

## **The Private Option Threatens to Put Future State Budgets in the Red**

By Senator Bryan B. King

For the past biennium the architects of the private option have been telling everyone that the health care plan is a good deal for Arkansas. The reality is that the private option implemented Obamacare in Arkansas and is threatening to put future state budgets in the red.

Many voters and legislators have given the benefit of the doubt to the architects of the private option, in large part because we haven't yet had to pay for it. Even people with the best of intentions may change their minds when the bills come due.

In the case of the private option, Arkansas doesn't have to begin matching federal funding until Fiscal 2017. That presents a grim financial prospect for the freshmen class of legislators who will be elected in November. In January they will take their first oaths of office, and before they complete their legislative careers they will have to figure out how the state can possibly afford hundreds of millions of dollars in additional expenses brought on by the private option.

Based on the gross revenue collected by state government since 2005, it's reasonable to assume that the amount of money the state will have to spend over the next five years will grow at a rate of 3.14 percent. However, we should keep in mind that assumptions of a 3.14 percent growth rate are an optimistic "best case scenario."

State revenue growth is slowed by a downturn in the economy, which could result from any number of possibilities – a crisis in the oil-producing regions of the Middle East or a sudden spike in inflation rates, for example.

But if we are willing to assume that nothing unexpected happens in the Middle East or on Wall Street, we are looking at growth in Fiscal Year 2020 of \$184 million over the previous year. This year's freshmen legislators will be the General Assembly's veteran leaders in the regular session of 2019, when the budget for Fiscal 2020 must be approved. Their duty will be to distribute that \$184 million in projected growth to the state agencies that provide vital services.

Traditionally, growth money is distributed to public schools from kindergarten through grade 12, to colleges and universities, to prisons, to health care services and to the many smaller agencies that make up state government. Each entity gets a percentage of the total revenue, which is their traditional "piece of the pie."

Long-standing tradition may come to an end when budgets for Fiscal Year 2020 are written because the private option is on pace to eat up almost all of the projected growth in revenue. That means schools, colleges, universities and prisons will have to live on less.

Under the provisions of the Arkansas private option, as it's now written, in Fiscal Year 2020 almost every penny of growth money will be obligated to paying for the private option. Why? Because in Fiscal 2020

the state will have to contribute 10 percent of the total costs of the health plan. Even though 10 percent may not sound like much it will amount to \$181 million.

In other words the state Department of Human Services, which administers the private option, will get \$181 million of the \$184 million in total growth money available in Fiscal 2020. That leaves only \$3 million for the entities that have traditionally received a share of each year's growth - public schools, higher education, cities and counties, prisons, law enforcement and economic development.

Public schools will fare better than others because the Arkansas constitution mandates that the legislature provide for an adequate education. However, the constitution has no similar mandate for higher education, so state-supported colleges and universities are looking at stagnant budgets in Fiscal 2020 and beyond.

If we use the past five years as a guide, and if the private option remains in place, higher education can count on annual increases in their state aid of only 0.22 percent over the next five years. Colleges and universities will have to pay for any increase in operating costs by raising tuition and fees.

Budgets for prisons, drug courts and parole systems are projected to increase at a rate of 2.4 percent a year while the Human Services Department would grow almost twice as fast, under the scenario I've outlined. The Human Services budget would increase by 4.7 percent, mainly because of the necessity of paying for the private option. Arkansas prison officials are pleading for revenue to build more facilities to house the steady and dramatic growth in the inmate population, but there will be no additional funds if the private option absorbs all growth.

If we experience an economic slowdown the private option will become an even greater burden on the public treasury. In that event, state government will have to slash budgets and cut services.

Everyone wants transparency and accountability in government, and everybody has different ideas about how to achieve them. One way is for policy makers to open their eyes and honestly face the issues. We have bought something and soon we will have to pay for it. The architects of the private option have an obligation to look at the numbers and consider the long-term fiscal security of colleges, universities, prisons and the numerous state agencies that stand to lose a share of their state revenue while Human Services receives an ever greater share.

Denial of reality is not constructive and it's an unwise policy for governing. It's like throwing your credit card bills in the trash instead of paying them, in the hopes they'll go away.

Arkansas law requires the legislature to operate under a balanced budget, and the spiraling cost of the private option means that legislators will either have to raise taxes or cut services. They may have to do both, because as long as Arkansas chooses to implement Obamacare and keep the private option in place, there will be no other way to balance the state's budget.