

**2017-18 Governor's May Revision**

**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 overall health and well-being 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 nearly 14 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 increases in enrollment 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. 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 Indian Health, 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, the Mental Health Services Act and other funding.
- 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 (FPACT) 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) 2017-18, the Governor's May Revision includes a total of \$108.4 billion for the support of DHCS programs and services. Of that amount, \$652 million funds state operations, while \$107.7 billion supports local assistance.

### Total DHCS Budget

*(includes non-Budget Act appropriations)*

<b>Fund Source</b>	<b>2016-17 Budget Act</b>	<b>2017-18 Governor's Budget</b>	<b>2017-18 May Revision</b>	<b>% Change from Budget Act</b>
General Fund (GF)	\$18,224,198	\$19,613,704	\$19,069,605	4.6%
Federal Funds (FF)	\$58,399,224	\$67,443,202	\$69,015,519	18.2%
Special Fund & Reimbursements	\$16,361,597	\$18,208,259	\$20,278,171	23.9%
<b>Total Funds</b>	<b>\$92,985,019</b>	<b>\$105,265,165</b>	<b>\$108,363,295</b>	<b>16.5%</b>

\*Dollars in thousands

### State Operations

<b>State Operations by Fund Source *</b>				
<b>Fund Source</b>	<b>2016-17 Budget Act</b>	<b>2017-18 Governor's Budget</b>	<b>2017-18 May Revision</b>	<b>% Change from Budget Act</b>
General Fund	\$201,171	\$202,958	\$209,701	4.2%
Federal Funds	\$371,423	\$373,879	\$388,374	4.6%
Special Funds & Reimbursements	\$55,640	\$52,232	\$54,403	-2.2%
<b>Total State Operations</b>	<b>\$628,234</b>	<b>\$629,069</b>	<b>\$652,478</b>	<b>3.9%</b>

\*Dollars in thousands

### Local Assistance

<b>Local Assistance by Fund Source *</b>				
<b>Fund Source</b>	<b>2016-17 Budget Act</b>	<b>2016-17 Governor's Budget</b>	<b>2016-17 May Revision</b>	<b>% Change from Budget Act</b>
General Fund	\$18,023,027	\$19,939,167	\$19,305,412	7.1%
Federal Fund	\$58,027,801	\$67,133,809	\$58,065,793	0.1%
Special Funds & Reimbursements	\$16,305,957	\$15,163,325	\$14,060,161	-13.8%
<b>Total Local Assistance</b>	<b>\$92,356,785</b>	<b>\$102,236,301</b>	<b>\$91,431,366</b>	<b>-1.0%</b>

\*Dollars in thousands

<b>Local Assistance by Fund Source *</b>				
<b>Fund Source</b>	<b>2016-17 Budget Act</b>	<b>2017-18 Governor's Budget</b>	<b>2017-18 May Revision</b>	<b>Percent Change from Budget Act</b>
General Fund	\$18,023,027	\$19,410,746	\$18,859,904	4.6%
Federal Fund	\$58,027,801	\$67,069,323	\$68,627,145	18.3%
Special Funds & Reimbursements	\$16,305,957	\$18,156,027	\$20,223,768	24.0%
<b>Total Local Assistance</b>	<b>\$92,356,785</b>	<b>\$104,636,096</b>	<b>\$107,710,817</b>	<b>16.6%</b>

\*Dollars in thousands

## MAJOR POLICY ISSUES

### **New Qualified Immigrants (NQI) Affordability and Benefits Wrap Program**

Existing law authorizes the Department to implement a program to transition most NQIs covered under state-only funded full-scope Medi-Cal to a Covered California qualified health plan and have all of their out-of-pocket costs covered by the State and also provide access to and cover any services that are covered only by Medi-Cal.

Due to operational and programmatic uncertainties, the Department will stop efforts to implement the program. In addition, the Department will seek a “minimum essential coverage” designation from the federal government for full-scope state-only Medi-Cal programs to resolve the potential that NQIs receiving coverage through Medi-Cal will be assessed a tax penalty.

### **340B Drug Billing and Contract Pharmacies**

The Department is proposing trailer bill language to correct problems regarding the use of contract pharmacies in the 340B Drug Billing program. There are instances where a 340B covered entity does not directly dispense medications to a beneficiary, instead they contract with a different pharmacy, typically a non-340B entity, who dispenses the drug at a non-340B price that is billed to the department or health plan. The trailer bill language proposes to no longer permit the use of contract pharmacies in the 340B program in Medi-Cal, consistent with recent concerns raised by federal agencies. This helps avoid inappropriate duplicate discounts by claiming federal drug rebates on already discounted drugs and prevents unnecessary overpayment in Medi-Cal.

### **Implementation of the Covered Outpatient Drug Final Rule**

The Department is proposing trailer bill language to codify the new drug ingredient reimbursement methodology and dispensing fee based on a study of pharmacy provider costs in the Medi-Cal program and reflected in the Department’s proposal released earlier this year. The May Estimate does not reflect the expected costs and savings associated with these changes as the Department expects that receipt of federal approval and time needed to implement the necessary system changes will shift implementation into FY 2018-19; however, the changes will be retroactively effective to April 1, 2017 consistent with the federal regulations.

