Envision leaves California, dodging major private equity verdict

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Optum Can Arbitrate Calif. Healthcare Provider's Antitrust Suit

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June Joint Legislative Update on the California 2024-2025 State Budget

Despite substantial proposed budget cuts to cover the $45 billion deficit, the California legislature released a $297 billion joint budget proposal responding to Governor Newsom's May Revision. The final bill lays out a $46.9 billion dollar solution for the 2024-2025 fiscal year made up of program reductions, delays, & deferrals; revenue; fund shifts; and reserve utilization. In opposition to the Governor's May Revise, the shortfall will be covered by alternative means including a temporary tax increase on businesses allowing for a $5 billion revenue increase, and a $1 billion cut to the state prison budget. In an effort to secure funding for future fiscal years, the legislature approved Governor's Newsom's proposal of creating a temporary holding account during times of a surplus.

The finalized budget rejects many of the Governor's May Revision proposals for elimination of core health initiatives that Californian's depend on including behavioral health services, MCO tax investments, In-home supportive Services, and Medi-Cal expansion for all regardless of immigration status. Below is a review of notable health care proposals included in the Joint Legislative Budget Plan:

Behavioral Health

In our last post, on the May Revise, we reported Governor Newsom had proposed a multitude of eliminations for state behavioral health initiatives including the California Mental Health

Services Act, the Behavioral Health Consortium Infrastructure Program, and the Children and Youth Behavioral Health Initiative. Fortunately, the joint budget proposal rejected the proposed cutbacks for behavioral health funding and provides for expenditures across multiple mental health programs. Specifically of note, AB 531(The Behavioral Health Infrastructure Bond Act of 2023) will provide funding for the Behavioral Health Infrastructure Program as well as a retention of the $34.7 million General Fund expenditure for the Children and Youth Behavioral Health Initiative. Conversely, the CalWORKS mental health program which supports Californians in need of substance use disorder treatment will have reductions in funding over the next three fiscal years.

Medi-Cal

The In-Home Supportive Services (IHSS) is a service for undocumented individuals and those with disabilities who rely in-home care services over 14,000 people. This program is critical in proactively decreasing medical care costs by reducing the need for more expensive care such as nursing home. In May, Governor Newsom proposed eliminating the program as a whole but the Legislator's Budget Plan rejected this proposal in an effort to retain care for eligible individuals who would otherwise be unable to receive healthcare due to their immigration status. Likewise, the Governor's May revision of the budget suggested a cut to Medi-Cal coverage for acupuncture but the finalized budget maintains this benefit through General and Federal Funds for the foreseeable future.

Workforce Development

In an effort to save $6.7 billion, Governor Newsom's proposed eliminating the Managed Care Organization (MCO) tax in the May Revise. The MCO tax is crucial in funding growing numbers of Medi-Cal recipients by increasing the payment rates to providers, which has remained unchanged for nearly twenty years. Last year, the MCO tax rate increase was approved through 2027 but upon review of the May Revise, it was clear the program was in jeopardy, angering physicians and other healthcare providers alike. Failing to make good on this program could result in doctors no longer serving Medi-Cal patients as reimbursement rates could prove too low to sustain their practices, thereby reducing an already dwindling pool of providers for vulnerable Californians. Providers are taking matters into their own hands to ensure passage of this tax by advocating to pass a measure that would officially implement the MCO tax allowing for direct access of revenue funds. H.D. Palmer, the spokesperson for the California Department of Finance remarked on the implications of failing to increase the MCO tax: "But many Medicaid patients are having a hard time finding doctors that will treat them, mostly because they don't get paid much to do it. It's especially true when needing to see a specialist, where a lengthy delay can often transform a minor medical problem into a major one." Governor Newsom is against the ballot measure as it would make flexibility of funds to support other areas of Medi-Cal difficult but the coalition is standing firm due to multiple delays and diversions in the past.

2023's passage of SB 525 sought to incrementally increase the minimum wage for health care workers to $25 over multiple years. However, in light of the significant budgetary shortfall forecasted in May, Governor Newson was hesitant to begin the statute's increase due to the anticipated cost of nearly $2 billion despite alternative estimates closer to $300 million. As result, SB 828 was signed on May 31 to push-back the implementation of the wage increase by one month, beginning in July 2024. In an attempt to compromise, lawmakers are pushing to rollout the first of the increases with an influx of $100 million over the next fiscal year with an additional $200 million over the next two years. As it stands now, the pay increase is set to begin no earlier than October 15 but is dependent on one of the following scenarios: (1) the first quarter of the state's fiscal year comes in at lease 3% higher than projected, or (2) the state receives greater federal funds for hospitals via a quality-assurance fee.

The Equity and Practice Transformation Payment program seeks to enhance the quality of care for Medi-Cal recipients by rewarding providers with grants when they align their practices with value-based models. However, the governor sought to eliminate this program by stripping away the remaining $280 million from the fund. The Joint Budget Plan rejects Newsom's elimination proposal and instead allows for a reduction in funding of the grant program over the next three fiscal years.

Next Steps

Amendments to the bill, in the form of trailer bills, will be passed prior to the start of the new fiscal year, set to begin on July 1. The Source will continue to update on noted healthcare initiatives and budgetary matters as amendments are enacted and the finalized bill is passed.

