

**AGENDA**  
**SUBCOMMITTEE No. 1**  
**ON HEALTH AND HUMAN SERVICES**

**ASSEMBLYMEMBER PATTY BERG, CHAIR**

**THURSDAY, MAY 17, 2007**  
**STATE CAPITOL, ROOM 4202**  
**1:00 P.M.**

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## ITEMS ON CONSENT

### **4120 EMERGENCY MEDICAL SERVICES AUTHORITY**

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The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations, as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the "911" emergency telephone system.

The Governor's budget proposes total expenditures of \$25 million (\$12.5 million General Fund) for the EMS Authority. This reflects a net decrease of \$18.2 million (\$16.6 million General Fund), primarily due to the elimination of one-time only funds of \$17.9 million (\$16.6 million General Fund), which were used to purchase three Mobile Hospitals in 2006-07.

**Legal Office Increase.** The EMSA budget includes an increase of \$77,000 (Emergency Medical Services Personnel Fund) to establish a Legal Assistant position to address the increased disciplinary legal caseload regarding Emergency Medical Technicians—Paramedics (EMT-Ps). This position will provide assistance to the EMSA's existing staff counsel. The average number of EMT-P discipline open cases in the legal office has grown from 30 in 2004-05 to 74 in 2005-06. The type of legal cases currently being reviewed for possible discipline include paramedics who are: (1) acting outside of medical control; (2) failure to follow procedures; (3) acts of negligence; or (4) the identification of paramedics who are in violation of Health and Safety Code Section 1798.200 (threats to public health and safety).

#### **Finance Letter Requests**

1. A technical reduction of \$143,000 from the EMS Personnel Fund (Item 4120-001-312) to align the budget authority with the expected expenditures for 2007-08. This fund is a fee supported fund used for state administration.

2. An increase of \$222,000 (Reimbursements from the Department of Public Health federal grant funds) to support two positions to continue to develop and implement California's "Emergency System for Advanced Registration of Volunteer Health Professionals" (ESAR-VHP). The ESAR-VHP is a national effort by the Health Resources and Services Administration (HRSA) to develop a statewide computerized system that registers and credentials a wide range of health professionals before an emergency or disaster occurs. The ESAR-VHP system will be used to address medical surge and pandemic flu response as well as other types of public health emergencies. The pre-registration and pre-credentialing system for medical volunteers will streamline California's response and offers a tool that can call-up, track, and deploy volunteers.

## ITEMS TO BE HEARD

**4260 DEPARTMENT OF HEALTH CARE SERVICES**

**4265 DEPARTMENT OF PUBLIC HEALTH**

**4280 MANAGED RISK MEDICAL INSURANCE BOARD**

### ISSUE 1: IMPLEMENTATION OF SB 437 ENROLLMENT IMPROVEMENTS

The Governor's budget proposes several adjustments related to local assistance funding within Medi-Cal and the Healthy Families Program (HFP) for the implementation of SB 437 (Escutia) of 2006. The total proposed increase for local assistance functions is \$34.7 million (\$16.4 million General Fund, \$14.2 million federal Medicaid funds, and \$2.2 million federal S-CHIP funds).

SB 437, Statutes of 2006, creates processes to reduce program complexities for the approximately 428,000 children who are eligible for Medi-Cal or the HFP but are not enrolled, by allowing simplified and expedited access to health benefits.

The following tables display the amounts contained in the Governor's January budget for each local assistance program and related SB 437 component. (State support costs for SB 437 are discussed in the next issue.)

#### Local Assistance: Medi-Cal Program Adjustments for SB 437 for 2007-08 (DHCS)

SB 437 Component	Description	Total Funds	General Fund
Self Certification: Caseload	Two-county pilot (Santa Clara and Orange) for two-years allowing applicants and enrollees to self-certify income and assets. Assumes a July 1, 2007 start date.	\$20.7 million	\$10.3 million
Self Certification: County Administration	County administrative costs for cases added due to self certification pilot.	\$6.9 million	\$3.5 million
Self Certification: Evaluation	Expenditures for development of the evaluation of the pilots. UCSF will be conducting the evaluation.	\$525,000	\$263,000
WIC Gateway & Changes to Presumptive Eligibility	Contracts for the "feasibility study report" and data processing guidance for systems changes to implement the WIC gateway, HFP presumptive eligibility and Medi-Cal to HFP presumptive eligibility.	\$418,000	\$176,000
<b>Total for DHCS</b>		<b>\$28.6 million</b>	<b>\$14.2 million</b>

