

# **AIDS DRUG ASSISTANCE PROGRAM (ADAP)**

## **Estimate Package**

**2013-14 MAY REVISION**



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# Table of Contents

| <u>SECTION</u>   | <u>PAGE</u> |
|--|-------------|
| <b>EXECUTIVE SUMMARY</b> .....   | 3           |
| <b>1. FISCAL COMPARISON TABLES</b>   |             |
| <u>Expenditures</u>  |             |
| Table 1a: Comparison of FY 2012-13 in <i>2013-14 May Revision</i> to<br>FY 2012-13 Budget Act.....                           | 5           |
| Table 1b: Comparison of 2012-13 in <i>2013-14 May Revision</i> to<br>FY 2012-13 in <i>2013-14 Governor’s Budget</i> .....    | 5           |
| Table 1c: Comparison of <i>2013-14 May Revision</i> to<br>FY 2012-13 in <i>2013-14 May Revision</i> .....                    | 6           |
| Table 1d: Comparison of <i>2013-14 May Revision</i> to<br><i>2013-14 Governor’s Budget</i> .....                             | 6           |
| <u>Resources</u>   |             |
| Table 2a: Comparison of FY 2012-13 in <i>2013-14 May Revision</i> to<br>FY 2012-13 Budget Act.....                           | 7           |
| Table 2b: Comparison of FY 2012-13 in <i>2013-14 May Revision</i> to<br>FY 2012-13 in <i>2013-14 Governor’s Budget</i> ..... | 7           |
| Table 2c: Comparison of <i>2013-14 May Revision</i> to<br>FY 2012-13 in <i>2013-14 May Revision</i> .....                    | 8           |
| Table 2d: Comparison of <i>2013-14 May Revision</i> to<br><i>2013-14 Governor’s Budget</i> .....                             | 8           |
| <b>2. MAJOR ASSUMPTIONS</b> .....  | 9           |
| <b>3. FUND CONDITION STATEMENT</b> .....   | 31          |
| <b>4. HISTORICAL PROGRAM DATA AND TRENDS</b> .....   | 35          |
| <b>APPENDIX A: EXPENDITURE AND REVENUE ESTIMATE METHODS</b> .....  | 39          |
| Updated Expenditure Estimate for FY 2012-13.....   | 39          |
| Updated Expenditure Estimate for FY 2013-14.....   | 39          |
| Linear Regression Model – Expenditure Estimates.....   | 39          |
| ADAP Rebate Revenue Estimate Method.....   | 41          |
| <b>APPENDIX B: FUND SOURCES</b> .....  | 43          |
| General Fund.....  | 44          |
| Federal Fund.....  | 44          |
| Reimbursement.....   | 45          |
| ADAP Special Fund (3080).....  | 45          |
| <b>APPENDIX C: POTENTIAL FUTURE FISCAL ISSUES</b> .....  | 50          |
| <b>APPENDIX D: CURRENT HIV/AIDS EPIDEMIOLOGY IN CALIFORNIA</b> .....   | 56          |
| <b>APPENDIX E: SENSITIVITY ANALYSIS</b> .....  | 58          |

## **EXECUTIVE SUMMARY**

The California Department of Public Health (CDPH), Center for Infectious Diseases, Office of AIDS (OA), AIDS Drug Assistance Program (ADAP) 2012 Budget Act appropriation is \$448.4 million. For the *2013-14 May Revision*, ADAP requests expenditure authority of \$456.1 million in fiscal year (FY) 2012-13. This budget request represents a \$12.5 million decrease of expenditures when compared to the *2013-14 Governor's Budget*.

For FY 2013-14, OA estimates an ADAP budget decrease of \$66.8 million when compared to the revised Current Year budget of \$456.1 million and a return of \$16.9 million to GF.

### **Expenditure Forecast**

Unadjusted expenditure estimates for the *2013-14 May Revision* were derived from a linear regression model. The 36-month data set for this estimate used actual expenditures from April 2010 through February 2013 and estimated expenditures in March 2013. Estimates were adjusted based on the assumptions listed on page 9. This methodology assumes a linear increase in expenditures over time. However, the increase in expenditures is no longer occurring in FYs 2012-13 and FY 2013-14 due to two key policy changes recently implemented: 1) the movement of ADAP clients into the Low Income Health Program (LIHP); and 2) in 2014, to the movement of ADAP clients to Medi-Cal Expansion and Covered California due to the implementation of the Affordable Care Act (ACA).

To address this limitation, pre-regression adjustments were made for LIHP and OA's Pre-Existing Condition Insurance Plan (OA-PCIP) premium payment program. The adjustments add the monthly savings realized to date back into the data points in the regression as if LIHP and OA-PCIP were never in effect. This change in methodology maintains the integrity of the linear regression model. Post-regression adjustments were then conducted to account for the LIHP and OA-PCIP savings, in addition to making other pre-regression adjustments (elimination of jails (July 2010); ADAP counting toward True Out of Pocket (TrOOP) Expenses (January 2011); reduced Pharmacy Benefits Manager (PBM) transaction fees (July 2011); increased split fee savings (July 2011), reduced reimbursements rate (July 2011), and OA-Health Insurance Premium Payment (HIPP) (July 2011)) and post-regression adjustments for Medi-Cal Expansion (**NMA 1**, page 10), Covered California (**NMA 2**, page 14) and additional PBM costs.

For FY 2012-13, total estimated expenditures of \$456.1 million are \$7.7 million more than Budget Act authority of \$448.4 million.

FY 2013-14 estimated expenditures of \$389.3 million are \$66.8 million less than FY 2012-13 revised expenditures primarily due to savings from LIHP and ACA, including

Medi-Cal Expansion and the movement of clients into the Covered California health insurance marketplace.

### **Revenue Forecast**

Payments of ADAP expenditures are made from four fund sources: 1) GF; 2) Federal funds; 3) rebate funds; and 4) reimbursements from the California Department of Health Care Services (DHCS) as a result of funding available through the Safety Net Care Pool (SNCP). (See Appendix B: Fund Sources for funding details on page 43).

Major changes from the 2013-14 Governor's Budget include:

- For FY 2012-13, a \$18.9 million reduction of estimated rebate fund revenue;
- For FY 2012-13, increase of federal fund expenditure authority to utilize \$15 million from the 2013 Ryan White ADAP Earmark Award in the Current Year;
- For FY 2013-14, an \$8.5 million (7.5 percent) Federal fund reduction due to Federal legislative changes in how allocations are made to states; and
- For FY 2013-14, a \$5.3 million (5.0 percent) Federal fund reduction due to the sequestration order signed by President Barack Obama on March 1, 2013.

For FY 2012-13, ADAP rebate fund resources are now anticipated to increase by approximately \$4.3 million compared to the Budget Act as opposed to a \$18.9 million decrease when compared to the Governor's Budget. However, with an increase of federal fund expenditure authority ADAP will maintain a 4.2 percent Special Fund reserve in the Current Year (see the Fund Condition Statement (FCS) **Table 23** on page 32).

For FY 2013 -14, overall ADAP resources are projected to be \$46.1 million less than the revised FY 2012-13 estimate and \$38.8 million less than the resources estimated in the *2013-14 Governor's Budget*. Due to estimated reduced expenditures, ADAP estimates maintaining a \$39.6 million (16.2 percent) Special Fund reserve (see **Table 23** on page 32). However, as stated above unforeseen policy changes could decrease estimated savings resulting in a reduced Special Fund reserve.

**1. FISCAL COMPARISON TABLES**

**Table 1a: Expenditure Comparison: FY 2012-13 in 2013-14 May Revision to 2012-13 Budget Act (000's)**

|   | 2012-13 in 2013-14 May Revision |                 |                  |                 |                   | 2012-13 Budget Act |                 |                  |                 |                   | Difference     |               |                 |                  |                   |
|---|---------------------------------|-----------------|------------------|-----------------|-------------------|--------------------|-----------------|------------------|-----------------|-------------------|----------------|---------------|-----------------|------------------|-------------------|
|   | Total                           | Reimbursement   | Federal          | State           | ADAP Special Fund | Total              | Reimbursement   | Federal          | State           | ADAP Special Fund | Total          | Reimbursement | Federal         | State            | ADAP Special Fund |
| <b>Local Assistance Funding</b>               | <b>\$456,096</b>                | <b>\$17,150</b> | <b>\$140,876</b> | <b>\$16,875</b> | <b>\$281,195</b>  | <b>\$448,386</b>   | <b>\$17,150</b> | <b>\$113,605</b> | <b>\$16,875</b> | <b>\$300,756</b>  | <b>\$7,710</b> |               | <b>\$27,271</b> |                  | <b>(\$19,561)</b> |
| ADAP Expenditure Estimate                     | \$444,158                       | \$17,150        | \$140,876        | \$14,071        | \$272,060         | \$437,766          | \$17,150        | \$113,605        | \$15,985        | \$291,026         | \$6,392        |               | \$27,271        | (\$1,914)        | (\$18,966)        |
| <b>Prescription Costs</b>                     | <b>\$437,236</b>                | <b>\$16,990</b> | <b>\$139,473</b> | <b>\$11,367</b> | <b>\$269,406</b>  | <b>\$431,199</b>   | <b>\$16,990</b> | <b>\$112,540</b> | <b>\$13,474</b> | <b>\$288,196</b>  | <b>\$6,036</b> |               | <b>\$26,933</b> | <b>(\$2,108)</b> | <b>(\$18,790)</b> |
| Basic Prescription Costs                      | \$505,742                       | \$16,990        | \$139,473        | \$11,367        | \$337,912         | \$545,595          | \$16,990        | \$112,540        | \$13,474        | \$402,591         | (\$39,853)     |               | \$26,933        | (\$2,108)        | (\$64,679)        |
| Legacy LIHP Expenditure Impact                | (\$47,951)                      |                 |                  |                 | (\$47,951)        | (\$74,770)         |                 |                  |                 | (\$74,770)        | \$26,819       |               |                 |                  | \$26,819          |
| Non-Legacy LIHP Expenditure Impact            | (\$15,386)                      |                 |                  |                 | (\$15,386)        | (\$24,586)         |                 |                  |                 | (\$24,586)        | \$9,200        |               |                 |                  | \$9,200           |
| OA-PCIP Expenditure Impact                    | (\$5,169)                       |                 |                  |                 | (\$5,169)         | (\$5,738)          |                 |                  |                 | (\$5,738)         | \$569          |               |                 |                  | \$569             |
| OA-HIPP Expenditure Impact                    |                                 |                 |                  |                 |                   | (\$9,302)          |                 |                  |                 | (\$9,302)         | \$9,302        |               |                 |                  | \$9,302           |
| <b>PBM Operational Costs</b>                  | <b>\$6,922</b>                  | <b>\$160</b>    | <b>\$1,404</b>   | <b>\$2,705</b>  | <b>\$2,654</b>    | <b>\$6,566</b>     | <b>\$160</b>    | <b>\$1,065</b>   | <b>\$2,511</b>  | <b>\$2,830</b>    | <b>\$355</b>   |               | <b>\$338</b>    | <b>\$194</b>     | <b>(\$176)</b>    |
| Basic PBM Costs                               | \$7,239                         | \$160           | \$1,404          | \$2,705         | \$2,971           | \$8,309            | \$160           | \$1,065          | \$2,511         | \$4,572           | (\$1,070)      |               | \$338           | \$194            | (\$1,602)         |
| Additional PBM Costs                          | \$759                           |                 |                  |                 | \$759             |                    |                 |                  |                 |                   | \$759          |               |                 |                  | \$759             |
| Legacy LIHP PBM Costs                         | (\$760)                         |                 |                  |                 | (\$760)           | (\$1,139)          |                 |                  |                 | (\$1,139)         | \$379          |               |                 |                  | \$379             |
| Non-Legacy LIHP PBM Costs                     | (\$244)                         |                 |                  |                 | (\$244)           | (\$374)            |                 |                  |                 | (\$374)           | \$131          |               |                 |                  | \$131             |
| OA-PCIP PBM Impact                            | (\$72)                          |                 |                  |                 | (\$72)            | (\$87)             |                 |                  |                 | (\$87)            | \$15           |               |                 |                  | \$15              |
| OA-HIPP PBM Impact                            |                                 |                 |                  |                 |                   | (\$142)            |                 |                  |                 | (\$142)           | \$142          |               |                 |                  | \$142             |
| LHJ Administration                            | \$2,000                         |                 |                  |                 | \$2,000           | \$2,000            |                 |                  |                 | \$2,000           | \$             |               |                 |                  | \$                |
| Insurance Assistance Program: Medicare Part D | \$1,000                         |                 |                  |                 | \$1,000           | \$1,000            |                 |                  |                 | \$1,000           | \$             |               |                 |                  | \$                |
| Insurance Assistance Program: OA-PCIP         | \$1,120                         |                 |                  | \$220           | \$900             | \$1,186            |                 |                  |                 | \$1,186           | (\$66)         |               |                 | \$220            | (\$285)           |
| Insurance Assistance Program: OA-HIPP         | \$7,819                         |                 | \$1,700          | \$2,584         | \$5,235           | \$6,435            |                 | \$1,700          | \$890           | \$5,544           | \$1,384        |               |                 | \$1,694          | (\$310)           |
| Support/Administration Funding                | <b>\$2,489</b>                  |                 | <b>\$1,178</b>   | <b>\$411</b>    | <b>\$900</b>      | <b>\$2,501</b>     |                 | <b>\$1,178</b>   | <b>\$411</b>    | <b>\$912</b>      | <b>(\$12)</b>  |               |                 |                  | <b>(\$12)</b>     |

**Table 1b: Expenditure Comparison: FY 2012-13 in 2013-14 May Revision to FY 2012-13 in 2013-14 Governor's Budget (November Estimate) (000's)**

|   | 2012-13 in 2013-14 May Revision |                 |                  |                 |                   | 2012-13 in 2013-14 Governor's Budget (November Estimate) |                 |                  |                 |                   | Difference        |               |                 |               |                   |
|---|---------------------------------|-----------------|------------------|-----------------|-------------------|--|-----------------|------------------|-----------------|-------------------|-------------------|---------------|-----------------|---------------|-------------------|
|   | Total                           | Reimbursement   | Federal          | State           | ADAP Special Fund | Total  | Reimbursement   | Federal          | State           | ADAP Special Fund | Total             | Reimbursement | Federal         | State         | ADAP Special Fund |
| <b>Local Assistance Funding</b>               | <b>\$456,096</b>                | <b>\$17,150</b> | <b>\$140,876</b> | <b>\$16,875</b> | <b>\$281,195</b>  | <b>\$468,585</b>   | <b>\$17,150</b> | <b>\$125,876</b> | <b>\$16,875</b> | <b>\$308,683</b>  | <b>(\$12,488)</b> |               | <b>\$15,000</b> |               | <b>(\$27,488)</b> |
| ADAP Expenditure Estimate                     | \$444,158                       | \$17,150        | \$140,876        | \$14,071        | \$272,060         | \$453,586  | \$17,150        | \$125,876        | \$13,285        | \$297,274         | (\$9,428)         |               | \$15,000        | \$786         | (\$25,214)        |
| <b>Prescription Costs</b>                     | <b>\$437,236</b>                | <b>\$16,990</b> | <b>\$139,473</b> | <b>\$11,367</b> | <b>\$269,406</b>  | <b>\$446,510</b>   | <b>\$16,990</b> | <b>\$124,682</b> | <b>\$10,488</b> | <b>\$294,349</b>  | <b>(\$9,274)</b>  |               | <b>\$14,790</b> | <b>\$878</b>  | <b>(\$24,943)</b> |
| Basic Prescription Costs                      | \$505,742                       | \$16,990        | \$139,473        | \$11,367        | \$337,912         | \$524,739  | \$16,990        | \$124,682        | \$10,488        | \$372,578         | (\$18,997)        |               | \$14,790        | \$878         | (\$34,666)        |
| Legacy LIHP Expenditure Impact                | (\$47,951)                      |                 |                  |                 | (\$47,951)        | (\$56,053)   |                 |                  |                 | (\$56,053)        | \$8,102           |               |                 |               | \$8,102           |
| Non-Legacy LIHP Expenditure Impact            | (\$15,386)                      |                 |                  |                 | (\$15,386)        | (\$17,803)   |                 |                  |                 | (\$17,803)        | \$2,416           |               |                 |               | \$2,416           |
| OA-PCIP Expenditure Impact                    | (\$5,169)                       |                 |                  |                 | (\$5,169)         | (\$4,374)  |                 |                  |                 | (\$4,374)         | (\$796)           |               |                 |               | (\$796)           |
| OA-HIPP Expenditure Impact                    |                                 |                 |                  |                 |                   |  |                 |                  |                 |                   |                   |               |                 |               |                   |
| <b>PBM Operational Costs</b>                  | <b>\$6,922</b>                  | <b>\$160</b>    | <b>\$1,404</b>   | <b>\$2,705</b>  | <b>\$2,654</b>    | <b>\$7,076</b>   | <b>\$160</b>    | <b>\$1,194</b>   | <b>\$2,797</b>  | <b>\$2,925</b>    | <b>(\$154)</b>    |               | <b>\$210</b>    | <b>(\$92)</b> | <b>(\$271)</b>    |
| Basic PBM Costs                               | \$7,239                         | \$160           | \$1,404          | \$2,705         | \$2,971           | \$7,346  | \$160           | \$1,194          | \$2,797         | \$3,196           | (\$108)           |               | \$210           | (\$92)        | (\$225)           |
| Additional PBM Costs                          | \$759                           |                 |                  |                 | \$759             | \$779  |                 |                  |                 | \$779             | (\$19)            |               |                 |               | (\$19)            |
| Legacy LIHP PBM Costs                         | (\$760)                         |                 |                  |                 | (\$760)           | (\$742)  |                 |                  |                 | (\$742)           | (\$18)            |               |                 |               | (\$18)            |
| Non-Legacy LIHP PBM Costs                     | (\$244)                         |                 |                  |                 | (\$244)           | (\$247)  |                 |                  |                 | (\$247)           | \$4               |               |                 |               | \$4               |
| OA-PCIP PBM Impact                            | (\$72)                          |                 |                  |                 | (\$72)            | (\$60)   |                 |                  |                 | (\$60)            | (\$13)            |               |                 |               | (\$13)            |
| OA-HIPP PBM Impact                            |                                 |                 |                  |                 |                   |  |                 |                  |                 |                   |                   |               |                 |               |                   |
| LHJ Administration                            | \$2,000                         |                 |                  |                 | \$2,000           | \$2,000  |                 |                  |                 | \$2,000           |                   |               |                 |               |                   |
| Insurance Assistance Program: Medicare Part D | \$1,000                         |                 |                  |                 | \$1,000           | \$1,000  |                 |                  |                 | \$1,000           |                   |               |                 |               |                   |
| Insurance Assistance Program: OA-PCIP         | \$1,120                         |                 |                  | \$220           | \$900             | \$1,056  |                 |                  | \$181           | \$875             | \$64              |               |                 | \$39          | \$25              |
| Insurance Assistance Program: OA-HIPP         | \$7,819                         |                 | \$1,700          | \$2,584         | \$5,235           | \$10,942   |                 | \$1,700          | \$3,409         | \$7,533           | (\$3,124)         |               |                 | (\$825)       | (\$2,299)         |
| Support/Administration Funding                | <b>\$2,489</b>                  |                 | <b>\$1,178</b>   | <b>\$411</b>    | <b>\$900</b>      | <b>\$2,489</b>   |                 | <b>\$1,178</b>   | <b>\$411</b>    | <b>\$900</b>      |                   |               |                 |               |                   |

Table 1c: Expenditure Comparison: 2013-14 May Revision to FY 2012-13 in 2013-14 May Revision (000's)

|   | 2013-14 May Revision |                 |                 |              |                   | 2012-13 in 2013-14 May Revision |                 |                  |                 |                   | Difference        |                 |                   |                   |                   |
|---|----------------------|-----------------|-----------------|--------------|-------------------|---------------------------------|-----------------|------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|-------------------|
|   | Total                | Reimbursement   | Federal         | State        | ADAP Special Fund | Total                           | Reimbursement   | Federal          | State           | ADAP Special Fund | Total             | Reimbursement   | Federal           | State             | ADAP Special Fund |
| <b>Local Assistance Funding</b>               | <b>\$389,289</b>     | <b>\$66,339</b> | <b>\$79,141</b> |              | <b>\$243,809</b>  | <b>\$456,096</b>                | <b>\$17,150</b> | <b>\$140,876</b> | <b>\$16,875</b> | <b>\$281,195</b>  | <b>(\$66,807)</b> | <b>\$49,189</b> | <b>(\$61,735)</b> | <b>(\$16,875)</b> | <b>(\$37,386)</b> |
| ADAP Expenditure Estimate                     | \$372,146            | \$62,302        | \$79,141        |              | \$230,703         | \$444,158                       | \$17,150        | \$140,876        | \$14,071        | \$272,060         | (\$72,011)        | \$45,152        | (\$61,735)        | (\$14,071)        | (\$41,357)        |
| Prescription Costs                            | \$366,341            | \$58,969        | \$78,508        |              | \$228,863         | \$437,236                       | \$16,990        | \$139,473        | \$11,367        | \$269,406         | (\$70,895)        | \$41,979        | (\$60,964)        | (\$11,367)        | (\$40,543)        |
| Basic Prescription Costs                      | \$563,626            | \$58,969        | \$78,508        |              | \$426,148         | \$505,742                       | \$16,990        | \$139,473        | \$11,367        | \$337,912         | \$57,884          | \$41,979        | (\$60,964)        | (\$11,367)        | \$88,236          |
| 2014 Medi-Cal Expansion Expenditure Impact    | (\$89,924)           |                 |                 |              | (\$89,924)        |                                 |                 |                  |                 |                   | (\$89,924)        |                 |                   |                   | (\$89,924)        |
| Covered California Expenditure Impact         | (\$4,595)            |                 |                 |              | (\$4,595)         |                                 |                 |                  |                 |                   | (\$4,595)         |                 |                   |                   | (\$4,595)         |
| Legacy LIHP Expenditure Impact                | (\$86,071)           |                 |                 |              | (\$86,071)        | (\$47,951)                      |                 |                  |                 | (\$47,951)        | (\$38,120)        |                 |                   |                   | (\$38,120)        |
| Non-Legacy LIHP Expenditure Impact            | (\$14,185)           |                 |                 |              | (\$14,185)        | (\$15,386)                      |                 |                  |                 | (\$15,386)        | \$1,201           |                 |                   |                   | \$1,201           |
| OA-PCIP Expenditure Impact                    | (\$2,510)            |                 |                 |              | (\$2,510)         | (\$5,169)                       |                 |                  |                 | (\$5,169)         | \$2,659           |                 |                   |                   | \$2,659           |
| OA-HIPP Expenditure Impact                    |                      |                 |                 |              |                   |                                 |                 |                  |                 |                   |                   |                 |                   |                   |                   |
| <b>PBM Operational Costs</b>                  | <b>\$5,805</b>       | <b>\$3,332</b>  | <b>\$633</b>    |              | <b>\$1,840</b>    | <b>\$6,922</b>                  | <b>\$160</b>    | <b>\$1,404</b>   | <b>\$2,705</b>  | <b>\$2,654</b>    | <b>(\$1,116)</b>  | <b>\$3,173</b>  | <b>(\$771)</b>    | <b>(\$2,705)</b>  | <b>(\$814)</b>    |
| Basic PBM Costs                               | \$7,979              | \$3,332         | \$633           |              | \$4,013           | \$7,239                         | \$160           | \$1,404          | \$2,705         | \$2,971           | \$740             | \$3,173         | (\$771)           | (\$2,705)         | \$1,043           |
| 2014 Medi-Cal Expansion Expenditure Impact    | (\$1,425)            |                 |                 |              | (\$1,425)         |                                 |                 |                  |                 |                   | (\$1,425)         |                 |                   |                   | (\$1,425)         |
| Covered California Expenditure Impact         | (\$73)               |                 |                 |              | (\$73)            |                                 |                 |                  |                 |                   | (\$73)            |                 |                   |                   | (\$73)            |
| Additional PBM Costs                          | \$538                |                 |                 |              | \$538             | \$759                           |                 |                  |                 | \$759             | (\$221)           |                 |                   |                   | (\$221)           |
| Legacy LIHP PBM Costs                         | (\$986)              |                 |                 |              | (\$986)           | (\$760)                         |                 |                  |                 | (\$760)           | (\$227)           |                 |                   |                   | (\$227)           |
| Non-Legacy LIHP PBM Costs                     | (\$187)              |                 |                 |              | (\$187)           | (\$244)                         |                 |                  |                 | (\$244)           | \$57              |                 |                   |                   | \$57              |
| OA-PCIP PBM Impact                            | (\$40)               |                 |                 |              | (\$40)            | (\$72)                          |                 |                  |                 | (\$72)            | \$33              |                 |                   |                   | \$33              |
| OA-HIPP PBM Impact                            |                      |                 |                 |              |                   |                                 |                 |                  |                 |                   |                   |                 |                   |                   |                   |
| LHJ Administration                            | \$2,000              |                 |                 |              | \$2,000           | \$2,000                         |                 |                  |                 | \$2,000           |                   |                 |                   |                   |                   |
| Insurance Assistance Program: Medicare Part D | \$1,000              |                 |                 |              | \$1,000           | \$1,000                         |                 |                  |                 | \$1,000           |                   |                 |                   |                   |                   |
| Insurance Assistance Program: OA-PCIP         | \$649                | \$127           |                 |              | \$522             | \$1,120                         |                 |                  | \$220           | \$900             | (\$471)           | \$127           |                   | (\$220)           | (\$379)           |
| Insurance Assistance Program: OA-HIPP         | \$13,494             | \$3,910         | \$1,494         |              | \$9,584           | \$7,819                         |                 | \$1,700          | \$2,584         | \$5,235           | \$5,675           | \$3,910         | (\$206)           | (\$2,584)         | \$4,349           |
| Support/Administration Funding                | <b>\$2,444</b>       |                 | <b>\$1,116</b>  | <b>\$411</b> | <b>\$917</b>      | <b>\$2,489</b>                  |                 | <b>\$1,178</b>   | <b>\$411</b>    | <b>\$900</b>      | <b>(\$44)</b>     |                 | <b>(\$61)</b>     |                   | <b>\$17</b>       |

