

2015-2016 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 provide Californians with access to affordable, high-quality health care including medical, dental, mental health, substance use treatment services, and long-term care. Our vision is to preserve and improve the physical and mental health of all Californians.

DHCS helps ensure that Californians have access to quality health care services that are delivered effectively and efficiently. Its programs integrate all spectrums of care primarily via Medi-Cal, California's Medicaid program. Medi-Cal is a federal/state partnership providing comprehensive health care to individuals and families who meet defined eligibility requirements. Medi-Cal coordinates and directs the delivery of important services to approximately 12.0 million low-income individuals.

On January 1, 2014, California implemented the Affordable Care Act (ACA) which expanded Medi-Cal in two ways:

- Simplified eligibility, enrollment and retention rules making it easier to get on and stay on the program.
- Extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.

In addition to Medi-Cal, the Department offers programs to special populations:

- Low-income and seriously ill children and adults with specific genetic diseases. The various programs include the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program.
- Californians in rural areas and to underserved populations including the Indian Health Program, the Rural Health Services Development Program, the Seasonal Agricultural and Migratory Workers Program, the State Office of Rural Health (CalSORH), the Medicare Rural Hospital Flexibility Program / Critical Access Hospital Program, the Small Rural Hospital Improvement Program, and the J-1 Visa Waiver Program.
- Community mental health services and substance use disorder services funded by federal block grants and the Mental Health Services Act;
- Public health prevention and treatment programs. These services are provided via the Every Woman Counts Program, the Prostate Cancer Treatment Program and the Family Planning Access Care and Treatment (PACT) Program.

GENERAL BUDGET OVERVIEW

The budget for DHCS supports actions and vital services that reinforce the State's commitment to protect and improve the health of all Californians. For Fiscal Year (FY) 2015-16, the Governor's Budget presents a total of \$98.0 billion for the support of DHCS programs and services. Of that amount, \$558.6 million funds state operations, while \$97.5 billion supports local assistance. The proposed budget attempts to affirm the State's commitment to address the health care needs of Californians while operating within a responsible budgetary structure.

Total DHCS Budget

(includes non-Budget Act appropriations)

Governor's Budget Fund Source	2014-15 Approved Budget	2014-15 Revised Budget	2015-16 Proposed Budget
General Fund (GF)	\$17,603,180	\$18,167,875	\$19,041,233
Federal Funds (FF)	\$57,889,891	\$56,192,246	\$61,364,918
Special Fund & Reimbursements	\$17,469,244	\$14,019,575	\$17,642,975
Total Funds	\$92,962,315	\$88,379,696	\$98,049,126

*Dollars in thousands

State Operations

State Operations by Fund Source *			
Governor's Budget Fund Source	2014-15 Approved Budget	2014-15 Revised Budget	2015-16 Proposed Budget
General Fund	\$172,604	\$178,095	\$182,127
Federal Funds	\$332,921	\$341,163	\$349,395
Special Funds & Reimbursements	\$55,094	\$56,245	\$57,051
Total State Operations	\$560,619	\$575,503	\$588,573

*Dollars in thousands

Local Assistance

Local Assistance by Fund Source *			
Governor's Budget Fund Source	2014-15 Approved Budget	2014-15 Revised Budget	2015-16 Proposed Budget
General Fund	\$17,430,576	\$17,989,780	\$18,859,106
Federal Fund	\$57,556,970	\$55,851,083	\$61,015,523
Special Funds & Reimbursements	\$17,414,150	\$13,963,330	\$17,585,924
Total Local Assistance	\$92,401,696	\$87,804,193	\$97,460,553

*Dollars in thousands

MAJOR NEW POLICY PROPOSALS

Renewal of the Medi-Cal 1115 Waiver

California's current Medi-Cal 1115 Waiver, "Bridge to Reform", which has been fundamental to the successful implementation of the Affordable Care Act, expires in October 2015. DHCS will seek a five-year renewal of the waiver in order to continue to support ACA implementation, improve the health care quality and outcomes for our approximately 12.0 million beneficiaries and provide for the long-term fiscal stability of the Medi-Cal program through delivery system transformation and alignment. The main objectives of the waiver renewal will be to:

- Strengthen primary care delivery and access.
- Avoid unnecessary institutionalization and services.
- Use the Medi-Cal program to test innovative approaches to care.