### **Medicare Enrollees in the Optional Expansion Aid Category**

Effective January 1, 2014, the ACA expanded Medicaid coverage to previously ineligible persons, primarily adults at or below 138 percent of the federal poverty level. This new coverage group excludes those with Minimum Essential Coverage. A small portion of eligibles enrolled in Optional Expansion categories have Medicare Part A, which qualifies as Minimum Essential Coverage. Enrollment systems were corrected in August 2016 to eliminate further enrollment of Medicare Part A eligible persons into the Optional Expansion eligibility group.

The May Revision includes the following necessary adjustments:

- Adjusting the federal dollars claimed of approximately \$63 million in Medi-Cal FFS claims, reflecting an equivalent amount of new General Fund cost.
- Adjusting the dollars claimed of approximately \$32 million in Specialty Mental Health claims, requiring a recoupment from counties of that amount.
- Two adjustments are necessary for the managed care enrollees affected by this issue, an adjustment of federal funding, as well as an adjustment of the rates paid to Medi-Cal managed care plans.
  - Since dual eligible beneficiary managed care rates are lower than the optional expansion beneficiary rates (given that Medicare covers most of their care), the Department will need to recoup approximately \$365 million from Medi-Cal managed care plans.
  - In addition, the Department must adjust the federal dollars claimed by approximately \$174 million, resulting in an equivalent increase in General Fund cost.

### **Performance Outcomes System**

The May Estimate includes \$6.2 million General Fund for the implementation of functional assessment tools for populations receiving specialty mental health services through county mental health plans. These assessment tools will gather data from both a clinician's and caregiver's perspective and will be used to track the outcomes for Medi-Cal mental health services provided to children up to age 21. The revised funding reflects training, staff, and information technology costs associated with implementation of the newly-selected functional assessment tools.

### **Federal Cures Act Opioid Targeted Response Grant**

The May Estimate includes an increase of \$44.7 million in federal funding to reflect the award of the federal Opioid State Targeted Response grant. This grant will allow for increased medication assisted treatment for individuals with substance use disorders. The Department will establish 15 "hub and spoke" systems, where a Narcotic Treatment Program will serve as a "hub" and the "spokes" are regional physicians approved to prescribe medication assisted treatment. Narcotic Treatment Programs will begin providing expanded substance use services by September 1, 2017 as required by the grant provisions. In addition, the Department is proposing trailer bill language in order to expedite the ability to provide these funds to the receiving entities.

## BUDGET ADJUSTMENTS

### **May Revision Letters**

The Governor's May Revision proposes the establishment of 29.0 new positions, including the conversion of 22.0 existing limited-term positions to permanent.

### **4260-500-BCP-2017-MR: CA-MMIS Legacy Operations**

General Fund:	\$2,104,000
Federal Fund:	<u>\$7,039,000</u>
TOTAL:	\$9,143,000

*(Conversion of 21.0 limited-term positions to permanent and ongoing expenditure authority)*

DHCS requests resources to continue California Medicaid Management System (CA-MMIS) legacy operations until all functionality can be transitioned to a replacement modular solution(s).

These positions will be utilized to perform current ongoing systems and business operations as well as new workload resulting from the settlement agreement with Xerox, including but not limited to the following:

1. Continuing Maintenance and Operation of the CA-MMIS Legacy System
2. Continuing Business Operations
3. Transform CA-MMIS Enterprise from State Oversight to State Ownership and Build Technical and Business Process Expertise
4. Support Deferred System Development Notices (SDN)
5. Support Contract and Vendor Management, Project Management, and Procurement Activities

### **4260-501-BCP-2017-MR: CA-MMIS Modernization**

General Fund:	\$575,000
Federal Fund:	<u>\$5,179,000</u>
TOTAL:	\$5,754,000

*(7.0 permanent positions and ongoing expenditure authority)*

DHCS requests resources to implement a modernization strategy for the California Medicaid Management Information System (CA-MMIS), as recommended by the United States General Services Administration, Technology Transformation Services' Office of Acquisitions (18F). The goal of the project is to adopt a user-centered, iterative, modular approach to the design, development, and implementation of system modules to replace the existing legacy system.

**4260-502-BCP-2017-MR: SB 1004 Palliative Care Services**

General Fund:	\$62,000
Federal Fund:	<u>\$62,000</u>
TOTAL:	\$124,000

*(Conversion of 1.0 limited-term position to permanent)*

DHCS requests ongoing resources to implement and provide ongoing oversight of the palliative care services program authorized by Senate Bill (SB) 1004 (Hernandez, Chapter 574, Statutes of 2014). Long-term success of the palliative care services program will require ongoing policy development in the form of technical assistance and policy adjustments, and monitoring of the service and Medi-Cal managed care health plan operations.

**4260-503-BCP-2017-MR: Enhanced Medi-Cal Budget Estimate Redesign (EMBER) System Upgrade**

General Fund:	\$248,000
Federal Fund:	<u>\$247,000</u>
TOTAL:	\$495,000

*(One-year limited-term expenditure authority)*

DHCS requests one-time contract funding to upgrade the Enhanced Medi-Cal Budget Estimate Redesign (EMBER) system. The current system utilized to produce the Medi-Cal Local Assistance Estimate has exceeded its technical support, which makes the system increasingly less compatible with newer software and unable to receive ongoing software updates. The upgrade would enhance system stability and improve flexibility making it more adaptable to changes in the Medi-Cal program. Additionally, the upgrades will allow for future enhancements to the system to provide estimates that are more accurate with increased transparency and reporting capabilities.