

**2018-19 Governor's May Revision**

**Highlights**

**Department of Health Care Services**



**EDMUND G. BROWN JR.  
GOVERNOR  
State of California**

**Diana S. Dooley  
Secretary  
California Health and Human Services Agency**

**Jennifer Kent  
Director  
Department of Health Care Services**

**May 11, 2018**

## **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, integrated, 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 overall health and well-being of all Californians.

DHCS helps provide Californians 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 13.3 million Californians. On January 1, 2014, California implemented the Medi-Cal expansion which extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level. This expansion and other program changes since 2013 have increased Medi-Cal enrollment by 5 million individuals.

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

- Low-income and seriously ill children and adults with specific genetic diseases receive services through various programs including the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program.
- Programs for Californians in rural areas and to underserved populations include Indian Health, the Rural Health Services Development Program, the Seasonal Agricultural and Migratory Workers Program, the State Office of Rural Health, 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 are funded by federal block grants, the Mental Health Services Act and other funding.
- Public health prevention and treatment programs provided via the Every Woman Counts Program, the Prostate Cancer Treatment Program and the Family Planning Access Care and Treatment Program.

## GENERAL BUDGET OVERVIEW

The budget for DHCS supports actions and vital services that reinforce the state's commitment to preserve and improve the overall health and well-being of all Californians while operating within a responsible budgetary structure. For Fiscal Year (FY) 2018-19, the Governor's May Revision includes a total of \$107.1 billion for the support of DHCS programs and services. Of that amount, \$743.5 million funds state operations, while \$106.4 billion supports local assistance.

### Total DHCS Positions

	2017-18 Budget Act <sup>1</sup>	2018-19 Governor's Budget <sup>2</sup>	2018-19 May Revision <sup>3</sup>	% Change from Budget Act
Permanent Authorized	3,700.5	3,640.5	3,678.5	-0.6%
Temporary Help	215.2	244.7	268.7	24.9 %
<b>Total Authorized Positions</b>	<b>3,915.7</b>	<b>3,885.2</b>	<b>3,947.2</b>	<b>0.8 %</b>

<sup>1</sup>FY 2018-19 Salaries and Wages Supplement

<sup>2</sup>Including FY 2018-19 Budget Position Transparency and January 10 Budget Change Proposals (BCPs)

<sup>3</sup>Including Proposed FY 2018-19 Spring Finance Letters (SFLs) and May Revision Letters

### Total DHCS Budget

(includes non-Budget Act appropriations)

Governor's Budget Fund Source*	2017-18 Budget Act	2018-19 Governor's Budget	2018 -19 May Revision	% Change from Budget Act
General Fund (GF)	\$19,992,319	\$21,862,523	\$23,378,150	16.9%
Federal Funds (FF)	\$69,664,487	\$67,921,296	\$68,052,851	-2.3%
Special Fund & Reimbursements	\$20,344,119	\$14,759,646	\$15,693,309	-22.9%
<b>Total Funds</b>	<b>\$110,000,925</b>	<b>\$104,543,465</b>	<b>\$107,124,310</b>	<b>-2.6%</b>

\*Dollars in thousands

### State Operations

State Operations by Fund Source *				
Governor's Budget Fund Source*	2017-18 Budget Act	2018 -19 Governor's Budget	2018 -19 May Revision	% Change from Budget Act
General Fund	\$209,739	\$219,074	\$234,174	11.7%
Federal Funds	\$388,412	\$414,139	\$456,540	17.5%
Special Funds & Reimbursements	\$58,703	\$52,061	\$52,786	-10.1%
<b>Total State Operations</b>	<b>\$656,854</b>	<b>\$685,274</b>	<b>\$743,500</b>	<b>13.2%</b>

