



CALIFORNIA
HEALTHCARE
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Impact of the 2004-05 May Revision on Health Programs in California

May 19, 2004

Summary

Governor Schwarzenegger's budget includes funding sufficient to maintain many of the improvements made to the Medi-Cal and Healthy Families programs in recent years.

- Under the governor's proposed budget, Medi-Cal enrollment would grow from 6.6 million in FY03-04 to 6.7 million in FY04-05.
- The governor's budget provides funding to support continued enrollment growth in Healthy Families, which is expected to reach 774,000 by the end of FY04-05.

In the May Revision, the governor has rescinded many of the major cuts to health and related programs proposed in January.

- Proposed program cuts which were dropped include a 10 percent reduction in Medi-Cal provider rates, and enrollment caps for Healthy Families, California Children's Services and other programs.
- In lieu of eliminating the In-Home Supportive Services Residual program, the governor is seeking federal waiver authority that would allow the state to receive federal matching funds for these services. This would permit the state to reduce General Fund spending for these services by \$169 million without eliminating the program.

Several spending cuts to Medi-Cal and other health programs proposed in January still remain. Those which have the greatest impact on reducing expenditures include:*

- Regional Center Cost Containment (\$100 million);
- Lowering the level of state share-of-cost for IHSS provider wages (\$98 million);
- Imposing a Quality Improvement Fee on Medi-Cal managed care plans (\$75 million); and
- Reducing reimbursement to federally qualified health centers and rural health clinics (\$32 million).

The May Revision also includes new savings proposals. Most notably:*

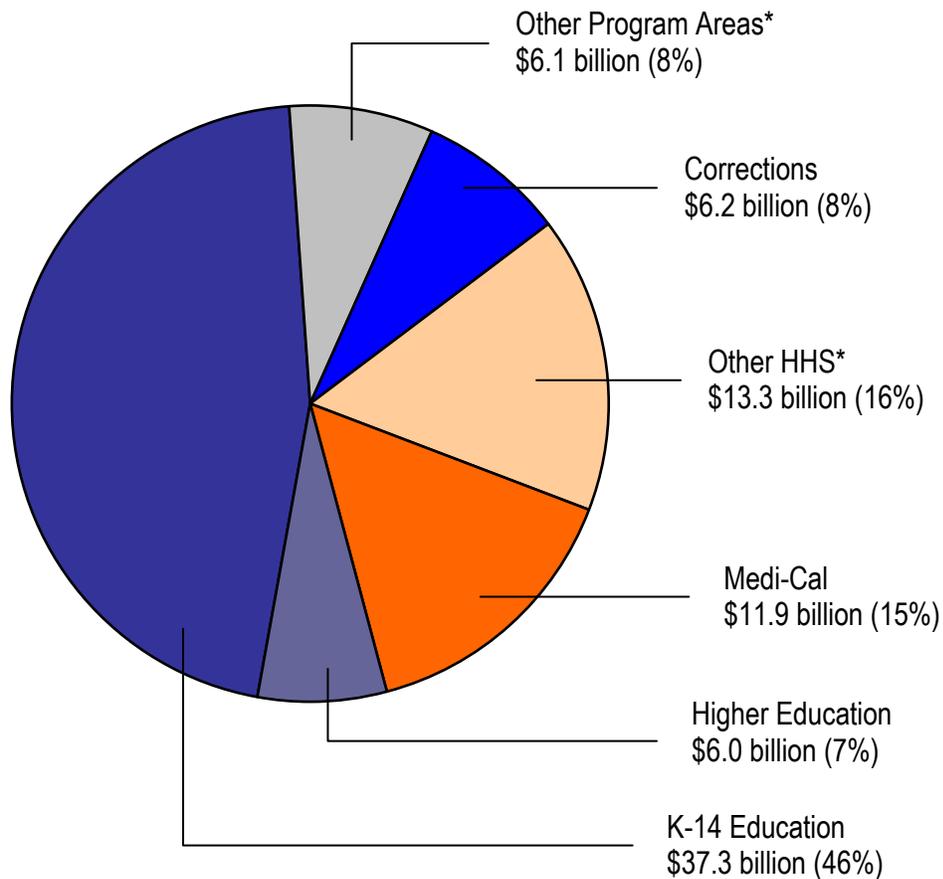
- Reducing Medi-Cal drug cost reimbursement and raising the dispensing fee from an average of \$3.59 to \$8.30 (\$79 million).
- Reconciling and validating Medi-Cal eligibility data (\$45 million); and
- Increasing the county share of costs for Early and Periodic Screening, Diagnosis, and Treatment services (EPSDT) from 10 percent to 20 percent (\$12.6 million).

