Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 3 Agenda

Senator Holly J. Mitchell, Chair
Senator William W. Monning
Senator Jeff Stone

Wednesday, May 18, 2016
9:30 a.m.
State Capitol - Room 4203

Consultant: Michelle Baass

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VOTE ONLY

MULTIPLE DEPARTMENTS

Issue 1: Health-Related General Fund Investments

As discussed at the May 12th hearing, the Subcommittee has received multiple requests for General Fund augmentations for health-related programs.

Subcommittee Staff Recommendation—Approve. Given the state's fiscal situation, it is recommended to approve the following General Fund augmentations and to adopt any needed placeholder trailer bill language to effectuate these proposals:

Proposal	Description	Annual General Fund Amount (unless otherwise noted)
Department of Health Care Services		
1. Medi-Cal Estate Recovery	Multiple stakeholders, including Western Center on Law and Poverty, Health Access, CPEN, and Consumers Union, request to limit estate recovery in the Medi-Cal program by requiring collection for only those health care services required to be collected under federal law, to make it easier for individuals to pass on their assets by using a narrower definition of "estate" in federal Medicaid law, and to allow a hardship exemption from estate recovery for a home of modest value.	$26 million
2. Interpreters for Medi-Cal	Various stakeholders, including the California Latino Legislative Caucus and AFSCME, requests $15 million for interpreters in the Medi-Cal program.	$15 million
3. AIDS Medi-Cal Waiver Program Rates	The California HIV Alliance proposes a rate increase for the AIDS Medi-Cal Waiver program. It notes that provider reimbursement rates for this program are lower than Medi-Cal rates for the same services. This increase would equalize case management and case management administrative expenses for the AIDS Medi-Cal waiver to other Home and Community-Based Waiver Services programs.	$4.9 million

Department of Public Health		
4. Drug Overdose Prevention (Naloxone)	The Drug Policy Alliance (DPA) requests to establish a grant program for local agencies and community-based organizations in order to reduce the rate of fatal drug overdose caused by prescription analgesics and other drugs. DPA estimates this investment would save an estimated 1,200 lives. Furthermore, hospitalization rates for treatment of effects of non-fatal but debilitating overdoses would also be reduced.	$3 million
5. Hepatitis Initiatives	Stakeholders, such as CalHEP and Project Inform, request: 1) $100,000 for DPH to purchase and distribute hepatitis B (HBV) vaccine to local health jurisdictions to vaccinate high risk adults; 2) $600,000 for DPH to purchase hepatitis C (HCV) rapid test kits to distribute to community-based testing programs; 3) $500,000 for DPH to certify non-medical personnel to perform rapid HCV and HIV testing in community-based settings; and 4) $200,000 to the DPH Office of AIDS for technical assistance to local governments and to increase the number of syringe exchange and disposal programs throughout California and the number of jurisdictions in which syringe exchange and disposal programs are authorized.	$1.4 million
6. Children's Dental Disease Prevention Program (DDPP)	Advocates propose to restore funding for DDPP. From 1980 to 2009, the DDPP provided school-based oral health prevention services to approximately 300,000 low-income school children in 32 counties in California. Participating sites provided fluoride supplementation, dental sealants, plaque control, and oral health education.	$3.2 million
7. Early Detection and Diagnosis of Alzheimer Disease	Various stakeholders, including the Alzheimer's Association, request funds for the California Alzheimer Disease Centers for early detection and diagnosis of Alzheimer disease. Funds would be used to determine the standard of care in early and accurate diagnosis, provide professional outreach and education, and evaluate the educational effectiveness of these efforts.	$2.5 million (one-time)
8. Biomonitoring Program	Various advocates, including the Natural Resources Defense Council and the Breast Cancer Fund, request an augmentation for the biomonitoring program to increase and support the scientific work of this program. This funding would be split between DPH, the Department of Toxic Control, and the Office of Environmental Health Hazard Assessment.	$1 million
9. End of Life Option Act - Telephone Line (SB 1002)	Senator Monning requests funds ($150,000) to establish a telephone line for answering End of Life Option Act inquiries and require that the individuals answering be bilingual. SB 1002 (Monning) would implement this request.	$150,000
Office of Statewide Health Planning and Development		
10. Primary Care Workforce Development	Various stakeholders request funding ($82.5 million) for Song Brown Program to increase residency programs for primary care physicians and funding ($17.5 million) to establish new teaching health center sites offering additional primary care residencies, and other efforts related to graduate medical education.	$100 million over three years ($33 million/year)

0530 CALIFORNIA HEALTH AND HUMAN SERVICES AGENCY

Issue 1: Interagency Task Force on HIV, Hepatitis C, Sexually Transmitted Diseases, and Drug User Health

Issue. The California HIV Alliance, Project Inform, and CalHEP request $500,000 General Fund to establish an interagency task force to address HIV, HCV, sexually-transmitted infections, and drug user health.

Subcommittee Staff Comment and Recommendation—Adopt Placeholder Trailer Bill Language. It is recommended to modify this advocate proposal and only adopt placeholder trailer bill language to establish this task force (i.e., not include a General Fund augmentation for this purpose, as these activities are consistent with the role of the agency).

0530 CALIFORNIA OFFICE OF HEALTH INFORMATION INTEGRITY (CALOHII)

Issue 1: Restructure the California Office of Health Information Integrity

Budget Issue. CalOHII requests a reduction of five positions and operating expenses for a net reduction of $1.4 million ($1.3 million General Fund). Based on a zero base budget analysis, CalOHII requests to reduce its staffing and amend its statutory obligations. CalOHII will continue to serve as the state's authority on the Health Insurance Portability and Accountability Act (HIPAA) matters, but will reduce the scope of its activities to updating statewide HIPAA policy and monitoring progress of HIPAA impacted and covered departments.

The Administration also proposes trailer bill language to implement these changes.

This issue was discussed at the March 3, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve and Adopt Administration's proposed placeholder trailer bill language.

0530 OFFICE OF SYSTEMS INTEGRATION (OSI)

Issue 1: MEDS Modernization Multi-Departmental Planning Team

Budget Issue. OSI requests 18.0 positions and $3.7 million to provide dedicated staffing and resources required for the agency-wide planning effort for Medi-Cal Eligibility Data System (MEDS) Modernization. See table below for details on the funding components of this request.

This issue was discussed at the March 3, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve. It is recommended to approve the request from OSI and the corresponding budget request from the Department of Health Care Services to support this effort.

Issue 2: eWIC Management Information System Project

Budget Issue. OSI requests $4.1 million in expenditure authority and 19.5 permanent positions for the new Women, Infants and Children (WIC) Management Information Systems (eWIC MIS) project. The California Department of Public Health (DPH), as the single state entity responsible for the federally-funded WIC Program, is proposing to contract with the OSI to assume management of the eWIC MIS Project including completing the system acquisition and managing the project through successful completion of statewide implementation. DPH will fund the project with 100 percent federal funding and has submitting a separate BCP to request the necessary appropriation authority.

This issue was discussed at the March 3, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 3: CalHEERS

Budget Issue. OSI requests an increase of $8 million in expenditure authority and two permanent positions in 2016-17 related to the transfer of 58 California Healthcare Eligibility, Enrollment and Retention (CalHEERS) staff to OSI from Covered California. The costs will continue to be reimbursed by Covered California and the Department of Health Care Services (DHCS). OSI proposes to increase its full day-to-day Project Management (PM) of the staff and activities and continue to provide oversight services for the design, development, implementation and operation and maintenance of the project.

This issue was discussed at the March 17, 2016 Subcommittee No. 3 hearing.

In addition, the May Revision proposes a technical adjustment and a change to provisional budget bill language (Issue 401-MR) to decrease funding by $1,641,000 to align OSI's expenditure authority with the revised CalHEERS project cost for 2016-17.

Subcommittee Staff Comment and Recommendation—Approve and Adopt Placeholder Budget Bill Language.

4140 OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Issue 1: Expansion of State Loan and Allied Health Repayment Programs for CMSP Counties

Issue. The County Medical Services Program (CMSP) requests to expand the State Loan Repayment Program and the Allied Health Loan Repayment Program in CMSP counties using CMSP funds. The CMSP Governing Board would provide funding for this purpose over a three year period, with an estimated cost of $4.85 million, including $350,000 for OSHPD to administer.

Subcommittee Staff Comment—Approve and Adopt Budget Bill Language. It is recommend to increase OSHPD's reimbursement authority and adopt placeholder budget bill language to implement this proposal.

4150 DEPARTMENT OF MANAGED HEALTH CARE

The following issues were discussed at the March 17, 2016 Subcommittee No. 3 hearing.

Issue 1: Infrastructure and Support Services

Budget Issue. DMHC requests two permanent positions and $247,000 for 2016-17 and $234,000 for 2017-18 and ongoing to ensure the DMHC can address the critical administrative workload resulting from program expansions resulting from the implementation of the Affordable Care Act (ACA) and conforming state legislation.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 2: End of Life Option Act (AB 15 X2, 2015)

Budget Issue. DMHC requests two-year limited-term expenditure authority of $244,000 for 2016-17 and 2017-18 to meet the department's operational needs in order to address the short-term workload resulting from the implementation of AB 15 X2 (Eggman), Chapter 1, Statutes of 2015, the End of Life Option Act.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 3: Federal Mental Health Parity Ongoing Compliance Review

Oversight and Budget Issue. DMHC requests $529,000 for 2016-17 and 2017-18 for clinical consulting services to design new compliance filing instructions and forms, conduct review of plans' classification of benefits and nonquantitative treatment limits (NQTLs), and for resolving clinical issues arising in compliance filings associated with performing ongoing oversight of compliance with the federal Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act

(MHPAEA) and its Final Rules. These resources would be used for the initial front-end compliance reviews for new plans and new products.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 4: Large Group Rate Review (SB 546, 2015)

Budget Issue. DMHC requests four permanent positions and $682,000 for 2016-17 and $644,000 for 2017-18 and ongoing to address the increased workload resulting from the implementation of SB 546 (Leno), Chapter 801, Statutes of 2015.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 5: Limitations on Cost-Sharing: Family Coverage (AB 1305, 2015)

Budget Issue. DMHC requests limited-term expenditure authority of $196,000 for 2016-17 and $188,000 for 2017-18 to meet the department's operational needs to implement AB 1305 (Bonta), Chapter 641, Statutes of 2015.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 6: Outpatient Prescription Drug Formularies (AB 339, 2015)

Budget Issue. DMHC requests limited-term resources of $733,000 for 2016-17; $700,000 for 2017-18; $558,000 for 2018-19; and $558,000 for 2019-20 to meet the department's operational needs in order to address the short-term workload resulting from the implementation of AB 339 (Gordon) Chapter 619, Statutes of 2015.

This request includes $196,000 in contracted consulting costs for 2016-17, 2017-18, 2018-19, and 2019-20 to assist DMHC offices with developing implementation standards and identifying health plan clinical standard deficiencies during the survey process.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 7: Provider Directories (SB 137, 2015)

Budget Issue. DMHC requests eight permanent positions and $1,436,000 for 2016-17; $1,366,000 for 2017-18; and $1,181,000 for 2018-19 and ongoing to address the increased workload resulting from the implementation of SB 137 (Hernandez) Chapter 649, Statutes of 2015.

This request includes $153,000 for 2016-17; $153,000 for 2017-18; and $77,000 for 2018-19 and ongoing for the Office of Enforcement's (OE) expert witness and deposition costs for enforcement trials. This request also includes limited-term expenditure authority of $89,000 for 2016-17 and 2017-18, enabling DMHC's Office of Technology and Innovation (OTI) to address short-term IT-related setup activities.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 8: Vision Services (AB 684, 2015)

Budget Issue. DMHC requests two permanent positions and $308,000 for 2016-17 and $292,000 for 2017-18 and ongoing to address the increased workload resulting from the implementation of AB 684 (Alejo) Chapter 405, Statutes of 2015.

Subcommittee Staff Comment and Recommendation—Approve.

4260 DEPARTMENT OF HEALTH CARE SERVICES

Issue 1: County Eligibility Administration Funding and Trailer Bill

Budget Issue. The budget continues to provide an additional $169.9 million ($57 million General Fund) in 2016-17 and 2017-18 to counties to administer the Medi-Cal program. According to the Administration, this augmentation provides the funding to address the ongoing increased workload as a result of the significant caseload growth since the federal Affordable Care Act (ACA) implementation.

Additionally, the Administration proposes trailer bill language to suspend the cost-of-living adjustment (COLA) provided to the counties as part of the annual state budget allocation for county administration in 2016-17. The Administration finds that the COLA is not necessary given the augmentations (discussed above) provided in response to ACA implementation. The proposed trailer bill language also deletes outdated language referencing the Healthy Families Program which transitioned to Medi-Cal in 2013-14.

This issue was discussed at the March 17, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve and adopt Administration's proposed placeholder trailer bill language.

Issue 2: Health Insurance Portability and Accountability Act Compliance and Monitoring

Budget Issue. DHCS requests the conversion of eight limited-term positions to permanent effective July 1, 2016. The requested expenditure authority for this conversion is $1,202,000 ($240,000 General Fund). The positions are necessary to continue existing efforts, maintain compliance with current federal and state regulations, address new Health Insurance Portability and Accountability Act (HIPAA) rules, provide support for growth in the Capitation Payment Management System (CAPMAN), and continue to strengthen oversight of privacy and security protections for members served by DHCS programs.

This issue was discussed at the March 17, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 3: Specialty Mental Health Services Oversight and Monitoring

Budget Issue. DHCS requests 13 full-time, permanent positions and expenditure authority of $1,925,000 ($866,000 General Fund) for 2016-17 and $2,128,000 ($972,000 General Fund) on-going. The permanent resources requested, included $400,000 for contracted clinicians, who will work to meet the Special Terms and Conditions (STCs) required by the Centers for Medicare and Medicaid Services (CMS). CMS placed this as a condition of the renewal of DHCS Medi-Cal Specialty Mental Health Services (SMHS) Waiver authorized under Section 1915(b) of the Social Security Act.

This issue was discussed at the April 21, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 4: Performance Outcomes System for Medi-Cal Specialty Mental Health Services

Budget Issue. The budget includes $23.7 million ($11.9 million General Fund) for implementation of the performance outcomes system (POS) for Medi-Cal specialty mental health services as required by SB 1009 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2012 and AB 82 (Committee on Budget), Chapter 34, Statutes of 2013.

These funds would be used to fund county personnel costs and for training for county clinicians on how to use the tools for data collection. County mental health plans will collect, manage, use, and report additional functional assessment data as part of the POS.

This issue was discussed at the April 21, 2016 Subcommittee No. 3 hearing.

May Revision. The May Revision requests a decrease of $5,055,000 (in both General Fund and Federal Fund) to reflect the revised implementation timeline (and a delay in hiring county staff) and technology costs associated with the functional assessment tool that will be selected as part of Performance Outcomes System. The functional assessment tool will measure the functional impairment of a child receiving mental health services through Medi-Cal to better report on participant outcomes. (DOF Issue 551-MR)

Subcommittee Staff Recommendation—Approve.

