

AIDS DRUG ASSISTANCE PROGRAM (ADAP)

**November 2013
Estimate Package**

2014-15 GOVERNOR'S BUDGET



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EXECUTIVE SUMMARY

The California Department of Public Health (CDPH), Center for Infectious Diseases, Office of AIDS (OA), AIDS Drug Assistance Program (ADAP) 2013 Budget Act appropriation is \$406.3 million. CDPH is requesting an increase of \$24.3 million in federal funds, an increase of \$46.4 million in rebate funds, and a decrease in reimbursement funds of \$58 million due to a surplus in fiscal year (FY) 2013-14. For FY 2014-15, ADAP estimates a budget decrease of \$9.4 million when compared to the revised current year budget of \$419 million.

The budget for ADAP, which includes insurance assistance programs, does not include General Fund for FYs 2013-14 or 2014-15.

Expenditure Forecast

Unadjusted expenditure estimates for the *2014-15 Governor's Budget* were derived from a linear regression model. The 36-month data set for this estimate used actual expenditures from October 2010 through August 2013, and estimated expenditures for September 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 due to two key policy changes recently implemented: (1) the movement of ADAP clients into the Low Income Health Program (LIHP); and (2) beginning January 1, 2014, the movement of ADAP clients to Medi-Cal Expansion and Covered California due to the implementation of the Patient Protection and Affordable Care Act (PPACA).

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 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 [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 2014 Medi-Cal Expansion [Major Assumption (MA) 1, page 10], Covered California (MA 2, page 12), Additional PBM Costs (MA 7, page 20), and Cal MediConnect (MA 9, page 22).

For FY 2013-14, total estimated expenditures of \$419 million are \$12.7 million more than the Budget Act authority of \$406.3 million. However, there is no General Fund need for local assistance because ADAP will use all rebate funds available in FY 2013-14 due to the federal Health Resources and Services Administration's (HRSA) requirement to spend rebate funds prior to spending federal funds. ADAP also estimates spending an additional \$24.3 million in federal funds and returning \$58.0

million of reimbursement funds to the California Department of Health Care Services (DHCS), when compared to the 2013-14 Budget Act.

FY 2014-15, estimated expenditures of \$409.6 million are \$9.4 million less than FY 2013-14 revised estimated expenditures of \$419 million primarily due to savings from PPACA programs, 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 three fund sources: (1) federal funds; (2) rebate funds; and (3) reimbursements from DHCS as a result of funding available through the Safety Net Care Pool (SNCP). (See Appendix B: Fund Sources for funding details on page 37.)

Major changes from the 2013-14 Budget Act include:

- For FY 2013-14, an increase in ADAP Rebate Fund expenditure authority of \$46.4 million primarily due to the federal requirement to spend rebate funds prior to federal funds.
- An increase in the drug rebate rate from 60 to 65 percent based on the past four quarters of actual rebates received (see page 43).
- For FY 2013-14, an increase in federal funds of \$24.3 million due to additional grant awards.
- For FY 2013-14, a decrease in the use of reimbursement (SNCP) funds of \$58 million due in part to the federal requirement to spend all rebate revenue first.
- For FY 2014-15, DHCS informed OA that \$53.6 million in reimbursement funds are available to ADAP. However, with an expenditure need of \$51.1 million there will be a \$2.5 million surplus.

For FY 2013-14, ADAP total resources are anticipated to decrease by \$27.3 million compared to the Budget Act. In addition, ADAP will no longer maintain a special fund reserve due to HRSA's recent requirement to spend rebate funds prior to federal funds.

For FY 2014-15, resources are anticipated to decrease by \$7.3 million compared to the Budget Act due to a decrease in expenditures and a decrease in reimbursement and ADAP Rebate Fund revenue.

1. FISCAL COMPARISON TABLES

Table 1a: Expenditure Comparison: FY 2013-14 in 2014-15 Governor's Budget to FY 2013-14 Budget Act (000's)

	FY 2013-14					2013-14 Budget Act					Difference				
	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund
Local Assistance Funding	\$419,036	\$8,315	\$103,488		\$307,232	\$406,289	\$66,339	\$79,141		\$260,809	\$12,746	(\$58,024)	\$24,347		\$46,423
ADAP Expenditure Estimate	\$401,400	\$4,233	\$103,488		\$293,679	\$389,146	\$62,302	\$79,141		\$247,703	\$12,254	(\$58,069)	\$24,347		\$45,976
Prescription Costs	\$394,416	\$2,118	\$102,223		\$290,075	\$383,078	\$58,951	\$78,484		\$245,641	\$11,340	(\$56,833)	\$23,739		\$44,434
Basic Prescription Costs	\$540,201	\$2,118	\$102,223		\$435,860	\$563,626	\$58,951	\$78,484		\$426,191	(\$23,425)	(\$56,833)	\$23,739		\$9,669
Effect of the Cal MediConnect Program on ADAP	(\$1)				(\$1)						(\$1)				(\$1)
2014 Medi-Cal Expansion Impact	(\$72,733)				(\$72,733)	(\$74,076)				(\$74,076)	\$1,343				\$1,343
Covered California Impact	(\$1,587)				(\$1,587)	(\$3,709)				(\$3,709)	\$2,121				\$2,121
LHHP Impact*	(\$69,778)				(\$69,778)	(\$100,256)				(\$100,256)	\$30,477				\$30,477
OA-PCIP Impact	(\$1,685)				(\$1,685)	(\$2,510)				(\$2,510)	\$824				\$824
PBM Operational Costs	\$6,984	\$2,115	\$1,265		\$3,604	\$6,071	\$3,351	\$657		\$2,062	\$914	(\$1,236)	\$608		\$1,542
Basic PBM Costs	\$9,490	\$2,115	\$1,265		\$6,109	\$7,979	\$3,351	\$657		\$3,971	\$1,511	(\$1,236)	\$608		\$2,139
2014 Medi-Cal Expansion Expenditure Impact	(\$1,288)				(\$1,288)	(\$1,174)				(\$1,174)	(\$114)				(\$114)
Covered California Expenditure Impact	(\$28)				(\$28)	(\$59)				(\$59)	\$31				\$31
Additional PBM Costs	\$103				\$103	\$538				\$538	(\$435)				(\$435)
LHHP Impact*	(\$1,263)				(\$1,263)	(\$1,174)				(\$1,174)	(\$89)				(\$89)
OA-PCIP PBM Impact	(\$30)				(\$30)	(\$40)				(\$40)	\$10				\$10
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	\$495	\$131			\$364	\$649	\$127			\$522	(\$154)	\$3			(\$158)
Insurance Assistance Program: OA-HIPP	\$14,141	\$3,952	\$1,500		\$10,189	\$13,494	\$3,910	\$1,494		\$9,584	\$647	\$42	\$6		\$605
Support/Administration Funding	\$2,502		\$1,174	\$411	\$917	\$2,444		\$1,116	\$411	\$917	\$57		\$57		

* LHHP "Legacy" and "Non-Legacy" lines combined for November Estimate as compared to prior years.

