

What Can You Take to the Bank?

Fiscal Notes, Dynamic Fiscal Notes, and
Cost/Benefit Analyses

The Salt Lake Tribune

**Analysts say fully expanding
Medicaid would save \$131M**

May 24 ,2013, pg. B1

Deseret News

Health reforms
will cost state

May 24 ,2013, pg. A1

FISCAL NOTE

H.B. 153

SHORT TITLE: Medicaid Amendments

SPONSOR: Chavez-Houck, R.

2013 GENERAL SESSION

STATE GOVERNMENT (UCA 36-12-13(2)(b))

Enacting this bill could increase total costs for Medicaid by an estimated \$245 million in FY 2014 and \$521 million in FY 2015. By FY 2021 the total cost increase could be around \$700 million. In fiscal years FY 2014 through FY 2016, federal funding will cover these cost increases and reduce the State's share of costs. By FY 2021 the bill's General Fund cost could be an estimated \$60 million.

The bill deposits the General Fund cost share decrease of \$4,549,200 in FY 2014 and \$13,024,700 in FY 2015 and FY 2016 into the Medicaid Growth Reduction and Budget Stabilization Account. The bill would also reduce the Education Fund's cost share by \$222,000 in FY 2014 and \$444,000 ongoing beginning in FY 2015. Finally, the bill would reduce the cost share born by restricted funds by \$1,219,600 in FY 2014 and \$2,439,100 ongoing beginning in FY 2015.

STATE BUDGET DETAIL TABLE

	FY 2013	FY 2014	FY 2015
Revenue:			
Federal Funds	\$0	\$246,749,400	\$523,972,800
Restricted Funds	\$0	\$4,549,200	\$13,024,700
Total Revenue	\$0	\$251,298,600	\$536,997,500
Expenditure:			
General Fund	\$0	\$4,549,200	\$13,024,700
General Fund	\$0	(\$13,024,700)	(\$13,024,700)
General Fund, One-Time	\$0	\$8,475,500	\$0
Education Fund	\$0	(\$444,000)	(\$444,000)
Education Fund, One-Time	\$0	\$222,000	\$0
Federal Funds	\$0	\$246,749,400	\$523,972,800
Restricted Funds	\$0	(\$1,219,600)	(\$2,439,100)
Total Expenditure	\$0	\$245,307,800	\$521,089,700
Net Impact, All Funds (Rev.-Exp.)	\$0	\$5,990,800	\$15,907,800
Net Impact, General/Education Funds	\$0	\$222,000	\$444,000



Huh?

- Trib: Saves \$131M
- Des News: Costs State
- FN:
 - Costs \$60 m in total
 - Costs shifted in near-term

Similarities and Difference



Fiscal Notes versus Cost Benefit Analyses

Fiscal Notes are not CBAs

Fiscal notes are a tool used to help balance the budget. They are NOT:

- An expression of benefits
- A measure of impact on society
- Intended to influence passage of a bill

	LEGISLATIVE GENERAL COUNSEL	H.J.R. 22
	⌚ Approved for Filing: E. Chelsea-McCarty ⌚	
	⌚ 02-02-11 6:30 PM ⌚	
1	JOINT RULES RESOLUTION FOR FISCAL NOTES ON	
2	CRIMINAL PENALTY BILLS	
3	2011 GENERAL SESSION	
4	STATE OF UTAH	
5	Chief Sponsor: Kenneth W. Sumsion	
6	Senate Sponsor: _____	
7	<hr/>	
8	LONG TITLE	
9	General Description:	
10	This joint resolution amends Joint Rule 4-2-403 regarding fiscal notes.	
11	Highlighted Provisions:	
12	This resolution:	
13	▶ directs the Legislative Fiscal Analyst to ignore criminal penalties when creating a	
14	fiscal note for a bill.	