**Local Assistance: Healthy Families Program Costs for SB 437 for 2007-08 (MRMIB)**

<b>SB 437 Component</b>	<b>Description</b>	<b>Total Funds</b>	<b>General Fund</b>
Self Certification: Caseload	HFP enrollment will begin January 1, 2008 for the entire program. Assumes six months of enrollment and an increase of 13,237 children.	\$5.5 million	\$2 million
Administrative Changes	One-time costs for "Administrative Vendor" changes to be done within the HFP	\$600,000	\$210,000
<b>Total for MRMIB</b>		<b>\$6.1 million</b>	<b>\$2.2 million</b>

**SB 437 Program Components**

SB 437 enacted the following strategies to facilitate enrollment in the Medi-Cal and HFP, improve the retention of children already enrolled, and strengthen county-based efforts to enroll eligible children in existing public programs:

- **Self Certification for HFP.** The MRMIB will implement processes by which families may self-certify income rather than provide income documentation at the time of annual eligibility review. The MRMIB will establish rules concerning which applicants will be permitted to certify income and the circumstances in which supplemental information may be required by January 2008.
- **Self Certification for the Medi-Cal.** The DHCS will implement a process that allows applicants and enrollees in certain eligibility categories to self-certify income and assets. This process is to be implemented in two phases. The first phase is a two-year pilot project in Orange and Santa Clara counties. If an evaluation of the Pilot shows that it was effective and program integrity was maintained, then a statewide rollout can be conducted.
- **Healthy Families Presumptive Eligibility.** This program will replace the existing bridge for Medi-Cal to the HFP and will provide benefits until the HFP eligibility determination has been completed. This new presumptive eligibility process will require an automated/electronic process between DHCS, MRMIB, and the Department of Public Health.
- **Medi-Cal to HFP Presumptive Eligibility.** This program will replace the existing Medi-Cal to HFP accelerated enrollment process by implementing a presumptive eligibility program to provide children screened at Medi-Cal application that meet certain criteria with continuous no cost health care benefits until the child's final eligibility is determined under the HFP.
- **Women, Infant and Children Supplemental Food Program (WIC) Gateway.** The DHCS, MRMIB and the Department of Public Health are required to design, promulgate, and implement policies and procedures for an automated enrollment gateway system. This system will provide presumptive eligibility to qualifying low-income children until a final eligibility determination could be made for enrollment into Medi-Cal or HFP.

**Legislative Analyst's Office (LAO) Recommends Workload Reduction.** The LAO indicates that the Governor's budget over-estimated the increased amount for the county administrative processing costs. Specifically, LAO recommends a reduction of \$5.4 million (\$2.7 million General Fund) to account for savings likely to occur from the reduced processing time per eligibility application with the self-certification pilot.

<b>STAFF COMMENTS</b>
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**May Revision Concurs with Reduction.** The May Revision reduces county administration funding for the Medi-Cal SB 437 pilot program by \$5,239,000 (\$2,619,000 General Fund)—similar to the LAO recommended reduction.

**ISSUE 2: SB 437 STATE STAFFING REQUESTS**

The Governor's Budget proposes a total increase of 10 positions in three agencies--MRMIB, DHCS, and DPH to implement the components of SB 437. The total request for state support is \$1.1 million (\$467,000 General Fund, \$319,000 federal Medicaid funds, and \$277,000 federal S-CHIP funds).

- ***Department of Health Care Services—3 positions.*** The DHCS is requesting three permanent positions at a cost of \$294,000 (\$147,000 General Fund). One position would be used to conduct and evaluate the two-year Medi-Cal self-certification Pilot. The other two positions would coordinate procedural and regulatory changes, oversee systems changes to transmit the necessary data to make an HFP eligibility determination electronic, and other monitoring and evaluation activities needed to implement the two presumptive eligibility programs and the WIC gateway.
- ***Department of Public Health—3 positions.*** The DPH is requesting three permanent positions at a cost of \$343,000 (\$171,000 General Fund). Two systems analyst positions would work with the DHCS, MRMIB, and contractors regarding the development and implementation phases of the WIC gateway. The third staff positions would serve as a liaison with the 82 local WIC agencies and develop policies and training materials.
- ***Managed Risk Medical Insurance Board (MRMIB)—4 positions.*** The MRMIB is requesting four permanent positions for a total expenditure of \$426,000 (\$149,000 General Fund). These positions would be used to implement the HFP self-certification, two presumptive eligibility programs and the WIC gateway. These staff are to coordinate procedural and regulatory changes, oversee changes needed to accept the necessary data to make an HFP eligibility determination electronically, and other monitoring, reporting and evaluation activities.

