GOVERNOR'S 1998-99 BUDGET PROPOSAL FOR: HEALTH

DEPARTMENT OF HEALTH SERVICES

The Department of Health Services (DHS) proposed budget for 1998-99 is about $21 billion (all funds). This represents an increase of $451 million, or 2.2 percent, over estimated current year expenditures. The budget proposes $7.3 billion from the General Fund, which is $74 million over estimated current year expenditures. Most of these funds, approximately 90 percent, support the Medi-Cal program, and the remainder supports public health activities including disease control and prevention, environmental hazard control, and health care services. Also included in the budget is funding for the Healthy Families program, which will be jointly administered by the Department of Health Services and the Managed Risk Medical Insurance Board. **(See discussion of Healthy Families Program in the Selected Issues Section).**

MEDI-CAL PROGRAM

The Medi-Cal program, which is jointly funded by the state and federal government, provides health coverage, including inpatient/outpatient care, skilled nursing care, and dental care, to welfare recipients and other low-income families. For 1998-99, the Medi-Cal caseload is projected to be about 4.9 million eligible persons, approximately 3 percent lower than the revised current year caseload.

Although the Medi-Cal caseload is down, the budget proposes a slight increase in Medi-Cal expenditures, which is driven by increases in the cost and utilization of services. Specifically, the budget proposes total Medi-Cal expenditures of $18.7 billion in 1998-99, which represents an increase of $351 million, or 2 percent, over estimated current year expenditures. The General Fund portion ($6.9 billion) is proposed to increase by about $42 million, or .6 percent. Table 1 below shows how these funds are distributed.

Table 1

1998-99 Estimated Medi-Cal Expenditures
(Dollars in thousands)

	General Fund	Federal Funds	Other Funds	Total
State Operations	$68,243	$136,004	$4,195	**$208,442**
Local Assistance	6,819,701	10,172,369	1,531,148	**18,523,218**
Eligibility	(349,941)	(588,929)	--	**(938,870)**
Payment Systems	(72,157)	(121,735)	--	**(193,892)**
Benefits	(6,397,603)	(9,461,705)	(1,531,148)	**(17,390,456)**
TOTAL	**$6,887,944**	**$10,308,373**	**$1,535,343**	**$18,731,660**

*( ) represents non-adds

MAJOR PROPOSALS

The major budget proposals include:

- ***Expanded Services to Children:*** Consistent with SB 903 (Lee), Chapter 624 of 1997, the budget proposes increased budget year funding of approximately $60 million ($20 million General Fund) for Medi-Cal expansions related to Healthy Families. In addition, the budget includes $21 million ($5 million General Fund) for Medi-Cal/Healthy Families outreach;

- ***Elimination of Prenatal Care Services:*** The budget assumes elimination of these services for undocumented women as of February 1, 1998 for estimated savings of about $31 million in 1997-98 and $74 million in 1998-99;

- ***Long Term Care Rate:*** The Governor's budget includes a cost-based rate increase for the period August 1, 1997, through July 31, 1998. However, the Administration has expressed intent to explore--with representatives of interested parties--alternatives to the current payment methodology;

- ***Managed Care:*** The budget includes a 6.4 percent annual capitation rate increase at a cost of $75 million ($38 million General Fund) in the current year, and $109 million (about $56 million General Fund) in the budget year. The budget also includes $1.9 million for an outreach campaign to assist Medi-Cal eligible patients in their selection of plans and providers;

- ***Adjustment for Methodological Flaws:*** The budget includes a downward adjustment of $239 million to recognize that the model traditionally used to estimate Medi-Cal costs might overestimate expenditures; and

- ***Medi-Cal Staffing Increase***: The budget requests a total increase of 68 positions at a cost of $5.5 million to administer various aspects of the Medi-Cal program.

MEDI-CAL

Expanded Services to Children: SB 903 (Lee) made several changes to the Medi-Cal program to encourage participation, expand eligibility, and make the program more compatible with Healthy Families. Specifically, this legislation provided for:

Acceleration of Coverage: Children under 19 whose family income is less than 100 percent of the federal poverty level would immediately become eligible for Medi-Cal. Prior to this legislation, these children would have been slowly phased into the Medi-Cal program. Title XXI of the Social Security Act allows the state to bring these children into the program more quickly and with a higher federal matching rate.

