

**2010-11 Governor's Budget**

**Highlights**

**Department of Health Care Services**



**Arnold Schwarzenegger  
Governor  
State of California**

**S. Kimberly Belshé  
Secretary  
California Health and Human Services Agency**

**David Maxwell-Jolly  
Director  
Department of Health Care Services**

**January 8, 2010**

## **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.

DHCS' 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 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 approximately 7.5 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, and it includes 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, the State Office of Rural Health (CalSORH), Medicare Rural Hospital Flexibility Program (FLEX)/Critical Access Hospital (CAH) Program, Small Rural Hospital Improvement Program (SHIP), and the J-1 Visa Waiver Program.

## **GENERAL BUDGET OVERVIEW**

For Fiscal Year (FY) 2010-11, the Governor's Budget provides a total of \$40.6 billion for the support of DHCS' programs and services. Of the amount proposed, \$438.9 million is for state operations and \$40.1 billion is for local assistance.

**Total DHCS Budget**

<b>Governor's Budget Fund Source</b>	<b>2009-10 Approved Budget</b>	<b>2009-10 Revised Budget</b>	<b>2010-11 Proposed Budget</b>
General Fund (GF)	\$ 11,173,873	\$ 11,160,573	\$ 9,150,243
Federal Funds (FF)	\$ 26,352,909	\$ 31,805,071	\$ 27,858,220
Special Fund & Reimbursements	\$ 2,614,714	\$ 6,035,083	\$ 3,542,507
<b>Total Funds</b>	<b>\$ 40,141,496</b>	<b>\$ 49,000,727</b>	<b>\$ 40,550,970</b>

\*Dollars in thousands

**State Operations**

<b>State Operations by Fund Source *</b>			
<b>Governor's Budget Fund Source</b>	<b>2009-10 Approved Budget</b>	<b>2009-10 Revised Budget</b>	<b>2010-11 Proposed Budget</b>
General Fund	\$ 141,529	\$ 127,302	\$ 143,392
Federal Funds	\$ 261,883	\$ 243,921	\$ 268,404
Special Funds & Reimbursements	\$ 25,347	\$ 24,972	\$ 27,151
<b>Total State Operations</b>	<b>\$ 428,759</b>	<b>\$ 396,195</b>	<b>\$ 438,947</b>

\*Dollars in thousands

**Local Assistance**

<b>Local Assistance by Fund Source *</b>			
<b>Governor's Budget Fund Source</b>	<b>2009-10 Approved Budget</b>	<b>2009-10 Revised Budget</b>	<b>2010-11 Proposed Budget</b>
General Fund	\$ 11,032,344	\$ 11,033,271	\$ 9,006,851
Federal Fund	\$ 26,091,026	\$ 31,561,150	\$ 27,589,816
Special Funds & Reimbursements	\$ 2,589,367	\$ 6,010,111	\$ 3,515,356
<b>Total Local Assistance</b>	<b>\$ 39,712,737</b>	<b>\$ 48,604,532</b>	<b>\$ 40,112,023</b>

\*Dollars in thousands

## BUDGET ADJUSTMENTS

### Budget Change Proposals

#### **Medi-Cal Claims Processing Systems & Policy Management - Oversight of Implementation of a Replacement CA- MMIS**

Positions: 35.0 Limited-Term  
GF: \$585,000  
FF: \$3,664,000  
Total: \$4,291,000

DHCS requests the extension of eleven three-year limited-term positions and an additional twenty-four positions for the Fiscal Intermediary Medicaid Management System (FI-MMIS) Project Office to perform management and oversight of Fiscal Intermediary (FI) contractor design, development and implementation (DD&I) activities related to the replacement of the California Medicaid Management Information System (CA-MMIS). The CA-MMIS Replacement will be designed, developed and implemented using best practices to meet today's Medi-Cal program needs as well as state, federal, and industry-wide requirements and standards. A skilled management and technical team will provide the project management and oversight to ensure this massive undertaking is successfully implemented on time, within budget, and in accordance with appropriate requirements and standards, and to ensure a seamless transition from the Legacy system to CA-MMIS for all stakeholders. A variety of the positions are eligible for enhanced federal funding, therefore approximately eighty-five percent of the total funding request will be met with federal funds.

