



MEMORANDUM

To: Jim Haynes
Arizona Hospital & Healthcare Association

From: Jill Welch
Daniel Court

Date: January 24, 2011

Re: Verification of Calculations for Study: “The Potential Economic Impact of Withdrawing Medicaid in Arizona” by Tim James & Matt Croucher

Elliott D. Pollack and Company was retained to perform an independent third party review of the calculations performed by the Seidman Research Institute (W.P. Carey School of Business, Arizona State University) for an economic impact study. This particular study is titled “*The Potential Economic Impact of Withdrawing from Medicaid in Arizona*”. The authors of the study utilized a REMI economic-demographic forecasting and simulation model to generate the study’s resulting impacts for both the State of Arizona as a whole and a county-by-county estimate of impacts. Our firm has reviewed the completed study, interviewed the authors of the report, and performed various calculations within our own proprietary model.

The modeling utilized Medicaid budget figures as reported in the AHCCS FY2012 budget request and the figures were approved by the Arizona Hospital & Healthcare Association. The model distributed those monies by county and by type of industry as the initial inputs. The model itself generates losses of employment (direct and “ripple” effects), wages, and population over time. By using the approved initial Medicaid spending as the input and accurately accounting for the dollars by sub-industry and county, our firm verifies that the modeling was performed correctly.

Using a similar methodology, our staff performed preliminary modeling exercises using first the estimated loss of funding for each scenario and secondly using the REMI model’s estimation of employment losses. Our model utilizes IMPLAN multiplier sets (also a nationally accepted economic modeling tool). Through these exercises, our firm is able to confirm that each scenario that was run for the study in question indeed results in the losses of economic activity as reported.

Verifying the calculations performed by the Seidman Institute was the full scope of services requested by our firm. We would also like to qualify this verification by emphasizing the

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following points which may be a repeat of issues brought forth within the original study as well as our own insights:

- By verifying the calculations performed by the authors of the study, it is in no way an opinion or recommendation to the Legislature for budgeting decisions. Our firm maintains neutrality on the subject of optimal distribution of General Fund budgeting. We neither support nor oppose this particular decision.
- In order to run an impact model based on a policy decision, a number of assumptions must be formulated, which naturally act as a “qualifier” to the results. The main assumption for this study states, “It is assumed that no other change in public policy would occur.” It is for this reason, in addition to our stated scope of work, that we do not validate the report in terms of its methodology and assumptions, only that calculations based on those stated assumptions were indeed performed properly. Two main questions arise from this main assumption:
 - o As with any dynamic impact modeling exercise, a host of “what if” scenarios could be formulated which may give the perception that the initial modeling performed is too simplistic. For instance, in the scenario that Arizona completely opts out of the Medicaid program, the full loss of funding would indeed result in the figures of economic loss as cited. However, it is reasonable to assume that alternative solutions would be formulated to address the health care needs of income restricted individuals such as a state run program or private donations. An exhaustive listing of potential cause and effects was beyond the scope of the study.
 - o Also well beyond the scope of the study are the scenarios that could arise from the maintenance of current levels of funding for Medicaid in Arizona. Quite simply, as discussed in Appendix 3 of the Study, the result of not cutting Medicaid funding would likely be either an increase in taxes for additional revenue or a reduction in expenditures of some other category of spending (such as education or corrections). This would result in economic losses as well. However, the federal match component is not an issue with most other policy decisions.