Health Care

California enacted landmark Health Maintenance Organization (HMO) reforms last year, made dramatic strides in providing health care to the uninsured, and obtained federal funding reinforcing California's commitment to prevent teenage and unintended pregnancy. Some of the accomplishments in the last year include:

- Promoting quality and accountability for Californians enrolled in managed care plans, by establishing a new Department of Managed Care for increased oversight of the managed care industry.
- Providing 380,000 more uninsured children and their parents with health insurance through expansions of the Healthy Families Program (HFP) to 250 percent of the federal poverty level (FPL) and of Medi-Cal to 100 percent of the FPL for two-parent families.
- Redefining California's commitment to the Family Planning, Access, Care and Treatment Program by obtaining federal funding, thus ensuring continued access to quality reproductive services that promote responsible family planning choices for individuals with income up to 200 percent of the FPL.

While solutions to several problems were enacted in fiscal year 1999-00, major issues remain—establishing the new HMO regulatory department; addressing Medi-Cal provider fraud; increasing enrollment of uninsured children in the HFP through increased outreach efforts and enhanced parental choice; continuing implementation of eligibility expansions in Medi-Cal; improving the safety net by augmenting funding for hospitals and emergency room physicians; continuing efforts to reduce smoking and its harmful health effects; and addressing the increasing health care needs of California's senior citizens (See the Aging with Dignity Initiative section).

Putting Patients First — Managed Care Reform

The Governor recently signed into law 21 bills designed to improve the quality and continuity of health care services for Californians served by managed care companies. These landmark reforms serve to improve the accountability of these organizations, enhance consumer protection, and ensure access to important health care benefits.

Chapter 525, Statutes of 1999, established the new Department of Managed Care under the Business, Transportation and Housing (BT&H) Agency to regulate health care service plans. The legislation also created a new Office of Patient Advocate to assist Californians in resolving problems with their plans. Chapter 542, Statutes of 1999, requires the Department to resolve consumer grievances much more quickly. Chapter 529, Statutes of 1999, created a Financial Standards Solvency Board to improve the new Department's monitoring of the financial standing of plans so that consumer benefits are not jeopardized by bankruptcies in this increasingly competitive industry.

The Budget shifts $14.9 million in existing funding from the Department of Corporations to the new Department. The Budget also includes a total of $13.0 million of new funding in 2000-01 to establish the new Department and implement these new laws. (See the Department of Managed Care discussion in the BT&H Agency section for more information on the budget of the new Department.)

Medi-Cal Fraud and Fiscal Integrity Initiative

The current Medi-Cal system and other health care programs administered by the DHS are vulnerable to fraud and abuse, as is any large program insuring millions of individuals through thousands of providers. The Governor's taskforce on Medi-Cal fraud estimates that more than $1 billion a year is siphoned off by scam artists and fraudulent billing practices. At the Governor's direction, California has initiated the most comprehensive crack-down on fraud in California history.

To further this effort, the 2000-01 Budget adds another $26.2 million ($10.0 million General Fund) and 255 positions: investigators, auditors, and legal staff. Figure A displays the distribution of these additional resources. The Budget expands dramatically the Administration's commitment to combating fraud and abuse in the Medi-Cal program. It expands the Medi-Cal Fraud Initiative by including additional program areas such as dental, medical laboratories, and managed care, as well as strengthening the provider enrollment process, expanding drop-in reviews, and developing computer technology to allow the State to detect new fraud schemes and focus efforts on problem providers. The proposal also expands audits to include primary suppliers.

The additional resources included in the Governor's Budget will permit DHS to carry out enhanced anti-fraud activities, as indicated below:

- **Expand the Medi-Cal Provider Fraud Prevention Bureau**—The Medi-Cal Fraud Prevention Bureau detects and prevents fraud in the Medi-Cal program with a small number of highly trained fraud prevention specialists who review a limited number of provider categories. The 2000-01 Budget doubles this Bureau, expanding its responsibilities to provide DHS with comprehensive tracking, monitoring, and training, in addition to coordinating fraud prevention activities with various divisions and agencies.
- **Tighten the Provider Enrollment Process**—In order to curb fraudulent billing practices, changes in the enrollment process will be implemented. These changes include requiring specified providers to undergo re-enrollment and conducting background checks of new provider applicants. Because unscrupulous providers have had easy access into the program and have received substantial payments based on fraudulent claims for services, the number of medical supply vendors and the number of providers in geographic areas will be limited.
- **Increase Anti-Fraud Field Audit Activities**—Not all of the providers applying to the Medi-Cal program have legitimate credentials, nor do they establish and maintain legitimate medical practices or businesses. In many of these cases, on-site reviews are needed to ascertain the legitimacy of providers. The DHS will expand its field presence through additional provider reviews and audits. In addition, fraud prevention surveys will be used to readily identify providers who need detailed fraud prevention reviews to document evidence of fraud.
- **Increase Penalties and Collection of Overpayments**—The Administration proposes legislation to toughen criminal penalties to match those available under federal law. The DHS will pursue suspension of providers from the Medi-Cal program who have willfully misrepresented their identity, ownership, practice, or laboratory test results.

