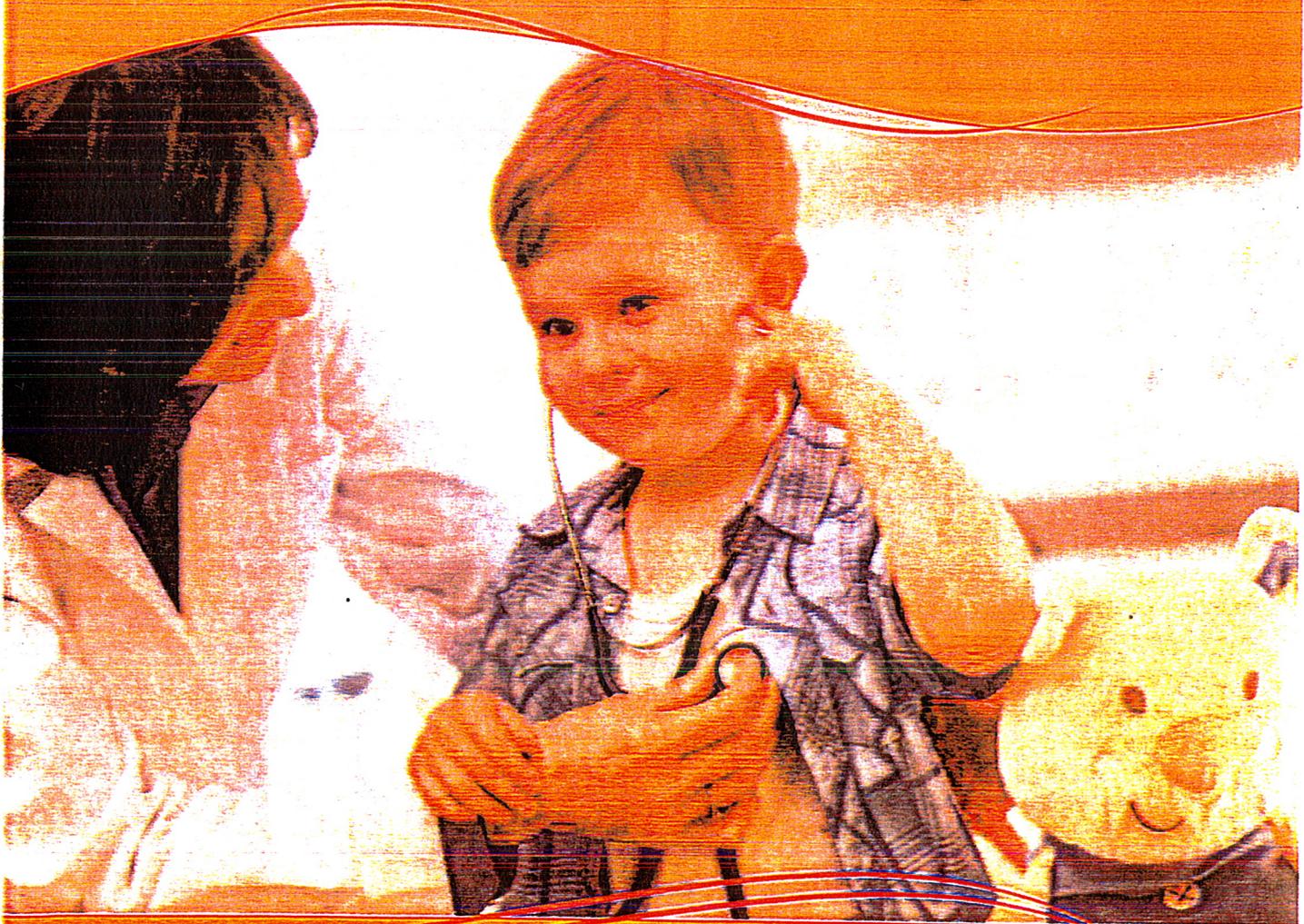


The 2013-14 Budget:

Analysis of the Health and Human Services Budget



MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 2013

LAO 

Pages 2 - 9 and pages 17 – 60 of the Legislative Analyst Office 2013-14 Analysis of the Health and Human Services Budget was intentionally left blank.

