California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
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Agenda
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MEDI-CAL/HEALTHY FAMLIES **<u>Page</u>**

RESOURCES (continued)

TRANSPORTATION

GENERAL GOVERNMENT

4260 Department of Health Care Services (DHCS)

Governor's Proposal	2011-12 ($ in thousands)	Comments

4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)

Medi-Cal Provider Payment Reduction. -$537,100

Budget reflects a reduction of $18.2 million ($9.4 million GF) in the current-year and $1.1 billion ($537.1 million GF) in 2011-12 through enactment of Provider Payment reductions, effective as of June 1, 2011.

This reduction is applicable to both Medi-Cal Fee-for-Service and Medi-Cal Managed Care providers.
The Provider Payment reductions vary by Provider Type. The *general intent* of this reduction is to reflect an overall 10 percent ongoing Provider Payment reduction.

In addition to State statutory changes, a State Plan Amendment that requires federal Centers for Medicare and Medicaid (CMS) approval is needed.

DHCS intends to conduct rate analyses and studies where necessary in order to obtain federal CMS approval.

Federal law requires Medicaid (Medi-Cal) payments to be sufficient to enlist providers so care and services are available to the extent that such care and services are available to the general public in a geographic region.

There is a long history of legal challenges and actions regarding the various methodologies used in developing Medi-Cal Provider Payments, as well as the various reductions which have been enacted in previous years.

The U.S. Supreme Court recently agreed to hear California's appeal of a Ninth Circuit Court of Appeals ruling involving Medi-Cal Provider Payments. It is anticipated a decision will be provided in Fall 2011. The key issue is whether the Supremacy Clause of the Constitution confers a private rate of action on providers and Medicaid enrollees to challenge rates for compliance with certain federal law.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Medi-Cal Provider Payment Reduction: Intermediate Care Facilities for the Developmentally Disabled. As noted above, the budget proposes a reduction to Provider Payments by 10 percent effective as of June 1, 2011. DHCS inadvertently overlooked this Provider Type in release of the budget but intends the same level of reduction. Intermediate Care Facilities for the Developmentally Disabled (ICF-DD) provide 24-hour care to individuals with developmental disabilities. The Provider Rate reduction would be applied in the same manner as noted above to achieve a reduction of $41.1 million ($20.5 million GF). In addition to State statutory changes, a State Plan Amendment that requires federal Centers for Medicare and Medicaid (CMS) approval is needed.	-$20,500	The DHCS inadvertently overlooked this Provider Type and had intended to apply the 10 percent reduction to their Provider Payment. Therefore, this reduction amount is in addition to the identified budget reduction.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Medi-Cal Provider Payment Reduction: Nursing Home Level B (AB 1629 Facilities).	-$172,000	
Budget reflects a reduction of $392.9 million ($172 million GF) in 2011-12 through enactment of aProvider Payment reduction, effective as of June 1, 2011. DHCS states the 10 percent reduction would be applied to a Nursing Home's bottom-line, *after* the existing statutory rate adjustments are calculated. The existing statutory rate adjustments include an average 3.93 percent increase in the current year, and an average 2.4 percent increase for 2011-12. These were funded using Quality Assurance Fee (QAF) revenue and federal funds. In addition to State statutory changes, a State Plan Amendment that requires federal Centers for Medicare and Medicaid (CMS) approval is needed.		Existing methodology requires DHCS to implement a facility-specific rate system for these homes and it established a Quality Assurance Fee (QAF). Revenue generated from the QAF is used to obtain federal funds and provide additional reimbursement to Nursing Homes for quality improvement efforts. Rates were frozen in 2009. The Budget Act of 2010 provided a two-year rate adjustment as referenced, as well as implemented a nursing home quality and accountability package. The QAF sunsets as of July 31, 2012. Presently the QAF provides about $400 million in funding for the homes.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Additional General Fund Savings.	-$77,900	
With the assistance of the DHCS, Committee staff has identified $77.9 million from two special funds that can be swept to offset General Fund support in Medi-Cal. The Medi-Cal Inpatient Payment Adjustment Fund (MIPA) has a balance of $45.2 million consisting of Intergovernmental Transfers (IGTs) made by transferring entities during 1995 to 1998 that can no longer be identified, as well as accrued interest ($10 million of this amount). These funds constitute the non-federal share of certain Disproportionate Share Hospital (DSH) payments. Some of the transferring entities may no longer exist and there are no records to substantiate any claim to these funds. These funds can be used to offset certain Medi-Cal Program expenditures. The Private Hospital Supplemental Fund has a balance of $32.7 million that is attributable to California's receipt of enhanced federal funds obtained through the American Reinvestment and Recovery Act (ARRA). Chapter 6, Statutes of 2009 requires that any increased federal funds due to ARRA will be deposited into the General Fund. Therefore, $32.7 million is available to offset General Fund support.		These funds can be swept for an additional savings above the Governor's budget of $77.9 million (GF). No services to Medi-Cal enrollees, or Medi-Cal payments to providers would be affected by this action.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Hard Cap: 10 Visits for Physicians & Clinics.	-$196,500	

Hard Cap: 10 Visits for Physicians & Clinics. -$196,500

Budget proposes a "hard cap" of 10 office visits per year for certain Medi-Cal enrollees for a reduction of $392.9 million ($196.5 million General Fund). This cap applies to both Fee-for-Service and Managed Care settings.

This hard cap would apply to Adults. Children (21 years and under), pregnant women, and residents in Long-Term Care facilities are exempt.

This proposal affects outpatient primary care and specialty care provided under the direction of a Physician in the following settings:

- Hospital Outpatient Department;
- Outpatient Clinic;
- Federally Qualified Health Centers (FQHCs);
- Rural Health Centers (RHCs); and
- Physician Offices.