Waiver of the Asset Test: The value of personal assets, such as a second car of

bank account, would not be considered in determining the income qualification of families under 133 percent of the federal poverty level.

One Month Extended Eligibility: Children whose family income increases beyond qualifying levels would continue to receive Medi-Cal benefits for an additional month. This component would improve the continuity of care for children by allowing time for the family to obtain health coverage under the Healthy Families program.

A Simplified Mail-In Application: In an effort to improve access to both Medi-Cal and Healthy Families, the department is developing a simplified mail in application that can be used for both programs.

It is anticipated that approximately 112,000 additional uninsured children will have new or continued coverage in the Medi-Cal program by the end of the budget year as a result of these changes.

Elimination of Prenatal Care: Federal welfare reform--The Personal Responsibility and Work Opportunity Reconciliation Act of 1996--prohibited states from providing non-emergency services to unqualified immigrants, unless state law is subsequently enacted to allow the provision of such services. In 1997, rather than continue prenatal care services for undocumented women as federal law allowed, the Governor proposed to eliminate these services: services which the state has provided to all low income women pursuant to SB 195 (Maddy) since 1988.

In response to the proposed elimination of prenatal care services, four court cases were filed. At this time, the case which is preventing the policy change is *Yvette Doe v. Belshe*. In this case, the Alameda Superior Court enjoined the implementation of the cut stating the proposed state regulations are inconsistent with federal immigrant verification requirements, and did not adequately take into account the impact of the proposal on small businesses. The State has appealed this ruling. At present, it appears unlikely there will be a final ruling on the appeal by February 1, 1998.

This proposal has raised concern among the health policy and health provider communities because research has shown prenatal care is effective in reducing infant mortality, and every $1 invested in prenatal care saves $3 in future health care costs. We also note that county and non-profit health care safety net providers in both urban and rural areas with significant undocumented populations could be adversely impacted by this proposal.

Long Term Care Rate: The Balanced Budget Act of 1997 repealed the Boren amendment, which required the state to provide cost-based reimbursement to hospitals and long term care facilities. The Governor's budget includes a cost-based rate increase for the period August 1, 1997, through July 31, 1998. However, the Administration has expressed intent to explore--with representatives of interested parties--alternatives to the current payment methodology. We recommend that the

department report in budget hearings on the status of these discussions. We also note that the Legislative Analyst has examined this issue and made recommendations in the past, which should be considered.

Managed Care: Currently, approximately 2.4 million of the 5 million Medi-Cal beneficiaries are enrolled in managed care. The department estimates that this number will increase by 100,000 for a total of 2.5 million beneficiaries in 1998-99. Most of the managed care patients (approximately 70 percent) are enrolled in the 12 two-plan model counties.

Cost Estimate Adjusted for Methodological Flaws: Last year, the Legislative Analyst's Office raised major concerns regarding the methodology used by the Department of Health Services to project Medi-Cal costs. Specifically, the Analyst found the methodology was flawed because the department uses fee-for-service cost trends, rather than actual managed care rates, to forecast managed care costs. In addition, the Analyst found that Medi-Cal fee-for-service costs were exaggerated due to relatively sicker patients choosing to remain in fee-for-service Medi-Cal rather than switch to Medi-Cal managed care.

In response to the LAO's analysis and recommendation, the Legislature reduced funding for Medi-Cal by $62 million. While DHS has not changed the methodology for projecting Medi-Cal costs, the 1998-99 Medi-Cal budget does make an adjustment to the Medi-Cal estimate, which--according to the Department--recognizes the concerns raised by the LAO.

Disproportionate Share Hospital Payments. Disproportionate share hospital (DSH) payments supplement Medi-Cal inpatient reimbursement to hospitals that provide services to a disproportionately high number of Medi-Cal and low income, uninsured patients. These hospitals typically have relatively high uncompensated care costs associated with providing such care. For 1998-99, the budget proposes total DSH payments of $2.2 billion.

