Impact of Proposed Budget for 2003-04 on Medi-Cal and Other Health Programs

January 14, 2003
1. How Large Is the Current Budget Gap?

- The nearly $34.6 billion gap reflects a current year (FY 2002-03) deficit of more than $10 billion and a budget year (FY 2003-04) shortfall of more than $24 billion.
- The budget gap is equal to 45% of the 2002-03 general fund. By comparison, the $14 billion deficit California faced in 1991 represented roughly 30% of the state’s general fund in 1991-92.

2003-04 Budget Gap Compared to 2002-03 General Fund Expenditures (in Billions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2003-04 Budget Gap</th>
<th>2002-03 General Fund Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Education</td>
<td>$29</td>
<td>$24</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$9</td>
<td></td>
</tr>
<tr>
<td>Health Services</td>
<td>$13</td>
<td></td>
</tr>
<tr>
<td>Social Services</td>
<td>$9</td>
<td></td>
</tr>
<tr>
<td>Corrections</td>
<td>$5</td>
<td></td>
</tr>
<tr>
<td>State Operations &amp; Other</td>
<td>$9</td>
<td></td>
</tr>
</tbody>
</table>

Source: California Department of Finance
2. How Does the Proposed Budget Compare With Past Budgets?

- Under the Governor’s proposed budget, total state expenditures for 2003-04 would drop to $96.4 billion, 5% less than when state expenditures peaked at $101.3 billion in 2001-02.

- Over the past decade, state expenditures have increased 82%. By comparison, the state population grew 14% and total personal income grew 68% from 1991 to 2001.

- The significant drop in proposed general fund spending for 2003-04 includes a shift of $3 billion in revenue and expenditures to counties.

![General Fund and Total Expenditures, FY 1994 - 2004](chart.png)

Notes: FY 2003 and 2004 reflect Governor’s proposed budget
Source: California Department of Finance (historical data from Chart B)

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3. How Does the Governor Propose Closing the Budget Gap?

- The Governor’s proposed solution to the current $35 billion budget gap relies mostly on reductions in program spending (59%) and tax increases (24%), along with loans, spending deferrals, funding shifts, and a variety of other mechanisms (17%).

- Unlike the approach enacted to close last year’s budget gap, which relied on many one-time mechanisms such as securitization of tobacco settlement funds, this year’s solution substantially addresses the structural gap between revenues and expenditures.

### Closing Last Year’s Budget Gap ($24 Billion) Enacted Solution

- **Program Spending Reductions**: 32%
- **Tobacco Tax Securitization**: 19%
- **Federal Funding**: 5%
- **Tax Increases**: 7%
- **Loans, Deferrals and Other**: 37%

### Closing the Current Budget Gap ($35 Billion) Proposed Solution

- **Program Spending Reductions**: 59%
- **Tax Increases**: 24%
- **Loans, Deferrals and Other**: 17%

Notes: Proposed solution for closing the current budget gap reflects Governor’s December and January budget proposals. Also, revenue from tax increases would be provided to counties along with additional responsibility for funding certain health and long term care services.

4. How Would Program Expenditures Change?

- Compared with two years ago – when the budget hit its peak – state expenditures would increase for Corrections (7%) and Health and Human Services (1.5%), and would decrease for K-12 Education (-7%), Higher Education (-7.5%), Business, Transportation and Housing (-32%), and all other areas combined (-15%).

- Within HHS, those departments whose budgets (from all sources) would increase from the prior year include the Managed Risk Medical Insurance Board (15%), Developmental Services (10%), the HHS Data Center (5%), and Mental Health (4%). These increases are a function increasing numbers of people served, higher utilization, and other factors.

- The budgets for most other departments would decrease, including the Department of Health Services, which accounts for one-half of the Health and Human Services budget.