Trailer bill language is required for enactment and a September 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment and federal CMS approval.

DHCS states a total of 3.3 million office visits were provided to Adults. About 40 percent of these office visits, or 1.3 million, would be *above* this proposed cap of 10 visits per year.

This proposal would negatively impact people with the greatest need for health care services. Appropriate medical care in the right setting provides for a cost-beneficial program and more positive patient health outcomes.

The Administration's fiscal calculation assumes an average cost per visit of $143 in the outpatient setting. It would not take many Emergency Room visits or hospitalizations to negate the assumed savings from this "hard cap".

The Administration's "hard cap" does not take into consideration *any* cost shifts to other services—such as Emergency Rooms and hospitalizations—that would likely occur from this action due to the lack of primary and specialty care which would result.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Mandatory Copayments for Physician & Clinic Visits.	-$152,800	
Budget reduces by $305.7 million ($152.8 million GF) by implementing mandatory copayments of $5 per Physician Office Visit and $5 per Clinic Office visit (Federally Qualified Health Centers and Rural Health Centers) at the point of service. This cap applies to *all* Medi-Cal enrollees, including Children, pregnant women, and people in Long-Term Care facilities. No exemptions. Under this proposal, a Medi-Cal enrollee must pay $5 at the point of service, and the Physician would be reimbursed their Medi-Cal payment *minus* the $5 copayment. If the Medi-Cal enrollee does not have the $5 copayment, the Physician can deny the service. Trailer bill language is required for enactment and an October 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment *and* a federal Waiver which both require federal CMS approval.		Currently, Medi-Cal enrollees have a $1 copayment per office visit. It is a voluntary copayment and services cannot be denied if the enrollee does not pay. This proposal is a mandatory copayment and the Physician can deny the service. The $305.7 million reduction assumes savings from both a rate reduction to Physicians and Clinics, as well as an eight percent reduction in utilization by Medi-Cal enrollees. Specifically, about $219 million (total funds) is attributable to a rate reduction and about $86 million for less office visits by Medi-Cal enrollees. DHCS states the average cost of a Fee-for-Service Physician office visit is $82.49 and the average cost of an FQHC or RHC Clinic visit is $140.16.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Hard Cap: Six Prescription Outpatient Drugs. Budget proposes a "hard cap" on the existing six-prescription per month limit for a reduction of $22.1 million ($11 million GF). This cap applies to both Fee-for-Service and Managed Care settings. This hard cap would apply to Adults. Children (21 years and under), pregnant women, and residents in Long-Term Care facilities are exempt. Under this proposal, Medi-Cal would not pay for prescriptions beyond the six-prescription per month limit unless Medi-Cal deems the drugs to be life-saving. The trailer bill language leaves determination of what drugs would be exempted from the "hard cap" to the DHCS. Trailer bill language is required for enactment and an October 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment and federal CMS approval.	-$11,000	An existing six-prescription per month limit was implemented in 1994 and is still in effect. Any prescription beyond this limit must receive "prior authorization" approval by DHCS. Medi-Cal currently pays for drugs beyond the six prescription limit *after* prior authorization approval. This existing limit is not the number of different drugs dispensed in a month, or the number of drugs a recipient is taking. Rather, it is the limit of pharmacy drug claim lines submitted within a calendar month. For example, if the same drug is dispensed four times a month, it counts as four of the six prescriptions. The "hard cap" would limit all prescriptions beyond the six-prescription limit unless deemed life-saving by DHCS. *However*, it is unclear in practice what will be considered life-saving. The proposed trailer bill language says: "Any drug specifically exempted by the department." It is unclear how the DHCS would administer this proposal and how Medi-Cal patients with significant health care needs would not fall through the cracks Further, the proposal does not take into consideration any cost shifts to other services—Physicians visits or Emergency Rooms—that may occur if medications are not provided.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Mandatory Copayments for Pharmacy. Budget reduces by $280.6 million ($140.3 million GF) by implementing mandatory copayments of $3 per prescription for preferred drugs (Generics) and $5 per prescription for non-preferred (Brand) at the point of service. This cap applies to *all* Medi-Cal enrollees, including Children, pregnant women, and people in Long-Term Care facilities. No exemptions. Under this proposal, a Medi-Cal enrollee must pay $3 (Generic) or $5 (Brand) at the point of service, and the Pharmacist would be reimbursed their Medi-Cal payment *minus* the copayment. If the Medi-Cal enrollee does not have the copayment, the Pharmacist can deny the service. Trailer bill language is required for enactment and an October 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment *and* a federal Waiver which both require federal CMS approval.	-$-140,300	Currently, Medi-Cal enrollees have a $1 copayment per prescription. It is a voluntary copayment and services cannot be denied if the Medi-Cal enrollee does not pay. This proposal is a mandatory copayment and the Pharmacist can deny the service. The Administration's reduction estimate of $280.6 million assumes savings from (1) a rate reduction to Pharmacists; (2) a five percent reduction in the number of prescriptions once the copayment is implemented; and (3) a shift of 25 percent from non-preferred (Brand) to preferred (Generics). This break out is as follows: • $135.1 million from Pharmacy rate reduction. • $93.6 million from a five percent reduction in the number of prescriptions. • $51.9 million from the 25 percent shift to preferred (Generics). Presently, the average cost of a prescription is $92.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Mandatory Copayments for Hospital Services. Budget proposes implementation of *three mandatory copayments* related to Hospital Services for a total reduction of $542.1 million ($262.8 million GF). Under these proposals, the Hospital collects the copayment from the Medi-Cal enrollee as applicable. DHCS would reimburse Hospitals the Medi-Cal rate *minus* the copayment. If the Medi-Cal enrollee does not have the copayment, the Hospital can deny the service. *However*, DHCS notes that Hospitals must still comply with the Emergency Medical Treatment and Active Labor Act. As such, it is likely that most care would still need to be provided by the Hospitals. This cap applies to *all* Medi-Cal enrollees, including Children, pregnant women, and people in Long-Term Care facilities. No exemptions. Trailer bill language is required for enactment and an October 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment *and* a federal Waiver which both require federal CMS approval.	-$262,800	The *three mandatory copayments* are as follows: <u>Mandatory $100 Copay for Inpatient Day.</u> A copayment of $100 per Inpatient Hospital day up to a maximum of $200 would be required. A reduction of $319 million ($151.2 million GF) is assumed. A significant aspect of this proposal is an assumed reduction in Inpatient admissions. Specifically, a 5 percent reduction is assumed once copayment is implemented, which is about 30 percent of the reduction amount. Presently, about 78 percent of Inpatient days are for two or more days. <u>Mandatory $50 Copay for Non-Emergency Room Use of Emergency Rooms.</u> A copayment of $50 for Non-Emergency use of an Emergency Room would be required. A reduction of $146.4 million ($73.2 million GF) is assumed. DHCS assumed a reduction of 8 percent in utilization once the copayment is implemented for a reduction of $22.4 million (total funds), with the remaining $124 million (total funds) coming from the rate reduction (offset of copayment). <u>Mandatory $50 Copay for Emergency Room Use.</u> A copayment of $50 would be required, even for medically necessary Emergency Room services. A reduction of $76.7 million ($38.4 million GF) is assumed. Most of this reduction would occur from a rate reduction (offset of copayment).