Generally, under the program, local government entities--including counties, the University of California, and hospital districts--transfer funds to the state, which are then matched by the federal government, and allocated to "disproportionate share" hospitals. However, before the monies are matched and distributed, a portion of the total amount collected (about $155 million in 1997-98) is transferred to the Medi-Cal program to provide General Fund relief.

Last year, in an effort to provide local relief and recognize the contributions of medical education programs in providing health care to the uninsured, the Legislature reduced the amount that is transferred to the Medi-Cal by $75 million, thus effectively increasing allocations to disproportionate share hospitals. The Governor's budget does not propose to further reduce the Medi-Cal transfer, instead it proposes to continue the transfer at current year levels.

PUBLIC HEALTH PROGRAMS

The budget proposes total public health funding of about $2.4 billion for 1998-99, an increase of $100 million, or 4.5 percent, over estimated current year expenditures. These funds support a range of public health programs, including disease control and prevention, environmental hazard control, and health services programs.

MAJOR PROPOSALS

The major budget proposals include:

- ***AIDS Drug Assistance Program (ADAP):*** The budget proposes to increase funding for the AIDS Drug Assistance Program by $36 million ($15.6 million General Fund), bringing total program funding to $126 million. The increase in funding for this program continues to be driven by caseload growth, the use of combination drug therapy, and improved pharmacy access resulting from the recent centralization of pharmacy services;

- ***Cancer Research:*** In accordance with legislation enacted last year--AB 1554 (Ortiz), Chapter 755 of 1997, the budget provides $25 million to support research dealing with the cause, cure, detection, and prevention of prostate and ovarian cancer, an increase of $23 million over current year expenditures;

- ***Family Information Services:*** The budget proposes a new program to ensure parents have access to information regarding education and parenting of infants and young children at a cost of $3.1 million ($2.9 million General Fund);

- ***Hearing Screens for Newborns:*** The budget requests an increase of $6.1 million ($3.5 million General Fund) to fund a new program to provide auditory screening to 70 percent of newborns in California;

- ***Emerging Infectious Diseases:*** The Governor's budget proposes to establish a new Emerging Infections Program at a cost of $3.1 million to the General Fund; and

- ***Proposition 99:*** For 1998-99, the budget projects Proposition 99 tobacco tax revenues of about $446 million, a 1.6 percent decline from estimated current year revenues. The budget proposes total DHS expenditures of $318 million. This represents a reduction of about $54 million, most of which is related to adjustments for one-time current year allocations to health education programs.

PUBLIC HEALTH

AIDS Drug Assistance Program (ADAP): This program provides AIDS drugs to HIV-infected persons with (1) incomes below 400 percent of the federal poverty level, (2) valid prescriptions from a California licensed physician, and (3) no coverage under

Medi-Cal or other insurance. Persons with incomes between 400 percent of poverty and $50,000 may also receive drugs through the ADAP at a share of cost.

The ADAP is supported by the state (General Fund) and the federal government (Ryan White Care Act). Funding for this program has grown rapidly, from nearly $17 million in 1994-95 to a projected $126 million in 1998-99. California now has the largest ADAP in the nation. This growth is the result of growth in caseload. For 1998-99, the projected caseload for the ADAP is expected to exceed 25,000 individuals, about 10 percent more than current year estimates. Another factor contributing to growth in costs is the availability of expensive protease inhibitors. The DHS estimates that a one year supply of these drugs costs about $12,500 per client.

Studies have shown that early treatment with HIV/AIDS drugs prolongs life, reduces the need for more costly treatments, and maximizes the HIV-infected persons vitality and productivity. In recognition of these findings, the National Institutes of Health recently released treatment guidelines encouraging the use of combination drug therapy. Currently, approximately 83 percent of the ADAP caseload are using combination drug therapy. Program costs are expected to continue to increase as more ADAP patients shift to combination therapy, but should begin to slow down and level off as the proportion of patients on combination drug therapy starts to reach 100 percent.

Cancer Research: Prostate cancer is the leading cancer diagnosed in California and the second leading cause of cancer related mortality in men, accounting for about 3,300 deaths annually. Ovarian cancer is the fourth leading cause of cancer related mortality in women, accounting for about 1,500 deaths annually. Despite the high death toll, funding for research into the cause, cure, detection, prevention, and treatment of these two cancers has been lacking.

