



To: CPCA Members

From: CPCA Policy Team

Date: January 6, 2012

RE: Brief Analysis of Governor's 2012-13

GENERAL OVERVIEW

A year ago, the state faced an immediate \$26.6 billion shortfall and future estimated annual budget gaps of \$20 billion. This year, the state faces a \$9.2 billion budget problem and future annual budget gaps of \$5 billion or less.

The on-time 2011 Budget Act balanced the budget by cutting billions of dollars in spending and realigning state programs. This year, the Governor's Budget proposes a balanced solution by cutting more deeply into spending while also increasing revenues. The Governor will ask voters in November to approve a Constitutional Amendment to prevent deep cuts to education and guarantee funding for public safety at the local level.

The Governor further proposes a set of trigger cuts that would occur if the state's voters reject his tax proposal, which includes a temporary increase in the state income tax on high earners, ranging from 1-2% and a temporary increase in the state sales tax of 0.5%. These proposals would appear on the November 2012 ballot and if these proposals are rejected, Brown's budget calls for another \$5.4 billion in cuts. Under these cuts, schools would lose \$4.8 billion while the University of California and California State University systems would each lose \$200 million.

Also getting cut would be the state court system (\$125 million) and the Department of Forestry and Fire Protection (\$15 million), among others. Under the trigger cuts, the number of park rangers and Fish and Game wardens would be reduced and the state would stop staffing its beaches with lifeguards.

The Governor also uses the budget under the guise of payment reform that shifts programs and fundamentally changes our FQHCs reimbursement model.

Other changes include a shift to an annual open enrollment process in Medi-Cal and the transfer from DPH to DHCS effective July 1, 2012 of Every Woman Counts, Prostate Cancer Treatment, and Family Planning Access Care and Treatment.

Governor Brown also proposes the elimination of Departments of Mental Health(DMH) and Alcohol and Drug Programs(DADP). The major community mental health programs and remaining non-Drug Medi-Cal programs and associated funding will be shifted to the Department of

Health Care Services (DHCS). Co-locating these key mental health and substance use disorder services with physical health programs is the first step toward integrating services in preparation for an effective continuum of care, consistent with federal health care reform implementation in 2014.

In the area of health, the Governor's Budget contains ugly cuts to the Department of Health Care Services including:

**** \$842 Million Cut to Medi-Cal, including cuts to clinics, hospitals, and the shifting of "dual-eligible" seniors & people with disabilities to managed care plans;***

**** \$152 Million Cut to MRMIB, including a 25.7% cut to Healthy Families managed care plans that cover 875,000 children***

In the Governor's speech when presenting the budget, he also made it very clear that he is very disappointed that the federal government has failed to approve previous changes in the Medi-Cal program including co-pays and visit caps and this lack of action has caused a higher budget deficit. He also stated that he is unable to implement other cuts because people are always suing him which is evidenced by the Governor including funding in the budget for anticipated future litigation.

DEPARTMENT OF HEALTH CARE SERVICES: Medi-Cal

In addition to the array of reductions approved by the legislature as part of the 2011-12 state budget that await federal approval from CMS, the Brown Administration proposes several changes to Medi-Cal to address the remaining shortfall.

Federally Qualified Health Center Payment Reform — The Administration proposes to make major changes to the way FQHCs and RHCs are paid. Instead of the encounter-based, site-specific Prospective Payment System (PPS) methodology, DHCS proposes to create a fixed "performance, risk-based payment model" to FQHCs and RHCs participating in Medi-Cal managed care plans. However, in return, DHCS would waive certain FQHC requirements and allow FQHCs to do group visits, telehealth, and telephonic disease management. According to the Health and Human Services section of the Governor's 2012-2013 budget summary, "the waiver will ensure that medical care is provided by the most appropriate and affordable medical professional and allow clinics to perform multiple services on the same day." According to DHCS Director Toby Douglas, the shift away from PPS will amount to a 10 percent reduction to FQHCs and RHCs.

As the PPS methodology for FQHCs and RHCs is mandated by federal law, the State will have to seek an 1115 Medicaid Waiver in order to waive the PPS provision. Given past experiences with 1115 Medicaid Waivers dealing with PPS, we expect a strong and coordinated opposition to this waiver from NACHC. In consultation with NACHC about the experience in other states, they informed CPCA that the magnitude of this waiving of PPS is unprecedented. In other states, to date, PPS has only been waived for smaller expansion populations. The Administration believes that this proposal will achieve General Fund savings of \$27.8 million in 2012-13 and \$58.1 million in 2013-14.

