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

HEALTH REALIGNMENT

Assemblymember Judy Chu, Chair

MONDAY, MARCH 10, 20032
STATE CAPITOL, ROOM 437
4:00 PM

ITEMS TO BE HEARD INFORMATIONALLY

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 1 : REALIGNMENT

BACKGROUND:

REALIGNMENT SUMMARY

The Administration has proposed to realign the fiscal and programmatic relationship between the state and its counties. A previous realignment of state and county fiscal and programmatic responsibilities was done in 1991. This proposal would shift 12 percent of the General Fund (GF) program obligations to the counties. The health component of the proposed realignment consists 100 percent of skilled nursing care, 15 percent of Medi-Cal benefits and several public health programs (see accompanying background paper for a description of each program). The following table from the Legislative Analyst Office (LAO) summarizes the Administration's Realignment proposal and the Administration's assessment of the level of county discretion over the affected programs.

Figure 1
The Administration's Realignment Plan
(Dollars in Millions)

Programs	Cost Shift[a]	Level of County Discretion
Health Programs		
Medi-Cal benefits	$1,620[b]	Minimal
Medi-Cal long-term care	1,400	Minimal
Substance abuse treatment programs and drug courts	230	Partial
Integrated Services for Homeless and Children's System of Care	75	Full
Public health	68[c]	Partial
Subtotal	($3,393)	
Social Services Programs		
In-Home Supportive Services and administration	$1,171	Partial
Child Welfare Services	610	Partial
CalWORKS (administration and services)	547[d]	Partial
Foster Care grants	460	Minimal
Foster Care administration	34	Partial
Food stamp administration	268	Partial

Adoptions Assistance	217	Minimal
Programs for immigrants	110	Full
Adult protective services	61	Full
Kin-GAP	19	Minimal
Subtotal	($3,497)	
Child Care		
Required child care matching payments	$498	Partial
Discretionary child care	470[e]	Full
Court Security	$300	Partial
Total[f]	$8,154	

a Represents 100 percent cost shift unless other wise noted (excluding federal funds).

b 15 percent cost shift to counties.

c In addition, counties would receive $78 million in Proposition 99 and federal funds.

d 50 percent cost shift to counties.

e In addition, counties would receive $63 million in additional realignment revenue and $863 million in federal funds.

f Detail may not total due to rounding.

The Administration employed five principles in determining which programs to realign and states that each of the programs adhered to at least one of the principles (See the Background Section for a statement of each of the principles). The LAO reviews the Administration's Realignment Proposal in its publication *Perspectives and Issues*. In its review the LAO recommends the Legislature employ four factors in assigning programmatic and fiscal responsibilities for the state and counties (See Background Section for a statement of the factors).

Administration's Realignment Funding Sources

1).	One cent increase of Sales Tax Rate	$4.584 Billion
2).	New Income Tax Brackets, 10 percent and 11 percent	$2.580 Billion
3)	Increase excise tax on tobacco products	$1.170 Billion
	Total Revenues	$8.334 Billion

In the Administration's proposal the dedicated tax revenues would be deposited into the Enhanced State and Local Realignment Fund. The funding for the Realigned Medi-Cal programs would be distributed to the state for reimbursement of the providers. The state would use this revenue to pay Medi-Cal benefit costs irrespective of the county in which the Medi-Cal cost was incurred. As a result, the counties would not realize any direct advantage or cost from changes in utilization of Medi-Cal services. The remaining funds would be block granted to the counties for their utilization for the other realigned programs.

Given the size and diversity of California, the LAO observes that realignment of some state programs could improve program outcomes. For this reason, the LAO believes realignment merits consideration by the Legislature - regardless of its decisions regarding taxes or education funding.

MEDI-CAL

The LAO recommends an alternative to the Medi-Cal proposal of the Governors. First, the LAO recommends the Legislature not consider the 15 percent share of Medi-Cal for realignment because federal law requires that this program be provided uniformly across the state and because counties have little ability to affect long-term Medi-Cal benefit costs. Federal and state governments establish eligibility requirements for this program, what services will be provided, and how much will be paid to health care service providers. However, the LAO concurs with the Governor about realigning of the long-term care component of Medi-Cal.

