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AMENDED IN SENATE APRIL 14, 1997

**SENATE BILL**

**No. 1194**

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**Introduced by Senator Rosenthal  
(Principal coauthor: Senator Watson)**

February 28, 1997

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An act to amend Section 14087.325 of the Welfare and Institutions Code, relating to public social services.

LEGISLATIVE COUNSEL'S DIGEST

SB 1194, as amended, Rosenthal. Medi-Cal: contracts for services and case management.

Existing law provides for the Medi-Cal program, which is administered by the State Department of Health Services, pursuant to which medical benefits are provided to public assistance recipients and certain other low-income persons.

Existing law contains various requirements governing reimbursement for Medi-Cal services provided by federally qualified health centers subcontracting with local initiatives or commercial plans.

Existing law requires that the State Department of Health Services require, as a condition of obtaining a contract with

the department, that any local initiative offer a subcontract with a federally qualified health center providing defined services in the service area covered by the local initiative's contract with the department.

This bill would apply that requirement to any county organized health plan *and any health plan participating in any geographic managed care program.*

Existing law requires that any subcontract offered by a local initiative to a federally qualified health center shall be on the same terms and conditions offered to other subcontractors providing a similar scope of service.

This bill would limit that requirement and would apply it to ~~both~~ local initiatives ~~and~~, county organized health systems, *and geographic managed care program health plans.*

Existing law requires the department to provide incentives in the competitive application process to encourage potential commercial plans to offer subcontracts to federally qualified health centers.

This bill would require the department to also provide those incentives to rural health clinics.

Existing law requires that reimbursement for services provided pursuant to a subcontract with a local initiative or commercial plan shall either be paid on the basis of the federally qualified health center's reasonable costs or, at the election of the center or clinic, reimbursement shall be based on terms negotiated between the center and the individual local initiative or commercial plan.

This bill would ~~specify~~ *require* that reimbursement to federally qualified health centers and rural health clinics for those defined services ~~shall be paid in the same a manner as that utilized for other providers for the same services, is not less than the level and amount of payment that the plan would make for the same scope of services if the services were furnished by a provider that is not a federally qualified health center or rural health clinic,~~ and would apply that requirement to reimbursement for services provided pursuant to a subcontract with a local initiative, a commercial plan, a geographic managed care program *health plan*, or a county organized health system.



Existing law requires the department to annually perform a reconciliation to determine the federally qualified health center's reasonable cost and pay to or recover from the center the difference between the reimbursement paid by a local initiative or commercial plan pursuant to subcontracts and the entity's reasonable cost in relation to the number of visits to the entity by plan members, and to make another reconciliation and make payments to or obtain a recovery from the federally qualified health center within 6 months of the end of the fiscal year.

This bill would revise those requirements to require the department to administer a program of ~~reconciliation to reasonable cost for federally qualified managed care subcontractors, and would specify that the department's reconciliation process shall include tentative cost settlement through a per visit payment made to the federally qualified health center or rural health clinic through the regular fee-for-service billing mechanism~~ *to ensure that total payments to federally qualified health centers and rural health clinics operating as managed care subcontractors comply with applicable federal law regarding reasonable cost reimbursement for services provided by these entities. It would further require federally qualified health centers and rural health clinics subcontracting with local initiatives, commercial plans, county organized health systems, and geographic managed care program health plans to seek supplemental reimbursement from the department through a per visit fee-for-service billing system, and would specify the method of calculating the per visit payment system.*

~~The bill would require that in any contract wherein the department has included in the capitation rate paid to a local initiative, commercial plan, geographic managed care plan, or county organized health system, an amount that was intended to represent an interim rate for federally qualified health centers and rural health clinics, the department shall deduct the amount from the capitation rates, subject to an independent actuarial review.~~

*This bill, in addition, would authorize a federally qualified health center or rural health clinic to voluntarily agree to enter into a capitation or at-risk contract, would require a*



health center or clinic that entered into such a contract to waive its right to supplemental reimbursement and reconciliation to reasonable cost, and would require the department to approve all contracts between health centers or clinics and any local initiative, commercial plan, geographic managed care program health plan, or county organized health system in order to ensure compliance with the above provisions.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. The Legislature finds and declares all of  
2 the following:

3 (a) There are over 250 federally qualified health  
4 centers, federally qualified health center look-alikes, and  
5 rural health clinics in California that are licensed by the  
6 state.

