



# Maine Center for Economic Policy

## By the Numbers

**3,100-3,400**

Number of jobs created from new federal health care dollars.

**900-1,000**

Number of existing jobs Maine stands to lose by not accepting federal health care funds.

**\$500,000,000**

Annual economic impact of federal health care dollars on Maine's economy.

**\$256,000,000**

New federal health care dollars Maine would receive in 2016.

**\$82,000,000**

Federal dollars Maine will lose annually by not accepting federal health care funds.

**\$62.06**

Return of federal dollars for each state dollar spent to increase health coverage in 2016.

**1.6%**

Maine's share of total spending associated with increasing health coverage in 2016.

## Unprecedented Opportunity:

### Federal Health Care Funds Will Deliver 4,400 Jobs and \$500,000,000 in Annual Economic Activity to Maine by 2016

Garrett Martin  
January 2014

#### Introduction

If Maine lawmakers fail this legislative session to accept federal funds to provide health care to almost 70,000 Maine people, approximately half of whom are working, Maine will miss out on as many as 4,400 jobs and over half a billion dollars in annual economic activity by 2016.

Nearly four-and-a-half years since the Great Recession officially ended, Maine has regained, on net, only 9,900 of the 29,100 payroll jobs lost as a result of the economic downturn. On a percentage basis, that puts Maine near the bottom of all states in terms of overall recovery.<sup>1</sup> While accepting federal health care funds will not change these trends overnight, it will significantly enhance Maine's recovery prospects. Continued refusal to accept federal funds will put Maine at an economic disadvantage relative to states that do, and put hundreds of existing jobs at risk.<sup>2</sup>

**Continued refusal to accept federal funds will put hundreds of existing jobs at risk.**

This issue brief builds on earlier analysis contained in the March 2013 report "[Federal Health Care Spending Makes Dollars and Sense for Maine](#)" by Maine Equal Justice Partners and Maine Center for Economic Policy. That report focused on economic impacts associated with \$256 million in new federal dollars Maine would receive in 2016 if the state accepts federal funds to provide health coverage for almost 70,000 Mainers. This brief also accounts for close to \$82 million in federal funds

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the state has received previously that will be lost by 2016 if it fails to accept federal Affordable Care Act (ACA) funds.<sup>3</sup> The combined impact of new and retained federal funds on Maine's economy would be significant and far outweigh even the most dire cost projections.

## Federal Funds Are a Vital Part of Maine's Economy

Maine relies on federal funds to build a strong economy and promote opportunity for working families. Federal highway funds have created thousands of jobs and helped build thousands of miles of roads and bridges that Mainers use every day. Federal investments make possible clean water, electricity for rural residents, and internet access. Federal dollars support education, retirement security, and health care, particularly for Mainers who are older, low-income, disabled, or veterans. In fact, federal funds pay for more than one-third of Maine's state budget.

The impact of federal spending on the state budget, public infrastructure, and public safety is just the tip of the iceberg. Defense contractors, small businesses, and local communities all benefit directly and indirectly from federal funds. Local small businesses benefit when people who work at jobs supported by federal funds buy goods and services. These people include doctors, nurses, teachers, engineers, and construction workers.

**The combined impact of new and retained federal funds on Maine's economy would far outweigh even the most dire cost projections.**

Maine is considered a "net receiver" state. What Maine people pay in federal taxes falls well-below what we receive in federal spending in return. In 2012, Maine individuals and business paid over \$6 billion in federal taxes but benefited from over \$11 billion of federal spending in the state.<sup>4,5</sup> This federal spending included \$4.2 billion from the Social Security Administration, \$3.4 billion from the departments of Defense and Homeland Security, and \$1.9 billion from the Department of Health and Human Services.<sup>6</sup> A comprehensive analysis of the economic impacts of all federal funds in the state is beyond the scope of this analysis. What we do know is that federal spending in Maine in 2012 was equivalent to nearly 21 percent of gross state product.<sup>7</sup>

## Accepting Federal Health Care Funds Represents an Unprecedented Opportunity to Leverage Federal Dollars

In the public sector as in business, one way to increase potential returns or impact is to leverage funding from other sources. For example, the availability of federal matching funds often influences state decisions about whether or not to issue bonds or fund certain programs. Table 1 highlights recent match rates on certain state investments including the match rate for accepting federal health care funds.

