

THE WHITE HOUSE

WASHINGTON

January 12, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Carol Rasco   
SUBJECT: Status of Ohio Medicaid Waiver

In preparation for your trip to Ohio tomorrow, you should be aware that HHS is about to grant Governor Voinovich's request for a Medicaid waiver for the OhioCare program. No public announcement is planned before next week, but Secretary Shalala called the Governor last week to inform him that HHS would approve the waiver.

OhioCare will add up to 500,000 uninsured people to the Medicaid program by providing coverage for persons with income up to 100 percent of the poverty level, as compared to the current cut-off of 50 percent of the poverty level. The State plans to enroll most beneficiaries in managed care plans, and convert to managed care many services now provided by state agencies, including mental health, alcohol and drug addiction, and mental retardation/developmental disabilities services. Ohio will fund the costs of those newly eligible for Medicaid with savings from its disproportionate share hospital program and from managed care. The demonstration will begin on January 1, 1996 and continue for five years.

In the fall, Governor Voinovich expressed concern several times about lack of progress on the waiver, but it appears that HHS and the state have worked productively together over the past two months.

cc: Marcia Hale



STATE OF OHIO  
WASHINGTON OFFICE

*wavier* → need folders

*Put in my inbox*

George V. Voinovich  
Governor

Mike DeWine  
Lt. Governor

**FAX MESSAGE**

Date: August 22, 1994

TO: Rosalyn Kelly

456-2878

FROM: Ted Hollingsworth

Number of Pages (including this cover): 4

If any part of this message is illegible,  
please call (202) 624-5844

**NOTES:**

*Thank You for all your help.*



GEORGE V. VOINOVICH  
GOVERNOR

STATE OF OHIO  
**OFFICE OF THE GOVERNOR**  
COLUMBUS 43260-0001

August 22, 1994

The Honorable Leon Panetta  
Chief of Staff  
The White House  
Washington, DC 20500

Dear Mr. Panetta:

I appreciate President Clinton's strong support for state health care innovations through the Medicaid waiver process. I am concerned, however, that despite the President's repeated pledges of prompt action, the Department of Health and Human Services' timeframe for waiver consideration has been exoruciatingly slow. The State of Ohio submitted its application on March 2, and we are still nowhere near approval.

I am concerned that, rather than working with us to find a way to implement OhioCare, the Health Care Financing Administration (HCFA) is looking for ways to shut us down. HCFA has backed us into a corner and we are extremely frustrated. We need your help to break this impasse.

Our proposal would enable the State to extend its Medicaid program to provide comprehensive health care for an additional 500,000 working poor, uninsured Ohioans in a managed care environment. One of the things that makes OhioCare unique is the focus of managed care on what we have labeled special health related services; mental health care, alcohol and drug addiction treatment, and services to individuals with mental retardation and developmental disabilities. We believe that the managed care approaches proposed in OhioCare can serve as a national model and result in significant savings for both the state and federal government. We have received tremendous bipartisan support for the proposal throughout the State, and we are anxious to move forward to implementation.

The problem we face involves the calculation of cost neutrality. In the OhioCare proposal the State made some basic assumptions about how the state would grow Medicaid with a waiver and in the absence of the OhioCare waiver. In each case, these budget assumptions can be supported by currently appropriated tax dollars at either the state or local level and merely require a state Medicaid plan amendment to claim federal financial participation. In the case of the special health related services, Medicaid reimbursable services are already being provided to Medicaid eligible clients and paid for with local and state tax dollars.



The Honorable Leon Panetta  
August 22, 1994  
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We believe this is consistent with the policy HCFA has used in evaluating all previously approved state Medicaid waivers. Now HCFA appears to be reversing field and deeming these expenditures "hypothetical" and unallowable for the purpose of determining budget neutrality. HCFA reached this conclusion six months after our original submission, costing Ohio thousands of hours in staff time and hundreds of thousands of dollars. If this were truly HCFA's operating policy all along on budget neutrality, why weren't we informed of this fact when we made our original submission in March. Instead, we have been strung along and led to believe that the OhioCare approval process was going smoothly.

