California Association of Public Hospitals and Health Systems

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POLICY BRIEF

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The New Section 1115 Medicaid Waiver: Key Issues for California's Public Hospital Systems

The five-year Section 1115 Medicaid waiver agreement signed on November 2, 2010 offers the chance to make an historic leap forward for California's health care delivery and the residents of our state. Moreover, it will help prepare the State for the full implementation of health care reform in 2014.

Public hospital systems, which are the core of the state's health care safety net, will be at the forefront of this new opportunity – both by financing a significant part of the match for federal dollars available through the waiver, and by leading the coverage expansion and transformation of care for low-income patients that will serve as a model for the state and the nation. Public hospitals embrace this critical moment to help create meaningful and lasting change in California's health care delivery system.

The work ahead will be challenging, and much will be required of public hospitals to attain the federal funding support available in the waiver. But with three million uninsured people currently living below the poverty line in our state, this effort is essential. This brief will describe opportunities within the new waiver that pertain to California's public hospital systems.

What Is the Waiver?

The Section 1115 Medicaid waiver is an agreement between the state of California and the federal Centers for Medicare and Medicaid Services (CMS) that is designed to sustain and strengthen the Medi-Cal (California's Medicaid) program. The agreement "waives" certain Medicaid requirements in order to test new strategies and demonstration projects that can improve care and care delivery. If certain savings are achieved and milestones are met, this waiver could provide approximately $10 billion overall in federal funds to support greatly expanded coverage, access to care and vast improvements in how health care is delivered in California.

How Will this Waiver Help Expand Coverage and Improve Care?

This new waiver is groundbreaking in its approach and its scope. It offers the possibility of a significant amount of federal funds. However, the funds available for public hospital systems will not be automatic; they will require a tremendous amount of work to expand coverage to low-income people and transform care so that it is more coordinated, efficient and patient-centered.

Public hospital systems, which have extensive expertise in care delivery, especially to those with multiple health problems and chronic disease, will provide the financing through their counties and lead the implementation of these efforts. Over the last several years, these hospital systems have successfully piloted improvements in the delivery of care and expanded access. The waiver seeks to draw upon this experience in order to spread the excellent work already underway and ensure that the State is ready to implement health care reform when it becomes fully effective in January 2014.

Support for public hospital systems from the waiver falls into the following areas:

Coverage Expansion

The waiver will allow counties to expand coverage to potentially hundreds of thousands more low-income residents who will become eligible for Medi-Cal or the

health insurance exchange in 2014. Under the waiver, counties will have the option to cover individuals up to 133% of the federal poverty level (FPL) through the Medicaid Coverage Expansion (MCE) program. While there is not a specific federal limitation on the amount of federal funds to cover this population, counties will be limited by the resources they have available to provide the non-federal share. If counties meet certain federal requirements and have the resources available to do so, they can also cover individuals between 134% and 200 % FPL under the Health Care Coverage Initiative (HCCI) program.[1]

The coverage expansion opportunities under the new waiver include extensive requirements that counties will need to analyze before determining if they will be able to participate in the program, and if so, how many individuals can be covered. The MCE and HCCI programs will run through the end of 2013, at which time coverage under health care reform will take effect.

About California's Public Hospital Systems

California's 19 public hospital systems deliver extraordinary levels of service to low-income, uninsured and other individuals in need of care through both the inpatient and outpatient setting, and provide essential community services such as emergency, trauma and burn care that benefit all Californians. Although they represent just six percent of all hospitals in the state, they:

- care for 2.5 Californians each year
- deliver nearly half of all hospital care to the uninsured
- provide nearly 70% of their care to Medi-Cal beneficiaries or uninsured patients
- operate more than half of all top-level trauma centers in the state
- run almost half of the state's burn centers
- train more than 40% of all new doctors in the state

Many public hospital systems will build upon their current Coverage Initiative, a coverage program started under the previous waiver. (Of the 10 now in existence, eight are managed by counties with public hospitals.) These Coverage Initiatives have enrolled more than 100,000 patients statewide and are the locale for many of the system improvements made over the past few years, including the development of medical homes.

Delivery System Reform Incentive Pool

The new waiver offers a tremendous opportunity for public hospital systems to expand upon the work they have already begun to improve care delivery. With the potential for significant new funding, public hospital systems can achieve large-scale transformation in health care delivery that will serve as the model for California and the country. Public hospital systems' pilot programs have increased access and improved outcomes, especially for the large segment of their patient population that suffers from chronic illness and complex health concerns. But public hospitals have lacked the resources necessary to make these improvements **system-wide**.

The new waiver will provide a source of funds, called the **Delivery System Reform Incentive Pool (DSRIP)**, that will tie federal funding to ambitious milestones in care delivery improvements. Resources under the DSRIP, which could total $3.3 billion in federal funds over five years, will be available for work in four areas:

- Infrastructure Development
- Innovation and Redesign
- Population-Focused Improvement
- Urgent Improvement in Care

To obtain funding under the DSRIP, public hospital systems must submit a five-year plan showing how they will accomplish desired results, and will be required to achieve significant milestones

[1] *The state of California refers to the MCE and HCCI programs as the Coverage Expansion and Enrollment Demonstration (CEED) project.*

that will be approved by the State and CMS.[2] It is also possible for private and/or district hospitals to obtain DSRIP funds should the State choose to develop a similar program for these hospitals; if so, the resources would come from public hospital DSRIP funding, not a separate pool. Public hospitals would provide the matching funds to support the private hospital effort.

