

2008-09 Governor's Budget

Highlights

Department of Health Care Services



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CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES PROGRAM OVERVIEW

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

The Health Care Services 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 Medical Care Services (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 6.7 million qualified persons and families, 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 Child Health and Disability Prevention Program, 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, including the Expanded Access to Primary Care Program, the Indian Health Program, the Rural Health Services Development Program, and the Seasonal Agricultural and Migratory Workers 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) 2008-09, the Governor's Budget provides a total of \$37.1 billion for the support of DHCS' programs and services. Of the amount proposed, \$422 million is for state operations and \$36.7 billion is for local assistance. The proposed budget affirms the Department's commitment to address the health care needs of Californians. It does this through responsible proposals that continue to address the needs of the most vulnerable populations.

Total DHCS Budget

Governor's Budget Fund Source	2007-08 Revised Budget	2008-09 Baseline Budget	2008-09 Budget Balancing Reductions	2008-09 Proposed Budget
General Fund (GF)	\$ 14,417,739	\$ 15,008,863	\$ - 1,131,866	\$ 13,876,997
Federal Funds (FF)	\$ 21,369,950	\$ 22,277,982	\$ - 1,140,030	\$ 21,137,952
Special Funds & Reimbursements	\$ 2,082,114	\$ 2,070,328	\$ - 171	\$ 2,070,157
Total Funds	\$ 37,869,803	\$ 39,357,173	\$ 2,272,067	\$ 37,085,106

*Dollars in thousands

State Operations

State Operations by Fund Source *				
Governor's Budget Fund Source	2007-08 Revised Budget	2008-09 Baseline Budget	2008-09 Budget Balancing Reductions	2008-09 Proposed Budget
General Fund	\$ 142,618	\$ 152,154	\$ 8,222	\$ 143,932
Federal Funds	\$ 259,165	\$ 266,360	\$ 8,883	\$ 257,477
Special Funds & Reimbursements	\$ 25,425	\$ 21,233	\$ 171	\$ 21,062
Total State Operations	\$ 427,208	\$ 439,747	\$ 17,276	\$ 422,471

*Dollars in thousands

Local Assistance

Local Assistance by Fund Source *				
Governor's Budget Fund Source	2007-08 Revised Budget	2008-09 Baseline Budget	2008-09 Budget Balancing Reductions	2008-09 Proposed Budget
General Fund	\$ 14,275,121	\$ 14,856,709	\$ - 1,123,644	\$ 13,733,065
Federal Fund	\$ 21,110,785	\$ 22,011,622	\$ - 1,131,147	\$ 20,880,475
Special Funds & Reimbursements	\$ 2,056,689	\$ 2,049,095	\$ 0	\$ 2,049,095
Total Local Assistance	\$ 37,442,595	\$ 38,917,426	\$ - 2,254,791	\$ 36,662,635

*Dollars in thousands

BUDGET ADJUSTMENTS

Budget Change Proposals

Adult Day Health Care Program Restructuring – SB 1755

20.0 Positions \$2,403,000 Total Funds

\$ 1,032,000 GF

\$ 1,371,000 FF

The Governor's Budget provides for twenty (20) positions to continue implementation of SB 1755 and follow-up to the Medi-Cal Payment Error Study. This request supplements the positions approved in the 2007-2008 Budget Change Proposal. It requests those positions (audit, legal, and Audits & Investigations clinical staff) not approved during that BCP process which are all necessary for successful implementation of SB 1755. The need for these positions is even more critical as DHCS anticipates additional federal oversight of the Adult Day Health Care (ADHC) program as a result of a federal financial and program audit which began in August 2007. Successful implementation of SB 1755 may prevent the federal government from taking any adverse actions against the program.

In-Home Supportive Services (IHSS) Plus 1115 Demonstration Waiver

4.0 Positions \$389,000 Total Funds
 \$195,000 GF
 \$194,000 FF

The Governor’s Budget converts four (4) limited-term positions to permanent status to ensure ongoing compliance with federal requirements for DHCS monitoring and oversight of this approved Independence Plus waiver. The IHSS Plus waiver application was approved in July 2004 under Section 1115(a) of the Social Security Act as a five-year waiver, for the period of August 1, 2004 to July 31, 2009. The DHCS will begin the renewal process for the IHSS Plus waiver later this year to ensure continual funding of services, and will continue to request renewals on an ongoing basis thereafter. Without DHCS oversight, the federal government is not likely to approve renewing this waiver.

Breast and Cervical Cancer Treatment Program (BCCTP)

8.0 Positions \$716,000 Total Funds
 \$358,000 GF
 \$358,000 FF

The Governor’s Budget converts eight (8) limited-term positions to permanent status for the BCCTP. The BCCTP is a special program that provides treatment services to eligible California residents diagnosed with breast and/or cervical cancer who otherwise would not qualify for other Medi-Cal programs or commercial insurance coverage. These positions complete the annual redeterminations that are required to receive federal funds for the program.

Federal DRA of 2005 – Citizenship and Asset Eligibility

4.0 Positions \$241,000 Total Funds
 \$108,000 GF
 \$133,000 FF

The Governor’s Budget extends four (4) limited-term positions for one and one-half years to June 30, 2010, to implement and continue administration of various provisions of the federal Deficit Reduction Act (DRA) of 2005 that deal with citizenship and identity and asset eligibility.

California Community Transitions – Transitioning Medi-Cal Residents in Hospitals and Skilled Nursing Facilities Back into their Communities Using Home and Community-Based Services

2.0 Positions \$240,000 Total Funds
 \$ 91,000 GF
 \$149,000 FF

The Governor’s Budget establishes two (2) positions to implement California’s Money Follows the Person (MFP) Rebalancing Demonstration, entitled “California Community Transitions” (CCT), in accordance with Section 6071 of the DRA of 2005. The MFP Rebalancing Demonstration is part of a comprehensive, coordinated strategy provided by the Centers for Medicare & Medicaid Services (CMS) to assist states, in collaboration with stakeholders, to make widespread changes to their Medicaid long-term care delivery systems in order to transition Medi-Cal beneficiaries residing in institutions back to the community.

