

November 25, 2014

**HAND DELIVERED AND
SENT VIA E-MAIL**

Tom Betlach
Director
Arizona Health Care Cost Containment System
801 East Jefferson
MD 4100
Phoenix, Arizona 85034

Subject: Request To Lift Enrollment Cap On Phoenix Health Plan

Dear Director Betlach:

The Phoenix Health Plan (PHP) respectfully requests that Arizona Health Care Cost Containment System (AHCCCS) lift PHP's enrollment cap.

Section H, paragraph 9 of contract YH14-0001 states that AHCCCS may consider lifting an enrollment cap if at least one of the three following conditions exist:

- A contractor is terminated and increased member capacity is needed;
- Legislative action creates an unforeseen increase in the overall AHCCCS population; or
- Extraordinary and unforeseen circumstances make such an action necessary and in the best interest of the State.

Performance of current contractors, questions raised by AHCCCS regarding the integrity of its procurement process, dramatic shifts in the marketplace directly affecting health plans, and significant and unexpected budget shortfalls have created extraordinary and unforeseen circumstances that justify lifting PHP's enrollment cap. Not only is this action warranted, but it is also in the best interest of the State.

STANDARDS OF EXCELLENCE

PHP has provided high-quality health care to hundreds of thousands of Arizonans for more than thirty years. PHP's relationship with AHCCCS began when PHP was one of the original AHCCCS health plans. At that time, AHCCCS was still very new and the financial risk and required resources were largely unknown and proved to be substantial. Not only did PHP meet these challenges head on, but also, over time PHP grew into an enterprise with hundreds of employees and itself became a gold standard for plan effectiveness, particularly as it relates to

the care of AHCCCS beneficiaries. Further, PHP was the first Medicaid plan in America to be accredited by the National Committee for Quality Assurance.

PHP has also become part of an organization of companies that support the healthcare and economy of Arizona. Abrazo Health Care (Abrazo), a subsidiary of Tenet Healthcare (Tenet) and sister company to PHP, employs thousands of people in Arizona and pays millions of dollars in sales, real estate, and personal property taxes to Arizona per year. Abrazo also owns and operates a wide array of health care facilities in metro Phoenix. Even though Abrazo is a tax paying system, it has never shied away from providing services to Arizona's most vulnerable residents. Two of Abrazo's hospitals – Maryvale Hospital and Phoenix Baptist Hospital – are well known for providing significant amounts of uncompensated care.

PHP's owner, Tenet, demonstrated additional commitment to Arizona by announcing plans to acquire a controlling interest in the Carondelet Health System in Tucson. Tenet's involvement will provide a stabilization plan for those hospitals through capital investment that will result in better access to health care for residents of Tucson. Importantly, the conversion of Carondelet from a tax-exempt system to a tax-paying system will generate millions of dollars in additional tax revenues to the State of Arizona, as well as the affected counties and cities.

A long-term valued partner with AHCCCS, PHP has faced administrative challenges in the recent past, some of which were reflected in PHP's poor response to the AHCCCS RFP and the subsequent enrollment cap. Since the time the enrollment cap went into effect more than a year ago, Tenet has cemented its commitment to Arizona through substantial investments in PHP. PHP in turn has made thoughtful and deliberate transitional changes within the organization, working diligently and cooperatively with AHCCCS staff to promptly address any areas in which additional improvements were needed. It is worth noting that during the past 18 months, PHP has operated at or above standards in almost every category related to quality and efficiency, placing a priority on member care and satisfaction.

Among those transitional changes, PHP undertook an extensive recruitment process to hire a new CEO and executive leadership team. PHP communicated openly with AHCCCS about its recruitment efforts and vetted various hiring decisions with the agency. PHP's new CEO has a deep understanding of the AHCCCS program and knows how to implement successful strategies that meet the goals and objectives of the agency. The sole mission of PHP's executive leadership team is to establish PHP as the market leader among AHCCCS health plans in providing high quality, integrated care in a cost effective, member-centric way.

To this end, PHP's leadership team has successfully implemented several changes to achieve market leadership, operational excellence, and high member satisfaction, including:

- Modernizing PHP's infrastructure and capabilities by skillfully executing the implementation of new clinical and operational platforms, new pharmacy operations and PBM relationships.