The LAO notes the transfer of authority over long-term care programs could not be implemented immediately. The LAO recommends the Legislature transform the Administration's proposal into a plan that's phased-in over a two or three year period and included a range of programs and services associated with long-term care. One of the functions the county would fulfill would be the management of the shift of patients from general acute care hospitals to long-term care. In addition, the LAO recommends the realignment of up to 50 percent share of Medi-Cal Administration. Also, the LAO recommends realigning the Medi-Cal long-term care programs Program for All-inclusive Care for the Elderly, Adult Day Health Care and Multi-Purpose Senior Services Program.

PUBLIC HEALTH

The administration's realignment plan would shift to the counties the fiscal and program responsibility for various maternal and child health, primary and rural health care, and county health grant programs. To offset these program costs, the county block grant includes $68 million in realignment revenues. In addition, counties would receive $78.0 million in additional Proposition 99 revenues and some related federal funding. There are restrictions on the use of Proposition 99 and federal funds. The administration's plan consolidates realignment funding into a single fund and gives counties flexibility to shift revenues in accordance with local priorities. The public health component of this plan, however, includes special funds collected under Proposition 99 (a voter-approved initiative that increased tobacco-related taxes) that must be used for specific purposes.

The LAO notes that public health program's, including indigent care for poor individuals not qualified for enrollment in Medi-Cal, were a major component of the 1991 realignment plan. The LAO concludes the proposed shift of additional health "safety net" programs would increase county ability to develop innovative approaches for the provision of public health care services and meet specific health needs in their communities. Moving away from a structure where related public health programs receive separate categorical funding could give counties greater ability to coordinate services. Therefore, the LAO recommends the Legislature consider for realignment in 2003, all safety net programs proposed by the administration, as well as funding for a related program excluded from the administration's plan: the battered women's shelter program ($24 million GF proposed for 2003-04).

REALIGNMENT QUESTIONS

Department of Health Services/Department of Finance

1. Please provide the Subcommittee with an overview of the Administration's Realignment proposal.
2. What is the Department's assessment of the Legislative Counsel letter that finds the realignment tax revenues are General Fund Revenues subject to Proposition 98?
3. Please outline and describe the Workgroup process, i.e. the composition of the workgroups, issues they are to address, schedule of meetings, projected date for trailer bill language, etc. What is the status of the workgroups?
4. Many County Boards of Supervisors have recently announced significant cuts in programs and staffing. Do or will the counties have the administrative expertise and capabilities to take on the programmatic and fiscal responsibility for the programs proposed to be realigned?
5. What will be the benefit of Realignment on the clients and providers of the various programs to be realigned? How will they be affected, will there be more and/or better care? What outcome measures will improve as a result of the realignment?

Legislative Analyst Office

1. Please provide the Subcommittee with an overview of the LAO's Realignment proposal.
2. Many County Boards of Supervisors have announced significant cuts in programs and staffing, how is the unstable budgetary situation of the counties factored into the LAO's Realignment proposal?
3. Please review for the Subcommittee the longer-term perspective of the LAO in realigning the Medi-Cal long-term care program. What are the advantages and disadvantages to Medi-Cal beneficiaries and providers of including other programs such as Multi-Purpose Senior Services Program, Adult Day Health Care, Program for All-Inclusive Care for the Elderly in Realignment? Given federal law, licensing requirements, complexity of reimbursement and the unique nature of the programs, is it possible to restructure them so they may be candidates for restructuring? What value is there in having them administered by the state where uniform program structure can be maintained?
4. What are the benefits of Realignment for the clients and providers of the Medi-Cal and various public health programs to be realigned? Will the clients receive more and/or better care? Will outcomes improve? Will the synergy of the programs at the state be lost by realigning the programs to counties that may or may not have the capacity or desire to provide the programs? Will reimbursement to providers be maintained? Will providers experience an improved regulatory environment or will Realignment subject providers that operate in multiple counties to conflicts in regulations?

BACKGROUND
2003-2004 Budget Realignment Proposal of the Administration

I. Principles

1). Assignment of program responsibility should be made to the most appropriate level of government, programs that accrue primarily local benefits and result in cost savings to local governments should be administered locally.

2). Assignment of program responsibility should be made to the governmental entity where the service is provided. Transfers of programs currently administered by the counties minimize implementation hurdles because program administration infrastructures already exist.

3). Realignment should result in improved service delivery, with broad discretion given to the responsible entity. The entity responsible for defining eligibility and service levels is in the best position to foster innovation.

4). Revising State-Local sharing ratios and sharing financial obligation for program costs should produce fiscal incentives to encourage the most cost-effective approaches for addressing program needs.