### Total State Expenditures by Agency, 2001-02 to 2003-04

<table>
<thead>
<tr>
<th>Agency</th>
<th>2001-02 ($103.3 B)</th>
<th>2002-03 ($98.9 B)</th>
<th>2003-04 ($96.4 B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Education</td>
<td>33.4</td>
<td>31.3</td>
<td>31.0</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>26.9</td>
<td>26.4</td>
<td>27.3</td>
</tr>
<tr>
<td>Higher Education</td>
<td></td>
<td>11.4</td>
<td>11.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>Business, Transp. &amp; Housing</td>
<td>7.4</td>
<td>7.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Corrections</td>
<td>5.3</td>
<td>5.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Other</td>
<td>19.0</td>
<td>17.5</td>
<td>16.1</td>
</tr>
</tbody>
</table>

Notes: Amounts for 2001-02 and 2002-03 reflect budget as enacted; 2003-04 reflects budget as proposed. Excludes federal funding.

Source: California Department of Finance

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5. What Spending Reductions Are Proposed for Health Programs?

- Total funding for the health programs administered by the Department of Health Services would drop by from $32.2 billion in 2002-03 to $27.7 billion in 2003-04.

- Several of the Governor’s biggest savings initiatives would shift responsibility for funding certain health and long term care services from the state to counties, an action referred to as “realignment.”

<table>
<thead>
<tr>
<th>Savings Initiative</th>
<th>General Fund Savings (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realignment of certain medical and long-term care services covered under Medi-Cal</td>
<td>$3,000</td>
</tr>
<tr>
<td>Reduce Medi-Cal spending (through a variety of actions described in following pages)</td>
<td>$1,756</td>
</tr>
<tr>
<td>Realignment of the Alcohol and Drug Program</td>
<td>$231</td>
</tr>
<tr>
<td>Realignment of certain mental health programs (Integrated Systems for the Homeless and Children’s System of Care)</td>
<td>$74.9</td>
</tr>
<tr>
<td>Realignment of a dozen public health programs (referred to as Healthy Communities Realignment)</td>
<td>$66.6</td>
</tr>
<tr>
<td>Reduce spending for activities funded by Proposition 99 (cigarette and tobacco surtax), including elimination of Comprehensive Perinatal Outreach</td>
<td>$38.5</td>
</tr>
<tr>
<td>Reduce funding for prostate cancer treatment to reflect lower than anticipated participation</td>
<td>$15.0</td>
</tr>
<tr>
<td>Eliminate state-funded cancer research</td>
<td>$12.6</td>
</tr>
<tr>
<td>Eliminate various outreach and media campaigns</td>
<td>$11.8</td>
</tr>
<tr>
<td>Eliminate Rural Health Demonstration Project</td>
<td>$4.7</td>
</tr>
<tr>
<td>Substitute general fund expenditures with fee revenue for the Family Physician Training Program</td>
<td>$4.5</td>
</tr>
</tbody>
</table>
6. How Would the Proposed Budget Impact Medi-Cal Costs and Caseload?

- Proposed budget would decrease enrollment by 209,000 (3%) to 6.3 million beneficiaries, and reduce Medi-Cal expenditures by $1.5 billion (5%) to $27.7 billion. These figures do not include $3 billion in Medi-Cal expenditures that would be shifted to counties.

- Over the past decade, Medi-Cal expenditures have grown more than 60%, as a result of growing enrollment and rising costs per enrollee. Since FY1994, Medi-Cal enrollment has grown nearly 20%. Medi-Cal costs per enrollee have increased an average of nearly 10% annually, driven largely by increases in spending for prescription drugs, nursing facilities, and inpatient hospital services.

Medi-Cal Enrollment and Expenditures, FY 1994 – FY 2004

Notes: Enrollment reflects average monthly enrollment for each fiscal year, except for FY 2003 and FY 2004, which are estimates. Expenditures for FY 2003 and FY2004 reflect amounts budgeted. Source: California Department of Health Services and California Department of Finance.

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7. How Are Medi-Cal Cuts Distributed?

- General Fund cuts to Medi-Cal totaling $789 million were enacted in the 2002 Budget Act. Another $1.2 billion in spending cuts were proposed in December 2002, and an additional $600 million in cuts were proposed in January 2003.

- The total magnitude of these cuts is nearly doubled by the loss of federal matching funds.

- The proposed budget would also shift nearly $3 billion in general fund costs to counties, funded by tax increases dedicated to counties. These proposed actions do not necessarily affect the Medi-Cal budget and are not reflected in the amounts shown above or below.

