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DATE: September 30, 2008

TO: Alliance Network of Providers

FROM: Alan McKay, Executive Director

RE: STATE MEDI-CAL BUDGET AND PROVIDER PAYMENTS

After an historic 85 day delay, the State has finally adopted a budget for FY 08/09 and State Medi-Cal payments to providers are resuming. The budget sustains the 10% cuts to Medi-Cal provider payments that began on July 1, 2008. These cuts continue for five more months, through February 2009, when the State will reduce the cuts to 1% for providers and 5% to pharmacy. The Alliance's Medi-Cal revenue is reduced by an equivalent amount. These cuts are part of the State's response to a \$15B budget deficit that will be a major challenge again in the coming State fiscal year.

When these cuts were adopted by the State earlier this year, some Medi-Cal providers were exempted including: CMAC-contracted hospital inpatient services, FQHC/RHCs, hospice, and skilled nursing facilities. More recently, a federal court injunction temporarily suspended the 10% cuts to physicians, clinics, pharmacy, dialysis and optometry (complete list available at www.dhcs.ca.gov/Pages/10PercentPayReduct.aspx), although the State is appealing. Since July 1st, the Alliance has maintained payments for all services provided to Alliance members, and has subsidized the State Medi-Cal cuts while hoping for immediate restoration of the cuts in the final State budget.

With the recent adoption of the State's FY 08/09 budget it is now clear that 10% Medi-Cal payment cuts are a reality for providers not exempt or involved in the federal injunction, until March when the State will reduce the cuts. In order to manage with reduced revenue, the Alliance cannot continue to subsidize State Medi-Cal cuts. In compliance with the plan's provider contracts that index State Medi-Cal payments, for dates of service on or after October 15, 2008 the Alliance will implement the State's reduced Medi-Cal payments for services not exempt from the cuts or not affected by the federal injunction.

Alliance payments that are affected are primarily for hospital outpatient services and allied provider services not within the scope of the federal injunction. The Alliance looks forward to substantially restoring these payments consistent with State practice on March 1, 2009. The Alliance will also continue to match hospital inpatient payments to State program payments including cuts to non-exempt facilities.

The Alliance will monitor the federal injunction and communicate any Alliance payment changes related to the court outcome. Regardless of the outcome of the injunction, the Alliance's primary care capitation payments and specialty care physician payments (that index to Medicare rates) will remain the same. However an adjustment to year end incentive budgets may be needed, and chain and independent pharmacy payments may be aligned to achieve savings if the State prevails and the Alliance's Medi-Cal revenue is further reduced.

The board and staff of Central Coast Alliance for Health thank you for your continued support and service to Alliance members during these difficult times. We will keep you informed and welcome your advice and comments.

Please contact the Alliance with your questions, advice or comments, directed to:

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