



ALVAREZ & MARSAL
INSURANCE & RISK ADVISORY
SERVICES (IRAS)

**FEDERAL FUNDS RISK MODEL
BRIEFING**

**PREPARED FOR:
FEDERAL FUNDS COMMISSION
OF THE STATE OF UTAH**

May 21, 2015





AGENDA

- I. Objectives
- II. Project Executive Summary
- III. Current Milestone Report
- IV. Draft Scenario Dashboard
- V. End to End Medicare Example
- VI. Next Steps



Meeting objectives:

Today's update on the development of the FFRM will provide:

1. Measurements of our progress;
2. Sample risk assessments for three scenarios;
3. Time for questions and broader discussion.

We would like an interactive dialogue as we:

1. Review original FFRM goals;
2. Show examples of our progress to date – scenario analysis;
3. Highlight key assumptions we are relying on in our work;
4. Describe outstanding issues, questions or concerns;
5. Identify what we need from you or others to succeed.

EXECUTIVE SUMMARY

Project Overview

Alvarez & Marsal Insurance & Risk Advisory Services (IRAS) is building a Federal Funds risk framework and risk model for the Utah State Legislature's Federal Funds Commission.

Project deliverables include assessing various Federal Fund risk scenarios:

- **overall reductions of federal funds, as in a sequester;**
- **effects on the value of federal funds, as with interest rate changes;**
- **specified reductions of federal funds, as with Medicaid reduction/expansion.**

A&M is assessing these scenarios, and others, by:

- **Modeling the risks to guide legislators' decisions and policy making,**
- **Showing the impacts on the state of various federal funding scenarios,**
- **Suggesting ways to mitigate the risks, with plans that can be implemented if they occur,**
- **Helping the state avoid these risks, through proactive steps that the state can take now.**

MILESTONE REPORT

Where we are at in project progress, as of May 21st, 2015:

- ▶ **The project has crossed the midway point, and is tracking a delivery at the end of June**
 - We have collected numerous data points across various State programs and departments
 - We have developed front end scenario selection processes
 - We have developed an analytic engine for key programs and for across-the-board reductions
 - We have designed a County-Level Analyzer to see how the risks flow to specific regions
 - We have begun designing mitigations to understand how to address the risks once they occur

- ▶ **We will present our progress using three tested scenarios from our risk taxonomy**
 - Sequestration Version 2.0: Sequestration is About to Happen, Again!
 - Interest Rates Increases: The Fed Continues to Raise Short Term Borrowing Rates
 - Medicaid Reductions: Medicaid Spending is Running Up Against Limits

- ▶ **We are interested in providing time for questions and answers, as well as soliciting input on the process from the broader Federal Funds Commission**

SCENARIO 1: BUDGET CUTS THAT DWARF SEQUESTRATION

Another sequestration event could contribute to a loss of \$619 million in state revenues, 17,000 jobs, and \$4.3 billion in Gross State Product

Federal Fund Risk Model – Scenario 1 Budget Cuts 5x Sequestration

Impact Assessment Based on the Federal Funds Risk Model Outputs

GOP Budget Plan: Slash Spending

House Republicans unveiled a budget plan Tuesday that seeks to deliver on a sweeping wish list for fiscal conservatives: slashing federal spending by \$5.5 trillion [5x a sequester] to balance the budget within a decade, repealing Obamacare, reforming the Tax Code and overhauling popular entitlement programs like Medicare and Medicaid — all while boosting Pentagon funding. Minority Whip Steny Holder told reporters “Nobody on our side thinks the sequester is a realistic path.”

Politico, Mar 17, 2015

- ▶ In one scenario the State of Utah could lose \$330 million in direct Federal Funds
- ▶ State of Utah could also lose 17,000 jobs, \$4.3 billion of GSP, and over \$619 million in state revenue
- ▶ As a result, the State would be faced with reducing services or increase funding

