

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

May 22, 2019

Congressman Raúl M. Grijalva
Chairman
Committee on Natural Resources
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am pleased to provide a statement for the record on behalf of the Financial Oversight and Management Board for Puerto Rico, in light of the Committee on Natural Resources' hearing on "The Insular Areas Medicaid Cliff." As always, we are available should the Committee Members have any questions.

Sincerely,

Natalie A. Jaresko

CC: Hon. Ricardo Rosselló Nevares, Governor of Puerto Rico
Hon. Jenniffer González Colón, Resident Commissioner



Financial Oversight and Management Board for Puerto Rico

STATEMENT OF NATALIE JARESKO, EXECUTIVE DIRECTOR, FINANCIAL OVERSIGHT and MANAGEMENT BOARD for PUERTO RICO

House Committee on Natural Resources

Hearing on “The Insular Areas Medicaid Cliff”

May 23, 2019

Chairman Grijalva, Ranking Member Bishop, and Members of the Committee, thank you for the opportunity to provide comments to the Committee on behalf of the Financial Oversight and Management Board for Puerto Rico (the “Board”) specific to Puerto Rico as you examine the Medicaid situation in the U.S. territories and consider proposals to address issues as to federal funding for Medicaid services in the territories.

As the bipartisan Congressional Task Force on Economic Growth in Puerto Rico (the “Congressional Task Force”) concluded in its Report to the House and Senate of the 114th Congress, on December 20, 2016, federal policymakers seeking to address Puerto Rico’s economic and social challenges must include a solution to the future financing of the Medicaid program in Puerto Rico. The Board strongly agrees and previously supported the Bipartisan Budget Act of 2018, which provided additional Medicaid federal funding for Puerto Rico like the Affordable Care Act had.

The Board is very concerned that come September 2019, when that additional funding from the Bipartisan Budget Act and Affordable Care Act expires, Puerto Rico will revert back to the statutorily capped federal funding that it receives for Medicaid, which is a small fraction of what similar states receive. Not only does Puerto Rico have a predefined 55% as its federal matching assistance percentage, but also Section 1108 of the Social Security Act imposes an additional hard, lower cap on Puerto Rico’s Medicaid share.

For example, in fiscal year 2018, the Section 1108 cap for Puerto Rico was just under \$360 million while the total cost of Medicaid in Puerto Rico was over \$2.8 billion. In the absence of one-time funds from Congress through the Affordable Care Act and Bipartisan Budget Act, the cap on matching assistance available to Puerto Rico would have yielded an effective federal match of roughly 13%. Had Puerto Rico received its predefined 55% federal match without a cap, it would have received over \$1.3 billion. Had Puerto Rico received the federal match that the most relevant comparable state gets (Mississippi at 76%), it would have received over \$1.8 billion.

Each dollar that the federal government does not provide for Medicaid the Government of Puerto Rico must find, while it contends with the devastating aftermath of hurricanes Irma and Maria and attempts to resolve its crushing debt burden. Furthermore, without a long-term solution to the Federal government's share of Puerto Rico's Medicaid costs, the Government of Puerto Rico's spending on Medicaid will account for an unprecedented portion of its annual budget. Absent action by Congress, by fiscal year 2021, the Commonwealth's Medicaid costs are projected to comprise roughly 23% of the General Fund's budget.

While urging Congress to address this major shortfall, the Government of Puerto Rico and the Board have been working on a series of reform priorities for the Island's healthcare system to improve the delivery of high quality, cost-effective care. In particular, the May 2019 Certified Fiscal Plan for the Government of Puerto Rico requires the Government to:

1. Implement systems and controls (e.g., T-MSIS, Medicaid Fraud Control Unit) to reduce fraud, waste and abuse within the public insurance system and ensure that all current enrollees are qualified to receive benefits;
2. Establish value-based payment models to incentivize better care coordination among providers, particularly for those with chronic conditions who currently generate the majority of the Island's healthcare expenditures and suffer from the worst health outcomes;
3. Enable primary care physicians to provide preventive care and encourage a shift toward lower-cost care settings, reducing the number of emergency room visits; and
4. Ensure communities have the infrastructure and coordination capacity to promote efficiency of services and a community-wide focus on health.

These value-based savings measures represent a joint effort between the Government of Puerto Rico and the Board to permanently "bend the curve" on the Island's unsustainable medical cost growth, while also providing better services to the residents of Puerto Rico.

While these reforms are underway and the Medicaid cliff looms, the Board encourages the Committee and the Congress to support the recommendation of the Congressional Task Force to treat Puerto Rico in a more equitable and sustainable manner under the Medicaid program, in order to improve patient outcomes, to strengthen the health care system on the Island and federal oversight of that system, and to reduce the incentive for migration from the Island to the states and the associated financial costs to state governments and the federal government..

Going forward, the Board believes that federal financing of the Medicaid program in Puerto Rico should be more closely tied to the size and needs of its low-income population and that the Commonwealth's recovery and fulfillment of PROMESA's objectives will be significantly aided by the Congress legislating a long-term Medicaid program solution to mitigate the drastic reduction in federal funding for healthcare in Puerto Rico that will happen later this year absent congressional action.