

SUBCOMMITTEE NO. 3

Agenda

Senator Richard Pan, M.D., Chair
Senator William W. Monning
Senator Jeff Stone



Wednesday, May 16, 2018
10:30 a.m.
State Capitol - Room 4203
PART B

Consultant: Scott Ogus

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PUBLIC COMMENT

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4260 DEPARTMENT OF HEALTH CARE SERVICES**Issue 1: Medi-Cal Local Assistance Estimate – May Revision Update**

DOF Issue#: 4260-001-ECP-2018-GB (November 2017 – Medi-Cal Estimate)
 4260-003-ECP-2018-GB (November 2017 – Medi-Cal Estimate)
 4260-005-ECP-2018-GB (November 2017 – Children’s Health Insurance Program)
 4260-007-ECP-2018-GB (November 2017 – Full Adult Dental Restoration)
 4260-008-ECP-2018-GB (November 2017 – ACA Optional Expansion)
 4260-401-ECP-2018-MR (May 2018 – Medi-Cal Estimate)
 4260-403-ECP-2018-MR (May 2018 – SMHS Federal Audit Repayment)
 4260-411-ECP-2018-MR (May 2018 – Medi-Cal Unanticipated Costs)
 4260-412-ECP-2018-MR (May 2018 – Medi-Cal Estimate)
 4260-413-ECP-2018-MR (May 2018 – Reauthorization of CHIP)
 4260-414-ECP-2018-MR (May 2018 – CMS Deferrals)

May Revision Issue. The May 2018 Medi-Cal Local Assistance Estimate includes \$97.3 billion (\$20.3 billion General Fund, \$59.9 billion federal funds, and \$17.1 billion special funds and reimbursements) for expenditures in 2017-18, and \$103.9 billion (\$22.9 billion General Fund, \$67.2 billion federal funds, and \$13.7 billion special funds and reimbursements) for expenditures in 2018-19. These figures represent an increase in estimated General Fund expenditures in the Medi-Cal program of \$286.3 million in 2017-18 and \$1.3 billion in 2018-19 compared to the Governor’s January budget.

Caseload. In 2017-18, the May Revision assumes annual Medi-Cal caseload of 13.3 million, a decrease of 0.9 percent compared to assumptions in the Governor’s January budget. In 2018-19, the May Revision assumes annual Medi-Cal caseload of 13.3 million, a decrease of 1.1 percent compared to assumptions in the Governor’s January budget and a decrease of 0.1 percent compared to the revised caseload estimate for 2017-18. The decrease in estimated caseload is primarily due to lower projected enrollment for families on public assistance, medically needy families, and Medi-Cal expansion beneficiaries than estimated in the Governor’s January budget.

May Revision Local Assistance Adjustments. The Administration requests the following adjustments to reflect caseload and miscellaneous adjustments:

- Item 4260-101-0001 be increased by \$1,346,759,000 and reimbursements be decreased by \$36,503,000
- Item 4260-101-0232 be decreased by \$2,245,000
- Item 4260-101-0233 be increased by \$764,000
- Item 4260-101-0236 be increased by \$1,687,000
- Item 4260-101-0890 be decreased by \$880,267,000
- Item 4260-101-3305 be increased by \$3,717,000
- Item 4260-102-0001 be decreased by \$4,763,000
- Item 4260-102-0890 be increased by \$25,377,000
- Item 4260-106-0890 be increased by \$3,794,000
- Item 4260-117-0001 be increased by \$40,000
- Item 4260-117-0890 be increased by \$326,000

Medi-Cal Local Assistance Funding Summary 2017-18 Comparison to January Budget			
Fiscal Year:	2017-18	2017-18	Jan-May
<u>Benefits</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$18,866,694,000	\$18,994,776,000	\$128,082,000
Federal Funds	\$60,011,965,000	\$56,699,346,000	\$(3,312,619,000)
Special Funds/Reimbursements	\$16,284,778,000	\$17,040,522,000	\$755,744,000
Total Expenditures	\$95,163,437,000	\$92,734,644,000	\$(2,428,793,000)
<u>County Administration</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$1,030,976,000	\$1,204,382,000	\$173,406,000
Federal Funds	\$3,384,520,000	\$2,887,258,000	\$(497,262,000)
Special Funds and Reimbursements	\$11,994,000	\$11,458,000	\$(536,000)
Total Expenditures	\$4,427,490,000	\$4,103,098,000	\$(324,392,000)
<u>Fiscal Intermediary</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$160,741,000	\$145,513,000	\$(15,228,000)
Federal Funds	\$288,451,000	\$267,640,000	\$(20,811,000)
Special Funds and Reimbursements	\$-	\$-	\$-
Total Expenditures	\$449,192,000	\$413,153,000	\$(36,039,000)
<u>TOTAL MEDI-CAL EXPENDITURES</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$20,058,411,000	\$20,344,671,000	\$286,260,000
Federal Funds	\$63,684,936,000	\$59,854,244,000	\$(3,830,692,000)
Special Funds and Reimbursements	\$16,296,772,000	\$17,051,980,000	\$755,208,000
Total Expenditures	\$100,040,119,000	\$97,250,895,000	\$(2,789,224,000)

