

**Agenda Item 6**
April 6, 2016

DATE: March 21, 2016

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director 

SUBJECT: Proposed Intergovernmental Transfer (IGT) Transaction

ACTION: Authorize catalytic funding and operating reserves to support an Intergovernmental Transfer (IGT) transaction with CalOptima; and adopt amended resolution authorizing an additional agreement with State Department of Health Care Services for the purposes of supporting the IGT transaction.

SUMMARY:

At the February meeting, the Children and Families Commission of Orange County authorized the Executive Director to pursue an Intergovernmental Transfer (IGT) transaction with CalOptima, as a strategy of leveraging federal funding to support investments in children's health. An IGT transaction provides federal Medicaid funding for reimbursement of uncompensated care for Medi-Cal beneficiaries in a given fiscal year. In December, the Commission received an update on IGT and provided direction to staff to continue discussions with CalOptima and eligible provider partners and return with a final plan in February 2016.

The CalOptima Board of Directors approved participation in an IGT transaction with the Commission and four other local entities at the March 3, 2016 meeting. Since the Commission's action in February, further clarification has been received from CalOptima which requires modification to the action approved by the Commission in February. This staff report requests Commission approval of the revised terms and conditions of the IGT transaction.

DISCUSSION:**Background and Eligibility**

The proposed transaction, which is referred to as a rate range IGT, can only occur via a managed care organization, such as CalOptima. Rate range IGTs began statewide in 2006 and have been used by every county in the state to offset the cost of uncompensated care provided by county health departments, public hospitals and other local care providers. Due to California's relatively low reimbursement rates, counties have substantial headroom with which to accommodate these transactions. With rate range IGTs, a government entity provides non-federal matching funds that the state uses to obtain the highest reimbursement rate that is federally allowable. As a general guide, for every dollar provided as a match, about \$1.80 is returned to the originating county. The State of California charges a 20 percent administrative fee and a managed care organization tax on each transaction.

Participation in an IGT is limited to CalOptima contracted providers that can document uncompensated costs from serving plan members. Financing to support the transaction must be provided by a government entity. Based on these criteria, the Commission approved moving forward in partnership with two eligible organizations, MOMS Orange County and Children's Hospital of Orange County.

Since the recipient of the leveraged funds must be a contracted CalOptima provider, any Commission-supported transaction will result in funding directly to CalOptima and to the grantee provider. Neither the principal funds that provided the basis for the federal drawdown, nor the match funds would return to the Commission directly. Under the proposed transaction, the Commission would work with the transaction partners to ensure that the principal and leveraged funds would be dedicated to agreed-upon priorities for children prenatal through age five.

The Commission has approved that funding would be dedicated to support two outcomes:

- Improve rates of prenatal care and healthy birth outcomes through expansion/sustaining Bridges Maternal Child Health Network prenatal care services
- Improve early identification and intervention for young children with behavioral/developmental concerns and connect children to appropriate services.

Proposed Transaction and Changes from Prior Commission Action

The proposed terms for an IGT transaction were approved at the February meeting, with a focus on ensuring that Commission funding is utilized consistent with the Commission's intent and IGT eligibility requirements, given that the Commission will not receive the principal, transaction fee, nor leveraged funds directly. All funding from the State will flow from the federal government, to the State Department of Health Care Services (DHCS), to CalOptima and will then be distributed to MOMS and CHOC. The February Commission action:

1. Authorized \$2 million in Round 2 catalytic funds, under Partnership for Children's Health, and \$4.269 million in operating reserves to support an IGT transaction with CalOptima.
2. Authorized an agreement with the State DHCS for transfer of Commission funding of \$6.269 million for purposes of providing the nonfederal share for an IGT for the rate year of July 1, 2014 through June 30, 2015.
3. Authorized the agreement with State DHCS to impose a 20-percent fee on the Commission funds (nonfederal share) for the purposes of supporting the IGT transaction.

