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October 9, 2014

Governor Deval Patrick
Massachusetts State House
Office of the Governor
Room 105
Boston, MA 02133

Dear Governor Patrick:

On Monday the *State House News Service* reported your statements that the additional cost to fix the state's healthcare exchange website will not surpass $26 million and that the implementation of the Affordable Care Act (ACA) in Massachusetts, along with the enrollment of more than 400,000 people, is within budget.

Official representations from your administration directly contradict these assertions. In an Official Statement dated July 31, 2013, your administration disclosed the existence of projected cost overruns:

> The fiscal 2014 budget assumes base caseload growth of 2.8% over fiscal 2013. However, MassHealth's most recent re-forecast projects a 3.4% increase in enrollment in fiscal 2014 enrollment. Due primarily to this increase in enrollment, MassHealth is projecting a deficiency of approximately $50 to $100 million gross for fiscal 2014.

In a report prepared by the Executive Office for Administration and Finance and the Executive Office of Health and Human Services for the Joint Committee on Health Care Financing, as required by Outside Section 237 of the GAA dated July 31, 2014, cost overruns were disclosed:

> Anticipated fiscal year 2015 spending on Commonwealth Care will continue to cost the state, on a net basis, more than budgeted assumptions for Health Connector spending on ConnectorCare subsidies during the first half of the fiscal year. The federal contribution to Commonwealth Care is less generous than that for ConnectorCare, leading to net additional state costs over this period of about $10 million per month.

On August 15, 2014, *The Boston Herald* reported:

> Massachusetts will seek another $80 million in federal funding for its new state-based Obamacare website, bringing the total cost of the problem-plagued project to a whopping $254 million, officials said yesterday.

On September 18, 2014, *The Boston Business Journal* cited administration officials stating:

> Massachusetts officials confirmed this week that the state is anticipating a $500 million Medicaid-funding shortfall once the federal government's fiscal calendar comes to a close Sept. 30, an IOU that will ultimately siphon funds from the 2015 budget and sets the table for an even-larger deficit a year from now.

On October 1, 2014, the *Associated Press* reported that:

> A new audit says the federal government overpaid Massachusetts nearly $106 million in Medicaid reimbursements and recommends that the state be ordered to refund the money.

Not all of the news stories are directly related to the ACA implementation. They do, however, call into question the notion that the state is in fact within its budget for implementation.

The *State House News Service* further reported that you underscored that no supplemental appropriation has been required by the legislature. However, as *The Boston Business Journal* reported in an October 3, 2014 front-page story, your administration is employing arcane budgetary practices to avoid requesting a supplemental appropriation for MassHealth. In essence, the administration is pushing current bills into the next fiscal year, a maneuver that increases spending above budgeted levels without accessing the supplemental budget process.

What started as a $140 million "fix" in FY11 grew to a $500 million IOU in FY14. Pushing off today's costs into the next fiscal year does indeed avoid the need for a supplemental appropriation, but this "budget masking" effort makes it virtually impossible for the public to understand the true costs associated with MassHealth operations and the Health Connector failure.

State officials have tried to explain the $500 million MassHealth deficit and its year-over-year growth in response to the September 18th *Boston Business Journal* article in two ways; as resulting from an expansion in the state's Medicaid population and then unspecified "unforeseen events" that have contributed to higher-than-anticipated state costs. State officials have further claimed that most of the unpaid Medicaid expenses in question are eligible for federal reimbursements, although they said the amount of that repayment has yet to be determined.

On federal reimbursements, it should be noted that on June 18, 2014, the federal Centers for Medicare & Medicaid Services notified your administration that Massachusetts would not be eligible to receive the higher federal reimbursement rate for individuals placed in the temporary Medicaid program with incomes between 133 percent and 300 percent of the federal poverty line, and would receive no federal reimbursement for those above 400 percent. In other words, the website's failure means the state will have to find significant additional funds to pay for the medical care of these individuals on Medicaid who would not have been had the website's implementation gone as planned.

