FEDERAL ISSUES
MAY 2005

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CALIFORNIA MEDICAID HOSPTIAL FINANCING WAIVER

Position

California's Medicaid hospital financing waiver should be structured in a manner that helps solve the County health system's fiscal problems.

Background

California has been negotiating with the Federal government to replace the Selective Provider Contracting Program (SPCP) waiver and change the way public and private hospitals are paid under its Medicaid program, known as Medi-Cal. This negotiation is critical to the future of safety net systems, such as Los Angeles County's, which rely heavily on Medi-Cal reimbursements because it potentially may be the only major source of new revenue for the County's health system at either the Federal or State level over the next five years.

Specifically, the State is seeking to reform the mechanics of Medi-Cal inpatient payments under the Medicaid SPCP and Disproportionate Share Hospital (DSH) programs, which provide supplemental payments to health safety net hospitals, by reducing and/or phasing out the use of Intergovernmental Transfers (IGTs). In lieu of IGTs, the State is proposing to use certified public expenditures (CPEs) made by county and University of California hospitals. The State's proposed approach would capture county funds expended on indigent health care as CPEs to backfill IGTs and State General Fund dollars currently used to fund the non-Federal share of Medicaid payments to public hospitals.

While the State's goal to improve safety net hospital financing is worthy of support, the overall funding level of the package has not been settled, and very little is known about how the State would distribute funds to safety net hospitals. According to the State, the package currently in discussion could yield as much as $672 million a year in new Federal dollars. Moreover, the State is using the $180 million value of the expiring Los Angeles County 1115 waiver as part of its own Medi-Cal spending history to justify part of its request for new Federal funds.

The Los Angeles County health system has a looming deficit of more than $400 million beginning in Fiscal Year (FY) 2006-07, and, if unmitigated, the cumulative deficit will grow to $1.4 billion by FY 2008-09. Because there has been only a limited amount of financial information available thus far about significant technical details of the State's hospital financing waiver and how funds would be distributed, the County has been unable to determine whether the State's package helps solve or potentially exacerbates the County health system's deficit. These uncertainties in the State's package are particularly worrisome because many technical details are subject to Centers for Medicare and Medicaid Services determination and could "make or break" the viability of the State's package to help the County.

Therefore, before negotiations are concluded on the State's Medicaid hospital financing waiver, the County needs assurance that the waiver would help solve the County health system's fiscal problems.

Status

As of April 20, 2005, the State was still in negotiations with the Federal government on a new Medicaid hospital financing waiver to replace the current SPCP waiver, which expires on June 30, 2005.

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

MEDICAID BUDGET REDUCTIONS

Position

The County opposes proposals to reduce Federal Medicaid funding, especially those which would reduce Medicaid payments to government providers.

Background

Medicaid is a Federal and state financial partnership which shares the cost of health care provided to low-income Americans. The Federal share of total costs ranges from 50% to 77% with a minimum Federal match rate of 50% for high per capita income states, such as California. States have broad discretion over how they finance their share of costs, subject to the limitation that no more than 60% of the non-Federal share may be from local funds. Since the program's inception in 1965, many states have used intergovernmental transfers (IGTs) from local governments to help finance the non-Federal share of Medicaid costs.

The President's Fiscal Year (FY) 2006 Budget proposes to reduce Federal Medicaid spending by $60 billion over ten years. This includes a combined total of $15.2 billion in Federal savings by restricting the use of IGTs as matching funds and capping Medicaid payments to government providers to no more than the cost of providing services.

Restricting the use of IGTs would end the broad flexibility over Medicaid financing that states have had throughout the program's history. IGTs have been used under both Republican and Democrat administrations at both the Federal and state levels for the past 40 years. In California, IGTs are used to finance the non-Federal share of the Medicaid Selective Provider Contracting Program (SPCP) and Disproportionate Share Hospital (DSH) program, both of which provide supplemental payments to health safety net hospitals, such as the County's.

Public hospitals currently receive 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. The President's proposal to cap their Medicaid reimbursement to no more than the cost of providing services would devastate an already fragile system. **The potential loss of Medicaid revenue to Los Angeles County's public hospitals from this proposal alone would total about $240 million a year.**

Reducing Federal Medicaid payments for health safety net hospitals would jeopardize medical care for all Californians, not limited to the State's roughly 6.6 million Medicaid recipients. Less Federal Medicaid funds could force many already financially distressed hospitals to close their emergency rooms and trauma care centers, endangering the lives of all persons.

