

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES

Assemblymember Judy Chu, Chair

MONDAY, MAY 12, 2003
STATE CAPITOL, ROOM 437
3:00 PM

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ITEM 4260 DEPARTMENT OF HEALTH SERVICES – PUBLIC HEALTH**California Children's Services****Legislative Analyst's Office Summary Table**

Figure 1

Projected CCS Expenditures
(In Thousands)

	2002-03	2003-04
CCS-State Only		
Treatment services	\$62,298	\$58,704
Medical therapy program	61,228	63,187
County administration	19,336	19,534
Totals	\$142,862	\$141,425
General Fund	\$71,474	\$69,491
County funds	\$66,184	\$61,530
Federal funds	\$4,704	\$4,704
Enrollment fees ^a	\$500	\$5,700
CCS/Healthy Families		
Treatment services	\$45,404	\$47,056
Totals	\$45,404	\$47,056
Federal funds	\$29,626	\$30,586
General Fund	\$8,678	\$9,059
County funds	\$7,100	\$7,411
CCS/Medi-Cal ^b		
Treatment services	\$1,066,911	\$1,220,466
Medical therapy program	6,455	7,120
Totals	\$1,073,366	\$1,227,586
Federal funds	\$536,683	\$613,793
General Fund	\$535,069	\$612,013
County funds	\$1,614	\$1,780

^a Includes reimbursements and enrollment fees.^b LAO estimate based on historical data.**1. SCREEN FOR HEALTHY FAMILIES ELIGIBILITY**

The Legislative Analyst's Office (LAO) analysis indicates there may be as many as 5,000 additional children in the California Children's Services (CCS) medical treatment program who are enrolled or eligible for Healthy Families. The state, the LAO notes, may be spending about \$3 million more annually from the General Fund for CCS treatment services than necessary for these children.

In addition, the LAO estimates that the state could save as much as \$2 million annually beginning in 2003-04 if it began to identify children in Medical Therapy Program (MTP) who could be in the Healthy Families Program. Currently, MTP does not identify such children. If the state did so, the LAO says the state could reduce its share of the cost of services provided to these children from the current 50 percent to 17.5 percent.

The LAO notes that the failure to enroll CCS children in Healthy Families also means that the state is missing another opportunity – the chance to provide them with more comprehensive medical care. The Healthy Families Program provides a comprehensive package of health care services, including dental and vision care, while the CCS program only covers those specific services that address a child's CCS-eligible condition.

The LAO recommends the Legislature change state law to require counties to enroll those CCS children who are eligible into the Healthy Families Program. The LAO comments counties could be required to screen for eligibility in much the same way they are already required to do so for children who are eligible for enrollment in Medi-Cal. Implementation of this change could result in net savings to the state General Fund (after the state cost of Healthy Families coverage has been taken into account) of as much as \$5 million annually beginning in 2003-04.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee the LAO's proposal to have counties screen for Healthy Families eligibility for CCS children.

Department of Health Services, please respond to the LAO proposal to have counties screen for Healthy Families eligibility for CCS children.

2. MEDICAL THERAPY UNITS CERTIFIED AS OUTPATIENT REHABILITATION CENTERS

The LAO observes the state may be missing an additional opportunity to offset state General Fund support provided to children for medical therapy services. Medical therapy services are provided in school-based medical therapy units (MTUs).

In order to receive federal Title XIX funds under the Medi-Cal program, an MTU must be certified as an outpatient rehabilitation center. Currently, 18 of the 107 MTUs statewide are not certified, and therefore are unable to bill Medi-Cal for the services they provide to CCS children. As a result, each visit to one of these 18 MTUs is paid for entirely by the counties and the state.

The LAO comments that the Department of Health Services (DHS) was unable to provide information regarding how many MTU therapy visits are conducted annually by those MTUs that are not certified as rehabilitation centers. Nor was DHS able to document the cost of a typical MTU visit. As a result, the LAO notes it was not able to estimate the loss of federal funds and the resulting additional cost to the state for medical therapy services provided through uncertified MTUs. Given the caseload and cost of such services, however, the LAO believes the fiscal impact on the counties and the state could be significant.

The LAO suggests the Legislature may wish to consider changing state law to require existing and new MTUs to be certified as outpatient rehabilitation centers, thereby enabling them to bill Medi-Cal for therapy services. The LAO comments that DHS indicates that it does not collect data regarding the number of visits to uncertified MTUs and the cost per visit. As a result, the extent to which this option would result in cost savings is unknown.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee the LAO's proposal to require new and existing medical therapy units become certified as outpatient rehabilitation centers.

Department of Health Services, please respond to the LAO proposal to require all medical therapy units to become certified outpatient rehabilitation centers.

3. COUNTY BILLING PRACTICES

The LAO's analysis indicates that county billing practices for medical therapy services may be resulting in the state foregoing federal funds and spending additional General Fund resources for these services.

