

**August 22, 2019**

**ATTORNEY GENERAL RAOUL OPPOSES FEDERAL RULE CREATING BARRIERS FOR UNION DUES DEDUCTIONS FOR HOME HEALTH WORKERS**

**Chicago** — Attorney General Kwame Raoul today joined a coalition of six attorneys general [in a lawsuit](#) opposing the federal government’s rule that undermines workers in Illinois’ Home Services Program, and hundreds of workers nationwide. The new federal rule creates barriers for states to deduct employee benefits and union dues from workers’ paychecks, making it harder for workers to defend their workplace rights and provide quality home and community based care to those in need.

“This rule directly interferes with the rights of Illinois home health workers, who are permitted to have union dues deducted from their wages by Illinois law,” Raoul said. “It is a gross violation of workers’ rights that creates an unnecessary barrier to paying union dues, which hinders workers’ ability to collectively bargain. Allowing workers to unionize creates a stable workforce, benefiting vulnerable Illinois residents who rely on the Home Services Program for quality, in-home care.”

In Illinois, workers in the Home Services Program – personal assistants – provide services to disabled patients, which allow them to remain at home and prevent unnecessary institutionalization. Personal assistants have the right to collectively bargain for better wages, benefits, and training, which results in more stable, quality home care for beneficiaries. These workers are paid with state Medicaid funds. The federal rule both interferes with the ability to deduct payments from homecare workers’ paychecks for worker benefits obtained through collective bargaining, like health care coverage or voluntary union dues, and it directly violates Illinois’ law that provides for and permits these deductions. This rule would disrupt well-established collective bargaining relationships authorized by state labor laws.

On May 6, the U.S. Department of Health and Human Services issued a final rule to reinterpret payment requirements. The rule was primarily based on a supposed need to “eliminate a state’s ability to divert Medicaid payments away from providers,” which would have the effect of no longer allowing union dues to be deducted from personal assistant paychecks. The federal government provided no evidence to suggest that Medicaid payments were being inappropriately diverted.

This lawsuit builds on Attorney General Raoul’s efforts to fight unlawful employment practices. In May, the Illinois General Assembly passed legislation, initiated by Raoul, to establish the Worker Protection Unit within the office of the Attorney General to better protect Illinois workers from wage theft and other unlawful employment practices. The measure is currently on the governor’s desk awaiting final approval. In April, Raoul testified before the Congressional House Appropriations Labor, Health and Human Services, and Education Subcommittee about the wage theft crisis and the importance of having the federal government as a partner in these efforts.

Joining Raoul in the lawsuit are the attorneys general of California, Connecticut, Massachusetts, Oregon, and Washington.

1 XAVIER BECERRA  
Attorney General of California  
2 KATHLEEN BOERGERS  
Supervising Deputy Attorney General  
3 NIMROD P. ELIAS  
ANNA RICH, State Bar No. 230195  
4 Deputy Attorneys General  
1515 Clay Street, 20th Floor  
5 P.O. Box 70550  
Oakland, CA 94612-0550  
6 Telephone: 510-879-0296  
Fax: 510-622-2270  
7 E-mail: Anna.Rich@doj.ca.gov  
Attorneys for Plaintiff State of California, by and  
8 through Attorney General Xavier Becerra

9 *Additional Counsel Listed on Signature Page*

10 IN THE UNITED STATES DISTRICT COURT  
11 FOR THE NORTHERN DISTRICT OF CALIFORNIA  
12  
13  
14

15 **STATE OF CALIFORNIA, BY AND THROUGH**  
**ATTORNEY GENERAL XAVIER BECERRA;**  
16 **STATE OF CONNECTICUT; STATE OF ILLINOIS;**  
**STATE OF OREGON AND GOVERNOR KATE**  
17 **BROWN; COMMONWEALTH OF**  
18 **MASSACHUSETTS; AND STATE OF**  
**WASHINGTON;**

19 Plaintiffs,  
20

21 v.

22 **ALEX M. AZAR II, IN HIS OFFICIAL CAPACITY**  
**AS SECRETARY OF THE U.S. DEPARTMENT OF**  
23 **HEALTH AND HUMAN SERVICES; U.S.**  
24 **DEPARTMENT OF HEALTH AND HUMAN**  
**SERVICES,**

25 Defendants.  
26  
27  
28

3:19-cv-02552-VC

**AMENDED COMPLAINT FOR  
DECLARATORY AND INJUNCTIVE  
RELIEF**

Administrative Procedure Act Case

Judge: The Honorable Vince Chhabria  
Trial Date: TBD  
Action Filed: May 13, 2019

## INTRODUCTION

1  
2  
3           1.       Plaintiffs the States of California, Connecticut, Illinois, Oregon and Governor Kate  
4 Brown, Massachusetts, and Washington (collectively, “the States”), bring this action to protect  
5 the integrity of their Medicaid home and community-based services programs against Defendants  
6 the Department of Health and Human Services (HHS) and Secretary Alex M. Azar II  
7 (collectively, Defendants), who have unlawfully attempted to reinterpret the Medicaid Act in  
8 service of anti-union objectives that bear no relationship to the purpose of that Act. In doing so,  
9 Defendants seek to upend careful arrangements created by States to allow older adults and  
10 individuals with disabilities to maximize their autonomy and independence by directing their own  
11 care, with support from state and local governments relating to the financial logistics of paying  
12 care providers.

13           2.       Each of the States has chosen to include consumer-directed home and community-  
14 based personal care services (referred to hereafter as “homecare”) as an element of their Medicaid  
15 programs, in order to provide assistance that eligible individuals who are aged, blind and have  
16 disabilities need to live safely in their own homes and communities, and avoid unnecessary  
17 institutionalization. The type of assistance depends on each states’ unique program design and  
18 individuals’ needs, but generally includes services like paramedical services, accompaniment to  
19 medical appointments, bowel and bladder care, bathing, meal preparation, housecleaning,  
20 laundry, grocery shopping, and protective supervision.

21           3.       Consumer direction allows eligible Medicaid beneficiaries to hire, fire, and  
22 supervise their own care providers. State or local government entities are generally responsible  
23 (with state-to-state variations) for assisting beneficiaries by setting wages and benefits for  
24 providers and authorizing payments for hours of service and/or types of services. Collectively,  
25 the States’ Medicaid programs serve more than 700,000 individuals in need of in-home assistance  
26 through consumer-directed programs.

27           4.       Each of the States has sought to improve the quality and stability of Medicaid  
28 homecare by extending state laws that authorize public-sector bargaining to the homecare

1 workforce and permitting voluntary payroll deductions and/or benefit contributions. Historically,  
2 homecare workers have engaged in difficult, often physically-demanding work and faced low  
3 wages, few benefits, frequent injuries, and unpredictable hours, with no means to collectively  
4 address working conditions. Since States' authorization of collective bargaining, homecare  
5 workers have collectively chosen union representation. Federal and state laws authorize the  
6 direct deduction of voluntary union dues and other benefits customary for employees, such as  
7 health insurance premiums or retirement contributions, from providers' paychecks, or  
8 contributions to benefit trusts on behalf of providers.

9         5.         On May 6, 2019, HHS issued a Final Rule that purports to reinterpret the Medicaid  
10 Act in a manner that would prohibit States from directly withholding these ordinary, voluntary  
11 deductions from homecare workers' paychecks. In doing so, the Rule abruptly and without any  
12 sound rationale or conversations with affected states rescinded a federal Medicaid regulation  
13 confirming the established practice of direct deductions. Defendants' purported basis for this rule  
14 change is a 47-year-old provision of the federal Medicaid Act, 42 U.S.C. Section 1396a(a)(32)  
15 (hereinafter Section (a)(32)), that prohibits assignment of rights to collect payment for Medicaid  
16 services to third parties. Congress enacted that provision to prohibit a fraudulent medical-  
17 financing scheme that bears no relationship whatsoever to legal payroll deductions such as union  
18 dues or other worker benefits. Neither the language of the statute, legislative history, long-  
19 standing judicial construction of Section (a)(32), nor Defendants' own recent rulemaking supports  
20 this new interpretation of the law. Indeed, Congress had not even contemplated the Medicaid  
21 authorities primarily used by the States today to provide consumer-directed homecare services.  
22 The regulation the Secretary seeks to eliminate was not necessary to establish the lawfulness of  
23 payroll deductions to pay for items such as union membership dues or health benefits, because the  
24 anti-reassignment statute did not prohibit them even without the regulation. The Final Rule  
25 announces CMS's intent to enforce its reading of the Medicaid Act and to require States to cease  
26 authorizing payroll deductions, under circumstances set forth in the rule, for union dues and other  
27 workplace benefits.  
28



1 10. Venue is proper in this Court pursuant to 28 U.S.C. § 1391(e) because this is a  
2 judicial district in which Plaintiff the State of California resides and this action seeks relief  
3 against federal agencies and officials acting in their official capacities.

#### 4 **INTRADISTRICT ASSIGNMENT**

5 11. Pursuant to Civil Local Rules 3-5(b) and 3-2(c), there is no basis for assignment of  
6 this action to any particular location or division of this Court.

#### 8 **PARTIES**

9 12. Plaintiff, the State of California, by and through its Attorney General Xavier  
10 Becerra, brings this action. The Attorney General has the authority to file civil actions in order to  
11 protect public rights and interests and promote the health and welfare of Californians. Cal.  
12 Const., art. V, § 13. This challenge is brought pursuant to the Attorney General’s independent  
13 constitutional, statutory, and common law authority to represent the public interest. *See Pierce v.*  
14 *Super. Ct.*, 1 Cal.2d 759, 761-62 (1934) (the Attorney General “has the power to file any civil  
15 action or proceeding directly involving the rights and interest of the state ... and the protection of  
16 public rights and interests.”). As California’s Chief Law Officer, the Attorney General is  
17 responsible for ensuring that the laws of the State are enforced. Cal. Const., art. V, § 13.  
18 Defendants’ Rule undermines California’s statutes.