Issue 5: Mental Health Services Act (Proposition 63) Reappropriation

Budget Issue. Through a Spring Finance Letter, DHCS requests reappropriation of $1.9 million in unexpended Mental Health Services Act (MHSA) funding from 2013-14, 2014-15, and 2015-16. The reappropriated funds will support costs to procure contracts for 1) MHSA data quality assurance, 2) MHSA data collection, and 3) MHSD Web re-design. Currently, the department indicates it is unable

to provide timely and accurate information for data queries from stakeholders or legislative staff. This proposal requests the following budget bill language to reappropriate unexpended prior year funding:

> **4260-490—Reappropriation, Department of Health Care Services. The balances of the appropriations provided in the following citations are reappropriated for the purposes provided for in those appropriations and shall be available for encumbrance or expenditure until June 30, 2018:**
> **3085—Mental Health Services Fund**
> **(1) Item 4260-001-3085, Budget Act of 2013 (Chs. 20 and 354, Stats. of 2013),**
> **(2) Item 4260-001-3085, Budget Act of 2014 (Ch. 25, Stats. of 2014),**
> **(3) Item 4260-001-3085, Budget Act of 2015 (Ch. 10, Stats. of 2015)**

Of the $1.9 million in funds to be reappropriated, $250,000 per year for 2013-14, 2014-15, and 2015-16 is from unused contract funds and the remaining unexpended funds are due to salary savings in 2013-14, 2014-15, and 2015-16.

This issue was discussed at the April 21, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 6: Drug Medi-Cal Waiver Program Resources

Budget Issue. Through a Spring Finance Letter, the Administration requests eight permanent full-time positions to support fiscal oversight and programmatic monitoring requirements 1115 Demonstration Waiver Amendment for the Drug Medi-Cal Organized Delivery System (DMC-ODS).

These resources would be phased in over two years, five positions in 2016-17, for a cost of $624,000 ($312,000 General Fund), and three more positions in 2017-18 for a cost of $322,000 ($161,000 General Fund) given the uncertainty related to how many counties will be ready to file implementation plans and how many will be approved by the federal Centers for Medicare and Medicaid Services (CMS).

This issue was discussed at the April 21, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 7: Drug Medi-Cal – Residential Treatment Services

Budget Issue. The May Revision requests a decrease of $20,144,000 General Fund and $31,689,000 Federal Fund to reflect the updated implementation timeframe for the expansion of residential treatment services to non-perinatal beneficiaries. DHCS has received nine county implementation plans to date; however, only one county implementation plan has been approved by DHCS. Prior to implementation, these local plans require approval by participating county boards of supervisors as well as the federal Centers for Medicaid and Medicare Services. (DOF Issue 556-MR)

Subcommittee Staff Comment and Recommendation—Approve.

Issue 8: Home and Community-Based Services (HCBS) Federal Requirements

Budget Issue. DHCS requests limited-term resources of $1,112,000 ($491,000 General Fund) to fund the following:

1. **HCBS Federal Requirements.** Three-year limited-term resources to comply with the Centers for Medicare and Medicaid Services (CMS) Federal Regulations (2249-F and 2296-F) on Home and Community-Based Settings Final Rule for existing Home and Community-Based Services (HCBS) providers and beneficiaries promulgated on March 17, 2014.

2. **Statewide Transition Plan (STP).** Four-year limited-term resources to work on the CMS approved Assisted Living Waiver (ALW) program, coordinate activities with the STP and ensure ongoing compliance of ALW providers with the HCBS final rule. Resources will also address continued work to meet existing Community-Based Adult Services (CBAS) workload, coordinate activities with the STP and ensure ongoing compliance of CBAS providers with the HCB Final Rule. The resources will address work done currently by limited-term positions that are set to expire 6/30/16.

This issue was discussed at the May 5, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 9: Office of Family Planning Contract Conversion

Budget Issue. DHCS requests ten permanent, full-time state civil service positions and $1,458,000 ($637,000 General Fund) for 2016-17 and $1,368,000 ($596,000 General Fund) on-going to replace existing contracted staff. The requested positions will ensure adequate staffing levels to meet state Office of Family Planning (OFP) requirements and comply with Government Code Section 19130, which prohibits contracting out for services that can be performed by state civil servants.

The current contract funding is built within the Medi-Cal Local Assistance Estimate. DHCS proposes to discontinue the policy change in order to build the expenditure authority in the state operations budget. The current contract is annually budgeted at $2,861,000 ($1,430,000 General Fund). With the contract conversion to state civil service positions, there is an anticipated cost savings of approximately $1,403,000 ($793,000 General Fund) in year one and $1,493,000 ($834,000 General Fund) in year two and on-going.

This issue was discussed at the May 5, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 10: Medi-Cal Estimate May Revision Adjustments

Budget Issue. The May Revision requests that the technical adjustments noted below be made to the following budget bill items to reflect a variety of caseload and cost changes not highlighted in the other Medi-Cal proposals:

- Item 4260-101-0001 be decreased by $647,158,000 and reimbursements be increased by $749,916,000
- Item 4260-101-0890 be increased by $1,491,171,000
- Item 4260-101-0080 be increased by $11,000
- Item 4260-101-0232 be increased by $4,929,000
- Item 4260-101-0233 be increased by $1,408,000
- Item 4260-101-0236 be increased by $6,673,000
- Item 4260-101-3168 be increased by $482,000
- Item 4260-101-3213 be increased by $41,402,000
- Item 4260-106-0890 be increased by $1,298,000
- Item 4260-113-0001 be increased by $184,022,000
- Item 4260-113-0890 be increased by $558,591,000
- Item 4260-117-0001 be increased by $145,000
- Item 4260-117-0890 be increased by $685,000

(DOF Issues 501-MR and 531-MR)

Subcommittee Staff Recommendation—Approve. It is recommended to approve the above adjustments, with any changes to conform as appropriate to other actions that have been, or will be, taken. This is a technical adjustment.

Issue 11: Medi-Cal May Revision Adjustments to January Budget

Budget Issue. The May Revision requests these adjustments to the January Budget:

1. **May 2016 Workload Adjustments (Issues 552, 553, 554, 555-MR)—**It is requested that General Fund be increased by $73,724,000, and Federal Fund be increased by $2,001,673,000 to reflect workload changes related to End of Life Services (Issue 552-MR), Palliative Care (Issue 553-MR), Scaling and Root Planning Prior Authorization and Preventive Dental Services (Issue 554-MR), and Affordable Care Act Optional Expansion (Issue 555-MR).
2. **Managed Care Enrollee Tax (Issue 557-MR)—**It is requested that General Fund be decreased by $1,106,739,000 to reflect the approval of SB 2 X2 (Hernandez), Chapter 2, Statutes of 2016, which authorized a tiered, enrollment based tax on health care service plans in order to provide a stable funding mechanism for the Medi-Cal program. The revenue received from the tax funds the non-federal share of capitation payments to managed care plans that provide health care services to Medi-Cal beneficiaries; and, consequently General Fund expenditures can be reduced.
3. **Medi-Cal Fiscal Intermediary Adjustments (Issue 559-MR)—**It is requested that General Fund be decreased by $2,555,000, Federal Fund be decreased by $26,766,000, Item

4260-117-0001 be increased by $315,000, and Item 4260-117-0890 be increased by $3,031,000. These changes reflect the stoppage of DHCS' efforts to replace the California Medicaid Management Information System, partially offset by increases associated with close-out activities, transitioning project management to the state, and the reprocurement of new vendors for the operation of the legacy system and system replacement.

4. **Minimum Wage Impact (Issue 562-MR)—**It is requested that General fund be increased by $7,067,000 and Federal Fund be increased by $5,086,000 to implement SB 3 (Leno), Chapter 4, Statutes of 2016. This request accounts for increased costs in Home and Community-Based Services waiver programs and Long-Term Care facilities rate add-ons as well as savings in the Medi-Cal program due to decreases in eligibility.
5. **BHT Transition (Issue 563-MR)—**It is requested that General Fund be increased by $87,894,000 and Federal Fund be increased by $115,789,000. These changes reflect costs associated with the transition of Medi-Cal beneficiaries who are existing Department of Developmental Services regional center consumers to Medi-Cal for their BHT services.

   It is also requested that provisional language in Item 4260-101-0001 be amended to allow the transfer of funding between the Department of Developmental Services to support the transition of current Medi-Cal eligible regional center clients receiving BHT services upon completion of the statewide transition plan. Proposed amended budget bill language:

   > "13. The Department of Finance may authorize the transfer of expenditure authority ~~from~~ between Schedule (2) of item 4300-101-0001 ~~to~~ and Schedule (3) of this item to support the transition of current Medi-Cal eligible regional center clients receiving behavioral health treatment services pursuant to Section 14132.56 of the Welfare and Institutions Code upon completion of the statewide transition plan.
   >
   > The Director of Finance shall provide notification to the Joint Legislative Budget Committee of any transfer of expenditure authority approved under this provision not less than 30 days prior to the effective date of the approval. The 30-day notification shall include a description of the transfer, including the number of children per regional center affected, the average cost of behavioral health treatment services for a regional center consumer, and the average cost of behavioral health treatment services for a Medi-Cal enrollee, and assumptions used in calculating the amount of expenditure authority to be transferred."

Subcommittee Staff Recommendation—Approve

Issue 12: Hospital Quality Assurance Fee Extension

Issue. The California Hospital Association (CHA) requests that the Subcommittee consider trailer bill language to extend the sunset date of the hospital quality assurance fee (QAF); the current QAF sunsets January 1, 2017. CHA requests the sunset date be extended one year to January 1, 2018. The existing hospital QAF is estimated to provide, annually, approximately $800 million in savings to the General Fund, with a certain portion of the fee revenue offsetting General Fund costs for providing children's health care coverage.

The budget assumes that the QAF sunsets and; consequently, only includes about $150 million in General Fund savings.

Subcommittee Staff Recommendation—Adopt Placeholder Trailer Bill Language. It is recommended to adopt placeholder trailer bill language to extend the hospital QAF until January 1, 2018. It is also recommended to account for the approximately $950 General Fund savings as a result of the extension of this QAF. According to the Legislative Analyst's Office, depending on the timing of federal approval, $700 million General Fund savings could be scored in 2017-18 and $250 million General Fund savings could be scored in 2018-19.

Issue 13: Medi-Cal Electronic Health Records Staffing

Budget Issue. DHCS requests three-year limited-term resources of $403,000 ($41,000 General Fund) for the Medi-Cal Electronic Health Record (EHR) Incentive Program to provide extensive data analysis, policy analysis, enrollment and eligibility support, and pre- and post-payment audits and investigations for program eligible managed care and fee-for-service providers. The federal Centers for Medicare and Medicaid Services (CMS) has approved 90 percent federal funding participation (FFP) for these requested resources.

Subcommittee Staff Recommendation—Approve

Issue 14: Family Health May Revision Estimate

Budget Issue. The May Revision requests adjustments to the California Children's Services (CCS), Child Health and Disability Prevention Program (CHDP), the Genetically Handicapped Person's Program (GHPP), and the Every Woman Counts (EWC) program. See tables below for details. These changes reflect revised expenditure estimates in the four Family Health programs based on: (1) revised caseload estimates, (2) a decrease in Orkambi pharmaceutical costs in the California Children's Services (CCS) and Genetically Handicapped Persons Program (GHPP), (3) a decrease in average annual cost per case in GHPP, (4) an increase in therapy service costs in the CCS program, and (5) other miscellaneous adjustments. (DOF Issues 502 and 532-MR)

Table: Family Health Estimate May Revision Summary

Program	Budget Act 2015-16	May Revision Projected 2015-16	January Budget Proposed 2016-17	May Revision Proposed 2016-17
CCS	$85,682,000	$81,911,000	$78,164,000	$79,732,000
CHDP	1,375,000	836,000	467,000	115,000
GHPP	128,467,000	134,885,000	183,545,000	167,532,000
EWC	42,140,000	28,887,000	32,215,000	28,592,000
TOTAL	**$257,664,000**	**$246,519,000**	**$294,391,000**	**$275,971,000**

Subcommittee Staff Recommendation—Approve.

4265 DEPARTMENT OF PUBLIC HEALTH

Issue 1: Licensing and Certification (L&C): Program Quality Improvement Projects

Budget Issue. DPH requests expenditure authority of $2 million from the Internal Departmental Quality Improvement Account to execute two contracts to implement program improvement recommendations. DPH will allocate $1.5 million to the redesign of the Centralized Applications Unit (CAU) IT systems, and $500,000 to the Health Facilities Consumer Information System (HFCIS) redesign.

DPH proposes to redesign the Central Applications Unit IT systems. This project would entail replacing substantially paper-based processes with information technology solutions that will allow recording and tracking of multi-level facility ownership structures, as well as on-line applications and reporting features. This redesign will also enable the center to be compliant with Affordable Care Act requirements, while also improving the quality and timeliness of services provided to facilities. Once complete, the redesign will enable the center to provide more accurate and timely information on facility ownership and compliance history. Further, the redesign will enable the Central Applications Unit to achieve greater staff efficiencies by fully centralizing all ownership tracking activities that currently take place in the Central Applications Unit, district offices, and Los Angeles County.

DPH also proposes to redesign the Health Facilities Consumer Information System. Established in 2008, the Health Facilities Consumer Information System provides consumers and patients access to information about the DPH's licensed long-term care facilities and hospitals throughout the state. The website provides profile information for each facility, as well as performance history including complaints, facility self-reported incidents, state enforcement actions, and deficiencies identified by Public Health staff; the system also allows consumers to submit complaints to Public Health electronically. According to DPH, the current system is outdated and not as user-friendly or accessible as many other public-facing consumer-centric websites.

This issue was discussed at the March 3, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 2: L&C: Timely Investigations of Caregivers

Budget Issue. DPH requests an additional $2.5 million in expenditure authority from the State Department of Public Health Licensing and Certification Program Fund to convert 18.0 existing two-year limited-term positions to permanent positions, and fund two additional positions for the Office of Legal Services, for a total of 20.0 positions to improve the timeliness of investigations of complaints against caregivers.

This issue was discussed at the March 3, 2016 Subcommittee No. 3 hearing.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 3: L&C: State Citation Penalty Account and Long-Term Care Ombudsman

Budget Issue. Last year's budget included a one-time $1 million augmentation to the Long-Term Care (LTC) Ombudsman Program using funds from the State Health Facilities Citation Account. This account still maintains a $7 million fund balance.

Subcommittee Staff Comment and Recommendation—Augment Funding for LTC Ombudsman Program. It is recommended to augment the LTC Ombudsman Program with $1 million in ongoing funds from the State Health Facilities Citation Account. As previously discussed, it is reasonable to assume that the ombudsman program's presence and advocacy on behalf of skilled nursing facility (SNF) residents improves quality of life for these residents and improves a SNF's compliance with state and federal laws.

Issue 4: Women, Infants, and Children Program

Budget Issue. The budget requests the following:

a. **Increase Enrollment of Children.** Four permanent positions and $513,000 in federal fund expenditure authority to WIC Division's outreach activities and improve data-sharing with the California Department of Social Services' (CDSS) CalFresh Program to increase child enrollment in both programs.

b. **eWIC.** To redirect three permanent positions to the Office of Systems Integration (OSI) and increase federal fund expenditure authority by $5.78 million for fiscal year 2016-17 to replace WIC paper checks with an electronic debit card, and replace the current WIC Management Information System (WIC MIS) with a United States Department of Agriculture (USDA) approved, Electronic Benefits Transfer (EBT)-ready Management Information System (MIS). The total request for the project is $39 million ($7.9 million for EBT and $31.1 million for the MIS) over five years. (This issue was also discussed at the March 3, 2016 Subcommittee No. 3 hearing under the Office of Systems Integration.)