Key Modeling Assumptions

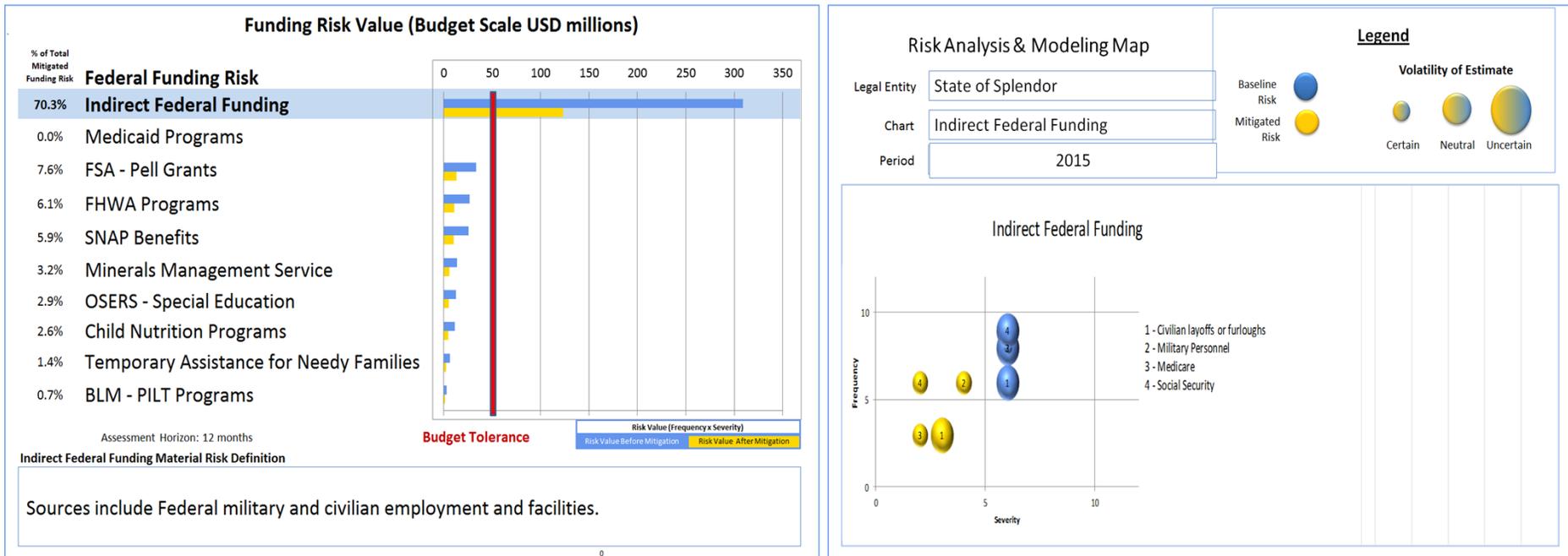
- ▶ The funding would be reduced by the Federal Government without replacement
- ▶ Discretionary Federal Fund Programs would be reduced by 5% across the board discretionary funds including Federal civilian personnel
- ▶ The loss of government revenues will have a multiplier effect on the Utah economy

RISK MODEL OVERVIEW AND SCENARIO GENERATION MODULES

The Risk Model Overview presents the risk views against baseline and mitigated risks and the scenario generation module is used to establish the adverse or severely adverse economic scenario, apply a multiplier for Utah, and establish specific program reductions