Table 1d: Expenditure Comparison: 2013-14 May Revision to 2013-14 Governor's Budget (November Estimate) (000's)

|   | 2013-14 May Revision |                 |                 |              |                   | 2013-14 Governor's Budget |                 |                  |              |                   | Difference        |                |                   |       |                   |
|---|----------------------|-----------------|-----------------|--------------|-------------------|---------------------------|-----------------|------------------|--------------|-------------------|-------------------|----------------|-------------------|-------|-------------------|
|   | Total                | Reimbursement   | Federal         | State        | ADAP Special Fund | Total                     | Reimbursement   | Federal          | State        | ADAP Special Fund | Total             | Reimbursement  | Federal           | State | ADAP Special Fund |
| <b>Local Assistance Funding</b>               | <b>\$389,289</b>     | <b>\$66,339</b> | <b>\$79,141</b> |              | <b>\$243,809</b>  | <b>\$435,676</b>          | <b>\$66,339</b> | <b>\$105,179</b> |              | <b>\$264,158</b>  | <b>(\$46,387)</b> |                | <b>(\$26,038)</b> |       | <b>(\$20,349)</b> |
| ADAP Expenditure Estimate                     | \$372,146            | \$62,302        | \$79,141        |              | \$230,703         | \$414,887                 | \$61,161        | \$105,179        |              | \$248,547         | (\$42,741)        | \$1,141        | (\$26,038)        |       | (\$17,844)        |
| Prescription Costs                            | \$366,341            | \$58,969        | \$78,508        |              | \$228,863         | \$408,415                 | \$57,701        | \$104,323        |              | \$246,391         | (\$42,074)        | \$1,268        | (\$25,815)        |       | (\$17,528)        |
| Basic Prescription Costs                      | \$563,626            | \$58,969        | \$78,508        |              | \$426,148         | \$580,798                 | \$57,701        | \$104,323        |              | \$418,774         | (\$17,172)        | \$1,268        | (\$25,815)        |       | \$7,374           |
| 2014 Medi-Cal Expansion Expenditure Impact    | (\$89,924)           |                 |                 |              | (\$89,924)        |                           |                 |                  |              |                   | (\$89,924)        |                |                   |       | (\$89,924)        |
| Covered California Expenditure Impact         | (\$4,595)            |                 |                 |              | (\$4,595)         |                           |                 |                  |              |                   | (\$4,595)         |                |                   |       | (\$4,595)         |
| Legacy LIHP Expenditure Impact                | (\$86,071)           |                 |                 |              | (\$86,071)        | (\$145,160)               |                 |                  |              | (\$145,160)       | \$59,090          |                |                   |       | \$59,090          |
| Non-Legacy LIHP Expenditure Impact            | (\$14,185)           |                 |                 |              | (\$14,185)        | (\$25,097)                |                 |                  |              | (\$25,097)        | \$10,912          |                |                   |       | \$10,912          |
| OA-PCIP Expenditure Impact                    | (\$2,510)            |                 |                 |              | (\$2,510)         | (\$2,126)                 |                 |                  |              | (\$2,126)         | (\$384)           |                |                   |       | (\$384)           |
| OA-HIPP Expenditure Impact                    |                      |                 |                 |              |                   |                           |                 |                  |              |                   |                   |                |                   |       |                   |
| <b>PBM Operational Costs</b>                  | <b>\$5,805</b>       | <b>\$3,332</b>  | <b>\$633</b>    |              | <b>\$1,840</b>    | <b>\$6,472</b>            | <b>\$3,460</b>  | <b>\$856</b>     |              | <b>\$2,156</b>    | <b>(\$667)</b>    | <b>(\$127)</b> | <b>(\$223)</b>    |       | <b>(\$316)</b>    |
| Basic PBM Costs                               | \$7,979              | \$3,332         | \$633           |              | \$4,013           | \$8,284                   | \$3,460         | \$856            |              | \$3,968           | (\$305)           | (\$127)        | (\$223)           |       | \$45              |
| 2014 Medi-Cal Expansion Expenditure Impact    | (\$1,425)            |                 |                 |              | (\$1,425)         |                           |                 |                  |              |                   | (\$1,425)         |                |                   |       | (\$1,425)         |
| Covered California Expenditure Impact         | (\$73)               |                 |                 |              | (\$73)            |                           |                 |                  |              |                   | (\$73)            |                |                   |       | (\$73)            |
| Additional PBM Costs                          | \$538                |                 |                 |              | \$538             | \$671                     |                 |                  |              | \$671             | (\$134)           |                |                   |       | (\$134)           |
| Legacy LIHP PBM Costs                         | (\$986)              |                 |                 |              | (\$986)           | (\$2,057)                 |                 |                  |              | (\$2,057)         | \$1,071           |                |                   |       | \$1,071           |
| Non-Legacy LIHP PBM Costs                     | (\$187)              |                 |                 |              | (\$187)           | (\$392)                   |                 |                  |              | (\$392)           | \$205             |                |                   |       | \$205             |
| OA-PCIP PBM Impact                            | (\$40)               |                 |                 |              | (\$40)            | (\$34)                    |                 |                  |              | (\$34)            | (\$6)             |                |                   |       | (\$6)             |
| OA-HIPP PBM Impact                            |                      |                 |                 |              |                   |                           |                 |                  |              |                   |                   |                |                   |       |                   |
| LHJ Administration                            | \$2,000              |                 |                 |              | \$2,000           | \$2,000                   |                 |                  |              | \$2,000           |                   |                |                   |       |                   |
| Insurance Assistance Program: Medicare Part D | \$1,000              |                 |                 |              | \$1,000           | \$1,000                   |                 |                  |              | \$1,000           |                   |                |                   |       |                   |
| Insurance Assistance Program: OA-PCIP         | \$649                | \$127           |                 |              | \$522             | \$719                     | \$123           |                  |              | \$596             | (\$70)            | \$4            |                   |       | (\$74)            |
| Insurance Assistance Program: OA-HIPP         | \$13,494             | \$3,910         | \$1,494         |              | \$9,584           | \$17,070                  | \$5,055         | \$1,700          |              | \$12,014          | (\$3,576)         | (\$1,145)      | (\$206)           |       | (\$2,431)         |
| Support/Administration Funding                | <b>\$2,444</b>       |                 | <b>\$1,116</b>  | <b>\$411</b> | <b>\$917</b>      | <b>\$2,506</b>            |                 | <b>\$1,178</b>   | <b>\$411</b> | <b>\$917</b>      | <b>(\$61)</b>     |                | <b>(\$61)</b>     |       |                   |

TABLE 2a: Resource Comparison: FY 2012-13 in 2013-14 May Revision to 2012-13 Budget Act (000's)

|  | 2012-13 in 2013-14 May Revision |               |           |          |                   | 2012-13 Budget Act |               |           |          |                   | Difference |               |          |       |                   |
|--|---------------------------------|---------------|-----------|----------|-------------------|--------------------|---------------|-----------|----------|-------------------|------------|---------------|----------|-------|-------------------|
|  | Total                           | Reimbursement | Federal   | State    | ADAP Special Fund | Total              | Reimbursement | Federal   | State    | ADAP Special Fund | Total      | Reimbursement | Federal  | State | ADAP Special Fund |
| Available Resources                              | \$465,477                       | \$17,150      | \$142,054 | \$17,286 | \$288,987         | \$433,862          | \$17,150      | \$114,783 | \$17,286 | \$284,643         | \$31,615   |               | \$27,271 |       | \$4,344           |
| Basic Rebate Revenues                            | \$288,867                       |               |           |          | \$288,867         | \$267,203          |               |           |          | \$267,203         | \$21,664   |               |          |       | \$21,664          |
| Income from Surplus Money Investments            | \$120                           |               |           |          | \$120             | \$120              |               |           |          | \$120             |            |               |          |       |                   |
| Federal Funds                                    | \$121,357                       |               | \$121,357 |          |                   | \$106,357          |               | \$106,357 |          |                   | \$15,000   |               | \$15,000 |       |                   |
| General Funds                                    | \$17,286                        |               |           | \$17,286 |                   | \$17,286           |               |           | \$17,286 |                   |            |               |          |       |                   |
| Legacy LHHP Revenue Impact                       |                                 |               |           |          |                   | (\$9,199)          |               |           |          | (\$9,199)         | \$9,199    |               |          |       | \$9,199           |
| Non-Legacy LHP Revenue Impact                    |                                 |               |           |          |                   | (\$4,082)          |               |           |          | (\$4,082)         | \$4,082    |               |          |       | \$4,082           |
| OA-PCIP Revenue impact                           |                                 |               |           |          |                   | (\$1,202)          |               |           |          | (\$1,202)         | \$1,202    |               |          |       | \$1,202           |
| OA-HIPP Revenue impact                           |                                 |               |           |          |                   | (\$261)            |               |           |          | (\$261)           | \$261      |               |          |       | \$261             |
| Renegotiated Sup. Rebate/Price Freeze Agreements |                                 |               |           |          |                   | \$32,064           |               |           |          | \$32,064          | (\$32,064) |               |          |       | (\$32,064)        |
| One-Time Increase in Federal Funds               | \$20,697                        |               | \$20,697  |          |                   | \$8,426            |               | \$8,426   |          |                   | \$12,271   |               | \$12,271 |       |                   |
| Safety Net Care Pool Funds                       | \$17,150                        | \$17,150      |           |          |                   | \$17,150           | \$17,150      |           |          |                   |            |               |          |       |                   |

TABLE 2b: Resource Comparison: FY 2012-13 in 2013-14 May Revision to FY 2012-13 in 2013-14 Governor's Budget (November Estimate) (000's)

|  | 2012-13 in 2013-14 May Revision |               |           |          |                   | 2012-13 in 2013-14 Governor's Budget (November Estimate) |               |           |          |                   | Difference |               |          |       |                   |
|--|---------------------------------|---------------|-----------|----------|-------------------|--|---------------|-----------|----------|-------------------|------------|---------------|----------|-------|-------------------|
|  | Total                           | Reimbursement | Federal   | State    | ADAP Special Fund | Total  | Reimbursement | Federal   | State    | ADAP Special Fund | Total      | Reimbursement | Federal  | State | ADAP Special Fund |
| Available Resources                              | \$465,477                       | \$17,150      | \$142,054 | \$17,286 | \$288,987         | \$469,349  | \$17,150      | \$127,054 | \$17,286 | \$307,859         | (\$3,872)  |               | \$15,000 |       | (\$18,872)        |
| Basic Rebate Revenues                            | \$288,867                       |               |           |          | \$288,867         | \$314,736  |               |           |          | \$314,736         | (\$25,870) |               |          |       | (\$25,870)        |
| Income from Surplus Money Investments            | \$120                           |               |           |          | \$120             | \$120  |               |           |          | \$120             |            |               |          |       |                   |
| Federal Funds                                    | \$121,357                       |               | \$121,357 |          |                   | \$106,357  |               | \$106,357 |          |                   | \$15,000   |               | \$15,000 |       |                   |
| General Funds                                    | \$17,286                        |               |           | \$17,286 |                   | \$17,286   |               |           | \$17,286 |                   |            |               |          |       |                   |
| Legacy LHHP Revenue Impact                       |                                 |               |           |          |                   | (\$3,899)  |               |           |          | (\$3,899)         | \$3,899    |               |          |       | \$3,899           |
| Non-Legacy LHHP Revenue Impact                   |                                 |               |           |          |                   | (\$2,233)  |               |           |          | (\$2,233)         | \$2,233    |               |          |       | \$2,233           |
| OA-PCIP Revenue impact                           |                                 |               |           |          |                   | (\$865)  |               |           |          | (\$865)           | \$865      |               |          |       | \$865             |
| OA-HIPP Revenue impact                           |                                 |               |           |          |                   |  |               |           |          |                   |            |               |          |       |                   |
| Renegotiated Sup. Rebate/Price Freeze Agreements |                                 |               |           |          |                   |  |               |           |          |                   |            |               |          |       |                   |
| One-Time Increase in Federal Funds               | \$20,697                        |               | \$20,697  |          |                   | \$20,697   |               | \$20,697  |          |                   |            |               |          |       |                   |
| Safety Net Care Pool Funds                       | \$17,150                        | \$17,150      |           |          |                   | \$17,150   | \$17,150      |           |          |                   |            |               |          |       |                   |

TABLE 2c: Resource Comparison: 2013-14 May Revision to FY 2012-13 in 2013-14 May Revision (000's)

|   | 2013-2014 May Revision |                 |                 |              |                   | 2012-13 in 2013-14 May Revision |                 |                  |                 |                   | Difference        |                 |                   |                   |                   |
|---|------------------------|-----------------|-----------------|--------------|-------------------|---------------------------------|-----------------|------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|-------------------|
|   | Total                  | Reimbursement   | Federal         | State        | ADAP Special Fund | Total                           | Reimbursement   | Federal          | State           | ADAP Special Fund | Total             | Reimbursement   | Federal           | State             | ADAP Special Fund |
| <b>Available Resources</b>                            | <b>\$419,395</b>       | <b>\$66,339</b> | <b>\$80,258</b> | <b>\$411</b> | <b>\$272,387</b>  | <b>\$465,477</b>                | <b>\$17,150</b> | <b>\$142,054</b> | <b>\$17,286</b> | <b>\$288,987</b>  | <b>(\$46,082)</b> | <b>\$49,189</b> | <b>(\$61,796)</b> | <b>(\$16,875)</b> | <b>(\$16,600)</b> |
| Basic Rebate Revenues                                 | \$325,376              |                 |                 |              | \$325,376         | \$288,867                       |                 |                  |                 | \$288,867         | \$36,509          |                 |                   |                   | \$36,509          |
| Income from Surplus Money Investments                 | \$120                  |                 |                 |              | \$120             | \$120                           |                 |                  |                 | \$120             |                   |                 |                   |                   |                   |
| Federal Funds   | \$91,296               |                 | \$91,296        |              |                   | \$121,357                       |                 | \$121,357        |                 |                   | (\$30,061)        |                 | (\$30,061)        |                   |                   |
| Federal Funding Issue: 2013 Federal Grant Adjustments | (\$13,775)             |                 | (\$13,775)      |              |                   |                                 |                 |                  |                 |                   | (\$13,775)        |                 | (\$13,775)        |                   |                   |
| 2013 Ryan White ADAP Supplemental                     |                        |                 | \$2,737         |              |                   |                                 |                 |                  |                 |                   |                   |                 | \$2,737           |                   |                   |
| General Funds   | \$411                  |                 |                 | \$411        |                   | \$17,286                        |                 |                  | \$17,286        |                   | (\$16,875)        |                 |                   | (\$16,875)        |                   |
| Legacy LHPP Revenue Impact                            | (\$43,659)             |                 |                 |              | (\$43,659)        |                                 |                 |                  |                 |                   | (\$43,659)        |                 |                   |                   | (\$43,659)        |
| Non-Legacy LHPP Revenue Impact                        | (\$9,018)              |                 |                 |              | (\$9,018)         |                                 |                 |                  |                 |                   | (\$9,018)         |                 |                   |                   | (\$9,018)         |
| OA-PCIP Revenue impact                                | (\$432)                |                 |                 |              | (\$432)           |                                 |                 |                  |                 |                   | (\$432)           |                 |                   |                   | (\$432)           |
| OA-HIPP Revenue impact                                |                        |                 |                 |              |                   |                                 |                 |                  |                 |                   |                   |                 |                   |                   |                   |
| One-Time Increase in Federal Funds                    |                        |                 |                 |              |                   | \$20,697                        |                 | \$20,697         |                 |                   | (\$20,697)        |                 | (\$20,697)        |                   |                   |
| Safety Net Care Pool Funds                            | \$66,339               | \$66,339        |                 |              |                   | \$17,150                        | \$17,150        |                  |                 |                   | \$49,189          | \$49,189        |                   |                   |                   |

TABLE 2d: Resource Comparison: 2013-14 May Revision to 2013-14 Governor's Budget (November Estimate) (000's)

|   | 2013-14 May Revision |                 |                 |              |                   | 2013-14 Governor's Budget |                 |                  |              |                   | Difference        |               |                   |       |                   |
|---|----------------------|-----------------|-----------------|--------------|-------------------|---------------------------|-----------------|------------------|--------------|-------------------|-------------------|---------------|-------------------|-------|-------------------|
|   | Total                | Reimbursement   | Federal         | State        | ADAP Special Fund | Total                     | Reimbursement   | Federal          | State        | ADAP Special Fund | Total             | Reimbursement | Federal           | State | ADAP Special Fund |
| <b>Available Resources</b>                            | <b>\$419,395</b>     | <b>\$66,339</b> | <b>\$80,258</b> | <b>\$411</b> | <b>\$272,387</b>  | <b>\$458,231</b>          | <b>\$66,339</b> | <b>\$106,357</b> | <b>\$411</b> | <b>\$285,124</b>  | <b>(\$38,836)</b> |               | <b>(\$26,099)</b> |       | <b>(\$12,737)</b> |
| Basic Rebate Revenues                                 | \$325,376            |                 |                 |              | \$325,376         | \$336,350                 |                 |                  |              | \$336,350         | (\$10,975)        |               |                   |       | (\$10,975)        |
| Income from Surplus Money Investments                 | \$120                |                 |                 |              | \$120             | \$120                     |                 |                  |              | \$120             |                   |               |                   |       |                   |
| Federal Funds   | \$91,296             |                 | \$91,296        |              |                   | \$106,357                 |                 | \$106,357        |              |                   | (\$15,061)        |               | (\$15,061)        |       |                   |
| Federal Funding Issue: 2013 Federal Grant Adjustments | (\$13,775)           |                 | (\$13,775)      |              |                   |                           |                 |                  |              |                   | (\$13,775)        |               | (\$13,775)        |       |                   |
| 2013 Ryan White ADAP Supplemental                     |                      |                 | \$2,737         |              |                   |                           |                 |                  |              |                   |                   |               | \$2,737           |       |                   |
| General Funds   | \$411                |                 |                 | \$411        |                   | \$411                     |                 |                  | \$411        |                   |                   |               |                   |       |                   |
| Legacy LHPP Revenue Impact                            | (\$43,659)           |                 |                 |              | (\$43,659)        | (\$42,075)                |                 |                  |              | (\$42,075)        | (\$1,584)         |               |                   |       | (\$1,584)         |
| Non-Legacy LHPP Revenue Impact                        | (\$9,018)            |                 |                 |              | (\$9,018)         | (\$8,905)                 |                 |                  |              | (\$8,905)         | (\$113)           |               |                   |       | (\$113)           |
| OA-PCIP Revenue impact                                | (\$432)              |                 |                 |              | (\$432)           | (\$366)                   |                 |                  |              | (\$366)           | (\$66)            |               |                   |       | (\$66)            |
| OA-HIPP Revenue impact                                |                      |                 |                 |              |                   |                           |                 |                  |              |                   |                   |               |                   |       |                   |
| One-Time Increase in Federal Funds                    |                      |                 |                 |              |                   |                           |                 |                  |              |                   |                   |               |                   |       |                   |
| Safety Net Care Pool Funds                            | \$66,339             | \$66,339        |                 |              |                   | \$66,339                  | \$66,339        |                  |              |                   |                   |               |                   |       |                   |

## 2. MAJOR ASSUMPTIONS

### Estimate Methodology

Unadjusted expenditure estimates for the *2013-14 May Revision* were derived from a linear regression model similar to that used in the *2013-14 Governor's Budget*. The 36-month data set for the *2013-14 May Revision* used actual expenditures from April 2010 through February 2013 and estimated March 2013 data. The estimates were adjusted based on the assumptions listed below.

For purposes of the *2013-14 May Revision*, expenditure and revenue adjustments were made to FCS on page 32 to reflect the estimated impact of three New, three Revised, five Continuing, and two Unchanged Assumptions, including:

#### New Major Assumptions (NMA)

1. 2014 Medi-Cal Expansion.
2. Covered California: Impact of the Patient Protection and Affordable Care Act (PPACA) Insurance Mandate on ADAP and Insurance Assistance Programs.
3. Federal Funding Issue: 2013 Ryan White Grant Adjustments.

#### Revised Major Assumptions (RMA)

1. Impact of the Ten "Legacy" LIHP Counties on ADAP.
2. Impact of the "Non-Legacy" LIHP Counties on ADAP.
3. OA-PCIP Implementation.

#### Continuing Assumption (CA)\*

1. Additional PBM Costs.
2. Using Non-Ryan White Funds to Pay OA-HIPP Premiums for LIHP-eligible OA-HIPP Clients.
3. Increase Rebate Percentage.
4. Change in Methodology: Adjust Linear Regression Expenditure Methodology.
5. OA-HIPP/Medi-Cal Fund Source Issue: Using Non-Ryan White Funds to Pay OA-HIPP Premiums and ADAP Drug Deductibles and Co-Pays for Clients Co-Enrolled in Medi-Cal with a Share of Cost (SOC).

\*Assumption unchanged but fiscal outcome impacted by the revised expenditure estimate.

The remaining assumptions from the *2013-14 Governor's Budget* were unchanged and did not have any updated fiscal impact:

#### Unchanged Assumptions without New Fiscal Impact

1. Additional 2012 Federal Grant Funds.
2. Reimbursement of Federal Funding through SNCP.

## **New Major Assumptions**

### **1. 2014 Medi-Cal Expansion**

Under PPACA, effective January 1, 2014, California will expand its Medicaid program to include individuals between the ages of 19 to 64 years, regardless of disability status, with income up to 138 percent of the Federal Poverty Level (FPL). In FY 2013-14, most ADAP clients who will be eligible for Medi-Cal (California Medicaid) Expansion will have already left ADAP and transitioned to LIHP (a Federal 1115 Waiver project, administered by DHCS). Since Medi-Cal Expansion was a Future Fiscal Issue in the *2013-14 Governor's Budget*, OA extended LIHP savings beyond its December 31, 2013 end date through June 30, 2014 to capture full-year savings for both LIHP and Medi-Cal Expansion in the two LIHP assumptions ("Legacy" and "Non-Legacy" LIHP). For the *2013-14 May Revision*, OA separated the savings attributed to each program into separate assumptions based on the December 31, 2013 end date for LIHP and the January 1, 2014 implementation date for Medi-Cal Expansion. Thus, OA included savings for the last six months of FY 2013-14 associated with LIHP clients who will move into Medi-Cal Expansion on January 1, 2014 in this Medi-Cal Expansion estimate. Savings were also estimated for transitioning eligible ADAP-only and OA-PCIP clients into Medi-Cal Expansion.