California Mental Health Disease Management Program (CaMEND) Request for Augmentation of Funding

3.0 Positions \$421,000 Total Funds
 \$252,000 FF
 \$169,000 Other Funds

The Governor’s Budget establishes three (3) limited-term positions for three years to maintain program activities developed to date. CaMEND was developed by DHCS in 2004 with the goal of improving the efficiency and effectiveness of services provided by state agencies/departments to persons with serious mental illness (SMI) or serious emotional disturbance (SED).

Provider Enrollment Improvements

2.0 Positions \$189,000 Total Funds
 \$ 47,000 GF
 \$142,000 FF

The Governor’s Budget extends two (2) limited-term positions for an additional two years. These positions are needed to continue providing secondary review of applications processed by analysts. The reviewing analysts have been pivotal in reducing the processing timelines for enrolling providers and identifying errors and omissions to avoid enrollment of providers that do not meet Medi-Cal’s standards for participation required by Federal and State statutes and regulations.

Provider Enrollment Automation Project (PEAP)

0.0 Positions \$2,377,000 Total Funds
 \$ 594,000 GF
 \$1,783,000 FF

The Governor’s Budget provides funding to acquire and configure a commercial integrated enrollment case tracking and document management system. Initial funding of \$220,000 was approved for PEAP in fiscal year 2007-08 to develop a Request for Proposal for procuring information technology services. PEAP will allow enrollment of Medi-Cal providers to evolve from a paper-based to an electronic environment. PEAP will improve the provider enrollment process by reducing application processing time, improving customer service to providers, reducing application backlog, creating timely onsite reviews for pre-enrollment and re-enrollment of high risk provider applicants, and enable the Department to perform a complete review for each provider application.

Medi-Cal Eligibility Data Systems Security Changes

16.0 Positions \$1,803,000 Total Funds
 \$ 557,000 GF
 \$1,246,000 FF

The Governor’s Budget establishes sixteen (16) limited-term positions for two years, effective January 1, 2008, to remediate problems with security controls related to the State Medi-Cal Eligibility Data System (MEDS) users (internal and external) and meet mandates required by the new 1113 data sharing agreement with the Social Security Administration (SSA). The positions will allow DHCS to maintain crucial operations to more than 6.5 million Medi-Cal recipients, continue to meet the business needs of both internal and external department users who have a critical need for MEDS data and foster compliance with federal requirements related to the privacy and security of sensitive information maintained by DHCS.

Medi-Cal Community-Living Support Benefit Waiver Pilot Project (AB 2968) – Extend Limited-Term Positions

3.0 Positions

1.0 Positions (CDPH) \$233,000 Total Funds

\$83,000 FF (DHCS)

\$150,000 Other Funds (DHCS/CDPH)

The Governor's Budget extends four (4) limited-term positions (three (3) DHCS and one (1) CDPH) effective January 1, 2009 for an additional two and one-half (2.5) years to continue to perform and support the new workload associated with the implementation of AB 2968. The provisions of AB 2968 require the Department to develop and implement a program to provide a community-living support benefit to Medi-Cal beneficiaries residing in the City and County of San Francisco who would otherwise be homeless, living in shelters or institutionalized. AB 2968 further mandates the Department to submit any waiver application, modify any existing waiver, or amend the Medicaid State Plan, as necessary to provide this benefit. The Department shall implement this benefit only to the extent that federal financial participation is available, and the City and County of San Francisco provides county funds for State administration, and to match federal funds for services provided under the waiver. A Medicaid 1915(c), Home and Community Based Services waiver will be required to implement this pilot project.

HIPAA Renewal and Maintenance

12.5 Positions \$1,550,000 Total Funds

\$ 218,000 GF

\$1,332,000 FF

The Governor's Budget extends eleven and one-half (11.5) limited-term positions for an additional three years and converts one (1) limited-term position to permanent status to implement and maintain the Health Insurance Portability and Accountability Act (HIPAA) mandated by the Federal Government. The positions will assist in providing and maintaining crucial operations to more than 6.8 million Medi-Cal recipients and in complying with federal requirements related to the privacy and security of sensitive information maintained by DHCS

Administrative Adjustments

Increase Health Care Coverage of Eligible Children by Streamlining Operations - SB 437

2.0 Positions \$209,000 Total Funds

\$104,000 GF

\$105,000 FF

The Governor's Budget provides for staffing to implement the requirements of SB 437, delayed one year from the Budget of 2007-08. This legislation will reduce the number of uninsured children in California by implementing a two year pilot project in two counties with 10% of the Medi-Cal beneficiaries to allow self-certification of income and assets during the Medi-Cal application and redetermination processes. It will also fund resources to conduct a feasibility study report to assess how to operate a simple automated process for children applying to the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), to enroll in Medi-Cal or Healthy Families.

Implementation of the bill will increase the number of children enrolled in State health programs by providing continuous coverage to children transitioning between Medi-Cal and Healthy Families for children screened ineligible for no cost Medi-Cal at initial application.

Establish and Maintain a CA Rx Prescription Drug Web Site Program – AB 2877

0.0 Position \$102,000 Total Funds
\$102,000 GF

The Governor’s Budget includes funding, delayed one year from the Budget of 2007-08, to implement the provisions of AB 2877, the California Rx Prescription Drug Web Site program. The provisions of AB 2877 direct the DHCS to establish and administer a website that will provide information to California residents and health care providers about options for obtaining prescription drugs at affordable prices. This concept is consistent with the Governor’s commitment to improve healthcare affordability for all Californians. AB 2877 also requires the Department of General Services to establish strategies for the State to achieve savings through greater use of generic drugs, and requires DHCS to provide the Legislature with additional information on implementation of drug contracting.