CBAs are not Fiscal Notes

Cost Benefit Analyses allow you to evaluate policy options. They are NOT:

- A budgeting tool
- A projection of future costs or revenue
- Intended to be compared to one another – especially across subject areas



State of Utah
Medicaid Expansion Assessment
Utah Impact: 2014-2023

This affect is seen elsewhere, but not as dramatically. Moving individuals from high risk pools that offer coverage in the state to Medicaid is modeled to save the state money. However, these savings decrease as the state has to pay a higher percentage of the Medicaid expansion.

Of note, this report relies on state and public sources for its data. The State of Utah provided a significant amount of data, including information from the Department of Human Services, Department of Workforce Services, Department of Health, and the Department of Corrections. Data from state agencies was supplemented with Utah specific data from public sources, specifically the Current Population Survey (CPS), a function of the United States Census, the Medical Expenditure Panel Survey (MEPS), a function of the United States Department of Health and Human Services, and the Kaiser Family Foundation (Kaiser), a private entity. Any errors in these data sources are replicated here without the knowledge or intention of PCG.

The PCG Medicaid Expansion Simulation Model was created using PCG experience in forecasting Medicaid spending and caseloads. As with any forecast, uncertainty surrounds many of this report's assumptions and projections. Rather than a prediction of future costs, the results of this model are projections that are best used to begin a public discourse on the potential impacts of a Medicaid expansion in Utah.

FN vs. CBA

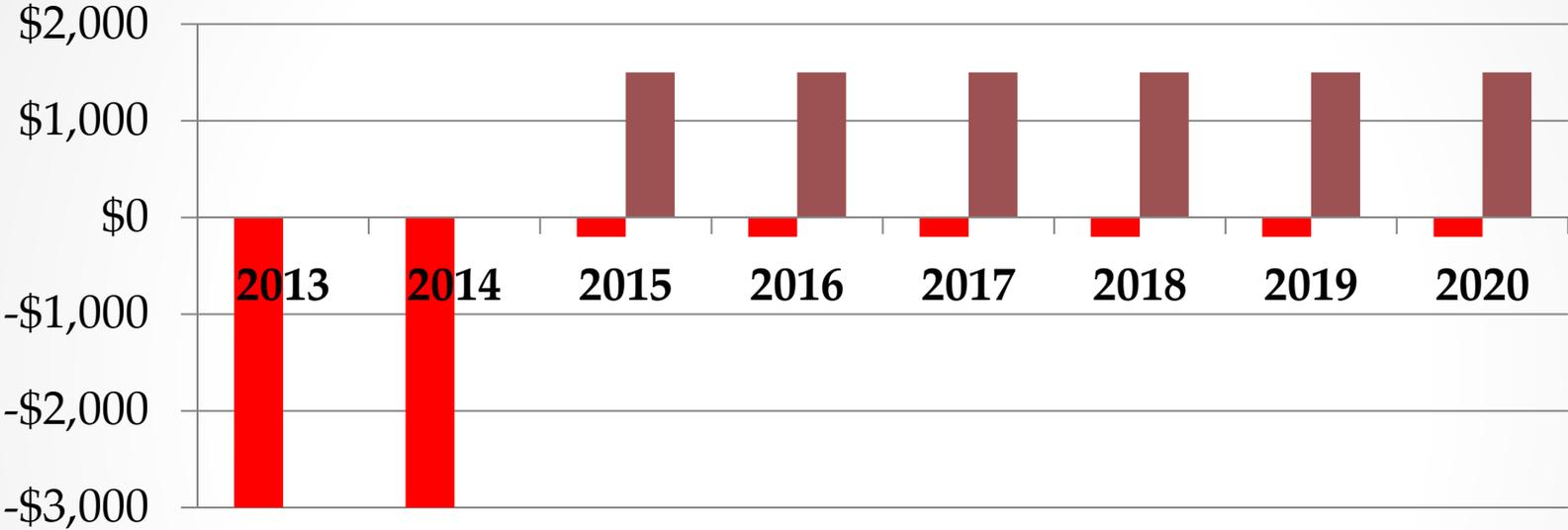
	Fiscal Note	Cost/Benefit
Who?	State Government	Gov't & Citizens
What?	Revenue & Expenditure	Benefits vs. Costs
When?	Near Term, Nominal	Longer Term, Real
Where?	Budget	Society
Why?	Implementation	Outcomes