Medi-Cal Local Assistance Funding Summary 2018-19 Comparison to January Budget			
Fiscal Year:	2018-19	2018-19	Jan-May
<u>Benefits</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$20,388,693,000	\$21,605,761,000	\$1,217,068,000
Federal Funds	\$63,651,192,000	\$63,709,372,000	\$58,180,000
Special Funds/Reimbursements	\$12,767,374,000	\$13,728,797,000	\$961,423,000
Total Expenditures	\$96,807,259,000	\$99,043,930,000	\$2,236,671,000
<u>County Administration</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$1,083,553,000	\$1,219,962,000	\$136,409,000
Federal Funds	\$3,280,762,000	\$3,285,546,000	\$4,784,000
Special Funds and Reimbursements	\$4,960,000	\$5,355,000	\$395,000
Total Expenditures	\$4,369,275,000	\$4,510,863,000	\$141,588,000
<u>Fiscal Intermediary</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$116,846,000	\$112,776,000	\$(4,070,000)
Federal Funds	\$211,277,000	\$213,511,000	\$2,234,000
Special Funds and Reimbursements	\$-	\$-	\$-
Total Expenditures	\$328,123,000	\$326,287,000	\$(1,836,000)
<u>TOTAL MEDI-CAL EXPENDITURES</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$21,589,092,000	\$22,938,499,000	\$1,349,407,000
Federal Funds	\$67,143,231,000	\$67,208,429,000	\$65,198,000
Special Funds and Reimbursements	\$12,772,334,000	\$13,734,152,000	\$961,818,000
Total Expenditures	\$101,504,657,000	\$103,881,080,000	\$2,376,423,000

Significant General Fund Changes. The May 2018 Medi-Cal Local Assistance Estimate includes the following significant General Fund changes:

Medi-Cal Unanticipated Costs: 2017-18 Deficiency — The May Revision estimates the Medi-Cal 2017-18 General Fund deficiency has increased by \$286.3 million compared to the Governor's January budget, from \$543.7 million to \$829.9 million. According to the Administration, this significant net increase is primarily attributable to the following factors:

- Drug Rebates (\$275.3 million increase) – Savings from federal drug rebates and rebates for drugs purchased in Medi-Cal managed care were revised lower due to a significantly higher

proportion of rebate claims from the Medi-Cal expansion population and the Children's Health Insurance Program (CHIP) population than estimated in the Governor's January budget. Claims for these populations receive a higher federal match, which results in more rebate funds being returned to the federal government than to the state.

- Managed Care Organization Taxes (\$428.2 million increase) – Estimates of General Fund offsets from the enrollment tax on managed care plans were revised downward due to updated payment data. General Fund offsets from the previous tax on revenues of Medi-Cal managed care plans were also revised downward due to repayment of the tax paid by plans subject to recoupment of previously paid capitation payments for the Medi-Cal expansion population.
- Managed Care Financing (\$177.6 million decrease) – Due to reduced caseload estimates, the costs for capitation payments to Medi-Cal managed care plans decreased.
- Hospital Quality Assurance Fee (\$477.1 million decrease) – Due to the timing of federal approval of the revised hospital quality assurance fee, additional 2017-18 costs were offset.
- Federal CHIP Reauthorization (\$243.5 million decrease) – Congress reauthorized CHIP at the enhanced 88 percent federal matching rate until September 2019, at 76.5 percent until September 2020, and at the traditional 65 percent thereafter. The Governor's January budget had assumed reauthorization of CHIP, but at the traditional 65 percent federal matching rate. As a result, additional matching funds offset more General Fund expenditures than were estimated in the Governor's January budget.
- Deferred Claims (\$682.3 million increase) – The federal Centers for Medicare and Medicaid Services (CMS) reviews claims submitted by state Medicaid programs and may defer payment on claims requiring additional information or interpreted as not meeting all federal funding requirements. A recent federal change requires Medi-Cal to repay these deferred claims immediately pending adjudication. Because Medi-Cal is budgeted on a cash-basis, the fiscal impact of these deferrals occurs in the year in which the determination is made, while any recoupment based on favorable adjudication occurs in later years. According to DHCS, the cost of these deferrals is \$682.3 million more than was estimated in the Governor's January budget.

Homeless and Mental Health Funding. The May Revision includes a one-time General Fund augmentation of \$50 million to provide counties or local entities with targeted funding for multi-disciplinary teams to provide intensive outreach, treatment, and related services for homeless persons with mental illness.

Proposition 56 Supplemental Provider Payments — The May Revision continues supplemental payments for physicians, dentists, women's health services, intermediate care facilities for individuals with developmental disabilities, and HIV/AIDS Waiver services approved in the 2017 Budget Act, as well as a \$163 million augmentation for physicians and \$70 million augmentation for dental services included in the Governor's January budget. However, DHCS reports that claims for physicians are lower than expected, resulting in lower estimated expenditures of allocated Proposition 56 revenues. DHCS estimates total Proposition 56 expenditures of \$252.2 million in 2017-18 and \$602.2 million in 2018-19. For 2017-18, \$293.8 million of the \$546 million Proposition 56 funds appropriated in the 2017 Budget Act remains unspent. For 2018-19, \$197.8 million of the \$546 million Proposition 56 funds allocated pursuant to the 2017 Budget Act remains unspent which, along with the Administration's augmentation of \$232.8 million, results in a total of \$430.6 million of Proposition 56 funds unallocated in 2018-19. DHCS indicates it will continue to work with stakeholders and the

Legislature on a supplemental payment structure to be submitted to the federal government for approval by September 2018.

In addition to these supplemental payments, the May Revision continues the 50 percent base rate increase for home health services provided through fee-for-service and home- and community-based waivers. The May Revision assumes \$56.7 million (\$27.6 million Proposition 56 funds) for these services. In addition, the May Revision funds this rate increase for the California Children's Services (CCS) program with a General Fund allocation of \$7.6 million.

The May Revision also includes \$224.7 million of Proposition 56 funds for program growth over the 2016 Budget Act. This reflects an increase of \$55.3 million over the Governor's January budget.

