

2011-12 Governor's Budget

Highlights

Department of Health Care Services



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CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES PROGRAM OVERVIEW

The California Department of Health Care Services' (DHCS) mission is to protect and improve the health of all Californians by operating and financing programs delivering personal health care services to eligible individuals.

DHCS's programs provide services to ensure low-income Californians have access to health care services and that those services are delivered in a cost effective manner. The Medi-Cal program is a health care program for low-income and low-resource individuals and families who meet defined eligibility requirements. Medi-Cal is responsible for coordinating and directing the delivery of health care services to approximately 7.65 million qualified individuals, including low-income families, seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases. Children's Medical Services is responsible for coordinating and directing the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases, including the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program. Primary and Rural Health is responsible for coordinating and directing the delivery of health care to Californians in rural areas and to underserved populations, and it includes the Indian Health Program, the Rural Health Services Development Program, and the Seasonal Agricultural and Migratory Workers Program, the State Office of Rural Health (CalSORH), Medicare Rural Hospital Flexibility Program (FLEX)/Critical Access Hospital (CAH) Program, Small Rural Hospital Improvement Program (SHIP), and the J-1 Visa Waiver Program.

GENERAL BUDGET OVERVIEW

The budget for DHCS supports activities and services that reinforce the State's commitment to protecting and improving the health of all Californians. For Fiscal Year (FY) 2011-12, the Governor's Budget presents a total of \$42.5 billion for the support of DHCS programs and services. Of the amount proposed, \$448.8 million is for state operations and \$42.1 billion is for local assistance. The proposed budget contains proposals that attempt to balance the need to operate within a responsible budget yet affirm DHCS's commitment to address the health care needs of Californians.

Total DHCS Budget

Governor's Budget Fund Source	2010-11 Approved Budget	2010-11 Revised Budget	2011-12 Proposed Budget
General Fund (GF)	\$ 12,534,473	\$ 13,009,291	\$ 13,374,007
Federal Funds (FF)	\$ 31,151,438	\$ 35,888,003	\$ 24,583,986
Special Fund & Reimbursements	\$ 16,477,210	\$ 7,621,185	\$ 4,581,747
Total Funds	\$ 60,163,121	\$ 56,518,479	\$ 42,539,740

*Dollars in thousands

State Operations

State Operations by Fund Source *			
Governor's Budget Fund Source	2010-11 Approved Budget	2010-11 Revised Budget	2011-12 Proposed Budget
General Fund	\$ 145,330	\$ 136,170	\$ 140,789
Federal Funds	\$ 274,098	\$ 260,616	\$ 274,579
Special Funds & Reimbursements	\$ 28,177	\$ 28,127	\$ 33,519
Total State Operations	\$ 447,605	\$ 424,913	\$ 448,887

*Dollars in thousands

Local Assistance

Local Assistance by Fund Source *			
Governor's Budget Fund Source	2010-11 Approved Budget	2010-11 Revised Budget	2011-12 Proposed Budget
General Fund	\$ 12,389,143	\$ 12,873,121	\$ 13,233,218
Federal Fund	\$ 30,877,340	\$ 35,627,387	\$ 24,309,407
Special Funds & Reimbursements	\$ 16,449,033	\$ 7,593,058	\$ 4,548,228
Total Local Assistance	\$ 59,715,516	\$ 56,093,566	\$ 42,090,853

*Dollars in thousands

BUDGET ADJUSTMENTS

Budget Change Proposals

Specialty Mental Health Waiver Unit

Positions: 2.0 Permanent
FF: \$106,000
OF: \$105,000
Total: \$211,000

DHCS requests to convert two limited-term positions to permanent status and meet ongoing workload associated with overseeing the Medi-Cal Specialty Mental Health Services (SMHS) Waiver program. The positions will maintain and expand DHCS's current monitoring of the SMHS Waiver to comply with federal Centers for Medicare and Medicaid Services audit findings, as well as those of the Office of State Audits and Evaluations (OSAE) Final Report that require expanded oversight and monitoring of the Medi-Cal SMHS Waiver to ensure fiscal integrity and improve accounting, reimbursement and electronic claims processing systems. DHCS will continue the existing level of compliance monitoring of the Medi-Cal SMHS Waiver, and continue to reduce the federal and state financial risks that exist within the program.

Medi-Cal Coverage of Eligible Adult Inmate Inpatient Costs

Positions: 19.0 Permanent
FF: \$948,000
OF: \$948,000
Total: \$1,896,000

DHCS requests the permanent establishment of nineteen new positions to obtain federal financial participation (FFP) for inpatient services provided to State inmates in "community" hospitals that are neither on prison grounds nor under the control of the correctional system. The proposed positions will develop policies and procedures, oversee and conduct determinations of eligibility for Medi-Cal and Coverage Expansion and Enrollment Demonstration (CEED), and to develop mechanisms to claim FFP. Currently, the California Department of Corrections and Rehabilitation pays for inpatient health care costs for state inmates admitted to a "community" hospital with 100 percent General Fund dollars. Federal policy does not recognize the individuals as inmates in these limited circumstances and permits claiming of FFP if the person is otherwise eligible for the program.

