

THE 2005-2006 STATE BUDGET

Health Services

Department of Health Services

Medi-Cal. Medi-Cal provides health care services to welfare recipients and other qualified low-income persons (primarily families with children and the aged, blind, or disabled). Expenditures for medical benefits are shared equally by the General Fund and by federal funds.

The Department of Health Services (DHS) administers the Medi-Cal Program. The California Medical Assistance Commission negotiates contracts with hospitals and health plans for the provision of Medi-Cal services. Other state agencies, including the Department of Social Services, the Department of Mental Health, the Department of Developmental Services, the California Department of Aging, and the Department of Alcohol and Drug Programs receive Medi-Cal funding from DHS for eligible services that they provide to Medi-Cal beneficiaries.

At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed by DHS for the cost of those activities. The federal Centers for Medicare and Medicaid Services oversee the program to ensure compliance with federal law.

Public Health. The Department of Health Services delivers a broad range of public health programs. Some of these programs complement and support the activities of local health agencies in controlling environmental hazards, preventing and controlling disease, and providing health services to populations who have special needs. Other programs are solely state-operated programs such as those that license health facilities.

Major Provisions

Medi-Cal Redesign

The Governor's budget proposal for fiscal year 2005-06 would redesign the Medi-Cal program, projecting a net savings of \$12.3 million General Fund in the budget year.

Medi-Cal provides medical services for 6.6 million low-income individuals. In addition to providing services to these individuals, Medi-Cal is a critical funding source for hospitals and clinics serving Medi-Cal beneficiaries and the uninsured. Program expenditures for fiscal year 2005-06 will exceed \$34 billion (\$12.9 billion

in State General Fund). Medi-Cal is the second largest expenditure in the state budget behind K-12 education.

- **Managed Care Expansion.** California provides Medi-Cal benefits via managed care in 22 counties to 3.2 million beneficiaries including families, children, seniors and people with disabilities. The Governor's budget proposes increased costs in the budget year of \$7.6 million (\$3.3 million General Fund) and requests 48 positions.
 - Enrolling 262,000 parents and children in managed care in 13 additional counties. The expansion will involve beneficiaries in El Dorado, Imperial, Kings, Lake, Madera, Marin, Mendocino, Merced, San Benito, San Luis Obispo, Sonoma, Placer and Ventura counties.
 - Enrolling 554,000 seniors and disabled individuals into managed care in all counties in which managed care is available (these population groups are already enrolled in managed care in the 8 counties with an existing County Organized Health System).
 - Implementing Acute and Long Term Care Integration projects in Contra Costa, Orange and San Diego counties to test innovative approaches for enabling more individuals to receive care in settings that maximize community integration. The managed care expansion will be achieved through a phased-in process over a 12 to 18-month period commencing in January 2007.
- **Stabilize the Financing of California's Safety Net Hospitals.** To strengthen the state's health care safety net, a new five-year hospital financing waiver is being negotiated with the federal government. This new waiver will allow California to continue contracts with selected hospitals serving low-income and vulnerable populations and will replace current funding methods with new systems that create opportunities to draw down additional federal dollars. The budget projects expenditures of \$1.5 million General Fund and requests 12 positions.
- **Modify the Medi-Cal Benefit Package.** The Medi-Cal dental benefit package provided to approximately 3 million adults will be aligned with private employer-based and public sector health coverage programs by placing an annual limit of \$1,000 on dental services provided to adults. The majority of the dental needs of the approximately 3 million Medi-Cal adult beneficiaries, including the cost of dentures, will be covered by the \$1,000 benefit limit. The limit will not apply to federally mandated dental services provided by a physician, emergency dental services, and hospital costs associated with dental treatment. The Governor's budget proposes \$165,000 (\$59,000 General Fund) and requests 2 positions. The estimated savings is \$54.8 million (\$27.4 million General Fund).