The final savings for this assumption totaled **\$91,349,440** for 9,853 clients in FY 2013-14, consisting of three groups of clients: 1) ADAP to LIHP to Medi-Cal Expansion = \$84.32 million for 9,140 clients; 2) ADAP directly to Medi-Cal Expansion = \$6.00 million for 612 clients; and 3) OA-PCIP to Medi-Cal Expansion = \$1.03 million for 101 clients.

### **Estimate Methodology**

To estimate ADAP savings due to Medi-Cal Expansion for the last six months of FY 2013-14, OA identified eligible ADAP-only and OA-PCIP clients with incomes up to 138 percent FPL. For those clients who transitioned to LIHP (RMAs 1 and 2) prior to January 1, 2014 and will transition from LIHP to Medi-Cal Expansion on January 1, 2014, the first six months of their FY 2013-14 savings were included in the LIHP assumptions, and the last six months of their FY 2013-14 savings were captured in this Medi-Cal Expansion assumption in order to both avoid double counting and to correctly attribute savings to the appropriate program. Additional clients included in this assumption were those who did not transition to LIHP prior to January 2014 because: 1) their income exceeded the limits of their county-specific LIHP Medi-Cal Expansion FPL threshold; 2) they resided in counties that did not participate in LIHP (Fresno, Merced, and San Luis Obispo) or are pending LIHP implementation (as of March 15, 2013, Santa Barbara and Stanislaus); 3) they resided in counties that did participate in LIHP but will not have transitioned to LIHP by January 1, 2014; or 4) they are LIHP-eligible OA-PCIP clients who have been allowed to remain in ADAP because LIHP does not cover their PCIP medication co-payments. For these

Medi-Cal Expansion-eligible clients, OA estimated drug expenditure savings, loss of rebate revenue, and loss of clients.

Savings attributed to Medi-Cal Expansion in FY 2013-14 for eligible OA-PCIP and ADAP-only clients, both those who initially transitioned to LIHP and those who moved directly from ADAP to Medi-Cal Expansion starting January 1, 2014, were estimated as follows:

- a. Using FY 2011-12 data, computed total expenditures based on Medi-Cal Expansion's upper limit of 138 percent FPL for documented, ADAP-only clients and clients who had already transitioned to LIHP by county (see **Table 3**).

| TABLE 3: AVERTED ADAP-ONLY DRUG EXPENDITURES FOR MEDI-CAL EXPANSION, FY 2011-12                       |           |                      |                |                      |                   |                      |                |
|---|-----------|----------------------|----------------|----------------------|-------------------|----------------------|----------------|
| COUNTY  | LIHP MCE  | LIHP EXPEND\$        | LIHP CLIENTS   | ADAP-ONLY EXPEND\$   | ADAP-ONLY CLIENTS | TOTAL EXPEND\$       | TOTAL CLIENTS  |
| Alameda   | 133%      | \$7,030,833          | 500            | \$0                  | 0                 | \$7,030,833          | 500            |
| CMSP (35)   | 100%      | \$4,973,409          | 315            | \$883,229            | 48                | \$5,856,638          | 363            |
| Contra Costa  | 133%      | \$1,118,151          | 94             | \$0                  | 0                 | \$1,118,151          | 94             |
| Kern  | 133%      | \$1,359,912          | 101            | \$36,484             | 2                 | \$1,396,395          | 103            |
| Los Angeles   | 133%      | \$86,754,366         | 5,390          | \$1,598,417          | 85                | \$88,352,783         | 5,475          |
| Monterey  | 100%      | \$503,853            | 31             | \$233,013            | 11                | \$736,865            | 42             |
| Orange  | 133%      | \$9,357,352          | 540            | \$0                  | 0                 | \$9,357,352          | 540            |
| Placer  | 100%      | \$158,268            | 10             | \$141,367            | 6                 | \$299,635            | 16             |
| Riverside   | 133%      | \$7,257,612          | 435            | \$91,244             | 7                 | \$7,348,856          | 442            |
| Sacramento  | 67%       | \$4,519,413          | 360            | \$1,419,560          | 94                | \$5,938,973          | 454            |
| San Bernardino  | 100%      | \$4,271,916          | 278            | \$939,266            | 50                | \$5,211,182          | 328            |
| San Diego   | 133%      | \$18,370,340         | 1,168          | \$434,088            | 16                | \$18,804,428         | 1,184          |
| San Francisco   | 25%       | \$3,281,403          | 276            | \$10,162,700         | 598               | \$13,444,102         | 874            |
| San Joaquin   | 80%       | \$1,246,995          | 94             | \$262,658            | 16                | \$1,509,653          | 110            |
| San Mateo   | 133%      | \$1,097,800          | 75             | \$12,356             | 1                 | \$1,110,155          | 76             |
| Santa Clara   | 133%      | \$3,936,424          | 278            | \$140,604            | 8                 | \$4,077,028          | 286            |
| Santa Cruz  | 100%      | \$329,621            | 24             | \$54,059             | 2                 | \$383,679            | 26             |
| Tulare  | 75%       | \$382,121            | 28             | \$79,232             | 4                 | \$461,353            | 32             |
| Ventura   | 133%      | \$766,223            | 54             | \$0                  | 0                 | \$766,223            | 54             |
| Fresno  | Withdrawn | \$0                  | 0              | \$3,091,053          | 235               | \$3,091,053          | 235            |
| Merced  | Withdrawn | \$0                  | 0              | \$274,667            | 20                | \$274,667            | 20             |
| San Luis Obispo   | Withdrawn | \$0                  | 0              | \$500,493            | 25                | \$500,493            | 25             |
| Santa Barbara   | 100%      | \$474,042            | 35             | \$89,716             | 6                 | \$563,758            | 41             |
| Stanislaus  | 50%       | \$892,126            | 48             | \$319,372            | 18                | \$1,211,498          | 66             |
| <b>TOTAL</b>  |           | <b>\$158,082,178</b> | <b>10,134</b>  | <b>\$20,763,577</b>  | <b>1,252</b>      | <b>\$178,845,755</b> | <b>11,386</b>  |
| Highlighted counties had LIHP HCCI programs with 200% FPL and 133-138% FPL are counted in LIHP above. |           |                      |                |                      |                   |                      |                |
| <b>% TOTAL, JAN-JUN 2012</b>  |           | <b>52.00%</b>        | <b>100.00%</b> | <b>52.00%</b>        | <b>100.00%</b>    | <b>52.00%</b>        | <b>100.00%</b> |
| <b>EST TOTAL, JAN-JUN 2012</b>  |           | <b>\$82,202,733</b>  | <b>10,134</b>  | <b>\$10,797,060</b>  | <b>1,252</b>      | <b>\$92,999,793</b>  | <b>11,386</b>  |
| <b>TOTAL, FY 2011-12</b>  |           | <b>\$473,684,504</b> | <b>40,506</b>  | <b>\$473,684,504</b> | <b>40,506</b>     | <b>\$473,684,504</b> | <b>40,506</b>  |
| <b>% SAVINGS, FY 2011-12</b>  |           | <b>17.35%</b>        | <b>25.02%</b>  | <b>2.28%</b>         | <b>3.09%</b>      | <b>19.63%</b>        | <b>28.11%</b>  |
| <b>EST TOTAL, FY 2013-14</b>  |           | <b>\$571,604,776</b> | <b>42,980</b>  | <b>\$571,604,776</b> | <b>42,980</b>     | <b>\$571,604,776</b> | <b>42,980</b>  |
| <b>EST SAVINGS, FY 2013-14</b>  |           | <b>\$99,195,718</b>  | <b>10,753</b>  | <b>\$13,029,033</b>  | <b>1,328</b>      | <b>\$112,224,751</b> | <b>12,081</b>  |

- b. Summed up total expenditures from Table 3 above (\$178.85 million) and multiplied by 52 percent, the percentage of expenditures from January through June in FY 2011-12 (\$178.85 million X 52 percent = \$93.0 million). Also summed up the total clients who would transition to Medi-Cal Expansion directly or indirectly via LIHP (11,386).

- c. Computed the percentage of Medi-Cal Expansion savings and clients in FY 2011-12 as if Medi-Cal Expansion had started in that FY (for expenditure savings,  $\$93.0 \text{ million} / \$473.68 \text{ million} = 19.63 \text{ percent}$ ; and for clients,  $11,386 / 40,506 = 28.11 \text{ percent}$ ).
- d. Applied the percentage of savings and clients in FY 2011-12 to the corresponding linear regression estimates for FY 2013-14 (for unadjusted expenditure savings,  $19.63 \text{ percent of } \$571.60 \text{ million} = \$112.22 \text{ million}$ ; and for clients,  $28.11 \text{ percent of } 42,980 = 12,081$ ) to estimate savings attributed to eligible clients transitioning to Medi-Cal Expansion.
- e. For savings attributed to OA-PCIP clients who will be eligible for Medi-Cal Expansion in 2014, we extended the methodology described in **RMA 3** on page 28 to arrive at an estimate of 119 documented clients with an FPL up to 138 percent (39.04 percent of 306 total OA-PCIP clients) who would have been enrolled in OA-PCIP in January through June 2014 if OA-PCIP were to still exist. The estimated savings for six months of averted drug expenditures for these clients were \$1.22 million. To arrive at this number, OA divided the average annual cost for a documented, ADAP-only client with six or more months in ADAP by two and then multiplied this by the number of OA-PCIP clients potentially eligible for Medi-Cal Expansion ( $\$20,371 \text{ per year} / 2 = \$10,186 \text{ for six months} \times 119 = \$1.22 \text{ million}$ ).
- f. ADAP clients who previously transitioned to LIHP (10,753) and current OA-PCIP clients eligible for Medi-Cal Expansion (119) were assumed to transition to Medi-Cal Expansion on January 1, 2014 with no delays. For ADAP-only clients potentially eligible for Medi-Cal Expansion who exceed the LIHP upper limits of their residing counties or from counties that did not implement LIHP ( $\$13.03 \text{ million in savings for } 1,328 \text{ clients out of the totals in Step d}$ ), reductions were calculated to accommodate a ramp-up period. We assumed that 4/12 would enroll in Medi-Cal Expansion in January (based on the expectation that the Covered California Insurance Marketplace will also accept Medi-Cal Expansion applications beginning October 2013), followed by 1/12 per month from February through the end of June. This resulted in a 45.83 percent reduction of the initial savings and number of clients (see **Table 4**, page 13 for methodology to calculate the reduction percentage). Based on the 45.83 reduction expenditures for this group of clients were reduced by \$5.97 million ( $\$13.03 \text{ million} \times 45.83 \text{ percent}$ ) and for clients reduced by 609 ( $1,328 \times 45.83 \text{ percent}$ ). This reduction was applied to the unadjusted ADAP-only estimates in the ADAP-only columns in Table 3 (previous page) (for adjusted total expenditures,  $\$112.22 \text{ million} - \$5.97 \text{ million} = \$106.25 \text{ million}$ ; and for adjusted total clients,  $12,081 - 609 = 11,473$ ).

| <b>TABLE 4: MEDI-CAL EXPANSION ENROLLMENT FOR NON-LIHP, ADAP-ONLY CLIENTS (RAMP-UP)</b> |                   |                           |                    |
|---|-------------------|---------------------------|--------------------|
| <b>MONTH</b>  | <b>MULTIPLIER</b> | <b>PERCENT MULTIPLIER</b> | <b>SAVINGS</b>     |
| JAN   | 4 / 12            | 33.33%                    | \$723,835          |
| FEB   | 5 / 12            | 41.67%                    | \$904,794          |
| MAR   | 6 / 12            | 50.00%                    | \$1,085,753        |
| APR   | 7 / 12            | 58.33%                    | \$1,266,712        |
| MAY   | 8 / 12            | 66.67%                    | \$1,447,670        |
| JUN   | 9 / 12            | 75.00%                    | \$1,628,629        |
| <b>TOTAL</b>  |                   |                           | <b>\$7,057,393</b> |
| <b>% SAVINGS</b>  |                   |                           | <b>54.17%</b>      |
| <b>% SAVINGS REDUCTION</b>  |                   |                           | <b>45.83%</b>      |
| Savings = Percent Multiplier X (\$13,029,033 / 6).                                      |                   |                           |                    |
| % Savings = Total Savings / \$13,029,033.   |                   |                           |                    |
| % Savings Reduction = 100% – % Savings.   |                   |                           |                    |
| <b>Reduction = \$13,029,033 – \$7,057,393 = \$5,971,640.</b>                            |                   |                           |                    |

- g. Final Medi-Cal Expansion savings and clients were computed by summing up the LIHP and adjusted ADAP-only savings with OA-PCIP savings (for final savings, \$106.25 million + \$1.22 million = \$107.47 million; and for clients, 11,473 + 119 = 11,592).

| <b>TABLE 5: SUMMARY OF MEDI-CAL EXPANSION SAVINGS</b> |                            |                      |
|---|----------------------------|----------------------|
| <b>LINE ITEM ESTIMATE</b>                             | <b>TOTAL EXPENDITURE\$</b> | <b>TOTAL CLIENTS</b> |
| <b>Unadjusted Total ADAP Savings, Jan-Jun 2012</b>    | <b>\$92,999,793</b>        | <b>11,386</b>        |
| <b>Total Expenditures, FY 2011-12</b>                 | <b>\$473,684,504</b>       | <b>40,506</b>        |
| <b>Percent Savings, FY 2011-12</b>                    | <b>19.63%</b>              | <b>28.11%</b>        |
| <b>Estimated Total Expenditures, FY 2013-14</b>       | <b>\$571,604,776</b>       | <b>42,980</b>        |
| <b>Unadjusted Total ADAP Savings, FY 2013-14</b>      | <b>\$112,224,751</b>       | <b>12,081</b>        |
| <b>ADAP-Only Ramp-Up Reduction, FY 2013-14</b>        | <b>-\$5,971,640</b>        | <b>-609</b>          |
| <b>Adjusted Total ADAP Savings, FY 2013-14</b>        | <b>\$106,253,111</b>       | <b>11,473</b>        |
| <b>OA-PCIP Savings, FY 2013-14</b>                    | <b>\$1,216,818</b>         | <b>119</b>           |
| <b>Final Savings, FY 2013-14</b>                      | <b>\$107,469,930</b>       | <b>11,592</b>        |
| <b>FINAL SAVINGS WITH 85% ADJ FACTOR, FY 2013-14</b>  | <b>\$91,349,440</b>        | <b>9,853</b>         |

For the final Medi-Cal Expansion savings, we applied the same 85 percent adjustment as performed on LIHP, which covers all the potential disparities in data used to determine eligibility, including income and immigration status (see **RMA 1**). With the adjustment factor, this represented a final savings of \$91,349,440 for 9,853 clients outlined in **Table 5**, page 13. Due to the six-month delay in rebate collections, the impact of rebate will be reflected in ADAP's FY 2014-15 budget estimate.

## 2. Covered California: Impact of PPACA Insurance Requirement on ADAP and OA-HIPP

Two key provisions of PPACA will have a significant impact on ADAP and OA-HIPP, including the enforcement of the health insurance requirement and the creation of the health insurance marketplace (Covered California). Beginning in January 2014, all residents legally residing in California will be:

- a. Required to enroll in a health care plan that meets basic minimum standards or provide proof they have an existing comparable health care plan. Otherwise, they will be subject to a financial penalty.
- b. Eligible for and able to purchase health insurance through Covered California, in spite of having HIV/AIDS as a pre-existing condition.

Currently, ADAP serves about 20,000 ADAP-only clients and pays the full cost of their HIV-related medications because they do not have health insurance. These clients also receive no-cost outpatient HIV-related medical care through Ryan White clinics located throughout California. ADAP expenditures would be reduced if ADAP-only clients obtained health insurance coverage through Covered California because it is cheaper to pay medication co-pays and insurance premiums than the full cost of HIV-related medications. Covered California will offer four basic levels of coverage, including: bronze, silver, gold, and platinum. The monthly premium increases from bronze to platinum, but the client's out-of-pocket cost (deductibles and co-pays) for medical care decreases. Consequently, individuals who enroll in a platinum plan will have higher monthly premiums, but lower out-of-pocket costs. Currently, Covered California has not published the monthly premium and/or out-of-pocket costs for each option, but is using the silver option in their cost-estimate calculator to estimate the cost of health care on their website.

An income-based Federal tax credit will be available to individuals earning between 138 and 400 percent FPL to offset the cost of insurance premiums. However, if ADAP-only clients enroll in a health plan through Covered California, they would be expected to pay medical deductibles and co-pays associated with their outpatient HIV care. Consequently, there would be a financial disincentive for ADAP-only clients to acquire health insurance and they may choose to pay a tax penalty rather than enroll in a plan through Covered California, if the tax penalty is less than their expected outpatient medical deductibles and co-pays. This behavior was realized after OA-PCIP was implemented in November 2011, when the vast majority of ADAP-only clients who were eligible for OA-PCIP chose not to enroll due to high outpatient medical deductibles and co-pays. These clients instead remained ADAP-only clients.

PCIP is a federally funded program that was created from PPACA. The program was designed to provide comprehensive health care coverage to all legal residents living with a pre-existing condition who had been uninsured for at least six-months, until the health insurance marketplace could be established in 2014. PCIP clients are expected to pay a monthly premium and an annual \$1,500 medical deductible. OA-PCIP was established to pay the client's monthly insurance premiums, and OA-PCIP clients co-enrolled in ADAP to receive assistance with drug co-pay and deductibles. However, OA-PCIP clients are responsible for paying medical out-of-pocket costs including the annual \$1,500 medical deductible. In the *2012-13 May Revision*, OA estimated that only 4 percent of ADAP-only clients who were potentially eligible for PCIP would enroll due to the medical out-of-pocket costs. As of March 2013, approximately 300 clients are enrolled in OA-PCIP. OA assumed that the total number of OA-PCIP enrollees would have reached 4 percent if the Federal government did not suspend new PCIP enrollment after March 2, 2013. Therefore, based on this experience, OA estimated 4 percent of eligible ADAP-only clients will enroll in Covered California in FY 2013-14. Assisting eligible clients with paying outpatient HIV-related medical out-of-pocket costs as allowed by HRSA might increase the proportion of ADAP-only clients who would enroll in Covered California, and may be considered in future years after experience has accrued with Covered California.

Because PCIP will end after December 31, 2013, current OA-PCIP clients with an income between 138 and 400 percent FPL will need to purchase insurance through Covered California. This will result in the elimination of OA-PCIP expenditures for these clients in the third and fourth quarters of FY 2013-14. However, this will yield a corresponding increase in OA-HIPP expenditures for the same time period, as these clients transition to insurance coverage through Covered California and then apply for insurance premium payment assistance through OA-HIPP.

OA plans to modify the existing contract with PBM to include the administration of OA's insurance assistance programs starting in the Fall 2013, or enter into a new contract to perform this function to ensure that OA has the infrastructure to handle the increase in demand for premium assistance through OA-HIPP as clients start applying for insurance through Covered California, and to ensure that insurance premiums are processed timely and coded correctly. This process is consistent with other states that contract out the administration of their insurance premium payment programs, including Colorado, Delaware, Hawaii, Louisiana, Massachusetts, Missouri, Tennessee, and Washington.

### **Estimate Methodology**

ADAP savings for the last six months of FY 2013-14 resulting from the transition of ADAP-only and OA-PCIP clients into coverage purchased through Covered California was estimated in a similar manner as with Medi-Cal Expansion (NMA 1). First, ADAP identified current and eligible ADAP-only and OA-PCIP documented

clients with incomes above 138 percent FPL. For those clients who transitioned to LIHP (RMAs 1 and 2) prior to January 1, 2014, the first six months of their FY 2013-14 savings were included in the LIHP and OA-PCIP assumptions, respectively, and the last six months of their FY 2013-14 savings were captured in this Covered California assumption in order to avoid double counting savings and to attribute savings to the appropriate PPACA. Remaining Covered California-eligible clients were those who did not transition to LIHP prior to January 2014 because: 1) their income exceeded the 200 percent FPL limit of their county-specific LIHP Health Care Coverage Initiative (HCCI); or 2) they resided in the majority of counties that did not participate in HCCI (only Alameda, Kern, Orange, and Ventura participated).

Covered California estimates were calculated separately for three groups of clients: 1) ADAP-only clients that transitioned to LIHP prior to January 1, 2014, and then transition to Covered California as of January 1, 2014 (Group 1, identified as LIHP clients throughout NMA 2); 2) the current ADAP-only clients that transition directly to Covered California, with this group of clients changing payer sources from ADAP-only to private insurance under a Covered California plan (Group 2, identified as ADAP-only clients); and 3) the current OA-PCIP clients that change private insurance from OA-PCIP to private insurance under a Covered California plan (Group 3, OA-PCIP clients). For the ADAP-only clients (Group 2), OA calculated the number of clients eligible for Covered California (138 to 400 percent FPL and documented). OA initially estimated 4 percent of clients would transition from being ADAP-only to ADAP-private insurance clients with insurance purchased through Covered California; this 4 percent is based on the percent of PCIP-eligible ADAP-only clients that transitioned to OA-PCIP. For clients enrolled in Covered California ADAP benefits by not paying for the full cost of medications; however, these expenditure savings will be partially offset by paying for clients' drug co-pays and deductibles, OA-HIPP paying clients' insurance premiums, and the contractor's administrative fee. OA estimates that 50 percent of the total number of expected ADAP-only clients who enroll in a Covered California plan will enroll between October 1, 2013 through January 31, 2014 and that 25 percent will enroll in February and the remaining 25 percent in March 2014.

For the ADAP clients that transitioned to LIHP and then to Covered California (Group 1, LIHP clients) and the current OA-PCIP clients, OA initially estimated that 100 percent of them would transition to Covered California on January 1, 2014. For the OA-PCIP clients, we calculated the associated expenditures for PCIP premiums, drug co-pays and deductibles in comparison to the premiums, drug co-pays and deductibles anticipated for plans purchased through Covered California.