- Improving communication with AHCCCS including (i) increased frequency of day-to-day interactions between PHP and AHCCCS leadership on operational matters; (ii) taking advantage of opportunities for technical training with newly added personnel; and (iii) actively participating in quarterly meetings with AHCCCS staff.
- Expanding compliance team capabilities in consultation with AHCCCS which has most recently resulted in the replacement of PHP's compliance officer.
- Implementing Medical Management best practices including (i) newly designed transition of care programs; (ii) streamlined prior authorization processes to decrease provider burden and facilitate delivery of care to the members; and (iii) standardized prior authorization and concurrent review documentation used by nurses and medical directors.
- Focusing on key AHCCCS priorities such as payment reforms, ePrescribing, super utilizer management, dental home program implementation and behavioral health integration for dual eligibles.
- Allocating resources to medical action planning for better analysis and understanding of drivers that impact PHP's Medical Loss Ratio and developing initiatives to address those imbalances.
- Providing leadership for innovative payment reforms by leveraging the assets of PHP and Abrazo's health care delivery system to create new ways of integrating care and aligning incentives to develop new solutions that deliver high quality care and enhanced cost control. PHP aims to be at the forefront of developing and establishing provider-payer shared savings and other integrated operating models.

In addition to Abrazo, another sister company under the Tenet umbrella, Conifer Health Solutions (Conifer), provides substantial support and resources for PHP's efforts. Conifer has provided strategic assistance to PHP as it evolves into a next-generation health plan, capable of delivering innovative, quality care for its members. Conifer's value-based care approach will lead to improved patient healthcare experiences and outcomes. The partnership with Conifer, and especially the sizable investment made in migrating to Conifer's IT systems and platforms, will enable PHP to bring more sophisticated and innovative data reporting methods to bear as it puts into place the provider-payer integration and shared savings initiatives.

Tenet plans to utilize the Phoenix-based health plan business platform for all of its current and future health plan operations across the country. To accomplish this, Tenet will combine the deep, local operating knowledge PHP developed through more than thirty years serving AHCCCS members with investment in the state-of-the-art technical platforms offered by Conifer. To support these efforts within PHP and the other businesses Conifer serves, Conifer is actively considering adding as many as 1,000 new high paying full-time jobs to Arizona. Not only does this action have the promise of enormous economic benefit to the state, it further

demonstrates Tenet's investment in this community and continued commitment to Arizona, which we hope to extend well beyond our current thirty-year relationship.

EXTRAORDINARY AND UNFORESEEN CIRCUMSTANCES

Changes in the healthcare marketplace and Arizona economy over the past year have created extraordinary and unforeseen circumstances such that it is in the best interests of the state to lift the enrollment cap on PHP. These changes include (i) the merger of Banner Health (Banner) with University of Arizona Health Network (UAHN), (ii) the performance of the other contracted plans, and (iii) Arizona's budget shortfall. Furthermore, while it is arguable that legislative action leading to the passage of Medicaid Restoration and Expansion was also an unforeseen circumstance, we acknowledge that this discussion has previously occurred with the agency.

The Banner/UAHN transaction brings highly significant changes to Arizona's health care marketplace. Prior to the merger, Banner was already the dominant system in Arizona. Once the merger is finalized, Banner will expand its leverage in the marketplace and its ability to influence contract negotiations with payers and providers. This concentration of marketplace power and effect on our free market system will undoubtedly have sweeping and long lasting ramifications to our current managed care system.

In addition, AHCCCS recognized that the Banner/UAHN merger raises concerns regarding the integrity of the RFP process, calling into question the fundamental purpose and benefits of a competitive procurement. With no prior experience in AHCCCS health plan operations or management, Banner has acquired the responsibility for two AHCCCS health plans, collectively serving almost 200,000 beneficiaries in 11 counties. It is worth noting that, despite Banner and UAHN assurances that the transaction will have no effect on current operations, one of these health plans has already issued its own RFP for a new administrator to replace the Banner/UAHN entity. Additional marketplace changes can certainly be anticipated.

This uncertainty creates a significant disruption to Arizona's health care delivery system and certainly could not have been foreseen when the RFP process concluded in 2013. While Tenet has no position on the merger, there are unintended consequences associated with the Banner/UAHN merger that cannot be overlooked and clearly merit consideration of PHP's request to lift its enrollment cap. PHP provides an experienced, stable, and collaborative plan to help fill the gap and promote competition in the marketplace.

There is also a series of performance issues with current health plan contractors in Maricopa County including:

- In September 2014, AHCCCS issued notices to other contracted plans, imposing fines in excess of \$1 million dollars collectively, due to each plan's failure to meet performance standards in multiple categories.