5). Identified funding sources should accompany realigned programs to the responsible entity. A dedicated revenue stream provides greater funding stability with no reliance on annual legislative appropriations.

II. Realignment Expenditures

1).	Mental Health and Substance Abuse	$0.305 Billion
2).	Children and Youth	$2.370 Billion
3).	Healthy Communities	$2.727 Billion
4).	Long-Term Care	$2.571 Billion
5).	Court Security	$0.300 Billion
	Total Realignment	$8.273 Billion

III. Realigned Health Programs

1. Medi-Cal

(a.) 15% Share of Medi-Cal Costs. The Governor's Budget proposes $1.620 billion GF savings in Fiscal Year (FY) 2003-04 by transferring 15 percent of Medi-Cal costs to counties along with a dedicated revenue stream. The GF, through realignment, will be reduced by 15 percent of the state cost of services provided to Medi-Cal beneficiaries through the fee-for-service and managed care systems administered by the Department of Health Services (DHS). This proposal intends to provide counties the incentive to administer Medi-Cal eligibility determinations more efficiently and will not result in reduced eligibility or benefits for Medi-Cal beneficiaries.

(a) Nursing Facility Care. The Governor's Budget proposes $1.6 billion General Fund savings in FY 2003-04. The General Fund through realignment will be reduced by the nonfederal cost of skilled nursing facility services provided to Medi-Cal beneficiaries through the fee-for-service and managed care systems administered by the DHS. This program would continue to be managed by the State, while counties would be responsible for the costs.

2) Public Health

(a)The Governor's Budget proposes to shift responsibility from the State to the counties for the implementation of the Expanded Access to Primary Care (EAPC) Program that reimburses primary care clinics for uncompensated care visits. EAPC is currently funded with$23.5 million General Fund and $7.653 million Proposition 99 funds, which will be eliminated from the DHS budget. Under realignment, there will be no state funding or activities remaining in this program. EAPC could be funded at the local level using the dedicated revenue stream under realignment.

(b)The Governor's Budget proposes to shift responsibility from the State to counties for the Seasonal, Agricultural, and Migratory Workers (SAMW) program and the Rural Health Services Development (RHSD) program. Both these programs provide funding for infrastructure to rural and migrant health clinics. SAMW is currently funded with $6.9 million GF and RHSD is currently funded with $8.2 million GF. Under realignment, there will be no state funding or activities remaining in these programs. Both SAMW and RHSD could be funded at the local level using the dedicated revenue stream under realignment.

(c)The Governor's Budget proposes to shift responsibility for the Adolescent Family Life Program (AFLP) and the Adolescent Sibling Pregnancy Prevention Program (ASPPP), currently administered through local agency contracts. AFLP provides these services via contracts with 46 local agencies, while ASPPP is jointly administered in 37 of these 46 agencies. AFLP provides case management for pregnant and parenting teens in order to ensure improved outcomes. The programs are currently funded with $13.6 million General Fund, which will be eliminated from DHS' budget. Under realignment, there will be no state funding associated with these programs. Both AFLP and ASPPP could be funded at the current General Fund level using the dedicated revenue stream under realignment. This program will continue to be funded with $8.7 million in Title V funds with DHS acting as the single state agency as required by the federal government. Further, to the extent local entities continue to provide a local match, Title XIX funds may be available for eligible services. Currently, there is $7.8 million in Title XIX funding for these programs. DHS will continue to act as the single state agency to draw down these funds as required by the federal government.

The Governor's Budget proposes to shift responsibility for the Black Infant Health (BIH) program. This program is currently funded with $3.9 million GF with 17 local entities. BIH is a focused effort, located in the areas of California that represent over 95 percent of African American births. Under realignment, there will be no State funding associated with this program. BIH could be funded at the current GF level using the dedicated revenue stream under realignment. This program will continue to be funded with $4.1 million in Title V funds with DHS acting as the single state agency as required by the federal government. Further, to the extent local entities continue to provide a local match, Title XIX funds may be available for eligible services. Currently, there is $3.8 million in Title XIX funding for these programs. DHS will continue to act as the single state agency to draw down these funds as required by the federal government.

