Leon,

Before she left, Carol said she agreed with HHS based on what she knew, and wanted you to be aware of it. I will also get a read from Intergovernmental.

Diana Fortuna

December 13, 1995

The Honorable Marc Racicot
Governor of Montana
Helena, Montana 59620

Dear Marc:

Thank you for your letter about the Department of Health and Human Services' decision not to approve the Montana Mental Health Access Plan.

As you know, I am very committed to providing states with the flexibility they need to create innovative state-run programs. My Administration has an unprecedented record of approving state demonstration proposals, including 12 state-wide Medicaid waivers to date, along with a number of more limited Medicaid waivers and 48 welfare reform demonstrations in 35 states. My proposal for a balanced budget calls for new levels of state flexibility beyond that reflected in the waiver process.

Secretary Shalala based her decision not to approve the waiver proposal on a number of factors, including concerns about ensuring access to a full range of health services and the potential shift in the financial burden to the federal government. However, as the Secretary noted in her letter to you, she and her staff would like to help develop an alternative proposal for improving health services for the citizens of Montana.

I understand that your staff has expressed an interest in pursuing further conversations with HHS, and I sincerely hope that your discussions are productive in resolving any outstanding issues. Again, thank you for taking the time to write.

Sincerely, BILL CLINTON

BC/SEM/JRS/JAD/ws-emu-emu-efr-efr-efr (Corres. #2564227)
(11.racicot.m)
cc: IGA
cc: Diana Fortuna
cc: Carol Rasco
cc: Emily Bromberg
cc: Jacob Lew
Xeroxed copy of personally signed original to NH through Todd Stern
CLEAR THRU TODD STERN
PRESIDENT TO SIGN

FAX TRANSMISSION

U.S. Department of Health and Human Services
Office of the Secretary

To: Alicia Fortuna

Organization: White House Domestic Policy

From: Dirk Gibbs
Intergovernmental Affairs

Date: 10/10/95

Intergovernmental Affairs
200 Independence Ave., SW
Room 630 F
Washington, DC 20201
phone: (202) 401-5879
fax: (202) 690-5672

Recipient's Fax Number:

Number of pages including this sheet: 4

Remarks: Just in case you hadn't yet seen it--
Ltr to Pres. from Gov Racicot
re HHS' disapproval of his
Medicaid waiver.

Copy Publicade

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
EXECUTIVE SECRETARIAT

SECRETARY'S CORRESPONDENCE

From: MARC RACICOT
OS#: 9510020064

On Behalf Of:
DOL: 09/26/95

Type: Governor
Dt Inc Rec'd: 10/02/95
Code: 1

Org: THE GOVERNOR OF MONTANA
Add: HELENA, MT
Due in OS/ES:

Subject:
FORWARDS COPY OF LTR TO THE PRESIDENT CONCERNED OVER THE DEPARTMENT'S DENIAL FOR SECTION 1115 MEDICAID WAIVERS.

Assigned to: HCF
On: 10/02/95

Action: INFO ONLY
ES Dep: White
PC: Allen

Info Copies: CCC IGA

Interim (Y/N):
Interim Signed:
Reply Rec'd in OS/ES:
Final Signed: 10/02/95

OPDIV/STAFFDIV ROUTING SECTION
(Recipient should sign & date when received)

SENT TO	DATE	TIME	RECEIVED BY	DATE	TIME

Comment:

File Index: PO-2-2
CCC: OLH

OFFICE OF THE GOVERNOR

STATE OF MONTANA

MARC RACICOT
GOVERNOR

STATE CAPITOL
HELENA, MONTANA 59620-0801

September 26, 1995

President Clinton
The White House
Washington, D.C. 20500

Dear President Clinton:

Because of your long standing advocacy for accessible and affordable health care, I want to make you aware of a recent decision by federal Medicaid authorities that is clearly at odds with your goals for the nation's health care system. Specifically, Secretary Shalala on September 13th, 1995 denied Montana's request for waivers under Section 1115(a) of the Social Security Act that would have allowed implementation of an innovative and comprehensive approach to managed mental health services, the Montana Mental Health Access Plan (MHAP).

Consistent with established Department of Health and Human Services policies, I submitted Montana's Medicaid waiver application on June 6, 1995 after an extended development process that involved all stakeholders in mental health services in our state. Consumers and advocacy groups, in addition to providers of all types and several state agencies have cooperated in development of this research and demonstration program. Indeed, the MHAP is unique if only because of the extraordinary level of agreement and support it has received within Montana's mental health community. During our last legislative session, which you well know can be a very contentious process, our waiver proposal received broad bipartisan support and passed the Montana legislature with overwhelming support.

