

# AGENDA

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

**Assemblymember Hector De La Torre, Chair**

**MONDAY, MAY 22, 2006  
Upon Adjournment of Session  
STATE CAPITOL, ROOM 4202**

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## Consent Calendar

### **ITEM 2400            DEPARTMENT OF MANAGED HEALTH CARE**

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#### **ISSUE 1: STAFFING AUGMENTATION FOR LEGISLATIVE ANALYSIS AND SUPPORT**

The Department requests \$165,000 (special fund) and authority to add two permanent positions (an Associate Governmental Program Analyst and an Office Technician) for legislative analysis and support workload.

### **4260 DEPARTMENT OF HEALTH SERVICES**

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#### **ISSUE 2: PREPARATION AND RESPONSE TO PANDEMIC INFLUENZA**

The Department of Health Services (DHS) is requesting \$673 thousand General Fund and five permanent positions to prepare and respond to pandemic influenza. According to DHS, the positions are to strengthen the Department's pandemic influenza planning effort, conduct epidemiologic investigation of influenza and respiratory disease outbreaks, and provide epidemiologic and statistical support to the DHS' infectious laboratories.

**ITEM 2400 DEPARTMENT OF MANAGED HEALTH CARE**

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**ISSUE 3: INFECTIOUS DISEASE LABORATORY INFRASTRUCTURE**

The Department of Health Services (Department) requests a \$4.2 million General Fund appropriation (\$1.74 million for State Support and \$2.5 million Local Assistance) and 13 permanent personnel years in the 2006-07 fiscal year. The appropriation would be for the State's infectious disease laboratories, to improve the capacity in the Microbial Disease Laboratory and the Viral and Rickettsial Diseases Laboratory. The request includes funds to implement new tests to control old and new infectious diseases and to establish pre-doctoral and post-doctoral training programs to provide a qualified pool of candidates to replace local laboratory directors as they retire the budget request by the Department also contains a request of \$200 thousand to purchase/replace molecular sequencing equipment, centrifuges, microscopes and freezers.

**ISSUE 4: EXPANSION OF COMMUNICABLE DISEASE SURVEILLANCE INFRASTRUCTURE**

The Division of Communicable Disease Control in the Department of Health Services has requested expenditure authority of \$1.329 million General Fund for four state positions and contract services from the General Fund. The purpose is to expand and maintain State and Local capacity to conduct communicable diseases surveillance, which is the basis for disease detection and response to outbreaks or bioterrorism events. \$693 thousand of the proposed appropriation would be for contract services from the University of California to allow the Department of Health Services to conduct critical support, training, testing, customer service, interfacing, and quality control activities for statewide surveillance operations and initiatives. \$227 thousand General Fund is for the Department to obtain highly specialized and time limited services not available within the capability or capacity of the Department's staff. Specifically the contract funding would be for security assessments/audits, graphic design for training and outreach materials and information management and modeling. The proposal also provides \$302 thousand for four positions and \$107 thousand for operating expenses and equipment.

**ITEM 4260            DEPARTMENT OF HEALTH SERVICES****ISSUE 5: MANAGING ANTIVIRALS**

The Department of Health Services is requesting funds to purchase 270,000 doses of oseltamvir, Tamiflu, for use in the treatment of influenza. The Department would purchase 70,500 doses of Tamiflu in the current year, 2005-06 for \$460 thousand to conduct an initial ring of containment. In addition, the Department is requesting \$1.3 million to purchase 200 thousand doses in the budget year, 2006-07. The Federal Health and Human Services announced that on March 1, 2006 it would purchase the drug Zanamivir, Relenza in addition to Tamiflu. Scientists recommend that 90 percent of purchases should be Tamiflu and 10 percent Relenza. The 200 thousand doses could be used for 20,000 5-day treatment courses or 10,000 or less preventive courses (10 days to 8 weeks depending on length of treatment). In addition, the Department is requesting a staff person to manage the antiviral vaccines and medical supplies the state will need to obtain and distribute during a pandemic. In addition, the proposal contains \$111,000 for consulting. This proposal is related to the next agenda item.

**ISSUE 6: CLINICAL LABORATORY OVERSIGHT**

The Department is proposing a \$947,000 increase for Clinical Oversight. The augmentation will fund 13.5 positions in the Laboratory Field Services section. These funds will be used by the Department to perform mandated licensing workload in the areas of phlebotomy certification and medical laboratory technician licensure, expand federal Clinical Laboratory Improvement Act inspections, and enable full licensure and registration of clinical laboratories over the next three years.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 7: ALZHEIMER'S RESEARCH**

The Alzheimer's Disease Program and the Alzheimer's Research Centers of California (ARCCs) request a \$2 million General Fund augmentation to its current \$4.9 million budget for the Alzheimer's Disease Program. The augmentation would supplement the funding of the Alzheimer's Research Centers of California. It would also fund the management of the Alzheimer's Research Centers of California data and the program evaluation component at the UCSF Institute of Health and Aging.

The accomplishments of the ARCCs include:

1. Made California the leader in the field of Alzheimer's research
2. Generated leveraged resources: 4:1 ratio (\$120 million+)
3. Made great progress in multicultural diagnosis and research (e.g. Cross-Cultural Assessment Battery (CCNB))
4. Advanced the field of collaborative research (the ARCCs have 10 translational studies awaiting start-up funding)
5. Built and maintain a unique database on AD and related dementias (The Feds are only now doing this – the ARCCs are 20 years ahead), and
6. Lead the national field in translational research (getting results of bench research into mainstream medicine and to the consumer)

The ten ARCCs are located at university medical centers throughout the state (UC Davis/Sacramento, UC Davis/Martinez, UC San Francisco, UC San Francisco/Fresno, UC Irvine, UC Los Angeles, UC San Diego, USC/Los Angeles, USC/Rancho Los Amigos, and Stanford University) shall receive an augmentation of \$185,000. Each ARCC will maintain flexibility to distribute and manage its augmented funds as directed under ADP program policies and procedures.

Each ARCC would use its augmentation to:

1. Support existing 'state-of-the-art' diagnostic services and academic & community education
2. Expand unique clinical research and education projects according to the expertise and needs of individual centers
3. Participate in and expand the ARCCs' program of cutting edge collaborative translation research.

Translation of important research findings into treatment, disease management, and the general knowledge base of professionals and the community at large maximizes the benefit of research discoveries, no matter where in the world they are made. Research into effective methods of translation is imperative to ensure appropriate use of fiscal resources for health care and maintenance of as high a level of academic knowledge and clinical skills for up-and-coming health care professionals as possible.

The Institute for Health and Aging (IHA) shall receive an augmentation of \$150,000. The IHA has worked collaboratively with the ARCCs and DHS since the inception of the Alzheimer's Disease program in the creation, updating, and maintenance of the ARCC Minimum Uniform Data Set (MUDS). The MUDS is an extremely rich resource, which contains more than 20 years worth of data, and adds more each year. As additional research, questions arise related to advances in our understanding of AD and related disorders, the IHA works with the ARCCs to design and develop studies to answer new questions and move research in the field forward. These data are used to examine scientific questions related to AD and related disorders, as well as provide the DHS with administrative information for program evaluation purposes. The IHA works with the DHS to evaluate the performance of each ARCC in meeting program goals.

The Administration proposed the same programmatic increase as the Subcommittee did in its May 8<sup>th</sup> hearing.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES**

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**ISSUE 8: MEDI-CAL QUALITY ASSURANCE FEE REVENUE**

Total Medi-Cal revenue is projected to be \$5,402,000 below the amount assumed in the January Governor's Budget. The May Estimate includes a revenue summary in the "Information Only" section of the Assumptions document.

**ISSUE 9: FEDERAL BIOTERRORISM GRANT AWARDS**

The Department requests that Item 4260-001-0890 be decreased by \$6,975,000 and Item 4260-001-0001 be amended to reflect this change and also reduced by 6.0 positions. This reduction will align federal fund authority to match available federal bioterrorism grant awards.

**ISSUE 10: FEDERAL FUNDS PANDEMIC INFLUENZA**

The Department of Health Services requests Item 4260-001-0001 be decreased by \$980,000 and Item 4260-001-0890 be increased by \$1,339,000. Further, it is requested that Item 4260-111-0001 be decreased by \$4,506,000 and Item 4260-111-0890 be increased by \$4,506,000. The Department of Health Services has been awarded \$6.7 million in one-time supplemental federal funding from the federal Centers for Disease Control and Prevention to prepare for and respond to an influenza pandemic. These newly awarded federal funds will be used to offset General Fund expenditures originally proposed in the Governor's Budget supporting pandemic influenza outbreak preparedness and response.

**ITEM 4280                      MANAGED RISK MEDICAL INSURANCE BOARD****ISSUE 11: HEALTHY FAMILIES POPULATION ESTIMATES**

In the current year, the Healthy Families caseload is expected to reach 780,698 children, which is 46,600 less than the caseload projected in the January Governor's Budget. Projected caseload as of the May Revision results from a smaller percentage of Certified Application Assistant (CAA)-assisted applications than anticipated. While caseload growth is not as high as originally estimated in the January Governor's Budget, estimated caseload still has increased by 38,354, or 5.2 percent, from June 30, 2005. This lower caseload estimate is expected to decrease current year expenditures by \$17,981,000 (\$6,197,000 General Fund) relative to the January Governor's Budget.

The Budget Year caseload is projected to reach 867,727 children, which is 65,384 children less than the caseload projected in the January Governor's Budget, but still an increase of 87,029 children and an 11.1 percent rate of growth relative to the revised 2005-06 estimate. Projected caseload as of the May Revision reflects the impact of various proposals included in the January Governor's Budget, including promoting and maximizing enrollment in the Healthy Families Program (HFP), improving the retention of children already enrolled, and supporting county-based efforts to enroll eligible children. Expenditures are expected to decrease by \$19,778,000 (\$6,109,000 General Fund) from the January Governor's Budget.

**VOTE ONLY****ITEM 2400 DEPARTMENT OF MANAGED HEALTH CARE****ISSUE 1: FINANCIAL SOLVENCY OVERSIGHT**

The Department proposes to augment funding by \$3.8 million and 17 positions to conduct financial solvency oversight of Risk Bearing Organizations (RBOs) and ensure prompt and sufficient payment of health care provider claims. The positions would staff the proposed Office of Provider Oversight, which would include a Provider Solvency Unit, a Provider Complaint Unit, and an associated Provider Oversight Management Group.

**ISSUE 2: HEALTH PLAN OVERSIGHT**

The Administration requests the addition of 10.0 permanent positions and 2.0 limited-term positions to be funded within existing budgeted resources. The request would continue most of the 13.0 administratively-established positions added in 2005-06. The 12.0 requested positions would increase staffing in the Health Plan Oversight Division to a total of 36.9. The Department indicates these positions are needed to continue efforts to improve the review of required health plan filing submissions in order to meet market and industry demands and to provide appropriate oversight necessary for DMHC to fulfill its statutory responsibilities.