#### **Olmstead Implementation: Money Follows the Person (MFP) Grant**

Positions: 3.0 Limited-Term  
GF: \$121,000  
FF: \$228,000  
Total: \$349,000

DHCS requests three two-year limited-term positions in the Long Term Care Division (LTCD) to help facilitate the State's continued compliance with the Supreme Court's 1999 Olmstead decision. In that decision, the Court discussed the responsibility of federal, state and local governments to develop cost-effective community-based services to enable disabled persons to access public benefits from a more integrated setting when appropriate.

In January 2007, the federal Centers for Medicare and Medicaid Services (CMS) awarded California a special federal grant for a Money Follows the Person (MFP) Rebalancing Demonstration. CMS required states to project the number of individuals who could be transitioned to community living settings during a five-year period (between the date of award, January 1, 2007, and the end of the demonstration, September 30, 2011). California's MFP demonstration, "California Community Transitions (CCT)," commits California to transition 2,000 eligible Medi-Cal beneficiaries

residing in licensed health care facilities to community living settings by September 30, 2011. Some of the positions are eligible for enhanced federal funding, therefore approximately sixty-five percent of the total funding request will be met with federal funds.

**Intermediate Care Facility for the Developmentally Disabled – Continuous Nursing Project**

Positions: 3.0 Limited-Term  
GF: \$143,000  
FF: \$200,000  
Total: \$343,000

DHCS requests the extension of three limited-term positions in the Long Term Care Division (LTCD) which are focused on the Intermediate Care Facility for the Developmentally Disabled-Continuous Nursing (ICF/DD-CN) waiver project. In 1971, the federal Medicaid Intermediate Care Facility for Persons with Mental Retardation optional service program was established. The California version of the program has subgroups that include Intermediate Care Facility for the Developmentally Disabled-Habilitative (ICF/DD-H) and Intermediate Care Facility for the Developmentally Disabled-Nursing (ICF/DD-N). The purpose of the ICF/DD-CN project is to explore a more flexible and effective service delivery model that provides continuous skilled nursing care in the least restrictive setting. The project has been considered cost effective under the 1915(b) requirement that uses expenditure projections based on the prior level of care placement. Some of the positions are eligible for enhanced federal funding, therefore approximately fifty-eight percent of the total funding request will be met with federal funds.

**Demonstration Project/Home & Community-Based Services Staffing**

Positions: 1.0 Limited-Term  
GF: \$50,000  
FF: \$50,000  
Total: \$100,000

DHCS requests the extension of one limited-term position for the Medi-Cal Benefits, Waiver Analysis and Rates Division (BWARD) in the Demonstration Project/Home and Community-Based Services Unit. The position will provide ongoing mandated fiscal and program reports, oversight and monitoring, ensure compliance with federal waiver assurances, policy consulting and support appropriate and effective expenditure of Medi-Cal funds, and will increase required collaboration on an ongoing and consistent basis with intra- and interdepartmental program and agencies operating waiver programs.

**Federal Deficit Reduction Act of 2005 Citizenship/Identity Requirement and Asset Eligibility**

Position: 4.0 Limited -Term  
GF: \$218,000  
FF: \$217,000  
Total: \$435,000

DHCS requests the extension of four limited-term positions to implement and continue administration of complex provisions of the federal Deficit Reduction Act of 2005 (DRA) related to 1) citizenship and identity verification; and 2) transfer of asset rules for the eligibility of Medi-Cal benefits. There is ongoing program and legal workload related to the continued administration of the DRA citizenship/identity, the new Children’s Health Insurance Program Reauthorization Act of 2009 option, and asset eligibility provisions.

**Breast and Cervical Cancer Treatment Program**

Positions: 6.0 Limited-Term  
GF: \$262,000  
FF: \$261,000  
Total: \$523,000

DHCS requests the extension of six limited-term positions for the Breast and Cervical Cancer Treatment Program (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. Federal program eligibility is restricted to women only who are uninsured or under-insured and under 65 years of age who are United States citizens or have satisfactory immigration status and have been screened and diagnosed with breast and/or cervical cancer through state screening programs funded by the Centers for Disease Control and Prevention. A woman remains eligible for the federal BCCTP as long as she continues to meet the federal criteria and is still in need of treatment. AB 430 established a corresponding State-funded program for men and women who do not meet the eligibility criteria for the federal program. State-funded BCCTP is time limited to 18 months for breast cancer and 24 months for cervical cancer.