\*Dollars in thousands

**Local Assistance**

<b>FY 2017-18 Local Assistance by Fund Source *</b>				
<b>Governor's Budget Fund Source*</b>	<b>2017-18 Budget Act</b>	<b>2017-18 Revised Governor's Budget</b>	<b>2017-18 Revised May Revision</b>	<b>% Change from Budget Act</b>
General Fund	\$19,782,580	\$20,293,833	\$20,562,240	3.9%
Federal Fund	\$69,276,075	\$64,066,799	\$60,236,726	-13.0%
Special Funds & Reimbursements	\$20,285,416	\$18,239,879	\$18,998,688	-6.3%
<b>Total Local Assistance</b>	<b>\$109,344,071</b>	<b>\$102,600,511</b>	<b>\$99,797,654</b>	<b>-8.7%</b>

\*Dollars in thousands

<b>FY 2018-19 Local Assistance by Fund Source *</b>				
<b>Governor's Budget Fund Source*</b>	<b>2017-18 Budget Act</b>	<b>2018 -19 Governor's Budget</b>	<b>2018 -19 May Revision</b>	<b>% Change from Budget Act</b>
General Fund	\$19,782,580	\$21,643,449	\$23,143,976	17.0%
Federal Fund	\$69,276,075	\$67,507,157	\$67,596,311	-2.4%
Special Funds & Reimbursements	\$20,285,416	\$14,707,585	\$15,640,523	-22.9%
<b>Total Local Assistance</b>	<b>\$109,344,071</b>	<b>\$103,858,191</b>	<b>\$106,380,810</b>	<b>-2.7%</b>

\*Dollars in thousands

## MAJOR PROPOSALS AND ISSUES

### **Homeless and Mental Health Funding**

As noted in the Governor's Budget, it has been clear over recent years that mental illness is a prevalent issue for the state's homeless population. California's 1115 Medicaid waiver includes the Medi-Cal Whole Person Care Pilot to coordinate health, behavioral health, and social services needs of Medi-Cal beneficiaries. A majority of these Pilots specifically target the homeless and mentally ill population. The May Revision includes a one-time augmentation of \$50 million to provide counties or local entities with targeted funding for multi-disciplinary teams to provide intensive outreach, treatment and related services for homeless persons with mental illness.

### **Proposition 56**

The May Revision continues to include supplemental payments for physicians, dentists, women's health services, Intermediate Care Facility for the developmentally disabled (ICF/DD) providers, and HIV/AIDS Waiver services. The total FY 2018-19 Proposition 56 funding for these providers is \$602.3 million. The Department estimates the total funding (both federal and Proposition 56) in FY 2017-18 for these payments is \$788 million and in FY 2018-19 is \$1,787 million. Based on year-to-date expenditures in FY 2017-18, there are lower claims for physicians than expected. However, the May Revision maintains the increase of approximately \$163 million for physician payments and \$70 million for dental payments in FY 2018-19. The Administration will continue to work with the Legislature and stakeholders on a FY 2018-19 supplemental payment structure to be submitted to the federal government no later than September 2018, with payments effective retroactively to July 1, 2018.

In addition, the May Revision continues to propose to adjust the rates for home health services provided through fee-for-service and home-and-community-based waivers. This proposed increase is 50 percent to home health services in these two delivery systems, effective July 1, 2018, pending approval of federal financial participation. The May Revision for Medi-Cal assumes \$56.7 million total funds (\$27.6 million Prop 56 funds) for this increase in FY 2018-19. In the CCS program, this increase is estimated to cost \$7.6 million General Fund.

The May Revision includes \$224.7 million in FY 2018-19 to support new growth in Medi-Cal expenditures compared to the 2016 Budget Act. This is an increase of \$55.3 million from the Governor's Budget.

### **Children's Health Insurance Program (CHIP)**

As noted in the Governor's Budget, at the time the Budget was being developed, Congress had not yet reauthorized CHIP for the Federal Fiscal Year 2018 that began October 1, 2017. Based on actions taken by Congress at the end of January and early February 2018, a ten-year extension was provided for CHIP, which continues the enhanced federal funding of 88 percent through September 2019. The enhanced funding will incrementally decrease over time to the original match rate of 65 percent federal funding and 35 percent state match. The incremental decreases will begin October 2019. The ten-year extension also includes the maintenance of eligibility requirements for children in both Medi-Cal and CHIP through September 2027. The reauthorization, along with other changes in CHIP expenditures, results in a combined two-year General Fund decrease of \$898.1 million in FY 2017-18 and FY 2018-19 compared to the Governor's Budget.