The California Discount Prescription Drug Program – AB 2911

0.0 Positions \$6,503,000 Total Funds
\$6,503,000 GF

The Governor’s Budget includes funding, delayed one year from the Budget of 2007-08, to implement the provisions of AB 2911 that created the California Discount Prescription Drug Program (CDPDP). AB 2911 established the CDPDP for the purpose of using drug manufacturer and pharmacy discounts (rebates) to reduce prescription drug prices for uninsured and underinsured Californians. AB 2911 requires the Department to negotiate drug discount agreements with drug manufacturers, and authorizes any licensed pharmacy and any drug manufacturer to participate in the California Discount Prescription Drug Program. AB 2911 also established eligibility criteria and application procedures for eligible Californians to participate in the CDPDP. The discounts to CDPDP eligible enrollees will be funded by rebates from drug manufacturers negotiated by the Department. AB 2911 established the CDPDP Fund into which all payments received under the program would be deposited. Moneys in the Fund would be available for the purposes of the CDPDP only upon appropriation by the Legislature.

Expanded Access to Primary Care

0.0 Positions \$ -3,267,000 Total Funds
\$ -3,267,000 Other Funds

The Governor’s Budget includes a reduction in Proposition 99 funding for the Expanded Access to Primary Care program due to reduced revenues. The program provides grant funding to improve the quality of health care and to expand access to primary and preventive health care to medically underserved areas and populations. Beneficiaries are those persons at or below 200% of the federal poverty level who do not have any third-party health or dental coverage.

ESTIMATE ADJUSTMENTS

Medi-Cal Local Assistance

The Medi-Cal GF costs in FY 2008-09 are expected to decrease by \$472.1 million from FY 2007-08 estimated expenditures of \$14.1 billion to \$13.6 billion. The decrease in expenditures is attributable to changes discussed below.

Adjustments for 2007-08 Compared to the 2007-08 Budget Appropriation and Changes from 2007-08 to 2008-09

Base PC 52 PACE: The Program of All-Inclusive Care for the Elderly (PACE) provides capitated lifetime care for the frail elderly, including all medical, home and community-based and long-term care services. 2007-08 costs are estimated to be \$10.7 million GF less than shown in the 2007-08 Appropriation, due a lower growth rate than previously expected. In 2008-09, costs are expected to increase by \$10.8 million GF due to continued growth in the program.

Base PC 53 Senior Care Action Network: The Senior Care Action Network (SCAN) plans in Los Angeles, San Bernardino and Riverside Counties provide services on a capitated basis for persons with both Medicare and Medi-Cal coverage who become certified for SNF or ICF level of care. The beneficiaries enrolled receive medical, social and case management services. 2007-08 costs for the Senior Care Action Network are estimated to be \$17.8 million GF less than shown in the 2007-08 Appropriation, due a lower growth rate than previously expected. In 2008-09, costs are expected to increase by \$10.8 million GF due to continued growth in the program.

Base PC 101 Medicare Payments - Part A & B Premiums: The Medi-Cal Program expects to pay Medicare Part A inpatient premiums for 152,835 average monthly Medi-Cal beneficiaries in 2007-08 and Part B outpatient premiums for 1,093,206. The costs for the premiums are expected to be \$36.8 million GF less in 2007-08 than anticipated in the Appropriation due to a reduction in the estimated number of beneficiaries for whom Part A and Part B premiums are paid, and lower premiums for 2008 than anticipated. Costs are expected to increase by \$58.5 million GF in 2008-09 due to an increase in premiums in January 2008 of \$13 for Part A and \$2.90 for Part B, expected premium increases in January 2009 of \$13 for Part A and \$3 for Part B, as well as growth in the number of persons covered.

Base PC 102 Medicare Payments – Part D Phased-Down Contribution: The Medicare Part D drug benefit included in the Medicare Modernization Act (MMA) was implemented in January 2006. Medi-Cal discontinued coverage of all drugs for Medi-Cal/Medicare dual eligibles that are covered under Part D. The MMA requires states to contribute part of the savings obtained from no longer covering most drugs for dual eligibles. The initial payment for this “clawback” is 90% of the savings as identified under federal formula, which is reduced each year until it reaches 75% on an ongoing basis. For Calendar Year 2008, the percentage is 86 2/3. Clawback payments are expected to be \$1.147 billion GF in 2007-08, \$26 million less than budgeted in the Appropriation. In 2008-09 the clawback is expected to increase by \$48.6 million GF due to the estimated increase in eligibles, as well as a 1.69% increase in the per member per month cost in Calendar Year 2008, and an estimated 6.81% increase in Calendar Year 2009.

PC 16 New Qualified Aliens: The Personal Responsibility and Work Opportunity and Reconciliation Act (PRWORA) of 1996 specified that federal funds are only available for emergency services for nonexempt qualified aliens during the first five years they are in the country. California law requires that legal immigrants receive the same services as citizens;

therefore, full-scope services are provided to new nonexempt qualified aliens and the cost of non-emergency services is reimbursed to the federal government. The amount of funding that will be returned to the federal government for non-emergency services to legal immigrants is expected to be \$19.8 million GF less in 2007-08 than in the Appropriation. 2008-09 funding is expected to be \$16.6 million GF more than in 2007-08.

PC 33 SCHIP Funding for Prenatal Care: As required in the 2005-06 Budget Act and Trailer Bill, the Managed Risk Medical Insurance Board filed a State Plan Amendment in the State Children's Health Insurance Program to allow the claiming of 65% federal funding for prenatal care provided by Medi-Cal to women previously ineligible for federal funding for this care. The cost of this care had been 100% GF. General Fund savings for 2007-08 are expected to be \$17.3 million higher than in the Appropriation, due mainly to May and June 2007 claims for federal financial participation that were not claimed in 2006-07 and that will be claimed in 2007-08. Because this is a one-time increase in claiming, 2008-09 savings will be \$14.2 million GF less than in 2007-08.