Table 1b: Expenditure Comparison: 2014-15 Governor's Budget to FY 2013-14 Budget Act (000's)

	2014-15 Governor's Budget					2013-14 Budget Act					Difference				
	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund
Local Assistance Funding	\$409,622	\$51,126	\$98,727		\$259,769	\$406,289	\$66,339	\$79,141		\$260,809	\$3,333	(\$15,214)	\$19,586		(\$1,040)
ADAP Expenditure Estimate	\$392,980	\$49,651	\$98,727		\$244,602	\$389,146	\$62,302	\$79,141		\$247,703	\$3,834	(\$12,651)	\$19,586		(\$3,101)
Prescription Costs	\$396,143	\$47,003	\$97,519		\$241,621	\$383,078	\$58,951	\$78,484		\$245,641	\$3,067	(\$11,948)	\$19,035		(\$4,020)
Basic Prescription Costs	\$587,280	\$47,003	\$97,519		\$442,758	\$563,626	\$58,951	\$78,484		\$426,191	\$23,654	(\$11,948)	\$19,035		\$16,567
Effect of the Cal MediConnect Program on ADAP	(\$15)				(\$15)						(\$15)				(\$15)
2014 Medi-Cal Expansion Impact	(\$189,896)				(\$189,896)	(\$74,076)				(\$74,076)	(\$115,820)				(\$115,820)
Covered California Impact	(\$11,227)				(\$11,227)	(\$3,709)				(\$3,709)	(\$7,518)				(\$7,518)
LHHP Impact*						(\$100,256)				(\$100,256)	\$100,256				\$100,256
OA-PCIP Impact						(\$2,510)				(\$2,510)	\$2,510				\$2,510
PBM Operational Costs	\$6,838	\$2,649	\$1,208		\$2,981	\$6,071	\$3,351	\$657		\$2,062	\$767	(\$703)	\$551		\$919
Basic PBM Costs	\$10,180	\$2,649	\$1,208		\$6,323	\$7,979	\$3,351	\$657		\$3,971	\$2,201	(\$703)	\$551		\$2,353
2014 Medi-Cal Expansion Expenditure Impact	(\$3,363)				(\$3,363)	(\$1,174)				(\$1,174)	(\$2,189)				(\$2,189)
Covered California Expenditure Impact	(\$199)				(\$199)	(\$59)				(\$59)	(\$140)				(\$140)
Additional PBM Costs	\$220				\$220	\$538				\$538	(\$318)				(\$318)
LHHP Impact*						(\$1,174)				(\$1,174)	\$1,174				\$1,174
OA-PCIP PBM Impact						(\$40)				(\$40)	\$40				\$40
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	(\$649)	(\$127)			(\$522)
Insurance Assistance Program: OA-HIPP	\$13,642	\$1,475	\$1,500		\$12,167	\$13,494	\$3,910	\$1,494		\$9,584	\$148	(\$2,435)	\$6		\$2,583
Support/Administration Funding	\$2,502		\$1,174	\$411	\$917	\$2,444		\$1,116	\$411	\$917	\$57		\$57		

* LHHP "Legacy" and "Non-Legacy" lines combined for November Estimate as compared to prior years.

Table 1c: Expenditure Comparison: 2014-15 Governor's Budget to FY 2013-14 in 2014-15 Governor's Budget (000's)

	2014-15 Governor's Budget					FY 2013-14					Difference				
	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund
Local Assistance Funding	\$409,622	\$51,126	\$98,727		\$259,769	\$419,036	\$8,315	\$103,488		\$307,232	(\$9,414)	\$42,810	(\$4,761)		(\$47,463)
ADAP Expenditure Estimate	\$392,980	\$49,651	\$98,727		\$244,602	\$401,400	\$4,233	\$103,488		\$293,679	(\$8,420)	\$45,418	(\$4,761)		(\$49,077)
Prescription Costs	\$386,143	\$47,003	\$97,519		\$241,621	\$394,416	\$2,118	\$102,223		\$290,075	(\$8,273)	\$44,865	(\$4,704)		(\$48,454)
Basic Prescription Costs	\$687,280	\$47,003	\$97,519		\$442,758	\$540,201	\$2,118	\$102,223		\$435,860	\$47,079	\$44,865	(\$4,704)		\$6,898
Effect of the Cal MediConnect Program on ADAP	(\$15)				(\$15)	(\$1)				(\$1)	(\$14)				(\$14)
2014 Medi-Cal Expansion Impact	(\$189,896)				(\$189,896)	(\$72,733)				(\$72,733)	(\$117,162)				(\$117,162)
Covered California Impact	(\$11,227)				(\$11,227)	(\$1,587)				(\$1,587)	(\$9,640)				(\$9,640)
LHHP Impact*						(\$69,778)				(\$69,778)	\$69,778				\$69,778
OA-PCIP Impact						(\$1,685)				(\$1,685)	\$1,685				\$1,685
PBM Operational Costs	\$6,838	\$2,649	\$1,208		\$2,981	\$6,984	\$2,115	\$1,265		\$3,604	(\$146)	\$534	(\$57)		(\$623)
Basic PBM Costs	\$10,180	\$2,649	\$1,208		\$6,323	\$9,490	\$2,115	\$1,265		\$6,109	\$690	\$534	(\$57)		\$214
2014 Medi-Cal Expansion Impact	(\$3,363)				(\$3,363)	(\$1,288)				(\$1,288)	(\$2,075)				(\$2,075)
Covered California Impact	(\$199)				(\$199)	(\$28)				(\$28)	(\$171)				(\$171)
Additional PBM Costs	\$220				\$220	\$103				\$103	\$117				\$117
LHHP Impact*						(\$1,263)				(\$1,263)	\$1,263				\$1,263
OA-PCIP PBM Impact						(\$30)				(\$30)	\$30				\$30
LHU 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						\$495	\$131			\$364	(\$495)	(\$131)			(\$364)
Insurance Assistance Program: OA-HIPP	\$13,642	\$1,475	\$1,500		\$12,167	\$14,141	\$3,952	\$1,500		\$10,189	(\$499)	(\$2,477)			\$1,978
Support/Administration Funding	\$2,502		\$1,174	\$411	\$917	\$2,502		\$1,174	\$411	\$917					

* LHHP "Legacy" and "Non-Legacy" lines combined for November Estimate as compared to prior years.

TABLE 2a: Resource Comparison: FY 2013-14 in 2014-15 Governor's Budget to FY 2013-14 Budget Act (000's)

	FY 2013-14					2013-14 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	\$392,048	\$8,315	\$104,662	\$411	\$278,659	\$419,395	\$66,339	\$80,258	\$411	\$272,387	(\$27,347)	(\$58,024)	\$24,404		\$6,273
Basic Rebate Revenues	\$278,539				\$278,539	\$325,376				\$325,376	(\$46,836)				(\$46,836)
Income from Surplus Money Investments	\$120				\$120	\$120				\$120					
Federal Funds	\$98,380		\$98,380			\$91,296		\$91,296			\$7,084		\$7,084		
Federal Funding Issue: 2013 Federal Grant Adjustments			\$10,761			(\$13,775)		(\$13,775)			\$13,775		\$24,536		
2013 Ryan White ADAP Supplemental	\$7,713		\$7,713			\$2,737		\$2,737			\$4,977		\$4,977		
2013 ADAP Earmark Funds Utilized in FY 2013-14	(\$2,912)		(\$2,912)								(\$2,912)		(\$2,912)		
2013 RW Grant Funds: Surplus/Carryover	(\$9,096)		(\$9,096)								(\$9,096)		(\$9,096)		
General Funds	\$411			\$411		\$411			\$411						
LHP Impact*						(\$52,677)				(\$52,677)	\$52,677				\$52,677
OA-PCIP Revenue Impact						(\$432)				(\$432)	\$432				\$432
Adjustments	(\$184)		(\$184)								(\$184)		(\$184)		
Safety Net Care Pool Funds	\$66,339	\$66,339				\$66,339	\$66,339								
Safety Net Care Pool Funds (Surplus Funds)	(\$58,024)	(\$58,024)									(\$58,024)	(\$58,024)			

* LHP "Legacy" and "Non-Legacy" lines combined for November Estimate as compared to prior years.