California Mental Health Care Management Program (CalMEND)

Positions: 4.0 Limited -Term
FF: \$274,000
OF: \$357,000
Total: \$631,000

DHCS requests the extension of four limited-term positions responsible for the DHCS California Mental Health Care Management Program (CalMEND). CalMEND is a partnership between DHCS and the Department of Mental Health (DMH) intended to improve the cost-effectiveness of services to Medi-Cal populations with Serious Mental Illness, Serious Emotional Disturbance or Substance Use, and with significant co-occurring medical problems. DHCS will continue this through the implementation of a care management program that involves: improved integration of behavioral health services with primary care services; improved use of appropriate medical and pharmaceutical services in specialty mental health and primary care clinical sites; development of resources to support client and provider clinical treatment decisions; involvement of client and family members in all aspects of program activities, especially those aimed at improved self-management and shared decision-making; development of the ability to identify and exchange relevant health information among providers, and between providers and clients; and support for operational research to identify problems inherent to this population amenable to improvement recommendations.

Intergovernmental Transfers Unit

Positions: 2.5 Permanent
OF: \$257,000
Total: \$257,000

DHCS requests to permanently establish two-and-a-half positions to facilitate the increasing workload resulting from expanding participation of Medi-Cal Managed Care counties and health plans in Intergovernmental Transfers to county and public hospitals, as well as hospital financing districts.

HITECH Act Medi-Cal Electronic Health Record Incentive Program

Position: 16.0 Limited -Term
FF: \$1,956,000
OF: \$217,000
Total: \$2,173,000

DHCS requests the establishment of 16 limited-term positions in the Office of Health Information Technology for operations support, education and outreach, data analysis, policy analysis, enrollment and eligibility, and audits and investigations, for both the managed care and fee for service campaign efforts that are part of the Medi-Cal Electronic Health Record (EHR) Incentive Program implementation. Funding for a contract is also requested to continue to develop the State Medicaid Health Information Technology Plan and to implement the EHR Incentive Program. The Health Information Technology for Economic and Clinical Health (HITECH) Act authorizes the outlay of

federal money estimated to be roughly \$1.4 billion in California for Medicare and Medicaid incentive payments to qualified health care providers who adopt and use electronic health records in accordance with the Act's requirements. The incentive program is authorized in federal law through 2021.

Health Care Reform

Positions:	17.0 Limited -Term
GF:	\$949,000
FF:	\$1,095,000
Total:	\$2,044,000

DHCS requests 17 limited-term positions to support the implementation of the Affordable Care Act of 2010 (ACA). ACA mandates Medicaid changes and also offers new opportunities to leverage additional federal support for Medicaid eligibility, benefits, rates, and interactions with the ACA mandated Health Insurance Exchange. DHCS is organizationally responsible for California's Medicaid program (Medi-Cal), and will be responsible for implementing new Medicaid program changes relating to the ACA. The resources requested in this proposal will focus on: 1) Changes in the manner in which manufacturer drug rebates are shared between Medi-Cal and the federal government and new requirements to collect rebates from Medi-Cal managed care plans, 2) Many specific and technical Medi-Cal eligibility, benefit, and payment modifications that are designed to improve coverage, quality, and cost-effectiveness, and 3) Interaction of Medi-Cal eligibility systems with the ACA-mandated Health Benefit Exchange.

Diagnosis-Related Groups Payment System

Positions:	11.0 Limited -Term
GF:	\$480,000
FF:	\$724,000
Total:	\$1,204,000

DHCS requests 11 two-year limited-term positions to support the requirement for DHCS to develop and implement a new payment system for hospital inpatient services based upon Diagnosis-Related Groups (DRG), including a reconciliation process that will accelerate implementation of DRG rates. The new DRG payment system operates on a reimbursement related to the recipient's assigned diagnosis or diagnoses. These positions will assist in developing the payment methodology to move Medi-Cal from a inpatient per diem reimbursement system to a DRG based reimbursement system.

Medi-Cal: Demonstration Project Waiver (Assembly Bill 342)

Positions: 23.0 Limited -Term
FF: \$2,160,000
OF: \$2,159,000
Total: \$4,319,000

DHCS requests 23 three-year limited term positions in various divisions to support the activities required to implement the local Coverage Expansion and Enrollment Demonstration (CEED) projects, part of California's new Section 1115 Medicaid Demonstration Waiver. The CEED projects will provide health care services to uninsured adults 19 to 64 years of age, who would not otherwise be eligible for Medicare or Medi-Cal, with incomes up to 133 percent of the federal poverty level (FPL). Additionally, to the extent federal financial participation is available, CEED project services could be available to individuals with incomes of 133 percent of FPL up to 200 percent of FPL. The local CEED projects will reimburse the state for the non-federal share of the costs of these positions.

