AGENDA
SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES

ASSEMBLYMEMBER PATTY BERG, CHAIR

MONDAY, MARCH 10, 2008
STATE CAPITOL, ROOM 126
4:00 P.M.

4260 DEPARTMENT OF HEALTH CARE SERVICES

Department of Health Care Services (DHCS)—Medi-Cal

Medi-Cal

The California Medical Assistance Program (Medi-Cal) provides health care services to qualified low-income persons (primarily children and families with children and the aged, blind, or disabled). The program provides health care to both CalWORKs and SSI/SSP recipients, but most Medi-Cal enrollees are not welfare recipients. Medi-Cal incorporates California's version of the federal Medicaid Program plus several state-only components. Expenditures for medical benefits generally are shared about equally by the General Fund and by federal funds. The DHCS is the single state agency accountable for all federal Medicaid funding. Consequently, the DHCS Medi-Cal budget also includes federal Medicaid funds for (1) disproportionate share hospital payments and other supplemental payments, which provide additional funds to certain hospitals that serve large numbers of Medi-Cal and indigent patients; and (2) the federal match for state and local funds budgeted in other departments for programs that provide services that also serve Medi-Cal enrollees and qualify for Medicaid funding. These other departments include the departments of Aging, Developmental Services, Mental Health, and Social Services (for the In-Home Supportive Services—IHSS—Program).

The DHCS budget proposes Medi-Cal expenditures totaling $36.4 billion from all funds for state operations and local assistance in 2008-09. Figure 1 displays a summary of Medi-Cal General Fund expenditures in the DHCS budget for the past, current, and budget years. Projected General Fund spending for local assistance ($13.7 billion) decreases by about $402 million, or 2.9 percent, compared with the current-year estimate. The largest decreases result from 10-percent reductions in payments to many providers, which total $649 million in the budget year, and a reduction of $143.5 million from the discontinuation of some optional Medi-Cal benefits. These decreases are partially offset by increases in other areas. Non-General Fund expenditures are predominantly federal funds, which are budgeted at $21.7 billion, or 2 percent, less than estimated for the current year. This decline reflects the loss of federal matching funds that accompanies reduced state spending. In addition, the spending total for the Medi-Cal budget includes an estimated $596 million in local government funds that are used along with federal matching funds for payments to designated public hospitals. About $5.9 billion of total Medi-Cal spending consists of funds that support programs operated by other departments, counties, and the University of California.

Figure 1

Medi-Cal General Fund Budget Summary[a]
Department of Health Care Services

(Dollars in Millions)

	Expenditures			Change From 2007-08	
	Actual 2006-07	Estimated 2007-08	Proposed 2008-09	Amount	Percent
Local Assistance					
Benefits	$12,649	$13,184	$12,829	-$354	-2.8%
County administration (eligibility)	673	786	734	-52	-7.1
Fiscal intermediaries (claims processing)	84	101	105	4	3.8
Totals, Local Assistance	**$13,406**	**$14,071**	**$13,668**	**-$402**	**-2.9%**
Support (state operations)	$115	$129	$132	$3	2.3%
Caseload (thousands)	6,544	6,638	6,564	-74	-1.1%

[a] Excludes General Fund Medi-Cal budgeted in other departments.
Detail may not total due to rounding.

Source: Legislative Analyst's *Analysis of the 2008-09 Budget Bill. The figures in this table include an adjustment of $76.4 million of higher spending in 2008-09 to correct technical errors in the Budget Balancing Reductions savings estimates.*

GOVERNOR'S 2008-09 BUDGET PROPOSAL

The Governor's budget proposes total General Fund spending of $13.7 billion for Medi–Cal local assistance in 2008-09, a net decrease of approximately $402 million, or 2.9 percent, below estimated spending for the current year. The spending plan proposes significant adjustments and policy changes that reduce spending in the budget year. Figure 2 shows the major components of the Governor's budget reductions.