- AHCCCS sent a Notice to Cure to a plan due to the plan's failure to create improvements in response to numerous and increasing provider complaints over the course of many months.
- A letter to one of the plans documented AHCCCS personnel witnessing that plan's staff having inappropriate interactions with participating health care providers.
- AHCCCS provided a plan with a letter dated September 3, 2014 that listed four contract violations and observed that AHCCCS "has significant concerns about [the plan's] ability to efficiently and accurately process and pay claims, expeditiously resolve issues, reprocess and pay claims appropriately and timely, and work collaboratively with providers to address and resolve issues."
- Newer plans have reportedly strained to keep up with the operational requirements of administering AHCCCS while absorbing the rapid increase of beneficiaries.

These examples show a number of extraordinary and unforeseen developments during a period when AHCCCS enrollment increased 26% since the start of the year. Plan members bear the brunt of risk and disruption should a plan fail. More than 50% of the beneficiaries in Maricopa County are enrolled with only two health plans. Adding an additional un-capped health plan reduces overall risk to the system in the event of a catastrophic plan failure or other less severe disruption by (1) giving members an additional and time-tested option and (2) by distributing members across a greater number of diverse plans.

ISSUES WITH THE STATE BUDGET

The State's forecasted \$1.5 billion budget deficit is another extraordinary and unforeseen circumstance meriting PHP's request to lift its enrollment cap. State revenue collections have unexpectedly fallen 2.5% below forecasts for the first 4 months of the fiscal year. As a result, the State's revenue forecast has been adjusted downward and is now forecasting almost \$900 million less funding over the next two fiscal years. This depressed revenue forecast combined with a recent court decision forcing the State to immediately increase K-12 education funding by more than \$600 million over the next two fiscal years creates an untenable budget situation.

Lifting the cap on enrollment in PHP will create savings for the State, making a valuable contribution toward the State budget. PHP's capitated rates are approximately 5% less on average than other health plans operating in Maricopa County. AHCCCS' enrollment has increased 26% in the last year. As long as PHP's enrollment cap remains in effect, the State forgoes General Fund savings that could be realized from PHP's more cost-friendly capitation rates.

These savings are available to the State **solely** as a result of increased enrollment in PHP and will accrue without cutting a single service or increasing a single charge to Arizona taxpayers. Because capitated rates are adjusted to account for health plan risk with the PHP enrollment cap lifted, over time these **savings** will further **increase** as PHP enrolls new, healthier beneficiaries.

A hallmark of the AHCCCS program is the principle of managed competition—the ability of the agency to harness the best business practices of the private sector to provide high quality and innovative health care to our poor and vulnerable in the most cost effective manner possible. By lifting the enrollment cap on PHP, AHCCCS will drive greater competition into the program for all AHCCCS health plans resulting in improved patient outcomes, operational efficiencies, and significant cost savings to alleviate our growing state budget deficit.

PHP ASSURANCES

PHP understands that operating without an enrollment cap may entail additional responsibilities and conditions. Accordingly, PHP assures AHCCCS that:

- PHP will offer its new and current members the same level of superior customer service that PHP has historically delivered without disruption.
- PHP, in consultation with AHCCCS, will continue to evaluate its staffing needs in order to deliver high quality, integrated care in a cost effective, member-centric way that is consistent with AHCCCS' goals and priorities.
- PHP will continue its investments in compliance and infrastructure necessary to support a next-generation health plan, capable of delivering innovative, quality care for its members.
- At AHCCCS's discretion, PHP will increase the frequency of in-person meetings between AHCCCS leaders and Plan executive and functional leaders to ensure that on an ongoing basis, PHP continues to exemplify strong execution that is focused on AHCCCS' top priorities.

Additionally, PHP remains committed to working with AHCCCS and its work groups to implement any pilot, incremental, or programmatic improvements in order to deliver timely, efficient, and quality care to plan members as it has done with the ePrescribing, Dual Eligible Integration and other work groups.

CONCLUSION

The capped contract award authorizes the State to lift the cap under any one of three circumstances: (1) a contractor is terminated and increased member capacity is needed; (2) legislative action creates an unforeseen increase in the overall AHCCCS population; or (3) extraordinary and unforeseen circumstances make such an action necessary and in the best interest of the State.

Performance of current contractors, questions raised by AHCCCS regarding the integrity of its procurement process, dramatic shifts in the marketplace directly affecting health plans, and significant and unexpected budget shortfalls have created extraordinary and unforeseen circumstances which justify lifting PHP's enrollment cap. Not only is this action necessary, but it is also in the best interest of the State to lift the enrollment cap.

Please feel free to contact us if you have any questions or require any additional information. The team at PHP appreciates your time and consideration.

Sincerely,



Reginald M. Ballantyne III, FACHE
Senior Strategic Advisor
Tenet Healthcare



Matt Cowley
Chief Executive Officer
Phoenix Health Plan

cc: Michael Veit, Contracts and Purchasing Administrator, AHCCCS