

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

**ASSEMBLY MEMBER GILBERT CEDILLO, CHAIR**

**MONDAY, APRIL 5, 1999**  
**STATE CAPITOL – ROOM 444**  
**4:00 P.M.**

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## 4260 DEPARTMENT OF HEALTH SERVICES: MEDI-CAL PROGRAM

### ISSUE 1: MEDI-CAL PROGRAM

The Medi-Cal program provides comprehensive health coverage, including inpatient/outpatient care, skilled nursing care, and dental care to welfare recipients and other low-income families. The state and federal governments jointly fund the program, with each contributing roughly 50 percent. For 1999-00, the Medi-Cal caseload is projected to be about 4.9 million eligible persons, approximately one percent lower than the revised current year caseload.

#### BACKGROUND:

The budget proposes Medi-Cal expenditures of \$20.9 billion (local assistance) in 1999-00, which represents an increase of \$987 million, or 4.9 percent, over estimated current year expenditures. The General Fund portion (\$7.3 billion) is proposed to decrease by about \$69 million, or 0.9 percent. Table 1 below shows how these funds are distributed.

Table 1

<b>1999-00 ESTIMATED MEDI-CAL EXPENDITURES</b>				
(Dollars in thousands)				
	<b>General Fund</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total</b>
Eligibility	\$355,670	\$592,996	--	<b>\$948,666</b>
Payment Systems	69,483	123,128	--	<b>192,611</b>
Benefits	6,904,677	11,058,615	\$1,783,968	<b>19,747,260</b>
<b>TOTAL</b>	<b>\$7,329,830</b>	<b>\$11,774,739</b>	<b>\$1,783,968</b>	<b>\$20,888,537</b>

**A. Full Year Funding of Prenatal Care/Long Term Care Services for Undocumented Persons:** The budget includes \$80.31 million (General Fund): \$63.76 to fully fund prenatal care for undocumented women in 1999-00, and \$16.55 million for long term care for undocumented persons.

California has provided prenatal and long-term care services as state-only funded programs since 1987. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 was interpreted by the Wilson Administration to mean that states were prohibited from providing non-emergency services to unqualified immigrants, unless state law is subsequently enacted to allow the provision of such services. Accordingly, Governor Wilson proposed to eliminate funding for these services through the implementation of regulations. The Legislature subsequently passed legislation re-enacting these programs, but the Governor vetoed the bills.

Meanwhile, in response to the regulations, several lawsuits have been filed against the state. The result of this litigation has been to enjoin the implementation of the regulations, thus forcing the Wilson administration to continue to fund the programs. In each of the key outstanding cases, the state has appealed the court's decision and remains in litigation on these issues. *Yvette Doe v. Belshé* is scheduled to be heard before the court of Appeal on January 21, 1999. In the case of *Milagro Doe v. DHS*, a trial setting conference has been scheduled for February 2, 1999. In the case of *Krespin v. Kizer*, an appeal hearing date has not been set. In the 1999-00 budget Governor Davis proposes to fully fund prenatal and long-term care services, as the Administration considers how to proceed with the pending litigation.

- B. Federal Matching Rate for Medi-Cal:** The Medi-Cal estimate reflects an increase in the federal matching rate (from 51.67 percent to 53.36 percent), which results in a General Fund savings of \$210 million in 1999-00.

The percentage of Medi-Cal costs covered by the federal government is based on a calculation of state income per capita. According to the Department of Finance, the federal government uses U.S. Bureau of the Census population estimates, which understate California's population, thus resulting in a higher income per capita and a lower federal matching rate. The underestimate is the result of using income tax data, which do not reflect more recent population trends. The Davis administration is working with the federal government to secure an appropriate increase in federal funding.

- C. Federal Funding For Family PACT:** The budget assumes new federal funding of \$122 million (via a federal waiver) for currently state funded Family PACT services, thus reducing General Fund expenditures by the same amount.

The Family PACT program offers family planning services (i.e., reproductive health information, education and counseling, STD/HIV prevention services, and preconception counseling) to persons at or below 200 percent of the federal poverty level, who have no other source of health insurance. These services are currently 100 percent state funded. The state is seeking federal approval of a Medicaid demonstration project that would allow the state to claim these expenses through the Medi-Cal program. Similar demonstration project waivers have been granted in Florida, Oregon, and New Mexico.