Recognizing the need for funding in this area, last year the Legislature enacted AB 1554 (Ortiz) to provide $2 million in 1997-98 and $25 million in 1998-99. This will enable a significant increase in the amount of research into these cancers. At this time, the DHS does not know how many grants will be awarded. However it is anticipated that at least 50 to 60 awards will be made.

Family Information Services: This new program would award grants ranging from $50,000 to $100,000 to local coalitions to provide information and education on child development and parenting skills.

The state already has various programs that provide parents important education and information on parenting. Rather than spend $3.1 million to create a new program, the Legislature may wish to further encourage the coordination of the vast array of existing programs. The Women, Infants and Children (WIC) program, for example, helps new mothers understand the importance of nutrition to their baby's development. The Adolescent Family Life Program (AFLP) provides case management and counseling services to pregnant and parenting teens. Other programs include the Black Infant Health program, which teaches young parents how to monitor the health of their

newborns, and the Male Responsibility program, which teaches young males about the important roles they must play as fathers. The Childhood Lead Poisoning Prevention, Occupational Lead Poisoning Prevention, and smoking prevention programs all teach parents about some of the environmental hazards that threaten childhood development, and how to avoid them. Other statewide programs that focus on early childhood development include Head Start (which is 100 percent federally funded) and Healthy Start, both of which engage parents in helping their children receive health care services.

Hearing Screens for Newborns: According to the Department of Health Services, research indicates between 1 and 6 children out of 1,000 have permanent significant hearing loss. Further, for some of these children, the hearing loss goes undetected by their parents for several years and, as a result, these children are generally unable to perform on the same cognitive level as their hearing peers. This proposal seeks to reduce the number of undetected cases of hearing loss in children.

The program has several components: (1) a requirement that certain hospitals offer auditory screens to all newborns and to perform the screen, if the parents consent (These hospitals would be reimbursed on a fee for service basis for Medi-Cal and California Children's Services (CCS) patients); (2) contracts with three regional centers to provide technical assistance to hospitals, establish referral networks for follow-up treatment, and collect data; (3) an outreach campaign to encourage parents to have their infants tested; and (4) a data system to track and monitor the outcomes of children. Table 2 below shows the costs associated with each component.

Table 2

Newborn Hearing Screens Summary of Proposed Program Costs (Dollars in thousands)	
Payments to CCS Hospitals	$2,750
Regional Center Contracts	1,500
Education and Outreach	750
Data System	300
DHS Staff	800
Total	**$6,100**

In evaluating this proposal, the Legislature may want to consider the following: (1) hearing screens are currently available under the Medi-Cal and CCS programs; (2) many hospitals already provide hearing screens to "high-risk" newborns, including those who are born premature or have a medical history indicating hearing loss may be a

problem; (3) as a result of proposed cuts, many women and children will not benefit from prenatal care which is a known cost-effective approach to addressing the overall health of newborns; and (4) there may be a more cost-effective approach to increasing the number of newborns tested for hearing problems. California's experience with childhood immunizations indicates that educating parents, and coordinating existing programs can go a long way to improving the number of families who take advantage of children's preventive care services.

Emerging Infectious Disease Control. This proposal would add 20 new staff to do epidemiology, surveillance, inspection, program development, and other functions related to infectious disease control and prevention. In addition, the state would contract out for laboratory bench work, research, data management, and other support functions. Specifically, the proposal would:

- Establish field teams in southern and northern California to respond to infectious disease issues in their respective regions of the state, and to provide assistance to counties;

- Provide 1 position to support the State Office of Border Health in its efforts to assist U.S. and Mexican Health officials on public health and environmental health issues;

- Implement local and state reporting of emerging infectious diseases, and improve investigation/surveillance of antibiotic-resistant bacteria, HIV-1 subtypes, and emerging pathogens in foods; and

- Provide outreach and education to the public, including health care providers, policy makers, industries, and communities at risk on emerging infectious diseases and prevention.