Governor's Proposal	2011-12 ($ in thousands)	Comments
Mandatory Copayments for Dental Services.	-$1,300	
Budget reduces by $2.5 million ($1.3 million GF) by implementing mandatory copayments of $5 per Dental Office visit at the point of service. Under this proposal, the Dental Office would collect the copayment at the point of service, and the Dentist would be reimbursed their Medi-Cal payment *minus* the $5 copayment. If the Medi-Cal enrollee does not have the copayment, the Dentist can deny the service. This cap applies to *all* Medi-Cal enrollees, including Children, pregnant women, and people in Long-Term Care facilities. No exemptions. Trailer bill language is required for enactment and a May 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment *and* a federal Waiver which both require federal CMS approval.	-$27,900 corrected	The Adult Dental benefit, other than certain federally required services, was eliminated from Medi-Cal in 2009 as a cost containment measure. As such, most of the copayment reduction pertains to dental services provided to Children, pregnant women, people in Long-Term Care facilities, and a few Adults in managed care arrangements. Dental Services for Children, pregnant women and people in Long-Term Care facilities are provided as required by federal law. Committee staff has identified a calculation misstep in the Administration's estimate and the reduction amount should actually be $55.8 million ($27.9 million GF), or an *additional reduction of $26.6 million (GF)* more than contained in the Governor's budget.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Elimination of Over-the-Counter Cough & Cold.	-$2,200	
Budget proposes reduction of $4.4 million ($2.2 million General Fund) by eliminating "non-prescription" cough and cold products for Adults. Specifically, these are "over-the-counter" products such as Nyquil, Robitussin, Alka-Seltzer, and similar cough and cold products. Presently, Medi-Cal enrollees are required to obtain a Pharmacist's prescription to obtain these products. This proposal would eliminate Medi-Cal from paying for these products at all. Trailer bill language is required and a June 1, 2011 implementation date is assumed.		Under this proposal, Medi-Cal enrollees could choose to pay out-of-pocket for these cough and cold products, or seek medical attention and, if medically necessary, obtain a prescription-required product (not an over-the-counter product). Over-the-counter cough and cold products for children remain unchanged.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Limit Enteral Nutrition Products for Adults.	-$14,500	
Budget proposes reduction of $28.9 million ($14.5 million GF) through enactment of trailer bill language to limit Enteral Nutrition products provided to Adults. An implementation date of June 1, 2011 is assumed. Specifically, these products would only be provided for Adults who must be tube-fed. Conditions which require tube feeding include, but are not limited to, anatomical defects of the digestive tract or neuromuscular diseases. DHCS states this proposal would more closely align Medi-Cal with the current federal Medicare benefit which limits these products to those individuals who are tube fed.		Under federal law, Enteral Nutrition products are an Optional Benefit in Medicaid (Medi-Cal). Currently, Medi-Cal Enteral Nutrition products (liquid protein and related nutrition products) are covered only when supplied by a Pharmacy provider upon the prescription of a licensed practitioner within the scope of their practice. All Enteral Nutrition products require prior authorization approval before Medi-Cal reimbursement.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Establishes Maximum Annual Dollar Limit for Durable Medical Equipment. Budget reflects a reduction of $14.7 million ($7.4 million GF) through enactment of trailer bill legislation to cap the maximum expenditures per Medi-Cal enrollee for Durable Medical Equipment (DME). The maximum dollar limit would be $1,604 annually per person. This dollar limit would apply to Adults. Children (21 years and under), pregnant women and people in Long-Term Care Facilities are exempt. DME items include ambulation devices (walkers), bathroom equipment, decubitus (bedsore) care equipment, hospital beds and accessories, patient lifts, traction and trapeze equipment, communication devices, IV equipment, Wheelchairs and accessories, and oxygen and respiratory equipment. The *only* DME products exempt from counting towards the dollar limit are oxygen and respiratory equipment. In addition to statutory change, this requires a State Plan Amendment and federal CMS approval for implementation.	-$7,400	DHCS contends this proposal would enable 90 percent of the Medi-Cal enrollees to continue to receive all necessary DME products because they are presently at or below the proposed dollar limit of $1,604 per enrollee. This 90th percentile consists of about 60,100 Adults. In comparison, DHCS states 6,773 people, or 10 percent of those needing DME products would *exceed* this limit. These individuals have an average cost of $4,666 annually, or three times the amount of the proposed dollar limit. A key concern with this limit is for the people who require a combination of DME products due to their fragile medical state, as well as people who may need customized wheelchairs in order to live independently and be mobile (access to school, work, and quality of life issues). Infections from bedsores or the lack of other appropriate DME products can quickly lead to Physician visits and Inpatient Hospital care needs which can be more costly. The Administration's proposal does not take into consideration any cost shifts to other services—such as Physician visits, clinics visits, or Emergency Rooms—that may occur if appropriate DME products are not provided.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Establishes Maximum Annual Dollar Limit for Medical Supplies.	-$1,900	Currently, Medical Supplies are a benefit in Medi-Cal when prescribed by a Physician. Certain prior authorization approvals also apply. In addition, DHCS has authority to contract with providers for certain supplies, including incontinence supplies.

