

**Agenda Item 9**
October 7, 2015

DATE: September 25, 2015

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director 

SUBJECT: Potential Feasibility of Intergovernmental Transfer (IGT)

ACTION: Authorize Executive Director to pursue a potential Intergovernmental Transfer (IGT) transaction with CalOptima

SUMMARY:

The Children and Families Commission of Orange County has developed innovative strategies to address the anticipated decline in Proposition 10 tobacco tax revenue. Since 2005, the 35 percent decline in Proposition 10 tobacco revenue has compelled the Commission to explore innovative funding solutions to ensure that programs with proven impacts are sustained in spite of reduced funding capacity. These strategies have included adopting a long term financial plan to guide annual investments, developing public and private philanthropic partnerships to support shared priorities, employing catalytic funding to make one-time system level investments, and maximizing the drawdown of state and federal funding sources.

This agenda item requests Commission authorization to pursue a comparable strategy of leveraging federal funding known as an intergovernmental transfer (IGT) to support the Commission's community partners in conjunction with CalOptima, the County's Medi-Cal managed care organization. This agenda item proposes criteria and parameters under which the Commission would pursue an IGT transaction as well as identifying the benefits and any related risks. Based on Commission direction, proposed terms and conditions for a transaction will be presented in December. It is anticipated that the State Department of Health Care Services will contact CalOptima in Winter or Spring of 2016 with more information regarding the next IGT, including the maximum amount of federal funds available.

DISCUSSION:**Summary of Sustainability Strategies**

The June 2014 Annual Planning meeting focused on sustainability strategies, and Commission staff presented a comprehensive set of recommended approaches tailored to unique funding opportunities for each of the major Commission initiatives. Since that time, the Commission has:

- Earned income contracts totaling \$223,000, including administrative cost reimbursement of \$22,650
- Received direct awards and match grants of \$7.5 million over the two-year period

- Received multiple philanthropic and federal grants totaling \$365,000 to support evaluation and feasibility analysis related to a potential Pay for Success transaction

Additionally, the Commission has continued to work with funded partners to maximize opportunities for federal and state match funds through the Medi-Cal Administrative Activities (MAA) and Targeted Case Management (TCM) federal programs, resulting in over \$26 million received by the Commission and its funded partners.

Despite drawing down federal Medi-Cal reimbursement funds wherever possible, the Commission's investment still significantly subsidizes services to the Medi-Cal population. Annually, approximately 80 percent of the more than 171,000 children served through the Commission's funding partnership are low-income and either Medi-Cal enrolled or eligible. CalOptima has recently completed a feasibility analysis and determined that the Commission could be a potential partner in an IGT transaction, as a vehicle to support Medi-Cal providers who are also supported by the Commission. A potential IGT transaction with CalOptima builds the Commission's overall strategy to maximize all available federal, state and local funds to augment funding for young children and presents an important opportunity to reimburse Commission-funded providers for services to CalOptima members. In doing so, the Commission can extend its ability to sustain key programs serving high-risk and high-need populations.

Intergovernmental Transfers (IGT)

The proposed IGT is a drawdown of federal funds to reimburse local providers for uncompensated care rendered to Medi-Cal beneficiaries in a community. As background, the federal government provides a rate range for Medi-Cal services, but the actual reimbursement rates within this range that providers will receive are set at the state level. This difference between the federal and state rates represents the amount of available federal reimbursement that counties can claim for uncompensated care provided to Medi-Cal beneficiaries. This process, 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. Attachment 1 presents a high-level summary of the flow of funds under an IGT transaction.

The State Department of Health Care Services determines the maximum amount each county can draw down through an IGT transaction, based on its Medi-Cal population and utilization. CalOptima has participated in four IGTs, beginning with its 2010/11 rate year. The University of California, Irvine Medical Center (UCI MC) has provided the non-federal funds for all transactions completed to date. After the state fees have been applied, CalOptima and UCI split the remaining revenue equally. UCI MC is not able to use the total capacity for Orange County due to offsets that impact another of its revenue streams as a result. Therefore, beginning in July of this year, CalOptima engaged a Medi-Cal expert to evaluate the feasibility of additional IGT transactions to ensure full utilization of Orange County's potential federal drawdown. The consultant's review

included identification of eligible entities and exploration of the feasibility of partnership with those entities.