Status

As of April 20, 2005, the Administration had not sent a legislative proposal to Congress that delineates how IGTs would be restricted or Medicaid payments to government providers would be capped. Also, as of that date, Congress had not decided whether to include budget reconciliation instructions in the FY 2006 Budget Resolution for the Senate Finance and House Energy and Commerce Committees to cut Medicaid, which is under their jurisdiction. The House version would instruct the Energy and Commerce Committee to cut Medicaid by up to $20 billion while the Senate version does not instruct the Finance Committee to cut Medicaid. On a 52 to 48 vote, the Senate approved an amendment by Senators Smith (R-OR) and Bingaman (D-NM) to provide $1.5 million to establish a bipartisan Medicaid reform commission in lieu of instructing the Finance Committee to cut Medicaid by up to $15 billion. On April 13, 2005, 44 House Republicans signed a Dear Colleague letter that supports the Senate position to House Budget Committee Chair Nussle (R-IA).

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

STATE CRIMINAL ALIEN ASSISTANCE PROGRAM REIMBURSEMENT

Position

The County supports increased Fiscal Year (FY) 2006 funding to reimburse state and local criminal alien incarceration costs under the State Criminal Alien Assistance Program (SCAAP), and also supports S. 188 (Feinstein)/H.R. 557 (Kolbe, R-AZ), legislation which would authorize significantly higher annual funding levels for SCAAP.

Background

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 2005, SCAAP is funded at $301 million, slightly more than in FY 2004, but still far below the $577 million in average annual SCAAP funding in FYs 1998 through 2002. The County's SCAAP reimbursement fell from $34 million to $11.5 million in FY 2003 when SCAAP was cut by 56% to $248 million. The County's most recent SCAAP payment was $13.9 million in FY 2004, which is only about one-fifth of the County's estimated $70 million total cost of jailing undocumented aliens in FY 2003-04.

The lower SCAAP funding levels in recent years have resulted in an unfair shift in costs to state and local governments, especially in California, which receives about 40% of total SCAAP funding. Every dollar reduction in SCAAP reimbursement means a dollar more that must be spent on incarcerating criminal aliens rather than on other essential public safety services. For example, after SCAAP funding was cut in FY 2003, the County Sheriff's Department implemented an "early release" policy under which jail inmates convicted of misdemeanors are released before they complete their sentences. This resulted in the early release of more than 40,000 inmates during the County's FY 2003-04. While it is better for criminals to serve their entire sentences, without SCAAP reimbursement, the alternatives of cutting 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 incarceration costs under SCAAP rather than eliminate SCAAP as proposed in the President's FY 2006 Budget. In its performance review of SCAAP, the Administration criticized SCAAP for not requiring state and local governments to use the funds to pay for the costs of incarceration, which allows them to use funds "for any purpose and often simply enhance State/local revenue." This criticism is inaccurate because SCAAP is a program which reimburses previously incurred incarceration costs.

In fact, it is unfair that state and local governments typically must wait for many months to receive even partial reimbursement under SCAAP. For example, FY 2005 SCAAP funds, which are unlikely to be awarded until this summer, will reimburse costs incurred in the 12-month period ending on June 30, 2004.

The County also supports S. 188 (Feinstein)/H.R. 557 (Kolbe, R-AZ), legislation which would increase the annual authorized SCAAP funding levels to $750 million in FY 2006, $850 million in FY 2007, and $950 million in FYs 2008 though 2011. If Congress were to fully fund SCAAP at the levels authorized under these bills, California would receive nearly $1 billion in increased SCAAP reimbursement over the next six years.

Status

The President's proposed FY 2006 Budget would eliminate SCAAP. Congress has not yet begun action on FY 2006 appropriations legislation. The Senate Judiciary Committee approved S. 188 on a voice vote on March 17, 2005. In the House, no action has been scheduled on an identical bill, H.R. 557, in the House Judiciary Committee.

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

HOMELAND SECURITY

Position

The County supports more effective targeting of homeland security funds based on terrorist threat levels and critical assets, and the direct allocation of such funding to the County.

The County also supports greater local flexibility over the use of homeland security funds, including the ability to pay for personnel to hire more specialized law enforcement personnel for anti-terrorism activities.

Background

Since the September 11th terrorist attacks, the Federal government has sought to improve homeland security, including by providing increased funding to state and local governments for their efforts. Such funding is especially important to Los Angeles County, which has major potential terrorist targets, including critical infrastructure, such as the nation's largest port complex (Ports of Long Beach and Los Angeles).

