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Association of California School Administrators (ACSA)
representing more than 16,000 school administrators

California Association Of School Business Officials (CASBO)
representing more than 23,000 school business officials

California County Superintendents Educational Services Association (CCSESA)
representing all 58 county superintendents throughout California

California Federation of Teachers (CFT-AFL-CIO)
representing nearly 90,000 education employees

California School Boards Association (CSBA)
representing nearly 1,000 K-12 school districts and county offices of education throughout California

California School Employees Association (CSEA)
representing more than 230,000 classified school employees

California State PTA
representing more than one million parents, teachers, and students in California

California Teachers Association (CTA)
representing over 325,000 educators

Service Employees International Union (SEIU)
representing more than 50,000 school employees in California

Legislative Consultant:
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April 27, 2018

The Honorable Anthony Portantino
Senator, 25th District
State Capitol, Room 3086
Sacramento, CA 95814

RE: School Medi-cal Administrative Activities (SMAA) Billing

The Education Coalition is strongly opposed to the proposal in the Governor's budget to use one-time Proposition 98 funds to repay the State General Fund for payments to the federal government for the School-Based Medi-Cal Administrative Activities (SMAA) program. The budget proposal references "overpayments" to local education agencies (LEAs) for this program, but it is becoming increasingly clear that the problem is a deeply flawed agreement between the Department of Health Care Services (DHCS) and the federal government.

The Coalition is opposed to the budget proposal for three major reasons:

1. Current LEA claims, under new federally-approved procedures for the SMAA program, are equal to or higher than the levels described as "overpayments" in prior years. The problem is not overpayments, but inadequate guidance from DHCS and a resulting agreement between DHCS and the federal Center for Medicaid Services (CMS) that unfairly penalizes school districts. In August 2015, an audit commissioned by the Joint Legislative Audit Committee, found the DHCS was severely lacking proper guidance for LEAs.
2. The budget assumes that all LEAs will have to repay 90 percent of all interim payments they have received for services that have already been provided. For this reason, local education agencies and legislators have been unable to evaluate the impact of the proposed redirection of Proposition 98 funds. Information collected directly from LEAs indicates the proposed impact is dramatic for some school districts. For example,
 - Fremont Unified School District faces a potential loss of \$910,000,
 - West Contra Costa Unified School District would lose \$932,000,
 - Fairfield-Suisun Unified School District would lose \$795,000,
 - Sequoia High School District would lose \$939,000.

3. Mechanisms already exist to recover overpayments of federal funds to local agencies from current and future federal payments. The Coalition is strongly opposed to using Proposition 98 funds to repay the State General Fund for agreements state agencies make with the federal government. DHCS has previously proposed the withholding of up to half of future federal reimbursement funds on a quarterly basis to avoid using school district general funds to recover overpayments.

These issues date back to the 2009-10 fiscal year and cover the period 2009-10 through 2014-15. For several years the DHCS suspended payments to LEAs while they negotiated an agreement with the federal CMS to recover perceived “overpayments” to school districts. For medium and large school districts, the eventual agreement was for the state to initially pay 40% of the amounts claimed and then adopt a calculation, based on a comparison of the new and old claiming methods, to determine how many schools should have been paid for claims between 2009-10 and 2013-14. The organizations represented in the Education Coalition argued at that time that the details of the agreement would unfairly penalize school districts and were assured that if subsequent data showed that the agreement resulted in unreasonable losses, it would be reviewed.

Unfortunately, data now confirms that the agreement created an apples to oranges comparison of past and new claiming methodologies which ultimately results in most medium and large districts losing between 50% and 90% of their SMAA funds. These extreme losses seem especially unreasonable because California is now operating under a new claiming methodology that is approved by DHCS and CMS. Claims under this new methodology are equal to or higher than the full claims submitted in prior years and clearly are far higher than the 40% share determined by DHCS and CMS.

In the face of this clear evidence that “overpayments” were not a widespread problem, it is unreasonable that the budget would seek to reduce one-time Proposition 98 funding to individual school districts in order to implement an agreement between the state and federal agencies that was clearly flawed. Further, the Legislature should not approve such a reduction of funds without specific information from the Administration concerning the financial impact on individual school districts. The current proposal would allow these reductions to take place based solely on decisions made by the state agencies after the budget is enacted.

The Education Coalition strongly urges the Legislature to reject the budget proposal to reduce one-time Proposition 98 funding to school districts to repay the State General Fund for the agreement between DHCS and the federal government.

CC: Senator Ben Allen
Senate Health Committee
Elisa Wynne
Kimberly Rodriguez
Scott Ogus
Jennifer Johnson
Jeff Bell
Karen Stapf Walters

Education Coalition

FACT SHEET:

BUDGET PROPOSAL TO USE PROPOSITION 98 FUNDING TO REPAY GENERAL FUND FOR SCHOOL-BASED MEDI-CAL ADMINISTRATIVE ACTIVITIES

Education Coalition Position: **Oppose** Budget Proposal to Use Proposition 98 Funds to Cover Overbilling for School-Based Medi-Cal Administrative Activities [SMAA]

Summary of Proposal: The Governor's budget includes a proposal for \$221.8 million in General Fund repayments to the federal government for "overpayments" of federal funds to local education agencies under the School-Based Medi-Cal Administrative Activities [SMAA] and Local Education Agency [LEA] Billing Option programs. The proposal would then authorize the state to reduce one-time Proposition 98 funding to any school district or county office of education that received an "overpayment" in order to repay the State General Fund. Neither Department of Finance nor Department of Health Care Services (DHCS) consulted with education groups before the proposal was included in the proposed budget.

Reasons for Opposition:

1. **The conclusion that there have been significant "overpayments" to Local Education Agencies is not supported by facts.**

Current LEA claims, under new federally-approved procedures for the SMAA program, are equal to or higher than the levels described as "over-payments" in prior years. The problem is not overpayments, but inadequate guidance from DHCS and a resulting agreement between DHCS and the federal Center for Medicaid Services (CMS) that unfairly penalizes school districts. In August 2015, an audit commissioned by the Joint Legislative Audit Committee, found that DHCS was severely lacking proper guidance for LEAs.

2. **No information has been provided by the Administration on the overpayments and the resulting proposed reductions in funding to specific school districts.**

The budget assumes that all LEAs will have to repay 90 percent of all interim payments they have received for services that have already been provided. For this reason, local education agencies and legislators have been unable to evaluate the impact of the proposed redirection of Proposition 98 funds. Information collected directly from LEAs indicates the proposed impact is dramatic for some school districts. For example,

- Fremont Unified School District faces a potential loss of \$910,000,
- West Contra Costa Unified School District would lose \$932,000,
- Fairfield-Suisun Unified School District would lose \$795,000,
- Sequoia High School District would lose \$939,000.

The Legislature should oppose the budget proposal and request that specific information is provided by the Administration concerning the impact on local education agencies.

3. Mechanisms already exist to recover overpayments of federal funds to local agencies from current and future federal payments.

The Coalition is strongly opposed to using Proposition 98 funds to repay the State General Fund for agreements state agencies make with the federal government. DHCS has previously proposed the withholding of up to half of future federal reimbursement funds on a quarterly basis to avoid using school district general funds to recover overpayments.