

2014-2015 Governor's Budget

Highlights

Department of Health Care Services



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January 10, 2014

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. These services include medical, dental, mental health, substance use treatment services, and long-term care.

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, 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 9.2 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 provided health care services to about 600,000 previously uninsured adults ineligible for Medi-Cal. It was a part of the 1115 Bridge to Reform Waiver, which also supported the transition of about 380,000 seniors and persons with disabilities into managed care, 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. As of January 1, 2014, individuals enrolled in the Low-Income Health Program were transitioned into Medi-Cal as part of the implementation of the Affordable Care Act. The Affordable Care Act expanded Medi-Cal in two ways:

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

Children's Medical Services provides 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.

The Primary, Rural, and Indian Health Division 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 (PACT) 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 2,259 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) 2014-15, the Governor’s Budget presents a total of \$76.1 billion for the support of DHCS programs and services. Of that amount, \$556.2 million funds state operations, while \$75.6 billion supports local assistance. The proposed budget attempts to affirm the State’s commitment to address the health care needs of Californians while operating within a responsible budgetary structure.

Total DHCS Budget

(includes non-Budget Act appropriations)

Governor's Budget Fund Source	2013-14 Approved Budget	2013-14 Revised Budget	2014-15 Proposed Budget
General Fund (GF)	\$16,346,665	\$16,480,592	\$17,212,283
Federal Funds (FF)	\$41,636,782	\$42,405,766	\$45,111,444
Special Fund & Reimbursements	\$14,155,102	\$13,366,133	\$13,810,225
Total Funds	\$72,138,549	\$72,252,491	\$76,133,952

*Dollars in thousands

State Operations

State Operations by Fund Source *			
Governor's Budget Fund Source	2013-14 Approved Budget	2013-14 Revised Budget	2014-15 Proposed Budget
General Fund	\$160,048	\$163,861	\$171,644
Federal Funds	\$310,632	\$316,453	\$329,460
Special Funds & Reimbursements	\$50,967	\$54,048	\$55,094
Total State Operations	\$521,647	\$534,362	\$556,198

*Dollars in thousands

Local Assistance

Local Assistance by Fund Source *			
Governor's Budget Fund Source	2013-14 Approved Budget	2013-14 Revised Budget	2014-15 Proposed Budget
General Fund	\$16,186,617	\$16,316,731	\$17,040,639
Federal Fund	\$41,326,150	\$42,089,313	\$44,781,984
Special Funds & Reimbursements	\$14,104,135	\$13,312,085	\$13,755,131
Total Local Assistance	\$71,616,902	\$71,718,129	\$75,577,754

*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:

- Initiated in FY 2012-13 and completed in FY 2013-14, the Healthy Families Program (HFP) transitioned from the Managed Risk Medical Insurance Board (MRMIB) to DHCS. With the elimination of MRMIB, the Access for Infants and Mothers Program (AIM), the County Children's Health Insurance Matching Fund Program (CHIM), and the Major Risk Medical Insurance Program (MRMIP) remain to be transitioned to DHCS (staffing and associated funding). Consolidating these programmatic areas under DHCS will create efficiencies and streamline services.

BUDGET ADJUSTMENTS

Budget Change Proposals

The Governor's Budget proposes the establishment of 196.0 positions (119.0 limited-term), which includes the extension of 36.5 existing positions, and the transfer of 27.0 positions from the Managed Risk Medical Insurance Board (MRMIB).

AB 85: County Realignment

Positions: 18.0 Total (13.0 Permanent and 5.0 Limited-Term)

GF:	\$1,723,000
FF:	<u>\$1,723,000</u>
Total:	\$3,446,000

DHCS requests eighteen (18.0) positions and contract funds to implement and maintain the provisions of Assembly Bill (AB) 85 (Chapter 24, Statutes of 2013), which is the 1991 Realignment/California Work Opportunity and Responsibility to Kids (CaWORKs) trailer bill. This bill implements a mechanism for counties to share savings as a result of the implementation of the Affordable Care Act (ACA).

ABX1 1: Medi-Cal Eligibility Under ACA

Positions: 8.0 Limited-Term

GF:	\$295,000
FF:	<u>\$767,000</u>
Total:	\$1,062,000

DHCS requests eight (8.0) limited-term positions and expenditure authority to implement the various statutory requirements of ABX1 1, Chapter 3, Statutes of 2013. Specifically, ABX1 1 authorizes DHCS to implement various Medicaid provisions of the ACA.