PC 43 Drug Reimbursement Reduction: The federal Deficit Reduction Act of 2005 requires the Centers for Medicare and Medicaid Services (CMS) to use 250% of the Average Manufacturer Price (AMP) to establish the federal upper limit (FUL) on generic (multiple-source) drugs. The Department had proposed a broader change to the reimbursement structure to move all drugs from the Average Wholesale Price Minus 17% to an AMP-based mark-up, which was expected to result in additional savings. Due to a December 14, 2007 U.S. District Court injunction, the FUL and AMP reductions are on hold, and the savings have been eliminated in the November Estimate.

In addition, First Data Bank (FDB), which is the Department's source for the current AWP -17% pricing structure for single-source drugs, had agreed to a settlement with CMS that is expected to reduce the AWP for many single-source drugs. According to FDB, the changes in the AWP will not occur until the second calendar quarter of 2008, which could be as late as June 30, 2008. No savings are assumed for 2007-08. The preliminary savings estimate for the FDB AWP change is \$2.3 million GF in 2008-09.

These changes result in an increased cost of \$38.7 million GF in 2007-08 as compared to the Appropriation. 2008-09 savings are estimated to be \$2.3 million GF higher than 2007-08.

PC 57 Managed Care Expansion—San Luis Obispo; PC 58 Managed Care Expansion—Marin; and PC 62 Managed Care Expansion—Placer: As part of Medi-Cal Redesign, the Budget Act of 2005 included staffing for a geographic expansion of managed care in 13 additional counties. In early 2008, the County Organized Health System model will expand into San Luis Obispo and Marin Counties, and the Geographic Managed Care model will expand into Placer County. The expansions will result in one-time costs when beneficiaries switch from fee-for-service (FFS) to managed care, due to the payment of monthly capitation rates at the same time that fee-for-service claims are still being paid, due to the FFS payment lag. The 2007-08 costs are expected to be \$5.6 million GF for San Luis Obispo, \$4.6 million GF for Marin, and \$1.7 million for Placer, for a total cost of \$11.9 million GF. 2008-09 costs are expected to be \$4.3 million GF less, \$3.5 million GF less, and \$1.0 million GF less, respectively, than in 2007-08.

PC 64 Managed Care New Qualified Aliens Adjustment: As described above, PRWORA specifies that federal funds are only available for emergency services for nonexempt qualified aliens during the first five years they are in the country, and federal funds for non-emergency services must be reimbursed to the federal government. The Department identified a programming error on the report used to track non-qualifying expenditures for managed care

beneficiaries, which overstated the State's cost of non-emergency services to legal immigrants. The report has been corrected beginning in January 2007. The Department is reclaiming \$29.9 million GF from the federal government for the period July 2005 through December 2006, resulting in a 2007-08 savings in that amount. Because this is a one-time recoupment, 2008-09 costs are shown as \$29.9 million GF higher than in 2007-08.

PC 68: NF-B Rate Changes and QA Fee Increase: AB 1629 (Chapter 875, Statutes of 2004) provides for a cost of living increase, the establishment of a facility specific rate methodology, and the imposition of a quality assurance (QA) fee for freestanding skilled nursing facilities (SNFs), including adult sub-acute days. In the 2007-08 Appropriation, the cost of living increase was assumed to be at the cap of 5.5%. However, actual August 2007 rate increases based on cost reports averaged 2.09%. As a result, 2007-08 costs for the AB 1629 SNF rate changes are expected to be \$42.7 million GF less than the Appropriation. 2008-09 costs are expected to be \$60.5 million GF greater than in 2007-08, due to the full year impact of the August 2007 increase, and the impact of an estimated 3.35% August 2008 cost of living increase. The rate increases are also applied to the LTC components of managed care and PACE, SCAN and OnLok; costs for their rate changes are included in the applicable managed care policy changes.

PC 70 LTC Rate Adjustment: The Medi-Cal State Plan requires that long-term care (LTC) rates be adjusted each year. With the passage of AB 1629, this requirement now applies only to level A nursing facilities, hospital distinct-part level B nursing facilities, rural swing beds, hospital distinct part sub-acute beds; pediatric sub-acute beds and intermediate care facilities for the developmentally disabled (ICF-DD). The cumulative rate increase effective August 2007 for ICF-DDs was assumed to be 2.36% in the 2007-08 Appropriation; for all other facilities it was 8.04%. Actual rate increases for ICF-DDs average 0.57%; actual rate increases for all others average 2.31%. As a result, costs in 2007-08 are expected to be \$19.9 million GF less than the Appropriation. 2008-09 costs are expected to be \$20.9 million GF greater than in 2007-08, due to the full year impact of the August 2007 increase, and the impact of an estimated 1.25% August 2008 cost of living increase for ICF-DDs, and 5.15% increase for all others. As with the AB 1629 LTC facilities, the rate increases are also applied to the LTC components of managed care and PACE, SCAN and OnLok; costs for their rate changes are included in the applicable managed care policy changes.

All Other Changes: All other changes amount to a decrease of \$25.3 million. These changes include the net impact of all other changes not listed above.

County Administration: County Administration costs are expected to increase by \$2.4 million GF in 2007-08 compared to the Appropriation mainly due to eligible growth. In 2008-09, costs are expected to increase by \$24.5 million GF mainly due to eligible growth and the expected increase in the counties' costs for determining Medi-Cal eligibility.

Fiscal Intermediary: Costs for the fiscal intermediary are expected to be \$2.0 million GF lower in 2007-08 than assumed in the Appropriation and increase by an additional \$8.4 million in 2008-09.