Through the DSRIP, public hospitals must undertake multiple delivery system improvements simultaneously across all parts of their systems, including inpatient care and outpatient primary and specialty services, in order to draw down federal funds and make the transformation envisioned in the waiver: increased access and efficiency, and better care coordination, chronic disease management, quality and clinical outcomes. Below are some examples of potential outcomes that can be achieved under the DSRIP:

- **To reduce avoidable hospital readmissions and improve health outcomes, especially for those with complex health conditions,** public hospitals would implement system-wide strategies to manage patients' care more efficiently across hospital settings. Using "Lean" practices, public hospitals would identify all steps and processes from the patient's perspective that could be improved – from the point of entry to discharge to follow-up outpatient services – to ensure that patients consistently receive appropriate, efficient care. This work is especially important during the discharge process, when patients transition from the inpatient to outpatient setting. They must receive all the information needed to clearly understand their follow-up care. By breaking down the silos of care and focusing on the patient, care becomes less fragmented and more streamlined and waste is reduced. As a result, patients can manage their illness or condition post-discharge and do not need to seek services in the emergency department or return to the hospital for more serious attention.
- **To make significant improvements in the health of patients with chronic illness, both individually and population-wide,** public hospitals would transform care in their outpatient clinics to make them true medical homes – sources of regular and preventive care that is tailored to meet each patient's particular needs. To accomplish this goal, clinics would take responsibility for the health of a panel of patients. Teams of providers must implement electronic disease registries to track individual patients' medical conditions and their progress in managing their disease. They can then, for instance, conduct proactive outreach to patients whose high blood sugar and blood pressure levels place them at risk for avoidable and costly visits to the ER. Once at the clinic, patients work with provider teams to set self-management goals and receive education about healthy choices and lifestyles. This care is provided in a culturally competent manner that acknowledges and incorporates patients' language and cultural background and needs. Ultimately, the redesign of care for patients with chronic conditions gives them a regular source for care, helping them to improve their health and manage their illness more effectively.
- **To help reduce medical errors that can impact health and increase costs,** public hospitals would vastly expand their systems to identify and resolve the root causes of adverse incidents, increase staff training on better and safer methods of care delivery, and embed these new processes throughout their systems. Working together, clinicians and administrators would develop a more ambitious, comprehensive, and integrated approach toward patient safety that will have far-reaching effects on the culture of care. Ultimately, this work will result in better patient safety methods and higher quality performance on critical national core measures.

[2] *Details concerning the DSRIP program are in development.*

Support Costs for Uncompensated Care

Public hospital systems provide nearly half of all hospital care to the uninsured even though they comprise only six percent of all hospitals in the state. They will continue to incur costs for care to the uninsured for which there are few other sources for compensation. The Safety Net Care Pool (SNCP), which existed under the previous waiver (see box), will provide partial reimbursement for these costs, thus helping public hospitals to continue to provide essential services to those in need.

The New Safety Net Care Pool

Funding under the Safety Net Care Pool in the new waiver is comprised of four components:

1. Approved Designated State Health Programs: will provide federal funding to the State up to $400 million annually for programs currently funded with State dollars
2. Uncompensated Care Pool: provides partial reimbursement to public hospitals for uncompensated costs for care to the uninsured
3. The Delivery System Reform Incentive Pool (DSRIP): supports public hospital systems' efforts to strengthen and transform their delivery systems through substantial improvements in infrastructure, innovation and redesign, population-based efforts and chronic disease interventions
4. Health Care Coverage Initiative (HCCI) funds: support coverage expansion for uninsured residents at 134% - 200% of the federal poverty level

Other Aspects of the Waiver

Managed Care for Seniors and Persons with Disabilities (SPDs)

Under the waiver, the state of California plans to move Medi-Cal enrollees who are Seniors or Persons with Disabilities (SPDs) into mandatory managed care, in an effort to provide more coordinated care and contain costs. The State must meet specific requirements in order for this transition to managed care to take place. Public hospital systems have significant expertise in treating Medi-Cal SPD patients and expect to continue to be an essential provider of care to this population under the waiver. It also is anticipated (as described in SB 208, Steinberg/Alquist, legislation passed in 2010) that public hospital systems will take on the responsibility of partially financing managed care rates to health plans for care of SPDs by providing Intergovernmental Transfers (IGTs).

Budget Neutrality

Federal policy requires that Section 1115 Medicaid waivers be "budget neutral," meaning that the federal spending under the waiver should not be higher than it would be without the waiver. Based on the waiver's structure, it was determined that California could receive approximately $10 billion in federal dollars, roughly half of which would be new money.

A significant portion of the waiver funding is based on projected savings, largely from the movement of SPDs into managed care, and the difference between the projected and actual savings would need to be repaid to the federal government should the savings not be realized. The DSRIP is one of two funding pools that would be reduced if the presumed savings from the SPD shift into managed care are not met.

Looking Ahead

With the opportunities provided by the new waiver, public hospitals' efforts over the next five years in coverage expansion and care delivery improvements are likely to have an exponential impact on health care delivery in California and elsewhere. Ultimately, more people will be covered and will receive care that is more coordinated and efficient. Most importantly, we expect to see improved health care and health for Californians throughout the state. We acknowledge and welcome the work ahead as we lay the groundwork for health care reform in 2014.