Just after the release of our recent report, *The Undisclosed Cost of Developing an Affordable Care Act State Exchange in Massachusetts*, you challenged its findings by making indefensible claims about the costs of the website failure and transition to the ACA. You claimed that "the truth is that Massachusetts is still successfully expanding health care and doing so within budget." Then you went so far as to call the report "spurious" and accused the Institute of being "political."

As regards the charge of playing politics, as you know, throughout your administration, Pioneer has maintained strong working relationships with a number of your appointees, and been pleased to explicitly support many of your initiatives relative to transportation, some areas of transparency and the lifting of the charter school cap in 2010. We have also disagreed on several education, healthcare and economic development issues. Healthy debate makes for a robust public life in Massachusetts; it may also be a significant contributor to the Bay State's role in serving as a national leader in public policy innovation.

As regards the substance of the report, the litany of aforementioned articles may suffice. But allow me to go further. Pioneer's report determined that the total costs associated with the transition and running of an ACA-approved website approximates $1 billion, partially due to the failed rollout of the first website. The report notes that the overruns for the development of the website have been significant, and the costs to provide temporary Medicaid for those unable to sign up with the Connector and for those on extended Commonwealth Care will be well over $500 million this year.

Our estimate included costs for administration, audits, consultants and software related to the Connector website, and the overhaul of eligibility systems at both MassHealth and the Connector — amounts that are not up for debate. Implementation failures have not been limited solely to the health insurance website project, but have affected the budgets of the Connector's administration, contracts at MassHealth and HHS, and the IT Department.

Moreover, the costs are not simply a matter of tallying up "the state share." An analysis of the cost of delivering this project should be all inclusive, as was the case with the Big Dig. The media and public did not divide that important project's costs into "the state share" and "the federal share." The case of the Health Connector should be viewed through the same big picture lens, especially since the commonwealth could easily have opted either to join healthcare.gov at little or no cost to the state, or to stick with a somewhat modified version of the original website, which was working well pre-ACA.

Finally, an all-inclusive analysis does not limit itself to the amount of money spent thus far. Rather, it looks at cost obligations the state and federal governments are assuming into the future. Businesses and families operate this way; responsible state budget officials should do no less. Policymakers (and taxpayers) need to know costs as they are *paid*, *incurred*, and *estimated* for future expenses.

Governor, this isn't the first time you've challenged Pioneer's research. Your administration used a similar tactic in late June regarding a report Pioneer released on the impact of the billion-dollar Life Sciences Initiative, $525 million of which has been spent. That June 2014 report,

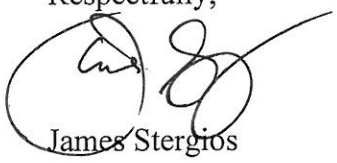
"*Regaining Massachusetts' Edge in Research and Development*," demonstrated that between 2009 and 2013 the Life Sciences Initiative generated a meager 571 new jobs by the most standard methodology used in the industry.

The same week we released our report on the Life Sciences Initiative, and just after a member of your administration panned it, the Batelle Memorial Institute, among the most respected and certainly the world's largest nonprofit research and development organization, concluded that Massachusetts had created only 55 (fifty-five) life sciences jobs over most of the period covered in our report—that is, the period since the passage of the Life Sciences Initiative.

We are confident of our research, because we focus exclusively on the facts and err on the side of caution. Batelle's findings bore out that Pioneer was, in fact, generous in its appraisal of the Life Sciences Initiative's success.

Attorney General Coakley has called the failure to deliver the new website "unacceptable," and asked for "a full accounting of the status of the project." The Attorney General is absolutely right. Pioneer Institute asks that you provide a full accounting for both the website and the transitional Medicaid program, as well as the costs to other agencies, so that, come January, your legacy will include a transparent record of the cost of this historic initiative. With this letter, we are also calling for the Attorney General's office and Inspector General to ensure the level of accountability that the public needs.

Respectfully,



James Stergios

Cc: Martha M. Coakley, Attorney General, the Commonwealth of Massachusetts
Glenn A. Cunha, Inspector General, the Commonwealth of Massachusetts
Daniel R. Levinson, Inspector General, U.S. Department of Health and Human Services