Improve Targeting of Homeland Security Funds: The current allocation formulas for homeland security, bioterrorism, and hospital preparedness formula grants to states do not take into account their relative need, as measured by factors such as their terrorist threat and risk levels and critical assets. Instead, a sizable portion of total funding is divided equally among states with the balance allocated on a per capita basis. As a result, the most populous state, California, receives the least amount of per capita funding.

In Fiscal Year (FY) 2005, California received a combined total of $115.4 million in State Homeland Security Program (SHSP) and Law Enforcement Terrorism Prevention Program (LETPP) funds that are allocated using this formula. That amount represented only 8% of total funding even though the State had over 12% of the total U.S. population and merited an even higher percentage share based on its higher terrorist threat levels and critical assets. It is noteworthy that California received 17.3% ($148.3 million) of total FY 2005 Urban Area Security Initiative funds allocated based on terrorist threat levels, critical assets, and population density to high-threat urban areas, such as the County.

Homeland security funds, instead, should be more targeted to states and high-threat urban areas, such as the County, based on the risk of terrorist attacks and damage, as recommended by the 9/11 Commission, which stated: "Homeland security assistance should be based strictly on an assessment of risks and vulnerabilities." The Administration also supports allocating homeland security funds based on terrorist threats, vulnerabilities, and critical assets.

Los Angeles County should receive direct homeland security grant funding because of its major potential terrorist targets, critical infrastructure, and 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 SHSP, LETPP, 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 Federal guidelines, grant funds cannot be used to hire staff, and, because 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.

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. For example, the County Sheriff's Department has a nationally recognized Terrorist Early Warning 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 Sheriff should be allowed to use Federal funding to add more personnel to this critically important activity.

Status

As of April 20, 2005, there were competing Senate and House homeland security grant bills, which would change how homeland security grant funds are allocated: S. 21, authored by Senator Collins (R-ME), who chairs the Senate Homeland Security and Governmental Affairs Committee, and H.R. 1544 authored by Representative Cox (R-CA), who chairs the House Homeland Security Committee. Both versions would allocate funds based on terrorist threats and critical assets, subject to small state minimum funding guarantees. The House version's small state minimum is significantly lower than under current law, while the Senate version would retain a relatively high small state minimum floor.

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

COMMUNITY DEVELOPMENT BLOCK GRANT FUNDING

Position

The County supports a funding level of at least $4.7 billion for the Community Development Block Grant (CDBG) with no less than $4.35 billion for CDBG formula grants.

Background

The President's proposed Fiscal Year (FY) 2006 Budget would eliminate the Community Development Block Grant (CDBG) and 17 other community and economic development programs, and replace them with a new block grant that would be funded at $3.7 billion, approximately 35% below the total combined FY 2005 funding for the 18 programs. Eliminating CDBG would hurt Los Angeles County's economically disadvantaged residents, who are the main beneficiaries of CDBG-funded services in the County. According to 2000 Census data, the poverty rate for households in the County of 15.1% was far higher than the national poverty rate of 11.8%.

The Community Development Block Grant funds a wide range of housing, community and economic development, job creation, and social services, mainly for the benefit of low- and moderate-income persons. Except for set-asides, CDBG funds are allocated by formula to state and local governments, which have broad flexibility over the use of funds to meet locally determined needs. A combined total of $184.3 million in FY 2005 CDBG formula grant funds were allotted to local governments in Los Angeles County, including $34.6 million to the County's Community Development Commission (CDC), which administers CDBG funds for unincorporated areas and 48 of the 88 cities in Los Angeles County. Over the past four years, CDC has used CDBG funds for community and economic development projects and public infrastructure improvements and to assist Los Angeles County residents by:

- Providing after-school and recreation programs to over 156,000 youth;
- Providing meals, case management, and other services to over 67,000 seniors;
- Rehabilitating close to 7,000 homes;
- Developing almost 9,000 affordable housing units; and
- Creating or preserving over 2,000 jobs.

Instead of eliminating CDBG, Congress should appropriate at least $4.7 billion for CDBG in FY 2006 with no less than $4.35 billion for formula grants. This would restore the County's formula grant funding to approximately the FY 2004 funding level when the County received $1.93 million more CDBG funds than in FY 2005 when CDBG was cut by about 5%.