### **340B Drug Billing Requirements Trailer Bill and Savings**

The May Revision maintains the implementation of prohibiting the use of 340B drug pricing reimbursements for Medi-Cal beneficiaries, regardless of delivery system, effective July 1, 2019 and estimates the projected savings associated with this proposal at \$16.6 million General Fund, beginning in 2020-21.

### **Drug Medi-Cal Organized Delivery System Waiver**

The Drug Medi-Cal Organized Delivery System (DMC-ODS) Waiver was approved by the federal Centers for Medicare and Medicaid Services in August 2015 with the first services beginning in February 2017 on a phase-in basis. Through the waiver, counties provide new and expanded substance use disorder services, in addition to existing DMC services. In FY 2017-18, 11 counties are estimated to begin providing ODS services, and 29 counties are expected to start providing services in FY 2018-19. The DMC-ODS estimate reflects updated phase-in dates and county interim rates. Also included is a new projection for the costs of adding a buprenorphine-naloxone combination product for participating waiver counties. The overall impact for the May Revision is a decrease in projected ODS expenses for FY 2018-19 of \$242.9 million (\$61.5 million General Fund).

### **Medi-Cal Specialty Mental Health Services Federal Audit Repayment**

A recent audit by the U.S. Department of Health and Human Services, Office of Inspector General, is expected to be finalized and released within FY 2018-19. This audit will result in the disallowance of approximately \$180.7 million in federal claims for Medi-Cal services provided by county mental health plans for specialty mental health services. These funds will initially be paid by the state in 2018-19 with repayments from counties occurring over the next four years to prevent significant funds from being diverted in the mental health delivery system in a single year. The Department will work with county stakeholders and the Department of Finance to establish this repayment plan by the counties.

### **Hepatitis C**

The May Revision includes an increase of \$70.4 million (\$21.8 million General Fund) in FY 2018-19 to authorize treatment for all patients ages 13 and above with Hepatitis C, regardless of liver fibrosis stage or co-morbidity, except for patients with a life expectancy of less than 12 months. The Department of State Hospitals and California Department of Corrections and Rehabilitation will align to the Medi-Cal program guideline expansion for Hepatitis C.

The current DHCS Chronic Hepatitis C treatment policy limits treatment based on stage of disease and the co-occurrence of chronic conditions. Since the policy was released in 2015, national treatment guidelines now recommend treatment for patients with chronic hepatitis C regardless of stage or co-occurrence of conditions. Additionally, several lower cost hepatitis C drugs have been FDA-approved and have significantly lowered the treatment costs for hepatitis C. The Department proposes to expand its current Chronic Hepatitis C Treatment Policy to allow treatment regardless of stage, to be in alignment with national guidelines and CMS guidance.

### **Health Care Services for Reentry Program**

The Department of Health Care Services will establish an interagency agreement with the California Department of Corrections and Rehabilitation to provide health care services to reentry program participants starting July 1, 2018. This state-only funded program will serve approximately 1,100 participants and services will be provided through the Department's contracting health plans. Program expenditures are expected to be \$9.7 million in FY 2018-19.

### **Trailer Bill Proposal: Cost-Based Reimbursement Clinic Directed Payment Program**

The Department proposes trailer bill language to establish a new Cost-Based Reimbursement Clinic (CBRC) Directed Payment Program no sooner than July 1, 2019 to reimburse CBRCs that contract with managed care plans as described in Welfare and Institutions Code section 14105.24. The nonfederal share of the Program may be funded through voluntary intergovernmental transfers from public entities and will be subject to an appropriation in the annual Budget Act. The first \$30 million of the nonfederal share in each subject fiscal year shall be financed by other state funds appropriated to the Department for this purpose. This amount may be less, as determined by the Department or subsequent appropriations in the annual Budget Act.

