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MEDICAID FINANCING

County Position

Oppose proposals to cut Medicaid by curbing the use of intergovernmental transfers as Medicaid matching funds or reducing Medicaid payments to government health providers.

Background

The President's Fiscal Year (FY) 2005 Budget proposes to reduce Federal Medicaid spending by $9.6 billion over the next five years by capping Medicaid payments to individual government providers "to no more than the cost of providing services to Medicaid beneficiaries" and by restricting the use of intergovernmental transfers (IGTs) as Medicaid matching funds.

Los Angeles County's public hospitals alone could lose $500 million a year in Medicaid revenue as a result of the Administration's proposal. Capping Medicaid payments to government providers to no more than the cost of providing services to Medicaid beneficiaries would severely reduce the maximum amount of Disproportionate Share Hospital (DSH) and other Medicaid payments that public hospitals may receive. Under current law, DSH payments to individual public hospitals are capped at no more than 175% of their total uncompensated costs.

Public hospitals have been granted the higher Medicaid payment limits in recognition of their key role in providing medical care to the indigent and uninsured as well as to Medicaid recipients. Capping payments will devastate an already fragile system which provides health care to Medicaid and uninsured patients and would reduce access to care.

The Administration's proposal to restrict the use of IGTs would severely limit the broad discretion that states have been granted over how they finance Medicaid costs since the program's inception. Under Federal law, up to 60% of the non-Federal match can be financed by non-state funds, including IGTs from local governments. According to the Centers for Medicare and Medicaid Services, 34 states use IGTs to finance a portion of their Medicaid programs.

In California, IGTs are used to finance the Medicaid DSH and the Selective Provider Contracting Program (SPCP). Both programs provide supplemental payments to health safety net hospitals, such as the County's, to ensure they can continue to provide care to indigent and uninsured patients. IGTs have been used under both Republican and Democratic administrations at both the state and federal level. The State of California is facing a huge State budget deficit and cannot afford to fund a greater share of total Medicaid costs if the use of IGTs is curbed.

The Administration's Medicaid proposals would jeopardize care to the roughly ten million Californians who either are uninsured or on Medicaid. The policies would reverberate through the entire health care system, affecting not only the public system, but also placing severe stress on private hospitals. These proposals also could force many already financially distressed hospitals to close their emergency rooms and trauma care centers, endangering the lives of all Californians.

Status

As of April 23, 2004, the Administration has not sent a legislative proposal to Congress which delineates how IGTs would be restricted or Medicaid payments to government health providers would be further capped. The House Energy and Commerce Committee has held two hearings on IGTs. In general, both Republican and Democratic Committee members support their states' use of IGTs to help finance their Medicaid costs. No hearings have been held in the Senate.

FOR FURTHER INFORMATION, PLEASE CONTACT TOM GARTHWAITE, M.D., DIRECTOR AND CHIEF MEDICAL OFFICER, DEPARTMENT OF HEALTH SERVICES, AT (213) 240-8101.

COUNTY HEALTH SERVICES FINANCING AND REFORM

County Position

Support additional sources of revenue and continued reforms for the County's health care system.

Background

The Los Angeles County Department of Health Services (DHS) operates the nation's second largest public health system and serves as the primary health care provider to more than 2 million uninsured County residents. State law designates counties as the provider of last resort for health care. DHS annually provides about three million ambulatory care visits, 100,000 hospital admissions, 300,000 emergency room visits, and 500,000 public health visits. Its four acute care hospitals are the backbone of the region's emergency and trauma care system.

In January 2002, the County projected a shortfall of over $700 million in its health care system by FY 2005-06, a deficit that was confirmed by the independent California State Auditor. The shortfall is driven by a combination of increasing health care costs, and declining and expiring Medicaid (Medi-Cal in California) revenues. The shortfall also remains despite the County's efforts to streamline health care operations and increase cost-effective outpatient care.