ABX1 1 advances California specific efforts in implementing the ACA and making available affordable health care coverage to low-income Californians who historically either did not qualify for Medi-Cal or have available other options for health care coverage, thereby reducing the number of uninsured individuals in the State.

**Medi-Cal Affordable Care Act Implementation – New County Administration
Methodology (SB 28)**

Positions: 7.0 Limited-Term

GF:	\$742,000
FF:	<u>\$743,000</u>
Total:	\$1,485,000

DHCS requests (7.0) limited-term positions for the Medi-Cal Eligibility Division, County Administrative Expense Section, and for the Audits and Investigations Division, as well as, funds for contracted services. The request is based on language included in Senate Bill (SB) 28 (Ch. 442, Statutes of 2013) which directs DHCS, in consultation with the counties and County Welfare Director’s Association (CWDA), to design and implement a new budgeting methodology for county administrative costs that reflects the impact of the ACA on county administrative work and present that methodology to the Legislature no later than March 2015.

The new county budgeting methodology will be used to appropriately compensate counties for the work they will be performing under the provisions of the ACA. Additionally, DHCS will be provided with improved data on county operations and costs relative to Medi-Cal eligibility determinations and case maintenance activities for applicants and beneficiaries.

Implementation of SB 82 and SB 364

Positions: 3.0 Permanent

GF:	\$177,000
FF:	<u>\$176,000</u>
Total:	\$353,000

DHCS requests the authority to establish three (3.0) permanent positions due to the enrollment of SB 82, Chapter 34, the Investment in Mental Health Wellness Act of 2013 [*W&IC 5892, Part 3.8 “Community Based Services” commencing with 5848.5*] and the enrollment of SB 364, Chapter 567, Statutes of 2013 that broadens the types of facilities that can be used for the purposes of 72-hour treatment and evaluation under Welfare and Institutions Code (WIC) Section 5150.

SB 82

The goals of SB 82 are to add at least 25 mobile crisis support teams, and 2,000 residential, crisis stabilization and other treatment beds for use in California communities.

SB 364

The goals of SB 364 are to broaden the types of facilities that may be designated as 5150 facilities, to lessen overcrowding in emergency rooms, and to provide for more options on the continuum of care.

Enrollment of Persons Eligible for Medicare and Medi-Cal (Duals) into Medi-Cal Managed Care (SB 94)

Positions: 4.0 Limited-Term

GF:	\$380,000
<u>FF:</u>	<u>\$380,000</u>
Total:	\$760,000

DHCS requests four (4.0) limited-term positions and expenditure authority to implement provisions of SB 94 (Chapter 37, Statutes of 2013). SB 94 allows the mandatory enrollment of persons eligible for Medicare and Medi-Cal (Duals) into Medi-Cal managed care and the integration of Long-Term Supports and Services (LTSS) into managed care in the eight Coordinated Care Initiative (CCI) counties to proceed separately from CCI Duals Demonstration (Cal MediConnect).

Substance Use Disorders Health Care Reform Implementation (SBX1 1)

Positions: 22.0 Total (10.0 Permanent and 12.0 Limited-Term)

GF:	\$1,303,000
<u>FF:</u>	<u>\$1,445,000</u>
Total:	\$2,748,000

DHCS requests ten (10.0) permanent positions and twelve (12.0) limited-term positions to implement new requirements set forth in the ACA, and enacted in SBX1 1 as a part of the 2013-14 Budget, for enhanced Medi-Cal substance use disorders services. These positions will provide DHCS with staff to develop an effective, efficient and sustainable delivery system to provide enhanced substance use disorder services to current and newly eligible individuals.

Medi-Cal Eligibility Under ACA Hospital Presumptive Eligibility (SBX1 1)

Positions: 0.0

GF:	\$396,000
<u>FF:</u>	<u>\$1,187,000</u>
Total:	\$1,583,000

DHCS requests funding for the information technology costs associated with enhancing the business functionalities and reporting requirements of the Hospital Presumptive Eligibility (PE) program set forth in the ACA, and enacted in SBX1 1, Chapter 4, Statutes of 2013.

The funding will provide the Information Services Technology Division the means to meet critical program requirements on oversight and monitoring, performance standards development, and program integrity and compliance with applicable state and federal policies, statutes, and regulations.