Establishes Maximum Annual Dollar Limit for Medical Supplies.

Budget reflects a reduction of $3.9 million ($1.9 million GF) through enactment of trailer bill legislation to cap the maximum expenditures per Medi-Cal enrollee for certain Medical Supplies as noted below.

Item to be Capped	Proposed Dollar Limit	10 Percent People Affected
Wound Care Dressings	$391	882
Incontinence Supplies	$1,659	9,050
Urologicals-e.g., catheters	$6,435	459
Total People		10,391

This dollar limit would apply to Adults.

Children (21 years and under), pregnant women and people in Long-Term Care Facilities are exempt.

An implementation date of October 1, 2011 is assumed. The trailer bill language places the above dollar limits in statute.

In addition to statutory change, this requires a State Plan Amendment and federal CMS approval for implementation.

-$1,900

Currently, Medical Supplies are a benefit in Medi-Cal when prescribed by a Physician. Certain prior authorization approvals also apply. In addition, DHCS has authority to contract with providers for certain supplies, including incontinence supplies.

DHCS contends this Medical Supply dollar limit would enable 90 percent of the Medi-Cal enrollees to continue to receive all necessary Medical Supplies because they are at or below the proposed dollar limit as shown in the table.

In comparison, about 10 percent of Medi-Cal enrollees, or 10,391 people would exceed the limit. These individuals have average costs as follows:

- $1,191 for Wound Care as compared to a $391 proposed limit, or three times the limit.
- $1,872 for Incontinence Supplies as compared to a $1,659 proposed limit.
- $7,295 for Urologicals as compared to a $6,435 proposed limit.

The Administration's proposal does not take into consideration any cost shifts to other services—such as Physician visits, clinics visits, or Emergency Rooms—that may occur if these products are not provided.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Establishes Maximum Annual Dollar Limit for Hearing Aid Expenditures. Budget reflects a reduction of $1 million ($507,000 GF) through enactment of trailer bill legislation to cap the maximum expenditures per Medi-Cal enrollee for Hearing Aid expenditures. The maximum dollar limit would be $1,510 annually per Medi-Cal enrollee. This includes expenditures for the Hearing Aid, ear molds, and repairs. This dollar limit would apply to Adults. Children (21 years and under), pregnant women and people in Long-Term Care Facilities are exempt. Medi-Cal reimbursement for Hearing Aids varies but the maximum amount for the device is $884 (monaural) and $1,480 (binaural). In addition to the device, many people also need ear molds. An implementation date of October 1, 2011 is assumed. The trailer bill language places the above dollar limits in statute. In addition to statutory change, this requires a State Plan Amendment and federal CMS approval for implementation.	-$507,000	Federal law considers Hearing Aids to be an Optional Benefit. Medi-Cal has included Hearing Aids in its program since 1988. Hearing Aids are a benefit in Medi-Cal when supplied by a Hearing Aid Dispenser through the prescription of an Otolaryngologist or attending Physician. DHCS states there would be 2,293 people *above* the proposed expenditure limit. The average amount expended by this 10^{th} percentile group is $1,579 annually, or about $80 higher than the proposed cap.