A full copy of this report can be found on the Legislative Analyst Office website (link below)

<http://www.lao.ca.gov/analysis/2013/ss/hhs/health-human-services-022713.pdf>

CROSSCUTTING ISSUES

HEALTHY FAMILIES PROGRAM TRANSITION UPDATE

As part of his 2012-13 budget proposal, the Governor proposed shifting all enrollees in HFP—administered by MRMIB—to Medi-Cal—administered by DHCS—over a nine-month period beginning in October 2012. The administration stated that the proposal would have several benefits, including (1) generating General Fund savings, (2) improving continuity of care by reducing the number of children who transition between Medi-Cal and HFP on an ongoing basis, and (3) implementing some requirements of ACA early. (Under ACA, a portion of the HFP enrollees will become eligible for Medi-Cal on January 1, 2014.) (For more information on the Governor's 2012-13 budget proposal for HFP, and extensive background information on HFP and Medi-Cal, please see our report, *The 2012-13 Budget: Analysis of the Governor's Healthy Families Program Proposal*.) In response, the Legislature enacted Chapter 28, Statutes of 2012 (AB 1494, Committee on Budget), to implement a modified version of the Governor's proposal to shift all HFP enrollees into Medi-Cal (hereinafter referred to as the "transition"). Notably, the Legislature's plan delayed the start of the transition to January 2013, included direction on how the transition is to be conducted, and provided for legislative oversight. This report provides a status update on the transition.

At the time this analysis was prepared, some children had shifted from HFP to Medi-Cal, while other children remained in HFP. Throughout this analysis, we will refer to all children who meet the eligibility requirements for the federal Children's

Health Insurance Program (CHIP) as the CHIP population, regardless of whether they are currently enrolled in HFP or Medi-Cal. We provide more information on CHIP in the background section of this analysis below.

Summary of Analysis. In this analysis, we begin by providing a brief overview of HFP. We then summarize key provisions of Chapter 28 including: (1) the timeframe for the transition, (2) reporting requirements to ensure network adequacy and continuity of care, and (3) requirements involving stakeholder involvement and written notices to HFP enrollees. We then describe the erosion of assumed General Fund savings in 2012-13 and 2013-14 due to delays in the implementation of the transition and other factors. We also analyze recent caseload trends and recommend that the administration be required to report at budget hearings on the causes of the recent decline in the CHIP population and its potential fiscal impact.

Background

Overview of HFP

The HFP Is California's CHIP. The CHIP provides health coverage to children in families that are low income, but with incomes too high to qualify for Medicaid. (In California, the federal Medicaid Program that provides health care services to qualified low-income persons is known as Medi-Cal.) Under the CHIP, for every dollar the state spends, the federal government provides roughly a two-dollar match.

As of December 31, 2012 (prior to the shift of some HFP enrollees to Medi-Cal, which began on January 1, 2013), HFP provided health insurance for 852,600 children up to age 19 in families with incomes above the thresholds needed to qualify for Medi-Cal, but below 250 percent of the federal poverty level (FPL). (The FPL is currently \$22,050 in annual income for a family of four.) The MRMIB provides coverage by contracting with health plans that provide health, dental, and vision benefits to HFP enrollees. All HFP enrollees are enrolled in managed care plans. (Under managed care, health plans provide coverage and are reimbursed on a capitated basis. The health plans assume some financial risk, in that they may incur costs to deliver the necessary care that are more or less than the capitated rate. Most HFP plans are regulated by the Department of Managed Health Care (DMHC), which monitors financial solvency, evaluates provider network adequacy, conducts quality performance audits, and responds to beneficiary grievances.)

States Have Option to Combine Medicaid and CHIP Programs. A state may use federal CHIP funds to create a stand-alone program, such as HFP, or expand its Medicaid Program to include children in families with higher incomes. In both options, states receive the two-dollar federal match for every state dollar to provide coverage for the CHIP population.

Overview of the Transition Plan

Chapter 28 authorized the transition and divided it into four phases. Additionally, it contained several provisions to ensure legislative oversight, continuity of care, network adequacy, and stakeholder involvement. We describe these provisions in more detail here.

The Health Coverage Transition Will Take Place in Four Phases. When the 2012-13 Budget Act was enacted, the CHIP population was projected to be almost 880,000 by the time of the transition.

This population was scheduled to be shifted to Medi-Cal managed care in four phases.