Health Care Coverage: Bridge Plan (SBX1 3)

Positions: 4.0 Limited-Term

GF:	\$229,000
FF:	<u>\$231,000</u>
Total:	\$460,000

DHCS requests four (4.0) limited-term positions to implement provisions of SBX1 3, Chapter 5, Statutes of 2013.

These positions are necessary to successfully amend contracts with a provision about a managed care plan’s bridge plan product. Additionally, they are necessary to manage workload related to the provision of legal advice, litigation support and regulation development. Further, the positions are needed to address managed care bridge plan policy implementation and to avoid potential negative consequences including noncompliance with state or federal mandates, the loss of federal funding, and the consequences of litigation.

Ground Emergency Medical Transportation (GEMT)

Positions: 8.5 Total (5.5 Permanent and 3.0 Limited-Term)

FF:	\$507,000
OF:	<u>\$506,000</u>
Total:	\$1,013,000

DHCS requests five and one-half (5.5) permanent positions and three (3.0) limited-term positions to perform audits on approximately 160 local Fire Districts and GEMT providers throughout California that will receive supplemental payments for GEMT services authorized by AB 678 (Chapter 397, Statutes of 2011). The change in allowable reimbursement methodology under AB 678, which allows for retroactive supplemental payments through cost reports, creates an estimated initial backlog of approximately 800 cost reports and will result in the submission of approximately 160 cost reports annually for GEMT services. The reimbursement funding will be provided by the public entities receiving the supplemental payments as required by current law.

Every Woman Counts Contract Conversion

Positions: 4.0 Limited-Term

FF:	<u>-\$143,000</u>
Total:	-\$143,000

DHCS, Cancer Detection and Treatment Branch (CDTB) of the Benefits Division, proposes a contract conversion to fund State staff. The Every Woman Counts Program (EWC), within CDTB, requests four (4.0) limited-term positions to ensure adequate staffing levels are available to meet state and federal EWC requirements. With the contract conversion, DHCS complies with Government Code Section 19130, which

prohibits contracting out for services that can be performed by state civil servants. Conversion to limited-term positions will allow DHCS to ensure continuity of accurate reporting and sustainability of program funding. This proposal would result in savings of \$143,000 Federal Funds.

MEDS Modernization

Positions: 16.0 Limited-Term

GF:	\$528,000
FF:	<u>\$2,952,000</u>
Total:	\$3,480,000

DHCS requests sixteen (16.0) limited-term positions and expenditure authority for a new, multi-year, Information Technology (IT) project to modernize the Medi-Cal Eligibility Data System (MEDS). The proposed funding supports the Project Planning and Requirements Elicitation activities of the project. Modernization of the MEDS is a critical priority for DHCS, because the existing legacy MEDS is aged, inflexible, and very costly to modify.

CBAS Program and Continued Transition of SPD's to Medi-Cal Managed Care

Positions: 5.0 Limited-Term

GF:	\$241,000
FF:	<u>\$299,000</u>
Total:	\$540,000

DHCS requests to extend three (3.0) limited-term positions in the Long-Term Care Division (LTCD), expiring on August 31, 2014, for an additional year, and extending two (2.0) current limited-term positions also set to expire on June 30, 2014, another two years in the Medi-Cal Managed Care Division (MMCD). The staff will complete required workload pursuant to the Community-Based Adult Services (CBAS) Settlement Agreement and federal 1115 Waiver. These positions will assist in the transitioning processes and procedures that will be substantiated in the 1115 Waiver amendment.

Breast and Cervical Cancer Treatment Program

Positions: 6.0 Limited-Term

GF:	\$151,000
FF:	<u>\$150,000</u>
Total:	\$301,000

DHCS requests the extension of six (6.0) limited-term positions, for the Breast and Cervical Cancer Treatment Program (BCCTP), to June 30, 2016. The current positions will expire on December 31, 2014. The extension of the positions will address the backlog associated with annual redeterminations, the initial eligibility determinations workload, and the processing of requests by applicants for retroactive coverage.