- **Beneficiary Cost Sharing.** Medi-Cal beneficiaries with incomes above the federal poverty level will pay a small premium to maintain their Medi-Cal coverage. These beneficiaries include 460,000 families and children in households with incomes above 100 percent of the Federal Poverty Level and 90,000 seniors and persons with disabilities with incomes above the Supplemental Security Income/State Supplemental Payment level. Premiums will be \$4 per month for each child under the age of 21 and \$10 per month for adults, with a maximum of \$27 per month per family. The required premium payments represent approximately one to two percent of the total annual income for affected individuals. The Governor's budget proposes expenditures of \$2.3 million (\$650,000 General Fund) and requests 4 positions.
- **Improved Eligibility Processing for Children.** Medi-Cal eligibility determination for the 120,000 children whose Medi-Cal application is submitted to the State's centralized Single Point of Entry vendor will be processed before being forwarded to the child's county of residence. This will speed enrollment of children and eliminate redundant processing. The Governor's budget proposes expenditures of \$6.9 million (\$2.2 million General Fund) and requests 20 positions.
- **Additional Program Improvements.** Additional program innovations will help contain Medi-Cal costs and increase program efficiencies: a vendor will be employed to monitor county compliance with federal and state standards for eligibility determinations and improvements will be made to the provider enrollment process to reduce the processing time of providers' applications.

California Rx

The Governor's budget proposes a new program called California Rx. California Rx will provide discounted prescription drugs to California residents with family incomes below 300 percent of the federal poverty level (\$27,936 for an individual and \$56,568 for a family of four) and better access to existing free drug programs offered by drug manufacturers. California Rx will combine the purchasing power of nearly five million uninsured Californians to make prescription drugs available at estimated discounts in excess of 40 percent off the retail price. The retail discounts will be derived from two sources:

- As a condition of participating in Cal Rx, drug manufacturers must provide their products at prices no greater than the lowest price paid by any commercial purchaser in California. The Department of Health Services estimates this requirement will generate a manufacturer discount of at least 17 percent, with an average discount of 20 percent. In addition to this guaranteed discount, the Department will work to negotiate additional

discounts from drug manufacturers to maximize the benefits for California Rx participants, and 100 percent of the discount negotiated by DHS will be passed on to the California Rx enrollee and;

- Pharmacies will provide an average discount of approximately 20 percent off the retail price, which is similar to the discounts they provide to most health plans and large purchasers.

The Governor's budget proposes expenditures of \$3.9 million (\$1.9 million General Fund) in the Budget Year.

Other Key Provisions

- **Medicare Modernization Act.** The federal Medicare Modernization ACT of 2003 implements the Medicare Part D drug program that provides drug benefits to all Medicare enrollees, including those that are Medi-Cal beneficiaries called dual eligibles, effective January 1, 2006. Due to the coverage, the federal government will no longer provide financial participation for Medicaid for dual eligibles. The states are required to reimburse the federal government a portion of the savings gained from not providing these drugs. The savings from no longer providing Part D drugs to dual eligibles are estimated to be \$746.8 million and the reimbursement to the federal government is estimated to be \$646.6 million General Fund.
- **Obesity Prevention Program.** The Governor's budget proposes \$6.0 million (\$3.0 million General Fund) to implement a centralized and coordinated obesity prevention and physical activity initiative. The initiative would engage public and private partnerships; work with providers to improve the quality of California's health care; promote healthy lifestyles; and evaluate program effectiveness.
- **Proposition 99 Expenditures.** The Governor's budget proposes to maximize federal funding for pre-natal services for low-income women. The proposal would benefit from an additional \$242 million in federal funds, and would generate savings in the Prop 99 Program of \$71.4 million in fiscal year 2004-05 and \$80.7 million in the budget year. The budget proposes additional major changes in Proposition 99 expenditures: \$54.4 million in 2004-05 and \$32.8 million in fiscal year 2005-06 for the Medi-Cal Recent Immigrants Program; \$9.8 million in fiscal year 2005-06 and \$13.6 million for hospital service costs within the Department of Mental Health; and \$9 million in fiscal year 2004-05 and \$12.8 million in fiscal year 2005-06 for increased demand for breast and cervical cancer screening.

