

Congress of the United States

House of Representatives

Washington, DC 20515

July 18, 2002

The Honorable Tommy Thompson
Secretary of Health and Human Services
U.S. Department of Health and Human Services
200 Independence Avenue, Southwest
Washington, District of Columbia

Dear Secretary Thompson:

As members of California's Congressional delegation, we are writing to strongly urge your department to approve California's Selective Provider Contracting Program (SPCP) waiver submitted by the State. The waiver is crucial to protecting the viability of our state's health care system, and we are concerned about reports that the Centers for Medicare and Medicaid Services (CMS) may deny key provisions of the SPCP. Such a denial would result in an immediate cut to California safety net hospitals - as much as \$300 million in federal funds over two years - thereby jeopardizing access to essential health care services for patients and communities throughout our state.

The flexibility provided by the existing waiver enables California to act as an effective trustee of Medi-Cal funds. As one of the first to embrace managed care, the state uses SPCP to control costs by negotiating with hospitals for the best possible inpatient rates - spending substantially less for services than under cost-based reimbursement. California has been extraordinarily successful in this effort to both reduce costs and protect beneficiary access to services. This is literally a one-of-a-kind program; no other state uses market forces to control hospital costs. For almost 20 years, California has operated this cost-reducing program, which also works to protect beneficiary access to services.

Since the state contracts with less than half of California's hospitals to provide inpatient Medi-Cal services, SPCP providers take on special importance. To protect their financial viability, supplemental payments are made to the most vulnerable of California's SPCP hospitals - Children's hospitals and other public and private hospitals that see a disproportionate share of Medi-Cal beneficiaries. However, even after accounting for these supplemental payments, the waiver has shown a savings in state and Federal dollars every year. Over its lifetime, SPCP has saved \$5 billion (net) in federal and state dollars.

We understand that CMS has also expressed concern that these supplemental payments push the state above the upper payment limit (UPL). For the past two years, Congress has worked with both the Clinton and Bush Administrations to develop an approach to the UPL that protects both the integrity of the Medicaid program as well as the financial needs of health care systems around the country. Congress limited the use of the UPL two years ago while granting states in California's position an eight-year transition period. By reversing earlier policies, especially as they relate to the waiver's budget neutrality calculation, CMS would override Congressional intent by significantly reducing California's eight-year UPL transition.

As you know, California will lose \$200 million as a result of a significant reduction in the FMAP percentage (the rate at which federal funds match state Medi-Cal dollars) as well as an additional \$180 million reduction in DSH funding. The cumulative impact of declining Federal funding is that emergency rooms and trauma centers will be at serious risk, and hospitals will cut back on non-emergency services. Entire hospitals may even be at risk of closure due to lack of financial resources.

We respectfully request that you and CMS Administrator Tom Scully exercise your authority to support California's health care system by approving the waiver, thereby preserving the state's flexibility and its efforts to offer high quality, cost-effective health services to its citizens.

Again, thank you for your time and attention to this most critical matter.

Sincerely,

David Driner

Sam Fann

Greg Padellaro

Col Dooley

Loretta Sanchez

Susan Davis

Brad Sherman

Hilda L. Solis

Grace S. Napolitano

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