The LAO recommends that one of the requested 12 positions be rejected due to lack of justification – specifically, the Health Program Manager II position. This is an additional management position beyond what was administratively established in 2005-06 and the two supervisors should be sufficient.

**ITEM 2400            DEPARTMENT OF MANAGED HEALTH CARE**

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**ISSUE 3: PROVIDER OVERSIGHT**

The Department proposes to augment funding by \$3.8 million and 17 positions to conduct financial solvency oversight of Risk Bearing Organizations (RBOs) and ensure prompt and sufficient payment of health care provider claims. The positions would staff the proposed Office of Provider Oversight which would include a Provider Solvency Unit, a Provider Complaint Unit and an associated Provider Oversight Management Group.

**ITEM 4120            EMERGENCY MEDICAL SERVICES AUTHORITY**

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**ISSUE 4: POISON CONTROL CENTER**

The Poison Control System of the Emergency Medical Services Authority is requesting a \$1.36 million General Fund augmentation. The Poison Control System states that it responds to over 900 poisoning calls per day. This translates to 300,000 annually. The Poison Control System states that over half of the calls are for children 5 and under. The System says it saves the state \$70 million annually by averting and estimated 61,000 emergency department visits each year.

**ISSUE 5: TRAUMA CENTER FUNDING**

The Legislature appropriated \$27.5 million for Trauma Care in 2001-02. It was the first time trauma center funds were included in the budget. The Legislature appropriated \$20 million in 2002-03. The Legislature further appropriated \$10 million in 2005-06. The Trauma Centers are requesting \$15 million for the 2006-07 fiscal year.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 6: PACE**

Capitation rates for PACE programs are set by contract as a percentage of a fee-for-service equivalent (FFSE). The rate setting methodology yields a FFSE cost per person per month. DHS calculates the FFSE based on statewide Medi-Cal FFS costs for individuals who are in nursing homes, both those who are dually eligible for Medicare and those who are only eligible for Medi-Cal. The methodology then adjusts the FFSE for a variety of factors, including county cost differences, age / gender of PACE

**ISSUE 7: WATER PROTECTION AND FOOD SAFETY/SECURITY**

The Department of Health Services is requesting \$4.179 million General Fund and the establishment of 15 full-time permanent positions and contract funding that assistance can be provided to local agencies in planning, training, responding and recovering from natural and man-made disasters and terrorist attacks that could result in chemical and radiological contamination of food, water and the environment.

The positions and funding will be used to:

- Develop plans and support training for public health responses to chemical and radiological contamination resulting from disasters and terrorist attacks.
- Develop food and water protection plans against intentional contamination with chemical and radiological agents.
- Provide training to local jurisdictions and the food industry.

Enhance laboratory capability to rapidly and accurately identify chemicals and radiological agents contaminating food, water and the environment.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 8: LOCAL HEALTH DEPARTMENT PREPAREDNESS**

The Department of Health Services requests five staff and \$17.879 million for the budget year and ongoing. Of the \$17.879 million, the proposal would provide \$16 million in General Fund, local assistance funding for local health departments. The Budget Change Proposal seeks authority for \$1.879 million General Fund for state operations. Of the \$1.89 million, \$500,000 would be for five staff and \$1 million for Regional and Local Training and \$382,000 for unspecified consultant activities by consultants.

**ISSUE 9: PANDEMIC INFLUENZA PUBLIC EDUCATION CAMPAIGN**

The Department of Health Services is proposing to spend \$14.294 million and add five new staff in the budget year for risk communications directed toward all hazards emergency preparedness and response for the public. The Department's proposal contains the following:

- A public information campaign on emergency preparedness that include "in the can" spots on pandemic influenza ready to be used when they are needed;
- A general emergency preparedness hotline that would provide recorded messages on emergencies, and live operators including advice nurses to respond to medical attention;
- And five permanent positions which would provide program management (hiring, staffing scheduled, and logistic management); modify the Department's web page to easy-to-print public documents; and
- A public relations campaign on influenza that would provide outreach to other state agencies, local governments, and organizations in the private sector.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES**

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**ISSUE 10: HEALTHCARE AND COMMUNITY INFECTION CONTROL**

The Department of Health Services has proposed a \$1.375, General Fund appropriation, and 10 new staff positions to develop an ongoing program for the surveillance, laboratory testing, prevention, and control of health care and community infections. The new staffing would be in two newly created units in the Department's Division of Communicable Disease Control, one in the Infectious Disease Branch and the other in the Microbial Diseases Laboratory Branch.

**ISSUE 11: DENTAL SEALANT**

A \$5.5 million augmentation to the California Dental Disease Prevention Program (DDPP) budget. The purpose of the augmentation is to increase the use of sealants (at least 10 percent) and introduce the use of fluoride varnish to eligible schoolchildren.

**ITEM 4280                      MANAGED RISK MEDICAL INSURANCE BOARD****ISSUE 12: MRMIB STAFFING RECONSIDERATION**

The Managed Risk Medical Insurance Board requests 10 positions and \$983,000 (248,000 General Fund) in the budget year for state support costs to enable MRMIB to address anticipated workload. The staff would be dedicated too:

- Applicant and Plan Subscriber Customer Service
- Policy and Legislation Coordination
- Legal Research and Review
- Health Plan Services Research and Quality Improvement
- Rural Health Demonstration Program

The Subcommittee heard the issue on 8<sup>th</sup> of May and approved four positions and conformed to the Senate. Subsequent discussions and review of workload study indicates the staffing needs to be increased.

MRMIB indicates for its size, complexity, and visibility of its health insurance program, MRMIB has a small number of staff to perform all of the functions needed to properly administer them. MRMIB spends about one percent of its total budget on support.

MRMIB has responsibility for the Major Risk Medical Insurance Program, Access for Infants and Mothers Program, the Healthy Families Program and the County Health Initiative. The programs have a combined budget of over \$1 billion and provide coverage to 1 million. Since the 2002 fiscal year the Healthy Families program has grown more than 50 percent.

The MRMIB indicates that an analysis of its Eligibility Division shows that there is a need for 11 full-time positions. The Board believes that the positions are essential to maintain the core appeals processing functionality without having to redirect staff resources from other functions. The MRMIB received several positions in the current year. The staff positions did not address the issue of program growth, emerging policy challenges and new functions such as health plan services research and quality improvement.

A study by the Managed Risk Medical Insurance Board of the workload indicate the Managed Risk Medical Insurance Board could satisfy it's staffing needs with the addition of three staff to the Board.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 13: MEDI-CAL CASELOAD**

The average monthly Medi-Cal caseload for 2005-06 is expected to be 6,579,500 beneficiaries, which represents a decrease of 100,700, or 1.5 percent, from the estimate of 6,680,200 reflected in the January Governor's Budget. Total Medi-Cal expenditures for 2005-06 are projected to be \$33.3 billion, which is a net decrease of \$502.5 million (\$365.8 million General Fund).

The average monthly caseload for 2006-07 is projected to be 6,664,700, which represents a decrease of 142,100 beneficiaries, or 2.1 percent, from the estimate of 6,806,800 reflected in the January Governor's Budget. Total Medi-Cal expenditures are expected to be \$35.0 billion, or a net increase of \$183.5 million (\$29.7 million General Fund) from the January Governor's Budget.

The Department is requesting the adjustments noted below be made to the following items to reflect a variety of caseload and cost changes not highlighted in the other Medi-Cal issues included in this letter:

- Item 4260-101-0001 be increased by \$6,029,000 and Reimbursements be decreased by \$13,163,000;
- Item 4260-101-0080 be increased by \$97,000;
- Item 4260-101-0236 be decreased by \$6,716,000;
- Item 4260-102-0001 be decreased by \$11,609,000;
- Item 4260-104-0001 be increased by \$9,000;
- Item 4260-105-0001 be increased by \$471,000;
- Item 4260-113-0001 be increased by \$1,460,000;
- Item 4260-117-0001 be increased by \$1,794,000;
- Item 4260-101-0890 be increased by \$857,989,000;
- Item 4260-102-0890 be decreased by \$11,610,000;
- Item 4260-103-0890 be increased by \$144,000;
- Item 4260-113-0890 be increased by \$6,921,000; and
- Item 4260-117-0890 be increased by \$4,559,000.

Additionally, the following items have been adjusted to fund Medi-Cal costs that are reflected in non-budget act items. No amendments to the Budget Bill are required, because these costs are continuously appropriated.

- Item 4260-601-3096 is increased by \$9,000;
- Item 4260-601-3097 is increased by \$4,971,000;
- Item 4260-601-7502 is decreased by \$756,270,000;
- Item 4260-601-7503 is increased by \$140,226,000;
- Item 4260-601-8033 is increased by \$13,478,000;
- Item 4260-606-0834 is decreased by \$122,073,000;
- Item 4260-698-3096 is decreased by \$9,000;
- Item 4260-698-3097 is decreased by \$471,000; and
- Item 4260-601-7503 is increased by \$4,119,000 (This adjustment is reflected in the Public Health Finance Letter).

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES**

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**ISSUE 14: CANCER DETECTION PROGRAMS**

The Administration requests that Item 4260-111-0236 be increased by \$6,716,000, Item 4260-111-0890 be decreased by \$2,650,000, and Item 4260-111-0001 be amended to reflect these changes. This increase in Proposition 99 funding will fully fund services for eligible women and backfill a projected reduction in the federal grant award for this program. To provide the increase, Proposition 99 funds are redirected from the Orthopedic Hospitals program, for which a General Fund backfill of the same amount is proposed.

**ISSUE 15: GENETIC DISEASE BRANCH**

The Administration requests that Item 4260-001-0203 be increased by \$8,587,000 and Item 4260-001-0001 be amended to reflect this change. This increase reflects revised caseload expenditures in the Newborn and Prenatal Screening programs as a result of increased caseload and service utilization projections for 2006-07.

**ITEM 4280 MANAGED RISK MEDICAL INSURANCE BOARD**

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**ISSUE 16: FAMILY HEALTH ESTIMATES**

The Administration requests that Item 4260-111-0001 be increased by \$1,099,000, Item 4260-111-0080 be decreased by \$78,000, and Item 4260-111-0890 be increased by \$1,347,000. These changes reflect revised expenditure estimates in the CCS, CHDP, and GHPP programs based on May Revision caseload estimates and utilization of available federal funding sources.