Reauthorization of the Children's Health Insurance Program — The May Revision includes additional General Fund offset of \$898.1 million for both 2017-18 and 2018-19 for the reauthorization of the Children's Health Insurance Program (CHIP) and other program changes. The Governor's January budget assumed reauthorization, but at the traditional 65 percent federal matching rate. Congress approved a ten year extension for CHIP, which continues the enhanced federal funding of 88 percent through September 2019. The enhanced funding will incrementally decrease over time to the traditional 65 percent federal matching rate. The incremental decreases will begin October 2019. The ten-year extension also includes maintenance of eligibility requirements for children in both Medi-Cal and CHIP through September 2027.

Drug Medi-Cal Organized Delivery System Waiver – The May Revision includes a decrease in projected expenditures in the Drug Medi-Cal Organized Delivery System (DMC-ODS) waiver of \$242.9 million (\$61.5 million General Fund) in 2018-19. The DMC-ODS waiver was approved by CMS in August 2015 with the first services beginning in February 2017. Through the waiver, counties provide new and expanded substance use disorder services, in addition to existing DMC services. In 2017-18, 11 counties are estimated to begin providing ODS services, and 29 counties are expected to begin providing services in 2018-19. The DMC-ODS estimate reflects updated phase-in dates and county interim rates. Also included is a new projection for the costs of adding a buprenorphine-naloxone combination product for participating waiver counties.

Medi-Cal Specialty Mental Health Services Federal Audit Repayment – The May Revision includes \$180.7 million General Fund expenditures for repayment of disallowed costs for Medi-Cal specialty mental health services. A recent audit by the U.S. Department of Health and Human Services, Office of Inspector General, is expected to be finalized and released in 2018-19. The audit will result in the disallowance of approximately \$180.7 million in federal claims for Medi-Cal services provided by county mental health plans for specialty mental health services. These funds will initially be paid by the state's General Fund in 2018-19 with repayments from counties occurring over the next four years to prevent significant funds from being diverted from the mental health delivery system in a single year. DHCS reports it will work with county stakeholders and the Department of Finance to establish the county repayment plan.

Hepatitis C – The May Revision includes an increase of \$70.4 million (\$21.8 million General Fund) in 2018-19 to authorize treatment for all patients ages 13 and above with Hepatitis C, regardless of liver fibrosis stage or co-morbidity, except for patients with a life expectancy of less than 12 months. The Department of State Hospitals and California Department of Corrections and Rehabilitation will align

treatment guidelines for state hospital patients and prison inmates with the Medi-Cal guideline expansion for Hepatitis C.

The current DHCS Chronic Hepatitis C treatment policy limits treatment based on stage of disease and the co-occurrence of chronic conditions. Since the policy was released in 2015, national treatment guidelines now recommend treatment for patients with chronic hepatitis C regardless of stage or co-occurrence of conditions. Additionally, several lower cost hepatitis C drugs have been FDA-approved and have significantly lowered the treatment costs for hepatitis C. DHCS proposes to expand its current Chronic Hepatitis C Treatment Policy to allow treatment regardless of stage, to be in alignment with national guidelines and CMS guidance.

Health Care Services for Reentry Program – The Department of Health Care Services will establish an interagency agreement with the California Department of Corrections and Rehabilitation to provide health care services to reentry program participants starting July 1, 2018. This state-only funded program will serve approximately 1,100 participants and services will be provided through the department’s contracting health plans. Program expenditures are expected to be \$9.7 million in 2018-19.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of the significant caseload and expenditure changes in the May 2018 Medi-Cal Estimate.
2. Please provide a brief overview of the factors leading to the significant increase in the 2017-18 deficiency.
3. Please provide a brief overview of the federal audit that led to the significant federal disallowance and General Fund repayment. Please also describe the schedule and planning process for repayment of those funds by the counties.
4. Please provide a brief overview of the changes to federal guidance, as well as waiver requirements that led to the significant increase in costs related to repayment of federally deferred claims, as well as disallowed CHIP funds.

Issue 2: Family Health Estimate – May Revision Update
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DOF Issue#: 4260-002-ECP-2018-GB (November 2017 Family Health Estimate)
4260-402-ECP-2018-MR (May 2018 Family Health Estimate)

Family Health Local Assistance Funding Summary 2017-18 Comparison to January Budget			
Fiscal Year:	2017-18	2017-18	Jan-May
<u>California Children’s Services (CCS)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$77,478,000	\$76,420,000	\$(1,058,000)
Special Funds/Reimbursements	\$5,453,000	\$5,453,000	\$-
County Funds [non-add]	[\$82,771,000]	[\$82,057,000]	[\$(714,000)]
Total CCS Expenditures	482,931,000	\$81,873,000	\$(1,058,000)
<u>Child Health and Disability Prevention (CHDP)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$3,000	\$3,000	\$-
Total CHDP Expenditures	\$3,000	\$3,000	\$-
<u>Genetically Handicapped Persons Program (GHPP)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$98,718,000	\$89,104,000	\$(9,614,000)
Special Funds and Reimbursements	\$18,435,000	\$19,478,000	\$1,043,000
Total GHPP Expenditures	4117,153,000	\$108,582,000	\$(8,571,000)
<u>Every Woman Counts Program (EWC)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$6,000,000	\$4,500,000	\$(1,500,000)
Federal Funds	\$4,509,000	\$5,128,000	\$619,000
Special Funds and Reimbursements	\$22,427,000	\$22,427,000	\$-
Total EWC Expenditures	\$32,936,000	\$32,055,000	\$(881,000)
<u>TOTAL FAMILY HEALTH EXPENDITURES</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$182,199,000	\$170,027,000	\$(12,172,000)
Federal Funds	\$4,509,000	\$5,128,000	\$619,000
Special Funds and Reimbursements	\$46,315,000	\$47,358,000	\$1,043,000
County Funds [non-add]	[\$81,527,000]	[\$82,057,000]	[\$(714,000)]
Total Family Health Expenditures	\$233,023,000	\$222,513,000	\$(10,510,000)