These objectives are consistent with the goals of higher quality, improved health outcomes, and lower costs. DHCS is undertaking a stakeholder process to discuss several core areas targeted in the waiver renewal process, including delivery system transformation and other provider or plan incentives, safety net funding reform, workforce development, housing and supportive services for targeted populations, and shared savings with the federal government. The Budget assumes continuation of the funding available in the Bridge to Reform Waiver for designated public hospital systems; however, updates to those assumptions will occur as part of the May Revision after DHCS formally submits the waiver renewal to the federal government.

Renewal of Freestanding Nursing Facility Reimbursement Methodology and Quality Assurance Fee (AB1629)

The Governor's budget proposes to extend the AB1629 quality assurance fee and freestanding nursing facility reimbursement methodology for a period of five years. In addition, the budget proposes 3.62% annual rate increases during the extension. The budget also maintains the 2014-15 level of funding for the Quality and Accountability Supplemental Payment (QASP) program that is intended to provide supplemental payments to nursing facilities based on their achievement of specific quality metrics.

Managed Care Organization Tax

The Governor's budget proposes to replace the existing Managed Care Organization (MCO) tax with a broad-based MCO tax that would satisfy the requirements of recently issued federal guidance. The federal guidance indicated that the current MCO tax is likely impermissible under federal Medicaid regulations after its expiration on June 30, 2016, because it only applies narrowly to Medi-Cal managed care plans. The new broad-based MCO tax will apply broadly across managed care plans regulated by Department of Managed Health Care and/or the Department of Health Care Services. The proposed tax will be a tiered amount based on various plan enrollment levels. The tax will be sufficient to raise the same amount of general fund savings as the current MCO tax as well as the funding needed to eliminate the 7% reduction in in-home supportive services hours.

Modification of the Major Risk Medical Insurance Program

The Governor's budget proposes modifications to the Major Risk Medical Insurance Program (MRMIP). These modifications are intended to ensure continued coverage for individuals who are unable to otherwise enroll in comprehensive coverage through the Medi-Cal program or subsidized coverage through Covered California. The proposal would limit eligibility in the program to those individuals and all others would be directed to enroll in Medi-Cal or subsidized coverage through Covered California.

Other Department of Health Care Services Program Modifications

The Governor's budget proposes modifications to other DHCS programs that offer only limited benefits and/or are state-only programs for special populations. The aim of this proposal is to ensure that individuals are being provided comprehensive coordinated care, and where applicable, still be able to receive wrapped-around special services only provided through the DHCS programs. The proposal contains two components:

1. For Genetically Handicapped Persons Program (GHPP) where DHCS processes eligibility and enrollment directly, individuals will be required to first apply through the single streamlined application for Medi-Cal and subsidized coverage through Covered California. If those individuals are found eligible for either program, they will be required to enroll in those programs and receive only those specialized services in GHPP that would not otherwise be provided through Medi-Cal or their qualified health plan.
2. For limited benefit/special populations programs where eligibility and enrollment is processed at the provider level, Every Woman Counts (EWC), Family Planning Access and Treatment (FPACT) and IMPACT, enrolling providers will be required to provide to enrolling individuals the single streamlined applications and encourage individuals to apply for coverage in Medi-Cal or subsidized coverage through Covered California.

Annual Health Plan Open Enrollment

The Governor's budget also proposes a 90-day annual health plan open enrollment period for certain non-disabled Medi-Cal beneficiaries required to enroll in a Medi-Cal managed care plan. Currently, Medi-Cal beneficiaries are able to switch health plans each month, under this proposal, a member subject to annual health plan open enrollment would only be permitted to change health plans during the 90-day health plan open enrollment period. This proposal aligns Medi-Cal health plan enrollment with standard health care industry practice and the plan enrollment period would mirror the Covered California open enrollment period. This proposal supports continuity of care and helps to enable better care management which can improve a beneficiary's overall health. This proposal does not impact the ability of individuals to apply for and be enrolled in Medi-Cal coverage at any time throughout the year.