This issue was discussed at the May 5, 2016 Subcommittee No. 3 hearing.

May Revision. The May Revision also reflects updated expenditures of $1.075 billion for WIC, an approximately $18 million reduction from the Governor's budget, to reflect updated caseload and food expenditure projections. (DOF Issue 435-MR)

Subcommittee Staff Comment and Recommendation—Approve.

Issue 5: Office of AIDS – Advocate Proposals

Issue. The California HIV Alliance requests:

a. To eliminate cost-sharing for individuals enrolled in the AIDS Drug Assistance Program with annual incomes between 400 percent and 500 percent of the Federal Poverty Level. DPH estimates that 112 ADAP clients paid an ADAP share of cost

(SOC). By eliminating the ADAP SOC obligation for these 112 ADAP SOC clients, ADAP would have saved $67,705 in calendar year 2015.

b. To develop a Pre-Exposure Prophylaxis (PrEP) Affordability Program affordability program to cover PrEP-related copays, coinsurance, and deductibles incurred by all individuals accessing PrEP in California with annual incomes below 500 percent of the federal poverty level. The cost of this program would be capped at $1 million from the Ryan White Supplemental Drug Rebate Fund.

c. That the Office of AIDS' Health Insurance Premium Payment (OA-HIPP) Program cover premiums, copays, coinsurance, and deductibles incurred by all eligible people living with HIV/AIDS in California. DPH estimates that 5,966 private insurance ADAP clients did not receive premium payment assistance from OA-HIPP Program. Consequently, this proposal would result in expenditures of $8.6 million in 2016-17 (based on calendar year 2015 data).

Subcommittee Staff Comment and Recommendation—Approve and Adopt Placeholder Trailer Bill Language. It is recommended to approve these proposals and adopt placeholder trailer bill language to implement these changes.

Issue 6: Protecting Children from the Effects of Lead Exposure – May Revision Adjustment

Budget Issue. DPH requests an increase of $8.2 million annually ($1.4 million in state operations and $6.8 million in local assistance) for four years from the Childhood Lead Poisoning Prevention Special Fund and to establish seven positions to extend services to children who have been exposed to lead as now defined by a lower blood lead level by the Centers for Disease Control and Prevention (CDC). The Subcommittee approved this proposal on May 5, 2016.

The May Revision requests to amend this request by augmenting the request by $180,000 in 2016-17 and $320,000 in 2017-18 to add Geographical Information System (GIS) functionality to the Response and Surveillance System for Childhood Lead Exposure. This GIS capability will provide the Department of Public Health (Public Health) with more timely and accurate data regarding childhood lead contamination. (DOF Issue 421-MR)

Subcommittee Staff Recommendation—Approve May Revision Adjustment.

Issue 7: May Revision Technical Adjustments

The following technical adjustments are requested in the May Revision:

1. **Ebola Emergency Preparedness: Federal Funding Technical Correction (Issue 401-MR).** It is requested that Item 4265-001-0890 be increased by $3,860,000 and Item 4265-111-0890 be increased by $11,340,000 to correct federal funding spending levels. These funds were inadvertently reduced during the development of the 2016-17 Governor's Budget. The funding reflects 2015 federal grant award amounts received by Public Health related to the health preparedness planning and operational readiness efforts to respond to the threat of the Ebola virus.

2. **Lease Revenue Bond Adjustments (Issue 403-MR).** It is requested that Items 4265-003-0070, 4265-003-0098, and 4265-003-3098 be decreased by $1,000; Item 4265-003-0080 be decreased by $3,000; and Item 4265-003-0203 be decreased by $5,000 to amend amounts incorrectly reflected in the 2016-17 Governor's Budget.
3. **Lease Revenue Bond Adjustments for General Fund (Issues 407-MR and 408-MR).** It is requested that Item 4265-003-0001 and reimbursements be decreased by $976,000 to correct amounts reflected in the 2016-17 Governor's Budget.
4. **Proposition 99 Adjustment: Health Education Account (Issue 411-MR).** It is requested that Item 4265-001-0231 be increased by $2,060,000 and Item 4265-111-0231 be increased by $40,000, to reflect a projected increase in Proposition 99 revenues. These increases will be used for additional Proposition 99 related media campaign expenditures, competitive grants, and program evaluation activities.
5. **Proposition 99 Adjustment: Research Account (Issue 411-MR).** It is requested that Item 4265-001-0234 be increased by $226,000, to reflect a projected increase in Proposition 99 revenues. Funds will be used for external research contracts.
6. **Proposition 99 Adjustment: Unallocated Account (Issue 411-MR).** It is requested that Item 4265-001-0236 be increased by $119,000 to reflect a projected increase in Proposition 99 revenues. The funds will be used for the California Health Interview Survey and external contracts.
7. **May Revision 2016 Estimate: AIDS Drug Assistance Program (ADAP) (Issue 431-MR).** It is requested that Item 4265-111-0890 be increased by $32,921,000 and the ADAP Rebate Fund be decreased by $39,206,000. These adjustments reflect: ADAP clients continuing to transition from ADAP to Medi-Cal, clients enrolling directly in Medi-Cal, a delay in the implementation of providing payment of out-of-pocket medical expense services from spring 2016 to July 1, 2016, and the federal Health Resources and Services Administration requirement to spend mandatory rebate funds prior to federal funds.

Subcommittee Staff Recommendation—Approve.

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

The following issues were discussed at the April 7, 2016 Subcommittee No. 3 hearing.

Issue 1: Porterville Developmental Center – Upgrade Fire Alarm System

Budget Issue. The budget requests $6.5 million General Fund for the construction phase of a project to purchase and install a new fire alarm system (FAS) in 10 buildings (nine consumer utilized and one administrative building) at the Porterville Developmental Center in Tulare County.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 2: Fiscal and Program Research Unit

Budget Issue. DDS requests $923,000 ($630,000 General Fund) for seven new permanent positions and the redirection of one vacant position to establish a Fiscal and Program Research Unit. This unit will provide fiscal and programmatic analyses to assist the department's response to external requests for data and information related to the regional center and developmental center programs, as well as inform accurate, reliable, data-driven decisions.

Subcommittee Staff Recommendation—Approve and Adopt Placeholder Trailer Bill Language. It is recommended to approve this proposal. Also, given the Subcommittee discussion on improving transparency and oversight of the community-based developmental services system, it is also recommended:

1. To adopt placeholder trailer bill language to:
   a. Require DDS to annually report and post on its website supplemental budget information. This information would be reported by February 1 and includes:
      i. Budget estimates for each developmental center, including a break out of funding for Porterville Developmental Center's general treatment area and secured treatment area
      ii. For each regional center: Current year estimates for operations funding, purchase of service (POS) funding, caseload, per capita for operations, per capita for POS
      iii. By regional center, information on staff (number of various classifications, e.g., number of case managers)
      iv. For Community Placement Program (CPP) funding: For each regional center, past year and current year information by component of CPP.

   b. Specify analysis and deliverables for the new research unit. These would include an:
      i. Assessment of disparities data reported by regional centers.
      ii. Assessment of caseload ratio requirements by regional center.
      iii. Assessment of performance dashboard (see below) data as it becomes available.

   c. Establish a performance dashboard, require DDS to work with stakeholders on the development of this dashboard, and require this dashboard to be published annually. Metrics included in this dashboard would include, but not be limited to:
      i. Recognized quality and access measures
      ii. Measures to indicate compliance with and movement toward compliance with new federal Home and Community Based Services waiver rules
      iii. Measures to evaluate the changes in the number of consumers who work in competitive integrated employment
      iv. Consumer complaints, timeliness of responses to complaints, number of administrative hearings

2. Augment DDS state operations budget by $300,000 General Fund (available over three years) for contracting services to assist in the development of this performance dashboard.

Issue 3: Four-bed Alternative Residential Model Homes

Budget Issue. The budget includes:

1. $46 million ($26 million General Fund) to help transition and establish smaller alternative residential model (ARM) four-bed homes for regional center consumers living outside their family. Originally, this model was based on six-bed homes.

2. Provisional budget bill language requiring regional centers to report annually to the department the number of facilities receiving these rates.

3. Trailer bill language to establish a rate schedule for residential community care facilities vendored to provide services to a maximum of four persons with developmental disabilities. This trailer bill language also prohibits regional centers from authorizing any residential service-level changes, if the change would increase state costs.

DDS indicates that there are 4,233 ARM community care facilities (CCFs), serving 21,118 consumers. Of these, 1,618 operate four beds or less and would be eligible for this funding.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 4: Consumer Program Coordinators Funding

Budget Issue. The budget includes $17 million ($12 million General Fund) to fund additional regional center (RC) consumer program coordinator positions to reduce caseload ratios and improve case management functions. Regional center case management services are eligible for federal funding participation for consumers enrolled under the Home and Community-Based (HCBS) waiver. It is estimated that this proposed funding would support the addition of about 200 coordinator positions, about one-third of what is estimated to meet federal caseload ratio requirements.

The budget also includes provisional budget bill language requiring regional centers to report annually to the department the number of staff hired with these additional funds and the effectiveness of these funds in reducing average caseload ratios.

Subcommittee Staff Comment and Recommendation—Modify. It is recommended to approve the funding and to modify the budget bill language to require regional centers not only report the number of staff hired with the additional funds and the effectiveness of these funds in reducing average caseload ratios, but also information justifying why a regional center, if it chooses, uses this funding for non-HCBS coordinators.

Issue 5: Increased Vendor Audit Coverage

Budget Issue. DDS requests $952,000 ($650,000 General Fund) to permanently establish and retain the funding for seven full-time positions previously established as limited-term for the Vendor Audit

Section. According to DDS, retaining these positions will enable the department to continue audit coverage and oversight of the more than $4.6 billion in vendor payments that are disbursed each fiscal year within the developmental services system.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 6: Repeal Prevention Resources and Referral Services Program Statute

Budget Issue. The Governor proposes trailer bill language to repeal obsolete authority for the Prevention Resources and Referral Services (PRRS) program as eligibility for the Early Start program was restored in effective January 1, 2015.

Subcommittee Staff Comment and Recommendation—Adopt Administration's proposed placeholder trailer bill language.

Issue 7: Standards Authorizing Medical Services by Regional Centers

Issue. The Lanterman Act currently requires regional centers to use generic services when available. Medical and dental services covered by generic resources, such as Medi-Cal, health plan(s) or private insurance, cannot be purchased by regional centers for consumers enrolled in these insurance plans without proof of denial from the insurance provider and the regional center determines that an appeal by the consumer or family of the denial does not have merit. Regional centers may pay for medical or dental services pending a final administrative decision on the appeal if the family provides verification that an appeal is being pursued.

This policy was implemented in the 2009-10 budget in order to achieve General Fund savings and address the state's budget crisis. At the time, it was estimated that $18.4 million ($17 million General Fund) would be saved through this policy as consumers would use generic services. Estimates and methodology to evaluate if these cost savings were realized are not available.

Subcommittee Staff Comment and Recommendation—Adopt Placeholder Trailer Bill Language. It is recommended to adopt placeholder trailer bill language to eliminate the requirement to pursue a Medi-Cal appeal. The costs to implement this change are negligible, as the savings estimated in 2009-10 were a result of requiring consumers to use generic services.

Issue 8: May Revision Technical Adjustments

The following technical adjustments are requested in the May Revision:

1. **Office of Protective Services Record Management System (Issues 402-MR and 502-MR).** It is requested that General Fund be decreased by $249,000 and reimbursements be decreased by $158,000 to eliminate the augmentation requested in the Governor's budget to purchase a record management system for the Office of Protective Services. DDS will absorb the purchase of this database software within its fiscal year 2015-16 resources.
2. **Developmental Center Audit Findings (Issue 406-MR).** It is requested that Item General Fund be decreased by $3,800,000 to eliminate the augmentation requested in the Governor's

budget for audit repayments to the federal Centers for Medicare and Medicaid Services (CMS) for 2011-12. The overall amount owed to CMS has decreased as a result of audit appeals and sufficient authority is available in the current year to make payments for amounts owed from 2008-09 through 2011-12.

3. **Caseload Adjustments (Issues 404-MR, 407-MR, 503-MR and 507-MR).** It is requested that General Fund be decreased by $1,485,000 and reimbursements be increased by $2,994,000. These changes reflect updated expenditures in caseload-driven operations and purchase of services costs.
4. **Fair Labor Standards Act Implementation (Issues 408-MR and 508-MR).** It is requested that General Fund be decreased by $19,266,000 and reimbursements be decreased by $16,463,000 to reflect the updated expenditure data used to estimate the impact of changes to the federal Fair Labor Standards Act.
5. **Behavioral Health Treatment (BHT).** It is requested that the General Fund be adjusted as follows:
    a. Increased by $352,000 and reimbursements increased by $352,000 to reflect the updated estimates of children receiving BHT services (Issues 409-MR and 509-MR).
    b. Decreased by $69,720,000 and reimbursements decreased by $71,497,000 to reflect reduced costs for regional centers as consumers transition to Medi-Cal managed care plans for BHT services (Issues 410-MR and 510-MR).
    c. Decreased by $6,085,000 and reimbursements increased by $12,171,000 to reflect costs for regional centers as consumers transition to Medi-Cal fee-for-service for BHT services (Issues 416-MR and 516-MR).

    The Department of Health Care Services (DHCS) will reimburse DDS for BHT services for approximately 1,300 consumers that have transitioned to Medi-Cal fee-for-service. Additionally, a technical amendment to budget bill provisional language is requested to permit the transfer of funds between DDS and DHCS to provide flexibility during the transition.
6. **AB 1522 (Gonzalez), Chapter 317, Statutes of 2014: Paid Sick Leave (Issues 411-MR, and 511-MR).** It is requested that General Fund be decreased by $3,571,000 and reimbursements be decreased by $2,746,000 to reflect updated expenditure data for costs associated with AB 1522, which requires employers to provide up to three sick leave days per year.
7. **SB 3 (Leno), Chapter 4, Statutes of 2016: Minimum Wage Increase (Issues 415-MR and 515-MR).** It is requested that General Fund be increased by $12,001,000 and reimbursements be increased by $9,244,000 to provide funding for the minimum wage increase beginning January 1, 2017 to $10.50 per hour. SB 3 provides for a series of scheduled increases to the state's minimum wage such that, depending on economic and budgetary conditions, the minimum wage would reach $15.00 per hour by January 1, 2022, after which it would be indexed to inflation.
8. **Technical Adjustment: Home and Community-Based Services, New Regulations Workload (Issues 417-MR and 517-MR).** It is requested that $1.6 million be transferred from the purchase of services program to the operations program. This correctly reflects the schedule of funding proposed at Governor's budget for new positions at regional centers to oversee the Home and Community-Based Services waiver implementation in the operations program.

Subcommittee Staff Comment and Recommendation—Approve. It is recommended to approve the above adjustments, with any changes to conform as appropriate to other actions that have been, or will be, taken.