In June 2002, the Board of Supervisors adopted a plan to address this deficit through $357.5 million in reductions and reforms. On the funding side, the Board placed Measure B, a County parcel tax increase to finance improved trauma care and bioterrorism preparedness on the November 2002 ballot. Measure B was overwhelmingly approved by voters and generates about $168 million in local revenue annually. Additionally, the County, State, and Federal governments worked collaboratively to provide $250 million in one-time assistance. While these actions narrowed the health care budget gap, the underlying fiscal instability remains, and some of the proposed reductions are in litigation and prevent the County from achieving savings.

The County is seeking to maintain its collaborative relationship with the Federal government and is working with the State of California on innovative ways to stabilize the County's health care system. These ideas focus on increasing Medi-Cal rates to government operated Medi-Cal managed care programs with the non-Federal share comprised of County health care funds, and the pursuit of Federal Medicaid matching funds for a portion of Measure B. The County is also working with the State, through their Medi-Cal redesign initiative, to strengthen California's health care safety net.

FOR FURTHER INFORMATION, PLEASE CONTACT TOM GARTHWAITE, M.D., DIRECTOR AND CHIEF MEDICAL OFFICER, DEPARTMENT OF HEALTH SERVICES, AT (213) 240-8101.

HOMELAND SECURITY

County Position

Support more effective targeting of homeland security funds based on threat levels, relative need, and population, and the direct allocation of funds to the County.

Support greater state and local flexibility over the use of homeland security funds, including the ability to pay for personnel costs and to hire more specialized law enforcement personnel for anti-terrorism activities.

Background

Since the September 11th terrorist attacks, there has been an intense Federal effort to improve homeland security, including a significant increase in funding to assist state and local governments with their efforts. Such funding is especially important to Los Angeles County, which has major potential terrorist targets, including internationally known landmarks and critical infrastructure, such as the nation's largest port complex (Ports of Long Beach and Los Angeles). More people also are at risk of being injured or killed in terrorist attacks in the County, which has ten million residents – a population that is larger than that of all but eight states.

Improve Targeting of Homeland Security Funds: The formulas used to allocate State Homeland Security Grant (SHSG) and bioterrorism public health and hospital preparedness grants to states do not take into account their relative need for such funds, as measured by factors such as their terrorist threat and risk levels and critical assets. Instead, a sizable portion of funds are divided equally among states with the balance allocated on a per capita basis. As a result, the larger a state's population, the lower its overall per capita funding. For example, in FY 2004, California, the most populous state, received only $5 per capita in SHSG funds while Wyoming, the least populous state, received $38 per capita. California received less than 8% of total SHSG funds even though it accounts for over 12% of the total U.S. population and, in all likelihood, an even higher percentage of the total need for homeland security funds.

Homeland security funds should be more targeted to states and high-threat areas, such as the County, based on their level of need and risk of damage and death from terrorist attacks. The County, therefore, supports provisions in H.R. 3266 (Cox, R-CA), the Faster and Smarter Funding for First Responders Act, which would allocate Department of Homeland Security funds, based on terrorist threat and risk levels and critical infrastructure without any small state minimum funding floor. The bill also would allow regions, such as the County, to receive direct grants.

The County should receive direct homeland security grant funding because of its major potential terrorist targets, critical infrastructure, and population size and its current responsibilities for coordinating emergency and terrorism response, planning, operations, and health care throughout the County. Recognizing our role as the coordinator of the County's Operational Area, the State currently passes through DHS homeland security and emergency preparedness funds to the County to administer countywide. The County also is one of only three local jurisdictions, besides Washington, D.C., that receives and administers direct bioterrorism public health and hospital preparedness grants.

Greater Flexibility: Federal homeland security programs severely limit state and local discretion over the use of funds, and are extremely burdensome to administer. Under current DHS guidelines, within 60 days of a grant award, states must submit a detailed spending plan specifying how funds would be distributed and spent, including itemized lists of planned local agency equipment purchases for DHS review and approval. Because grant funds cannot be used to hire staff, and the use of funds for personnel and grant administration is severely limited, existing state and local staff must devote more time to grant administration at the expense of their other work to improve homeland security and emergency preparedness.