Figure 2
Medi-Cal Local Assistance
Major General Fund Spending Changes
2008-09 Governor's Budget

(In Millions)

Savings From Cuts in Rates and Services	
10 percent rate reductions	-$561
Reduction in hospital payments	-88
Elimination of various optional services	-139
Discontinuation of payment of Medicare Part B premiums for Medi-Cal share of cost beneficiaries	-67
Caseload Reduction Proposals	
Reinstatement of quarterly status reports for parents	-$9
Reinstatement of quarterly status reports for children and cessation of continuous eligibility	-84
Caseload Increases	
Implementation of SB 437	$13
Reductions in County Administration Funding	
Elimination of 2008-09 cost-of-doing-business increase	-$22
Reduction of funding for caseload growth	-33
Reduction in base funding	-15
Increased Cost of Services	
Increased cost for payment of Medicare premiums	$59
Increased cost for Medicare Part D clawback	49

Some numbers may not match text due to rounding.

Loss of Federal Funds. In general, most of the spending reductions and impacts on services that result from the Governor's proposed Medi-Cal reductions are double the amount of General Fund savings because of the loss of federal matching funds.

Rate Reductions ($561 Million Savings). The Governor's budget proposes a 10 percent provider rate reduction, resulting in $504 million General Fund savings. Rate reductions for certain long–term care providers would also go into effect in the budget year, producing additional savings of $57 million General Fund. The budget excludes stand-alone skilled nursing facilities (SNFs) and Intermediate Care Facilities for the Developmentally Disabled (ICF–DD) from the rate reductions because they are subject to quality assurance fees, which generate state revenues and help to fund their rates. These savings also include equivalent reductions in payments to managed care organizations.

Elimination of Certain Optional Benefits ($139 Million Savings). The budget proposes to eliminate various optional services for adults who are not in long–term care, generating General Fund savings of $139 million in the budget year. The majority of these savings ($120 million) results from the elimination of optional dental services for adults.

Elimination of Medicare Part B Premium Payments ($67 Million Savings). The budget plan also includes General Fund savings of $67 million from ending the payment of Medicare Part B premiums ($96.40/month) for beneficiaries who have a share of cost. The General Fund pays the entire cost of these premiums. The state would continue to pay Part B premiums for Medicare-eligible beneficiaries whose incomes are under the regular income eligibility limits (and who therefore have no share of cost).

Quarterly Status Reports ($92 Million Savings). The budget proposes to tighten eligibility rules beginning July 1, 2008 to reduce caseload. The proposals call for reinstatement of a quarterly reporting requirement for parents and children, which would require Medi–Cal beneficiaries to file a quarterly report with their county welfare office in order to maintain eligibility, regardless of whether they have any changes in income or assets. Under Federal law, all Medi-Cal beneficiaries must go through an annual redetermination process. Existing state law also requires parents to report semi-annually. Children currently qualify for continuous eligibility, subject only to the annual redetermination. The Department estimates that these proposals combined will reduce the average monthly caseload by 172,000 individuals for General Fund savings of $92 million in 2008–09. The bulk of the reduction in caseload would be children (157,000).

Reductions in Hospital Inpatient Payments ($88 Million Savings). The budget proposes to reduce some payments to hospitals for inpatient services to generate General Fund savings of $88 million, or 2 percent, of Medi–Cal inpatient General Fund spending. This total consists of the following specific proposals:

- A redirection of 10 percent, or $34 million, in federal "Safety Net Care Pool" waiver funds from the Designated Public Hospitals (the major public hospitals that serve large numbers of indigent and Medi-Cal patients). These funds would be redirected to offset General Fund spending for four other DHCS health care programs: the California Children's Services Program, the Genetically Handicapped Persons Program, the Breast and Cervical Cancer Treatment Program, and the Medically Indigent Adult–Long–Term Care Program.

- A General Fund decrease of 10 percent, or $36 million, in reimbursements to hospitals that provide Medi–Cal services without state contracts.

- A reduction of 10 percent, or $24 million, General Fund, in supplemental payments to private hospitals and non-designated public hospitals, who currently receive these funds as "DSH replacement" payments.