Notes: Distribution based on general fund savings only. General fund savings due to the realignment or transfer of certain costs to counties are not represented as program cuts. Source: CHCF estimates based on data from California Department of Finance
8. How Would Medi-Cal Eligibility Change under the Governor’s Proposal?

- Proposal would reduce income eligibility limits for working families from 100% of the federal poverty level ($18,000 for a family of four) to 61% of the federal poverty level ($12,000 for a family of four). The income eligibility limit for adults under Medi-Cal 1931(b) was increased to 100% of the federal poverty level in March 2000 from 74%. DHS estimates that this would affect the eligibility of 350,000 applicants in 2002-03 and 2003-04.

- Proposal would also reduce income eligibility limits for low-income aged, blind, and disabled individuals from 133% of the federal poverty level to the Supplemental Security Income/State Supplementary Payment benefit level, an amount roughly equal to 100% of the federal poverty level. DHS estimates that as a result of this change, 26,000 people would no longer receive Medi-Cal without first paying a monthly deductible (called “share of cost”).

### Income Limits for Medi-Cal and Healthy Families

<table>
<thead>
<tr>
<th>Category</th>
<th>Medi-Cal</th>
<th>Healthy Families</th>
<th>Proposed Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children &lt;1</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Children &lt;6</td>
<td>150%</td>
<td>150%</td>
<td></td>
</tr>
<tr>
<td>Children &lt;19</td>
<td>200%</td>
<td>200%</td>
<td></td>
</tr>
<tr>
<td>Parents</td>
<td>200%</td>
<td>200%</td>
<td></td>
</tr>
<tr>
<td>Elderly</td>
<td>200%</td>
<td>200%</td>
<td></td>
</tr>
<tr>
<td>Disabled</td>
<td>200%</td>
<td>200%</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Not reflected are groups with partial coverage, such as pregnant women or low-income Medicare beneficiaries who do not qualify for full-scope Medi-Cal. Also excludes spend down/ share of cost enrollees. Does not reflect different income limits for new enrollees from those with existing coverage.
9. How Would the Proposal Affect Enrollment among Those Eligible?

- Proposal would require adults to verify their income and other application information on a quarterly basis rather than annually. This quarterly status reporting requirement was eliminated in January 2000. DHS estimates that 193,000 adults will no longer be eligible for Medi-Cal coverage in 2003-04 if a quarterly status report is required.

- Many more people are likely to discontinue coverage or choose not enroll as a result of the additional burden associated with the quarterly status reporting requirement. More than a million Californians are eligible for but not enrolled in Medi-Cal, and experiences with and perceptions of the application and enrollment process is the reason why many choose not to apply for or retain their coverage.

Why are so many people eligible for Medi-Cal not enrolled? Many of those eligible said they would enroll in Medi-Cal if the following statements were true about the program:

- The application is short and easy.
- The enrollment wait is 30 minutes or less.
- Personal information is kept confidential.
- There is an option to enroll in a health plan like Kaiser or Blue Cross.
- They could find out the same day whether or not they were eligible.
- Only personal questions are asked.
- There is no requirement to resubmit documents on a quarterly basis when there hasn’t been a change.

Note: A few of these statements are true, which illustrates opportunities to influence enrollment by targeting outreach messages to what people care about.

10. What Would Happen to Medi-Cal Physician Fees?

- The proposed budget would reduce reimbursement to physicians by an average of 5%, in addition to the 10% decrease proposed in December. The last increase in Medi-Cal physician payment rates was in August 2000, when rates were increased by an average of 16%. This was also the first significant increase in such rates in more than a decade.

- On average, Medi-Cal pays physicians only 65% of what Medicare pays for the same service. California ranks 42nd in the nation on this measure (the average for all 51 Medicaid programs is 81% of Medicare), and 5th among the 10 largest states.

- There is tremendous variation by service category; for example, for an office visit for a new patient of moderate complexity, Medi-Cal fees are one-half of the Medicare-allowed charge, whereas Medi-Cal pays nearly the same fee as Medicare for a mammography screen.

![Average Medicaid Fees as Percentage of Medicare-Allowed Charges, 2001](chart)

11. What Benefits Would Be Cut?

- In December 2002, the Governor proposed eliminating the following optional benefits for Medi-Cal beneficiaries (except those under 21 and recipients of long-term care services, as required by the federal government): dental services, medical supplies, podiatry, acupuncture, chiropractic services, psychology, independent rehabilitation services, and occupational therapy.