**ITEM 4280                      MANAGED RISK MEDICAL INSURANCE BOARD****ISSUE 17: FAMILY HEALTH**

Additionally, The Department is proposing an increase in funding for Health and Safety Code Section 123223 by \$1.0 million and Welfare and Institutions Code Section 14166.21 by \$4,119,000. These adjustments reflect full funding of the Family Health program's projected expenditures. Because expenditures from these two special funds are continuously appropriated, and therefore tracked through non-budget act items, no amendments to the Budget Bill are required.

**ISSUE 18: CERTIFIED APPLICATION ASSISTERS**

The MRMIB requests that Item 4280-102-0001 be increased by \$651,000 and Reimbursements be decreased by \$15,000, and Item 4280-102-0890 be increased by \$1,234,000. These adjustments are necessary to modify the Governor's Budget CAA fiscal incentive proposal so that CAAs will receive an additional \$25 per successful application filed using the electronic Health-e-App. To improve retention, the payment for Annual Eligibility Redetermination assistance also will be increased from \$25 to \$50. Through this modified proposal, it is estimated that 20,000 additional children will receive and maintain health coverage in 2006-07.

**ISSUE 19: MAKES HEALTH-E-APP PUBLIC**

DMHC requests that Item 4280-102-0890 be increased by \$796,000, Reimbursements be increased by \$1,004,000, and Item 4280-102-0001 be amended to reflect these changes. A foundation has offered to provide the funding needed to match federal funds for the cost of making the Health-e-App available to the public. Developing a publicly available web-based version of the Health-e-App will provide families a simple-to-use application that will guide them through the enrollment process and result in applications that contain fewer errors and more information that is complete.

**ITEM 4280                      MANAGED RISK MEDICAL INSURANCE BOARD****ISSUE 20: UPDATE THE ACCESS FOR INFANTS AND MOTHERS PROGRAM ESTIMATE**

Average monthly enrollment in the Current Year in the Access for Infants and Mothers (AIM) program is expected to reach 7,030 women and infants, representing a 2.0 percent decrease from the 7,173 originally estimated in the January Governor's Budget. The May Revision projects an overall expenditure decrease of \$2,032,000 (\$57,000 General Fund decrease, \$2,071,000 Perinatal Insurance Fund decrease, and \$96,000 federal funds increase) and a decrease of \$2,114,000 Proposition 99 transfer to the Perinatal Insurance Fund, relative to the January Governor's Budget.

In the Budget Year, average monthly enrollment is expected to reach 1,616 women and infants, 5.1 percent lower than the 1,703 originally estimated in the January Governor's Budget. The May Revision projects an overall expenditure increase of \$5,889,000 (\$1,216,000 million Perinatal Insurance Fund and \$4,673,000 million federal funds) and an increase of \$1,188,000 Proposition 99 transfer to the Perinatal Insurance Fund, from the level originally anticipated in the January Governor's Budget. The increased costs reflect infants being transitioned out of AIM and enrolled directly into HFP, leaving a larger share of relatively higher cost pregnant women in the AIM program. With a declining number of children enrolled in AIM, the Managed Risk Medical Insurance Board (MRMIB) has had to increase provider rates to recognize the relatively higher cost of pregnancies for a higher share of the caseload. In 2006-07, the one-time capitation rate for pregnancies is expected to be approximately \$620 higher than the rate used in 2005-06.

The DMHC request Item 4280-101-0890 be increased by \$4,673,000 and Item 4280-101-0001 be amended to reflect this change. It is also requested that transfer authority in Item 4280-111-0232 be increased by \$811,000 and transfer authority in Item 4280-111-0233 be increased by \$377,000. These adjustments reflect changes in anticipated caseload within AIM.

**ITEM 4440            DEPARTMENT OF MENTAL HEALTH**

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**ISSUE 21: PAI CONTRACT**

Protection and Advocacy request an additional Supervising Advocate Specialist at each of the three larger state hospitals, Napa, Patton and Atascadero and one Patients' Rights Specialist at the Central Office whose work will focus on state hospital services.

The total estimated annual costs for 3 Supervising Advocate Specialist and 1 additional Patients' Rights Specialist for the budget year is \$ 341,288.

**ITEMS TO BE HEARD****ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES****ISSUE 1: RECONSIDERATION OF COST CONTAINMENT**

The Subcommittee adopted the following increases in its April 24 hearing on the Department of Developmental Disabilities issue. The Department estimated the increase in Departmental expenditures for the 2006-07 fiscal year. The following are the Department's projection expenditure increase"

1. The shift from 60 to 120 days for intake assessment, \$4.465 million in savings in the budget year
2. Caseworker to client ratio, \$29.544 million in the budget year savings from reducing the caseworker to client ratio from 1:62 to 1:66 ;
3. Non-Community Placement Plan Start up Funding, \$5.962 million in savings in the budget year;
4. Day Program and In-Home respite, \$3.696 million in savings in the budget year;
5. SSI/SSP Pass-Through , \$4.341 million in savings in the budget year;
6. Change in Eligibility Definition, \$2.074 million in savings in the budget year, the Department is working to re-estimate the amount and effects of this measure;
7. Purchase of Services Unallocated Reduction, in lieu of Purchase of Services Standards savings of \$7.0 million in savings in the budget year.

The Department has updated its projections of the increases in Departmental expenditures

1. The shift from 60 to 120 days for intake assessment, \$4.465 million in savings in the budget year , unchanged;
2. Caseworker to client ratio, expenditures would go down to \$26.639 million in the budget year savings from reducing the caseworker to client ratio from 1:62 to 1:66, unchanged; ;
3. Non-Community Placement Plan Start up Funding, \$5.962 million in savings in the budget year; unchanged;
4. Day Program and In-Home respite, expenditures would decline to \$2.852 million;
5. SSI/SSP Pass-Through , \$4.341 million in savings in the budget year;
6. Change in Eligibility Definition, The savings level would remain the same \$2.074 million, in the budget year.

**ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES****ISSUE 2: CADDIS**

The Department and the LAO have negotiated a compromise on the CADDIS Budget Bill language. The staff recommends the adoption of this compromise, as revised:

**CADDIS BUDGET LANGUAGE**

- A. Reappropriation Language for \$2,000,000 available in Current Year.

Add Item: 4300-491 – Reappropriation, Department of Developmental Services.

Notwithstanding any other provision of law, as of June 30, 2006, up to \$2 million of the appropriation provided in the following citation is reappropriated for the purposes specified below and shall be available for encumbrance or expenditure until June 30, 2007, unless otherwise stated.

0001 – General Fund

(1) Item 4300-101-0001, Budget Act of 2005 (Ch. 38, Stats. 2005)

Schedule:

(a) 10.10.010 – Regional Centers: Operations. . .

Up to \$2 million of the funds appropriated in this item for the California Developmental Disabilities Information System (CADDIS) are made available for 2006 – 07 for activities necessary to complete the Special Project Report (SPR) or for activities necessary to request an augmentation pursuant to Provision 4 of Item 4300-101-0001. Expenditure of the funds after July 1, 2006 shall be contingent upon the Department providing notification to the Joint Legislative Budget Committee that the State has secured the rights to fully use, modify and enhance the CADDIS computer system code as necessary to provide services and implement programs for persons with developmental disabilities. Upon completion of the technical review of the computer system, the Department shall notify the Joint Legislative Budget Committee of the feasibility of continuing the project.

B. Add Provision 4 to Item 4300-101-0001

Provision 4. Notwithstanding any other provision of law, the Director of Finance may augment this Item for the 2006-07 fiscal year costs of the Department of Developmental Services' California Developmental Disabilities Information System (CADDIS) in excess of the amount appropriated in this Item subject to the following conditions:

(a) Based on the Special Project Report (SPR) for CADDIS approved by Finance, the amount of the augmentation shall not exceed the lesser of:

- 10 percent of the total project costs identified in the approved SPR; or
- the 2006-07 costs identified in the approved SPR.

(b) In fiscal year 2006-07, the vendor may not conduct work on the project that would incur costs beyond the amount approved by Finance pursuant to this provision or appropriated by the Legislature.

(c) Any 2007-08 or subsequent fiscal year costs shall be addressed through the normal budget process. The contract shall provide that if the project is discontinued, the State shall not be liable for any 2007-08 or subsequent fiscal year costs, including closeout costs, incurred by the vendor.

(d) Any augmentation pursuant to this Provision shall be made no sooner than 30 days after notification in writing to the Chairperson of the Joint Legislative Budget Committee, or no sooner than such lesser time as the Chairperson, or his or her designee, may in such instance determine; and

- (e) The request for augmentation shall include:
- (1) Verification that the state has secured the rights to fully use, modify and enhance the computer system code;
  - (2) Results of the technical review of the code, functionality, and architecture of the system. The report on the technical review and assessment shall address system code efficiency, effectiveness, maintainability and the extent to which the vendor's system documentation will facilitate future system maintenance;
  - (3) An approved SPR that contains a plan and schedule for management of the project to completion and identifies the resources necessary to complete CADDIS, including a cost estimate that reflects the results of vendor negotiations as well as all other associated project costs; and
  - (4) A report on the availability of federal funds for the project.
- (5) Verification that CADDIS will meet the business requirements of the regional centers.

**ITEM 4300            DEPARTMENT OF DEVELOPMENTAL SERVICES**

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**ISSUE 3: RECONSIDERATION OF OFFICE OF PROTECTIVE SERVICES**

The Department of Developmental Services is requesting six positions and \$752,000, \$452,000 General Fund. The positions would be at Headquarters to develop and implement critical policies, training and management functions for a large, decentralized law enforcement organization. The proposal is the Headquarters portion of a broader request to meet the operational needs of the Office of Protective Services on a statewide basis as recommended by the Department of Justice in its review of the Department's law enforcement structure.

**ITEM 2400            DEPARTMENT OF MANAGED HEALTH CARE**

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**ISSUE 4: INTERVENOR PROGRAM EXTENSION**

Legislation enacted in 2002 (SB 1092, Chapter 792, Sher), provides intervener funding for consumer groups that advocate on regulatory proceedings at the Department of Managed Health Care. The program is funded out of the licensing fees paid to DMHC and is capped at \$350,000 annually. The program sunsets on January 1, 2007.

It takes several years for the regulatory process to be completed. The Department notes that advocates are not reimbursed until the process complete, which can take up to several years. Several regulation packages are currently moving through the process. No funding has been awarded, and only one request for \$7,268 has been received. The Department never received an augmentation for this program and, as such, would absorb any costs within existing budgeted resources. As the long regulatory process has delayed the implementation of the program and associated claims and payments, Advocates are requesting an extension of the sunset by five years to January 1, 2012.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 5: MEDI-CAL MANAGED CARE RATES**

It is requested that Item 4260-101-0001 be increased by \$30,587,000 and Item 4260-101-0890 be increased by \$30,588,000. The Department of Health Services (DHS) recently conducted a financial review of all Medi-Cal managed care plans to determine if any payment adjustments were needed to ensure that plans would have sufficient resources to provide quality care to Medi-Cal beneficiaries. This review determined that payment increases are needed for Central Coast Alliance for Health, Community Health Group, Contra Costa Health Plan, Health Plan of San Mateo, Partnership Health Plan of California, and Santa Barbara Regional Health Authority.