Risk Model Overview

Federal Funding Risk Model State of Splendor



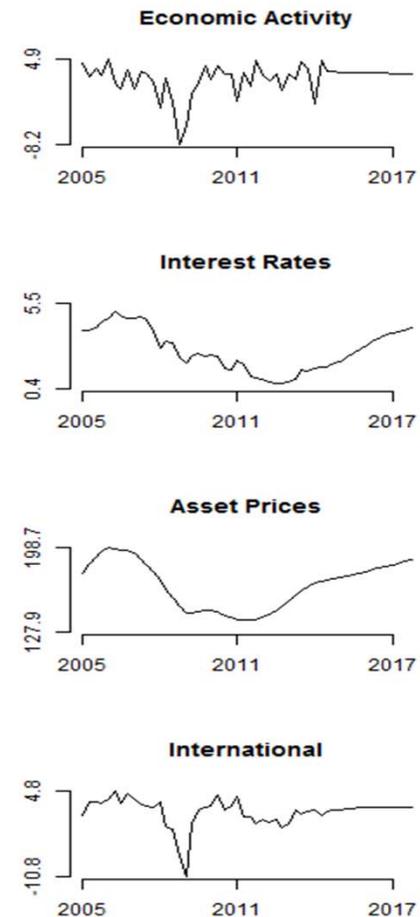
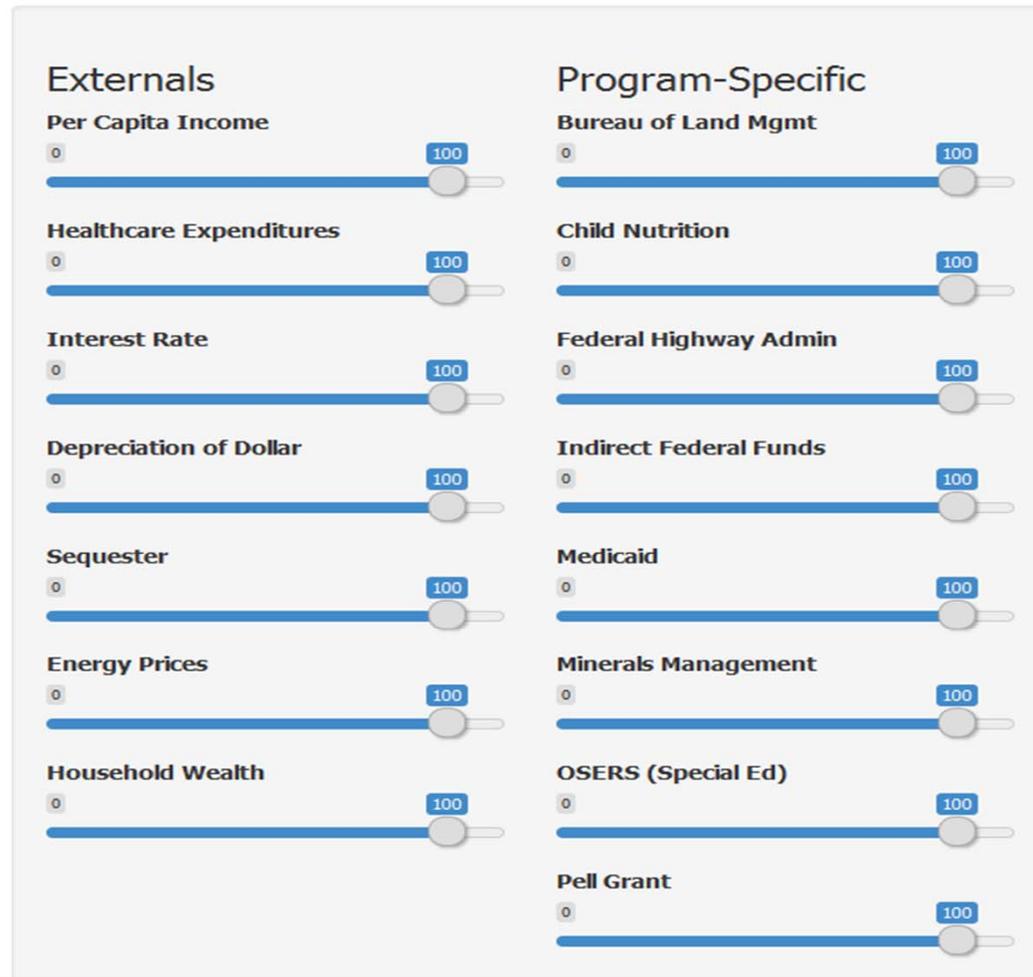
Indirect Federal Funding Baseline Risk Value				Indirect Federal Funding Mitigated Risk Value			
Jobs	GSP	Revenue	Income	Jobs	GSP	Revenue	Income
8,598	\$2,156 mm	\$309 mm	\$886 mm	3,439	\$862 mm	\$124 mm	\$354 mm

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Scenario Visualizer

Scenario Selection



DASHBOARD METRICS AND GEOGRAPHIC ANALYSIS

The overarching measures will utilize output from the REMI modeling efforts, receipt of federal funding data, and estimates of population reached. These analytics may be viewed in tools to enable a visualization of federal funds impacts by county.