- In January 2003, the following optional benefits were added to the list of those that would be eliminated from coverage: hospice, non-emergency medical transportation, optometry, eyeglasses, physical therapy, prosthetics, orthotics, speech/audiology, hearing aids, and durable medical equipment.

- Medi-Cal would continue to cover 19 of 34 optional services, including prescription drugs and personal care services for people with disabilities.

Number of Optional Benefits Covered by State Medicaid Programs, 1995

Source: U.S. Health Care Financing Administration

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12. What Level of Access to Physician Care Do Medi-Cal Enrollees Have Now?

- According to a survey of Medi-Cal enrollees, more than half (56%) say it is difficult finding a nearby doctor who accepts Medi-Cal.

- Although one in six Californians is covered by Medi-Cal, nearly one-half (45%) of physicians do not participate in Medi-Cal and most others provide care to only a small number of Medi-Cal enrollees. Consequently, 20% of physicians account for 80% of the primary care services provided to Medi-Cal beneficiaries.

- There are 56 primary care physicians for every 100,000 people in California. Because many limit their Medi-Cal practice, however, there are only 38 PCPs per 100,000 Medi-Cal beneficiaries. The minimum level recommended by the federal government is 60-80 per 100,000.

13. How Would Medi-Cal Nursing Home Payments Change?

- Proposed budget would reduce Medi-Cal nursing home payments by 15%. Medi-Cal pays for 64% of nursing home days.

- Recent rate increases included a 10% increase in nursing home payment rates, as well as an increase in wages for nursing home caregivers as part of the 2000-01 budget, and another 2.15% rate increase in the 2001-02 budget. These increases were adopted, in large part, to raise nursing home staff levels.

- In 2000, 42% of nursing homes did not meet the state’s minimum staffing requirements of 3.2 hours per resident day. Some 58% of nursing homes did meet the state’s requirement, including 15% who met the higher minimum standard of 4.1 hours per resident day recommended by the federal Centers for Medicare and Medicaid Services.

### Nursing Facility Profit Margins, 2000

- Negative profit margin: 38%
- 1% or More: 56%
- No Profit Margin: 6%

### Nursing Home Staff Levels, 2000

- 4.1 or More: 15%
- Fewer than 3.2: 42%
- Between 3.2 and 4.1: 43%

Source: Charlene Harrington et. al., *California Nursing Home Search: A Policy Paper* (October 2002) and Web Site Overview and Research Findings (October 2002).
14. How Does California’s Medi-Cal Compare?

- Medi-Cal provides health coverage to a higher proportion of the state population than most other state Medicaid programs. Despite this, in 1999-2000, the proportion of the state population without health insurance in California (21%) was much higher than the national average (16%).

- As of 1998, Medi-Cal spends less per enrollee than any other state. The reflects a combination of factors, including relatively low provider payment rates and a higher proportion of relatively low-cost enrollees such as children.

- As of 1998, California spends nearly the same proportion of total personal income of state residents on Medi-Cal (9.6%) as the national average (9.9%).

Sources: Personal income data from Bureau of Economic Analysis; All other data from Kaiser Family Foundation State Health Facts Online
15. Conclusions

- Proposed spending for health services would decline under the Governor’s proposal by 5%, as would spending for Medi-Cal. These figures do not include $3 billion in Medi-Cal expenditures the Governor proposes to shift to counties; the decline would be even greater if this were also factored in.

- By spending less for Medi-Cal, California loses federal matching funds that would otherwise contribute to the state’s economy.

- Nearly 550,000 fewer adults are expected to have Medi-Cal coverage as a consequence of proposed reductions in Medi-Cal income eligibility limits and the adoption of quarterly eligibility reviews. Most of those who lose their coverage will join the ranks of California’s large uninsured population.

- Medi-Cal cuts – including those enacted last year and those proposed this year – reverse many of the most significant program improvements made since 1999.

- Children are largely spared from proposed reductions in Medi-Cal coverage and benefits, although payment cuts to physicians, nursing homes, and other providers are likely to make it more difficult for all Medi-Cal beneficiaries, including children, disabled, and elderly recipients to get access to care.