San Diego County Taxpayers Association

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Medi-Cal Hospital Reimbursement Improvement Act

March 2016

SDCTA POSITION: **SUPPORT**

RATIONALE FOR POSITION:

SDCTA supports the Medi-Cal Hospital Reimbursement Improvement Act as it safeguards health care funding for low-income patients and children. The legislation would ensure that California maximizes its share of federal health care funding and that the money is used toward its intended purposes. Because private hospitals have agreed to contribute to a program that brings in $3 billion a year in matched federal funds, these resources should go to the 12 million Californians under Medi-Cal that need this aid the most. State officials and government leaders should not be able to divert these funds for other interests, unrelated to the provision of health care for underprivileged children and families. Otherwise, these missing health care resources will have to be compensated by taxpayers and private insurers whose taxes and premiums will increase respectively to subsidize costs. This legislature is a sensible and preventative measure that seeks to maximize California's share of federal funding, protect health care funds from poor governance and accountability, and reduce the risk of closures and insufficient funding for hospitals that provide necessary care to the state's most vulnerable populations.

Title: Medi-Cal Hospital Reimbursement Improvement Act of 2016
Jurisdiction: State of California
Type: Statewide Initiative
Vote: Majority
Status: On November 8, 2016 General Election Ballot
Issue: Health care for low-income, Medi-Cal patients in California

Description: The proposed measure seeks to eliminate a termination date for California's Hospital Quality Assurance Fee program and require two-thirds of voter approval to implement any changes in the legislature. Since 2009, private hospitals have been paying a fee to help the state obtain matching federal funds to provide health care for low-income and Medi-Cal patients. Under the Medi-Cal Funding and Accountability Act of 2014, this program will expire in 2017. Additionally, some of the matched funds received for Medi-Cal have been diverted toward non-health care uses.

Fiscal Impact: Annual savings from increased revenues would be equal to 24% of the hospital fees' net benefit, which is the total fee revenue from hospitals minus the costs of reimbursements back to hospitals for quality improvement efforts.

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BACKGROUND:

Medicaid / Medi-Cal

The federal Medicaid program provides funds to help pay for health care to low-income patients, given that the state contributes a matching amount of its own money. In California, this program is commonly known as Medi-Cal. In 2009, the Hospital Quality Assurance Fee Program was created in which California's private hospitals were required to pay a fee to obtain federal Medicaid funds, at no cost to the state's taxpayers. These fees are calculated based on inpatient days at each private hospital, with higher returns for hospitals with greater Medi-Cal inpatient days versus those paid for by private insurances. 24% of these revenues are allocated to the state's General Fund for healthcare uses and the remainder amount is matched at 100% by the federal government. These proceeds are deposited into the Hospital Quality Assurance Revenue Fund, which provides funding for direct and supplemental payments to California hospitals (both public and private) that serve Medi-Cal patients. As a result, hospitals in California have been receiving about $3 billion a year in matched federal funds.[1]

Financing Medi-Cal Hospitals

Approximately 300 California hospitals receive some form of Medi-Cal payment to compensate for patient services. The nonfederal share of payments is financed partially or fully through the state's General Fund while the federal share goes directly into the Hospital Quality Assurance Revenue Fund.[1] The sum of all direct and supplemental fee-for-service payments to hospitals cannot exceed the upper payment limit (UPL) under specified federal regulations, though California's Medi-Cal funding is nowhere near that threshold. California is one of the lowest Medicaid-paying states despite 1 in 3 Californians qualifying for Medi-Cal aid. Historically, the UPL in California has been around 5% to 10% above the total costs of Medi-Cal services incurred by the state's hospitals.

Medi-Cal Hospital Reimbursement Improvement Act of 2016

This initiative aims to ensure permanency and perpetual funding for the hospital fee program. The measure seeks to amend the California Constitution by adding language to require two-thirds voter approval of any changes to the program and only for "provisions that further the purposes of the Act." In other words, changes that are necessary to maintain federal approval for matching funds or contributory to reimbursements that support quality improvement efforts to hospitals (also known as quality assurance payments) under the legislature.