All insurance premiums and drug co-pays and deductibles were based on costs for Silver Plans (see **Table 6**, page 17), available on Covered California's website because complete information for non-Silver Plans will not be released from Covered California until July 2013.

| <b>TABLE 6: COVERED CALIFORNIA'S 2014 SILVER PLANS (SINGLE PERSON)</b> |                         |                         |                          |                         |                               |
|--|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------------|
| <b>LINE ITEM</b>   | <b>138-150%<br/>FPL</b> | <b>150-200%<br/>FPL</b> | <b>200%-250%<br/>FPL</b> | <b>250-400%<br/>FPL</b> | <b>400% FPL-<br/>\$50,000</b> |
| Premiums   | \$19-\$57               | \$57-\$121              | \$121-\$193              | \$193-\$364             | \$193-\$364                   |
| Medical Out-of-Pocket  | None                    | None                    | \$1,500                  | \$2,000                 | \$2,000                       |
| Brand Drug Deductible  | None                    | \$50                    | \$500                    | \$500                   | \$500                         |
| Brand Drug Co-Pay  | \$7                     | \$18                    | \$30                     | \$50                    | \$50                          |
| Generic Drug Co-Pay  | \$4                     | \$8                     | \$20                     | \$25                    | \$25                          |
| <b>Max Out-of-Pocket</b>   | <b>\$2,250</b>          | <b>\$2,250</b>          | <b>\$5,200</b>           | <b>\$6,400</b>          | <b>\$6,400</b>                |
| 400% FPL-\$50,000 based on 250-400% FPL.                               |                         |                         |                          |                         |                               |

- a. Using FY 2011-12 data, computed total expenditures based on income of 138 percent FPL to \$50,000 for documented, ADAP-only clients and clients who had already transitioned to LIHP), by county (see **Table 7**, page 18).

| COUNTY   | LIHP HCCI | LIHP EXPEND\$        | LIHP CLIENTS   | ADAP-ONLY EXPEND\$   | ADAP-ONLY CLIENTS | TOTAL EXPEND\$       | TOTAL CLIENTS  |
|--|-----------|----------------------|----------------|----------------------|-------------------|----------------------|----------------|
| Alameda  | 200%      | \$1,751,484          | 105            | \$2,397,972          | 136               | \$4,149,456          | 241            |
| Butte  | n/a       | \$0                  | 0              | \$297,680            | 15                | \$297,680            | 15             |
| Calaveras  | n/a       | \$0                  | 0              | \$69,372             | 3                 | \$69,372             | 3              |
| Contra Costa   | 200%      | \$285,643            | 22             | \$532,344            | 39                | \$817,987            | 61             |
| Del Norte  | n/a       | \$0                  | 0              | \$24,914             | 2                 | \$24,914             | 2              |
| El Dorado  | n/a       | \$0                  | 0              | \$69,126             | 4                 | \$69,126             | 4              |
| Fresno   | n/a       | \$0                  | 0              | \$805,402            | 53                | \$805,402            | 53             |
| Humboldt   | n/a       | \$0                  | 0              | \$107,431            | 5                 | \$107,431            | 5              |
| Imperial   | n/a       | \$0                  | 0              | \$204,489            | 11                | \$204,489            | 11             |
| Kern   | n/a       | \$0                  | 0              | \$364,577            | 27                | \$364,577            | 27             |
| Lake   | n/a       | \$0                  | 0              | \$55,409             | 3                 | \$55,409             | 3              |
| Los Angeles  | n/a       | \$0                  | 0              | \$46,879,739         | 2,607             | \$46,879,739         | 2,607          |
| Madera   | n/a       | \$0                  | 0              | \$41,512             | 2                 | \$41,512             | 2              |
| Marin  | n/a       | \$0                  | 0              | \$219,641            | 14                | \$219,641            | 14             |
| Mendocino  | n/a       | \$0                  | 0              | \$78,027             | 3                 | \$78,027             | 3              |
| Merced   | n/a       | \$0                  | 0              | \$136,263            | 8                 | \$136,263            | 8              |
| Monterey   | n/a       | \$0                  | 0              | \$603,859            | 31                | \$603,859            | 31             |
| Napa   | n/a       | \$0                  | 0              | \$91,441             | 7                 | \$91,441             | 7              |
| Nevada   | n/a       | \$0                  | 0              | \$56,280             | 4                 | \$56,280             | 4              |
| Orange   | 200%      | \$2,236,069          | 107            | \$3,580,794          | 179               | \$5,816,864          | 286            |
| Placer   | n/a       | \$0                  | 0              | \$63,913             | 5                 | \$63,913             | 5              |
| Riverside  | n/a       | \$0                  | 0              | \$3,463,959          | 186               | \$3,463,959          | 186            |
| Sacramento   | n/a       | \$0                  | 0              | \$2,296,305          | 154               | \$2,296,305          | 154            |
| San Bernardino   | n/a       | \$0                  | 0              | \$2,781,383          | 143               | \$2,781,383          | 143            |
| San Diego  | n/a       | \$0                  | 0              | \$14,092,141         | 736               | \$14,092,141         | 736            |
| San Francisco  | n/a       | \$0                  | 0              | \$11,688,657         | 613               | \$11,688,657         | 613            |
| San Joaquin  | n/a       | \$0                  | 0              | \$666,883            | 36                | \$666,883            | 36             |
| San Luis Obispo  | n/a       | \$0                  | 0              | \$329,787            | 12                | \$329,787            | 12             |
| San Mateo  | n/a       | \$0                  | 0              | \$943,903            | 57                | \$943,903            | 57             |
| Santa Barbara  | n/a       | \$0                  | 0              | \$343,111            | 16                | \$343,111            | 16             |
| Santa Clara  | n/a       | \$0                  | 0              | \$1,744,193          | 123               | \$1,744,193          | 123            |
| Santa Cruz   | n/a       | \$0                  | 0              | \$177,344            | 12                | \$177,344            | 12             |
| Shasta   | n/a       | \$0                  | 0              | \$143,860            | 7                 | \$143,860            | 7              |
| Solano   | n/a       | \$0                  | 0              | \$349,451            | 22                | \$349,451            | 22             |
| Sonoma   | n/a       | \$0                  | 0              | \$1,181,793          | 63                | \$1,181,793          | 63             |
| Stanislaus   | n/a       | \$0                  | 0              | \$665,087            | 33                | \$665,087            | 33             |
| Sutter   | n/a       | \$0                  | 0              | \$7,669              | 1                 | \$7,669              | 1              |
| Tulare   | n/a       | \$0                  | 0              | \$339,109            | 17                | \$339,109            | 17             |
| Ventura  | 200%      | \$243,911            | 16             | \$386,956            | 22                | \$630,867            | 38             |
| Yolo   | n/a       | \$0                  | 0              | \$55,427             | 4                 | \$55,427             | 4              |
| <b>TOTAL</b>   |           | <b>\$4,517,108</b>   | <b>250</b>     | <b>\$98,337,203</b>  | <b>5,415</b>      | <b>\$102,854,311</b> | <b>5,665</b>   |
| Highlighted counties had LIHP HCCI programs with 200% FPL and are counted in LIHP expenditures and LIHP clients. |           |                      |                |                      |                   |                      |                |
| <b>% TOTAL, JAN-JUN 2012</b>   |           | <b>52.00%</b>        | <b>100.00%</b> | <b>52.00%</b>        | <b>100.00%</b>    | <b>52.00%</b>        | <b>100.00%</b> |
| <b>EST TOTAL, JAN-JUN 2012</b>   |           | <b>\$2,348,896</b>   | <b>250</b>     | <b>\$51,135,346</b>  | <b>5,415</b>      | <b>\$53,484,242</b>  | <b>5,665</b>   |
| <b>% ADJ TOTAL, JAN-JUN 2012</b>   |           | <b>100.00%</b>       | <b>100.00%</b> | <b>4.00%</b>         | <b>4.00%</b>      | <b>4.27%</b>         | <b>8.24%</b>   |
| <b>EST ADJ TOTAL, JAN-JUN 2012</b>   |           | <b>\$2,348,896</b>   | <b>250</b>     | <b>\$2,045,414</b>   | <b>217</b>        | <b>\$4,394,310</b>   | <b>467</b>     |
| <b>TOTAL, FY 2011-12</b>   |           | <b>\$473,684,504</b> | <b>40,506</b>  | <b>\$473,684,504</b> | <b>40,506</b>     | <b>\$473,684,504</b> | <b>40,506</b>  |
| <b>% SAVINGS, FY 2011-12</b>   |           | <b>0.50%</b>         | <b>0.62%</b>   | <b>0.43%</b>         | <b>0.53%</b>      | <b>0.93%</b>         | <b>1.15%</b>   |
| <b>EST TOTAL, FY 2013-14</b>   |           | <b>\$571,604,776</b> | <b>42,980</b>  | <b>\$571,604,776</b> | <b>42,980</b>     | <b>\$571,604,776</b> | <b>42,980</b>  |
| <b>EST SAVINGS, FY 2013-14</b>   |           | <b>\$2,834,461</b>   | <b>265</b>     | <b>\$2,468,243</b>   | <b>230</b>        | <b>\$5,302,703</b>   | <b>495</b>     |

- b. Summed up total expenditures from Table 7 above (\$102.85 million) and multiplied by 52 percent, the percentage of expenditures from January through June in FY 2011-12 (\$102.85 million X 52 percent = \$53.48 million). Also,

summed up the total potentially eligible ADAP clients who would transition to Covered California directly (Group 2 in yellow, n = 54,15) or indirectly via LIHP (Group 1 in green, n = 250) (total sum of Group 1 and 2 clients = 5,665 in orange).

- c. Based on the proportion of ADAP-only clients who voluntarily co-enrolled in OA-PCIP in FY 2011-12, 4 percent of the eligible ADAP-only clients (Group 2, yellow) were estimated to enroll in Covered California and pay for their own HIV-related outpatient medical out-of-pocket costs in addition to 100 percent of ADAP clients who already transitioned to LIHP (Group 1, green). Together, these clients represented 8.24 percent of the savings and 4.27 percent of the clients (\$53.48 million X 4.27 percent = \$4.39 million; and for clients 5,665 X 8.24 percent = 467, figures in the orange-colored columns).
- d. Computed the percentage of total Covered California savings and clients in FY 2011-12 as if Covered California had started in that FY (for expenditure savings, \$4.39 million/\$473.68 million = 0.93 percent; and for clients, 467/40,506 = 1.15 percent).
- e. The percentage of savings and clients in FY 2011-12 were applied to the corresponding linear regression estimates for FY 2013-14 (for expenditure savings, 0.93 percent of \$571.60 million = \$5.30 million; and for clients, 1.15 percent of 42,980 = 495) to estimate averted drug expenditure savings attributed to eligible LIHP and ADAP-only clients transitioning to Covered California.
- f. For savings attributed to OA-PCIP clients who will be eligible for Covered California in 2014, we extended the methodology described in **RMA 3** on page 28 to arrive at an estimate of 187 documented clients with 138 percent FPL to \$50,000 (60.96 percent of 306 total OA-PCIP clients) who would have been enrolled in OA-PCIP in January through June 2014 if OA-PCIP were to still exist (see **Table 8** below). The estimated savings for six months of averted drug expenditures for these clients were \$1.90 million. To arrive at this number, OA divided the average annual cost for a documented, ADAP-only client with six or more months in ADAP by two and then multiplied this by the number of clients potentially eligible for Covered California (\$20,371 per year/2 = \$10,186 for 6 months X 187 = \$1.90 million; OA-PCIP tables are in blue).

| TABLE 8: COVERED CALIFORNIA ESTIMATE FOR OA-PCIP CLIENTS |            |                     |                |                     |
|--|------------|---------------------|----------------|---------------------|
| LINE ITEM  | CLIENTS    | EXPEND\$            | REBATE REVENUE | NET                 |
| Premiums   | 187        | \$215,394           | \$0            | \$215,395           |
| Drug Deduct & Co-Pays                                    | 187        | \$189,114           | \$0            | \$189,114           |
| Averted Drug Exp\$                                       | 187        | -\$1,899,945        | \$0            | -\$1,899,114        |
| <b>TOTAL</b>   | <b>187</b> | <b>-\$1,495,437</b> | <b>\$0</b>     | <b>-\$1,495,437</b> |

- g. Unadjusted savings (also known as averted drug expenditures) were computed by summing up savings from LIHP clients, ADAP-only clients and from OA-PCIP clients (\$5.30 million + \$1.90 million = \$7.20 million, steps e plus f). However, these savings would be offset by Covered California premiums and drug deductibles and co-pays.
- h. To estimate the cost of premiums in Covered California for LIHP and ADAP-only clients, based on FY 2011-12 clients, we multiplied the estimated number of clients in each FPL by the midpoint of the client's share of the monthly premium in Silver Plans (with the Federal subsidy) by six months and then summed up the total premiums (**Table 9**). The average monthly premium was \$156 (\$463,252/6 months then divided by 495 clients). The monthly average premium for Silver Plans was based on the specific eligible client's FPL. The same approach was applied to premiums for OA-PCIP clients in Step i and the drug deductible and co-pays below in Steps j and k.

| <b>TABLE 9: SILVER PREMIUMS FOR LIHP AND ADAP-ONLY CLIENTS</b> |                |                |                 |                  |
|--|----------------|----------------|-----------------|------------------|
| <b>FPL</b>   | <b>CLIENTS</b> | <b>MONTHLY</b> | <b>6 MONTHS</b> | <b>TOTAL</b>     |
| 138-149  | 61             | \$38           | \$228           | \$13,848.78      |
| 150-199  | 160            | \$89           | \$534           | \$85,591.86      |
| 200-249  | 129            | \$157          | \$942           | \$121,679.44     |
| 250-400  | 135            | \$279          | \$1,671         | \$225,191.86     |
| 400-\$50,000   | 10             | \$279          | \$1,671         | \$16,940.50      |
| <b>TOTAL</b>   | <b>495</b>     |                |                 | <b>\$463,252</b> |

- i. For Covered California premiums for OA-PCIP clients, we multiplied the \$192 monthly average by six months by the 187 clients for an estimate of \$215,394 (**Table 10**).

| <b>TABLE 10: SILVER PREMIUMS FOR OA-PCIP CLIENTS</b> |                |                |                 |                  |
|--|----------------|----------------|-----------------|------------------|
| <b>FPL</b>   | <b>CLIENTS</b> | <b>MONTHLY</b> | <b>6 MONTHS</b> | <b>TOTAL</b>     |
| 138-149  | 10             | \$38           | \$228           | \$2,389.32       |
| 150-199  | 40             | \$89           | \$534           | \$21,264.90      |
| 200-249  | 49             | \$157          | \$942           | \$46,396.73      |
| 250-400  | 78             | \$279          | \$1,671         | \$129,582.62     |
| 400-\$50,000   | 9              | \$279          | \$1,671         | \$15,760.05      |
| <b>TOTAL</b>   | <b>187</b>     |                |                 | <b>\$215,394</b> |

- j. To estimate the cost of drug deductibles and co-pays for LIHP and ADAP-only clients in Covered California, we multiplied the estimated number of clients in each FPL by the monthly drug co-pays by six months, added the applicable drug deductible and then summed up the total drug deductibles and co-pays. The average monthly drug deductible and co-pay was \$136 (\$404,981/6 months and

then divided by 495 clients). Deductibles and co-pays shown in **Table 11** were multiplied by the average number of drug prescriptions per month per client (2.37 for brand and 1.18 for generic).

| <b>TABLE 11: DRUG DEDUCTIBLES AND CO-PAYS FOR LIHP AND ADAP-ONLY CLIENTS</b> |                |                |                 |                            |                  |
|--|----------------|----------------|-----------------|----------------------------|------------------|
| <b>FPL</b>   | <b>CLIENTS</b> | <b>MONTHLY</b> | <b>6 MONTHS</b> | <b>6 MOS W/ DEDUCTIBLE</b> | <b>TOTAL</b>     |
| 138-149  | 61             | \$21           | \$128           | \$128                      | \$7,766          |
| 150-199  | 160            | \$52           | \$313           | \$363                      | \$58,111         |
| 200-249  | 129            | \$95           | \$568           | \$1,068                    | \$137,990        |
| 250-400  | 135            | \$148          | \$888           | \$1,388                    | \$187,043        |
| 400-\$50,000   | 10             | \$148          | \$888           | \$1,388                    | \$14,071         |
| <b>TOTAL</b>   | <b>495</b>     |                |                 |                            | <b>\$404,981</b> |

**Table 12** below summarizes the unadjusted premiums, drug deductibles and co-pays, and averted drug expenditures for LIHP and ADAP-only clients.

| <b>TABLE 12: UNADJUSTED CC ESTIMATE (LIHP AND ADAP-ONLY CLIENTS)</b> |                |                     |                       |                     |
|--|----------------|---------------------|-----------------------|---------------------|
| <b>LINE ITEM</b>   | <b>CLIENTS</b> | <b>EXPEND\$</b>     | <b>REBATE REVENUE</b> | <b>NET</b>          |
| Premiums   | 495            | \$463,252           | \$0                   | \$463,252           |
| Drug Deduct & Co-Pays  | 495            | \$404,981           | \$0                   | \$404,981           |
| Averted Drug Exp\$   | 495            | -\$5,302,703        | \$0                   | -\$5,302,703        |
| <b>TOTAL</b>   | <b>495</b>     | <b>-\$4,434,470</b> | <b>\$0</b>            | <b>-\$4,434,470</b> |

- k. For Covered California drug deductibles and co-pays for OA-PCIP clients, multiplied the \$169 monthly average by six months by the 187 clients for an estimate of \$189,586 (**Table 13**).

| <b>TABLE 13: DRUG DEDUCTIBLES AND CO-PAYS FOR OA-PCIP CLIENTS</b> |                |                |                 |                            |                  |
|---|----------------|----------------|-----------------|----------------------------|------------------|
| <b>FPL</b>  | <b>CLIENTS</b> | <b>MONTHLY</b> | <b>6 MONTHS</b> | <b>6 MOS W/ DEDUCTIBLE</b> | <b>TOTAL</b>     |
| 138-149   | 11             | \$21           | \$128           | \$128                      | \$1,343          |
| 150-199   | 40             | \$52           | \$313           | \$363                      | \$14,473         |
| 200-249   | 49             | \$95           | \$568           | \$1,068                    | \$52,747         |
| 250-400   | 78             | \$148          | \$888           | \$1,388                    | \$107,899        |
| 400-\$50,000  | 9              | \$148          | \$888           | \$1,388                    | \$13,123         |
| <b>TOTAL</b>  | <b>187</b>     |                |                 |                            | <b>\$189,586</b> |

- I. ADAP-only clients who previously transitioned to LIHP (265, Group 1) and current OA-PCIP clients (187) eligible for Covered California were assumed to transition to Covered California on January 1, 2014 with no delays. For ADAP-only clients (Group 2, in yellow) potentially eligible for Covered California who exceed the LIHP upper limits of their residing counties or from counties that did not implement LIHP (\$2.47 million in savings for 230 clients out of the totals in Step e) (**Table 14**), reductions in savings were calculated to accommodate a ramp-up period. We assumed that 50 percent of the 230 clients would enroll in January followed by 25 percent in February and the remaining 25 percent in March (**Tables 15 and 16**, page 23). This resulted in a 12.50 percent reduction of the initial savings and number of clients for these ADAP-only clients (for expenditures, \$2.47 million X 12.50 percent = \$308,530, and no reduction in clients since they would all enroll by the end of the FY). Therefore, this ramp-up period resulted in a reduction of \$308,530 and zero clients from the overall unadjusted savings estimated. The same 12.50 percent reduction was also applied to premiums (\$215,046 X 12.50 percent = \$26,881) and drug deductible and co-pays (\$187,996 X 12.50 percent = \$23,500) for the 230 clients.

| <b>TABLE 14: UNADJUSTED ADAP-ONLY CLIENTS</b> |                |                     |                       |                     |
|---|----------------|---------------------|-----------------------|---------------------|
| <b>LINE ITEM</b>                              | <b>CLIENTS</b> | <b>EXPEND\$</b>     | <b>REBATE REVENUE</b> | <b>NET</b>          |
| Premiums                                      | 230            | \$215,046           | \$0                   | \$215,046           |
| Drug Deduct & Co-Pays                         | 230            | \$187,996           | \$0                   | \$187,996           |
| Averted Drug Expend\$                         | 230            | -\$2,468,243        | \$0                   | -\$2,468,243        |
| <b>TOTAL</b>                                  | <b>230</b>     | <b>-\$2,065,201</b> | <b>\$0</b>            | <b>-\$2,065,201</b> |

| <b>TABLE 15: COVERED CALIFORNIA ENROLLMENT FOR NON-LIHP, ADAP-ONLY CLIENTS (RAMP-UP)</b> |                              |                           |                     |
|--|------------------------------|---------------------------|---------------------|
| <b>MONTH</b>   | <b>FRACTIONAL MULTIPLIER</b> | <b>PERCENT MULTIPLIER</b> | <b>SAVINGS</b>      |
| JAN  | 6 / 12                       | 50.00%                    | -\$172,100          |
| FEB  | 9 / 12                       | 75.00%                    | -\$258,150          |
| MAR  | 12 / 12                      | 100.00%                   | -\$344,200          |
| APR  | 12 / 12                      | 100.00%                   | -\$344,200          |
| MAY  | 12 / 12                      | 100.00%                   | -\$344,200          |
| JUN  | 12 / 12                      | 100.00%                   | -\$344,200          |
| <b>TOTAL</b>   |                              |                           | <b>-\$1,807,051</b> |
| <b>% SAVINGS</b>   |                              |                           | <b>87.50%</b>       |
| <b>% SAVINGS REDUCTION</b>   |                              |                           | <b>12.50%</b>       |
| Savings = Percent Multiplier X (\$2,065,045 / 6).  |                              |                           |                     |
| % Savings = Total Savings / \$2,065,045.   |                              |                           |                     |
| % Savings Reduction = 100% – % Savings.  |                              |                           |                     |
| <b>Reduction = \$2,065,201 – \$258,150 = \$1,807,051.</b>                                |                              |                           |                     |

| <b>TABLE 16: NON-LIHP, ADAP-ONLY ADJUSTED FOR RAMP-UP</b> |                |                     |                       |                     |
|---|----------------|---------------------|-----------------------|---------------------|
| <b>LINE ITEM</b>  | <b>CLIENTS</b> | <b>EXPEND\$</b>     | <b>REBATE REVENUE</b> | <b>NET</b>          |
| Premiums  | 230            | \$188,165           | \$0                   | \$188,165           |
| Drug Deduct & Co-Pays                                     | 230            | \$164,497           | \$0                   | \$164,497           |
| Averted Drug Expend\$                                     | 230            | -\$2,159,712        | \$0                   | -\$2,159,712        |
| <b>TOTAL</b>  | <b>230</b>     | <b>-\$1,807,051</b> | <b>\$0</b>            | <b>-\$1,807,051</b> |

The adjusted savings for all clients (LIHP, ADAP-only, and OA-PCIP) represent savings of **\$5,671,756** to ADAP (Table 17 A, page 24). OA applied the same 85 percent adjustment as performed on Medi-Cal Expansion and LIHP to account for data disparities (see **NMA 1** and **RMA 1 & 2**, respectively), which represented a savings of \$4,820,993 (Table 17 B, page 24). Finally, OA factored in preliminary cost estimates of \$707,299 (Table 18, page 24) associated with having a contractor administer OA's insurance assistance programs due to the expected increase in OA-HIPP workload. Due to the six-month delay in rebate collections, no impact on rebate revenue will be seen in FY 2013-14, and the impact on rebate revenue in subsequent FYs will be addressed in the 2014-15 Governor's Budget. Therefore, final savings in FY 2013-14 totals \$4,113,694.

| <b>TABLE 17 A: COVERED CALIFORNIA, FY 2013-14<br/>(ALL CLIENTS)</b> |                |                     |                           |                     |
|---|----------------|---------------------|---------------------------|---------------------|
| <b>LINE ITEM</b>  | <b>CLIENTS</b> | <b>EXPEND\$</b>     | <b>REBATE<br/>REVENUE</b> | <b>NET</b>          |
| Premiums  | 682            | \$651,765           | \$0                       | \$651,765           |
| Drug Deduct<br>& Co-Pays  | 682            | \$570,596           | \$0                       | \$570,596           |
| Averted<br>Drug Exp\$   | 682            | -\$6,894,118        | \$0                       | -\$6,894,118        |
| <b>TOTAL</b>  | <b>682</b>     | <b>-\$5,671,756</b> | <b>\$0</b>                | <b>-\$5,671,756</b> |

| <b>TABLE 17 B: 85% ADJUSTMENT FACTOR FOR<br/>COVERED CALIFORNIA, FY 2013-14 (ALL CLIENTS)</b> |                |                   |                           |                     |
|---|----------------|-------------------|---------------------------|---------------------|
| <b>LINE ITEM</b>  | <b>CLIENTS</b> | <b>EXPEND\$</b>   | <b>REBATE<br/>REVENUE</b> | <b>NET</b>          |
| Premiums  | 579            | 554,001           | \$0                       | \$554,001           |
| Drug Deduct<br>& Co-Pays  | 579            | 485,007           | \$0                       | \$485,007           |
| Averted<br>Drug Exp\$   | 579            | -5,860,000        | \$0                       | -\$5,860,000        |
| <b>TOTAL</b>  | <b>579</b>     | <b>-4,820,993</b> | <b>\$0</b>                | <b>-\$4,820,993</b> |

| <b>TABLE 18: ADMIN COSTS</b>  |                |                  |
|---|----------------|------------------|
| <b>CLIENTS</b>  | <b>CLIENTS</b> | <b>EXPEND\$</b>  |
| Covered<br>California   | 579            | \$136,789        |
| OA-HIPP   | 2,113          | \$570,510        |
| <b>TOTAL</b>  | <b>2,692</b>   | <b>\$707,299</b> |
| Expend\$ = Clients X \$45 per mo X 6 mos.<br>For Covered California, 12.50% reduction<br>for ramp-up. |                |                  |

### 3. Federal Funding Issue: 2013 Ryan White Grant Adjustments

On March 1, 2013, President Barack Obama signed the sequestration order that put in place across-the-board spending cuts to address the Federal budget deficit. As a result, approximately \$85 billion in cuts to federally funded programs will now proceed. Based on Health Resources and Services Administration's (HRSA) initial analysis, OA was told to expect a five percent reduction (\$5.3 million) to our 2013 HRSA Ryan White Part B funding due to sequestration.