**LAO Recommendation and Senate Action to Reduce Positions**

The LAO recommended deleting the three new DHCS positions on the basis that one was not justified on a workload basis and the other two could be redirected from a different unit. This would result in a savings of \$294,000 (\$147,000 General Fund).

The Senate subcommittee deleted three positions, but differently. One position at each agency was deleted, rather than all at DHCS. The deleted positions were as follows:

- ***DHCS. Eliminate one position on a workload basis as recommended by LAO.***



- **DPH.** Delete the WIC liaison position on the basis that the WIC Program is well staffed and receives 100 percent federal support and can use existing staff to communicate and coordinate with local WIC agencies.
- **MRMIB.** Delete one of the four requested positions on the basis that the WIC gateway will take some time to implement. As such, MRMIB will not be immediately impacted by this change.

The General Fund savings from this action is slightly less than from the LAO's due to the different federal funding ratios across programs (i.e., MRMIB receives a 65 percent S-CHIP match versus 50 percent in Medi-Cal).

## 4260 DEPARTMENT OF HEALTH CARE SERVICES

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### ISSUE 1: STAFFING TO COLLECT "AGED" DRUG REBATES

The Governor's budget requests \$1.1 million (\$542,000 General Fund) to continue 11 positions that collect "aged" disputed drug rebates owed to the state by drug manufacturers. The budget (as adjusted in the May Revision) also reflects a savings of \$6 million (\$3 million General Fund) attributable to the collection of these "aged" drug rebates of the total eleven positions, 5.5 are proposed to be permanently established, and the other 5.5 positions are proposed to be extended for one more year.

**"Aged" Drug Rebates.** These are rebates related to Medi-Cal drug purchases in 2002 or earlier. Between 1991 and 2002, the Medi-Cal Program accumulated large rebate disputes with participating drug companies. The federal Office of Inspector General cited California in an audit that was published in 2002 due to these disputes. Originally over \$300 million in disputes were identified. According to the department, about half of the disputes have been resolved and about \$42 million (\$21 million General Fund) will have been collected through the current year.

#### LAO Recommendation and Senate Modification

The LAO recommended approving 5.5 permanent positions, *and* holding open the remaining 5.5 limited-term positions. The LAO contends that if any of the 5.5 limited-term positions are vacant, they should be eliminated since it takes about 9 months to train them, and therefore it is unlikely that new staff would be productive over the one year extension period.

The department and the LAO both note that staff needs intensive training to be effective in their collection of the rebates, and that limited-term positions are difficult to keep filled.

**Senate Modification to LAO Recommendation.** The Senate subcommittee deleted four positions (did not extend them), but continued all of the remaining seven positions on a permanent basis for a savings of \$394,546 (\$197,273 General Fund). Providing permanent staff mitigates the need for training new staff and may increase productivity as staff continues with the work and become more knowledgeable regarding the nuisances of the rebate dispute process. Furthermore, DHCS also has four existing staff that provides assistance in this area as well.

**STAFF COMMENTS**

- In addition to "aged" disputed drug rebates, the May Revision estimates that DHCS will collect \$63 million in the current year and \$40 million in 2007-08 of post-2002 disputed drug rebates. The continued positions also can assist with this ongoing workload.

**ISSUE 2: STAFF TO IMPLEMENT DEFICIT REDUCTION ACT REQUIREMENTS**

The budget requests an increase of \$571,000 (\$285,000 General Fund) to support 5 positions to implement various provisions of the federal Deficit Reduction Act of 2005 (DRA) that pertain to Medi-Cal enrollment. The requested positions consist of two permanent staff and 3 limited-term (including one staff counsel and one supervising staff counsel).

Three positions would address implementing the DRA provisions relating to citizenship and identity. The remaining two positions would implement the DRA provisions relating to asset eligibility and the additional month of Medi-Cal eligibility for disabled SSI recipients under the age of 21.

**Federal Deficit Reduction Act (DRA) of 2005.** The DRA requires anyone applying for Medicaid or renewing eligibility who declares themselves to be a citizen or national of the U.S. to document their citizenship and identity. People applying for Medi-Cal must provide that documentation before full scope Medi-Cal can be approved. If this documentation is not provided, Medi-Cal is limited to emergency and pregnancy related services. Enrollees that are now receiving Medi-Cal services who enrolled prior to the DRA changes must provide documentation at their next redetermination in order to receive full-scope continuing Medi-Cal services. This citizenship documentation requirement will affect over 4 million individuals enrolled in Medi-Cal.

