

How National Elections Hide Powerful State Policies

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A weekly summary of EventShares' conversations with policy experts. The newsletter analyzes policy developments and future Wall Street impacts.

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PAST ISSUES

- Agencies & States Drive Policy
- 4Q'18 Policy Tracker
- 4Q Market & Midterms Outlook
- Congress & Music Industry Modernize Royalties



Looking Beyond November Elections

The upcoming midterm elections have been covered in-depth by the media, market strategists and political polling groups. (You can find our take [here](#).) While most aspects of the midterms have been covered, we want to highlight additional policy catalysts that haven't received much attention.

Despite receiving less national coverage, there are multiple ballot initiatives and state level elections creating significant policy catalysts in our view. We view these initiatives as potential leading indicators of risks and opportunities to companies and believe investors should be monitoring the outcomes.

State Ballot Initiatives

State ballot initiatives are a hidden source of policy catalysts in our view. **While most ballot initiatives tend to be state and local issues, the outcomes are just as significant as US House and Senate elections to the industries and companies they impact.** With that in mind, below are some of the state initiatives we'll be monitoring.

- [Proposition 8 – Dialysis Profits \(CA\)](#): **Prop. 8 would regulate the amount outpatient dialysis clinics charge by capping the amount charged for dialysis treatments to 115% of the cost of direct patient care and healthcare improvements.** A 1972 law commits Medicare to pay for all dialysis treatments, regardless of the patient's age. However, if the patient has private insurance, the insurer must cover the first 30 months of treatment. **This is a**

important exception because clinics charge commercial insurance companies significantly more than they do Medicare, which makes private insurers the industry's source of profits. A limit on the amount charged may make the clinic business model unprofitable. Impacted companies include California's two largest dialysis treatment providers, which have contributed a combined \$111 million against Prop. 8 (e.g. DVA, FMS).

- Proposition 10 – Rent Control (CA): **Prop. 10 would repeal the Costa-Hawkins Act, a 1995 state law that blocks California cities and counties from establishing new rent control laws and allows landlords to raise rents to market rates when units become vacant.** Due to Costa-Hawkins, California cities are currently banned from pursuing rent control measures for apartments built after 1995 and for all single-family home rentals. **While rent control wouldn't automatically be instituted if Prop. 10 passes, cities would have the opportunity to pass their own local ordinances.** These ordinances may lower the rents collected. Impacted companies include owners of apartments and rental houses in CA (e.g. ESS, INVH, AMH).
- Proposition 112 – Oil Drilling (CO): **Prop. 112 would mandate that new oil & gas development occur at least 2,500 feet from occupied buildings or other "vulnerable" areas.** The initiative would only be applicable on non-federal land. If passed, Prop. 112 could disrupt CO's oil & gas production activities. **The CO Oil & Gas Conservation Commissions has estimated passage would result in over 54% of CO's total land surface being classified as unavailable for new development,** with ~85% of all non-federal land being impacted. Impacted companies include oil drillers and midstream companies transporting oil (e.g. APC, NBLX, DCP, WES).

2022 State Governor, House & Senate Elections

The outcome of state governor, House and Senate elections will also play a significant role in future policymaking. Below are two future policy actions that will be impacted by state elections.

- 2022 State Redistricting: **The 2018 and 2020 state governor and state congressional elections will impact the 2022 redistricting process.** Redistricting occurs every 10 years after the US census and is required under the US Constitution. There are multiple ways of redrawing districts (e.g. independent commission, passage by state legislature with governor approval, or passage by legislature without governor veto), but the one common factor is involvement at the state government level. **This places a high importance on winning control of state governorships and congressional chambers in states with large populations, because the party in control has a significant advantage in redrawing districts that will last from 2022 through 2032.**
- Medicaid Expansion: **The upcoming governorship and state legislature elections may play a significant role in Medicaid expansion.** The Trump administration and Centers for Medicare and Medicaid Services (CMS) have recently permitted states to expand their Medicaid programs with certain stipulations, such as work requirements. **If this trend continues, states that previously declined to expand their programs, particularly Republican controlled states, may expand.** Key states where expansion is an issue include FL, GA, KS, SC and WI. In our view, state Medicaid expansion is a potential growth catalyst for certain Affordable Care Act (ACA) insurers (e.g. UNH, WCG, MOH, CHC, HUM).



Contact Us

EventShares
200 Vesey Street, 24th Fl.
New York, NY 10281
+1 646-787-0394
info@EventShares.com
www.EventShares.com

Chief Investment Officer

Ben Phillips, CFA
Ben@EventShares.com

Chief Policy Strategist

Matt Clements, CPA
Matt@EventShares.com

About EventShares

EventShares is an asset manager focused on the impacts created by legislation, regulation, and fiscal policy. The firm is founded on the belief that policy is a powerful leading indicator for companies. We seek out investments with embedded policy catalysts believed to offer better-than-expected return opportunities (alpha).

EventShares offers numerous educational resources to help investors connect the worlds of Washington, D.C., and the stock market.

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