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Overview of Major Health Proposals in 2020-21 May Revision

PRESENTED TO:

Assembly Budget Subcommittee No. 1
On Health and Human Services
Hon. Joaquin Arambula, Chair

LEGISLATIVE ANALYST'S OFFICE

The Big Picture: January to May

General Fund

The Proposed General Fund Health Budget Is 10 Percent Lower in May Compared to January... As shown in the figure below, the Governor's proposed General Fund budget for all health programs totals $26.2 billion at May Revision—a decline of $3 billion, or 10 percent, from the January proposal. The bulk of the net reduction is in Medi-Cal, by far the largest health program.

Governor's Proposed 2020-21 Health Budget: January Versus May

General Fund (In Millions)

Department/Program	January	May	Difference
Medi-Cal Local Assistance	$25,865	$23,152	-$2,713
DHCS—State Administration	259	260	2
Other DHCS Programs	316	293	-23
Department of State Hospitals	2,074	1,943	-131
Department of Public Health	212	209	-3
Health Benefits Exchange	439	349	-90
Office of Statewide Planning and Development	33	—	-33
Emergency Medical Services Authority	11	11	—
Health and Human Services Agency	22	7	-16
Totals	**$29,231**	**$26,224**	**-$3,007**

DHCS = Department of Health Care Services.

The Big Picture: January to May

(Continued)

Total Funds

...While the Proposed Health Budget From All Fund Sources Increases Significantly Between January and May. As shown in the figure below, when all fund sources (General Fund, federal funds, and special funds) are considered, the proposed health budget increases by $8.7 billion—or by 7.8 percent—between January and May. This largely reflects a major infusion of federal funding for Medi-Cal—both due to the enhanced federal share of costs during the term of the national public health emergency, as well as the additional federal funds that are leveraged by the state's managed care organization (MCO) tax that was approved by the federal government after the January budget had been released. There is also a significant, but much smaller, increase in special fund revenues that support Medi-Cal.

Governor's Proposed 2020-21 Health Budget: January Versus May

Total Funds (In Millions)

Department/Program	January	May	Difference
Medi-Cal Local Assistance[a]	$103,462	$112,112	$8,650
DHCS—State Administration	932	936	5
Other DHCS Programs	357	657	300
Department of State Hospitals	2,074	1,943	-131
Department of Public Health[a]	3,199	3,191	-8
Health Benefits Exchange	439	349	-90
Office of Statewide Planning and Development	144	138	-6
Emergency Medical Services Authority[a]	36	36	—
Health and Human Services Agency[a,b]	500	496	-4
Totals	**$111,143**	**$119,858**	**$8,714**

[a] Includes reimbursements.
[b] Includes California Health and Human Services Automation Fund.
DHCS = Department of Health Care Services.

The Medi-Cal General Fund Budget: A Crosswalk From January to May

The Net Reduction in the Proposed Medi-Cal General Fund Budget Between January and May Masks a Complex Set of Budget Adjustments, Including Some Major Added Costs. The figure on the next page summarizes the various May Revision adjustments (both of costs and savings) to the January Medi-Cal General Fund budget, as well as the withdrawal of January proposals and the addition of new budget solutions. Of particular note on the cost side are substantially higher caseload costs (reflecting the administration's projection of the impact of the current coronavirus disease 2019 [COVID-19] pandemic on the size and population mix of the Medi-Cal caseload). The figure also illustrates the major benefit to the General Fund of the enhanced federal funding and the federal approval of the MCO tax.

The Medi-Cal General Fund Budget: A Crosswalk From January to May

(Continued)

Governor's Proposed Medi-Cal Local Assistance Budget: Crosswalk From January to May

General Fund (In Millions)

	2020-21
Governor's January Medi-Cal Budget	**$25,865**
Withdrawal/Modification of January Discretionary Proposals	
CalAIM	-$348
Full-scope expansion for undocumented seniors	-58
340B clinic supplemental payments	-26
Expanded children's hearing aid coverage	-5
Subtotal	(-$437)
Added Major Costs	
Higher projected caseload	$2,767
Repayment to federal government for improper claims	1,441
COVID-19-related policy changes	140
Subtotal	($4,347)
Other Major Reduced Costs/Savings	
Enhanced federal funding	-$2,554
Federally approved MCO tax	-1,687
Elimination/reduction of Proposition 56 provider payment increases[a,b]	-1,177
Other new revenues and state fund shifts[b]	-474
Managed care capitated rate reductions[b]	-274
COVID-19-related utilization reductions	-147
Elimination of optional adult benefits[b]	-160
Removal of certain 2019-20 coverage expansions[b]	-114
Other budget solutions[b]	-90
Subtotal	(-$6,675)
Other Net Changes	
Subtotal (other net changes)	($52)
Governor's May Medi-Cal Budget	**$23,152**

[a] The Governor proposes to leave in place funding for home health, AIDS Waiver Program, and pediatric day health care facility and pediatric subacute facility payment increases, as well as already committed physician and dental loan repayments.