With respect to asset eligibility, the DRA requires individuals who are requesting long-term care services or Waiver services to undergo an additional asset eligibility determination in order to receive those services. The asset eligibility changes also apply to individuals requesting services who, in the past, have received Medi-Cal automatically based on an eligibility determination made by the Social Security Administration for SSI/SSP or by counties for CalWORKS.

In addition, the DRA also made changes regarding disabled children (less than 21 years). Specifically, the DRA requires states to provide Medicaid eligibility (Medi-Cal) in the month prior to the first month in which they receive their SSI payment. This change enables disabled children to enroll into Medi-Cal more quickly.

**LAO Recommendation.** The LAO recommends deleting two of the requested five positions for a savings of \$184,000 (\$91,500 General Fund). The LAO states that much of the DRA work is one-time in nature and that the DHCS has already completed the bulk of the work. In addition, the LAO also recommends making the remaining three positions, including the supervising Staff Counsel, limited-term positions expiring December 30, 2008.

**Senate Modification.** The Senate subcommittee deleted one of the positions recommended for deletion by the LAO, but retained the limited-term staff counsel position on the basis that the federal DRA requirements are complex and will require DHCS staff work including legal analysis. The Senate modification also downgraded the supervising staff counsel position to a second staff counsel position. The supervising level would require Department of Personnel Administration approval before it could be filled and this level of position for an 18-month appointment appeared excessive. Further, the DHCS has other legal staff who could handle this level of expertise if needed for the DRA implementation.

**ISSUE 3: HIPAA STAFFING REQUEST**

The budget requests an increase of \$2.4 million (\$582,000 General Fund) to fund 20 positions (19 of which are three-year limited-term) to continue the implementation of the federal Health Insurance Portability & Accountability Act (HIPAA). Of the requested increase, 19 of the positions (all 3-year limited-term) are for the DHCS and one position is for the Department of Public Health.

Specifically, the 19 positions for the DHCS include the following by function area:

- Management and Operational Support—4 Positions. The DHCS states that these positions provide necessary management oversight and coordination.
- Transaction Code Sets—6 Positions. The DHCS states that these positions are needed to complete HIPAA code conversion efforts by 2010 and that the federal government is concerned about California completing this activity.
- Information Security—8 Positions. The DHCS states that these positions are needed to address HIPAA security rules, including disaster recovery plans and security regarding Medi-Cal enrollee health information.
- Privacy—2 Positions. These positions would address HIPAA rules regarding privacy concerns.

The Department of Public Health is requesting one permanent position to continue HIPAA work for its programs that interact with the Medi-Cal Program.

**HIPAA.** HIPAA, enacted in 1996, outlines a process to achieve national uniform health data standards and health information privacy and to support the electronic exchange of a variety of administrative and financial health care transactions. The federal government has published and continues to publish, multiple rules pertaining to the implementation of HIPAA. These rules will be published in waves and over the next several years. Among the standards are:

- Electronic transaction and data elements for health claims and equivalent encounter information, claims attachments, health care payment and remittance advice, health plan enrollment and disenrollment, health plan eligibility, health plan premium payments, first report of injury, health claim status and other items.
- Unique identifiers for individuals, employers, health plans and health care providers for use in the health care system.

- Code sets and classification systems for the data elements of the transactions identified.
- Security and privacy standards for health information.

The state Health and Human Services Agency's Office of HIPAA coordinates HIPAA compliance activities among departments within the agency. The various departments have staff sections which are responsible for day-to-day operations and HIPAA changes specific to their programs.

**LAO Recommendation.** The LAO recommends deleting 8 of the requested 19 positions for savings of \$858,000 (\$215,000 General Fund). The LAO contends that the workload for one position is duplicative of another requested position and that the other positions should be addressed by filling vacancies.

**Senate Modification.** The Senate subcommittee deleted 5 (rather than 8) positions.

#### STAFF COMMENTS

- Federal funding supports 75 percent of the cost of HIPAA staff.

**ISSUE 4: PEDIATRIC PALLIATIVE CARE STAFFING**

The DHCS is requesting an increase of \$408,000 (\$174,000 General Fund) to fund three positions to implement AB 1745 (Chan) of 2006 regarding pediatric palliative care. The three positions include a Public Health Medical Officer III, a Research Analyst II, and a Health Program Specialist II.

**AB 1745** established the Nick Snow Children's Hospice and Palliative Care Act, which allows eligible children and their families to receive palliative care services early in the course of the child's illness, while concurrently pursuing curative treatment for the child's condition.