Regardless of when the HCFA policy changed with respect to budget neutrality, we believe we can show that approval of the OhioCare proposal is fiscally responsible from both a state and federal perspective. As other states become increasingly aggressive in the use of Medicaid funding, there has been a building pressure for Ohio to follow suit and we have resisted. But we can't hold back that tide forever. One need only look at the explosive growth of Medicaid funding in other states for services to children in protective and foster care settings to understand that Medicaid will continue to grow, the question is will that growth be managed.

OhioCare is a rational approach to growing our system within the parameters of managed care. OhioCare would limit the federal government's financial exposure through the use of capitated rates with growth of just 2 % annually. By refusing to recognize the legitimacy of our basic budget assumptions, HCFA has backed Ohio into a corner.

We are told that the only way to recognize our basic budget assumptions is to begin to bill Medicaid for the services on a fee-for-service basis. But we know that opening the flood gate on many of these services to the federal treasury in that manner will result in higher federal expenditures, uncoordinated systems of care, and a sharply diminished ability for the state to rationalize the process after the fact. Most importantly, that sort of strategy ignores, and makes impossible the implementation of the major motivation behind OhioCare, expansion of comprehensive health care coverage to 500,000 working, poor Ohioans.

Furthermore, we feel that rather than being rewarded for our history of frugality and fiscal responsibility, we are being punished. If we had exploited programs like Disproportionate Share Hospital funding, we could have gained significantly more flexibility in our budget neutrality calculations. Because we have saved the federal government millions of dollars over the years, we are now at a significant disadvantage.

The Honorable Leon Panetta  
August 22, 1994  
Page Three

I share the Administration's desire to protect the interest of all taxpayers and OhioCare does that. In this case, however, I fundamentally disagree with HCFA's analysis of the facts. In OhioCare, we have developed an innovative, fiscally responsible, workable reform plan. Remember, Ohio has just as strong an interest in making this project work within budget parameters as does the federal government. Our money is at stake as well.

We need your help to break this impasse. We appreciate that adjustments may be needed in our waiver design and budget assumptions and we are eager to move our discussions to that level. We need a signal that HCFA is open to problem solving. Each day that lapses leaves 500,000 people that much further from the health insurance that they need. Governors took the President at his word when he called upon states to serve as laboratories for innovative approaches to health care reform. Ohio needs your assistance to make sure that the federal bureaucracy carries out the President's pledge.

Thank you for your personal consideration and assistance.

Sincerely,

  
George V. Voinovich  
Governor



STATE OF OHIO  
**OFFICE OF THE GOVERNOR**  
COLUMBUS 43260-0301

GEORGE V. VOINOVICH  
GOVERNOR

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Sincerely,



George V. Voinovich  
Governor



DEPARTMENT OF HEALTH & HUMAN SERVICES

Chief of Staff

Washington D.C. 20201

**FACSIMILE**

DATE AUG 22 1994

TO: (NAME, ORGANIZATION, CITY/STATE AND PHONE NUMBER):

Carol Rasco  
Assistant to the President  
for Domestic Policy  
ATTN: Rosalyn Miller  
656-2216

FROM: (NAME, ORGANIZATION, CITY/STATE AND PHONE NUMBER):

Kevin Thurm  
Chief of Staff  
690-6133

RECIPIENT'S FAX NUMBER: ( ) 456-2878

NUMBER OF PAGES TO SEND (INCLUDING COVER SHEET): 4

COMMENTS:

August 22, 1994

## OHIO MEDICAID 1115 WAIVER

### Background

- o **Description:** The State of Ohio submitted a request for a Medicaid 1115 waiver in March 1994. The five year waiver would cover current Medicaid recipients along with the uninsured population up to 100% of poverty. The State estimates that there are currently 500,000 uninsured people below the Federal poverty level.

The proposed start date is July 1, 1995. All Medicaid beneficiaries, except for long term care services, aged, blind and disabled, and home and community based services recipients, would be under a managed care, full-risk capitation plan. ABD eligibles would be phased into the managed care program during year three of the demonstration.