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**Table 1: Federal Match Rate Comparison Reveals Unprecedented Opportunity to Leverage Federal Funds for Maine through the Affordable Care Act**

<i>For every dollar Maine spends on...</i>	<i>Maine receives this amount of federal dollars in return.</i>
...roads and bridges <sup>8</sup>	\$1.76
...wastewater treatment <sup>9</sup>	\$4.57
...port improvements <sup>10</sup>	\$2.00
...improving health care access through the Affordable Care Act (FY 2016) <sup>11</sup>	\$62.06

Based on analysis by MECEP and Maine Equal Justice Partners of the fiscal note prepared by the state's Office of Program and Fiscal Review (OPFR) for the 2013 legislative proposal to accept federal funds, every dollar Maine spends on improving health care access through the ACA in FY 2016 will yield an additional \$62 in federal funds. Stated differently, state spending represents 1.6 percent of the total health care spending associated with ACA coverage expansions for FY 2016. The reason this figure is so high relative to other federal match rates is that federal funds will cover 100 percent of the costs associated with a majority of beneficiaries of this program from 2014 to 2016. While the federal match rate will gradually decline as federal funds are reduced to cover 90 percent of costs in 2020, it will remain substantially higher than the rate for the existing Medicaid program or other federal funding opportunities.

### **Federal Health Care Funds Will Boost Economic Activity, Support Job Creation, and Prevent Job Loss**

Beyond the opportunity to leverage state funds, federal health care funding will deliver significant economic benefits for Maine. By deciding to provide health coverage for almost 70,000 Maine people, the state will receive approximately \$256 million a year in new federal funds by 2016. Maine

**Every dollar Maine spends on improving health care access through the Affordable Care Act in FY 2016 will yield an additional \$62 in federal funds.**

will also retain approximately \$82 million a year in federal funds that the state will lose if it does not increase health coverage through the ACA.

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These funds will pay hospitals, physicians, pharmacists, mental health providers, and other health service providers and ripple through Maine’s economy. These health care businesses will use these funds to purchase materials and equipment and to pay the salaries of doctors, nurses, health aides, administrative personnel, and others. In turn, these individuals will use their wages to purchase food, clothing, and other goods and services in their community. Economic developers using standard analytical tools can approximate the significant impacts this increased economic activity will have in a state or region. Table 2 summarizes these findings for Maine.

**Table 2: Federal Funds Will Generate Significant Economic Benefits for Maine**

	<i>Maine will receive approximately \$256,000,000 a year in new federal funds by 2016. These funds will create the following impacts:</i>	<i>Maine will retain approximately \$82,000,000 a year in federal funds it will lose by 2016 if it does not increase health coverage. These dollars will sustain the following impacts:</i>	<i>Total economic impact in 2016 associated with accepting \$338,000,000 in federal health funding for Maine:</i>
Annual Economic Activity	\$350,000,000 to \$400,000,000	\$100,000,000 to \$115,000,000	\$450,000,000 to \$515,000,000
Jobs	3,100 to 3,400	900 to 1,000	4,000 to 4400
Health Care	1,600 to 1,800	475 to 530	2,075 to 2,330
Other	1,500 to 1,600	425 to 470	1,925 to 2,070
Annual State Revenues	\$16,000,000 to \$18,000,000	\$4,000,000 to \$5,000,000	\$20,000,000 to \$23,000,000