Obviously, we were severely disappointed, after over three months of review by the Health Care Finance Administration, to receive an outright rejection with absolutely no discussion of the merits of the proposal or any suggestion as to what modifications might make the program acceptable. This was especially surprising in light of your administration's announced policy to encourage experimentation in health care delivery at the state level. Additionally, preliminary discussions with HCFA staff regarding the rejection of Montana's waiver indicate a substantial lack of understanding of the unique problems associated with establishing a comprehensive and coordinated mental health system in a geographically large and sparsely populated state such as Montana.

Montana's proposal for managed mental health care is distinctive because it would integrate all public mental health services in the state into a single accountable system in which all lower income people with mental illness would receive services based upon individual needs rather than upon the limitations of the particular funding stream under which they qualified. Services would be of uniform, monitored quality statewide because a single managed care entity would be responsible for all necessary services, from the state hospital to individual counseling and peer support.

To accomplish this seamless, coordinated system, Montana proposed to extend Medicaid eligibility for mental health services only to those whose income was at or below 200 percent of the poverty level. This would result in a comprehensive program serving virtually all persons currently receiving publicly subsidized mental health care. Of course, as a requirement of the Medicaid waiver process we had to demonstrate that this approach would not increase federal expenditures beyond what they would be under a continuation of our present fee-for-service system.

HCFA rejected this expansion of eligibility only for mental health services. As indicated in Secretary Shalala's letter, HCFA believes it is inappropriate to provide mental health services to a population without also subsidizing physical health care, conveniently ignoring the fiscal constraints they have imposed on the waiver process. We find this position particularly incredible since HCFA has previously considered and approved Medicaid waivers that expand eligibility to groups with special needs or for limited arrays of services. It is not unusual for HCFA to approve such demonstration programs which expand eligibility for physical health services without any concomitant mental health benefit.

In addition to being discriminatory to those with mental illness, HCFA's denial of Montana's waiver request is without rational basis. Denial of our program will not improve physical health care for those with mental illness, but it will ensure that access to appropriate mental health services declines in the face of increasing pressures on our state budget.

I believe that as a former governor and advocate for people with mental illness you would want to be aware of the dilemma Montana is facing and the clear need to maximize ever scarcer federal and state resources. In attempting to create a program in which public mental health services are driven by individual need, are coordinated across funding sources, and are delivered in a cost-effective and accountable manner, our efforts are being frustrated by a federal bureaucracy that is supposed to be fostering innovative and efficient experimentation and, instead, appears to espouse a one-size-fits-all approach to federal health care policy.

I would be happy to discuss with you the merits of Montana's waiver proposal and would urge you to call me at (406) 444-5544. Thank you for your consideration of what we firmly believe could be an important demonstrated advance in public mental health services.

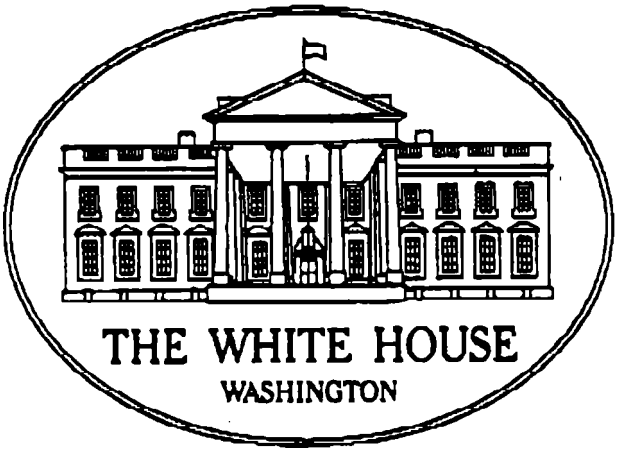
Sincerely,

MARC RACICOT
Governor

cc: Senator Max Baucus
Senator Conrad Burns
Representative Pat Williams
Secretary Donna Shalala
Mr. Bruce Vladeck

95100200 64

The White House
Office of Presidential Letters and Messages



Facsimile from Seth Masket
Voice: (202) 456-5514; FAX: (202) 456-2806

No. of Pages (including cover): 3 Date: 10/5/95

To: DIANA FORTUNA

Voice: 6-5570 Fax: 6-7028

Comments: PER MY PHONE CALL, COULD YOU PLEASE LOOK THIS OVER AND ADVICE ME FOR A RESPONSE? THANKS

OFFICE OF THE GOVERNOR

STATE OF MONTANA

MARC RACICOT
GOVERNOR

STATE CAPITOL
HELENA, MONTANA 59620-0801

September 26, 1995

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The White House
Washington, D.C. 20500

