

# Governor's Proposed 2012-13 State Budget

## Preliminary Summary

January 6, 2012



Representing California's Catholic  
Health Systems and Hospitals

On Thursday, January 5, 2012, Governor Jerry Brown unexpectedly released his proposed 2012-13 state budget instead of on Tuesday, January 10, as originally planned. He explained that he was releasing the budget five days early because it had inadvertently been placed on a public website.

The summary that follows is preliminary, with more information to follow. It is based on budget documents released by the Governor's Administration, as well as explanatory comments made by administration officials.

The Governor's Budget projects a 2012-13 shortfall of \$9.2 billion and is based on the assumption that voters will approve his ballot measure to raise \$7 billion a year for five years by (1) increasing personal income tax rates on the state's "wealthiest taxpayers," and (2) a one-half percent increase in the state's sales tax. Almost all of this new revenue would be dedicated to funding education.

If voters do not approve the Governor's ballot measure, the backup plan calls for \$5.4 billion in triggered cuts to education and public safety, which would take effect on January 1, 2013. Most impacted would be K-12 and community college Proposition 98 funding, which would be reduced by \$4.8 billion. The University of California (UC) and the California State University (CSU) would each take a \$200 million reduction, while state courts would receive a \$125 million cut. The balance would come from reductions in state park rangers and lifeguards, Fish and Game Department wardens, and Department of Justice personnel. There are no proposed trigger cuts for Medi-Cal or other health care funding programs.

Proposed adjustments to the Medi-Cal program and the Healthy Families Program (HFP) are summarized below.

### Medi-Cal

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The Budget contains the following Medi-Cal program proposals:

**Move Dual Eligibles into Medi-Cal Managed Care.** The Budget proposes to begin merging the 1.2 million Medicare and Medi-Cal dual eligibles into Medi-Cal managed care much as the state is now doing with the seniors and persons with disabilities population. The proposal would be phased in over a three-year period with the movement of this patient population out of fee-for-service and into managed care starting January 2013. The Administration argues that this will reduce costs and improve the coordination of services, and produce General Fund budget savings of \$842 million, which excludes any federal match. This proposal also assumes, as noted below, that all counties will have Medi-Cal managed care programs by 2014-15.

**Medi-Cal Program Operational Flexibility.** To respond to rapid changes in the health care delivery system the Administration wants more flexibility to change benefits, services, rate methodologies, and payment policies faster than the current regulatory process allows. One senior official described it something akin to value-based purchasing. Details have yet to be worked out but the Department of Health Care Services (DHCS) is promising to involve stakeholders in the program's design, implementation and evaluation. Despite the absence of details, the Budget

estimates General Fund savings of \$75 million in 2012-13 and ongoing.

**Federally Qualified Health Center (FQHC) and Rural Health Clinic (RHC) Payment Reform.**

The Budget proposes to reform the payment methodology for FQHCs and RHCs funded under Medi-Cal to create a performance, risk-based payment model that will allow, and reward, these clinics to provide more efficient and better care. Under this proposal, payments made to FQHCs and RHCs participating in Medi-Cal managed care plan contracts will change from a cost and volume-based payment to a fixed payment to provide a broad range of services to its enrollees. Estimated General Fund budget savings from this proposal total \$27.8 million in 2012-13 and \$58.1 million in 2013-14.

**Managed Care Expansion.** Beginning in June 2012, the Budget proposes to expand Medi-Cal managed care into rural counties that are now fee-for-service only. This proposal will result in General Fund savings of \$2.7 million in 2012-13 and \$8.8 million in 2013-14. The Budget contemplates that all 58 counties will have Medi-Cal managed care programs by 2014-15.

**Annual Open Enrollment.** Current law authorizes Medi-Cal beneficiaries to change plans once per month or up to 12 times in a year. The Budget proposes an annual 90-day open enrollment period for beneficiaries to select their Medi-Cal health plan. But once the 90-day window closes they must remain with that health plan for the entire year. This proposal is estimated to generate General Fund savings of \$3.6 million in 2012-13 and \$6 million in 2013-14.

**Medical Therapy Program Eligibility.** The Budget proposes to align income eligibility requirements for the Medical Therapy Program with the broader California Children's Services (CCS) Program. Currently, there is no financial test for eligibility. Under the proposed eligibility standards, families with annual income less than \$40,000 or with annual CCS-related medical expenses exceeding 20 percent of their annual income will continue to be eligible for the Medical Therapy Program. The Administration argues that this is consistent with the eligibility requirements already in place for all other CCS benefits and will result in savings of \$9.1 million General Fund in 2012-13 and \$10.9 million in 2013-14.

**Stabilization Funds.** Contrary to the terms of the state's 2005 Hospital Financing Waiver and implementing state law, the Budget proposes a one-time redirection of private DSH and non-designated public hospital stabilization funding. This funding has not yet been paid to hospitals for fiscal years 2005-06 through 2009-10 and the Administration is proposing to use it to provide General Fund savings of \$42.9 million. If matched with federal Medicaid dollars funding available would total about \$86 million. Toby Douglas, DHCS Director, explained that this redirection is recommended because hospitals are benefiting from the provider fee, and no additional hospital-related budget reductions are proposed.

While not a line-item in the Budget, reference is made to changes California is pursuing with the federal government to help contain health care costs. The Budget notes that the current federal Medicaid funding formula encourages spending and does not promote efficiency or cost containment. In addition, California receives relatively low Medicaid funding, as the federal formula fails to recognize the large number of Californians living in poverty. In conjunction with other states, the Administration reports that California will pursue changes to the way the federal government funds health care programs to reward efficiency and to allow states to keep a portion of savings generated through cost-effective management. The Budget goes on to say that this reform will reduce the federal deficit without increasing costs to states. This is a program proposal that the California Hospital Association reports that it is working on in partnership with the Brown Administration.

## **Healthy Families Program**

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The Administration revived its proposal from last year to transition children from the HFP, administered by the Managed Risk Medical Insurance Board (MRMIB), into Medi-Cal. The Budget proposes transferring approximately 875,000 HFP beneficiaries to Medi-Cal over a nine-month period beginning in October 2012. In addition, a 25.7 percent reduction in HFP managed care rates is proposed, effective October 1, 2012, to bring them in line with Medi-Cal rates, and to achieve a General Fund savings of approximately \$64.4 million in 2012-13 and \$91.5 million in 2013-14. Finally, the Budget proposes elimination of MRMIB by July 1, 2013, consequently other programs administered by the Board, such Access for Infants and Mothers, will be transferred to DHCS.

As already noted, this is a preliminary assessment of the Governor's Proposed 2012-13 State Budget and more information will be provided as it is obtained. Consistent with Mr. Douglas' comment noted above, no additional Medi-Cal payment reductions for hospitals have been identified in the proposed budget.