19 13. Plaintiffs, the State of Oregon and Governor Kate Brown, are represented by the  
20 Attorney General of Oregon, Ellen Rosenblum. Attorney General Rosenblum is the chief law  
21 officer of Oregon and is empowered to bring this action on behalf of the State of Oregon and its  
22 affected agencies under ORS 180.060, ORS 180.210, and ORS 180.220.

23 14. Plaintiff, the State of Washington is represented by its Attorney General, who is  
24 the State’s chief legal adviser. The powers and duties of the Attorney General include acting in  
25 federal court on matters of public concern to the State.

26 15. Plaintiff, the State of Connecticut, is represented by the Attorney General of  
27 Connecticut, William Tong. Attorney General Tong is the chief legal officer of the State of  
28 Connecticut and has the authority to file civil actions to protect Connecticut’s rights and interests.

1 Conn. Const., art. IV, § 4; Conn. Gen. Stat. §§ 3-124, *et seq.* Attorney General Tong is  
2 authorized to bring this action on behalf of the State of Connecticut and its agencies under Conn.  
3 Gen. Stat. § 3-125.

4 16. Plaintiff, the State of Massachusetts, is represented by Attorney General Maura  
5 Healey, as its chief law officer, who is granted traditional common law duties to represent the  
6 Commonwealth and broad statutory authority to act in the public interest. M.G.L. c. 12, § 3;  
7 *Feeney v. Commonwealth*, 373 Mass. 359, 366, 366 N.E. 2d 1262, 1266 (1977).

8 17. Plaintiff, the State of Illinois, is represented by its Attorney General Kwame Raoul  
9 as its chief law enforcement officer. Ill. Constit. Art. V, § 15. Attorney General Raoul has broad  
10 statutory and common law authority to act in the interests of the State of Illinois and its citizens  
11 and to enforce the proper application of funds appropriated to Illinois's agencies. 15 ILCS 205/4.

12 18. The States have an interest in ensuring the stability and quality of their Medicaid  
13 home and community-based service programs. Protection of health and welfare is one of the  
14 traditional police powers of the States. The States rely on Defendants' compliance with the  
15 procedural and substantive requirements of the APA in order to obtain timely and accurate  
16 information about activities that may have significant adverse impacts on their administration of  
17 their Medicaid programs, and to participate meaningfully in an impartial and public decision-  
18 making process that is consistent with the Medicaid Act's purpose of furnishing medical  
19 assistance and rehabilitative services to those in need.

20 19. Each State is aggrieved by the actions of Defendants and has standing to bring this  
21 action because of the injury to its state sovereignty caused by Defendants' issuance of the illegal  
22 rule, including immediate and irreparable injuries to its sovereign, quasi-sovereign, and  
23 proprietary contract interests. In particular, the States will suffer concrete and substantial harm  
24 because the Final Rule frustrates the States' public health interests by attempting to disrupt the  
25 collective-bargaining process that the States have established with respect to independent  
26 Medicaid homecare providers. If CMS enforces the new interpretation set forth in the Final Rule,  
27 it will undermine state laws and contracts that further these interests.  
28

1           20. Defendant Alex M. Azar II is Secretary of HHS and is sued in his official capacity.  
2 Secretary Azar has responsibility for implementing and fulfilling HHS’s duties under the  
3 Constitution, the Medicaid Act, and the APA.

4           21. Defendant HHS is an agency of the United States government and bears  
5 responsibility, in whole or in part, for the acts complained of in this Amended Complaint. The  
6 Centers for Medicare and Medicaid Services (CMS) is an entity within HHS.

7   **STATUTORY BACKGROUND**

8           **I. THE MEDICAID ACT**

9                       **A. Medicaid Generally**

10           22. Title XIX of the Social Security Act establishes Medicaid as a joint federal-state  
11 medical assistance program. *See* 42 U.S.C. §§ 1396 to 1396w-5. All states participate in  
12 Medicaid, and the states’ participation is critical to their ability to provide for the health and  
13 welfare of their residents. All participating states must submit a state Medicaid plan describing  
14 their programs and affirming compliance with the requirements of the Medicaid Act and its  
15 implementing regulations. 42 U.S.C. § 1396a *et seq.*

16           23. Medicaid was enacted for the purpose of “enabling each State, as far as practicable  
17 under the conditions in such State, to furnish (1) medical assistance on behalf of families with  
18 dependent children and of aged, blind, or disabled individuals, whose income and resources are  
19 insufficient to meet the costs of necessary medical services, and (2) rehabilitation and other  
20 services to help such families and individuals attain or retain capability for independence or self-  
21 care.” 42 U.S.C. § 1396-1.

22           24. The Medicaid Act requires the Secretary to “provide such safeguards as may be  
23 necessary to assure that [...] care and services will be provided, in a manner consistent with [...] the  
24 best interests of the recipients.” 42 U.S.C. § 1396a(a)(19). Apart from federal safeguards and  
25 subject to specific state waiver agreements, however, states have a great deal of discretion in  
26 administering their individual Medicaid programs according to state interests and priorities.

27           25. Consumer-directed personal care services that provide in-home assistance with  
28 activities of daily living for residents are optional services that States may choose to cover within



1 their Medicaid programs. Each of the plaintiff States has elected to offer such services in its  
2 Medicaid plan. These services may be covered under a number of different federal Medicaid  
3 authorities, including state plan options, one or more waivers approved by CMS, or both. *See*,  
4 *e.g.*, 42 U.S.C. § 1396d(24) (state plan option); 42 U.S.C. §§ 1396b(c) (waiver authority for home  
5 and community-based services), 1396n(i) (state plan home and community-based services),  
6 1396n(j) (self-directed personal care services), and 1396n(k) (Community First Choice state plan  
7 option). The States also provide federally mandated personal care services when they are  
8 medically necessary for children eligible for early and periodic screening, diagnostic, and  
9 treatment (EPSDT) services.

10 26. Many states provide Medicaid homecare services through private agencies that  
11 employ homecare workers. Some states, including Plaintiffs, also use consumer direction,  
12 sometimes also referred to as the “individual provider model” or “individual provider mode,”  
13 whereby eligible Medicaid beneficiaries hire, fire, and supervise their own homecare providers,  
14 but the state finances the services through Medicaid, and state or local government entities set  
15 wages and benefits for providers and authorize hours of service and types of services.

16 27. State and federal governments share responsibility for funding Medicaid. Federal  
17 dollars provide at least fifty percent of the funding for the States’ Medicaid personal care services  
18 benefits.

### 19 **B. The Medicaid Act’s Anti-Reassignment Provision**

20 28. The portion of the Medicaid Act at issue in this case provides, in relevant part, that  
21 “no payment ... for any care or service provided to an individual shall be made to anyone other  
22 than such individual or the person or institution providing such care or service, under an  
23 assignment or power of attorney or otherwise [...]” 42 U.S.C. §1396a(a)(32).

24 29. Originally enacted in 1972, Section (a)(32) was intended to address problems  
25 associated with “factoring” in the Medicaid system, a practice where healthcare providers sold  
26 Medicaid receivables at a discount to third parties, who in turn submitted the assigned claims to  
27 the government in their own names. *See* H.R. Rep. 92-231 (1971), *reprinted in* 1972  
28 U.S.C.C.A.N. 4989, 5090. According to a 1971 United States House of Representatives report,

1 “[s]uch reassignments have been a source of incorrect and inflated claims for service and have  
2 created administrative problems with respect to determinations of reasonable charges and  
3 recovery of overpayments.” H.R. Rep. 92-231, *reprinted in* 1972 U.S.C.C.A.N. 4989, 5090.  
4 Section (a)(32) was adopted to prevent such abuses of the Medicaid system.

5 30. The anti-reassignment provision was amended in 1977, to add language expanding  
6 the prohibition on assignment of Medicaid claims to include payment made under “power of  
7 attorney or otherwise,” and to add exceptions to the prohibition. P.L. 95-142, 91 Stat. 1175  
8 (1977). Congress’ intent was “to preclude the use of a power of attorney as a device to  
9 circumvent the existing ban on the use of ‘factoring’ arrangements in connection with the  
10 payment of claims.” H.R. Rep. No. 95-393, 95<sup>th</sup> Cong., 1st Sess., 48 (1977), *reprinted in* 1977  
11 U.S.C.C.A.N. 3039, 3051. The legislative history notes Congress’ concern that “[a]lthough  
12 factoring was outlawed under the Social Security Amendments of 1972, factoring firms have  
13 evaded statutory intent by working under a power of attorney arrangement.” *Id.* at 3048. The  
14 amendment thus “clarifie[d] existing law to insure that a power of attorney cannot be used to  
15 circumvent the prohibition in existing law against the use of ‘factoring’ arrangements in  
16 connection with the payment of provider claims by the medicare and medicaid [sic] programs.”  
17 *Id.* at 3045.

18 31. The anti-reassignment statute sets forth a number of exceptions. For example,  
19 Medicaid providers may assign payments to a governmental agency and may appoint an agent for  
20 billing purposes, provided that the agent is not paid based on the amount of Medicaid payments  
21 recovered. 42 U.S.C. § 1396a(a)(32)(B).

22 32. Nowhere does the anti-reassignment statute speak to ordinary payroll deductions  
23 and contributions for items like voluntary health insurance or union dues that are not in  
24 themselves claims to a “payment for any care or service provided to an individual” Medicaid  
25 beneficiary.

