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AGING

JOINT COMMITTEE ON TAXATION

October 28, 2011

The Honorable Patty Murray
Co-Chair
Joint Select Committee on Deficit Reduction
The Capitol
Washington, D.C.

The Honorable Jeb Hensarling
Co-Chair
Joint Select Committee on Deficit Reduction
The Capitol
Washington, D.C.

Dear Senator Murray and Representative Hensarling,

With our national debt now approaching $15 trillion, the Joint Select Committee on Deficit Reduction (Joint Committee), which you co-chair, has been charged with finding significant federal budget savings to help put our nation on a more sustainable fiscal path. I would like to take this opportunity to respectfully submit recommendations offered by the people of Utah toward achieving the Joint Committee's objectives.

Over the years, the State of Utah has become a model for other regions of the country. On multiple occasions, the Pew Center on the States has declared Utah the best-managed state in the union, based largely on the state's ability to successfully and transparently make budgetary decisions and develop policies designed for long-term efficiency and economic growth. In addition, numerous organizations have recognized Utah as having one of the best business climates in the U.S. As a result, Utah has weathered our nation's recent economic difficulties significantly better than the country at large.

However, despite these successes, most Utahns are concerned about the direction our country is headed. The national unemployment rate continues to hover over nine percent, which, not surprisingly, leaves the majority of Americans feeling uncertain about the strength of our economic recovery and believing that the U.S. is not on the right track. In this regard, Utahns are no different than the rest of the country.

I have spent the last several weeks listening to people throughout my state to learn their views on the objectives of the Joint Committee and obtain their recommendations for the path forward. I have had numerous meetings with leaders in the Utah Legislature and the business community, as well as local and municipal governments. In addition, I solicited comments and recommendations for the Joint Committee on my Senate website and received over 7,500 responses. This letter serves to summarize and encapsulate what Utahns have expressed to me through these interactions.

Taxes and Revenue

The primary conflict in the overall deficit reduction debate – and likely on the Joint Committee – surrounds the question of whether increasing taxes would be an appropriate and effective means of addressing our current fiscal predicament. After extensive communication with my constituents on this issue, it is clear to me that the vast majority of Utahns agree that it would be inappropriate to increase taxes to achieve the Joint Committee's objectives. Of the more than 7,500 Utahns who submitted recommendations on my website, roughly 66 percent favored a deficit reduction approach relaying solely on reducing federal spending without increasing taxes. In addition, virtually all of the Utah business leaders I have consulted throughout this process have expressed concern about the possibility of seeing their taxes go up in the near future.

These are well-founded concerns. Indeed, most acknowledge that increasing taxes – even on targeted sectors of the economy – can undermine economic growth and put our recovery at greater risk. In addition, federal tax revenues are already projected to exceed historic levels in the near future. The Congressional Budget Office's June 2011 Budget and Economic Outlook projects that, absent any changes to the law, federal tax revenues will be nearly 21 percent of the gross domestic product (GDP) in just 10 years. This represents a significant increase over the historical average, which has been 18 percent of GDP for the last four decades.

That said, while most Utahns oppose raising taxes, there is a general consensus in favor of reforming the U.S. Tax Code in a revenue-neutral manner. Indeed, roughly 68 percent of those submitting recommendations to my website favored such reforms.

Regulations and Economic Growth

Utahns recognize that our debts and deficit are primarily spending issues. But, to the extent that the federal government is temporarily collecting a lower amount of revenue, it is simply a function of current economic conditions, and not a function of the current tax rates. Restoring economic growth will actually cause revenues to return to, and eventually exceed the historical norm.

Utah business leaders have continually expressed to me their frustration with the U.S. regulatory system. Federal regulations do not merely pose philosophical problems for those who favor small government and respect for state sovereignty; they impose real costs on American businesses that threaten growth and expansion, slowing U.S. economic growth and job creation. These costs, in many instances, outweigh any benefits associated with the regulations. Neither I, nor citizens of Utah want to surrender due considerations for safety and the environment. However, the regulatory process should entail a reasonable balancing of costs and benefits.

For example, Utah is a leading energy-producing state. Many of Utah's businesses believe the impact of burdensome environmental regulations and policies that were designed not to preserve resources, but to appease ideological interest groups.

A common theme in my recent meetings with Utah's business leaders is a concern that the Environmental Protection Agency and the Department of Interior have imposed undue burdens on our state's energy production and threaten, on an almost daily basis, the productivity of Utah energy and natural resource companies. For example, the Obama Administration has aggressively withdrawn access to federal energy resources and has stalled or proscribed countless domestic energy projects, including many in Utah. Overall, this willful inaction has cost state and federal governments billions of dollars in lost revenue from energy royalties.