To summarize table 2, by 2016 accepting federal funds will boost annual economic activity by as much as \$500,000,000 and support as many as 4,400 jobs in Maine. This increased economic activity will also yield \$23,000,000 in state revenues on an annual basis. These findings are based on the same methodology detailed in the report “[Federal Health Care Funding Makes Dollars and Sense for Maine](#)” and are consistent with those results.<sup>12</sup> The primary difference is the inclusion of current dollars that the state will lose by 2016 if it fails to accept federal ACA funds.<sup>13</sup>

## County-Level Analysis of Economic Impact Demonstrates the Benefits of Accepting Federal Health Care Funds throughout Maine

In 15 of Maine’s 16 counties, a major health care provider is one of the top two employers.<sup>14</sup> In 10 counties, between 1 in 5 jobs and 1 in 6 jobs are in health care. Because federal health care funds will be used to reimburse health care providers for their services, the economic benefits of accepting

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federal health care funds will be distributed throughout the state and provide a significant boost to local economies. Table 3 summarizes county-level economic impacts.<sup>15</sup>

**Table 3: County-Level Impacts of Accepting Federal Funds are Significant**

<i>County</i>	<i>Total Eligible</i>	<i>All Federal Dollars (New and Retained)</i>	<i>Annual Economic Impact</i>	<i>Jobs</i>
Androscoggin	5,830	\$28,300,000	\$40,200,000 to \$46,100,000	340 to 380
Aroostook	4,610	\$22,400,000	\$28,000,000 to \$32,100,000	250 to 280
Cumberland	12,020	\$59,500,000	\$92,500,000 to \$105,800,000	770 to 850
Franklin	1,880	\$9,200,000	\$11,500,000 to \$13,200,000	110 to 120
Hancock	3,240	\$15,900,000	\$20,100,000 to \$23,000,000	190 to 210
Kennebec	6,000	\$28,700,000	\$38,100,000 to \$43,600,000	340 to 370
Knox	2,320	\$11,300,000	\$15,000,000 to \$17,200,000	140 to 160
Lincoln	1,820	\$8,800,000	\$11,400,000 to \$13,000,000	110 to 130
Oxford	3,810	\$18,500,000	\$22,500,000 to \$25,800,000	210 to 230
Penobscot	8,450	\$41,300,000	\$58,300,000 to \$66,700,000	500 to 550
Piscataquis	1,070	\$5,200,000	\$5,800,000 to \$6,600,000	approx. 60
Sagadahoc	1,460	\$7,000,000	\$2,900,000 to \$3,300,000	approx. 30
Somerset	3,590	\$17,400,000	\$20,500,000 to \$23,500,000	190 to 210
Waldo	2,630	\$12,700,000	\$15,900,000 to \$18,200,000	150 to 160
Washington	2,600	\$12,700,000	\$15,300,000 to \$17,500,000	140 to 150
York	8,200	\$39,500,000	\$52,000,000 to \$59,500,000	470 to 510
<b>Total<sup>16</sup></b>	<b>69,530</b>	<b>\$338,400,000</b>	<b>\$450,000,000 to \$515,000,000</b>	<b>4,000 to 4,400</b>

## The Economic Benefits of Accepting Federal Funds Significantly Outweigh the Costs

To capitalize on this opportunity in the next three years, Maine needs to maintain its share of funding for working parents covered under Medicaid. In truth, this will not represent new state spending through FY 2015 since the state budget approved by legislators in 2013 already included these costs. Other costs are more difficult to quantify without cooperation from the Maine Department of Health and Human Services (DHHS), but even the most dire cost projections fail to undermine the basic

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conclusion that Maine has an unprecedented opportunity to leverage federal funds and boost economic activity.<sup>17</sup>