26 33. Section (a)(32) has never been construed to apply to practices that do not implicate  
27 Congress’ concerns regarding fraud and abuse. Despite long-standing state laws and practices  
28 authorizing direct payroll deductions and contributions for voluntary worker benefits and union

1 dues, until issuance of the May 6, 2019 Rule, neither Congress nor HHS had ever taken any  
2 action to prohibit routine, authorized deductions from the paychecks of Medicaid providers.

## 3 **II. ADMINISTRATIVE PROCEDURE ACT**

4 34. Pursuant to the APA, 5 U.S.C. § 551 *et seq.*, a reviewing court shall hold unlawful  
5 and set aside agency action, findings, and conclusions found to be “(A) arbitrary, capricious, an  
6 abuse of discretion, or otherwise not in accordance with law; (B) contrary to constitutional right,  
7 power, privilege, or immunity; (C) in excess of statutory jurisdiction, authority, or limitations, or  
8 short of statutory right.” 5 U.S.C. § 706(2).

9 35. The APA defines “agency action” to include “the whole or a part of an agency  
10 rule, *order*, license, sanction, relief, or the equivalent or denial thereof, or failure to act.” *Id.* §  
11 551(13) (emphasis added); *see id.* § 551(6) (defining “order” to mean “the whole or a part of a  
12 final disposition, whether affirmative, negative, injunctive, or declaratory in form, of an agency in  
13 a matter other than rule making but including licensing”).

## 14 **FACTUAL AND PROCEDURAL BACKGROUND**

### 15 **I. BACKGROUND ON MEDICAID HOMECARE**

16 36. Homecare is difficult and often physically demanding work. Homecare workers,  
17 most of whom are women, have historically faced low wages, few benefits, frequent injuries, and  
18 unpredictable hours, with no means to collectively address such challenges in their interactions  
19 with their individual clients. In part for these reasons, the homecare workforce has typically had  
20 a high rate of turnover, which has a negative impact on Medicaid homecare beneficiaries and  
21 makes it more difficult to develop a well-trained workforce.

22 37. Collective bargaining is one of the tools that States have chosen to employ in order  
23 to improve the quality and stability of the Medicaid homecare workforce. Workers represented  
24 by unions generally enjoy higher wages, benefits, and access to training.

25 38. Only homecare providers who elect to join the union pay dues to the union.  
26 Medicaid home-care providers are not required to pay “fair share” or “agency” fees to cover the  
27 costs of collective bargaining if they decline to join the union. *Harris v. Quinn*, 134 S.Ct. 2618  
28

1 (2014). In all of the States, therefore, direct deductions of union dues are authorized by workers'  
2 voluntary agreement. These agreements do not "assign" any payment or rights to payment to the  
3 union or any other entity. Union dues are a voluntary payroll deduction, just like common  
4 voluntary payroll deductions for health, dental, and vision insurance.

5 39. Workers who provide consumer-directed Medicaid homecare are employed by the  
6 individual person with a disability in need of these services. This allows Medicaid consumers (or  
7 their guardians) to direct their own care through the hiring, firing, and day-to-day supervision of  
8 homecare providers.

9 40. Meanwhile, either the States or local authorities assume responsibilities for general  
10 conditions related to Medicaid homecare providers' employment. Each of the States has  
11 permitted collective bargaining as a key component of these responsibilities. The States or local  
12 authorities negotiate with unions with respect to issues such as determining training requirements,  
13 referral programs, and optimizing wage and benefit packages to allow the States and local  
14 authorities to recruit and better retain a talented pool of homecare workers.

15 41. Paragraphs 42 to 90 below demonstrate some of the ways that the States have used  
16 the collective bargaining process to build, train and stabilize their homecare workforces by  
17 cooperatively addressing working conditions identified as particularly important to homecare  
18 workers within each state. This process relies in part on cooperation between state or local  
19 agencies and professionally staffed workforce representatives to address overarching issues and  
20 find innovative solutions to the problems faced by workers who are often dispersed and isolated.

21 42. As homecare providers have formed unions and advocated for themselves and  
22 their profession, this has had positive effects for both Medicaid beneficiaries and workers. For  
23 example, in some instances unionized homecare workers are more likely to have health insurance  
24 than those without representation. Unions also help reduce worker turnover, a critical factor in  
25 providing high quality care.

26 **A. California's Medicaid In-Home Supportive Services Program**

27 43. California's Medicaid consumer-directed personal care services program, known  
28 as In-Home Supportive Services (IHSS), provides in-home assistance to eligible individuals who

1 are aged, blind and disabled as an alternative to out-of-home care, in order “to enable the aged,  
2 blind or disabled poor to avoid institutionalization by remaining in their homes with proper  
3 supportive services.” Cal. Welf. & Inst. Code § 12300(a). The IHSS program provides in-home  
4 assistance with certain basic tasks of daily living, such as bathing, dressing, meal preparation and  
5 clean up, eating, bowel and bladder care, and taking necessary medications. Cal. Welf. & Inst.  
6 Code §§ 12300(b) & (c); 14132.95(d)(1), (2); 14132.951(c). California has chosen to make a  
7 substantial investment in these services in part to allow recipients to avoid unnecessary and costly  
8 institutionalization, and to protect the rights of Californians with disabilities under the Americans  
9 with Disabilities Act and the Supreme Court’s decision in *Olmstead v. L.C.*, 527 U.S. 581 (1999).

10 44. California’s Medicaid personal care services program is the nation’s largest,  
11 serving more than 594,000 Californians statewide, with over 500,000 workers providing care.

12 45. California was the first state in the nation to seek to improve the quality and  
13 stability of the IHSS provider workforce by extending its public sector bargaining laws to include  
14 these workers. In the early 1990s, the California Legislature authorized and funded the  
15 establishment of county-level public authorities that were able to negotiate contracts with the  
16 workers’ democratically-designated union representatives and coordinate the delivery of IHSS  
17 services across the state. 1992 Cal. Stat. Ch. 722, § 54; 1993 Cal. Stat. Ch. 69, § 55. Building on  
18 the success of this change, the Legislature later required all counties that had not yet done so to  
19 establish public authorities or adopt one of a number of specified alternative methods for  
20 managing the homecare workforce. 1999 Cal. Stat. Ch. 90, § 4; Cal. Welf. & Inst. Code  
21 § 12302.25.

22 46. Homecare workers across California’s counties have joined unions and voted in  
23 favor of union representation. These Medicaid providers are primarily represented by two unions,  
24 SEIU Local 2015 and AFSCME United Domestic Workers. Statewide, more than half of  
25 California’s IHSS workers elect to join the union and to pay their union dues through payroll  
26 deduction.

1           47.     Although the content of collective-bargaining agreements in California varies by  
2 county, all provide wages and benefits that exceed those available to IHSS workers prior to the  
3 introduction of collective bargaining.

4           48.     Some union-negotiated contracts provide benefits such as additional free training  
5 for workers on first aid; stipends for trainings arranged by the county public authority; and  
6 reimbursements for training materials. Some contracts provide for free, job-related supplies, such  
7 as gloves, masks, slide boards, or gait belts for ambulation and transfer.

8           49.     Collective-bargaining agreements in thirty California counties (including the most  
9 populous counties where a majority of IHSS providers reside) provide health, dental and vision  
10 benefits for homecare workers. IHSS providers who elect to receive such benefits in some cases  
11 can pay their employee contributions for the benefits through payroll deduction. As of June 2017,  
12 almost 88,000 active IHSS workers had elected a deduction for health care benefits pursuant to a  
13 collective bargaining agreement.

14           50.     Collective-bargaining agreements in California often contain provisions  
15 establishing statutorily required referral registries, i.e. databases of available homecare providers,  
16 and setting guidelines for how referrals will be made.

17           51.     IHSS workforce representatives frequently participate on behalf of their members  
18 in stakeholder bodies or other policy fora that address access, service delivery, and quality of care  
19 issues within the IHSS program. For example, IHSS provider representatives have played a role  
20 in refining the IHSS provider orientation curriculum; implementing new regulations under the  
21 Fair Labor Standards Act; and developing California's uniform statewide protocols for program  
22 integrity activities.

23           52.     Paychecks for IHSS providers are issued by the State of California. State law  
24 requires that the State of California Controller "shall make any deductions from the wages of in-  
25 home supportive services personnel, who are employees of a public authority ... that are agreed  
26 to by that public authority in collective bargaining with the designated representative of the in-  
27 home supportive services personnel ... and transfer the deducted funds as directed in that  
28

1 agreement.” Cal. Gov’t Code §12301.6(i)(2). Pursuant to this statutory authority, the Controller  
2 deducts agreed-upon costs from IHSS providers’ paychecks.

3 53. These payroll deductions include union dues for all providers who voluntarily join  
4 the union, and, in some counties, payments for health insurance, dental and vision insurance, and  
5 retirement plans for providers who elect those benefits. Such deductions have been made from at  
6 least some California providers’ paychecks since the 1990s.

7 54. Although the vast majority of California’s IHSS providers are employed via the  
8 Individual Provider or consumer-directed mode, a very small number of IHSS providers (about  
9 1,000) are employed only by privately-run agencies. In those cases, the agency is paid through  
10 Medicaid and it is the agency that issues paychecks and deducts any costs for voluntary union  
11 dues or other employee benefits.

#### 12 **B. State of Oregon’s Medicaid Homecare Program**

13 55. Oregon is a joint employer of its direct homecare workforce paid with Medicaid  
14 funds. The State of Oregon, along with the individual Medicaid clients, jointly employ  
15 approximately 30,000 direct homecare workers providing services to over 20,000 Medicaid  
16 recipients each month. Homecare workers provide in-home assistance to individuals with  
17 disabilities and older Oregonians. They assist with basic tasks of daily living, such as bathing,  
18 dressing, meal preparation and clean up, eating, bowel and bladder care, and assistance with  
19 taking medications.