Medi-Cal Redesign is still in the works. The governor continues to plan to seek federal authority to waive certain Medi-Cal requirements which would provide greater flexibility in program administration. The intent of the governor's redesign effort is to maintain the long-term financial viability of the program and the current eligibility of low-income populations.

*General Fund savings in parentheses.

Proposed Distribution of 2004-05 General Fund Expenditures

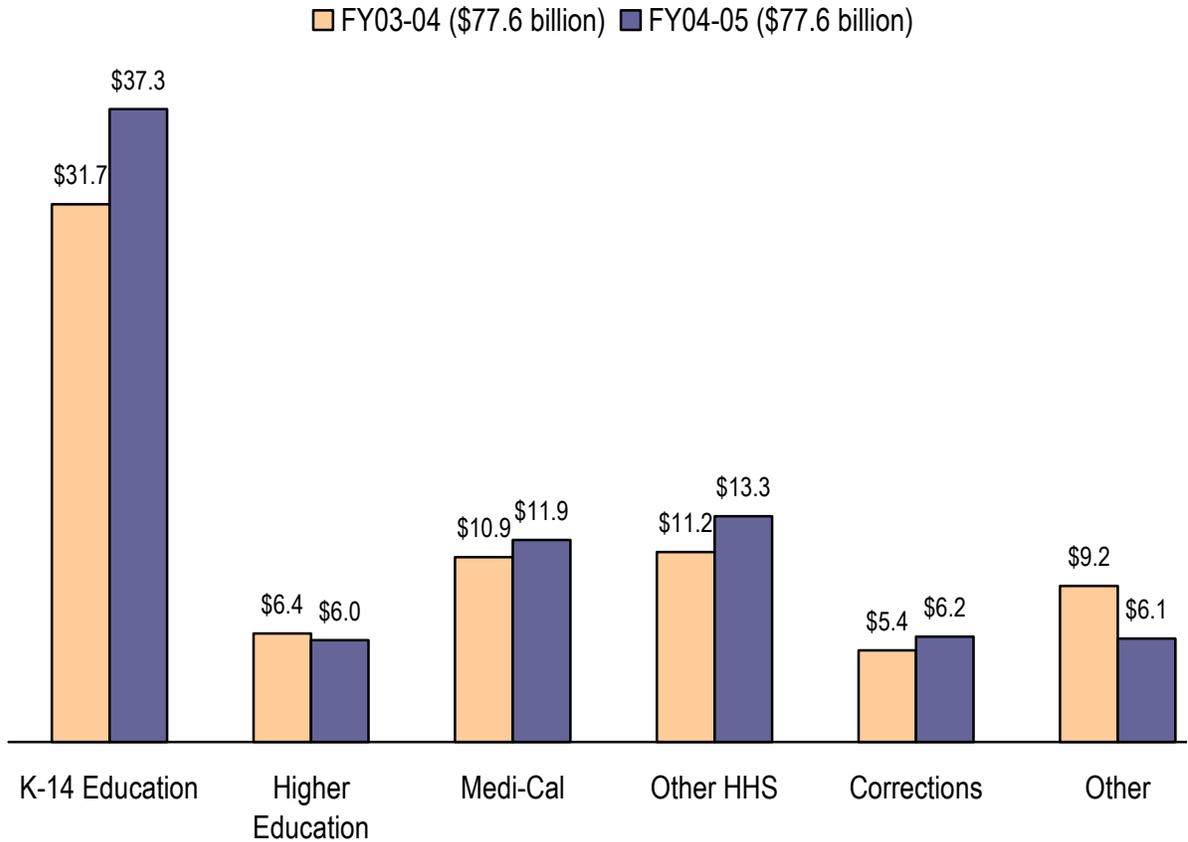
Total = \$77.6 billion*



* Debt Service Savings and Use of Deficit Recovery Fund are presented in the May Revision as negative expenditures, and they are excluded from the distribution shown here. Total General Fund expenditures excluding these categories are \$81 billion. Other Program Areas category includes: Legislative, Judicial, Executive; State Teacher Retirement System Contribution; Resources; State and Consumer Services; Business, Transportation and Housing; General Government; Labor and Workforce Development; Environmental Protection. HHS is Health and Human Services.

Source: Governor's Budget May Revision 2004-05.

General Fund Expenditures by Program Area, FY03-04 and FY04-05*



*Proposed General Fund expenditures in CY04-05, excluding Debt Service Savings and Use of Deficit Recovery Fund, are \$81 billion. Other Program Areas category includes: Legislative, Judicial, Executive; State Teacher Retirement System Contribution; Resources; State and Consumer Services; Business, Transportation and Housing; General Government; Labor and Workforce Development; Environmental Protection; Vehicle License Fee Backfill. HHS is Health and Human Services. Medi-Cal expenditures for FY03-04 have been adjusted for change from accrual to cash accounting.
 Source: Governor's Budget May Revision 2004-05.

Funding for Health Related Programs in FY03-04 and FY04-05

Proposed General Fund Expenditures for Selected Health and Related Programs, FY03-04 and FY04-05

	FY03-04	Proposed FY04-05	Percent Change
Medi-Cal	\$9.9 billion (\$10.9 billion after adjusting for change from accrual to cash accounting)	\$11.9 billion	+ 19% (+9% after adjusting for accounting change)
Healthy Families	\$290 million	\$319 million	+ 4%
Children's Medical Services	\$200 million	\$207 million	+4%
Public Health	\$685 million	\$643 million	- 8%
Community Mental Health Services	\$306 million	\$298 million	- 2%
Mental Health Long-Term Care/ State Hospitals	\$545 million	\$575 million	+ 6%
Department of Developmental Services	\$2.0 billion	\$2.2 billion	+ 4%