Reductions in County Administration Funding ($70 Million Savings). The budget proposes to reduce funding to counties for the determinations of Medi–Cal eligibility by $70 million General Fund. This proposal would reduce the counties' base payment for eligibility determination processing ($15 million savings), eliminate funding for anticipated growth in caseload determinations ($33 million savings), and eliminate the 2008–09 cost–of–doing-business increase ($22 million savings).

Medicare Premiums ($59 Million Cost). The Medi–Cal Program pays the premiums for Medi–Cal beneficiaries who also are eligible for Medicare (dual eligibles), thereby obtaining 100 percent federal funding for those services covered by Medicare. (This arrangement is favorable to the state because it generally has the net effect of reducing state costs for Medi–Cal.) The budget estimates that the General Fund cost of these so–called "buy–in" payments will increase by $59 million General Fund, mainly as a result of increased premium costs. However, as noted above, the budget proposes to end payment of Part B premiums for dual eligibles with a share of cost.

Medicare Part D "Clawback" ($49 Million Cost). Medi–Cal payments for the Medicare prescription drug benefit program, known as Medicare Part D, increased as a result of caseload growth and the rising cost of pharmaceuticals. The Medicare Part D program now pays the cost for drugs for dual eligibles. However, the federal government requires that the states pay back much of this savings, a payment known as the "clawback." The Governor's budget estimates that the state's clawback payment will be $1.2 billion in the budget year, an increase of $49 million over the prior year's payment.

Implementation of SB 437 Self–Certification Pilot ($13 Million Cost). The Governor's budget proposes implementation of Chapter 328, Statutes of 2006 (SB 437, Escutia), which authorizes a pilot program to evaluate self-certification of income and assets by applicants and beneficiaries. The 2008–09 budget includes a General Fund increase of $11.4 million for increased caseload growth of 17,000 individuals, $900,000 for counties to administer the pilot, and $700,000 for an evaluation of the program's implementation and necessary computer systems changes. The Governor vetoed funding (which he had proposed) for this program in the 2007-08 Budget, on the basis that he was delaying implementation for one year.

DHCS State Operations

Reductions in State Staffing Levels Proposed ($7 Million Savings). The Governor's budget proposes $143 million General Fund for state operations. This includes savings of nearly $7 million in the budget year, mostly due to the elimination of 113 positions and other associated funding. Generally, these reflect 10-percent reductions in various staff units.

SPECIAL SESSION ACTIONS

On January 10th, the Governor declared a fiscal emergency under the provisions of Proposition 58 and called the Legislature into the 2007-08 Third Extraordinary Session to consider his budget savings proposals (which include the budget reductions discussed above). The Subcommittee reviewed those savings proposals at its hearings on January 23 and 31. Subsequently, the full Budget Committee adopted and the Legislature enacted a package of Special Session legislation that, together with the Governor's issuance of additional Economic Recovery Bonds and other administrative actions, reduced the size of the 2008-09 budget problems by about $7.4 billion. The statutory provisions necessary to achieve savings in health programs were contained in AB 5 X3 (Committee on Budget).

The Special Session actions to date result in the following General Fund budget savings:

Medi-Cal Provider Rates. The Special Session package reduces provider rates by 10 percent beginning July 1, 2008, which provides $558.8 million of savings in 2008-09. The rate reduction includes distinct-part (hospital-based) nursing facilities, but excludes freestanding nursing homes that pay a quality assurance fee that helps to finance their rates. The reduction also applies to inpatient care provided by hospitals that do not contract with Medi-Cal, but excludes payments to contracting hospitals. Monthly payments to Medi-Cal managed care plans will be reduced on an actuarially-equivalent basis. This action modifies the Governor's proposal by delaying the reduction by one month and by excluding from the reduction provider rates for family planning services and for the Breast and Cervical Cancer Treatment Program, which receive enhanced federal matching funds, in order to avoid excessive loss of federal funds.

