

**Governor Brown's 2017-18 Proposed State Budget
Impact on Community Health Centers
February 2017**

Overview

Governor Brown's 2017-18 Budget remains committed to protecting four priorities: growth for education, creation of the state's first earned income tax credit, a minimum wage increase, and expansion of health care coverage to millions of Californians. Protecting these priorities however comes at some cost this year as the state projects that without some tempering of anticipated spending increases and pulling back on one-time spending commitments made last year the state would face a \$2 billion deficit. The two factors creating the deficit are stated to be lower than expected revenues and a shortfall in the Medi-Cal program. The Administration does acknowledge that California's tax base is volatile and with the coming tax receipts, there may be greater revenues than projected today, in which case proposed cuts could be avoided in the May Revise.

The Budget Summary does acknowledge the change in federal administrations and the many unknowns posed, however no assumptions are made about alleged changes to programs. Per the Budget Summary, "the [Brown] Administration stands ready to build on what has worked, support changes and efficiencies where appropriate, and play a constructive role to protect and enhance the lives and health of Californians – with the fiscal constraints facing the state."

California Health+Advocates Position

CaliforniaHealth+ Advocates, who are committed to advancing the mission of California's 1,150 not-for-profit community clinics and health centers (CCHCs) that provide comprehensive, quality health care services to one in seven Californians each year, and employ more than 58,000 Californians, is particularly concerned with potential changes to the 340B program, elimination of funding for primary care workforce, NQI Wrap implementation, and delays to care integration. Staff is working to stop or reverse the proposals that if passed would have negative impacts on health centers and patients.

Budget Details Most Relevant to Health Centers

Medi-Cal: The Governor's Budget estimates that 14.3 million people will be in the Medi-Cal program in 2017-18. This budget is projected to increase to \$19.1 billion in 2017, providing coverage to approximately 14.3 million people.

CHC Impact: California remains committed to the Medi-Cal expansion population, and acknowledges the state's match is increasing thus requiring a greater proportion of the GF contribution. Health centers continue to have a large percentage of their patients eligible for PPS reimbursement.

340B: The budget will include trailer bill language to explicitly require covered entities, for both Medi-Cal FFS and Medi-Cal managed care, to "bill at their actual 340B acquisition cost plus any applicable dispensing fee." To note, DHCS indicates that budget trailer bill language will not be made available until the spring.

CHC Impact: The results could be extremely detrimental to health centers that rely on 340B savings for capital projects, operations, or bolstered services. The proposal aims to ensure it is the state that accrues the savings from 340B and not covered entities. The start date is targeted at July 1, 2017, and such a quick turnaround would be very disruptive to health centers that are 340B covered entities. Health centers may need to reconsider being a 340B provider if they cannot be assured of accruing savings. Being a 340B

covered entity remains optional, but to note, as a requirement of being a federally qualified health center health centers must purchase drugs at 340B or better.

Workforce: The Governor's Budget eliminates the \$100 million workforce commitment.

CHC Impact: California Health+ Advocates, with our coalition partners, fought hard to win this budget appropriation last year. The 2017-18 budget reverses the \$33 million commitment that was targeted for this year, and eliminates the remainder of the \$100 million in the future. This elimination is a tremendous blow to the momentum that was building on fixing the state's workforce crisis. Without the \$33 million in this year's budget, California's primary care residency programs could experience destabilization as they also face more than \$60 million dollars in additional cuts due to expiration of federal and private foundation grants. This act also hinders existing primary care residency programs' ability to expand and decreases the resources available to develop new residency programs within underserved areas. Overall, this creates a detrimental effect on the number of residents trained in California and limits our ability to address the workforce shortages that persist and affect patient access.

MFT Billable providers: The 2017-18 Budget delays the implementation of AB1863 (Wood)- Marriage and Family Therapists from January 2017 to July 1, 2018. MFTs will not be billable at the PPS rate within an FQHC until that time.