**Mental Health Services: Supplemental Reimbursement Program**

Positions: 1.0 Permanent & 1.0 Limited-Term  
FF: \$108,000  
OF: \$108,000  
Total: \$216,000

DHCS requests the establishment of one permanent position and one limited-term position to perform the workload required to develop, implement and administer the new mental health supplemental reimbursement program authorized by Assembly Bill 5 Fourth Extraordinary Session, Statutes of 2009, that adds section 5783 to the Welfare & Institutions (W&I) Code. This new statute allows an eligible public agency to receive supplemental Medi-Cal reimbursement, in addition to current reimbursement, for

providing specialty mental health services to Medi-Cal beneficiaries. The positions will be funded completely by federal funds and reimbursements from providers.

**Medi-Cal Hospital Provider Rate Stabilization and Quality Assurance Fee Program**

Positions: 14.0 Limited-Term  
FF: \$566,000  
OF: \$537,000  
Total: \$1,103,000

DHCS requests the establishment of fourteen two-year limited-term positions, with seven to be established effective January 1, 2010, and the remaining seven to be established effective July 1, 2010, in order to implement the new hospital Quality Assurance Fee (QAF) program. DHCS will have the burden of significant administrative activities relating to accounting, monitoring, processing payments, collecting the QAF, monitoring for delinquent payments and the requisite administrative remedies. AB1383 creates the Hospital Quality Assurance Revenue Fund in the State Treasury which requires the development of a system of checks and balances to ensure the integrity of the fund and to identify discrepancies in the accounting of the fund. This new program provides much needed financial assistance for the hospitals that provide critical services to Medi-Cal beneficiaries, and the QAF Program will provide \$320 million to pay for health coverage for children. The positions will be funded by federal funds and revenue generated by the QAF.

**Extend Staffing for Adult Day Health Care Reforms in Accordance with SB 117**

Positions: 23.0 Limited-Term  
GF: \$687,000  
FF: \$687,000  
Total: \$1,374,000

DHCS requests the extension of twenty-three limited-term positions focused on ADHC Reform workload. As mandated by Chapter 691, Statutes of 2006 (SB 1755), DHCS is required to develop a new reimbursement rate structure, as well as reform the ADHC program by providing appropriate medically necessary services to fragile individuals at risk for institutionalization and enabling the state to decrease fraud and abuse in the ADHC program. The positions were originally established to gather cost data in order to support the implementation of a new rate setting structure through financial audits and legal support. In February 2009, SB 117 was introduced to extend this implementation date of the new rate setting methodology to August 1, 2011. Extension of these positions enables DHCS to gather and maintain cost data that is appropriate to calculate accurate reimbursement rates.

**Federally Qualified Health Center/Rural Health Clinic (FQHC/RHC)  
Audit Workload**

Positions: 7.0 Limited-Term  
GF: \$393,000  
FF: \$394,000  
Total: \$787,000

DHCS requests the establishment of seven two-year limited-term positions to achieve the minimum level of compliance associated with Medicare principles as they apply to reimbursement of Federally Qualified Health Center/Rural Health Clinic (FQHC/RHC) providers is requested. DHCS Audits & Investigation (A&I) is responsible for analyzing enrollment application packages for new clinics, processing the applications, notifying the providers of decisions for approval (or disapproval) to provide services, serving as liaison and programmatic resource for the provider community related to program questions and/or problem resolution, and ensuring providers are kept up to date and informed through Medi-Cal Bulletins. A&I also meets and confers with the California Primary Care Association (CPCA) to maintain a positive working relationship with the public regarding anticipated changes to provider billing issues and/or funding mechanisms. Recent program changes have placed additional burdens on A&I's ability to fulfill its obligations to audit and review according to statutory deadlines. These new rules are expected to materially increase audit activities and production workload. A&I must increase its staffing level to ensure compliance with Medicare cost reimbursement principles, state program monitoring requirements, along with many other administrative functions and programmatic responsibilities.