Additional June Medi-Cal Checkwrite Delay. The Special Session package delays the June 19, 2008 Medi-Cal checkwrite until July. This results in a budget savings of $165 million in 2007-08, as proposed by the Governor. The June checkwrite delay will be permanent, but the savings are one-time. This action will be accomplished administratively.

In addition, the following two actions will mitigate the state's cash-flow problems within 2008-09 but have no budgetary effect:

One-month Cash-Flow Delay of Provider Payments. The Special Session package delays one month of payments to Medi-Cal institutional providers and managed care plans. This is a one-month cash disbursement delay of $686 million in order to reduce the state's cash needs prior to the issuance of a Revenue Anticipation Note. The budget assumes that the payments will be delayed from August until September 2008.

Delay of County Payments for Medi-Cal Administration. The Special Session package delays the first quarterly payment to counties in 2008-09 by one-to-two months for a cash disbursement delay of $164 million in order to reduce the state's cash needs prior to the issuance of a Revenue Anticipation Note. This action will be accomplished administratively.

ISSUE 1: LEGISLATIVE ANALYST'S OFFICE (LAO) ALTERNATIVE BUDGET APPROACH

The LAO has criticized the Administration's across–the–board budget–balancing approach on the basis that it fails to prioritize state spending. The LAO points out that while making virtually all programs share in the pain of balancing the budget has an appearance of "fairness," it reflects little effort to prioritize and determine which state programs provide essential services or are most critical to California's future. In doing so, the Administration has shifted much of the responsibility for crafting a workable budget to the Legislature. The LAO also believes that additional revenues need to be a part of the solution and that the resolution of the 2008-09 budget problem should result in balanced budgets in subsequent years (unlike the Governor's Budget). To illustrate these points, the LAO offers an alternative approach that makes more targeted reductions; adds $2.7 billion of additional ongoing revenue solutions, and results in budgets that would remain balanced through 2012–13.

LAO Alternative Budget Approach for DHCS/Medi-Cal

Key Features of LAO Alternative. The LAO describes its overall approach as targeting cost–cutting measures that, in LAO's judgment, are least likely to result in either the elimination or severe reduction of programs that provide direct medical services. LAO also sought to avoid making reductions that would result in increased costs in other programs. Regarding rate reductions, we analyzed the rate histories of providers and generally only reduced the rates of those providers that had received rate increases in recent years. We also identified federal fund sources to backfill General Fund shortfalls when possible. In total, as shown in the overview in Figure 3, the LAO budget alternative would reduce costs in DHCS/Medi-Cal programs by $439 million below the Governor's workload budget.

Figure 3
LAO Alternative Budget: DHCS/Medi-Cal Overview

(General Fund in Millions)

	Savings	
Proposal	**2007-08**	**2008-09**
Increase shift of federal funds from public hospitals to other state health programs	—	$91.1
Reinstate quarterly status reporting and eliminate continuous eligibility for children	—	69.0
Discontinue payments for Medicare Part B premiums for beneficiaries with shares of cost	$5.5	65.5
Reduce certain payments to hospitals	—	54.0
Eliminate county cost of doing business	—	32.3
Other	1.0	120.5
Totals	**$6.5**	**$432.4**

Comparison to Governor's Budget. Although the LAO alternative budget adopts many of the reductions proposed by the Governor, it does not include the 10-percent rate reduction to Medi–Cal providers (which was substantially adopted by the Legislature in the Special Session) because of LAO's concerns that it could severely limit the access of Medi–Cal beneficiaries to providers (discussed further below). The LAO also did not include the Governor's proposed elimination of adult dental and other optional benefits. To partly compensate for these rejected savings, LAO shifted an additional $91.1 million of federal Safety Net Care Pool funds away from the Designated Public Hospitals in order to replace General Fund support for state programs. However, the total General Fund savings in the LAO's alternative budget for DHCS/Medi-Cal falls short of the savings proposed by the Governor by more than $700 million. The higher cost is financed, in essence, with the additional revenues in the LAO alternative budget.

