

**2013-2014 Governor's Budget**

**Highlights**

**Department of Health Care Services**



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**January 10, 2013**

## **CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES PROGRAM OVERVIEW**

The California Department of Health Care Services' (DHCS) mission is to preserve and improve the health of all Californians by operating and financing programs that deliver vital health care services to eligible individuals. These services include medical, mental health, substance use treatment services, and long-term care.

DHCS helps ensure that low-income and disabled 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, a federal/state partnership serving individuals and families who meet defined eligibility requirements. Medi-Cal coordinates and directs the delivery of important services to approximately 8.3 million individuals, including low-income families and children, seniors and persons with disabilities, children in foster care, pregnant women, and those with certain diseases and conditions.

The Low-Income Health Program provides health care services to about 550,000 previously uninsured childless adults ineligible for Medi-Cal. It is a part of the 1115 Bridge to Reform Waiver, which also supports the transition of about 380,000 seniors and persons with disabilities to managed care, the piloting of organized systems of care for children with special health care needs, and the expansion of the existing Safety Net Care Pool to ensure support for safety net hospitals and other critical programs that deliver services to the uninsured and provide payment for uncompensated care.

Children's Medical Services provide for the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases. Its various programs include the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program.

Primary and Rural Health coordinates and directs the delivery of health care to Californians in rural areas and to underserved populations. It includes 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.

Due to recent program transitions, DHCS now coordinates and directs the delivery of community mental health services, substance use disorder services, family planning services, cancer screening services to low income under-insured or uninsured women, and prostate cancer treatment services to low-income, uninsured men. These services are provided via Mental Health and Substance Use Disorder Services programs, the Every Woman Counts Program, the Prostate Cancer Treatment Program and the Family Planning Access Care and Treatment Program. The goals of Family PACT are to increase access to publicly funded family planning services for low-income Californians, increase the use of effective contraceptive methods by clients, promote

improved reproductive health, and reduce the rate, overall number, and cost of unintended pregnancies. Family PACT serves 1.8 million income-eligible men and women of childbearing age annually through a network of 2,200 public and private providers.

## **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) 2013-14, the Governor's Budget presents a total of \$63.0 billion for the support of DHCS programs and services. Of that amount, \$518.4 million funds state operations, while \$62.5 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)*

<b>Governor's Budget Fund Source</b>	<b>2012-13 Approved Budget</b>	<b>2012-13 Revised Budget</b>	<b>2013-14 Proposed Budget</b>
General Fund (GF)	\$14,899,448	\$15,328,164	\$15,924,266
Federal Funds (FF)	\$36,677,566	\$37,945,375	\$37,220,657
Special Fund & Reimbursements	\$10,235,321	\$9,365,490	\$9,891,302
<b>Total Funds</b>	<b>\$61,812,335</b>	<b>\$62,639,029</b>	<b>\$63,036,225</b>

\*Dollars in thousands

### **State Operations**

<b>State Operations by Fund Source *</b>			
<b>Governor's Budget Fund Source</b>	<b>2012-13 Approved Budget</b>	<b>2012-13 Revised Budget</b>	<b>2013-14 Proposed Budget</b>
General Fund	\$157,540	\$155,128	\$159,382
Federal Funds	\$285,558	\$281,517	\$308,083
Special Funds & Reimbursements	\$46,354	\$45,925	\$50,967
<b>Total State Operations</b>	<b>\$489,452</b>	<b>\$ 482,570</b>	<b>\$518,432</b>

\*Dollars in thousands

## Local Assistance

<b>Local Assistance by Fund Source *</b>			
<b>Governor's Budget Fund Source</b>	<b>2012-13 Approved Budget</b>	<b>2012-13 Revised Budget</b>	<b>2013-14 Proposed Budget</b>
General Fund	\$14,741,908	\$15,173,036	\$15,782,884
Federal Fund	\$36,392,008	\$37,663,858	\$36,912,574
Special Funds & Reimbursements	\$10,188,967	\$9,319,565	\$9,822,335
<b>Total Local Assistance</b>	<b>\$61,322,883</b>	<b>\$62,156,459</b>	<b>\$62,517,793</b>

\*Dollars in thousands

## **REORGANIZATIONS**

The proposed Budget continues efforts to streamline government operations for efficiency and effectiveness. As part of this effort, reorganizations impacting DHCS include:

- The elimination of the Department of Alcohol and Drug Programs (DADP) shifts the remaining substance use disorder programs and services and the associated funding transfer to DHCS. Combining these key services with physical health programs is the next step toward improving health care delivery services to the benefit of persons with substance use disorders, consistent with the goals of federal health care reform implementation in 2014.