In-Home Supportive Services	\$1.4 billion	\$1.0 billion	- 25%

Sources: *Governor's Budget 2004-05* and *Governor's Budget May Revision 2004-05*.

Proposed Changes to Medi-Cal

The governor's May Revision reflects an increase in Medi-Cal spending of 19 percent, from \$9.9 billion in FY03-04 to \$11.9 billion in FY04-05. However, after adjusting for the change from accrual to cash accounting in 2003-04, the proposed increase in Medi-Cal spending is 9 percent. This growth is consistent with historical Medi-Cal spending trends and reflects increases in enrollment and costs per enrollee.

The governor has rescinded two major proposals to cut Medi-Cal spending in 2004-05:

- **Provider Rate Reductions:** The governor's January budget identified \$462.2 million in savings* from a 10 percent reduction in provider rates. This proposal was rescinded, in part because a successful legal challenge has thus far prevented the state from implementing a 5 percent provider rate reduction passed in 2003-04.
- **Enrollment Caps:** The May Revision rescinds the governor's earlier proposal to cap Medi-Cal enrollment for documented and undocumented immigrants at the January 1, 2004 level, which would have resulted in savings of \$17.2 million.

The May Revision also reflects several new proposals to reduce Medi-Cal spending by \$410 million:

- **Payment Float:** The May Revision identifies one-time savings of \$143 million reflecting the delay of the last check disbursement by one week to fiscal year 2005-06. The governor had previously proposed delaying one such "checkwrite" into the next fiscal year; this would bring the total number of delayed disbursements to two, for a total savings of \$286 million.
- **Pharmacy Reimbursement:** The May Revision identifies \$79.3 million in savings as a consequence of reducing drug cost reimbursement from average wholesale price (AWP) minus 10 percent to AWP minus 20 percent and, in conjunction, raising the dispensing fee from an average of \$3.59 to \$8.30.
- **Eligibility Administration:** The May Revision identifies \$44.9 million in savings through a combination of strategies to reconcile and validate eligibility data. These include \$33.3 million to reflect reconciliation of state and Los Angeles county eligibility records; \$9 million in savings by requiring counties to reconcile eligibility data discrepancies on a quarterly basis; and \$2.6 million to reflect establishment of a third-party vendor contingency fee contract for validating the accuracy of county eligibility determination processes.