TABLE 2b: Resource Comparison: 2014-15 Governor's Budget to FY 2013-14 Budget Act (000's)

	2014-15 Governor's Budget					2013-14 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	\$412,125	\$51,126	\$99,901	\$411	\$260,687	\$419,395	\$66,339	\$80,258	\$411	\$272,387	(\$7,270)	(\$15,214)	\$19,643		(\$11,700)
Basic Rebate Revenues	\$260,567				\$260,567	\$325,376				\$325,376	(\$64,809)				(\$64,809)
Income from Surplus Money Investments	\$120				\$120	\$120				\$120					
Federal Funds	\$98,306		\$98,306			\$91,296		\$91,296			\$7,010		\$7,010		
Federal Funding Issue: 2013 Federal Grant Adjustments						(\$13,775)		(\$13,775)			\$13,775		\$13,775		
2013 Ryan White ADAP Supplemental						\$2,737		\$2,737			(\$2,737)		(\$2,737)		
2013 Ryan White Part B Supplemental	\$1,739		\$1,739								\$1,739		\$1,739		
General Funds	\$411			\$411		\$411			\$411						
LHP Impact*						(\$52,677)				(\$52,677)	\$52,677				\$52,677
OA-PCIP Revenue Impact						(\$432)				(\$432)	\$432				\$432
Adjustments	(\$143)		(\$143)								(\$143)		(\$143)		
Safety Net Care Pool Funds	\$53,645	\$53,645				\$66,339	\$66,339				(\$12,694)	(\$12,694)			
Safety Net Care Pool Funds (Surplus)	(\$2,519)	(\$2,519)									(\$2,519)	(\$2,519)			

* LHP "Legacy" and "Non-Legacy" lines combined for November Estimate as compared to prior years.

TABLE 2c: Resource Comparison: 2014-15 Governor's Budget to FY 2013-14 in 2014-15 Governor's Budget (000's)

	2014-15 Governor's Budget					FY 2013-14					Difference				
	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund	Total	Reimbursement	Federal	State	ADAP Special Fund
Available Resources	\$412,125	\$51,126	\$99,901	\$411	\$260,687	\$392,048	\$8,315	\$104,662	\$411	\$278,659	\$20,077	\$42,810	(\$4,761)	\$	(\$17,972)
Basic Rebate Revenues	\$260,567				\$260,567	\$278,539				\$278,539	(\$17,972)				(\$17,972)
Income from Surplus Money Investments	\$120				\$120	\$120				\$120					
Federal Funds	\$98,306		\$98,306			\$98,380		\$98,380			(\$75)		(\$75)		
Federal Funding Issue: 2013 Federal Grant Adjustments								\$10,761					(\$10,761)		
2013 Ryan White ADAP Supplemental						\$7,713		\$7,713			(\$7,713)		(\$7,713)		
2013 Ryan White Part B Supplemental	\$1,739		\$1,739								\$1,739		\$1,739		
2013 ADAP Earmark Funds Utilized in FY 2013-14						(\$2,912)		(\$2,912)			\$2,912		\$2,912		
2013 RW Grant Funds: Surplus/Carryover						(\$9,096)		(\$9,096)			\$9,096		\$9,096		
General Funds	\$411			\$411		\$411			\$411						
Adjustments	(\$143)		(\$143)			(\$184)		(\$184)			\$41		\$41		
Safety Net Care Pool Funds	\$53,645	\$53,645				\$66,339	\$66,339				(\$12,694)	(\$12,694)			
Safety Net Care Pool Funds (Surplus Funds)	(\$2,519)	(\$2,519)				(\$58,024)	(\$58,024)				\$55,505	\$55,505			

* LHP "Legacy" and "Non-Legacy" lines combined for November Estimate as compared to prior years.

2. MAJOR ASSUMPTIONS

Estimate Methodology

Unadjusted expenditure estimates for the 2014-15 Governor's Budget were derived from a linear regression model utilizing a 36-month data set of actual expenditures from October 2010 through August 2013 and estimated September 2013 data. The estimates were adjusted based on the assumptions listed below.

For purposes of the 2014-15 Governor's Budget, expenditure and revenue adjustments were made to Fund Condition Statement (FCS) (Table 9, page 26 to reflect the estimated impact of ten Major Assumptions and two Continuing Assumptions, including:

FY Impact		
2013-14	2014-15	Major Assumptions (MA) (page 10)
X	X	1. 2014 Medi-Cal Expansion.
X	X	2. Covered California: Impact of the PPACA Insurance Requirement on ADAP and OA-HIPP.
X	X	3. Federal Funding Issue: 2013 Ryan White (RW) Grant Adjustments.
X		4. Impact of LIHP on ADAP.
X		5. OA-PCIP Implementation.
X	X	6. Change in Methodology: Adjust Linear Regression Expenditure Methodology.
X	X	7. Additional PBM Costs.
X	X	8. Reimbursement of Federal Funding through SNCP.
X	X	9. Effect of the Cal MediConnect Program on ADAP.
		10. Cross Match of RW Client Data with Franchise Tax Board Data.
		Continuing Assumption (CA)* (page 24)
X		1. Using Non-RW Funds to Pay OA-HIPP Premiums for LIHP-eligible OA-HIPP Clients.
X	X	2. Increased Rebate Percentage.

*Assumption methodology unchanged, but fiscal outcome impacted by updated data.

Major Assumptions

1. 2014 Medi-Cal Expansion

In the *2013-14 May Revision*, using FY 2011-12 data, OA estimated savings due to ADAP clients transitioning to Medi-Cal Expansion starting on January 1, 2014. Expenditures incurred (i.e., premiums, drug expenditures, and deductibles and co-pays) and rebate received through December 31, 2013, for ADAP clients who transitioned to LIHP and PCIP prior to January 1, 2014, were captured in LIHP and OA-PCIP assumptions, respectively, and expenditures and rebate starting on January 1, 2014, for these same clients who subsequently transitioned to Medi-Cal Expansion were included in the Medi-Cal Expansion assumption. Expenditures for ADAP clients who did not transition to LIHP prior to January 2014, but are expected to transition to Medi-Cal Expansion on or after January 1, 2014, were also included in the Medi-Cal Expansion assumption. This group of clients includes clients whose income exceeds the limits of their county-specific LIHP Medicaid Coverage Expansion (MCE) federal poverty level (FPL) threshold; clients who reside in counties that did not participate in LIHP (Fresno, Merced, and San Luis Obispo) or were pending LIHP implementation as of January 29, 2013 (California Rural Indian Health Board, Monterey, Santa Barbara, Stanislaus, and Tulare); and clients who reside in counties that did participate in LIHP but were not expected to have transitioned to LIHP by January 1, 2014. This methodology allowed OA to identify independent savings associated with each program (LIHP, PCIP, and Medi-Cal Expansion).

For the *2014-15 Governor's Budget*, OA updated the assumption's components (client shift, reduced expenditures, and reduced rebate revenue) for adjustments using FY 2012-13 data. Also, as of June 28, 2013, LIHP implementation began in Monterey on March 1, 2013, and in Tulare on March 15, 2013, and three counties increased their LIHP MCE FPL threshold (75 to 133 percent in Santa Clara on February 1, 2013; 100 to 133 percent in Kern on March 1, 2013; and 25 to 133 percent in San Francisco on June 28, 2013). OA-HIPP clients who qualify for Medi-Cal Expansion after December 31, 2013 and will move to Medi-Cal Expansion were also captured in this assumption. No other changes were made.

Final Medi-Cal Expansion savings and clients were computed by summing up four groups of clients:

1. ADAP-only clients who previously transitioned to LIHP or who were eligible for their county LIHP but did not have time to transition to LIHP before January 1, 2014 (Group 1, identified as ADAP to LIHP clients);
2. ADAP-only clients potentially eligible for Medi-Cal Expansion who exceed the LIHP upper limits of their residing counties or are from counties that did not implement LIHP (Group 2, identified as ADAP to MCE clients);
3. Current OA-PCIP clients; and
4. OA-HIPP clients eligible for Medi-Cal Expansion.

A 70 percent adjustment factor was applied to initial expenditure savings and potentially eligible clients, which covers all the potential disparities in data used to determine eligibility, including income and immigration status. With the adjustment factor, this represented a final FY 2013-14 savings of \$74,021,110 for 5,401 clients outlined in Table 3, below. Due to the six-month delay in rebate collections, the impact of rebate loss will be reflected in FY 2014-15.