- **Phase One.** The first phase is authorized to begin no earlier than January 1, 2013 and includes children enrolled in HFP managed care plans that also contract with Medi-Cal. Generally, the children who are most likely to be able to stay with their current primary care provider will transition to Medi-Cal first. When the 2012-13 Budget Act was enacted, this phase was expected to include about 415,000 children.
- **Phase Two.** The second phase is authorized to begin no earlier than April 1, 2013 and includes children enrolled in HFP managed care plans that subcontract with a Medi-Cal managed care plan. When the 2012-13 Budget Act was enacted, this phase was expected to include about 249,000 children.
- **Phase Three.** The third phase is authorized to begin no earlier than August 1, 2013 and includes children enrolled in HFP managed care plans that do not contract with Medi-Cal or subcontract with a Medi-Cal plan. When the 2012-13 Budget Act was enacted, this phase was expected to include about 173,000 children.
- **Phase Four.** The fourth phase is authorized to begin no earlier than September 1, 2013 and includes children enrolled in HFP health care plans who live in a county where Medi-Cal managed care is not available. They will be transitioned into Medi-Cal FFS, unless a Medi-Cal managed care plan becomes available. (In Medi-Cal FFS, a health care provider receives a payment from DHCS for each medical service provided to a Medi-Cal beneficiary. Beneficiaries generally may

obtain services from any provider who has agreed to accept Medi-Cal patients.) When the 2012-13 Budget Act was enacted, this phase was expected to include about 42,800 children.

Written approval from the federal Centers for Medicare and Medicaid Services (CMS) is required prior to implementing each phase of the transition. (As discussed below, CMS approval for phase one implementation was obtained prior to January 1, 2013.) After the transition is complete, the administration must apply for federal approval to administer the CHIP program as an integrated program with Medi-Cal. For more information on how the federal government is monitoring the transition, see the nearby box.

Dental Coverage Will Be Transitioned Concurrently With Health Coverage. Under Chapter 28, the HFP enrollees will transition their dental coverage at the same time that their medical coverage transitions. The transition will occur differently for those HFP enrollees located in Los Angeles and Sacramento counties and those HFP enrollees located elsewhere.

- *HFP Enrollees Outside of Los Angeles and Sacramento Counties Shift to Denti-Cal.* The HFP enrollees living outside of Los Angeles and Sacramento counties will receive dental care through Denti-Cal, Medi-Cal's FFS dental program.
- *HFP Enrollees in Los Angeles County Shift to Dental Managed Care and Denti-Cal.* About 215,700 HFP enrollees live in Los Angeles County. If the enrollee is enrolled in an HFP dental plan that is also a Medi-Cal dental managed care plan, they will be enrolled in that plan. If their HFP dental plan is not a Medi-Cal dental managed care plan, they will be able to choose a new dental managed care plan or choose to be enrolled in Denti-Cal.
- *HFP Enrollees in Sacramento County Shift to Dental Managed Care.* About 27,500 HFP enrollees live in Sacramento County. If an HFP enrollee is enrolled in an HFP dental managed care plan that is also a Medi-Cal dental managed care plan,

A Federal Oversight Framework for Transition Has Been Developed

As part of the federal approval process, the Department of Health Care Services has worked with Centers for Medicare and Medicaid Services to develop a framework for monitoring the transition. This monitoring will include collecting data on children who have transitioned from the Healthy Families Program to Medi-Cal. The monitoring framework has several objectives, including:

- Maintaining access to health care, dental care, behavioral and mental health services, and alcohol and substance use services.
- Providing continuity of care for children who are transitioning.
- Ensuring that the Children's Health Insurance Program populations applying for Medi-Cal will be enrolled quickly and accurately into Medi-Cal.

Metrics will be collected on a monthly, quarterly, or annual basis to measure whether these objectives are achieved.

they will be enrolled in that plan. If their HFP dental plan is not a Medi-Cal dental managed care plan, they shall select a Medi-Cal dental managed care plan. If they do not choose a Medi-Cal dental managed care plan, they shall be assigned one which contracts with their current provider.