Medi-Cal managed care plans have sustained a 5 percent provider rate reduction since 2004 as required by law (AB 1762, Chapter 230 of 2003). This reduction approximated an actuarial equivalent of 1.97 percent across all plans and terminates effective January 1, 2007. The May Revision provides \$65.4 million (\$32.7 million General Fund) in 2006-07 to increase managed care capitation rates for all affected plans effective January 1, 2007. The annual cost of the increase is expected to be \$130.8 (\$65.4 General Fund). This increase provides critical funding for all Medi-Cal managed care plans to help assure that they can continue to provide quality healthcare to the 3.2 million beneficiaries they serve.

Due to recent concerns about the financial viability of some health plans under contract with the Medi-Cal managed care program, the California Department of Health Services (CDHS) conducted a financial review to determine whether funding increases will be necessary to keep a number of health plans financially solvent through FY 2006-07. These increases would be in addition to the restoration of provider rate reductions effective January 2007.

This purpose of this study is threefold:

1. To determine which health plans exhibit evidence of tangible net equity (TNE) or financial reserves being depleted to a level that would render the health plan noncompliant with State regulations prior to the FY 2007 /2008 rate period;
2. To ascertain if funding for a rate increase is justified; and
3. To establish the amount of funding to be requested in the May Revision of the FY 2006-07 budget.

CDHS began the study with an examination of the financial status of all contracted health plans. The analysis considered several factors including:

- Net income (profits or losses) over the past eight quarters;
- Sufficient tangible net equity (TNE) or financial reserves to meet its regulatory requirements;
- The value of its medical loss ratio (i.e. costs spent on health care); and
- Administrative expense ratio (costs spent on administrative activities).
- An assessment of management efficiency and cost containment activities.

CDHS determined which plans would receive an on-site review based on whether:

- Net income losses have already caused a health plan to reach TNE deficiency or a projection of this deficiency prior to the start of the 2007-08 rate year.
- The health plan was included on the Department of Managed Health Care's "watch list."

CDHS auditors conducted on-site visits to health plans that met the above criterion. Auditors questioned health plan Chief Executive Officers and Chief Financial Officers on the reasons for losses and depletion of financial reserves. Auditors also asked health plans to provide information on cost containment activities undertaken to mitigate losses, the impact of their financial position on provider relations and the health plans ability to maintain an adequate provider network. CDHS requested health plans to provide their financial projections over the next rate period.

CDHS staff reviewed the plan-provided data and developed plan-specific projections of revenue, expenditures, and the net effect on TNE through FY 2006-07. Plans at risk for reaching low levels of TNE and not meeting regulatory and contractual requirements during the projected period were identified as candidates for rate increases. In determining recommendations for rate increases, the Department considered each plan's unique situation in the following areas:

- whether plan management demonstrated good administration of the plan and has a plan for assuring appropriate cost controls;
- whether the plan had contributed to its depletion of reserves through business decisions such as directing reserves to non-Medi-Cal lines of business or other major assets;
- the amount of increase to assure that the plan has sufficient reserves to operate in FY 2006-07 while maintaining good financial standing in accordance with DMHC regulations and the CDHS contract.

The Administration is recommending that six Medi-Cal managed care plans receive a funding increase in the May Revision. The recommended funding to allow health plans to move to 200 percent of required TNE, is \$78 M TF/\$39 M GF. (The \$78 M includes an approximate \$7 million special increase for Community Health Group.) The CDHS will implement the rate increases effective with each plan's rate year, which vary from plan to plan; therefore, the recommended funding to be included in the May 2006 Medi-Cal Estimate for the 2006-07 FY is \$61.2M TF/\$30.6M GF. The plans, recommended budget year increases, and beginning of rate years are:

- Central Coast Alliance for Health--\$7.67 million (January 2007)
- Health Plan of San Mateo--\$7.67 million (July 2006)
- Partnership Health Plan-- \$25.3 million (July 2006)
- Santa Barbara Health Plan--\$4.86 million (January 2007)
- Contra Costa Health Plan--\$1.98 million (October 2006)
- Community Health Group--\$13.69 million (July 2006)

The LAO conducted a review of the \$78 million (\$39 million General Fund) proposed in the May Revision for rate increases to six Medi-Cal managed care plans. In the LAO's analysis, no issues with the level of funding proposed. It appears to the LAO that DHS made reasonable calculations of the amount these six plans would need to ensure that they met and somewhat exceeded the Department of Managed Health Care's minimum financial solvency requirements.

While, the LAO recognizes the need for these rate increases, it continues to recommend that the department improve its rate-setting methodology and develop an actuarially based rate-setting methodology. Federal regulations require that states base rates on utilization and cost data derived from Medicaid populations, that they reflect the benefits covered in the state plan, and that other factors such as inflationary trends, regional cost differences, and manage care

cost containment effect be taken into account. Also, we would note that the department intends to release the Mercer rate study in August.

On a separate issue that also has been mentioned, the data used to evaluate whether plans required a rate increase to achieve 200% TNE was consistent with respect to point-in-time availability of the data. We are not presently prepared to support further rate adjustments based upon different points in time for different plans, as this would be inequitable and would not allow time for adequate analysis and verification of more recently available data. According to their own data, which has not been confirmed nor verified by the Administration, Santa Barbara Regional Health Authority is requesting an additional \$6 million total funds (TF), Central Coast Alliance for Health is requesting an additional \$12 million (TF), and Health Plan of San Mateo is requesting an additional \$4 million (TF). These amounts would be in addition to the \$78.050 million we are currently prepared to support. .

**ITEM 4260**                    **DEPARTMENT OF HEALTH SERVICES**

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**ISSUE 6: PROVIDER RATE INCREASE**

A coalition of Medical Providers urges the Subcommittee to increase the rates paid to providers for providing services to Medi-Cal beneficiaries. The Coalition notes that low reimbursement rates has caused providers to stop taking new patients or dropping out of the program completely. Children, low income adults and people with disabilities often are unable to find a provider. Stagnant rates will make health access in Medi-Cal worse and put pressure on the emergency care system as Medi-Cal beneficiaries seek care in the Emergency Department when they don't have access to primary and preventative care.

**Provider Rate Increase for Medi-Cal, FPACT, & BCCTP  
Effective October 1, 2006  
May 2006 Estimate**

FFS	FFP	1% 06-07 Impact <sup>5</sup>		1% Annual Impact	
		TF	GF	TF	GF
Physicians	49.0%	\$ 5,842,000	\$ 2,981,000	\$ 10,721,000	\$ 5,471,000
Other Medical <sup>1</sup>	49.2%	\$ 3,621,000	\$ 1,839,000	\$ 6,135,000	\$ 3,115,000
Clinical Labs	49.2%	\$ 1,134,000	\$ 576,000	\$ 1,921,000	\$ 975,000
County Outpatient	49.2%	\$ 388,000	\$ 197,000	\$ 720,000	\$ 366,000
Community					\$
Outpatient	49.4%	\$ 2,297,000	\$ 1,161,000	\$ 4,159,000	\$ 2,103,000
Pharmacy					
Dispensing Fee <sup>2</sup>	47.2%	\$ 1,001,000	\$ 528,000	\$ 1,449,000	\$ 765,000
Medical					
Transportation	48.5%	\$ 774,000	\$ 399,000	\$ 1,334,000	\$ 687,000
Other Services <sup>3</sup>	56.5%	\$ 513,000	\$ 223,000	\$ 873,000	\$ 380,000
DME	56.5%	\$ 1,275,000	\$ 554,000	\$ 2,170,000	\$ 943,000
MSSP	56.5%	\$ 318,000	\$ 138,000	\$ 541,000	\$ 235,000
Home Health	49.2%	\$ 1,013,000	\$ 514,000	\$ 1,796,000	\$ 912,000
					\$
Dental <sup>4</sup>	51.7%	\$ 4,221,000	\$ 2,039,000	\$ 5,628,000	\$ 2,719,000
EPSDT	49.1%	\$ 529,000	\$ 269,000	\$ 705,000	\$ 359,000
Misc. Non-FFS <sup>6</sup>	99.6%	\$ 20,409,000	\$ 80,000	\$ 27,212,000	\$ 106,000
<b>FFS Total</b>		<b>\$ 43,335,000</b>	<b>\$ 11,498,000</b>	<b>\$ 65,364,000</b>	<b>\$ 19,136,000</b>

<b>FPACT</b>		<b>TF</b>	<b>GF</b>	<b>TF</b>	<b>GF</b>
Physicians	67.4%	\$ 265,000	\$ 86,000	\$ 487,000	\$ 159,000
Other Medical	67.4%	\$ 1,030,000	\$ 336,000	\$ 1,745,000	\$ 568,000
Clinical Lab	67.4%	\$ 531,000	\$ 173,000	\$ 899,000	\$ 293,000
County Outpatient	67.4%	\$ 21,000	\$ 7,000	\$ 39,000	\$ 13,000
Community					
Outpatient	67.4%	\$ 24,000	\$ 8,000	\$ 43,000	\$ 14,000
Pharmacy					
Dispensing Fee	67.4%	unknown	\$ -		\$ -
<b>FPACT Total</b>	<b>67.4%</b>	<b>\$ 1,871,000</b>	<b>\$ 610,000</b>	<b>\$ 3,213,000</b>	<b>\$ 1,047,000</b>

<b>BCCTP</b>		<b>TF</b>	<b>GF</b>	<b>TF</b>	<b>GF</b>
Physicians	58.7%	\$ 144,000	\$ 59,000	\$ 265,000	\$ 109,000
Other Medical	58.7%	\$ 5,000	\$ 2,000	\$ 9,000	\$ 4,000
Clinical Lab	58.7%	\$ 4,000	\$ 2,000	\$ 7,000	\$ 3,000
County Outpatient	58.7%	\$ 19,000	\$ 8,000	\$ 36,000	\$ 15,000
Community					
Outpatient	58.7%	\$ 61,000	\$ 25,000	\$ 111,000	\$ 46,000
Pharmacy					
Dispensing Fee	58.7%	unknown	\$ -		\$ -
Medical					
Transportation	58.7%	\$ 1,000	\$ -	\$ 2,000	\$ 1,000
Other Services	58.7%	\$ 1,000	\$ -	\$ 2,000	\$ 1,000
Home Health	58.7%	\$ 1,000	\$ -	\$ 2,000	\$ 1,000
<b>BCCTP Total</b>		<b>\$ 236,000</b>	<b>\$ 96,000</b>	<b>\$ 434,000</b>	<b>\$ 180,000</b>