The Maine Legislature’s nonpartisan Office of Program and Fiscal Review (OFPR) confirms the limited fiscal impact of accepting federal funds through 2016. OFPR estimates the state’s share of the cost of new enrollees to be \$0 in FY 2016 when the federal match rate is 100 percent and \$8.9 million in FY 2017 when the match rate starts gradually phasing down to 90 percent by FY 2020.<sup>18</sup> The state will also incur costs to provide coverage to working parents. OFPR estimates that these costs, already included in the approved FY 2015 budget, would be approximately \$10 million in FY 2016. In addition to these costs, OFPR projects additional administrative costs at DHHS associated with managing increasing enrollments. Finally, OFPR preliminary projections account for some, but not all, savings that will occur as a result of accepting federal funds. For example, the state will save money on individuals who currently receive health care through state-funded programs and would now become eligible for 100 percent federal match. Table 4 summarizes these findings and compares them to projected state revenue increases associated with the acceptance of federal funds presented in table 2. These figures show that Maine will bring in more revenue from accepting the federal funds than it will cost to expand Medicaid and staff it.

**Table 4: Office of Program and Fiscal Review Projections of Fiscal Impact Compared to State Revenues Associated with Accepting Federal Funds Reinforce the Case for Increasing Health Coverage<sup>19</sup>**

	<i>FY 2015</i>	<i>FY 2016</i>	<i>FY 2017<sup>20</sup></i>
Projected Costs (includes administrative staffing costs and coverage costs for low-income parents)	\$11,364,435	\$11,882,068	\$6,211,945
Projected Savings	\$5,900,000	\$5,900,000	\$2,950,000
Total Costs	\$5,464,435	\$5,982,068	\$3,261,945
MECEP Calculation of State Revenue Generated by Accepting Federal Funds	\$18,500,000	\$21,500,000	\$10,750,000
Net of Revenue minus Total Costs	\$13,035,565	\$15,517,932	\$7,488,055

The Alexander Group, a private contractor selected by Governor Paul LePage’s administration to assess the feasibility of Medicaid expansion in Maine, provides a competing cost estimate to the nonpartisan OFPR’s.<sup>21</sup> They estimate the state’s share of the cost of accepting federal funds to be \$33.5 million in FY 2015, \$31.3 million in FY 2016, and \$44.8 million in FY 2017. Unlike OFPR, the Alexander Group did not include fiscal savings, confirmed by historic experience, that may result from

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accepting federal funds. For example, the expansion of Medicaid to childless adults in 2002 resulted in \$1.8 million in state savings in FY 2003 in the provision of mental health services.

In addition to excluding potential fiscal savings from their estimates, the Alexander Group's fiscal impact calculations do not acknowledge any potential increase in state revenue that will occur as a result of accepting federal funds. MECEP's analysis in table 2 shows this increase in revenue will range from \$20 to \$23 million per year by 2016. If OFPR's estimate of the state's share of the cost of expanding health care is correct, then the state can actually expect to see a net fiscal savings through FY 2017 as a result of accepting federal dollars (see table 4). Even if the Alexander Group's much

**Accepting federal funds to expand health care is a win-win for Maine people and Maine's economy.**

more pessimistic and flawed estimate of the state's share of the cost were correct, the state can expect to see a modest increase of \$10 to \$20 million per year in FY 2016 and FY 2017 in spending on Medicaid and associated administrative costs. This analysis combined with the fact that the Alexander Group's projections are heavily influenced by unfounded assumptions about poverty growth and other factors, undermines the validity of their findings.<sup>22</sup>

Beyond the fiscal implications of accepting federal funds on the state budget, the significant positive economic impact for Maine is clear and must not be ignored. A common critique of this type of economic impact analysis is that it often fails to account for the opportunity costs associated with the policy change being evaluated. For example, if a city proposes to spend \$100 million on a new convention center, an economic impact analysis must account for the lost opportunity of using those funds on a different project, investing them in an interest-bearing account, or simply returning them to local taxpayers in the form of a property tax cut. City officials must weigh the benefits of these alternative uses of the \$100 million against the benefits derived from using the money to build the convention center.