TABLE 3: SUMMARY OF MEDI-CAL EXPANSION SAVINGS, FY 2013-14			
CLIENT GROUP	PREMIUM SAVING\$	DRUG EXP SAVING\$	TOTAL CLIENTS
Group 1 (ADAP to LIHP)	\$0	\$73,205,100	5,251
Group 2 (ADAP to MCE)	\$0	\$252,912	24
Group 3 (OA-PCIP)	\$0	\$522,371	40
Group 4 (OA-HIPP)	\$131,561	\$40,727	86
EXPENDITURE SAVING\$, FY 2013-14	\$131,561	\$74,021,110	5,401
LOSS REBATE REVENUE, FY 2013-14	\$0	\$0	5,401
NET SAVING\$, FY 2013-14	\$131,561	\$74,021,110	5,401

For FY 2014-15, OA increased the adjustment factor from 70 percent to 90 percent. Thus, net savings for Medi-Cal Expansion were estimated at \$128,212,057 (\$193.3 million in drug expenditures with \$65 million in rebate loss) for 9,520 clients, (Table 4, below).

TABLE 4: SUMMARY OF MEDI-CAL EXPANSION SAVINGS, FY 2014-15			
CLIENT GROUP	PREMIUM SAVING\$	DRUG EXP SAVING\$	TOTAL CLIENTS
Group 1 (ADAP to LIHP)	\$0	\$178,739,457	8,347
Group 2 (ADAP to MCE)	\$0	\$12,232,999	679
Group 3 (OA-PCIP)	\$0	\$1,343,239	51
Group 4 (OA-HIPP)	\$3,044,693	\$942,536	443
EXPENDITURE SAVING\$, FY 2013-14	\$3,044,693	\$193,258,231	9,520
LOSS REBATE REVENUE, FY 2014-15	\$0	\$65,046,174	9,520
NET SAVING\$, FY 2014-15	\$3,044,693	\$128,212,057	9,520

Methodological details for developing these estimates can be found in Appendix F, starting on page 54.

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

Covered California will be offering four levels of coverage: platinum, gold, silver, and bronze. The coverage for each level is exactly the same, but the client can choose to pay a higher monthly premium and have lower deductibles/co-pays (platinum) or pay a lower monthly premium and have higher deductibles/co-pays (bronze). Legal California residents who earn between 138-400 percent FPL will be eligible for tax credits that can be taken immediately and will reduce the client's portion of the monthly premium.

Individuals who earn between 138-250 percent FPL will be eligible for additional cost-sharing subsidies when they enroll in a silver plan. The subsidies will reduce their out-of-pocket healthcare expenses, including monthly premium, deductibles, co-pays, and annual out-of-pocket maximum, and will be available on a sliding scale with the lowest income earners receiving the most financial assistance. Individuals who earn between 138-200 percent FPL and enroll in a silver plan will have lower out-of-pocket costs than the higher income earners who purchase a platinum policy due to the cost-sharing subsidies. As a result, OA will encourage ADAP clients who

earn between 138-200 percent FPL and are applying for health insurance coverage through Covered California to purchase a silver policy. This will help ensure that OA is providing the client with the most cost-effective comprehensive health insurance policy with the lowest possible out-of-pocket expenses, and that ADAP is paying the lowest possible monthly premium and drug co-pays. On the other hand, individuals who earn between 201-250 percent FPL will be encouraged to purchase a platinum policy because the subsidies for this group will reduce their out-of-pocket healthcare expenses. Individuals who earn between 201-250 percent FPL and purchase a silver policy will have higher out-of-pocket healthcare expenses than they would if they purchased a platinum policy.

Each ADAP-only client potentially eligible for Covered California received a letter in the fall of 2013 that described the new health insurance options available and how to apply for coverage. OA-HIPP enrollment workers will also receive training on new processes and procedures that must be followed to enroll clients with health coverage through Covered California into OA-HIPP. For example, these clients will be required to submit proof to OA that they have applied for the maximum advanced premium tax credit. This will ensure that OA is paying the lowest possible monthly premium and will prevent the client from getting a large tax refund.

In the *2013-14 May Revision*, OA noted that it planned to modify the existing contract with the 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 the necessary infrastructure is in place 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. Instead, for FY 2013-14, OA modified the AIDS Regional Information and Evaluation System, which serves as the premium payment management system for OA-HIPP. This data system captures and stores all OA-HIPP client-level and payment information and was optimized to facilitate batch payments to insurance companies. OA utilized \$724,180 of rebate funds in FY 2013-14 to modify and automate processes and reduce application processing timelines in anticipation of the increased demand for premium payment assistance and the corresponding workload. OA will continue to monitor the current infrastructure in place to serve OA-HIPP clients and may consider modifying the existing contract with the PBM to include the administration of OA's insurance assistance programs, or entering into a new contract to perform this function, if needed and allowable under current state statute [Government Code Section 19130(b)].

In the *2013-14 May Revision*, Covered California savings and clients were computed by summing up three groups of clients:

1. ADAP-only clients that transitioned to LIHP Health Care Coverage Initiative (HCCI) prior to January 1, 2014, and then transition to Covered California as of January 1, 2014 or clients that are eligible for LIHP HCCI but were not expected to have transitioned to LIHP HCCI by January 1, 2014 (Group 1, identified as ADAP to LIHP clients);

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 from PCIP to private insurance under a Covered California plan (Group 3, identified as OA-PCIP clients).

For the 2014-15 Governor's Budget, based on the most currently available information on Covered California, OA updated the assumption's components (client shift, reduced expenditures, and reduced rebate revenue) for adjustments for impact numbers using FY 2012-13 data. OA assumed four percent of eligible ADAP-only and LIHP clients (Groups 1 and 2) would enroll in Covered California based on ADAP's experience of enrolling ADAP-only clients into PCIP. Thus, OA applied a 2.8 percent adjustment (4 percent x 70 percent) to LIHP and ADAP-only clients and a 70 percent adjustment to OA-PCIP clients to account for a low number of clients transitioning to Covered California and data disparities (see MA 4 and 5), which represented a savings of \$2 million (Table 5, below). In addition, OA factored in cost estimates of \$724,180 to modify and automate processes and reduce application processing timelines in anticipation of the increased demand for premium payment assistance and the corresponding workload. Therefore, final savings in FY 2013-14 totals \$1,228,421.

LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	237	310,555	\$0	\$310,555
Drug Deduct & Co-Pays	237	45,873	\$0	\$45,873
Averted Drug Expend\$	237	-2,385,432	-66,403	-\$2,319,029
SUBTOTAL	237	-2,029,004	-\$66,403	-\$1,962,601
TOTAL WITH ADMIN		\$724,180		-\$1,228,421

For FY 2014-15, OA increased the adjustment factor from 70 percent to 90 percent. Initial net savings for Covered California were estimated at \$10.5 million. OA factored in cost estimates of \$100,000 associated with maintaining and modifying current data systems to help manage the OA-HIPP workload, resulting in a final net savings of \$10,351,472.

TABLE 6: COVERED CALIFORNIA, FY 2014-15 (ALL CLIENT GROUPS)				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	552	\$1,074,187	\$0	\$1,074,187
Drug Deduct & Co-Pays	552	\$208,557	\$0	\$208,557
Averted Drug Expend\$	552	-\$11,734,215	\$0	-\$11,734,215
SUBTOTAL	552	-\$10,451,472	\$0	-\$10,451,472
TOTAL WITH ADMIN		\$100,000		-\$10,351,472

Methodological details for developing these estimates can be found in Appendix F, starting on page 54.

3. Federal Funding Issue: 2013 RW Grant Adjustments

On April 1, 2013, OA received the Notice of Award for partial 2013 RW Part B Grant funding due to the Federal Continuing Resolution. ADAP received \$38,554,404 or 36 percent of the 2012 California ADAP Earmark Award. In the *2013-14 May Revision*, OA factored in anticipated sequestration cuts of 5 percent (\$5.3 million) and assumed an additional 7.5 percent (\$8.5 million) reduction caused by federal legislative changes that change how federal funding is allocated among states. Thus, ADAP reflected a total reduction of \$13.8 million in federal funds for FY 2013-14. On July 18, 2013, OA received the Notice of Award for the remaining 2013 RW Part B Grant funding of \$59,825,799. ADAP's total RW Part B funding of \$97,206,303 for local assistance reflects an increase of \$5.8 million when compared the *2013-14 May Revision Estimate*. The Notice of Award also included partial funding for the 2013 ADAP Supplemental Grant. CDPH was eligible to apply for the 2013 RW 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 185 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 the ADAP Crisis Task Force (ACTF);
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.