### **Current Year Shortfall in Medi-Cal**

Complexities in estimating and accounting for Medi-Cal, including federal requirements, have increased over time, contributing to a projected shortfall in FY 2017-18 of approximately \$830 million General Fund (GF), an increase of \$286 million from the Governor's Budget. Major changes in the May Revision GF compared to the Governor's Budget include:

- **Deferred Claims:** The federal government requires repayment of claims that they are questioning even while the issues are being resolved. An increase in these disputed claims results in a GF increase of \$682 million.
- **Managed Care Organization Taxes:** Because of higher payments to health plans, there is a reduction of \$428 million in the GF offset.
- **Children's Health Insurance Program (CHIP) Reauthorization:** The federal government enacted continued enhanced funding for this program. This continuation of 88 percent federal funding, as well as other changes to CHIP expenditures, reduced GF expenditures by \$244 million.
- **Drug Rebates:** The savings from drug rebates is less by \$275 million due to various adjustments required to properly reimburse the federal government for their share of the savings.
- **Hospital Quality Assurance Fee (HQAF):** The final approved HQAF model results in additional funding for children's health care coverage of \$477 million.

### **Trailer Bill Proposal: Increase Medi-Cal General Fund Loan**

The Department proposes trailer bill language to increase the amount of the General Fund loan that DHCS may use in the event of a deficiency in the Medi-Cal budget or a late state budget. To repay the loan, the Administration must seek an appropriation through the annual Budget Act, or a supplemental appropriation. The proposed language would increase the maximum General Fund loan from \$1 billion to \$2 billion, with a corresponding increase to federal funds. The significant growth in the Medi-Cal budget since 2003, the cash accounting system for Medi-Cal, and the increase in retroactive managed care rate adjustments, have all led to a need for an increased General Fund loan in the event of a deficiency. Without sufficient loan authority, a deficiency in the Medi-Cal cash budgeting structure may lead to delayed or uncertain timing of payments to managed care plans, vendors, and providers.

## BUDGET ADJUSTMENTS

### **May Revision Letters**

The Governor's May Revision proposes the establishment of 45.0 permanent new positions.

### **4260-402-BCP-2018-MR: Mental Health Fiscal Oversight & Behavioral Health Data System Modernization**

General Fund:	\$2,781,000
Special Fund:	\$ 725,000
Federal Fund:	<u>\$3,219,000</u>
TOTAL:	\$6,725,000

*(28.0 permanent positions and permanent expenditure authority, and two-year limited-term expenditure authority equivalent to 20.0 positions)*

DHCS requests resources and expenditure authority to strengthen the fiscal oversight of the Mental Health Services Act, the Medi-Cal Mental Health Managed Care program, and also for planning activities for the comprehensive Behavioral Health Data Modernization Project.

### **4260-406-BCP-2018-MR: CA-MMIS Modernization Approach**

General Fund:	\$ 9,675,000
Federal Fund:	<u>\$32,040,000</u>
TOTAL:	\$41,715,000

*(17.0 permanent positions and expenditure authority, and two-year limited-term expenditure authority equivalent to 2.0 positions)*

DHCS requests permanent staff resources and the following limited-term resources: staff resources, personal services contractors, and funding for hardware and software. The resources will support ongoing implementation efforts of the CA-MMIS Medi-Cal Fee-for-Service Claims Processing Modernization Approach. The Modernization Approach aims to replace the existing CA-MMIS with a modern Medicaid Management Information System. This request also provides state positions to continue implementation of the CA-MMIS Oversight to Ownership strategy and support the Modernization Approach.

### **Joint BCP (Other Departments)**

### **4260-401-BCP-2018-MR: Electronic Visit Verification Planning Resources (Multi-Departmental)**

General Fund:	\$ 143,000
Federal Fund:	<u>\$ 143,000</u>
TOTAL:	\$ 286,000

*(Two-year limited-term expenditure authority equivalent to 2.0 positions)*

This Agency-wide proposal requests limited-term resources to support planning of a federally mandated Electronic Visit Verification system across multiple programs. Dependent upon further clarification from the Centers for Medicare & Medicaid Services and additional analysis on the approach for



implementation, additional resources to support the systems and county operation changes may be requested.