Family Health Local Assistance Funding Summary 2018-19 Comparison to January Budget			
Fiscal Year:	2018-19	2018-19	Jan-May
<u>California Children's Services (CCS)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$83,372,000	\$85,690,000	\$2,318,000
Special Funds/Reimbursements	\$5,453,000	\$5,453,000	\$-
County Funds [non-add]	[\$88,128,000]	[\$83,629,000]	[\$(4,499,000)]
Total CCS Expenditures	\$88,825,000	\$91,143,000	\$2,318,000
<u>Child Health and Disability Prevention (CHDP)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$3,000	\$3,000	\$-
Total CHDP Expenditures	\$3,000	\$3,000	\$-
<u>Genetically Handicapped Persons Program (GHPP)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$118,327,000	\$138,227,000	\$19,900,000
Special Funds and Reimbursements	\$14,523,000	\$16,737,000	\$2,214,000
Total GHPP Expenditures	\$132,850,000	\$154,964,000	\$22,114,000
<u>Every Woman Counts Program (EWC)</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$8,962,000	\$5,608,000	\$(3,354,000)
Federal Funds	\$4,509,000	\$5,128,000	\$619,000
Special Funds and Reimbursements	\$22,504,000	\$22,504,000	\$-
Total EWC Expenditures	\$35,975,000	\$33,240,000	\$(2,735,000)
<u>TOTAL FAMILY HEALTH EXPENDITURES</u>			
Fund Source	January Budget	May Revision	Change
General Fund	\$210,664,000	\$229,528,000	\$18,864,000
Federal Funds	\$4,509,000	\$5,128,000	\$619,000
Special Funds and Reimbursements	\$42,480,000	\$44,694,000	\$2,214,000
County Funds [non-add]	[\$88,128,000]	[\$83,629,000]	[\$(4,499,000)]
Total Family Health Expenditures	\$257,653,000	\$279,350,000	\$21,697,000

May Revision Issue. The May 2018 Family Health Local Assistance Estimate includes \$222.5 million (\$170 million General Fund, \$5.1 million federal funds, and \$47.4 million special funds and reimbursements) for expenditures in 2017-18, and \$279.4 million (\$229.5 million General Fund, \$5.1 million federal funds, and \$44.7 million special funds and reimbursements) for expenditures in 2018-19. These figures represent a decrease in estimated General Fund expenditures in Family Health programs of \$12.2 million in 2017-18 and an increase in estimated General Fund expenditures of \$18.9 million in 2018-19 compared to the Governor's January budget. These changes are primarily attributed to

increased costs in the Genetically Handicapped Persons Program (GHPP) due to retroactive payments for treatment expenditures resulting from delayed processing, offset by decreased costs in GHPP for base expenditures.

The May Revision caseload estimates for Family Health programs are as follows:

- **California Children’s Services (CCS) Caseload Estimate**

Medi-Cal: The May Revision estimates Medi-Cal CCS caseload of 174,278 in 2017-18, a decrease of 1,044 or 0.6 percent, compared to the Governor’s January budget. The May Revision estimates Medi-Cal CCS caseload of 177,299 in 2018-19, a decrease of 763 or 0.4 percent, compared to the Governor’s January budget, and an increase of 3,453 or 1.7 percent, compared to the revised 2017-18 estimate.

State-Only: The May Revision estimates state-only CCS caseload of 14,885 in 2017-18, a decrease of 736 or 4.7 percent, compared to the Governor’s January budget. The May Revision estimates state-only CCS caseload of 14,819 in 2018-19, a decrease of 802 or 5.1 percent, compared to the Governor’s January budget, and a decrease of 66 or 0.4 percent, compared to the revised 2017-18 estimate.

- **Child Health and Disability Prevention (CHDP) Caseload Estimate**

The May Revision estimates state-only CHDP caseload of 19 in 2017-18, a decrease of 17 or 47.2 percent, compared to the Governor’s January budget. The May Revision estimates state-only CHDP caseload of 22 in 2018-19, a decrease of 14 or 38.8 percent compared to the Governor’s January budget, and an increase of 3 or 15.8 percent, compared to the revised 2017-18 estimate. According to DHCS, the significantly low caseload is primarily due to the eligibility of all children, regardless of immigration status, for full-scope Medi-Cal pursuant to SB 75 (Committee on Budget and Fiscal Review), Chapter 18, Statutes of 2015.

- **Genetically Handicapped Persons Program (GHPP) Caseload Estimate**

The May Revision estimates state-only GHPP caseload of 703 in 2017-18, an increase of 48 or 7.3 percent, compared to the Governor’s January budget. The May Revision estimates state-only GHPP caseload of 721 in 2018-19, an increase of 62 or 9.4 percent, compared to the Governor’s January budget, and an increase of 18 or 2.6 percent, compared to the revised 2017-18 estimate.

- **Every Woman Counts (EWC) Program Caseload Estimate**

The May Revision estimates EWC caseload of 26,280 in 2017-18, a decrease of 720 or 2.7 percent compared to the Governor’s January budget. The May Revision estimates EWC caseload of 26,420 in 2018-19, a decrease of 580 or 2.1 percent, compared to the Governor’s January budget, and an increase of 140 or 0.5 percent, compared to the revised 2017-18 estimate.

