County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

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To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE - LAO OVERVIEW OF THE GOVERNOR'S MAY REVISION MEDI-CAL EXPANSION PROPOSAL

Executive Summary

- This memorandum provides a report on the Legislative Analyst's Office overview of the Medi-Cal Expansion as contained in Governor Brown's May Budget Revision.

Legislative Analyst's Office Overview of the Medi-Cal Expansion

As previously reported, the May Revision provides $1.5 billion which includes $21.0 million in State General Fund and $1.5 billion in Federal funding, for the implementation of Federal health care reform on January 1, 2014 and outlines four key principles: 1) it must be sustainable and affordable; 2) it must fairly allocate risk and clearly delineate responsibilities between the State and counties; 3) it must maintain a strong public safety net; and 4) it must support local flexibility.

On May 17, 2013, the Legislative Analyst's Office (LAO) issued its overview of Governor Brown's May Budget Revision which includes extensive comments and recommendations regarding the Medi-Cal expansion. Below is a summary of the key elements of the May Revision related to the implementation of health care reform with comments and recommendations made by the LAO presented in bold.

Medi-Cal Expansion. The May Revision proposes a State-based expansion of the Medi-Cal Program as provided under the Federal Affordable Care Act and drops the proposed county-based option contained in the Governor's January Budget. The Administration continues to assume that with the implementation of health care reform, counties will achieve significant savings as responsibility for indigent health care decreases and that the State will bear additional costs and risks to expand Medi-Cal coverage to newly eligible persons.

The Administration proposes to develop a mechanism to determine the level of savings that each county will achieve under health care reform and redirect 100 percent of these savings to fund the State's share of cost to support social services programs at the local level.

The LAO recommends that the Legislature adopt a State-based Medi-Cal Expansion. The LAO also indicates that the State is in a better position than counties to effectively implement the Medi-Cal expansion by January 1, 2014, and to coordinate the delivery of health services to the newly eligible persons and would potentially result in improved health outcomes and administrative efficiencies.

Mechanism to Determine County Savings. Under this mechanism, each county's savings would be determined by measuring actual county costs for providing services to Medi-Cal and uninsured patients against the revenues received for these services including: patient care revenues; Federal funds; 1991 Realignment health funding; and net county contributions provided to support health care services. The mechanism would include the following elements:

- Incentives for cost containment and maximizing enrollment in health care coverage;
- An accounting of remaining uninsured persons; and
- A cap on cost of growth of county expenditures based on historic trends.

The Legislative Analyst's Office notes that the Administration's mechanism to determine county savings appears to diverge from its stated goals to: 1) ensure that the State no longer funds counties to provide health services for persons who gain Medi-Cal coverage; and 2) preserve access to county-operated hospitals and clinics for Medi-Cal beneficiaries and remaining uninsured persons.

According to the Legislative Analyst's Office, the proposed mechanism encompasses a broader patient population than the formerly indigent patients by including revenues and costs for all Medi-Cal eligible persons including those

currently eligible. The LAO indicates that redirecting net county savings from all payer sources is distinct from preventing payments by the State to counties for formerly indigent patients. The LAO also notes that the State's claim to all county realignment health funds may limit incentives and resources for counties to reinvest in public hospitals and clinics.

Shift of County Savings Projections. Although the Administration notes that the mechanism to determine county savings for health care reform has not been developed, the May Revision estimates a shift of 100 percent of savings from county local health programs to local social services programs over time as follows:

FY 2013-14	$300.0 million
FY 2014-15	$900.0 million
FY 2015-16	$ 1.3 billion
FY 2016-17	New realignment of social services programs

The Legislative Analyst's Office indicates that the basis used by the Administration to project county costs savings is unclear. According to the LAO, the Administration reported that it used county indigent health costs including costs for the Low-Income Health Programs to estimate county savings. The LAO notes that although this cost information could be useful in estimating county savings, it has some significant limitations because not all counties operate a Low-Income Health Program.

New Realignment Proposal. The May Revision proposes over time to shift additional health care programs to the State and to give counties more responsibility for social services programs as follows:

- **Health Programs.** Shifts the California Children's Services Program, which provides specialized services for children with severe chronic health conditions, from counties to the State. The May Revision indicates that counties would retain responsibility for providing and funding public health programs.

- **Social Services Programs.** Proposes to shift greater financial responsibility to counties for the following social services programs:

    - CalWORKs Program. This program provides time-limited cash aid for children and families for temporary assistance for basic needs, and provides welfare-to-work services to help families become economically self-sufficient. The Department of Public Social Services' (DPSS) role is to determine eligibility, provide welfare-to-work activities and child care.