Managed Care Expansion to Rural Counties — Beginning in June 2012, the Administration proposes to expand Medi-Cal managed care into rural fee-for-service counties. This expansion would ensure that the above PPS waiver would apply to all California FQHCs and RHCs. The concerns around moving rural FFS counties into Medi-Cal managed care around network adequacy and the availability of plans and providers in these remote, rural areas. The Administration claims this proposal will achieve General Fund savings of \$2.7 million in 2012-13 and \$8.8 million in 2013-14.

Medi-Cal: Operational Flexibilities — The Administration proposes to change the Medi-Cal delivery system in anticipation of shifting Healthy Families Children to Medi-Cal and the addition of 2 million beneficiaries due to the federal Medicaid expansion in 2014. The Administration proposes to undergo a process to evaluate changes to Medi-Cal programs, such as reducing laboratory rates and no longer funding avoidable hospital admissions. The process will include stakeholder input and evaluate cost-effectiveness before implementing any changes in benefits. The Administration stresses that any changes in rate methodologies or payment policies will comply with federal requirements to assess the impact on beneficiary access. The Administration believes these flexibilities to the Medi-Cal program will result in General Fund savings of \$75 million in 2012-13.

Annual Open Enrollment — Current law allows Medi-Cal beneficiaries to change Medi-Cal plans once per month or up to 12 times a year. The Administration proposes an annual open enrollment period for beneficiaries to select their Medi-Cal plan; they will then be unable to switch plans until this next open enrollment period. The Administration states that this proposal will align Medi-Cal with other health care plans, such as CalPERS and Healthy Families. By establishing an annual election process, the Administration claims that plans will be held accountable for providing Medi-Cal patients with “a medical home, care coordination, and case management” leading to better health outcomes. This proposal will result in General Fund savings of \$3.6 million in 2012-13 and \$6 million in 2013-14.

Improved Care Coordination for Seniors and Disabled Beneficiaries — Dual eligibles will benefit the most from a care model that provides benefits in a more coordinated manner. Coordinating care for these beneficiaries generally means having the same health plan responsible for the delivery of all benefits. In addition to aligning program responsibility and financial incentives, this proposal increases the number of individuals in managed care and broadens the scope of managed care services.

The proposal will be phased in over a 3 year period starting January 1, 2013. The transition to managed care for Medi-Cal benefits will occur in the first year, with the benefits becoming a more integrated plan responsibility over the subsequent two years. The transition of Medicare benefits to managed care will occur over a 3 year period starting first with 8-10 counties that already have the capacity to coordinate care for these individuals. Those counties that do not have the capacity to make this transition will begin in 6-12 months later. Individuals in the counties that will have the managed care expansion (primarily rural counties) will begin the transition in 2014-2015.

This proposal will achieve savings of approximately \$678.8 million General Fund in 2012-13 and \$1 billion General Fund in 2013-14.

Medical Therapy Program Eligibility — The Budget proposes to align income eligibility requirements for the Medical Therapy Program with the broader California Children’s Services (CCS) Program. Currently, there is no financial test for eligibility. Under the proposed eligibility standards, families with annual income less than \$40,000 or with annual CCS-related medical expenses exceeding 20 percent of their annual income will continue to be eligible for the Medical Therapy Program. This is consistent with the eligibility requirements already in place for all other CCS benefits. In addition to state savings, counties will also realize savings.

Stabilization Funds — The Budget proposes a one-time redirection of private and non-designated public hospital stabilization funding that has not yet been paid for fiscal years 2005-06 through 2009-10 to provide General Fund savings and avoid direct service reductions. This proposal will achieve one-time savings of \$42.9 million General Fund.

Gross Premium Tax — The Budget proposes to eliminate the sunset date of the Gross Premiums Tax on Medi-Cal managed care plans. Continuing the tax, coupled with increased managed care utilization, will generate General Fund savings of \$161.8 million in 2012-13 and \$259.1 million in 2013-14.

Other Significant Adjustments:

Medi-Cal Base Benefit Costs — A decrease of \$395.9 million General Fund in 2011-12 and an increase of \$493.9 million General Fund in 2012-13 based on cost and utilization trends in the base program.

Budget Savings Erosions — An increase of \$778.2 million General Fund in 2011-12 and \$235.3 million General Fund in 2012-13 because of delayed federal approval of budget savings proposals, litigation related to elimination of the Adult Day Health Care benefit, and a portion of the provider payment reductions not being approved by the federal government.