[b] Budget solution. The Governor's proposed budget language that would trigger off the reductions in the event that sufficient additional federal funding is received may apply.

CalAIM = California Advancing and Innovating Medi-Cal; COVID-19 = coronavirus disease 2019; and MCO = managed care organization.

Status of Major January Budget Proposals

Across health programs, there were several discretionary augmentations proposed by the administration as part of the January proposal. The May Revision reconsiders these proposals and addresses them in three main ways—retaining them, withdrawing them, or modifying them.

Proposals Retained

Roughly $6 Million of January Health Proposals Retained at May Revision. As shown in the figure below, the May Revision proposes to retain a number of small discretionary augmentations from the January budget, as well as a single January savings proposal.

Major January Proposals Retained at May Revision

2020-21, General Fund Impact (In Millions)

January Proposal	Fiscal Impact of Retaining Proposal
Medi-Cal Local Assistance	
Transition of dental services from managed care to fee-for-service	-$8.9
Subtotal	(-$8.9)
Department of State Hospitals	
Adjustments to protective services staffing	$7.9
Conditional Release Program provider contract funding	2.2
Post-incident debriefing and support	0.8
Astascadero water pump	0.2
Subtotal	($10.1)
Department of Public Health	
Immunization Medical Exemption Program (SB 276)	$3.4
Pregnancy-Related Deaths and Severe Maternal Morbidity Data (SB 464)	0.3
Electronic Visit Verification Phase II Planning	0.1
Weatherization and Energy Efficiency Programs (AB 1232)	0.1
Subtotal	($4.0)
Emergency Medical Services Authority	
Emergency Medical Dispatch (SB 438)	$0.4
Subtotal	($0.4)
Total	**$5.5**

Status of Major January Budget Proposals

(Continued)

Proposals Withdrawn

Close to $500 Million of January Health Proposals Are Withdrawn. As shown below, the two largest January discretionary proposals that are being withdrawn at May Revision are the California Advancing and Innovating Medi-Cal proposal and the expansion of full-scope Medi-Cal coverage to income-eligible seniors, regardless of immigration status.

Major January Health Proposals Withdrawn at May Revision

2020-21, General Fund Impact (In Millions)

January Proposal	Fiscal Impact of Withdrawing Proposal
Medi-Cal Local Assistance	
Indefinite delay of CalAIM	-$348.0
Full-scope expansion for undocumented seniors[a]	-58.0
Expanded children's hearing aid coverage	-5.0
Subtotal	(-$410.8)
Other DHCS Programs	
Behavioral Health Quality Improvement Program	-$44.9
Subtotal	(-$44.9)
Department of State Hospitals	
Community Care Collaborative Pilot Program	-$24.6
Cooperative Electronic Document Management System	-5.6
Patient-driven operating expenses	-3.5
Quality improvement and internal auditing	-1.6
Increased resources for regulation promulgation	-0.5
Subtotal	(-$35.8)
Department of Public Health	
California Cognitive Care Initiative	-$3.6
Subtotal	(-$3.6)
Total	**-$495.0**

[a] The withdrawal of this proposal results in an accompanying $6.8 million reduction in the In-Home Supportive Services program.

CalAIM = California Advancing and Innovating Medi-Cal and DHCS = Department of Health Care Services

Status of Major January Budget Proposals

(Continued)

Proposals Modified

Several January Health Proposals Are Modified, Mostly to Reduce Costs. As shown below, the May Revision modifies a number of January discretionary proposals across Medi-Cal and the Department of State Hospitals (DSH). Most of the DSH proposals relate to infrastructure or staffing, with the May Revision proposing to reduce the cost of the January proposals by prioritizing the most essential needs addressed in the original proposal. In Med-Cal, while two January proposals were modified at May Revision to reduce costs, a proposal related to nursing facility financing was modified—at an increased cost—to provide a temporary increase in funding for long-term care facilities to reflect these facilities' COVID-19-related costs.

Major January Health Proposals Reduced/Modified at May Revision

2020-21, General Fund Impact (In Millions)

January Proposal	May Modification	Fiscal Impact of Modifying Proposal[a]
Medi-Cal Local Assistance		
Reauthorize and reform nursing facility financing ($62.2 million cost)	Temporary long-term care facility funding increase for COVID-19 costs.	$41.6
COLA for county administration ($34 million cost)	Remove COLA and fund at enhanced 2019-20 level.	-21.1
Pharmacy carve out with 340B clinic supplemental payments ($43 million savings)	Remove 340B clinic supplemental payments.	-26.5
Subtotal		(-$6.0)
Department of State Hospitals		
Roof repairs ($49.4 million cost)	Prioritize roofs with most damage.	-$22.7
Treatment team staffing adjustments ($32 million cost)	Prioritize primary care and medical leadership positions. Delay implementation of other resources.	-22.6
Electronic health record planning and procurement ($9.6 million cost)	Shift of project time line.	-7.2
Ligature risk repair ($10.5 million cost)	Prioritize higher risk areas. Defer repairs for lower risk areas into later years.	-5.3
Pharmacy modernization project implementation ($5.4 million cost)	Shift of project time line.	-4.5
Relocation to Clifford L. Allenby Building ($6.5 million cost)	Prioritize most essential network and infrastructure needs.	-3.3
Integrated health care provider network ($6.3 million cost)	Delay implementation.	-3.2
Incompetent to Stand Trial off-ramp services ($2 million cost)	Delay activation of programs.	1.0
Subtotal		(-$69.7)
Total		**-$75.7**

[a] Relative to January.