4260 Department of Health Care Services (DHCS)

Governor's Proposal	2011-12 ($ in thousands)	Comments
Proposition 10 Funds for Medi-Cal for Children. Budget uses $1 billion in Proposition 10 Fund reserves to support Medi-Cal services for children (aged 5 and under) in lieu of General Fund support. This proposal requires voter approval and a June 2011 ballot initiative is assumed. The trailer bill language contains the following key aspects: • Establishes a special fund-- the Children and Families Health and Human Services Fund-- to provide health and human services to children from birth through five years; • Transfers $50 million from reserves in State Commission accounts to the special fund in 2011-12; • Transfers $950 million from combined balances of all Local Commissions, including reserve funds as specified, to the special fund in 2011-12; • Requires, beginning July 1, 2012, 50 percent of Local Commission Funds be transferred to the new special fund to help support Medi-Cal services for children (aged 5 and under) on an ongoing basis; and • Provides for an exception to the supplantation clause for this purpose.	-$1,000,000	Created in 1998 upon voter approval of Proposition 10, the CA Children and Families First Act established a Cigarette Tax (50 cents a pack), of which about 80 percent is allocated to the Local Commissions (58 counties) and 20 percent is allocated to the State Commission. Funds are spent for child development services for children (aged 5 and under). Programs and services are very diverse. Unspent funds are carried over for use in subsequent fiscal years. According to the DOF, over time both the State and Local fund balances have grown. DOF contends, as of June 30, 2009, Local Commissions held more than $2 billion in reserves. Most recently, Proposition 1D was on the May 2009 ballot to redirect a portion of Proposition 10 Funds to support certain health and human services programs and it was not successful. However, the fiscal crisis has deepened since this time. The LAO notes Proposition 10 was approved by voters during a healthier fiscal period and with the State facing continued hardship, it makes sense to prioritize core children's programs.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Trailer Bill Language: Medi-Cal Rates for Lanterman Managed Care Clients. The Administration proposes trailer bill legislation to recast provisions in existing statute regarding Medi-Cal reimbursement to Managed Care Plans for Medi-Cal enrollees with developmental disabilities who transitioned from Agnews Developmental Center or Lanterman Developmental Center and are enrolled in Medi-Cal Managed Care. DHCS has been working extensively with Medi-Cal Managed Care Plans who serve these individuals to ensure that Medi-Cal reimbursement is appropriate. The language states that DHCS shall reimburse for all Medi-Cal services provided under contract with the Health Plans that are not reimbursed by the federal Medicare Program. The language clarifies that Medi-Cal reimbursement shall be paid at full-risk capitation levels. It also specifies for Health Plans to be reimbursed for the reasonable cost of administrative services as defined.	TBL	The Medi-Cal budget reflects baseline expenditures related to the provision of Medi-Cal Managed Care services provided to people with developmental disabilities who have transitioned from Agnews Developmental Center or Lanterman Developmental Center. Trailer bill language has been crafted in prior years to ensure that appropriate medical care is provided for these individuals who generally have very intensive medical needs, and that Medi-Cal reimbursement levels are appropriate. No issues have been raised regarding the language.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Trailer Bill Language: Medi-Cal Eligibility Processing by Counties. The Governor's Budget proposes a reduction of $23.6 million ($11.8 million GF) by eliminating the cost-of-doing business for Medi-Cal Eligibility Administration conducted for the State by Counties. Trailer bill language is required and assumes a July 1, 2011 implementation date.	-$11,790	Counties have not been provided with a cost-of-living-adjustment since the Budget Act of 2007. Trailer bill language is required for implementation and the language is the same as done in prior years, with the inclusion of 2011-12. No other changes are proposed.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Trailer Bill Language: 250% Working Disabled Program Change.	-275	
Budget proposes trailer bill language to temporarily rescind a monthly premium increase in this program since it could violate existing maintenance of effort (MOE) requirements under the federal American Recovery and Reinvestment Act (ARRA) of 2009 provisions. The language requires that if the Director of Health Care Services determines that federal ARRA MOE requirements would no longer apply, the Director shall give notice to the Joint Legislative Budget Committee and DOF, as well as post this information on the DHCS website.		No issues have been raised.

4280-101-0001 Healthy Families Program, Managed Risk Medical Insurance Board

Proposed Increases to Monthly Premiums for Children Enrolled in Healthy Families Program. -$22,200

Budget reduces by $63.3 million ($22.2 million GF) through enactment of legislation to significantly increase monthly premiums paid by families. Premiums would increase as follows:

- 151 Percent to 200 Percent of Poverty. An increase of $14 per child, for a total of $30 per child per month, is proposed. The family maximum would be $90 per month for three or more children. A reduction of $35.7 million ($12.5 million GF) is assumed.
- 201 Percent to 250 Percent of Poverty. An increase of $18 per child, for a total of $42 per child per month, is proposed. The family maximum would be $126 per month for three or more children. A reduction of $27.6 million ($9.7 million GF) is assumed.

Trailer bill language is required for enactment and a June 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment and federal CMS approval.

Federal approval is necessary for two reasons. First, California must meet federal cost sharing requirements where monthly premiums and copays cannot exceed five percent of the family's monthly income.

Second, California will have to clarify if these proposed premium increases would violate federal maintenance of effort (MOE) provisions as contained in the federal Patient Protection and Affordable Care Act of 2010.

It should be noted that premiums were increased in 2005 and twice in 2009.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Conforming Issue to Medi-Cal: Mandatory Copayments for Hospital Services. Budget proposes a reduction of $15.9 million ($5.5 million GF) by increasing Healthy Families copayments to conform to those proposed in the Medi-Cal Program. This reduction includes the following: • Emergency Room visits which do not result in hospitalization or outpatient observation would increase from $15 to $50; and • Hospital Inpatient days would have a copay of $100 per day, with a maximum of $200 per stay. Trailer bill language is required for enactment and an October 1, 2011 implementation date is assumed. In addition to statutory changes, this requires a State Plan Amendment *and* a federal Waiver which both require federal CMS approval.	-$5,500	In addition to monthly premiums, families must also provide copayments for their children to receive certain services. Copayments count towards federal cost-sharing calculations of five percent of monthly family income. Existing statute and HFP regulation have a cap of $250 annually on the amount of out-of-pocket copayments. It is up to families to track this information and if the cap is reached, the family informs the HFP that it has been reached. MRMIB notes that the $250 annual copayment cap would remain in place and *not* be modified under this proposal in order to meet existing federal requirement of not exceeding five percent of the family's income in cost-sharing arrangements (meaning premiums and copays collectively).

