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**TO** DIANA S. DOOLEY
Secretary

**FROM:** **Jennifer Kent, Director**
**Department of Health Care Services**

**Mari Cantwell, Chief Deputy Director & State Medicaid Director**
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**SUBJECT: SUMMARY AND PRELIMINARY FISCAL ANALYSIS OF THE COMBINED MEDICAID AND HEALTH BENEFIT EXCHANGE PROVISIONS IN THE GRAHAM-CASSIDY-HELLER-JOHNSON AMENDMENT**

**PRELIMINARY ANALYSIS AND COMMENTS:**

The Department of Health Care Services, in collaboration with Covered California and the Department of Finance, have reviewed the provisions contained within the proposed amendment by Senators Graham, Cassidy, Heller and Johnson. We have identified significant programmatic and fiscal concerns, consistent with our prior analyses of the House American Health Care Act (AHCA) and the Better Care Reconciliation Act (BCRA). Please note that this analysis contains assumptions and, when possible, the use of our internal enrollment, cost and utilization data.

*Simply stated, this proposal is the most devastating of the three federal health care proposals that we have evaluated this year*. The long-term impacts of the Graham-Cassidy proposal go beyond even those proposed in the AHCA or BCRA due to several factors, including the cost shift from the federal government to states for future Medicaid expenditures as well as combining the health exchange subsidies and federal funding for the Medicaid expansion population into a single state block grant. While some states may see increases in their block grant over time, California will not. The Graham-Cassidy proposal represents a significant shift of costs from the federal government to states resulting in nearly $4.4 billion in additional costs to California in 2020, growing to $22.5 billion in 2026 for the state to maintain current coverage levels. Since the bill does not continue the block grants in 2027, the impact that year alone

would grow to $53.1 billion. From a cumulative perspective, the impact to California between 2020 and 2026 would be $85.7 billion. From **2020 through 2027, the impact would total $138.8 billion in federal funding cuts**.

Our most significant concerns are listed and detailed below:

1. **Shift in Federal Financing to Per Capita Limit:** Similar to the AHCA and BCRA, the Graham-Cassidy amendment imposes a new Medicaid funding methodology for nearly all enrollees and expenditures in Medi-Cal to a per capita spending limit based on historical data. The per capita limits are similar to the earlier two proposals through FY 2024 in that they are trended by the Medical CPI or adjusted Medical CPI. These trends are then further reduced on all populations starting in FY 2025.

   This per capita limit represents a **fundamental** change in the federal-state partnership that has existed since the Medicaid program's inception over fifty years ago and a pure **cost-shift** from the federal government to the states. If a state exceeds its spending limits, it must repay the federal share of the excess spending the following fiscal year.

   We expect Medi-Cal expenditures to exceed the expenditures allowed under the proposed cap, particularly given that many health care costs are not within the state's control, such as the increasing costs of new drugs. We estimate California will have federal funding cut under this change by $3.2 billion in 2020 and growing to $8.7 billion in 2027. Cumulatively over the course of 2020 through 2027, the impact to California is estimated to be $35.2 billion.

| | Per Capita Impact | | |
|---|---|---|---|
| | FY 2020 | FY 2027 | FY2020-FY2027 |
| Total Expenditures Subject to the Cap | $ 71,898,888,552 | $ 116,629,752,294 | |
| Total Allowed Expenditures Under the Cap | $ 66,715,557,280 | $ 102,565,719,070 | |
| Total Expenditures Over the Cap | $ 5,183,331,272 | $ 14,064,033,224 | |
| **Federal Funding Cuts** | **$ (3,173,137,329)** | **$ (8,679,361,896)** | **$ (35,165,341,498)** |

   To the extent that state Medicaid programs are subject to an aggregate spending limit, this will have a terrible and chilling effect on provider or plan rate increases or any future supplemental payments (including quality assurance fees) because these additional costs will almost always be guaranteed to exceed the allowed trend factors and require states to fund these additional costs at 100%.

2. **Elimination of Federal Funding for Expansion:** In addition to the per capita limits on federal funding noted above, the Graham-Cassidy amendment eliminates funding for the Medicaid expansion population as of January 1, 2020. California has over 3.8 million individuals who have been enrolled through the

Medicaid expansion. According to the U.S. Census Bureau, California's uninsured rate dropped from 8.6% in 2015 to 7.3% in 2016 and since 2013 has demonstrated the largest drop in the rate of uninsured among any state. However, the decision to expand to this population was premised on the availability of federal funding at the enhanced level of at least 90% federal matching for fiscal years 2020 and beyond. Starting in FY 2020, the federal funding cuts for the Medicaid Expansion in California would be $22.2 billion annually, growing to $32.6 billion in 2027. This means a combined reduction of more than $216.8 billion for the period of 2020-2027.