The Administration Is Required to Submit Several Reports to the Legislature. Under Chapter 28, several reports are required to be submitted to the Legislature throughout the implementation of the transition. These reports include:

- ***Strategic Transition Plan.*** The California HHSA is required to work with MRMIB, DMHC, DHCS, and stakeholders to develop a strategic plan for the transition and submit it to the Legislature by October 1, 2012. The intent of the strategic plan is to serve as an overall guide for the development of a plan for each phase of the transition and to ensure clarity and consistency in approach to enrollee continuity of care. The strategic plan is required to address several key transition issues, including: (1) administrative readiness at the state and local levels, (2) stakeholder engagement, (3) monitoring managed care health plan performance, (4) implementation timelines and key milestones, and (5) the transfer of the HFP Advisory Board to DHCS.
- ***Implementation Plans Are Required for Each Phase.*** Implementation plans are required 90 days prior to each phase of the transition. The plans are to be developed to ensure state and county system readiness, an adequate network of providers in each health plan, and continuity of care, with the goal of ensuring that there is no disruption of service and there is continued access to

coverage for all transitioning enrollees.

- ***Network Adequacy Assessment Is Required.*** An assessment of network adequacy is required to be completed 60 days before the first shift of HFP enrollees to Medi-Cal.
- ***Monthly Status Reports Due Beginning February 15, 2013.*** Monthly status reports on the transition must be submitted to the Legislature beginning no later than February 15, 2013. These reports must include information relating to access to care, continuity of care, changes to provider networks, and eligibility performance standards. A final comprehensive report is due within 90 days of the conclusion of the transition.

Certain Performance Measures Must Be Integrated Into Medi-Cal Managed Care.

Chapter 28 requires certain health plan performance measures be in place before children can be shifted from HFP to Medi-Cal. For example, Chapter 28 requires the integration of managed care performance measures with the HFP performance standards—which include the child-only Healthcare Effectiveness Data and Information Set.

Stakeholder Involvement and Written Notices to HFP Enrollees. Under Chapter 28, the DHCS is required to provide a process for ongoing stakeholder involvement and consultation and make information on the transition publicly available. The DHCS and MRMIB are required to work collaboratively to develop notices for HFP enrollees shifting to Medi-Cal. These written notices are required to be sent at least 60 days prior to the transition of individuals.

The HFP Faces 2012-13 Budget Shortfall

2012-13 HFP Budget Included an Unallocated Reduction. The *2012-13 Budget Act* includes a \$183 million unallocated General Fund reduction to HFP. A proposed extension of a tax imposed on managed care organizations (MCOs) used to offset General Fund costs would have provided an equivalent amount of money for the support of HFP in 2012-13, but it was not enacted into law. (For more information on the MCO tax, see the “Medi-Cal” section of this report.) The unallocated reduction of \$183 million General Fund was revised downwards to \$131 million in the Governor’s 2013-14 budget proposal due to changes in caseload and other factors.

2012-13 Shortfall in HFP Budget. On January 7, 2013, the Department of Finance (DOF) sent a letter to the Joint Legislative Budget Committee (JLBC) notifying the JLBC that MRMIB would expend all of its available resources for HFP in January 2013. To address this shortfall, MRMIB requested \$15 million from Item 9840 of the *2012-13 Budget Act*. (The Legislature appropriated \$20 million General Fund in this item to be available to fund unanticipated expenses, subject to certain conditions specified in the *2012-13 Budget Act*.) The DOF’s letter stated that MRMIB will seek legislation this year to cover the remainder of its shortfall in HFP as of January and the remainder of the fiscal year—estimated to total about \$116 million. The Governor has proposed an MCO tax as part of the 2013-14 budget, and if such a tax were implemented, it could potentially offset the General Fund expense to fund the HFP shortfall in 2012-13. We note that failure to fund HFP would likely violate federal maintenance-of-effort (MOE) requirements, putting at risk billions of dollars in federal funding for CHIP and Medi-Cal.

Erosion of Initially Projected General Fund Savings From Transition

When the *2012-13 Budget Act* was enacted, it assumed General Fund savings of \$13.1 million in 2012-13 as a result of the transition, and at that time the administration projected about a \$58 million savings in 2013-14 and about \$73 million in full-year General Fund savings annually thereafter. The administration has revised its estimates of the savings that will be achieved through implementation of the transition. Under the revised estimates, \$129,000 in savings will be achieved in 2012-13, \$43 million in 2013-14, and \$38 million annually thereafter. These are the net result of several different adjustments, including changes in caseload, per member per month costs, and administrative costs.