Hospital Fee Extension — A savings of \$255 million General Fund in 2011-12 and \$472 million General Fund in 2012-13 as a result of extending the hospital fee. The fee provides funds for supplemental payments to hospitals and also makes some funding available to offset the costs of health care coverage for children.

Managed Care Rate Adjustment — An increase of \$203.4 million General Fund in 2012-13 as a result of increasing managed care rates by 3.61 percent. Rate adjustments are based on the previous year's increase. The managed care rate adjustments for 2012-13 will be updated in May 2012.

Nursing Home Fee Program — The Budget includes funding to restore the 10-percent provider rate reduction (\$171.2 million General Fund) and also includes supplemental payments (\$245.6 million General Fund). The Budget does not include the maximum 2.4-percent cumulative rate increase for 2011-12 and 2012-13 because preliminary fee revenues are insufficient to support such an increase. The Budget also proposes to permanently extend the rate methodology and nursing home fee initially established by Chapter 875, Statutes of 2004 (AB 1629). This extension is necessary to continue to fund the current payment methodology without a greater impact to the General Fund.

Reserve for Litigation — The Budget includes a set-aside of \$86.8 million General Fund in 2011-12 and \$260.4 million General Fund in 2012-13 in the event litigation challenging recently approved provider rate reductions is successful.

MANAGED RISK MEDICAL INSURANCE BOARD

The Budget includes \$965.6 million (\$136.2 million General Fund) for the Board, a **decrease of \$152.4 million** General Fund from the Budget Act of 2011. This significant decrease is primarily due to the proposed Healthy Families rate reduction.

Healthy Families Program Rate Reduction — The Budget proposes to reduce Healthy Families managed care rates by **25.7 percent** effective October 1, 2012. This rate reduction will achieve General Fund savings of approximately \$64.4 million in 2012-13 and \$91.5 million in 2013-14.

Transition of Children from the Healthy Families Program to Medi-Cal — The Budget proposes transferring approximately 875,000 Healthy Families Program beneficiaries to Medi-Cal over a nine-month period beginning in October 2012. This transition will create benefits for children, families, health plans, and providers, by: (1) simplifying eligibility and coverage for children and families; (2) improving coverage through retroactive benefits, increased access to vaccines, and expanded mental health coverage; and (3) eliminating premiums for lower-income beneficiaries.

Transition of Other Programs — In preparation for California's implementation of federal health care reform, the Budget proposes to eliminate the Board by July 1, 2013.

Transition of Additional Programs currently under MRMIB — These programs include the Access for Infants and Mothers, California Health Initiative Matching Fund Program, MRMIP, and PCIP programs. The two programs that provide insurance to individuals with pre-existing conditions, MRMIP and PCIP, will be eliminated in January 2014 because these individuals will be able to purchase health insurance through the California Health Benefits Exchange as part of federal health care reform implementation.

DEPARTMENT OF PUBLIC HEALTH

AIDS Drug Assistance Program (ADAP) — Increase Client Share of Costs for the AIDS Drug Assistance Program (ADAP)— An increase to client share of cost in the ADAP to the maximum percentages allowable under federal law. Cost-sharing for ADAP clients with private insurance will be limited to a maximum cost-sharing of two percent. Average monthly copayments will range between \$28 and \$385, depending upon the client's income.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) serves approximately 256,000 individuals with developmental disabilities in the community and 1,500 individuals in state-operated facilities. Services are provided through the developmental centers, one community facility, and the regional center system. The Lanterman Developmental Disabilities Services Act established a statewide network of regional centers and related services to allow consumers to live independent and productive lives in the community.

Significant Adjustments:

Program Reductions — A decrease of \$200 million in 2012-13 as a result of the reductions related to lower-than-expected revenues assumed in the 2011 Budget Act. The DDS is considering extending the 4.25-percent provider and regional center operations payment reduction, reductions in the developmental center budget, and other potential savings options in the department's budget. DDS will be engaging stakeholders to discuss savings proposals.

Developmental Centers — A decrease of \$14.4 million General Fund (\$724,000 Proposition 98 General Fund) in 2012-13 as a result of a revised population estimate.

Reduced Costs — A decrease of \$32 million General Fund in 2011-12 and a decrease of \$2.9 million General Fund in 2012-13 as a result of changes and delayed implementation of Medi-Cal savings

proposals regarding the Adult Day Health Care program, caps, and copayments, which will delay the need for regional centers to backfill these reductions.