California Healthcare Eligibility, Enrollment and Retention System (CalHEERS)

Positions: 12.0 Limited-Term

GF:	\$314,000
FF:	\$857,000
<u>OF:</u>	<u>\$606,000</u>
Total:	\$1,777,000

DHCS requests the extension of twelve (12.0) limited-term positions which expire June 30, 2014 to support the ongoing planning, design, development, implementation, and ongoing maintenance of the MEDS system changes and integration with the California Health Benefit Exchange (Covered California) and county eligibility consortia systems. The MCED requests the extension of three (3.0) limited-term positions to support the planning, development, implementation and evaluation of Medicaid eligibility rules and enrollment simplification provisions as required by the ACA of 2010. The Information Technology Services Division (ITSD) requests the extension of nine (9.0) limited-term positions to support the planning, design, development, implementation and ongoing maintenance of the Medi-Cal eligibility and enrollment system changes and integration with the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS), and county eligibility consortia systems.

CMS Monitoring

Positions: 7.0 Permanent

GF:	\$314,000
FF:	\$831,000
Total:	\$1,145,000

DHCS, Mental Health Services Division, requests seven (7.0) permanent positions to increase the scope, frequency and intensity of monitoring and oversight by DHCS of County Mental Health Plans (MHPs). This is in direct response to concerns which the Centers for Medicare and Medicaid Services (CMS) has communicated to DHCS regarding timely access to services in the Medi-Cal Specialty Mental Health Services (SMHS) Program; the availability of interpreter services, especially for Spanish speaking beneficiaries; and the continuing significantly elevated rates of non-compliance observed during system reviews of MHP operations by DHCS, as well as the continuing high rates of claim disallowance resulting from both outpatient and inpatient medical record reviews.

Performance Outcomes System Plan for Medi-Cal Specialty Mental Health Services (MHS)

Positions: 4.0 Permanent

GF:	\$242,000
FF:	<u>\$321,000</u>
Total:	\$563,000

DHCS requests four (4.0) permanent positions and expenditure authority to implement the Performance Outcomes System, consistent with the Performance Outcomes System Implementation Plan, also released with Governor's Budget.

The Performance Outcome System is essential to enabling DHCS to understand the statewide outcomes of these services provided, in order to best ensure compliance with the federal Early and Periodic Screening, Diagnosis and Treatment (EPSDT) requirement. Although the non-federal share of funding for the Medi-Cal Specialty Mental Health program has been realigned to the counties, the state maintains a responsibility for ensuring access to the federal entitlement for the Medi-Cal Specialty Mental Health program. For children and youth in this program, federal law further provides for the EPSDT requirement ensure access to medically necessary specialty mental health services for children and youth up to age 21.

Trailer bill language enacted as a part of the 2012-13 Budget (Welfare and Institutions [W&I] Code, Section 14707.5, added by Senate Bill [SB] 1009, Committee on Budget and Fiscal Review, Chapter 34, Statutes of 2012), required DHCS to develop a Performance Outcomes System for Medi-Cal specialty mental health services for children and youth. Consistent with this trailer bill language, DHCS has produced a Performance Outcome System Plan. DHCS is releasing a Performance Outcome System Implementation Plan with the Governor's Budget that includes the resources requested in this budget change proposal to implement and operate this system.

Baseline HIPAA Staffing

Positions: 13.5 Total (7.5 Permanent and 6.0 Limited-Term)

GF:	\$320,000
FF:	<u>\$1,587,000</u>
Total:	\$1,907,000

DHCS, Office of Health Insurance Portability and Accountability Act (HIPAA) Compliance, requests the conversion of seven and one-half (7.5) previously approved limited-term positions to permanent status and the extension of six (6.0) limited-term positions for an additional two years, as these positions will expire on June 30, 2014. The positions are necessary to maintain efforts on existing workload, current federal and state HIPAA rules, address new codified HIPAA rules and continue to strengthen oversight of privacy and security requirements.

Re-Certification Drug Medi-Cal Providers

Positions: 21.0 Limited-Term

GF:	\$1,090,000
FF:	<u>\$1,090,000</u>
Total:	\$2,180,000

DHCS requests twenty-one (21.0) limited-term positions to recertify providers in the Drug Medi-Cal program (DMC). These positions are essential to improve DMC program integrity by recertifying only providers meeting standards of participation in Medi-Cal, and decertifying fraudulent providers by conducting a thorough screening including referrals to the DHCS A&I for onsite reviews. With these positions, DHCS will be able to complete the recertification of all DMC providers. Additionally, DHCS will be better equipped to increase its oversight of DMC providers to ensure compliance with federal and state laws and regulations, issue policies, rules and regulations on program matters, perform policy review, analysis and interpretation in accordance with the State Plan.