7 (b) These health centers and clinics care for uninsured  
8 and underinsured people who would otherwise not have  
9 access to care, by providing quality, cost-effective,  
10 community-based primary and specialty health care, and  
11 dental and vision services, with an emphasis on cultural  
12 sensitivity and linguistic appropriateness.

13 (c) Collectively, federally qualified health centers and  
14 rural health clinics serve over 1.3 million patients.

15 ~~(d) In order to reduce the cost of providing Medi-Cal~~  
16 ~~services, the State Department of Health Services has~~  
17 ~~committed to enrolling 2.5 million persons, or~~  
18 ~~approximately half of all Medi-Cal beneficiaries, into~~  
19 ~~managed care plans by June 30, 1999.~~

20 *(d) The State Department of Health Services has*  
21 *committed to enrolling children who are Medi-Cal*  
22 *beneficiaries and their families into managed care plans.*

23 (e) In response to the implementation of managed  
24 care, federally qualified health centers and rural health  
25 clinics have begun developing internal systems and  
26 building capacity to manage costs and patient lives in a  
27 capitated environment. ~~Regardless, clinics are at an~~



1 ~~extreme competitive disadvantage in the contracting~~  
2 ~~process, because they are eligible for enhanced Medi-Cal~~  
3 ~~reimbursement.~~

4 ~~(f) The federal Balanced Budget Act of 1997 (Public~~  
5 ~~Law 105-33) provides for the protection of reasonable~~  
6 ~~cost reimbursement for federally qualified health centers~~  
7 ~~and rural health clinics that contract with managed care~~  
8 ~~organizations. Public Law 105-33 clarifies that the state is~~  
9 ~~responsible for reconciling with federally qualified health~~  
10 ~~centers and rural health clinics to reasonable cost, at least~~  
11 ~~quarterly.~~

12 ~~(g) Federally qualified health centers and rural health~~  
13 ~~clinics that operate as managed care subcontractors~~  
14 ~~require timely cost reconciliations to avoid cash shortfalls~~  
15 ~~that could jeopardize their ability to provide primary care~~  
16 ~~services to the uninsured, indigent population.~~

17 ~~(h) Federally qualified health centers and rural health~~  
18 ~~clinics that are compelled to seek cost reconciliation from~~  
19 ~~managed care organizations, including commercial~~  
20 ~~health plans, local initiatives, geographic managed care~~  
21 ~~programs, and county organized health systems, are at a~~  
22 ~~competitive disadvantage in the managed care market~~  
23 ~~place *capitated environment*.~~

24 SEC. 2. Section 14087.325 of the Welfare and  
25 Institutions Code is amended to read:

26 14087.325. (a) The department shall require, as a  
27 condition of obtaining a contract with the department,  
28 that any local initiative, as defined in subdivision (v) of  
29 Section 53810 of Title 22 of the California Code of  
30 Regulations, and any county organized health system, as  
31 ~~defined in Section 12693.05 of the Insurance Code,~~ offer  
32 *Regulations, offer* a subcontract to any entity defined in  
33 Section 1396d (4)(1)(2)(B) of Title 42 of the United  
34 States Code providing services as defined in Section  
35 1396d(a)(2)(C) of Title 42 of the United States Code and  
36 operating in the service area covered by the local  
37 initiative's contract with the department. These entities  
38 are also known as federally qualified health centers.



1 ~~(b) Except as otherwise provided in this section, the~~  
2 ~~subcontracts offered pursuant to subdivision (a) by a local~~  
3 ~~initiative or county organized health system shall be on~~

4 *(b) Except as otherwise provided in this section,*  
5 *managed care subcontracts offered to a federally*  
6 *qualified health center or a rural health clinic, as defined*  
7 *in Section 1396d (l)(1) of Title 42 of the United States*  
8 *Code by a local initiative, county organized health*  
9 *system, as defined in Section 12693.05 of the Insurance*  
10 *Code, commercial plan, as defined in subdivision (h) of*  
11 *Section 53810 of Title 22 of the California Code of*  
12 *Regulations, or a health plan contracting with a*  
13 *geographic managed care program, as defined in*  
14 *subdivision (g) of Section 53902 of Title 22 of the*  
15 *California Code of Regulations, shall be on the same terms*  
16 *and conditions offered to other subcontractors providing*  
17 *a similar scope of service.*