**Local Educational Agency (LEA) Medi-Cal Billing Option**

Positions: 14.0 Limited-Term  
FF: \$819,000  
OF: \$819,000  
Total: \$1,638,000

DHCS requests fourteen two-year limited-term positions to meet the DHCS workload requirements in performance of its financial oversight responsibilities for the Local Educational Agency (LEA) Medi-Cal Billing Option Program established by SB 231, Statutes of 2001. The billing option program provides early and periodic screening, diagnosis, and treatment services such as physical therapy, occupational therapy, speech/audiology, physician and nursing services, and school health aid services. These positions are funded entirely by Federal Financial Participation and local funds from the LEAs. With the additional staffing, Audits and Investigations will be able to comply with the State Plan Amendment 03-024 financial oversight requirements and address Centers for Medicare and Medicaid Services' (CMS) concerns regarding LEAs being paid for their actual costs and provided eligible Certified Public Expenditures (CPE) funding. These positions would be funded by federal funds and reimbursements from the providers.

### **Medi-Cal Targeted Case Management Program**

Positions: 8.0 Limited-Term  
FF: \$445,000  
OF: \$445,000  
Total: \$890,000

DHCS requests eight two-year limited-term positions to comply with new workload requirements for the Medi-Cal Targeted Case Management (TCM) Program. These positions will address Centers for Medicare and Medicaid Services (CMS) concerns related to overpayments resulting from inflated projected encounters, overestimated costs, and non-eligible Certified Public Expenditures (CPEs) submitted by the Local Governmental Agencies (LGAs). Prior to A&I's involvement, DHCS had not taken corrective action to resolve the TCM LGA claim problems. Consequently, and as a result of A&I's corrective actions, FAB identified that the TCM workload exceeded its current TCM audit staffing resources by 4,000 hours annually. These additional resources will enable DHCS to fulfill its financial oversight requirements and implement the corrective actions required by CMS to resolve successive TCM deferrals. By continuing the audits for the 2004-05 years forward, A&I will identify the actual and eligible CPE expenditures and submit documentation, recouping the FFP funds that were previously disallowed by CMS. This could mean a total gain to DHCS of approximately \$30 million in federal funding. These positions are funded by federal funds and reimbursements from the providers.

### **Skilled Professional Medical Personnel**

Positions: 0.0  
GF: \$634,000  
Total: \$634,000

DHCS requests General Fund (GF) to compensate for the loss of federal funding for DHCS Audits and Investigations (A&I) medically trained Skilled Professional Medical Personnel (SPMP) staff. In recent reviews, the Centers for Medicare and Medicaid Services (CMS) disallowed A&I claims for SPMP reimbursement at the 75/25 percent Federal Fund (FF) /GF ratio. CMS stated that 100 percent of the SPMP's time did not qualify for the enhanced 75/25 rate and that a portion should be charged at the 50/50 percent FF/GF ratio.

DHCS vigorously contested the CMS findings, and was successful in causing a considerable reduction of CMS' original disallowance. As a result of the disallowance, A&I conducted its own internal review of SPMP time reporting procedures and supporting documentation and has implemented improved SPMP tracking and oversight procedures to eliminate further disallowances. Still, the Department recognizes that it will not be able to obtain reimbursement for all SPMP workload at the 75/25 rate, and therefore requires GF to compensate for the loss of FF.

### **Medi-Cal Anti-Fraud Initiative**

Positions: 38.0 Permanent

GF: \$1,916,000

FF: \$3,146,000

Total: \$5,062,000

DHCS requests thirty-eight new positions to increase anti-fraud activities focused on physician and pharmacy providers.

The Medi-Cal Payment Error Study (MPES) has consistently shown that physicians and physician group providers are responsible for a significant percentage of billing errors. As a preventive measure, DHCS will identify physician providers with billing irregularities and provide them with training to ensure that the actual type and level of services provided adhere to current medical practices and Medi-Cal statute and regulations. In order to detect fraudulent, wasteful or abusive activity and hold providers accountable, DHCS proposes to conduct rapid response reviews. These reviews will involve compliance-focused reviews of suspicious associations of providers and organized groups acting in concert and make them accountable for their actions through sanctions, engaging other agencies for further investigation, and criminal referral.