## **BUDGET ADJUSTMENTS**

### **Budget Change Proposals**

The Governor's Budget proposes the establishment of 18.0 new positions (13.0 partially funded with General Fund and 5.0 wholly funded by other sources), extension of 86.0 existing positions, and the transfer of 237.5 positions from the Department of Alcohol and Drug Programs and the California Department of Social Services.

### **Bioterrorism/Emergency Preparedness Office Audits**

Positions: 3.0 Permanent  
OF: \$379,000  
Total: \$379,000

DHCS requests three (3.0) permanent positions, effective July 1, 2013. The California Department of Public Health (CDPH) plans to renew an existing Interagency Agreement (I/A) with DHCS for staff to engage in financial and compliance audits of Local Health Departments' (LHDs) use of federal public health emergency funds, as required every

three years by Health and Safety Code Section 101317(g)(3). CDPH receives federal dollars from the Centers for Disease Control and Prevention (CDC) which are used to reimburse DHCS for these positions.

**California Medicaid Management Information Systems (CA-MMIS) System Replacement Project**

Positions: 26.0 Limited-Term  
GF: \$839,000  
FF: \$2,665,000  
Total: \$3,524,000

DHCS requests the extension of 26.0 of the previously authorized 34.0 limited-term (LT) positions for an additional three years, in order to provide continued oversight of the CA-MMIS Replacement Project through its completion in FY 2015-16. In FY 2010-11, DHCS received authorization for 34 multi-disciplinary LT positions to oversee the Medi-Cal Fiscal Intermediary's (FI) design, development, and implementation (DD&I) of a system to replace the current CA-MMIS. These LT positions expire on June 30, 2013. The system replacement project was originally scheduled to begin in 2010 and end in 2015. However, due to delays in the execution of the FI contract and the assumption of operations by the new FI (Xerox State Healthcare, LLC), the system replacement project was delayed. Project planning began in October 2011 and the project is scheduled to be completed by June 30, 2016. A Special Project Report (SPR) was completed and approved by the California Technology Agency on July 26, 2012 to extend the project timeframe and expenditure plan.

**Medi-Cal Managed Care: Continuation of 1115 Waiver Activities**

Positions: 18.0 Limited-Term  
GF: \$1,324,000  
FF: \$1,734,000  
OF: \$107,000  
Total: \$3,165,000

DHCS is requesting approval to: 1) extend 18.0 currently limited-term positions (expiring December 31, 2013) through the end of the 1115 Waiver (expiring October 31, 2015); and 2) secure contract funds and funding for actuarial and auditing training for DHCS staff. The 1115 Waiver requires the continuation of a significant workload for DHCS and the ongoing contract funds and positions are needed to ensure the continued success of the fully transitioned seniors and persons with disabilities (SPDs) contractually required monitoring and oversight activities. Of the 18 LT positions, 15 were originally approved to work on the implementation activities under the 1115 Waiver which became effective on November 1, 2010. The extension of these LT positions is necessary to continue ongoing support of critical functions of the 1115 Waiver, entitled "California's Bridge to Reform" (Waiver 11-W-00193/9).

## **1115 Waiver and Low-Income Health Program (LIHP) and Delivery System Reform Incentive Pool (DSRIP) Components**

Positions:	26.0 Limited-Term
GF:	\$260,000
FF:	\$1,370,000
OF:	\$1,113,000
Total:	\$2,743,000

### 18.0 FTE Positions

DHCS LIHP Division requests extension of 18.0 limited-term positions, through December 31, 2014, to complete the required workload for the ongoing administration of the LIHP. The LIHP acts as an early Medicaid expansion program that enables governmental entities to implement health care coverage for low-income childless adults. Program components include the Medicaid Coverage Expansion (MCE) population, the Health Care Coverage Initiative (HCCI) population, and legacy HCCI populations from the previous HCCI program authorized by state statute and the previous federal section 1115 (a) Hospital/Uninsured Care Demonstration (HUCD).