Governor's Proposal	2011-12 ($ in thousands)	Comments
Elimination of Vision Coverage. Budget assumes reduction of $32.3 million ($11.3 million GF) by eliminating Vision coverage under the Healthy Families Program (HFP). If Vision coverage is eliminated, only a *very limited* set of sensory Vision services would be available, including some vision testing, dilated retinal eye exams, and medical treatment for the treatment of eye illnesses or eye injuries. Annual eye exams and glasses would no longer be covered for Children. Trailer bill language assumes a June 1, 2011 implementation date. This also requires a State Plan Amendment and federal CMS approval.	-$11,300	HFP provides Vision coverage through a separate Vision Plan, as done in the employer-based insurance market. There are three Vision Plans for HFP subscribers to choose from, including (1) Vision Service Plan (VSP); (2) EyeMed Vision Care; and (3) SafeGuard Vision. About 900,000 are presently enrolled in a Vision Plan, with most enrolled in VSP. In lieu of elimination, an option would be to reduce expenditures associated with both glass frames and lenses designed for the Healthy Families Program and at a lower fee schedule. Based on technical assistance information obtained from the Administration, this option would provide a savings of $3 million (GF) from existing expenditures.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Fund Balance Transfers (California Energy Commission)

Public Interest Research Fund Transfers Proposal to transfer the fund balances from: • Natural Gas Subaccount, Public Interest Research, Development, and Demonstration (PIRDD) Fund ($24 million); • PIRDD Fund ($52 million); and • Alternative and Alternative Fuel and Vehicle Technology Fund ($10 million) All three of these transfers relate to funding for public interest energy research conducted under the Energy Commission's "PIER" Program. The funding mostly comes from IOU energy (gas and electricity) ratepayers, with the exception of the third source of funding that comes from vehicle-related fees.	$86,000 (revenue)	This would eliminate funding for the PIER program in the budget year—a program whose effectiveness the Legislative Analyst's Office recently questioned in a publicly released comment. Public interest energy research will still be carried out by other state entities (such as the UC system); energy research will still be carried out by the energy utilities.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Watershed Implementation Reappropriation		
$1.2 Million Reappropriation for CALFED Watershed Activities The Governor requests re-appropriation of $1.2 million in unencumbered Proposition 50 bond funds to continue implementation of the former watershed element of the CALFED Bay-Delta Program through the Department of Conservation's (DOC) Statewide Watershed Program. In the 2010-11 Budget, the Legislature transferred most CALFED Bay-Delta Program activities, including certain oversight objectives, to the Delta Stewardship Council. At the same time, the Council was required to submit a zero-based budget in FY 2011-12 for all entities receiving former CALFED resources. This was, in part, to help the Legislature prioritize funding for Bay-Delta activities pending the adoption of a Delta Plan by the Council.	$1,200	The Delta Stewardship Council has requested to postpone the submission of the zero-based budget to coordinate with the completion of the Delta Plan. It would be appropriate to hold non-essential bond-funded activities off until a clear plan for the Delta is in place, and priorities for funding are made clear to the Legislature. Assembly denied without prejudice. **Recommendation. Adopt Assembly version to Deny Without Prejudice.**

Governor's Proposal	2011-12 ($ in thousands)	Comments
Fire Civil Cost Recovery Program		
Augment Program by $1.7 million **Background.** Request to augment a current program by $1.7 million and 10 two-year limited-term positions. Included are lease space and new vehicles totaling $208,000. The program's enabling statute authorizes fire agencies to recover costs for fires started negligently or in violation of certain laws. The current program returns $10-15 million General Fund through civil cost recovery per $2.5 million administrative costs.	$1,700	The Senate approved the majority of funding but denied lease space and new vehicles ($208,000). It is unclear (1) why the department is unable to find space in any of its over 400 facilities for these limited-term staff and (2) what the long-term use of the vehicles will be when the limited-term staff are termed out. The Assembly denied without prejudice to give it time to review the underlying statute. **Recommendation. Adopt Assembly version to Deny Without Prejudice.**

Governor's Proposal	2011-12 ($ in thousands)	Comments
Firefighter Engine Staffing		
Eliminate Funding for CalFIRE's Fourth Firefighter **Background.** Beginning in 2003, CalFIRE increased staffing levels from three to four firefighters per engine during peak fire season in the summer and early fall per Executive Order. The Governor's budget proposes to eliminate funding for CalFIRE's fourth firefighter. The budget includes a reduction of \$3.6 million GF in 2010-11 and \$30.7 million GF in 2011-12 as a result of restoring CalFIRE's staffing levels to three firefighters per engine.	-\$30,700	According to the administration, these additional staffing levels have not improved CalFIRE's initial attack effectiveness at containing wildfires to less than ten acres. In addition, most other western states have a minimum of two firefighters per engine, rising in some cases to three for the high season. The administration has concluded that four person staffing levels are not cost-effective. This proposal will restore CalFIRE firefighter staffing back to its pre-2003 historic levels.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Fire Protection Permanent Funding

Shift Funding from E-Fund to Base Budget The Governor requests permanent General Fund and position authority following a legislative direction to shift emergency-fund (E-Fund) expenditures to the base budget, and to submit at a zero-based budget. CalFIRE has access to an E–Fund that was intended originally to pay for large incident firefighting costs. Over time, the department expanded use of the E–Fund to include the practice of charging day-to-day operating costs not related to large fire incidents. The request includes authority related to the Aviation Management Unit, Very Large Air Tanker and Victorville Air Attack Base, San Diego Helitack, Aviation Asset Coordinator, Lake Tahoe Basin Fire Engine Station and Staffing, and Defensible Space, and CAL Card Support.	-$42,760	This proposal follows a series of recommendations from the Legislative Analyst's Office to allow for more fiscal and legislative oversight of CalFIRE's growing expenditures. Certain components of the proposal may have merit but it is uncertain whether all of the shifted programs are necessary given the state's fiscal uncertainty. The department is working with staff to break out each component of the shift in order to evaluate whether or not they are the highest fiscal priority. Assembly denied without prejudice $3.5 million for the Very Large Air Tanker program.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Vehicle Fleet Retrofit