However, Utahns' concerns regarding our regulatory system go beyond roadblocks imposed on energy production: these concerns are government-wide. In our recent meetings, many Utah business leaders specifically mentioned the National Labor Relations Board as an example of a federal regulatory agency that has overstepped its authority. Others have expressed concerns about the regulations being imposed under the authority of the Dodd-Frank Act and the impact they will have on banking and credit costs.

In addition, Medical device manufacturers in Utah have repeatedly raised issues about the unnecessary, overly burdensome and unwarranted level of regulatory scrutiny of medical device products by the Food and Drug Administration exhausting the limited resources of Utah companies that are typically start up or small manufacturers. And, state and local government leaders have expressed outrage at the numerous unfunded mandates that are too often tied to federal monies that come to the states.

Alleviating these conditions should help to restore economic growth and, as a result, normalize federal revenues. That being the case, any action taken by the Joint Committee to mitigate the negative economic impact of our regulatory state would serve the nation's interests as well as the Joint Committee's objectives.

Health Care and Entitlement Spending

When given the opportunity to identify areas where federal spending should be cut, a vast majority of Utahns strongly support repealing the ill-conceived Patient Protection and Affordable Care Act (PPACA).

The health care spending law fails to address the most important challenge facing Utah families and businesses – rising costs. In fact, this new law is dramatically increasing the cost of care for our families, employers and our state. Once fully implemented, the PPACA will cost American taxpayers $2.6 trillion over the first 10 years, adding over $700 billion to the national debt. Individuals and employers will be saddled with over a trillion dollars in new taxes, threatening economic growth and job creation. According to the Congressional Budget Office (CBO), the new health care law will not only increase health care spending by more than $300 billion over the next decade but will also cost us 800,000 new jobs.

In Utah specifically, the new $28 billion tax on medical device companies will have a destructive effect on our state's thriving medical device industry which not only leads the nation in innovation but also provides high-paying jobs for thousands of Utahns.

PPACA also includes the largest ever expansion of the Medicaid program. Medicaid consumes an average 22 percent of state budgets, according to a recent Fiscal Survey of the States. Half of the individuals newly insured under the health law will be enrolled in Medicaid, which will only exacerbate the program's fiscal challenges for states by at least $118 billion through 2023. Members of the Utah Legislature are concerned about increased costs to state governments as well as the encroachment of the federal government on state prerogatives that will result once the PPACA is implemented. Even a number of Utah's mayors and municipal leaders expressed support for repealing the PPACA due to the economic and budgetary issues surrounding the law.

Utahns understand that the new health care law has been one of the biggest power transfers from states to the federal government. We need to step away from this $2.6 trillion spending law with its unconstitutional individual mandate and job-destroying employer taxes in favor of a state-centric approach that allows states to design health care solutions that best meet their unique demographic needs.

Utahns are also very concerned about the future of our entitlement programs. Medicare and Medicaid alone will account for more than 7 percent of our Gross Domestic Product (GDP) by 2025. Due to the magnitude of these programs and their current unsustainability, serious reforms are necessary to ensure the long-term prosperity of our future generations. While this will no doubt be a difficult undertaking, I believe Utahns are ready to lead in this effort.

One of the top concerns among Utah's legislators is the burden Medicaid imposes on state governments. In order to fix the program, legislators from my state uniformly support granting states more flexibility and control over the program. Medicaid programs are quickly becoming the biggest line items in state budgets and are crowding out other important priorities like public safety and education. Last year alone, Medicaid costs soared to $1.8 billion in Utah, putting the state contributions at $540 million or nearly one-fourth of the state's general funds.

A majority of the nation's governors recently provided specific recommendations to Congress for Medicaid reform. These recommendations reflect the ideas and thoughts I received from the leadership of the Utah Legislature on this important issue. A detailed discussion of the governors' Medicaid proposal is included in the Republican Consensus Recommendations submitted by the Senate Finance Committee where I currently serve as the Ranking Member. The consensus recommendations also include several policies to ensure the long-term solvency of the Medicare program for our seniors.

Leaders in Utah's health care industry have also been at the forefront of the entitlement reform debate. For example, Intermountain Healthcare (IHC) continues to be a shining example of how to provide high-quality care at lower costs and as such has offered specific ideas on ways to reform the Medicare payment system to ensure the program's long term sustainability. I hope their ideas receive due consideration by the Joint Committee.