<b>Managed Care</b>		<b>TF</b>	<b>GF</b>	<b>TF</b>	<b>GF</b>
Two Plan	50.0%	\$ 16,536,000	\$ 8,268,000	\$ 22,048,000	\$ 11,024,000
COHS	50.0%	\$ 5,517,750	\$ 2,759,000	\$ 7,357,000	\$ 3,679,000
GMC	50.0%	\$ 2,709,000	\$ 1,355,000	\$ 3,612,000	\$ 1,806,000
Kaiser	50.0%	\$ 19,500	\$ 10,000	\$ 26,000	\$ 13,000
		<b>\$ 24,782,250</b>	<b>\$ 12,392,000</b>	<b>\$ 33,043,000</b>	<b>\$ 16,522,000</b>

		06-07 Impact <sup>5</sup>		Annual Impact	
		TF	GF	TF	GF
1% Total	1	\$ 70,224,250	\$ 24,596,000	\$ 102,054,000	\$ 36,885,000
2% Total	2	\$ 140,448,500	\$ 49,192,000	\$ 204,108,000	\$ 73,770,000
3% Total	3	\$ 210,672,750	\$ 73,788,000	\$ 306,162,000	\$ 110,655,000
4% Total	4	\$ 280,897,000	\$ 98,384,000	\$ 408,216,000	\$ 147,540,000
5% Total	5	\$ 351,121,250	\$ 122,980,000	\$ 510,270,000	\$ 184,425,000
6% Total	6	\$ 421,345,500	\$ 147,576,000	\$ 612,324,000	\$ 221,310,000
7% Total	7	\$ 491,569,750	\$ 172,172,000	\$ 714,378,000	\$ 258,195,000
8% Total	8	\$ 561,794,000	\$ 196,768,000	\$ 816,432,000	\$ 295,080,000
9% Total	9	\$ 632,018,250	\$ 221,364,000	\$ 918,486,000	\$ 331,965,000
10% Total	10	\$ 702,242,500	\$ 245,960,000	\$ 1,020,540,000	\$ 368,850,000

**ITEM 4280 MANAGED RISK MEDICAL INSURANCE PROGRAM – COUNTY  
HEALTH INITIATIVE MATCHING FUND PROGRAM**

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**ISSUE 7: UPDATE THE COUNTY HEALTH INITIATIVE MATCHING FUND  
PROGRAM ESTIMATE**

The County Health Initiative Matching Fund (CHIM) program, established by Chapter 648, Statutes of 2001, allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program funds to provide health care for uninsured children in families with incomes up to 300 percent of the federal poverty level. Due to updated county caseload information, current year expenditures are expected to increase by \$520,000 (\$182,000 CHIM Fund and \$338,000 federal funds), relative to the January Governor's Budget.

Due to updated county caseload information, 2006-07 CHIM expenditures are expected to increase by \$156,000 (\$55,000 CHIM Fund and \$101,000 federal funds), relative to the January Governor's Budget.

MRMIB requests Item 4280-103-3055 be increased by \$55,000 and Item 4280-103-0890 be increased by \$101,000, as a result of adjustments in the estimated funding that counties will provide for the CHIM program.

**ITEM 4280                    MANAGED RISK MEDICAL INSURANCE BOARD**

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**ISSUE 8: FUNDING**

MRMIB requests Item 4280-003-0001 be increased by \$251,000, 3.0 two-year limited term positions be established, Item 4280-103-0001 be increased by \$22,783,000, and the trailer bill language in Attachment 1 be adopted so that MRMIB can provide funding to county Healthy Kids programs to enroll 24,000 children otherwise expected to be on waiting lists by the end of 2006-07. This funding continues the Administration's efforts to increase the number of children that have health care coverage.

## County Health Initiative Interim Assistance Program

MRMIB, Organization Code 4280

Section X. Part 6.4A is added to Division 2 of the Insurance Code to read as follows:

Sec. 12699.651. The County Health Initiative Interim Assistance Program is hereby created, and shall be administered by the Managed Risk Medical Insurance Board.

Sec. 12699.652. For purposes of this part, the following definitions shall apply:

(a) "Board" shall mean the Managed Risk Medical Insurance Board.

(b) "Children's Health Initiative" or "Initiative" shall mean the following entities that, as of May 1, 2006, were operational and actively providing for the administration of coverage to children who do not qualify for either the Healthy Families Program or full-scope Medi-Cal with no share of cost: Children's Health Initiative of Alameda; Children's Health Initiative of Fresno; Children's Health Initiative of Kern; Children's Health Initiative of Los Angeles; Children's Health Initiative of Napa; Children's Health Initiative of Riverside; Children's Health Initiative of San Bernardino; Children's Health Initiative of San Francisco; Children's Health Initiative of San Joaquin; Children's Health Initiative of San Luis Obispo; Children's Health Initiative of San Mateo; Children's Health Initiative of Santa Barbara; Children's Health Initiative of Santa Clara; Children's Health Initiative of Santa Cruz; Children's Health Initiative of Solano; Children's Health Initiative of Sonoma; Children's Health Initiative of Tulare; Children's Health Initiative of Yolo.

(c) "child" or "children" shall mean a person or persons, respectively, ages six through eighteen in a family with income at or below 300 percent of the federal poverty level who is not insured or eligible for coverage under the Healthy Families Program or full-scope Medi-Cal with no share of cost.

(d) "coverage" shall mean comprehensive health insurance for a child or children.

Sec. 12699.653. (a) The board may do all of the following, consistent with the standards set forth in this part:

- (1) Administer the expenditure of funds for the purposes provided in this part.
- (2) Enter into contracts.
- (3) Sue and be sued.
- (4) Employ necessary staff.
- (5) Authorize expenditures from the funds appropriated to pay necessary program expenses.
- (6) Issue rules and regulations, as necessary.
- (7) Exercise all powers reasonably necessary to carry out the powers and responsibilities

expressly granted or imposed by this part.

(b) The adoption or re-adoption of regulations pursuant to this section shall be deemed to be an emergency and necessary for the immediate preservation of public peace, health, and safety, or general welfare and shall be exempt from review by the Office of Administrative Law. Any emergency regulations authorized by this section shall be submitted to the Office of Administrative Law for filing with the Secretary of State and publication in the California Code of Regulations and shall remain in effect for not more than 180 days. The regulation shall become effective immediately upon filing with the Secretary of State.

12699.654. (a) From funds appropriated in the 2006-07 fiscal year for the purposes of this part, the board shall make grants to Children's Health Initiatives only for the purposes of, and subject to, the requirements specified in this section.

(b) First priority grants shall be made only to Children's Health Initiatives that, as of May 1, 2006, had an established waiting list of children.

(c) To the extent that any funding remains available after grants are awarded pursuant to subdivision (b), the board may award second priority grants to Children's Health Initiatives regardless of whether they were eligible for a first priority grant. The board shall develop criteria for awarding such grants. The criteria shall include, but need not be limited to, the following:

(1) whether the funds of the Children's Health Initiative absent a grant are sufficient to cover the projected number of eligible children;

(2) whether the Children's Health Initiative is able to use the grant to leverage other funds;

- (3) how many children will be served as a result of the grant;
- (4) evidence that the Children's Health Initiative is adequately screening children to ensure that they are not eligible for coverage through the Healthy Families Program or the full-scope, no cost Medi-Cal program.
- (d) Grants shall be made only for the provision of coverage for a child.
- (e) A grant amount shall be based only upon the costs of coverage per child per month, and shall not be available for any overhead incurred by a grant recipient.
- (f) A grant may be provided only for coverage through and including June 30, 2007.

Sec. 12699.655. (a) The Board shall determine grant amounts as set forth in this section.

(b) Within thirty (30) days of the effective date of the act adding this part, an authorized official of a Children's Health Initiative that desires and is eligible to receive a first priority grant pursuant to subdivision (b) of Section 12699.654 shall submit to the board a statement:

(1) certifying the number of actual eligible children on the Initiative's waiting list as of May 1, 2006, who cannot be served with any other funding available to the Initiative.

(2) certifying the per child per month rate typically paid by the Initiative for coverage of a child during the 2006-07 fiscal year.

(3) acknowledging the limits on funding set forth in subdivision (a) of Section 12699.658.

(4) certifying that the Initiative will comply with all requirements of this part if awarded a grant.

(c) Within sixty (75) days of the effective date of the act adding this part, the board shall do the following:

(1) For each Initiative submitting a statement pursuant to subdivision (b), multiply the number of children identified pursuant to paragraph (1) of subdivision (b) by the lesser of either the per child per month rate identified pursuant to paragraph (2) of subdivision (b) or one hundred dollars (\$100), the product of which calculation shall then be multiplied by the number of full calendar months remaining in the 2006-07 fiscal year.

(2) Sum the calculations made pursuant to paragraph (1).

(3) If the sum calculated pursuant to paragraph (2) is less than the amount of the appropriation provided for this part, then the board shall offer a grant to each Initiative consistent with the calculation in paragraph (1).

(4) If the sum calculated pursuant to paragraph (2) is greater than the amount of the appropriation provided for this part, then the board shall offer a grant to each Initiative that is pro rated based upon the percentage determined by dividing the amount of the appropriation provided for this part by the sum calculated pursuant to paragraph (2).

(d) (1) To the extent that funds remain available after the award of all first priority grants, a Children's Health Initiative may apply to the board for a second priority grant, consistent with subdivision (c) of Section 12699.654.

(2) Any award of a second priority grant pursuant to this subdivision shall be made on a first-come, first-awarded basis, based upon certified receipt by the board from the Children's Health Initiative of all of the following:

(i) a satisfactory demonstration of estimated need, as described by subdivision (c) of Section 12699.654.

(ii) a certification of the number of actual eligible children on the Initiative's waiting list who cannot be served with any other funding available to the Initiative.

(iii) a statement containing the information described in paragraphs (2) through (4), inclusive, of subdivision (b) of Section 12699.655.

Sec. 12699.656. (a) The board shall distribute grant funds according to this section.

(b) Within 30 days of a Children's Health Initiative receiving a grant award pursuant to Section 12699.655, the board shall distribute sixty percent (60%) of the funding available under a grant to the Initiative.

(c) Six months after the initial distributions described in subparagraph (b), and after the Board receives and reviews the certified documentation described in section 12699.656, the board shall distribute to the Initiative any remaining amount of the grant award that the board determines necessary and appropriate to cover the expenditures of the Initiative allowed by this part through June 30, 2007.

(d) On the basis of the documented expenditures and any other information required by the board, the board shall determine whether an Initiative may qualify for additional funding or whether an Initiative shall be required to return funding that was not spent for purposes authorized under this part and properly documented.