Similar to other Federal grants, states and localities should be allowed to develop plans pursuant to Federal guidelines, and then use their annual homeland security grants in a manner that is consistent with those plans without having to submit detailed spending plans to DHS for its approval each year. Besides reducing administrative costs, this also would greatly expedite the use of funds to improve homeland security.

The County supports greater local flexibility over the use of funds. In particular, the County believes that the current restrictions on the use of funds for personnel should be lifted. The main goal of homeland security grants should be to prevent acts of terrorism rather than to respond to them, and more specialized law enforcement personnel are needed to detect and prevent terrorism. The County Sheriff's Department has a Terrorist Early Warning (TEW) Group which investigates potential acts of terrorism in the County, and coordinates and shares information with other Federal, State, and local agencies involved with homeland security. The TEW Group currently has 21 staff – a staff level which is inadequate given the County's major potential terrorist targets, critical assets, and population size.

Status

On March 18, 2004, the House Select Committee on Homeland Security passed H.R. 3266 by a vote of 37 to 0. That vote, however, should not be interpreted as meaning that a strong consensus exists on how homeland security grant funds should be allocated. Two Senate homeland security grant bills, S. 1245 (Collins, R-ME) and S. 930 (Inhofe, R-OK), which are pending Senate floor action, include small state minimum funding floors. Moreover, H.R. 3266 was referred to three other House committees (Judiciary, Transportation and Infrastructure, and Energy and Commerce Committee) where opponents to homeland security formula changes would have the opportunity to significantly amend the bill.

FOR FURTHER INFORMATION, PLEASE CONTACT DAVID JANSSEN, CHIEF ADMINISTRATIVE OFFICER, AT (213) 974-1101.

STATE CRIMINAL ALIEN ASSISTANCE PROGRAM REIMBURSEMENT

<u>County Position</u>

Fully reimburse state and local criminal alien incarceration costs under the State Criminal Alien Assistance Program.

<u>Background</u>

State and local taxpayers should not have to pay for criminal justice costs resulting from the Federal government's inability to control illegal immigration. The 1994 Crime Act established the State Criminal Alien Assistance Program (SCAAP) to reimburse state and local costs of incarcerating undocumented criminal aliens. If total eligible state and local costs exceed available SCAAP funding, each jurisdiction is reimbursed on a pro rata basis.

In FY 2004, SCAAP is funded at $297 million, which is $49 million above its FY 2003 funding level, but far below the $577 million in average annual SCAAP funding in FYs 1998 through 2002. It is even farther below what is needed to fully reimburse state and local criminal alien incarceration costs. Even in FY 2002, when the County received its highest ever SCAAP payment of $34 million, the County was reimbursed less than 40% of its total criminal alien jail costs. The County received a SCAAP payment of only $11.5 million in FY 2003 when SCAAP was cut from $565 million to $248 million.

This funding cut already is having a devastating effect on public safety in California. Because the State and its counties are facing major budget shortfalls, every dollar reduction in SCAAP reimbursement means a dollar less to spend on essential public safety services. For example, after SCAAP funding was cut in FY 2003, the County Sheriff's Department implemented a new "early release" policy under which jail inmates convicted of misdemeanors are released before they complete their sentences. Since the County's current fiscal year began on July 1, 2003, approximately 27,000 misdemeanants have been released before completing their sentences. The early jail releases will save the County $15.2 million this year – an amount that is less than the County's $22.5 million cut in SCAAP funding in FY 2003.

It is far better that criminals serve their sentences; however, without adequate resources, the alternatives of having to cut police protection, anti-gang activities, investigations, anti-terrorism activities, or other law enforcement activities are even worse. **The Federal government should fully reimburse state and local criminal alien costs under SCAAP rather than eliminate SCAAP as proposed under the President's FY 2005 Budget.** Without SCAAP reimbursement, state and local enforcement agencies must spend more on criminal alien incarceration costs at the very time they are being asked to do more to improve homeland security.