May Revision Local Assistance Adjustments. The Administration requests the following adjustments to reflect caseload and miscellaneous adjustments:

- Item 4260-111-0001 be increased by \$22,218,000 and reimbursements be increased by \$43,000
- Item 4260-114-0001 be increased by \$3,354,000
- Item 4260-114-0890 be increased by \$619,000

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of the significant caseload and expenditure changes in the May 2018 Family Health Estimate.

Issue 3: Homeless Mentally Ill Outreach and Treatment

DOF Issue#: 4260-415-ECP-2018-MR

May Revision Issue and Budget Bill Language. DHCS requests one-time General Fund expenditure authority of \$50 million. If approved, these resources would allow DHCS to provide counties with targeted funding for multi-disciplinary teams to support intensive outreach, treatment, and related services for homeless persons with mental illness. According to the Administration, counties would be encouraged to match these funds with local mental health funding and federal matching funds, where appropriate. The funded interventions are intended to result in earlier identification of mental health needs, prevention of criminal justice involvement, and improved coordination of care for this population at the local level.

In addition to the allocation of General Fund expenditure authority, DHCS seeks provisional budget bill language to govern implementation of the program. The provisional language includes the following components:

1. Would require DHCS to consult with the Department of Finance and the California State Association of Counties to determine allocation of funding.
2. Funding allocations would consider county incidence of homeless individuals with serious mental illnesses and county population.
3. Counties may submit requests within 90 days of enactment of the budget.
4. Counties may use the funding to leverage other fund sources.
5. The funds may not be used to supplant existing funds for these purposes.
6. Counties would be required to report to DHCS within 90 days after full expenditure of funding. The report would include disposition of funds, services provided and number of individuals receiving services.

The provisional language also allocates \$150,000 to DHCS for administration of the program.

Interaction with Community Treatment Proposal at Department of State Hospitals. In the Governor's January budget, the Department of State Hospitals (DSH) requested \$100 million to implement a grant program to counties to provide community-based treatment and diversion for individuals at risk of being deemed incompetent to stand trial (IST) and referred for state hospital placement. The DSH proposal is intended to establish local post-booking diversion programs to reduce the number of individuals referred as IST by promoting community treatment. According to DSH, nearly half of the individuals referred to state hospitals as IST are unsheltered homeless. It is likely that both the \$50 million allocation for treatment of homeless persons with mental illness proposed by DHCS, as well as the community-based diversion program proposed by DSH, would target similar populations. It is unclear the extent to which DHCS and DSH have discussed coordinating funding and program details if both programs are approved.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

2. If both this proposal and the DSH proposal are approved, does DHCS or the Administration plan to coordinate with DSH to ensure resources and programming for both departments' programs are complementary, rather than duplicative?

Issue 4: Mental Health Services Fiscal Oversight and Behavioral Health Data Modernization
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DOF Issue#: 4260-402-BCP-2018-MR

May Revision Issue. DHCS requests 21 positions and expenditure authority of \$6.7 million (\$2.8 million General Fund, \$3.2 million federal funds, and \$725,000 Mental Health Services Fund) in 2018-19, an additional seven positions and expenditure authority of \$6.5 million (\$2.7 million General Fund, \$2.7 million federal funds, and \$1.1 million Mental Health Services Fund) in 2019-20, \$5.5 million (\$2.2 million General Fund, \$2.2 million federal funds, and \$1 million Mental Health Services Fund) in 2020-21, and \$4 million (\$1.5 million General Fund, \$1.5 million federal funds, and \$1 million Mental Health Services Fund) annually thereafter. If approved, these resources would allow DHCS to strengthen fiscal oversight of the Mental Health Services Act, the Medi-Cal Mental Health Managed Care Program, and planning for a comprehensive Behavioral Health Data Modernization Project.

Program Funding Request Summary		
Fund Source	2018-19	2019-20*
0001 – General Fund	\$2,781,000	\$2,700,000
0890 – Federal Trust Fund	\$3,219,000	\$2,698,000
3085 – Mental Health Services Fund	\$725,000	\$1,062,000
Total Funding Request:	\$6,725,000	\$6,460,000
Total Positions Requested**:	21.0	28.0

* Additional fiscal year resources requested: 2020-21: \$5,477,000; 2021-22 (ongoing): \$4,045,000

** Positions ongoing after 2019-20.

Background. DHCS is responsible for administering California's community mental health system through three primary programs: 1) the Bronzan-McCorquodale Act (1991 Realignment), 2) the Mental Health Services Act (MHSA), and 3) the Medi-Cal Mental Health Managed Care program. DHCS contracts with 57 county mental health departments to provide community mental health services through the Bronzan-McCorquodale Act and the MHSA and contracts with 56 county mental health departments to provide specialty mental health services through the Medi-Cal Mental Health Managed Care program.

Mental Health Services Act Responsibilities. DHCS is responsible for fiscal oversight activities of MHSA-funded programs. The department collects annual revenue and expenditure reports from county mental health programs, calculates unspent amounts subject to reversion after three years pursuant to the MHSA, withholds funds from counties or imposes corrective action plans for non-compliance with MHSA requirements, and performs various accounting and reporting responsibilities. The 2017 Budget Act included specific requirements for DHCS regarding managing the reversion process for MHSA funds, which had not been performed for several years. In addition, a recent state audit found significant deficiencies in the department's oversight of the program.