Issue 9: Home and Community-Based Services (HCBS) Federal Requirements

Budget Issue. DDS requests the following to comply with new federal Home and Community-Based Services regulations:

1. Headquarters - $483,000 ($330,000 General Fund) and four positions to support the immediate workload associated with the state's transition plan and direct regional center and service provider efforts to comply with the Centers for Medicare and Medicaid Services' (CMS) new regulations for Medicaid-eligible home and community-based settings. The new, comprehensive regulations create additional workload for planning, training, assessing, and reporting activities to demonstrate compliance by March 2019 in order for the state to maintain the current level of $1.7 billion annually in federal financial participation reimbursements for purchase of services (POS) expenditures.

2. Regional Center Operations - $1.6 million ($0.9 million General Fund) to fund 21 program evaluator positions within the regional centers to ensure HCBS program settings are integrated into the community.

3. Purchase of Services (POS) - $15 million ($11 million General Fund) to fund modifications to some service providers' programs that will be necessary for compliance with HCBS regulations.

4. Budget Bill Language – Provisional budget bill language requiring regional centers to report annually to the department the number of providers receiving these funds.

5. Trailer Bill Language – Trailer bill language expressing the Legislature's intent to enact Legislation to implement changes necessary to comply with the HCBS regulations. The proposed language is:

> It is the intent of the Legislature to enact legislation that would authorize the State Department of Developmental Services to timely implement changes necessary to comply with the federal Medicaid home- and community-based settings requirements established pursuant to the Centers for Medicare and Medicaid Services' (CMS) final rules…, effective March 17, 2014, to maintain or increase federal funding pending the issuance of regulations.

Subcommittee Staff Recommendation—Approve Funding Proposals, Adopt Placeholder Budget Bill Language, Reject Proposed Placeholder Trailer Bill Language. It is recommended to approve all items listed above except the proposed trailer bill language as it only expresses the Legislature's intent to enact legislation, it is recommended to reject this language.

4560 MENTAL HEALTH SERVICES OVERSIGHT AND ACCOUNTABILITY COMMISSION

The following issues were discussed at the April 21, 2016 Subcommittee No. 3 hearing.

Issue 1: Investment in Mental Health Wellness Act of 2013 – Triage Personnel Grants

Budget Issue. The commission requests reappropriation of $3.8 million in funds from 2013-14 ($2.2 million), 2014-15 ($939,276), and 2015-16 ($585,214), to support triage personnel grants until 2017-18, allowing counties to spend the Triage Grant funding until the end of the current grant cycle.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 2: Innovation Plan Reviews

Budget Issue. The OAC requests three permanent, full-time positions, for $396,000 from the Mental Health Services Fund (MHSF), to support administration of regulatory authority to perform a review of innovation plans under AB 82 (Committee on Budget), Chapter 23, Statutes of 2013.

Subcommittee Staff Comment and Recommendation—Approve.

Issue 3: Advocacy Contracts

Budget Issue. Through a Spring Finance Letter, the OAC requests $200,000 Mental Health Services Fund (MHSF) ongoing funds beginning in 2016-17 to support mental health advocacy for lesbian, gay, bisexual, transgender, questioning (LGBT) populations, and $1 million MHSF ongoing to support advocacy contracts for youth, veterans, and racial and ethnic minorities.

Subcommittee Staff Comment and Recommendation—Modify. As discussed at the April 21, 2016 Subcommittee hearing, it has been requested that all consumer advocacy contracts be supported at the same level. Consequently, it is recommended to augment this request by $1.536 million MHSA State Administration funds. (With this action, all consumer advocacy contracts will be funded at approximately $670,000.)

Issue 4: Reappropriation of Mental Health Services Fund

Budget Issue. Through a Spring Finance Letter, the OAC requests a reappropriation of $2.5 million Mental Health Services Fund (MHSF) from 2015-16 to continue support of the Evaluation Master Plan and $315,000 MHSF from 2013-14 to permit the completion of consensus guidelines and best practices for involuntary commitment care and provide applicable training. In addition, the Administration proposes amending the budget bill, as specified below:

> "4560-491—Reappropriation, Mental Health Services Oversight and Accountability Commission. The balances of the appropriations

provided in the following citations are reappropriated for the purposes provided for in those appropriations and shall be available for encumbrance or expenditure until June 30, 2018:
3085—Mental Health Services Fund
(1) Item 4560-001-3085, Budget Act of 2013 (Chs. 20 and 354, Stats. 2013), as reappropriated by Item 4560-491, Budget Act of 2014 (Ch. 25, Stats. 2014)
(2) Item 4560-001-3085, Budget Act of 2014 (Ch. 25, Stats. 2014)
(3) Item 4560-001-3085, Budget Act of 2015 (Ch. 10, Stats. 2015)
~~Provisions:~~
~~1. T~~
~~he funds reappropriated in this item are available to continue funding triage personnel grants approved by the Mental Health Services Oversight and Accountability Commission.~~"

Subcommittee Staff Comment and Recommendation—Approve.

0877 CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
4560 MENTAL HEALTH SERVICES OVERSIGHT AND ACCOUNTABILITY COMMISSION

Issue 1: Children's Crisis Services Capacity Development Grant Program

Issue. As discussed at the April 21, 2016 Subcommittee No. 3 hearing, reports have called to attention a continuing problem of inappropriate and unnecessary utilization of hospital emergency rooms in California due to limited mental health services for individuals, children in particular, in psychological distress and acute psychiatric crisis. Nearly 40,000 California children ages 5-19 (or five of every 1,000) were hospitalized for mental health issues in 2014.

According to a draft Mental Health Services Oversight and Accountability Commission (OAC) report, "no county has successfully built out the full continuum of services required to fully meet the needs of children and families in crisis." The OAC has issued draft recommendations to "support the continued buildout" of a comprehensive continuum of crisis services and ensure access for all children and youth.

The continuum of children's crisis services includes:

- Crisis Residential – Crisis residential programs are a community-based treatment option in home-like settings that offer safe, trauma informed alternatives to psychiatric emergency units or other locked facilities.
- Crisis Stabilization – Crisis stabilization services are those lasting less than 24 hours for individuals who are in psychiatric crisis. The goal of crisis stabilization is to avoid the need for inpatient services. These services must be provided on a site at licensed 24-hour health care facility.
- Mobile Crisis Support Teams – Mobile crisis support teams can provide crisis intervention and family support.
- Family Support Services – Family support services help families participate in the planning process, access services, and navigate programs.

May Revision. The May Revision projects $26.4 million in available Mental Health Services Act (MHSA) state administration funding available. This reflects a reduction due to a declining MHSA revenue projection and minor adjustments related to Spring Finance Letters.

Subcommittee Staff Comment and Recommendations. It is recommended to adopt placeholder trailer bill language to establish a one-time grant program for the development of children's crisis services capacity. It is also recommended to allocate $18 million from the MHSA state administrative funding for this purpose to the OAC and the California Health Facilities Financing Authority (CHFFA).

Additionally, CHFFA anticipates that approximately $6 million General Fund related to the SB 82 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2013 will go unspent. It is recommended to reappropriate these funds to CHFFA for grants to develop children's crisis services capacity.

ITEMS FOR DISCUSSION

0530 CALIFORNIA OFFICE OF HEALTH INFORMATION INTEGRITY (CALOHII)

Issue 1: Use, Disclosure, and Protection of Specially Protected Health Information

Budget Issue. The May Revision proposes $800,000 in spending authority for subject matter expert consultants on a one-year limited-term basis to develop non-mandatory guidance to non-state organization, local governments, providers, health information exchange (HIE) entities, and other stakeholders on compliance with federal and state laws, pertaining to the use, disclosure, and protection of specially protected health information including mental health, substance abuse, HIV/AIDS, and behavioral health. This guidance will facilitate the exchange of sensitive information and better inform conversations about care coordination and data sharing both within and outside of government.

Budget bill language is also requested for this proposal. The funding is being provided by the California HealthCare Foundation.

Background. While CalOHII has developed guidance for state departments around the use and exchange of sensitive health information, the state has not produced guidance for non-state organizations, local governments, providers, health information exchange (HIE) entities, and other stakeholders. There are unclear areas in state law surrounding sensitive health information due to inconsistent language, outdated laws adopted before current technologies existed, lack of case law, high liability, lack of regulation, and no formalized policy or guidance from the state clearly explaining how the state interprets its laws. These non-state entities need guidance that clarifies state policy on sensitive health information to eliminate confusion and perceived barriers that serve as obstacles to exchanging this type of information. Most types of health information can be exchanged between providers for treatment purposes without consent from the patient. There are greater consent restrictions for substance abuse and other sensitive categories of information. State guidance synthesizing all the federal and state requirements with a unified interpretation of those laws and patient protections around sensitive health information will aid in the exchange of this information.

Subcommittee Staff Recommendation—Approve and Adopt Placeholder Budget Bill Language.

Questions.

1. Please provide an overview of this request.

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

Issue 1: Sonoma Developmental Center – Decertification of ICF/IDD

Issue. On May 13, 2016, the federal Centers for Medicare and Medicaid Services (CMS) provided notice to the state of its determination that the state "failed to substantially comply with the Settlement Agreement" for the Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID) at the Sonoma Developmental Center (SDC). Consequently, federal financial participation (FFP), of approximately $26.4 million in 2016-17, for these units will be discontinued effective July 1, 2016.

CMS notes that the state failed to substantially meet the standards specified in the "Conditions of Participation" and references the finding of deficiencies that posed immediate jeopardy to the health and safety of SDC clients.

DDS indicates that there are approximately 136 residents in the ICF/IDD and that it has identified a provider and begun transition activities for 36 of these residents.

Subcommittee Staff Comment and Recommendation—Adopt Placeholder Trailer Bill and Budget Bill Language. Assurances had been provided to stakeholders and the Legislature that the state had been meeting the conditions of the settlement agreement and ensuring the safety and wellbeing of the SDC residents. This recent development is alarming and puts in doubt the department's oversight of the DCs and highlights the importance of a timely closure of the developmental centers. Additionally, given the timing of this notification, the loss of FFP in the budget year has not been accounted for by the Administration in the 2016-17 budget.

It is recommended to adopt (1) placeholder trailer bill language requiring DSS to report the monthly General Fund backfill costs as a result of the loss of FFP, since this General Fund backfill should go down as SDC residents transition into the community and (2) provisional budget bill language prohibiting the use of the General Fund backfill (as a result of the loss of FFP) for any other purposes.

Questions.

1. Please provide an update on this issue.

2. Please describe steps DDS has taken to ensure the health and safety of individuals at SDC since the February 2016 survey?

3. Does DDS expect this recent notification to impact settlement agreements related to the Fairview Developmental Center and Porterville Developmental Center, which expire on June 3, 2016?

4. Is DDS prioritizing the identification of providers/placements for the 100 ICF/IDD residents that still do not have an identified provider?

Issue 2: Developmental Centers Closures

Budget Issue. The May Revision proposes the following related to the proposed closures of the developmental centers:

1. **Independent Monitoring Contract for Fairview and Porterville Developmental Centers (Issues 401-MR and 501-MR).** It is requested that Item 4300-003-0001 be increased by $1,164,000 and reimbursements be increased by $736,000 to fund an independent monitoring contract as part of the anticipated settlement agreements with the federal Centers for Medicare and Medicaid Services (CMS) for Fairview Developmental Center and the General Treatment Area of Porterville Developmental Center. Independent monitoring is required by the settlement agreement currently in place for Sonoma Developmental Center and the Department of Developmental Disabilities (DDS) expects a similar requirement for Fairview and Porterville**.**

2. **Exemption from Public Contract Code to Become a Regional Center Vendor.** Trailer bill language (TBL) is requested to allow developmental center employees working at facilities slated for closure to become service providers prior to termination of their state employment. Currently, state employment must be terminated prior to becoming a vendor, resulting in a loss of income during the start-up period, which can take up to one year. The goal of this proposal is to encourage well-trained and experienced developmental center employees to become community providers and assist with continuity of care for consumers transitioning out of developmental centers.

3. **Special Managed Care Provisions for Developmental Center Closures**. TBL is requested to extend managed care provisions for Medi-Cal eligible individuals at the developmental centers that transition to the community and need coordinated medical and specialty care as documented in their individual program plan. The provisions of existing law were originally enacted during the Agnews and Lanterman Developmental Center closures. These specified managed care provisions include access to specialized medical care, enhanced case management, and expedited enrollment services.

4. **Provisional Language: Retention Stipends for Developmental Center Staff (Issue 418-MR).** It is requested that provisional budget bill language be added to Item 4300-003-0001 to authorize an extended encumbrance period for the payment of retention stipends available to developmental center employees during the closure process. Under Item 9800 in the state budget (as CalHR will negotiate this with the union), the May Revise provides $18.1 million ($14.3 million General Fund for retention incentives for DDS DC "rank and file" employees and $2 million ($1.6 million General Fund) for "excluded classification" employees at Sonoma, Fairview, and Porterville. As part of this funding, beginning July 1, 2016, new and current employees at Sonoma, Fairview, and Porterville will be eligible to accrue a quarterly retention stipend. For each full quarter worked during 2016-16, employees will accrue $250 per full quarter worked. Beginning July 1, 2017, each employee will accrue $500 per full quarter worked. The maximum accrual per employee is $6,000. Employees would forfeit amounts accrued if they separate from DDS prior to these milestones. This is a one-time

retention incentive for DDS employees that remain working at facilities that are slated for closure until December 2017, or until resident population levels decrease to 50 percent of current levels. Provisional language is included to clarify that these funds would be available for encumbrance until June 30, 2021 and available for liquidation until December 31, 2021. DDS would also be required to report annually on the number of employees receiving payments and the amount of payments made from this appropriation. It should be noted that these figures are subject to negotiation, are spread over multiple budget years (through 2021), and could change depending on the impact of the Sonoma DC decertification.

The May Revision continues to assume that in the current year 202 consumers would transition out of developmental centers. As of March 2016, only 109 consumers had transitioned. DDS indicates that it projects that 150 individuals would transition by June 30, 2016. The budget projects that 240 residents will transition from developmental centers to community based services in 2016-17.

The January budget included the following proposals related to the closure of the developmental centers:

1. **Headquarters Resources for Developmental Center Closures.** DDS requests $2.1 million ($1.8 million General Fund), eight new positions, and the redirection of five vacant positions for staffing and contract resources needed to support the continued efforts for the closure of the Sonoma Developmental Center and the initial closure efforts for the Fairview Developmental Center and the Porterville Developmental Center -General Treatment Area (GTA).

2. **Development of Community Resources.** The budget includes $146.6 million ($127.2 million General Fund) to assist in the development of community resources for placement of current developmental center residents. This includes $24.5 million for Sonoma Developmental Center, $29.7 million for Fairview Developmental Center, and $24.6 million for Porterville Developmental Center.

3. **Closure Activities.** The budget includes $18 million ($12 million General Fund) to resolve open workers' compensation claims, inventory and archive clinical and historical records, execute an independent monitoring contract as stipulated by the federal government, and relocate residents and their personal belongs.

4. **Developmental Center Staffing Adjustments.** The budget includes an $8.8 million ($4.9 million General Fund) decrease and a total reduction of 129.2 positions (63.1 level-of-care and 66.1 non-level of care) based on an estimated population decline of 188 developmental center residents transitioning into the community. This reduction reflects adjustments to staffing for specialized support and closure activities.