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Sincerely,

MARC RACICOT
Governor

cc: Senator Max Baucus
Senator Conrad Burns
Representative Pat Williams
Secretary Donna Shalala
Mr. Bruce Valdek

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

delegation
gd-sdg agp / no new services?
Gov reaction

All copies sent 8/17 1030

JUL 28 1995

To Carol Rasco
Marcia Hale
John Emerson
Jack Lew
Emily Bromberg
From Diana Fortuna
FYI per e-mail.

TO: The Secretary
Through: DS ___
COS ___
ES ___

FROM: Administrator
Health Care Financing Administration

SUBJECT: Denial of the State of Montana's Section 1115 Demonstration Proposal--ACTION

SUMMARY

We are planning to deny the State of Montana's section 1115 demonstration proposal, known as the Montana Mental Health Access Plan, and have prepared the attached letter to Governor Racicot for your signature.

BACKGROUND

On June 19, the State of Montana submitted a section 1115 demonstration proposal to place all State funded mental health delivery systems for Medicaid and non-Medicaid eligibles under a single, capitated, full risk managed care provider. Current Medicaid eligibles would be enrolled in the managed care plan for their mental health services and would receive other health services under the current Medicaid fee-for-service system. The expanded population, individuals with incomes up to 200 percent of the Federal poverty level, would be enrolled in the same managed care plan for their mental health services, but would not be eligible to receive any other health services under the demonstration. The delivery system would be operated by a single statewide contractor.

The State submitted a concept paper on November 3, 1994, that outlined essentially the same program. At that time, Health Care Financing Administration (HCFA) staff informed the State of several concerns with their proposal.

ISSUES

- **Mental Health Services Only**

  A key criteria of section 1115 Medicaid demonstrations is that populations enrolled in the demonstration have access to a broad range of services. Using the Medicaid entitlement to provide a limited benefit, such as mental health (or physical health) without assuring access to basic medical coverage could compromise quality and access and could be viewed as discrimination against certain services or populations. Additionally, current research indicates that if there are no basic physical health services provided for those receiving mental health treatment, the efficacy of the mental health treatment may, in fact, be reduced or negated.

- **Transfer of State-funded Programs into Medicaid**

  Montana is proposing to use section 1115 authority to shift funding for mental health services from a State-only funded program to a Federal-State funded program. Montana has stated that part of the impetus for this project is a need to reduce the large amount of State funds spent on providing these mental health services. Montana is using this demonstration as a means of refinancing its existing State-only mental health service system and reducing the State funds it has been spending. Although we have allowed State to refinance State programs with Federal dollars to a certain extent under section 1115 demonstrations, we are concerned about the precedent that might be set by allowing States to do this without gaining any real additional coverage in return.

- **Budget Neutrality**

  The principle of budget neutrality--that Federal Medicaid costs under a demonstration cannot exceed what cost would been absent the waiver--offers protection to the Federal baseline against excessive costs associated with refinancing state-funded programs. States can only receive Federal matching funds for new programs to the extent they are able to reduce their Medicaid costs through other program efficiencies and demonstrate these savings through the provision of financial and population data. However, Montana did not submit

with its proposal the historical data of population growth rates, medical inflation rates, savings determinations, and capitation rate setting methodology necessary to evaluate the budget neutrality of the project.

RECOMMENDATION

Based on the Department's comprehensive review, HCFA intends to not approve Montana's request for a demonstration for the following reasons. First, the State has asked HCFA to overturn what has heretofore been a basic tenet of the Medicaid program--namely that it is designed to provide comprehensive care to eligible persons. Second, the State has requested approval to cost shift from State to the Federal government, without providing significant new coverage to a new population. Finally, the State has provided insufficient information with which to determine the budget neutrality of the proposed program.

Thus, I recommend you sign the attached letter to Govenor Racicot.

DECISION

Approved _____ Disapproved _____ Date _____

Bruce C. Vladeck

Attachment

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Marc Racicot
Governor of Montana
Capitol Station
Helena, Montana 59620-0801

Dear Governor Racicot:

Thank you for submitting the State of Montana's section 1115 Medicaid demonstration proposal, entitled "Montana's Mental Health Access Plan," to the Department for review. The proposal, received on June 19, is similar to the program described in a concept paper submitted by the State on November 3, 1994.