Moreover, the three states (California, New York, and Texas), which are hurt the most by inadequate SCAAP funding, are on the frontlines of the war on terrorism because of the high number of potential terrorist targets and critical infrastructure located within their borders. However, in FY 2003, when SCAAP was cut by $317 million to help fund increases in homeland security programs, these three states together suffered over 68% of the total SCAAP funding cut, but received less than 18% of total FY 2003 State Homeland Security Grant funding.

Status

The President's proposed FY 2005 Budget would eliminate SCAAP. Congress has not yet begun action on the FY 2005 Commerce-Justice-State appropriations bill, which funds Department of Justice programs, including SCAAP.

FOR FURTHER INFORMATION, PLEASE CONTACT SHERIFF LEE BACA AT (323) 526-5000.

FOOD STAMP QUALITY CONTROL PENALTY RELIEF

County Position

Relieve California of the Food Stamp quality control fiscal penalties for Fiscal Years 2001 and 2002.

Background

California currently faces a combined total of $175 million in Food Stamp quality control (QC) penalties for Fiscal Years (FYs) 2001 and 2002 ($114.3 million in 2001 and $60.7 million in 2002) due to its high Food Stamp error rate for those years.

The ultimate goal of the Food Stamp QC system is to improve the program's quality control, not to punish states. The Department of Agriculture (USDA) historically has worked with states on corrective actions to improve quality control and has used its discretion to waive penalties for states which later greatly reduced their Food Stamp error rates. California, therefore, should be relieved of its penalties because it has greatly reduced its error rate. The State achieved the most dramatic improvement in quality control in the history of the Food Stamp program by reducing its error rate to only 6.48% in FY 2003 from 17.37% in FY 2001 and 14.84% in FY 2002.

California's high error rates in FYs 2001 and 2002 were attributable mainly to one-time problems with implementing "LEADER," a new automated system for determining welfare eligibility in Los Angeles County, which has about 40% of the State's total Food Stamp caseload. The County's error rate peaked at 22.92% in FY 2001 before dropping to 18.25% in FY 2002 and 7.11% in FY 2003 after the County reduced LEADER-related errors through workload restructuring, improved monitoring, and employee training. Recognizing that new automated eligibility systems, such as LEADER, are error prone, the USDA has waived QC penalties for errors during the implementation of such systems.

It would be unfair to require California to pay $175 million in Food Stamp penalties – an amount that far exceeds total penalties paid to date by all states as well as any penalty that a state is likely to pay in the future. Over the years, less than $20 million in penalties have been paid by all states even though about $2 billion in penalties have been assessed. Moreover, the 2002 Farm Bill (P.L. 107-171) changed the method for computing QC penalties in a manner that greatly reduces the size of penalties for states, beginning in FY 2003. Using this revised methodology, California's combined penalties for FYs 2001 and 2002 would have been $33 million instead of $175 million.

Status

The State of California has been pursuing relief from its FYs 2001 and 2002 Food Stamp QC penalties through the formal administrative appeals process as well as through informal settlement discussions.

FOR FURTHER INFORMATION, PLEASE CONTACT BRYCE YOKOMIZO, DIRECTOR OF PUBLIC SOCIAL SERVICES, AT (562) 908-8383.

LOS ANGELES AIR FORCE BASE RETENTION

County Position

Support retention of the Los Angeles Air Force Base and its Space and Missile Systems Center in Los Angeles County.

Background

The Los Angeles Air Force Base (LAAFB) houses the Space and Missile Systems Center (SMC), whose engineers and scientists oversee the development of the next generation of ballistic missiles, rockets, satellites, and space enterprise technology. Managing over $60 billion in contracts for research, development and acquisition of military space systems that serve all branches of the military, as well as homeland security missions, is the sole function of the LAAFB.

