Health Care Reform

Federal health care reform (the Affordable Care Act) increases access to both private and public health care coverage. The Budget builds on the early establishment of the California Health Benefit Exchange (Covered California) and the early coverage expansion through the "Bridge to Reform" waiver. It implements health care reform in a way that is sustainable and affordable, and maintains a strong public safety net.

Expanded Eligibility and Enhanced Benefits

The Budget adopts federally required simplified rules for Medi-Cal eligibility, enrollment, and retention; and exercises the federal option to expand the program to include a new coverage group: adults and parent/caretaker relatives with incomes up to 138 percent of the federal poverty level. Newly eligible individuals will receive the comprehensive benefits currently provided by Medi-Cal. Long-term care services will be covered, provided the federal government approves the retention of an asset test for these services. Additionally, newly and currently eligible individuals will have access to expanded mental health and substance use disorder services. Mid-level mental health services will be provided through Medi-Cal managed care plans. Substance use disorder services will be administered by counties.

Further, due to the optional Medi-Cal coverage expansion, the state will now pay for emergency Medi-Cal services for low-income adults and parent/caretaker relatives with incomes up to 138 percent of the federal poverty level who are undocumented. The Budget also makes changes to programs that serve newly qualified immigrants who do not have children enrolled in Medi-Cal. They will enroll in Covered California,

but Medi-Cal will pay for all cost-sharing not covered by federal advance premium tax credits and provide benefits not available through Covered California that would have been available in Medi-Cal.

The Budget provides county welfare departments up to $120 million in additional General Fund to accommodate new workload associated with implementing the Affordable Care Act. In 2015-16, the state will implement a new budgeting methodology, developed in consultation with counties, and based on a zero-base review of all Medi-Cal related county administrative activities.

Two Approaches to Determine County Savings

Under health care reform, county costs and responsibilities for indigent health care are expected to decrease as uninsured individuals obtain health care coverage. The state, in turn, will bear increased responsibility for providing care to these newly eligible individuals through the Medi-Cal expansion. The Budget sets forth two mechanisms for determining county health care savings that, once determined, will be redirected to fund local human services programs.

The 12 public hospital counties and the 12 non-public health/non-County Medical Service Program counties will have the option to select one of two mechanisms by December 2013:

- *Option 1*—The formula measures actual county health care costs and revenues for Medi-Cal beneficiaries and the uninsured. It reflects historic growth rates and includes appropriate limits on cost growth. The difference between total revenues and total costs will determine the savings. It includes incentives for cost containment and maximizing enrollment in coverage, and also accounts for the remaining uninsured served by the county, consistent with today's level of service.
    - The state would receive 80 percent of any calculated savings, with the county keeping the remaining 20 percent of savings to invest in the local health care delivery system or spend on public health activities. The formula includes a cap on the amount of savings that will be redirected based on the proportion of health realignment funds historically used for indigent care. The cap ensures that public health funding is preserved because the state will only redirect savings related to indigent health care.
    - The cap provides counties with funding above and beyond what is needed to cover the cost of serving the remaining uninsured—these costs will be funded

before any savings are collected. If federal reimbursement for providing services to the uninsured or Medi-Cal beneficiaries declines, those county costs will also be funded prior to any savings being redirected. Additionally, the Budget includes elements that help ensure that county public hospital systems maintain an adequate patient base and receive sufficient reimbursement for the newly eligible population.

- *Option 2*—60 percent of a county's health realignment allocation plus maintenance-of-effort will be redirected to local human services programs, and the county will retain 40 percent of this funding for providing public health services and to serve the remaining uninsured.

For counties participating in the County Medical Service Program (CMSP), the Budget provides an alternative akin to Option 2. For these counties, the $89 million that counties currently contribute to the CMSP Governing Board will be redirected as savings. The Governing Board will be responsible for redirecting the remainder of the amount equal to 60 percent of the program and member county total realignment and maintenance-of-effort funding.

Implementation of Two Approaches

Savings are estimated to be $300 million in 2013-14. Beginning January 1, 2014, and through June 30, 2014, counties, in the aggregate, will redirect a portion of their realignment funds up to $300 million. Actual savings will depend on the level of realignment revenues for those counties operating under the 60/40 formula and on the various factors used to determine costs and revenues for those counties using the mechanism described in Option 1. Out year savings for all counties will be estimated in January and May, prior to the start of the year and based on the most recent data available. A true-up process will be used to adjust funding to the extent actual county savings differ from initial estimates. Currently, savings are estimated to be $900 million in 2014-15, and $1.3 billion in 2015-16 and 2016-17.

If circumstances arise that affect a county's health care finances and are outside of a county's control, the county may request to change the mechanism by which savings are determined. This request would be heard by the County Health Care Funding Resolution Committee, which consists of the Director of Finance, the Director of Health Care Services, and a representative from the California State Association of Counties.

Changes to 1991 Realignment

Under current law, after meeting base allocations, remaining 1991 realignment sales tax funds are allocated for growth. Social services program caseload increases are funded first and the County Medical Service Program receives funding next. Any remaining funds are considered General Growth and are distributed to the counties to support mental health, health, and social services programs.

The Budget provides greater certainty and transparency for the General Growth distribution. A set percentage equal to its historic level of growth (18.4545 percent) will be dedicated to the Health Subaccount. The Mental Health Subaccount will continue to receive growth according to the current statutory formula.

The Budget establishes two new accounts within the Local Revenue Fund.

- The Family Support Subaccount will receive county savings determined by the mechanisms described above. These savings will offset state General Fund costs in CalWORKs.
- The Child Poverty and Family Supplemental Support Subaccount will receive a share of General Growth funds. These funds will be used to fund CalWORKs grant increases.