Hypothetical Example

Potential Costs and Benefits	Fiscal Note	CBA
Salaries	✓	✓
Overhead expenses	✓	✓
Direct Assistance to Participants	✓	✓
Lost wages of Participants while Treated		✓
Reductions in/Avoidance of Other Costs		
• Emergency Rooms		✓
• Safety Net Programs		✓
Higher Cost due to Decreased Mortality		✓
Benefits to Program Participants		✓
Increased Taxes Paid by Beneficiaries	?	✓

Different Time Perspectives

■ Treatment Costs ■ Higher Earnings



Fiscal note might focus only on the budget cycle.

CBA includes all future benefits and costs that are attributable to the policy.

Different Accounting

Cost and benefits of a project (\$ millions)

Year	Benefits	Costs	Fiscal Note (Nominal)	Calculation*	CBA (NPV)
0	-	(1.50)	(1.50)	$/ (1.06)^0 =$	(1.50)
1	0.75	-	0.75	$/ (1.06)^1 =$	0.71
2	0.75	-	0.75	$/ (1.06)^2 =$	0.67
3	0.75	-	0.75	$/ (1.06)^3 =$	0.63
Total			0.75		0.50

*Discounted at a rate of 6%.

CBA Assumptions Matter

Do changes in the assumptions have a substantial effect on the results?

CBA (\$millions)

Year	Benefits	Costs	Discounted at 5%	Discounted at 4%
1	-	(4.00)	(4.00)	(4.00)
2	-	(4.00)	(3.81)	(3.85)
3	3.00	-	2.72	2.77
4	3.00	-	2.59	2.67
5	3.00	-	2.47	2.56
NPV			(0.03)	0.16

Static vs. Dynamic

• • •

Fiscal Notes Can Differ

What Are Dynamic Fiscal Notes?

Dynamic fiscal notes include direct cost and/or revenue impacts PLUS cost/revenue impacts associated with indirect/induced behavior changes.



Vs.



NODE 1. CURRENT PRACTICE STATE GOVERNMENT STATIC IMPACT (UCA 36-12-13)(2)(b))

Enactment of this bill reduces the corporate tax rate from 5% to 4%, which reduces revenue to the General/Education Funds by \$50 million in FY 2013, \$68 million in FY 2014, and \$71 million in FY 2015.

	FY 2013	FY 2014	FY 2015
Revenues			
Education Fund	\$ (50,000,000)	\$ (68,000,000)	\$ (71,000,000)
Total	(50,000,000)	(68,000,000)	(71,000,000)
Appropriations			
Education Fund	\$ 0	\$ 0	\$ 0
Total	\$ 0	\$ 0	\$ 0

NET STATE GOVERNMENT STATIC IMPACT

	FY 2013	FY 2014	FY 2015
STATIC			
Net All Funds (Rev-Appro.) (static)	(50,000,000)	(68,000,000)	(71,000,000)
Net General & Education Funds (Rev-Appro.) (static)	(50,000,000)	(68,000,000)	(71,000,000)

NODE 2. STATE GOVERNMENT DYNAMIC REVENUE SIDE IMPACT

Enactment of this bill reduces the corporate tax rate from 5% to 4%, which reduces revenue to the General/Education Funds by \$42.7 million in FY 2013, \$60.2 million in FY 2014, and \$62.6 million in FY 2015.