### 5.0 FTE Positions

The LIHP Division also requests a two and one-half (2.5) year extension of five (5.0) limited term positions through December 31, 2015, for work activities associated with the transition of the HCCI under the HUCD to the LIHP, close-out activities for the LIHP, and the transition of local LIHPs enrollees to Medi-Cal managed care or Covered California.

### 3.0 FTE Positions

The Safety Net Financing Division is requesting extension of three (3.0) limited-term positions and contract services (county-funded), through December 31, 2015, to implement the Delivery System Reform Incentive Pool (DSRIP). The projects implemented under DSRIP include infrastructure development, innovation and redesign, population-focused improvements, and urgent development in care. The contract services will perform the ongoing evaluation, technical assistance, and modification reviews for the DSRIP program. These positions are also dedicated to the ongoing hospital financing workload requirements that transitioned from the HUCD to the current Demonstration.

### **Special Transition Projects**

Positions:	2.0 Limited-Term
GF:	\$117,000
FF:	\$118,000
Total:	\$235,000

DHCS Long-Term Care Division, requests 2.0 new limited-term positions for the Assisted Living Waiver (ALW), set to expire February 2014. The requested positions are integral to the development, implementation, and administration of the ALW as staff begin tasks related to the renewal of the ALW (through February 2019) and to adjust to

long-term services and supports integration as required by the Coordinated Care Initiative. The ALW program is administered in response to the growing demands of the Centers for Medicare and Medicaid Services (CMS), California stakeholders, the Olmstead Committee, and Coordinated Care Initiative (CCI), which obligate or encourage DHCS to significantly increase nursing facility (NF) transitions for seniors and persons with disabilities.

**Dual Eligibles Coordinated Care Demonstration and Long Term Services and Supports (LTSS)**

Positions: 1.0 Limited-Term  
GF: \$75,000  
FF: \$75,000  
Total: \$150,000

DHCS Long-Term Care Division requests the extension of one (1.0) limited-term Health Program Manager (HPM) III position to June 30, 2016. The extension of the position would continue the work related to the implementation of the Dual Eligibles Coordinated Care Demonstration (Dual Demonstration) and the Coordinated Care Initiative (CCI) inclusive of the Multi-Purpose Senior Services Program (MSSP) and In-Home Supportive Services (IHSS) transition to a managed care benefit.

**Public Assistance Reporting Information System (PARIS) – Interstate**

Positions: 1.0 Permanent  
GF: \$51,000  
Total: \$51,000

DHCS Medi-Cal Eligibility Division (MCED) requests one (1.0) permanent Associate Governmental Program Analyst (AGPA) to permanently operate the PARIS-Interstate program on a statewide basis. Without approval of this request, DHCS will not realize the full potential for cost savings of PARIS-Interstate. DHCS' PARIS-Interstate program began with 3 counties; and currently has 30 participating counties; however, Los Angeles County is not yet included.

**Medi-Cal Eligibility Data Systems (MEDS) Resources**

Positions: 5.0 Permanent and 2.0 Limited-Term  
GF: \$371,000  
FF: \$451,000  
Total: \$822,000

DHCS requests to establish seven (7.0) new positions to provide MEDS program and systems management oversight authority of county California Department of Social Services (CDSS) program administrators, as well as quality control to ensure compliance with federal requirements. CDSS has access to MEDS, a database maintained by DHCS. Some of the data in this database comes from the federal Social Security Administration (SSA). The SSA imposes strict requirements on any entity that

has access to SSA data, and it required CDSS to submit a Corrective Action Plan (CAP) specifying its steps in maintaining the acceptable and sufficient level of security oversight.

### **Transfer of Mental Health Licensing/Quality Improvement Functions**

Positions:	12.0 Permanent
GF:	\$337,000
FF:	[\$396,000]*
OF:	\$391,000
Total:	\$728,000

As a part of the 2012-13 budget process, the Legislature and Governor approved a reorganization of the Department of Mental Health (DMH). This reorganization placed policy leadership at DHCS, with a Deputy Director for Mental Health and Substance Use Disorder Services that is appointed by the Governor and confirmed by the Senate. Effective July 1, 2012, community mental health programs and functions transferred out of DMH to other California Health and Human Services Agency (CHHSA) departments. The majority of community mental health functions transferred to DHCS. Licensing functions transferred to CDSS under the reorganization.