PC 136 Unspecified Budget Reduction: The 2007-08 Appropriation included an unspecified reduction in the Medi-Cal budget of \$331.9 million GF. This represented a reduction of 2.3%. Although there were no specific changes in policy associated with the budget reduction, the normal November estimate process resulted in a reduction in estimated Medi-Cal expenditures of \$195.2 million GF (1.4%). The remaining \$136.7 million GF of the \$331.9 million GF reduction for 2007-08 is budgeted in Policy Change 136. An unspecified budget reduction of \$331.9 million GF is also included for 2008-09.

PC 137 Family Planning Rate Increase: SB 94 (Chapter 636, Statutes of 2007), requires the Department to increase the reimbursement rates for eight specified office visit codes billed with the family planning indicator. Effective for services provided on or after January 1, 2008, rates for the Medi-Cal and Family PACT programs will be increased to the equivalent of the weighted average of at least 80% of the Medicare reimbursement rate for the same or similar service. This change is estimated to result in a cost of \$28 million (\$6.1 million GF) in 2007-08. 2008-09 costs will increase by an additional \$98.8 million (\$27.6 million GF) over 2007-08.

PC 140 Delay Checkwrite June 2008 to July 2008: Since 2004-05, the last checkwrite in June of each fiscal year has been delayed until the start of the next fiscal year. Beginning in 2007-08, an additional June checkwrite for all Medi-Cal providers whose claims are processed by the fiscal intermediary will be delayed and paid during the next fiscal year. From then on, two checkwrites will be delayed at the end of each fiscal year. This will result in a one-time decrease in expenditures of \$330 million (\$165 million GF) in 2007-08 only. Because of the one-time savings, 2008-09 costs will be \$165.0 million GF higher than in 2007-08.

Budget Balancing Reductions (Several PCs): The Department will implement budget balancing reductions beginning in 2007-08. It is assumed that the necessary statutory changes will be enacted by March 1, 2008. These reductions total \$47.6 million GF, all in Medical Care Services, in 2007-08. 2008-09 reductions will total \$1,077.8 million GF, which is an additional savings of \$1,030.2 million GF as compared to 2007-08. Of the total 2008-09 savings, Medical Care Services reductions are \$997.2 million GF; County Administration reductions are \$76.3 million GF; and Fiscal Intermediary reductions are \$4.3 million GF.

Additional Adjustments in 2008-09

The following paragraphs briefly describe additional items that are not already discussed under the 2007-08 Section:

Base PC 49 Two Plan Model and Base PC 50 County Organized Health Systems: Managed care base costs for the Two Plan Model and County Organized Health Systems are estimated to be \$49.9 million GF higher and \$21.7 million GF higher, respectively, than in 2007-08. The increases are primarily due to estimated caseload growth, and the deferral of a portion of the costs of the 2007 capitation rate increases from 2007-08 to 2008-09.

PC 10 SB 437 – Self-Certification: SB 437 (Chapter 328, Statutes of 2006) established a two year pilot project to be implemented in two counties with 10% of the Medi-Cal beneficiaries to allow self-certification of income and assets during the Medi-Cal application and redetermination processes. The pilot is to determine if self-certification can increase enrollment in Medi-Cal while protecting the integrity of the program. Implementation of the pilot was delayed for one year by the Budget Act of 2007. The pilot project is to begin in July 2008 and costs for increased eligibles are estimated to be \$11.4 million GF in 2008-09.

PC 45 Family PACT Drug Rebates, PC 47 State Supplemental Drug Rebates, and PC 48 Federal Drug Rebate Program: Drug rebates are expected to increase in 2008-09 as pharmacy expenditures continue to increase. Family PACT Drug Rebates are expected to increase by \$0.5 million GF, State Supplemental Drug Rebates by \$17.3 million GF, and Federal Drug Rebates by \$36.4 million GF over 2007-08.

Hospital Financing: SB 1100 (Chapter 560, Statutes of 2005) implemented the provisions of the Medi-Cal Hospital /Uninsured Care Demonstration (MH/UCD), approved in September 2005. Under

SB 1100 and the waiver, the process for funding hospital costs and using intergovernmental transfers (IGTs) to draw down federal funding for uncompensated inpatient care has been significantly changed. Most of the provisions of the bill were implemented in 2005-06. The following policy changes reflect significant changes in costs for 2008-09 from those anticipated in 2007-08:

- a. PC 86 Hospital Financing – DPH Interim Rate Growth: Effective July 1, 2005, based on State Plan Amendment (SPA) 05-021, Designated Public Hospitals (DPHs) no longer receive California Medical Assistance Commission (CMAC)-negotiated per diem rates. Instead, they receive interim per diem rates that are increased each year based on the hospitals' estimated Medi-Cal costs trended forward. This growth rate is expected to be different from the former CMAC-negotiated rate trend for some DPHs and requires an adjustment to the Medi-Cal base estimate. (The interim per diem rate consists of 100% FFP, but the adjustment from GF to FFP is made in PC 90 Base Adjustment – DPH Interim Rate.) The Interim Rate Growth is expected to be \$19.5 million GF higher than in 2007-08.
- b. PC 90 Base Adjustment – DPH Interim Rate: As discussed under PC 86, effective July 1, 2005, DPHs receive an interim per diem rate rather than CMAC-negotiated per diem rates, which were funded with 50% FFP and 50% GF. The interim payments are 100% federal funds matching the hospitals' certified public expenditures (CPEs), resulting in 50% FFP and 50% CPE. The interim rate change is included in the Medi-Cal base total dollar trend or in PC 86. However, as Medi-Cal hospital costs are paid at 50% FFP and 50% GF, an adjustment to shift to 100% FFP is currently done quarterly. The 2008-09 reduction in GF is expected to be \$113.1 million GF more than in 2007-08 due to 12 months of adjustments in 2008-09 as compared to 10 months in 2007-08, as well as growth in total days and rates.
- c. PC 91 Hospital Financing – DPH Rate Reconciliation: The shift of funding for DPHs in the Medi-Cal budget from 50% GF/50% FFP to 100% FFP based on CPEs resulted in some hospitals receiving additional federal funding and others needing to reimburse the Department for their costs in excess of the allowable federal funding. Due to the fact that the federal government had required that physician and non-physician professional services be deleted from the hospital claiming and funded under a separate State Plan Amendment (SPA), the Department has specified that the repayments are not due until the Physician SPA is approved, which occurred on December 21, 2007. The amount expected to be repaid to the Department in 2007-08 is \$30.5 million GF. Because the repayments will be made in 2007-08, this results in an increase of \$30.5 million GF when costs for 2008-09 are compared to 2007-08.

