



STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JOHN D. CHERRY, JR.
LT. GOVERNOR

October 19, 2005

The Honorable John D. Dingell
U.S. House of Representatives
Washington, DC 20515

Dear Representative Dingell:

As both the House and Senate prepare to enact Medicaid reform proposals over the next few weeks, I ask you to help protect our most vulnerable residents by actively opposing measures that would prevent Michigan from delivering vital health care services. Of particular concern are proposals to eliminate state provider taxes approved by the U.S. Department of Health and Human Services (HHS).

Although these Medicaid reform plans remain fluid, it is good to see that Congressional Members and staff have been discussing National Governors Association (NGA) Medicaid reform recommendations. The NGA recommendations have bipartisan support and follow specific principles, allowing good policy tools to improve quality and efficiency while saving federal and state taxpayers billions of dollars.

However, I am very concerned about other proposals being discussed in Washington that simply shift considerable costs to states. In particular, eliminating or limiting any provider taxes would be devastating to Michigan and more than thirty other states. One key proposal specifically targets the managed care organization provider tax instituted by Michigan, California, Pennsylvania, and Oregon. In Michigan alone, we would lose almost \$300 million per year in federal health care support if this proposal was enacted. This magnitude of a cut would be disastrous to our communities of patients, providers, and overall health care system. And at a time when employers are struggling to provide health care insurance, cutting vital funding for health care should not be on the table.

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Furthermore, if Michigan's Medicaid managed care provider tax is eliminated, we are unsure if we can maintain our cost effective mandatory managed care system that has been in place since 1997. This system has served patients well and is an important tool to modernizing and mainstreaming Medicaid, bringing private sector competition to the program while improving care. If the federal government decides not to support managed care options such as provider taxes, the result would cause our Medicaid managed care system to crumble. Eliminating or limiting managed care provider tax options while at the same time maintaining hospital and other fee-for-service provider taxes seems to encourage fee-for-service systems. Moving back to fee-for-service will likely increase costs to Medicaid over the long term.

Managed Care Organization (MCO) Provider Tax

Michigan has a managed care organization provider tax that includes medical managed care organizations and mental health managed care organizations. The MCO provider tax was approved by HHS in April, 2003. Disallowing this provider tax would cut \$160 million in federal funds out of the medical MCO sector and approximately \$120 million in federal funds from the mental health managed care organization sector. This combined \$280 million stream of funding is critical to sustaining our managed care component in Medicaid and our mental health services—not to mention the program overall. It would be impossible to “backfill” this drastic a cut. Michigan would be the most negatively impacted state in the country if this MCO provider tax provision is enacted.

The nation's governors have expressed to Congressional leaders their great concern with provider tax cuts. A letter was sent October 18th, noting the Governors' continued support of NGA Medicaid reform recommendations, but strong opposition to Medicaid changes that shift costs from the federal government to the states, such as limits on provider taxes.

Michigan Medicaid

The chart below describes Michigan's Medicaid populations and percentage of spending related to each Medicaid category. Approximately 61% of Michigan Medicaid spending is on mandatory populations; 28% is spent on mandatory services for optional populations; and only 11% is spent on optional services for optional populations.

Federal law defines "optional" services as mental health care, prescription drugs, dental care, hospice, hearing services, case management, and several other critical health care services. Examples of "optional" populations in Michigan include pregnant women, many nursing home residents, children, and caretaker relatives.

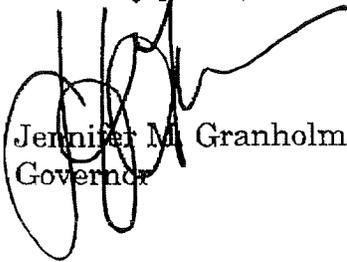
Eligibility Category	Jan. 2005 Eligibles	% of Total	FY 04 Expenditures in Millions	% of Total
Childless Adults	69,300	5%	\$ 211	3%
Children*	827,000	55%	1,475	21%
Parents/Pregnant Women	239,200	16%	843	12%
Elderly	75,900	5%	1,756	25%
Disabled	275,900	19%	2,739	39%
TOTAL	1,487,300	100%	\$ 7,023	100%

*Includes MIChild eligibles and expenditures.

Michigan Medicaid is one of the most efficiently run programs in the country and has consistently instituted innovative, cost saving measures over the years, saving both state and federal taxpayers millions of dollars. We were one of the first states to implement Medicaid managed care; a preferred drug list; home and community based care programs; multi-state prescription drug pooling and "MAC" pricing; screening tools for nursing home eligibility, and many other programs. Michigan has also been aggressive in provider reimbursement policies. There is simply no "fat" in our program. If Congress enacts federal cuts impacting Michigan, we would be forced to cut optional services, optional Medicaid populations, and/or institute further provider cuts—none of which are appropriate, desirable, or sustainable.

I sincerely hope you will block any efforts to cut necessary health care for vulnerable Michigianians. Our residents simply cannot afford to live with the consequences. Thank you for your help in protecting them, our health system, and communities.

Sincerely yours,



Jennifer M. Granholm
Governor