Within this joint proposal, the CDSS proposes to transfer 12.0 permanent positions and the corresponding expenditure authority to the DHCS, for licensing functions related to mental health services. DHCS will also have oversight of the Mental Health Facility Licensing Fund, collecting and expending revenues related to mental health licensing and certification functions. The transfer of licensing functions from CDSS to DHCS will require submission and approval of Trailer Bill Language.

*\* Brackets represent non-add of \$396,000 as no authority is requested in Federal Funds.*

### **Women, Infants, and Children (WIC) Appeals**

Positions:	2.0 Permanent
OF:	\$293,000
Total:	\$293,000

The California Department of Public Health (CDPH) contracts with DHCS's Office of Administrative Hearings and Appeals (OAHA) for the appeal functions. OAHA is requesting a Health Program Auditor IV position and approval to convert an existing limited-term Administrative Law Judge position into permanent to conduct the increasing number of WIC appeal hearings. The WIC program has increased its fraud efforts to disqualify vendors that have failed to adhere to the policies and procedures the program has mandated. The disqualified vendors and those vendors that have been denied enrollment into the WIC Vendor program may appeal for reversal of WIC's action. The increase in WIC disqualification actions has created a significant appeal workload for OAHA, resulting in federal timeframe requirements not being consistently met due to the backlogs in the fair hearing process.

### **Baseline HIPAA Staffing and Electronic Health Records (EHR) Incentives**

Positions: 3.0 Permanent and 2.0 Limited-Term  
GF: \$235,000  
FF: \$447,000  
Total: \$682,000

The DHCS Office of HIPAA Compliance is requesting establishment of five new positions: 3.0 permanent positions and 2.0 three-year limited-term positions (expiring June 2016). These positions are necessary to maintain efforts on existing workload, current federal and state HIPAA rules, and to achieve and maintain compliance. The new and anticipated workload is attributed to Health Care Reform, new federal HIPAA regulations, and integration and expansion of technological systems. Health Care Reform language allows the federal government to require health care organizations to use updated standards as often as every two years, rather than every seven years, as was previously the case. If HIPAA compliance is not achieved by the established deadlines then the following will happen: jeopardize patient access, increase in administrative burdens for providers, decreases in provider participation due to administrative burdens tied to Medi-Cal, and federal, civil, and monetary penalties for DHCS.

### **Office of Health Information Technology (OHIT) Staff Augmentation for Electronic Health Records (EHR) Incentive Program**

Positions: 11.0 Limited-Term  
GF: [\$38,000]\*  
FF: \$1,176,000  
OF: \$93,000  
Total: \$1,269,000

DHCS' OHIT requests extension of existing limited-term positions for the administration of the Medi-Cal EHR Incentive Program. The Health Information Technology for Economic and Clinical Health (HITECH) Act, a component of the American Recovery and Reinvestment Act (ARRA) of 2009, authorizes the outlay of federal money estimated to be roughly \$45 billion for Medicare and Medicaid incentive payments to qualified health care providers who adopt, implement, or upgrade and use EHRs. The use of EHR technology in a manner includes the use of electronic prescribing (e-prescribing), submission on clinical quality measures, reporting to immunization and disease registries, and exchanging health information between DHCS and its providers to improve the quality of care. Additionally, DHCS and Xerox Corporation have designed and are in the process of developing a State Level Registry (SLR) for provider enrollment in the incentive program. This portal will also enable all California Medi-Cal practitioners and hospitals to enter eligibility information for the program as well as data in support of meaningful use of the technology.

\* *Brackets represent non-add of \$38,000 as no authority is requested in General Fund.*

### **Drug Medi-Cal (DMC) Legal Representation**

Positions: 1.0 Permanent  
GF: \$73,000  
FF: \$109,000  
Total: \$182,000

This proposal requests a permanent Staff Counsel III position to provide legal services to the Drug Medi-Cal program, which transferred to the DHCS in July 2012. There is a continuing need to for this position to support ongoing workload associated with DMC, including enforcement of complaints, promulgating regulations, and drafting state plan amendments or waivers. DHCS has statutory authority to conduct DMC Post-Service, Post-Payment reviews as well as to deter and detect DMC fraud resulting from questionable billing practices and complaint investigations. When misrepresentation of fact or suspicion of provider fraud is discovered, the program staff must refer their findings to DHCS Audits and Investigations and/or to the Department of Justice (DOJ) for criminal investigation and prosecution. The Staff Counsel III acts as liaison with DOJ, advises with respect to the suspension of the provider, and develops the necessary legal documentation to support the suspension.