Medi-Cal: Demonstration Project Waiver (Senate Bill 208)

Positions: 30.0 Limited -Term
FF: \$2,651,000
OF: \$2,489,000
Total: \$5,140,000

DHCS requests 30 three-year limited-term positions to support the activities required to implement California's new 1115 Medicaid Demonstration Waiver provisions (excluding CEED provisions). Through the Delivery System Reform Incentive Pool a public hospital will pursue expanded and new targeted quality improvements such as reducing readmission rates through improved care transitions, implementing evidence-based practices, improve discharge processes, post hospital coordination and patient experience. Additionally, the Medi-Cal Managed Care Division positions are related to administering the Inter-Governmental Transfers (IGT) including contract processing, auditing the flow of funding, and monitoring the Public Hospital IGTs.

HIPAA Privacy Operations

Positions: 3.0 Limited -Term
GF: \$150,000
FF: \$149,000
Total: \$299,000

DHCS requests the two-year extension of three limited-term positions to address the workload to maintain and improve compliance with federal and state privacy-related statutes and regulations, including the Health Insurance Portability and Accountability Act (HIPAA) Privacy Rule, the American Reinvestment and Recovery Act-Health Information Technology for Economic and Clinical Health Act (ARRA-HITECH), and the state Information Practices Act (IPA). As one of the largest health care entities, DHCS

is highly impacted by the increased level of regulation associated with the protection of personal information, particularly for health care data.

WIC Program Administrative Hearings

Positions: 1.0 Limited Term

OF: \$165,000

Total: \$165,000

DHCS requests one two-year limited-term position to conduct the increasing number of Women, Infants, and Children (WIC) formal appeal hearings. The California Department of Public Health (CDPH) administers the WIC Program which provides nutritious supplemental foods, nutrition education, and referrals to health and social services for low-income women, infants and children who are at nutritional risk. WIC serves 1.47 million participants monthly, through 81 local agencies, which operate over 650 sites statewide. The WIC program currently authorizes approximately 4,787 grocers to participate in the program including chain stores, independent stores, neighborhood stores, commissaries, and WIC Over 50% stores. The WIC Program has increased its fraud efforts to disqualify vendors that have failed to adhere to the policies and procedures the program has mandated. The disqualified vendors and those vendors that have been denied enrollment into the WIC Vendor program may appeal for reversal of WIC's action. CDPH contracts with the Department of Health Care Services' (DHCS) Office of Administrative Hearings and Appeals (OAHA) for the appeal functions.

ESTIMATE ADJUSTMENTS

Medi-Cal Local Assistance

The Fiscal Year (FY) 2010-11 Medi-Cal General Fund (GF) estimate is \$837.5 million less than the 2010-11 Budget Appropriation.

The Medi-Cal General Fund costs in FY 2011-12, as compared to the 2010-11, are estimated to increase by \$1.083 billion.

The major reasons for the change from the Appropriation include the following:

Various Policy Changes—Additional Medi-Cal Cost Containment Strategies: The November Medi-Cal Estimate includes savings in 2010-11 and 2011-12 for additional cost containment strategies that include a combination of limits on services, cost-sharing through co-payment requirements, elimination of specified benefits, provider payment reductions and additional sources of funding. In 2010-11, savings are estimated to be \$173.7 million GF, including the impact of ARRA. Savings are estimated to be \$2.701 billion GF in 2011-12, which is an increase in savings of \$2.527 billion GF over 2010-11. The cost containment strategies are listed in the table below:

Cost Containment Strategies	GF Savings	
	2010-11	2011-12
(Dollars in Thousands; Totals May Not Add Due to Rounding)		
Utilization		
Limit Enteral Nutrition to Tube Feeding Only (Adults)	-\$472	-\$14,436
Hard Cap at Six Prescriptions (Adults)	\$0	-\$11,040
Hard Cap on Hearing Aids at 90 th Percentile (Adults)	\$0	-\$506
Hard Cap on DME at 90 th Percentile (Adults)	\$0	-\$7,353
Hard Cap on Medical Supplies at 90 th Percentile (Adults)	\$0	-\$1,954
Hard Cap on Physician Office and Clinic (including FQHC/RHC) Visits at 10 per year (Adults)	\$0	-\$196,473
Cost Sharing		
\$5 Copayment for Physician and FQHC/RHC Visits (All Ages)	\$0	-\$152,825
\$5 Copayment for Dental Office Visits (Adults)	-\$180	-\$1,253
\$3 and \$5 Pharmacy Copayments (All Ages)	\$0	-\$140,324
\$50 Copayments for Nonemergency ER visits (All Ages)	\$0	-\$73,190
\$50 Copayments for Emergency ER visits (All Ages)	\$0	-\$38,372
\$100 Copayment per Hospital Inpatient Day/Max \$200 per Admission (All Ages)	\$0	-\$151,196
Benefits		
Eliminate OTC Cough and Cold Drugs (Adults)	-\$84	-\$2,190
Eliminate ADHC Services	-\$1,462	-\$176,625
Eliminate MSSP (GF savings are in CDA's budget)	--	--
Provider Payments		
10% Provider Payment Reductions for AB 1629 Nursing and Subacute Facilities	-\$1,998	-\$196,497
10% Provider Payment Reductions	-\$9,455	-\$537,086
Additional Funding		
Funding from First 5 California Commission	\$0	-\$1,000,000
Extension of Hospital Fee through June 2011	-\$160,000	\$0
Extension of Managed Care Organization Tax (GF savings are in MRMIB's budget)	--	--
TOTAL	-\$173,651	-\$2,701,292

Policy Change 241—Accelerated Payments: In 2010-11 the Department will accelerate budgeted payments to maximize federal funding under ARRA and EJMAA. The Department will temporarily suspend the one-week audit hold for the checkwrites at the end of December 2010, March 2011, and June 2011, thereby accelerating these payments one week. In addition, the Department will pay the last two checkwrites of June 2011, which were budgeted in the 2010 Appropriation to be paid in 2011-12. The Department will also accelerate managed care capitation payments in December 2010, March 2011 and June 2011, and accelerate some Safety Net payments in December. These accelerations will create a one-time net cost of \$642.0 million GF in 2010-11 as compared to the Appropriation, and a one-time savings of \$785.2 million in 2011-12, for a net savings over the two-year period of \$143.2 million GF. The change from CY to BY is a decrease of \$1.427 billion GF.

Various Policy Changes—California’s Bridge to Reform Section 1115(a) Demonstration: The Centers for Medicare and Medicaid Services approved California’s Bridge to Reform Section 1115(a) Demonstration effective November 1, 2010. The expected GF savings under the new waiver, as well as the associated FFP, are reflected in a separate budget control section. The November Medi-Cal Estimate budgets the federal funds for the provisions with FFP impacts only, and also budgets the impact of the Mandatory Enrollment into Managed Care for Seniors and Persons with Disabilities.

Family Health Local Assistance

The November 2010 Family Health Estimate shows a 2010-11 General Fund (GF) surplus of \$76.5 million compared to the FY 2010-11 Budget Appropriation.

The Family Health Estimate shows a 2011-12 General Fund increase of \$116.7 million compared to 2010-11.

The major reasons for the change from the Appropriation include the following:

California Children’s’ Services (CCS)

Base: State Only and Healthy Families Treatment Services Costs: In 2010-11, costs for treatment services are expected to decrease by \$1.6 million GF compared to the 2010-11 Appropriation based on adding additional months of actual data to the forecasting model. An increase of \$2.2 million GF is expected in 2011-12 over 2010-11 due to continuing growth.

Base: State Only Medical Therapy Costs: In 2010-11, costs for therapy provided by CCS county program staff in CCS school-based medical therapy units are expected to decrease by \$6.2 million GF compared to the 2010-11 Appropriation based on adding additional months of actual data to the forecasting model. An increase of \$3.6 million GF is expected in 2011-12 over 2010-11 due to continuing growth.

Policy Change 6 – Hospital Financing Safety Net Care Pool: In 2010-11, the amount of certified public expenditures (CPE) from the CCS state-only program will increase by \$52.3 million due to the 10% reduction to Safety Net Care pool payments and the American Recovery and Reinvestment Act (ARRA), thereby, reducing the General Fund need. In 2011-12, no CPEs have been assumed for the CCS state-only programs, resulting in a \$74.3 million increase in the GF. The Medi-Cal Hospital/Uninsured Care section 1115(a) Medicaid Demonstration waiver ended on October 31, 2010; therefore no federal funds will be claimed through the CPE process for CCS state-only funded costs in 2011-12. The impact of the Department's Bridge to Reform Demonstration waiver is not reflected in the Family Health Estimate for FY 2011-12. The waiver impact has been included in a statewide budget control section.

Genetically Handicapped Persons' Program (GHPP)

Policy Change 4 - Hospital Financing Safety Net Care Pool: In 2010-11, the amount of CPE from the GHPP program will increase by \$12.7 million. In 2011-12, no CPEs have been assumed resulting in a \$30.7 million increase in the GF for the reasons defined under CCS above.