- **County Performance Standards.** The Governor's budget proposes to establish in statute county performance standards for carrying out the Medi-Cal/Healthy Families Bridging program. The cost of implementing the standards is projected to be \$297,000 (\$148,000 General Fund). As a consequence, the number of children for the Healthy Families Program would increase by 22,500 for a \$500,000 General Fund cost.
- **Third Party Liability Recoveries.** The Governor's budget proposes a revision of state laws, augmentation of state staff, and replacement of the Third Party Liability Branch Recovery program's Automated Collection Management System to significantly increase collections in Estate Recoveries and Personal Injuries. The budget would add 81 positions at a cost of \$6.3 million (\$1.9 million General Fund). The recoveries are projected to increase by \$21.5 million General Fund.
- **Bioterrorism.** The Governor's budget proposes federal expenditure authority for the Emergency Preparedness Office to continue the implementation of the cooperative agreements with the Centers for Disease Control and Prevention and the Health Resources and Services Administration. The proposal would continue the existing limited term positions in the Emergency Preparedness Office.
- **Newborn Screening Program.** The Governor's budget proposes to implement the expansion of the program from the current 39 conditions to 76 by adding tandem mass spectrometry and Congenital Adrenal Hyperplasia screens. Under the proposal, expenditures are projected to be \$15.0 million from the Genetic Disease Fund.
- **Shelters for Battered Women.** The Governor's budget would continue funding for the Battered Women's Shelter program for the Unserved/Underserved women of color, teens and women with disabilities.
- **Office of Binational Border Health.** The Governor's budget proposes to eliminate funding for the program for a savings of \$694,000 General Fund.
- **Women, Infants and Children Program Expansion (WIC).** The Governor's budget proposes to expand the WIC Supplemental Nutrition Program Branch to satisfy federal requirements for on-site monitoring evaluations, conduct on-site technical assistance in nutrition areas, make system modifications, and implement the requirements of The Child Nutrition and WIC Reauthorization Act of 2004 and the Breastfeeding Peer Counseling Program. Funds for the program are in the Department's budget and will be re-directed.

Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers several programs designed to provide health care coverage to adults and children. The Managed Risk Medical Insurance Program (MRMIP) provides health insurance to California residents unable to obtain it for themselves or their families because of preexisting medical conditions. The Access for Infants and Mothers (AIM) program currently provides coverage for pregnant women and their infants whose family incomes are between 200 percent and 300 percent of the federal poverty level (FPL). The Healthy Families Program provides health coverage for uninsured children in families with incomes up to 250 percent of the FPL who are not eligible for Medi-Cal and, beginning in the budget year, will provide health coverage for certain uninsured infants born to AIM mothers.

The MRMIB also administers the County Health Initiative Matching Fund (CHIM), a program established last year as a component of Healthy Families. Under CHIM, counties, County Operated Health System managed care health plans, and certain other locally established health programs are authorized to use county funds as a match to draw down federal funding to purchase health coverage for children in families with incomes between 250 percent and 300 percent of the FPL. No state funds are used to support CHIM.

Key Provisions

- **Oversight of Contractor.** The Governor's budget proposes 25 positions and \$2.2 million (\$775,000 General Fund) for the state support costs to enable the MRMIB to enhance Healthy Families oversight of the contractor and customer services.
- **Healthy Kids Local Initiatives.** The Governor's budget proposes three additional staff to provide technical assistance and support to local counties in the development and expansion of locally funded Healthy Kids Programs. Also, the staff would also work with interested counties to develop a Healthy Families "Buy-In" option in which counties could transfer local funds to Healthy Families and have their "Healthy Kids" eligible children participate directly in the Healthy Families Program. The 'First 5 California Children and Families Commission' would provide the funding for the state match.
- **Education and Outreach.** The Governor's budget proposes \$5.9 million General Fund and \$8.6 million in federal funds to re-establish application assistance fees to support individuals and organizations working to maximize successful enrollment of children into the Healthy Families and Medi-Cal Programs.