Medi-Cal Mental Health Managed Care Program. DHCS is also responsible for fiscal oversight activities of the Medi-Cal Mental Health Managed Care program. County claims are submitted through an electronic claims processing system called Short-Doyle/Medi-Cal (SD/MC) for processing by DHCS to receive federal matching funds. DHCS is responsible for maintaining the claiming system and ensuring accurate and appropriate payments. According to DHCS, it does not have sufficient staff to

maintain and update the SD/MC claiming system for this monitoring purpose. In addition, a recent federal audit identified more than \$180 million of inappropriate claims for federal reimbursement that is being repaid by the state's General Fund, with county reimbursement over four years.

Comprehensive Behavioral Health Data Systems Modernization. DHCS reports it collects data for its mental health and substance use programs on multiple data systems, but that the 12 legacy data systems for behavioral health transferred from the Departments of Mental Health and Alcohol and Drug Programs make data collection, reporting, and analysis extremely labor intensive. As a result, DHCS has begun the Project Approval Lifecycle planning process, pursuant to California Department of Technology (CDT) requirements, to implement a Comprehensive Behavioral Health Data Systems Modernization Project. According to DHCS, the project will allow improved information updates and tracking, allow improved evaluation of effectiveness of behavioral health treatment, allow improved monitoring of compliance, and improve data quality enforcement. DHCS reports the Stage 1 Business Analysis was approved by CDT in October 2016. These resources would allow DHCS to continue to develop its Stage 2 Alternatives Analysis.

DHCS requests 21 positions and expenditure authority of \$6.7 million (\$2.8 million General Fund, \$3.2 million federal funds, and \$725,000 Mental Health Services Fund) in 2018-19, an additional seven positions and expenditure authority of \$6.5 million (\$2.7 million General Fund, \$2.7 million federal funds, and \$1.1 million Mental Health Services Fund) in 2019-20, \$5.5 million (\$2.2 million General Fund, \$2.2 million federal funds, and \$1 million Mental Health Services Fund) in 2020-21, and \$4 million (\$1.5 million General Fund, \$1.5 million federal funds, and \$1 million Mental Health Services Fund) annually thereafter. Specifically, these positions would be allocated as follows:

Audits and Investigations

Seven Health Program Auditor (HPA) III

20 HPA III – two-year, limited-term

These positions would audit a four year backlog of mental health plan cost reports, audit county MHSA revenue and expenditure reports, and verify audits are conducted for all mental health plan cost reports.

Mental Health Services Division

Two Associate Information Systems Analysts

One Accounting Technician

One Associate Accounting Analyst

Five Associate Governmental Program Analysts (AGPA)

These positions would address a backlog of technical updates to the SD/MC claiming system, review and validate mental health plan claim certifications, process appeals of denied claims, and process a four-year backlog of cost report interim settlements and address current workload to avoid future backlogs.

Enterprise Innovation and Technology Services

Two Staff Programmer Analysts

Two Senior Programmer Analysts

One Senior Information System Analyst

These positions would work with the Mental Health Services Division staff to address a backlog of technical updates to the SD/MC claiming system, support technical changes to the cost reporting process to verify timely submission of cost reports and prevent future backlogs.

Office of Administrative Hearings and Appeals

Two Health Program Audit Manager I

One Administrative Law Judge

These positions would manage ongoing SD/MC and MHSA appeals workload regarding disputes of cost reports and annual revenue and expenditure reports.

Office of Legal Services

Two Attorney III

One Senior Legal Analyst

One Legal Secretary

These positions would support other divisions during formal appeals hearings, provide the Mental Health Services Division with counsel advice during the audit processes, and provide administrative support.

In addition to the position requests, the department's request includes \$1.7 million (\$754,000 General Fund and \$956,000 federal funds) for contractor services for the Comprehensive Behavioral Health Data Systems Modernization Project.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

Issue 5: California Medicaid Management Information Legacy and Modernization Resources

DOF Issue#: 4260-406-BCP-2018-MR

Budget Issue. DHCS requests 17 positions and expenditure authority of \$41.7 million (\$9.7 million General Fund and \$32 million federal funds) in 2018-19, an additional eight positions and expenditure authority of \$23.9 million (\$2.7 million General Fund and \$21.1 million federal funds) in 2019-20, \$11.5 million (\$1.4 million General Fund and \$10.1 million federal funds) in 2020-21, and \$3 million (\$582,000 General Fund and \$2.4 million federal funds) annually thereafter. If approved, these resources would allow DHCS to further implement its modernization approach for the California Medicaid Management Information System (CA-MMIS).

Program Funding Request Summary		
Fund Source	2018-19	2019-20*
0001 – General Fund	\$9,675,000	\$2,723,000
0890 – Federal Trust Fund	\$32,040,000	\$21,131,000
Total Funding Request:	\$41,715,000	\$23,854,000
Total Positions Requested**:	17.0	25.0

* Additional fiscal year resources requested: 2020-21: \$11,540,000; 2021-22 (ongoing): \$2,991,000

** Positions ongoing after 2019-20.

Background. DHCS contracts with a fiscal intermediary (FI) to maintain and operate CA-MMIS, which is utilized to process approximately 200 million claims annually for payment of medical services provided to Medi-Cal members. Under the CA-MMIS contract, the FI adjudicates both Medi-Cal and non-Medi-Cal claims for the state and delivers other services to program providers, beneficiaries, and federal and state users of the system. The department's CA-MMIS Division is responsible for oversight, management, monitoring, and administration of the single FI vendor responsible for providing information technology system maintenance and operations and business operations services, as well as the design, development and implementation of a new system to modernize CA-MMIS.