Specifically, it requires the DHCS to develop and submit a Waiver to the federal CMS to conduct a pilot to include services available through the existing Medi-Cal hospice benefit, and for the evaluation of the effectiveness of having a pediatric palliative care benefit for Medi-Cal enrollees aged 21 and under. The pilot will combine medical, as well as special counseling and respite care services that are important for assisting the entire family.

**LAO Recommendation.** The LAO recommends deleting one position—a Health Program Specialist II for savings of \$112,000 (\$56,000 General Fund).

**Senate Modification.** The Senate subcommittee modified the LAO recommendation by deleting a Research Analyst II position, in lieu of the Health Program Specialist II position on the basis that the research work pertains to evaluating expenditure data and monitoring outcomes and which could be deferred or absorbed by the existing Medi-Cal Waiver research staff.



**ISSUE 5: FRESNO MEDI-CAL FIELD OFFICE**

As part of an ongoing effort to streamline and consolidate its Medi-Cal field offices, DHCS plans to close its office in Fresno in 2007-08 and relocate some staff and operations to its Sacramento field office. Currently, the Fresno field office has 41 staff. The department estimates that 10 would relocate to Sacramento and 15 would be retained in the Fresno area and continue to handle "on-site" hospital treatment authorization requests (TARs) and medical case management locally, but without a physical office structure. The department assumes that the remaining 16 positions would either decline to relocate or be vacant at the time of the move.

Medi-Cal currently operates six field offices—San Diego, Los Angeles, San Bernardino, San Francisco, and Sacramento, in addition to Fresno. These offices process TARs, which are pre-authorizations that providers must obtain for certain services in order to receive payment from Medi-Cal and they house medical case management staff. County social services offices handle Medi-Cal eligibility and enrollment.

The Fresno office is in a state building that will be undergoing renovation soon to address a number of ongoing problems (part of the stated reason for relocation). For this reason, temporary relocation of the Fresno office (within the Fresno area) would be required in any case.

**DHCS Projected Costs and Savings.** The department estimates a net cost of \$96,000 to relocate to Sacramento in 2007-08 (versus temporary relocation within Fresno) and then net savings of \$761,000 over a five-year period. General Fund cost and savings would be half of these amounts.

**Actual State Savings Unlikely.** The department's projected ongoing savings are small, and relocation would leave remaining staff in Fresno to work out of their homes. However, even these projected savings appear ephemeral from a statewide point of view. Discussions with the Department of General Services (DGS) indicate that there are unlikely to be any state savings by relocating the Fresno Medi-Cal field office.

DGS has not identified a tenant to occupy the space to be vacated by Medi-Cal. In the near term, DGS plans to use the space as "swing space" for the remaining state agency tenants during the renovation of the facility, but after that, it is likely that the space will remain vacant. DGS will have to make up for the loss of the revenue by increasing the rental rates for all state office buildings. In contrast, there are a multitude of potential state agency tenants for the Sacramento relocation site (the East End Project).

**STAFF COMMENTS**

The following Budget Bill language could be adopted in Item 4260-001-0001 to maintain the Fresno Field Office:

No funds appropriated or scheduled in this item may be used to relocate the Fresno Medi-Cal Field Office outside the Fresno area or to close the office. The department may temporarily relocate the field office within the Fresno area if necessary to accommodate the renovation of the Fresno facility.

**ISSUE 6: MEDI-CAL MANAGEMENT INFORMATION SYSTEM REPLACEMENT**

The budget proposes to begin *preliminary* work needed to re-procure the Medi-Cal fiscal intermediary contract, including a Medi-Cal Management Information System (MMIS) replacement component. This is a significant undertaking and will proceed over the course of the next several years. The administration assumes that the state will receive 90 percent federal matching funds for this replacement MMIS

Specifically, the budget includes the following two requests for the MMIS replacement project:

1. \$1 million (\$500,000 General Fund) in the Medi-Cal Program to contract with a vendor to develop detailed business requirements and provide assistance with the next "Request for Proposal" (RFP) for MMIS maintenance and operations. The DHCS states that the vendor will be selected from the California multiple award schedule contractor list.
2. \$2.7 million (\$677,000 General Fund) to fund 24 positions on a three year limited-term basis. Of these requested positions, 22 would be in DHCS and two would be in the Department of Public Health (DPH). These positions are requested to assist with the identification and development of the (1) MMIS business rules; (2) "Medi-Cal Information Technology Architecture"; (3) "Planning Advance Planning Document"; (4) "Implementation Advanced Planning Document"; and (5) Request for Proposal (RFP). These staff also will provide subject matter expertise, oversee various contractors assisting in this effort, approve contractor invoices, and verify and document thousands of medical and business rules that constitute the MMIS.