The Source Roundup: July 2024 Edition

Mergers, Acquisitions and Healthcare Competition

Is There Too Little Antitrust Enforcement in the U.S. Hospital

Sector? (*American Economic Association*)

Zarek Brot-Goldberg, Zack Cooper, Stuart Craig, Lev Klarnet

From 2002 to 2020, there were more than 1,100 hospital mergers with a 1% enforcement rate by the FTC resulting in only 13 blocked transactions. The authors of this study speculate low rates of enforcement could be due to factors including budgetary issues and jurisprudence that favors mergers. It is estimated these mergers resulted in a high concentration of hospital markets in "90% of US metropolitan areas" and an average of 1.6% increase in hospital spending, a total of $204 million, for those who are privately insured. This study found that specific hospital mergers estimated to lessen competition in an area actually resulted in healthcare rate increases of over 5%. The authors encourage implementation of pre-merger screeners to proactively identify which mergers may work against antitrust enforcement efforts. Overall, the study found significant underenforcement of anticompetitive healthcare mergers by the FTC and DOJ in the hospital sector and calls for policymakers to flag mergers that are likely to raise prices and lessen competition.

Private Equity Investment In Assisted Living: Distinct Impacts And Policy Considerations (*Health Affairs Forefront*)

Kali S. Thomas, John R. Bowblis, Paula Carder, Cassandra Hua, Sean Shenghsiu Huang, Yashaswini Singh, Lindsey Smith, Momotazur Rahman

While some tout the pros of private equity (PE) acquisitions of health care entities, such as renovations and technological advancement procurement as a result of financial flexibility, concerns of decreased quality and rate hikes remain. However, the effects of PE acquired assisted living communities are largely unknown as comparisons cannot be drawn to other healthcare sectors due to differences in features and payment methods that are more reflective of real estate investments. Typically, these communities set their own prices that are directly paid by the residents and are not reliant on health insurance varying the degree to which rates of service will fluctuate. Quality of care competition is therefore regulated by the premium willing to be paid by the private residents. Policy recommendations for the future include studying the intricacies of assisted living communities to determine how PE acquisitions may affect them through collaboration with stakeholders such as owners & operators, staff, and residents.

Does hospital competition improve the quality of outpatient care? – empirical evidence from a quasi-experiment in a Chinese city (*Health Economics Review*)

Zixuan Peng, Audrey Laporte, Xiaolin Wei, Xinping Sha, Peter C. Coyte

To improve quality of care, some countries with national health systems have adopted a pro-competition system to reduce financial issues experienced as a result of governmental regulation. China's "semi-control and semi-market" health system resulted in similar results and prompted a transition to a more pro-competition system to improve health outcomes, specifically focusing on outpatient care. The authors of this study found non-acute outpatient care quality in China had a positive association with hospital competition, despite misalignment of findings from similar studies. Authors postulate differences in findings could be related to "price and demand elasticity" as well as patient demographic variations. Policy recommendations from the study include pro-competition policies, information-sharing technology, and performance-based price incentives for providers.

Emerging Trends in Healthcare

National Health Expenditure Projections, 2023–32: Payer Trends Diverge As Pandemic-Related Policies Fade (*Health Affairs*)

Jacqueline A. Fiore, Andrew J. Madison, John A. Poisal, Gigi A. Cuckler, Sheila D. Smith, Andrea M. Sisko, Sean P. Keehan, Kathryn E. Rennie, Alyssa C. Gross

Temporary spending and the increase of insured individuals due to COVID-19 are estimated to return to pre- pandemic levels by 2032. However, healthcare rates and utilization of personal health goods and services will outpace the rest of the US economy from 2027-2032. These predictions follow healthcare spending trends that grew by over 7% in 2023 due to a record of insured individuals reaching 93.1% of the population during the pandemic. Expenditures are forecasted to continue increasing by nearly 6% annually as a result of healthcare rate hikes, a growing aging population, and higher needs for services. Major goods and services including hospital spending, physician and clinical services, and prescription drugs are expected to increase annually by 2027 due to increases in Medicare enrollment. Medicare is projected to experience overall growth trends of over 7% with government spending stabilizing at 49% by the year 2032.

Accordingly, private insurance and out-of-pocket healthcare costs are expected to decrease.

Elevating the Importance of Local Elections (*JAMA Network*)

Deanna M. Behrens, Lauren Gambill, Andrew F. Beck

Local politics play a critical role in the health outcomes of community members. Social determinants of health, including policies relating to minimum wage, firearm regulations, taxes, education, housing, and pandemic policies are reliant on local election outcomes. Despite the importance of voter turnout for local policy issues, there is a trend of disengagement in local elections, compared to national elections, that the authors warn could negatively impact health outcomes. Various positions that may appear on the surface to lack influence on health, such as school boards, agriculture commissioners, and sheriffs, may hold more authority on health-related topics than is assumed, further stressing the need for voter engagement. Recommendations to increase voter turnout include implementation of evidence-based tactics for elected officials to engage with the public as well as a call for health professionals running for office.

Addressing Medi-Cal Behavioral Health Workforce Shortages Through Non-financial Incentives (*California Health Care Foundation*)

Sarah Arnquist

Despite the need for behavioral health and substance use support in California, there is a significant lack of providers enrolled through Medi-Cal. This article identifies the hurdles providers face in serving Medicaid patients, including lengthy application wait times and reimbursement issues due to initial and re-credentialing verification requirements. To minimize these burdens and increase provider enrollment, in 2023 California adopted the California Mental Health Services Authority (CalMHSA), a system similar to that of other states that streamline processes for credentialing. However, challenges remain with relation in integrating specialty and non-specialty mental health providers in a centralized system stemming from reimbursement rate disparities and differing credentialing requirements. The author recommends policymakers focus on "non-financial incentives" to increase provider enrollment to ensure equitable mental healthcare access for all residents.

The Current State Of Healthcare Transaction Reviews In Calif.

Blue Shield of California fires exec, alleges fraud

California Leaders Tussle With Health Industry Over Billions of New Dollars for Medi-Cal

Why a big California employer ditched Elevance for some of its health plans

Judge slams California system as safety-net

hospitals ‘fall into disrepair’

California bill would tighten oversight on private equity hospital purchases