After comprehensive review by the Department, we have concluded that Montana's Mental Health Access Plan, as proposed, does not meet our criteria for approval. To be considered for approval, a section 1115 demonstration proposal must meet certain key access and budget criteria. Regarding access, we ensure that populations enrolled in the demonstration have access to a broad range of services. Regarding budget neutrality, we ensure that no additional Federal funds are expended under the demonstration than would otherwise have been spent.

Under the proposal, current Medicaid eligibles would be enrolled in a single, capitated managed care plan for their mental health services and would receive other health services under the current Medicaid fee-for-service system. The expanded population would be enrolled in the same managed care plan for their mental health services, but would not be eligible to receive any other services under the demonstration. We are concerned that a comprehensive range of services would not be offered to the expansion population. Second, we are concerned that the system would shift the financial burden of what are now state-funded mental health services to the Federal government. Our concerns about the benefit package, service delivery system and the financing structure of the proposal were communicated to your staff by Health Care Financing Administration (HCFA) staff on November 30, 1994, during a conference call to discuss the original concept paper.

While we appreciate the efforts Montana is making to improve access to mental health care for its residents, for the reasons stated above, we are unable to approve the section 1115 demonstration proposal for Montana's Mental Health Access Plan. HCFA staff are available to work with your staff to craft a proposal that is consistent with Departmental policy and would achieve the State's goals. If your staff wishes to discuss these issues further, please have them contact Lu Zawistowich, Director, Office of State Health Reform Demonstrations, HCFA, at (410) 786-6650.

Sincerely,

Donna E. Shalala

THE WHITE HOUSE

WASHINGTON

August 22, 1995

MEMORANDUM FOR LEON PANETTA

FROM: Diana Fortuna

SUBJECT: Montana Medicaid Waiver

Carol Rasco wanted you to be aware of the following issue.

HHS expects to deny a request by Montana for a waiver that would extend Medicaid to a group of people for mental health services only. Individuals with incomes up to 200% of the poverty level would become eligible for managed mental health care, but no other services. Current Medicaid recipients would enroll in managed care for mental health services, while continuing to receive other services on a fee-for-service basis.

Since the mental health services now being provided to the new population are funded mostly by the state, the main effect of the waiver would be to shift state costs to the Federal government, saving the state money. HHS also argues that the waiver would violate their general policy that individuals should be offered comprehensive rather than piecemeal coverage, and that providing mental health care without basic physical health services can be counterproductive.

State staff argue that they simply want to use managed care to provide mental health services in a more cost-effective manner. However, there are ways to accomplish this without the waiver to which HHS would readily agree.

HHS staff indicated to the state that they had problems with the waiver concept both before it was submitted and again more recently. HHS believes there is no compromise plan that the state would accept. OMB concurs with HHS's overall view. If HHS goes ahead with this plan, they would prefer to inform the state of this decision next week, but they are flexible about the timing. Senator Baucus would be notified in advance.

cc: Carol Rasco
Marcia Hale
Alice Rivlin
Skila Harris
Pat Griffin
Martha Foley

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

24-Aug-1995 11:11am

TO: Diana M. Fortuna

FROM: Emily Bromberg
Intergovernmental Affairs

CC: John B. Emerson

SUBJECT: RE: Montana medicaid waiver

I think that we defer to Carol's policy judgement. How much contact has HHS had with the state and what is their expectation? I assume, as you do, that Bacus is the only one we really care about upsetting.

THE WHITE HOUSE

WASHINGTON

August 22, 1995

MEMORANDUM FOR LEON PANETTA

FROM: Diana Fortuna DF

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Diana Fortuna

cc: Carol I
Marcia
Alice I
Skila I
Pat Gri
Martha

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

06-Nov-1995 11:27am

TO: Diana M. Fortuna

FROM: Seth E. Masket
Presidential Correspondence

SUBJECT: Governor Racicot letter

I hope you had a restful weekend! Thanks again for your help with the HCFA letter. Not to nag you again so soon, but I was wondering if you've had any luck with the Gov. Racicot letter. Whenever you get a chance.... Thanks.

* e-mail CR

MONTANA MENTAL HEALTH ISSUES

Missouri may add to their waiver

ISSUE

The Department plans to discourage Montana from pursuing its proposed Medicaid demonstration project that would establish a Medicaid managed care system for mental health services and extend Medicaid eligibility for the limited benefit to persons whose mental health services are currently being provided by state-funded programs.