The Governor introduced this proposal in last year's budget. It was eliminated as a result of the PERS settlement. Prior to this, however, the Legislature reduced the request from $3.4 million to about $2 million to address concerns regarding the level of staffing and equipment needed in the first year to implement the proposal.

Proposition 99: This proposition created a 25 cent surtax on cigarettes and other tobacco products, established six accounts within the Cigarette and tobacco Products Surtax fund, and specified percentages of revenues to be allocated to each account. For 1998-99, the budget projects tobacco tax revenues of about $446 million, a 1.6 percent decline from estimated current year revenues, and proposes to allocate revenues among the accounts within the fund in accordance with the percentages specified in the Proposition.

Proposition 99 funding for DHS programs is reduced by about $54 million. Table 3 below shows the proposed change in DHS' Prop 99-funded programs from revised 1997-98 amounts.

Table 3

PROPOSED CHANGES IN PROP 99-FUNDED DHS PROGRAMS
(Dollars in millions)

Programs	Change from 1997-98
Breast Cancer Early Detection Program	$8.60
Clinic Grants—Expanded Access to Primary Care (EAPC)	-4.50
Comprehensive Perinatal Outreach	-1.70
Child Health and Disability Prevention (CHDP) Screens	1.50
County Medical Services Program (CMSP) Expansion	-1.70
California Healthcare for Indigents Program (CHIP)	-10.70
Rural Health Services/CMSP	-.25
Media Campaign	-11.20
Competitive Grants	-20.00
Committee and Evaluation	-.78
Local Lead Agencies	-13.80
State administration	.78
Total Change	**-$53.75**

- ***Reduction in Funding for Clinics***. Last year, the Legislature pushed for additional clinic funding to expand access to primary care in under-served areas and to partially offset the Governor's elimination of funding for prenatal care. In addition to securing a $5 million increase in funding for the Expanded Access to Primary Care (EAPC) clinic grants program, the Legislature enacted increased funding ($4 million) for the Seasonal, Agricultural and Migrant Worker (SAMW) program and the Rural Health Services Development (RHSD) grant program. The proposed elimination of $4.5 million in Proposition 99 funds for the EAPC program would reverse some of those gains, and could have a significant impact on clinics that are implementing Medi-Cal managed care. Some clinics report a recent increase in uninsured patients as a result of welfare reform, thus increasing the need for indigent care funding. The budget continues funding for the SAMW and RHSD programs at their current level.

- ***Indigent Care*:** The budget assumes counties will have savings in indigent health care programs as a result of the Healthy Families Program. As such, the budget proposes reductions in several indigent health care programs, including the California Healthcare for Indigents Program (CHIP), and the Rural Health Services/County Medical Services Program. Given the uncertainty of the level of participation in the Healthy Families program and the impact of welfare reform on indigent care, it may be too early to assume savings in these programs. Much of the assumed savings would be used to fund an augmentation to the Breast Cancer Early Detection Program

- ***Breast Cancer Early Detection Program (BCEDP):*** Established by the Breast Cancer Act of 1993, this program provides breast cancer screening and diagnostic

services to low income uninsured and underinsured women. It has been funded by the Breast Cancer Fund—also established by the Breast Cancer Act of 1993. However, this fund cannot remain solvent, and continue to support the rapidly increasing demand for BCEDP services. The budget, therefore, proposes to shift part of the cost of the program ($8.6 million) to the Cigarette and Tobacco Products Surtax Fund (Proposition 99). The budget assumes nearly 286,000 women will receive BCEDP services in 1998-99, a 40 percent increase over the revised current year caseload, at a cost of $31.4 million.

MANAGED RISK MEDICAL INSURANCE BOARD

The budget proposes total expenditures of $181 million for the Managed Risk Medical Insurance Board (MRMIB) for 1998-99, an increase of $96 million, or 113 percent. Most of this increase is related to the implementation of the Healthy Families program.

MRMIB administers several programs that provide health insurance to individuals and groups who traditionally have had difficulty obtaining health coverage for themselves in the private insurance market. Specific groups served by these programs include individuals who have been denied coverage due to pre-existing conditions, low-income families (primarily women and infants) who do not qualify for Medi-Cal, and small businesses.

See the discussion of the Healthy Families Program in the Selected Issues Section.