CONTRACTING OUT AND CENTRALIZING HEALTH AND HUMAN SERVICES PUBLIC ASSISTANCE PROGRAMS

Myths and Facts

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As part of California's 2009/10 budget negotiations, the Governor heavily promoted costly fast-track privatization of California's health and human services programs. Despite its high upfront costs, the Governor made this a last-minute add to budget negotiations. Budget trailer bill AB 7 would allow a private vendor to perform eligibility determinations for Medi-Cal, Food Stamps, and CalWORKs using a large statewide automation contract centralized in Sacramento. Local governments would be left to face the dissatisfied constituents, would continue to pay a county share for programs governed solely by the State, and would be left to deal with massive layoffs of staff and disgruntled unions.
The Governor's proposal relies heavily on many myths and false premises. In this document, we provide the facts that rebut the Governor's claims.

MYTH: *"Centralizing and modernizing eligibility would save $500 million a year."* (Op Ed, 7/3/09)

FACT

The "Savings" Estimate is Baseless and Impossible

- There is ***no basis*** for the Governor's estimated savings. He has provided ***no*** analysis.
- There are no savings proposed in the 2009-10 budget year, and the proposal will actually add tens of millions to the deficit over the next several years.
- Future savings can not be obtained.
  - **The Governor ignores up-front costs** – It would take at least five years to implement the proposed approach at a cost of into the tens of millions of dollars, if not hundreds of millions, depending on how much of the eligibility process would be included in this new system. The Governor doesn't even acknowledge these significant costs.
  - **Federal funding is at risk** – Federal agencies may not approve funding to develop an eligibility determination system that replaces those already funded and successfully supporting eligibility determination, such as CalWIN.
  - **Comparison to Healthy Families is Apples to Oranges**
    - The Administration compared Medi-Cal to Healthy Families, but failed to account for the administrative simplicity of Healthy Families in contrast to the almost

unfathomable complexity of Medi-Cal, Medi-Cal has more that 35 programs encompassing more than 150 different specific eligibility types, covering children, families, elder adults, and persons with disabilities. In contrast Healthy Families is one health program for children only. (See the attached side-by-side comparison.)

- Healthy Families processing is also faster because counties do some of the work. Clients often seek services from counties first. When clients are not eligible for Medi-Cal they are referred to Healthy Families with most of the required eligibility documentation and verifications already completed, thus simplifying the Healthy Families eligibility process.

➢ **Experiences in other states reveal that savings will not materialize**

- Projects in Texas, Indiana, Wisconsin, Ohio, and the District of Columbia, to name a few, provide recent examples of cost overruns and overcharges across multiple human services programs.

- In Texas alone, the state was promised $600 million in savings ***that never materialized***. The Texas Comptroller advised the Legislature that "this project has failed the state and the citizens it was designed to serve" and called the plan a "perfect story of wasted tax dollars, reduced access to services and profiteering at taxpayers' expense."

- Indiana's privately run welfare project has mishandled significant numbers of cases—in Food Stamps alone, one in five cases has been mishandled resulting in eligible families being inappropriately denied aid in at least 75% of those cases. Indiana's Family and Social Services Administration recently conducted a 12-week review of the project, which resulted in more than 200 recommended changes to the system. ***Indiana is considering cancelling the contract*.**

MYTH: "*California's eligibility determination process is more costly than other states.*"

FACT

The Governor is Wrong

- California spends less than other states to administer Medi-Cal. The most recent federal claims data shows that California's Medicaid administrative cost per recipient is well below Pennsylvania and Tennessee, and is right in line with Illinois and New York.

- Eligibility costs are driven by complex program rules, not the counties.

MYTH: "*A centralized, statewide eligibility automation system is a "simple fix."* (Op Ed, 7/3/09)

FACT

Large Scale Automation Projects Are Never Simple; California's Track Record is Poor, System is Likely to Fail

- The Administration's ability to implement a large, complex welfare automation project is highly questionable. The current successful multi-consortia, county-led approach was developed and enacted by the Legislature after 20 years of failed state attempts. The only successful welfare automation ever achieved in the State resulted from the county-led efforts. ***State attempts to automate similar services have either failed or taken extended periods of time to complete, at a substantially greater cost than originally estimated***. There is no reason to believe that the proposed effort would be any different.

- The Administration contends that automation of these programs could be accomplished in 3 years, but complex automation projects, such as the one proposed, typically take at least five years and often much longer. As an example, the state-run CMIPS II project for IHSS began almost ten years ago and will not begin implementation until spring 2010 – and this is a simple project in comparison to the one proposed. Experiences in other states, such as Texas, reinforce the complexity, time, and expense involved in such an endeavor.

MYTH: *"Centralized and privatized eligibility is good for clients and will improve customer service."*

FACT

Contracting Out will Harm Clients

- There is no evidence that centralized, privatized eligibility improves customer service; in fact experience in other states shows *worse* customer services and client outcomes, which is why ***every major client advocacy organization has come out in opposition to the proposal***.

- Privatized eligibility will leave hungry and destitute families and children subject to limits imposed by the profit motive. Responding to shareholders will be more important than meeting the demands of public assistance applicants, as is currently being demonstated in the Indiana pilot.

- Experience in Texas, Indiana and Florida indicate that privatization and centralization will reduce client access to services and caseworkers, particularly for elderly and disabled clients who rely on in-person access. Too many vulnerable individuals lack access to the internet or the capability to obtain services through automation.

- In just the first four months of the Texas project, more than 100,000 children lost their health coverage.