Throughout this process, Commission staff has worked closely with CalOptima to understand the eligibility requirements of a potential IGT transaction and assess the risks and benefits of the Commission participating in such a transaction. The following key eligibility and transaction requirements were identified:

- The basis for an IGT is reimbursement for the actual cost of care for services provided. Currently, CalOptima is examining reimbursement for FY 2014/15. Intergovernmental transfer transactions have already been completed for FY 2013/14 and prior years. There is some potential for federal regulations to change effective July 1, 2016 that would eliminate or reduce the ability for similar transactions in future years. Given this, funding should be viewed as non-recurring.
- The local funds to support an IGT must be public and cannot be federal funds or private provider donations. Although no First 5 Commissions have participated in an IGT, the Children and Families Commission and other county First 5 Commissions are eligible units of government.
- The determination of uncompensated costs is limited to the difference between CalOptima's payment to providers for authorized benefits and the actual cost of care for these services. Dental services, for example, are not currently within the managed care plan's scope of mandated benefits and are therefore not eligible for reimbursement under an IGT.
- The recipient of the leveraged funds must be a contracted CalOptima provider. Thus, 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. As part of the IGT application process, the Commission would work with the transaction partners to ensure that the principal and leveraged funds would be dedicated to agreed to priorities for children prenatal through age five.

Based on the review of IGT eligibility requirements, four potential programs and partners have been identified on whose behalf the Commission would explore an IGT transaction. These partners have existing contracts with CalOptima, can document and quantify the uncompensated care provided to Medi-Cal beneficiaries in Orange County, and currently implement programs with which the Commission is expected to have a long-term partnership. For all of these programs, an IGT transaction would potentially extend the life of the Commission funding and/or expand critical programs to young children despite the diminishing funding capacity. Three of the programs are part of the Bridges Maternal Child Health Network, which represents approximately 20 percent of the Commission's annual funding. The fourth entity is CHOC Children's, which has over 143,000 children as members, representing nearly 20 percent of CalOptima's total membership, as of June 2015.

Elements of a Potential IGT Transaction

The Commission has identified the following potential programs/partners in an IGT transaction, as they not only meet the eligibility requirements, but also provide the potential to extend funding support for the Bridges Network as Commission revenue declines:

- *Orange County Health Care Agency, Public Health Nursing (Bridges Network Provider)* – The Commission has funded public health nurses to provide home visitation and related services to high risk mothers since 2001, at an annual cost in FY 2013/14 of approximately \$1.6 million. The Commission supports the inclusion of the Health Care Agency’s public health nursing programs in a proposed IGT transaction, and would work with County partners to ensure that the leveraged funds would sustain and expand this critical service. The County has an agreement with CalOptima and could be a recipient of leveraged funds.
- *MOMS Orange County (Bridges Network Provider)* – MOMS Orange County is under contract with CalOptima to provide prenatal and post-partum supportive health services to pregnant members. After birth, CalOptima infants continue to receive supportive health services for up to one year, including developmental screenings, access to medical care, and referrals for care. The maternal health education classes that MOMS provides for pregnant members, as well as services provided to CalOptima infants, represent uncompensated services from MOMS Orange County. An analysis of the total cost of uncompensated care is being developed and is preliminarily projected to be at least comparable to the Commission’s level of annual funding, which for FY 2013/14 was \$765,000.
- *Hospital Based Newborn Screening and Referral System (Bridges Network Providers)* – The Commission currently contracts with 10 birthing hospitals at an annual cost of approximately \$1.3 million to provide newborn screening and referral. The private and nonprofit hospitals that participate in the Bridges Network are all CalOptima contractors and provide uncompensated care. While exact estimates are not available at this time, the Commission would need to explore further the feasibility of this network of providers participating, especially given the complexity of multiple participants.
- *CHOC Children’s* – The Commission has partnered with CHOC to expand access to quality pediatric primary and specialty care services, including developmental and behavioral services for young children, since the Commission was first created. CHOC provides over \$20 million in uncompensated care for CalOptima members through outpatient and inpatient services at both its primary location in Orange and at CHOC Mission. An IGT transaction would allow the Commission to expand its support for these programs and address the growing need for behavioral and mental health services. The Commission has been exploring a potential catalytic investment for behavioral and mental health but has not taken any funding action to date. Under this option, the Commission would leverage any approved investment to drawdown federal funds and dedicate the original and the drawdown amount for children’s behavioral and mental health services.