In the April 2013 Notice of Award, ADAP received \$2,736,824, and in the July 2013 Notice of Award, ADAP received an additional \$4,976,604. ADAP will utilize the funds for ADAP drug expenditures.

In July 2013, CDPH applied for the competitive 2013 RW Part B Supplemental Grant. Within the RW Part B Supplemental Application, 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 requested \$4.2 million of the \$15.4 million available. On September 19, 2013, HRSA issued the Notice of Award for \$1,738,531 with a budget period from September 30, 2013 to September 29, 2014. OA will use these funds for ADAP drug expenditures in the budget year.

In July 2013, CDPH applied for the 2013 RW Part B ADAP Emergency Relief Fund (ERF) Grant. These funds are for states to address "cost-cutting" or "cost-saving" measures and are to be used in conjunction with the RW HIV/AIDS Treatment Program's Part B ADAP funds. CDPH was not eligible to apply for Limited New Competition funds because ADAP did not have a waiting list. However, CDPH was eligible to apply for Competing Continuation funds because CDPH is a current FY 2012 ADAP ERF grantee. Of the \$65 million available for Competing Continuation 2013 funds, state ERF grant requests were capped at the 2012 ADAP ERF award amount. Therefore, CDPH requested \$10.1 million for 2013 ADAP ERF. In August 2013, CDPH was given an opportunity to request additional ERF funds. On August 23, 2013, CDPH requested an additional \$620,000 due to the anticipated fiscal impact for transitioning CDPH's OA-PCIP clients from California's PCIP to the federal PCIP effective July 1, 2013. On September 23, 2013, HRSA issued the ADAP ERF Notice of Award for \$10,761,268 with a budget period from September 30, 2013 to March 31, 2014. OA will use these funds for ADAP expenditures in the current year.

4. Impact of the LIHP on ADAP

In the *2013-14 May Revision*, LIHP back-billing was delayed until July 1, 2013 due to administrative barriers. This shifted back-billing savings in FY 2012-13 to FY 2013-14. For the *2014-15 Governor's Budget*, LIHP back-billing was updated to include a start date of July 15, 2013, the limited timeframe between when drugs are dispensed and when they qualify for reimbursement from LIHPs (based on a survey conducted of each county LIHP by DHCS), and potential back-billing savings

submitted to LIHP pharmacies by ADAP's PBM. This change resulted in significantly fewer transactions for which ADAP can back-bill.

For the 2014-15 Governor's Budget, OA updated the assumption components (client shift, reduced expenditures, and reduced rebate revenue) for adjustments to impact numbers and back-billing using FY 2012-13 data for impact numbers and July through August 2013 data for back-billing in the following manner:

- Updated the estimated savings due to ADAP clients transitioning to both Legacy and non-Legacy County LIHPs, including changes to implementation dates and increases to LIHP MCE FPL thresholds mentioned in MA 1, Medi-Cal Expansion.
- Applied the same 85 percent adjustment factor as in the *2013-14 May Revision* to reflect savings associated with 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 described above, further delayed back-billing until July 15, 2013.

Savings from July through December 2013 were captured for FY 2013-14. Because LIHP ends on December 31, 2013, savings beyond this date were captured in MA 1, Medi-Cal Expansion and MA 2, Covered California.

Overall, in both Legacy and Non-Legacy counties, for FY 2013-14, ADAP will realize an estimated net savings of \$43.3 million due to LIHP, consisting of \$42.4 million in savings due to client shift, and a net gain of \$929,929 due to back-billing. In FY 2013-14, an estimated 6,075 clients will have shifted over to LIHP, which includes those clients who transitioned in FYs 2012-13 and 2011-12.

TABLE 7: TOTAL ADJUSTED NET SAVINGS ESTIMATES DUE TO LIHP, FY 2013-14	
IMPACT ESTIMATES	FY 2013-14
Clients Shifting to LIHP	
Client Shift*	6,075
Expenditure Reductions	\$69,516,589
Rebate Reductions	-\$27,111,470
NET LIHP IMPACT SAVINGS	\$42,405,119
LIHP BACK-BILLING	
Expenditure Reductions	\$1,524,473
Rebate Reductions	-\$594,545
NET LIHP BACKBILLING SAVINGS	\$929,929
TOTAL LIHP IMPACTS	
Expenditure Reductions	\$71,041,062
Rebate Reductions	-\$27,706,014
NET SAVINGS	\$43,335,048

*Cumulative client total from FY 2011-12 to FY 2013-14.

Methodological details for developing these estimates can be found in Appendix F, starting on page 75.

5. OA-PCIP Implementation

OA-PCIP was implemented in November 2011 to pay monthly PCIP premiums for eligible clients living with HIV. Clients who co-enroll in OA-PCIP and ADAP also receive assistance with drug deductibles and co-pays for drugs on ADAP's formulary. OA-PCIP was implemented as a cost-containment measure, because it is more cost effective to pay monthly insurance premiums and medication deductibles and co-pays than to pay the full-cost of the client's HIV-related drugs. Effective July 1, 2013, PCIP transitioned from state to federal administration. This change resulted in higher monthly premiums and out-of-pocket costs per client. Consequently, as of August 27, 2013, only 220 of 262 OA-PCIP clients (83.97 percent) chose to remain enrolled in the program.

For the 2014-15 Governor's Budget, the PCIP assumption used FYs 2012-13 and 2013-14 data, and was further revised to reflect the following changes:

1. Increase in federal premiums from July 1–December 31, 2013;
2. Collection of rebate on Federal PCIP drug deductibles and co-pays; and
3. ADAP expenditures and corresponding rebate for OA-PCIP clients not transitioning to the Federal PCIP.

Upon PCIP's closure after December 31, 2013, the impact of eligible clients moving to Medi-Cal Expansion and Covered California will be included in each of those assumptions, respectively (MA 1 and MA 2).

OA estimates savings from the first six months of FY 2013-14 to be \$760,478 (\$494,952 in premiums, \$1.7 million in drug expenditure savings, and \$459,917 from loss rebate revenue from state PCIP expenditures from January–June 2013, in which no rebate was collected). Since federal PCIP allows rebate, there is no change to rebate revenue. Because the same prescription drugs would be purchased through federal PCIP as would have been purchased through ADAP-only, the rebate revenue would be the same or cost neutral if the clients had been ADAP-only clients. However, if federal PCIP did not allow for rebate as in state PCIP, then there would be a loss in rebate revenue. Of the \$494,952 need for PCIP premiums, OA will use \$130,717 in reimbursement for OA-PCIP potentially eligible for LIHP since the program cannot use RW or rebate funds for these expenditures. The remainder will be paid for using the ADAP Rebate Fund.

ISSUE	PREMIUMS	DRUG EXPEND\$	REBATE REVENUE	TOTAL ESTIMATE	CLIENTS
TOTAL	\$494,952	-\$1,715,347	-\$459,917	-\$760,478	161
Reimbursement funds for premiums	\$130,717				43
SF for premiums	\$364,235				119

Methodological details for developing these estimates can be found in Appendix F, starting on page 54.

6. Change in Methodology: Adjust Linear Regression Expenditure Methodology

In the *2013-14 May Revision*, ADAP used monthly expenditures from April 2010 through (estimated) March 2013 in the linear regression model with six pre-regression adjustments listed below (with start dates in parentheses) as if the assumptions were always in effect:

- Elimination of jails (July 2010);
- ADAP counting towards TrOOP Expenses (January 2011);
- Reduced PBM transaction fees (July 2011);
- Increased split fee savings (July 2011);
- Reduced reimbursement rate (July 2011); and
- OA-HIPP expansion savings (July 2011).