***Note that the department's budget request does not reflect the state's ability to claim federal funds for administrative costs in the Family-PACT program. The subcommittee should consider reducing the General Fund request by \$2.9 million to correct this oversight.***

**ISSUE 2: MEDI-CAL CASELOAD**

The 1999-00 budget projects Medi-cal caseloads will decline by one percent in the budget year, with the public assistance portion of the caseload declining by approximately 1.86 percent.

**BACKGROUND:**

The Legislative Analyst Office (LAO) indicates that this estimate is inconsistent with the Department of Social Services' caseload projections for the Cal Works program. The LAO also indicates that the caseload projections are not adjusted to reflect the implementation of Section 1931 (b). Accordingly, the Legislative Analyst has recommended the Legislature score savings of \$127 million.

**Section 1931 (b) & the Edwards Hold.** Section 1931 (b) is the section of federal law that—as part of welfare reform--allowed the state to establish a link between the new CalWorks Program and Medi-Cal. This link is known as the 1931 (b) program. Instead of issuing guidelines to counties on determining eligibility for this new program, the DHS asked the counties (beginning January 1998) to place all people who were being terminated from or leaving CalWorks into a “hold status”—known as the Edwards hold--while the programmatic details were being worked out. Currently, there are approximately 315,000 cases in the Edwards hold status.

At this point, the DHS has issued guidelines for re-determining eligibility for cases in the Edwards hold, and counties have been directed to proceed. The DHS asked counties to complete the process by April. However, counties felt that this was not a reasonable timeline. In fact, no county was able to meet the deadline. Some refused to even try.

**COMMENTS:**

- The LAO recommendation assumes that counties complete the re-determination process by the end of the current fiscal year. It also assumes that many people who are now on the Medi-Cal caseload—in the Edwards hold category -- would no longer be in the program upon re-determination--primarily because the county welfare departments will not be able to locate many of them.
- Since the release of the *Analysis*, the LAO has adjusted their assumptions (and their recommendation) to reflect a more likely timeline for county re-determinations.

**ISSUE 3: MEDI-CAL REFORM**

The 1999-00 budget includes a \$37.3 million set-aside for health care reform. The Administration has indicated a willingness to consider Medi-Cal enhancements. More specifics are anticipated as part of the May Revise.

**BACKGROUND:**

An estimated seven million Californians are uninsured. Many are children and working parents who are not offered coverage through their employer, and who do not make enough money to purchase private coverage. It is estimated that the number of uninsured Californians grows by about 50,000 people per month.

Growing awareness of this problem has given rise to a large number of legislative proposals that attempt to expand access to publicly funded health insurance. Last year, the Legislature enacted the Healthy Families program to provide health insurance to an estimated 330,000 children. In addition, the Legislature made changes to the Medi-Cal program to expand coverage.

During the current legislative session, several bills have been introduced that would amend the Medi-Cal program even further. While the legislative proposals vary in their approach, they have a few things in common: the initiatives seek to expand access to publicly subsidized health insurance by raising Medi-Cal income limits, and to simplify the process of obtaining and maintaining coverage for eligible Californians.

**COMMENTS:**

- Should the subcommittee “set-aside” additional funds for Medi-Cal reform?

**ISSUE 4: MEDI-CAL RATES**

The subcommittee has been asked to consider providing Medi-Cal rate increases in the 1999-00 budget.

**BACKGROUND:**

Last year, the Legislature enacted a number of Medi-Cal rate increases with a focus on improving access to primary and preventive care services. Prior to this, most rates had not been increased in over 13 years. These included:

- 20 percent for child primary and preventive care;
- Ten percent for adult primary and preventive care;
- Five percent for in-home nursing care for children (EPSDT); and
- Five percent for Child Health and Disability Prevention (CHDP) services.

