STATE OF TENNESSEE

PHIL BREDESEN
GOVERNOR

5 October 2009

The Honorable Bob Corker
United States Senate
185 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Bart Gordon
United States House of Representatives
2306 Rayburn House Office Building
Washington, DC 20515

Dear Bob and Bart:

The following information is in response to my telephone conversation with Bob last week, and represents our best snapshot of where we are as of Sunday evening the 4th. I hardly need to tell you that these numbers represent a difficult problem for our state.

Projected Tennessee Net New Costs of Senate Finance Reform 2014-2019
$ millions

	Best Estimate	*Optimistic*	*Pessimistic*
New Medicaid Members			
Newly Eligible Members	**$ 175**	*434*	*175*
Already Eligible Not Enrolled	**911**	*488*	*1,361*
Total New Membership	**$ 1,086**	*922*	*1,537*
Cost Savings Offsets			
Elimination of Optional Groups >133%	**$ (78)**	*(78)*	*(78)*
Additional Drug Rebates (net)	**(191)**	*(191)*	*(191)*
TN-CoverTN Elimination	**(91)**	*(91)*	*(91)*
TN-Access TN Savings	**(31)**	*(31)*	*(31)*
TN-CoverRx Savings	**(6)**	*(6)*	*(6)*
	$ (397)	*(397)*	*(397)*
Additional Costs			
Mandated Pharmacy Extensions	**$ 30**	*30*	*30*
Presumptive Eligibility Net Costs	**16**	*16*	*16*
	$ 46	*46*	*46*
Total State Costs of Reform	**$ 735**	*571*	***1,186***

We've maintained good lists of assumptions and sources behind each of these numbers, and if you or your staff would like to review them, we'll certainly make them available to you.

The "Best Estimate" column is neutral to possibly slightly optimistic; the line for "Elimination of 'Optional' Groups" in particular will be difficult, although it has been made clear to us that we are expected to do so. Some of these cuts would be unpleasant (e.g. complete transfer to the Exchange of women with breast or cervical cancer, or institutionalized patients) and will require the specific approval of CMS, which has historically been difficult. I want to acknowledge that the White House, and Nancy Ann DeParle in particular, have been very helpful in facilitating our getting the best information available.

I would also point out two areas that are potential problems that are not incorporated in the table:

1 <u>Broader Pharmacy Benefits ($1.07 billion exposure)</u>. The Baucus bill contains a provision that <u>Exchange</u> plans are required to have no lifetime or annual limits on "any benefits" and that the pharmacy benefit design be at least as good as Medicare Part D. We have (as do many states) a much more limited pharmacy benefit than this for Medicaid and I can't imagine that there won't be pressure to extend the Exchange mandated benefit to Medicaid as well. It would cost the state about a billion dollars over the period to do this, and of course there are many sub-areas of restrictions and controls such as mandates in the areas of preferred drug lists, prior authorization criteria, quantity limits, or additional drug rebate limitations (all of which are present in Part D) that would drive costs up substantially as well.

The fear is that new requirements here would not occur as a single action to be teed-up and discussed in the Congress, but quietly and state-by-state in the ongoing process of renewing waivers, approving state plans, and the like. It is right now the stated intention of Senate Finance to leave the Medicaid pharmacy benefit design alone; it would be of enormous relief to us to get that clearly written into the law.

2 <u>Provider Payment Rates ($2.1 billion exposure).</u> Our analysis is based on an assumption that we will not be required as either a matter of law or practicality to increase provider rates to maintain an adequate provider network with the influx of new patients (and in the environment of federal cuts to Medicare rates). We currently pay on the average at 85% of Medicare (the national average is 72%), but separately from reform have budgeted to reduce these to the equivalent of 79% of Medicare in the next fiscal year as the stimulus money runs out. The cost of increasing provider payments from 79% to 100% of Medicare is $2.1 billion over the 5 ½ year period being considered. [Furthermore, in several states where provider payments have been recently reduced in response to budget needs, providers have filed suit in federal court seeking to prevent them, and in at least two states (California and Washington) have been successful. If this were to happen in Tennessee it would represent a further immediate unbudgeted cost of approximately $113 million annually, or an additional $1.2 – 1.4 billion over the ten year period.]