18 (c) The department shall provide incentives in the  
19 competitive application process described in paragraph  
20 (1) of subdivision (b) of Section 53800 of Title 22 of the  
21 California Code of Regulations, to encourage potential  
22 commercial plans as defined in subdivision (h) of Section  
23 53810 of Title 22 of the California Code of Regulations to  
24 offer subcontracts to these federally qualified health  
25 centers and rural health clinics, as defined in Section  
26 1396d(1) of the United States Code: *centers.*

27 (d) Reimbursement to federally qualified health  
28 centers and rural health centers for services provided  
29 pursuant to a subcontract with a local initiative, a  
30 commercial plan, geographic managed care program, ~~as~~  
31 ~~defined in subdivision (g) of Section 53902 of Title 22 of~~  
32 ~~the California Code of Regulations, or a county organized~~  
33 ~~health system, as defined in Section 12693.05 of the~~  
34 ~~Insurance Code, shall be paid in the same manner as that~~  
35 ~~utilized for other providers for the same services.~~

36 (e) ~~(1) Pursuant to applicable federal medicaid~~  
37 ~~provisions, the department shall administer a program~~  
38 ~~for reconciliation to reasonable cost for federally qualified~~  
39 ~~health centers and rural health clinics operating as~~  
40 ~~managed care subcontractors pursuant to subdivision~~



1 ~~(d). The department's process shall include tentative cost~~  
2 ~~settlement through a per visit payment made to the~~  
3 ~~federally qualified health center or the rural health clinic~~  
4 ~~through the regular Medi-Cal fee for service billing~~  
5 ~~mechanism. The amount of the per visit payment from~~  
6 ~~the state's fiscal intermediary shall be calculated to reflect~~  
7 ~~the amount necessary to reimburse the federally~~  
8 ~~qualified health center or the rural health clinic the~~  
9 ~~difference between the center's or clinic's interim rate~~  
10 ~~and the payment it received from the health plan with~~  
11 ~~which it has entered into a managed care subcontract.~~

12 ~~(2) In addition, to the extent practicable, within six~~  
13 ~~health plan, or a county organized health system, shall be~~  
14 ~~paid in a manner that is not less than the level and amount~~  
15 ~~of payment that the plan would make for the same scope~~  
16 ~~of services if the services were furnished by a provider~~  
17 ~~that is not a federally qualified health center or rural~~  
18 ~~health clinic.~~

19 *(e) (1) The department shall administer a program to*  
20 *ensure that total payments to federally qualified health*  
21 *centers and rural health clinics operating as managed*  
22 *care subcontractors pursuant to subdivision (d) comply*  
23 *with applicable federal law regarding reasonable cost*  
24 *reimbursement for services provided by these entities*  
25 *pursuant to Sections 1902(a)(13)(C) and*  
26 *1903(m)(2)(A)(ix) of the Social Security Act (42*  
27 *U.S.C.A. Secs. 1396a(a)(13)(C) and*  
28 *1396b(m)(2)(A)(ix)). Under the department's program,*  
29 *federally qualified health centers and rural health clinics*  
30 *subcontracting with local initiatives, commercial plans,*  
31 *county organized health systems, and geographic*  
32 *managed care program health plans shall seek*  
33 *supplemental reimbursement from the department*  
34 *through a per visit fee-for-service billing system utilizing*  
35 *the state's Medi-Cal fee-for-service claims processing*  
36 *system contractor. To carry out this per visit payment*  
37 *process, each federally qualified health system and rural*  
38 *health clinic shall submit to the department for approval*  
39 *a rate differential calculated to reflect the amount*  
40 *necessary to reimburse the federally qualified health*



1 center or rural health clinic the difference between the  
2 payment the center or clinic received from the managed  
3 care health plan and the interim rate established by the  
4 department based on the center's or clinic's reasonable  
5 cost. The department shall adjust the computed rate  
6 differential as it deems necessary to minimize the  
7 difference between the center's or clinic's revenue from  
8 the plan and the center's or clinic's cost-based  
9 reimbursement. months of the end of the center's or  
10 clinic's fiscal year, the department shall perform an  
11 annual reconciliation to reasonable cost, and make  
12 payments to, or obtain a recovery from, the center or  
13 clinic.