Fee-For-Service Base: The fee-for-service base costs for Pharmacy are expected to increase by \$144.8 million GF from 2007-08 to 2008-09, a 10.1% increase. The expected increase in Pharmacy costs is due to increased users, number of prescriptions and rates. This increase is partially offset by the increase in drug rebates mentioned above. The fee-for-service base costs for hospital inpatient services are expected to increase by \$149.7 million GF from 2007-08 to 2008-09, a 6.9% overall increase. This increase is mainly due to increased users and rates. There are also cost increases for the other categories of service which are of less significance. The fee-for-service base cost increase can be seen across all aid categories.

All Other: All other changes amount to an increase of \$12.3 million GF compared to 2007-08. These changes include the net impact of all other changes not listed above.

Family Health Local Assistance

The Family Health GF costs in FY 2008-09 are expected to decrease by \$28.3 million from FY 2007-08 estimated expenditures of \$137.9 million to \$109.6 million. The decrease in expenditures is attributable to changes discussed below.

Adjustments for 2007-08 Compared to the 2007-08 Budget Appropriation and Changes from 2007-08 to 2008-09

CCS

Base: State Only Treatment Services Costs: In 2007-08, costs for treatment services are expected to be \$1.0 million GF greater than anticipated in the 2007-08 Appropriation based on later actual data. In 2008-09 these costs are expected to increase by an additional \$74,000 GF.

Base: Healthy Families Treatment: Costs for services for CCS Healthy Families children are \$1.5 million GF less than the 2007-08 Appropriation based on later actual data. In 2008-09 these costs are expected to increase by \$5.9 million GF over the 2007-08 costs.

Policy Change 9 – Shift of CCS State/County Costs to Medi-Cal: In 2007-08, savings are expected to be \$1.5 million GF, which is \$1.8 million GF less savings than anticipated in the 2007-08 Appropriation. In the Appropriation, the shift of costs to Medi-Cal was based on 2006-07 information, which included cost shifts for prior years. The cost shift on an ongoing basis is expected to be \$1.5 million GF.

GHPP

Policy Change 3 – Blood Factor Rebates and Contract Savings:

Most GHPP clients with hemophilia receive care and obtain their anti-hemophilic factor through hemophilia treatment centers (HTCs). The HTCs have begun to participate in the federal Health Resources and Services Administration 340B Drug Pricing Program. The 340B program requires drug manufacturers to provide outpatient drugs to 340B covered entities, such as the HTCs, at reduced prices. Under the 340B Program, savings to the State are realized through lower costs at the time the Department reimburses the HTC's claims. 340B claims do not qualify for a manufacturer rebate. This change results in a \$2 million GF increase in the GHPP program in FY 2007-08 as compared to the Appropriation, due to the decrease in rebates.

Additional Adjustments in 2008-09

The following paragraphs briefly describe additional items that are not already discussed under the 2007-08 Section:

CCS

Base: State Only Therapy Costs: In 2008-09, costs for therapy provided by CCS county program staff in CCS school-based medical therapy units are expected to increase by an additional \$3.1 million GF over the 2007-08 costs based on later actual data.

Budget Balancing Reductions (Several PCs): The Department will implement budget balancing reductions beginning in 2008-09. It is assumed that the necessary statutory changes will be enacted by March 1, 2008. These reductions total \$41.8 million GF in FY 2008-09.

BUDGET BALANCING REDUCTIONS

The state's \$14.5 billion structural budget gap compels extraordinary action. To close the budget deficit, the Governor's Budget calls for a 10% across-the-board reduction to most General Fund departments and programs. The Governor's across-the-board reduction approach is designed to protect essential services by spreading reductions as evenly as possible so that no single department or program is singled out for severe reductions.

State Operations

The Department will implement budget balancing reductions beginning in 2008-09. The reductions will consist of reductions in staffing and contract funding in various program areas. See Attachment A for a complete list of reductions.

Local Assistance

The Department will implement budget balancing reductions beginning in 2007-08. The reductions include a 10% provider payment reduction, elimination of some optional benefits for adults and reduction in administrative costs. See Attachment B for a complete list of reductions.

Budget-Balancing Reductions
DHCS Summary
FY 2008/09 (\$ in '000's)