Any data points prior to the start dates were adjusted for savings as if the assumption were already in place. These pre-regression adjustments were performed prior to running the linear regression model and eliminated the need for post-regression adjustments. If the pre-regression adjustments were not made, then

the earlier data points before the start dates would not include the impact of the assumptions, and the latter data points beginning with the start dates would include the impact of the assumptions. By keeping all 36 data points similar with the assumptions in effect, they measure the same expenditures resulting in a reliable estimate without any potential bias.

In addition, two other pre-regression adjustments were made for: (1) OA-PCIP (January 2012); and (2) LIHP (March 2012) as if these assumptions were never in effect. Unlike the six pre-regression adjustments mentioned above in which OA adjusted the prior data points as if the assumptions were always in effect, OA added the monthly OA-PCIP and LIHP savings back into the data points as if these programs were never in place. These pre-regression adjustments allowed for post-regression adjustments while reducing the risk the model would underestimate actual expenditures.

For the *2014-15 Governor's Budget*, monthly expenditures for the linear regression model were updated from October 2010 through August 2013 with estimated September 2013 with seven pre-regression adjustments. In comparison to the *2013-14 May Revision*:

- There is no longer a need for a pre-regression adjustment for the elimination of ADAP services in jails; and
- PBM (approved) transaction fees were increased from \$4 to \$4.75. On July 1, 2012, there was a \$0.75 increase in PBM fees per prescription transaction for workload associated with conducting bi-annual re-certifications. Data points prior to July 1, 2012, will be adjusted for the higher fee prior to performing the linear regression model.

7. Additional PBM Costs

In the *2013-14 May Revision*, ADAP reflected increased ADAP PBM costs due to the increased workload associated with implementing the federal HRSA mandate to conduct six-month ADAP client eligibility re-certification. The increased costs were based on the current annual re-enrollment process in which clients go to an ADAP enrollment site to re-certify eligibility. However, due to client concerns regarding increased burden and capacity concerns at ADAP enrollment sites, OA worked with stakeholders to develop a process that supports both continued client access to ADAP services and eases the burden on both clients and ADAP enrollment sites.

A statewide advisory workgroup, consisting of ADAP enrollment workers, local health jurisdiction ADAP coordinators, HIV client advocates, and consumers, provided OA with feedback on the bi-annual re-certification forms and processes. A Self-Verification Form (SVF) was created based on workgroup recommendations and approved by HRSA. The intent of the SVF is to allow clients to verify, during the month of their half-birthday, the accuracy of their ADAP eligibility information provided during their annual (birthday) in-person ADAP enrollment/re-enrollment. SVF will not take the place of annual in-person ADAP re-enrollment; it will only be

used to certify that the individual client continues to meet ADAP eligibility criteria at his/her six-month re-certification.

The PBM's electronic client eligibility database system will be modified to auto-populate the SVF with the current client eligibility information reflecting what clients provided to ADAP enrollment workers during their initial or most recent enrollment. The PBM will mail the SVF to ADAP clients, in accordance with the client's six-month re-certification cycle due date. If the eligibility information is still correct, the client will mail the form to the PBM, who will process it and send the client a notification letter with his/her new eligibility end date. If any eligibility information has changed, the client is instructed to contact his/her ADAP enrollment worker in order to complete the six-month re-certification process in person.

The required database system modifications to develop an auto-populated SVF and to mail and process returned SVFs and send eligibility confirmations to clients are outside the current PBM contract's Scope of Work (SOW). Thus, OA and the PBM have been developing a contract amendment to reflect these additional tasks at an on-going annual per client cost of \$6.50.

OA is also working with the PBM to change the ADAP application to capture pregnancy, household size, and disenrollment variables for HRSA's mandated ADAP Data Report and to capture health insurance information for OA-HIPP. Modifications to the ADAP application require SOW changes and a one-time cost of \$30,000 rebate funds in FY 2013-14.

ADAP anticipates that the amended contract will be executed by January 2014. Therefore, the additional PBM cost totals \$103,342 in FY 2013-14 and \$220,025 in FY 2014-15.

8. Reimbursement of Federal Funding through SNCP

Since FY 2010-11, ADAP has received federal SNCP funds from DHCS. SNCP funding has been made available through a Medicaid 1115 Waiver that allows DHCS to use ADAP expenditures, along with other public health program expenditures, as Certified Public Expenditures to draw down federal funds. These funds have been provided to ADAP in the form of reimbursements and the program has used them for the purchase of drugs on the ADAP formulary. The Medicaid 1115 Waiver was approved for five years, through October 2015. The one-time allocations received include \$76.3 million, \$74.1 million, \$17.5 million, and \$66.3 million for FYs 2010-11, 2011-12, 2012-13, and 2013-14, respectively. ADAP estimates utilizing only \$8.4 million of the \$66.3 million SNCP funds available for ADAP in FY 2013-14 due to ADAP's requirement to spend all available rebate funds prior to spending federal funds. For FY 2014-15, ADAP will receive approximately \$53.6 million due to additional federal funds available under SNCP. The *2014-15 Governor's Budget* assumes that only \$51.2 million is needed for ADAP and insurance assistance

programs in the budget year, and that there will be a \$2.4 million surplus reimbursement amount.

9. Effect of the Cal MediConnect Program on ADAP

Senate Bill 1008 (Committee on Budget and Fiscal Review, Chapter 33, Statutes of 2012) authorized DHCS to establish the Duals Demonstration Project, now called the Cal MediConnect Program, to enable dual-eligible beneficiaries (persons eligible for services through both Medicare and Medi-Cal) to receive medical, behavioral, and long-term services and supports via a managed care health plan that coordinates the benefits of both the Medicare and Medi-Cal programs. The Cal MediConnect Program, which currently includes eight counties (Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara), is scheduled to begin no earlier than April 1, 2014.

If HIV-positive dual beneficiaries enroll in a Cal MediConnect health plan, the effect on ADAP 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., prescription deductibles, prescription co-pays). ADAP currently pays the Medicare Part D prescription co-pays for drugs on the ADAP formulary on behalf of these ADAP clients and collects full drug rebates on these partial pay claims. Any reduction in the number of Part D prescription co-pays that ADAP pays for these clients would result in a corresponding reduction in rebate collection.

California law states DHCS may require Cal MediConnect health plans to forgo charging premiums, co-insurance, co-pays, and deductibles for Medicare Part D prescription drug benefits, but to date DHCS has not required this of health plans. Per DHCS, most plans will be charging Part D prescription co-pays, with only two plans opting not to charge any Part D co-pays, and five plans opting to charge co-pays for brand name Part D drugs, but not for generic Part D drugs. The Part D prescription co-pay rates will be consistent with current Part D co-pays, thus representing cost neutrality for ADAP. Consequently, OA used current Part D co-pay amounts for the estimate.

OA is working with DHCS to plan for a smooth transition for clients living with HIV/AIDS and to receive updates on the project. Cal MediConnect will begin in April 2014 in 5 counties: Orange, Riverside, San Bernardino, San Diego and San Mateo. Cal MediConnect will begin in July 2014 in Alameda, Los Angeles and Santa Clara. Enrollment into Cal MediConnect will be over a 12 month period in all the counties except San Mateo. San Mateo will enroll beneficiaries in one month. HIV-positive dual beneficiaries passively enrolled into a Cal MediConnect health plan may choose to "opt-out" in 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 and receive corresponding rebate. In addition, there is no impact to ADAP for dual beneficiaries who are AIDS Medi-Cal Waiver clients or AIDS Healthcare Foundation members because, as statutorily established, they will

not be passively enrolled into a Cal MediConnect plan. In order for these clients to enroll in a Cal MediConnect plan, they would have to actively disenroll from this current coverage.

In order for ADAP to cover Cal MediConnect beneficiary out-of-pocket prescription co-pays, the dispensing managed care plan pharmacy must also be an ADAP pharmacy. The overlap between Cal MediConnect plan pharmacies and ADAP pharmacies is currently approximately 85 percent. Since there are a large number of both Cal MediConnect and ADAP pharmacies in these counties, client access should not be a major issue, although some clients may need to travel to a different pharmacy.