Data the LAO reviewed indicates the amount of claims being billed to Medi-Cal for MTP services is significantly lower than expected, given the size of the CCS enrollment and other factors. This discrepancy could be the result of counties submitting eligible claims to the state under the CCS state-only program rather than as required under CCS program rules to Medi-Cal. The low level of Medi-Cal billings could also partly be the result of the counties' use of vendors to provide CCS services. The DHS indicates that services provided by vendors cannot be billed to Medi-Cal.

The LAO states that it was unable to obtain data from DHS that would allow it to determine exactly why the discrepancy in Medi-Cal billings exists or the potential loss to the state due to this situation. Given the size of the Medi-Cal/CCS caseload and costs of the program, the LAO believes that cost to the state General Fund resulting from these problems could be significant.

The LAO recommends the Legislature request the Bureau of State Audits (BSA) to conduct an audit to examine whether counties are appropriately billing the state under Medi-Cal for medical therapy services provided to CCS children. The LAO believes the BSA should further be requested to specifically report on the fiscal impact of any such billing errors and possible steps to remedy and prevent any further billing errors, if they are occurring. Accordingly, the LAO recommends the Legislature adopt the following supplemental report language:

It is the intent of the Legislature that the Bureau of State Audits (BSA) review county billing practices for the California Children's Services (CCS) program to determine whether medical therapy services are being appropriately billed under the Medi-Cal program. The BSA may review what it deems to be a representative sample of county billings for CCS medical therapy services in conducting its review. It is the further intent of the Legislature that BSA report to the Legislature by December 1, 2003 the results of its review, along with its recommendations, if any, for improvement of CCS program rules to ensure that county billing practices minimize state costs for the provision of these services. The report shall be provided to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of both houses of the Legislature.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee the LAO proposal to have the Bureau of State Audits conduct a review of county billing practices of the CCS program.

Department of Health Services, please respond to the LAO proposal to have the Bureau of State Audits review county billing practices.

4. INCENTIVES FOR OUTPATIENT CARE

The LAO notes that its analysis indicates that the way the state reimburses CCS providers for medical treatment services creates an unintended incentive for them to provide care in expensive inpatient settings instead of less costly outpatient settings. Advances in medical treatment have enabled physicians to deliver services in outpatient settings where they once could be provided only on an inpatient basis. However, CCS providers have reported that the opposite is sometimes occurring for CCS patients. For example, due to reimbursement policies and procedures, sometimes-higher reimbursement rates are paid for treatment of similar conditions when provided in hospitals as compared to treatment provided in an outpatient setting. In addition, providers indicate they are sometimes able to get more timely approval for inpatient services. Families also report experiencing longer waiting periods for outpatient care for CCS children than if they obtain the same services from hospitals.

This problem is not unique to CCS. In fact, BSA in its 2002 report on Los Angeles County found that DHS' current reimbursement system provides few incentives, and in some cases disincentives, for health care providers to act in ways that could reduce the total cost of serving a given population. This occurs in two ways. First, hospitals that reduce their average length of a patient's stay receive less revenue. Second, the federal Disproportionate Share Hospital Program (DSH) funding increases with the number of inpatient hospital days provided to Medi-Cal patients but is independent of the number of outpatient visits. By substituting lower-cost outpatient visits for more costly inpatient stays, DHS could reduce its total cost of providing care. However, because DSH funding is tied to inpatient stays, hospitals' revenue from this source declines as care is shifted to outpatient settings.

As a result, the state may be spending more than necessary for the provision of some CCS services. While these additional costs are unknown, they could be significant.

The LAO suggests the Legislature consider directing DHS to review the way the CCS program reimburses certain medical treatment services that could be accomplished at less cost in an outpatient setting. The LAO states DHS should be directed to monitor the outcome of a study now being conducted by the Los Angeles Children's Hospital that will compare the medical outcomes and costs of treating CCS children with certain medical conditions in either a hospital or an outpatient setting. The LAO states that if it were to be determined that some medical conditions could be treated as effectively in less costly outpatient settings without harm to patients, the Legislature may wish to consider implementing a pilot project to change the CCS billing system in a way that encourages a less costly medical approach to treatment. The LAO comments that the Department has already initiated discussions with CCS providers regarding this issue.

Accordingly, the LAO suggests the Legislature may wish to consider the adoption of the following supplemental report language:

It is the intent of the Legislature that the Department of Health Services (DHS) shall examine whether California Children's Services (CCS) are unnecessarily being provided in expensive inpatient settings if these same medical conditions could be appropriately treated at less cost in outpatient settings. The DHS shall also recommend what steps, if any, are warranted to change state reimbursement to providers to address this problem. The DHS shall report its findings on this matter by December 1, 2004 to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of both houses of the Legislature.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee the LAO proposal to have DHS review the financial incentives of its CCS reimbursement methodology.