(e) If the board determines that a Children's Health Initiative has failed to spend any portion of the funds provided by the board for purposes authorized by this part, or that the Children's Health Initiative has failed to document such expenditures to the satisfaction of the board, the Children's Health Initiative shall be required to return such funds to the board within 20 days of the notice to return such funds.

(f) The amounts set forth in subdivision (b) do not constitute an entitlement by any entity to be funded in the amount set forth.

Sec. 12699.657. (a) Nothing in this part shall be construed to create an obligation on the part of the state to provide ongoing funding for a Children's Health Initiative either within a fiscal year or for more than one fiscal year.

(b) Nothing in this part shall be construed as entitling any entity to funding under this part or to any level of funding.

(c) As a condition of receiving any funds under this part, a Children's Health Initiative shall report to the board, at times and intervals specified by the board, and in a format specified by the board, the following:

- (1) certification from an authorized official that reporting is true and accurate;
- (2) certification of the amount spent on coverage that is the subject of funding under this part;
- (3) certification that children for whom the costs of coverage were paid were eligible for coverage through the Children's Health Initiative program and were not covered by other health insurance nor covered by or eligible for the Healthy Families Program or full-scope Medi-Cal with no share of cost;
- (4) certification that the requested funding does not include any instance in which a child's health coverage has been paid for more than once;
- (5) certification that funds were spent only on the costs of coverage, consistent with subdivision (e) of Section 12699.654;
- (6) monthly certification of such eligibility and enrollment data as the board may require.
- (7) any other documentation, including but not limited to contracts, applications, invoices or other submission, that the board may require as a condition of receiving these funds.

(d) The board shall not be required to determine any child's eligibility for coverage through a Children's Health Initiative nor to track or collect individual enrollment data but instead shall be entitled to rely on certification provided to the board by the Children's Health Initiative.

(e) Nothing in this part shall be construed as forbidding the board to audit, monitor or otherwise question the data and certifications provided by a Children's Health Initiative or to require funds to be returned pursuant to Section 12699.656.

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Related Public Records Act provisions: Add new subdivision (dd) to Government Code section 6254, to read as follows [this is the list of documents exempt from disclosure under the Public Records Act].

(dd) To the extent that such records would be exempt from disclosure pursuant to this chapter if they had not been shared with the Managed Risk Medical Insurance Board, records of the Managed Risk Medical Insurance Board or of a Children's Health Initiative as defined in Insurance Code section 12699.652 related to activities governed by Part 6.4A (commencing with Section 12699.651) of Division 2 of the Insurance Code, and that reveal health plan contract provisions, including rates, or that reveal deliberative processes discussions; communications; or any other portion of the negotiations between a Children's Health Initiative and health plans; or the impressions, opinions, recommendations, meeting minutes, research, work product, theories, or strategy of the Children's Health Initiative or its staff; or records that provide instructions, advice, or training to a Children's Health Initiative employees or to employees of the Managed Risk Medical Insurance Board concerning such information. The Legislature finds that this exemption is necessary to permit Children's Health Initiatives to share information concerning their plan contracts, rates, and related matters freely with the Managed Risk Medical Insurance Board for purposes of obtaining funding pursuant to Part 6.4A (commencing with Section 12699.651) of Division 2 of the Insurance Code.

**ITEM 4260**            **DEPARTMENT OF HEALTH SERVICES****ISSUE 9: MONEY FOLLOWS THE PERSON FEDERAL GRANT**

The federal government has made available a five-year grant that will provide 75 percent enhanced federal fund participation to allow individuals in nursing facilities who voluntarily choose to move into a community setting to receive the same amount of funding that was being provided for nursing facility care instead for home and community-based services. If it is determined to be in the best interest of the state to apply for the grant, the 2006 November Estimate will reflect the actual costs of the grant received.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES**

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**ISSUE 10: ADULT DAY HEALTH CARE**

Adult Day Health Care is a community-based day program, which provides nursing, physical therapy, occupational therapy, speech therapy, meals, transportation, social services, personal care, activities, and supervision designed for low-income elders and younger disabled adults who are at risk for being placed in a nursing home. ADHC has been a successful model for elderly individuals for they can obtain many services in one location. For these individuals, particularly those with mobility challenges, going to one place for health care results in better compliance with therapy, medication, nutrition, and exercise regimens. Under Medi-Cal, individuals can participate in ADHC from one to five days per week, but usually averages about three days a week.

The general concept behind providing ADHC services is that they delay or defer individuals from going into nursing homes or other more costly forms of care and therefore, it saves Medi-Cal money. Further, there are about 300 ADHC facilities in the state that are certified in the Medi-Cal Program.

Currently, Medi-Cal reimburses an ADHC at a “bundled rate”—a single rate, which is paid per recipient, per day (minimum of a four-hour stay required). This rate includes payment for all required ADHC services as specified in Title 22, California Code of Regulations. This rate is set at 90 percent of the state’s reimbursement rate for Nursing Facility—Level A. This rate structure was the outcome of a legal settlement agreement. The list of required services includes, among others, physical therapy, occupational therapy, speech therapy, and recipient transportation to and from the ADHC facility.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 11: CONLAN V SHEWRY**

The County Welfare Directors Association requests the Legislature to add Budget Bill Language to enable counties to establish specific timeframes for assessing the (1) impact on county Medi-Cal eligibility processing and (2) allocating funds to counties for these new activities.

The Conlan v. Shewry settlement will require the state to revise policies and procedures for allowing Medi-Cal beneficiaries to claim costs for health care received during a three-month period before eligibility. Initially, the new rules must be applied retroactively to clients granted Medi-Cal since 1997, and then to all new clients. Counties will be required to research cases and provide information to assist in determining retrospective funding amounts. Prospectively, the application process for Medi-Cal eligibility will be lengthened after these new rules are implemented.

It is unclear at this time the number of cases involved or the amount of time each case will require. However, the court ordered the DHS must have a reimbursement process fully implemented by October 2006. Therefore, the CWDA is seeking Budget Bill Language which will enable the DOF to transfer funding to the counties for Medi-Cal eligibility assistance. This language is as follows:

Item 4260-101-0001

Provision x. Not later than October 1, 2006, the Director of Finance shall authorize the transfer of amounts from Schedule (3) of this item to Schedule (1) of this item in order to fund increased costs to county Medi-Cal eligibility programs associated with compliance in the Conlan v. Shewry court decision.

**ISSUE 12: DISEASE MANAGEMENT PILOT PROJECT**

The Department of Health Services is requesting that Item 4260-101-0001 be increased by \$1.0 million and 4260-101-0890 be increased by \$1.0 million to expand the Disease Management Pilot Project to include beneficiaries with HIV/AIDS. Adding HIV/AIDS to this pilot project will facilitate finding ways to improve care, control costs and achieve better health outcomes for patients living with HIV/AIDS.

**ITEM 4260**                    **DEPARTMENT OF HEALTH SERVICES****ISSUE 13: FEDERAL DEFICIT REDUCTION REQUIRED CHANGES**

The Department requests that trailer bill language and Budget Bill language be adopted to implement the provision of the federal Deficit Reduction Act of 2005 requiring, as a condition of receiving federal funds, that the Medi-Cal program verify the citizenship of those individuals who declare that they are citizens of the United States. Under this new provision, these individuals are required to show proof of identity and citizenship at the time of application and upon eligibility re-determination. Because the fiscal impact of this new requirement cannot yet be estimated, the proposed Budget Bill language will allow for the transfer of funds between Medi-Cal programs if higher county administration costs materialize.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 14: LICENSING AND CERTIFICATION FEES**

The Department is request that Item 4260-001-3098 be increased by \$2.0 million and that Item 4260-001-0001 be amended to reflect this change. It is also requested that Item 4260-004-0001 be increased by \$4,570,000. These changes are necessary for the estimation of cost of licensing and certification activities associated with state-owned facilities and the 306 certified-only facilities that cannot be charged fees. It further is requested that trailer bill language, be adopted to change the funding mechanism for the placement of Certified Nurse Assistants on a registry as required by federal law, and to implement the January Governor's Budget proposal to right-size fees. The proposed right-sized adjustment to fees is provided in Attachment 5.

The May Revision includes proposed trailer bill language to "right-size" licensing fees; assess late payment penalties; eliminate certain fees associated with placement on the state registry for certified nurse assistants (CNA), home health aides, and certified hemodialysis technicians; shift the responsibility to pay fingerprint processing costs from the applicant to the state as required by federal law; and make other related budget adjustments.

The LAO has concerns about the appropriateness of the fee levels being proposed, the equity in the ways the costs of licensing and certification are distributed among different groups of providers, and the potential impact of the fee increases on certain types of health facilities. We are awaiting additional information we have requested from DHS regarding this proposal that is necessary to complete our review of this proposal. Accordingly, we withhold recommendation on the May Revision proposal and request that the two houses take different actions to send this proposal to conference committee so that we will have time to complete our analysis and offer our recommendations on this matter to the Legislature.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 15: PHARMACEUTICAL COSTS IN DISPENSING PRESCRIPTION DRUGS**

The pharmacists are requesting the re-examination of the cost of dispensing prescription drugs in the Medi-Cal Program because of the changes required as a result of the Federal Deficit Reduction Act of 2005. Also, the Department of Health Services would be authorized to increase pharmacy-dispensing fees based on the study results.

As of January 2007, a new reimbursement structure for drug costs will be utilized to set Medi-Cal reimbursement rates for pharmacies. The federal government is requiring that the average manufacturers price (AMP) be used to calculate Medicaid drug reimbursement for pharmacy providers. "AMP is the average price paid to manufacturers by wholesalers for drugs distributed to the retail pharmacy class of trade." However, there has been no determination yet as to how the AMP will be calculated. Thus, states and pharmacy providers have no idea what their reimbursement will be for drugs when this change is implemented. Pharmacy organizations have expressed strong concerns that the AMP is not an accurate measure of drug costs and are extremely concerned that pharmacies will be hit with substantial cuts in their reimbursement from the Medi-Cal program.

The best option for the Department of Health Services (DHS) to fairly apply the new drug pricing to California pharmacies is to be equipped with adequate information to set pharmacy dispensing fees to reflect pharmacy costs in California. To obtain pharmacy constituencies recommend that a study be done to evaluate current pharmacy costs of dispensing prescription drugs in the state.

The last authorized study of Medi-Cal rates was contained in SB 696 (Speier) of 2002, which required DHS to "conduct a study of the adequacy of Medi-Cal pharmacy reimbursement rates including the cost of providing prescription drugs and services." This study was completed in 2002 but utilized 2000 data to complete the report. Thus, the information contained in this pharmacy cost report will be over 7 years old by the time the new Medicaid drug reimbursement formula will be put in place.