Since the February meeting, Commission staff has been working closely with CalOptima to address the specific legal, financial and policy requirements for the proposed IGT transaction. The transaction, while still recommended, will differ in two ways from the plan approved by the Commission at the February meeting:

1. **Transaction Fee** - The Commission must finance the required State DHCS 20 percent transaction fee separate from the amount of funding designated for the IGT. The 20 percent assessment fee will be reimbursed to the programs as the first draw against the leveraged federal funds, but must be in addition to the anticipated IGT transaction. Based on the understanding of this new requirement, the Commission could reduce the total amount of

the transaction to incorporate or increase the approved transaction amount. The latter option is recommended. This will increase the total transaction to \$7.5 million as shown in Attachment 1 and allow for a return of over \$10 million, an approximate 33 percent return on the Commission's investment. As shown on Attachment 1, the Commission's investment of approximately 3.6 years of funding for MOMS and Help Me Grow yields approximately 4.8 years of funding through the leveraged transaction for each program. Commission funds will be allocated to the targeted providers immediately following the receipt of the funds from State DHCS. Drawing down an additional \$400,000 in unallocated catalytic funds is proposed to support the 20 percent, or \$1,253,800 transaction fee to support the catalytic investment in children's mental health.

2. **CalOptima Share of Federal Leveraged Funds** - CalOptima will retain 50 percent of the net surplus of leveraged funds for future investments. It was previously anticipated that the full leveraged funds would be directly available for Commission-directed priorities. CalOptima's process requires that these funds be directed to community programs through a competitive award process. It is understood that five CalOptima Board-approved community health priorities, which include improving children's health, improving children's mental health, and reducing childhood obesity, will be carried over and applied to funding criteria for IGT-funded awards. Commission staff will work with CalOptima to focus on children's health.

In sum, the Commission's investment of \$7.5 million will leverage an additional \$2.5 million in federal funds, yielding a 33 percent return on investment.

Impact on Long Term Financial Plan

Funding for the IGT transaction will be supported from both the catalytic budget and operating fund balance reserves. The following is a breakdown of the proposed funding by source to support the IGT transaction:

- Catalytic Funding/Children's Mental Health – \$2 million in catalytic funding from the Round 2 allocation, Partnership for Children's Health and \$400,000 in unallocated catalytic funding to support a one-time expansion of children's mental services. This \$2.4 million catalytic investment will generate an additional \$800,000 in federal funds.
- Operating Funding/Program Sustainability - \$5.1 million will be allocated from operating funds to support Help Me Grow and MOMS Orange County. This investment will draw down an additional \$1.7 million in federal funding which will be used to sustain each program for an additional 15 months, beyond Commission funding.

The IGT financing strategy also benefits the Commission by increasing the long-term fund balance projections as previously reported through fiscal year 2024/25

Implementing Agreements

Commission Counsel is working closely with Commission staff to develop the required agreements for the transfer of funds, payment of the transaction fee and related implementing actions from February 2016. Counsel has reviewed the template agreements provided by CalOptima and is working to develop the amended agreements as outlined in the February Commission action. Counsel will be available at the April meeting to address Commissioner's questions.

The recommended actions request revisions to the approved amendments consistent with the two changes from the prior action outlined above.

STRATEGIC PLAN & FISCAL SUMMARY:

The recommended actions presented in this staff report have been reviewed in relation to the Commission's Strategic Plan and are consistent with applicable goals. Total funding is \$6.269 million for a five year period. Funding is available in the Catalytic Budget and fund balance reserves.

PRIOR COMMISSION ACTIONS:

- February 2016 – Adopted resolutions authorizing agreements pursuant to an Intergovernmental Transfer (IGT) transaction with CalOptima.
- December 2015 – Receive update on proposed Intergovernmental Transfer (IGT) transaction with CalOptima and provide direction to staff.
- October 2015 – Authorized the Executive Director to pursue a potential Intergovernmental Transfer (IGT) transaction with CalOptima on behalf of community partners and return at the December 2015 meeting with a proposed plan and terms and conditions for Commission approval.
- June 2014 – Annual Planning Meeting, Sustainability Strategies.

RECOMMENDED ACTIONS:

1. Authorize \$2.4 million in Round 2 catalytic funds, under Partnership for Children's Health and unallocated catalytic funding, and \$5.123 million in operating reserves to support an Intergovernmental Transfer (IGT) transaction with CalOptima.
2. Adopt amended resolution authorizing an additional agreement with State Department of Health Care Services to impose a 20 percent fee on the Commission funds (non-federal share) for the purposes of supporting the Intergovernmental Transfer (IGT) transaction in the amount of \$1,253,800.