Only family & psychiatric services

-200% waive IMD

This decision is based on concerns regarding states using the section 1115 demonstration authority to shift the cost of state-funded programs onto the federal government or to expand Medicaid eligibility for a single or limited services benefit, such as mental health.

As an alternative, we would agree to work with Montana if they either:

(1) assure the expanded population has access to a broader range of benefits, or

(2) pursue a managed mental health benefit for the current Medicaid population only.

* SKila will v w/ SMH Dir thinks letter,
- Alert NGA
- Conf - Volpe

Burns, Baucus - Aptg vaguely (MR may run ag him)

RATIONALE

In making this decision, the Department identified and debated three issues, each of which also has broader implications for the 1115 demonstration process in general.

1. Should we permit states to transfer state-funded programs into Medicaid?

-- Although the principle of budget neutrality protects the federal baseline against excessive new costs associated with states' transferring state-funded programs into Medicaid, we have been concerned with states using the demonstration process merely to refinance state programs.

1st talk to Baucus

"MH Members Wkg Gp"

-- We have allowed several states to use the federal savings achieved under a Medicaid demonstration to receive federal matching funds for a program previously financed with state-only money, affording them significant savings.

-- So far, some states have chosen to re-invest their Medicaid savings into eligibility expansions or other health service improvements. Other states plan to achieve Medicaid savings and not expand eligibility.

NAMI - opp excluded w/in 24 hrs.

-- While we have concerns with states withdrawing significant savings from the system, we have not prescribed how states should use their savings. Additionally, a maintenance of effort requirement on states would be viewed negatively by the governors.

-- Under Montana's proposal to transfer individuals served by a state-funded, limited benefit program into Medicaid, the supplanting of state dollars with

NMHA - pool ~~subst~~ SAMHSA grants - oppose

Mass MH - blue ribbon - model for FHs

CR Jack / NAMI HCFA John

federal funds does not add to the research merit of the demonstration. The innovative aspect of the proposal -- testing managed mental health care -- could be done under a program waiver for the current Medicaid population, without refinancing the existing state delivery system.

2. Should we permit states to use the 1115 demonstration process for service-specific Medicaid eligibility expansions when we have not done so to date?

Precedent in Vermont, too—prescr drug

-- We believe that a basic tenet of the Medicaid program is to provide comprehensive care to eligible persons.

-- So far under statewide 1115 health reform demonstrations, states have brought newly-eligible persons into the Medicaid program for a comprehensive range of physical and mental health services.

-- Montana has proposed to offer just a mental health benefit to new eligibles.

-- Using the Medicaid entitlement to provide a limited benefit, such as mental health (or physical health), without assuring access to basic medical coverage could compromise quality and access; be viewed as discrimination against certain services or populations; and encourage states to shift limited state-only programs onto Medicaid.

-- We therefore believe that, in order to receive Federal financial participation under a demonstration, a state should have to provide access to comprehensive services.

3. Should we allow states to shift the historical state responsibility for financing mental health benefits to the Federal government?

-- Historically, the states' role of funding mental health services has been greater than for other health services due to state laws on care for the mentally ill.

-- Although Medicaid has, over time, assumed an increasing role in funding mental health services, it does not pay for care of individuals between the ages of 22-64 in Institutions for Mental Diseases. While not explicit in the legislative history, many think this provision was adopted to keep the states from shifting their large investments in state psychiatric hospitals onto the Federal budget.

-- The historical evidence may not be compelling enough to assert that mental health services are historically a state responsibility and therefore should be treated differently from other services in the demonstration process.

Budget neutr argument

Diana Golden

DEPARTMENT OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Chief of Staff

December 7, 1994

NOTE TO CAROL RASCO

Per your conversation with John Monahan, I attach the following fact sheet on the Montana waiver request.

If you have any questions, please do not hesitate to call me.

Kevin Thurm

Attachment

MONTANA WELFARE REFORM FACT SHEET

"Achieving Independence for Montanans" (AIM) Submitted: April 20, 1994

INTRODUCTION

Montana's welfare reform proposal, "Achieving Independence for Montanans" is the result of recommendations put forth by the Governors Welfare Reform Advisory Council, and contains elements requiring waivers from both the Department of Agriculture (USDA), for the Food Stamps program, and from the Department of Health and Human Services (HHS), for the Aid to Families with Dependent Children (AFDC) and Medicaid programs.