5. **Assessment of Sonoma DC Property.** Through an April Spring Finance Letter, the Administration requests $2.2 million General Fund to contract with the Department of General Services for an assessment of the Sonoma DC property, buildings, and clinical records. These funds would be used to complete the second and third phase of an environmental site assessment and architectural historical evaluation of Sonoma DC. DDS proposes to use current year funds of $190,000 to complete the first phase initial site assessments. According to the

Administration, these assessments will help determine: (1) the property value, (2) restrictions on land use, and (3) the potential cost of future investments on the property.

Background. In response to SB 82 (Committee on Budget and Fiscal Review), Chapter 23, Statutes of 2015, which required the department to submit a plan or plans to close one or more developmental center(s) to the Legislature by October 1, 2015, the department submitted a plan to close Sonoma by December 31, 2018. On April 1, 2016, DDS submitted to the Legislature a plan for the closure of the Fairview Developmental Center (Fairview) and the Porterville Developmental Center – General Treatment Area (Porterville GTA) by the end of December 2021.

The 2015-16 budget includes funds for the initial development of community residential and non-residential resources to serve residents of Sonoma, as well as regional center and headquarters funding to support the activities related to the safe closure of Sonoma by the end of 2018. More specifically, the 2015-16 budget provides $49.3 million ($46.9 million General Fund) for additional Community Placement Plan (CPP) funding to begin developing community resources to support the transition of Sonoma DC residents, as well as to contract with an independent risk management company to conduct data analysis, training, and technical assistance in mitigating consumer risks.

The budget includes $146.6 million ($127.2 million General Fund) to assist in the development of community resources for placement of current developmental center residents. This includes $24.5 million for Sonoma Developmental Center, $29.7 million for Fairview Developmental Center, and $24.6 million for Porterville Developmental Center.

Cal-Mortgage and California Health Facilities Financing Authority Loans. Concerns have been raised by stakeholders that it is difficult to secure financing to develop residential facilities. However, the state operates loan programs for these types of facilities. For example, the Cal-Mortgage Loan Insurance Program, operated by the Office of Statewide Health Planning and Development (OSHPD), provides credit enhancement for eligible health care facilities and facilities licensed by the Department of Social Services when they borrow money for capital needs. Cal-Mortgage insured loans are guaranteed by the "full faith and credit" of the State of California. This guarantee permits borrowers to obtain lower interest rates, similar to the rates received by the State of California. According to OSHPD, the program's total authorization to insure facility construction, improvement, and expansion loans is limited to a total of not more than $3 billion. Currently the program insures just over $1.7 billion

Additionally, the California Health Facilities Financing Authority (CHFFA) administers the Bond Financing Program and the Tax-Exempt Equipment Financing Program. CHFFA also provides direct loans to small and rural health facilities through the Healthcare Expansion Loan Program (HELP) II Financing Program and the Medi-Cal Bridge Loan Program. By borrowing through CHFFA, health facilities can likely obtain lower interest rates than they would through conventional bonds. Generally, nonprofit, licensed health facilities in California, including adult day health centers, community clinics, skilled nursing facilities, developmentally disabled centers, hospitals, community care facilities, and drug and alcohol rehabilitation centers are eligible for CHFFA financing. According to the Treasure, there is no limit on the total amount of bonds that CHFFA can issue.

CHFFA indicates that it has been in discussions with DDS on approaches to streamline this process for nonprofit entities working on residential capacity development for persons with developmental

disabilities. Currently, the HELP II program has a limit of a $1.5 million loan per borrower. CHFFA notes that it is exploring other limit options, such as a limit per facility location. CHFFA plans to have this item on its June board agenda, as an informational item, with possible actions occurring at the July meeting.

Subcommittee Staff Comment and Recommendation. The transition of SDC residents into the community is behind schedule, as discussed above only 109 of the projected 202 individuals have transition in the current year. Yet the department assures that sufficient progress is being made and that it is on track to meet the proposed closure schedule for SDC. It is not clear how this will be accomplished. Ongoing and robust monitoring of community resource development and resident transition planning will be critical to ensuring a successful and timely closure of these centers. Consequently, the following is recommended:

1. Approve, with the modifications noted below, the January budget and May Revision proposals discussed above and adopt placeholder trailer bill and budget bill language to implement these proposals. The following modifications are recommended:

    a. Modify the request for funding for an independent monitoring contract for Fairview and Porterville Developmental Centers by adding provisional budget bill language authorizing this expenditure only if CMS approves settlement agreements for these DCs through the budget year.

    b. Specify a timeline by which the transition plan regarding special managed care provisions related to individuals transitioning out the DCs, developed by DDS and the Department of Health Care Services, should be developed regarding the processes for individuals assigned to a Medi-Cal managed care plan which promote coordination of care during and following the transition, identification of providers prior to a transition occurring; and the continuation of medically necessary covered services.

2. Additionally, as part of the Legislature's approval of these DC closure plans, it is recommended to adopt the following placeholder trailer bill language to:

    a. Require the department to develop a plan to be submitted to the Legislature no later than January 10, 2017 regarding how the department will ensure access to crisis services post developmental closure and how the state will maintain its role in providing residential services to those whom private sector vendors cannot or will not serve. As part of this plan, the department should assess the option of expanding the Community State Staff Program to assign state staff to serve as regional crisis management teams to provide assessment, consultation and resolution for persons with DD in crisis in the community.

    b. Require that reports of injuries, death, restraint usage, and incidents of seclusion, for example, at community facilities be reported to the federally mandated protection and advocacy agency.

    c. Limit the use of seclusion and restraints in community facilities licensed by the Department of Social Services.

d. Require that crisis services and specialized health care/clinic services at these DCs through the transition process and until closure.

e. Require the closure of the DC upon the successful transition of all residents into the community.

f. Require regular public posting (on the department's website) of progress being made to develop residential capacity by regional center. Including information on monthly targets for movers based on transition activities and community resource development activities) by regional center. This monthly reporting would also include information on why targets are not met.

3. It is also recommended to augment DDS's budget by $5 million General Fund in the budget year and $10 million in future years for the Community State Staff Program. As has noted by multiple stakeholders, advocates, and DC resident family members, to ensure a successful transition of DC residents into the community, it is critical to retain the experience and expertise of the DC employees and the services they provide. It is recommended to adopt placeholder trailer bill language to implement this change.

Questions.

1. Please provide an overview of these May Revision proposals.

2. Is the department on track to close the Sonoma Developmental Center by December 31, 2018? What is at risk if the department and regional centers do not meet this deadline? Given the decertification of the ICF/IDD at SDC, should DDS prioritize the transition of ICF/IDD residents?

3. How is the department ensuring that regional centers are on track to developing residential capacity and are engaged in transition planning? Are there consequences for regional centers if they do not meet their targets and do not have a valid reason for the delays? Should there be?

4. How is DDS working with the California Health Facilities Financing Authority on options for long-term financing for residential facilities for the developmentally disabled?

Issue 3: Deferred Maintenance Projects

Budget Issue. Control Section 6.10 of the Governor's budget proposes that the Department of Finance (DOF) may allocate $500 million General Fund to various state departments to address a portion of deferred maintenance needs, including $18 million General Fund to DDS for the Porterville Developmental Center (PDC). DOF must provide their approve list of projects to be funded through the authority granted in this Control Section to the Joint Legislative Budget Committee (JLBC) 30 days prior to the allocation of these funds. Additionally, any change to the list must be approved by DOF, subject to a 30 day review by the JLBC.

On April 29, 2016, the Legislature was supplied with an initial list of projects proposed for funding pursuant to Control Section 6.10. The chart below lists the proposed projects and the Administration's rationale for why these projects should be funded.

Project	Estimated Cost	GTA, STA, or Both*?	If General Treatment or Both*, why should the state make this investment when the part of PDC is closing?	Health & Safety Issue?
P DC Boiler Replacement	$10,089,000	Both	The current boiler system is oversized, inefficient, and requires costly repairs to pipes and accessories. Investing in new boilers will maximize efficiency, lower pollution, and meet all emissions requirements. This project will have ongoing benefits through increased energy savings, reduced pollution, and operational efficiencies for the Secure Treatment Area that will remain open beyond the closure of the GTA.	Yes. The boilers operate all steam used for heating buildings, cooking, cleaning, and sanitizing. Failure in the boiler system would cause deficiencies in steam and hot water temperature used for sanitizing dishes and for resident showers/cleanliness, and also prevent proper heating of buildings. The current heat exchangers in the hot water tanks throughout the campus are single-walled exchangers that have the potential to contaminate the potable water system. Installing double-walled heat exchangers will reduce the risk of contamination.

Fiber Optic Panel, and Connective Wiring Project	$450,000	Both	The Central control System is part of the network infrastructure that supports the entire facility; the Fiber Optics panel and controls for the Fire Alarm System are in the Administration building which is not closing.	Yes, this is part of the network system that will support the fire alarm system.
Hazardous Material Removal/Disposal for Environmental Compliance	$30,000	GTA	Compliance with Hazmat removal and disposal regulations of approximately 800 neon exit signs that were removed and replaced, and will need to be resolved regardless of closure.	Yes. Retention of hazardous materials is a health risk to both clients and employees.
Road Repair for Service and Food Accessibility	$1,200,000	Both	This is the main access-road into the facility and roads to key delivery areas. They will be utilized throughout the area of campus that will remain open beyond the closure of the GTA.	Yes. The roads enable delivery of food, medical supplies, and medicine, as well as safe transportation of clients and staff.
Replace Privacy Windows (Secure Treatment Area)	$1,200,000	STP		Yes. The privacy glass is designed to regulate building temperature and provide client privacy.
Building Duct Cleaning: All Resident Units and Administration Building	$600,000	Both	This project is needed to maintain compliance with licensing requirements to address current air quality in residences and will be needed while the GTA is still open--including the nursing areas where some individuals with more significant respiratory issues reside.	Yes. This project ensures clean air in the living areas, which lessens respiratory illnesses.
Replace Wireless Keycard (Secure Treatment Area)	$1,200,000	STP		Yes. The project is designed to provide higher security for the clients and safety for staff.

Upgrade Electrical - Camp Vandalia and Well Field	$850,000	Both	This area is part of the infrastructure that supports the entire facility as well as the filtration systems for the water wells. The electrical system and wells will need to be maintained as long as the facility is open.	Yes. Potable drinking water and consistent availability of electricity is necessary for the ongoing safety and security of clients and staff.
Replace Roof (Residences 13-14)	$650,000	STP		Yes. Damage to the roof exposes the buildings to leaks and poor temperatures.
Replace Rain Gutters	$180,000	Both	Maintenance of the gutters prevents water damage to the buildings, including the foundations and roofing systems. These buildings will continue to be used beyond closure.	Yes. Damage to the building is a safety risk to clients resulting from falls, building damage, or mold growth.
Landscape Restoration (Woodchip project)	$20,000	GTA	This project relates to B-18-12 water reduction due to California drought and is ongoing deferred maintenance of the facility while the GTA is open.	Yes, prevents injury/property damage risk from falling tree branches.
Upgrade Exterior and Interior Lighting	$250,000	STP		Yes. Adequate lighting reduces the risk of trips and falls.
Day Training Activity Center - Classroom Upgrades	$1,506,000	STP		No.
Total	**$18,225,000**			

* Both--includes areas and buildings in the non-secure area that will continue to be used for Administration and facility operations even after the GTA closure. GTA: General Treatment Area; STA: Secured Treatment Area.

The boiler replacement/retrofit project at Porterville was previously proposed at an estimated cost of $5.4 million. According to DDS, this was an estimate that was prepared several years ago, and was based on a boiler project that envisioned that the internal steam and condensate distribution system could continue to be utilized in its existing condition. A detailed study of the project conducted by an outside consultant, and managed by DGS, concluded that in order for the new boilers to be effective,

much of the internal system would need to be either repaired or replaced. Deficiencies identified in the current system, which is over 60 years old, include the following:

- Significant leakage in the mechanical systems – in joints, flanges, and valves.
- Because of the leakage, the asbestos containing thermal wrap on the steam pipes is starting to deteriorate and crumble.
- Many pipes are completely exposed, with no thermal wrap in place.
- Over 60 percent of the steam traps are defective and are releasing significant amounts of steam.

Based on these deficiencies and the recommended solution, DGS prepared an estimate for the project that included $7.2 million in construction costs, with another $2.8 million for other project costs, including architectural and engineering services, construction inspection, state fire marshal review, project management, materials testing, and special consultants related to asbestos removal. Total project costs are now estimated at $10 million. Additionally, the updated cost estimate is also affected by the need to update seven mechanical rooms at a cost of $1.5 million and an increase cost of approximately $1 million for DGS architectural and engineering fees.

Legislative Analyst's Office (LAO). The LAO notes that the Legislature has expressed concerns with this proposal in the past, particularly given the slated closure of the general treatment area at Porterville. Accordingly, the LAO recommends DDS to further justify the need to fund this proposal at this time, particularly in light of the General Fund deficiency created by the loss of federal funding at Sonoma DC mentioned above. Specifically, we recommend DDS further justify the increased costs, explain the health and safety considerations, and explain exactly how this proposal takes closure of the general treatment area into account.

Subcommittee Staff Recommendation—Modify. It is recommended to reject the proposal to replace the PDC boiler in order to continue discussions on this topic. It is recommended to approve all other projects.

Questions.

1. Please provide an overview of this request.

Issue 4: Special Session Resources and Technical Clean-up Trailer Bill Language

Budget Issue. The May Revision requests the following to implement the provisions of AB 1 X2 (Thurmond), Chapter 3, Statutes of 2016:

1. **Headquarters Resources (Issues 400-MR and 500-MR).** It is requested that Item 4300-001-0001 be increased by $513,000 and five positions, and reimbursements be increased by $239,000, to provide state-level oversight of recent augmentations to community-based services, develop guidelines to implement the Competitive Integrated Employment program, and provide additional support and oversight of the provider rate study required by AB 1 X2.

2. **Administrative and Community-Based Resources (Issues 412-MR, 413-MR, 414-MR, 512-MR, 513-MR and 514-MR).** It is requested that Item 4300-101-0001 be increased by $6,063,000 and reimbursements be increased by $1,441,000 to provide funding for a provider rate study and 42 positions at regional centers to oversee the implementation of programs to reduce cultural disparities and provide competitive integrated employment opportunities for individuals with developmental disabilities. Effective July 1, 2016, AB 1 X2 appropriated $287 million General Fund to support specified rate adjustments for community-based providers serving individuals with developmental disabilities, establish a competitive integrated employment program, and implement recommendations related to cultural disparities. DDS and regional center administrative costs were recognized at the time of the development of AB 1 X2, but were not included in the appropriation. It is also requested that reimbursements of $14 million to reflect increased funding for regional center operations and $172.2 million to reflect increased funding for community-based services provided through regional centers, be included in a non-Budget Act item associated with the AB1 X2 appropriations.

3. **Clean-up Trailer Bill Language (TBL).** TBL is requested to clarify that the rate increase provided by AB 1 X2 applies to out-of-home respite services, and clarify the provisions of competitive integrated employment (CIE) to expand participation in the workforce by providing an incentive payment separate from supported employment services for regional center providers that place individuals in CIE.

