 90 percent match rate for Medicaid. There's no way."

- Congressman Paul Ryan, chairman of the House Ways and Means Committee

In 2013, U.S. Senators Tom Coburn (R-OK), Richard Burr (R-NC), and several of their colleagues introduced legislation to repeal the enhanced matching rates for ObamaCare expansion.[13] Congressman Matt Salmon (R-AZ) and his colleagues have proposed similar legislation.[14] In addition, Congressmen Tom Price (R-GA) and Michael Burgess (R-TX) have proposed increasing the state share of Medicaid expansion by at least 10 percentage points.[15] Burgess and others have also proposed eliminating funding for ObamaCare's Medicaid expansion entirely.[16]

And these are just the stand-alone bills; similar proposals have been floated as part of a larger budget deal. But Washington insiders seem to agree: ObamaCare's perverse funding scheme is a primary target.

On this issue, Republicans may even find agreement with President Barack Obama. Obama has actually proposed reductions in the enhanced matching rate on numerous occasions. In his 2013 budget, for example, President Obama proposed shifting more Medicaid costs to the states with a "blended" rate that would ultimately reduce federal support for Medicaid expansion.[17] His proposed blended rate would have more than tripled states' share of Medicaid expansion costs.[18]

He also made similar proposals during recent debt ceiling negotiations.[19] And he has offered other plans to shift more Medicaid costs onto states, including limits on states' use of provider taxes to pay for their share of Medicaid spending.[20]

These proposals make clear the president's willingness to require states to pay more, up to and including changing federal Medicaid matching rates. As one of the two trustees President Obama appointed to oversee Medicare recently warned, it is a "near certainty" that federal support for Medicaid will be cut in future years.[21]