In addition, HRSA informed OA on March 20, 2013, to expect a 5 to 10 percent reduction in our 2013 HRSA Ryan White Part B funding. These cuts are caused by Federal legislative changes which change how Federal funding is allocated among states and are independent of and in addition to cuts related to sequestration. Ryan White legislation includes a hold harmless provision which limits a potential loss in a state's award to a specific percentage of the amount of the award in the previous year. The FY 2013 Hold Harmless amount is 92.5 percent. Therefore, compared with our 2012 award, OA assumed a 7.5 percent (\$8.5 million) reduction. The total reduction in Federal funds for FY 2013-14 is, thus, estimated at \$13.8 million.

On April 1, 2013, OA received the Notice of Award (NOA) for partial 2013 Ryan White Part B Grant funding due to the federal Continuing Resolution (CR). ADAP received \$38,554,404 or 36 percent of the 2012 ADAP Earmark award. However, with the passage of the final CR at the end of March, HRSA will be working towards distributing the remainder of the 2013 funding.

The NOA also included partial funding for the 2013 ADAP Supplemental Grant. CDPH was eligible to apply for the 2013 Ryan White ADAP Supplemental Grant in January 2013 based on potential program limitations for maintaining a core list of drugs. The California ADAP formulary currently consists of 184 drugs. However, ADAP identified the following potential barriers in maintaining the formulary:

- 1) manufacturer pricing of both existing and new medications (historically, the major antiretroviral (ARV) drug manufacturers have taken significant pricing increases each year);
- 2) supplemental rebate amounts as negotiated by ADAP Crisis Task Force (ACTF), ACTF has negotiated voluntary rebates and price freeze agreements with manufacturers of ARV medications are set to expire December 2013;
- 3) decreases in funding that supports the program; and
- 4) increases in the total number of prescriptions per client, increased medication costs, and increased time enrolled in ADAP.

ADAP received \$2,736,824 and will utilize the funds for ADAP drug expenditures

## **Revised Major Assumptions**

### 1. Impact of the Ten “Legacy” LIHP Counties on ADAP

In the *2013-14 Governor’s Budget*, OA estimated savings due to ADAP clients transitioning to the ten Legacy county LIHPs with considerations for updated FY 2011-12 data, an additional delay in client transition, a change in implementation dates for screening, merging counties, a change in transitioning LIHP-eligible clients with Medicare Part D or private insurance to LIHP, adjustments for impact numbers, and back-billing.

For the *2013-14 May Revision*, OA updated the assumption’s components (client shift, reduced expenditures, and reduced rebate revenue) for adjustments for impact numbers and back-billing using LIHP data through February 2013 in the following manner:

- Ended LIHP savings after December 2013 and carried forward the January 2014 through June 2014 savings to either Medi-Cal Expansion (**NMA 1**, page 10) or Covered California (**NMA 2**, page 14), whereas in the *2013-14 Governor’s Budget*, all of these savings were captured in the LIHP assumptions;
- Increased the adjustments to LIHP impact numbers from 80 to 85 percent to reflect more clients leaving ADAP, which covers all the potential disparities in data used to determine LIHP eligibility, including income, residency status, and immigration status; and
- Due to administrative barriers, further delayed LIHP back-billing until July 1, 2013, which shifted back-billing savings in FYs 2012-13 to 2013-14.

No other changes were made from the *2013-14 Governor’s Budget*.

**Table 19** on page 27 gives the net savings in the ten Legacy counties from both LIHP clients shifting over to LIHP and, in FY 2013-14 only, LIHP back-billing. Overall, in the ten Legacy counties, for FY 2012-13, ADAP will realize an estimated net savings due to LIHP of **\$45.56 million**. For FY 2013-14, ADAP will realize an estimated LIHP net savings of **\$43.40 million**, consisting of \$27.04 million in savings due to clients shifting over to LIHP and \$16.36 million in net savings due to back-billing. For FY 2012-13, a total of 5,329 clients will shift over to LIHP, and an additional 2,017 will shift over in FY 2013-14.

| <b>TABLE 19: TOTAL ADJUSTED NET SAVINGS ESTIMATES<br/>DUE TO LIHP IN THE 10 LEGACY COUNTIES</b> |                     |                     |
|---|---------------------|---------------------|
| <b>IMPACT ESTIMATES</b>   | <b>FY 2012-13</b>   | <b>FY 2013-14</b>   |
| <b><i>Clients Shifting to LIHP</i></b>  |                     |                     |
| Client Shift  | 5,329               | 2,017               |
| Reduced Expenditures  | \$48,710,404        | \$63,233,460        |
| Reduced Rebate Revenue  | -\$3,148,783        | -\$36,192,486       |
| <b>Net LIHP Impact Savings</b>  | <b>\$45,561,621</b> | <b>\$27,040,974</b> |
| <b><i>LIHP Back-Billing</i></b>   |                     |                     |
| Expenditure Reductions  | \$0                 | \$23,823,626        |
| Rebate Reductions   | \$0                 | -\$7,466,682        |
| <b>Net Savings</b>  | <b>\$0</b>          | <b>\$16,356,944</b> |
| <b><i>Total LIHP Impacts</i></b>  |                     |                     |
| Expenditure Reductions  | \$48,710,404        | \$87,057,086        |
| Rebate Reductions   | -\$3,148,783        | -\$43,659,168       |
| <b>Net Savings</b>  | <b>\$45,561,621</b> | <b>\$43,397,918</b> |

## 2. Impact of the “Non-Legacy” LIHP Counties on ADAP

OA also estimated savings due to ADAP clients transitioning to the non-Legacy county LIHPs in the *2013-14 Governor’s Budget*. As with the ten Legacy counties, OA updated the assumption’s components for adjustments for impact numbers and back-billing using more current LIHP data. In addition to the changes described above for the Legacy LIHP counties, the following adjustments were made;

- Further delays in implementation occurred in Monterey, Sacramento, and Tulare;
- Tulare also increased the upper limit of Medi-Cal Expansion from 75 to 100 percent FPL;
- Santa Cruz capped enrollment on June 30, 2013; and
- Merced withdrew from participating in LIHP.

Collectively, these four changes had a minor impact on the savings for non-Legacy LIHP counties.

Overall, in the non-Legacy counties, for FY 2012-13, ADAP will realize an estimated net savings due to LIHP of **\$13.68 million** (Table 20, page 28). For FY 2013-14, ADAP will realize an estimated LIHP net savings of **\$5.35 million**, consisting of \$3.84 million in savings due to client shift, and a net gain of \$1.52 million due to back-billing. In FY 2012-13, an estimated 1,162 clients will shift over to LIHP, and in FY 2013-14, an additional 36 clients will shift over to LIHP.

| <b>TABLE 20: TOTAL ADJUSTED NET SAVINGS ESTIMATES<br/>DUE TO LIHP IN THE NON-LEGACY COUNTIES</b> |                     |                    |
|--|---------------------|--------------------|
| <b>IMPACT ESTIMATES</b>  | <b>FY 2012-13</b>   | <b>FY 2013-14</b>  |
| <b><i>Clients Shifting to LIHP</i></b>   |                     |                    |
| Client Shift   | 1,162               | 36                 |
| Reduced Expenditures   | \$15,630,057        | \$12,004,498       |
| Reduced Rebate Revenue   | -\$1,950,867        | -\$8,165,256       |
| <b>Net LIHP Impact Savings</b>   | <b>\$13,679,190</b> | <b>\$3,839,242</b> |
| <b><i>LIHP Back-Billing</i></b>  |                     |                    |
| Expenditure Reductions   | \$0                 | \$2,367,852        |
| Rebate Reductions  | \$0                 | -\$852,427         |
| <b>Net Savings</b>   | <b>\$0</b>          | <b>\$1,515,425</b> |
| <b><i>Total LIHP Impacts</i></b>   |                     |                    |
| Expenditure Reductions   | \$15,630,057        | \$14,372,350       |
| Rebate Reductions  | -\$1,950,867        | -\$9,017,683       |
| <b>Net Savings</b>   | <b>\$13,679,190</b> | <b>\$5,354,667</b> |

### 3. OA-PCIP Implementation

OA-PCIP was implemented in November 2011 to pay monthly PCIP premiums. Clients who co-enroll in OA-PCIP and ADAP also receive assistance with drug co-pays and deductibles. OA-PCIP was implemented as a cost-containment measure because it is cheaper to pay monthly insurance premiums and medication co-pays and deductibles than the full-cost of the client's HIV-related medication. However, in February 2013, the Federal government suspended new PCIP enrollment after March 2, 2013. All currently enrolled PCIP clients will continue to receive services and OA will continue to pay the monthly premiums for all OA-PCIP clients through 2013. However, no new clients will enroll in OA-PCIP after March 1, 2013.

For the *2013-14 May Revision*, based on current OA-PCIP data, the following changes were made to the OA-PCIP estimate included in the *2013-14 Governor's Budget*:

- Suspended enrollment after March 2013, which took into consideration applications submitted in late February before the March 2, 2013 end date and were processed in March 2013;
- Increased the average number of new clients from August 2012 through March 2013 from 10 to 14;
- Increased the co-enrollment percentage in OA-PCIP and ADAP from 82 to 94 percent.

For FY 2012-13, OA estimated savings of **\$3,120,087** (\$1.12 million in premiums, \$5.24 million in reduced drug expenditures and its associated \$1.0 million in loss of rebate revenue) (**Table 21**).

| TABLE 21: SUMMARY OF OA-PCIP CHANGES, FY 2012-13 |                    |                     |                     |                     |            |
|--|--------------------|---------------------|---------------------|---------------------|------------|
| ISSUE  | PREMIUMS           | DRUG EXPEND\$       | REBATE REVENUE      | TOTAL ESTIMATE      | CLIENTS    |
| Unadj. Estimate                                  | \$1,120,073        | -\$4,646,999        | -\$787,574          | -\$2,739,351        | 306        |
| Back-bill  | \$0                | -\$594,901          | -\$214,164          | -\$380,737          | 0          |
| <b>TOTAL</b>                                     | <b>\$1,120,073</b> | <b>-\$5,241,900</b> | <b>-\$1,001,739</b> | <b>-\$3,120,087</b> | <b>306</b> |
| <b>GF for prem</b>                               | <b>\$219,790</b>   |                     |                     |                     | <b>60</b>  |
| <b>Non-GF for prem</b>                           | <b>\$900,284</b>   |                     |                     |                     | <b>246</b> |

For FY 2013-14, as discussed and accounted for in NMAs 1 and 2, OA assumed that 100 percent of OA-PCIP clients eligible for Medi-Cal Expansion and Covered California transition to those programs on January 1, 2014 with no delays. Therefore, OA estimated savings from the first six months of FY 2013-14 of **\$1,468,634** (\$649,133 in premiums, \$2.55 million in reduced drug expenditures, and \$432,008 in loss of rebate revenue) (**Table 22**).

| TABLE 22: SUMMARY OF OA-PCIP CHANGES, FY 2013-14 |                  |                     |                   |                     |            |
|--|------------------|---------------------|-------------------|---------------------|------------|
| ISSUE  | PREMIUMS         | DRUG EXPEND\$       | REBATE REVENUE    | TOTAL ESTIMATE      | CLIENTS    |
| Unadj. Estimate                                  | \$649,133        | -\$2,549,776        | -\$432,008        | -\$1,468,634        | 306        |
| Back-bill  | \$0              | \$0                 | \$0               | \$0                 | 0          |
| <b>TOTAL</b>                                     | <b>\$0</b>       | <b>\$0</b>          | <b>\$0</b>        | <b>\$0</b>          | <b>0</b>   |
| <b>GF for prem</b>                               | <b>\$649,133</b> | <b>-\$2,549,776</b> | <b>-\$432,008</b> | <b>-\$1,468,634</b> | <b>306</b> |
| <b>Non-GF for prem</b>                           | <b>\$127,378</b> |                     |                   |                     | <b>60</b>  |

### **Continuing Assumptions**

These items were included in the *2013-14 Governor's Budget* as Major Assumptions. For the *2013-14 May Revision*, fiscal estimates were impacted due to updated data and are reflected in FCS on page 32; there were no changes made to the estimate methodology.

1. Additional PBM Costs.
2. Using Non-Ryan White Funds to Pay OA-HIPP Premiums for LIHP-eligible OA-HIPP Clients.
3. Increase Rebate Percentage.
4. Change in Methodology: Adjust Linear Regression Expenditure Methodology.
5. OA-HIPP/Medi-Cal Fund Source Issue: Using Non-Ryan White Funds to Pay OA-HIPP Premiums and ADAP Drug Deductibles and Co-Pays for Clients Co-Enrolled in Medi-Cal with a SOC.

### 3. FUND CONDITION STATEMENT

FCS (see **Table 23**, page 32) shows the status of the ADAP Special Fund 3080 for FYs 2011-12, 2012-13, and 2013-14 and all the factors that impact the fund including revenues, expenditures, revenue collection rate, interest earned, and major assumptions.

For FY 2012-13, the unadjusted revenue estimate is based on actual rebates collected for expenditures during January through June 2012 (\$156 million) and actual expenditures (\$220.3 million) for July through December 2012. A 60 percent rebate collection rate was applied to the actual expenditures to arrive at the estimated revenue of \$132.2 million. Actual rebates plus rebates estimated from actual expenditures resulted in projected revenue of \$288.9 million. It is estimated that there will be an additional amount of \$120,000 of revenue from interest earned.

For FY 2013-14, the unadjusted revenue estimate (\$325.4 million) was developed by applying the 60 percent rebate collection rate to projected (unadjusted) expenditures (\$542.3 million) (based on linear regression) for January to December 2013. The revenue estimate was then adjusted to reflect the impact of major assumptions in effect for the budget year resulting in projected revenue of \$272.3 million. It is estimated that there will be an additional amount of \$120,000 of revenue from interest earned.

To determine funding need, OA estimated expenditures based on a revised linear regression, adjusted for assumptions, and applied available fund sources including appropriations of GF (FY 2012-13 only), Federal funds, and Reimbursements (SNCP funds) resulting in a remaining Special Fund need of \$281.2 million and \$243.8 million for FYs 2012-13 and 2013-14, respectively. ADAP will have a 11.9 million Special Fund reserve for FY 2012-13. For FY 2013-14, the Special Fund balance is \$39.6 million.

The FY 2012-13 GF appropriation remains at \$16.9 million. For FY 2013-14, \$16.9 million will be returned to GF due to estimated decreased expenditures.

**MAY REVISION FUND CONDITION STATEMENT**

| Table 23: FUND CONDITION STATEMENT<br>(in thousands)       |   |                       |                        |                        |
|--|---|-----------------------|------------------------|------------------------|
| Special Fund 3080 AIDS Drug Assistance Program Rebate Fund |   | FY 2011-12<br>Actuals | FY 2012-13<br>Estimate | FY 2013-14<br>Estimate |
| 1  | BEGINNING BALANCE                                       | 57,874                | 5,036                  | 11,920                 |
| 2  | Prior Year Adjustment                                   | -5,828                | 0                      | 0                      |
| 3  | Adjusted Beginning Balance                              | 52,046                | 5,036                  | 11,920                 |
| 4  | REVENUES, TRANSFERS AND OTHER ADJUSTMENTS               |                       |                        |                        |
| 5  | Revenues  |                       |                        |                        |
| 6  | 150300 Income From Surplus Money Investments (Interest) | 254                   | 120                    | 120                    |
| 7  | 161400 Miscellaneous Revenue                            | 241,814               | 288,867                | 272,267                |
| 8  | Total Revenues, Transfers, and Other Adjustments        | 242,068               | 288,987                | 272,387                |
| 9  | Total Resources   | 294,114               | 294,023                | 284,307                |
| 10   | EXPENDITURES AND EXPENDITURE ADJUSTMENTS                |                       |                        |                        |
| 11   | Expenditures  |                       |                        |                        |
| 12   | 8880 FISCAL   | 0                     | 5                      | 4                      |
| 13   | 0840 State Controllers Office                           | 33                    | 3                      | 0                      |
| 14   | 4260 Department of Health Care Service (State Ops)      | 0                     | 0                      | 0                      |
| 15   | 4265 Department of Public Health                        |                       |                        |                        |
| 16   | State Operations  | 1,021                 | 900                    | 917                    |
| 17   | ADAP Local Assistance                                   | 284,298               | 274,060                | 232,703                |
| 18   | OA-PCIP, OA-HIPP, and Medicare Part D Local Assistance  | 3,726                 | 7,135                  | 11,106                 |
| 19   |   |                       |                        |                        |
| 20   | Total Expenditures and Expenditure Adjustments          | 289,078               | 282,103                | 244,730                |
| 21   | FUND BALANCE  | 5,036                 | 11,920                 | 39,577                 |

|   |         |             |             |
|---|---------|-------------|-------------|
| Row 6: Interest Actuals for FY 2011-12, Estimated for FYs 2012-13 and 2013-14   | 254,153 | 120,000     | 120,000     |
| <b>Miscellaneous Revenue</b>  |         |             |             |
| Actual Rebate resulting from Expenditures for Jan - Mar 2012  |         | 83,119,668  |             |
| Actual Rebate Resulting from Expenditures for April - June 2012   |         | 73,568,913  |             |
| Estimated Rebates from Actual Expenditures from July - Dec 2012 (\$220,296,874) at 60% avg rebate rate (CA 3)             |         | 132,178,125 |             |
| Estimated Rebate from Estimated Unadjusted Expenditures for Jan - June 2013 (\$256,490,269) at 60% avg rebate rate (CA 3) |         |             | 153,894,161 |
| Estimated Rebate from Estimated Unadjusted Expenditures for July - Dec 2013 (\$285,802,388) at 60% avg rebate rate (CA 3) |         |             | 171,481,433 |
| Total Unadjusted Estimated FY 2012-13 Rebate Revenue  |         | 288,866,706 |             |
| Total Unadjusted Estimated FY 2013-14 Rebate Revenue  |         |             | 325,375,594 |
| <b>Adjustments to ADAP Revenue Projections:</b>   |         |             |             |
| LHP: Impact of Ten "Legacy" Counties on ADAP (RMA 1)  |         |             | -43,659,168 |
| LHP: Impact of the "Non-Legacy" Counties on ADAP (RMA 2)  |         |             | -9,017,683  |
| OA-PCIP: Implementation (RMA 3)   |         |             | -432,008    |
| Row 7: ADAP Revenue Projections after Adjustments   |         | 288,866,706 | 272,266,735 |

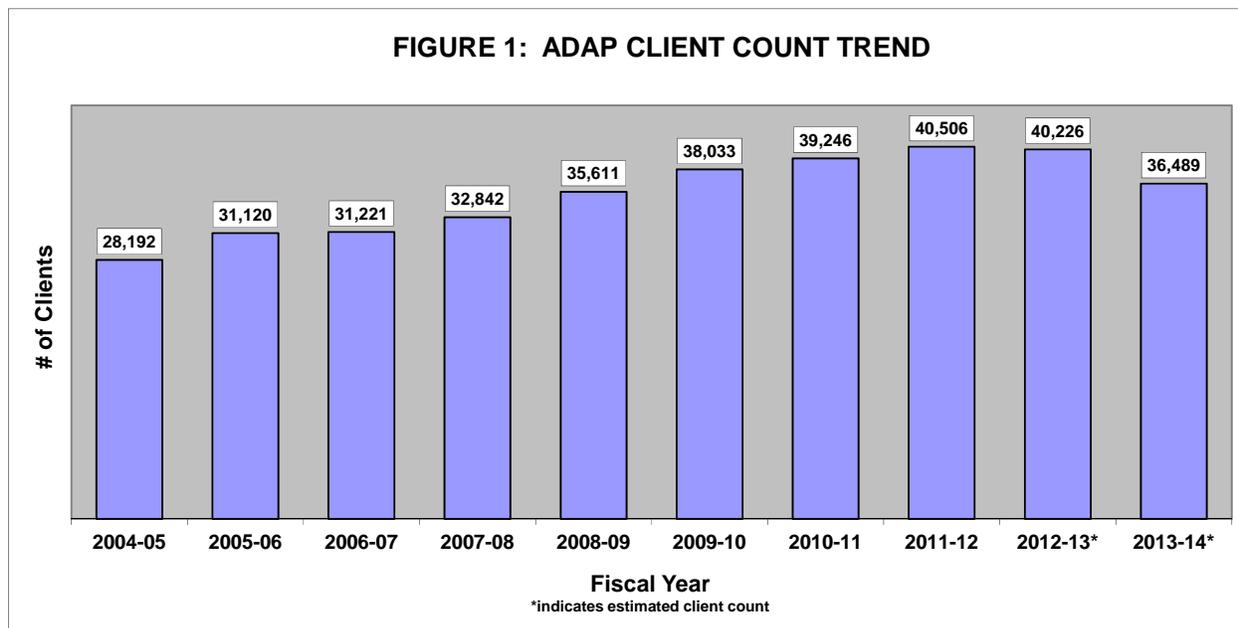
|   | FY 2012-13<br>Estimate | FY 2013-14<br>Estimate |
|---|------------------------|------------------------|
| <b>ADAP Expenditure Projection: FYs 2012-13 and 2013-14, Linear Regression (CA 4)</b>   | <b>512,980,537</b>     | <b>571,604,776</b>     |
| <b>Adjustments to ADAP Expenditure Projection:</b>                                      |                        |                        |
| 2014 Medi-Cal Expansion (NMA 1)   | 0                      | -91,349,440            |
| Covered California: Impact of the PPACA Insurance Mandate on ADAP and IAS (NMA 2)       | 0                      | -4,667,694             |
| Additional PBM Costs (CA 1)   | 759,405                | 537,916                |
| LHP: Impact of Ten "Legacy" Counties on ADAP (RMA 1)                                    | -48,710,404            | -87,057,086            |
| LHP: Impact of the "Non-Legacy" LHP counties on ADAP (RMA 2)                            | -15,630,057            | -14,372,350            |
| OA-PCIP: Implementation (RMA 3)   | -5,241,900             | -2,549,776             |
| <b>Subtotal: ADAP Expenditure Projection after Adjustments</b>                          | <b>444,157,581</b>     | <b>372,146,346</b>     |
| <br>  |                        |                        |
| Federal Fund Appropriation (Earmark)  | -120,179,281           | -90,179,281            |
| 2013 Federal Grant Adjustments (NMA 3)  | 0                      | 13,774,617             |
| 2013 Ryan White ADAP Supplemental   |                        | -2,736,824             |
| Additional 2012 Federal Grant Funds (UA 1)  | -20,697,029            | 0                      |
| <b>Subtotal: Federal Funds for ADAP</b>   | <b>-140,876,310</b>    | <b>-79,141,488</b>     |
| <br>  |                        |                        |
| Reimbursement funding through the Safety Net Care Pool (UA2)                            | -17,150,000            | -66,339,340            |
| Non Add: Reimbursement Need for ADAP expenditures that are not allowable under RW       | 0                      | 5,629,877              |
| Reimbursement Need for OA-PCIP and OA-HIPP expenditures that are not allowable under RW | 0                      | 4,037,481              |
| <b>Subtotal: Reimbursement Funds for ADAP</b>   | <b>-17,150,000</b>     | <b>-62,301,859</b>     |
| <br>  |                        |                        |
| General Fund Appropriation for ADAP - per FY 2012-13 Budget Act                         | -15,985,058            | -15,985,058            |
| Non Add: General Fund Need for ADAP expenditures that are not allowable under RW        | 5,052,472              | 0                      |
| General Fund Need for OA-PCIP and OA-HIPP expenditures that are not allowable under RW  | 1,913,559              | 0                      |
| Surplus General Fund  | 0                      | -15,985,058            |
| <b>Subtotal: General Fund Revised Appropriation for ADAP</b>                            | <b>-14,071,499</b>     | <b>0</b>               |
| <br>  |                        |                        |
| <b>Special Fund 3080 Need to meet Expenditure Projection for ADAP</b>                   | <b>272,059,772</b>     | <b>230,702,999</b>     |
| Local Assistance Local Health Jurisdiction (LHJ)  | 2,000,000              | 2,000,000              |
| <b>Row 17: Total Special Fund 3080 Need for ADAP</b>                                    | <b>274,059,772</b>     | <b>232,702,999</b>     |