Background. AB 1 X2 appropriated $20 million General Fund (and anticipated matching funds for $29 million total funds) to DDS for CIE incentive payments for providers that place individuals with developmental disabilities. The bill also appropriated $10 million General Fund (and anticipated matching funds for $16.4 million total funds) to provide a rate increase for respite providers. DDS and regional center administrative costs associated with implementation of CIE placements are included in the Regional Center May Revision Estimate.

Subcommittee Staff Comment and Recommendation—Approve and Adopt Placeholder Trailer Bill Language.

Questions.

1. Please provide an overview of these requests and the proposed TBL.

Issue 5: Provider Rate Adjustments to Address State Minimum Wage Increase Trailer Bill Language

Budget Issue. The May Revision proposes trailer bill language to implement provider rate adjustments to address the state minimum wage increase.

Background. SB 3 (Leno), Chapter 4, Statutes of 2016, provides for a series of scheduled increases to the state's minimum wage such that, depending on economic and budgetary conditions, the minimum wage would reach $15.00 per hour by January 1, 2022, after which it would be indexed to inflation.

California provides community-based services to approximately 300,000 individuals with developmental disabilities and their families through a statewide system of 21 regional centers. Regional centers are private, nonprofit agencies under contract with the department for the provision of services and supports to people with developmental disabilities.

Regional centers fund services such as residential facilities, respite, community-based day programs, work activity programs, and supported living. There are several different methods used to set reimbursement rates for providers of community-based services for regional center consumers, depending on the type of service. These rate setting methodologies include but are not limited to:

- Rates set by the department based on cost statements;
- Rates established in either statute or regulation; and
- Rates established by negotiation between the regional center and the provider.

Current provisions, effective July 1, 2008, in the Welfare and Institutions Code have frozen rates for many providers, requiring a statutory change to make rate adjustments due to the new minimum wage provisions. As a result, trailer bill legislation is necessary to allow for rate adjustments for impacted service providers.

The proposed language will amend Welfare and Institutions Code Sections 4681.6, 4691.6 and 4691.9, effective January 1, 2017, to allow the department and regional centers to adjust specified provider rates for the state minimum wage adjustments. For services with rates set either by the department based on cost statements, or by the regional centers through negotiation with vendors, the proposed change allows providers to request rate adjustments only for the purpose of funding the state minimum wage increase, and associated payroll costs if the provider can demonstrate the adjustment is necessary and not already provided.

Subcommittee Staff Recommendation—Adopt Proposed Placeholder Trailer Bill Language.

Questions.

1. Please provide an overview of this proposal.

4265 DEPARTMENT OF PUBLIC HEALTH

Issue 1: L&C: Los Angeles County Contract

Budget Issue. DPH requests an increase in expenditure authority of $2.1 million from the State Department of Public Health Licensing and Certification Program Fund to augment the Los Angeles (LA) County contract to account for two, 3 percent salary increases effective October 2015 and October 2016, an increase to the employee benefit rate from 55.1 to 57.8 percent, and a decrease in the indirect cost rate from 33.2 to 31.4 percent. (DOF Issue 425-MR)

This funding will augment the existing contract to reflect employee compensation and benefit rates approved by the Los Angeles County Board of Supervisors. Public Health has contracted with Los Angeles County for the past 30 years to license and certify health care facilities in the County on behalf of the state.

Background. For over 30 years, DPH has contracted with LA County to perform federal certification and state licensing surveys and investigate complaints and entity-reported incidents for approximately 2,500 health care facilities in the LA County area. The 2015 Budget Act authorized an additional $14.8 million dollars in expenditure authority to fully fund LA County to conduct tier 1 and tier 2 federal workload, long-term care complaints and entity-reported incidents, and pending complaints and entity-reported incidents. In July 2015, DPH and LA County renewed the contract for a three-year term (ending June 30, 2018), for an annual budget of $41.8 million to fund 225 positions. Roughly one third of licensed and certified health care facilities in California are located in LA County, and 18.7 percent of the long term care complaints and entity-reported incidents received statewide each year are generated in LA County.

According to DPH, due to the timing of LA County's approval of salary increases, these costs were unforeseen and not included in the current contract, nor in the 2016-17 Governor's Budget. Consequently, the current contract is now underfunded. If this request is not approved, the LA County contract will not be fully funded and the county will not be able to pay for the staff necessary to complete the contracted workload. This will result in increased vacancies to offset the insufficient funding, fewer complaints being addressed timely, greater backlogs of open complaints, and the potential loss of future CMS grant awards due to lack of compliance. This proposal includes $2.1 million to fund the current contract positions at the current LA County salary rates, which will increase the total annual budget of the contract to $43.9 million.

Subcommittee Staff Recommendation—Approve.

Questions.

1. Please provide an overview of this proposal.

2. Has LA County met workload and performance requirements set forth in the contract?

Issue 2: Marijuana Study

Budget Issue. DPH requests $500,000 General Fund for 2016-17 to help support a study analyzing the health risks associated with the use of marijuana. DPH will participate in decision making regarding the direction and scope of the study organized by the Centers for Disease Control and Prevention (CDC) Foundation on the impacts of medical marijuana to provide information that can guide the state's regulatory process to ensure patient safety. (DOF Issue 427-MR)

Background. Marijuana is classified as a Schedule 1 drug by the U.S. Drug Enforcement Administration. Schedule I substances are defined as having high potential for abuse and no currently accepted medical use in treatment. Marijuana is the most commonly-used illicit drug, with 22.2 million past-month users according to a 2014 National Survey on Drug Use and Health.

Over the past 19 years, 40 states have legalized marijuana for medical or recreational use (four states have legalized retail marijuana sales, the District of Columbia has legalized possession, 23 states and the District of Columbia have legalized medical marijuana use, and 17 states have legalized cannabidiol use). Recent reports suggest there has been a doubling of marijuana use both in adults and adolescents over the past 15 years, with 30 percent of adult users meeting the criteria for a marijuana disorder.

The CDC and other federal and state public health agencies do not yet have a clear picture of how these changing patterns of marijuana use might impact youth and adult health. To date, there has not been a national-level systematic synthesis of available evidence on marijuana health effects comparable to those conducted for alcohol and tobacco. As a result, less is known about the health consequences of marijuana use than is known about other psycho-active drugs available for legal purchase, such as alcohol, caffeine and nicotine. To address this need, the CDC Foundation has sought financial contributions from a variety of federal agencies, states, philanthropies, and a national nonprofit. This BCP would provide $500,000 in one-time funding from California towards this effort for the Institute of Medicine (IOM) to perform a comprehensive review of existing scientific evidence about the health consequences of marijuana use. The IOM is a well-respected institution with a long history of generating reports and research agendas that have successfully helped advance both science and policy on a wide variety of issues.

The scientific review project is expected to focus on the following categories: 1) patterns of marijuana initiation and use among United States youth and adults, 2) potential and proven health risks of marijuana use, 3) potential therapeutic uses of marijuana, and 4) public health research gaps and recommendations. The project will include both medical and recreational marijuana usage and effects. This study is expected to be completed in 2017.

Subcommittee Staff Recommendation—Approve.

Questions.

1. Please provide an overview of this proposal

Issue 3: Medical Cannabis Trailer Bill Language

Budget Issue. The May Revision proposes changes to the Medical Marijuana Regulation and Safety Act. The changes impacting DPH include:

a. Requires DPH to establish minimum security requirements for the storage of medical cannabis products at the manufacturing site.
b. Shifts the authority to license laboratories from DPH to the Bureau of Medical Cannabis Regulation.
c. Provide DPH with cite and fine authority.
d. Gives DPH the authority to conduct mandatory recalls when a medical cannabis product creates or poses an immediate or serious threat to human life.
e. Allows DPH to embargo manufactured medical cannabis product that violates the law to prevent its distribution and sale to protect the public health and safety.

In the January budget, DPH requested 37 positions and $12 million in funding from the Medical Marijuana Regulation and Safety Act Fund to be phased-in between fiscal years 2015-16 to 2018-19 to begin the implementation of the mandated provisions specified in AB 266 (Bonta), Chapter 689, Statutes of 2015, AB 243 (Wood), Chapter 688, Statutes of 2015, and SB 643 (McGuire), Chapter 719, Statutes of 2015. DPH requests to phase-in these positions, as follows: six positions and $457,000 in reimbursement authority for 2015-16; eight additional positions and $3,438,000 in 2016-17; two additional positions and $2,520,000 in 2017-18; and the final 21 additional positions and $5,658,000 in 2018-19.

Subcommittee Staff Recommendation—Adopt Placeholder Trailer Bill Language. It is recommended to adopt the Administration's placeholder trailer bill language.

Questions.

1. Please provide an overview of the proposed changes. Why is the Administration proposing to move the authority to license testing laboratories to the Bureau of Medical Cannabis Regulation?

2. How does this proposal impact the department's request for resources?

Issue 4: Genetic Disease Screening Program

Budget Issue. The May Revision requests $133.7 million for the Genetic Disease Screening Program (GDSP), a $15.1 million increase compared to the January budget. DPH proposes to use this funding increase to purchase equipment to test for adrenoleukodystrophy, as recommended by the federal Recommended Uniform Screening Panel and required by AB 1559 (Pan), Chapter 565, Statutes of 2014. GDSP will also: (1) contract with a third-party to provide medical billing services for the Prenatal Screening program; (2) transition the Screening Information System from the Department of Health Care Services to DPH; (3) contract for services, including billing support, and secure payment services (lock box); and (4) address increased specimen shipping costs. (DOF Issue 433-MR)

The budget proposes to increase the prenatal screening fee by $14.60 to $221.60 and to increase the newborn screening fee by $17.55 to $130.25.

The revised program estimate is based on the following three new assumptions that have a significant impact on the costs of the program:

1. **Operational Support for Enhancements and Maintenance and Operations (M&O) for Screening Information System (SIS) and Accounts Receivable (AR) System; Data Center Transition; Accounts Receivable Vendor Transition.** GDSP requests $3.6 million in 2015-16 and $10.7 million in 2016-17 for the Deloitte Consulting Contract amendments, lockbox payment services, and specimen shipping costs from collection sites to labs. GDSP is in the process of amending Deloitte's contract to add services needed for the migration and support of the AR system. Deloitte will work with the DPH Information Technology Services Division (ITSD) to move SIS from DHCS to DPH. The contract also will include 2 years of M&O support for the AR system and training support.
2. **Transition In-House Patient Billing to an Outsourcing Vendor.** GDSP requests $340,000 in 2015-16 and $2.9 million in 2016-17 for the transition to an outsourcing vendor. GDSP hopes to accelerate revenue collection, reducing uncollectable accounts, and reducing the overall risk and cost to collect.
3. **GS $Mart Loan Repayment.** GDSP requests a GS $Mart Loan from the Department of General Services of $7.3 million to cover the software and hardware needs for transitioning SIS from the Department of Health Care Services to DPH ($26 million) and equipment to perform statewide screening of newborns for adrenoleukodystrophy (ALD) ($4.7 million).

Background. GDSP consists of two programs - the Prenatal Screening Program and the Newborn Screening Program. Both screening programs provide public education, and laboratory and diagnostic clinical services through contracts with private vendors meeting state standards. Authorized follow-up services are also provided to patients. The programs are self-supporting by fees collected from screening participants through the hospital of birth, third party payers, or private parties.

Subcommittee Staff Recommendation—Approve.

Questions.

1. Please provide an overview of this issue.

Issue 5: Special Session Legislation Related to e-Cigarettes and Tobacco

Issue. Various pieces of legislation, including SB 5 X2 (Leno), Chapter 7, Statutes of 2016, were past as part of the recent special session.

According to the Senate Appropriations Committee analysis, for SB 5 X2, the following costs have been identified:

1. One-time costs of about $180,000 to revise regulations and educational materials relating to the prohibition on the sale of tobacco products to minors by the DPH (General Fund or tobacco tax funds).

2. Ongoing costs in the tens of thousands to low hundreds of thousands per year for additional survey activities at retail stores selling electronic cigarettes (General Fund or tobacco tax funds).

3. Ongoing costs in the hundreds of thousands per year for enforcement actions relating to illegal sales of electronic cigarettes to minors (General Fund or tobacco tax funds).

4. Ongoing licensing costs of about $300,000 for the BOE to license retailers who sell electronic cigarettes but are not currently licensed because they do not sell tobacco products (Compliance Fund). These costs would be offset by an increase in the licensing fee, from the current one-time $100 to an annual licensing fee of $265. No anticipated change in tobacco tax revenue (General Fund and special fund). This bill does not change the definition of "tobacco product" in the Revenue and Taxation Code to include electronic cigarettes. Thus, this bill does not extend the state's existing tax on those products to electronic cigarettes.

Subcommittee Staff Comment and Recommendation—Hold Open. Staff has requested technical assistance on the resources needed to implement the various pieces of special session legislation impacting DPH.

Questions.

1. Please provide an overview of the special session legislation impacting DPH. What are the effective dates of these changes?

2. Given that the May Revision does not include resources to implement the legislation, how does DPH plan to address the increased workload?

4260 DEPARTMENT OF HEALTH CARE SERVICES

Issue 1: Medi-Cal Caseload and Estimate

May Revision. The May Revision proposes $90.2 billion ($17.7 billion General Fund) for the Medi-Cal program. See table below for program budget summary.

Medi-Cal Budget Summary (dollars in millions)

	2016-17 January	2016-17 May	Amount Change	Percent Change
General Fund	$19,084.10	$17,661.30	($1,422.80)	-7.50%
Federal Funds	$54,046.50	$57,668.20	$3,621.60	6.70%
Other Funds	$11,907.70	$14,823.10	$2,915.40	24.50%
Total Local Assistance	**$85,038.50**	**$90,152.50**	**$5,114.00**	**6.00%**
Medical Care Services	$80,481.30	$85,627.20	$5,145.90	6.40%
County Administration	$4,100.40	$4,158.10	$57.70	1.40%
Fiscal Intermediary	$456.70	$367.10	($89.60)	-19.60%

Caseload. DHCS estimates baseline caseload to be approximately 14.1 million average monthly enrollees in 2016-17 as compared to 13.5 million in 2015-16, a 4.8 percent increase.

Legislative Analyst's Office (LAO). The LAO finds that the Administration's Medi-Cal caseload estimates for 2016-17 appear reasonable. Medi-Cal caseload has continued to grow and by December 2015 (the most recently available month of complete data) caseload had reached 13.3 million. The Administration assumes 15-16 to 16-17 year-over-year growth of 2.8 percent for families and children, 11.1 percent for the optional expansion population, and 3.0 percent for seniors and persons with disability. Based on the most recently available data on Medi-Cal enrollment, these assumptions appear reasonable. Additionally, the LAO notes that the estimate no longer separately accounts for redetermination delays. Up until the May 2016 estimate, DHCS has included a separate policy change to estimate the impact of the delay in annual Medi-Cal redeterminations that resulted from the increased workload for county eligibility workers associated with the ACA. The Administration states they no longer included this policy change as of the May 2016 estimate because they believe the base caseload trends now accurately reflect any impact of redeterminations. At this time, the LAO finds that the base caseload assumptions are moderate enough to capture any potential impacts of any ongoing redetermination delays.