20 56. In 2000, Oregon voters amended the Oregon Constitution to create the Oregon  
21 Home Care Commission and to give homecare workers “the right to form, join and participate in  
22 labor organizations for collective bargaining with the State. Or. Const. art. XV, § 11(3)(f).  
23 Acting on that authority, in 2001, a majority of Oregon homecare workers elected Services  
24 Employees International Union Local 503 as their exclusive bargaining representative. Since  
25 then, the union and State have negotiated collective-bargaining agreements, improving benefits  
26 and increasing salaries for all homecare workers. Statewide, the majority of Oregon’s homecare  
27 workers have elected to join the union and to pay their union dues through payroll deductions.  
28



1           57. As homecare providers have formed unions and advocated for themselves and  
2 their profession, Oregon has experienced a higher quality and more stable homecare workforce.  
3 Tremendous federal and state Medicaid cost-savings result from the expansion of these services.  
4 Additionally, turnover has decreased significantly since homecare workers formed unions. All of  
5 this has promoted greater quality of care and patient safety, to the benefit of Oregon's Medicaid  
6 program.

7           58. The collective-bargaining agreement provides wages and benefits that exceed  
8 those which were available to homecare workers prior to the introduction of collective  
9 bargaining. Benefits available to homecare workers in Oregon include health, vision, and dental  
10 insurance, paid time off through the Oregon Homecare Workers Benefit Trust and the Oregon  
11 Homecare Workers Supplement Trust, as well as training, supplies, career development  
12 opportunities, and an on-line registry that matches individuals needing in-home services with  
13 homecare workers qualified to provide routine, emergency and respite care. The Oregon  
14 Homecare Workers Benefit Trust and the Oregon Homecare Workers Supplement Trust provide  
15 benefits to eligible homecare and personal-support workers covered by the SEIU Local 503  
16 bargaining unit. The Benefit Trust provides dental, vision, and employee assistance program  
17 benefits and PTO benefits to eligible participants. The Supplemental Trust provides assistance  
18 with paying for certain medical premium and out-of-pocket expenses relating to claims covered  
19 under the participant's Trust-Approved Qualified Health Plan or Medicare Plan.

20           59. Paychecks to homecare providers are issued by the State of Oregon. State law  
21 requires the state to deduct from the salary or wages of homecare providers the amount of money  
22 authorized for payment to the designated labor organization. *See* Or. Rev. Stat. § 292.055.  
23 Pursuant to this statutory authority, the Oregon Department of Human Services deducts agreed-  
24 upon costs from homecare providers' paychecks, including voluntary union dues. Deductions for  
25 union dues have been made from Oregon homecare providers' paychecks for close to two  
26 decades.

27 ///

28 ///



1           **C. State of Washington’s Medicaid Personal Care Services Program**

2           60. Washington’s Medicaid personal care services program, which began as a 1915(c)  
3 waiver in 1983 and expanded as a state plan entitlement in 1989, provides in-home assistance as  
4 an alternative to institutionalization to eligible individuals who are functionally disabled. The  
5 program provides in-home assistance with activities of daily living, such as bathing, dressing,  
6 meal preparation and clean up, eating, incontinence care, and taking necessary medications. In  
7 1993, the Washington legislature directed the Department of Social and Health Services to  
8 expand home and community based long-term care options to provide additional opportunities for  
9 beneficiaries to receive care in settings other than nursing homes. Wash. Rev. Code  
10 §§ 74.39A.007, .030. One of the options Washington developed was to build on the existing  
11 state-funded and Medicaid state plan and waiver programs, which support consumers who chose  
12 to self-direct the provision of in-home personal care provided by individual providers.

13           61. Washington has made a substantial investment in this program and has been  
14 successful in reducing the proportion of individuals served in nursing homes. In 1992, there were  
15 36,649 individuals receiving long-term care — 47% received care in nursing homes and 53%  
16 received care in the community. In 2017, there were 65,336 people receiving long-term care —  
17 only 15% received care in a nursing home and 85% received care in their homes or another  
18 community setting. In part because of Washington’s success in providing long-term care in  
19 community-based settings, the AARP ranked Washington’s long-term care system first in the  
20 nation in its 2017 report. In its previous two reports, issued in 2011 and 2014, the AARP ranked  
21 Washington second.

22           62. A large part of this success has been the ability to invest in individual provider  
23 wages, benefits, and the attainment of new skills to meet the changing needs of the beneficiaries  
24 served in their own homes. Washington has partnered with the federal government on funding  
25 these critical investments to ensure an accessible and available workforce since 1995 when the  
26 state began paying for health insurance and training for in-home workers.

27           63. At any given point in time, about 37,000 Medicaid beneficiaries in Washington  
28 have chosen to receive personal care in their homes from a workforce of around 45,000 providers.

1 The average monthly in-home personal care benefit is 101 hours. Altogether, it adds up to around  
2 50,000,000 hours of in-home personal care services provided by individual providers per year.  
3 Washington will expend about two billion dollars for federal fiscal year 2018 to provide long-  
4 term care services to some of its most vulnerable citizens. Of that total, about one billion dollars  
5 is for the services of individual providers, of which the federal financial participation amounts to  
6 almost \$618,000,000.

7 64. In 2001, the people of Washington passed Initiative 775, which granted collective-  
8 bargaining rights to individual providers. Wash. Rev. Code § 74.39A.270. Individual providers  
9 are public employees solely for the purposes of collective bargaining. *Id.* In August 2002, 84%  
10 of the individual provider bargaining unit members who participated in the election voted for  
11 union representation with a bargaining unit of 25,500 homecare workers at the time. These  
12 Medicaid providers are represented by SEIU 775. Of the group of individual providers paid  
13 between August 2018 and January 30, 2019, 78% (over 40,000) have chosen to join the  
14 union and have dues deducted from their payments.

15 65. In 2011, the people of Washington passed Initiative 1163, which requires  
16 additional training and certification requirements for individual providers. Pursuant to its  
17 collective bargaining agreement with SEIU 775, Washington contributes to trusts to provide these  
18 benefits to the individual providers, and its trust contributions are included as part of the  
19 individual provider Medicaid rate approved by CMS. Washington has worked closely with its  
20 state and federal partners, including the union, to develop and retain a well-trained long-term care  
21 workforce. The union has played a significant role in achieving this goal by successfully  
22 advocating and collectively bargaining for individual providers to have access to healthcare,  
23 training, and retirement benefits. The compensation and benefits package for individual  
24 providers also helps beneficiaries who receive personal care services by supporting a well-trained  
25 workforce and attracting new providers to the workforce.

26 66. Washington negotiated and implemented healthcare benefits for individual  
27 providers in 2005, training benefits in 2009, and retirement benefits in 2015. Washington has  
28 operated these programs with CMS approval and reimbursement since implementation in 2005,

1 including the approximately nine-year period prior to the promulgation of 42 CFR §447.10(g)(4).  
2 As CMS has continually allowed the state's payment methodology for individual providers over  
3 the past decade, Washington has made significant investments in the individual provider benefits  
4 package and the infrastructure necessary to operate the individual provider system.

5 67. If Washington is prohibited from making these contributions, it could have a  
6 devastating impact on the state's ability to recruit and retain a well-trained individual provider  
7 workforce. This could cause some of the state's most vulnerable citizens to lose access to critical  
8 in-home services, leaving them at risk or forcing them into institutional settings which will  
9 increase costs to both the state and federal government.

10 68. Individual providers submit their hours to the state and receive payment twice a  
11 month. Washington deducts federal taxes. Pursuant to state law and the collective bargaining  
12 agreement, Washington also deducts voluntary union dues and a \$25 per month healthcare benefit  
13 premium when authorized by the individual provider, and other voluntary deductions as  
14 authorized by the provider. In February 2019, 13,964 individual providers opted to have health  
15 benefits premium deducted from their payments. As noted earlier, a substantial majority of  
16 individual providers have also voluntarily elected to have union dues deducted from their  
17 payments.

#### 18 **D. State of Connecticut's Medicaid Personal Care Services Program**

19 69. Connecticut's Medicaid personal care services program provides in-home  
20 assistance to the elderly and disabled. The program provides in-home assistance with homemaker  
21 services, companion services, meals on wheels, adult day care, transportation, mental health  
22 counseling, care management, occupational therapy, elderly foster care, minor home  
23 modifications, and assisted living services provided in state-funded congregate housing and in  
24 other assisted living pilot or demonstration projects established under state law. Conn. Gen. Stat.  
25 §§ 17b-342, 17b-370, 17b-605a.

26 70. Connecticut's Medicaid personal care services program has approximately 4,300  
27 direct homecare workers providing services to about 15,000 Medicaid recipients each month.  
28

1           71. In 2012, Connecticut enacted legislation creating the Personal Care Attendants  
2 Workforce Council and giving home personal care attendants the right to form labor  
3 organizations for collective bargaining with the State. Conn. Gen. Stat. §§ 17b-706a, 17b-706b.  
4 Connecticut personal care attendants chose New England Healthcare Employees Union, Local  
5 1199, Service Employees International Union as their exclusive bargaining representative, and  
6 collective-bargaining agreements increasing wages and benefits for all personal care attendants  
7 have been negotiated. Statewide, the majority of Connecticut’s home personal care attendants  
8 have elected to join the union and pay their union dues through payroll deductions.