$1.8 Million Augmentation (one-time) The Governor requests a one-time $1.8 million augmentation (State Park Recreation Fund) to continue addressing the air quality standards on older vehicles per Air Resources Board regulation. **Background.** The Governor requests a one-time increase of $1.8 million in funding from the State Park and Recreation Fund (SPRF) to continue addressing the air quality standards on older diesel vehicles as set forth by California Code of Regulations (CCR) Section 2022. These standards, developed by the California Air Resources Board, require the department to retrofit all of its on-road, heavy-duty, diesel-fueled vehicles that have engines which were manufactured between 1960 and 2006 by December 31, 2011.	$1,800	This request is consistent with previous actions in resources budgets of the same nature (Fish and Game, California Conservation Corps). The state is in the process of complying with regulations similar to the private sector. The State Park and Recreation Fund has a sufficient fund balance to support the funding on a one-time basis. Assembly denied without prejudice. **Recommendation. Adopt Assembly version to Deny Without Prejudice.**

Governor's Proposal	2011-12 ($ in thousands)	Comments
Light Brown Apple Moth		
Budget Bill Language The Governor requests $7.5 million Federal Funds to continue the Light Brown Apple Moth (LBAM) program. This request will provide an additional two-year funding for performing survey, delimitation, control, and regulatory activities necessary to ensure that the continuous threat of infestation of LBAM is contained. The base budget for LBAM is $1.6 million General Fund and $3.6 million Federal Funds.	$7,500 Federal Funds + BBL	**Assembly Action.** The Assembly denied the proposal without prejudice. In discussion, the Assembly stated its intent to remove the base General Fund allocation for the LBAM program.
Senate BBL. The Senate approved the proposal with added budget bill language (BBL) requiring the department to hold public and accessible meetings for impacted regions of the state.	-$1,634 General Fund (previously scored - base budget)	**Reduction Plan.** It is anticipated that LBAM will be included in the General Fund reduction plan proposed by the administration due to the level of other funding options available for the program (federal funds). **Recommendation.** **Add to Senate BBL—Reduce item 8570-001-0001 by $1.6 million (this will be scored in the action that Senate already took for the $15 million reduction to the department. (Will conform to the Assembly.)**
LBAM Likely Included in $15 million Reduction Plan. In a separate item, both the Assembly and Senate approved the reduction of $15 million General Fund in 2011-12 and $30 million ongoing. According to the department, it is anticipated that the LBAM program will be included in this reduction.		

Governor's Proposal	2011-12 ($ in thousands)	Comments

Network of California Fairs

Eliminate General Fund Support **Background.** The Governor's budget proposes to permanently eliminate state support for the network of California Fairs. This would result in a $32 million savings to the General Fund. This funding would reduce both the California Department of Food and Agriculture (CDFA) administrative functions (about 50 percent) and directly impact local assistance to the fairs (about 50 percent or $15.5 million). Within the CDFA exists the network of California Fairs. The network of 78 California fairs is comprised of 52 district agricultural associations, 23 county fairs, two citrus fruit fairs, and the California Exposition and State Fair. The state provides coordination and local assistance services to the fairs.	-$32,000	The impact of reductions on fairs would vary. Support may be critical to the operations of smaller fairs. Most larger fairs would be able to continue because state support is a smaller share of overall operations. The percent of state support compared to total fair revenue varies from less than 10 percent to over 50 percent. The Legislative Analyst's Office has recommended the Legislature adopt the Governor's proposal to eliminate General Fund support for local fairs and county agricultural activities.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Fund Balance Transfers

Gas Consumption Surcharge Fund ($262 million) Transfer balance of the Gas Consumption Surcharge Fund, less any funding for the Energy Low Income Program (CARE). About $238 million of a $500 million fund balance is directed to provide a 20 percent discount to low-income natural gas customers of IOUs under the "CARE" program. By transferring this amount, we are reducing the budgeted level of expenditures from this fund (to programs that provide energy efficiency upgrade assistance (such as discounts on energy efficient appliances) for IOU gas customers. The cuts related to energy efficiency programs supported by the Gas Consumption Surcharge Fund are modest in comparison to the energy efficiency programs (both gas and electricity) that will continue to be supported through the CPUC's ratemaking process (over $1 billion annually).	$262,000 (revenue)	With the transfer, certain energy efficiency programs for gas ratepayers (which are relatively modest on a per-ratepayer basis) would be largely suspended for the budget year. The fund receives its revenues from a public goods charge on IOU gas ratepayer bills and is used to support various programs.

Governor's Proposal	2011-12 ($ in thousands)	Comments

2660 Caltrans

Truck Weight Fees / Re-enact Fuel Tax Swap. The Governor's Budget proposes to re-enact the 2010 fuel tax swap legislation to conform to the two-thirds vote requirements of Proposition 26. Additionally, the Governor would substitute truck weight fee revenue for payment of transportation-related general-obligation bond (GO bond) debt and loans to the GF to conform to the requirements of Proposition 22. This proposal maintains the benefits of the fuel tax swap for both transit and highways, and also maintains the GF relief. Transit operators would continue to see a restoration of state support of about $350 million annually. Highway and local-road funding would be maintained at the full "Prop 42" level. Truck weight fees (instead of gas excise revenues) would go to GO bond debt service and loans to maintain GF relief.	$1,700,000 (GF relief over two years) Detail 2010-11: $262,000 GO bonds $494,000 GF loans 2011-12: $778,000 GO bonds $166,000 GF loans TBL	Background: The 2010 fuel tax swap involved several revenue-neutral tax swaps: sales tax on gasoline was reduced, and excise tax on gasoline was increased; sales tax on diesel fuel was increased, and excise tax on diesel was decreased. These changes made transportation revenues more flexible for expenditure on GO bond debt service. LAO option: The LAO indicates an additional $194 million in truck weight fees could be borrowed – and on February 8, the Administration proposed to borrow $44 million of this. The LAO has indicated significant savings are likely in diesel retrofit and capital outlay support, resulting in the ability to make a larger loan.