We note that the administration’s revised estimate of the 2012-13 General Fund savings from the transition is based on a CHIP caseload of about 871,000 enrollees. However, as we describe in the next section of this analysis, the most recent caseload information suggests actual CHIP caseload will be lower than 871,000—by about 10,000 to 20,000 fewer enrollees. As a consequence, the estimates of the fiscal impacts of the transition will need to be further revised.

HFP Transition Generally Proceeding as Planned, With Some Delays

We find that the administration has generally complied with the requirements laid out in Chapter 28 as described above. The administration has submitted the required strategic plan, implementation plans, and network adequacy assessment reports. Written notices informing enrollees of the transition have been developed and sent to families. The DHCS has provided a process for ongoing stakeholder

involvement and consultation and has made information, such as the required reports, publicly available.

The HFP transition is generally proceeding as planned, but with some delays. The DHCS worked with CMS to develop a framework for monitoring the transition and obtained federal approval of phase one of the transition on December 31, 2012. (Federal written approval is required prior to the implementation of each phase.) However, as we describe below, phase one was delayed for certain HFP enrollees due to concerns about network adequacy and continuity of care.

Potential Interruptions to Continuity of Care Were Identified And...

Prior to implementation of phase one of the transition, DHCS and DMHC completed network adequacy assessments and implementation plans for enrollees transitioning in phase one and phase two. During those assessments, potential interruptions to continuity of care for some transitioning HFP enrollees were identified.

- *Particular Health Plan Had Low Provider Overlap Between HFP and Medi-Cal Networks, Raising Network Adequacy Issues.* The first transition issue involved a particular health plan in phase one that had a low percentage of provider overlap between the HFP and the Medi-Cal networks and was unable to report how many primary care physicians would continue to see HFP enrollees after they shifted to Medi-Cal. To allow for an adequate network assessment, the transition of about 90,700 HFP enrollees enrolled in this plan was delayed. The DMHC and DHCS have indicated that HFP enrollees who are not able to remain with their current primary care provider under this plan may be given the choice

to select a new plan or provider, rather than being reassigned automatically to this plan.

- *Enrollees of a Particular Health Plan Shifted From Phase One to Phase Two Transition.* The second transition issue involved a particular health plan that, while originally considered a “phase one” plan, was later recategorized as a “phase two” plan because it does not have a direct contractual relationship with Medi-Cal (instead, it subcontracts with a plan that contracts with Medi-Cal). Accordingly, about 14,600 HFP enrollees enrolled in this plan will transition to Medi-Cal at a later date than initially assumed.
- *Some Enrollees Were Not Assigned Primary Care Physicians.* The third transition issue involved HFP enrollees (mainly in rural areas with few doctors) who were not assigned to a *primary* care provider, although some of these HFP enrollees do have an ongoing relationship with a physician or other provider. If no primary care provider is assigned to an enrollee, claims data will be used to assign that enrollee to a provider that they have previously seen. The inability to identify a primary care provider for roughly 3,000 HFP enrollees enrolled in a particular plan in one county initially raised concerns about the administration’s ability to minimize disruptions to continuity of care. The administration has since determined that the network of Medi-Cal providers is adequate to receive transitioning HFP enrollees. The administration has determined that these enrollees can be transitioned on March 1, 2013, the second subphase of phase one.

... Phase One Was Slowed Down

Following the network adequacy assessments that we described above, the children who had been scheduled to transition in the first phase were further subdivided into three groups to reflect missing data from some plans and the concern that some HFP enrollees in phase one may not be able to remain with their primary care provider. Accordingly, the transition schedule was adjusted and the first two phases of the transition are now occurring as follows (CHIP caseload numbers have been updated since the 2012-13 Budget Act was enacted).

- Phase one, which includes approximately 402,000 children, has now been further broken up into three subphases, as follows:
 - The first subphase began January 1, 2013. About 197,000 children in eight counties have transitioned to Medi-Cal.
 - The second subphase will begin March 1, 2013. About 95,000 children in 15 counties will transition to Medi-Cal.
 - The third subphase will begin April 1, 2013. About 110,000 children currently enrolled in a certain health plan in seven counties will transition to Medi-Cal.
- Phase two will begin on April 1, 2013 and include approximately 261,100 children that reside in 15 counties.
- There are no changes planned to phases three and four at this point. (Network adequacy assessments and implementation plans have not yet been completed for these later phases.)