Other significant rate increases included:

- 50 percent for ambulance services,
- 15 percent for hospital outpatient services, and
- Six percent for long term care services

This year, representatives of the health care industry seek to continue last year's Medi-Cal reimbursement reforms by raising rates for services that did not receive an increase last year. For example, the subcommittee has been asked to consider increases for specialty services, nursing home care, home health services, non-emergency ambulance services (vans), and dental services to name a few. Specific proposals include:

- A 9.5 percent increase for anesthesiology, surgery and radiology physician services to restore a reduction implemented in 1992,
- A ten percent increase for adult primary and preventive care services for adults—to bring last year's increase to the level for children's services, and
- A 20 percent rate increase for all other services that have not received a rate increase in the past 14 years.

**COMMENTS:**

As the subcommittee considers Medi-Cal rate increases, it is important to keep in mind that the state is currently facing a potentially large rate adjustment—possibly ranging in cost from several hundreds of millions of dollars to a couple of billion dollars annually--related to the *Orthopedic v. Belshe* settlement.

**Orthopedic v. Belshe.** The Orthopedic lawsuit claimed that the rates paid by the state did not adequately compensate for the reasonable value or usual charges for hospital outpatient services. In January of 1998, the Ninth Circuit Court of Appeals reached a decision in *Orthopedic v. Belshe*, requiring the DHS to conduct a “valid and reliable study of the cost of providing hospital outpatient care, and to set rates having a reasonable relationship to those costs”.

The department began their study in March 1998. Although the fiscal impact of the lawsuit is unknown until the study is completed, the department has indicated that it could be in the billions of dollars annually.

**ISSUE 5: PORT OF ENTRY DETECTION PROGRAM**

The 1999-00 budget includes approximately \$1.3 million (\$649,000 General Fund) and 18 positions to continue the Port of Entry Detection Program and the California Airport Residency Review Program.

**BACKGROUND:**

These programs were established in 1984 to identify nonresidents who are, or have been, receiving Medi-Cal benefits that they are not entitled to. Currently, the programs has investigative staff—with guns—at the major ports along California's southern border performing vehicle checks on a random basis, and in airports. The 1999-00 budget proposes to continue the program at the current year level.

Last year, the Legislature eliminated funding for these and other programs, but former Governor Wilson negotiated these back into the budget.

**COMMENTS:**

- These programs have been criticized for discouraging immigrants who may be legally entitled to Medi-Cal benefits from obtaining health care for themselves and their children.
- According to the Department, the program results in budget savings of about \$3.5 million. This estimate is a combination of deferred costs, and amounts recovered from non-residents who allegedly received benefits illegally.
- The Auditor General released a report today on these programs. The department has been asked to present the findings of the report.

**ISSUE 6: MEDI-CAL DRUG REBATE PROGRAM**

The 1999-00 budget proposes to extend for one year the sunset on the Drug Rebate Program.

**BACKGROUND:**

Under this program, the pharmaceutical drug companies provide rebates to the state for prescription drugs on the Medi-Cal formulary, as well as prescriptions approved through the Treatment Authorization Request (TAR) process. This allows the state to provide Medi-Cal beneficiaries access to a wide range of drugs at a discounted rate.

A sunset date was included in the statutory provisions that established this program to facilitate legislative review of the efficiency of the program. As part of the review of this program, the Legislature is also confronted with larger health policy issues, such as the availability of drugs for Medi-cal patients.

**COMMENTS:**

- A coalition of major pharmaceutical companies has developed—for Legislative consideration--a proposal that attempts to improve Medi-Cal beneficiary access to drugs newly-approved by the federal Food and Drug Administration.

**ISSUE 7: SMOKING CESSATION DRUGS**

The 1999-00 budget includes \$9.1 million General Fund to provide smoking cessation drugs through the Medi-Cal program in the budget year.

**BACKGROUND:**

Last year, former Governor Wilson added several new smoking cessation drugs to the Medi-Cal formulary (such as the nicotine patch). The department estimates that it will cost approximately \$9.1 million to provide these drugs in the budget year.

According to the Legislative Analyst's Office, the department over budgeted for the drugs by using national smoking prevalence data. However, the LAO points out that smoking prevalence in California is lower than the national average. Accordingly the LAO recommends reducing the budget for these drugs.

**COMMENTS:**

- The LAO recommends reducing the budget by \$1,550,000 (General Fund).