June 5, 2020

The Honorable Gavin Newsom
Governor, State of California
State Capitol, Governor's Office
Sacramento, CA 95814

The Honorable Anthony Rendon
Speaker of the Assembly
State Capitol, Room 219
Sacramento, CA 95814

The Honorable Toni Atkins
Senate President Pro Tempore
State Capitol, Room 205
Sacramento, CA 95814

Subject: Support for the Legislature's 2020-21 State Budget and Remaining Concerns

Dear Governor Newsom and Honorable Members of the State Legislature:

On behalf California's 21 public health care systems and the millions of patients they serve, I am writing to voice our support for provisions in the Legislature's version of the 2020-21 State Budget that would preserve critical county and safety net health care funding. Public health care systems were already concerned about their financial stability in the medium-to-long term, given the dramatic costs related to the COVID-19 response, a significant loss of revenue due to postponed essential health care, and the historical underfunding of public health care systems. We are worried about certain provisions in the Governor's May Revision that, if enacted, would worsen public health care systems' financial stability. While we recognize the difficult decisions that the Administration and Legislature must make in order to balance the State Budget, we implore you not to make these decisions at the expense of the health care safety net. **Specifically, we support the Legislature's allocation of $1 billion to backfill lost realignment revenues to help avoid the impending decimation of county safety net services, and the Legislature's rejection of a number of harmful safety net cuts in the Governor's May Revision.**

Background

As you know, California's public health care systems, which include county-operated or -affiliated facilities and the University of California medical centers, are the core of the state's health care safety net, delivering high-quality care to more than 2.85 million patients annually, regardless of ability to pay or insurance status. Most patients seen in public health care systems are either Medi-Cal beneficiaries or remain uninsured. Statewide, public health care systems provide nearly 40 percent of all hospital care to the uninsured, and 35 percent of all hospital care to Medi-Cal enrollees in the communities they serve. Public health care systems also operate over half of the state's top-level trauma and burn centers, and train half of all physicians in the state.

Public health care systems' mission and mandate to serve everyone, regardless of ability to pay or other circumstance, has never been more visible or important than during this pandemic. They are caring for many of the state's most vulnerable patients, including low-income essential frontline workers, homeless individuals, and those with other complex social and medical needs. While they care for these patients and anyone else who needs care, public health care systems have been preparing for anticipated surges of cases, freeing up space within their facilities, and converting non-clinical spaces into patient care settings.

Financial Impact on Counties

As you know, a number of public health care systems receive financial support from their county – support which is now jeopardized as reduced county coffers result in local cuts. California's counties estimate a loss of $3.3 billion in local tax revenue over two years. The dramatic funding reductions to counties could result in a twofold impact to public health care systems: 1) As public health care systems provide the non-federal share for a significant portion of the care they provide to their Medi-Cal and uninsured patients, their efforts may be further crippled as fewer local dollars are available to serve as a match for federal funds; and 2) A number of public health care systems are planning for the possibility of having to implement 10 to 25% in cuts of county support, which may force some to significantly scale back services or close their doors altogether. Our communities can simply not afford a drastic reduction of health care services in the midst of this pandemic.

As a result, we urge for the Governor and the Legislature to adopt the $1 billion backfill of lost 1991 and 2011 realignment revenue, as proposed in the Legislature's version of the 2020-21 State Budget, to avoid the impending reduction in county safety net services.

Governor's May Revision Cuts & Impact to Public Health Care Systems

The Governor's May Revision includes several proposed cuts that, when taken together, would total a loss of roughly $343 million annually for public health care systems. Now, when need for the health care safety net is greater than ever, is the worst time to reduce funding. **We support the Legislature's rejection of these cuts, in order to maintain the safety net upon which so many rely.**

1. Medi-Cal Managed Care Cuts: The May Revision proposes to cut Medi-Cal managed care rates by a total of $869 million ($274 million in General Fund) taking effect during 2020-21. To implement these savings, the State proposes two sets of cuts: one for the 18-month period from July 2019 to December 2020, and a separate set for January 2021 and beyond.

   For the entire 18-month period from July 2019 to December 2020, the State would reduce rates by 1.5%, or the maximum allowed by federal regulation without submitting a revised rate certification. The May Revision also proposes a complementing risk corridor program for plans for this period.

   For rate years beginning after January 2021, the May Revision proposes to implement a variety of "acuity, efficiency, and cost containment adjustments," in order to achieve savings in managed care. As part of these changes, starting in January 2021, DHCS would limit inpatient Medi-Cal managed care payments to fee-for-service APR-DRG rates for private and district hospitals.

   From the combined impact of these cuts, CAPH estimates that public health care systems would receive $106 million less in 2020-21, and $87 million less annually thereafter, as a result of lower managed care rates and lower supplemental rate range payments that public health care systems receive (which are dependent on the overall size of managed care rates). We are also concerned that limiting inpatient payments to fee-for-service rates would discourage capitation at the provider level, and could set a negative precedent in the future.

   We support the Legislature's rejection of the Medi-Cal inpatient maximum fee schedule for private and district hospitals, and we also urge you to reject the 1.5% Medi-Cal rate reduction.

