Office of Health Transformation

Create a Cabinet-Level Medicaid Department

Background:

Medicaid is the largest health payer in Ohio, spending $19.6 billion in 2013 to provide health coverage for more than 2.3 million Ohioans through a network of 75,000 health care providers. Medicaid policy, spending and administration are split across multiple government jurisdictions. The program is jointly funded by the federal and state governments and, in Ohio, administered through five state departments, each with a local counterpart organized by county or region.

Medicaid accounts for a significant share of spending in the Ohio Departments of Aging (83 percent), Alcohol and Drug Addiction Services (28 percent), Mental Health (61 percent), Developmental Disabilities (91 percent), and Job and Family Services (73 percent) — yet the unit responsible for interacting with these agencies is subordinate to them, organized as a unit within the Ohio Department of Job and Family Services (ODJFS). Despite having responsibility for 73 percent of the ODJFS budget, Ohio Medicaid's 388 staff account for only 10 percent of total employment within ODJFS. From this position, it is difficult for Medicaid to command the administrative resources necessary to manage the program, and to align Medicaid policy and control costs across state agencies.

The current Medicaid organizational structure is inappropriate for the prominent role Medicaid plays in state government. Back-to-back Medicaid study committees in 2005[1] and 2006[2] recommended that Ohio create a new, cabinet-level Medicaid department to provide the leadership and focus required to improve Medicaid program performance and get spending under control, and in 2006 the Ohio Auditor of State released a performance audit of the Ohio Medicaid Program that also concluded reorganization was essential.

Kasich Administration Action. From the outset of his Administration, Governor Kasich recognized the need for a comprehensive state health care strategy. On January 13, 2011, only three days into his Administration, Governor Kasich created the Office of Health Transformation (OHT) to "plan for the long-term efficient administration of the Ohio Medicaid program" and "recommend a permanent health and human services organizational structure and oversee transition to that permanent structure."[3] To date, the Governor and OHT have taken the following actions that are consistent with creating a cabinet-level Medicaid department:

- Governor Kasich hired Medicaid Director John McCarthy with the understanding that Director McCarthy would serve as a full member of the Governor's cabinet. This decision was formalized in the Governor's Mid-Biennium Review (HB 487). Effective September

[1] Ohio Commission to Reform Medicaid (2005).
[2] Ohio Medicaid Administrative Study Council (2006).
[3] Executive Order 2011-02K (January 2011)

10, 2012, HB 487 created the Office of Medical Assistance (OMA) as a work unit within ODJFS and transferred legal authority for the program from the ODJFS director to the OMA Director. This structure is in effect until a cabinet-level Medicaid agency is in place.

- Governor Kasich's first budget (HB 153) previewed what the budget for a Medicaid department would look like by presenting all Medicaid spending across all state agencies in a single, unified budget.

- HB 153 also reorganized the funding and control of several Medicaid programs. For example, financial responsibility for the non-federal share of Medicaid matching funds for behavioral health benefits was transferred from community behavioral health boards to Medicaid; funding for Medicaid behavioral health services was transferred from the Ohio Departments of Mental Health and Alcohol and Drug Addiction Services to Medicaid; and funding for the Ohio Department of Aging's home and community based services was transferred to Medicaid. Each of these changes supports the creation of a state Medicaid agency.

- OHT is working with Ohio Medicaid and other state agencies to restructure and consolidate health and human services (HHS) operations to be more efficient. For example, OHT has launched initiatives to share information across state and local data systems, modernize eligibility determination systems to serve multiple HHS programs at the same time, and integrate claims payment systems through Ohio's new Medicaid Information Technology System. Medicaid is critical to the success of each project, and will be in a better position to provide leadership as a cabinet-level department.

Executive Budget Proposal and Impact:

The Executive Budget establishes Medicaid as a cabinet-level department effective July 1, 2013. This decision is consistent with previous Medicaid reviews and recent actions taken by the Kasich Administration, described above. The effective date is one year earlier than originally planned because the work to separate Medicaid functions from ODJFS has gone so well that both agencies agreed to pull forward the effective date.

The creation of a cabinet-level Medicaid agency will bring about many changes, but it is not intended to reduce the workforce or reduce Medicaid-related financial resources that are available to counties. The purpose behind creating a new department is to release the creative potential of the state's Medicaid team to push forward reforms already underway, and to position the program within state government commensurate with Medicaid's responsibility to improve overall health system performance, improve care for vulnerable Ohioans, and control costs for Ohio's taxpayers. The major issues related to creating a new department are described below, including a summary of budget language and a description of administrative costs.

Budget language. The new Medicaid department's administrative and programmatic language will be separated from current provisions governing or implemented by the Department of Job and Family Services. Several new chapters will be created in Title 51 of the Revised Code to establish the new Department of Medicaid and its administrative functions. For the first time, these provisions will be organized according to subject matter (e.g., general Medicaid services, nursing facilities, managed care). In many instances, existing statutory language is being extracted or moved in its entirety from existing Chapters 5101, 5111, and 5112 of the Revised Code to the new chapters, with minimal changes. In addition, uncodified language will be included supporting the transition, including language ensuring the continuity of existing contracts, decisions, and other authorities governing Medicaid administration.