(e) The Governor's Budget proposes to shift responsibility for Local Maternal and Child Health (MCH) programs. The program is currently funded with $2.6 million GF which will be eliminated from the DHS budget. Under realignment, there will be no state funding associated with this program. Local MCH programs could be funded at the current GF level using the dedicated revenue stream under realignment. This program will continue to be funded with $4.8 million in Title V funds with DHS acting as the single state agency as required by the federal government. Further, to the extent local entities continue to provide a local match, Title XIX funds may be available for eligible services. Currently, there is $25.5 million in Title XIX funding for these programs. DHS will continue to act as the single state agency to draw down these funds as required by the federal government.

(g) The Governor's Budget proposes realignment of the existing Proposition 99 California Healthcare for the Indigent Program (CHIP), the Rural Health Services Program (RHS), and RHS "contract-back" Programs. The funding for these programs total $82.1 million for FY 2002-03, as proposed in the 2003-2004 Budget. The realignment will allow the Counties that participate in these programs to administer the programs independent of the State.

(h) The proposed realignment of $54.7 million funding for CHIP and $900 thousand for Managed Care Counties would transfer this Proposition 99 funding to large counties from the Hospital Services Account (HSA), the Physician Services Account (PSA), and the Unallocated Account (UA). Also within CHIP, this proposal would realign $22 million of proposition 99 funds to the large counties for administration of uncompensated hospital emergency services.

(i) In addition, this proposal includes a realignment of $4.1 million in Proposition 99 funding for Rural Health Services (RHS) and transfer of administration of these funds from HSA, PSA, and UA to the counties. This proposal would eliminate the RHS Physician "contract-back" program, Hospital Services "contract-back" program, Uncompensated Hospital Emergency Services "contract-back" program, and the Children's Treatment Program. No Prop. 99 funds would be administered by Office of County Health Services in FY 2003-04 per the proposed realignment.

In addition, $1.0 million in Public Health subvention funding used to support county public health infrastructure is proposed to be realigned.

IV. Expenditure Assumption

The realignment proposal assumes the Legislature has adopted the 15 percent Medi-Cal provider rate reduction; reinstated the Quarterly Status Report (QSR) for adults on Medi-Cal; reduced the eligibility income level for the 1931(b) Medi-Cal program; repealed 18 optional benefits for adults under Medi-Cal; eliminated the second year of transitional Medi-Cal; and abolished the Aged and Disabled Federal Poverty Level Program.

V. Proposed Revenues

1).	One cent increase of Sales Tax Rate	$4.584 Billion
2).	New Income Tax Brackets, 10 percent and 11 percent	$2.580 Billion
3)	Increase excise tax on tobacco products	$1.170 Billion
	Total Revenues	$8.334 Billion

Legislative Analyst Office

I. Overarching Considerations

(1) Realigning some state-county programs makes sense
- Realignment is an opportunity to re-sort state-county program responsibilities

(2) Programs not taxes should be the focus of realignment
- Realignment should focus on program policy objectives and interest in increasing local control – not simply raising revenue.

(3) Realignment plans are not easily changed
- To establish realignment it will require extensive negotiations and it is expected the plan will have a "poison pill" to safeguard the state's fiscal interest if elements of realignment are successfully challenged in court.

(4) Counties will need control over realigned programs
- Counties need program authority so that they may modify their programs to meet the needs in their community and facilitate innovative approaches and collaboration. Counties may have a need for greater authority because counties have less ability to increase taxes to pay for the programs

(5) Roughly match revenues and expenditures
- The revenues to fund Realignment are projected to grow at a slower pace than the expenditures. The revenues are projected to grow between 5.5 percent and 6 percent on an annual basis. Whereas the expenditures are projected to grow at an annual rate between 7 percent and 8 percent.

(6) Details matter in designing the structure of realignment
- Implementation Timing
- Revenue Allocation
- County Fiscal Authority
- Realignment Reserve
- Performance Measurement
- Integration with 1991 Realignment

(7) Achieving general consensus will be critical
- Realignment will require at least as many poison pills as in 1991, therefore, it is essential to achieve general consensus that realignment is a reasonable approach.

II. Factors in Assigning Program Responsibilities

1) Programs where statewide uniformity is vital, where statewide benefits are the overriding concern, or where the primary purpose of the program is income redistribution – usually are more effectively controlled and funded by the state.

2) Programs where innovation, responsiveness to community interests, and efficiency are paramount – usually are more effectively controlled by local governments.

3) Coordination of closely linked programs is facilitated when all programs are controlled and funded by one level of government, usually local government.

4) If state and local governments share a program's costs, the state's share should reflect its level of program control. If the costs of closely linked programs are shared, the cost sharing arrangements should be similar across programs.