Potential Benefits and Risks

Attachment 2 presents the proposed framework under which the Commission would pursue an IGT. As detailed, the Commission would only pursue an IGT if one of the following conditions was met:

- Support sustainability for current Commission funded programs. The Commission’s priority is to help extend grants by an amount commensurate with the current level of Commission funding. Commission investment and returned match would be used to continue services for an extended period of time, offsetting the demand on Commission budget.
- Expand systems of care beyond existing Commission funding capacity– Leveraging federal funding provides an opportunity for the Commission to increase its planned catalytic investments. As the Commission plans for potential investments in children’s mental and

behavioral health, for example, an IGT transaction allows the Commission to increase the total available funding and the impact in the community.

The benefit of an IGT transaction is that it provides an opportunity for the Commission's investments to yield a potential additional .80 in federal dollars for every local dollar invested. However, since the Commission is not a contracted CalOptima provider, neither the principal of the Commission's funding to support the IGT transaction nor the returned federal funding would be returned to the Commission. To ensure that principal and federal funds were used consistent with the Commission's intent, the use of funds would be clearly delineated in the agreement with the California Department of Health Care Services and signed by all the parties, including CalOptima, the Commission and the provider who will be the recipient of the funding. Based on Commission direction, the Commission Executive Director and Counsel will engage in further discussions with CalOptima to explore the feasibility of an IGT transaction and the potential mechanisms to appropriately protect the Commission's investments.

The Commission Executive Director and Lindsey Angelats, Director of Strategic Development at CalOptima, will be available at the October meeting to review the IGT opportunity and address any Commissioner questions.

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. There is no funding requested for this item.

PRIOR COMMISSION ACTION:

- June 2014 – Annual Planning Meeting, Sustainability Strategies

RECOMMENDED ACTIONS:

1. Authorize the Executive Director to pursue a potential Intergovernmental Transfer (IGT) transaction with CalOptima on behalf of community partners, subject to the framework of terms and conditions provided in Attachment 2.
2. Direct staff to return at the December 2015 Commission meeting with a proposed plan and terms and conditions for Commission approval.