In the case of this analysis, the opportunity cost for Maine taxpayers during the first three years is minimal compared to current policy. There will be no reduction in other economic activity elsewhere in the state to offset the increase in economic activity associated with accepting federal ACA dollars for health care.<sup>23</sup> If Maine does not accept the federal funds, they will be reallocated elsewhere in the country or in the federal budget. The federal government will not allow Maine to accept the funding and then spend it on highways or schools or to finance a sales or income tax cut.

The risk for Maine is minimized further by the fact that the state can opt out at any time and the current proposal contains language to sunset Maine's participation after the initial three years. If the federal government fails to meet its obligations or anticipated results are not achieved, Maine is under no obligation to continue the program. In short, this is a win-win for Maine people and Maine's economy.

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### A Once in a Lifetime Opportunity to Boost Maine's Economy

If a company announced that it planned to invest \$338,000,000 in Maine that would generate \$500,000,000 in annual economic activity and support 4,400 jobs in the state, the governor and legislators would likely roll out the red carpet. In this case, the federal government is willing to pay 100 percent of the cost now and 90 percent of the cost in the future for tens of thousands of Mainers to receive health coverage. The feds are not asking for special tax breaks or other givebacks in return and Maine lawmakers can choose to opt out at any time. This is a once in a lifetime opportunity to boost Maine's economy. Maine lawmakers should seize it.

### End Notes

<sup>1</sup> These figures reflect likely revisions from the Maine Department of Labor of official sample-based estimates of nonfarm payroll employment from the US Bureau of Labor Statistics through May, 2013. These likely revisions of official BLS estimates were obtained via email from Glenn Mills of the Maine Department of Labor on November 22, 2013. The May 2013 figure represents the latest, most accurate estimate of nonfarm payroll employment in Maine.

<sup>2</sup> In 2013, the Maine Legislature passed LD 1066, "[An Act to Increase Access to Health Coverage and Qualify Maine for Federal Funding](#)" with bipartisan support. Proponents of this bill were unable to secure the necessary votes to override a veto by Governor LePage. The Legislature will revisit this decision in 2014 when they consider LD 1578, "[An Act to Increase Health Security by Expanding Federally Funded Health Care for Maine People](#)."

<sup>3</sup> MECEP anticipates that it will take one to two years to achieve projected take-up rates based on historic enrollment levels. In addition, in 2013 the legislature rolled back Medicaid coverage for parents with income between 100% and 200% of the federal poverty level. Parents with income between 100% and 133% of the federal poverty level who lost coverage effective December 31, 2013 may be eligible for up to 12 months of transitional Medicaid coverage. As a result the state will continue to draw down federal funds to cover eligible individuals through 2014. For this reason, MECEP conducted its analysis to evaluate economic impacts in 2016 once projected take-up rates have been achieved and the loss of federal match for parents between 100% and 133% of the federal poverty level occurs.

<sup>4</sup> See Table 5. Gross Collections, by Type of Tax and State, Fiscal Year 2012. [http://www.irs.gov/file\\_source/pub/irs-soi/12db05co.xls](http://www.irs.gov/file_source/pub/irs-soi/12db05co.xls). Accessed January 10, 2013.

<sup>5</sup> See summary data table on federal spending by state. <http://www.transparency.gov/state-summary-tabular?tab=By+Location&tabletype=statesummary>. Accessed on January 10, 2013.

<sup>6</sup> See "Prime Award" spending data by agency. [http://www.transparency.gov/?q=explore&tab=By+Location&fromfiscal=yes&typeofview=detailsummary&pop\\_state=ME&fiscal\\_year=2012](http://www.transparency.gov/?q=explore&tab=By+Location&fromfiscal=yes&typeofview=detailsummary&pop_state=ME&fiscal_year=2012). Accessed on January 10, 2013.