Administrative cost impact. The new Medicaid Department will report higher administrative costs in FY 2014 than in FY 2013 (Figure 1). The increase is driven by a combination of administrative costs shifting out of ODJFS into the new department, structural accounting changes to enhance transparency, and new initiatives to modernize the Medicaid program. More than 80 percent of the administrative increase will occur with or without the separation from ODJFS. Ohio Medicaid shares the cost of its administrative overhead with the federal government, so the state general revenue fund share of Medicaid administrative costs is only 23.5 percent and the rest is paid from federal or special revenue funds (Figure 2).

Figure 1.

ODJFS and Medicaid Operating Budget Summary

Administrative Cost	FY 2013 ODJFS with Medicaid	FY 2014 ODJFS Only	FY 2014 Medicaid Only	FY 2014 Combined	FY 2013-14 Change	FY 2013-14 % Change
Baseline Request:	***$755.0***	***$514.6***	***$250.1***	***$764.7***	***$9.7***	***1.2%***
Payroll	*$328.5*	*237.2*	*$77.5*	*$314.7*	*-$13.8*	
Contracts	*$206.7*	*89.1*	*$144.1*	*$233.1*	*$26.4*	
Maintenance	*$209.8*	*177.7*	*$26.6*	*$204.2*	*-$5.6*	
Equipment	*$9.9*	*10.6*	*$1.9*	*$12.5*	*$2.6*	
Add: New Items	***$171.9***		***$311.2***	***$311.2***	***$139.3***	***81.0%***
IT projects including eligibility	*$97.2*		*$170.3*	*$170.3*	*$73.1*	
ACA implementation (Woodwork)	*$0.0*		*$0.9*	*$0.9*	*$4.9*	
ACA implementation (Expansion)	*$0.0*		*$1.3*	*$1.3*	*$1.3*	
ACA implementation (Staff)	*0.0*		*$3.5*	*$3.5*	*$3.5*	
Balancing Incentive Program	*$0.0*		*$26.7*	*$26.7*	*$26.7*	
Accounting changes-volume contracts	*$74.7*		*$76.7*	*$76.7*	*$2.0*	
Staffing Increase	*$0.0*		*$3.0*	*$3.0*	*$4.0*	
New Department Contingency	*$0.0*		*$28.8*	*$28.8*	*$28.8*	
Total	***$926.9***	***$514.6***	***$561.4***	***$1076.0***	***$149.1***	***16%***

Source: OAKS Budget and Planning Module – Payroll/Contract/Maintenance/Equipment account codes only. SFY 2013 is adjusted to include accounting changes planned for SFY 2014-2015

Figure 2.
Medicaid Operating Budget Summary by Funding Source

Administrative Cost	FY 2014 All funds	FY 2014 GRF	FY 2014 SSR	FY 2014 FED	GRF%	SSR%	FED%
Baseline Request:	***$250.1***	***76.1***	***$18.3***	***$155.5***	***30.4%***	***7.3%***	***62.2%***
Payroll	*$77.5*	*$32.6*	*$2.5*	*$42.3*	*42.1%*	*3.2%*	*54.7%*
Contracts	*$144.1*	*$30.8*	*$14.0*	*$99.3*	*21.4%*	*9.7%*	*68.9%*
Maintenance	*$26.6*	*$11.7*	*$1.8*	*$13.0*	*44%*	*6.8%*	*48.9%*
Equipment	*$1.9*	*$1.0*	*$0.0*	*$0.9*	*52.6%*	*0.0%*	*47.4%*
Add: New Items	***$311.4***	***$55.8***	***$31.4***	***$224.2***	***17.9%***	***10.0%***	***72.1%***
IT projects including eligibility	*$170.4*	*$4.2*	*$18.6*	*$147.6*	*2.4%*	*10.9%*	*86.7%*
ACA implementation	*$2.2*	*$1.0*	*$0.0*	*$1.2*	*45.4%*	*0.0%*	*54.6%*
Balancing Incentive Program	*$26.7*	*$10.0*	*$3.4*	*$13.3*	*37.5%*	*12.7%*	*49.8%*
Accounting changes-Volume	*$76.7*	*$34.6*	*$0.0*	*$42.1*	*45.1%*	*0.0%*	*54.9%*
Staffing Increase	*$6.6*	*$0.8*	*$0.4*	*$5.4*	*12.2%*	*6%*	*81.8%*
Contingency/Elevation	*$28.8*	*$5.2*	*$9.0*	*$14.6*	*18.0%*	*31.2%*	*50.8%*
Total	***$561.4***	***$131.9***	***$49.7***	***$379.7***	***23.5%***	***8.9%***	***67.6%***

Updated January 31, 2013