Geographic Analysis

Fed Funds Visualizer

Explore Federal Funds in Utah at the county level

Choose a variable to display data

Medicaid

As

Dollars per capita

Range for ratios and percents:

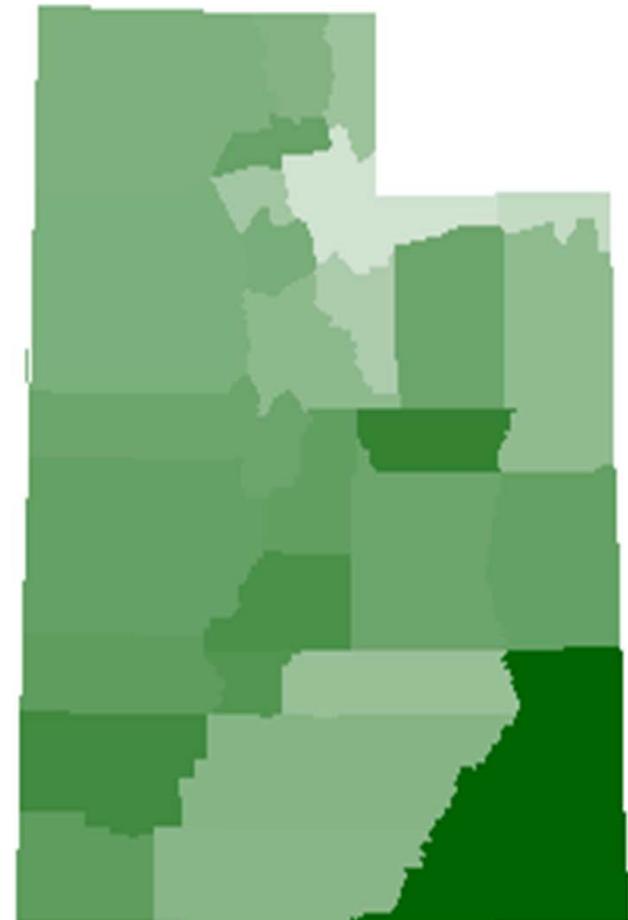
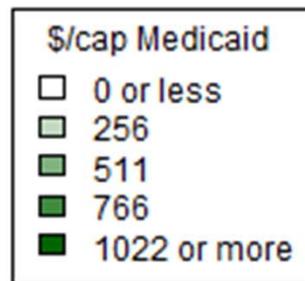
0 1,022 5,000

0 500 1,000 1,500 2,000 2,500 3,000 3,500 4,000 4,500 5,000

Data from 2013.

Medicaid and Snap data by county percentages of participants.

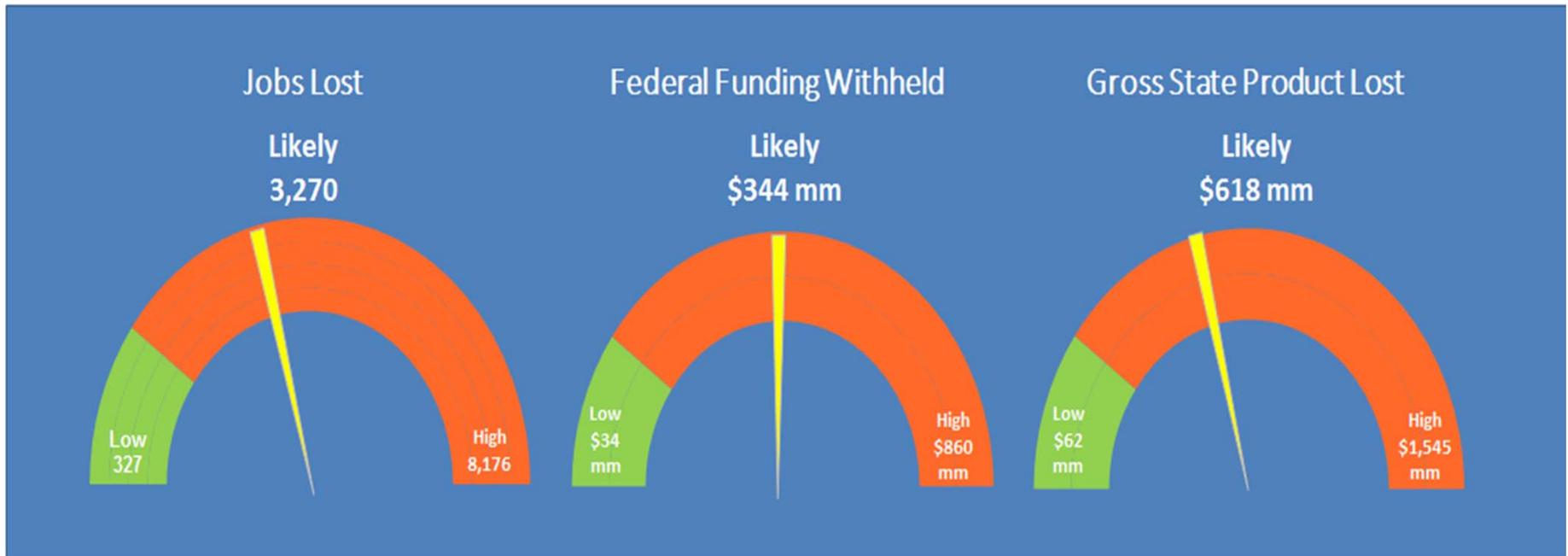
Pell data by colleges and universities receiving funds.