Regional Center Caseload Adjustment — An increase of \$5.9 million General Fund in 2011-12 and an increase of \$115.2 million General Fund in 2012-13 as a result of a revised population estimate.

Expiration of Provider and Regional Center Operations Payment Reduction — An increase of \$108.4 million General Fund in 2012-13 as a result of the 4.25-percent provider and regional center operations payment reduction expiring on June 30, 2012.

Proposition 10 — An increase of \$50 million General Fund in 2012-13 to backfill for the one-time use of Proposition 10 funding for services to consumers age 0-5 years.

DEPARTMENT OF SOCIAL SERVICES REDUCTIONS

Total budget allocation for 2012-2013: \$17.5 Billion (\$6.2 Billion General Fund)
Represents a reduction of \$2.3 Billion GF from 2011-2012.

CalWORKs reduction of \$263,082 million

CalWORKs Restructuring — Creates a two-tier program in an attempt to “refocus” the CalWORKs as a work-first program that encourages and rewards employment.

CalWORKs Basic Program — Would provide a maximum of 24 months of support, including job search, employment training, child care, and barrier removal services. Current clients not complying with work requirement will be placed into the Basic Program as of October, 2012.

CalWORKs Plus Program — Would reward clients meeting federal work requirements with increased grant amounts (approximately \$44/month for a family of 3). Access to child care and ancillary benefits would be available for up to 48 months.

Additional Support — Beginning July 1, 2013, working families receiving CalFresh benefits, but not in the CalWORKs program, would receive an additional \$50/month work bonus.

Child Maintenance Program — Support for children whose parents are not eligible for CalWORKs would be reduced from \$463 to \$392 per month. Would add a new requirement for an annual well child exam.

In-Home Supportive Services — The Budget proposes a decrease of \$292.3 million General Fund from the revised 2011-12 IHSS budget.

Eliminate Domestic and Related Services for Certain Recipients — IHSS beneficiaries residing in a shared living arrangement will not be eligible for domestic and related services that can be met in common with other household members. General Fund savings of \$163.8 million in 2012-13 and is estimated to impact approximately 254,000 recipients beginning July 1, 2012.

Coordinated Care for Dual Eligible Beneficiaries — This proposal will better coordinate IHSS, other home and community-based services, and institutional long-term care. All individuals receiving both Medi-Cal and Medicare benefits (dual eligible beneficiaries) will be required to enroll in managed care health plans for their Medi-Cal benefits. The IHSS program will operate as it does today during 2012-13; all authorized IHSS benefits will be included in managed care plans. No IHSS savings are estimated to result from this proposal in 2012-13. Refer to “Improved Care Coordination for Seniors and Disabled Beneficiaries” within Department of Health Care Services for more information.

Other Significant Adjustments:

20-Percent Reduction in Service Hours — Because revised revenue projections have fallen short of previous estimates, pursuant to Chapter 41, Statutes of 2011, a 20-percent across-the-board reduction in IHSS hours was to be implemented January 1, 2012. Because of a court injunction, the state currently is prevented from implementing this reduction. However, the Budget assumes this reduction will be implemented April 1, 2012. To be prudent, the Budget also includes a set-aside to fully fund the IHSS program in the event of an adverse court ruling.

Medication Dispensing Machine Pilot Project — Current law requires the state to implement a Home and Community Based Medication Dispensing Machine Pilot Project that utilizes an automated medication dispensing machine with associated telephonic reporting service for monitoring and assisting Medi-Cal recipients with taking prescribed medications. Current law also requires the DSS to implement an across-the-board reduction in authorized hours for IHSS recipients beginning October 1, 2012, to the extent the pilot project and/or alternative savings proposals enacted by the Legislature does not achieve a combined net annual General Fund savings of \$140 million. Based on the assumed 20-percent reduction described above, the Budget assumes neither savings from the pilot project nor savings from the associated across-the-board reduction, and proposes to repeal the associated statutory requirements.

DEPARTMENT OF STATE HOSPITALS

The Administration proposes to establish a new Department of State Hospitals (DSH). State hospitals operated by the DSH provide long-term care and services to individuals with mental illness. The state supports patients committed by the courts, including those committed for Penal Code violations and Sexually Violent Predators. The budget includes \$1.3 billion General Fund in 2012-13 for support for the Department. The patient population is projected to reach a total of 6,439 in 2012-13.