Issue #	DIV	Reduction Name	Proposal Reductions FY 2008-09			Total Reduction s (000's)	PYs
			GF (000's)	FF (000's)	Other (000's)		
35	PBD	Reduction in Clerical Support Staff	-35	-35		-70	-1.0
36	PBD	Reduction in Pharmacy Data Unit Staff	-104	-104		-208	-2.0
37	PBD	Reduction in Pharmacy Policy Staff	-46	-121		-167	-1.0
38	PBD	Reduction in Enteral/Medical Supply Benefit Branch Staff	-46	-121		-167	-1.0
39	UMD	Program Support Section (Administration)	-134	-134		-268	-2.0
40	UMD	Treatment Authorization Administrative Remedy Section	-395	-719		-1114	-11.0
41	SNFD	Hospital Recoupment Unit	-46			-46	-1.0
42	SNFD	DSH Share Hospital Payment Unit and DSH Share Hospital Eligibility Unit	-90			-90	-2.0
43	SNFD	Hospital Contracts Unit	-45			-45	-1.0
44	MED	Support Reduction- BCCTP Eligibility	-301	-138		-439	-5.0
45	MED	Reduction in County Performance Reviews	-263	-264		-527	-6.0
46	MED	Policy Section B Support Reduction	-99	-95		-194	-2.0
47	BWRD	Reduce Funding for Contractor Services	-360	-360		-720	0.0
48	BWRD	Reduction of Disease Management Pilots	-194	-258		-452	-2.0
49	BWRD	Staff Reduction-Provider Rate Branch	-161	-161		-322	-3.3
50	BWRD	Streamline HCBS Waiver Administration	-90	-90		-180	-2.0
51	OLTC	Reduce Developmental Services Waiver Oversight Unit Staffing	-130	-182		-312	-3.0
52	OLTC	Reduce Community Options Monitoring and Assessment (COMA) Unit Staffing	-99	-247		-346	-3.0
53	OLTC	Reduce California Partnership for Long-Term Care Unit Staffing	-50	-51		-101	-1.0
54	OLTC	Reduce In-Home Operations Quality Assurance Unit Staffing	-81	-82		-163	-2.0
55	OLTC	Reduce In-Home Operations Northern Case Management Supervisor Staffing	-34	-85		-119	-1.0
56	OLTC	Reduce EPSDT TAR Processing Staff	-33	-82		-115	-1.0
57	OLTC	Reduce Long-Term Care Division's Headquarters Clerical Support Staffing	-62	-62		-124	-2.0
58	OLTC	Reduce Support Staffing in In-Home Operations Southern Regional Office	-32	-33		-65	-1.0
59	OLTC	Reduce Staffing in In-Home Operations Southern Regional Office	-99	-99		-198	-3.0
60	OHC	State Operations Reductions for HIPAA Compliance	-482			-482	0.0
61	MMCD	Support Contract Reductions	-687	-687		-1374	0.0
62	MMCD	UC Berkeley SPD Outreach Project	-250	-250		-500	0.0
63	MMCD	Medi-Cal Managed Care Expansion A - HPMII	-59	-59		-118	-1.0
64	MMCD	Reduction of 1 PY from Operations Support Section	-36	-36		-72	-1.0
65	MMCD	Policy and Financial Management Branch - OA	-30	-30		-60	-1.0

**Budget-Balancing Reductions
DHCS Summary
FY 2008/09 (\$ in '000's)**

Issue #	DIV	Reduction Name	Proposal Reductions FY 2008-09			Total Reduction s (000's)	PYs
			GF (000's)	FF (000's)	Other (000's)		
66	MMCD	Monitoring and Program Integrity Branch - RPSI	-49	-49		-98	-1.0
67	MMCD	Plan Monitoring and Program Integrity Branch - WPT	-29	-29		-58	-1.0
68	MMCD	Member Monitoring and Program Integrity	-89	-89		-178	-2.0
69	FICOD	Downsize MIS/DSS Section	-48	-87		-135	0.0
70	FICOD	FIITMB Staff Reduction	-415	-1244		-1659	-14.0
71	FICOD	FI CA-MMIS Procurement - Staff Reduction	-188	-188		-376	-4.0
72	FICOD	HMB/CAS Staff Reduction	-79	-79		-158	-2.0
73	FICOD	General Fund Reduction Drill (HCO Section)	-187	-188		-375	-5.0
74	FICOD	Medi-Cal Dental Staff Reduction	-133	-275		-408	-3.0
75	FICOD	FI-OMB Medical Policy Evaluation Section & Provider Services Section	-75	-76		-151	-2.0
76	FICOD	OMPS - Downsize the Application Development Section	-59	-176		-235	-2.0
77	SOC	Medical Case Management (MCM) Program and Coordinated Care Management (CCM) Program	-548	-548		-1096	-10.0
		Subtotal Medi-Cal	-6472	-7613	0	-14085	-108.3
78	FICOD	CDPDP Program Staff	-117			-117	-1.0
79	PBD	California Discount Prescription Drug Program (CDPDP)	-73	0		-73	-1.0
		Subtotal CDPDP	-190	0	0	-190	-2.0
80	CMS	CMS Branch GF Support	-1270	-1270		-2540	-23.0
		Subtotal CMS	-1270	-1270	0	-2540	-23.0
81	PRHD	Program Support Reduction	-108	0	0	-108	-1.5
		Subtotal PRHD	-108	0	0	-108	-1.5
82	ITSD	PPMB - Staff Reduction	-54		-56	-110	-1.0
83	ITSD	Stand Up Website (Develop Content)	-23		-25	-48	
84	ITSD	Governance Study	-47		-49	-96	
85	DHCS	Out of State Travel Reduction	-27			-27	0.0
86	Admin	Personnel and Benefit Services Unit Reduction	-31		-41	-72	-1.0
		Subtotal Admin & Exec	-182	0	-171	-353	-2.0
		Total Support	-8,222	-8,883	-171	-17,276	-136.8

DEPARTMENT OF HEALTH CARE SERVICES BUDGET BALANCING REDUCTIONS
ASSUMES STATUTORY CHANGES ENACTED BY MARCH 1, 2008

(Dollars in Millions)

All Local Assistance (by Estimate)