### **Diagnostic Related Groups Payment Systems Program (DRG)**

Positions: 1.0 Permanent  
GF: \$61,000  
FF: \$60,000  
Total: \$121,000

DHCS requests conversion of one limited-term Research Program Specialist II (RPS II) position to permanent in order to meet requirements for DRG, to be implemented July 2013. The Safety Net Financing Division (SNFD) is responsible for the development and implementation of the new DRG payment system for hospital inpatient services for private hospitals. SNFD is responsible for: numerous studies and analyses that are required in order to monitor DRG's budget neutrality; ensuring access for all Medi-Cal inpatient services through various in-depth analytical studies and monthly review of all claims data; monitoring DRG base rates; developing reconciliation processes; and providing information to providers and stakeholders.

### **Non-Designated Public Hospitals (NDPH) Program**

Positions: 6.0 Permanent  
GF: \$414,000  
FF: \$413,000  
Total: \$827,000

DHCS requests permission to convert six (6.0) limited-term 1115 Waiver positions to permanent, to implement and maintain the new NDPH program. These positions will work on both 1) the conversion of NDPHs to the Certified Public Expenditure (CPE) methodology and 2) develop, review and monitor payment procedures and protocols for Safety Net Care Pool Uncompensated Care (SNCP) and Delivery System Reform

Incentive Pool (DSRIP) funding to ensure the additional funds are made available to the NDPHs to offset their uncompensated care costs. The positions were originally approved to work on the 1115 Bridge to Reform Waiver. Counties and public hospitals are required to fund any administration costs related to specific waiver activities as laid out in the Waiver bills. DHCS and the counties/public hospitals entered into discussion regarding the work and positions that would be required in 2011. It was agreed that only certain positions would be required for the 1115 Waiver work and funded by them; however, the counties did not ultimately agree to fund the positions. In order to use the positions, SNFD and Audits and Investigations request permanent position funding starting July 1, 2013, and position authority starting January 1, 2014.

**Medi-Cal Coverage of Eligible County Medical Parole and Compassionate Release (Senate Bill 1462)**

Positions: 1.0 Permanent  
 FF: \$52,000  
 OF: \$51,000  
 Total: \$103,000

Based on requirements set forth in Senate Bill (SB) 1462; DHCS requests one permanent position to track eligible “released” inmates, determine county obligation, and bill for the non-federal share of Medi-Cal claims paid. SB 1462 requires the county board of supervisors to “adopt a process to fund the nonfederal share of Medi-Cal costs for the period of time that a prisoner would have otherwise been incarcerated or for the period of time that a probationer is on medical probation. The county board of supervisors shall notify the State Department of Health Care Services of the process,” once it is in place. SB 1462 allows counties to receive available federal funds for full scope Medi-Cal services provided off the grounds of a correctional facility to Medi-Cal eligible inmates on medical parole released to a care facility, and to inmates granted compassionate release and placed in the community.

**ESTIMATE ADJUSTMENTS**

**Medi-Cal Local Assistance**

The 2012-13 Medi-Cal General Fund (GF) estimate is \$451.2 million more than the 2012-13 Budget Appropriation (dollars in millions; may not add due to rounding).

<b>November 2012 Estimate</b>	<b>\$14,445.9</b>
FY 2012-13 Budget Appropriation	<u>\$14,897.1</u>
November Estimate Compared to Appropriation	\$451.2

The change from the Appropriation is explained as follows:

Medical Care Services	\$524.5
County/Other Administration	(\$70.7)
Fiscal Intermediary	<u>(\$2.6)</u>
Total Change	\$451.2

The following paragraphs briefly describe the major changes. (All comparisons are based on 50% GF, unless otherwise noted.)

### **Transition of HFP to Medi-Cal**

AB 1464 (Chapter 21, Statutes of 2012) approved the transition of the Healthy Families Program to Medi-Cal starting on January 1, 2013 in several phases. The November Estimate reflects a change to the phase-in schedule and updated Medi-Cal managed care capitation payment amounts based on an actuarial study. These changes result in an increase of \$79 million GF in 2012-13 and \$278 million GF in 2013-14.