2. Proposition 56 Supplemental Payment Cuts: The Administration proposes to trigger a cut of Proposition 56 supplemental payments, starting July 1, 2020, absent the State receiving further

federal stimulus funding. Proposition 56 had allowed for certain Medi-Cal supplemental payments to physicians and family planning providers, as well as payments for value based services and developmental screenings, among other areas. The Governor proposes to shift nearly all ($1.2 billion) of the Proposition 56 payments, to support general growth in the Medi-Cal program, which would result in a total decrease of $2.2 billion to Prop 56. We estimate that this change would likely result in an annual loss of $20 million for public health care systems.

We support the Legislature's rejection of the cut to Proposition 56.

3. Elimination of PPS Carve-Out Payments for FQHCs: The Administration proposes to eliminate federally qualified health centers (FQHC) prospective payment system (PPS) carve out payments for dental and pharmacy services, beginning January 2021. The State expects this would result in a decrease of $100 million ($50 million in General Fund); however, it is unclear how the State determined this amount. CAPH is concerned that this policy may force FQHCs that offer pharmacy services, and receive reimbursement outside of PPS, to adjust their scope of services for their PPS rate or be forced to stop offering pharmacy services altogether. Typically, PPS scope changes have been unfavorable for FQHCs, resulting in lower PPS rates. This proposal could also harm patient care as it would severely threaten or eliminate a particularly important "one-stop shop" patient care model where patients can pick up their prescriptions while they are at their primary care clinic.

   We support the Legislature's rejection of the elimination of PPS carve-out payments.

4. Medi-Cal Pharmacy Carve Out: Both the Governor's May Revision and Legislature's Version would maintain the policy to transition all Medi-Cal services provided under the pharmacy benefit out of managed care into fee-for-service, by January 2021. We estimate that this proposal could cost public health care systems nearly $240 million annually, based on the combined impact of lower reimbursement in fee-for-service for 340B drugs, which is limited to acquisition cost, and lower supplemental rate range payments due to the smaller overall managed care rates once pharmacy costs are removed.

   Because of the significant financial harm, and concerns about the State's readiness to assume these responsibilities, we request that the Legislature and Administration adopt Trailer Bill Language ("TBL") delaying implementation Medi-Cal Rx until January 1, 2022 and upon the Department's attestation of operational readiness.

COVID-19 Financial Strains

With significant costs related to the COVID-19 response, and a significant loss of revenue, public health care systems already have concerns about their financial ability to continue to carry out their mission and maintain their levels of care to Medi-Cal and uninsured patients. Additional cuts would worsen an already challenging situation.

Collectively, public health care systems estimate they will incur roughly **$3.5 billion dollars** in new costs and lost revenue between March and August 2020, due to the COVID-19 response. In large part, these costs stem from significant investments such as:

- Expanding surge capacity, including procuring new equipment, supplies, infrastructure, and bringing on new frontline health care workers;
- Purchasing new equipment and services for increasing the provision of telehealth; and
- Preserving access by cancelling non-essential procedures and surgeries, in preparation for

anticipated surges.

Because of these dire circumstances, the hospital industry statewide requests $1 billion in the current year's budget, in order to help shore up critical hospital infrastructure and maintain vital capacity as this crisis persists.

Maintain Medi-Cal Telehealth Flexibility Beyond the COVID-19 Emergency Period

Telehealth has quickly proven to be essential as a safe and effective way to ensure patients receive the care they need amidst the COVID-19 pandemic. Over the last few months, providers have adapted quickly and made tremendous strides to shift care to telehealth modalities. To keep Californians safe and promote economic recovery, we must ensure that virtual and telephonic care can continue long term. Were it not for telehealth visits, public health care systems would be unable to maintain critical access to care for patients, and the additional lost revenues from reduced service delivery will further exacerbate the extreme financial strain these systems are under as we respond to the public health emergency. Without further State action, these flexibilities will end whenever the national emergency is deemed over by the federal government. While we do not know when the declared emergency will be lifted, we do know that Medi-Cal providers cannot flip a switch on that date and go back to business as usual.

Over the upcoming summer budget discussions, we urge the Legislature and the Administration to prioritize trailer bill language to allow temporarily-authorized Medi-Cal telehealth flexibilities, including payment for phone visits, to be extended permanently.

Conclusion: Public Health Care Systems' Ongoing Role

Public health care systems reaffirm their essential role in this ongoing pandemic to their communities and to the overall healthcare delivery system. We ask that the Legislature and Administration do the same by rejecting damaging cuts that would weaken their ability to treat and protect our most vulnerable.

As you negotiate a budget deal, we urge you to include the Legislature's proposed backfill of $1 billion in lost realignment revenue, its elimination of draconian health care safety net cuts in the midst of this pandemic, and a recognition of the financial hit that hospitals have taken during this crisis. We appreciate your commitment to maintaining a health care safety net during COVID-19 and beyond.

Thank you for your consideration. We would be pleased to discuss our position with you and answer any questions you may have. Please contact Kelly Brooks-Lindsey, our Sacramento representative, at 916-272-0011 if you would like more information.

Sincerely,

Erica B. Murray
President and CEO
California Association of Public Hospitals and Health Systems

cc: The Honorable Holly Mitchell, Chair, Senate Budget and Fiscal Review Committee
The Honorable Phil Ting, Chair, Assembly Committee on Budget
The Honorable Members of Senate Budget and Fiscal Review Committee
The Honorable Members of the Assembly Committee on Budget
Ana Matosantos, Cabinet Secretary, Office of the Governor
Richard Figueroa, Deputy Cabinet Secretary, Office of the Governor
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