- **Expand Anti-Fraud Measures into Medi-Cal Managed Care**—The Administration is proposing to expand its anti-fraud efforts to pursue fraud in the Medi-Cal Managed Care program.
- **Expand Anti-Fraud Measures into Denti-Cal**—Fraud and abuse in Denti-Cal has expanded greatly since rates for dental procedures have tripled and many of the submission requirements for dental claims were eliminated. Over the last decade, expenditures in this program have grown from $160.0 million to over $600.0 million. This effort will provide additional contractor staff to detect and refer providers suspected of defrauding the Denti-Cal program.
- **Create Program Integrity Unit in Laboratory Field Services**—The Administration proposes the expansion of Laboratory Field Services staff to allow for investigations of laboratories that are suspected of fraudulent billing practices.

Expanded Health Care Coverage for California's Uninsured Children

In 1999-00, the number of children eligible for low-cost, comprehensive health, dental, and vision coverage under the HFP was increased by 40 percent. These expansions resulted in HFP eligibility for 129,000 additional children, bringing the total number of children estimated to be eligible for HFP to 462,000. Since the HFP began enrolling children on July 1, 1998, monthly enrollment has grown to over 200,000 children.

The 2000-01 Governor's Budget proposes a total of $336.0 million ($121.4 million General Fund), an increase of $111.5 million ($41.8 million General Fund) for HFP caseload, including an additional 91,000 children. This brings HFP enrollment to 370,000 children by June 30, 2000. Approximately 80 percent of the currently estimated eligible children will be enrolled in the HFP—an unprecedented achievement. (See Figure B)

According to testimony before the Managed Risk Medical Insurance Board (MRMIB), many families with children eligible for the Medi-Cal program would choose to enroll their children in the HFP rather than Medi-Cal. The Administration continues to support the policy of providing families this choice. If giving parents this choice eliminates the stigma of public assistance benefits that discourages eligible families from enrolling for health care coverage, it will increase the number of insured children in California. The MRMIB, with the assistance of the California Health and Human Services Agency, is encouraged to work with the Governor's Washington, D.C., office and our congressional delegation to enable this major programmatic improvement at the federal and state levels.

Healthy Families Outreach—As earlier indicated, one of the Administration's highest priorities is to extend health care coverage to additional children and to enroll all uninsured eligible children in health care coverage programs. Recognizing the effectiveness of media outreach, the Governor's Budget proposes a significant augmentation to the HFP/Medi-Cal for Children outreach budget. The Budget expands advertising by $10.0 million above the revised 1999-00 Budget level, bringing total 2000-01 outreach expenditures to $31.8 million. (See Figure C for details of the current plan for use of these funds)

Although MRMIB will have successfully enrolled an unprecedented 80 percent of the estimated eligible group of HFP children by the end of 2000-01, the "harder-to-reach" and as yet un-enrolled eligible children remain a challenge. This group, as well as existing enrollees who must re-enroll annually, will be targeted by the expanded media effort.

In addition to increased media efforts, the outreach resources also assist applicants for the HFP and Medi-Cal for Children in three major ways: through a toll-free help line; through communitybased organizations that contract with the DHS to provide outreach and assistance in applicants, communities; and through incentive payments to certified application assistants.

Increased Access to Medical Care

The 2000-01 Budget includes major funding augmentations to enroll an increased percentage of those made eligible for the Medi-Cal Program in 1999-00. Further, the Budget expands "no-cost" Medi-Cal eligibility to additional disabled individuals and low-income seniors.