The May Revision also includes a proposal that assumes an increase Medi-Cal spending in 2004-05, but which may actually save money.

- **County Organized Health Systems (COHS):** The May Revision includes an increase of \$15.2 million in expenditures as a result of a 3 percent increase in the reimbursement rate for the COHS to maintain their viability. The Legislative Analyst's Office warns that without an increase, General Fund expenditures could increase as much as \$150 million if all six COHS cease to operate.

*All amounts in this document reflect FY04-05 General Fund expenditures (or savings).

Sources: *Governor's Budget May Revision 2004-05*, *Governor's Budget 2004-05*, and Legislative Analyst's Office, *The 2004-05 Budget: Perspectives and Issues*.

Other Proposed Changes to Medi-Cal

The governor's January Budget lists several additional savings initiatives for the Legislature to consider, totaling approximately \$193 million in General Fund savings:*

1. Impose a 6 percent Quality Improvement Fee on all lines of business of Medi-Cal managed care plans as a vehicle for leveraging and receiving federal funding (\$75 million).
2. Eliminate the Wage Adjustment Rate Program which provides supplemental payments to qualified long-term care facilities (\$46 million in FY03-04; FY04-05 savings unspecified).
3. Revise the rate methodology for Federally Qualified Health Centers and Rural Health Clinics (\$32.2 million).
4. Reduce interim rates by 10 percent for cost-reimbursed acute care hospitals (\$31 million).
5. Apply a one-year moratorium on Adult Day Health Center reform, including a one-year moratorium on new centers and the certification for increased capacity of existing centers (\$12.7 million).
6. Develop productivity standards and overall performance standards for county welfare departments to control county administration costs within the Medi-Cal program (\$10 million).
7. Further enhance efforts to combat fraud, waste, and abuse in the Medi-Cal program, for a total savings of \$5.7 million. These actions include:
 - a. Send mid-year billing data to Medi-Cal providers with suspicious billing patterns (\$2.5 million).
 - b. Expand hospital billing audits (\$1.4 million).
 - c. Confirm receipt of services or products with selected Medi-Cal beneficiaries via mail or on-site visit (\$1 million).
 - d. Restrict electromyography and nerve conduction tests to specially-trained physicians (\$652,000).
 - e. Enhance Medi-Cal estate recoveries and increase long-term care insurance purchases (projected savings not provided).
 - f. Implement counterfeit-proof prescription pads (no savings until 2005-06).

*FY04-05 General Fund savings are shown in parentheses.

Source: *Governor's Budget 2004-05*.

Proposed Changes to Children's Health Programs

Healthy Families

The May Revision reflects a 4 percent increase in expenditures for the Healthy Families program, from \$290 million in FY03-04 to \$319 million in FY04-05.

- **Enrollee cost sharing increased:** The May Revision proposed an increase in premiums for all children with family incomes between 200 percent and 250 percent of the Federal Poverty Level. (The current FPL for a family of three is \$15,670.) The monthly premiums would be increased from \$9 per child and \$27 for three or more children to \$15 per child and \$45 for three or more children. Estimated savings are not presented in the May Revision.
- **Enrollment cap and two-tier benefit structure eliminated:** The governor has eliminated his proposal to establish an enrollment cap for Healthy Families set at the January 1, 2004 level, which would have reduced expenditures by \$86.3 million in 2004-05. The May Revision also eliminates the proposal to develop a two-tiered benefit package in which beneficiaries would be offered a benefit package that excludes coverage for dental and vision services at the same copayment levels, or an alternative benefit package that includes these services with higher cost sharing amounts. Savings in FY04-05 were not presented for the two-tiered benefit package.