Pharmacy providers are requesting that the Legislature adopt trailer bill language that will require DHS to conduct or contract out for a new study of pharmacy cost of providing prescription drugs and services.

Item 4260-101-0001

Provision x. Of the amount appropriated in this Item, up to +\$600,000 can be used to conduct a study of the pharmacy reimbursement rates, and fees provided under the Medi-Cal Program, including the cost of prescription drugs and services: The study shall take into account the revised payments for the Medicaid drug ingredient costs mandated by the 2005 federal Deficit Reduction Act. Due to the January 1, 2007 timeline for changes as contained in the federal law, it is the intent of the Legislature for this study be conducted in an expedited manner to the extent feasible for a quality work product. The department shall provide the results of the study to the Legislature by December 1, 2006

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 16: COUNTY ADMINISTRATION**

The Department has proposed a reduction to county eligibility operations. The California Welfare Directors Association have several concerns about the proposed elimination of cost-of-doing-business increases for county Medi-Cal eligibility operations. First, the Administration linked full funding for Medi-Cal operations to the establishment of performance standards back in 2003-04. Additional performance standards were adopted in 2004-05 and 2005-06, and CWDA supported the standards because the Administration continued full funding of the program. CWDA contends counties are not spending an untoward amount to administer the program, and the increases that have occurred over time can be directly linked to program eligibility expansions, legislatively required workload, or court cases that required additional eligibility work. The proposal to eliminate full funding for the program, but to leave the performance standards in place, is both unfair and unrealistic. The practice would, according to CWDA, place counties in a situation where they could be fiscally penalized for failing to meet statutory requirements that they're not appropriately funded to actually meet. The Department, however, counters the issue with the fact the costs per worker have been growing. Total cost has been increasing at a faster rate than have eligibility workers. The costs could be increasing for two reasons, labor costs and non-labor cost.

**ISSUE 17: AIDS DRUG ASSISTANCE PROGRAM****INFORMATIONAL**

Increase funding for Health and Safety Code Section 120956 by \$2,973,000 to fully fund higher ADAP costs. Because funding for this program is continuously appropriated, and therefore tracked through a non-budget act item, no amendments to the Budget Bill are required.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 18: SURGE CAPACITY**

The most critical element in preparing for surge needs is the development of hospital and community surge plans, and the training and recurring exercise of those plans. The May Revision therefore includes nearly \$22 million to resource positions in hospitals throughout the state, dedicated to surge capacity planning, training, and exercises. This planning and ongoing exercise of hospital plans will ensure that emergency response assets are effectively utilized when needed most. Additionally, the Department of Health Services will update hospital licensing and infection control regulations to address preparedness for major emergencies or disasters.

However, the ability of the health care system to "surge" to meet the demands of responding to an emergency event also depends on the availability of beds, supplies and equipment, and staff. To ensure an adequate amount of proper equipment is available, as recommended by federal guidelines and modeling, the May Revision includes funding for the purchase of the following:

- Two mobile field hospitals, to increase patient care capacity by 400 beds in times of emergency, as well as the infrastructure necessary for their rapid deployment.
- 3.7 million courses of antivirals, at a discounted price made possible by an offer of 25 percent federal matching funds.
- A 180-day supply of protective masks for health care workers, to assist in preventing exposure to and transmission of influenza.
- 7,183 ventilators, which will double the number of ventilators now available in the state. These machines are durable, can operate on battery power, and without compressed oxygen, and will be disseminated according to local needs.
- Supplies and equipment for alternate care sites to increase the number of general medical-surgical and intensive care beds available around the state.

While a pandemic influenza outbreak cannot be predicted with certainty, available medical and scientific information strongly recommends that California prepare for the possibility that avian flu could mutate into a disease that is spread rapidly through the population by human-to-human contact. Even if this particular event does not happen, this same planning and inventory of emergency response assets can be applied to future emergency events that cannot be predicted, including both natural and intentional disaster events.

Tables of the Surge proposal follow the Administration's Proposal, the Senate's, and the LAO.

## Comparison of Administration's "SURGE" Proposal for Pandemic Flu

Component	Administration	Subcommittee Staff	Difference
Develop state guidance & standards for hospitals.	\$5.224 million (\$5 m consultant) \$224,000 DHS staff	Approved	
Hire hospital staff and adopt trailer bill language to require hospitals and local health jurisdictions to work together in an emergency.	\$14.5 million GF (\$29 million GF ongoing)	Denied. Unnecessary, since over 77 percent of hospitals participate now.	Denied. -\$14.5 million GF No trailer bill.
Update Hospital licensing regulations (Title 22) which are extremely out of date.	\$424,000 GF (DHS staff)	Approved, but used federal HRSA funds	Used available federal funds in lieu of state GF.
Purchase Mobile Field Hospitals	\$12.3 million GF 2 mobile hospitals	\$18.3 million GF 3 mobile hospitals	+\$6.2 million Purchased additional Mobile Hospital. One north & two south.
Purchase antiviral drugs	\$53.3 million GF BBL for sole source.	Approved.	
Purchase 7,183 ventilators, maintenance contracts and ventilator management. The state presently has 7,183 ventilators so this would double the amount.	\$99.8 million GF (\$300,000 GF ongoing)	\$33 million Purchase one-third now, or 2,395 ventilators, for a <i>total</i> of 9,578 ventilators.	-\$65.8 million Reduction of two-thirds, or 4,788 less ventilators.
Purchase medical supplies for Alternate Care Sites	\$164.4 million	\$78.2 million Purchase half now.	-\$78.2 million Reduction of half.
Purchase masks for health care workers	\$50.5 million	\$25.250 million Purchase half now.	-\$25.250 million Reduction of half.
<b>Total Recommended</b>	<b>\$400.4 million</b>	<b>\$213.7 million</b>	<b>-186.7million</b>
<i>General Fund</i>	\$400 million	\$179.7 million	-\$220.3 million
<i>Licensing &amp; Certification Fund</i>	\$424,000	0 (Not available)	-424,000
<i>Additional Federal Funds from HRSA</i>	0	\$34 million (\$20 million new & \$14 million existing.)	+ \$34 million

- Rejected proposed trailer bill language to require hospitals to participate in local emergency planning since it is unnecessary.
- Rejected Budget Bill Language that would enable the DHS to promulgate emergency regulations regarding hospital licensure and certification during emergency situations.
- Rejected Budget Bill Language that would preclude the use of competitive bidding by exempting both the DHS and EMSA from the public contract code. Instead, adopted this language *only* for the purchase of the antiviral drugs.

<b>Figure 1</b>					
<b>Health Care Surge Capacity—LAO Recommendations</b>					
<i>(In Thousands)</i>					
	Health Services		EMSA	LAO Recommendation	
	General Fund	Special Funds	General Fund	Total Funding	Rationale
Rapidly develop state guidance and standards	\$5,224	—	—	\$5,224	Approve as budgeted.
Develop and maintain hospital surge plans	14,500	—	—	14,500	Approve resources but change funding source to hospital licensing and certification fees; proposal should be reviewed by policy committees.
Update hospital licensing regulations	—	\$424	—	424	Approve as proposed.
Purchase deployable mobile field hospitals	—	—	\$12,316	6,229	Purchase first mobile field hospital in 2006-07. Additional funds can be provided in 2007-08 for second field hospital once first field hospital operations have been tested. Reduce remainder by 5 percent to reflect LAO proposal that competitive bidding be required for purchases.
Purchase courses of antiviral drugs	53,348	—	—	53,348	Approve as proposed.
Purchase ventilators	99,784	—	—	81,495	Reduce by \$14 million to reflect ongoing use of HRSA bioterrorism funding to purchase surge capacity equipment. Reduce remainder by 5 percent to reflect LAO proposal that competitive bidding be required for purchases.
Purchase medical supplies for alternate care sites	164,367	—	—	78,243	Purchase only half of supplies in 2006-07 because recruitment activities necessary to arrange the voluntary staff needed for these beds not yet complete. Additional funds could be provided in 2007-08 if DHS can demonstrate it can staff additional beds. Reduce remainder by 5 percent to reflect LAO proposal that competitive bidding be required for purchases.
Purchase masks for health care workers	50,461	—	—	28,500	Purchase additional masks with up to \$20 million in additional federal pandemic flu planning funding anticipated to be awarded this summer. Provide statutory authority to use Section 28 process to expend funds for this purpose with 30-day advance notice to Legislature. Reduce remainder by 5 percent to reflect LAO proposal that competitive bidding be required for purchases.
Total Budget Act Appropriations	\$400,424	—	—	\$267,963	
Total General Fund	\$400	—	—	\$253,039	
Total Special Funds	\$424	—	—	\$14,924	
Fiscal effect of LAO recommendations (total costs)	—	—	—	-\$132,461	
Additional federal funds available under LAO recommendations	—	—	—	Up to \$34,000	

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 19: MOBILE FIELD HOSPITALS**

The Department request Item 4120-001-0001 by increased by \$12,316,000 for the purchase of two mobile field hospitals, associated equipment and maintenance costs, and the establishment of three positions. The funding would enable the state to increase patient care capacity (also known as "surge capacity") to the levels recommended by the federal Centers for Disease Control and Prevention modeling and the Health Resources and Services Administration. The Department also requests that budget bill language be added that would facilitate contracting for the equipment and services funded by this proposal.

**ISSUE 20: HEALTH CARE SURGE CAPACITY**

The Department requests Item 4260-001-0001 be increased by \$545,000 and Item 4260-001-3098 be increased by \$424,000. The state operations funding would support 8.5 positions that would responsible for developing hospital licensing and infection control regulations and working with professional healthcare associations to address short-term surge staffing needs and strategies. The Department is requesting budget bill language that would authorize emergency regulations for hospital licensing and infection control. Additionally, the staff will coordinate the acquisition and management of the state's stockpile of pharmaceuticals and related surge capacity supplies and equipment.

Also, the Department proposes that Item 4260-111-0001 be increased by \$387,139,000 to address health care surge capacity needs during a moderate emergency or pandemic influenza event. The Department also is requesting budget bill language be added that would facilitate contracting for the equipment and services funded by this proposal. In addition, as emergency preparedness is a fundamental public health issue. Trailer bill language is being proposed by the Department to require hospital participation in emergency preparedness planning as a condition of licensing.