Subcommittee Recommendation—Approve.

Questions.
1. Please provide a high-level overview of the May Revision changes.

Issue 2: Medi-Cal: Federal Managed Care Regulations Staffing Resources

Budget Issue. The May Revision requests the establishment of 38.0 permanent positions and expenditure authority, and two-year limited-term funding for staff resources and contractual services to implement new federal Medicaid regulations. (DOF Issue 402-MR)

The request supports the implementation of Medicaid and CHIP Managed Care Final Rule CMS-2390-P and Fee-for-Service Final Rule CMS-2328-NC. The total funding requested is $10,411,000 ($4,984,000 General Fund and $5,427,000 Federal Fund).

The following positions are requested to be established:

- **Managed Care Quality and Monitoring Division – 18.0 Staff Resources**
  1.0 Research Manager I (RM I)
  2.0 Research Program Specialist II (RPS II) – 1.0 2-year LT equivalent
  2.0 Research Program Specialist I (RPS I)
  9.0 Associate Governmental Program Analyst (AGPA) – 5.0 2-year LT equivalent
  1.0 Health Program Specialist II (HPS II) – 2-year LT equivalent
  1.0 Research Analyst II (RA II)
  1.0 Medical Consultant I (MC I)
  1.0 Office Technician (OT)

  These resources would be used to extend new monitoring requirements to all populations/ components of the Medi-Cal Managed Care program. Additionally, the new staff resources will promulgate the corresponding state regulations to align with the federal regulations, establish and publish provider network adequacy standards for beneficiaries and stakeholders, establish and publish cultural sensitivity standards for all populations of beneficiaries, and ensure full participation in State Fair Hearing procedures and follow-up.

  This division is also requesting $3 million in contract authority to support data auditing and validation by an external quality review organization (EQRO) which is necessary to ensuring the department has appropriate resources to evaluate and publicly report managed care plan health outcomes and utilization factors experienced by Medi-Cal members accessing services in the managed care delivery system

- **Managed Care Operations Division – 4.0 Staff Resources**
  3.0 Associate Governmental Program Analyst (AGPA) – 1.0 2-year LT equivalent
  1.0 Associate Information System Analyst (AISA) – 2-year LT equivalent

  These resources would be used to add the requirement for plan and provider training as this is not a current function of program; develop a formal complaint process to track and resolve beneficiary issues through the Medi-Cal enrollment broker; add the requirement for updating provider directories on a monthly basis instead of the current standard of every six months.

- **Capitated Rates Development Division – 8.0 Positions**

2.0 Research Program Specialist I (RPS I)
2.0 Research Analyst II
1.0 Staff Services Manager I (SSM I)
2.0 Associate Governmental Program Analyst (AGPA)
1.0 2-year LT equivalent

These resources would be used to address the new federal rules regarding requirements, practices, and procedures related to capitation rate setting; address the requirement to provide that actuarial certification at the individual rate cell level, rather than certifying to a rate range; reinforce a more stringent federal focus on developing rates on a prospective rather than retrospective basis; implement new federal rules to provide for a nationally determined uniform medical loss ratio (MLR) standard no less than 85 percent as well as minimum standards for the MLR calculation methodology.

- **Long Term Care Division – 4.0 Staff Resources (2-year LT equivalent)**
  1.0 Research Program Specialist II (RPS II)
  2.0 Research Analyst II (RA II)
  1.0 Associate Government Program Analyst (AGPA)

  These resources would be used to update Medi-Cal's managed long-term supports and services managed care delivery system to include metrics for evaluating the soundness of actuarial payment provisions, promote accountability of Medicaid managed care plans, promote enhanced quality of care provisions, and strengthen delivery systems that serve Medicaid beneficiaries.

- **Office of Legal Services – 6.0 Staff Resources**
  3.0 Attorney III – 1.0 2-year LT equivalent
  3.0 Attorney – 2.0 2-year LT equivalent

  These resources will assist in the legal component of each division's workload, as well as any litigation of any other legal issues that arise as a result of the final rule.

- **Mental Health Services Division – 2.0 Staff Resources**
  4.0 Associate Governmental Program Analyst (AGPA)

  These resources will promulgate the corresponding state regulations to align with the federal regulations; establish and publish provider network adequacy standards for beneficiaries and stakeholders; establish and publish cultural sensitivity standards for all populations of beneficiaries; ensure full participation in State Fair Hearing procedures; provide technical assistance to the county mental health plans; provide oversight on provider networks, cultural and language standards, and quality improvement projects.

- **Audits & Investigations Division – 8.0 Staff Resources**
  1.0 Health Program Auditor III (HPA III)
  2.0 Health Program Auditor IV (HPA IV)
  5.0 Nurse Evaluator II (NE II)

These resources will address the increased audit and investigation workload related to (1) administration and management, (2) appeal and grievance systems, (3) claims management, (4) enrollee materials and customer services, (5) finance, including medical loss ratio reporting, (6) information systems, including encounter data reporting, (7) marketing, (8) medical management, including utilization management and case management, (9) program integrity, (10) provider network management, (11) availability and accessibility of services, (12) quality improvement, and (13) areas related to the delivery of long term services.

- **Research and Analytic Studies Division – 4.0 Staff Resources**
  1.0 Research Program Specialist I (RPS I) – 2-year LT equivalent
  2.0 Research Program Specialist II (RPS II)
  1.0 Research Scientist II (RS II) – 2-year LT equivalent

  These positions would be used to increase fee-for-service access monitoring activities; research current literature relating to patient access to care, and identify national benchmarks for health outcomes, health care utilization, and health system capacity measurement. These benchmarks will be incorporated into numerous reports to evaluate Medi-Cal program policies and initiatives with specific goals aimed at beneficiary subgroups.

- **Administration Division – 3.0 Positions**
  1.0 Personnel Specialist (PS)
  1.0 Associate Personnel Analyst (APA)
  1.0 Associate Governmental Program Analyst (AGPA)

  These positions would be used to address the increase administrative and contracting workload associated with implementation of these new federal requirements.

Additionally, the May Revision notes that these new federal managed care regulations could negatively impact California and result in General Fund costs in the hundreds of millions annually. The Administration's multi-year project assumes costs related to these regulations of $150 million General Fund in 2017-18, $175 million General Fund in 2018-19, and $200 million General Fund in 2019-20.

Background. Final Rule 2390-P changes the Medicaid managed care regulations to reflect the increased utilization of managed care as a delivery system. It aligns the rules governing Medicaid managed care with those of other major sources of coverage, including Qualified Health Plans and Medicare Advantage Plans; implements statutory provisions; changes actuarial payment provisions; and promotes the quality of care and strengthen efforts to reform delivery systems that serve Medicaid and CHIP beneficiaries. It also strengthens beneficiary protections and policies related to program integrity. This rule also requires states to establish comprehensive quality strategies for their Medicaid and CHIP programs regardless of how services are provided to beneficiaries.

Final Rule 2328-NC requires states to develop and implement a transparent, data-driven process to evaluate provider payments, in regards to covered care and services consistent with section 1902(a)(30)(A) of the Social Security Act.

Subcommittee Staff Comment and Recommendation—Approve and Adopt Placeholder Trailer Bill Language. Given that the final rule was just issued on May 6, 2016, it is difficult at this point to assess the impact these regulations have on DHCS's workload and the state budget. It is recommended to approve this proposal to allow DHCS the flexibility to recruit and hire the needed staff to implement these new regulations.

It is also recommended to adopt placeholder trailer bill language to implement the following:

a. A transition of care policy that ensures continued access to services during a transition from FFS to managed care or from one MCO to another for all populations to ensure the enrollees do not suffer serious detriment to their health or be at risk of hospitalization or institutionalization.
b. A beneficiary support system that performs outreach and assistance in understanding managed care.

Questions.

1. Please provide an overview of this proposal.

2. Please provide an overview on why there is out-year costs associated with these new federal regulations.

3. Has DHCS identified the regulations and statutory provisions that need changing as a result of these new regulations? If so, can DHCS please share this list with the Subcommittee. If not, can DHCS please follow-up with this information when it is available.

Issue 3: Medi-Cal: Managed Care Enrollment Tax Workload

Budget Issue. The May Revision requests three-year limited-term expenditure authority of $240,000 ($120,000 GF/$120,000 FF) to support the implementation and oversight of the managed care enrollment tax established by SB 2 X2 (Hernandez), Chapter 2, Statutes of 2016. (DOF Issue 401-MR)

According to DHCS, this funding would provide the resources necessary to facilitate the tax and complete the necessary administrative duties to ensure payment, collection, and use of the tax.

Background. SB 2 X2 implements a tax reform proposal to restructure the taxes paid by managed care plans (MCPs) in response to the Governor's call for a special session of the Legislature to consider and act upon legislation necessary to enact permanent and sustainable funding from a new managed care organization (MCO) tax and/or alternative funding sources. SB 2 X2 includes a replacement managed care enrollment tax for the tax expiring at the end of June 2016 and other taxes currently paid by the health plan industry.

Administrative staffing costs related to implementation and operationalization of the tax would include three-year limited term authority to develop, implement and oversee policies and procedures required for tax assessment and collection, provide financial analysis, management reports and policy analysis, plan reporting, providing customer service to providers and stakeholders, and work with the actuarial consultants to ensure rates to Medi-Cal MCPs accurately reflect the tax amount.

On May 17, 2016 the federal Centers for Medicare and Medicaid Services (CMS) approved a slightly revised version of the MCO Provider Tax enacted in SB2 X2. The revised MCO provider tax includes a change to expand the definition of excluded plans, this change only affected a single health plan, Community Health Group. No other health plan is impacted. CMS' approval of the revised tax will support approximately $3.74 billion in funding for the state's Medi-Cal program over the next three years.

Subcommittee Staff Comment and Recommendation—Approve. No concerns have been raised regarding this proposal. However, Health Net points out that existing law requires insurers to make four prepayments each equal to 25 percent of their annual Gross Premiums Tax (GPT) liability based on the amount owed in the preceding calendar year. SB2 X2 did not amend this Rev and Tax section. So even though Health Net may have a zero GPT liability with the new MCO tax, it would still have to make these quarterly pre-payments, for four quarters which presents a cash flow issue for the plan. Health Net requests trailer bill language to amend SB 2 X2 to change the prepayment obligation of insurers that qualify for the 0% gross premiums tax rate so that each prepayment obligation for such insurers is 25% of what their annual insurance tax liability for the preceding year would have been if SB 2 X2 had been operative from July 1, 2015 through June 30, 2016.

Questions.

1. Please provide an overview of this request.

2. Does the Administration support the proposed trailer bill language proposed by HealthNet?

Issue 4: Electronic Health Records Incentive Program

Budget Issue. The May Revision request trailer bill language to increase the existing General Fund annual limit, from $200,000 to $450,000, for state administrative costs associated with the implementation of the Medi-Cal Electronic Health Records Incentive Program. This program assists California health care providers transform their practices from paper-based environments to one that leverages electronic health record technology and promotes health information exchange.

There is no associated request for increased General Fund expenditures as existing staff will be redirected to this program/

Subcommittee Staff Recommendation—Adopt placeholder trailer bill language.

Questions.

1. Please provide an overview of this issue.

Issue 5: Covered Outpatient Drugs Final Federal Rule

Budget Issue. The May Revision includes $327.8 million ($130 million General Fund) in savings as a result of changes to the Medi-Cal fee-for-service pharmacy program's implementation of updated federal maximum reimbursements, federal upper limits (FUL), for some generically equivalent drugs dispensed by pharmacies. The May Revision also proposes trailer bill language (TBL) to provide DHCS authority to comply with the final federal rule related to Medicaid reimbursement for covered outpatient drugs. The final rule, issued on February 1, 2016, requires states to align pharmacy reimbursements with the actual acquisition cost of drugs and to pay an appropriate professional dispensing fee.

The budget also includes $645,000 ($322,000 General Fund) to support two contractors; one for project management services and another to survey drug prince information from pharmacies and to develop a new professional dispensing fee.

Background. On February 1, 2016, CMS published the Final Rule for Covered Outpatient Drugs, effective April 1, 2016. The Final Rule requires states to (1) reimburse pharmacies based on the Actual Acquisition Cost (AAC) of outpatient drugs, effective April 1, 2016; and (2) establish a dispensing fee, effective no later than April 1, 2017.

In order to comply with the Final Rule by April 1, 2017, the department must complete a survey on pharmacy acquisition costs and a study for the dispensing fee. (The current dispensing fee is $7.25.) The department will need to make State Plan Amendment (SPA) and legislative changes to adjust the existing pharmacy reimbursement and dispensing fee methodology. The department anticipates a fiscal impact from this change; however, the net impact is currently unknown.

Subcommittee Staff Comment and Recommendation—Approve and Adopt Placeholder Trailer Bill Language. Concerns have been raised by the pharmacy industry that implementation of the first part of this rule and the resulting reduction to their payments of $327.8 million will have a negative impact on this industry and may impact access to these services. It is anticipated that the implementation of the second component of this rule (the dispensing fee) will likely compensate for the payment reduction as a result of FULs; however, given the staggered implementation of these rules (a year apart) the pharmacy industry is requesting supplemental payments until the dispensing fee is revised. The California Pharmacists Association request a $3.56 supplement to the dispensing fees, with an estimated costs of $149 million (total funds) for a 12-month period.

Questions.

1. Please provide an overview of this issue.

2. What is DHCS's response to the concerns raised by the pharmacy industry?

Issue 6: Managed Care Fine and Penalty Revenue to Medi-Cal

Budget Issue. The May Revision requests trailer bill language (TBL) to allow the use of managed care administrative fines and penalties revenue over $1 million for the purpose of funding health care services for children, seniors, persons with disabilities, and dual eligibles in the Medi-Cal program. Currently, any administrative fines and penalties over $1 million are used to support the Managed Risk Medical Insurance Program (MRMIP). It is also requested to decrease General Fund support of the Medi-Cal program by $2 million as the managed care fines and penalties would offset this amount General Fund expenditure. (DOF Issue 564-MR)

Background. AB 60 (Isenberg), Chapter 1168, Statutes of 1989, established MRMIP. Since 1991, MRMIP has provided health insurance to Californians who are unable to obtain coverage, or charged unaffordable premiums, in the individual health insurance market due to a pre-existing condition. Californians who qualify for MRMIP contribute to the cost of their health care coverage by paying monthly premiums equal to 100 percent of the average market cost of premiums (based on the Silver level coverage through the Exchange), an annual deductible and copayments. These monthly premiums are subsidized through the Cigarette and Tobacco Products Surtax Fund (Proposition 99). MRMIP has an annual benefit cap of $75,000, and a lifetime benefit cap of $750,000. MRMIP is not an income-based eligibility program. MRMIP was originally established as a state high-risk pool; however, the need for high-risk pools has been greatly reduced as a result of the passage of the federal Affordable Care Act (ACA). Projected enrollment figures support the expected decline, with figures estimated at: 1,579 individuals in 2016; 1,485 in 2017; and 1,441 in 2018 (enrollment in January 2013 was 5,737).