- CalWORKs Child Care Programs (Stages 1, 2 and 3). This program helps families to access affordable child care as they move through their welfare-to-work activities towards unsubsidized employment and is administered in three Stages. Specifically, Stage 1 is funded by the California Department of Social Services and locally administered by DPSS through contracts with local Resource and Referral/Alternative Payment Program (R&R/APP) agencies. Both Stage 2 and Stage 3 are funded by the California Department of Education and locally administered by the R&R/APP agencies.

  Additionally, the May Revision proposes a Statewide reduction of $21.8 million for CalWORKs Child Care Programs (Stages 1, 2 and 3), including a $21.5 million reduction to Stage 2.

- CalFresh Program Administration. This program, formerly known as Food Stamps, provides low-income households with benefits to purchase food. The program's administration costs are used by DPSS to determine eligibility and increase access to the program.

The May Revision proposes that counties would be responsible for the coordination of all client services and would have opportunities to reinvest caseload savings and revenue growth in the CalWORKs Program and CalWORKs Child Care Program. However, under the May Revision, program eligibility, grant levels and rates would continue to be set at the State level. The May Revision indicates that the State would continue to provide funding for above-average costs that result from economic downturns or policy changes outside of counties' control.

According to the Administration, the proposed realignment transaction would be fiscal in nature for the first year, but progress to a programmatic realigning of duties and oversight to counties in the CalWORKs Program and CalWORKs Child Care Programs over some unspecified period of time. The shift to counties proposed under the CalFresh Program Administration costs would only be on a fiscal basis and no programmatic duties would be shifted.

The Legislative Analyst's Office identifies two significant concerns with the realignment proposal:

1. **It adds complexity to the complicated issue of implementing the Medi-Cal Expansion. The LAO indicates that evaluating programs for suitability for realignment is complex and should only be implemented after a thorough legislative deliberation and in consultation with the Administration,**

counties and stakeholders. **Therefore, given the multitude of issues related to the Medi-Cal expansion, the LAO recommends that the Legislature avoid including additional issues, such as the realignment of unrelated programs from the State to counties, into discussions on the Medi-Cal expansion.**

2. **The Legislative Analyst's Office notes that the realignment proposal raises concerns regarding potential increased county costs and State's mandate payment obligation. The LAO indicates that it is very difficult to forecast future costs for caseload driven programs such as CalWORKs, child care and CalFresh. This would make it hard to ensure that redirected realignment funds are sufficient to cover costs of new responsibilities assumed by counties for these programs. If revenues fell short, counties could experience fiscal pressure to provide services and the State could be liable for mandate payment claims to the counties.**

Alternative Recommendations

The Legislative Analyst's Office identifies two primary issues with the Administration's Medi-Cal expansion proposal: 1) it unnecessarily ties the expansion to a complicated new realignment of State and county programs; and 2) it appears to rely on a funding mechanism to calculate county savings which does not align with the Administration's stated goals. Therefore, the LAO proposes the following alternatives:

- **Redirect Realignment Funds Historically Related to the Expansion Population.** Under this proposal, the Legislature would redirect approximately 46 percent of the total 1991 Realignment health funds to the State. Based on a partial year implementation, $325.0 million would be redirected to the State in FY 2013-14, or a smaller amount of $300.0 million as proposed by the Governor. Under this approach, the amount of 1991 Realignment health funds redirected to the State in FY 2014-15 and FY 2015-16 would be approximately $700.0 million annually.

- **Establish a Review Process to Protect the Solvency of Public Hospitals and Clinics.** Under this proposal, the Legislature would create a process in which various State and county stakeholders review data on actual county revenues and costs for operating public hospitals and clinics. Data would be presented to the Legislature and used to adjust the amount of redirected Realignment funding in future years.

- **Use Indigent 1991 Health Realignment Funds to Pay CalWORKs Costs.** Under this proposal, the Legislature would build upon the funding arrangement created under the 2011 Public Safety Realignment. Redirected 1991 Realignment health funds would be placed in an account within the 1991 Realignment structure to help pay County CalWORKs grant costs. This would create a dollar-for-dollar State General Fund savings. The LAO notes that this approach would not fundamentally increase county fiscal responsibility to support CalWORKs and would not change the State's programmatic authority over CalWORKs. The LAO notes that this approach would be a much simpler approach to implement in the near term.

This office and the Sacramento advocates will continue to closely monitor this issue as the Legislature begins budget hearings, and we will actively advocate the Board's position to: 1) support the Statewide expansion of the Medi-Cal Program; 2) preserve the County's health care safety net to cover costs for remaining uninsured persons; and 3) to oppose the realignment of programs from the State to counties.

We will continue to keep you advised.

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MR:VE:ma

c: All Department Heads
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