Priority	Proposal	2007-08			2008-09		
		TF	GF	FFP	TF	GF	FFP
Medi-Cal Estimate							
Provider Rate Reductions:							
1	Medi-Cal 10% Provider Payment Reduction ¹	-\$66.826	-\$33.433	-\$33.393	-\$1,212.000	-\$602.400	-\$609.600
4	Reduction of All LTC Facilities 10% ¹				-\$113.502	-\$56.751	-\$56.751
3	Non-Contract Hospital 10% Payment Reduction				-\$60.066	-\$30.033	-\$30.033
5	Demonstration DSH Private Hospitals and NDPH 10% Reduction				-\$47.300	-\$24.000	-\$23.300
2	Increasing the Federalization of the State funded programs through the Safety Net Care Pool by Reducing the DPHs SNCP payment by 10%				-\$7.750	-\$7.750	\$0.000
	Total Provider Rate Reductions	-\$66.826	-\$33.433	-\$33.393	-\$1,440.618	-\$720.934	-\$719.684
Certain Optional Benefits							
6	Eliminate Adult Optional Benefit--Chiropractors				-\$0.758	-\$0.379	-\$0.379
7	Eliminate Adult Optional Benefit--Creams and Washes	-\$0.780	-\$0.390	-\$0.390	-\$9.370	-\$4.685	-\$4.685
8	Eliminate Adult Optional Benefit--Acupuncture	-\$0.054	-\$0.027	-\$0.027	-\$5.680	-\$2.840	-\$2.840
10	Eliminate Adult Optional Benefit--Audiology				-\$3.100	-\$1.550	-\$1.550
11	Eliminate Adult Optional Benefit--Optometry/Optometrists				-\$2.070	-\$1.035	-\$1.035
12	Eliminate Adult Optional Benefit--Opticians/ Optical Labs				-\$12.320	-\$6.160	-\$6.160
13	Eliminate Adult Optional Benefit--Podiatry				-\$3.384	-\$1.692	-\$1.692
14	Eliminate Adult Optional Benefit--Psychology				-\$0.502	-\$0.251	-\$0.251
15	Eliminate Adult Optional Benefit--Speech Therapy ²				-\$0.900	-\$0.450	-\$0.450
	Total Certain Optional Benefits	-\$0.834	-\$0.417	-\$0.417	-\$38.084	-\$19.042	-\$19.042
9	Eliminate Adult Optional Benefit-- Dental	-\$19.158	-\$9.579	-\$9.579	-\$229.900	-\$114.950	-\$114.950
Reinstate Quarterly Status Reports							
17	Reinstate Quarterly Status Reports for parents (with with Checkbox Form and SB 87 process) ³				-\$17.248	-\$8.624	-\$8.624
18	Reduce Continuous Eligibility for Children and Restore Quarterly Status Reports (with Checkbox Form and SB 87 process) ³				-\$167.064	-\$83.532	-\$83.532
	Reinstate Quarterly Status Reports	\$0.000	\$0.000	\$0.000	-\$184.312	-\$92.156	-\$92.156
	Sub-total	-\$86.818	-\$43.429	-\$43.389	-\$1,892.914	-\$947.082	-\$945.832
	Other Savings						
Eligibility							
16	Discontinue Paying Part B Premiums for Unmet SOC Beneficiaries	-\$8.400	-\$4.200	-\$4.200	-\$100.200	-\$50.100	-\$50.100
County Admin/Other Admin/FI							
19	Reduce CCS Case Management 10%				-\$9.000	-\$3.629	-\$5.371
20	EPSDT Case Management by 10%				-\$3.000	-\$1.056	-\$1.944
21	Reduce MIS/DSS Contract by 25%				-\$2.100	-\$0.525	-\$1.575
22	Reduction of CNI-Based COLA to Counties				-\$44.800	-\$22.400	-\$22.400
23	Reduce Caseload Growth Funding				-\$66.800	-\$33.400	-\$33.400
24	Reduction of County Administration Base by 2.5%				-\$30.600	-\$15.300	-\$15.300
	County Admin Subtotal	\$0.000	\$0.000	\$0.000	-\$156.300	-\$76.310	-\$79.990
25	FI Systems Group Reduction				-\$12.600	-\$2.100	-\$10.500
26	Reduction in CA-MMIS Modification Via Change Orders				-\$1.700	-\$0.425	-\$1.275
27	Transition to EMT in Print, Postage, & Parcel Cost Reimbursement				-\$2.000	-\$1.000	-\$1.000
28	Reduction to Dental FI SURS				-\$2.800	-\$0.700	-\$2.100
29	Reduction of TSC Provider Phone Lines				-\$0.600	-\$0.100	-\$0.500
	FI Subtotal	\$0.000	\$0.000	\$0.000	-\$19.700	-\$4.325	-\$15.375
	Sub-total	-\$8.400	-\$4.200	-\$4.200	-\$276.200	-\$130.735	-\$145.465

DEPARTMENT OF HEALTH CARE SERVICES BUDGET BALANCING REDUCTIONS
ASSUMES STATUTORY CHANGES ENACTED BY MARCH 1, 2008

(Dollars in Millions)

All Local Assistance (by Estimate)

Priority	Proposal	2007-08			2008-09		
		TF	GF	FFP	TF	GF	FFP
	Sub-total Medi-Cal Estimate	-\$95.218	-\$47.629	-\$47.589	-\$2,169.114	-\$1,077.817	-\$1,091.297
Family Health Estimate							
Provider Rate Reductions:							
30	Increasing the Federalization of the State funded programs through the Safety Net Care Pool by Reducing the DPHs SNCP payment by 10%				\$0.000	-\$26.650	\$26.650
Rural Health Programs							
31	CCS Reduce Provider Payments by 10% for non-contract and 10% for other provider rates.				-\$24.189	-\$10.989	-\$13.200
32	GHPP Reduce Provider Payments by 10% for non-contract and 10% for other provider rates.				-\$4.200	-\$4.200	\$0.000
	Sub-total Family Health Estimate	\$0.000	\$0.000	\$0.000	-\$28.389	-\$41.839	\$13.450
	Total Estimates	-\$95.218	-\$47.629	-\$47.589	-\$2,197.503	-\$1,119.656	-\$1,077.847
Other Local Assistance							
33	Primary & Rural Health				-\$3.545	-\$3.545	\$0.000
34	California Discount Prescription Drug				-\$0.443	-\$0.443	\$0.000
	Total Local Assistance - All Proposals	-\$95.218	-\$47.629	-\$47.589	-\$2,201.491	-\$1,123.644	-\$1,077.847

Note: Totals may not add due to rounding.