- Indiana is experiencing similar problems with client access and service such that many legislators and media outlets have called for a halt to the process. On July 13, 2009, the Indianapolis Star reported that "…many elderly, disabled, sick, hungry, impoverished Hoosiers have met with denial and delay in their quest for food stamps, Medicaid and aid to children under the new operation…"

- Failed privatization continues to harm clients. After Texas terminated its contract with the Texas Access Alliance, it had difficulty staffing back up to meet demand, with people seeking benefits bearing the brunt of the problem. Offices were understaffed and calls went unanswered, leading the Fort Worth Star-Telegram to conclude "the ringing phones are fallout from a major experiment in state government that nearly everyone involved calls a disaster."

MYTH: *"The current system is confusing and labor intensive, making little use of automation."*

FACT

Counties Use Automation to Determine Eligibility and Increase Client Access

- **Counties are already supporting internet-based applications** – Collaborative efforts among county welfare departments, state staff, and advocacy organizations representing clients are already underway to create state-of-the-art, Internet-based applications for a number of programs, including CalWORKs, Food Stamps and Medi-Cal. These efforts build upon the successful systems that are already in place.

- **Counties are using the internet to streamline the application process** – Individuals can already apply for Food Stamps on-line in five counties, expanding to all counties over the next year. On-line integrated access to Medi-Cal, CalWORKs and the County Medical Services Program (CMSP) will also be available in a majority of counties.

- **Counties effectively use technology to improve services** – Counties are already leading the way in implementing efficiencies such as call centers, document imaging and internet-based application portals to improve access to services and support clients.

- All of these automated and service delivery efficiencies have been conceived and developed by counties. None have been developed or promoted by State agencies.

MYTH: *"The private sector will be more efficient."*

FACT

It's the Rules, Stupid!

- There are thousands of complex frequently conflicting rules and requirements surrounding eligibility determination for the CalWORKs, Medi-Cal and Food Stamp programs. Over 300 letters were received by counties in 2008 directing changes in eligibility, procedures or funding for these programs.

- California's system is complex and costly to administer – regardless of whether the county or a private contractor does so – because these programs are constructed in a way that makes them inefficient.

- Without simplified program rules and requirements efficiencies can not be achieved, either by a contractor or by a county.

- To propose a huge automation project and centralization of public assistance programs prior to even discussing what policy changes could be made to the programs, or how those changes might result in a more efficient means of administering the program within the current county-based structure, is highly premature and will lead to significant costs.

MYTH: *"The programs being considered for centralized, privatized eligibility are fraught with errors."*

FACT

Current Systems Accurately Determine Eligibility and Counties Perform Well

The State is not penalized for Medi-Cal errors, and the current error rate is low. The state actually received bonuses from the USDA in recent years based on its improved Food Stamp performance. There is no national error rate for CalWORKs, but a recent review of a sample of states found California to make fewer errors than the other large states that were studied.

Medi-Cal Complexity, Healthy Families Simplicity *(updated 4/14/08)*

Medi-Cal	Healthy Families
Length of time to make eligibility determination:	
45 Days	10 Days
Applications may be received via:	
– Single Point of Entry – CHDP Gateway – Walk-in at county office – Other county-administered programs – Referral from Healthy Families – Free School Lunch program (select counties)	– Single Point of Entry – CHDP Gateway – Referral from Medi-Cal
Documentation required for:	
– Identity and U.S. Citizenship (new federal law) – Immigration status, if not a citizen – Income – Deductions – California residency – Pregnancy	– U.S. citizenship or immigration status – Income – Deductions
Separate programs:[1]	
125 separate aid codes under multiple categories. *Major aid categories include:* – 1931(b) – 1931(b) *Sneede v. Kizer* – Transitional Medi-Cal/Four-Month Continuing – Medically Needy Only (Share of Cost) – Medically Needy Only Sneede (Share of Cost) – Childrens Percentage Programs o 200% for children 0 to 1 o 133% for children 1 to 6 o 100% for children 6 to 19 – Former Foster Care Children – Minor Consent – Pregnancy Programs – Pickle – Aged/Disabled Federal Poverty Level Programs – 250% Working Disabled – Disabled Adult Child Programs – Long-Term Care Programs – Specified Low-Income Medicare Beneficiaries	***One program*** *for children up to age 19 who are ineligible for no-cost Medi-Cal and with family income up to 250% of the federal poverty level.*
Follow-up information/documentation required for eligibility:[2]	
– Statement of Citizenship/Immigration Status – Rights and Responsibilities – Other Health Coverage Form – Child Support Form (if a parent is absent) – Retroactive Coverage Form – Student Education Expenses – In-Kind Income/Housing Verification – Property/Resource Verification – Vocational/Work History – Authorization to Release Medical Information – Supplemental Statement of Facts	– Health plan information/choice of plan – Monthly premium – Documentation of status as American Indian or Alaska Native for waiver of premiums/copays.

– Motor Vehicle Worksheet	
State-required follow-up information provided to applicant:	
– Share of cost only brochure – "Your Rights" brochure – "Medi-Cal: What it Means To You" booklet – EPSDT Brochure – CHDP Brochure – WIC Brochure – Medi-Cal Information Notice – Long-Term Care Information Notice – Transitional Medi-Cal Information Form – Mental Health Benefit Statement – Voter Registration Information/Form – Information Regarding Citizenship/Immigration – Mail-In Application Cover Letter	– Healthy Families Handbook – Welcome Letter – Welcome Phone Call
Additional requirements:	
– 10-day reporting requirement for certain changes – Mid-year status report for non-disabled adults – Annual, client-completed redetermination form (most counties cannot pre-fill client information)	– No interim reporting – Annual pre-filled redetermination form

[1]Which programs an application is reviewed for depends on type of applicant. The county works through each potential program in a pre-determined order until it finds the application eligible.
[2]As applicable; failure to provide required information could lead to delay or denial of benefits.