|  | FY 2012-13<br>Estimate | FY 2013-14<br>Estimate |
|--|------------------------|------------------------|
| <b>OA-PCIP Expenditure Projection (RMA 3):</b>   | 1,120,073              | 649,133                |
| Non-Add: OA-PCIP Premiums for LIHP-eligible OA-PCIP Clients* (RMA 3)   | 219,790                | 127,378                |
| <b>Subtotal: OA-PCIP Expenditure Projection:</b>   | <b>1,120,073</b>       | <b>649,133</b>         |
| <b>OA-HIPP Expenditure Projection:</b>   | 9,518,628              | 14,433,888             |
| Covered California: Impact of the PPACA Insurance Mandate on ADAP and IAS (NMA 2)  | 0                      | 554,001                |
| Non-Add: OA-HIPP Premiums for LIHP-eligible OA-HIPP Clients* (CA 2)  | 2,513,870              | 3,811,990              |
| Non-Add: OA-HIPP Premiums for Clients Co-Enrolled in Medi-Cal w/SOC* (CA 5)  | 70,253                 | 98,113                 |
| <b>Subtotal: OA-HIPP Expenditure Projection</b>  | <b>9,518,628</b>       | <b>14,987,889</b>      |
| <b>Total: Projected Expenditures for OA-PCIP and OA-HIPP</b>   | <b>10,638,701</b>      | <b>15,637,022</b>      |
| <b>Less: Federal Fund Appropriation (RW Part B Base Funds)</b>   | <b>-1,700,000</b>      | <b>-1,700,000</b>      |
| 2013 Federal Grant Adjustments (NMA 3)   |                        | 206,125                |
| <b>Federal Fund Appropriation</b>  | <b>-1,700,000</b>      | <b>-1,493,875</b>      |
| <b>Less: Reimbursement funding through the Safety Net Care Pool (UA 2)</b>   | <b>0</b>               | <b>-4,037,481</b>      |
| General Fund Appropriation for IAS - per FY 2012-13 Budget Act   | -890,354               | -890,354               |
| General Fund Need to avoid a negative fund balance   | -1,913,559             | 0                      |
| Surplus General Fund   | 0                      | 890,354                |
| <b>Subtotal: General Fund Revised Appropriation for OA-PCIP and OA-HIPP</b>  | <b>-2,803,913</b>      | <b>0</b>               |
| <b>Special Fund 3080 Need to meet Expenditure Projection for OA-PCIP and OA-HIPP</b>   | <b>6,134,788</b>       | <b>10,105,666</b>      |
| Local Assistance Medicare Part D premiums  | 1,000,000              | 1,000,000              |
| <b>Row 18: Special Fund 3080 Appropriation to meet Expenditure Projection for Insurance Assistance Programs</b>                | <b>7,134,788</b>       | <b>11,105,666</b>      |
| General Fund revised appropriation for ADAP  | 14,071,499             | 0                      |
| General Fund revised appropriation for OA-Insurance Assistance Programs  | 2,803,913              | 0                      |
| <b>Total General Fund Need</b>   | <b>16,875,412</b>      | <b>0</b>               |
| <b>Note: NMA: New Major Assumption; RMA: Revised Major; CA: Continuing; UA: Unchanged Assumption without New Fiscal Impact</b> |                        |                        |
| <b>*Utilize GF in the Current Year and Reimbursement funds in the Budget Year for expenditures not allowable under RW</b>      |                        |                        |

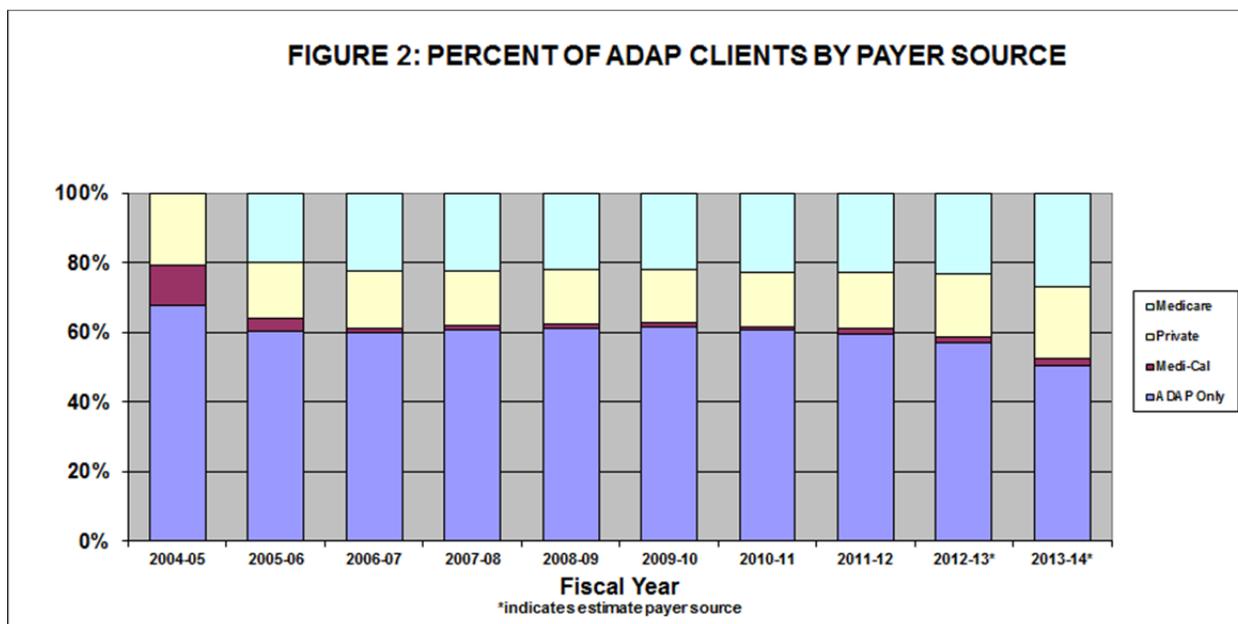
#### 4. HISTORICAL PROGRAM DATA AND TRENDS

(\*Data for FYs 2012-13 and 2013-14 are estimated, all other data are actuals)

For all figures and tables in Section 4, the data prior to FY 2012-13 is the observed historical data. To develop client and prescription estimates for FYs 2012-13 and 2013-14, OA used a regression model similar to the one used for expenditure estimates. These estimates were then adjusted in the following figures and tables to take into account client, expenditure, and prescription adjustments due to LIHP (**RMA 1** and **RMA 2**, as applicable).

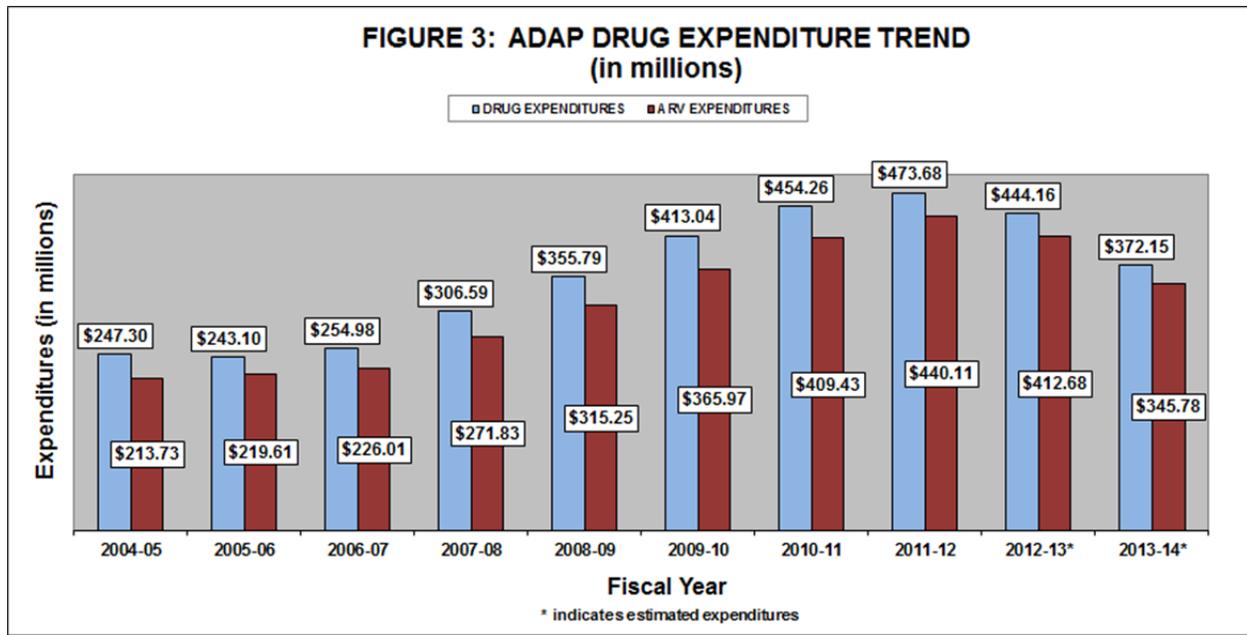


Note: Clients shifting out of ADAP due to LIHP in FY 2012-13 per **RMA 1** and **RMA 2** are still considered to be ADAP clients for FY 2012-13. They will no longer be clients in FY 2013-14.

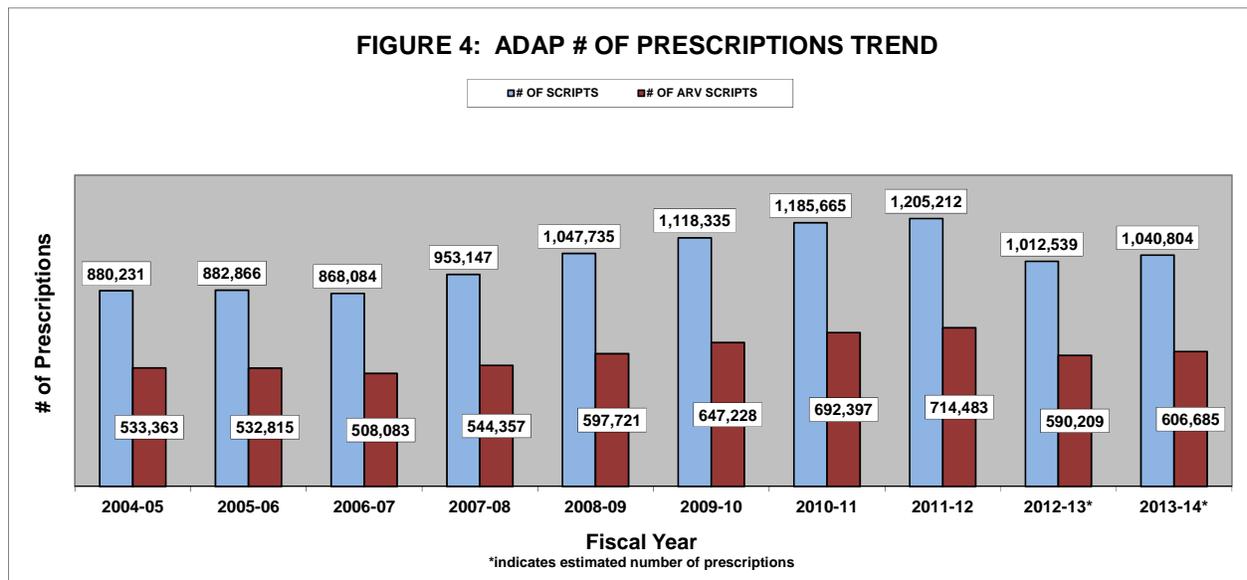


Note: For **Figure 2** and **Table 24**, the actual percentage of ADAP clients by payer source/coverage group in FY 2011-12 was applied to the estimated client counts in FYs 2012-13 and 2013-14 to estimate the percentage of clients by payer source. These percentages were then adjusted to account for the shift of ADAP-only clients to Covered California, **NMA 2**, and to LIHP per **RMA 1** and **RMA 2**.

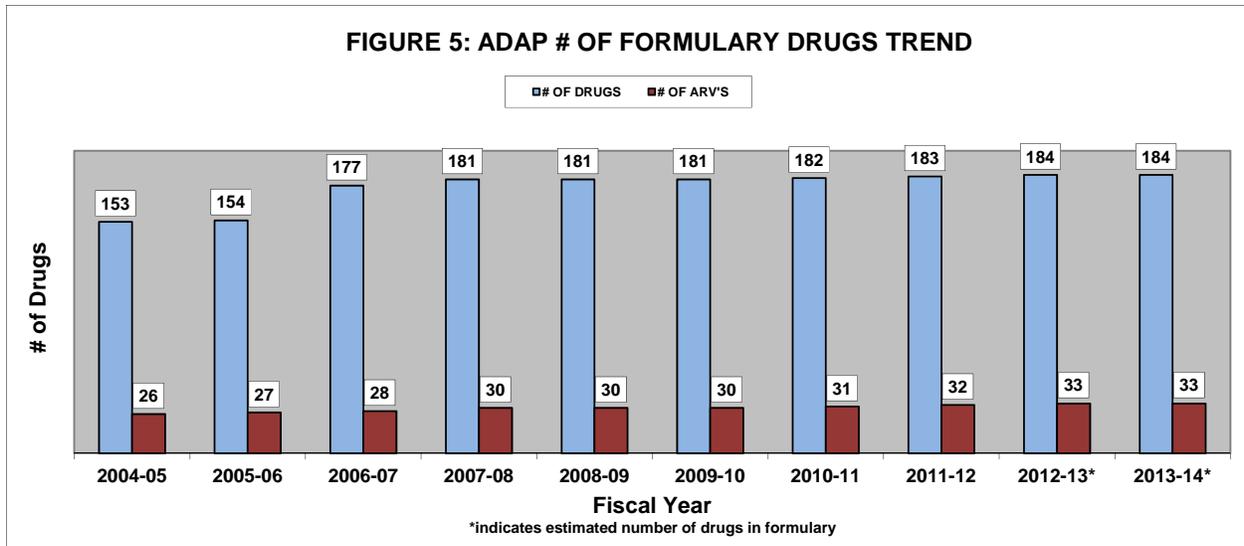
| Coverage Group    | FY 2012-13    |                | FY 2013-14    |                |
|-------------------|---------------|----------------|---------------|----------------|
|                   | Clients       | Percent        | Clients       | Percent        |
| ADAP-only         | 22,978        | 57.12%         | 18,422        | 50.49%         |
| Medi-Cal          | 720           | 1.79%          | 755           | 2.07%          |
| Private Insurance | 7,212         | 17.93%         | 7,536         | 20.65%         |
| Medicare          | 9,316         | 23.16%         | 9,776         | 26.79%         |
| <b>TOTALS</b>     | <b>40,226</b> | <b>100.00%</b> | <b>36,489</b> | <b>100.00%</b> |



Note: Drug expenditures do not include annual administrative support for LHJs, Medicare Part D, OA-HIPP, or OA-PCIP premium payments. For these costs, see FCS on page 32.



Note: To estimate the number of ARV prescriptions, OA used the percentage of ARV prescriptions in FY 2011-12 and applied it to the estimated drug prescriptions in FYs 2012-13 and 2013-14.



**APPENDIX A: EXPENDITURE AND REVENUE ESTIMATE METHODS****Updated Expenditure Estimate for FY 2012-13**

| <b>TABLE 25: LINEAR REGRESSION MODEL FOR MAY REVISION FOR FY 2012-13<br/>COMPARED TO 2013-14 GOVERNOR'S BUDGET</b> |                              |  |   |
|--|------------------------------|--|---|
| <b>MAY<br/>REVISION</b>  | <b>GOVERNOR'S<br/>BUDGET</b> | <b>CHANGE FROM<br/>PREVIOUS EST (\$)</b> | <b>CHANGE FROM<br/>PREVIOUS EST (%)</b> |
| \$512,980,537  | \$532,085,397                | -\$19,104,860                            | -3.59%                                  |

**Updated Expenditure Estimate for FY 2013-14**

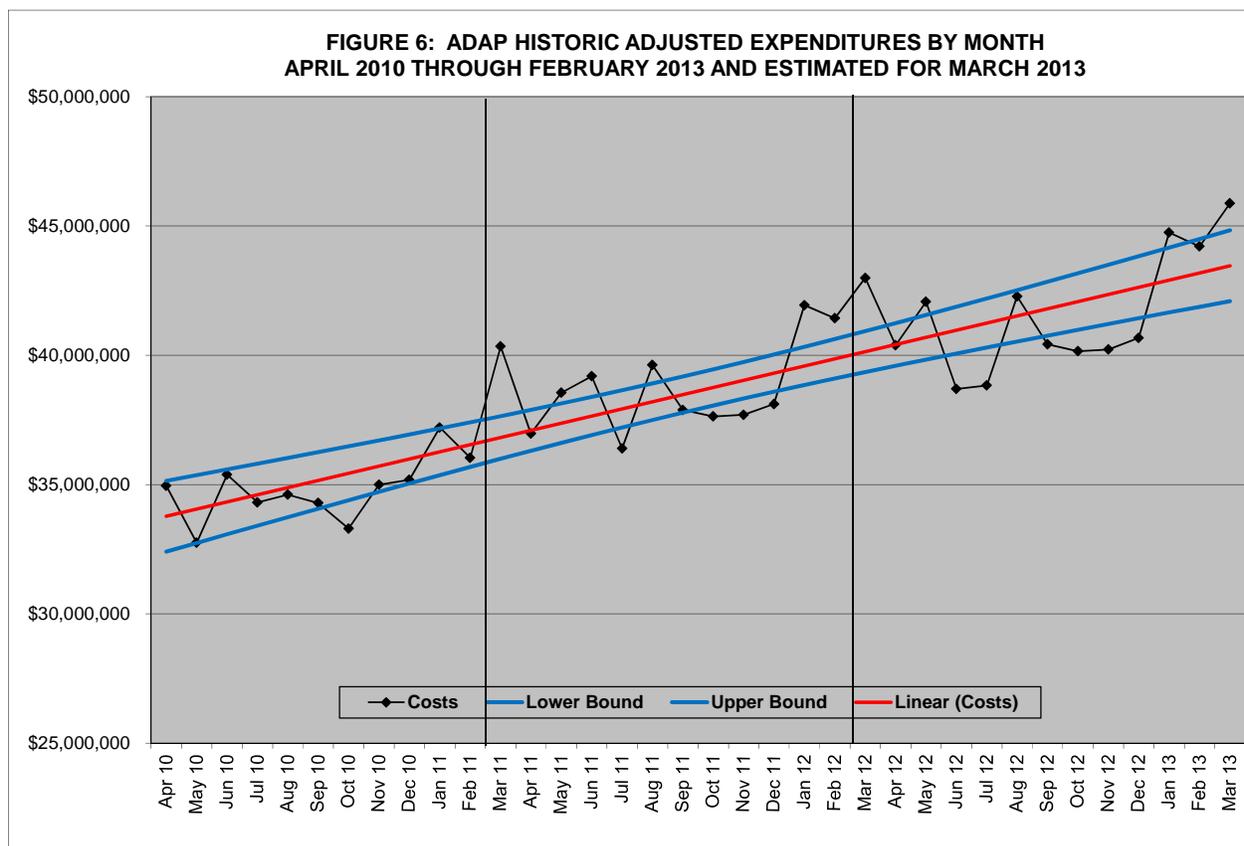
| <b>TABLE 26: LINEAR REGRESSION MODEL FOR MAY REVISION FOR FY 2013-14<br/>COMPARED TO 2013-14 GOVERNOR'S BUDGET</b> |                              |  |   |
|--|------------------------------|--|---|
| <b>MAY<br/>REVISION</b>  | <b>GOVERNOR'S<br/>BUDGET</b> | <b>CHANGE FROM<br/>PREVIOUS EST (\$)</b> | <b>CHANGE FROM<br/>PREVIOUS EST (%)</b> |
| \$571,604,776  | \$589,082,084                | -\$17,477,308                            | -2.97%                                  |

**Linear Regression Model – Expenditure Estimates**

The linear regression methodology is similar to the method used to estimate expenditures for FYs 2012-13 and 2013-14 in the *2013-14 Governor's Budget* with two changes: 1) we used the updated range of actual expenditures, from April 2010 through February 2013; and 2) we estimated March 2013 expenditures by: a) taking the invoiced expenditures for the first full week of March; b) calculating the daily expenditure rate for the seven-day invoice; and c) applying that daily expenditure rate to the remaining days of the month. As in the *2013-14 Governor's Budget*, three pre-regression adjustments were made for OA-HIPP, LIHP, and OA-PCIP. Using a more recent set of actual expenditure data to predict future expenditures allowed us to "fine tune" our previous estimates. Actual expenditures were lower than the estimated values previously predicted by the regression model used for FY 2012-13 in the *2013-14 Governor's Budget*, which resulted in the lower expenditure estimate for FY 2012-13 as shown in **Table 25**.

**Figure 6**, next page, shows ADAP historic expenditures by month used in the linear regression model. The regression line (red) represents the best fitting straight line for estimating the expenditures:

- During normal growth periods, a linear regression model should accurately predict expenditures (the red regression line goes straight through the data points).
  - During low growth periods, a linear regression model would overestimate expenditures (the red regression line goes over the data points).
  - During high growth periods, a linear regression model using the point estimate would underestimate expenditures (the red regression line goes under the data points).
- Thus, given the recent relatively high growth expenditure period beginning in FY 2007-08 (not shown in the figure), and the desire not to underestimate the need for ADAP to utilize the ADAP Special Fund to address increasing expenditures, we continue to use the upper bound of the 95 percent confidence interval around the point estimate (blue line) for our regression estimates. This is the same strategy used during the previous estimate development.