CHC Impact: This delay is a very unfortunate consequence of lack of sufficient staff at DHCS to carry out the implementation of many federal and state rules, regulations, and new legislation. Health centers were already preparing to begin billing in January and some health centers may have had to lay off MFTs recently hired in anticipation of the January 2017 implementation. All health centers will have to delay plans to expand behavioral health capacity for another year and a half. Patients will suffer the impact of this delay most acutely.

FQHC Payment Reform: The FQHC Payment Reform Demonstration Pilot (Wrap Cap or APM Pilot) per SB147 (Hernandez) will also be delayed to January 2018 from its original October 2017 implementation date.

CHC Impact: This delay is not unexpected. The APM Pilot still requires CMS approval through a State Plan Amendment, a statewide announcement, a health center application process, and rate setting with managed care plans. With the change in federal administrations there is an expected delay in receiving the requisite approval from CMS to move forward. The short 3 month push back to January 2018 affords health centers a few more months running room to begin transforming their programs and working with their plans to align systems.

Full Scope Medi-Cal Coverage for Undocumented Children: The Governor's Budget Proposal maintains funding for the estimated 185,000 undocumented children who are eligible for full-scope Medi-Cal benefits after May 1, 2016.

CHC Impact: The Governor's commitment to covering these children with full-scope Medi-Cal affords health centers with the ability to bill PPS for providing services, and affords these children with greater access to services.

Newly Qualified Immigrant Benefits and Affordability Program: Adults under the 5 year bar currently receiving state-only Medi-Cal will be transitioned to a Qualified Health Plan in Covered California, with the state providing premium and out-of-pocket payment assistance and wraparound benefits for these beneficiaries. The budget estimates savings of \$48 million for transitioning this population from Medi-Cal to Covered California.

CHC Impact: Beneficiaries in this category who currently receive care at FQHCs under state-only Medi-Cal would now have Covered California QHP coverage. FQHCs who continue to see these beneficiaries will

likely need to contract with the QHP and will receive QHP market-based reimbursement, rather than the PPS rates received under the state-only Medi-Cal program.

Children’s Health Insurance Program (CHIP) Reauthorization: The CHIP program provides Medi-Cal coverage to children who would not otherwise be eligible for Medi-Cal (in California, for income levels up to approximately 260% FPL). The ACA includes a provision that increased the FMAP for CHIP from 66% to 85% through 2019. This budget assumes that the CHIP program continues but at the pre-ACA 66% FMAP, for a general fund cost of \$536.1 million.

CHC Impact: There is no direct impact to health centers from this budget change. Unfortunately the adjustment in how much the state contributes for CHIP however is a foreshadowing of changes to come in California’s Medicaid Program. The new federal administration’s promise to repeal the ACA would have unfortunate consequences in California including less financial support for CHIP and Medicaid Expansion.

Drug Medi-Cal Organized Delivery System Pilot: The DMC-ODS pilot allows counties to opt-in to a demonstration to provide an expanded continuum of care for substance use disorder (SUD) services. This budget includes \$19.9 million in 2016 and \$661.9 million in 2017 for increased services in the pilot, demonstrating a willingness on the part of the state to continue to invest in behavioral health and SUD services.

CHC Impact: FQHC patients will benefit from greater availability of and breadth of SUD services available under the DMC-ODS pilot in counties that opt-in to the demonstration. In addition, counties may be seeking to grow additional SUD resources in their county, and FQHCs who wish to offer medication assisted treatment (MAT) or other SUD services may have expanded opportunity to become a part of the county delivery system.

Poverty Alleviation Programs: The Governor’s budget reflects the Administration’s commitment to counteracting the effects of poverty. The General Fund includes about \$18 billion in poverty-focused obligations, including the minimum wage increase, expansion of health care coverage under the ACA, cost of living adjustments for SSI/SSP recipients, repealing the maximum family grant rule in CalWorks which denied aid to children who were born while their parents were receiving aid, and increases in child care and early education provider rates.

CHC Impact: The state’s commitment to poverty alleviation has a positive impact on health center patients. While not sufficient to meet all of the needs of our patients, California’s attention to poverty alleviation affords health center patients with resources and access to services not provided in other states.