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WILL THE NEW HOSPITAL FINANCING WAIVER PROTECT CALIFORNIA FROM FEDERAL MEDICAID SPENDING CUTS?

The agreement between the Schwarzenegger Administration and the federal government to change the financing of California's safety-net hospitals has caused concern among health care providers, county officials, and others.¹ The new hospital financing "waiver," announced June 22, 2005, provides up to \$18.4 billion in federal funds over five years to support health services for Medi-Cal beneficiaries and the uninsured.² Administration officials argue that the waiver represents the "best possible" deal the state could achieve.³ Safety-net providers, however, contend the waiver does not provide adequate funding for public hospitals and that "the source of matching funds to draw down all the federal money is in question."⁴

Meanwhile, Congress is considering cutting federal Medicaid spending by up to \$10 billion between federal fiscal year (FFY) 2007 and FFY 2010. The Administration suggests that the new hospital financing waiver will protect California from Medicaid spending cuts that Congress may enact. This *Budget Brief* finds that the waiver may not protect California against potential Medicaid spending reductions.

CONGRESS IS CONSIDERING CUTTING MEDICAID SPENDING BY UP TO \$10 BILLION

In April, Congress passed a Budget Resolution that assumes up to \$10 billion in Medicaid spending cuts between FFY 2007 and FFY 2010. Some of these cuts would likely be achieved by adopting changes recommended by President Bush in his FFY 2006 budget proposal. One change would limit the use of "intergovernmental transfers" (IGTs) – public funds transferred by counties and other public entities to the state – which California and other states have used to finance their share of Medicaid spending.⁵ In fact, California's new hospital financing waiver restricts the use of IGTs as a mechanism to obtain federal Medicaid funds.

THE HOSPITAL FINANCING WAIVER MAY NOT PROTECT CALIFORNIA FROM MEDICAID SPENDING CUTS

Schwarzenegger Administration officials suggest that the five-year hospital financing deal reached with the federal government will protect California from Medicaid cuts that Congress may enact. In an April 4th letter responding to concerns expressed by Representative Henry Waxman, California Health and Human Services Agency Secretary S. Kimberly Belshé wrote:

"In the event Congress adopts requirements that prohibit 'inappropriate' intergovernmental transfers (IGTs) or requires states to pay public hospitals at cost, the waiver protects California by bringing the State into compliance with these major changes proposed in the President's budget."⁶

This statement implies that the new waiver will protect California against the loss of federal funds associated with changes in the federal Medicaid statute that have not yet been enacted. This implication is misguided, however, since the terms and conditions of waivers may change if federal Medicaid law is changed. While the US Department of Health and Human Services (HHS) Secretary may grant waivers of Medicaid statutory requirements, that authority, like the statute itself, may be changed by Congress.

If Congress decides to enact changes in federal Medicaid IGT law to achieve the savings target of \$10 billion, Congress may or may not exempt California – which accounts for 10 percent of federal Medicaid spending – from the changes, even if the new hospital financing waiver complies with the new IGT policies. Of course, if Congress enacts IGT limits, California could request an amendment to the hospital financing waiver that protects the state from the new requirements. However, approval of such an amendment would be at the discretion of the HHS Secretary, who has proposed to reduce federal Medicaid spending by \$20.2 billion over the next five years.

CONCLUSION

Congress is considering reducing federal Medicaid spending by as much as \$10 billion over four years. The details of those changes, and their impact on California, cannot be assessed at this time. Nonetheless, the safety-net hospital financing agreement reached between the Schwarzenegger Administration and the federal government will not necessarily immunize California from subsequent Congressional action that reduces Medicaid spending.

Scott Graves prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org

ENDNOTES

¹ The current hospital financing waiver will expire on June 30, 2005. Safety-net hospitals include public, children's, teaching, and private hospitals that provide access to care for low-income and uninsured persons.

² Centers for Medicare & Medicaid Services, *Medi-Cal Hospital/Indigent Care Demonstration: Special Terms and Conditions* (Draft – June 22, 2005).

³ California Health and Human Services Agency, *Governor Secures Hospital Safety Net, Negotiates \$18.4 Billion Federal Waiver for Health Care for Poor and Uninsured* (June 22, 2005). For a discussion of the federal Medicaid waiver process, see California Budget Project and Center on Budget and Policy Priorities, *Governor's Plan to Restructure Medi-Cal Is Financially Risky and Could Undermine Access to Affordable Health Coverage* (May 2005).

⁴ California Association of Public Hospitals and Health Systems, *Public Hospitals Oppose New Medicaid Deal: Five-Year Funding Freeze Puts Trauma Services, Care for the Uninsured and Doctor Training at Risk Statewide* (June 22, 2005).

⁵ Federal law authorizes the use of IGTs; however, the federal government has adopted policies outside the regulatory or statutory process to restrict the use of IGTs. See California Budget Project, *Congress Considers Medicaid Spending Cuts: Implications for California's Medi-Cal Beneficiaries and Safety-Net Providers* (June 2005), for an analysis of the Medicaid policy changes proposed by President Bush and the Medicaid spending cuts being considered by Congress.

⁶ Letter from S. Kimberly Belshé, Secretary, California Health and Human Services Agency, to Representative Henry Waxman (April 4, 2005), p. 3.