*Children's Medical Services**

The May Revision reflects a 4 percent increase in General Fund expenditures for Children's Medical Services programs, from \$200 million FY03-04 to \$207 million in FY04-05.

- **Enrollment caps and copayments eliminated:** The governor has rescinded his proposal to establish enrollment caps and copayments proposed for the Genetically Handicapped Persons Program and for the California Children's Services program. The estimated savings in FY04-05 of \$3.2 million also included savings from a proposal to establish enrollment caps for the AIDS Drug Assistance Program, which has also been rescinded.

* Children's Medical Services Programs include the following major programs: California Children's Services (CCS), Genetically Handicapped Persons Program (GHPP), and Child Health and Disability Prevention (CHDP).

Proposed Changes to Other Health Programs*

Public Health

The May Revision reflects an 8 percent decrease in General Fund expenditures for public health, from \$685 million in FY03-04 to \$643 million in FY04-05.

- **Reversion of Prior Year Savings:** The May revision proposes to revert the unencumbered balance of prior year appropriations for various public health programs, including drinking water, cancer detection, county health services, and primary care and family health programs. General Fund savings resulting from this reversion total \$31.5 million.

Mental Health Services

The May Revision reflects a 2 percent decrease in General Fund expenditures for Community Mental Health Services, from \$306 million in FY03-04 to \$298 million in FY04-05, and a 6 percent increase in expenditures for Long Term Care/ State Hospitals, from \$545 million in FY03-04 to \$575 million in FY04-05.

- **Proposal to rebase maximum provider rates for Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) rescinded:** The May Revision indicates that “before rebasing can occur, an alternative formula is needed to correct methodological problems and to prevent significant reductions in rates that could affect access to services.” The May Revision restores \$40 million to the budget to fund this initiative together with a proposal to rescind the public provider exemption for obtaining federal reimbursement above state rates.
- **County share of cost for EPSDT increased:** The May Revision would increase county share of costs for EPSDT services from 10 percent to 20 percent, excluding small counties, for savings of \$12.6 million. The governor will seek additional federal reimbursement in 2004-05 for counties to offset their higher match requirement.
- **Activation of Coalinga State Hospital delayed:** The governor proposes a one-month delay, along with a reduction in the number of beds initially activated from 575 to 200, for a total savings of \$9.5 million.

*Selected changes

Proposed Changes to Health-Related Programs*

Department of Developmental Services

The May Revision reflects a 4 percent increase in General Fund expenditures for developmental services, from \$2.0 billion in FY03-04 to \$2.2 billion in FY04-05.

- **Regional Center Cost Containment:** The May Revision reflects \$100 million in savings associated with the following: impact of temporary cost containment measures implemented in 2003-04 (\$67.5 million), statewide purchase-of-services standards (\$11.9 million); decreased rate of program growth (\$11.3 million); offset from increased federal funds (8.7 million); and family cost-participation program (\$570,000).
- **Developmental Centers:** The May Revision includes a net increase of \$19.4 million for developmental centers. These additional costs are primarily a function of activities leading to the closure of Agnews Developmental Center and increases in employee compensation costs.

In-Home Supportive Services

The May Revision reflects a 25 percent decrease in General Fund expenditures for In-Home Supportive Services, from \$1.4 billion in FY03-04 to \$1.0 billion in FY04-05.

- **IHSS Residual Program preserved:** In lieu of eliminating the Residual Program, the administration is seeking federal waiver authority which would allow the federal government to pick up a share-of-cost for the program. According to the Legislative Analyst's Office, General Fund savings under this approach are \$169 million. General Fund savings from eliminating the Residual Program were projected to be \$365.8 million.
- **IHSS Quality Assurance Initiative:** This initiative would promote program oversight and fraud investigation activities, establish a statewide monitoring contract and training academy for county staff, and implement authorization controls for protective supervision, for a net savings of \$14 million.
- **Worker Wages and Benefits:** The May Revision maintains a proposal to reduce the level at which the State provides share-of-cost for IHSS provider wage and benefits to the state minimum wage, for savings of \$98 million.
- **Services in Shared Living Situations:** The May Revision defers implementation of a proposal to eliminate domestic and related services for recipients who live with their family members, when the need for these services is provided in common with other household members. This proposal would result in savings of \$26.3 million.