Department of Developmental Services

A developmental disability is defined as a severe and chronic disability, attributable to a mental or physical impairment that originates before a person's eighteenth birthday. Developmental disabilities include mental retardation, cerebral palsy, epilepsy, and autism. California provides developmentally disabled individuals with a variety of services, which are overseen by the state Department of Developmental Services (DDS). Unlike most other public social services or medical services programs, services are generally provided to the developmentally disabled at state expense without any requirements that recipients demonstrate that they do not have the financial means to pay.

Slightly more than 98 percent receive community-based services and live with their parents or other relatives, in their own houses or apartments, or in group homes that are designed to meet their medical and behavioral needs. The remaining 2 percent live in state-operated, 24-hour facilities.

The Community Services program provides community-based services to clients through 21 nonprofit, corporations known as regional centers (RCs) that are located throughout the state. The RCs are responsible for eligibility determinations and client assessment, the development of an individual program plan, and case management. The department contracts with the RCs to provide services to more than 200,000 clients each year.

The Developmental Center (DC) program operates five DCs, and two smaller facilities, which provide 24-hour care and supervision to approximately 3,500 individuals. Approximately 7,800 permanent and temporary staff serve the current population at all seven facilities.

Major Provisions

Agnews Developmental Center Closure

The 2003-2004 Governor's Budget proposed the closure of the Agnews Developmental Center as of July 2005. The closure is now scheduled for July 2007 and the Governor's budget proposes \$36.9 million (\$27.1 million General Fund) in the budget year for the closure. The budgets of developmental centers and regional center budgets reflect the costs. The goal of the closure plan is to transition residents to safe and stable homes in the community and to ensure ongoing quality care.

Other Key Provisions

- **Capitol People First v. DDS.** The Governor's budget proposes \$120,000 General Fund for the Department to contract with an outside law firm in the defense of the Department and others regarding developmental center issues in the lawsuit.
- **Regional Center Cost Containment.** The Governor's budget proposes \$6.2 million General Fund for additional clinical, case management and administrative support staff to review all authorizations prior to funding services. The Budget Year General Fund cost reductions to regional centers purchase of services are projected to be \$10.5 million.
- **Rate Standardization.** Efforts are underway to address the issue of rate standardization of negotiated rates for vendors who provide services to clients with developmental disabilities. The status of the rate standardization will be updated in the May Revision.
- **Continuation of 2003-2004 Fiscal Budget Year Savings.** The savings achieved in the fiscal year 2003-2004 were due to an increase in the time allowed regional center intake and assessment from 60 to 120 days; contracted services rate freeze; elimination of day programs average cost increase; community care facility service-level freeze; suspension of non-community placement plan start-ups; and elimination of the SSI/SSP pass through. The budget estimates savings of \$67 million General Fund.
- **Independence Plus Waiver.** The Governor's budget proposes to spend \$517,000 (\$282,000 General Fund), for Phase II funding to implement and monitor a 1915(c) Independence Plus Waiver from the Centers for Medicare and Medicaid Services for Self-Directed Services. The proposal will increase federal financial participation and, in the aggregate ensure a five- percent savings in the State's General Fund expenditures.
- **Home and Community Based Services Waiver Compliance.** The department has obtained federal approval to revise the billing methodology for Targeted Case Management reimbursements. This will result in an estimated \$19.3 million annual increase in reimbursements and a like amount of General Fund savings. The Governor's budget proposes to use \$10.6 million of the General Fund savings to help regional centers maintain compliance with the federal Centers for Medicare and Medicaid Services caseload ratio requirements for the Home and Community-Based Services Waiver.