**Federal Requirements.** The federal CMS requires states to adhere to various requirements as they replace their MMIS systems, including a "Medicaid Information Technology Architecture" (MITA) initiative which addresses mainstream technical architecture and business planning concepts. As part of this process, the federal CMS requires states to conduct "Self Assessments", which includes the following components: (1) list and prioritize the state's goals and objectives; (2) define the state's current business model and map to the federal MITA initiative; (3) assess the state's current capabilities; and (4) determine the state's target business capabilities. The federal CMS also requires an "Advance Planning Document" to be prepared in order to receive "enhanced federal funds" (90 percent match) for the project.

The following table shows the planned schedule for this project:

### DHCS Proposed Timetable for MMIS Procurement

Task	Start Date	End Date
Develop Medi-Cal Information Technology Architecture	July 2, 2007	October 4, 2007
Identify, Verify & Document Medi-Cal Policy Rules	August 1, 2007	July 15, 2008
Draft Request for Proposal (RFP)	September 1, 2007	June 24, 2008
Release RFP	August 25, 2008	August 25, 2008
Evaluation of RFP Bids	August 26, 2008	April 30, 2009
Notice of Intent to Award	April 31, 2009	April 31, 2009

**Systems Assessment Determined Need for Replacement.** In 2006, DHCS contracted with Eclipse Solutions to perform an assessment of the MMIS. This assessment reached the following conclusions:

- The MMIS needs to be replaced as soon as possible. The core MMIS components have reached a point where continued maintenance is problematic and costly.
- California must ensure that the replacement take place within the federal CMS guidelines to maximize federal funding.
- DHCS must properly identify all Medi-Cal business rules and policies deeply imbedded in system logic today, so that a comprehensive RFP can be developed.

**Background—Fiscal Intermediary Contract and the MMIS.** DHCS currently spends \$184 million (total funds) annually for the Medi-Cal Fiscal Intermediary contract with Electronic Data Systems Corporation (EDS), which includes the MMIS. The current contract commitment with EDS ends June 30, 2010 (including extensions allowed under the contract).

The MMIS can be viewed as a portfolio of applications, at the core of which is the claims processing system, along with its support subsystems for maintenance of provider, recipient, and reference data, and reporting. The technical footprint consists of over 90 applications written in seven computer languages, managed through five different software version management tools, five data management systems, and hosted across three major hardware architectures. The primary purpose of the MMIS is to assure timely and accurate claims processing for the 100,000 Medi-Cal providers (physicians, hospitals, clinics, pharmacies, etc.) who submit claims for reimbursement for services provided to over 6 million Medi-Cal enrollees. The system processes about 16 million claims every month.

According to the DHCS and consultants, the MMIS has significantly exceeded the average industry lifespan for an information technology system of its size. The MMIS was first implemented in 1978 and is approaching 30 years of age. Based upon its size and the funding acquisition, and approval process that will likely be involved, the replacement of the MMIS is likely to take at least several years.

The DHCS states that the Medi-Cal Fiscal Intermediary contract is one of the largest and most complex contracts in state government. It is anticipated that the next contract will likely be valued in the \$700 million to \$1 billion range for a multi-year contract covering from July 2010 to June 2015.

**LAO Recommends Staffing Reduction.** The LAO recommends reducing the DHCS request by 7 positions. This would provide for a total of 17 approved positions for the two departments (i.e., 15 for the DHCS and two for the DPH). The LAO contends that a substantial portion of the workload of DHCS staff will depend upon the work product of the contractor and so funding these tasks in 2007-08 would be premature. As such, remain undetermined until the contractor begins its work. The savings would be \$637,000 (\$159,000 General Fund).

#### STAFF COMMENTS

**Federal Match Will Be Higher than Assumed in the Budget.** The budget assumes only a 50-percent federal match for the \$1 million of contractor expenditures in the proposal. However, the state can receive a 75-percent federal match for this work, resulting in a General Fund savings of \$250,000.

**ISSUE 7: AUDITS OF LOCAL BIOTERRORISM GRANTS—FINANCE LETTER**

In a letter dated March 29th, the DHCS requested an increase of \$347,000 (reimbursements from the DPH which are federal bioterrorism funds) for the DCH to fund three auditor positions to comply with existing state law regarding audits of local bioterrorism funds. These positions would be two-year limited-term (to June 30, 2009).

Specifically, Section 101317 (g) (3) of the Health & Safety Code requires that the administration audit each local health jurisdiction's use of the federal bioterrorism and emergency preparedness funds every three years, commencing in January 2007, to determine compliance with federal requirements and consistency with overall program requirements.