Bob and Bart, the problem that we're facing is simple: by 2013, we expect to have returned to our 2008 levels of revenue and will have already cut programs dramatically—over a billion dollars. At that point, we have to start digging out—we will have not given raises to state employees or teachers for five years, our pension plans will need shoring up, our cash reserves ("rainy day fund") will have been considerably depleted and in need of restoration, and we will not have made any substantial new investments for years. There will have been major cuts to areas such as Children's Services that we really need to restore. On top of these, there are all the usual obligations that need to be met—Medicaid, for example, will continue to grow at rates in excess of the economy and our tax revenues. It's going to take at least a full decade to dig our way out and back to where we were prior to the recession.

In this environment, for the Congress to also send along a mandatory bill for three quarters of a billion dollars for the health reform they've designed is very difficult. These are hard dollars—we can't borrow them—and make the management of our finances post-recession even more daunting than it already is. We keep a running budgetary estimate for my own use of what we project in the years ahead, and I've attached the current version of it to give you a sense of what we are facing.

I would point out that the problem is entirely recession-related. If our revenues had grown from the 2008 base at the normal average rates we have experienced over the years—good times and bad—we would have well over $2 billion of additional revenue in 2019 (and smaller obligations in the pension area) and would definitely be prepared to accommodate reform.

I very much want to support the President, and Lord knows that we have plenty of people in Tennessee who need help with health insurance. But this is an extraordinary time for us (and we are better off than many other states) and I will appreciate any way in which you can help us manage through this.

Warmest regards,

Phil Bredesen

Phil Bredesen

Attachment

State of Tennessee

10-Year Budget Projection as of 10/4/09

Cumulative Change from Base of 2008 in Millions - Increase / (Decrease)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
I. Available Revenue Growth:											
State Revenue ($10,257 M Base)	$ (1,172)	$ (965)	$ (587)	$ (93)	$ 445	$1,011	$1,452	$1,910	$2,385	$ 2,878	$ 3,389
Base Budget Reductions	177	940	1,420	1,430	1,440	1,450	1,460	1,470	1,480	1,490	1,500
Federal Stimulus Revenue	420	1,055	659	-	-	-	-	-	-	-	-
Total Available Revenue	**$ (575)**	**$1,030**	**$1,492**	**$1,337**	**$1,885**	**$2,461**	**$2,912**	**$3,380**	**$3,865**	**$ 4,368**	**$ 4,889**
II. Absolute Requirements											
Base BEP (PK-12 Education)	$ 93	$ 378	$ 443	$ 269	$ 325	$ 381	$ 437	$ 493	$ 549	$ 605	$ 661
TennCare (current) @ 6.7%	15	182	331	345	525	715	925	1,145	1,375	1,625	1,895
Actuarial Increase in Pension Contr	-	-	150	150	250	250	300	300	350	350	400
Employee Health Insurance Rate Inc	17	46	114	188	268	355	450	553	665	787	920
Subtotal Absolute	**$ 125**	**$ 606**	**$1,038**	**$ 952**	**$1,368**	**$1,701**	**$2,112**	**$2,491**	**$2,939**	**$ 3,367**	**$ 3,876**
Remaining $	$ (700)	$ 424	$ 454	$ 385	$ 517	$ 760	$ 800	$ 889	$ 926	$ 1,001	$ 1,013
III. Base Requirements											
Emp Raises restart 2014	$ -	$ 2	$ 2	$ 7	$ 12	$ 174	$ 341	$ 513	$ 690	$ 872	$ 1,059
Prisons	20	110	84	83	133	143	153	163	213	223	233
Higher Education	83	166	166	1	51	101	151	201	251	301	351
Health and Social Services	4	75	33	51	70	90	110	130	150	170	190
Other Programs	382	503	292	229	364	425	448	491	557	601	645
Subtotal Base Rqmts	**$489**	**$856**	**$577**	**$371**	**$630**	**$933**	**$1,203**	**$1,498**	**$1,861**	**$2,167**	**$2,478**
Remaining $	$ (1,189)	$ (432)	$ (123)	$ 14	$ (113)	$ (173)	$ (403)	$ (609)	$ (935)	$ (1,166)	$ (1,465)
IV. Baucus/Senate Finance Bill	$ -	$ -	$ -	$ -	$ -	$ 66	$ 117	$ 116	$ 130	$ 145	$ 161