THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

August 12, 2011

Dear Governor:

I am writing to update you on important opportunities that are available to your state in connection with the establishment of Affordable Insurance Exchanges. These Exchanges – state-based competitive health insurance marketplaces – will help deliver coverage to individuals and small businesses in your state in a way that is simple, seamless, and affordable.

First, we are awarding a new round of "Establishment Grants" – federal funding for states to develop, implement, and establish Exchanges. States can use these grant funds to ensure that key Exchange functions are designed and implemented at the state level and take into account local factors and circumstances. States can apply for these grants on a rolling basis; applications are processed quarterly by HHS. The next deadline for applications is September 30, 2011. Three states have previously received these grants, and today I am pleased to award more than $185 million to 13 additional states and the District of Columbia.

Second, HHS and the Treasury Department today are releasing proposed rules regarding Exchanges that further the goals of making access to affordable health insurance options simple and seamless. These proposed rules provide additional guidance on a simplified process for determining whether individuals are eligible for coverage through Exchanges, for premium tax credits to assist in the purchase of private insurance, or for other programs such as Medicaid or the Children's Health Insurance Program (CHIP). The rules follow guidance published July 15, 2011, which details many of the key areas in which states may choose to tailor their Exchange to meet the particular needs of their small businesses and residents. We expect to modify these proposals based on the feedback we receive from the American people. I encourage you to share your comments regarding these proposals with the Departments, particularly by formally commenting on the proposed rules over the next 75 days.

Furthermore, over the coming weeks, we will actively seek state feedback on these proposed rules through a series of regional meetings. You will be hearing from our HHS Regional Director inviting your state to participate in one of these regional meetings in the near future. I strongly encourage your state to participate. Your feedback – particularly your formal comments on the proposed rules – will significantly help us in the development of the final rules.

The availability of Establishment Grants, along with the flexibility we have provided to states in the development of their Exchanges, creates important opportunities to advance the development of state-based Exchanges. States have several options in implementing Exchanges that can accommodate varying levels of state activity:

> **State-operated Exchange.** Under this option, the state operates all of the functions of the Exchange. HHS will certify state Exchanges by January 1, 2013. However, states can

seek conditional approval if they expect to be ready in 2013. States may also choose to establish a state-operated Exchange in future years.

State Partnership Model. The Exchange could be run in partnership between the state and HHS, with some activities performed by the state and others by HHS. States and HHS can explore using a Partnership model to tailor the Exchange to local needs and market conditions. States can also use this model to transition to running their Exchange independently. We look forward to working with the states to further define this option.

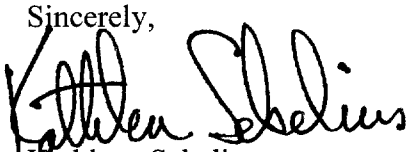
Federally-facilitated Exchange. Under this option, HHS will ensure that there is a functioning Exchange in the state. HHS will work with the state to ensure coordination with the state's ongoing role in managing the private insurance market, Medicaid, and CHIP.

Based on your feedback, HHS is already developing information technology (IT) initiatives to make eligibility determinations easier for states, including a federal "hub" through which HHS will provide certain data verification services to all Exchanges as well as Medicaid and CHIP, rather than requiring Exchanges and these other programs to separately interact with multiple federal agencies.

Substantial federal funding is available now to help states establish an Exchange, with Establishment Grant applications accepted through June of 2012 and funding available through 2014. The "initial open enrollment" for Exchanges – the first period in which new coverage options will be available – is scheduled to begin in the fall of 2013. This means that much of the work in preparation for open enrollment needs to be completed earlier in 2013. As such, I encourage states to have a fully developed grant strategy by early 2012. State Exchange grants can be used to help states determine whether they will operate an Exchange on their own, partner with the federal government, or rely on a federally-facilitated Exchange. I encourage all states to take advantage of this opportunity and use these resources to determine which model will work best for their residents. My staff looks forward to meeting on Exchange implementation with state Exchange grantees on September 19 and 20, 2011 in Arlington, VA.

Since the Affordable Care Act was signed into law, the development of Affordable Insurance Exchanges and implementation of this landmark law more generally have been aided by state leaders who have shared their input and advice with our Department. I hope we will continue to hear from you as we work to develop strong partnerships, establish Affordable Insurance Exchanges and implement other aspects of health reform that will improve our health care system. I look forward to continuing to work with you as we pursue our shared goal of better, more affordable health insurance for all Americans.

Sincerely,



Kathleen Sebelius