Specific LAO Alternative Budget Proposals for DHCS/Medi-Cal

The details of the LAO alternative budget for DHCS/Medi-Cal are listed below, along with the 2008-09 savings estimate, the rationale provided by LAO, and staff comments.

The LAO should briefly describe each of these proposals to the Subcommittee.

1. ***Reinstate QSRs and End Continuous Eligibility ($69 million).*** Adopt Governor's budget-balancing reductions to reinstate quarterly status reporting and eliminate continuous eligibility for children.

   LAO Rationale: LAO has no issue with this request. They have made an adjustment to the Governor's budget reduction to account for increased costs caused by beneficiaries reentering the program when services are needed.

   Staff Comments: The LAO estimate of savings is $23.1 million less than estimate in the Governor's Budget. LAO should explain the basis for their estimate of offsetting "churning" costs and how many children and parents that they estimate will be affected. Most of this population is in managed care. Savings are attributed to a reduction in capitation payments while beneficiaries are disenrolled. However, if disenrolled beneficiaries tend to re-enroll when they need services, then the utilization of services within the managed care plans will not decline as much as the caseload. Under the managed care rate methodology, this will result in higher utilization per enrolled beneficiary and a higher capitation rate that will offset a portion of the caseload savings.

2. ***Part B Premiums for Share-of-Cost Beneficiaries ($65.5 million).*** Adopt Governor's budget-balancing reduction to discontinue payments for Medicare Part B premiums for beneficiaries who have share of cost requirements.

   LAO Rationale: LAO has no issues with the Administration's proposed reduction.

   Staff Comments: The Part B monthly premium of almost $100 represents a substantial burden for elderly and disabled beneficiaries with a small share of cost requirement. For example, single beneficiaries with a $200 monthly share-of-cost have monthly incomes of $820. Maintaining Part B premium payments for beneficiaries with a share of cost under $500 would reduce the savings by about $4.6 million. There also would be some offsetting savings from Medicare coverage of physician costs in the initial month of any period in which these beneficiaries do meet their share of cost. Furthermore, physicians would see an effective rate reduction for services that currently are paid at 80 percent of the full Medicare rate under Part B, but would instead be paid at the lower Medi-Cal rate—or possibly have to be provided on a charity basis for beneficiaries who do not meet their share of cost requirement.

3. ***Approve and Increase Reductions for Hospitals ($179 million).*** The LAO recommends that the Legislature take the following actions:

    - Approve the Governor's proposed payment reductions for hospitals (rate reductions for non-contract hospitals and in replacement DSH payments to private and nondesignated public hospitals), as well as the proposed shift of federal Safety Net Care Pool hospital payments to other state–funded programs. These actions would result in savings of $88 million General Fund in 2008–09 and $108 million annually.

    - Shift additional Safety Net Care Pool federal funds from public hospitals to offset General Fund spending for the following programs: EAPC, CCS, GHPP, the Medically Indigent Adult Long–Term Care Program, and certain clinic grant programs. LAO estimates that this shift would result in additional savings of $91 million General Fund in 2008–09 while maintaining the primary care services funded by these programs.

    LAO Rationale: Hospitals have received significant rate increases relative to other provider types in recent years, and hospitals are generally among the most expensive settings to provide care.

    Staff Comments: Staff understands that LAO is reducing their recommended additional diversion of Safety Net Care Pool funding to address technical issues raised by the Department. Also, it should be noted that the designated public hospitals have very little ability to cost-shift because they serve a high proportion of Medi-Cal and indigent patients. The financing of these hospitals also functions as an integrated component of the overall indigent care systems of the counties in which they are located. Consequently, reductions in funding to these hospitals are likely to reduce funding for these counties' indigent care systems, including clinic and primary care services, as well as hospital inpatient services. Hospitals have received significant rate increases relative to other provider types in recent years, and hospitals are generally among the most expensive settings to provide care.

4. ***County Cost of Doing Business Adjustment ($32.3 million).*** Adopt Governor's budget-balancing reduction to eliminate the County Cost of Doing Business adjustment.