[1] California Legislative Analyst's Office, 2013: http://www.lao.ca.gov/ballot/2013/130602.pdf

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The ballot also addresses two statutory amendments in particular. First, the article has amended poison pill provisions to specify that legislature failures to appropriate money in the Hospital Quality Assurance Revenue Fund within 30 days of the enactment of the annual Budget Act will render the law inoperative under Article 5.230 of the Welfare and Institutions Code. In short, fees imposed on hospitals for the purpose of obtaining matching federal Medicaid funds must be directed to health care services in hospitals for Medi-Cal, uninsured, and children patients. Second, approval of this initiative will eliminate termination of the Fund, ensuring that the hospital fee program and associated revenues will continue be generated after the sunset date.

The measure will also amend the Constitution to specify that revenues and interest generated from the fee imposition will not be used in calculating Proposition 98, a set of formulas used to determine minimum state funding for K-12 education and California Community Colleges each year. Higher General Fund revenues from the hospital fee program may increase the funding requirement for Proposition 98. Thus, proceeds must be deposited in the Hospital Quality Assurance Revenue Fund and applied solely for health care coverage. In sum, approval of the initiative will ensure that 1) all designated Medicaid/Medi-Cal funds are used solely for the provision of medical care to children, elderly, and low-income patients and 2) the hospital fee program will continue in perpetuity.

FISCAL IMPACT:

State savings from increased revenues will offset state costs of children's health coverage by about $500 million and state and local public hospitals by about $90 million in half-year savings for 2016-17. Projected annual savings by 2019-20 are over $1 billion and $250 million respectively. Revenue increases are expected to grow between 5 to 10% annually thereafter.[2] These fee-related fiscal benefits would be maintained through the removal of the Act's sunset provision. However, uncertainties in potential federal decisions may affect the estimation of benefits including the allowable rate of provider charges.

Providers determine what they will charge for items, services, and procedures provided to patients; these charges then translate to the amount due in the provider's medical bill. Reduced provider charges as a percentage of net patient revenue would decrease the estimated amount of annual savings. Net patient revenue is the difference between provider charges and contractual adjustments that give payers a discount in exchange for volume in charges. Thus, discounted revenue will lead to reduced savings. Other regulations in Medicaid policy that for example, alter the price of supplemental payments would also affect the net benefits to hospitals though the impact is difficult to estimate.

[2] California Secretary of State, 2013: http://www.sos.ca.gov/administration/news-releases-and-advisories/2013-news-releases-and-advisories/db13-055/

PROPONENTS:

There is an extensive list of supporters comprised of healthcare associations, business leaders, community organizations and elected officials, including:

- California Hospital Association
- California Children's Hospital Association
- California Medical Association
- California Chamber of Commerce
- Los Angeles Area Chamber of Commerce
- San Diego Regional Chamber of Commerce
- San Francisco Chamber of Commerce
- Community Health Improvement Partners (CHIP)
- Asian Pacific Islander American Public Affairs Association (APAPA)
- San Bernardino County Medical Society
- California Latino Elected Officials Coalition
- Mayor Kevin L. Faulconer, City of San Diego

PROPONENTS' ARGUMENTS:

- Not appropriating money necessary to receive the full amount of available matching federal funds leaves billions of dollars in Washington D.C. and underpays hospitals that provide vital health care to Medi-Cal patients.
- In 2013-14, California was diverting $620 million out of the $3 billion revenue made through the hospital fee program for non-health care purposes.[3] For example, hospital fee money redirected to the General Fund was used to offset budget deficits, thus leaving hospitals undercompensated for the Medi-Cal program. In 2012, these losses amounted to over $5 billion.
- California's Medi-Cal program ranks low in the nation for funding health care for Medicaid patients. Amendments to the Constitution will ensure that hospital fees paid to maximize the available amount of federal funds are used for the intended purpose.
- If low-income patients lose their healthcare coverage, taxpayers that pay for private insurance will be affected by premium increases to subsidize Medi-Cal instead. This legislature protects taxpayers and those with private insurance policies.

OPPONENTS:

None known.

[3] California Hospital Association Press Release, 2013: http://www.prnewswire.com/news-releases/california-hospitals-file-ballot-initiative-to-protect-medi-cal-funding-216971731.html