- **Expand Medi-Cal to the Working Poor**—The 1999 Budget Act included $39.9 million General Fund to expand Medi-Cal to the working poor effective March 1, 2000. The 2000-01 Budget includes $245.8 million ($122.9 million General Fund) to continue this expansion. With this change, families are able to keep more of their income and still qualify for Medi-Cal with no share-of-cost. Prior to this change, the Medi-Cal program provided no-cost medical benefits to two-parent families on CalWORKs. The expanded program allows these parents to receive no-cost medical benefits while continuing to work to support their families even after leaving the CalWORKs rolls.
- **Expand Medi-Cal to the Working Disabled**—A large and growing number of people with disabilities can and want to work. Of the estimated one million severely disabled persons living in California, there are over 760,000 disabled persons between the ages of 18 and 64 who receive Supplemental Security Income/State Supplemental Payments (SSI/SSP) or federal Social Security Disability Insurance payments. Fear of losing publicly funded health care coverage is a major barrier to disabled beneficiaries entering the workforce. To promote self-sufficiency and ameliorate this fear, the option adopted in the federal Balanced Budget Act of 1997 allowing states to offer Medicaid coverage to disabled working individuals with net family income under 250 percent of the FPL, was enacted by Chapter 820, Statutes of 1999. The Budget includes $4.8 million ($2.4 million General Fund) to provide Medi-Cal eligibility based upon monthly sliding scale premiums for working disabled persons with incomes up to 250 percent of the FPL, or $1,717 per month. This program will allow persons with very high medical costs, who otherwise might quit work to become eligible for necessary medical care, to continue employment.
- **Expand No-Cost Medi-Cal to Low-Income Seniors and Disabled Individuals**—Currently, aged and disabled individuals receiving SSI/SSP also receive Medi-Cal benefits without a share-of-cost. Additionally, individuals whose incomes are too high to qualify for SSI/SSP, but who would otherwise be eligible for SSI/SSP, may receive Medi-Cal benefits with a share-of-cost, similar to a deductible. A single Medi-Cal beneficiary must spend any income he or she receives over $600 per month on his or her medical expenses before they can receive Medi-Cal health care benefits.

  As part of the Aging with Dignity Initiative, the Governor's Budget includes a $4.8 million ($2.4 million General Fund) augmentation to adopt a federal option establishing a program to provide Medi-Cal without a share-of-cost to approximately 13,000 medically needy, aged, and disabled beneficiaries who earn up to 100 percent of the FPL, or $687 per month for a single person. Individuals with incomes above this level will continue to qualify for Medi-Cal, with a share-of-cost. This program will reduce the amount of money eligible seniors must pay toward their health care costs, thereby helping them remain independent and at home.
- **Increasing Family Access to the Medi-Cal Program**—Effective July 1, 2000, the Medi-Cal program will adopt a new mail-in application for adults and families to use in applying for Medi-Cal. This will eliminate a major barrier for people applying for Medi-Cal. Applicants will no longer need to apply in person nor have a face-to-face interview. The new mail-in application will follow the same concepts as the new joint HFP/Medi-Cal for Children application, which has been well accepted as being simple to use. In addition, the DHS will be developing a simplified Medi-Cal quarterly status report that will make it easier for Medi-Cal beneficiaries to remain on the program.

Disproportionate Share Hospital Program

A Disproportionate Share Hospital (DSH) serves at least 25 percent Medi-Cal or uncompensated care patients. The DSH program strengthens the safety net by making additional federal funds available to compensate hospitals for the cost of serving low-income patients. Public DSH hospitals (those operated by counties, hospital districts, or the University of California) make contributions that are matched with federal funds. The total amount, less a state "administrative fee," is then redistributed by formula to public and private DSH hospitals.

The state administrative fee was established in the early 1990s, as a result of restricted General Fund revenue. Under the law, the administrative fees are made available for general Medi-Cal program benefit costs. By 1995-96, these administrative fees reached $239.8 million. As General Fund resources have become more available, the administrative fees have been reduced annually by amounts ranging from $10.0 million to $75.0 million, reaching a level of $84.8 million in 1999-00. The Budget reduces these fees by up to $30.0 million, to $54.8 million in 2000-01. This potential reduction of payments from hospitals serving a disproportionate share of low-income patients will benefit both private and public DSH hospitals, increasing resources at the local level for health care costs. In the alternative, a portion of these funds could be used to provide for a rate increase for services provided by on-call specialists and emergency room physicians.

Proposition 99—Increased Funding Available

The Tobacco Tax and Health Protection Act of 1988, Proposition 99, established a 25-cent tax on the sale of cigarette and tobacco products in California. Revenues generated from this tax are used by various departments and the University of California to fund health education, tobacco-related disease research, indigent health care, and environmental protection programs.

While Californians continue to use fewer tobacco products each year, in part as a result of the effectiveness of Proposition 99, additional resources are available for allocation in 2000-01. Although revenues are continuing to decline from year-to-year, the estimated decline has not been as significant as previously projected. In accordance with the intended purposes of Proposition 99, the Budget proposes the following services using the available resources:

- **Emergency Room Physician Payments**—An augmentation of $24.8 million from available health care funds to enhance access to critical health care in all counties through the California Health Care for Indigents Program ($22.3 million) and Rural Health Services Program ($2.5 million). These funds will assist all counties in meeting their indigent health care responsibilities, by supplementing payments to emergency room physicians and specialists who care for uninsured individuals.
- **Anti-Tobacco Media Campaign**—An increase of $25.7 million from available health education funds for the anti-tobacco media campaign. This more than doubles the 1999 Budget Act funding of $19.6 million for these activities. Increased anti-tobacco messages will help reduce the use of tobacco products and improve the health of Californians.
- **California Cancer Registry**—An expansion of $1.0 million from available research funds for the California Cancer Registry. These funds will enhance California's tobacco-related disease research efforts in searching for the causes and cures of cancer, monitoring and evaluating incidence and treatment outcomes, and improving data quantity and quality.

