

**Department of Health Care Services
Proposed Trailer Bill Legislation**

Medical Provider Interim Payment Loan Authority

FACT SHEET

Issue Title: Medical Provider Interim Payment (MPIP) Loan Authority.

The Department of Health Care Services (DHCS) proposes to set the MPIP loan authority at 10 percent of the amount appropriated from the General Fund and 6 percent of the amount appropriated from the Federal Trust Fund for Medi-Cal benefit costs in the Budget Act from the most recent fiscal year, instead of a fixed \$2 billion, in the event there is a deficiency in budget authority or a signed budget is not in place at the beginning of a fiscal year (FY).

Background: A signed budget act appropriation is generally required for DHCS to make expenditures. Unexpected changes in the economy and overall health care program spending can sometimes result in a Medi-Cal budget appropriation deficiency during the FY. Such lapses in budget authority can hinder DHCS' ability to process the significant volume of transactions (estimated to be over \$130 billion in FY 2022-23) required to reimburse Medi-Cal managed care plans, health care providers, and many other entities that participate in Medi-Cal. Additionally, in the event a budget is not enacted by the beginning of the FY, DHCS may not have budget authority to process payments. This is referred to as a "no budget scenario."

The federal government requires that the state make Medi-Cal fee-for-service (FFS) payments to certain health care providers (generally non-institutional providers such as physicians, nurses, psychologists, etc.) on a timely basis. Additionally, Medicare buy-in and Part D payments are also mandatory. Based on previous case law (i.e., *White v. Davis*, 108 Cal. App. 4th 197), DHCS is federally required to make these FFS payments even without budget authority.

However, the largest portion of DHCS expenditures are capitation payments to Medi-Cal managed care plans, which are not federally mandatory. State law allows DHCS to request interim General Fund amounts and federal fund expenditure authority from the Federal Trust Fund as a loan to be deposited into the MPIP Fund in the event of a no budget or other deficiency scenario (Government Code section 16531.1). These funds are used for non-federally-mandated payments on a temporary basis until new budget act authority or a supplemental appropriation bill is enacted and the General Fund loan is repaid. The MPIP funding is also used to provide advances to other departments such as the Department of Developmental Services that rely on federal Medicaid funding.

When the MPIP was initially established, the General Fund loan amount was set at no more than \$1 billion, with an additional \$1 billion federal funds expenditure authority, in a FY. At the time, this represented approximately 13 percent of estimated General Fund spending and about 9 percent of estimated federal funds spending. However, the amount of MPIP funding available to DHCS was increased to \$2 billion General Fund and \$2 billion federal funds as part of the Budget Act of 2018 and, in part, AB 1810 (Committee on Budget, Chapter 34, Statutes of 2018) the health omnibus budget trailer bill, due to growth

in the Medi-Cal program which made the previous \$1 billion amount too low to sustain even one month of basic operations.

Justification for the Change: Based on recent estimates, the current MPIP amounts are insufficient due to the significant growth and recent changes in the Medi-Cal program. The Department generally prepares an estimate each year to determine if the loan amount is adequate. Based on these estimates, funding available in the MPIP is not sufficient to cover one month's required expenditures, including capitation payments to its Medi-Cal managed care plans. For example, as of the end of June 2022, capitation payments alone for July 2022 are estimated to be \$1.5 billion General Fund and \$2.5 billion federal funds, which exceed the MPIP amounts. This shortfall exposes DHCS to the risk of being unable to make payments to Medi-Cal managed care plans or other providers during a budget deficiency or a no budget scenario.

DHCS estimates that to continue to provide basic Medi-Cal services through one month (i.e., an entire month of capitation payments), it would need approximately \$3.5 billion General Fund and \$4.2 billion in federal funds for the month of July 2023. These amounts represent approximately 10 percent of the General Fund appropriation for benefits costs and 6 percent of the federal funds appropriation for benefit costs, respectively, as calculated in the May 2022 Medi-Cal Estimate for FY 2022-23.

In order to minimize the anticipated need to update the statutory limits on MPIP loan authority in the future, DHCS proposes to extend MPIP loan authority from a fixed \$2 billion to 10 percent of the estimated non-federal share expenditures from the General Fund and 6 percent of federal fund expenditures from the Federal Trust Fund for Medi-Cal benefit costs in the Budget Act from the most recent fiscal year. Substituting percentage amounts rather than a dollar amount will allow caps on MPIP support to grow or shrink with Medi-Cal expenditures over time.

Summary of Arguments in support:

- Increasing the MPIP amounts is needed in recognition of continued growth in Medi-Cal expenditures and will help provide sufficient funding to make payments in the event of a budget deficiency or a no budget scenario.
- Anchoring maximum MPIP amounts to a percentage of estimated Medi-Cal expenditures will minimize the need to update the statutory limits on MPIP authority in the future.