

THE JEFFERSON JOURNAL

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THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

Medicaid Expansion: A Huge Budget Risk

By Michael Thompson

3/14/2018 -- The current budget stalemate over Medicaid expansion is similar to what the state faced in former Governor Terry McAuliffe's first year in office.

In 2014, in a reversal of players, the State Senate wanted to expand Medicaid through the budget and the House argued that a major policy change such as this deserved to be debated as a separate bill and not by holding the rest of government spending hostage. Today it is the House that wants to expand Medicaid through the budget and the Senate, having realized its error of four years ago, wants to avoid using the budget for this major policy decision.

A major policy change such as expanding Medicaid to some 400,000 or more people deserves a full and vibrant debate in the General Assembly. Tying the state budget to Medicaid expansion tells local governments, police forces, schools, road builders, etc. that their annual funding is being held hostage until this budget impasse is resolved – just as happened four years ago. That is why major policy issues should not be implemented through the state budget. Expansion of Medicaid should be debated, experts brought into serious committee hearings, public debates hosted by various organizations, votes taken by the House and the Senate on their individual bills, and differences hammered out in a conference committee. The House agreed to this four short years ago.

Expanding Medicaid is a risky business for the long term financial health of the state budget. States that have expanded Medicaid have found their budget projections substantially off the mark by hundreds of millions of dollars ([examples here](#)). Senator Ryan McDougle has said, “Many of the states that opted to expand Medicaid found themselves in a fiscal quagmire, requiring special legislative sessions to close budgetary shortfalls caused by the program.”

The House started this expansion process when Delegate Terry Kilgore “jumped ship” and urged Medicaid expansion with a tough work requirement similar to what Kentucky has requested from the federal government. Yet the work requirement coming out of the House, according to many in the General Assembly, is weaker than what Kentucky has requested. So the strong work requirement that a vast majority of Virginians desire for all Medicaid recipients ([here](#)) won't be required if the House budget passes as currently formulated.

The House budget supporters tell us that the federal government will pay 90% of the cost for the additional Medicaid recipients. Yet, Speaker Paul Ryan has said that the government can't afford to continue paying 90% and will have to substantially carve that payment back. The Trump Administration is dedicated to ending Obamacare and this includes the elimination of the Medicaid expansion payments to the states ([here](#)). For the House to continue along its current path is fraught with risk.

9035 Golden Sunset Lane ■ Springfield, Virginia 22153 ■ 703/440-9447 ■ info@thomasjeffersoninst.org

As has happened in many other states, expanding Medicaid here in Virginia will likely end up costing hundreds of billions of dollars more than projected. Today, Medicaid consumes about 23% of Virginia's budget. That percentage will surely increase.

Under the House budget plan, hospitals will charge a "bed tax" to all of us who use their facilities to pay Virginia's part of the proposed expansion. This "bed tax" will be passed on to all of us when we walk into a hospital for needed care. Will the hospitals agree to increase this pass-through "bed tax" when the costs soar and the federal government substantially reduces or eliminates its payments for this expansion?

And on top of all of these problems, the House budget is fully \$600 million more expensive than the Senate budget. This means general government spending will continue to increase in the years ahead more quickly than otherwise would happen.

The House budget expands Medicaid with the full knowledge that its projections for future costs are lower than will likely occur based on the experience of states that have expanded this federal entitlement program. This expanded program is likely going to cost hundreds of millions of dollars more in a few short years than the House is now projecting. Medicaid, without expansion, is already 23% of the state's budget and growing very quickly. And, top of this, government is being expanded by \$600 million which means the base spending of general government services will continue to increase far beyond what would otherwise be the case.

In the upcoming Special Session of the General Assembly, the House should remove Medicaid expansion from the budget, thus allowing a "clean" budget to pass. And then another special session of the General Assembly should be called to focus entirely on whether to expand Medicaid. This is a reasonable way to move forward.

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Michael Thompson is President of the Thomas Jefferson Institute for Public Policy. These are his personal views and do not necessarily reflect those of the Jefferson Institute. He can be reached at info@thomasjeffersoninst.org.