3. **Time-Limited State Block Grant Program**: Graham-Cassidy combines private marketplace subsidies (APTC and CSRs) and Medicaid expansion funding into state block grants through 2026. States are allowed to use these funds for specified purposes including helping high-risk individuals purchase coverage; direct payments to providers; assistance with deductibles and other cost-sharing; reinsurance; and a specified percentage for providing coverage to individuals that were eligible for Medicaid previously under the Affordable Care Act. Under this component, California's block grant will be reduced gradually between 2020-2026; from an estimated $27.9 billion in 2020 and ending in 2026 at $25.5 billion. The block grant funding even in 2020 is insufficient to cover the costs of currently covered populations through the Medicaid Expansion and Covered California and represents an enormous cut in federal funding that grows over the years. In addition, as currently proposed, the block grant funding will end after 2026 absent subsequent Congressional action, leaving California facing an even larger cliff in 2027. Since the block grant results in an overall significant cut of federal funding it would be insufficient to allow all individuals currently covered through Medi-Cal and Covered California to remain in coverage. The chart below shows the federal funding cuts as compared to current law for the Medicaid Expansion and Marketplace subsidies. As noted, the funding cuts start at $1.2 billion in 2020, growing to $16.3 billion in 2026, the final year of the block grants under the current proposal; leaving an even larger fiscal cliff of $44.4 billion in 2027.

| | Federal Funding Cuts for Medicaid Expansion and Marketplace APTC/CSRs | | | | |
|---|---|---|---|---|---|
| | **FY 2020** | **FY 2026** | **FY 2027** | **FY2020-FY2026** | **FY2020-FY2027** |
| Expansion Federal Funding Cuts Due to Elimination | $ (22,176,224,112) | $ (30,849,992,102) | $ (32,594,898,505) | $ (184,202,443,261) | $ (216,797,341,766) |
| Marketplace Federal Funding Cuts | $ (6,914,733,650) | $ (10,978,916,370) | $ (11,817,958,595) | $ (61,890,221,181) | $ (73,708,179,776) |
| **Total Expansion/Market Place Federal Funding Cuts** | **$ (29,090,957,762)** | **$ (41,828,908,472)** | **$ (44,412,857,100)** | **$ (246,092,664,441)** | **$ (290,505,521,541)** |
| **Block Grant Allocation** | **$ 27,854,051,208** | **$ 25,540,000,000** | **$ -** | **$ 186,879,179,228** | **$ 186,879,179,228** |
| **Federal Funding Cuts Comparing Block Grant to Current Law Expansion and Marketplace Funding** | **$ (1,236,906,554)** | **$ (16,288,908,472)** | **$ (44,412,857,100)** | **$ (59,213,485,213)** | **$ (103,626,342,313)** |

4. **Elimination of Enhanced Funding for IHSS:** Eliminates enhanced federal funding of 6% for specific In-Home Supportive Services (IHSS) program costs beginning in 2020. California's IHSS program is the largest in the country, and is the core of our home-and-community-based system that allows the elderly and disabled to remain in their homes rather than be placed in a more costly institutional care setting. Serving over 480,000 beneficiaries today, this reduction in funding is estimated to increase state costs by about $400 million in 2020, growing annually.

5. **One-Year Ban on Planned Parenthood Participation in Medicaid:** Institutes a one-year freeze on any federal payments to specified providers who provide abortion services. California has a long history of providing coverage and services for family planning. Established in 1997, the Family Planning, Access, Care and Treatment Program (FPACT) has been a model in delivering family planning services to low-income individuals and reducing our state's teen pregnancy rates to near-historic lows as well as reducing unintended pregnancy and the associated costs.

   The federal proposal does not permit any Medicaid, CHIP or block grant program funds to be provided to any provider who offers abortion services in addition to primary services of family planning. In California, this definition appears to only apply to the Planned Parenthood Affiliates of California. They currently provide services to more than 600,000 Medi-Cal and Family PACT beneficiaries and receive nearly $250 million in total funding.

6. **Eliminates Hospital Presumptive Eligibility:** Removes the expanded presumptive eligibility program for hospitals effective in 2020. Approximately 25,000 individuals each month are offered coverage through this process in California. Due to the nature of presumptive eligibility and the removal of this provision, costs will shift to hospitals and individuals that will no longer be found eligible for Medi-Cal. In 2017-18, state expenditures on hospital presumptive eligibility is nearly $400 million ($192 million state General Fund).

7. **Reduces Levels of Provider Fees:** The bill contains a provision to phase down the maximum level of allowable provider fees that are used by states to fund their Medicaid programs. The current maximum is 6% of net patient revenue, the proposal phases that down to 4% in 2025. Provider fees/assessment have been a significant source of non-federal revenue in the Medi-Cal program for many years. We anticipate an immediate impact to at least California's provider fee on skilled nursing and other long-term care facilities. We anticipate at full implementation, this reduction could result in the need for increased state general fund of nearly $150 million. The impact is potentially greater if this reduction also impedes the state's ability to fully assess the hospital provider fee, although no impact is estimated at this time.

**SUMMARY:**

The Graham-Cassidy amendment, when compared to the other federal health care proposals we analyzed this year, continue to represent a massive and significant fiscal shift from the federal government to states. Given our state's significant population of low-income individuals, in addition to Medi-Cal's historic coverage for populations of children, seniors and persons with disabilities, this proposal abandons our traditional state/federal partnership and shifts billions in additional costs to California. It also increases the fiscal burden on our state's safety net health care providers as they will be forced to live within the proposed aggregate cost limitations as well as seeing increases in uncompensated care in the hundreds of millions, if not billions annually. The impacts noted above are serious and will be devastating to not only our Medi-Cal program, but the larger health care delivery system that all Californians rely on. If this amendment is adopted and becomes law, California will be faced with tens of billions of dollars in new costs will require difficult decisions regarding the populations and benefits we choose to cover and how much we pay providers and plans for the services they provide.