Substance Use Disorder Program Integrity

Positions: 6.0 Limited-Term

OF:	<u>\$739,000</u>
Total:	\$739,000

DHCS requests six (6.0) limited-term positions to investigate counselor complaints and alcohol and other drug facility complaints. The requested position authority and resources will be funded from the Residential and Outpatient Program Licensing Fund (ROLF), but contingent on Legislative approval of fee increases for licensed and certified facilities.

Continuance of Driving Under the Influence Program-Evaluation

Positions: 0.0

OF:	<u>\$96,000</u>
Total:	\$96,000

DHCS requests to continue its evaluation efforts through renewal of a contract to collect data of the Driving-Under-the Influence (DUI) Programs licenses and monitors statewide. Funding for this effort will come from the DUI Program Licensing Trust Fund (0139). The evaluation will run from 2014-15 through 2015-16. This proposal will allow DHCS to continue its evaluation of DUI programs with special emphasis on identifying best practices in program processes, service delivery, data collection, and monitoring.

Elimination of the Managed Risk Medical Insurance Board

Positions: 27.0 Permanent

State Operations

GF:	\$799,000
FF:	\$2,155,000
OF:	<u>\$1,857,000</u>
Total:	\$4,811,000

Local Assistance

OF:	\$41,691,000
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Corresponding increase to DHCS position and budget authority due to the elimination of the Managed Risk Medical Board (MRMIB). Effective July 1, 2014, DHCS will administer former MRMIB programs (AIM, CHIM, and MRMIP).

ESTIMATE ADJUSTMENTS

The November 2013 Estimate for FY 2013-14 is \$136.2 million General Fund greater than the FY 2013-14 Budget Appropriation.

(In Millions, May Not Add Due to Rounding)

November 2013 General Fund	\$16,229.9
FY 2013-14 Appropriation	<u>\$16,093.7</u>
General Fund Change	\$136.2

This change from the Appropriation is explained as follows:

Medical Care Services	\$217.8
County/Other Administration	-\$100.5
Fiscal Intermediary	\$18.9

The following paragraphs briefly describe the major changes:

Affordable Care Act (ACA) Expansion

The Optional Expansion increased by \$931.5 million Total Funds from the appropriation in FY 2013-14 and there is an increase of \$3,976.9 million Total Funds in FY 2014-15. The Optional Expansion was revised to account for additional LIHP caseload and Specialty Mental Health services.

The Mandatory Expansion decreased by \$5.3 million Total Funds from the appropriation in FY 2013-14 and there is an increase of \$644.5 million Total Funds in FY2014-15.

Other changes associated with the implementation of the ACA result in an increase of \$20.3 million in FY 2013-14 and \$35.9 million in FY 2014-15. These items include:

- Hospital Presumptive Eligibility which allows qualified hospitals to make Presumptive Eligibility for Medi-Cal determinations for specified populations according to policies and procedures established by the Department;
- Delay of Redeterminations for the months of January through March 2014 for beneficiaries subject to new modified adjusted gross income standards;
- Newly Qualified Immigrants under ACA, the wraparound of out-of-pocket expenditures for this population will begin in January 2015;
- Express Lane Enrollment which would give Medi-Cal eligibility to targeted groups of individuals without the need to conduct a separate MAGI based determination; and,
- Changes to Pregnancy Coverage which would provide beneficiaries with incomes under 100 percent of Federal Poverty Level full-scope benefits and delay the proposal for shifting pregnant women with pregnancy-only coverage to Covered California with the Department responsible for out-of-pocket costs and difference in benefits.

Managed Care

The Estimate increases the base costs for the three major types of managed care plans by \$93.7 million in FY 2013-14 and \$457.0 million in FY 2014-15. Of the FY 2014-15 increase, \$231.8 million is a placeholder for an estimated 3.63% increase in rates. Also, built into the rates and removed from the relevant policy changes are the impacts of prior long-term care rate increases. In addition, retroactive rate adjustments have increased by \$116.6 million in FY 2013-14. This is primarily due to adjustments for the rates for SPD in FY 2011-12 and FY 2012-13. Finally, changes in implementation dates for the Managed Care expansion to rural counties and revised capitation rates reduced the FY 2013-14 cost by \$70.0 million. The decreased cost for these changes in FY 2014-15 is \$18.8 million.

Mental Health Services Expansion

The estimate of costs for the incorporation of non-specialty mental health services into managed care plans and the expansion of coverage to include group mental health counseling has been revised to reflect FY 2013-14 capitation rates. This reduces cost in FY 2013-14 by \$3.5 million GF. Costs in FY 2014-15 are \$90.6 million higher; however, this is based upon preliminary rates used as a placeholder.