ATTACHMENTS:

1. Projections for FY14-15 Rate Year IGT Transaction with Children and Families Commission of Orange County
2. Amended resolution with State Department of Health Care Services

Contact: Christina Altmayer

Projections for FY14-15 Rate Year IGT Transaction with Children and Families Commission of Orange County

ESTIMATE BASED on POTENTIAL COMMISSION LOI	Amount
1. Children and Families Commission of Orange County Contribution to DHCS (IGT)*	\$ 6,269,000
-MOMS Investments (3 years of funding)	\$ 2,160,000.00
- HMG Investments (3 years of funding)	\$ 2,109,000.00
- Catalytic Investment (Children's Mental Health)	\$ 2,000,000.00
2. Commission Additional 20% State Fee to DHCS (allocated to 1/3 of each investment)	\$ 1,253,800
- MOMS allocated share of transaction fee	\$ 432,000.00
- HMG total investment including transaction fee	\$ 421,800.00
- Children's Mental Health total investment including transaction fee	\$ 400,000.00
TOTAL COMMISSION INVESTMENT	\$ 7,522,800
3. Federal Match of Commission IGT	\$ 6,269,000
4. Managed Care Tax Obligations (3.9375% Tax)	\$ 493,684
5. Increased Capitation Payment from DHCS to CalOptima**	\$ 13,031,684
6. CalOptima Withholds Revenue to Fund Managed Care Tax Obligations (3.9375% Tax)	\$ (493,684)
7. IGT Funds Available, After Tax	\$ 12,538,000
8. CalOptima Credits Original Funds from Commission (Original Contribution + 20% State Fee)	\$ 7,522,800
9. Net IGT Revenue for Transaction to Orange County	\$ 5,015,200
50% Share for Commission designated providers (MOMS and CHOC)	\$ 2,507,600
50% Share for CalOptima	\$ 2,507,600
Total Program Payments on behalf of Commission	\$ 10,030,400
10. Prenatal Care and Home Visitation Services (MOMS Share of IGT)	\$ 3,456,000
11. Children's Mental Health and Developmental Services (CHOC Share of IGT)	\$ 6,574,400
<i>Help Me Grow</i>	\$ 3,374,400
<i>Children's Mental Health</i>	\$ 3,200,000
Anticipated Rate of Return for Children and Families Commission of Orange County	133%

NOTES:

* Commission IGT financing for HMG and MOMS is based on 3 years of projected funding. CHOC Mental Health funding is derived from catalytic funds (\$2 million)

** The health plan's Medi-Cal Managed Care Seller's Tax is included in the payment amount. The MMCS tax is retained by the health plan per the health plan-provider agreement.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY

(AMENDED) RESOLUTION NO. ___-16-C&FC

April 6, 2016

RESOLUTION OF THE CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY DIRECTING THE EXECUTIVE DIRECTOR AND COMMISSION COUNSEL TO PREPARE AND NEGOTIATE AGREEMENT WITH CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES(DHCS) FOR DHCS' TRANSACTION FEE IN THE AMOUNT OF \$1,253,800 ON THE COMMISSION FUNDS (NONFEDERAL SHARE) TO SUPPORT THE INTERGOVERNMENTAL TRANSFER (IGT) TRANSACTION AND AUTHORIZING APPROVAL AND EXECUTION OF SUCH AGREEMENT ON BEHALF OF THE COMMISSION

WHEREAS, in order to facilitate the creation and implementation of an integrated, comprehensive, and collaborative system of information and services to enhance optimal early childhood development, the legislature adopted legislation set forth in the California Children and Families Act of 1998, Health and Safety Code Section 130100, *et seq.* (as amended, the "Act") implementing the Children and Families First Initiative passed by the California electorate in November, 1998 and establishing the California Children and Families Commission and County Children and Families Commissions, including this Children and Families Commission of Orange County ("Commission"); and

WHEREAS, Commission adopted its Strategic Plan to define how funds authorized under the Act and allocated to the Commission should best be used to meet the critical needs of Orange County's children prenatal to five years of age as codified in the Act; and