Department of Health Services, please respond to the LAO suggestion that the Department review the financial incentives of the CCS reimbursement methodology.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – MEDI-CAL

1. EXCLUDE OVER THE COUNTER DRUGS FROM COVERAGE

The Medicaid program does not require coverage of over the counter drugs under federal law. Typically coverage of these drugs is excluded from most private health insurance plans. This proposal would exclude coverage of analgesics, antihistamines, and cough and cold drugs from the Medi-Cal program and beneficiaries would have to purchase such drugs on their own. The LAO projects the state would achieve \$7.6 million savings from the exclusion of these drugs.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee the LAO's proposal to exclude over the counter drugs from the list of Medi-Cal eligible drugs.

Department of Health Services, do you foresee any problems in implementing the LAO proposal?

2. SCREEN FOR VETERANS ON MEDI-CAL COVERAGE

Qualified veterans are entitled to comprehensive medical care and health services through the federal Veterans Administration (VA) health care system. The VA currently operates 11 hospitals and 46 clinics that are located throughout the state in order to serve the needs of the state's veterans. The VA indicates that, if it does not have a hospital or clinic available in a community to provide necessary medical care for a veteran, it will make arrangements for that care to be provided in the community at the VA's expense.

As part of regular Medi-Cal eligibility screening process, county workers are required to ask applicants whether they have served in the armed forces and have veteran's status. The names of applicants who indicate that they are veterans are then referred to County Veterans Service Offices so that they can be assisted in obtaining the veterans' benefits to which they are entitled. The referral process is intended to ensure that all possible outside sources of income, such as veterans' aid and attendance payments for the support of personal care, are obtained and available to help reduce costs to the Medi-Cal Program.

U.S. Census Bureau survey data indicates that 117,000 California veterans had reported in 2001 that they were receiving Medi-Cal benefits. Having these veterans obtain their medical care from the VA system might permit them to obtain comprehensive medical care in an entirely federally funded system at no expense to the state. If the federal survey data prove accurate, it is possible that the state could eventually save as much as \$250 million annually by shifting eligible Medi-Cal beneficiaries to the VA system for their medical services.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee your proposal to screen Medi-Cal for veterans who are eligible for services from the VA.

Department of Health Services, do you foresee any problems with implementing the LAO proposal?

3. LONG TERM CARE PROVIDER FEE TO FUND RATE ADJUSTMENTS

There are about 1,400 nursing facilities in California - 1,200 freestanding and 200 hospital-based - that serve an estimated 108,000 people. Approximately 62 percent of gross revenue for California's nursing homes comes from Medi-Cal while the remainder comes from Medicare, managed care and other sources. Some nursing homes do not serve any Medi-Cal eligibles while others serve a mix of Medi-Cal eligibles and other residents.

This proposal would impose a fee on nursing homes to draw down additional federal funds that would offset General Fund costs. The state would impose a 6 percent quality assurance fee on the nursing facilities and then would have the funds matched by federal funds that would offset General Fund costs. The LAO estimates the state would be able to generate \$39.6 million for the General Fund.

It is important to note that the proportion of Medi-Cal eligible residents varies from nursing home to nursing home. Nursing facility operators with low or no Medi-Cal eligibles would also be subject to the fee, as federal law does not permit discriminatory assessment. A 100 percent private-pay facility would likely have to increase rates to recover the increased cost of the fee, as the state would have no means to provide them with a rate increase. In effect, under the LAO option, part of the burden of providing nursing home care for the poor would be borne by nursing homes with few or no Medi-Cal patients.

COMMENTS:

Legislative Analyst's Office, please outline your proposal for the Subcommittee.

Department of Health Services, do you foresee any problems with the LAO proposal?

4. MORATORIUM ON NEW ADULT DAY HEALTH CARE

There are about 300 Adult Day Health Centers (ADHCs) throughout California with the largest concentration in the Los Angeles region. There are 132 pending ADHCs pending in the Department of Aging. Generally, the facilities have the capacity to serve between 40 to 80 people per day. The ADHCs provide: (1) psychological assessment; (2) physical therapy; (3) occupational therapy; (4) speech therapy; (5) social services; (6) dietary assistance; (7) transportation; and (8) recreational activities. Medi-Cal authorizes how many days per week an individual may attend an ADHC and reimburses services on a per-person, per-day basis.

The ADHCs are licensed by DHS and certified by the Department of Aging. The licensing and certification process for a new ADHC facility can take up to 15 months to complete. Under this option, no new ADHCs would be licensed or certified as Medi-Cal providers. The moratorium would run from July 1, 2003 through June 30, 2004 and it would save approximately \$30.1 million in the budget year.

COMMENTS:

Legislative Analyst's Office, please outline for the Subcommittee the LAO moratorium proposal.

Department of Aging and Department of Health Services, please respond to the LAO's proposal to impose a one-year moratorium on new ADHCs.