Increased CDBG funding is justified for the very reasons cited by Housing and Urban Development (HUD) Deputy Secretary Roy Bernardi when he praised CDBG last year:

"We must continue to support and build upon programs that work, those that have a proven record of flexibility and the ability to fit in with locally determined needs. CDBG is such a program and ranks among the nation's oldest and most successful programs. It continues to set the standard for all other block grant programs."

Status

The President's proposed FY 2006 Budget would eliminate CDBG. Congress has not yet begun action on the FY 2006 appropriations legislation to fund HUD programs, including CDBG.

FOR FURTHER INFORMATION, PLEASE CONTACT CARLOS JACKSON, EXECUTIVE DIRECTOR, COMMUNITY DEVELOPMENT COMMISSION, AT (323) 890-7400.

LOS ANGELES AIR FORCE BASE RETENTION

Position

The County supports retaining 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), which oversees research, development, and acquisitions for the nation's military space systems, and which manages approximately $60 billion in contracts.

The LAAFB is at risk of being realigned. The National Defense Authorization Act of Fiscal Year (FY) 2002 (P.L. 107-107), authorized the 2005 Base Realignment and Closure (BRAC) process to identify military bases for closure. This process has begun, with BRAC slated to make its recommendations in September 2005. Administration officials may propose closing up to 25% of all military facilities. The base was retained during the previous 1991, 1993 and 1995 BRAC rounds, but other states, such as Colorado and New Mexico, have campaigned to relocate the SMC to their states.

Military Value of Retaining the LAAFB/SMC: Relocating SMC and its industrial and academic partners would undermine its nationally significant military value and trigger unacceptable scientific, economic, and industrial displacements. The SMC and the co-located Federally-funded Aerospace Corporation, which provides space-related technical and engineering expertise, have highly specialized workforces. Besides partnering with the Aerospace Corporation, the SMC also partners locally with numerous research and academic institutions, aerospace companies, and other entities, including the Jet Propulsion Laboratory, Rand Corporation, California Institute of Technology, and UCLA. This collaboration fulfills a critical national defense mission, accomplished by an unparalleled synergy of institutions and individuals in Los Angeles County with special expertise and resources that cannot be duplicated elsewhere.

Moving the SMC from the LAAFB not only would result in the loss of all of the off-base resources that contribute to its mission success, but also would force the relocation or loss of vitally important SMC and Aerospace Corporation scientists and engineers. According to the California Council on Base Support and Retention, the Aerospace Corporation "projects an attrition rate of 80% for senior personnel if faced with a unilateral move." Past experience with relocations in the aerospace industry indicates that a high attrition rate will reduce mission success. For example, the Columbia Accident Investigation Board found that the refusal of Boeing engineers to relocate from Southern California to Houston was a contributing factor to the February 2003 Space Shuttle disaster, noting that, in October 2002, "the Shuttle Program completed a risk assessment that predicted the move from Huntington Beach to Houston would increase risk to Shuttle missions through the end of 2003, because of the small number of experienced engineers who were willing to relocate."

Cost Savings of Retaining the LAAFB/SMC: It is far more cost-effective to retain the LAAFB. In 2001, the Defense Department estimated that moving LAAFB would cost $750 million. SMC's chief engineer also has estimated that the Air Force saves more than $1 billion a year from its partnership with the Aerospace Corporation, which is co-located at the SMC. The cost savings are even greater, counting the new 560,000 square foot office complex to house the SMC, which currently is under construction on the LAAFB. This new facility is financed through an innovative cooperative agreement amongst the Air Force, two cities, the County, and private developers, which the Air Force estimates will save the Federal government up to $100 million.

Economic Impacts of the LAAFB: Closing the LAAFB would have a major detrimental impact on not only the County's economy, but also on the entire State of California. The Director of the State's Office of Military Base Retention and Reuse has indicated that relocating the SMC from LAAFB would have the single largest impact on the State's economy of any potential BRAC action. According to a recent Los Angeles Economic Development Corporation study, the LAAFB is responsible for employing nearly 50,000 persons in the County as well as an additional 62,000 persons in the rest of the State. It contributes more than $16 billion annually to California's economy, including about $8 billion in Los Angeles County alone.

Status

The President appointed the BRAC Commission on March 15, 2005. By May 16, 2005, the Secretary of Defense will make public his list of bases recommended for closure or realignment. The Commission will review those recommendations and make revisions to the list as it deems necessary by September 8, 2005. The President must approve BRAC'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.