In October 2012, the FI contractor began design and development of a new CA-MMIS replacement system, "Health Enterprise" (HE). In October 2015, the FI announced it would not complete the replacement system and entered into negotiations with DHCS on terms and conditions of a settlement to terminate its contractual obligation. In April 2016, DHCS and the FI signed a settlement agreement to terminate design and development of the replacement system and compensate DHCS for costs incurred under the FI contract. The FI contractor will continue to operate and maintain the current CA-MMIS until September 30, 2019, or until the department has secured another contract for information technology maintenance and operations services and support. DHCS reports it intends to award two new vendors for maintenance and operations and business services after September 30, 2019.

According to DHCS, the CA-MMIS Division developed a new Modernization Approach to replace the legacy CA-MMIS system using a modular procurement approach coupled with agile design and development techniques to incrementally deliver new functionality to CA-MMIS across multiple fiscal years. This consists of iteratively implementing CA-MMIS business functionality in the form of "digital services" as they are developed. Each new digital service will replace CA-MMIS business functionality. The 2017 Budget Act approved positions and personal services consultants needed to continue this

project. This request is focused on implementation and replacements for federal draw and reporting, third party liability, and claims modernization.

DHCS requests 17 positions and expenditure authority of \$41.7 million (\$9.7 million General Fund and \$32 million federal funds) in 2018-19, an additional eight positions and expenditure authority of \$23.9 million (\$2.7 million General Fund and \$21.1 million federal funds) in 2019-20, \$11.5 million (\$1.4 million General Fund and \$10.1 million federal funds) in 2020-21, and \$3 million (\$582,000 General Fund and \$2.4 million federal funds) annually thereafter. Specifically, these positions and resources would be allocated within the CA-MMIS Division as follows:

Digital Service Teams (DSTs) Strategy

Two AGPAs

One Information Technology Manager I (ITM I)

Three Information Technology Specialist I (IT Spec I)

One Staff Services Manager III

These positions would form DSTs comprised of multi-disciplinary teams of state positions and personal services consultants to plan, design, and build fully functional modules. The DST for claims modernization would explore user and technical requirements for claims processing, research claims processing solutions, and plan for incremental implementation for all fee-for-service claim types.

Oversight to Ownership Strategy

Two ITM I

One Information Technology Manager II

One IT Spec I

Five Information Technology Specialist II

Two Information Technology Specialist II (two-year, limited-term)

One Information Technology Specialist III

These positions would build technical and business expertise for vendor management, contract management, performance management, risk management, quality management, procurement management, and integration management.

In addition to these positions and resources, this request includes \$22.9 million (\$7.4 million General Fund and \$15.5 million federal funds) for one-time contractor costs for the two new vendors taking over the maintenance and operations and business services functions from the legacy FI. The takeover activities are scheduled to begin in October 2018 and conclude September 30, 2019, when the vendors will take over responsibility for these functions.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

Issue 6: Medi-Cal General Fund Reappropriation and Loan Authority

DOF Issue#: Issue 405 – May Revision Finance Letter
TBL (RN Pending)

May Revision Issue and Trailer Bill Language Proposal. DHCS requests reappropriation of General Fund balances from the 2017-18 fiscal year, including any approved supplemental appropriations prior to June 30, 2018. If approved, the reappropriated funds would be comprised of any unspent General Fund expenditure authority appropriated to DHCS for the Medi-Cal program in items 4260-101-0001 and 4260-113-0001.

In addition to this request, DHCS proposes trailer bill language to increase its existing General Fund loan authority to continue funding health care services in Medi-Cal in the event of a deficiency. According to DHCS, the increased loan authority is necessary as the significant growth of the program has resulted in significantly larger deficiencies that can exceed the current \$1 billion loan authority upon which the department relies to continue funding health care services when Medi-Cal costs exceed the department's appropriation authority. The department proposes to increase the loan authority from \$1 billion to \$2 billion.

Reappropriation Language. DHCS requests the following reappropriation language:

4260-491—Reappropriation, State Department of Health Care Services. Notwithstanding any other provision of law, upon order of the Department of Finance, the balances of the appropriations provided in the following citations are reappropriated for the same purposes provided for those appropriations as detailed in the preceding May Revision Medi-Cal estimate, and shall be available for expenditure until June 30, 2019.

0001—General Fund

- (1) Item 4260-101-0001, Budget Act of 2017 (Chs. 14, 22, and 54, Stats. 2017)
- (2) Item 4260-113-0001, Budget Act of 2017 (Chs. 14, 22, and 54, Stats. 2017)
- (3) Any Supplemental Appropriation Bills passed for this purpose prior to June 30, 2018.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of these proposals.

Issue 7: Cost-Based Reimbursement Clinic Directed Payment Program

DOF Issue#: TBL (RN Pending)

May Revision Trailer Bill Language Proposal. DHCS proposes trailer bill language to establish a new Cost-Based Reimbursement Clinic (CBRC) directed payment program no sooner than July 1, 2019 to reimburse CBRCs that contract with managed care plans. The non-federal share of the program may be funded through voluntary intergovernmental transfers from public entities. The first 30 million dollars of non-federal share in each fiscal year, or a lesser amount as determined by the department, would be financed by other state funds appropriated to the department for this purpose.