DASHBOARD METRICS AND GEOGRAPHIC ANALYSIS

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Risk Analytics



Placeholder for Model Demonstration

SCENARIO 2: RISING INTEREST RATES

In an economic event stemming from interest rate increases, would contribute to a loss of \$200 million in state revenues including \$100 million in Federal Funding

Federal Fund Risk Model – Scenario 2 Rising Interest Rates

Impact Assessment Based on the Federal Funds Risk Model Outputs

Most Economists See Fed Raising Rates in September

Wall Street Journal, May 14, 2015

The market will likely react very negatively in the short- term and continue to perform poorly over the long-term

Robert Johnson, author of “Invest with the Fed”, as interviewed by Forbes, May 19 2015

- ▶ In one scenario State of Utah could lose \$100 million in direct Federal Funds
- ▶ The State of Utah could further lose 1,300 jobs, \$250 million in GSP, and \$128 million in state revenues
- ▶ As a result, the State would be faced with reducing services or increase funding

Key Modeling Assumptions

- ▶ The funding would be reduced by the Federal Government without replacement
- ▶ Federal Reserves tightens by raising the 10 Year yield over 300 basis points
- ▶ The loss of government revenues could have a multiplier effect on the Utah economy

SCENARIO 3: MEDICAID REDUCTIONS

In one 5% Medicaid reduction scenario, Utah could lose \$80 million in revenue directly, and another \$28 million in other revenue

Federal Fund Risk Model – Scenario 3 Medicaid Reductions

Impact Assessment Based on the Federal Funds Risk Model Outputs

Medicaid Spending is Running Up Against Limits

After long-simmering discontent with the Affordable Care Act, popularly known as Obamacare, Congress has reasserted its power to change federal healthcare policy.

Specifically, Congress has decided to reduce its funding of Medicaid to at most 50% of what the states pay. Since the State of Utah has both established what services it will provide in Medicaid, and what amounts it will spend on Medicaid, it is about to hit its limits where no funds are left for the rest of the year.

- ▶ In one scenario the State of Utah could lose \$80 million in direct Federal Funds
- ▶ In this scenario the State of Utah could lose 3,000 jobs, \$650 million of GSP, and \$108 million in state revenue
- ▶ As a result, the State would be faced with reducing services or increase funding

Key Modeling Assumptions

- ▶ The funding would be reduced by the Federal Government without replacement
- ▶ Federal Fund Programs would be reduced by 5%
- ▶ The loss of government revenues could have a multiplier effect on the Utah economy

QUESTIONS AND NEXT STEPS

We plan on completing the modeling efforts for final delivery and presentation to the commission on June 25th

- ▶ **Open for Questions and Answer Period**

- ▶ **Feedback on today's overview**
 - Feedback on the Model Process and Flows
 - Feedback on the Scenarios
 - Feedback on the Coverage or Areas for Expansion

- ▶ **Develop and Refine future program scenarios and model components**
 - SNAP, TANF, Mineral Lease, FHWA, and PELL Grant, and Child Lunch Programs are high priority models to develop

- ▶ **Finalizing and automating the model components and functions**
 - Development of the integrated scenario development to impact analysis within the model framework, connecting the Dashboard scenario levers to the risk mitigation strategies
 - Feedback on interim dashboard views and analytics
 - Feedback on risk mitigation strategies

- ▶ **Future Federal Fund Commission Presentation and Sprint Planning**
 - Briefing to the Federal Fund Commission is tentatively planned for June 25st at 10AM MT

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