Although the MPES shows a gradual decline in pharmacy errors since 2005, the 2007 MPES shows pharmacies responsible for an estimated \$285 million (Total Funds) in payment errors. In addition, prescription drug abuse is a national problem and is a burden to the Medi-Cal program. Since the 1990's, the occurrence of prescription drug abuse has grown considerably. Therefore, as a detection measure, DHCS will identify providers and beneficiaries involved in suspicious activities related to abuse of prescriptions. Also, DHCS will institute a preventative Beneficiary "Lock In" program. "Lock In" is a process whereby a beneficiary is assigned and restricted to receive services from a single primary care provider or clinic, a single hospital, and a single pharmacy in order to control drug usage and prevent program abuse. This control process will prevent a beneficiary from "doctor shopping" and "pharmacy shopping" to obtain controlled drugs.

Several of the positions are eligible for enhanced federal funding, therefore approximately sixty-two percent of the total funding request will be met with federal funds.

**Health Information Portability and Accountability Act (HIPAA) Compliance  
Baseline Activities**

Positions: 14.0 Limited-Term  
GF: \$514,000  
FF: \$1,390,000  
Total: \$1,904,000

DHCS requests the extension of fourteen two-year limited-term positions to effectively address recently released Health Information Portability and Accountability Act (HIPAA) rules; the pending release of additional HIPAA rules; the certainty that HIPAA requirements will continue to change and evolve over time; and the ability to remain HIPAA compliant. DHCS is going through a process of assessment and remediation to become compliant with each of these HIPAA standards, or “rules”, to meet an implementation deadline that is typically within two to three years of when the “rule” is published as final in the Federal Register. Failure to achieve HIPAA compliance by the established deadlines can result in additional administrative burdens for providers, who would need to maintain separate billing practices for DHCS and federal civil and monetary penalties for DHCS, including the loss of federal funding. The protection of health care information under HIPAA is also a meaningful component in promoting health information exchange to increase public confidence in the use of data-sharing technology in health care. The process to achieve and maintain compliance with HIPAA has proven to be complicated, and resource-intensive. Complying with HIPAA regulations provides a framework for increased efficiency and effectiveness throughout DHCS; implementing HIPAA mandates is a vital step in the process for Medi-Cal and other DHCS programs to achieve many of the state’s health care reform objectives.

Some of the positions are eligible for enhanced federal funding, therefore approximately seventy-three percent of the total funding request will be met with federal funds.

**Transfer Appeal Functions from the California Department of Public Health (CDPH) to the Department of Health Care Services (DHCS)**

Positions: 3.5 Permanent  
GF: \$231,000  
FF: \$231,000  
Total: \$462,000

DHCS requests the transfer of three and one-half positions and related funding from the California Department of Public Health (CDPH) to the Department of Health Care Services (DHCS) to conduct the involuntary Transfer or Discharge Appeals (TDA) and Refusal to Readmit (RTR) hearings. The TDA and RTR hearings require expeditious actions to protect residents from improper discharge actions taken by Skilled Nursing Facilities. This staff will expeditiously coordinate and plan the scheduling, conduct the hearings and prepare and issue the decisions.

## Estimate Adjustments

### Medi-Cal Local Assistance

The Fiscal Year (FY) 2009-10 Medi-Cal General Fund (GF) estimate is \$242.5 million less than the FY 2009-10 Amended Budget Appropriation.

The Medi-Cal GF costs in FY 2010-11, as compared to FY 2009-10, are estimated to increase by \$678.2 million.

The changes in part are attributable to the information presented below:

ARRA-Additional Federal Financial Participation: California continues to receive an 11.59% Federal Medical Assistance Percentage (FMAP) increase for most Medi-Cal Title XIX-funded benefits under the American Recovery and Reinvestment Act (ARRA) of 2009. The November Estimate ARRA FMAP assumes DHCS GF savings of \$2.879 billion in 2009-10 and \$1.191 billion GF in 2010-11.