	FY 2013	FY 2014	FY 2015
Dynamic Revenue Impact			
Education Fund, static	\$ (50,000,000)	\$ (68,000,000)	\$ (71,000,000)
Education Fund, dynamic	\$ 4,300,000	\$ 4,558,000	\$ 4,877,100
General Fund, dynamic	\$ 3,000,000	\$ 3,240,000	\$ 3,466,800
Total	(42,700,000)	(60,202,000)	(62,656,100)
Appropriations			
Education Fund	\$ 0	\$ 0	\$ 0
Total	\$ 0	\$ 0	\$ 0

NET DYNAMIC STATE GOVERNMENT IMPACT (REVENUE SIDE)

	FY 2013	FY 2014	FY 2015
DYNAMIC			
Net All Funds (Rev-Appro.) (dynamic)	(42,700,000)	(60,202,000)	(62,656,100)
Net General & Education Funds (Rev-Appro.) (dynamic)	(42,700,000)	(60,202,000)	(62,656,100)

DYNAMIC REVENUE SIDE IMPACT

The static revenue effect is -\$50 million in FY 2013, -\$68 million in FY 2014, and -\$71 million in FY 2015. Presuming that the tax cut induces \$100 million in corporate spending on investments and labor, the dynamic revenue side impact becomes -\$42.7 million in FY 2013, -\$60.2 million in FY 2014, and -\$62.7 million in FY 2014.

NODE 3. STATE GOVERNMENT DYNAMIC REVENUE & EXPENDITURE IMPACT

Enactment of this bill reduces the corporate tax rate from 5% to 4%, which reduces revenue to the General/Education Funds by \$48.2 million in FY 2013, \$66.1 million in FY 2014, and \$69.0 million in FY 2015.

	FY 2013	FY 2014	FY 2015
Dynamic Revenue Impact			
Education Fund (static)	\$ (50,000,000)	\$ (68,000,000)	\$ (71,000,000)
Education Fund (dynamic revenue side)	\$ 4,300,000	\$ 4,558,000	\$ 4,877,100
General Fund (dynamic revenue side)	\$ 3,000,000	\$ 3,240,000	\$ 3,466,800
Education Fund (dynamic expenditure side)	\$ (3,200,000)	\$ (3,456,000)	\$ (3,697,900)
General Fund (dynamic expenditure side)	\$ (2,300,000)	\$ (2,438,000)	\$ (2,608,700)
Total	(48,200,000)	(66,096,000)	(69,092,700)
Appropriations			
Education Fund, dynamic	\$ (42,700,000)	\$ (60,202,000)	\$ (62,656,100)
Total	(42,700,000)	(60,202,000)	(62,656,100)

NET DYNAMIC STATE GOVERNMENT IMPACT (REVENUE & EXPENDITURE)

	FY 2013	FY 2014	FY 2015
DYNAMIC			
Net All Funds (Rev-Appro.) (dynamic)	(5,500,000)	(5,894,000)	(6,359,600)
Net General & Education Funds (Rev-Appro.) (dynamic)	(5,500,000)	(5,894,000)	(6,359,600)

DYNAMIC REVENUE & EXPENDITURE IMPACT

The static revenue effect is -\$50 million in FY 2013, -\$68 million in FY 2014, and -\$71 million in FY 2015. Presuming the tax cut induces private sector spending and that the reduction in State spending reduces GF/EE revenue, the bottom line revenue impact becomes -\$48.2 million in FY 2013, -\$66.2 million in FY 2014, and -\$69.7 million in FY 2015.

NODE 4. STATE GOVERNMENT DYNAMIC REV. & EXP. 2 WITH LOCAL EXP. IMPACT

Enactment of this bill reduces the corporate tax rate from 5% to 4%, which reduces revenue to the General/Education Funds by \$45.9 million in FY 2013, \$63.6 million in FY 2014, and \$66.3 million in FY 2015.