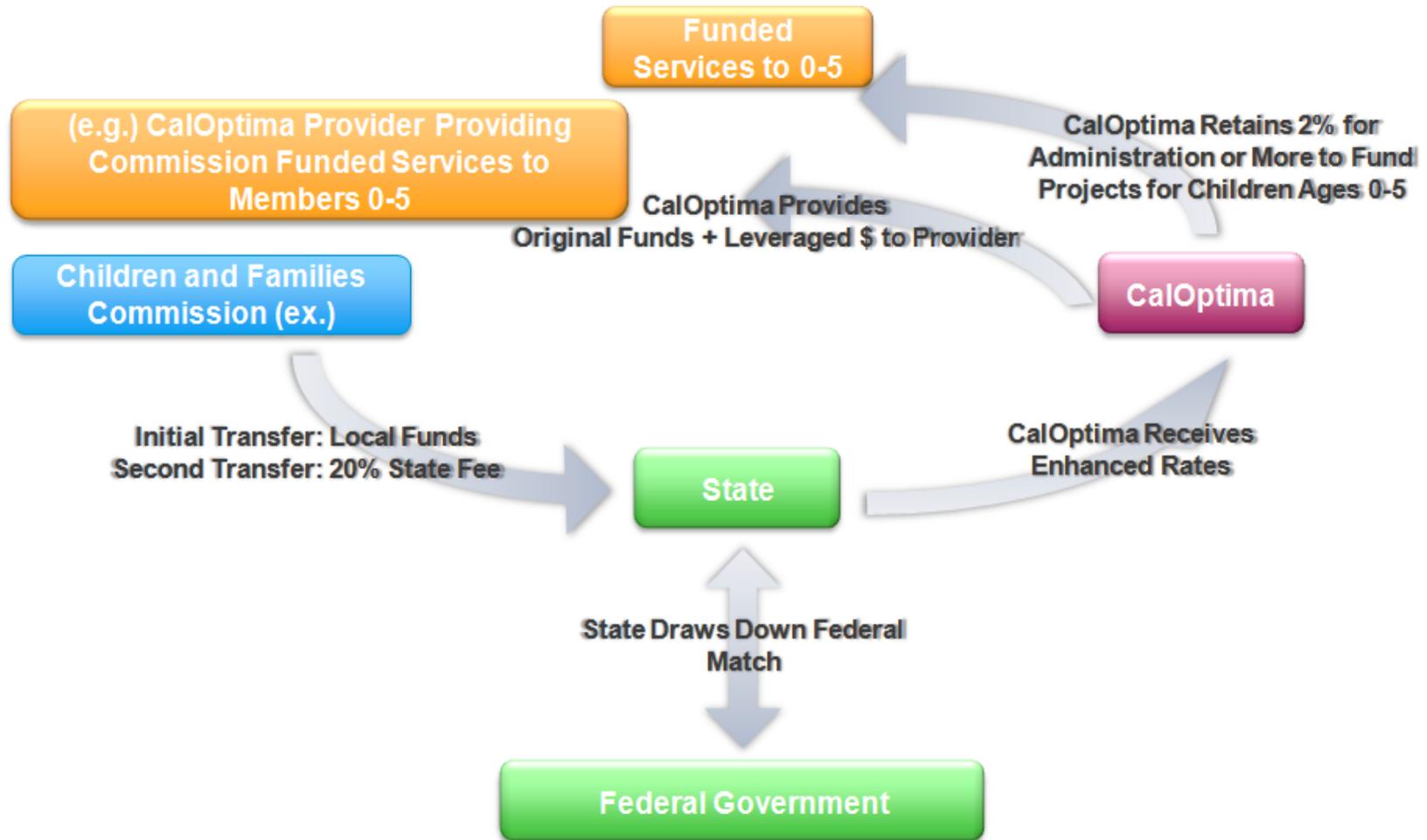
ATTACHMENTS:

1. Intergovernmental Transfer (IGT) Flow Example Graphic Presentation
2. Framework for Intergovernmental Transfer (IGT) Transaction

Contact: Christina Altmayer

IGT Flow Example: IGT Flow

(Funding Entity and Provider Are Different)



Framework for Intergovernmental Transfer (IGT) Transaction Summary of Proposed Model for Funding

- Commission participation in any potential Intergovernmental Transfer (IGT) transaction must achieve one of the following objectives:
 - Support sustainability for current Commission funded programs. The Commission's priority is to help extend grants by an amount commensurate with the current level of Commission funding. Commission investment and returned match would be used to continue services for an extended period of time, offsetting the demand on Commission budget.
 - Expand systems of care beyond existing Commission funding capacity– Leveraging federal funding provides an opportunity for the Commission to increase its planned catalytic investments. As the Commission plans for potential investments in children's mental and behavioral health, for example, an IGT transaction allows the Commission to increase the total available funding and the impact in the community.
- Commission would provide local match funding up to the amount of uncompensated care provided by a community partner.
- Commission match and leveraged funds must be used to support services for children (0-5) as stipulated by the Commission. Agreements among partners as part of any application to the state and federal entities must define the use of the funds to sustain and/or expand services to children prenatal to age five and/or related systems of care for children. All intended uses of funds from an IGT transaction would be defined within agreements between CalOptima, the state, and providers, as allowed by statute for the transactions. Commission Executive Director will work with counsel and the IGT consultant to evaluate all available legal strategies to document the intended use of funds.
- Similar to the Commission's current approach of monitoring catalytic investments, Commission would be responsible for developing an evaluation process and reporting requirements to ensure the use of funds for intended objectives and to determine the impact of the investments.