Estimate Methodology

To estimate the impact of the Cal MediConnect Program on ADAP, OA identified dual-eligible beneficiaries in ADAP. Per DHCS, one plan in San Mateo and one of two plans in Santa Clara opted not to charge Part D co-pays. Therefore, OA will realize 100 percent savings in San Mateo and 50 percent savings in Santa Clara County for those dual-eligible beneficiaries' expenditures. In addition, to factor in the five plans that opted to charge co-pays for brand drugs but not for generic drugs and the 85 percent pharmacy overlap, OA applied a 15 percent adjustment factor to the six counties and another 15 percent adjustment for Santa Clara (50 percent – 15 percent = 35 percent). This adjusted data set was used to estimate the impact as if Cal MediConnect was implemented in FY 2012-13. OA factored in a ramp-up period for all counties except for San Mateo. An additional 10 percent adjustment was taken on both FYs 2013-14 and 2014-15 estimates for all counties to capture the decline in ADAP expenditures for this population from FYs 2011-12 and 2012-13.

With an implementation date of April 1, 2014, OA estimated a nominal fiscal impact in FY 2013-14 and FY 2014-15. OA will continue to monitor Cal MediConnect's implementation and provide estimates in future estimate packages if necessary.

10. Cross-Match of RW Client Data with Franchise Tax Board Data

To further OA compliance with state and federal RW income eligibility requirements, OA proposes obtaining statutory authority that will allow the California Franchise Tax Board (FTB) to share tax data with OA. The availability of tax data will complement existing enrollment practices, as OA will be able to cross-reference RW client data with tax data. OA currently verifies client income eligibility for its federal RW programs through a variety of client provided documents, including pay stubs, support or self-employment affidavits, bank statements, or tax returns. Alternatively, in lieu of providing tax returns, a client may provide pay stubs from only one job when, in fact, he/she has a second job that brings his/her income over the eligibility limit. Obtaining FTB tax data will enable OA to confirm income eligibility for clients who file tax returns. Clients identified with federal adjusted gross income above \$50,000 will be required to provide documentation proving that their income has

decreased to \$50,000 or below; otherwise they will be dis-enrolled from ADAP. Clients who do not file tax returns but provide other documentation showing that they earn less than \$50,000 per year will remain in ADAP.

In 2013, OA submitted two requests to FTB to receive tax data using existing statute, including: Revenue and Taxation (R&T) Code Section 19555(a), Welfare and Institutions Code Section 14149.3(a)(1)-(2), and Health and Safety Code (HSC) Section 120960 (c)(1). FTB denied both requests citing a lack of sufficient statutory authority to disclose tax data to OA. Currently, the R&T Code includes statute for sharing tax data to determine program eligibility with the California Department of Social Services, California Department of Child Support Services, and DHCS, among others.

OA is working with various state departments to determine potential fiscal costs and savings impacts. Based on preliminary information, these impacts will be absorbable in FY 2014-15.

This assumption requires Trailer Bill Language to add Section 120962 of the HSC and Section 19548.2 of the R&T to allow sharing of FTB tax data with OA.

Continuing Assumptions

These items were included in the *2013-14 May Revision* as Continuing Assumptions. For the *2014-15 Governor's Budget*, fiscal estimates were impacted due to updated data and are reflected in the FCS on page 26; there were no changes made to the estimate methodology.

1. Using Non-RW Funds to Pay OA-HIPP Premiums for LIHP-eligible OA-HIPP Clients.

After December 31, 2013, OA attributed the costs for OA-HIPP clients potentially eligible for Medi-Cal Expansion in that assumption (MA 1, page 10).

2. Increased Rebate Percentage.

Based on the average of the most recent four quarters of rebate collections, the new rebate percentage rate is 65 percent, which is a 5 percentage point increase when compared to the *2013-14 May Revision*.

Discontinued Major Assumptions

There are no Discontinued Major Assumptions.

3. FUND CONDITION STATEMENT

The FCS (see Table 9, page 26) shows the status of the ADAP Rebate Fund (3080) for FYs 2012-13, 2013-14, and 2014-15, and all the factors that impact the fund including revenues, expenditures, revenue collection rate, interest earned, and major assumptions.

For FY 2013-14, the unadjusted revenue estimate is based on:

1. Actual rebates (\$79,418,673) collected for expenditures during January through March 2013;
2. Estimated rebates (\$67,703,185) calculated by applying a 65 percent rebate collection rate (CA 2, page 24) to actual expenditures for April to June 2013; and
3. Estimated rebates (\$131,417,427) developed by applying the 65 percent rebate collection rate to projected expenditures (based on one-half of the linear regression and adjusted for MA 4 and 5) for July to December 2013. It is estimated there will be an additional amount of \$120,000 of revenue from interest earned.

For FY 2014-15, the adjusted revenue estimate (\$260,567,038) was developed by applying the 65 percent rebate collection rate to projected expenditures (based on one-half of the linear regression from FYs 2013-14 and 2014-15 and adjusted for MA 1 and 2) for January to December 2014 and reduced by \$3,000. 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 expenditure projections, determined all ADAP costs, and applied all available rebate funds to ensure compliance with HRSA's new requirements to utilize all rebate funds prior to spending federal funds. OA then applied remaining fund sources, including federal funds and reimbursements. If not all available federal dollars are spent at the end of the federal RW grant year, the federal fund balance will be returned to HRSA and OA can submit a carry forward request for unspent federal funds.

The budget for ADAP, which includes insurance assistance programs, does not include General Fund for local assistance in FYs 2013-14 or 2014-15.

NOVEMBER ESTIMATE FUND CONDITION STATEMENT

Table 9: FUND CONDITION STATEMENT				
Special Fund 3080 AIDS Drug Assistance Program Rebate Fund		FY 2012-13 Actuals	FY 2013-14 Estimate	FY 2014-15 Estimate
1	BEGINNING BALANCE	5,036	29,494	0
2	Prior Year Adjustment	8,642	0	0
3	Adjusted Beginning Balance	13,678	29,494	0
4	REVENUES, TRANSFERS AND OTHER ADJUSTMENTS			
5	Revenues			
6	150300 Income From Surplus Money Investments (Interest)	113	120	120
7	161400 Miscellaneous Revenue	302,198	278,539	260,567
8	Total Revenues, Transfers, and Other Adjustments	302,311	278,659	260,687
9	Total Resources	315,989	308,153	260,687
10	EXPENDITURES AND EXPENDITURE ADJUSTMENTS			
11	Expenditures			
12	8880 FISCal	5	4	1
13	0840 State Controllers Office	2	0	0
15	4265 Department of Public Health			
16	State Operations	1,061	917	917
17	ADAP Local Assistance	275,780	295,679	246,602
18	OA-PCIP, OA-HIPP, and Medicare Part D Local Assistance	9,647	11,553	13,167
19				
20	Total Expenditures and Expenditure Adjustments	286,495	308,153	260,687
21	FUND BALANCE	29,494	0	0

Row 6: Interest Actuals for FY 2012-13, Estimated for FYs 2013-14 and 2014-15

112,669	120,000	120,000
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Miscellaneous Revenue

Actual Rebate received as of Jul - Sept 13, 2013 from Expenditures for Jan - Mar 2013	79,418,673
Estimated Rebates to be received Oct - Dec 2013 from Actual Expenditures from April - June 2013 (\$104,158,746 x 65% avg rebate rate) (CA 2)	67,703,185
Estimated Rebates to be received Jan - Jun 2014 from Estimated Expenditures from July - Dec 2013 (\$202,180,658 x 65% avg rebate rate) (CA 2)	131,417,427
1/2 LR FY 2013-14 MA 4 MA 5 Sum	
274,937,067 -71,041,062 -1,715,347 202,180,658	
Estimated Rebate received Jul - Dec 2014 from Estimated Expenditures for Jan - June 2014 (\$199,300,578 x 65% avg rebate rate) (CA 2)	129,545,375
1/2 LR FY 2013-14 MA 1 MA 2 Sum	
274,937,067 -74,021,110 -1,615,379 199,300,578	
Estimated Rebate to be received Jan - Jun 2015 from Estimated Expenditures for July - Dec 2014 (\$201,576,404 x 65% avg rebate rate) (CA 2)	131,024,663
1/2 LR FY 2014-15 MA 1 MA 2 Sum	
298,801,252 -91,797,660 -5,427,188 201,576,404	
Adjustment	-3,000
Total Estimated FY 2013-14 Rebate Revenue	278,539,285
Total Estimated FY 2014-15 Rebate Revenue	260,567,938