14 ~~(3)~~

15 (f) In calculating the capitation rates to be paid to local  
16 initiatives, commercial plans, geographic managed care  
17 programs, and county organized health systems, the  
18 department shall not include the dollar amount of the  
19 interim rate payments made to federally qualified health  
20 care program health plans, and county organized health  
21 systems, the department shall not include the additional  
22 dollar amount applicable to cost-based reimbursement  
23 that would otherwise be paid, absent cost-based  
24 reimbursement, to federally qualified health centers and  
25 rural health clinics in the Medi-Cal fee-for-service  
26 program.

27 ~~(4) In any contract wherein the department has~~  
28 ~~included in the capitation rates paid to a local initiative,~~  
29 ~~commercial plan, geographic managed care plan, or~~  
30 ~~county organized health system, an amount that was~~  
31 ~~intended to represent the interim rates for federally~~  
32 ~~qualified health centers and rural health clinics, the~~  
33 ~~department shall deduct the amount from the capitation~~  
34 ~~rates in order to comply with the provisions of the federal~~  
35 ~~Balanced Budget Act of 1997 (P.L. 105-33) and paragraph~~  
36 ~~(1). The department's calculations for the interim rate~~  
37 ~~amounts to be removed from the capitation rates shall be~~  
38 ~~subject to an independent, third party actuarial review.~~  
39 ~~The department shall utilize the results of the review in~~



1 ~~determining the capitation rates that will be paid to the~~  
2 ~~plans.~~

3 ~~(f)~~

4 (g) (1) A federally qualified health center or rural  
5 health clinic may voluntarily agree to enter into a risk  
6 sharing arrangement, and shall not be required to seek  
7 reconciliation with the department.

8 (2) The fact that a federally qualified health plan or  
9 rural health center enters into a risk sharing  
10 arrangement *capitated or other at-risk contract with a*  
11 *managed care program health plan if the clinic agrees to*  
12 *all of the following:*

13 (A) *Reimbursement by the health plan under the*  
14 *contract is payment in full for the services provided*  
15 *under the contract and the costs and revenues*  
16 *experienced by the clinic under the contract shall not be*  
17 *subjected to reconciliation to reasonable cost.*

18 (B) *The clinic shall not seek supplemental*  
19 *reimbursement from the department, as provided in*  
20 *paragraph (1) of subdivision (e), or seek reconciliation to*  
21 *reasonable cost with the department, as provided in*  
22 *paragraph (2) of subdivision (e).*

23 (2) *The existence of a contract specified in paragraph*  
24 *(1) shall not void the center's or clinic's right to*  
25 *reconciliation to reasonable cost for those services that*  
26 *are not part of the center's or clinic's risk-sharing*  
27 *arrangement capitated or other at-risk contract with a*  
28 *health plan.*

29 ~~(g)~~

30 (3) *A federally qualified health center or rural health*  
31 *clinic that agrees to enter into a capitated or at-risk*  
32 *contract shall, in writing to the department, affirmatively*  
33 *waive its right to supplemental reimbursement as*  
34 *provided in paragraph (1) of subdivision (e), and*  
35 *reconciliation to reasonable cost as provided in paragraph*  
36 *(2) of subdivision (e) for services provided pursuant to*  
37 *the subcontract with the health plan. Nothing in this*  
38 *paragraph shall restrict a center or clinic that waives its*  
39 *right to cost-based reimbursement from reinstating that*  
40 *right, in writing to the department, if the capitation or*



1 *at-risk contract between the center or clinic and the*  
2 *health plan that prompted the waiver terminates.*

3 (h) The department shall approve all contracts  
4 between federally qualified health centers or rural health  
5 clinics and any local initiative, commercial plan,  
6 geographic managed care program *health plan*, or county  
7 organized health system, in order to ensure compliance  
8 with ~~federal law~~ *this section*.

9 ~~(h)~~

10 (i) This section shall not preclude the department  
11 from establishing pilot programs pursuant to Section  
12 14087.329.