9           72. The current collective bargaining agreement provides wages and benefits  
10 exceeding those available to personal care attendants prior to the introduction of collective  
11 bargaining. Benefits include workers’ compensation, overtime pay for holidays and a training  
12 fund.

13           73. Connecticut law specifically provides for deductions of union dues from the wages  
14 of personal care attendants pursuant to collective bargaining agreements, by a fiscal intermediary  
15 of the State. Conn. Gen. Stat. § 17b-706b(a)(3).

16           **E. Massachusetts’ Consumer-Directed Personal Care Attendant Program**

17           74. Massachusetts has elected to make self-directed personal care attendant services  
18 available to its MassHealth members through the Massachusetts Personal Care Attendant  
19 program. 130 C.M.R. §§ 422.00 *et seq.* Under this program, the MassHealth member—or  
20 consumer—is the statutory “employer” of the Personal Care Attendant (“PCA”), and is fully  
21 responsible for recruiting, hiring, scheduling, training, time-keeping, and terminating PCAs. 130  
22 C.M.R. § 422.420.

23           75. PCAs in Massachusetts provide a range of services to over 40,000 consumers  
24 living at home. These critical services are medically necessary and may include help with  
25 bathing and grooming, dressing, exercises, eating, and toileting. Section 422.410(A). PCAs also  
26 assist consumers with daily household tasks, such as laundry, shopping, cooking, and  
27 housekeeping, and they may accompany consumers to medical appointments. Section  
28 422.410(B). MassHealth consumers rely on these personal care services in order to continue to

1 live safely and with dignity in their own homes. There are currently over 40,820 MassHealth  
2 members receiving such PCA services.

3 76. Since 2006, Massachusetts PCAs are deemed “public employees” for collective  
4 bargaining purposes under M.G.L. c. 150E and for purposes of employee-authorized payroll  
5 deductions. *See* M.G.L. c. 118E, § 73(b) (added by St. 2012, c. 224, § 131, formerly St. 2006, c.  
6 268). At the same time, the Massachusetts Personal Care Attendant Quality Home Care  
7 Workforce Council (“the Council”) was established within the Executive Office of Health and  
8 Human Services, M.G.L. c. 118E, §§ 71-75 (added by St. 2012, c. 224, § 131, formerly St. 2006,  
9 c. 268) “to ensure the quality of long-term, in home, personal care by recruiting, training and  
10 stabilizing the work force of personal care attendants.” M.G.L. c. 118E, § 71(a). Among other  
11 things, the Council acts on behalf of MassHealth consumers, as the employers’ representative, to  
12 collectively bargain with Massachusetts PCAs.

13 77. In 2007, PCAs in Massachusetts voted to elect 1199 SEIU United Healthcare  
14 Workers East to be their exclusive bargaining representative. Their Agreement requires that  
15 union dues be deducted from wages, when PCAs choose to join the union and authorize such  
16 deductions. Such voluntary deductions for union dues have been in place since 2008.

17 78. Consumers are assisted by fiscal intermediaries, who perform certain employer  
18 required tasks for the Consumers. Section 422.419. MassHealth pays fiscal intermediaries for  
19 these services. Section 422.411(C).

20 79. The fiscal intermediary is responsible for “issuing checks to PCAs equal to the  
21 PCA wage component of the PCA rate, with appropriate taxes withheld and other applicable  
22 required withholdings,” Section 422.419(B)(12), and for “paying unemployment insurance taxes,  
23 purchasing worker’s compensation insurance, and preparing the PCA payroll,” Section 422.402  
24 (Employer-required Tasks).

25 80. Workers’ compensation coverage for Massachusetts PCAs is obtained through  
26 policies issued by private insurers in the name of each consumer as the employer.

27 81. Every employer in Massachusetts must purchase and maintain workers’  
28 compensation insurance coverage to promote the health, safety and welfare of workers who are

1 injured regardless of fault. M.G.L. c. 152, §§ 25A and 25C. Those who fail to maintain such  
2 coverage as required are subject to the imposition of stop work orders and criminal enforcement  
3 action. M.G.L. c. 152, § 25C(1)-(2) and (5). Workers' compensation insurance coverage  
4 provides a vitally important social safety net, created in response to strong public sentiment that  
5 the remedies afforded at common law were inadequate to protect workers. *CNA Ins. Cos. v.*  
6 *Sliski*, 433 Mass. 491, 493, 744 N.E. 2d 634, 636 (2001).

7 **F. Illinois's Home Services Program**

8 82. Illinois utilizes individual providers (called "personal assistants") in its Home  
9 Services Program (HSP), which is administered through the Illinois Department of Human  
10 Services.

11 83. By statute, HSP provides in-home care to Illinois residents that are under the age  
12 of 60 to prevent the unnecessary institutionalization of persons in need of long term care and who  
13 meet the criteria for blindness or disability as defined in the Social Security Act. 20 ILCS  
14 2405/3(f). Such services include personal assistant services, homemaker services, home-  
15 delivered meals, adult day care services, respite care, and home modification services. *Id.*

16 84. For purposes of the Medicaid statute (42 U.S.C. § 1396a(a)(32)(A), and its  
17 implementing regulations, 42 C.F.R. § 447.10), the State of Illinois is the employer of the  
18 personal assistants.

19 a. First, the Illinois Public Labor Relations Act identifies the State as a "public  
20 employer," and a "public employee" is defined to include personal assistants  
21 and home health workers who work for HSP. *See* 5 ILCS 315/3(n), (o).  
22 Accordingly, personal assistants are authorized to unionize and to bargain  
23 collectively. 5 ILCS 315/6.

24 b. Second, the Rehabilitation of Persons with Disabilities Act denotes that  
25 home health workers that provide services pursuant to HSP are considered  
26 public employees for purposes of the Illinois Public Labor Relations Act and  
27 permits collective bargaining. 20 ILCS 2405/3(f).  
28

1           85.     In 2003, HSP personal assistants selected SEIU HCII as their majority  
2 representative; later that year, the Illinois General Assembly amended the Illinois Public Labor  
3 Relations Act to permit HSP personal assistants to designate an exclusive representative for  
4 purposes of collective bargaining. 5 ILCS 315/3(f), (n), & (o). In addition, the Illinois  
5 Rehabilitation of Persons with Disabilities Act, which established HSP, contemplates that  
6 individual providers will be compensated at a rate negotiated between the Department of Human  
7 Services and the exclusive representative of the personal assistants under a collective bargaining  
8 agreement. 20 ILCS 2405/3(f).

9           86.     Currently, SEIU represents unionized personal assistants in Illinois. Since 2013,  
10 the union has negotiated a wage increase, as well as health care benefits and paid training that  
11 ranges from basic care to more advanced expertise and certifications like first aid and CPR and  
12 nutrition, exercise, and mental health programs to provide to patients. Personal assistants also  
13 have an accidental death and dismemberment policy, a voluntary dental, vision, and  
14 pharmaceutical benefit, and a number of discount programs.

15           87.     Personal assistants that have chosen to join the union do so voluntarily. Their  
16 union dues are paid only “upon an employee’s written authorization.” 5 ILCS 315/6(f). Further,  
17 the State of Illinois is directed to honor these requests for salary deductions “for payment to any  
18 labor organization designated by the employee.” 5 ILCS 365/4(3). Further, the State of Illinois is  
19 bound by the State Salary and Annuity Withholding Act to make withholdings “for payment to  
20 any labor organization designated by the employee.” 5 ILCS 365/2.

21           88.     Accordingly, the State of Illinois is bound by its current collective bargaining  
22 agreement, which requires the State of Illinois to deduct union dues and initiation fees from  
23 personal assistants who have voluntarily joined the union.

24           89.     Therefore, CMS commentary that personal assistants are not State employees is  
25 not applicable in Illinois.

## 26           **G. Federal Regulations**

27           90.     In 2014, CMS issued added an additional subsection to regulations implementing  
28 Section (a)(32) that provided that “[i]n the class of practitioners for which the Medicaid program



1 is the primary source of service revenue, payment may be made to a third party on behalf of the  
2 individual practitioner for benefits such as health insurance, skills training and other benefits  
3 customary for employees.” 42 C.F.R. § 447.10(g)(4). In issuing this regulation, CMS stated that  
4 deductions used to pay “costs customary for employees” fall within the scope of this addition.  
5 *See* 79 Fed. Reg. 2948-1, 3001 (Jan. 16, 2014). Union dues are never mentioned in the  
6 regulation, nor were they addressed specifically by CMS at any point in the rulemaking process.

7 91. In its notice of final rulemaking, CMS reiterated that the purpose of  
8 Section (a)(32) “was to prohibit factoring arrangements, and not to preclude a Medicaid program  
9 that is functioning as the practitioner’s primary source of revenue from fulfilling the basic  
10 responsibilities that are associated with that role.” 79 Fed. Reg. 2948-01, 2949 (Jan. 16, 2014);  
11 77 Fed. Reg. 26362, 26381 (May 3, 2012) (proposing rule and noting that purpose of  
12 Section (a)(32) was to prohibit factoring). According to CMS, direct payments of customary  
13 employee benefits, remitted to third parties on behalf of the Medicaid practitioner for a stated  
14 purpose, was “not contemplated” under the Medicaid Act. 79 Fed. Reg. at 2949.

15 92. The homecare workers described in paragraphs 42-89 are a class of Medicaid  
16 practitioners whose primary source of service revenue is the Medicaid program.