- **Family Cost Participation Program.** Under the Family Cost Participation Program, parents of children between the ages of three and seventeen who live in their parents' home, and are not Medi-Cal eligible, are required to participate in the program. The 2005-06 Purchase of Services savings from the program are estimated to be \$2 million General Fund.
- **Quality Management System.** The Governor's budget proposes an expenditure of \$522,000 (\$290,000 General Fund) for the development of a statewide Quality Management System consistent with the Centers for Medicare and Medicaid Services Quality Framework. The system is for maintaining and increasing federal financial participation for the current and future federal waivers.

Department of Mental Health

The Department of Mental Health directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) provide for the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled; (2) operate four state hospitals; (3) manage state prison treatment services at the California Medical Facility at Vacaville and at Salinas Valley State Prison; and 4) administer various community programs directed at specific populations.

The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially committed clients, clients civilly committed as Sexually Violent Predators and mentally disordered offenders and mentally disabled clients transferred from the California Department of Corrections.

Major Provisions

Continued Activation of Coalinga State Hospital

The Governor's budget proposes an augmentation of \$74.2 million (\$65.7 million General Fund) for the continued activation of Coalinga State Hospital. The request includes a total of 893 positions and funding for operating expenses and equipment, workforce recruitment efforts and relocation costs. It also reflects the provision of a 50-bed intermediate level of care unit from the California Department of Corrections.

In 2000, the state initiated steps to construct a new 1,500-bed secure mental health treatment facility, to be known as Coalinga State Hospital, to provide the Department of Mental Health with additional capacity to treat patients involuntarily committed under the Sexually Violent Predator (SVP) law. The Department began construction in 2001, and construction is scheduled to be

completed by May 2005. The state has invested \$382 million toward the construction and staffing of Coalinga State Hospital.

In addition to the construction project, the state has taken several steps in recent years to ensure that there is sufficient space in the state hospital system for the treatment of offenders who require high security, such as SVPs. Among other actions, the Legislature provided \$6.9 million in fiscal year 2001-02 to purchase modular buildings for placement at Patton State Hospital and Atascadero State Hospital and to convert program areas into temporary patient living space to accommodate up to 500 additional patients. Additional funding for the state hospital system to staff the 500 additional beds has not been provided to date because the overall hospital population has grown significantly less than DMH had previously projected.

Other Key Provisions

- **Restructure Treatment of Sexually Violent Predators.** The Governor's budget proposes to restructure SVP residential and treatment settings to more efficiently and effectively provide for the varying custody and supervision needs. The budget projects a \$6 million General Fund Savings.
- **Local Custody of Precommitment of Sexually Violent Predators.** The Governor's budget proposes to keep all precommitted SVPs in local custody until the courts commit them as SVPs. Additionally, precommitted SVPs residing in Atascadero State Hospital awaiting trial who have not yet been committed as SVPs will be returned to local custody. The projected budget savings are \$9.2 million General Fund.
- **Forensic Conditional Release Program Funding.** The Governor's budget proposes a \$144,000 decrease in the funding of the Conditional Release Program, primarily for decreased costs for patient services.
- **Sexually Violent Predator Evaluation and Court Testimony.** The Governor's budget proposes to reduce the funding of the program by \$319,000 in the budget year relative to the fiscal year 2004-05 funding of \$5.2 million. All persons ending their Sexually Violent Predator commitment must be evaluated. The Department relies upon contract evaluators and state hospital staff to complete the recommitment evaluations.
- **Staffing at Metropolitan and Napa State Hospitals.** The Governor's budget proposes to augment the funding for the Youth and Skilled Nursing Facility Programs. The funding would provide an increased number of nurses in the program. The \$3.6 million augmentation would be reimbursed from county realignment funds.

- **Managed Care Program Funding Adjustments.** The Governor's budget proposes to increase the funding for the Managed Care Program by \$5.7 million, primarily for an increase in the number of Medi-Cal eligibles.
- **Screening, Diagnosis and Treatment Program Funding Adjustments.** The Governor's budget proposes an increase in funding by \$76.7 million (\$43 million General Fund) to meet increased claims.