

# California Department of Health Services Medi-Cal Hospital/Uninsured Care Demonstration Healthcare Coverage Initiative Proposal

## EXECUTIVE SUMMARY

Pursuant to the Special Terms and Conditions of California's 1115 Medicaid Demonstration for hospital financing, the California Department of Health Services (Department) may develop a Healthcare Coverage Initiative (CI) for uninsured individuals. This initiative will be operational in years 3, 4, and 5 of the demonstration (September 2007 through August 2010).

This document provides the framework for the CI which includes background information, initial stakeholder input and proposed guiding principles and goals.

## BACKGROUND

The approved Section 1115 Medicaid Demonstration<sup>1</sup> for hospital financing includes federal funds for the development and implementation of a Healthcare Coverage Initiative (CI) for uninsured individuals. These federal funds are available to the extent certain milestones are met as outlined in the approved Special Terms and Conditions (STCs) for this demonstration. The CI is an opportunity to expand coverage for uninsured individuals in California. For years 3, 4 and 5 of the demonstration, \$180 million per year in federal funds is available for the CI. The development and implementation of the CI will require an amendment to this demonstration and is subject to the approval of the federal government prior to implementation.

These funds are a component of the Safety Net Care Pool (Pool). Pursuant to the terms of the waiver, Pool funds can not be used for costs associated with the provision of non-emergency care to unqualified aliens. To implement this limitation, 17.79 percent of provider expenditures or claims for services to uninsured individuals will be treated as expended for non-emergency care to unqualified aliens. In order to claim the available \$180 million in federal funds for this initiative, the program must have expenditures equal to approximately \$440 million per year.<sup>2</sup>

This program could annually cover approximately 100,000 to 150,000 individuals who could receive health related services, including inpatient care<sup>3</sup>. To the extent the CI is designed to offer only outpatient services with inpatient care being paid for under the disproportionate share hospital (DSH) program, this number could be substantially higher. The actual number of individuals covered will be a function of the scope, duration and frequency of services provided, the cost of services provided and the amount of other funding sources that may be available for this effort.

---

<sup>1</sup> Medi-Cal Hospital/Uninsured Care (Waiver 11-W-00193/9) effective September 1, 2005

<sup>2</sup> It is likely that total CI expenditures will have to be reduced by 17.79 percent to account for services to people who are not federally eligible and then the federal government will reimburse for one-half of the remaining expenses.

<sup>3</sup> This is based on expenditures from the Medically Indigent Care Reporting System, Fiscal Year 2001-02 for unduplicated individuals served by the 26 counties operating either a California Healthcare for Indigents Program or a Rural Health Services Program; Branscomb, L.

"Eligibility limit on free care increased", San Diego Tribune, December 7, 2005, reporting last year expenditures made by San Diego County for their County Medical Services program.

The \$180 million for years 3, 4 and 5 of the waiver are the only source of growth in waiver funding to the impacted safety net hospital providers for the cost of providing indigent health care services care to people not enrolled in Medi-Cal. As health care costs rise during the latter years of the demonstration, the available resources for non-Medi-Cal uncompensated health care costs for the uninsured do not rise in a commensurate manner. This is because total federal funding in the Pool is capped and all funding in the Pool with the exception of the \$180 has already been allocated to cover the existing cost of care. Federal funding for providing care to individuals who are on Medi-Cal grows as the cost of that care grows, but the \$180 million is the sole source of growth in federal funds in this waiver to cover increased cost of indigent care.

To fully use the CI funding in the waiver, these funds must be used on programs that can start operation with full enrollment on September 1, 2007. The \$180 million of federal funds that is available for the CI in years 3, 4 and 5 are annual allotments and can only be used for payment of the CI services rendered during the applicable demonstration year. To the extent the CI is not developed and implemented, and/or the enrollment of eligible individuals is delayed into the CI, the unused portion of these federal funds cannot be used for any other demonstration expense or for services in any year except for the applicable demonstration year. Because there is no ability for unused funds to rollover to subsequent waiver years and the amount of funding for each year is the same, to fully use the first year's funding the CI must begin with full enrollment.

Expenditures used to claim federal funds available for the CI must be made from appropriate local/county/University of California funds or State general funds. Given the \$440 million annual expenditure estimated above, the local/county/University of California or state contribution to this program would require approximately a \$260 million annual investment. Under the STCs for the demonstration, for purposes of federal reimbursement from the Pool for incurred expenditures, the allowable claims will be reduced by 17.79 percent. This reduction provides for approximately \$360 million in expenditures that can be claimed to the federal government of the \$440 million spent. Under the current Medi-Cal program, reimbursement for services rendered requires a 50 percent state/local/county contribution for federal claiming purposes. Thus in order to fully claim the available \$180 million of federal funds, there must be sufficient expenditures of approximately \$440 million to claim the \$180 million in federal funds.