## 17 **II. DEFENDANTS’ 2019 ILLEGAL RULE CHANGE**

18 93. On July 12, 2018, Defendants proposed a new rule, “Reassignment of Medicaid  
19 Provider Claims,” 83 Fed. Reg. 32252, rescinding subsection 447.10(g)(4). The proposed rule  
20 provided a thirty-day public comment period, rather than the more typical sixty-day period for  
21 public comment. Notwithstanding the absence of any mention of unions or union dues in the  
22 2014 regulation or the statute, Defendants suggested that the impact of the proposed rule would  
23 be to prohibit states from “reassigning homecare workers’ dues to unions.” 83 Fed. Reg. at  
24 32254.

25 94. Shortly after release of this proposed rule, Plaintiffs wrote to Defendants  
26 expressing deep concern about the proposed rule. They explained that a sixty-day comment  
27 period was needed “in order to allow affected parties to weigh in and provide information to HHS  
28 on the many aspects where the agency says it lacks information.” Defendants effectively denied



1 these requests. In the following weeks, thousands of interested parties submitted comments  
2 opposing the proposed rule.

3 95. On May 6, 2019, Defendants published the final Rule. 84 Fed. Reg. 19718.

4 96. The Rule itself does nothing more than rescind subsection 447.10(g)(4). The  
5 preamble makes clear, however, that Defendants have fashioned a novel interpretation of  
6 Section (a)(32) in order to try to prohibit states from making ordinary payroll deductions or  
7 contributions on behalf of Medicaid providers, including those who provide homecare.

8 97. The Rule offers no coherent explanation why Section (a)(32)'s rule that payments  
9 "for any care or service provided to an individual shall [not] be made to anyone other than such  
10 individual or the person or institution providing such care or service, under an assignment or  
11 power of attorney or otherwise" should suddenly be interpreted to apply to ordinary, voluntary  
12 payroll deductions and contributions.

13 98. Defendants concede, as they must, that Congress' purpose in enacting  
14 Section (a)(32) was to prohibit factoring and similar fraudulent practice, yet suggest, without  
15 citation to the legislative history or other relevant evidence, that "we do not believe that this was  
16 necessarily Congress' only concern." 84 Fed. Reg. at 19723. They offer no evidence that  
17 Congress was concerned about state payments of ordinary payroll deductions, or that such  
18 payments are in anyway similar to factoring or other practices with a potential for abuse.

19 99. The Rule relies on the phrase "or otherwise" to suggest that Congress intended the  
20 statute to be broadly applied to "situations that did not involve factoring." *Id.* Because that  
21 phrase comes after more specific words ("under an assignment or power of attorney"), however,  
22 established canons of statutory interpretation dictate that the more general "or otherwise" should  
23 be construed to embrace concepts similar to those described in the more specific preceding list.

24 100. At the time when Congress amended Section (a)(32) in 1977, the statutory  
25 authorities for consumer-directed Medicaid home and community-based services had not yet been  
26 enacted.

27 101. Instead of explaining why Congress would have decided to shoehorn a ban on  
28 states making ordinary payroll deductions and contributions into an anti-fraud statute using a

1 phrase like “or otherwise,” or making clear why this legal interpretation was recognized only  
2 many decades later, Defendants focus on Section (a)(32)’s enumerated exceptions (e.g.,  
3 permitting Medicaid providers to assign payments to a governmental agency or to appoint an  
4 agent for billing purposes), arguing that the fact that these exceptions speak to certain employer-  
5 employee relationships, but not to ordinary payroll deductions, is evidence that Congress intended  
6 to disallow such deductions. This focus is a red herring, because exceptions are irrelevant if  
7 Section (a)(32) does not apply in the first place.

8 102. Even so, the Rule’s analysis of Section (a)(32)’s exceptions is deeply flawed. On  
9 the one hand, Defendants seek to strictly limit interpretation of Section (a)(32)’s exceptions to  
10 those expressly stated by Congress, in order to claim that Congress has spoken “to ‘the precise  
11 question at issue’” and prohibited state withholding of ordinary payroll deductions. 84 Fed. Reg.  
12 at 19719. Yet Defendants conclude, again with no explicit textual support or other evidence, that  
13 “[b]ecause Congress recognized the employer-employee relationship in its list of exceptions,”  
14 they will not interpret Section (a)(32) to prohibit “employee payroll deductions that are made by a  
15 bona fide employer.” *Id.* at 19720. The Rule does not explain or define the term “bona fide  
16 employer.” And Defendant simply ignore the existence of other non-enumerated exceptions to  
17 Section (a)(32) that similarly would seem to fall outside the anti-reassignment statute. *See id.*  
18 (concluding, without analysis, that CMS’ prior recognition of an implied exception for payments  
19 to health maintenance organizations is “outside the scope of this rulemaking”).

20 103. A much more plausible—indeed, the only plausible—interpretation of  
21 Section (a)(32) is that ordinary payroll deductions “were not contemplated” under the Medicaid  
22 Act’s anti-reassignment statute, as HHS concluded in 2014. 79 Fed. Reg. 2948-01, 2949 (Jan. 16,  
23 2014).

24 104. Defendants do not explain what, exactly, motivated the rule change, apart from  
25 unnamed stakeholders and the agency “engaging in a review of the statutory support.” 84 Fed.  
26 Reg. at 19719. Some of the materials cited in the Rule may provide insight into Defendants’  
27 motives. For example, the so-called “Dues Skimming FAQ,” urges HHS “through administrative  
28 action” to “stop the deduction of dues from Medicaid” payments, indicating that the Rule may be

1 motivated by false characterizations of union dues deductions as fraudulent “skimming” of  
2 Medicaid funds. *Id.* at 19726, n.2.

3 105. The Rule disclaims any serious attempt at fact-finding or weighing of the  
4 advantages or disadvantages for Medicaid beneficiaries or other stakeholders. Instead, the “new  
5 policy rests upon [...] solely a new legal analysis.” *Id.* at 19720.

6 106. Nevertheless, the Rule throughout displays a lack of understanding of the  
7 programs it purports to regulate as well as the agency’s responsibilities under the Administrative  
8 Procedure Act to engage in reasoned decision-making.

9 107. The Rule displays a lack of understanding of the complicated and varied joint or  
10 shared relationships that exist between states or counties, Medicaid beneficiaries, and workers in  
11 the context of consumer-directed Medicaid homecare programs, despite many commenters’ focus  
12 on those programs in their objections to the Rule. For example, the Rule asserts that “home  
13 health workers [...] are not employees of the state. As non-employees, such practitioners do not  
14 receive salaries and wages from the state.” *Id.* at 19721. This summary fails to grasp complex,  
15 carefully crafted relationships in which workers are the employee of an individual Medicaid  
16 beneficiary, sometimes jointly employed by the Medicaid recipient and the state or a local  
17 governmental entity, and paid wages by States or their fiscal intermediaries. (The exact specifics  
18 vary by jurisdiction and are described in paragraphs 42-90 above.) The Rule’s suggestion that  
19 subsection 447.10(g)(4) “was specifically applicable to Medicaid enrolled individual practitioners  
20 who provided services on a contractual basis,” *id.* at 19723, is similarly off base.

21 108. To the extent that the Rule contemplates that Medicaid beneficiaries with  
22 disabilities who are the employers of Medicaid homecare workers are just like any other  
23 “employers” who “may withhold taxes and other voluntary deductions for benefits like health  
24 insurance through the payroll process” to remain outside the scope of Section (a)(32), *see, e.g., id.*  
25 at 19720, Defendants likewise show a lack of understanding of Plaintiffs’ programs and their  
26 participants. Medicaid beneficiaries who receive homecare in the Medicaid programs at issue are  
27 allowed to direct their own care, but they have been relieved of responsibility for processing  
28 payroll and/or establishing many of the terms and conditions of employment, including

1 negotiating wages.<sup>1</sup> And for good reason—managing payroll, withholding taxes and voluntary  
2 deductions, and negotiating wages would require Medicaid recipients to shoulder additional  
3 burdens that would be onerous and unreasonable for most.

4 109. The Rule suggests that an individual provider who is harmed by an inability to pay  
5 for items like health insurance through payroll deductions can “seek employment with home  
6 health agencies or other employers that offer benefits.” *Id.* at 19722. This ignores the strong  
7 public policy reasons that federal and state governments have for creating consumer-directed  
8 programs as an alternative to agency-based health care.

9 110. The preamble states that the Rule “will not impact a state’s ability to perform  
10 Financial Management Services (FMS) or secure FMS through a vendor arrangement.” *Id.* at  
11 19719. Yet the definition of FMS functions listed do not include either negotiating wages,  
12 deducting voluntary employee deductions like health insurance or union dues, or making  
13 contributions to benefit trusts on behalf of the providers. *Id.*; *see also id.* at 19724 (stating that  
14 state agencies are “not permitted to ‘pass through’ Medicaid reimbursement for healthcare  
15 services to third parties not recognized under the Medicaid statute”). Many of Plaintiffs’  
16 programs provide payroll support for Medicaid beneficiary-employers yet do not otherwise fit the  
17 FMS description. The Rule makes no effort to apply its reasoning to any of the actual state  
18 programs that were described in public comments.

19 111. The Rule dismisses any reliance interests as “not serious.” *Id.* at 19720. In doing  
20 so, the Rule ignores substantial evidence of serious reliance interests articulated by numerous  
21 States and stakeholders, including by representative of some of the hundreds of thousands of  
22 Medicaid homecare beneficiaries. *See, e.g.*, Aug. 13, 2019 Letter from Justice in Aging,  
23 Disability Rights Education & Defense Fund, and Disability Rights California (noting that the  
24 proposed rule “harms consumers and providers without offering any countervailing benefits”).

25 112. Defendants incorrectly attribute Plaintiffs’ reliance interests to subsection  
26 447.10(g)(4), promulgated in 2014. But Plaintiffs’ reliance interests stretch back at least to the

27 <sup>1</sup> There are some Medicaid homecare programs that do give beneficiaries this type of budgetary  
28 authority, but they are relatively small and are not the subject of Plaintiffs’ comments or  
complaint.