- o Because of the staff resources devoted to reviewing the Florida 1115 waiver proposal over this summer, review of the Ohio waiver has taken longer than expected. Ohio Governor George Voinovich expressed "deep concern" about the extended review process to the President in a July 25 letter. The Governor believes that the President promised a 90-day review process for waivers (vs. the 120-day process outlined in the President's Executive Order).
- o **Outstanding Issue:** The major issue with Ohio's waiver is its calculation of budget neutrality. You may recall that we have approved waivers with the agreement that expenditures under the waiver program will not exceed what would otherwise have been spent in the State's Medicaid program.
- o Ohio proposes to count, as part of the budget neutral baseline, expenditures not previously claimed under Medicaid or matched by the Federal government. These include:
  - Expenditures for services for special populations, such as the mentally retarded and children in State custody, much of whose funding is provided currently by counties (\$4.8 billion over five years);
  - Expenditures related to a medically needy program that the State never put in place (\$511 million);
  - Disproportionate share payments to institutions for mental disease that have never been claimed (\$542 million); and
  - Expenditures for services to a population of pregnant women and children, known as 1902(r)(2), whom the State could have made eligible for Medicaid but has not (\$133 million).

- o On August 15, staff from HHS and OMB met with Arnold Tompkins, Ohio's Director of Human Services, to discuss concerns about the use of these "hypothetical" expenditures in computing five year budget neutrality for the Ohio waiver.
- o HHS recommended that, between now and the implementation of the waiver in July 1995, the State immediately begin to claim Medicaid FFP for eligible but not currently covered services or populations that it wants to bring in to Medicaid. We agreed to increase the budget neutrality baseline to reflect any legitimate additional spending. HHS also offered other options, including 1915(b) waivers under Medicaid, that would allow the State to implement managed care more broadly for its county-funded special needs programs, which is one of the key goals of its proposal.
- o Mr. Tompkins and other State officials were not receptive either to filing Medicaid claims for these hypothetical services and populations in advance of the waiver or to considering other alternatives. Mr. Tompkins pointed out that most of these hypothetical expenses are now borne entirely by local governments. If the State were to file claims for FFP, local governments would experience a significant savings, which they could use for service increases or other purposes, and the State would lose control of these funds. The State would prefer to lock these funds into OhioCare in what is essentially a local maintenance of effort. Ohio further argues that it has controlled Medicaid costs effectively, and that only States which have "gamed" the Medicaid system will be able to afford expansions to cover the uninsured.
- o One reason HHS is concerned about whether these are genuine Medicaid services and populations is that Ohio once submitted a \$530 million claim for some of these services and only \$39 million proved to be legitimate.
- o On Friday, August 19, HHS sent the State a specific description of the service level data we need in order to evaluate Ohio's assertion that it could have requested Medicaid match for certain services and that those expenditures should count toward budget neutrality. The State has agreed to provide the data if we give it serious consideration.
- o If Ohio is able to document that these expenditures are eligible for FFP, the question of whether to count them even though they have never been claimed under Medicaid must still be decided. HHS is very concerned about the precedent such a compromise would set for future waivers.

**Talking Points for a Call from Governor Voinovich**

- o I realize that you are concerned about the dispute over whether your waiver request is budget neutral. I understand that HHS has sent you a request for data in an attempt to understand better the costs that you assert are eligible for matching Federal Medicaid funds.
- o These are important issues to us. If we begin to count expenditures for services not claimed for Medicaid match as if they had been part of a State's Medicaid spending, we would be approving waivers without regard to what we have actually been spending. These waivers would not be budget neutral.
- o I understand that we will be looking at the services you are claiming should be counted for Medicaid purposes. HHS will get back to you once we have had a chance to analyze the information.
- o What we would like to do is to work with you to identify savings that can reasonably be achieved in the Medicaid program, and to apply those savings to as much expansion of coverage that they can responsibly fund, even though that may be a less ambitious expansion than you are now proposing.
- o We are committed to expanding coverage to uninsured individuals and want to continue working with you to achieve that goal in Ohio.

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