Pediatric Palliative Care Expansion

Beginning in 2006, DHCS developed a pediatric palliative care pilot project intended to improve the quality of life for children with life-threatening illnesses. The goals of the 11-county pilot were to minimize hospitalization by allowing access to in-home palliative care, thereby improving the quality of life for these children and reducing long-term costs. As demonstrated by a recent evaluation of the pilot, this effort has proven to be successful and the Governor's budget proposes to expand it to seven additional counties.

BUDGET ADJUSTMENTS

Budget Change Proposals

The Governor's Budget proposes the establishment of 79.0 new positions (51.0 limited-term), the extension of 18.5 existing limited-term, and conversion of 34.0 existing limited-term to permanent.

AI 15-01: Financial Audits Workload

Positions: 21.0 Total (9.0 Permanent, 12.0 Limited-Term)

GF:	\$844,000
FF:	\$1,544,000
OF:	<u>\$706,000</u>
Total:	\$3,094,000

DHCS requests positions to address new audit workload associated with the Intermediate Care Facilities Developmentally Disabled Nursing/Habilitative (ICF-DDN/H) and AB 959 public clinics. The resources will be utilized between three DHCS Divisions/Offices: Audits & Investigations/Financial Audits Branch (FAB), Office of Administrative Hearings and Appeals (OAHA), and Office of Legal Services (OLS). The additional positions address the new workload stemming from revisions made to the State Plan Amendment (SPA) 13-019 which changed the reimbursement methodology for the ICF-DDN/H programs, and Assembly Bill 959's expansion of Welfare & Institutions (W&I) Code, Section 14105-965 to include supplemental Medi-Cal outpatient reimbursement to State veteran homes and clinic operated by state, city, county, the University of California system clinics and public healthcare systems.

PED 15-02: Drug Medi-Cal Providers Ongoing Workload

Positions: 21.0 Total (10.0 Permanent, 11.0 Limited-Term)

GF:	\$1,354,000
FF:	<u>\$1,354,000</u>
Total:	\$2,708,000

DHCS requests positions for work associated with the Drug Medi-Cal (DMC) program. The resources will be utilized between Provider Enrollment Division (PED) and Substance Use Disorder – Prevention, Treatment, and Recovery Services (SUDPTRSD). PED's requested positions are essential to address provider fraud, waste, and abuse in the Drug Medi-Cal program, while SUDPTRSD's resources are to implement required on-site monitoring of the operations of Drug Medi-Cal providers.

MHSD 15-05: Performance Outcomes System

Positions: 3.0 Permanent

GF:	\$189,000
FF:	<u>\$188,000</u>
Total:	\$377,000

DHCS, Mental Health Services Division, requests positions to support the program management, coordination with counties and other partners, data collection and interpretation and research needs of the Performance Outcomes Systems project. The Performance Outcomes Systems is essential to enabling DHCS to understand the statewide outcomes of these services provided, in order to best ensure compliance with the federal Early and Periodic Screening, Diagnosis and Treatment requirement.

EXEC 15-01: Health Care Reform – Workload Extension

Positions: 6.0 Limited-Term Extension

GF:	\$129,000
FF:	<u>\$587,000</u>
Total:	\$716,000

DHCS requests the extension of limited-term positions to support the continued implementation of and ongoing work required under the Affordable Care Act (ACA) of 2010. In order to achieve the ACA's intended goals of expanded coverage, affordability, improved health outcomes, and addressing new populations through Modified Adjusted Gross Income (MAGI) models tied to the Federal Poverty Level, DHCS will require positions to continue evaluating, planning, implementing, monitoring, and maintaining compliance with ACA provisions.

IMD 15-01: OHIT Staffing/Technical Assistance Program

Positions: 8.0 Total (2.0 Limited-Term Extension, 6.0 Limited-Term to Permanent)

FF:	\$1,045,000
OF:	<u>\$117,000</u>
Total:	\$1,162,000

DHCS, Information Management Division (IMD), Office of Health Information Technology (OHIT) requests positions to continue efforts to advance the adoption and meaningful use of Electronic Health Records (EHR) and the establishment of a provider technical assistance program. As part of the technical assistance program authorized by SB 870, Chapter 40, Budget Act of 2014, DHCS requests funding for a consulting contract with subject matter experts on federal/state administrative oversight and reporting relative to the technical assistance program. The implementation of EHRs and the exchange of electronic health information will serve as a foundation for future quality improvement strategies and programs, such as the collection and public reporting of quality data and pay for performance (P4P) programs.