California is requesting an extension of the increased 11.59% FMAP for the period of January 2011 through June 2011. The extension is expected to result in an additional \$1.191 billion in DHCS GF savings.

In addition, California is requesting a permanent increase in the current base FMAP for the Medi-Cal program from 50% to 57%. The additional 7% for the entire FY 2010-11 would result in an additional \$1.445 billion in DHCS GF savings.

The GF savings and FFP cost of the 11.59% ARRA 6-month extension and the 7% base FMAP increase will be included in a separate control section within the budget.

Delay Checkwrite June 2010 to July 2010: Since 2004-05, the last checkwrite in June of the fiscal year has been delayed until the start of the next fiscal year. Beginning with 2009-10, an additional checkwrite for institutional providers whose claims are processed by the medical fiscal intermediary will be delayed and paid during the next fiscal year. The checkwrite normally paid on June 17, 2010 will be paid in July 2010. From then on, two checkwrites will be delayed at the end of each fiscal year. The delay of the checkwrite is expected to result in a one-time savings in 2009-10, and a one-time penalty in 2010-11 due to ARRA's prompt payment requirement that 90% of the providers be paid within 30 days or 99% within 90 days. The one-time savings in 2009-10 is estimated to be \$94.3 million GF. The one-time cost in 2010-11 due to the penalty is estimated to be \$38.5 million GF. The net savings over the two fiscal years from the checkwrite delay is \$55.8 million GF. As shown in the November 2009 Estimate, the change from CY to BY is an increase of \$132.8 million GF. The GF numbers in this policy change include the additional FMAP under ARRA.

Physician-Administered Drug Reimbursement: The current rate of reimbursement for physician-administered drugs is the Average Wholesale Price (AWP) minus 5%. As a result of a federal lawsuit settlement against First Data Bank, the AWP information supplier, the Department must change this reimbursement methodology. In 2010-11 the Department will change the physician-administered drug reimbursement methodology to the lower of the Medi-Cal pharmacy reimbursement rate, which is the AWP minus 17%, or the Medicare rate, which is the Average Sales Price plus 6%. The preliminary estimate of the savings from this reimbursement change is \$13.2 million GF in 2010-11.

Elimination of PRUCOL: The federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 redefined which immigrants were eligible for full-scope Medi-Cal with FFP, but did not change the requirement to provide emergency services with FFP to eligible immigrants regardless of immigration status. California has not updated its state law to specifically limit full-scope coverage for immigrants as defined in PRWORA. As a result, California has continued to provide full-scope Medi-Cal to some Permanently Residing Under Color of Law (PRUCOL) immigrants and some amnesty aliens, funded with GF/FFP for emergency services and 100% GF for nonemergency services. Effective June 1, 2010, the Department will eliminate PRUCOL as a basis for providing full-scope Medi-Cal to otherwise eligible immigrants. Current beneficiaries and new applicants will continue to be eligible for emergency services, prenatal services (including 60 days of postpartum care), State-only tuberculosis services, State-only Breast and Cervical Cancer Treatment Program (BCCTP), and State-only long-term care. This change is estimated to result in savings of \$63.8 million GF in 2010-11.

Elimination of Nonemergency Services for NQAs: Under current federal law, an immigrant must be a "Qualified Alien" (QA) to be eligible for full-scope Medi-Cal. Federal law requires some QAs to reside in the United States for five years before they are eligible for federal full-scope Medi-Cal. New Qualified Aliens (NQAs) who are not eligible for full-scope Medi-Cal due to the five-year bar are currently eligible for emergency services funded with GF/FFP and nonemergency services funded 100% GF. Effective June 1, 2010, nonemergency services will no longer be provided for NQAs, excluding children and pregnant women as the Children's Health Insurance Program Reauthorization Act of 2009 gave states the option to eliminate the five-year bar for them. NQAs will continue to be eligible for emergency services, prenatal services (including 60 days of postpartum care), State-only tuberculosis services, State-only BCCTP, and State-only long-term care. The savings from this change is expected to be \$53.9 million GF in 2010-11.