BACKGROUND

In the original proposal, Montana requested several waivers that are not permissible under section 1115 authority. These requests include the following:

HHS Waivers: to reduce the eligibility for any Medicaid transition benefit months from 185 percent of the Federal Poverty (FPL), 133 percent FPL; to exempt Montana from calculating a JOBS participation rate; to count unsupervised study time toward the JOBS 20-hour participation rate requirement; to exempt the State from the 55 percent targeted expenditures requirement; and, to relieve the State of the requirement that one parent in an AFDC-UP case must participate in a work activity for at least 16 hours a week.

USDA Waivers: to allow Montana to require as a condition of Food Stamp eligibility that potentially eligible Food Stamp households apply for SSI, unemployment compensation or other potential resources; to divide the amount of a lump-sum payment by the established resource limit to determine a period of ineligibility for Food Stamp benefits; and to allow the demonstration sanction policy to deny Food Stamps to adults during the sanction months.

In addition, Montana is proposing to limit Medicaid benefits for selected current eligibles, defined as "able-bodied adults". Montana's original waiver request proposed: 1) options for Medicaid coverage which would result in loss of some Medicaid benefits, except for children and pregnant women; 2) the elimination of services such as inpatient hospital care and emergency room services; and 3) sanctions which include loss of Medicaid coverage for AFDC-linked participants who quit a job without good cause and/or fail to comply with the Family Investment Contract.

ISSUES

Medicaid

While waivers permitting limitations on Medicaid services for current eligibles are legally permitted, HHS has a long-standing policy against approving demonstration projects which have the effect of reducing Medicaid benefits for current eligibles. Indeed, the preference of HHS is that demonstration projects result in an expansion of Medicaid coverage, not a reduction.

HCFA has informed Montana that HHS has never approved a welfare reform waiver which reduces Medicaid benefits or includes sanction polices resulting in loss of Medicaid. Dr. Peter Blouke, Director of Montana's Department of Social and Rehabilitation Services, has stated that the limitation of benefits is a cornerstone of Montana's welfare reform plan and is consistent with their overall welfare philosophy. In recent conversations with HHS' Office of Intergovernmental Affairs, Mr. Blouke also indicated these reductions are necessary in order to help finance the overall welfare reform project. Montana estimates a $4 million shortfall if the Medicaid benefit package is not reduced, or other modifications are not made to the proposal.

AFDC

Several of the AFDC waivers requested by Montana are problematic. HHS has communicated this to the State. For example, Montana has requested that Indians living on a reservation be required to participate in the demonstration. The State was informed that they cannot be given authority to require Tribal members to participate in the Montana JOBS program because a State imposing JOBS requirements on Indians would constitute interference with a Tribe's JOBS program, which is prohibited by law. Also, the State wanted to institute provisions reducing parental choice in child care arrangements, which are counter to HHS policy.

DISCUSSION

The outstanding issues relate to the State's Medicaid provisions under the waiver. In working closely with Montana, some of HCFA's suggestions were adopted; the State no longer proposes to cut mandatory benefits such as inpatient hospitalization and emergency room services. However, the State still would like to reduce optional benefits and coverage, including vision, dental, and hearing services; durable medical equipment; or speech, occupational, and physical therapy. In addition, the State now proposes that "able-bodied adults" choose between a limited services Medicaid package or partial premium payment of a private health insurance policy. Those adults choosing the limited Medicaid package will be mandated to enroll in a Health Maintenance Organization (HMO), if one is available. If one is

not available, enrollment in Montana's current Medicaid Primary Care Case Management program will be required.

Although all mandatory Medicaid benefits are now included in the demonstration proposal, Montana's limitation of optional services would still result in current eligibles losing benefits to which they are currently entitled, solely because of the demonstration project. Also, with the addition of the mandatory choice between a private health insurance policy or a HMO, the State would need to modify their Primary Care Case Management program, operated under 1915(b) waivers. In addition, this modification to the current waiver program is not likely to result enough savings to finance the welfare reform demonstration.

RECOMMENDATIONS

In discussions with the State, HCFA has emphasized HHS' opposition to reductions in Medicaid benefits for current eligibles. If the State's reason for continuing to pursue these reductions stems from a need to finance expansions in AFDC, HHS recommends that Montana pursue other savings options that are consistent with the proposed expansions. Additionally, we can recommend that Montana pursue an expansion of their current Medicaid managed care program by instituting an HMO component. While this will not alleviate the budget shortfall projected under the demonstration, the expansion could result in separate future savings for the State. HHS is prepared to work with Montana to explore these alternatives.