The DHCS would conduct these audits under an interagency agreement with the Department of Public Health (DPH), which would administer these federal grant funds.

According to the DPH, Local Health Jurisdictions have received a total of about \$130 million (federal grant funds) from 1999 to 2006 for various bioterrorism and emergency preparedness activities and functions.

**STAFF COMMENTS**

Adoption of the following Trailer Bill Language would help to insure that the Legislature has ready access to audit findings without having to seek a public information request:

(3) It is the intent of the Legislature that the department shall audit the cost reports every three years, commencing in January 2007, to determine compliance with federal requirements and consistency with local health jurisdiction budgets, contingent upon the availability of federal funds for this activity, and contingent upon the continuation of federal funding for emergency preparedness and bioterrorism preparedness. All cost compliance reports and audit exceptions or related analyses or reports issued by the Department of Public Health regarding the expenditure of funding for emergency and bioterrorism preparedness by local health jurisdictions shall be made available to the Legislature upon request. [Amends Section 101317(g)(3) of the Health and Safety Code]

## 4265 DEPARTMENT OF PUBLIC HEALTH

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### ISSUE 1: RICHMOND LABORATORY FINANCE LETTER—CAPITAL OUTLAY

In a Finance Letter dated March 29<sup>th</sup>, DPH requests an increase of \$482,000 (General Fund) and Budget Bill Language for preliminary plans and working drawing phases to upgrade the “Viral and Rickettsial Disease Laboratory located at the state’s Richmond Laboratory campus. This proposed upgrade is needed in order to meet new federal guidelines for safely working with highly pathogenic influenza viruses. The DPH states that this project will provide an appropriate environment for the identification and handling of avian influenza viruses and other pathogens that may be brought into the state.

The projected scope of the modifications to the Viral and Rickettsial Disease Laboratory include the following:

- Unidirectional shower-out capability;
- Hands-free faucets;
- A pass-through autoclave sterilizer;
- An equipment decontamination area;
- HEPA filtration of the exhaust side of the HVAC system;
- Positive sealing dampers on the HVAC system and through-wall ports for the safe gaseous decontamination of the laboratory; and
- Electronic monitoring systems within the HVAC system.

Of the six laboratories at the Richmond Campus, the Viral and Rickettsial Disease Laboratory was selected for these laboratory enhancements because of its primary role as an infectious disease reference laboratory to local county and city public health laboratories for the diagnosis, identification, and isolation of viruses and Rickettsial pathogens. This laboratory also serves as a basic public health virology laboratory for counties without a public health laboratory (such as the small counties).

**Future Construction Costs.** This Finance Letter only requests funding for preliminary plans and working drawings. The construction phase is estimated to cost \$2.52 million.

**ISSUE 2: AB 893/SB 1301 IMPLEMENTATION FINANCE LETTER REQUEST**

In a letter dated March 29<sup>th</sup>, the department requested an augmentation of \$254,000 to reflect an updated cost estimate to develop an internet-based consumer information system to provide updated information to the public and consumers regarding long-term care facilities and hospitals.

AB 893 (Alquist) of 1999 requires the department's Licensing and Certification (L&C) Division to establish and develop an internet based consumer information system to include, at a minimum, all of the following elements:

- An on-line inquiry system accessible through a statewide toll-free number and the internet.
- Long-term care health facility profiles, with data on services provided, a history of all citations and complaints for the last two full survey cycles, and ownership information. This profile is to include a description of the facilities services, information regarding substantiated complaints and state citations, and any special resolution pertaining to a citation.
- Where feasible, the department is to interface the consumer information service system with its "automated certification and licensure information management system".

SBI 1301 (Alquist) of 2006, added hospitals, including general acute care hospitals, acute psychiatric hospitals and special hospitals, to this overall requirement.

**STAFF COMMENTS**

The Governor's Budget request for this program was included in the discussion of L&C Division budget requests at the subcommittee's April 23rd hearing.



**ISSUE 3: LOCAL BIOTERRORISM GRANTS—TRAILER BILL LANGUAGE**

The Administration is proposing Trailer Bill Language to extend for 5 years the existing allocation methodology for distributing federal funding for bioterrorism preparedness to local governments. Existing law sunsets as of September 1, 2007.