WHEREAS, the Commission desires to enter an Agreement ("Agreement") with California Department of Health Care Services (DHCS), hereinafter referred to as "Contractor", for DHCS' transaction fee on the Commission funds (nonfederal share) to support the intergovernmental transfer transaction (IGT) in the amount of \$1,253,800 and for the terms as specified in the April 6, 2016 staff report; and

WHEREAS, Contractor desires to enter into the Agreement with Commission in furtherance of the purposes of the Act and the Strategic Plan on the terms and conditions set forth in the applicable Agreement; and

WHEREAS, Commission has reviewed the staff report for the April 6, 2016 Commission meeting relating to the purpose provided and hereby finds and determines that the proposed Agreement is in furtherance of and consistent with the Commission's Strategic Plan; and

WHEREAS, Commission desires to authorize the Commission Chair and Commission Clerk to execute the Agreement with the Contractor in the amount of \$1,253,800 and for the terms as specified in the April 6, 2016 staff report for this Agenda Item;

NOW, THEREFORE BE IT RESOLVED BY THE COMMISSIONERS OF THE CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY AS FOLLOWS:

Section 1 Commission finds and determines the foregoing Recitals are true and correct and are a substantive part of this Resolution.

Section 2 Commission authorizes the Executive Director, or designee, and Commission Counsel to prepare and negotiate the Agreement with the Contractor as described in the April 6, 2016 staff report for this Agenda Item for DHCS' transactions fees on the Commission funds (nonfederal share) to support the IGT in the amount of \$1,253,800 and for the terms consistent with the April 6, 2016 staff report and scope of services referenced therein.

Section 3 Commission hereby approves the Agreement with Contractor as described in the April 6, 2016 staff report for this Agenda Item DHCS' transaction fee on the Commission funds (nonfederal share) to support the IGT in the amount of \$1,253,800 and for the terms as specified in the April 6, 2016 staff report for this Agenda Item.

Section 4 The Commission Chair and the Clerk of the Commission are hereby authorized to execute and attest, respectively, the Agreement on behalf of the Commission.

Section 5 A copy of the Agreement when executed by the Commission Chair and attested by the Clerk of the Commission shall be appended hereto as a part of Exhibit A to this Resolution. Exhibit A is hereby fully incorporated as a part of this Resolution by this reference and made a part hereof. The final executed Agreement shall be placed on file in the office of the Clerk of the Commission.

Section 6 In addition to the authorization of Section 2 above, the Executive Director, or designee, is hereby authorized, on behalf of the Commission, (i) to sign all documents necessary and appropriate to carry out and implement the Agreement(s), (ii) to cause the issuance of warrants, (iii) to administer the Commission's obligations, responsibilities, and duties to be performed under such agreement(s), and (iv) during the term thereof to provide waivers, administrative interpretations, and minor modifications of the provisions of such agreement(s) in the furtherance thereof.

Section 7 The Clerk of the Commission shall certify to the adoption of this Resolution.

The foregoing resolution was passed and adopted by the following vote of the Children and Families Commission of Orange County on April 6, 2016 to wit:

AYES Commissioners: _____

NOES Commissioner(s): _____

EXCUSED Commissioner(s): _____

ABSTAINED Commissioner(s): _____

CHAIR

STATE OF CALIFORNIA)
)
COUNTY OF ORANGE)

I, ROBIN STIELER, Clerk of the Commission of Orange County, California, hereby certify that a copy of this document has been delivered to the Chair of the Commission and that the above and foregoing Resolution was duly and regularly adopted by the Children and Families Commission of Orange County.

IN WITNESS WHEREOF, I have hereto set my hand and seal.

ROBIN STIELER
Clerk of the Commission, Children and Families Commission of
Orange County, County of Orange, State of California

Resolution No: __-16-C&FC

Agenda Date: April 6, 2016

Item No. __



I certify that the foregoing is a true and correct copy of the Resolution adopted by the

ROBIN STIELER, Clerk of the Commission

By: _____
Deputy

EXHIBIT A TO RESOLUTION OF COMMISSION

(Attach copy(ies) of final executed Agreement)