

# Governors of Both Parties Oppose Medicaid Rules

By ROBERT PEAR February 24, 2008

WASHINGTON – Governors of both parties strongly objected on Saturday to a half-dozen new federal Medicaid regulations that they said would shift billions of dollars in costs to the states, forcing them to consider cutbacks in services.

The rules, scheduled to take effect in the next few months, would reduce federal payments for public hospitals, teaching hospitals and services for the disabled, among others.

State officials voiced their concerns as they arrived here for the winter meeting of the National Governors Association.

Federal health officials said the new rules were needed to end creative financing techniques that states had used to obtain excessive amounts of federal Medicaid money.

But governors said the Bush administration was unilaterally reshaping Medicaid in ways that would harm some of their most vulnerable citizens. Moreover, they said, the rules are taking effect at a time when the national economic slowdown is cutting into state tax revenues.

“Governors strongly oppose the changes,” said Gov. Jim Douglas of Vermont, a Republican who is chairman of the association’s Health and Human Services Committee. “The timing could not be worse.”

One of the rules would ban the use of federal Medicaid money to help pay for the training of doctors, a use that has been allowed since the inception of Medicaid more than 40 years ago. Another would set new limits on Medicaid payments to hospitals and nursing homes operated by states, cities, counties and other units of government.

A third rule would limit Medicaid coverage of rehabilitation services for people with disabilities, including serious mental illnesses.

Federal officials estimate that the rules will save the federal government \$15 billion over five years. But that figure may be low. California alone says it could lose \$12 billion over five years.

Congress delayed some of the rules last year, but they will soon take effect unless Congress intervenes again.

Gov. Arnold Schwarzenegger of California, a Republican, said the rule changes “would effectively end the federal government’s participation in many crucial components of the Medicaid program.”

Dr. Rhonda M. Medows, commissioner of the Georgia Department of Community Health, said: “We understand the need for financial safeguards, but these rules, taken together, would have a tremendous adverse impact. They would undermine the health care safety net for the entire state of Georgia, reducing federal Medicaid payments for hospitals, nursing homes and school clinics.”

The National Conference of State Legislatures joined governors in criticizing what it described as “the regulatory activism” displayed in the new rules.

The federal government and the states share the cost of Medicaid, which provides health insurance to more than 60 million low-income people, including 30 million children.

Dennis G. Smith, director of the federal Center for Medicaid and State Operations, said the rules were needed to “protect the fiscal integrity of the Medicaid program.” Since 2003, he said, federal officials have persuaded 30 states to end “questionable Medicaid financing arrangements.” The purpose of such arrangements is to maximize the use of federal money while holding down the use of state and local revenue.

Although the most blatant problems have been corrected, the administration says, many states still use federal Medicaid money for purposes unrelated to Medicaid.

“We believe that paying for graduate medical education is outside the scope of Medicaid’s role, which is to provide medical care to low-income people,” Mr. Smith said. “There is no explicit authorization under the Medicaid statute to subsidize the training of physicians.”

Robert M. Dickler, chief health care officer at the Association of American Medical Colleges, said, “It’s a little surprising that the federal government would just now discover that there’s no legal basis for the Medicaid payments it’s been making for medical education since 1965.”

Stan Rosenstein, the Medicaid director in California, said the payments were justified because “interns and residents provide a tremendous amount of care to Medicaid beneficiaries.”

The federal government says this rule would save \$1.8 billion over five years. But New York, which trains 15 percent of the nation’s doctors, says it would lose more than that alone. State officials are also concerned about a rule that would eliminate federal contributions for a whole category of public spending on health care for the poor – specifically, spending by autonomous units of local government like the Denver Health and Hospital Authority.

“As a result of this rule, we will lose \$60 million a year,” said Dr. Patricia A. Gabow, chief executive of the Denver agency, which operates a 477-bed public hospital, the city’s public health department and its ambulance service. “We were part of the city government for more than 130 years. In 1997, we became an independent governmental entity, but we don’t have taxing authority. So we don’t qualify as a public provider, and we can’t draw down critically important subsidies for services we provide to the entire community.”

Larry S. Gage, president of the National Association of Public Hospitals, said the rule’s importance went far beyond Medicaid because it would compromise the ability of public hospitals to provide vital services like trauma care and burn treatment.

New York City Health and Hospitals Corporation, the largest municipal health care system in the country, which gets 60 percent of its budget from Medicaid, said the rules would have “a potentially devastating impact” and could force cutbacks in services.

A group of 17 states, including Connecticut, Michigan and New Jersey, told the administration that the new restrictions were “simply awful public policy.” Senators Jeff Bingaman, Democrat of New Mexico, and Elizabeth Dole, Republican of North Carolina, are fighting the rule on public hospitals.

The rule “would have a devastating effect on North Carolina’s Medicaid system, costing our hospitals hundreds of millions of dollars annually,” Mrs. Dole said.

The Medicaid rules were overshadowed last year by a battle over insurance for children.

“We can have a legitimate discussion about expanding the Children’s Health Insurance Program,” said Governor Douglas of Vermont. “But the Medicaid rules are different. They renege on commitments already made.”

In Vermont, Mr. Douglas said, “we’ve come to rely on Medicaid to help pay for special education and other services to children with disabilities.”

Medicaid is a crucial part of the foundation on which many states were planning to build coverage for the uninsured.

Deborah S. Bachrach, a deputy commissioner in the New York State Health Department, said, “The new Medicaid rules make it difficult to pay for current programs and nearly impossible to expand coverage to all.”