

Item 4260-101-3305

Proposition 56 Medi-Cal Spending

PRESENTED TO:

Budget Conference Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE

Proposition 56 (2016) Raised State Taxes on Tobacco Products and Dedicates Most Revenues to Medi-Cal on an Ongoing Basis. Medi-Cal began receiving Proposition 56 funding in 2017-18. Funding from Proposition 56 is intended to ensure timely access to quality care within the Medi-Cal program. Proposition 56 currently provides about \$1 billion annually to Medi-Cal. Proposition 56 funding in Medi-Cal has been used for two main purposes: (1) augmenting the program, such as by increasing Medi-Cal provider payments, and (2) offsetting General Fund spending on underlying cost growth in Medi-Cal.

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Senate and Assembly Proposition 56 Spending Packages Are Broadly Similar, With Some Key Differences. Both houses and the Governor agree to use Proposition 56 funding in Medi-Cal to continue existing Medi-Cal provider payment increases, establish new supplemental payments, provide for physician training on trauma screenings, and augment the Medi-Cal student loan repayment program. In addition, both houses adopted placeholder trailer bill language directing the Department of Health Care Services (DHCS) to request three-year approval from the federal government for Proposition 56 supplemental payments (currently, DHCS requests approval on annual basis). Below, we describe the key differences between the houses. The figure below summarizes how the Senate, Assembly, and Governor’s budget packages would allocate Proposition 56 funding in Medi-Cal.

Differences in the Use of Proposition 56 Funding in Medi-Cal

(In Thousands)

| | Governor | Senate | Assembly |
|---|--------------------|--------------------|---------------------|
| Continue existing provider payment increases | \$748,850 | \$748,850 | \$748,850 |
| Value-based payments ^a | 250,000 | 250,000 | 170,000 |
| Family planning services | 50,000 | 50,000 | 50,000 |
| Developmental and trauma screenings | 36,669 | 36,669 | 36,669 |
| Training for trauma screenings ^a | 25,000 | 25,000 | 25,000 |
| Optical benefit restoration | 11,283 | 11,283 | — ^b |
| Assorted additional provider rate increases | — | — | 80,000 ^c |
| Physician and dentist student loan repayment ^a | 120,000 | 120,000 | 120,000 |
| Totals | \$1,241,802 | \$1,241,802 | \$1,230,519 |

^a While most Proposition 56 provider payment increases can be considered limited term, particularly in light of the proposed sunset, these augmentations are explicitly intended to be limited term.

^b Assembly took action to use General Fund in place of Proposition 56 funding to restore this benefit.

^c These include rate increases for the following providers and services: ICF-DDs, stand-alone pediatric subacute facilities, CBAS, non-emergency medical transportation, durable medical equipment, and hospital-based pediatric physician services.

ICF-DD = Intermediate Care Facility for the Developmentally Disabled and CBAS = Community-Based Adult Services.



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Only Assembly Adopts Governor’s Proposed Sunset of Proposition 56 Policy Augmentations in Medi-Cal. Under the Governor’s proposal and the Assembly’s action, all Proposition 56 policy augmentations in Medi-Cal would sunset at the end of 2021, after which time all Proposition 56 funding for Medi-Cal would instead be used to offset General Fund spending on cost growth in the program. The Senate took action to reject the Governor’s proposed sunset.

Assembly and Senate Provide Different Funding Levels for Value-Based Payment Program. The Governor proposed establishing a Medi-Cal value-based payment program and would allocate up to \$250 million for three years beginning in 2019-20 for this program. While the Senate approved funding for the value-based payment program as proposed, the Assembly took action to reduce annual funding for the program by \$80 million.

Assembly Provides Funding for Additional Provider Payment Increases. Using the freed-up funding from the reduction to the value-based payment program, the Assembly funds an assortment of additional provider payment increases. These include increases for the following providers and services:

- Intermediate Care Facilities for the Developmentally Disabled.
- Stand-alone pediatric subacute facilities.
- Community-Based Adult Services.
- Non-emergency medical transportation.
- Durable medical equipment.
- Hospital-based pediatric physician services.



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Assembly Uses Different Funding Source for Optical Benefit Restoration. The Senate and Governor's spending packages would use Proposition 56 funding to restore the optical benefit in Medi-Cal, which was eliminated during the most recent recession. The Assembly budget package also restores the optical benefit, but would fund the restoration using General Fund in place of Proposition 56 funding.

Assembly Adopted Trailer Bill Language Regarding Unspent Proposition 56 Funding. A significant portion of Proposition 56 funding flows through managed care plans prior to a provider receiving a Proposition 56 supplemental payment. The Assembly adopted placeholder trailer bill language directing DHCS to collect Proposition 56 funding that is allocated to managed care plans but does not ultimately get paid out to providers.

Assembly Adopted Trailer Bill Language Extending Value-Based Payments to Federally Qualified Health Centers (FQHCs). Under the Governor's proposed budget, FQHCs are not eligible for value-based payments. The Assembly adopted placeholder trailer bill language that would extend Proposition 56-funded value-based payments to FQHCs.