*Selected changes

Update on Medi-Cal Redesign

Governor's Proposal

In January, the governor proposed a major restructuring of the Medi-Cal program. Although no savings were anticipated for FY04-05, annual savings of \$400 million were projected beginning with FY05-06. Concepts under consideration included simplifying eligibility to aligning Medi-Cal standards to those of the state's cash assistance programs, developing a multi-tiered benefit and premium structure, requiring copayments for services, conforming the benefit package to private plans, and expanding managed care.

Feedback from Workgroup Participants

From mid-March through the end of April, the administration sought input from stakeholders through a series of 19 workgroup meetings open to the public. The consultants hired to facilitate the workgroup meetings identified the following ten themes that arose from these discussions:

Eligibility and Benefits

- 1) The benefit tier structure concept adds complexity and cost, rather than simplicity and savings to the program.
- 2) Cost sharing is a way to reduce utilization; and, for low-income patients (particularly those who are elderly and disabled) typically deters use of both essential and non-essential services, thus undermining its purpose.
- 3) EPSDT is an essential service for children and results in cost saving in other systems.
- 4) Numerous opportunities exist to simplify eligibility requirements and processes that would result in administrative cost savings.

Delivery System

- 5) Efforts to expand managed care while reducing state expenditures and improving quality of care should be done in a way that does not jeopardize safety net providers.
- 6) Choice is paramount for elderly and disabled Medi-Cal beneficiaries. Improving the quality of healthcare must be the goal of any reform in the Medi-Cal program that serves seniors and people with disabilities.
- 7) Standards must be established that ensure accessibility and effective communication as well as the provision of auxiliary aids and services, transportation and individualized accommodation in the delivery of health care services for people with disabilities.
- 8) Improvement of care coordination and chronic disease management can reduce Medi-Cal costs, whether in managed care or the fee-for-service (FFS) system. Coordination and management of care must aim to improve health and both foster home and community-based living, furthering the goals of the Olmstead decision.

Financing

- 9) A Section 1115 waiver could result in spending caps on federal Medicaid payments, which in turn could limit long-term federal funding, causing further budget crises.
- 10) Many opportunities were suggested to maximize revenues and optimize cost savings that could reduce or eliminate the need to cut benefits or introduce cost sharing.

A summary of findings from the workgroup discussions, along with numerous reports and other resource documents collected to enhance the public input process, is available at www.medi-calredesign.org.

Medi-Cal Redesign: Next Steps

The May Revision reaffirms the governor's intention to redesign the Medi-Cal program, but does not include any specifics beyond those provided in January.

The May Revision describes two overriding goals central to the administration's efforts to redesign Medi-Cal:

- Maintain current eligibility of low income populations; and
- Contain costs and maximize efficiencies.

The May Revision also describes five principal objectives for Medi-Cal Redesign. These include:

- Expand the use of organized systems of care that increase access, improve outcomes and contain costs;
- Revise Medi-Cal eligibility and enrollment process to make it more efficient and improve customer service;
- Tailor benefits to meet the needs of distinct Medi-Cal populations ;
- Incorporate beneficiary cost sharing that promotes personal ownership and responsibility, aligns Medi-Cal with other publicly-funded health programs, and encourages appropriate utilization of services; and
- Stabilize financing of state's safety net to ensure that hospitals have the resources to care for low-income and uninsured Californians.

The governor plans to submit a waiver proposal and requisite statutory changes to Legislature on August 2, 2004, and work with the Legislature and other stakeholders to secure the necessary statutory changes before the end of legislative session on August 31, 2004.

If legislative approval of programmatic and financing reforms is not secured by the end of session, the administration plans to work with federal government in September to secure any necessary plan amendments or waivers and return to Legislature in January 2005 for its concurrence.