



STATE OF ARIZONA

JANICE K. BREWER  
GOVERNOR

EXECUTIVE OFFICE

October 6, 2009

The Honorable Max Baucus  
United States Senate  
Chairman, Senate Finance Committee  
511 Hart Senate Office Building  
Washington DC 20510

Dear Chairman Baucus:

I have been following the debate on federal healthcare reform with interest, and I have been working closely with members of Arizona's Congressional delegation to make sure they are well informed about the impact of the various proposals on our state. I am concerned that the proposals under consideration thus far do not consider the fiscal difficulties states are facing and are likely to continue to face over the next few years. Like many, I was particularly focused on the proposal that would emerge from the Senate Finance Committee, and I hoped that your plan would appropriately address state concerns. Given the continued lack of attention to state issues in the Chairman's Mark, I believe it is critical to provide you with my perspective on the state of my state, and how your proposal will impact Arizona.

By way of background, Arizona is wrestling with one of the most challenging economic downturns in state history. Arizona's economy is heavily focused on construction, real estate and the service sector, all of which have experienced declines that have combined to create a severe and lasting recession. While experts are expressing reserved optimism that the national economy may be turning the corner, it is likely that states – including Arizona – will not feel that turnaround for some time to come.

For example, the revenue collections during the most recent fiscal year for Arizona declined by 18 percent. Through the first quarter of the latest fiscal period, revenues from our three major tax sources have decreased an additional 10 percent. Our budget declines are contrasted with our rising Medicaid enrollment, which has grown by 18 percent over the past 12 months. At this time, one in five Arizonans is covered through the Medicaid program and we expect Medicaid enrollment to remain at elevated and unsustainable levels through the near future.

Arizona cannot afford our *current* Medicaid program, despite the fact that we have one of the lowest per member per year costs in the country. Arizona's General Fund spending on our Medicaid agency has increased by 230 percent over the past ten years, rising from 8 percent of total General Fund spending in fiscal year 1998-1999 to 16 percent ten years later. As part of the solutions for our current year's budget shortfall, we have had to reduce Medicaid provider

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reimbursement by over \$300 million and freeze institutional reimbursement rates, resulting in an additional loss of more than \$60 million. However, budgetary savings cannot be achieved solely through provider reductions. Arizona also recently made the difficult decision to eliminate coverage for 9,500 parents of children enrolled in our Children's Health Insurance Program. Looking forward to fiscal year 2010-2011, we know that further reductions will be necessary.

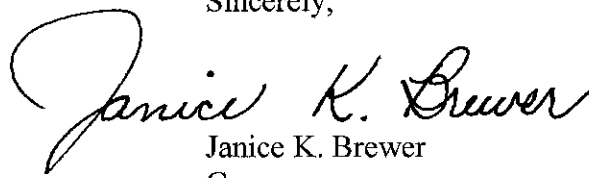
Despite these reductions, we are sacrificing other state programs that impact the education, health and safety of our children and our seniors in order to cover the growing costs of Medicaid. Considering this, it is incomprehensible that Congress is contemplating an enormous unfunded entitlement mandate on the states. The disconnect between policymakers in Washington and the reality of state and local governments is disheartening.

These are realities that many states across the country are facing. Arizona's situation, however, is compounded by the fact that we have already expanded our Medicaid program to all residents with incomes under 100 percent of the federal poverty level (FPL). This decision means that, under your proposal, our state will be unable to take advantage of the higher level of federal funding that will be provided to states that have not enacted similar expansions. In essence, the Chairman's Mark penalizes Arizona for its early coverage of non-traditional Medicaid populations, like childless adults.

I must also point out my concern that estimates developed at the federal level do not accurately reflect the costs that states will ultimately bear. While I have great respect for the Congressional Budget Office (CBO), in this instance, its estimates are substantially below Arizona's fiscal estimates and I believe they understate the cost of expansion. For instance, the CBO analysis estimates the State cost of the Medicaid expansion *and "woodwork"* to be \$454 million. Arizona has an estimated 200,000 citizens below 100 percent of the FPL that are currently eligible for Medicaid, but not enrolled. If only half of those individuals enrolled, the cost of this "woodwork" effect alone would be over \$2.0 billion for FY 2014 through FY 2019, using the traditional Medicaid match. That is a significant difference for just one small state.

I want to reiterate my opposition to these unfunded mandates on states. I implore you to bear in mind the fiscal realities states are facing as we attempt to maintain responsible balanced budgets while preserving services for our most vulnerable residents. I hope you find this information useful as you consider the various proposals before you, and please do not hesitate to contact my office should you require additional information.

Sincerely,



Janice K. Brewer  
Governor

Cc:

Senator Jay Rockefeller IV

Senator Kent Conrad

Senator Jeff Bingaman

Senator John Kerry

Senator Blanche Lincoln

Senator Ron Wyden

Senator Charles E. Schumer

Senator Debbie Stabenow

Senator Maria Cantwell

Senator Bill Nelson

Senator Robert Menendez

Senator Tom Carper

Senator Chuck Grassley

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Senator Jon Kyl

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Senator Mike Enzi

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