Some Children Who Enrolled in HFP in November Will Transition in Later Phases. Some HFP enrollees who enrolled in HFP in November

and December of 2012, and who would otherwise have been transitioned in phase one, enrolled too late to receive timely notices advising them of the transition. Staff at DHCS state that they do “look backs” to determine when sufficient time will have elapsed between notification and the transition to ensure that state and federal requirements regarding notification are met.

The CHIP Caseload Is Below Projected Levels

In June 2012, at the time the 2012-13 Budget Act was enacted, HFP had about 873,000 enrollees. As shown in Figure 4, the total number of enrollees has decreased steadily between May and December of 2012. By December 2012 (prior to the transition), HFP had 852,600 enrollees. It is not clear why caseload has declined. Monthly new enrollment in HFP since May 2012 has generally been below the monthly new enrollment seen in 2011.

Analyst’s Recommendations

Given the unanticipated decline in the CHIP caseload—which dropped from 874,900 in May 2012 to 852,600 in December of 2012—we recommend that DHCS and MRMTB report at

**Figure 4
Healthy Families Program
Caseload Has Decreased
Steadily in Recent Months**

Month	Total Number of Enrollees in 2012 Caseload ^a	Change From Prior Month	
		Amount	Percent
May	874,890	966	0.1%
June	872,968	-1,922	-0.2
July ^b	868,709	-4,259	-0.5
August	863,033	-5,676	-0.7
September	859,909	-3,124	-0.4
October ^b	858,500	-1,410	-0.2
November	857,090	-1,410	-0.2
December	852,592	-4,498	-0.5

^a Enrollment is as of the last day of the month.

^b Estimated.

budget hearings on the causes for the unanticipated decline in caseload. Additionally, we recommend that DHCS and DOF report at budget hearings on its updated projections of 2012-13 and 2013-14 General Fund savings and full-year General Fund

savings beginning in 2014-15 from the transition, including a discussion of what is driving differences between these updated projections and what was assumed when the *2012-13 Budget Act* was enacted.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

As part of his 2012-13 budget plan, the Governor proposed to eliminate DADP by July 1, 2012 and shift its programs and administrative functions to other departments. The administration provided the following rationale for its proposal: (1) co-locating substance use disorder services with physical health programs administered by DHCS is a step toward integrating services to create a continuum of care and (2) the transfer of the programs to other state departments will better align a program's mission with that of the department receiving the new program(s). The Legislature rejected the Governor's proposal to eliminate DADP by July 1, 2012, delaying any potential elimination of DADP until July 1, 2013, in order to allow for additional stakeholder input and the development of a transition plan for shifting DADP programs and functions to other HHSA departments.

In this analysis, we provide a brief overview of DADP and then describe the Governor's 2013-14 proposal for the elimination of DADP and the transfer of its programs and administrative functions to other departments (hereinafter referred to as the transition). We provide a description of the requirements imposed on the transition process by Chapter 36, Statutes of 2012 (SB 1014, Committee on Budget and Fiscal Review), and find that the administration has generally complied with these requirements. We recommend that DADP, DHCS, and DPH be required to report at budget hearings on various aspects of the

transition of DADP programs and functions to other departments in order to ensure continued legislative oversight.

DADP Overview

The DADP directs and coordinates the state's efforts to prevent or minimize the effects of alcohol-related problems, narcotic addiction, drug abuse, and gambling. As the state's alcohol and drug addiction authority, the department is responsible for ensuring the collaboration of other state departments, local public and private agencies, providers, advocacy groups, and program beneficiaries in maintaining and improving the statewide service delivery system. The DADP operates data systems to collect statewide data on drug treatment and prevention, and performs functions and administers programs in the following areas: (1) substance abuse and prevention services; (2) substance abuse treatment and recovery services; (3) licensing adult alcoholism, drug abuse recovery, and other treatment facilities; (4) drug courts and parolee services; and (5) problem gambling.

Governor's Budget Proposal

The Governor's revised estimated total spending for DADP in 2012-13 is \$322 million (\$34 million General Fund). The Governor's budget entirely eliminates funding for DADP in 2013-14 and shifts its functions, programs, and positions to other departments as follows.