

January 8, 2016

Matt Cowley  
Chief Executive Officer  
Phoenix Health Plan  
7878 North 16<sup>th</sup> Street, Suite 105  
Phoenix, Arizona 85020

**Subject: Response to Request to Lift Enrollment Cap**

Dear Mr. Cowley:

I am writing in response to your November 13, 2015 request that the AHCCCS Administration lift the enrollment cap placed on PHP effective October 1, 2013 pursuant to contract YH14-0001. After thorough and thoughtful review of PHP's request, the AHCCCS Administration has determined that PHP fails to satisfy the contractual provisions which authorize AHCCCS to lift the enrollment cap.

As stated in the AHCCCS March 29, 2013 Notification of Capped Contract to Ms. Novick, Section E Contract Terms and Conditions provides AHCCCS with the discretion to lift an enrollment cap in three very limited circumstances: 1) another Contractor is terminated and increased member capacity is needed, or (2) legislative action creates and 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.

Your letter of November 13, 2015 states that it is based upon "substantial changes in ownership of health plans serving Maricopa County and the significant operational challenges of the most recently announced acquisition involving Health Net Access and Bridgeway Health Solutions (Bridgeway)." Neither of these bases meets the first or second contractual grounds for lifting the enrollment cap. The grounds asserted by PHP justify lifting the enrollment cap only if the circumstances cited constitute "extraordinary and unforeseen circumstances make such an action necessary and in the best interest of the State." The AHCCCS Administration has concluded that the circumstance cited do not provide that justification.

In our review of the justification provided by PHP in its November 13, 2015 correspondence, the AHCCCS Administration applied the following three part test:

1. Has PHP identified both an extraordinary and unforeseen circumstance?
2. If so, is it reasonably likely that the extraordinary and unforeseen circumstance will have a significant negative impact to the AHCCCS system?
3. Is uncapping PHP both in the best interest of the State and also necessary to materially mitigate the significant adverse impact of the extraordinary and unforeseen circumstance to the AHCCCS system?

Regarding the first issue outlined by PHP, as stated in our response to PHP's last request to lift the enrollment cap dated January 16, 2015, changes of ownership in the managed care industry are neither extraordinary nor unforeseeable. In addition, AHCCCS does not agree that changes in ownership, in and of themselves, "create the potential to significantly enhance the risk of interruption of service to members,

adequacy of access to care, and ... potentially negatively impact members and providers” justifying uncapping PHP. While it may be true that any change in the service delivery system presents the “potential” for harm, recent experience demonstrates that any such risk is minimal and manageable.

AHCCCS is experienced in managing through ownership transitions. In addition to managing the transition of PHP’s ownership from Vanguard to Tenet Healthcare, as noted in our January 16, 2015 response, AHCCCS has also successfully overseen the transition of ownership of University of Arizona Health Network’s University Family Care, which also operates Maricopa Health Plan, to Banner Health and Blue Shield of California’s acquisition of Care1st Health Plan. In addition, we recently concluded a rigorous and thorough review of the proposed acquisition of Health Net by Centene. As you know, AHCCCS has an established policy and protocol for reviewing proposed transitions that are designed to minimize risk to the system, providers, and most importantly members. Because the Administration has appropriate safeguards in place, it is the AHCCCS Administration’s position that Managed Care ownership changes (and proposed or potential changes) do not, in and of themselves, present a risk of significant negative impact to the system; therefore, lifting the PHP enrollment cap is not necessary to mitigate those potential risks.

The Administration is confident that these established policies and practices will adequately protect taxpayers and enrollees related to Centene’s acquisition of Health Net. As you know, those policies require the submission of a transition plan to the Administration which must be approved and overseen by the Administration. Past experience clearly demonstrates the ability of the Administration to ensure the appropriate implementation of such plans when changes in ownership are approved.

The AHCCCS Administration values the many years of partnership and collaboration with PHP. And this decision does not reflect a negative opinion on PHP’s activities and efforts as set forth in your letter. However, the Administration cannot, consistent with contract requirements, remove the enrollment cap in response to PHP’s request. The grounds asserted by PHP for ending the cap fail to satisfy the very limited circumstances which authorize the Administration to remove the enrollment restrictions. The circumstances identified by PHP are neither extraordinary nor unforeseen. Likewise, it is our position that the risks and potential risks that may be associated with changes in health plan ownership in general – and with respect to Health Net in particular – are adequately managed by existing policies and procedure for AHCCCS oversight of such changes and do not necessitate lifting the PHP enrollment cap to mitigate potential negative impacts.

Sincerely,



Thomas J. Betlach  
Director