MCED 15-03: Resources for Medi-Cal Eligibility Data System and Securing Medi-Cal Eligibility Information

Positions: 11.0 Total (1.0 Limited-Term Extension, 10.0 Limited-Term to Permanent)

GF:	\$714,000
FF:	<u>\$783,000</u>
Total:	\$1,497,000

DHCS requests positions to perform 1) the ongoing workload of managing, protecting, and securing confidential Medi-Cal eligibility information, 2) ensuring compliance with requirements of the federal Social Security Administration (SSA), and 3) monitoring access to the Medi-Cal Eligibility Data System (MEDS). DHCS must exercise the management authority to ensure compliance with SSA requirements. DHCS must safeguard the Medi-Cal program, as well as CDSS-administered county programs, with secure access to confidential eligibility information contained in MEDS.

MMCD 15-02: Continuation of 1115 Waiver Workload

Positions: 15.0 Limited-Term to Permanent

GF: \$812,000
FF: \$1,499,000
Total: \$2,311,000

DHCS requests to convert limited-term positions to permanent in order to provide ongoing support of critical functions of the 1115 Waiver, entitled "California's Bridge to Reform" (Waiver 11W 00193/9).

SNFD 15-05: Hospital Quality Assurance Fee

Positions: 9.5 Limited-Term Extension

FF: \$491,000
OF: \$492,000
Total: \$983,000

DHCS requests extending limited-term positions for continued support of the Hospital Quality Assurance Fee (HQAF) program. Continuation of the HQAF program requires significant workload for DHCS, which is distributed to staff in limited-term positions in the Safety Net Financing Division (SNFD), Third Party Liability and Recovery Division (TPLRD), Capitated Rates Development Division (CRDD), and the Office of Legal Services (OLS). Additional actuarial contract resources are needed to continue support for the program and rate build through the new period of the HQAF.

ADM 15-01: Health Care Reform Financial Reporting

Positions: 18.0 Limited-Term

GF: \$980,000
FF: \$979,000
Total: \$1,959,000

DHCS, Administration Division/Accounting Section, requests limited term positions to address the increases in Centers for Medicare and Medicaid Services (CMS) mandated reporting requirements. DHCS is the single State agency which administers the Medi-Cal program. New federal reporting requirements have doubled the current workload for Medi-Cal reporting.

CRDD 15-01: IGT Growth and SB 208 Reconciliations

Positions: 5.0 Total (2.0 Permanent, 3.0 Limited-Term to Permanent)

FF: \$120,000
OF: \$347,000
Total: \$467,000

DHCS, Capitated Rates Development Division (CRDD) requests positions to address the additional and ongoing workloads from Medi-Cal managed care expansion and mandated statutory requirements to implement Senate Bill (SB) 208 (Chapter 714, Statutes of 2010). The SB 208 IGT program enables Medi-Cal health plans to compensate Designated Public Hospitals in amounts no less than what they would have received for providing services to beneficiaries under fee-for-service. Previous positions from BCP # CRDD13-01/005 extended positions from January 1, 2014 to October 31, 2015 to align with the sunset of the Bridge to Reform Waiver. However, IGT processing and reconciliations can often take several years beyond the end of a given rate year and SB 208 does not have a sunset date which means workload will continue beyond the end of the current waiver. Furthermore, DHCS is beginning

the development of a new 1115 waiver which would continue the SB 208 IGT program as part of the new waiver.

MMCD 15-01: Medi-Cal Office of the Ombudsman

Positions: 9.0 Limited-Term

GF: \$522,000

FF: \$523,000

Total: \$1,045,000

DHCS, Office of Ombudsman (OMB), requests positions to handle the increased volume of calls. Currently, there are 14 temporary staff helping with the call volume on a limited term basis, however, this is not a viable long-term solution, as the long-term redirection of staff results in other critical workload going unmet. With the permanent support staff and requested staff, DHCS will continue to support the calls as they plateau and call volumes stabilize. The 9 temporary DHCS staff and 5 Health Care Options call center staff will transition back to support their primary Divisions and call centers, as call volumes begin to plateau and can be sustained by the permanent OMB staff. If the 9 requested positions are not approved, the continued unmet need in other Divisions will put DHCS at risk of not meeting both State and Federal obligations to ensure cost avoidance measures.