Governor's Proposal	2011-12 ($ in thousands)	Comments

2660-001-0042 Caltrans

Project Initiation Documents or PIDs

The Governor proposes to increase budgeted positions for PIDs workload from 242 positions to 260 positions and also shift the funding for 66 of these positions from State Highway Account (SHA) to local reimbursements. The overall funding for PIDs would increase $2.4 million – from $30.6 million to $33.0 million (with $24.3 million SHA-funded and $8.6 million reimbursement-funded). A "PID" is a preliminary planning document, or tool, that includes the estimated cost, scope, and schedule of the project—information needed to decide if, how, and when to fund the project. The budget issue is whether the PIDs workload should be funded by state funds, or by local reimbursement, when the applicable project will be locally-funded at the construction phase.	No GF -$4,874 State Highway Account $7,282 Local reimburse-ments	Background: Governor Schwarzenegger proposed reimbursement funding in the last two budgets, but the Legislature has rejected the change. Last year, Governor Schwarzenegger vetoed $7.4 million in state funds and 67 positions, indicating the work should be local-reimbursed. However, Caltrans has not been successful in obtaining reimbursements from locals and has not completed a scope evaluation for PIDs. Before the Legislature endorses this change in PIDs funding, the Administration should outline their implementation plans. At this time, detail is lacking on how the Administration will proceed.

Governor's Proposal	2011-12 ($ in thousands)	Comments

2665-004-6043 High-Speed Rail Authority (HSRA)

Joint Report with Caltrans on State Staff for HSRA.

The Assembly adopted budget bill language that would require the HSRA and Caltrans to jointly report by May 1, 2011, on opportunities to use existing state resources and staff, rather than contracting out, to advance the High Speed Rail system development.

BBL

Background: The HSRA has 37 authorized positions, but due to the hiring freeze and other factors only has about 17 filled positions. However, the HSRA has the equivalent of about 604 positions in private-sector contractors. The lack of state staff has been cited by the HSRA Chief Executive Office as a major challenge.

As the project progresses, there will be new workload in the area of right-of-way acquisition and construction oversight. In contrast to HSRA, Caltrans performs most of this workload with state staff. The report would provide insight from Caltrans and HSRA on factors to consider going forward in selecting between state staff and contractors for certain types of work on the high-speed rail project.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Trailer Bill Language. Senate Budget Subcommittee #4 passed staff-introduced trailer bill language to eliminate the Office of Exposition Park Management and to place the functions of that office into the California Science Center. The Subcommittee also voted to decrease the California Science Center General Fund budget by $1.7 million.	TBL	The Office of the Exposition Park Management is responsible for scheduling and administering all Exposition Park related activities, as well as managing the common interests of the institutions located in Exposition Park, including security. The institutions located in Exposition Park are the California Science Center, the California African American Museum, the Coliseum Commission, the County of Los Angeles Natural History Museum, and the City of Los Angeles Department of Parks and Recreation.

1100-001-0001 California Science Center

Governor's Proposal	2011-12 ($ in thousands)	Comments

7100-001-0869 Employment Development Department

Workforce Investment Act Funds: Consolidated Work Program Fund. The Governor's budget proposes to fund federal Workforce Investment Act expenditures payable through the Consolidated Work Program Fund.	TBL	The federal Workforce Investment Act program provides employment training services. The Consolidated Work Program Fund does not presently exist in statute, and has not since the enactment of Chapter 630, Statutes of 2006 (SB 293). The Administration proposes trailer bill language to reestablish the Consolidated Work Program Fund in Section 14005 of the Unemployment Insurance Code. In establishing this fund in the State Treasury, the Consolidated Work Program Fund is created for the express purpose to contain moneys deposited pursuant to the federal Workforce Investment Act and shall be available upon appropriation of the Legislature. **Staff Recommendation: Approve trailer bill language to reestablish the Consolidated Work Program Fund in statute.**

Governor's Proposal	2011-12 ($ in thousands)	Comments

Control Section 3.90 Reduction for Employee Compensation

January Budget: Core Health Care Plan Option. The Governor's Budget proposes $72 million in GF savings through trailer bill language that would direct the California Public Employees' Retirement System (CalPERS) to: (1) negotiate and add a core health plan option to the existing portfolio of health plans; and (2) include a state representative in the health contract negotiations for purposes of shaping the core health plan option.	$72,000 GF $36,000 other funds TBL	Through the Public Employees' Medical and Hospital Care Act (PEMHCA), the Legislature vests responsibility for managing PEMHCA health care programs for state workers, state retirees, and employees or retirees of participating local agencies with CalPERS. State employer health and dental care benefit costs for active employees and retirees, and their dependents, is estimated to total approximately $2.4 billion GF ($3.6 billion all funds) in 2010-11. The state's contribution to employee health care is based on a negotiated percentage of the average cost of the four health plans with the most enrolled state employees.
February Proposal: 2011/12 and Ongoing Health Benefit Program Savings. The Administration proposes modified trailer bill language and new budget control section language as follows: (1) the <u>modified trailer bill language</u> requires CalPERS to develop a core health care plan option and/or implement other measures to achieve ongoing savings beginning in 2012-13; and (2) the <u>new budget control section language</u> requires CalPERS to achieve $80 million GF savings in the 2011-12 Health Benefit Program and, beginning in 2012-13, achieve an equivalent ongoing savings in the Health Benefit Program based on the core health care option and/or other cost saving measures.	$80,000 GF $36,000 other funds TBL BBL	The Administration's proposal seeks to reduce this escalating cost; the estimated savings are from the projected annual increase in the calendar year health rates. A core health plan option is defined as coverage for essential benefits at lower premiums, for both the state and employees (and retirees), as compared to those provided in the existing portfolio of health benefit plans offered by CalPERS.