Coordinated Care Initiative

General Fund costs in FY 2013-14 are \$29.9 million less than the appropriation and there is an increase of \$158.8 million in FY 2014-15. The changes are a result of delaying phase-in of most eligibles until April 2014 rather than January. In addition to phase-in changes, rates used in the estimate have been adjusted.

MCO Tax Managed Care Plans

The 3.9375% MCO tax benefit to the GF is \$48.1 million less in FY 2013-14 than the appropriation. This reflects delays in the CCI and rural managed care transitions. In FY 2014-15, the benefit to the GF is increased by \$205.9 million.

General Fund Reimbursement from DPHs

Reimbursement from the DPHs is now expected to be \$53.1 million less than the appropriation in FY 2013-14 due to a shift in collection of Year 3 payments from FY 2013-14 to FY 2014-15. FY 2014-15 payments are expected to increase by \$12.7 million.

Restoration of Selected Adult Dental Benefits

ACA caseload estimates were updated and a six-month phase-in was included in the November Estimate. These changes result in decreases of \$13.3 million in FY 2013-14. The cost increases by \$75.6 million in FY 2014-15.

1% FMAP Increase for Preventive Services

Effective January 1, 2013, the Affordable Care Act (ACA) provides states with the option to receive an additional 1% in Federal Medical Assistance Percentage (FMAP) for providing specified preventive services. Eligible preventive services are those assigned grade A or B by the USPSTF. For states to be eligible to receive the enhanced FMAP, they must cover the specified preventive services in their standard Medicaid benefit package and cannot impose copayments for these services. California submitted a State Plan Amendment to receive the additional 1% in FMAP obligating the state to provide these services. To comply with the most recent recommendations, the Department is adding screening and counseling services for alcohol and substance misuse to the existing benefit package. The effective date for receiving the 1% enhanced FMAP changed from January 1, 2014 to January 1, 2013. The changes result in a decrease of \$29.1 million in FY 2013-14 and an increase of \$36.0 million in FY 2014-15.

Payment to Primary Care Physicians

The Affordable Care Act requires Medi-Cal to increase primary care physician service rates to 100% of the Medicare rate for services provided from January 1, 2013 through December 31, 2014. The Department will receive 100% FFP for the additional incremental increase in Medi-Cal rates determined using Medi-Cal rates that were in effect as of July 1, 2009 compared to the 2013 and 2014 Medicare rates. The primary care physician services eligible for the increase payment are exempt from AB 97 (Chapter 3, Statutes of 2011) payment reductions. The Estimate incorporates updated AB 97 savings data. The change results in a decrease of \$89.5 million General Fund in FY 2013-14 and \$6.5 million in FY 2014-15.

Provider Rate Reductions

AB 97 (Chapter 3, Statutes of 2011) enacted provider rate reductions. The Department received the positive solution of the court injunctions in June 2013 and implemented the payment reductions retroactive to June 1, 2011 for the previously enjoined providers in various phases beginning September 2013. Managed care reductions will be implemented prospectively only, effective October 1, 2013. The Estimate also assumes that the Department will take 58 to 72 months to recover the FFS retroactive savings beginning January 2014. Also, in order to ensure access to services, the Department will forgive AB 97 retroactive recoupments for the following: physicians/clinics, high cost pharmacy, dental, intermediate care facilities for the developmentally disabled, and medical transportation. These changes result in an increase of \$295.9 million General Fund in FY 2013-14 and savings of \$120.0 million General Fund in FY 14-15.

Hospital Quality Assurance Fee - Children's Health Care

The Hospital Quality Assurance Fee (QAF) provides funds for supplemental payments to hospitals and also provides funding to offset the costs of health care coverage for children. SB 335 (Chapter 286, Statutes of 2011) established the Hospital QAF program from July 1, 2011 through December 31, 2013. SB 239 (Chapter 657, Statutes of 2013) extends the Hospital QAF program from January 1, 2014 through December 31, 2016.

Due to timing of QAF collections, \$155.0 million GF savings are shifted from FY 2013-14 to FY 2014-15.

Drug Rebates

Drug Rebates have increased in both years, reflecting recent experience with collections. The added GF savings in FY 2013-14 is \$69.2 million, and \$20.3 million in FY 2014-15.