**Table 27** displays historic drug expenditures by FY, annual change, and percent change.

| <b>TABLE 27: ADAP HISTORIC AND PROJECTED DRUG EXPENDITURES</b>                  |                          |                                      |                          |
|---|--------------------------|--------------------------------------|--------------------------|
| (*Data for FY 2012-13 and FY 2013-14 are projected, all other data are actuals) |                          |                                      |                          |
| <b>Fiscal Year</b>  | <b>Expenditures</b>      | <b>Annual Change in Expenditures</b> | <b>Pct Annual Change</b> |
| 1997-98   | \$86,674,336             | N/A                                  | N/A                      |
| 1998-99   | \$98,924,742             | \$12,250,405                         | 14.13%                   |
| 1999-00   | \$119,465,151            | \$20,540,409                         | 20.76%                   |
| 2000-01   | \$144,913,504            | \$25,448,353                         | 21.30%                   |
| 2001-02   | \$167,709,426            | \$22,795,922                         | 15.73%                   |
| 2002-03   | \$187,854,138            | \$20,144,712                         | 12.01%                   |
| 2003-04   | \$220,101,760            | \$32,247,622                         | 17.17%                   |
| 2004-05   | \$247,299,716            | \$27,197,956                         | 12.36%                   |
| 2005-06   | \$243,096,942            | -\$4,202,774                         | -1.70%                   |
| 2006-07   | \$254,977,392            | \$11,880,450                         | 4.89%                    |
| 2007-08   | \$306,590,832            | \$51,613,440                         | 20.24%                   |
| 2008-09   | \$355,786,400            | \$49,195,569                         | 16.05%                   |
| 2009-10   | \$413,035,251            | \$57,248,851                         | 16.09%                   |
| 2010-11   | \$454,426,055            | \$41,390,804                         | 10.02%                   |
| 2011-12   | \$473,684,504            | \$19,258,449                         | 4.24%                    |
| 2012-13*  | \$444,157,581            | -\$29,526,923                        | -6.23%                   |
| 2013-14*  | \$372,146,346            | -\$72,011,235                        | -16.21%                  |
| <b>Total Average</b>  | <b>FY 97-98 to 13-14</b> | <b>\$17,842,001</b>                  | <b>10.05%</b>            |

Note: Drug costs include administrative costs at the pharmacy and PBM level. Drug costs do not include annual administrative support for LHJs, Medicare Part D, OA-HIPP, or OA-PCIP premium payments. For these costs, see FCS (Table 23, page 32).

Notes: In FY 2005-06, ADAP expenditures decreased for the first time due to the enrollment of ADAP clients in Medicare Part D starting in January 2006. This also resulted in a lower than average increase in expenditures in FY 2006-07. The annual percentage increase in expenditures has decreased in FYs 2010-11 and 2011-12 because of the elimination of jail clients and the changes to TrOOP in FY 2010-11. Additionally, the decreases for FY's 2012-13 are mainly due to LIHP while for FY 2013-14 they are mainly due to LIHP, Medi-Cal Expansion, and Covered California.

### **ADAP Rebate Revenue Estimate Method**

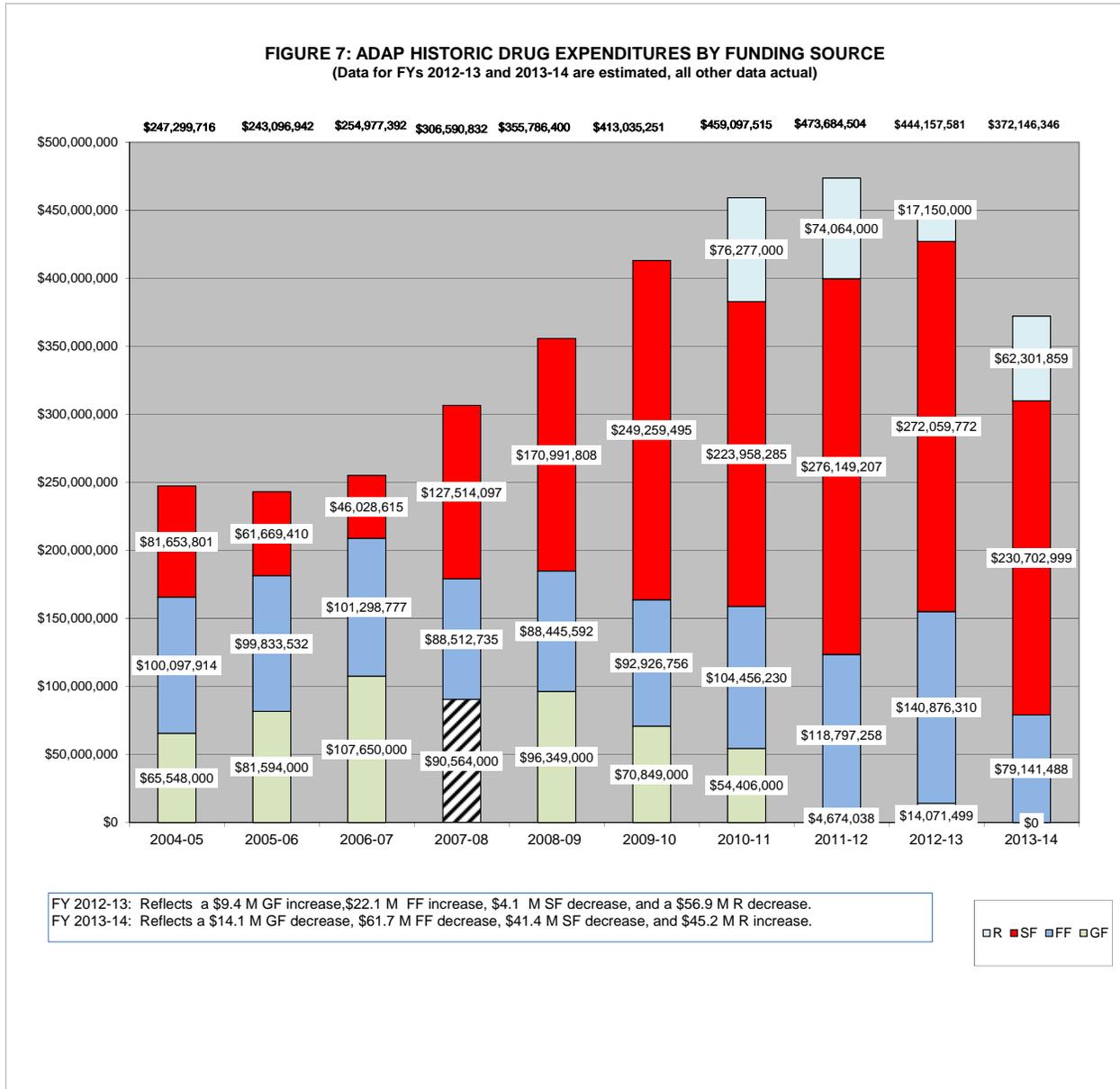
To forecast future revenue, the rebate revenue estimate method applies the expected revenue collection rate to estimated or actual expenditures (whichever is more current). Based on the most recent four quarters of actual rebates collected, the revenue collection rate is 60 percent. Estimated revenue for a given FY is based on drug expenditures during the last two quarters of the previous FY and the first two quarters of the current FY. This six-month delay is necessary to take into account the time required for billing the drug manufacturers and receipt of the rebate. Revenue projections are adjusted to reflect assumptions and other adjustments that can increase or decrease revenues.

Revenue estimates for FY 2012-13 in the *FY 2013-14 May Revision* were developed using actual rebates (\$156,688,581) collected for the period January through June 2012 and actual expenditures (220,296,874) for July through December 2012 (See **Table 29**, page 49). A 60 percent rebate collection rate was applied to the actual expenditures to arrive at estimated revenue of \$132,178,125, for a total revenue of \$288,866,706.

Budget year revenue for the *FY 2013-14 May Revision* was based on updated estimated expenditures for the period January through December 2013 applying the 60 percent rebate collection rate to arrive at the revenue projection of \$325,375,594 and adjusted for revised assumptions to arrive at estimated revenue of \$272,266,735.

It should be noted that the revenue estimate method uses average expenditures for each six-month period and does not directly take into account the seasonal behavior of expenditures. Historical data show that drug expenditures are lower in the first half of FY (July through December) compared to the second half.

**APPENDIX B: FUND SOURCES**



## **General Fund**

For FY 2012-13, the GF appropriation is used for the purchase of prescription drugs and insurance premiums for eligible clients. Due to the Ryan White Payer of Last Resort provision, GF is used by ADAP and insurance assistance programs to cover the costs associated with clients eligible for other public assistance programs, including Medi-Cal and LIHP. In FY 2012-13, GF also pays the transaction fees invoiced by ADAP's PBM contractor for the administrative costs associated with managing prescription transactions that are ultimately identified as not eligible for ADAP payment.

The FY 2012-13 total GF appropriation is \$16.9 million, the same amount as in the *2013-14 Governor's Budget*. Due to estimated decreased expenditures in FY 2013-14, OA will return the \$16.9 million appropriation to GF in FY 2013-14.

## **Federal Fund**

Federal funding from the annual HRSA grant award through Ryan White includes both "Base" funding and "ADAP Earmark" funding. The Base award from the grant provides funds for care and support programs within OA. The Part B Earmark award must be used for ADAP-related services only. The Ryan White award is predicated upon the State of California meeting Maintenance of Effort (MOE) and match requirements. Non-compliance with these requirements will result in withholding a portion (match) or the entire (MOE) Part B Federal grant award to California.

For FY 2012-13, ADAP received an additional increase of \$2,606,818 in Earmark Federal funding for a total of \$105,179,281 as well as four one-time fund awards: Ryan White Part B ADAP Supplemental Grant of \$8,425,807, Ryan White Part B Supplemental Award of \$2,129,954, competitive continuation Emergency Relief Fund (ERF) Award of \$3,141,268 million and new competitive ERF Award of \$7 million. These funds are one-time and must be spent by March 31, 2013, except ERF may be spent by September 29, 2013. Total ADAP Federal funds are approximately \$125.9 million in FY 2012-13.

On April 1, 2013, OA received the NOA for partial 2013 Ryan White Part B Grant funding due to the federal CR. ADAP received \$38,554,404 or 36 percent of the 2012 ADAP Earmark award. However, with the passage of the final CR at the end of March 2013, HRSA will be working towards distributing the remainder of the 2013 funding. This NOA also included \$2.7 million in ADAP Supplemental funds of which ADAP will utilize for drug expenditures. ADAP will request an additional \$15 million in federal fund expenditure authority for the Current Year. The remainder of the 2013 Ryan White Part B award will be utilized in the Budget Year.

### Match

HRSA requires grantees to have HIV-related non-HRSA expenditures. California's 2012 HRSA match requirement for FY 2012-13 funding is \$70,606,470. OA will meet the

match requirement by using GF expenditures from OA as well as the California Department of Corrections and Rehabilitation and the California HIV/AIDS Research Program.

### Maintenance of Effort

HRSA requires grantees to maintain HIV-related expenditures at a level that is not less than the prior FY. California's MOE target, based on FY 2011-12 expenditures at the time of the Year 2013 HRSA grant application, is \$502,476,676. Expenditures included in California's MOE calculations are not limited to OA programs and include HIV-related expenditures for all State agencies able to report GF expenditures specific to HIV-related activities such as care, treatment, prevention, and surveillance. In 2009, HRSA stated that expenditures from Special Fund may be used towards the MOE requirement. On November 16, 2012, HRSA released a policy letter affirming that drug rebates can be used for either the Federal match or MOE requirement but not both.

### **Reimbursement**

On February 1, 2010, the Centers for Medicare and Medicaid Services approved DHCS's proposed amendment to the Special Terms and Conditions, amended October 5, 2007. The amendment incorporates Federal flexibilities to expand DHCS's ability to claim additional State expenditures to utilize Federal funding under SNCP. DHCS used certified public expenditures from various programs, including ADAP, to claim Federal funds. CDPH will receive \$17,150,000 of these funds from DHCS as a reimbursement for FY 2012-13 and \$66,339,340 for FY 2013-14. DHCS recently informed OA that SNCP funds are not restricted and, therefore, may be used for expenditures not allowable under the Ryan White Payer of Last Resort provision. Thus, in FY 2013-14, OA will utilize SNCP funds to cover the costs associated with clients eligible for other public assistance programs, including Medi-Cal and LIHP and to cover the costs of transaction fees invoiced by ADAP's PBM contractor for the administrative costs associated with managing prescription transactions that are ultimately identified as not eligible for ADAP payment.

### **ADAP Special Fund 3080**

The use of this fund is established under both State law and Federal funding guidance. The ADAP Special Fund was legislatively established in 2004 to support the provision of ADAP services. California H&S Code Section 120956, which established the ADAP Special Fund, states in part:

“... (b) All rebates collected from drug manufacturers on drugs purchased through the ADAP implemented pursuant to this chapter and, not withstanding Section 16305.7 of the Government Code, interest earned on these moneys shall be deposited in the fund exclusively to cover costs related to the purchase of drugs and services provided through ADAP ...”

ADAP receives both mandatory and voluntary supplemental rebates for drugs dispensed to ADAP clients; the original rebate law required by H&S Code Section 120956, subsequent Federal (Medicaid) rebate law, and the latter nationally negotiated voluntary rebate established with individual drug manufacturers. Though these rebates constitute a significant part of the annual ADAP budget, the exact amount of rebate to be collected on an annual basis varies due to a number of factors, including quarterly changes in the Federal calculation for the mandatory rebate due on the part of the manufacturer and the “voluntary” nature of the supplemental rebates.

Supplemental rebates (rebates beyond those required by the Federal Medicaid rebate law) are negotiated on an ongoing basis by ACTF. ACTF is a national rebate negotiating coalition working on behalf of all state ADAPs. ACTF enters into voluntary, confidential supplemental rebate agreements with drug manufacturers.

Though these agreements are entered into in good faith by both parties, there is no guaranteed continuation of the voluntary supplemental rebate. The agreements are generally entered into for an average term of one to two years but the drug manufacturer or the program can cancel the voluntary supplemental rebate agreement at any time with a 30-day written notice. Additionally, the rebate agreements are highly confidential and any unauthorized disclosure could invalidate the agreements, resulting in serious national implications for all state ADAPs.

Supplemental rebate agreements are in place for all ARVs on the ADAP formulary. This is significant, as ARV drugs’ represented 93 percent of all ADAP drug expenditures in FY 2011-12. Supplemental rebate agreement terms are generally based on either:

1. Additional Rebate Percentage

The mandatory Federal Medicaid 340B rebate is based on a percentage of the average manufacturers price (AMP), plus any penalties for any price increases that exceed the inflation rate for the Consumer Price Index (CPI). Since AMP is confidential and not publicized, the resulting rebate amount is also unknown to ADAP. ACTF negotiations usually result in an additional voluntary, supplemental rebate based on a percentage of AMP. For example, if the current mandatory 340B rebate for brand drugs is 23 percent of AMP and ACTF has negotiated a supplemental rebate of 2 percent of AMP from Manufacturer X for Drug Y, then ADAP receives a total rebate of 25 percent of AMP for that drug.

2. “Price Freeze” Rebates

The “price freeze” option is another type of voluntary rebate offered by some manufacturers to compensate ADAP for commercial price increases. Currently, of the available ARV medications on the ADAP formulary, 11 are subject to a price freeze rebate. These 11 drugs represented 61 percent of ADAP drug expenditures in FY 2011-12. If the manufacturers impose a price increase that exceeds CPI (inflation rate) while the ADAP price freeze is in effect, the program reimburses retail

pharmacies at the new higher price. Though this initially results in higher expenditures for the program, these price freeze agreements eventually offset the cost by increased rebates subsequently received and deposited in the Special Fund.

Currently, all the ADAP supplemental agreements will expire on December 31, 2013. It is unknown to what extent, if any, drug manufacturers will extend the agreements beyond this date.

### **ADAP Rebate Invoicing**

ADAP invoices the manufacturers for drug rebates on a quarterly basis, consistent with both Federal drug rebate law and drug industry standards. All ADAPs are required to invoice drug manufacturers within 90 days of the end of a given calendar year quarter (e.g., January through March, April through June, etc.) in compliance with Federal requirements. ADAP mails drug rebate invoices approximately 30 days after the end of the quarter. For example, the January through March quarter invoice is sent out May 1. The time between the end of the billing quarter and the mailing of the invoice is necessary to generate and confirm the accuracy of the rebate invoices.

### **Timeframe for Receipt of Rebates**

Federal HRSA guidance on ADAP rebate indicates that drug manufacturers are to pay rebate invoices from ADAP within 90 days of receipt. Federal Medicaid rebate law requires that drug manufacturers pay drug rebates within 30 days of receipt of a rebate invoice. Historically, the majority of drug manufacturers have paid rebates more closely to the Medicaid payment timeframe, usually within 30 to 60 days. However, receipt of rebate payments due for calendar year 2011 indicate the manufacturers are more closely following the HRSA timeframe of 90 days when processing ADAP rebate invoices. Due to the above invoicing requirements and rebate payment timeframes, ADAP generally receives drug rebates five to eight months after program expenditures. Consequently, rebate due on expenditures in the second half of a given FY may not be received until the subsequent FY.

Special Fund budget authority for LHJs and premium payments is requested as follows:

- \$2 million in FYs 2012-13 and 2013-14 to LHJs to help offset the costs of ADAP enrollment and eligibility screening for clients at enrollment sites located throughout the state. Annual allocations are based on the number of ADAP clients enrolled during the previous calendar years;
- \$1 million for the Medicare Part D Premium Payment Program in both FYs. This program assists eligible clients in paying their Part D monthly premiums allowing them to receive the Part D benefit;
- \$900,284 and \$521,755 to cover premium payments for OA-PCIP in FYs 2012-13 and FY 2013-14, respectively; and
- \$5,234,505 and \$9,583,911 to cover premium payments for OA-HIPP in FYs 2012-13 and 2013-14, respectively.

| <b>TABLE 28: HISTORIC ADAP REBATE REVENUE COLLECTION PERCENTS BY QUARTER</b> |                           |                              |                             |
|--|---------------------------|------------------------------|-----------------------------|
| <b>FY-QTR</b>  | <b>\$ Drugs Purchased</b> | <b>Received in Rebate \$</b> | <b>Received / Purchased</b> |
| 2002-03-Q1   | \$46,263,616              | \$10,136,693                 | 21.91%                      |
| 2002-03-Q2   | \$46,714,748              | \$10,257,857                 | 21.96%                      |
| 2002-03-Q3   | \$47,028,955              | \$10,146,224                 | 21.57%                      |
| 2002-03-Q4   | \$47,846,818              | \$10,846,426                 | 22.67%                      |
| 2003-04-Q1   | \$51,607,688              | \$12,275,494                 | 23.79%                      |
| 2003-04-Q2   | \$51,732,389              | \$15,045,513                 | 29.08%                      |
| 2003-04-Q3   | \$56,857,403              | \$17,801,378                 | 31.31%                      |
| 2003-04-Q4   | \$59,904,280              | \$19,249,713                 | 32.13%                      |
| 2004-05-Q1   | \$61,533,761              | \$19,334,264                 | 31.42%                      |
| 2004-05-Q2   | \$60,894,584              | \$18,691,012                 | 30.69%                      |
| 2004-05-Q3   | \$61,680,181              | \$19,176,357                 | 31.09%                      |
| 2004-05-Q4   | \$63,191,190              | \$15,847,186                 | 25.08%                      |
| 2005-06-Q1   | \$63,433,758              | \$21,866,164                 | 34.47%                      |
| 2005-06-Q2   | \$62,536,173              | \$20,624,121                 | 32.98%                      |
| 2005-06-Q3   | \$58,562,814              | \$26,768,577                 | 45.71%                      |
| 2005-06-Q4   | \$58,564,197              | \$25,095,840                 | 42.85%                      |
| 2006-07-Q1   | \$60,334,084              | \$24,791,394                 | 41.09%                      |
| 2006-07-Q2   | \$58,609,374              | \$24,489,071                 | 41.78%                      |
| 2006-07-Q3   | \$67,474,884              | \$32,724,197                 | 48.50%                      |
| 2006-07-Q4   | \$68,559,050              | \$31,734,710                 | 46.29%                      |
| 2007-08-Q1   | \$68,797,779              | \$33,524,051                 | 48.73%                      |
| 2007-08-Q2   | \$71,581,717              | \$35,262,749                 | 49.26%                      |
| 2007-08-Q3   | \$81,926,045              | \$44,200,318                 | 53.95%                      |
| 2007-08-Q4   | \$84,285,291              | \$39,834,969                 | 47.26%                      |
| 2008-09-Q1   | \$82,366,671              | \$36,272,892                 | 44.04%                      |
| 2008-09-Q2   | \$85,997,429              | \$38,043,925                 | 44.24%                      |
| 2008-09-Q3   | \$93,564,283              | \$46,300,283                 | 49.48%                      |
| 2008-09-Q4   | \$93,858,017              | \$40,827,251                 | 43.50%                      |
| 2009-10-Q1   | \$98,508,463              | \$44,718,090                 | 45.40%                      |
| 2009-10-Q2   | \$95,842,924              | \$44,131,629                 | 46.05%                      |
| 2009-10-Q3   | \$109,578,075             | \$55,921,629                 | 51.03%                      |
| 2009-10-Q4   | \$109,105,788             | \$55,287,500                 | 50.67%                      |
| 2010-11 -Q1  | \$108,993,239             | \$56,542,420                 | 51.88%                      |
| 2010-11-Q2   | \$109,126,234             | \$60,631,590                 | 55.56%                      |
| 2010-11-Q3   | \$117,756,733             | \$69,851,359                 | 59.32%                      |
| 2010-11-Q4   | \$118,549,848             | \$67,568,412                 | 57.00%                      |
| 2011-12-Q1   | \$113,894,685             | \$65,604,076                 | 57.60%                      |
| 2011-12-Q2   | \$113,441,625             | \$66,275,506                 | 58.42%                      |
| 2011-12 -Q3  | \$126,356,874             | \$83,119,668                 | 65.78%                      |
| 2011-12 Q4   | \$119,991,320             | \$73,568,913                 | 61.31%                      |

60.92%

| TABLE 29: COMPARISON OF REBATE REVENUE BETWEEN 2013-14 May Revision and 2013-14 Governor's Budget |                          |               |                            |                   |               |            |
|---|--------------------------|---------------|----------------------------|-------------------|---------------|------------|
| UPDATED ESTIMATE FOR FY 2012-13   |                          |               |                            |                   |               |            |
| Expenditure Period  | Available Data           | May Revision  | Available Data             | Governor's Budget | Change (\$)   | Change (%) |
| Jan - Mar 2012  | Actual Rebates           | \$83,119,668  | Actual Rebates             | \$83,115,835      | \$3,833       | 0.00%      |
| Apr - Jun 2012  | Actual Rebates           | \$73,568,913  | Actual Expenditures @60%   | \$71,994,792      | \$1,574,121   | 2.19%      |
| Jul- Dec 2012   | Actual Expenditures @60% | \$132,178,125 | Estimated Expenditures@60% | \$159,625,619     | -\$27,447,494 | -17.19%    |
| <b>Subtotal Revenue Prior to Adjustments</b>  |                          | \$288,866,706 |                            | \$314,736,246     | -\$25,869,540 | -8.22%     |
| <b>Total Adjustments Due to Assumptions</b>   |                          | \$0           |                            | -\$6,997,247      | \$6,997,247   | -100.00%   |
| <b>Subtotal Revenue After Adjustments</b>   |                          | \$288,866,706 |                            | \$307,738,999     | -\$18,872,293 | -6.13%     |
| Interest  |                          | \$120,000     |                            | \$120,000         | \$0           | 0.00%      |
| <b>Total Revenue (see Table 23, Fund Condition Statement)</b>                                     |                          | \$288,986,706 |                            | \$307,858,999     | -\$18,872,293 | -6.13%     |

| UPDATED ESTIMATE FOR FY 2013-14                               |                             |               |                                     |                   |               |            |
|---|-----------------------------|---------------|-------------------------------------|-------------------|---------------|------------|
| Expenditure Period  | Available Data              | May Revision  | Available Data (Expenditure Period) | Governor's Budget | Change (\$)   | Change (%) |
| Jan - Jun 2013  | Estimated Expenditures @60% | \$153,894,161 | Estimate Expenditures @60%          | \$159,625,619     | -\$5,731,458  | -3.59%     |
| Jul - Dec 2013  | Estimated Expenditures @60% | \$171,481,433 | Estimate Expenditures @60%          | \$176,724,625     | -\$5,243,192  | -2.97%     |
| <b>Subtotal Revenue Prior to Adjustments</b>                  |                             | \$325,375,594 |                                     | \$336,350,244     | -\$10,974,650 | -3.26%     |
| <b>Total Adjustments Due to Assumptions</b>                   |                             | -\$53,108,859 |                                     | -\$51,346,323     | -\$1,762,536  | 3.43%      |
| <b>Subtotal Revenue after Adjustments</b>                     |                             | \$272,266,735 |                                     | \$285,003,921     | -\$12,737,186 | -4.47%     |
| Interest  |                             | \$120,000     |                                     | \$120,000         | \$0           | 0.00%      |
| <b>Total Revenue (see Table 23, Fund Condition Statement)</b> |                             | \$272,386,735 |                                     | \$285,123,921     | -\$12,737,186 | -4.47%     |

\*Note: When actual rebate data are not available, revenue projection methodology is based on actual expenditures (if available) or estimated expenditures. This method does not take into account the seasonal fluctuations between the first half of the FY (when expenditures are lowest) and the second half (when expenditures are highest).