SNFD 15-01: Martin Luther King Jr. TBL

Positions: 2.0 Permanent

FF: \$373,000

OF: \$372,000

Total: \$745,000

DHCS requests permanent positions to meet the workload requirements, related to Welfare and Institutions Code (WIC) Section 14165.50, to facilitate the financial viability of a new private nonprofit hospital that will serve the population of South Los Angeles. This population was formerly served by the Los Angeles County Martin Luther King, Jr. – Harbor Hospital. Statute requires reimbursement to this new hospital based on one hundred percent of Medi-Cal projected costs for inpatient services in fee for service (FFS) and managed care, subject to a variety of requirements outlined in the law.

SB 1004: Palliative Care

Positions: 1.0 Limited-Term

FF: \$63,000

OF: \$62,000

Total: \$125,000

DHCS requests limited-term staffing to implement provisions of Senate Bill (SB) 1004 (Hernandez, Chapter 574, Statutes of 2014). SB 1004 requires DHCS to establish minimum standards for eligibility for and delivery of palliative care services concurrent with curative services, and to provide technical assistance to managed care plans to ensure and monitor the appropriate delivery of palliative care services. This new law proposes a meaningful solution to patient choice which may include helping ease the pain and suffering of beneficiaries who are seriously and terminally ill.

AB 2374: Substance Abuse: Recovery and Treatment Services

Positions: 2.0 Permanent

GF: \$246,000

FF: \$0

Total: \$246,000

The enactment of AB 2374 Chapter 815, Statutes of 2014 requires licensed residential treatment facilities to report resident deaths to DHCS by phone and in writing. In addition, the bill requires a counselor certifying organization (CO), prior to registering or certifying a counselor, to contact DHCS-approved COs to determine whether a counselor has previously had a certification or registration revoked. DHCS currently has no staff devoted to CO oversight and no funding intended for that purpose.

ESTIMATE ADJUSTMENTS

The November 2014 Estimate for FY 2014-15 is \$559.6 million General Fund greater than the FY 2014-15 Budget Appropriation.

(In Millions, May Not Add Due to Rounding)

November 2014 General Fund	\$17,839.7
FY 2014-15 Appropriation	<u>\$17,280.2</u>
General Fund Change	\$559.6

This change from the Appropriation is explained as follows:

Medical Care Services	\$515.0
County/Other Administration	\$19.7
Fiscal Intermediary	\$24.9

The Medi-Cal General Fund costs in FY 2015-16, as compared to FY 2014-15, are estimated in increase by \$770.8 million, an increase of approximately four percent.

(In Millions, May Not Add Due to Rounding)

FY 2014-15	\$17,839.7
FY 2015-16	<u>\$18,610.5</u>
General Fund Change	\$770.8

This change from the FY 2014-15 to FY 2015-16 is explained as follows:

Medical Care Services	\$829.6
County/Other Administration	-\$32.0
Fiscal Intermediary	-\$26.8

The following paragraphs briefly describe the major changes in both FY 2014-15 and FY 2015-16¹:

ACA Expansion (PCs 18, 19)

The Affordable Care Act (ACA) Optional and Mandatory Expansions decreased by \$14.5 million from the appropriation in FY 2014-15 and increased by \$199.2 million in FY 2015-16. Both ACA Optional and Mandatory caseload projections were updated and, compared to the appropriation, have increased significantly in FY 2014-15. For the ACA Mandatory Expansion policy change, the Department assumes a portion of the caseload is now captured in base trends.

Other ACA Items (PCs 20, 22, 24, 25, 31, 33)

The impact of a variety of other ACA items is an increase of \$127.5 million from the appropriation in FY 2014-15 and a decrease of \$61.3 million in FY 2015-16. These items include Express Lane Enrollment, Delay of Redeterminations, Newly Qualified Immigrants (NQI) under ACA and the likely federal prohibition for shifting pregnant women receiving pregnancy only Medi-Cal coverage to Covered California.

¹ Unless otherwise stated, the costs shown are GF dollars. FY 2014-15 dollars are the change compared to the Budget Act of 2014 appropriation. The FY 2015-16 costs are the November Estimate change from FY 2014-15 to FY 2015-16.