COVID-19 = coronavirus disease 2019;COLA = cost-of-living adjustment; and DHCS = Department of Health Care Services.

Major May Revision General Fund Savings Proposals

Major May Revision General Fund Savings Proposals

2020-21, General Fund Impact (In Millions)

Department/Program Name	Assumed General Fund Savings	Trigger Cut?
DHCS Medi-Cal Local Assistance		
Elimination/reduction of Proposition 56 provider supplemental payments	-$1,177.0	x
New fund transfers and revenues (excluding MCO tax funding)	-474.0	
Managed care capitated rate adjustments	-274.0	
Elimination of optional benefits[a]	-160.0	x
Withdraw scheduled coverage expansion for Aged, Blind, and Disabled enrollees	-68.0	x
Eliminate health center carve outs	-50.0	x
Withdraw scheduled coverage expansion for post-partum women	-46.0	x
Freeze county administration funding at 2019-20 revised level	-21.0	x
End Martin Luther King Hospital supplemental payments	-17.0	x
Reinstate expanded estate recovery	-17.0	x
Subtotal	(-$2,302.9)	
Department of Public Health		
Reduction in Black Infant Health Program	-$4.5	x
Reduction in Safe Cosmetics Program	-0.5	
Subtotal	(-$5.0)	
Department of State Hospitals		
Delayed implementation of nursing staff adjustments	-$21.0	
Delayed activation of additional secure bed capacity	-6.8	
Delayed recruitment and hiring of court evaluation staff	-3.3	
Delayed activation of new county jail-based competency treatment programs	-2.7	
Delayed construction of Enhanced Treatment Program units	-1.4	
Reduce positions for disaster preparedness, response, and recovery	-0.5	
Subtotal	(-$35.6)	
Office of Statewide Health Planning and Development		
Eliminate General Fund support for Song-Brown health care workforce program	-$33.3	x
Subtotal	(-$33.3)	
Total	**-$2,376.3**	

[a] Proposed elimination also results in reduced General Fund expenditures of $1.6 million in the Department of Aging.

DHCS = Department of Health Care Services and MCO = managed care organization.

May Revision Also Includes Some New Augmentations

The May Revision also includes some targeted General Fund augmentations that are primarily aimed at responding to the COVID-19 crisis. Most of these augmentations receive federal matching funds. Examples of these include:

- About $140 million of augmentations in Medi-Cal, including funding to (1) provide COVID-19 testing and treatment coverage for the uninsured, (2) temporarily increase long-term care facility rates, (3) increase behavioral health payments, and (4) expand hospital "presumptive eligibility."
- A $5.9 million augmentation in the Department of Public Health to enhance the laboratory, disease surveillance, and emergency response capacity of the department.

Key Considerations for Evaluating Health Budget Solutions

LAO in Early Stages of Evaluating Governor's 2020-21 May Revision

Our office is in the early stages of reviewing and understanding all of the proposals in the Governor's May Revision. As our understanding and analysis develops, we will continue to provide more information to the Legislature.

Reviewing Medi-Cal Caseload Estimates Is of Key Importance. Because the Medi-Cal caseload is the most significant driver of increased health program costs in the budget year, understanding the administration's assumptions associated with building its caseload estimate—in terms of the total number of enrollees, the distribution of enrollees among the various Medi-Cal populations, and the cost-per-case—will be particularly important.

Considering Trade-Offs of Reduction Proposals. In light of the current and future budget problems faced by the state, programmatic reductions will be needed as part of the overall budget solution. The Legislature likely will weigh multiple criteria when determining which solutions to implement. Examples of key questions we suggest considering as you weigh the trade-offs of the various proposals include:

- ***What Is the Impact on the Public Health Crisis and Individuals' Personal Economic Situation?*** When possible, we would suggest limiting solutions that could work at cross-purposes with pandemic response efforts (on a public health, health care, and economic response front).
- ***What Is the Impact on Program Recipients?*** Is there a way to better target a budget reduction to lessen the breadth of, and extent to which, program recipients that are adversely affected?
- ***What Is the Likelihood of Achieving the Savings?*** We suggest adopting proposals where the savings are more likely to be achieved and the plan for achieving them is relatively certain, and rejecting proposals with potentially significant legal and/or other implementation challenges.

Key Considerations for Evaluating Health Budget Solutions

(Continued)

- ***Are Federal Funds Being Maximized?*** Where possible, maximize federal funding to the state.
- ***Could Administrative Changes to the Program Result in Savings?*** It is important to identify areas to potentially streamline existing processes to achieve administrative savings—limiting the programmatic impact.