Subcommittee Staff Comment and Recommendation—Modify. Under current law, MRMIP is a program where a person can purchase health coverage throughout the year if they missed the open enrollment period for commercial coverage or do not qualify for Medi-Cal. With this proposal the only ongoing revenue source for MRMIP would be eliminated and; consequently, it is unclear how this safety net coverage option would be supported. A comprehensive review of this program and the needed funding levels would be appropriate once the department has completed it reconciliation of actual plan expenditures and claims already paid.

Consequently, it is recommended to modify this proposal to only shift these funds to the Medi-Cal program if there are sufficient resources available to support the MRMIP program.

Questions.

1. Please provide a review of this proposal.

Issue 7: Long-Term Care Quality Assurance Fund

Budget Issue. The May Revision requests trailer bill language (TBL) that would make the Long-Term Care Quality (LTC) Assurance Fund continuously appropriated without regard to fiscal year. This change will align the expenditure authority of programs supported by the Long-Term Care Quality Assurance Fund with available fee revenues. Expenditures from the fund are used to offset General Fund expenditures for long term care provider reimbursements.

The 2016 May Revision also includes an unanticipated current year shortage in spending authority for fund in the amount of $40,336,000. The shortage in authority is attributable to increased revenues to the fund from the long-term care quality assurance fee and the intermediate care facility for the developmentally disabled fee. (Issue 565-MR)

Background. AB 1467 (Committee on Budget), Chapter 23, Statutes of 2012, established the Long-Term Care Quality Assurance Fund. AB 1467 requires that all long-term care quality assurance fees be deposited into this fund.

Subcommittee Staff Recommendation—Adopt placeholder trailer bill language. This fund, similar to the managed care organization tax and hospital quality assurance fee (which are continuously appropriated), is used to offset General Fund expenditures; consequently, it is recommended to approve this proposal.

Concerns have been raised by the California Association of Health Facilities (CAHF) that the May Revision does not include required "add-ons" to the rates paid to skilled-nursing facilities and intermediate care facilities for the developmentally disabled. CAHF notes that federal requirements on "The Payroll Based Journal" should be included for a cost of $37.6 million General Fund, and $12.7 million General Fund for requirements related to antimicrobial stewardship.

Questions.

1. Please provide an overview of this proposal.

2. What is the reason for the current year shortfall?

3. What is the department's response regarding the required "add-ons" the LTC rates? Why weren't these add-ons included?

Issue 8: Institutionally Deemed Behavioral Health Treatment Population Case Management

Budget Issue. The May Revision requests $2.2 million ($1.1 million General Fund) for case management for current participants (an estimated 433) of the Home and Community Based Services (HCBS) for the Developmentally Disabled Waiver who will lose their Medi-Cal eligibility in March 2017. These beneficiaries are currently receiving behavioral health services (BHT) services through the waiver and are eligible for Medi-Cal through institutional deeming, which requires beneficiaries needing nursing facility level of care, be under the age of 21, live at home, receive at least one HCBS, and are not otherwise eligible for Medi-Cal without a share of cost. With the transition of this benefit from the HCBS waiver to the Medi-Cal program, these individuals no longer qualify for Medi-Cal under institutional deeming.

The requested funding will allow case managers to help transition the affected beneficiaries into comprehensive health care coverage by March 2017 to avoid gaps in coverage. Trailer bill language is also requested to enable procurement of contractors. (DOF Issue 560-MR)

Background. SB 870 (Committee on Budget and Fiscal Review), Chapter 40, Statutes of 2014 requires DHCS to add behavioral health treatment (BHT) services, such as applied behavioral analysis (ABA), as a covered benefit in Medi-Cal to the extent required by federal law. Subsequent to the enactment of the 2014 budget, the federal government issued guidance indicating that BHT should be a covered Medicaid benefit for eligible children and adolescents with autism spectrum disorder (ASD). In response to the guidance, DHCS submitted State Plan Amendment (SPA) 14–026 to the Centers for Medicare & Medicaid Services (CMS) on September 30, 2014 to seek the necessary approval to include BHT as a covered Medi-Cal service for individuals under 21 years of age with ASD. On January 21, 2016, CMS approved this SPA. BHT services are approved retroactively to July 2014.

On November 20, 2015, DHCS and Department of Developmental Services (DDS) jointly issued a transition plan that describes the transition of Behavioral Health Treatment (BHT) services from the regional centers to the Medi-Cal managed care and fee-for-service delivery systems. This transition began in February 2016 and will occur over a period of six months. Approximately, 5,000 individuals (of the estimated 13,000) have transitioned with 92 percent receiving automatic continuity of care with the same provider. The remaining eight percent have transitioned to a new provider.

Subcommittee Staff Comment and Recommendation—Approve and Adopt Placeholder Trailer Bill Language.

Questions.

1. Please provide an overview of this proposal.

2. Please explain how these case manager services would work? Who would provide these case management services?

Issue 9: New Qualified Immigrant Affordability and Benefit Program

Budget Issue. The May Revision includes an increase of $31.8 million General Fund to reflect a delay of one year (from January 1, 2017 to January 1, 2018) in shifting newly eligible New Qualified Immigrants (NQI) populations to Covered California pursuant to SB 1 X1 (Hernandez), Chapter 4, Statutes of 2013.

The May Revision also requests trailer bill language (TBL) to adjust the income eligibility requirements for the New Qualified Immigrant Affordability and Benefit program to no more than 150 percent of the federal poverty level, based on the applicant's eligibility for Advanced Premium Tax Credit, a health insurance federal subsidy. Additionally, the proposed TBL will extend the date for DHCS to promulgate program regulations.

Background. The federal Personal Responsibility and Work Opportunity Act (PRWORA) specified that federal financial participation (FFP) is not available for full-scope Medi-Cal services for most qualified nonexempt immigrants during the first five years they are in the country. Currently, FFP is only available for emergency and pregnancy services. California law requires that legal immigrants receive the same services as citizens and pays for other services with 100 percent General Fund.

Effective January 1, 2014, the federal Affordable Care Act (ACA) allow states to expand Medicaid coverage to previously ineligible persons, primarily childless adults at or below 138 percent of the federal poverty level (FPL), referred to as the optional expansion group. Additionally, the ACA established online health insurance exchanges. Covered California, California's health insurance exchange, determines an applicant's eligibility for federally subsidized health coverage. Individuals with incomes below 400 percent FPL are eligible for federal subsidies to help offset the monthly premium costs.

Effective for January 1, 2018 (under the May Revision proposal), DHCS will begin transitioning optional expansion childless adult NQIs who have been in the country less than five years from Medi-Cal into Covered California. DHCS will pay for all out-of-pocket expenditures and will provide Medi-Cal fee-for-services for services that are not covered by Covered California (such as dental care).

Subcommittee Staff Comment and Recommendation. It is recommended to approve the May Revision proposal to delay the NQI wrap program. It is also recommended to reject the proposed trailer biller bill language. Concerns have been raised by stakeholders that this proposal presents significant policy questions that should be addressed in a policy bill.

Questions.

1. Please provide an overview of this proposal.

2. What is the intent of the trailer bill language.

Issue 10: Emergency Medical Air Transportation Act Cleanup

Budget Issue. The May Revision requests trailer bill language to remove a provision of SB 326 (Beall), Chapter 797, Statutes of 2015 regarding emergency medial air transportation funding from penalty assessments for Vehicle Code violations. The specific provision requested to be eliminated is:

> **Welfare and Institutions Code (WIC) 10752.** The department shall, by March 1, 2017, in coordination with the Department of Finance, develop a funding plan that ensures adequate reimbursement to emergency medical air transportation providers following the termination of penalty assessments pursuant to subdivision (f) of Section 76000.10 of the Government Code on January 1, 2018.

Background. SB 326 extended the sunset date of the $4 penalty assessment for Vehicle Code violations, other than parking offenses, and related funding provisions, from January 1, 2016 to January 1, 2018, to continue raising revenues to augment funding for emergency medical air transportation Medi-Cal providers.

An amendment by the Assembly Appropriations Committee added WIC 10752 in an effort to establish a permanent funding source for this service.

Subcommittee Staff Comment and Recommendation—Modify. It is recommended to modify this language to be:

> The department shall, by March 1, 2017, in coordination with the Department of Finance, ~~develop a funding plan that ensures adequate reimbursement to~~ ***report to the Legislature on the fiscal impact to Medi-Cal of, and the planned reimbursement methodology for emergency medical air transportation services after,*** ~~to emergency medical air transportation providers following~~ the termination of penalty assessments pursuant to subdivision (f) of Section 76000.10 of the Government Code on January 1, 2018.

This change reflects discussions with the Assembly Appropriations Committee to ensure the intent of its amendment to the bill.

Questions.

1. Please provide an overview of this request and explain why the department is seeking this change.

Issue 11: Drug Medi-Cal Rate Setting Process

Budget Issue. The May Revision requests trailer bill language (TBL) to permit rate adjustments by way of bulletin authority or similar instructions to improve administrative efficiencies. Under existing law, Drug Medi-Cal rates are updated annually through regulations based on the cumulative growth in the implicit price deflator for the costs of goods and services to governmental agencies. The annual rates are based either on the developed rates for use in the next fiscal year or the 2009-10 Budget Act rates adjusted for the deflator, whichever is lower.

Drug Medi-Cal Organized Delivery System. At the beginning of 2014, DHCS began a stakeholder engagement process to solicit input to improve the DMC system and purse a DMC-ODS federal waiver to provide an organized delivery system of substance use disorder services and demonstrate how this organized system of care would increase successful outcomes for DMC beneficiaries. The DMC-ODS waiver, an amendment to DHCS' Bridge to Reform Waiver, was approved by CMS on August 13, 2015 for five and a half years.

According to DHCS, the continuum of care model enables more local control and accountability, provides greater administrative oversight, creates utilization controls to improve care and efficient use of resources, implements evidenced based practices in substance use disorder treatment, and coordinates with other systems of health care.

Subcommittee Staff Comment and Recommendation—Reject. This May Revision proposal has no budget implications; consequently, it is recommended to reject this proposal.

Questions.

1. Please provide an overview of this proposal.

Issue 12: Continuum of Care Reform: Short-Term Residential Treatment Center Licensing (AB 403, 2015)

Budget Issue. DHCS requests the following resources to implement the Continuum of Care Reform (CCR) pursuant to AB 403 (Stone), Chapter 773, Statutes of 2015:

- One permanent position and expenditure authority of $118,000 for one associate governmental program analyst (AGPA).
- Three-year funding (phased-in) of $251,000 for staffing resources equivalent to one staff services manager I and one AGPA.
- $416,000 ($208,000 General Fund) to reimburse counties for participating in a child and family team and providing assessments for seriously emotionally disturbed children.

This issue was discussed at the April 21, 2016 Subcommittee No. 3 hearing.

May Revision. In addition, the May Revision requests a $12 million ($6.8 million General Fund and $5.2 million Federal Fund) augmentation to fund county mental health costs to improve assessments of foster youth placements, and increase transparency and accountability for child outcomes. These funds cover half year costs. These adjustments reflect increased county mental health costs to participate in child and family teams and training for county mental health staff. (DOF Issue 561-MR)

Subcommittee Staff Comment and Recommendation—Approve. The County Behavioral Health Directors Association raises concerns with the May Revision estimates and finds that the Administration underestimates the new costs to the counties.

Questions.

1. Please provide an overview of these costs.
2. Why are there differences between DHCS's estimated costs and the estimated costs provided by the counties?

Issue 13: Medi-Cal: PACE Modernization

Budget Issue. DHCS proposes trailer bill language to enable modernization of the Program for All-Inclusive Care for the Elderly (PACE). The proposed legislative changes would:

- **Rate Setting**: Standardize rate-setting to DHCS to determine comparability of cost and experience between PACE and like population subsets served through Long-Term Services and Supports (LTSS) integration into managed care health plans under the Coordinated Care Initiative. Statutory change is necessary as DHCS is currently required to use a Fee-for-Service (FFS) equivalent cost/upper payment limit methodology to set capitation rates for PACE Organizations.
- **Remove Cap on the Number of PACE Organizations**: Remove existing statutory language that caps the number of PACE Organizations with which DHCS can contract.
- **Remove Not-for-Profit Requirement**: Remove existing statutory language to align with updated PACE federal rules and regulations.
- **PACE Flexibilities**: Add new statutory language enabling DHCS to seek flexibility from the Centers for Medicare and Medicaid Services (CMS) on several issues including the composition of the PACE interdisciplinary team (IDT), the frequency of IDT meetings, use of alternative care settings, use of community-based physicians, marketing practices, and development of a streamlined PACE waiver process.

This issue was discussed at the May 5, 2016 Subcommittee No. 3 hearing.

May Revision. The May Revision proposes changes to this trailer bill language. These changes incorporate stakeholder feedback and include:

1. The specific rate methodology applied to PACE organizations shall address features of PACE that differentiate it from other managed care plan models.
2. Consistent with actuarial methods, the primary source of data used to develop rates for each PACE organization shall be its Medi-Cal cost and utilization data, or other data sources as deemed necessary by the department.
3. The rate methodology developed shall contain a mechanism to account for the costs of high-cost drugs and treatments.
4. Rates developed shall be actuarially certified prior to implementation.
5. Consistent with the requirements of federal law, the department shall calculate an upper payment limit for payments to PACE organizations. In calculating an upper payment limit, the department may correct the applicable data as necessary. In calculating an upper payment limit, the department shall consider the risk of nursing home placement for the comparable population when estimating the level of care and risk of PACE participants.
6. During the first year in which a new PACE organization or existing PACE organization enters a previously unserved area the department may, in its sole discretion, pay at any rate within the certified actuarially sound rate range developed with respect to that entity, to the extent consistent with federal requirements.

Subcommittee Staff Comment and Recommendation—Adopt May Revision Placeholder Trailer Bill Language.

Questions.

1. Please provide an overview of the proposed changes.

Issue 14: Budget Control Section 4.13

Budget Issue. The May Revision requests that Control Section 4.13 be added to the budget bill to facilitate repayments to counties pursuant to AB 85 (Committee on Budget), Chapter 24, Statutes of 2013. AB 85 modified the 1991 Realignment Local Revenue Fund distributions to capture and redirect county savings from the implementation of federal health care reform. These savings are reallocated to counties to pay an increased county contribution towards the costs of California Work Opportunity and Responsibility to Kids grants, also known as CalWORKs, which reduces state General Fund expenditures. The state redirected $300 million in 2013-14; however, actual county savings in 2013-14 are lower than previously estimated and the May Revision assumes repayment of $177.4 million to counties in 2016-17.

Repayments to a county shall be authorized by the Department of Finance once final redirection determinations and appeals are completed for each county. Control Section 4.13 is proposed to be added as follows:

> SEC. 4.13. Notwithstanding any other provision of law, items of appropriation in this act may be adjusted, as determined by the Department of Finance, to reflect changes to General Fund expenditures resulting from the final redirection calculation and appeals pursuant to Chapter 24, Statutes of 2013 (AB 85). Upon order of the Department of Finance, any payment to a county based on the AB 85 final reconciliation shall be transferred by the Controller to the health account within the county's local health and welfare trust fund.

Subcommittee Staff Recommendation—Adopt Placeholder Budget Bill Language.

Questions.

1. Please provide an overview of this request.

2. Why were the actual county savings in 2013-14 lower than previously estimated given the substantial growth in Medi-Cal?