There is substantial experience in developing and implementing a wide variety of health coverage programs for uninsured populations. A study<sup>4</sup> published by *The Economic and Social Research Institute* of the National Center for Primary Care at the Morehouse School of Medicine reached several conclusions applicable to developing additional coverage options:

- There is no "one size fits all" model.
- One program will not cover all of the uninsured, and different strategies seem to be more successful for different populations.
- Culture, values, and needs must be taken into account when designing programs.

---

<sup>4</sup> Silow-Carroll, S., et al, "Community-based Health Coverage Programs: Models and Lessons," The Economic and Social Research Institute, February 2004

- There are benefits to integrating financing with delivery of care.
- Locally based programs can best ensure a “medical home.”
- Sustainable financing is an ongoing challenge -- communities must tap multiple sources and be creative.
- State rules and legislation can facilitate community reform.
- Coverage initiatives can emerge from a wide range of institutions.

## **PROPOSED GUIDING PRINCIPLES AND GOALS**

The following are proposed guiding principles to provide the framework for the CI:

- Use organized delivery systems to manage the care of the uninsured;
- Promote the use of preventive services and early intervention;
- Promote personal responsibility for service utilization ;
- The CI is not an entitlement program for either the State, beneficiaries, or participating providers;
- Cover uninsured individuals who have no linkage to Medi-Cal or Healthy Families; and
- Develop the CI in a manner to ensure long term viability within existing safety net health care systems.

The intent of the CI is to provide opportunities to expand coverage options for uninsured individuals in California. The following are proposed goals:

- Maximize the use of existing relationships between the uninsured and safety net health care systems;
- Do no harm to the existing safety net health care system;
- Provide a medical home to the target population;
- Improve access to care and health outcomes of the uninsured;
- Use the entire \$180 million each year, for demonstration years 3, 4 and 5; and
- If the State seeks to renew the waiver, the CI should be able to be extended past 2010.

## **STAKEHOLDER INVOLVEMENT**

The success of this proposal and the overall development of the CI will require the active engagement of stakeholders. This process has begun and has included initial discussions with key community stakeholders including the public hospitals, private hospitals, county representatives, Medi-Cal managed care health plans and advocacy organizations.

The stakeholder input to date has suggested two distinct courses of action for consideration – (1) target the available CI funds to current hospital-based safety net systems that are in place; or (2) encourage public-private partnerships that include employers of low income, uninsured individuals. Underlying the input received was the acknowledgement of the intent of the demonstration for the hospital safety net system in terms of ensuring financial stability and growth funding opportunities. As stakeholder discussions continue, there may be other models of care that evolve.

As we continue to move forward in the planning and development of the CI, ongoing stakeholder engagement will be critical in the following areas:

**Claiming Federal Funds:**

- What will be the source of the approximately \$260 million in local or state funds needed to claim the available federal funds?

**Funding Allocations:**

- How will interested entities be selected to develop and implement CI activities?
  - Will it be through a funding allocation based on the number of uninsured and the geographic diversity in the respective counties?
  - Will interested entities be selected based on their program design? Some other funding allocation?
  - How does this program interact with funding allocations made under existing state law?

**Targeted Populations:**

- What are the criteria for eligible individuals to participate in the CI?
  - Is it only uninsured adults who are not eligible for Medi-Cal?
  - Is the upper income threshold 100 percent of the Federal Poverty Level, or should the income level be the same as a county's Medically Indigent Adult program since counties have very different levels of need?

**Program Design:**

- Will selected entities be encouraged to test out different solutions, or will all participants be required to implement the same coverage model?
- Will the program mandate inpatient coverage or will participants be able to exclude inpatient care from the CI and provide this coverage using safety net hospitals who receive DSH reimbursement?

**Participating Providers:**

- Who will receive the available CI funds?

**PROPOSED PROGRAM ELEMENTS**

It is proposed that at a minimum, the CI for uninsured individuals offer the following:

- Enrollment processes with a health coverage card;
- Use of a medical record which could include electronic medical records;
- Designation of a "medical home" with the assignment of a primary care physician;
- Defined benefit packet that includes preventive and primary care services;
- Quality monitoring for health care outcomes;
- Screening and enrollment of all eligible people into Medi-Cal, Healthy Families or local insurance programs;

- Data reporting elements as required per the Special Terms and Conditions; and
- Ability to implement CI activities effective September 1, 2007.

### **NEXT STEPS**

Discussions will continue with stakeholders and the Legislature on the best approach to implementing the CI and addressing the questions raised above. State legislation in 2006 is necessary for the Department to submit the required waiver amendment for this program in September 2006. Once these issues are resolved with stakeholders and the Legislature, the Department, with stakeholder involvement, will prepare and submit the required waiver amendment.