1 early 1990s, when California started authorizing direct deduction of union dues and other  
2 voluntary benefits, and thus cannot be pegged to the 2014 regulations. Prior to 2014, CMS for  
3 years approved state plans, conducted audits and reviews, conducted discussions with states and  
4 stakeholders, and approved invoices and payments that reflected state-level deductions for union  
5 dues (and other items).

6 113. At various points in the Rule, Defendants claim that they cannot make factual  
7 findings or provide an impact analysis of the Rule because the thousands of comments received  
8 during rulemaking lacked “substantive analysis” or “documentation.” 84 Fed. Reg. at 19724-26.  
9 Yet it was Defendants who failed to reach out to states for more information prior or after to  
10 promulgating the proposed rule, and who ignored Plaintiffs’ requests to extend the comment  
11 period. Moreover, Defendants largely ignore the substantial comments that they did receive,  
12 relying instead on a few newspaper articles and websites for basic information about the scope of  
13 the Medicaid programs that they administer.

14 114. Most egregiously, Defendants complain that commentators failed to “explain how  
15 or why alleged harms would occur,” *id.* at 19721, and come to the conclusory finding that  
16 elimination of payroll deductions “in no way prevents health care workers from purchasing health  
17 insurance, enrolling in trainings, or paying dues to a union,” *id.*, and thus there is no reason to be  
18 concerned about the impact of the Rule on access to or quality of care. *Id.* at 19724. Yet as  
19 Plaintiffs’ and other stakeholders’ comments laid out in detail, there is as a direct relationship  
20 between maintaining adequate wages and benefits and the ability to attract and retain a qualified  
21 workforce. *See, e.g.*, Aug. 9, 2018 Letter from U.C. Berkeley Center for Labor Research and  
22 Education (describing research regarding the benefits of strong unions in the context the home  
23 and community services workforce and concluding that “making it more difficult for homecare  
24 workers to voluntarily contribute to their union [...] could result in lower worker wages, higher  
25 worker turnover, greater worker shortages, poorer quality of care, and an increase in the overall  
26 cost of long-term care); Aug. 13, 2018 Letter from SEIU (explaining that ending members’ ability  
27 to “conveniently and securely” contribute to a union “threatens both the progress made in  
28 improving workforce standards as well as the ability of these workers to make further gains in the

1 future”); Aug. 13, 2018 Letter from the State of California (citing research showing that worker  
2 organization “has led to increased retention and training among workers, helping to create a more  
3 stable, efficient and high quality provider workforce”).

4 115. And Defendants disregarded comments from administrators of health and  
5 retirement programs indicating that there is no adequate substitute for direct payroll deductions  
6 and contributions, especially for this population of workers. Defendants’ conclusion that  
7 individual Medicaid homecare providers “remain free to purchase health insurance” and other  
8 benefits after receiving payment thus fails to address an important aspect of the problem. *See,*  
9 *e.g.*, Aug. 13, 2018 Letter from Health Care Employees/Employer Dental & Medical Trust  
10 (“[w]ithout the automatic deduction through payroll, many workers would find it difficult to  
11 maintain the payments for coverage[.]”); Aug. 13, 2018 Letter from Healthy San Francisco  
12 (noting that elimination of a payroll deduction option would cause health plan to incur extra costs  
13 for mailing and billing as well as an increase in uninsured workers that would in turn cause a  
14 “steep rise in administrative costs” to the plan).

15 116. The Rule also incorrectly concludes that the costs of payments for those with bank  
16 accounts or debit cards are “negligible since deductions can be set up through financial  
17 institutions and can often easily be set up online.” 84 Fed. Reg. at 19727. This ignores abundant  
18 evidence in the record that bank account debits are not an adequate replacement for payroll  
19 deductions and contributions, especially for low-wage workers. Indeed, despite a multi-year  
20 effort, California has direct deposit only for approximately 40 percent of all providers. The  
21 suggestion that workers should simply buy stamps and envelopes to mail their contributions for  
22 voluntary health, retirement, and union dues on a monthly basis is unreasonable; no other type of  
23 worker is expected to go without the convenience and reliability of direct payroll debits.

24 117. Moreover, while the Rule appears to suggest that assignments would be  
25 permissible if “made to a governmental agency or entity,” 85 Fed. Reg. at 19720, and addresses  
26 permissible assignments for “withholding Federal, state, and local tax and making tax payments  
27 to appropriate tax authorities,” *id.* at 19719, there is no reference to similar assignments for  
28 workers’ compensation insurance coverage. The Rule, instead, creates ambiguity by stating that

1 “whether a particular assignment is permitted... will depend on the particular facts of the  
2 arrangement.” *Id.* at 19720.

3 118. The Rule constitutes a final agency action for purposes of judicial review. 5  
4 U.S.C. § 704.

5 **III. DEFENDANTS’ FINAL RULE HARMS THE INTERESTS OF PLAINTIFF STATES AND**  
6 **THEIR RESIDENTS**

7 **A. The Final Rule Undermines Collective Bargaining Relationships and**  
8 **Harms State Medicaid Programs and Beneficiaries**

9 119. The Secretary’s restriction on the withholding of union dues and other benefits  
10 from provider paychecks would harm the integrity of the States’ Medicaid programs and millions  
11 of state Medicaid beneficiaries and workers.

12 120. The States have each decided to authorize direct payroll deductions for the purpose  
13 of enabling workers’ payment of voluntary union dues. Direct payroll deductions are a reliable  
14 and well-established method for making these payments, especially for a diffuse workforce.  
15 Direct payroll deductions avoid the unnecessary hardships that may be caused by direct debits  
16 from the bank accounts of homecare workers who have such accounts, as well as the unnecessary  
17 administrative challenges involved in payment by check or cash.

18 121. Overall, automatic payroll deductions and trust contributions on behalf of workers  
19 have facilitated the emergence of stable collective bargaining relationships that have improved  
20 the quality of the provider workforce and reduced provider turnover. The Final Rule would  
21 weaken those relationships and make it harder for the States to maintain an adequate homecare  
22 workforce in an already challenging labor market.

23 122. The States have a strong interest in permitting union members’ payment of their  
24 voluntary dues through payroll deduction. Unreliable payments of union dues would reduce the  
25 strength and stability of funding available for workforce representation, impairing unions’ ability  
26 to serve their members. Unions would likely have to reduce the technical advice and training  
27 they provide to homecare workers, as well as curtail participation in stakeholder activities. The  
28 States have sovereign interests in the public policy-making process, and that process is improved



1 when official representatives of the Medicaid personal care workforce have necessary resources  
2 to participate in a range of stakeholder activities.

3 123. Implementation of the Final Rule and Defendants' new interpretation of the  
4 Medicaid Act would disrupt a myriad of reliance interests embodied in existing collective  
5 bargaining agreements, all of which assume the availability of direct deductions and contributions  
6 as a way to pay for union dues and other voluntary, bargained-for benefits.

7 124. The Final Rule will allow Medicaid providers who work for homecare agencies—  
8 but not providers hired directly by Medicaid beneficiaries via the Independent Provider mode to  
9 do identical work—to avail themselves of payroll deductions and contributions for union dues  
10 and other voluntary, bargained-for benefits. This unfairly burdens beneficiaries who prefer to  
11 hire providers directly.

12 125. Finally, any changes to the States' Medicaid personal care services program that  
13 reduce the quality or stability of providers create real human costs for the beneficiaries of those  
14 programs, as well as undermine their *Olmstead* rights to receive services in the most integrated  
15 setting. Individuals who are aged, blind and disabled and need assistance to perform activities of  
16 daily living are better served by consistent and well-trained caregivers.

17 126. Alternatively, if the States choose to forego federal matching funds for these  
18 programs in order to avoid Defendants' Final Rule, that decision would cause other serious harms  
19 to the States. Because federal funds provide more than half of all funding for Medicaid  
20 consumer-directed personal care services, loss of these dollars would have devastating budgetary  
21 impacts on the States' ability to provide Medicaid services to seniors and persons with  
22 disabilities. The Final Rule would force States into a choice between limiting access to these vital  
23 services, harming both Medicaid recipients and workers, or risk foregoing all of the interests that  
24 the States have determined are furthered by their authorization of payroll deductions for homecare  
25 worker dues and contributions for other benefits.

26 **B. The Final Rule Imposes Unnecessary and Burdensome Costs Upon States**

27 127. Implementation of the Final Rule would unnecessarily increase the administrative  
28 burdens on and costs to State agencies and broader health care delivery systems.



1           128. For example, many counties in California offer Medicaid homecare providers the  
2 option to enroll in local healthcare coverage through community-based, not-for-profit health  
3 plans. To the extent that the Final Rule purports to prohibit providers from electing to have their  
4 premiums paid through their paycheck, health plans will have to establish a significant new  
5 administrative structure to bill, account manage enrollment for thousands of individuals on a  
6 monthly basis. And Washington has negotiated with SEIU 775 to contribute to a health benefits  
7 trust which provides health care to eligible individual providers who choose to enroll and  
8 authorize deduction of health care premiums. The Final Rule arbitrarily removes a convenience  
9 that is enjoyed by the vast majority of Americans with employer-based health insurance.

10           129. By increasing the likelihood that providers in many instances could lose health  
11 insurance due to failure to pay required monthly contributions, the Rule places the health  
12 insurance of providers at risk and undermines the overall financial health and stability of such  
13 benefit programs, and of providers themselves.