The administration states that it is seeking this extension for two reasons. First, the existing allocation methodology appears to be working and they would like to continue the current practice (Generally, each Local Health Jurisdiction receives a basic allocation plus a per capita amount). Second, the administration wants to continue the existing exemption from public contract code requirements. The DPH contends that without this exemption from public contract code, they would be required to engage in a lengthy contracting process that would prevent full expenditure of the federal emergency preparedness funds during the federal award year, and that this would seriously delay meeting emergency preparedness requirements.

**Background-- Existing Process for Local Allocations.** Among other things, existing law (1) requires the DPH to develop a plan with representatives of local governments for submittal to the federal government for receipt of the grant funds, (2) requires a streamlined process for continuation of bioterrorism preparedness funding that will address any new federal requirements and will assure continuity of local plan activities, (3) enables the department to contract with public or private entities to meet the federally-approved bioterrorism plan and exempts these contracts from the State Contract Act, and (4) enables DPH to allocate these funds to Local Health Jurisdictions *generally* on a per capita basis.

**STAFF COMMENTS**

Given the exemption from normal contracting procedures in this program, and the potential for changing priorities and bioterrorism threats, it may be advisable to extend the sunset for three years rather than five years. This would help ensure oversight of this area by the Legislature.

**ISSUE 4: SURGE FUNDING REVERSION AND REAPPROPRIATION FINANCE LETTER**

In response to a letter from the Chair of the Joint Legislative Budget Committee, the administration has submitted a Finance Letter requesting the following two adjustments to the Governor's January budget:

1. Reversion of \$37.7 million (General Fund) of unexpended funds in the current-year originally appropriated in the Budget Act of 2006 for certain health care supplies and equipment as part of the Administration's "Surge Initiative."
2. Reappropriation of \$8.5 million (General Fund) from the 2006-07 appropriation for the Surge Initiative, with expenditure authority for these funds extending through June 30, 2011. The purpose of this reappropriation is to enable DPH to store certain medical supplies purchased for "surge" events in regional warehouses over a 48-month period. The administration also is proposing Budget Bill Language, which accompanies this reappropriation.

The administration notes that since enactment of the Budget Act of 2006, they have received additional information regarding the content of the medical caches to be purchased for "alternative care sites" as originally proposed in the Surge Initiative, and the storage approach for these supplies. The impact of these changes is a reduction in the cost of each cache. In addition, storage needs shifted from purchasing trailers for this purpose to relying on leased warehouse space which can better manage perishable supplies (refrigeration is easier in this environment).

The revised cache, which covers a longer patient stay and a mix of supplies for a broader range of emergencies, is estimated at \$1,600 per patient (versus \$4,000 per patient previously). Most of the cost reductions are due to the purchase of a smaller number of monitors (EKG monitors and pulse oximeter monitors) and elimination of the trailers for storage (going to use warehouse space).

With respect to the warehouse storage, funds are needed for the lease of warehouse space. The additional costs for warehouse space include leasing 283,280 square feet of space for 48 months, installation of HVAC, pallet racks, security, utilities and leasing fees (done through the Department of General Services). This will require the \$8.5 million (General Fund) reappropriation for the three-year period.

***The 2006 "Surge Initiative"***. During emergency events, the health care system must provide "surge capacity" to rapidly respond to major events. Local health departments and communities must be prepared to address gaps when the capacity of health care systems is exceeded.

Among other actions, the Legislature appropriated \$194.8 million (total funds) to the Department of Health Services to address health care “surge” capacity needs, including the purchase and storage of alternate care supplies, equipment, antiviral drugs, and respirators.

<b>STAFF COMMENTS</b>
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***Need for More Specificity on Use of Reappropriated Funds.*** The administration’s Finance Letter is consistent with the direction provided to the administration from the Chair of the Joint Legislative Budget Committee (JLBC). However, the Budget Bill Language provided by the administration to accompany the \$8.5 million reappropriation request for the warehouse storage needs to be modified because it is too broadly written. The recommended changes are noted below.

4265-491—Reappropriation, Department of Public Health. The amount specified in the following citation is reappropriated to the Department of Public Health for the purposes of provided for in Chapter 241, Statutes of 2006 (SB 162) providing warehouse storage space and any related modifications to this space to ensure the safe and appropriate storage of emergency preparedness materials and products, including pharmaceutical and medical supplies. The amount specified shall be available for encumbrance or expenditure until June 30, 2011.

0001 General Fund

(1) \$8,476,000 in Item 4260-111-0001, Budget Act of 2006

***Ventilator Purchases Still Leave Significant Gap.*** Staff notes that the department has purchased 2,400 ventilators for emergency response to a pandemic flu emergency at a cost of \$32.4 million. However, the department estimates that fully addressing a pandemic outbreak in California would require an additional 24,000 ventilators.