    LAO Rationale: LAO concurs with the Administration's proposed reduction. The savings amount is higher than in the Governor's budget due to higher growth in the California Necessities Index.

5. ***Minor Consent Program ($18.9 million).*** Apply federal Deficit Reduction Act (DRA) eligibility requirements to minor consent beneficiaries in order to obtain federal funds.

LAO Rationale: The state chose to forego federal funding for this population in 2006-07 by not enforcing federal eligibility requirements.

Staff Comments: Many teens who participate in the confidential minor consent program do not have access to the required documentation without asking their parents. Enforcing a blanket DRA documentation requirement would negate the confidential basis of the program and discourage these teens from obtaining appropriate and professional care.

6. ***Self-Certification Pilot ($18.5 million)***. Delay implementation of SB 437 pilot program for two years.

   LAO Rationale: The proposal to implement SB 437, which would increase the Medi–Cal caseload, is inconsistent with the budget-balancing proposals intended to reduce the Medi–Cal caseload. Given the projected operating budgetary shortfall, delaying implementation of this pilot program would allow the Legislature to redirect these resources to other areas.

   Staff Comments: One purpose of the pilot would be to determine if administrative costs could be reduced through self-certification without jeopardizing program integrity. Further delay of the pilot also would delay any such savings.

7. ***Nursing Home Rate Cap ($16.5 million)***. Implement a reduced rate cap for nursing homes.

   LAO Rationale: Nursing homes have received rate increases over the last few years. This proposal would limit the rate increase in 2008-09.

   Staff Comments: The 2007-08 Budget included trailer legislation maintaining a 5.5 percent cap on the overall increase in nursing home rates. The Governor had proposed a 4.5-percent growth cap. In effect, a lower growth cap would be equivalent to the state retaining a larger portion of the Quality Assurance Fee paid by freestanding nursing facilities.

8. ***PARIS Implementation ($7 million).*** Implement Public Assistance and Reporting Information System early.

   LAO Rationale: This federal database can help the state match veterans on Medi-Cal with VA health care services and it can identify enrollees who have moved out of California.

   Staff Comments: LAO should explain the basis for its savings estimate. The Supplemental Report of the 2007-08 Budget directs DHCS to provide the Legislature with the following two reports:

   - A report examining the implementation of PARIS in order to allow DHCS to identify veterans enrolled in the Medi-Cal program who could instead receive medical benefits through the federal Veteran's Administration (by April 1, 2008).

   - A report examining the implementation of the PARIS interstate/federal match to allow California to identify beneficiaries who are receiving duplicate benefits from health and social services programs in two or more states and thereby facilitate improved program integrity by disenrollment of beneficiaries upon verification that they no longer reside in California (by July 1, 2008).

9. ***State Operations Staff Reductions ($6.6 million).*** Adopt Governor's budget balancing reductions to eliminate positions in state operations.

   LAO Rationale: LAO concurs with the Administration's proposed reductions.

10. ***County Administration—DRA Workload ($6 million).*** Reduce funding for county administration of Deficit Reduction Act (DRA) requirements.

    LAO Rationale: LAO found that the counties are overbudgeted for carrying out DRA administrative activities related to verification of citizenship and identity. The counties can perform the required tasks in a lesser amount of time and will, therefore, require less funding.

11. ***HCB Waiver Recipient Counseling ($5 million).*** Implement cash and counseling methodology for certain Home and Community Based Service Waiver recipients.

    LAO Rationale: Program would allow higher functioning recipients greater freedom to choose their own services in exchange for spending caps.

12. ***Fiscal Intermediary ($4.8 million).*** Adopt Governor's budget-balancing reductions to the Fiscal Intermediary contract.

    LAO Rationale: LAO concurs with the Administration's proposed reduction.

13. ***HIV/AIDS Pharmacy Pilot Project ($2.7 million).*** Allow the HIV/AIDS Pharmacy Pilot program to sunset.