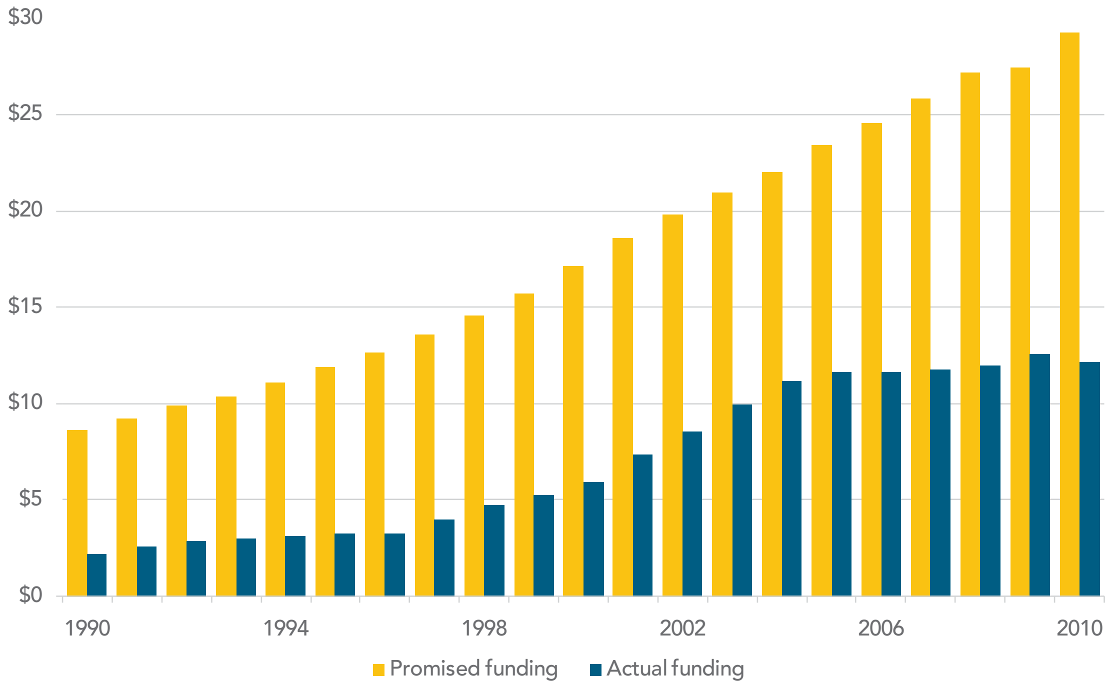
IT HAS HAPPENED BEFORE; IT WILL HAPPEN AGAIN

States are all-too-familiar with broken federal promises. In 1975, Congress enacted what is now known as the Individuals with Disabilities Education Act, or IDEA.[22] As part of that law, states were required to provide disabled children with appropriate educational services.[23] In return, Congress committed to authorizing 40 percent of the additional costs to educate disabled children.[24] Yet nearly 40 years after that funding promise was made to the states, Congress has never actually appropriated the full funding authorized under IDEA.[25-26] This has become a huge cost-shift, as state and local governments are forced to make up the difference. Between fiscal years 1981 and 2010, the federal government was more than $250 billion short of fully funding IDEA as promised.[27] This underfunding now amounts to more than $17 billion per year, roughly equivalent of the entire TANF welfare cash assistance program.[28]

That is almost four decades states have spent struggling to recover from the broken promise Washington made to them.

The federal government has never fulfilled its promise to fund special education

Promised and actual IDEA funding, in billions



Source: Department of Education

States are also dealing with another federal broken promise: Build America Bonds. In 2009, the federal government asked state and local governments to borrow money through taxable bonds, rather than the tax-exempt bonds they typically used. Because taxable bonds have higher interest rates for borrowers, the federal government offered to help offset those higher interest charges through subsidies to the states.[29] The federal subsidies brought the state's total interest costs down slightly below where the interest costs would have been had the state or local governments borrowed with tax-exempt bonds.[30]

State and local governments issued 2,275 Build America Bonds, worth more than $181 billion.[31] By early 2013, however, the U.S. Treasury Department notified state and local governments that it was cutting the federal subsidies it had promised by 8.7 percent.[32] States were lured into borrowing with more-expensive taxable bonds on the promise that the federal government would offset those higher costs, but are now discovering that some of the promised federal money simply will not be there.

Examples of broken promises and unfunded mandates pushed on states by the federal government are virtually limitless. The Obama administration withheld $111 million in mineral royalties that had been promised to states.[33] The Federal Highway Administration has cut back the transportation funding it had previously promised states.[34] The Centers for Disease Control and Prevention has reduced or cancelled promised grants to state and local governments.[35] The Department of Commerce revoked funding for a large-scale broadband project, designed to bring online access to schools and health care facilities in Louisiana.[36] The Federal Emergency Management Agency suddenly revoked more than half a million in funds for a small Minnesota township, leaving it vulnerable to significant financial and legal liability.[37]

Stories of broken federal promises like these can be found all over the country.

NEW STRINGS ON OLD PROMISES

The federal government has changed the terms of agreement with states specifically when it comes to Medicaid funding. After President Obama's stimulus package passed Congress, states agreed to temporarily maintain their current Medicaid eligibility levels in exchange for stimulus dollars. According to the agreement, states were to maintain pre-stimulus eligibility levels until the stimulus money ran out.

However, after the states accepted this agreement, the federal government changed the terms; Congress passed ObamaCare, which prohibited states from changing Medicaid eligibility for adults until 2014 and for children until 2019.[38] While states may have initially benefited financially from the original deal —receiving more than $100 billion from federal taxpayers—they are now stuck with "temporary" rules beyond what they agreed to.[39] States also cannot create any new paperwork or enrollment requirements that would make it more difficult for people to enroll in Medicaid or SCHIP.

CONCLUSION: MEDICAID EXPANSION FUNDING IS ALREADY ON THE CHOPPING BLOCK

With a national debt sitting at more than $18 trillion and quickly rising, Congress knows it cannot simply ignore the nation's mounting debt crisis forever. That is why federal politicians on both sides of the aisle have proposed cutting funding for Medicaid expansion.

Given such a long history of broken promises, can lawmakers trust the federal government to keep its promise of "the most generous federal offer" ever made to states? When that promise is broken, state lawmakers will be forced to make fiscally painful and politically unpopular decisions about the state budget – because state taxpayers will be the ones left holding the bag. When it comes to funding for ObamaCare's Medicaid expansion, states simply cannot count on the federal government to keep its word.

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