



# Health and Human Services Agenda

## Item 4260-101-3305—Proposition 56 Medi-Cal Spending<sup>a</sup>

(In Millions)

June 2017  
Page 1

	Assembly 2017-18 and Ongoing	Senate <sup>b</sup>	
		2017-18	2020-21 and Ongoing
<b>Increases to Provider Payments</b>	<b>\$946</b>	<b>\$349</b>	<b>\$899</b>
Health care provider payments	610	150	700
Dental provider payments	247	130	130
Family planning services rates	50	50	50
ICF-DD & AIDS waiver rates	29	19	19
Pediatric in-home health rates	10	—	—
<b>Restoration of Optional Benefits</b>	<b>—<sup>c</sup></b>	<b>—</b>	<b>\$106</b>
Adult dental benefits	—	—	69
Health care benefits <sup>d</sup>	—	—	37
<b>Coverage Expansion</b>	<b>\$54</b>	<b>—</b>	<b>\$86</b>
Full-Scope Medi-Cal coverage for undocumented immigrants ages 19-26	54	—	86
<b>Total Proposition 56 Funding</b>	<b>\$1,000</b>	<b>\$349</b>	<b>\$1,090</b>

<sup>a</sup> The Governor proposed to use the approximately \$1.2 billion in Proposition 56 revenue dedicated to Medi-Cal to fund anticipated growth in the program between the 2016-17 Budget Act and the 2017-18 May Revision budget proposal. The Assembly and Senate adopted alternative approaches.

<sup>b</sup> Unlike the Assembly spending package, the Senate package would delay implementation of certain new policy changes, resulting in a gradual increase in funding for new Medi-Cal policy changes from Proposition 56 revenue from \$350 million to \$1.1 billion between 2017-18 and 2020-21.

<sup>c</sup> The Assembly Proposition 56 spending package does not include funding for the restoration of optional benefits because the Assembly, in contrast to the Senate, uses General Fund to fund the restoration of these benefits.

<sup>d</sup> Under the Assembly's overall spending package, health care benefits include (1) audiology, (2) chiropractic services, (3) incontinence creams and washes, (4) optician and optical lab services, (5) podiatry, and (6) speech therapy. The Senate's Proposition 56 spending package restores the same list of benefits except for chiropractic services.

ICF-DD = Intermediate Care Facility for the Developmentally Disabled.

## Health and Human Services Agenda Item 4260-101-3305—Proposition 56 Medi-Cal Spending Comparison of Spending Packages

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June 2017  
Page 2

- Governor.** Used the approximately \$1.2 billion in Proposition 56 revenue dedicated to Medi-Cal to fund anticipated growth in the program between the *2016-17 Budget Act* and the 2017-18 May Revision budget proposal.
  
- Assembly.** Rejected the Governor's proposal and approved the following Proposition 56 spending package:
  - Directed \$1 billion in Proposition 56 revenue dedicated to Medi-Cal to fund new policy changes within the program beginning in 2017-18. The new policy changes include:
    - Increases to health care and dental provider payments. The Assembly plan would establish and fund annual supplemental incentive payments to providers based on the number or proportion of Medi-Cal patients that a provider sees.
    - Expansion of full-scope Medi-Cal coverage to undocumented immigrants ages 19-26.
  - Proposition 56 revenue dedicated to Medi-Cal but not spent on new policy changes would fund year-over-year growth in the existing program.

## Health and Human Services Agenda Item 4260-101-3305—Proposition 56 Medi-Cal Spending Comparison of Spending Packages *(Continued)*

June 2017  
Page 3



**Senate.** Rejected the Governor's proposal and approved the following Proposition 56 spending package:

- Directed about \$350 million in Proposition 56 revenue dedicated to Medi-Cal to fund increases to health care and dental provider payments in 2017-18. The Senate plan would generally increase provider reimbursement rates in high-need geographic areas and specialties based on the results of forthcoming analyses of access to health care services within Medi-Cal managed care.
- Gradually increases Proposition 56 Medi-Cal funding for new policy changes to \$1.1 billion annually by 2020-21.
- By 2018-19, fund the following new policy changes:
  - Further increases to health care and dental provider payments.
  - Restoration of optional Medi-Cal benefits, including adult dental. (The Assembly's overall spending plan funds the restoration of optional benefits using General Fund monies instead of Proposition 56 revenue.)
  - Expansion of full-scope Medi-Cal coverage to undocumented immigrants ages 19-26.
- Proposition 56 revenue dedicated to Medi-Cal but not spent on new policy changes would fund year-over-year growth in the existing program.

# Health and Human Services Agenda

## Item 4260-101-3305—Proposition 56 Medi-Cal Spending

### LAO Comments



June 2017  
Page 4

- Additional General Fund Needed to Fund Existing Medi-Cal Program Under Assembly and Senate Plans.*** Because each house repurposes the use of Proposition 56 revenues, a greater amount of General Fund would be needed (relative to the Governor's proposed budget) to fund the existing Medi-Cal program beginning in 2017-18. The amount of additional General Fund needed would equal the amount of Proposition 56 revenue that is redirected to fund new policy changes in Medi-Cal—\$1 billion in the Assembly plan and about \$350 million in the Senate plan in 2017-18.
  
- Proposition 56 Revenue Anticipated to Decline Beyond 2017-18.*** Revenue from Proposition 56 is anticipated to decline by around 25 percent between 2017-18 and 2018-19 (this reflects the fact that five rather than four quarters of Proposition 56 revenue is available in 2017-18), and decline gradually beyond 2018-19 due to anticipated behavioral responses to the new taxes. As such, the amount of Proposition 56 revenue available to fund new policy changes in Medi-Cal will likely decline over time. The Proposition 56 spending package adopted by the Legislature should adapt to the amount of available annual Proposition 56 funding.
  
- Cost of Expanding Full-Scope Coverage Likely Significantly Higher Than Estimated in the Assembly and Senate Plans.*** The Assembly and Senate plans project that the state cost of expanding full-scope Medi-Cal coverage to undocumented immigrants ages 19-26 is \$54 million and \$86 million annually, respectively. The administration, by contrast, projects the state costs of expanding coverage to this population to be around \$300 million annually. We find the administration's estimates reasonable. Because the cost of this component could be significantly higher than the Assembly and Senate estimates, significantly less Proposition 56 revenue could be available to fund the other new policy changes included in the Proposition 56 spending packages, such as increased provider payments and the restoration of optional benefits.

# Health and Human Services Agenda

## Item 4260-101-3305—Proposition 56 Medi-Cal Spending

### LAO Comments

(Continued)



June 2017  
Page 5



***Recommend Targeting Provider Payment Increases to Geographic Areas or Specialties of High Need.*** Although the details of both the Assembly and Senate’s plans to increase health care and dental provider payments have yet to be finalized, the two plans differ significantly in their approach (described briefly above). While we do not recommend one house’s approach over the other, we believe that targeting provider payment increases to geographic areas or specialties of high need (including dental) has merit. Distributing payment increases across all Medi-Cal providers may not achieve as significant improvements in access as a more targeted approach since the funding would be diluted among a large number of providers and would go to areas and specialties where access challenges are less acute. Finally, we recommend that any provider payment increases be crafted in a way that meets federal guidelines for drawing down federal Medicaid funding.