Background. On May 6, 2016, the Centers for Medicare and Medicaid Services (CMS) issued a final rule that amended and expanded requirements pertaining to Medicaid managed care plans. The final rule introduced new requirements, practices, and procedures related to Medicaid capitation rate setting, including prohibiting states from directing provider reimbursement through managed care contracts except through one of the following allowable directed payment mechanisms:

- Value-based purchasing models for provider reimbursement, such as pay-for-performance arrangements, bundled payments, or other payment arrangements that recognize value or outcomes over volume of services
- Delivery system reform or performance improvement initiatives
- Minimum or maximum fee schedules, or uniform dollar or percentage increases, for network providers that provide designated services under the contract
- Through existing pass-through payments subject to a 10-year phase-down and annual “base amount” calculation beginning July 1, 2017

The department’s proposed language would allow implementation of a cost-based fee-for-service methodology for reimbursement of CBRCs that are network providers of a Medi-Cal managed care plan. According to the Administration, this program would be allowable under the requirements of the new federal regulations.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

Issue 8: Federal Substance Abuse and Mental Health Services Administration Grant Awards

DOF Issue#: Issues 402 and 413 – May Revision Finance Letter

May Revision Issues. DHCS requests increased federal fund authority due to receipt of two grant awards from the federal Substance Abuse and Mental Health Services Administration (SAMHSA). The first grant award is a supplemental award of the department’s annual SAMHSA allocation for county mental health and substance use disorder services. The second grant is the revised amount awarded for the Regular Service Program Crisis Counseling Program, which provides counseling services to Californians affected by the recent wildfires.

May Revision Local Assistance Adjustments. Pursuant to these requests and consistent with the revised grant awards, the Administration requests the following adjustments:

Increase to Annual SAMHSA Grant

- Item 4260-115-0890 be increased by \$15,675,000
- Item 4260-116-0890 be increased by \$2,262,000

Regular Service Program Crisis Counseling Program Award

- Item 4260-115-0890 be increased by \$5,400,000

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of these proposals.

Issue 9: Technical Adjustments – Reimbursements and Distributed Administration

DOF Issue#: 4260-411-BBA-2018-MR

May Revision Issue. DHCS requests technical adjustment of its administrative cost schedules. These schedules account for the department-wide costs of certain administrative activities provided to all department divisions and entities. This adjustment results in increasing Schedule (2) of item 4260-001-0001 by \$1.5 million and reducing Schedule (3) of the same item by \$1.5 million. This item is the main state operations appropriation for DHCS.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

Issue 10: Lawsuits and Claims Payment Notification Provisional Requirements

DOF Issue#: 4260-414-BBA-2018-MR

May Revision Issue and Budget Bill Language Proposal. DHCS requests elimination of provisional language in item 4260-101-0001 that waives legislative notification for payment of attorney fees below \$50,000. According to DHCS, this provision is no longer necessary as the department's current practice is to include estimated costs of all Medi-Cal lawsuits, judgments, settlements, and attorney fees in the semi-annual Medi-Cal Local Assistance Estimates. This information is currently provided in Base Policy Change 208 – Lawsuits/Claims, in the May 2018 Medi-Cal Local Assistance Estimate and reflects 2017-18 attorney fee payments of \$22,400.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

Issue 11: Intermediate Care Facility/Developmental Disabilities and Home Health Payments

DOF Issue#: Issue 415 – May Revision Finance Letter

May Revision Issue and Budget Bill Language Proposal. DHCS requests amendment of Provision 3 of item 4260-101-3305. If approved, the department’s proposed amendments would extend supplemental payments to facilities providing continuous skilled nursing care to individuals with developmental disabilities pursuant to the department’s continuous skilled nursing pilot. The amendments would also allow a rate increase for home health providers.

Background. Proposition 56, approved by voters in 2016, increased the excise tax rate on cigarettes by \$2 per pack, with an equivalent increase on other tobacco products, including electronic cigarettes, to provide funding for various public health and tobacco-related law enforcement programs. After allocations for administration, auditing, and backfills of other revenue streams, Proposition 56 requires 82 percent of remaining funds be transferred to the Healthcare Treatment Fund to increase funding for existing healthcare programs and services by providing improved payments for all healthcare, treatment, and services in the Medi-Cal program. The 2017 Budget Act allocated Proposition 56 Medi-Cal funding for supplemental payments in the following categories:

- \$325 million for physician services
- \$140 million for dental services
- \$50 million for women’s health
- \$27 million to unfreeze reimbursement rates to intermediate care facilities for individuals with developmental disabilities (ICF-DDs)
- \$4 million to increase reimbursement to providers serving beneficiaries of the AIDS Waiver.

In addition, the Governor’s January budget proposed to allocate Proposition 56 revenue to provide a 50 percent increase for home health services provided in fee-for-service or through a home- and community-based waiver.

DHCS requests amendment of the provisional authority for the ICF-DD allocation of Proposition 56 resources. These amendments would expand the definition of facilities that qualify for the supplemental payments, as well as allow the rate increase for home health services proposed by the Administration.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested DHCS to respond to the following:

1. Please provide a brief overview of this proposal.

0000 VARIOUS DEPARTMENTS**Issue 1: Proposal for Investment**

DOF Issue#: None – Stakeholder Proposal

Stakeholder Proposal - “Jordan’s Syndrome” PPP2R5D Research Grants. The UC Davis Institute of Regenerative Cures requests expenditure authority of \$12 million for research related to a genetic mutation, PPP2R5D, which has recently been described as a cause of neurodevelopmental disorders including autism, intellectual disabilities, behavioral challenges, and seizures. According to the Institute of Regenerative Cures, the research grant would fund a clinical registry and biorepository, creation of transgenic mouse models with the most common mutations, various characterization and biochemical studies, identification of lead compounds, and mouse clinical trials. Once a compound is identified, the project would partner with a pharmaceutical company to begin formal human clinical trials. The process is expected to take six to ten years.

Subcommittee Staff Comment and Recommendation—Hold Open.

Questions. The subcommittee has requested advocates to present this proposal.