### **New Qualified Aliens**

The federal Personal Responsibility and Work Opportunity Act specifies that federal financial participation is not available for full-scope Medi-Cal services for most qualified nonexempt aliens who enter the country after August 1996, for the first 5 years they are in the country. As California law requires that legal immigrants receive the same services as citizens, the nonemergency services are 100% State funded. Based on updated historical data, the estimate includes a decrease of \$35 million GF in 2012-13.

### **Physician and Clinic Seven Visit Soft Cap**

AB 97 (Chapter 3, Statutes of 2011) caps the number of physician visits and clinic visits allowed per Medi-Cal beneficiary at seven per year. Because of delays in expected federal approval and implementing necessary system changes, the Estimate assumes an implementation date of January 1, 2013 instead of July 1, 2012. Also, according to a recent Department comprehensive study, the number of beneficiaries remaining in Fee for Services is lower than previously estimated and many of these individuals have medical conditions likely to exempt them from the visit CAP. Consequently, the Estimate reduces the percent of eliminated visits above the cap to 10% from 15%. These changes result in a cost of \$15 million GF in 2012-13 and savings of \$7 million GF in 2013-14.

### **Federal Drug Rebates**

The State Medi-Cal Drug Discount Program and the Omnibus Budget Reconciliation Act of 1990 allow the Department to obtain price discounts for drugs. The federal Affordable Care Act increased the mandated federal rebate to 23.1% of the Average

Manufacturer's Price (AMP) from the previous 15.1% for single source drugs and increased the multi-source drug rebate from 11% of AMP to 13%. This results in a cost to the Medi-Cal program, because California collects rebates at the higher percentage for most drugs and must now remit higher collections to the federal government. Due to payments not being made according to the previous schedule and updated historical data, the Estimate increases costs by \$94 million GF in 2012-13 and decreases costs by \$175 million GF in 2013-14. The large decrease in 2013-14 reflects the final retroactive payment to the federal government for prior year rebates.

### **Litigation Settlements**

The Department works collaboratively with the Office of the Attorney General to pursue charges related to the illegal promotion of drugs, kickbacks and overcharging of Medicaid. Based on expected settlements, the Estimate includes one-time savings of \$220 million GF in 2012-13.

### **Managed Care Drug Rebates**

The federal Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 extend the federal drug rebate requirement to Medicaid managed care outpatient covered drugs. Due to a delay in California Medicaid Management Information System (CA-MMIS) system changes, the estimate assumes a decrease of \$47 million GF in 2012-13 and an increase of \$163 million GF in 2013-14.

### **Designated State Health Programs**

As part of the California Bridge to Reform Section 1115(a) Medicaid Demonstration, the Department can claim federal financial participation using the Certified Public Expenditures of approved Designated State Health Programs. Due to updated program expenditures, a delay in federal approval on claiming protocols for Health Related Workforce Training Programs and a delay in claiming for the County Medical Services Program, the Estimate assumes an increase of savings of \$180 million GF in 2012-13 and a decrease in savings of \$311 million GF in 2013-14.

### **Retroactive Managed Care Rate Adjustments for FY 2011-12**

Due to delays in federal approval, managed care capitation rate adjustments for 2011-12 were not paid in 2011-12. The delay increases 2012-13 GF cost by \$194 million.

### **General Fund Reimbursement from DPHs**

Under SB 208 (Chapter 714, Statutes of 2010) certain Seniors and Persons with Disabilities were assigned as mandatory enrollees in managed care plans. The State statute also required Designated Public Hospitals (DPHs) to reimburse the

General Fund for costs built into the managed care capitation rates that had been the responsibility of the DPHs. Implementation delays increase GF costs in 2012-13 by \$244 million and decrease GF cost in 2013-14 by \$395 million.

### **Funding Adjustment of Gross Premium Tax to GF**

The Department makes transfers from the Gross Premium Tax fund to offset the cost of related increases to managed care plan capitation rates. The estimated transfer in FY 2012-13 relating to the tax that expired June 30, 2012, is \$37 million GF less than previously expected because transfers anticipated to occur in 2012-13 occurred in 2011-12.