<sup>7</sup> MECEP calculation based on U.S. Bureau of Economic Analysis. Table 4: Current-Dollar GDP by State, 2009-2012. [http://www.bea.gov/newsreleases/regional/gdp\\_state/2013/pdf/gsp0613.pdf](http://www.bea.gov/newsreleases/regional/gdp_state/2013/pdf/gsp0613.pdf). Accessed on January 10, 2013.

<sup>8</sup> MECEP analysis of 2011 PL, Chapter 697.

<sup>9</sup> MECEP analysis of 2012 PL, Chapter 695.

<sup>10</sup> MECEP analysis of 2009 PL, Chapter 414, Part A.

<sup>11</sup> Figure based on analysis by MECEP and Maine Equal Justice Partners of the fiscal note for LD 1066 provided to the Legislature by the Office of Fiscal and Program Review. See "[An Act to Increase Access to Health Coverage and Qualify Maine for Federal Funding](#)". Note this figure applies to the first three calendar years of the program when the federal match is 100 percent. While the match rate will decline in out years, it will remain significantly higher than other match rates.

<sup>12</sup> For a more detailed explanation of how these figures were derived see Appendix A: Technical Notes and Methodology found in the report "Federal Health Care Funding Makes Dollars and Sense for Maine".

<sup>13</sup> There are other economic impacts that are beyond the scope of this analysis. They include increases in worker health and productivity associated with access to affordable health care and reductions in future health care cost increases for

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all payers as a result of increased coverage and better care management for previously uninsured individuals and individuals with chronic conditions.

<sup>14</sup> Center for Workforce Research and Information, Top 25 Employers in Maine by County, 2nd Quarter 2012 (November 29, 2012). Accessed December 18, 2012 at <http://www.maine.gov/labor/cwri/>.

<sup>15</sup> Figure 3 depicts the impact of federal funds based on where the individual beneficiary lives. In reality, individuals may not necessarily obtain health services in their home county. A greater share of dollars, and economic benefits, may actually flow to counties that have a high density of health care services and health care jobs.

<sup>16</sup> Numbers may not sum to totals found in Table 2 due to rounding.

<sup>17</sup> See Alexander Group. "Feasibility of Medicaid Expansion under the Affordable Care Act: A Review Submitted to the Maine Department of Health & Human Services". Final Report. January 10, 2014. Note: The accuracy of many of the cost estimates contained in this report remains in question and is currently being evaluated by MECEP and others. Still comparing the Alexander Group cost figures for FY2014-15 with information on the level of federal funds that Maine will draw down provided by OFPR yields a match ratio of \$1 to \$10.57. In other words, for every \$1 Maine spends based on the Alexander Group figures, the state will draw down \$10.57 in federal funds.

<sup>18</sup> Because the fiscal year runs from July to June, the fiscal years do not align with the calendar years. For example, calendar year 2016 is encompassed by 6 months of fiscal year 2016 and 6 months of fiscal year 2017. MECEP has tried to focus its analysis on calendar years where possible.

<sup>19</sup> Based on fiscal note provided by OFPR for LD 1066, "[An Act to Increase Access to Health Coverage and Qualify Maine for Federal Funding](#)"

<sup>20</sup> Because the amended bill sunsets on 12/31/16, costs and savings represent half the state fiscal year cost since Maine's fiscal year is not aligned with the calendar year.

<sup>21</sup> See <http://maine.gov/dhhs/Alexander/Maine%20Medicaid%20Expansion%20Report.pdf>. Accessed on January 10, 2014.

<sup>22</sup> For example, Alexander Group projects a 31.5% increase in poverty in Maine over 10 years which would place Maine's poverty level above 18%, its highest level since the 1960s.

<sup>23</sup> This statement is true for the first three years of the program when federal reimbursement rates are 100 percent. The opportunity cost in out years will be more accurately assessed once Maine has increased coverage and can more accurately assess potential savings and costs of continuing the program. Because LD 1578 focuses on the take-up of federal funds from 2014 to 2016, MECEP has chosen to focus the discussion of economic impact on that timeframe.