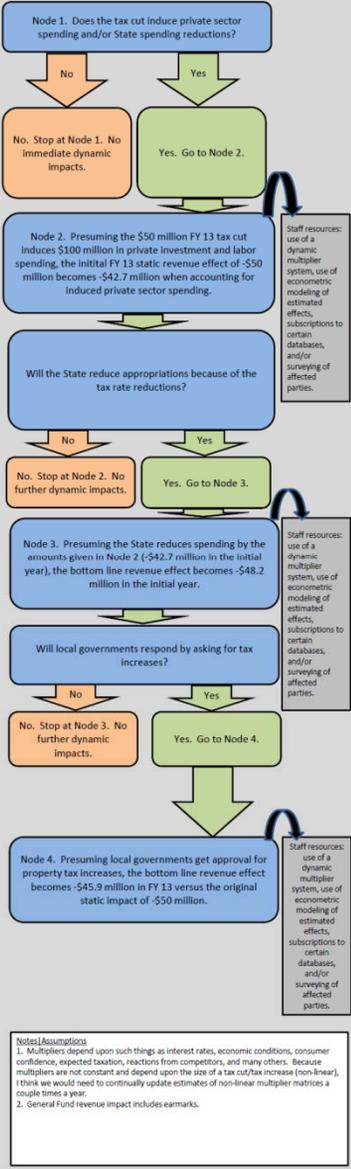
	FY 2013	FY 2014	FY 2015
Dynamic Revenue Impact			
Education Fund (static)	\$ (50,000,000)	\$ (68,000,000)	\$ (71,000,000)
Education Fund (dynamic revenue side)	\$ 4,300,000	\$ 4,558,000	\$ 4,877,100
General Fund (dynamic revenue side)	\$ 3,000,000	\$ 3,240,000	\$ 3,466,800
Education Fund (dynamic expenditure side)	\$ (3,200,000)	\$ (3,456,000)	\$ (3,697,900)
General Fund (dynamic expenditure side)	\$ (2,300,000)	\$ (2,438,000)	\$ (2,608,700)
Education Fund (dynamic exp. & rev. side 2)	\$ 1,300,000	\$ 1,404,000	\$ 1,502,300
General Fund (dynamic exp. & rev. side 2)	\$ 1,000,000	\$ 1,060,000	\$ 1,134,200
Total	(45,900,000)	(63,632,000)	(66,326,200)
Appropriations			
Education Fund, dynamic	\$ (42,700,000)	\$ (60,202,000)	\$ (62,656,100)
Total	(42,700,000)	(60,202,000)	(62,656,100)

NET DYNAMIC STATE GOVERNMENT IMPACT (REVENUE & EXPENDITURE)

	FY 2013	FY 2014	FY 2015
DYNAMIC			
Net All Funds (Rev-Appro.) (dynamic)	(3,200,000)	(3,430,000)	(3,870,100)
Net General & Education Funds (Rev-Appro.) (dynamic)	(3,200,000)	(3,430,000)	(3,870,100)

DYNAMIC REVENUE & EXPENDITURE IMPACT

The static revenue effect is -\$50 million in FY 2013, -\$68 million in FY 2014, and -\$71 million in FY 2015. Presuming the tax cut induces private sector spending and that the reduction in State spending induces local tax increases, the bottom line revenue impact becomes -\$45.9 million in FY 2013, -\$63.6 million in FY 2014, and -\$66.3 million in FY 2015.



An Example

What if Legislators Changed the Corporate Tax Rate?

Pros & Cons of Dynamic Notes

Pros

- More realistic
- More Accurate
- Won't "kill my bill"



Cons

- More time and Effort
- Increased Risk
- Tax bill revenue might otherwise be available for other needs

What to Ask



Questions that Help Clarify Results

Good Questions

- Who/what organizations are subjects of analysis?
- What timeframe is covered?
- Does this analysis measure benefits?
- To whom do benefits accrue?
- Are benefits monetary?
- Are costs/benefits measured in nominal or real dollars?
- What discount rate, if any, was used?
- Will small change in discount rate swing results from net positive to net negative?
- Were behavioral changes factored into analysis?
- What behavioral changes might impact outcome?

Conclusion

Fiscal notes (static or dynamic) and cost/benefit analyses are related, but have different purposes

Fiscal Notes

Focus on near-term governmental impacts to help you balance the budget

Cost/Benefit Analysis

Include longer-term societal benefits to help you compare policy options