### **Coordinated Care Initiative**

SB 1008 (Chapter 33, Statutes of 2012) and SB 1036 (Chapter 45, Statutes of 2012) authorized the Coordinated Care Initiative (CCI). Under the CCI, persons eligible for both Medicare and Medi-Cal (dual eligibles) will receive medical, long-term supports and services, and home and community-based services through a single health plan and behavioral health provided both directly and coordinated with county mental health and substance use disorder programs. The CCI will also enroll all dual eligibles in managed care plans for their Medi-Cal benefits. The Department has updated the fiscal estimate of the CCI based on revisions to reflect the size and scope of the demonstration. These changes result in a decrease of \$32 million GF in 2012-13 and an increase of \$471 million GF in 2013-14. The 2013-14 increase results primarily from a deferral of managed care capitation payments and a fee-for-service checkwrite in 2012-13 that does not occur in 2013-14.

### **Provider Rate Reductions**

AB 97 (Chapter 3, Statutes of 2011) enacted provider rate reductions. The Department was prevented from implementing many of the reductions due to court injunctions. The estimate assumes positive resolution of the court injunctions in March 2013 instead of summer 2012, resulting in General Fund costs of \$261 million in 2012-13 and savings of \$431 million in 2013-14.

### **Operational Flexibilities**

AB 1464 (Chapter 21, Statutes of 2012) included \$10 million GF in savings related to the Department implementing Medi-Cal processes through operational flexibilities. Related trailer bill was not enacted. Without the trailer bill, the Department is unable to achieve the full \$10 million GF in savings. However, the Department has identified a change to the hearing aid methodology that is consistent with the intent of the budget action on operational flexibilities. The Estimate assumes the implementation of no other operational flexibility, resulting in a cost of \$9.6 million GF in 2012-13.

The Medi-Cal General Fund costs in the 2013-14 Budget Year, as compared to the 2012-13 Current Year, are estimated to increase by \$354.0 million:

<b>FY 2013-14</b>	<b>\$15,251.1</b>
FY 2012-13	<u>\$14,897.1</u>
Difference 2012-13 to 2013-14	\$354.0

The change from the Current Year to the Budget Year is explained as follows (dollars in millions):

Medical Care Services	\$291.7
County/Other Administration	\$64.7
Fiscal Intermediaries	<u>-\$2.4</u>
Total Change	\$354.0

The following paragraphs describe a change that was not discussed under the 2012-13 Current Year:

### **Annual Open Enrollment**

A decrease of \$1million General Fund in 2013-14 and annual savings of \$3.6 million as a result of providing beneficiaries the opportunity to select their Medi-Cal health plan each year and receive care through that health plan for the entire year. This open enrollment process will align Medi-Cal with the industry best practice of other third-party health benefit payers. In conformity with commercial practice and preparation for the implementation of Covered California, Medi-Cal beneficiaries will be offered an annual open enrollment period during which they may elect to change health plans.

### **Hospital Quality Assurance Fee Extension - Children’s Health Care**

A savings of \$310 million General Fund in 2013-14, as a result of extending the hospital fee, which will sunset on December 31, 2013. The fee provides funds for supplemental payments to hospitals and also provides some funding to offset the costs of health care coverage for children.

### **Diagnosis Related Group Implementation**

On July 1, 2013, the Department will transition to a Diagnosis Related Group (DRG) payment system which correlates reimbursement to the Medi-Cal beneficiary’s assigned DRG. The 2013-14 rates will be set based on 2012-13 rates, resulting in a savings of \$59 million GF in 2013-14.

### **Capitated Rate Adjustment for FY 2013-14**

Managed care capitation rates will be rebased in 2013-14 as determined by the rate methodology based on more recent data. The Estimate assumes a placeholder

increase of 2.97% for 2013-14, resulting in an increase of \$172 million GF in 2013-14.

### **Gross Premium Tax**

The estimate assumes the Gross Premiums Tax on Medi-Cal managed care plans will be reauthorized permanently, resulting in General Fund savings of \$227 million GF in 2013-14. Savings generated in 2012-13 are included in the Managed Risk Medical Insurance Board budget.

### **Managed Care Efficiencies**

The Department is looking for new ways to improve the quality and efficiency of the health care delivery system and develop payment systems that promote quality, not quantity, of care and improve health outcomes. The estimate assumes savings of \$135 million GF in 2013-14 as a result of implementing additional efficiencies in managed care.