



STATE OF ARIZONA
OFFICE OF THE GOVERNOR

DOUGLAS A. DUCEY
GOVERNOR

EXECUTIVE OFFICE

June 21, 2017

The Honorable John McCain
225 Russell Senate Office Building
Washington, DC 20510

Senator McCain,

As you know, I have said for years that Obamacare is a policy disaster that must be repealed. It has devastated the commercial insurance market here in Arizona, eviscerating choice and creating double and triple digit increases year over year. This is unsustainable, indefensible, and must be addressed by Congress. Repeal is important, and the replacement must be carefully crafted to ensure that the rug is not pulled out from under people.

It's widely acknowledged that Arizona has one of the best-run, most efficient, least-costly health care programs in the country. What we want is to ensure that our state isn't punished for doing a good job and being ahead of the curve compared to other states. Amazingly, the current bill(s) protect big-spending states that have done little in the way of reform, and punish Arizona for having been a leader in providing quality health care to our citizens at a low cost.

We know what's in the bill that passed the U.S. House. We don't know what's in the Senate proposal, other than bits and pieces we've read in the media. Based on that uncertain knowledge I've outlined below the impacts the health care bill(s) would have on Arizona as well as some critical changes that I believe must be made.

1. A manageable phase-in for proposed formula changes. In 2000, the voters of Arizona passed Proposition 204, expanding Medicaid coverage to all individuals below the poverty level. Today, nearly 400,000 Arizonans are covered under the Medicaid expansion. Many of these individuals are suffering from cancer, serious mental illness, or other severe health conditions. The House bill would jeopardize their coverage by dramatically reducing the federal match rate.

The state does not have the budget capacity to immediately generate several hundred million dollars necessary to continue providing health care if the Federal Medical Assistance Percentage (FMAP) drops overnight from 90% to 67%. Even a three-year glide path would

increase state costs by \$175 million in 2021, \$308 million in 2022, \$454 million in 2023, and the added expense would continue to grow every year. States must have a longer glide path to allow their budgets necessary time to adjust. If Congress does roll back the federal match rate, it must do so incrementally over several years, with a drop of no more than 2% per year.

2. Elimination of the early expander penalty. The AHCA also contains a provision, known as the early expander penalty, which unfairly punishes Arizona for the voter-passed Proposition 204, which was enacted nearly two decades ago, long before Obamacare was even a consideration. While states that have the highest per enrollee cost in the nation will suffer no penalties and will be allowed to maintain their higher spending in perpetuity, this penalty of over \$530 million targets Arizona solely because of voter action and singles us out for early reduction in the match rate despite the efficiencies of our program. For example, Arizona has been extremely successful in providing lower cost in-home services to our low-income seniors so they do not end up in costly nursing homes. As a result, our annual per capita cost for an elderly Medicaid enrollee is only \$9,300 where as other states are above \$25,000. This early expander penalty fails to take into account the lower costs of the Arizona program and unreasonably singles us out for additional cuts. For that reason, we cannot support this imbalanced provision, and it must be amended or stripped out.

3. Reasonable inflation adjustments. We understand the need at the federal level to bend the cost curve and support moving to a per capita cap finance system, but any such cap must be fair and adequately adjusted for inflation. Medicaid must be able to pay for the real-world costs of providing care. Failure to provide appropriate inflation funds means provider rates will be so low that many doctors will not be part of the program and that the cost of expensive new medications which federal law requires Medicaid to provide will be borne by the state alone, making them a new unfunded mandate. In order to ensure that Medicaid enrollees continue to receive quality care, the inflation rate for the per capita cap for able-bodied adults and children must be at least Consumer Price Index Medical (CPI-M) + 1% and CPI-M + 2% for the disabled and elderly dual eligible. Congress should also note that ~~states do not have the ability to impose cost saving measures on the dually eligible populations as we are simply covering the Medicare cost sharing requirements imposed by the federal government.~~

4. Explicit flexibility, not promises for "down the road." States need maximum flexibility to manage under a per capita cap system. Such a system transfers risk from the federal government to the states, and states need the flexibilities necessary to manage that risk. These must be included in the bill and not simply promises that they will be included in future steps

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which may never materialize. Arizona's Medicaid program has long been among the most efficient in the country, and we stand ready to continue that tradition. With the additional flexibilities related to benefit design, cost controls, and work requirements which I am advocating be included in an amendment, we can become even more efficient.

5. Pre-Obamacare health funding. Finally, the bill must protect important public health funds that pre-date Obamacare. The AHCA eliminates over \$9 million annually to Arizona for programs that provide immunizations for children, state lab services to detect dangerous diseases including measles and Zika, childhood lead poisoning prevention, and breast cancer screenings. These were not programs created by the ACA, and many date back to the Reagan administration. There is no reason to include them in an Obamacare repeal.

With the spotlight on healthcare, this is a rare opportunity for real reform. If Congress embraced this opportunity and took the time necessary, we could truly reduce the cost of health care by addressing issues like tort reform, allowing the sale of insurance across state lines, and the expansion of health savings accounts.

I am a strong supporter of repeal and replace and look forward to working with you on these changes to ensure that we have a replacement that works for the federal government, works for the states, and most importantly, works for the people of Arizona and the nation.

Sincerely,



Douglas A. Ducey
Governor
State of Arizona