Eliminate Adult Day Health Care (ADHC) Services: Effective June 1, 2010, ADHC services will no longer be covered as a Medi-Cal benefit. Total ADHC savings in 2010-11 are estimated to be \$217.1 million GF. The savings in Policy Change 167 (\$175.4 million GF) reflects only those savings not already included in the other policy changes relating to ADHC savings (PC 31 Medical Acuity Eligibility Criteria for ADHC

Services, PC 33 ADHC Onsite TAR Reviews, and PC 34 Elimination of the ADHC 2009-10 Rate Increase).

Hospital Quality Assurance Fee (QAF)—Hospital Payments and Hospital QAF—Children’s Health Care Coverage: AB 1383 (Chapter 627, Statutes of 2009) authorized implementation of a QAF for general acute care hospitals from April 2009 through December 2010. The QAF is to be deposited into the Hospital Quality Assurance Revenue Fund (HQARF) created by AB 188 (Chapter 645, Statutes of 2009). The HQARF will be used to provide supplemental payments to private and non-designated public hospitals, grants to designated public hospitals, and enhanced payments to managed health care and mental health plans. In addition, the HQARF will be used to pay for health care coverage for children. The November Medi-Cal Estimate reflects the supplemental payments to the hospitals using the HQARF and FFP, and the use of \$560 million from the HQARF to fund Medi-Cal health care costs for children in 2010-11. This results in a GF savings of that amount in the Medi-Cal budget.

Medi-Cal Cost Containment Strategies: The November Medi-Cal Estimate includes savings in 2010-11 for cost containment strategies which may include a combination of limits on services, increased cost-sharing through copayment requirements and/or premiums, payment reductions, and other programmatic changes. The savings reflected in the Medi-Cal Estimate is \$1.055 billion GF. However, when the ARRA extension and the 57% base FMAP included in the budget control section are factored in, the GF savings is \$750 million.

### **Family Health Local Assistance**

The November 2009 Family Health Estimate shows a 2009-10 GF surplus of \$8.9 million compared to the FY 2009-10 Budget Appropriation.

The Family Health Estimate shows a 2010-11 GF increase of \$36.2 million compared to 2009-10.

These changes are attributable in part to the information presented below:

#### Genetically Handicapped Persons’ Program (GHPP)

Base: Treatment Costs: GHPP base costs are currently showing a surplus of \$9.7 million GF compared to the 2009-10 Appropriation based on current actual data. An increase of \$8.4 million GF is expected in 2010-11 over 2009-10 due to continuing increases in expenditures.

Reduction to Hospital Financing – DPH SNCP: For the 2010-11 SNCP Demonstration Year reduction, the amount of CPEs will decrease by \$6.9 million due to the waiver expiring on August 31, 2010. The new waiver is expected to begin immediately on September 1, 2010; however, due to the lag between the date of the service in the new waiver and the date that the expenditures are paid the Department will not be able to

CPE the full amount of the 10% reduction for the 2010-11 SNCP Demonstration Year in FY 2010-11. This change is expected to result in an increased GF cost of \$6.9 million in 2010-11 as compared to 2009-10.

#### California Childrens' Services (CCS)

Reduction to Hospital Financing – Designated Public Hospitals Safety Net Care Pool (SNCP): For the 2010-11 SNCP Demonstration Year reduction, the amount of certified public expenditures (CPEs) will decrease by \$15.2 million due to the waiver expiring on August 31, 2010. The new waiver is expected to begin immediately on September 1, 2010; however, due to the lag between the date of the service in the new waiver and the date that the expenditures are paid the Department will not be able to CPE the full amount of the 10% reduction for the 2010-11 SNCP Demonstration Year in FY 2010-11. This change is expected to result in an increased GF cost of \$15.2 million in 2010-11 as compared to 2009-10.

Impact of Reducing HF Eligibility: Effective July 1, 2010, the eligibility criteria for CCS Healthy Families will change from families who earn less than 250% Federal Poverty Level (FPL) to 200% FPL. Due to the change in eligibility criteria, the clients in the CCS Healthy Families Program whose income is between 200% and 250% of FPL will no longer be eligible for the CCS Healthy Families Program. A small percentage of these clients will be eligible for the CCS State Only Program. This change is expected to result in a net savings of \$4.1 million GF in 2010-11.