Managed Care Model PCs (Base PCs 109, 111, 112, 116, and Regular PC 128)

The four major types of managed care plans increase by \$337.9 million in FY 2014-15 and \$456.3 million in FY 2015-16. Of the FY 2015-16 increase, \$281.2 million is a placeholder for an estimated 3.57% increase in rates. Also, built into the rates are the impacts of part of the ACA mandatory expansion, Hepatitis C treatments, mental health expansion, blood factor carve-out, and AB 97 rate reductions. These adjustments are either new ones or had been previously shown in a separate policy change.

Coordinated Care Initiative (PCs 119, 123, 143, 197, OA 19, OA 89)

General Fund costs increased \$97.3 million in FY 2014-15 from the appropriation and \$6.4 million in FY 2015-16. The changes are a result of delaying Orange to start August 2015 rather than January and removing Alameda from the CCI demonstration. In addition to phase-in changes, rates used in the estimate have been adjusted.

MCO Tax Managed Care Plans (PC 135)

The 3.9375% MCO tax benefit to the GF is \$97.7 million less in FY 2014-15 than the appropriation. The net GF benefit for the ACA expansions is now included in this PC. The decrease results from changes in CCI, ACA, and other caseloads. In FY 2015-16, the benefit to the GF increases by \$330.3 million, assuming a replacement tax that results in the same level of benefit to the GF.

Behavioral Health Treatment (PC 36)

SB 870 (Chapter 40, Statutes of 2014) directs the Department to implement Behavioral Health Treatment (BHT) services to the extent it is required by the federal government. The Department has implemented BHT for EPSDT Services for children under age 21, effective July 1, 2014. The estimated GF costs are \$89 million in FY 2014-15 and increasing by \$62 million in FY 2015-16. The Department is working with the Department of Developmental Services (DDS) and stakeholders on a plan to transition existing Medi-Cal eligibles who are currently receiving BHT services through the Regional Centers clients. Medi-Cal costs are not included for these eligibles because the transition plan is not complete.

Dental Services (PC 120, 143, 171)

Dental rates have been updated for FY 2014-15. The restoration of select adult dental benefits and impact of implementing the change to \$1,800 soft cap are incorporated into the rates. The added GF costs, excluding dental restoration, are \$38 million.

General Fund Reimbursement from DPHs (PC 130)

Reimbursement from the Designated Public Hospitals (DPHs) is now expected to be \$87.1 million less than the appropriation in FY 2014-15 due to a shift in collection of Year 4 payments from FY 2014-15 to FY 2015-16. FY 2015-16 payments are expected to increase by \$30.9 million over FY 2014-15.

Implementation of ACA (CA 2)

The Administration has provided an additional \$75 million in FY 2014-15 on a one-time basis for Medi-Cal county administration costs related to implementing required provisions of the ACA. Due to many system delays, counties are required to manually process some eligibility determinations and renewals. These manual workarounds performed by the counties require additional resources.

Enhanced Federal Funding for County Administration (CA 8)

Federal funding at 75% rather than the usual 50% is available for certain eligibility determination-related costs. The costs eligible for enhanced match include application, on-going case maintenance and renewal functions. The Estimate assumes an increase in GF savings of \$122.6 million from the appropriation in FY 2014-15, based upon five quarters of added federal funding. The savings is reduced by \$99.3 million in FY 2015-16, reflecting only four quarters and a reduction in ACA funding for county administrative activities.

Residential Treatment Services (PC 65)

Due to delay in waiver approval, the FY 2014-15 estimate excludes expanding Residential Treatment Services to non-perinatal beneficiaries, for a savings of \$36.9 million GF. The waiver is expected to be approved in FY 2015-16 and the phased-in expansion is estimated to result in a GF increase of \$19.6 million in FY 2015-16.

Mental Health Services Expansion (PC N/A)

The costs of the incorporation of non-specialty mental health services into managed care plans and the expansion of coverage to include group mental health counseling is now in the managed care model PCs and the fee-for-service base estimate. FY 2014-15 costs increased over the appropriation by \$28.4 million. New caseload estimates account for the majority of this change. Costs in FY 2015-16 are \$109.2 million higher due to anticipated increased utilization.

