



The California Hospital Financing Medicaid Waiver: Year One Implementation and Results for Public Hospitals

NOVEMBER 2006

ISSUE BRIEF HIGHLIGHTS

- California launched the Hospital Financing Medicaid Waiver in September 2005. It gave the state a 5-year waiver from Federal Medicaid rules.
- The Waiver included 23 public hospitals—17 County and 6 University of California hospitals—as well as private safety-net hospitals.
- The Waiver was the largest change in 15 years to California's system of public hospital finance. It completely revamped the funding sources and allocation methods for public hospital services to Medi-Cal beneficiaries and the uninsured.
- The building of the Waiver infrastructure was the dominant activity of Year 1. State Waiver planners worked with public hospitals to build an effective program structure, and CAPH and member hospitals helped craft important Waiver components.
- Public hospitals experienced delays in receiving \$650 million in Federal Waiver funding. Hospitals got loans from their respective Counties and the State. The majority of Year 1 payments ultimately arrived by the end of FY 2006.
- In Year 1, the Waiver boosted overall public hospital funding by \$242.8 million, a 12% increase over 2005.
- The Waiver's overall impact on public hospitals was mixed; 16 recorded year-end budgets that were balanced or contained increases, but 7 still recorded deficits, due to a complex mix of factors such as increases in patient demand and volume.
- California remains a punishing fiscal environment for hospitals. Public hospital costs rose an average of 79.6% between 1995 and 2004. This mirrors the 78.6% rise among private hospitals. Public hospitals have moved aggressively to contain costs and implement programs that improve efficiency and quality of care.
- In Years 2 through Year 5, public hospitals may find themselves squeezed between rising costs and funding streams that cannot keep pace, due to Federal funding caps on key revenue sources.
- Public hospitals are a cornerstone of the state's healthcare system. They make up 6% of all hospitals but provide more than half of all uninsured hospital care, deliver more than 11 million outpatient specialty and primary care visits, and maintain essential programs that benefit the entire community, such as trauma, burn and pediatric intensive care programs.
- The Waiver will be crucial to the future of public hospitals and California's entire healthcare system.