## APPENDIX C: POTENTIAL FUTURE FISCAL ISSUES

ADAP continues to monitor policy issues and drugs that have the potential to impact the fiscal condition of ADAP. These issues can occur within the State and Federal arenas as well as the private sector. Because the future fiscal impact may be difficult to estimate, ADAP assesses the status of these issues on an ongoing basis. These issues are summarized below:

### 1. Additional 2012 Ryan White Federal Grant Funds – 2011 Carry-over Funds

CDPH submitted a carry-over request to HRSA in October 2012 for \$1.55 million of unspent funds from the 2011 Ryan White Part B Grant to utilize for ADAP expenditures in CY. On February 26, 2013, OA was notified by our HRSA Project Officer that our request to carry-over unspent 2011 Ryan White funds was denied.

*Predicted fiscal impact: no fiscal impact.*

### 2. One-Time Increase in Federal Funds: 2013 Ryan White ADAP Supplemental Application

As previously stated in **NMA 3**, California was eligible to apply for 2013 Ryan White ADAP Supplemental Funds based on potential program limitations for maintaining a core list of drugs. CDPH applied for the 2013 Ryan White ADAP Supplemental Grant in January 2013 and requested \$8.4 million. On April 1, 2013, ADAP received a partial award of \$2.7 million. With the passage of the final CR at the end of March, HRSA will be working towards distributing the remainder of the 2013 funding. ADAP will utilize additional ADAP Supplemental Funds, if awarded, for ADAP drug expenditures.

*Predicted fiscal impact: Increased ADAP Resources (fiscal +).*

### 3. One-Time Increase in Federal Funds: 2013 Ryan White Part B Supplemental Application

HRSA anticipates releasing the funding opportunity announcement (FOA) for the 2013 Ryan White Part B Supplemental Application in Spring 2013. The Ryan White Part B Supplemental Grant award is intended to supplement the services otherwise provided by the State. In prior year FOAs, states were required to demonstrate the severity of the HIV/AIDS epidemic in the state using quantifiable data on HIV epidemiology, co-morbidities, cost of care, the service needs of emerging populations, unmet need for core medical services, and unique service delivery challenges.

CDPH will apply for this grant, which CDPH will use for ADAP expenditures. HRSA anticipates awarding these funds by September 2013.

Predicted fiscal impact: Increased ADAP Resources (fiscal +).

#### 4. Ryan White Reauthorization

The Ryan White HIV/AIDS Treatment and Extension Act of 2009 (Ryan White Act) is up for reauthorization in October 2013. The current law does not contain a sunset provision, therefore U.S. Congress can continue to appropriate funding if no modifications are made. The 2013 Reauthorization presents the U.S. Congress with the opportunity to adopt and modify the law to reflect changes in the HIV/AIDS epidemic, changes in external conditions, drug treatment research, and shifts in the health care landscape in the United States. Currently, stakeholders are deciding whether to push for continued appropriation without reauthorization of the Ryan White Act, or to push for full reauthorization which holds potential risks. Full reauthorization may result in a determination by U.S. Congress that there is no longer a need for Ryan White programs with the onset of PPACA in 2014.

The implementation of PPACA will bring with it the challenge of transitioning ADAP clients to other payer sources and identifying and addressing gaps in HIV/AIDS patient services. It will take time to transition Ryan White clients into other payer mechanisms, thus ADAP clients who are eligible for programs and services under PPACA will not transition immediately on January 1, 2014. In addition, not all ADAP clients will be eligible for services under PPACA, and PPACA programs do not cover all services covered under Ryan White. Many stakeholders feel that these future challenges make it imperative that Ryan White funding remain in place through the transition and afterwards to fill in these gaps.

CDPH will continue to closely monitor the progress of the 2013 Ryan White reauthorization and the potential impact any changes or new developments may have on ADAP.

Predicted fiscal impact: Unknown at this time.

#### 5. Potential Savings Due to Cross Match of Ryan White Client Data to Medi-Cal Eligibility Data Systems (MEDS)

Federal requirements stipulate that Federal Ryan White grant funds are to be used solely as a payer of last resort. As such, clients that are enrolled in DHCS' Medi-Cal program and who have no SOC are not eligible for ADAP unless they are receiving benefits through Medicare Part D. Medicare is the primary payer for medical services for these dual-eligible beneficiaries; therefore, ADAP pays for the Medicare Part D drug co-pays and deductibles. ADAP clients who are required to apply for Medi-Cal can temporarily receive ADAP benefits while pending a Medi-Cal eligibility determination. ADAP clients with a Medi-Cal SOC only (no Medicare Part D) are eligible for ADAP to the extent that ADAP will pay their ADAP formulary drug costs up to the SOC amount, using non-Ryan White funds. Client screening during the annual ADAP enrollment and re-certification process attempts to identify those

individuals that have other third-party payer resources. However, it is possible that an individual may enroll in Medi-Cal or other public benefit programs during the interim period between ADAP re-certifications without notification to ADAP.

To minimize the possibility of paying for medications that should be billed to Medi-Cal, OA has drafted an interagency agreement with DHCS that will allow for a monthly transfer of Ryan White client data to DHCS to conduct a match with MEDS client data. CDPH is finalizing the interagency agreement and plans to send it to DHCS for signature in April. This cross-match between Ryan White client data and MEDS client data will identify Ryan White clients who are also Medi-Cal clients and if they have a SOC. Clients identified as enrolled in Medi-Cal with no SOC and who do not have Medicare will be terminated from ADAP with a notation made that they are enrolled in Medi-Cal. When these clients arrive at an ADAP pharmacy to get their medications, the medications will be billed to Medi-Cal rather than to ADAP. To the extent allowable under Medi-Cal, OA will also re-coup any prior ADAP expenditures for these clients through a pharmacy back-billing process by the ADAP PBM contractor.

*Predicted fiscal impact: Increased ADAP savings (fiscal +)*

#### 6. Effect of Duals Demonstration Project on ADAP

Senate Bill 1008 (Committee on Budget and Fiscal Review, Chapter 33, Statutes of 2012) authorized DHCS to establish the Duals Demonstration Project to enable dual-eligible beneficiaries (eligible for services through Medicare and Medi-Cal) to receive medical, behavioral, and long-term services via a duals demonstration health plan that coordinates the benefits of both Medicare and Medi-Cal programs. The Duals Demonstration Project, which includes eight counties (Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara) is scheduled to begin no earlier than September 2013 and is intended to expand statewide within three years of the start of the project.

OA is working with DHCS to plan for a smooth transition for clients living with HIV/AIDS and to receive updates on the project. Six counties will use a 12-month passive enrollment by each beneficiary's month of birth. However, Los Angeles will use a 16-month transition period with the first 4 months voluntary followed by the 12-month passive enrollment, and San Mateo will enroll all clients at the onset. HIV-positive dual beneficiaries passively enrolled into a duals demonstration health plan may choose to "opt-out" on any month of the year. There is no impact on ADAP if these dual beneficiaries opt-out, as ADAP will continue to pay their Medicare Part D prescription co-pays. In addition there is no impact to ADAP for dual beneficiaries who are Medi-Cal AIDS Waiver clients or AIDS Healthcare Foundation members because they will not be passively enrolled into a duals demonstration health plan.

If HIV-positive dual beneficiaries enroll in a duals demonstration health plan, the effect on ADAP and OA's Medicare Part D Premium Payment Program depends on whether or not these dual beneficiary ADAP clients will still be responsible for their

Medicare Part D out-of-pocket costs (e.g., premiums, prescription co-pays, prescription deductibles). California law states DHCS may require duals demonstration health plans to forgo charging premiums, co-insurance, co-pays, and deductibles for Medicare Part D prescription drug benefits. OA is not aware at this time which plans will or will not require client cost-sharing.

Additionally, in order for ADAP to cover dual demonstration beneficiary out-of-pocket prescription costs, the dispensing managed care plan pharmacy must also be an ADAP pharmacy. Preliminary data shows the overlap between Duals Demonstration Project pharmacies and ADAP pharmacies is approximately 85 percent. Based on these variables, ADAP can only report that ADAP expenditures and the associated rebate collected on those drugs may be reduced. The latter potential revenue reduction could be significant, as ADAP collects full rebate on these partial pay claims.

*Predicted fiscal impact: Unknown at this time.*

#### 7. Renegotiated Supplemental Rebate Expires December 31, 2013

Beginning in December 2011, the ACTF announced new supplemental rebate agreements with all ARV drug manufacturers. All of the agreements end December 31, 2013. At this time, it is unknown if the supplemental rebate agreements will be extended and/or to what degree the supplemental rebate terms may be renegotiated beyond December 31, 2013, given implementation of PPACA. In November 2012, ACTF met with some of the major ARV drug manufacturers to initiate discussion on the feasibility of extending supplemental agreements beyond the current expiration date. It is anticipated that new supplemental rebate negotiations will take place in June 2013.

*Predicted fiscal impact: Unknown at this time.*

## **New Drugs that may be Available in the Next Three Years**

### **Possible U.S. Food and Drug Administration (FDA) Approval of Elvitegravir**

Elvitegravir is an investigational integrase inhibitor therapy that is in Phase III clinical trials. If approved, elvitegravir will offer a once-daily dosing option for integrase inhibitors, as compared to the currently available raltegravir, which requires dosing twice daily. Once FDA approved, there may be a shift from current raltegravir users to elvitegravir because of the longer dosing interval. In addition, patients may switch from once a day protease inhibitors (PI) and non-nucleoside reverse transcriptase inhibitors once a daily integrase inhibitor is available. This drug is part of the “Quad” (elvitegravir/cobicistat/emtricitabine/tenofovir) formulation that was FDA approved on August 27, 2012. The manufacturer submitted a New Drug Application (NDA) to FDA for elvitegravir on June 27, 2012 and the agency has set a target action date under the Prescription Drug User Fee Act (PDUFA) of April 27, 2013. If approved, ADAP will monitor pricing and supplemental rebate negotiations closely. As required by law, ADAP must add a new ARV to the formulary with 30 days of FDA approval if its addition does not represent a cost increase to the program and the drug has been recommended for addition by the ADAP Medical Advisory Committee. If the net drug cost (after mandatory and negotiated supplemental rebates) and projected client utilization indicates a significant new cost to the program, the 30-day requirement no longer applies and an issue paper must be developed to identify how ADAP will cover new costs for the addition of ARV. Therefore it is possible that elvitegravir may be available to be added to the ADAP formulary by May 2013.

### **Possible FDA Approval of Cobicistat**

Cobicistat is being developed both as a pharmacokinetic booster for the integrase inhibitor elvitegravir and as a booster for PIs. This drug is also part of the previously discussed “Quad” formulation. The manufacturer submitted an NDA to FDA on June 28, 2012 and a PDUFA date of April 28, 2013 has been set. If approved, ADAP will monitor pricing and supplemental rebate negotiations closely and follow the procedures outlined above regarding the addition of this drug to the ADAP formulary. Therefore, it is possible that cobicistat may be available to be added to the ADAP formulary by May 2013.

### **Dolutegravir**

Dolutegravir, a second generation integrase inhibitor with activity against raltegravir resistant and elvitegravir-resistant HIV, is in Phase III clinical trials. In March 2012, the manufacturer released Phase III clinical trial results that indicate once-daily dosing, along with two non-nucleoside reverse transcriptase inhibitors, was associated with good treatment responses at 96 weeks. ADAP will continue to monitor the drug's development. FDA has granted a priority review designation to dolutegravir and has assigned a PDUFA target date of August 17, 2013.

## Apricitabine

Apricitabine, an investigational nucleoside reverse transcriptase inhibitor, originally had its development halted in May 2010 after the manufacturer failed to find a licensing partner. In March 2011, the manufacturer reached an agreement with FDA to receive credit for previous clinical trials and the drug company has indicated plans to move forward with Phase III trials. There is currently no listing for open apricitabine studies in the federal clinical trials database. Avexa has subsequently decided to resume development of the drug subject to further financing. ADAP will continue to monitor the drug's development. The federal clinical trials website ([www.clinicaltrials.gov](http://www.clinicaltrials.gov)) database, last updated January 2012, indicates that as of June 22, 2011, Phase III study of apricitabine was withdrawn by the study sponsor. As of April 2013, it is unknown if the Phase III study of apricitabine will resume.

**APPENDIX D: CURRENT HIV/AIDS EPIDEMIOLOGY IN CALIFORNIA****HIV Prevalence**

Prevalence reflects the number of people who are currently infected with HIV, and thus, who could qualify for ADAP currently or sometime in the future. California estimates that between 156,953 and 173,136 persons will be living with HIV/AIDS in California at the end of 2013, as seen in **Table 30**, below. This estimate includes people who are HIV positive but are not yet diagnosed by applying a national estimate of those unaware of their infection status developed by the Centers for Disease Control and Prevention (CDC) (CDC estimates 18.1 percent of all HIV-infected persons are unaware of their infection). Monitoring selected national HIV prevention and care objectives by using HIV surveillance data—United States and six dependent areas, 2010. *HIV Surveillance Supplemental Report 2012*;17[No. 3, part A].

<http://www.cdc.gov/hiv/topics/surveillance/resources/reports/>. Published June 2012. Accessed March 22, 2013). Living HIV/AIDS cases are estimated to be 44.1 percent White, 18.1 percent African American, 32.5 percent Latino, 3.8 percent Asian/Pacific Islander, 0.4 percent American Indian/Alaskan Native, and 1.2 percent Multi-racial. The results of a CDC algorithm that estimates the distribution of living cases with respect to mode of HIV exposure applied to California data show most (64.5 percent) of California's estimated living HIV/AIDS cases are attributed to male-to-male sexual transmission, 11.7 percent to injection drug use, 12.9 percent to heterosexual transmission, 9.9 percent to men who have sex with men who also inject drugs, 0.5 percent to perinatal exposure, and 0.5 to other or unknown sources.

The number of living HIV/AIDS cases in the state is expected to grow by approximately 2 percent (with a range of 2,800–5,400) each year for the next two years and it is expected that this increasing trend will continue for the foreseeable future. This increase is attributed to stable incidence rates and longer survival of those infected, primarily due to the effectiveness and availability of treatment.

**TABLE 30: ESTIMATED PERSONS LIVING WITH HIV IN CALIFORNIA, 2010-2014**

| Year | Estimated persons to be reported with HIV (not AIDS) and presumed living* |            | Persons reported with AIDS and presumed living |            | Estimated persons living with HIV or AIDS** |            |
|------|---|------------|--|------------|---|------------|
|      | Low bound   | High bound | Low bound                                      | High bound | Low bound                                   | High bound |
| 2011 | 46,363  | 53,399     | 71,023   | 72,191     | 151,367                                     | 162,507    |
| 2012 | 46,896  | 55,271     | 72,875   | 74,305     | 154,137                                     | 167,844    |
| 2013 | 47,444  | 57,128     | 74,748   | 76,399     | 156,953                                     | 173,136    |
| 2014 | 48,000  | 58,977     | 76,634   | 78,480     | 159,796                                     | 178,401    |
| 2015 | 48,563  | 60,820     | 78,529   | 80,551     | 162,660                                     | 183,644    |

\*Assumes names-based HIV reporting system (established April 2006) is mature and meets CDC completeness standards

\*\*Includes persons unreported and/or persons unaware of their HIV infection

## HIV Incidence

Incidence is a measure of new infections over a specified period of time (typically a year) and thus provides an indication of the future need for ADAP support. Most people get tested infrequently, so incidence estimates largely rely on modeling. California estimates 5,000–7,000 new HIV infections annually. This estimate was developed through:

- A series of “consensus conferences” convened in California in 2000 that developed population estimates of HIV incidence; and
- Downward adjustment of the “consensus conference” estimate based upon observed reported HIV cases in the code based HIV surveillance system; numbers observed to date in the names-based HIV surveillance system are consistent with this adjustment.

Recent advances have made estimation of HIV incidence possible using remnant blood samples from people found to be HIV antibody positive. In 2004, CDC began a national effort to measure incidence using state-of-the-art technology on these remnant samples. Results of this effort were first reported in the August 2008 issue of *Journal of the American Medical Association*<sup>1</sup> and *Morbidity and Mortality Weekly Report*,<sup>2</sup> and CDC has subsequently provided updated national incidence estimates through 2010.<sup>3</sup> California data have yet to be included in calculating national estimates because names-based HIV reporting was required to be in effect for all of 2006 for inclusion in the most recent CDC paper, and it did not start in California until April 2006. The 95 percent confidence interval for the 2009 and 2010 national estimates (39,900 to 50,100 new infections and 42,000 to 53,300 new infections, respectively) are consistent with the 5,000 to 7,000 range OA estimated for California in 2005, suggesting new HIV infections have been relatively steady in recent years.

California has implemented HIV Incidence Surveillance using the CDC-developed Serologic Testing Algorithm for Recent HIV Seroconversion methodology. The initial estimates of California incidence for 2009 and 2010 based on the data and methodology provided by CDC are as follows:

2009: Estimated infections = 5,330 (95 percent confidence interval 4,408 to 6,252).  
2010: Estimated infections = 5,598 (95 percent confidence interval 4,576 to 6,621).

Data from this system will be used to revise California incidence estimates in the coming years as more years are estimated. An estimate for 2011 is expected to be available later this year.

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<sup>1</sup> Hall HI, Song R, Rhodes P, et al. Estimation of HIV incidence in the United States. *JAMA* 2008;300(5):520–9.

<sup>2</sup> Subpopulation Estimates from the HIV Incidence Surveillance System — United States, 2006. *MMWR* 2008;57(36):1073-1076.

<sup>3</sup> CDC. Estimated HIV incidence in the United States, 2007-2010. *HIV Surveillance Supplemental Report* 2012;17 (No.4) <http://www.cdc.gov/hiv/topics/surveillance/resources/reports/#supplemental>. Published December 2012.

**APPENDIX E: SENSITIVITY ANALYSIS****FY 2012-13**

ADAP conducted a sensitivity analysis exploring the impact on total expenditures by increasing and decreasing the number of clients and the expenditures per client (\$/client). For this sensitivity analysis, we started with the estimated total drug expenditures for FY 2012-13 using the upper bound of the 95 percent confidence interval from the linear regression model and subtracted cost/savings for all assumptions impacting drug expenditures.

For these factors, clients and expenditures per client, we created scenarios ranging from negative 3 percent to positive 3 percent, in 1 percent intervals. Those scenarios labeled as “Hi” represent 3 percent, “Med” represent 2 percent, and “Lo” represents a 1 percent change. The left column in **Table 31**, below, lists the seven (including no change) scenarios for changes in \$/client, starting with the best case scenario {3 percent decrease in \$/client, Hi(-)} and finishing with the worst case scenario {3 percent increase in \$/client, Hi(+)}. The seven scenarios for changes in client counts are listed across the table.

| <b>\$ / Client Scenarios</b>      | <b>Number of Client Scenarios</b> |                   |                  |                               |                  |                   |                  |
|-----------------------------------|-----------------------------------|-------------------|------------------|-------------------------------|------------------|-------------------|------------------|
|                                   | <b>Hi (-) CI</b>                  | <b>Med (-) CI</b> | <b>Lo (-) CI</b> | <b>Zero Change in Clients</b> | <b>Lo (+) CI</b> | <b>Med (+) CI</b> | <b>Hi (+) CI</b> |
| <b>Hi (-): Best</b>               | \$418,058,131                     | \$422,341,797     | \$426,625,463    | \$430,909,129                 | \$435,192,795    | \$439,476,461     | \$443,760,127    |
| <b>Med (-)</b>                    | \$422,341,797                     | \$426,669,625     | \$430,997,452    | \$435,325,280                 | \$439,653,107    | \$443,980,935     | \$448,308,762    |
| <b>Lo (-)</b>                     | \$426,625,463                     | \$430,997,452     | \$435,369,441    | \$439,741,430                 | \$444,113,419    | \$448,485,408     | \$452,857,398    |
| <b>Zero Change in \$ / Client</b> | \$430,909,129                     | \$435,325,280     | \$439,741,430    | \$444,157,581                 | \$448,573,732    | \$452,989,882     | \$457,406,033    |
| <b>Lo (+)</b>                     | \$435,192,795                     | \$439,653,107     | \$444,113,419    | \$448,573,732                 | \$453,034,044    | \$457,494,356     | \$461,954,668    |
| <b>Med (+)</b>                    | \$439,476,461                     | \$443,980,935     | \$448,485,408    | \$452,989,882                 | \$457,494,356    | \$461,998,829     | \$466,503,303    |
| <b>Hi (+): Worst</b>              | \$443,760,127                     | \$448,308,762     | \$452,857,398    | \$457,406,033                 | \$461,954,668    | \$466,503,303     | \$471,051,938    |

The center cell highlighted in light blue shows the revised estimated expenditures for FY 2012-13, using the 95 percent confidence interval from the linear regression model and adjusted for all assumptions. The best case scenario, which is a 3 percent decrease in \$/client coupled with a 3 percent decrease in the number of clients, results in an estimate of \$418.06 million (top left cell, light green). The worst case scenario, a 3 percent increase in \$/client coupled with a 3 percent increase in number of clients, results in an estimate of \$471.05 million (bottom right cell, red). The table provides a range of values to assist in projecting the total expenditures for FY 2012-13.

**FY 2013-14**

Below is the sensitivity analysis for FY 2013-14, using the same logic that was used for FY 2012-13. In this sensitivity analysis, ADAP adjusted for several assumptions that impacted ADAP's FY 2013-14 total expenditures and total client count. Similar to the FY 2012-13 sensitivity analysis, we started with the estimated total drug expenditures for FY 2013-14 using the upper bound of the 95 percent confidence interval from the linear regression model. Then we subtracted savings for all assumptions. The "baseline" or center cell, highlighted in light blue below, reflects all adjustments to the linear regression expenditure projection. **Table 32**, below, provides a range of values to assist in projecting the total expenditures for FY 2013-14.

| \$ / Client Scenarios             | Number of Client Scenarios |               |               |                        |               |               |               |
|-----------------------------------|----------------------------|---------------|---------------|------------------------|---------------|---------------|---------------|
|                                   | Hi (-) CI                  | Med (-) CI    | Lo (-) CI     | Zero Change in Clients | Lo (+) CI     | Med (+) CI    | Hi (+) CI     |
| <b>Hi (-): Best</b>               | \$350,319,933              | \$353,902,271 | \$357,484,610 | \$361,066,948          | \$364,649,287 | \$368,231,626 | \$371,813,964 |
| <b>Med (-)</b>                    | \$353,902,271              | \$357,521,541 | \$361,140,811 | \$364,760,081          | \$368,379,351 | \$371,998,621 | \$375,617,891 |
| <b>Lo (-)</b>                     | \$357,484,610              | \$361,140,811 | \$364,797,012 | \$368,453,213          | \$372,109,415 | \$375,765,616 | \$379,421,817 |
| <b>Zero Change in \$ / Client</b> | \$361,066,948              | \$364,760,081 | \$368,453,213 | \$372,146,346          | \$375,839,479 | \$379,532,611 | \$383,225,744 |
| <b>Lo (+)</b>                     | \$364,649,287              | \$368,379,351 | \$372,109,415 | \$375,839,479          | \$379,569,542 | \$383,299,606 | \$387,029,670 |
| <b>Med (+)</b>                    | \$368,231,626              | \$371,998,621 | \$375,765,616 | \$379,532,611          | \$383,299,606 | \$387,066,601 | \$390,833,597 |
| <b>Hi (+): Worst</b>              | \$371,813,964              | \$375,617,891 | \$379,421,817 | \$383,225,744          | \$387,029,670 | \$390,833,597 | \$394,637,523 |