    LAO Rationale: LAO recognizes the merits of having pharmacists coordinate HIV/AIDS patients' therapeutic drug regimens, but believes that the provision of direct services is a higher priority than continuing to fund a pilot program beyond the time period set by the Legislature.

    Staff Comments: This program was scheduled to sunset January 1, 2008, but was extended until June 30, 2008 by the *2007–08 Budget*. The Governor's budget proposes to extend this program an additional year, until June 30, 2009. The pilot was designed to test the effectiveness on patient outcomes of having pharmacists coordinate and monitor HIV/AIDS patients' therapeutic drug regimens. However, at this time, the Department still has not completed an evaluation of the effect of the pilot program on patient health or on the cost of treatment. DHCS should inform the subcommittee when it expects to complete the program evaluation.

14. ***Shift aged, blind, and disabled into managed care ($--).*** LAO estimates savings of $25 million in 2009-10 and $100 million annually thereafter.

    LAO Rationale: See 2004 report *Better Care Reduces Health Costs for Aged and Disabled Persons*.

    Staff Comments: It is generally recognized that elderly and disabled beneficiaries and others with special needs could benefit from managed care, provided that the managed care organizations have the appropriate tools, expertise, and commitment to serve their specific needs. County Organized Health Systems already provide much care to these populations. However, mandatory enrollment in managed care can disrupt existing patient-provider relationships and the financial incentives of commercial plans tend to discourage them from enrolling and providing all appropriate care to those most dependent on health care services. The 2007-08 Budget provides $775,000 to DHCS to implement performance and quality standards in Medi-Cal focused particularly on of individuals with special health needs. Budget Act language also requires DHCS to develop an action plan and an ongoing consultation process with constituency groups and other departments that also provide services to these individuals.

15. ***Pay for Performance--P4P ($--).*** Implement pay-for-performance programs for Medi-Cal managed care and Medi-Cal fee-for-service. Savings of $5 million would begin in 2009-10.

    LAO Rationale: See the "Department of Health Care Services" write-up in the "Health and Social Services" chapter of this year's *Analysis*. LAO believes that a P4P program would result in better preventive care for all Medi–Cal beneficiaries, leading to a decrease in the overall rate of hospital admissions.

16. ***Centralize Eligibility Determinations at the State Level ($--).*** Savings of $75 million annually would begin in 2009-10.

    LAO Rationale: See the "Department of Health Care Services" write-up in the "Health and Social Services" chapter of the *2003-04 Analysis of the Budget Bill*.

    Staff Comments: Currently, mail-in applications for children and pregnant women are screened by the state and eligibility is granted to those who qualify for Healthy Families or AIM. For those who appear to qualify for Medi-Cal, however, applications must be forwarded to the counties for a second determination.

ISSUE 2: PROVIDER RATE REDUCTIONS: IMPACTS AND PRIORITIES FOR ANY POTENTIAL RESTORATIONS

As discussed above, the Legislature's special session actions included adopting the Governor's 10-percent provider rate reductions (with minor exceptions), but delaying implementation from June 1 until July 1. The primary purpose of the delay of the reduction until the start of the new fiscal year is to allow time for further review of provider rates during the regular budget process to identify any particularly critical consequences of the reduction and to evaluate the possibility of using a more refined approach to mitigate those consequences while still achieving savings. However, any restorations would likely require additional cuts to other rates, services, or eligibility unless additional funding becomes available. Moreover, even in the event that additional resources become available, it seems unlikely that they would be adequate, in light of the overall budget's needs, to restore the entire amount of the rate reductions. Therefore, the subcommittee would benefit from the views of LAO, the administration, beneficiaries and their advocates, and provider groups regarding particularly critical rate issues and suggestions for priorities and principles to guide any potential funding restorations.

LAO Recommends Against Provider Rate Reductions

LAO points out that rate reductions have the potential to negatively impact the operation of the Medi–Cal Program and the services provided to beneficiaries by limiting access to providers and services.