The following paragraphs briefly describe the major changes in FY 2015-16 that were not discussed above:

AB 1629 Long Term Care Quality Assurance Fee (PCs 138, 139, 147)

On July 31, 2015, in the absence of legislation, the AB 1629 facility-specific rate methodology, Quality Assurance Fee (QAF), and Quality and Accountability Supplemental Payment Program (QASP) will sunset. The Department assumes continuation of the program beyond the July 31, 2015, sunset date. In FY 2015-16, the Estimate assumes a 3.62% total annual rate increase and the same level of GF contribution to the QASP fund as in FY 2014-15.

Designated State Health Programs (PCs 93, 103, 105)

The California Bridge to Reform (BTR) Section 1115(a) Medicaid Demonstration allows the Department to claim federal financial participation using the Certified Public Expenditures (CPEs) of approved Designated State Health Programs (DSHP) and Designated Public Hospitals (DPHs) to achieve \$400 million in annual GF savings.

The existing BTR Demonstration expires on October 31, 2015, and the Department intends to seek a renewal of the Waiver. However, it is not likely that the DSHP will continue after the BTR ends. The Estimate assumes an increase in GF savings of \$46.2 million in FY 2014-15 from additional claims using DPH CPEs. In FY 2015-16, the Estimate assumes a decrease in GF savings of \$220.55 million due to the discontinuance of the DSHP.

Health Insurer Fee (PC 205)

The ACA imposes an excise tax on certain health insurers, effective January 1, 2014. The FY 2015-16 costs is \$20.3 million less than FY 2014-15 because it is based upon one year of payments rather than two.

Annual Health Plan Open Enrollment (PC 196)

Under the Department's proposal, certain Medi-Cal managed care beneficiaries could only change managed care plans during an annual open enrollment period. Seniors, persons with disabilities, full scope dual eligibles, enrollees in counties with only one health plan, and the new ACA adult expansion eligibles are excluded. This would result in a savings of \$1.0 million in FY 2015-16.

General Information

This estimate is based on actual payment data through August 2014. Estimates for both fiscal years are on a cash basis.

The Medi-Cal Program has many funding sources. These funding sources are shown by budget item number on the State Funds and Federal Funds pages of the Medi-Cal Funding Summary in the Management Summary tab. The budget items which are made up of State General Fund are identified with an asterisk and are shown in separate totals. Reimbursements include Refugees (CDPH), MSSP (CDA), Dental Services (CDSS), Managed Care IGTs, IGTs for Non-SB 1100 Hospitals, IMD Ancillary Services and IHSS costs (CDSS).

The Miscellaneous Non-Fee-For-Service Category includes expenditures for Home and Community Based Services -- DDS, Case Management Services -- DDS, Personal Care Services, HIPP premiums, Targeted Case Management, and Hospital Financing—Health Care Coverage Initiative.

The estimate aggregates expenditures for four sub-categories under a single Managed Care heading. These sub-categories are Two Plan Model, County Organized Health Systems, Geographic Managed Care, and PHP/Other Managed Care. The latter includes PCCMs, PACE, SCAN, Family Mosaic, Dental Managed Care, and the new Managed Care Expansion models – Regional, Imperial, and San Benito.

Should a projected deficiency exist, Section 14157.6 of the Welfare and Institutions Codes authorizes appropriation, subject to 30-day notification to the Legislature, of any federal or county funds received for expenditures in prior years. At this time, no prior year General Funds have been identified to be included in the above estimates as abatements against current year costs.

There is considerable uncertainty associated with projecting Medi-Cal expenditures for medical care services, which vary according to the number of persons eligible for Medi-Cal, the number and type of services these people receive, and the cost of providing these services. Additional uncertainty is created by monthly fluctuations in claims processing, federal audit exceptions, and uncertainties in the implementation dates for policy changes which often require approval of federal waivers or state plan amendments, changes in regulations, and in some cases, changes in the adjudication process at the fiscal intermediary.

Provider payment reductions, injunctions, and restorations add to this uncertainty as it disturbs the regular flow of the FI checkwrite payments. It is assumed that estimated expenditures may vary due to this uncertainty. A 1% variation in total Medi-Cal Benefits expenditures would result in a \$857 million TF (\$178 million General Funds) change in expenditures in FY 2014-15 and \$954 million TF (\$186 million General Funds) in FY 2015-16.