Tobacco Settlement Funds and Overall Health Care Expenditures

On November 16, 1998, the attorneys general of eight states, including California, and the nation's four major tobacco companies agreed to settle more than 40 pending lawsuits brought by states and local governments against the tobacco industry. The settlement agreement requires the tobacco companies to make payments to the states totaling an estimated $206.0 billion through 2025 nationally, distributed among the states based on a variety of factors, such as population and cigarette sales within the state. California is projected to receive an estimated $25.0 billion over 25 years. Half of these funds go to counties and four cities that filed their own lawsuits.

In 2000-01, the State expects to receive approximately $387.9 million. In the immediate two subsequent years, the settlement payments are structured such that revenues received are estimated to increase by approximately $80-$90 million annually. Thereafter, annual payments will return to the approximate 2000-01 level. As smoking declines nationally, the settlement payments to all states will decrease. Thus, if California's experience with Proposition 99 revenues holds true nationally, this fund source will decline relatively rapidly in the coming years.

The intent of the lawsuit against the tobacco companies was to reimburse state and local governments for billions of dollars in health care costs resulting from the health hazards of smoking. The Administration opposed congressionally-proposed mandates on the use of the tobacco settlement funds because California's anti-smoking campaign is already the most aggressive in the nation.

The prevention and treatment of tobacco-related illnesses cost the State an estimated $2.0 billion ($1.0 billion General Fund) annually in Medi-Cal expenditures alone, and the costs are rising. The 2000-01 Budget increases total state expenditures for Medi-Cal, the HFP, and other health programs by approximately $1.5 billion above the 1999 Budget Act.

In the 2000-01 Budget, the Administration intends to use both the State's share of the settlement funds and other available state resources in the following ways:

- **To Pay for Increases in Health Care Costs of Low-Income and Uninsured Californians, Particularly Children, Seniors, and Veterans**—The 2000-01 Budget includes an increase of $111.5 million ($41.8 million General Fund) for expansion of the HFP, including an additional 91,000 children. The Budget also includes a $10.0 million ($1.0 million General Fund) augmentation for outreach efforts, increasing the total outreach effort to $31.8 million.

  The Budget also includes $245.8 million ($122.9 million General Fund) to continue expansion of Medi-Cal benefits to working poor two-parent families with incomes up to 100 percent of the FPL. This will expand coverage to approximately 250,000 parents of children currently enrolled in Medi-Cal.

  The Administration included $4.8 million ($2.4 million General Fund) to provide Medi-Cal without a share-of-cost to elderly and disabled individuals who earn up to 100 percent of the FPL.

  The Administration also proposes $23.9 million ($13.2 million General Fund) for improvements to veterans homes to provide top-notch nursing and medical care and enhance the quality of life for the residents of the homes.
- **To Augment Health Care Spending in Emergency Care Centers and Rural**

Clinics that Serve Low-Income Californians—For the second consecutive year, the Budget includes $12.9 million General Fund to augment or replace declining Proposition 99 funding for rural and other health clinics. The 2000-01 Budget includes approximately $55 million increase in State funding for hospitals and trauma care centers that serve a disproportionate share of indigent and uninsured patients.

- **To Dramatically Increase California's Anti-Smoking Campaign, and Promote Smoking Cessation Programs, Particularly Among Teenagers and Pregnant Women**—The 2000-01 Budget includes an increase of $25.7 million from available health care education funds for the anti-tobacco media campaign. This more than doubles the 1999 Budget Act funding for this effort. In addition, the Governor has directed the DHS to modify existing state media campaigns targeted at pregnant women and teenagers to incorporate a strong anti-tobacco use focus. These programs include the Partnership for Responsible Parenting ($9.3 million), Healthy Families Outreach ($31.8 million), Access for Infants and Mothers ($2.0 million), and Baby-Cal ($6.0 million).

  The Governor will also direct DHS to include smoking cessation programs at all Women, Infants and Children (WIC) service sites. Currently, WIC offers these services at only 37 of their 86 sites. Additionally, the Governor has directed DHS to include treatment for smoking cessation as part of both the Adolescent Family Life and the Black Infant Health Programs. The cost of these program improvements will approximate $10.0 million.
- **To Augment California's Medical Research Efforts through the University of California Teaching Hospitals, the California Institutes for Science and Innovation, and the Cancer Registry**—The 2000-01 Budget includes $75.0 million for the California Institutes for Science and Innovation, which will focus on various technology research including biomedical sciences. The Budget also includes $25.0 million for equipment purchases at University of California teaching hospitals and a $1.0 million augmentation for the California Cancer Registry to enhance tobacco-related disease research efforts.