**ITEM 4260            DEPARTMENT OF HEALTH SERVICES**

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**ISSUE 21: WEST NILE VIRUS**

West Nile virus is a mosquito-borne disease that is common in Africa, West Asia and the Middle East. The West Nile virus was first detected in the United States in New York in 1999. Since then, WNV has rapidly spread to 44 states reaching as far west as Washington State. In 2002, in California, one locally acquired human WNV case was detected in LA County. Seven imported cases were also identified. Last year there were over 4,000 human cases of WNV detected, including 277 deaths in United States. People usually get West Nile virus from the bite of an infected mosquito. Also there is evidence that WNV can be acquired via a blood transfusion or organ transplant from an infected donor. Most people who are bitten by a mosquito with West Nile virus will not get sick. People who do become ill may experience mild flu-like symptoms like fever, headache and body ache. It is estimated that less than 1% of the peoples who are infected with WNV become severely ill and require hospitalization. The elderly are particularly susceptible to illness caused by WNV. Currently there is no specific treatment for WNV infection. Since it is a virus it does not respond to antibiotics. In severe cases hospitalization and supportive care is important.

**ITEM 4260 DEPARTMENT OF HEALTH SERVICES****ISSUE 22: CYCSTIC FIBROSIS**

Each year 100 Californians are born with cystic fibrosis. Approximately 60 are white, 30 are Latino, and 2 are African Americans, with the remainder in other ethnic groups. Children with cystic fibrosis may not show distinguishing signs of disease for weeks, months, or even years. Only half will be diagnosed by six months of age and at least 10% will not be diagnosed until age 18 or older. Doctors often misdiagnose cystic fibrosis and wrongly treat it, resulting in slowed physical and mental development, recurrent illness, and hospitalizations, and in some cases, death. Newborn screening can prevent hardships on these children and families and the waste of large amounts of health care dollars trying to reach a correct diagnosis. Currently the California Newborn Screening Program screens all newborns for 86 distinct genetic conditions; however, the program does not yet screen for cystic fibrosis.

Cystic fibrosis (CF) is the second most common serious inherited childhood disorder, occurring in one in 3500 births. Approximately 3,000 children and adults live with CF in California. A defective gene causes the body to produce abnormally thick, sticky mucus that clogs the lungs and leads to life-threatening lung infections. It also obstructs the pancreas and prevents digestive enzymes from reaching the intestines to help break down and absorb food, leading to impaired growth and development. To have CF, a child must inherit two defective cystic fibrosis genes, one from each parent. More than 1 million Californians are unknowing, symptom-free carriers of the defective cystic fibrosis gene.

Early diagnosis through newborn screening allows a child to receive appropriate medical treatments before irreversible disease processes have begun. Early treatment improves growth and development and reduces the cost of medications and expensive hospitalizations in children. Studies suggest that early intervention makes a big difference in babies with CF, including improved nutritional status and cognitive development, decreased hospitalizations, better quality of life and decreased mortality. One study found an increase of 7-10 IQ points in children with CF who were diagnosed early through newborn screening versus those diagnosed later. The U.S. Centers for Disease Control and Prevention recommend CF screening; 21 states and the District of Columbia already screen for CF.

Biotinidase Deficiency (BTD) is caused by the lack of an enzyme called biotinidase. Without treatment, this disorder can lead to seizures, developmental delay, eczema, and hearing loss. Problems can be prevented with biotin treatment.

The gene defect for biotinidase deficiency is unknowingly passed down from generation to generation. This faulty gene only emerges when two carriers have children together and pass it to their offspring. For each pregnancy of two such carriers, there is a 25% chance that the child will be born with the disease and a 50% chance the child will be a carrier for the gene defect. Studies show that 1 of every 60,000 live births will have biotinidase deficiency.

Infants with biotinidase deficiency appear normal at birth, but develop critical symptoms after the first weeks or months of life. Symptoms include hypotonia, ataxia, seizures, developmental delay, alopecia, seborrheic dermatitis, hearing loss and optic nerve atrophy. Metabolic acidosis can result in coma and death. With early diagnosis and treatment, all symptoms can be prevented.

Biotinidase deficiency is treated with free biotin, or biotin that is not bound to protein or other molecules. In patients diagnosed through screening, treatment will clear the skin rash and alopecia and improve the neurological status. It is necessary that treatment be managed by the doctor to be sure that the biotin is in the free form and in sufficient amounts

#### Interesting Facts About Newborn Screening:

- Less than 10% of babies born in the US currently get comprehensive screening for all metabolic, endocrine, and hematologic disorders already detectable through existing routine newborn screening programs.
- Six babies are born everyday in the US alone that have disorders detectable through newborn screening, but go undetected because they aren't screened.
- Newborn screening can detect more than 35 disorders.
- Most disorders detectable through newborn screening are treated by diet restrictions.

The California State Genetic Disease Branch estimates that the CF test will require a \$12 increase in the state Newborn Screening fee per birth (approximately 560,000 births per year). Adding CF to the state's Newborn Screening Program would bring the total fee to \$90 per newborn to screen for 76 conditions.

The State Genetic Disease Branch estimates that if a test for Biotinidase is added at the same time the CF test is added, an additional fee increase of \$5.75 would be necessary, making the total fee increase \$17.75 for the two conditions. Adding Biotinidase and CF to the state's Newborn Screening Program would bring the total newborn screening fee to \$95.75 per newborn to screen for 77 conditions.

The total fee increase would be a \$17.75 increase in the existing fee.

**BUDGET YEAR (2006/2007) COSTS**  
**TO DEVELOP NEWBORN SCREEN FOR CYSTIC FIBROSIS (CF)**

Reagents:	\$ 1,584,800	
6 months supply for pilot tests 50%)		_(\$3,169,600 x
State personnel:	\$ 337,500	
9 months salary for 5 FTE (5 FTE x \$90,000) x 75%		
Contracts for Testing Services:		
(Includes Laboratories, Follow-up, Diagnostic services)		
6 months for pilot tests (\$1,820,000 x 50%)	\$ 910,000	
System Development	\$ 2,250,000	
(\$2,500,000 x 90%)		
Oversight	\$ 600,000	
(External Project Manager, IV&V, IPOC)		
(\$600,000 x 100%)		
End User Training	\$ 250,000	
(\$250,000 x 100%)		
<b>Total Budget Year Costs Of Adding CF</b>	<b>\$ 5,932,300</b>	

**BUDGET YEAR (2006/2007) COSTS  
TO DEVELOP NEWBORN SCREEN FOR BIOTINIDASE (BD)**

Reagents:	\$ 1,005,200	
6 months supply for pilot tests 50%)		_(\$2,010,400 x
State personnel:	\$ 202,500	
9 months salary for 3 FTE (3 FTE x \$90,000) x 75%		
Contracts for Testing Services:		
(Includes Laboratories, Follow-up, Diagnostic services)		
6 months for pilot tests (\$607,000 x 50%)	\$ 303,500	
System Development	\$ 742,500	
(\$825,000 x 90%)		
End User Training	\$ 300,000	
(\$300,000 x 100%)		
<b>Total Budget Year Costs of Adding BD</b>	<b>\$ 2,553,700</b>	

**ITEM 4280                    MANAGED RISK MEDICAL INSURANCE BOARD**

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**ISSUE 23: UPDATE OF HEALTHY FAMILIES PROGRAM**

Update the Healthy Families Program Estimate—MRMIB requests that Item 4280-101-0001 be decreased by \$3,107,000, Item 4280-101-0890 be decreased by \$12,455,000, Item 4280-102-0001 be decreased by \$3,653,000 and Reimbursements be decreased by \$1,379,000, and Item 4280-102-0890 be decreased by \$2,854,000. These adjustments represent changes in anticipated caseload within the HFP.

**ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES****ISSUE 24: BEST BUDDIES PROGRAM**

The program is funded at \$1. The program provides services through the Regional Centers to children as well adults. Its funding level has not been increased for several years. With additional resources the program could expand to other regions of the state.

**ISSUE 25: HOME AND COMMUNITY BASED WAIVER****Caseload Ratio**

The federal CMS informed the DDS that its evaluation of the DDS' Home and Community-Based Waiver found the waiver to be in substantial compliance with federal statutory assurances. However, the letter noted that the state must review and revise as needed, its policies to assure that the case manager to waiver participant ratio of 1 to 62 is consistently met. On the basis of a Regional Center survey, necessary additional resources are needed in order to comply with the CMS. However, the necessary resources were no put included in the May Revise. The federal CMS report also recommended the following:

- For the DHS and DDS to jointly evaluate whether RC case managers could benefit from remedial training in essential case management skills; and
- For the DDS to revise the manner in which the case managers to waiver participant ratio is calculated so as to more accurately reflect the actual availability of case managers and to take proactive measures to achieve the mandated ratio of 1 to 62 on a real time basis.

Based upon technical assistance obtained from the DDS, it is recommended to provide an increase of \$3.2 million (\$1.7 million General Fund) to RC Operations to address the federal CMS concerns with providing appropriate case management. This increase will provide for an additional 43 case manager staff, as well as the appropriate compliment of supervising counselors (4 staff) and clerical support (8 staff). Further more, the Senates recommended the adoption Budget Bill Language to require the DDS to further analyze the needs of the RCs case manager operations to ensure that appropriate staffing is being provided as noted in the federal CMS report. The language follows below

**Recommendation:**

Provide an increase of \$3.2 million (\$1.7 million General Fund) to RC Operations to address the federal CMS concerns with providing appropriate case management.

**Budget Bill Language:**

Item 4300-001-0001

**ISSUE 26: FEDERAL UPDATE ON HOME AND COMMUNITY BASED WAIVER**

The CMS informed the state that their evaluation of the DDS' Home and Community-Based Waiver found the waiver to be in substantial compliance with federal statutory assurances. However, the letter noted that the state must review and revise as needed, its policies to assure that the case manager to waiver participant ratio of 1 to 62 is consistently met.

Based on recent survey data collected in February by the DDS from the RCs, additional staff resources are necessary in order to comply with the federal CMS letter. The federal CMS report also recommended the following:

- For the DHS and DDS to jointly evaluate whether RC case managers could benefit from remedial training in essential case management skills; and
- For the DDS to revise the manner in which the case managers to waiver participant ratio is calculated so as to more accurately reflect the actual availability of case managers and to take proactive measures to achieve the mandated ratio of 1 to 62 on a real time basis.

Based upon technical assistance obtained from the DDS, it is recommended to provide an increase of \$3.2 million (\$1.7 million General Fund) to RC Operations to address the federal CMS concerns with providing appropriate case management. This increase will provide for an additional 43 case manager staff, as well as the appropriate compliment of supervising counselors (4 staff) and clerical support (8 staff). Further, it is recommended to adopt Budget Bill Language to require the DDS to further analyze the needs of the RCs case manager operations to ensure that appropriate staffing is being provided as noted in the federal CMS report.

Item 4300-001-0001

Provision x.

The department shall actively engage the Regional Centers to assess and determine methods for **(1)** improving the training of case managers, **(2)** recruiting and retaining case managers throughout the state, and **(3)** addressing other needs as identified in the federal Centers for Medicare and Medicaid (CMS) letter (dated April 2006) regarding the state's compliance with the Home and Community-Based Waiver