General Spending Issues

While questions surrounding taxes and entitlement reform continue to drive much of the deficit reduction debate, the Joint Committee will also need to look at other areas of federal spending in order to meet its objectives. In general, the debate over federal spending is about the very nature of the federal government going forward. The Joint Committee is in a unique position to shape this debate. I join my fellow Utahns in urging the Joint Committee to make meaningful steps toward reducing the size, scope, and growth of the federal government, which will provide greater fiscal stability in the future.

Utah's leaders – particularly those at the local and municipal level -- hope to see changes that will require the federal government to operate more like a city or state, including a responsibility to prioritize various programs as well as the requirement to reform or eliminate those efforts that are duplicative or ineffective. While the challenges facing the federal government may be varied and complex, much of our nation's fiscal difficulties can be attributed to a failure on the part of leaders to make difficult to decisions like the ones state and local governments must make on a regular basis.

Legislative Recommendations

There are a number of legislative proposals that the Joint Committee should consider in order to address the concerns expressed by Utahns on these issues. I believe each of these proposals would help to serve the Joint Committee's objectives and help to put the federal government on a more sustainable fiscal path:

- **Tax reform consistent with the Republican Consensus Recommendations to the Joint Select Committee on Deficit Reduction ("Republican Consensus Recommendations") submitted by Senate Finance Committee Republicans on October 14, 2011.** Specifically, such reforms should be revenue-neutral when measured against current tax policy and should prioritize economic growth while simplifying the tax code.

- **The 3-D Domestic Jobs, Domestic Energy, and Deficit Reduction Act (S. 706).** This bill would increase U.S. energy production and increase federal revenues by opening up more areas for energy production and exploration, requiring action on stalled permits, and relieving current procedural and regulatory burdens on energy production.

- **The American Energy and Western Jobs Act (S. 1027).** This legislation would streamline the oil and gas leasing process and require the Administration to establish specific goals for domestic oil and gas production. This process would increase energy production, create jobs, and generate additional revenues.

- **The Regulations from the Executive in Need of Scrutiny (REINS) Act of 2011 (S. 299).** The REINS Act would require federal agencies to obtain congressional approval for any proposed regulation that could have an annual effect on the economy of $100 million or more, ensuring greater oversight and accountability in the regulatory process and protecting the U.S. economy from harmful regulations.

- **The Employee Rights Act (S. 1507).** This bill, which I introduced in July, would, among other things, prevent the NLRB's recent efforts to expedite union elections and prevent employers from expressing their views to employees. In addition, it would provide substantive protections to employees to ensure that no workforce is unionized without the informed consent of the workers.

- **Repeal the Dodd-Frank Act.** This law creates massive new bureaucracies, imposes job-killing mandates, and heaps upon American businesses a slew of regulations that are choking off job opportunities for Americans and increasing the costs of credit for U.S. families and businesses. Repealing Dodd-Frank will help to expedite our economic recovery.

- **Repeal the Patient Protection and Affordable Care Act (PPACA).** The House Budget Committee estimates that PPACA will cost American tax payers $2.6 trillion over 10 years once it is fully implemented. Over that same period, it will add over $700 billion to the federal deficit and continue to add to our national debt. The law also adds $1 trillion in new taxes. Put simply, PPACA is a threat to sustained economic growth and job creation now and in the future. Worst of all, it does nothing to alleviate the rising costs of health care in the U.S.

- **Entitlement reform consistent with the Republican Consensus Recommendations.** Once again, most of our nation's governors shared specific recommendations on Medicaid reform earlier this year. These proposals, which provide a roadmap toward granting states more flexibility in administering the program and reducing long-term costs, are included in the Republican Consensus Recommendations along with proposals to address the costs and long-term insolvency of Medicare and Social Security.

- **The Federal Workforce Reduction and Reform Act of 2011 (S. 1476).** This legislation, which I introduced with Senator Tom Coburn, would provide a measurable reduction in the cost and size of the federal government by extending the current pay freeze on civilian federal employees and requiring a 15 percent reduction in the size of the federal workforce and a 75 percent reduction in the federal government's annual travel budget. Utilizing the methodology of the National Commission on Fiscal Responsibility and Reform, these reforms would save the federal government more than $600 billion over ten years.

Whatever the forum, Utahns have continually expressed to me their fear that political considerations would not only prevent the Joint Committee from accomplishing its objectives, but that such considerations would also prevent any meaningful progress on debt reduction in the future. This simply cannot be the case. Our nation is facing a historic crisis, one that will require a historic solution. I urge the Joint Committee to consider these recommendations from the state of Utah as it continues its deliberations.

Thank you for your service and for your attention regarding these matters.

Sincerely,

Orrin Hatch

Orrin G. Hatch
United States Senator