



July 16, 2014

The Honorable Sylvia Mathews Burwell, Secretary
Department of Health and Human Services
200 Independence Avenue SW
Washington, DC 20201

Re: Alabama Proposal for a Section 1115 Medicaid Demonstration Project

Dear Secretary Burwell:

The Center on Budget and Policy Priorities and the Georgetown University Center for Children and Families are writing to provide comments on the proposal for a section 1115 demonstration project submitted by the Alabama Medicaid agency on June 13, 2014.

Alabama proposes to establish regional care organizations (RCOs), which are risk-bearing provider-based organizations paid on a monthly capitated basis. Our comments focus on the financing of the proposal rather than the merits and details of the move to a more organized and coordinated delivery system through the creation of the RCOs. While we are not familiar with the details of Alabama's current delivery system, the move to a more coordinated system described in the proposal appears to be a move in the right direction.

Alabama has not taken the opportunity provided by the Affordable Care Act to receive enhanced federal funding to cover the large number of low-income uninsured adults residing in the state. Alabama now covers only parents with incomes below 13 percent of the poverty line — just \$2,572 a year for a family of three — which is the lowest income eligibility level for parents in the United States. Alabama provides no coverage to childless adults. Given the restrictions on coverage for adults in its current program, close to 200,000 adults in Alabama are in the coverage gap and would be covered if Alabama took the ACA's Medicaid expansion.

Instead of covering poor and low-income uninsured adults with full federal funding through 2016 and no less than 90 percent funding after that, the Alabama proposal would finance the move to RCOs in part through federal matching dollars for certain services

provided to the very adults who would be covered if the state adopted the Medicaid expansion. If the state did so, it would receive full federal reimbursement for these state-funded services, including outpatient substance abuse treatment, treatment for uninsured hemophilia patients, and outpatient services for mental illness. Moreover, the beneficiaries of those services would be able to receive the broader array of health services they need given their chronic conditions.

As we understand Alabama's proposal, the state would use the state dollars freed up by the provision of regular federal match for these previously state-funded services to help fund the state share of a funding pool that would be used to make payments to the RCOs, hospitals and other providers for the development and ongoing costs of the new delivery system. The state would also create a Delivery System Reform Incentive Pool (DSRIP) to make incentive payments to providers.

Alabama's proposal is not without precedent. Various states have obtained federal matching funds for "costs not otherwise matchable" (CNOM) through Section 1115 waivers, including for services that could have been funded by Medicaid if they were provided to eligible individuals. But the ACA's Medicaid expansion has altered the basic landscape and provides states with a much more straightforward and comprehensive way to provide mental health, substance abuse and other services to uninsured low-income adults.

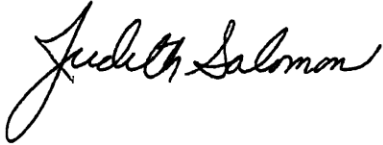
We understand that Alabama is not likely to expand Medicaid this year and that there is value in its move to a new delivery system and away from a fee-for-service system heavily reliant on hospital care with inadequate coordination of services. However, *section 1115 demonstration authority should not be used as a blank check to draw down federal matching funds for certain services designated by the state for people who could have been eligible for the full range of Medicaid services, including services from the new RCOs.* Thus, we think the final terms and conditions of this waiver should set an expectation that the state will move toward Medicaid expansion with benchmarks over the course of the waiver that are designed to lead to the Medicaid expansion.

According to the proposal, Alabama anticipates statewide operation of RCOs in October 2016. Once the RCOs are fully operational, we recommend tying future federal match for the operation of the Delivery System Reform Incentive Pool to the submission of state plan amendments (or amendments to the demonstration project now being proposed) that would expand Medicaid coverage to eligible adults with incomes below 138 percent of the poverty line.

Over the coming months, we expect you will receive proposals from additional states for initial approval or renewal of existing demonstration projects. It is important that HHS set an expectation that the provision of federal funds for DSRIPs and CNOM be tied to clear and specific benchmarks leading toward expansion of coverage for eligible uninsured adults under the ACA. HHS should not approve these requests in the absence of these benchmarks.

Thank you for the opportunity to provide these comments. Please contact us if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Judith Solomon". The signature is written in a cursive style with a large, looping initial "J".

Judith Solomon
Vice President, Health Policy
Center on Budget and Policy Priorities

Joan Alker
Executive Director
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