The LAAFB is at risk of being closed. The provisions of the Defense Base Closure and Realignment Act of 1990, as amended by the National Defense Authorization Act for Fiscal Year 2002 (P.L. 107-107), authorizes the 2005 Base Realignment and Closure (BRAC) process to identify military bases for closure. The BRAC Commission will make its recommendations in September 2005. Administration officials reportedly have proposed closing up to 25% of all current military facilities.

In the previous three rounds of military base closures that took place in 1991, 1993, and 1995, closing the LAAFB and relocating SMC were rejected. However, LAAFB remains vulnerable to closure because powerful interests in New Mexico, Colorado, and other states are actively campaigning to relocate the SMC to their states. Jim Spagnole, Director of the State of California's Office of Military Base Retention and Reuse, has stated that the Governor recognizes this risk and that relocating SMC would have the single largest impact on the State's economy of any potential BRAC action.

The County strongly believes that the SMC should not be relocated, as it would force closure of the LAAFB.

Relocation of SMC's industrial and academic partners would undermine its nationally significant military value and trigger unacceptable scientific, economic, and industrial displacements. The SMC and its contractors have workforces with highly specialized skills and training. Therefore, moving SMC to another state is likely to require the relocation of entire companies and workforces or the hiring and training of new employees at the new site for the SMC.

Employee attrition also could jeopardize the SMC's effectiveness at any new location. As reported in The Wall Street Journal on March 19, 2004, the Aerospace Corporation, the prime contractor for SMC, lost two-thirds of its employees when it moved part of its workforce to Virginia in the mid-1990s. The same article said that "Boeing suffered a similar hit in 2000 and 2001, when 80% of design engineers on the Space Shuttle program refused to relocate to Houston from California." In addition, the retirement of experienced employees, particularly scientists and engineers, and the inability to find replacements is forcing aerospace companies to rely on retirees, who would not choose to relocate. Investigations of mission failures have led to the conclusion that relocating certain functions, where critical employees did not move with the functions, contributed to those failures.

SMC awards approximately $8.5 billion in new contracts annually to 350 Southern California companies, including major aerospace firms and their suppliers. Based on Los Angeles County Economic Development Corporation (LAEDC) estimates, there are 67,000 persons employed locally in work related to SMC's mission, generating over $3.3 billion in personal income annually. The success of SMC is also dependent on the proximity of support industries, as well as research and academic institutions, such as the Jet Propulsion Lab, Cal Tech, UCLA, and USC.

New Facilities and Privatization

LAAFB is not a traditional military base. It is a complex of office buildings that are currently being replaced through an innovative cooperative agreement amongst the Air Force, two cities, the County, and private developers. This precedent setting arrangement will result in new replacement facilities for SMC, which the Air Force reports will save the Federal Government $50 million to $100 million in military construction costs. It is also creating new housing in an area that has a serious shortage. Retaining SMC in Los Angeles County will not only take advantage of this creative redevelopment, it will save the Federal Government money for ongoing facility maintenance. In addition, retention of SMC in its new facilities will save the Federal Government $750 million, which is the Air Force's estimated cost of relocation.

The LAAFB Regional Alliance, which has over 100 members, was formed to coordinate the efforts of local governments, the aerospace industry, local businesses, homeowners' associations, and individual citizens to retain SMC in Los Angles County. The Alliance has representation in Washington, D.C. and Sacramento, to advocate the retention of the SMC in Los Angeles.

Status

Since the 2005 round of BRAC was authorized by Congress in 2002, the Department of Defense has taken the initial steps in the process. The BRAC Commission must be appointed by the President by March 15, 2005. The President must approve the Commission's recommendations by September 23, 2005, and certify them to Congress by November 7, 2005. The President and Congress may only accept or reject the recommendations in their entirety. They may not add or delete bases from the list.

FOR FURTHER INFORMATION, PLEASE CONTACT DAVID E. JANSSEN, CHIEF ADMINISTRATIVE OFFICER, AT (213) 974-1101.