Physicians Have Not Received Rate Increases in Recent Years. In general, FFS physician rates have not changed since the Legislature granted rate increases in the 2000–01 budget year, though medical costs continue to rise. A recent study that compared the rates Medi–Cal pays to its FFS providers to rates paid by Medicare found that, on average, Medi–Cal rates are about 61 percent of what Medicare pays to its service providers. A 10 percent rate reduction will reduce the rates to approximately 57 percent of what Medicare would pay.

Studies Link Rates and Access to Timely Health Care. The effect of reimbursement rates on access and quality of care is complicated, but some evidence exists that the rates paid to providers can positively affect access to care. According to LAO, a recent national survey has suggested that Medicaid rates not only seem to have an effect on access, but also on the perception of the quality of care that beneficiaries receive. Beneficiaries in this study uniformly had higher levels of satisfaction with their care when Medicaid reimbursements were higher. Other studies have shown that physician fee levels affect both access and outcomes for Medicaid patients.

LAO points out that Medi–Cal reimbursements may particularly impact the participation of specialist providers in the program. A recent study of otolaryngologists (ear, nose, and throat specialists) in Southern California found that fewer than 50 percent of the practicing physicians would accept appointments with children enrolled in FFS Medi–Cal. Of the physicians who would not accept new appointments, 90 percent cited low reimbursement rates as a reason. If the cost of practicing medicine in California continues to grow while Medi–Cal rates remain stagnant, the relatively low Medi–Cal reimbursement rate for many primary care doctors and specialists may limit the number of physicians willing to see new Medi–Cal patients or continue treatment of existing patients.

Lack of Primary Care Access May Cause a Shift to More Expensive Forms of Care. LAO indicates that Research shows that access to effective primary care services can reduce the inappropriate use of emergency services. Generally, the cost of services is more expensive if provided in an emergency room than in a primary care doctor's office. Many Medi–Cal managed care plans, as well as commercial health care plans, reward physicians for providing after–hours service and being available on weekends in order to increase their availability to beneficiaries, reducing the unnecessary use of the emergency room and thereby helping to control costs.

The most recent estimate available specifically for Medi–Cal physician services, provided by a 2001 survey by the California Health Care Foundation, concluded that only 55 percent of primary care physicians and less than 50 percent of specialists were willing to accept Medi–Cal patients following the rate increase that year. If the proposed physician rate reductions were to result in a decrease in the number of physicians willing to serve the Medi–Cal population, it would be more difficult for beneficiaries to find physicians or schedule appointments. If physicians are unavailable, these beneficiaries may seek care in expensive emergency room settings.

LAO Suggested Alternative Approach to Rate Reductions

LAO suggests that, rather than reducing rates by 10 percent across the board for almost all providers, the Legislature may wish to consider ways to implement rate reductions that would least disrupt the provision of services. LAO provides the following options:

- ***Reduction in Overall Proposed Rate Reduction:*** The Legislature may wish to moderate the overall size of the rate reduction by reducing the proposed percentage.

- ***Application of Reduction to Certain Providers:*** The Legislature may wish to consider whether a provider has received a recent rate increase. As stated above, DHCS adjusts certain providers' rates on a yearly basis, while other providers do not receive yearly adjustments.

- ***Consideration of Potential Cost Shifts towards More Expensive Services:*** The Legislature may wish to consider whether a reduction of rates to certain providers would cause a cost–shift towards more expensive provider types. For example, if rate reductions force Adult Day Health Care Centers to close, beneficiaries who rely on services provided by the centers to stay in their homes may be forced to enter into relatively more costly nursing homes or other assisted living facilities.

STAFF COMMENTS

- Various groups have suggested a number of additional factors that they suggest could be used to establish priorities for restorations, including the following:
    - The degree to which services are critical to the life and basic ability to function of Medi-Cal beneficiaries.
    - The degree to which various provider types are dependent on Medi-Cal and therefore have little ability to shift costs to other payers, such as private coverage or Medicare.

Provider groups, advocates, and the Administration may have additional suggestions for the Subcommittee regarding rate priorities.