#### 14           **C. The Final Rule Impermissibly Intrudes Upon State Sovereign Interests**

15           130. As described above, the Medicaid Act provides no authority for Defendants to  
16 impose their new interpretation of the Medicaid Act to prohibit deductions and contributions of  
17 voluntary union dues and other benefits.

18           131. In addition to harms to the States' personal care services programs, beneficiaries  
19 and workers, the Final Rule interferes with the States' exercise of their inherent, traditional police  
20 powers, including their ability to regulate employment relationships.

21           132. When Congress enacted Section (a)(32) of the Medicaid Act, it did not intend to  
22 interfere with state labor laws, let alone make its intent to do so "unmistakably clear in the  
23 language of the statute." *Gregory v. Ashcroft*, 501 U.S. 452, 460 (1991) (quoting *Atascadero*  
24 *State Hospital v. Scanlon*, 473 U.S. 234, 242 (1985)).

25           133. Defendants' change in interpretation of the Medicaid Act further interferes with  
26 the States' authority to enact and enforce laws that promote the health and safety of their  
27 residents, especially the States' most vulnerable residents. If States do not accept such conditions  
28 for their federal Medicaid programs, or if Defendants withhold funding from States on the basis

1 of these requirements, the States could collectively lose \$6 billion in critical funds that would  
2 otherwise go to healthcare services for State residents.

3 134. The States will all have to change their state laws and policies in order to comply  
4 with Defendants' new interpretation Section (a)(32), and any enforcement thereof. 84 Fed. Reg.  
5 at 19723 ("if state law(s) and/or regulation(s) conflict [...] the state Medicaid agency will need to  
6 take corrective action to comply"). This would involve unnecessary changes to an approach to  
7 service delivery that States have found to be an effective tool to deliver needed services to seniors  
8 and persons with disabilities through a stable, trained workforce. It would also compromise  
9 States' and localities' abilities to adhere to collective bargaining agreements that provide for  
10 direct debits and contributions on behalf of individual providers of union dues and other  
11 negotiated benefits.

12 135. The States should not be faced with the impossible choice of agreeing to an  
13 unlawful new requirement for their Medicaid home and community-based services programs, or  
14 foregoing Medicaid funds and losing critical public healthcare dollars that could result in the  
15 elimination of these optional services from the States' Medicaid programs, all to the detriment of  
16 the States' residents.

### 17 **FIRST CAUSE OF ACTION**

#### 18 **(Violation of APA; 5 U.S.C. § 706—Not in Accordance With Law)**

19 136. Paragraphs 1 through 135 are realleged and incorporated herein by reference.

20 137. Defendants' interpretation of the Medicaid Act, on which the Final Rule is  
21 premised, is not in accordance with law. Section (a)(32) of the Medicaid Act does not prohibit  
22 the voluntary deduction of union dues from personal care services provider paychecks. These  
23 type of deductions clearly do not involve payments "under an assignment or power of attorney or  
24 otherwise"; automatic deductions and contributions are simply a convenient means for paying  
25 voluntary union dues and other customary benefits such as health, dental, and vision insurance.

26 138. Because Defendants' new Rule is not in accordance with the Medicaid Act, the  
27 Rule is invalid.  
28

1 **SECOND CAUSE OF ACTION**

2 **(Violation of APA; 5 U.S.C. § 706-Arbitrary and Capricious)**

3 139. Paragraphs 1 through 138 are realleged and incorporated herein by reference.

4 140. By promulgating this new Rule, Defendants have acted arbitrarily and capriciously  
5 and abused their discretion. Defendants have relied on factors that Congress did not intend them  
6 to consider, failed to consider important aspects of the program the agency is addressing, and  
7 have offered no explanation for the new Rule that is consistent with the evidence before the  
8 agency. *See Motor Vehicle Mfrs. Ass'n of the U.S. v. State Farm Mut. Auto Ins. Co.*, 463 U.S. 29,  
9 43 (1983).

10 141. Moreover, CMS failed to consider serious reliance interests engendered by  
11 decades of practice permissible under the governing statute, without any sufficient explanation for  
12 its novel interpretation of a 1970s-era prohibition on assignment of provider claims. *See Encino*  
13 *Motorcars, LLC v. Navarro*, 136 S. Ct. 2117, 2126 (2016) (declining to defer to agency provided  
14 insufficiently reasoned explanation for “why it deemed it necessary to overrule its previous  
15 position”).

16 142. Because Defendants’ new Rule is arbitrary, capricious, and an abuse of discretion,  
17 the Rule is invalid.

18  
19 **THIRD CAUSE OF ACTION**

20 **(Violation of APA; 5 U.S.C. § 706-Exceeds Statutory Authority)**

21 143. Paragraphs 1 through 142 are realleged and incorporated herein by reference.

22 144. Article I, Section I of the United States Constitution enumerates that “[a]ll  
23 legislative Powers herein granted shall be vested in [the] Congress.”

24 145. Defendants’ Rule is unconstitutional because Defendants overstepped their powers  
25 by exercising lawmaking authority that is solely reserved for Congress under Article I, Section I  
26 of the U.S. Constitution.

27 146. Article I, Section VIII of the United States Constitution vests exclusively in  
28 Congress the spending power to “provide for ... the General Welfare of the United States.”

1           147. Defendants have exceeded congressional authority by purporting to add  
2 substantive new requirements to state Medicaid programs that are not authorized by the Medicaid  
3 Act or any other federal law. The Rule therefore unlawfully exceeds the Executive Branch's  
4 powers and intrudes upon the powers of Congress.

5           148. For the reasons herein, the Rule is unlawful, unconstitutional, and should be set  
6 aside under 28 U.S.C. § 2201.

7   **PRAYER FOR RELIEF**

8           WHEREFORE, the States respectfully request that this Court:

9           1. Issue a declaratory judgment that the Rule, including Defendants' new interpretation of  
10 Section (a)(32), is arbitrary and capricious, not in accordance with law, and that Defendants acted  
11 in excess of statutory authority in promulgating it;

12           2. Issue a declaratory judgment that the Rule, including Defendants' new interpretation of  
13 Section (a)(32), is unconstitutional and invalid;

14           3. Issue an injunction prohibiting the implementation of the Rule, including Defendants'  
15 enforcement of its new interpretation of Section (a)(32);

16           4. Postpone the effective date and/or set aside the Rule, including Defendants' new  
17 interpretation of Section (a)(32), pursuant to 5 U.S.C. § 705, 706(2);

18           4. Award the States' costs, expenses, and reasonable attorneys' fees pursuant to 28 U.S.C.  
19 § 2412; and,

20           5. Award such other relief as the Court deems just and proper.  
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1 Dated: August 22, 2019

Respectfully Submitted,

2 XAVIER BECERRA  
3 Attorney General of California  
4 KATHLEEN BOERGERS  
5 Supervising Deputy Attorney General  
6 NIMROD P. ELIAS

7 /s/ Anna Rich  
8 ANNA RICH  
9 Deputy Attorneys General  
10 *Attorneys for Plaintiff the State of California*

11 WILLIAM TONG  
12 Attorney General of Connecticut

13 /s/ Margaret Q. Chapple  
14 MARGARET Q. CHAPPLE (*pro hac vice*)  
15 Deputy Attorney General  
16 55 Elm Street  
17 Hartford, CT 06106  
18 Telephone: (860) 808-5316  
19 Margaret.chapple@ct.gov  
20 *Attorneys for Plaintiff State of Connecticut*

21 KWAME RAOUL  
22 Attorney General of Illinois

23 /s/ Elizabeth Morris  
24 ELIZABETH MORRIS (*pro hac vice*)  
25 forthcoming)  
26 Assistant Attorney General  
27 100 West Randolph Street, 11th Floor  
28 Chicago, IL 60601  
(312) 814-3000  
emorris@atg.state.il.us  
Attorney for Plaintiff State of Illinois

MAURA HEALEY  
Attorney General for the Commonwealth of  
Massachusetts

/s/ Cynthia Mark  
CYNTHIA MARK (*pro hac vice*)  
Chief, Fair Labor Division  
Massachusetts Office of the Attorney  
General  
One Ashburton Place  
Boston, MA 02108  
(617) 963-2626  
Cynthia.Mark@mass.gov  
*Attorneys for the Commonwealth of*

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*Massachusetts*

ELLEN F. ROSENBLUM  
Attorney General for the State of Oregon

*/s/ J. Nicole DeFever*  
J. NICOLE DEFEVER SBN #191525  
Senior Assistance Attorney General  
Oregon Department of Justice  
Tel (971) 673-1880  
Fax (971) 673-5000  
Nicole.DeFever@doj.state.or.us  
*Attorneys for the State of Oregon and  
Governor Kate Brown*

ROBERT W. FERGUSON  
Attorney General of Washington

*/s/ Alicia O. Young*  
ALICIA O. YOUNG, WSBA No. 35553  
Senior Counsel  
J. PAUL DESJARDIEN, WSBA No. 31614  
Assistant Attorney General  
PO Box 40111  
Olympia, WA 98504-0111  
(360) 709-6470  
Alicia.Young@atg.wa.gov  
Paul.DesJardien@atg.wa.gov  
*Attorneys for Plaintiff State of Washington  
Pro Hac Vice*

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**CERTIFICATE OF SERVICE**

Case Name: **State of California by and through Attorney General Xavier Becerra et al v. Azar** Case No. **3:19-cv-02552**

I hereby certify that on August 22, 2019, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

**AMENDED COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF**

I certify that **all** participants in the case are registered CM/ECF users and that service will be accomplished by the CM/ECF system.

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on August 22, 2019, at Oakland, California.

Kelinda Crenshaw  
Declarant

/s/ Kelinda Crenshaw  
Signature