Drug Medi-Cal

The Enhanced Drug Medi-Cal (DMC) services expenditures are now shown in each of the existing DMC modality policy changes. Also, beginning January 1, 2014, pregnant and postpartum eligibility restrictions will be lifted for Residential Treatment and Intensive Outpatient services beneficiaries making these available to expanded populations. Beginning July 1, 2014, DMC County Administration costs will be reflected in a separate policy change rather than included in the benefits policy changes. A reduction of \$14.7 million TF in FY 2013-14 and FY 2014-15 in DMC expenditures are due to the closure of DMC provider facilities that are suspended as a result of fraudulent Medi-Cal billing practices. GF costs related to the enhanced services increased by \$28.8 million in FY 2013-14 and \$44.3 million in FY 2014-15.

Women's Health Services

The Department conducts on-going monitoring and utilization management of reproductive health services to expand access to services, evaluate the cost-effectiveness of services, and identify opportunities to reduce program costs while maintaining the same quality of care. The Department will be reducing or eliminating some services and increasing access to others resulting in a reduction of General Fund costs of \$3.4 million in FY 2013-14 and \$1.1 million in FY 2014-15.

County Administration – Transition of HFP to Medi-Cal

County Admin costs for the transition of HFP to Medi-Cal increased by \$7.2 million to reflect revised caseload and rollover of prior year funding in FY 2013-14. FY 2014-15 is reduced by \$4.0 million.

Enhanced Federal Funding for County Administration

Federal funding at 75% rather than the usual 50% is available for certain eligibility determination-related costs. The affected costs include application, on-going case maintenance and renewal functions. This will result in a GF savings of \$124.2 million in FY 2013-14 and \$248.4 million in FY 2014-15.

The Medi-Cal General Fund costs in FY 2014-15, as compared to FY 2013-14, are estimated to increase by \$669.6 million, an increase of approximately four percent.

(In Millions, May Not Add Due to Rounding)

FY 2013-14	\$16,229.9
FY 2014-15	<u>\$16,899.5</u>
General Fund Change	\$669.6

This change from the FY 2013-14 to FY 2014-15 is explained as follows:

<i>Medical Care Services</i>	\$829.2
<i>County/Other Administration</i>	-\$145.4
<i>Fiscal Intermediary</i>	-\$14.2

The following paragraphs briefly describe the major changes that were not discussed above under the FY 2013-14 Current Year:

Health Insurer Fee

The ACA imposes an excise tax on certain health insurers, effective January 1, 2014. This policy change estimates the increase in rates that will be paid to affected plans. The estimated FY 2014-15 cost is \$54.6 million, which will cover FY 2013-14 and FY 2014-15.

County Administration

County Administration costs for FY 2014-15 decreased by \$13.8 million Total Fund. The cost for the implementation of ACA in FY 2013-14 is reduced in FY 2014-15 by the one-time costs associated with training, planning and development. The additional funding associated with processing new applications and redeterminations continues in FY 2014-15 at \$130.1 million Total Funds. Eligible growth and the Cost of Living Adjustment are not funded in FY 2014-15.

MCO Supplemental Drug Rebates

State supplemental drug rebates would be applied to outpatient managed care organization drug utilization. This is estimated to save \$32.5 million in FY 2014-15.

General Information

This estimate is based on actual payment data through August 2013. Estimates for both fiscal years are on a cash basis.

The Medi-Cal Program has many funding sources. These funding sources are shown by budget item number on the State Funds and Federal Funds pages of the Medi-Cal Funding Summary in the Management Summary tab. The budget items which are made up of State General Fund are identified with an asterisk and are shown in separate totals. Healthy Families (Title XXI) costs incurred by the Department are included in the Estimate and are separately identified under item number 4260-113. Reimbursements include Refugees (CDPH), MSSP (CDA), Dental Services (CDSS), Managed Care IGTs, IGTs for Non-SB 1100 Hospitals, IMD Ancillary Services (DMH) and IHSS costs (CDSS).

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

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

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

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

Provider payment reductions, injunctions, and restorations add to this uncertainty as it disturbs the regular flow of the FI checkwrite payments. It is assumed that estimated expenditures may vary due to this uncertainty. A 1% variation in total Medi-Cal Benefits expenditures would result in a \$697 million TF (\$162 million General Funds) change in expenditures in FY 2013-14 and \$735 million TF (\$169 million General Funds) in FY 2014-15.