	FY 2013-14 Estimate	FY 2014-15 Estimate
ADAP EXPENDITURES		
ADAP Expenditure Projection: FYs 2013-14 and 2014-15, Linear Regression (MA 6)	549,874,133	597,602,503
Adjustments to ADAP Expenditure Projection:		
Effect of the Cal MediConnect Program on ADAP (MA 9)	-595	-15,160
2014 Medi-Cal Expansion (MA 1)	-74,021,110	-193,258,231
Covered California: Impact of the PPACA Insurance Requirement on ADAP (MA 2)	-1,615,379	-11,425,658
Impact of the LIHP Counties on ADAP (MA 4)	-71,041,062	0
OA-PCIP Implementation (MA 5)	-1,715,347	0
Additional PBM Costs (MA 7)	103,342	220,025
Subtotal: ADAP Expenditure Projection after Adjustments	401,583,982	393,123,479
Need for Local Health Jurisdictions (LHJ)	2,000,000	2,000,000
Total: Projected Need for ADAP	403,583,982	395,123,479
Row 17: Total Special Fund 3080 for ADAP Expenditures*	-295,678,801	-246,602,077
Non-Add: Special Fund Need for Local Health Jurisdictions	2,000,000	2,000,000
Reimbursement Funds (Safety Net Care Pool) from DHCS	-66,339,340	-53,644,944
Reimbursement need for OA-HIPP	4,082,625	1,474,605
Reimbursement Funds available for ADAP	-62,256,715	-52,170,339
Non-Add: Reimbursement Need for ADAP expenditures that are not allowable under RW (BY only)	4,232,762	4,143,587
Surplus Reimbursement Funds	58,023,953	2,519,168
Total: Reimbursement Need for ADAP Expenditures	-4,232,762	-49,651,171
Federal Fund ADAP Earmark	97,206,303	97,131,700
2013 Ryan White ADAP Supplemental	7,713,428	-
2013 ADAP Earmark funds utilized in FY 2012-13	-2,912,359	-
2013 Ryan White Part B Supplemental	-	1,738,531
2013 ADAP Emergency Relief Funds	10,761,268	-
2013 Ryan White Grant Funds	112,768,640	-
Adjustments	-184,000	-143,000
Surplus Funds/Carryover	9,096,221	0
Total: Federal Fund Need for ADAP Expenditures	-103,488,419	-98,727,231

<u>PREMIUM EXPENDITURES</u>	FY 2013-14 Estimate	FY 2014-15 Estimate
OA-PCIP Expenditure Projection :	494,952	0
Non-Add: OA-PCIP Premiums for LIHP-eligible OA-PCIP Clients (MA 5)	130,717	0
Subtotal: OA-PCIP Expenditure Projection:	<u>494,952</u>	<u>0</u>
OA-HIPP Expenditure Projection:	15,461,832	17,112,072
Non-Add: 2014 Medi-Cal Expansion (MA 1)	2,096,213	4,519,298
2014 Medi-Cal Expansion (MA 1)	-131,561	-3,044,693
Covered California: Impact of the PPACA Insurance Requirement on OA-HIPP (MA 2)	310,555	1,074,187
Non-Add: OA-HIPP Premiums for LIHP-eligible OA-HIPP Clients (CA 1)	1,987,256	0
Subtotal: OA-HIPP Expenditure Projection	<u>15,640,826</u>	<u>15,141,566</u>
Total: Projected Expenditures for OA-PCIP and OA-HIPP Premiums	<u>16,135,778</u>	<u>15,141,566</u>
Local Assistance Medicare Part D Premiums	1,000,000	1,000,000
Total: Projected Need for OA-Insurance Assistance Programs	<u>17,135,778</u>	<u>16,141,566</u>
Special Fund 3080 Appropriation OA Insurance Assistance Programs	-11,105,666	-11,105,666
Non-Add: Local Assistance Medicare Part D premiums	-1,000,000	-1,000,000
Additional SF Need for OA-PCIP and OA-HIPP	-447,487	-2,061,295
Row 18: Special Fund 3080 Need to meet Expenditure Projection for OA Insurance Assistance Programs	<u>-11,553,153</u>	<u>-13,166,961</u>
Reimbursement (Safety Net Care Pool) Appropriation for OA Insurance Assistance Programs	-4,037,481	-1,474,605
Reimbursement Need for OA-PCIP and OA-HIPP expenditures that are not allowable under RW	4,082,625	-1,474,605
Additional Reimbursement Need	45,144	0
Reimbursement (Safety Net Care Pool) Need for OA Insurance Assistance Programs	<u>-4,082,625</u>	<u>-1,474,605</u>
Federal Fund Appropriation for OA Insurance Assistance Programs	-1,500,000	-1,500,000

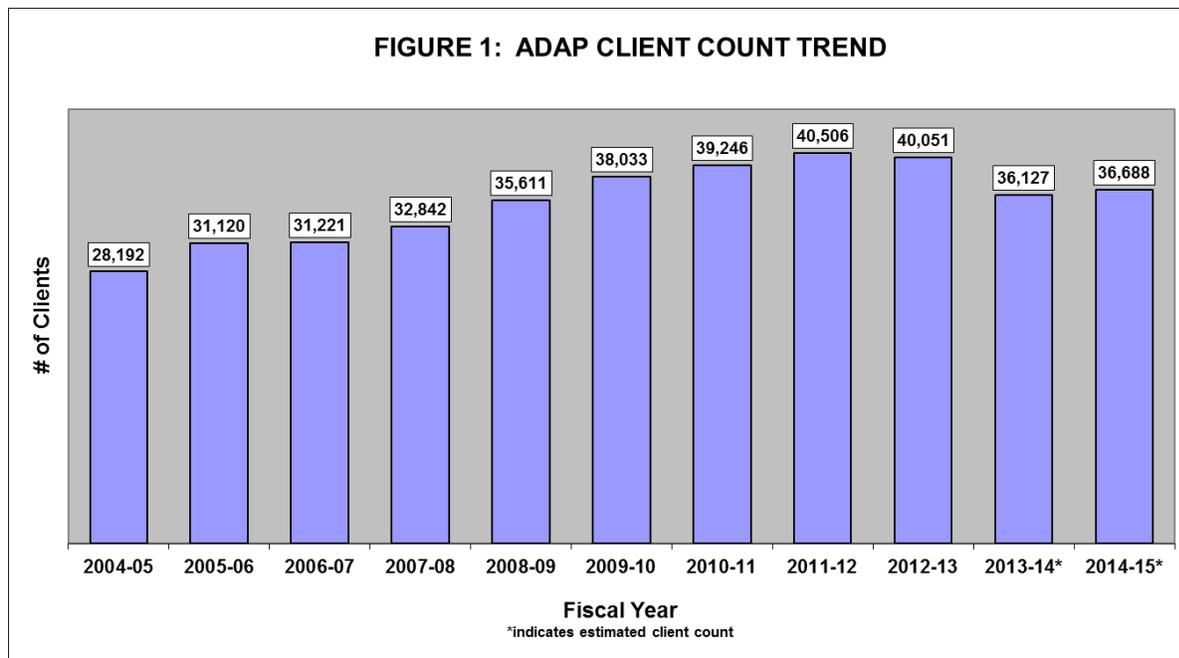
Note: MA: Major Assumption; CA: Continuing Assumption

*Derived by using Row 9 Total Resources less expenditures for FISCAL, State Controllers Office, Department of Public Health (State Operations) and OA-PCIP, OA-HIPP and Medicare Part D Local Assistance

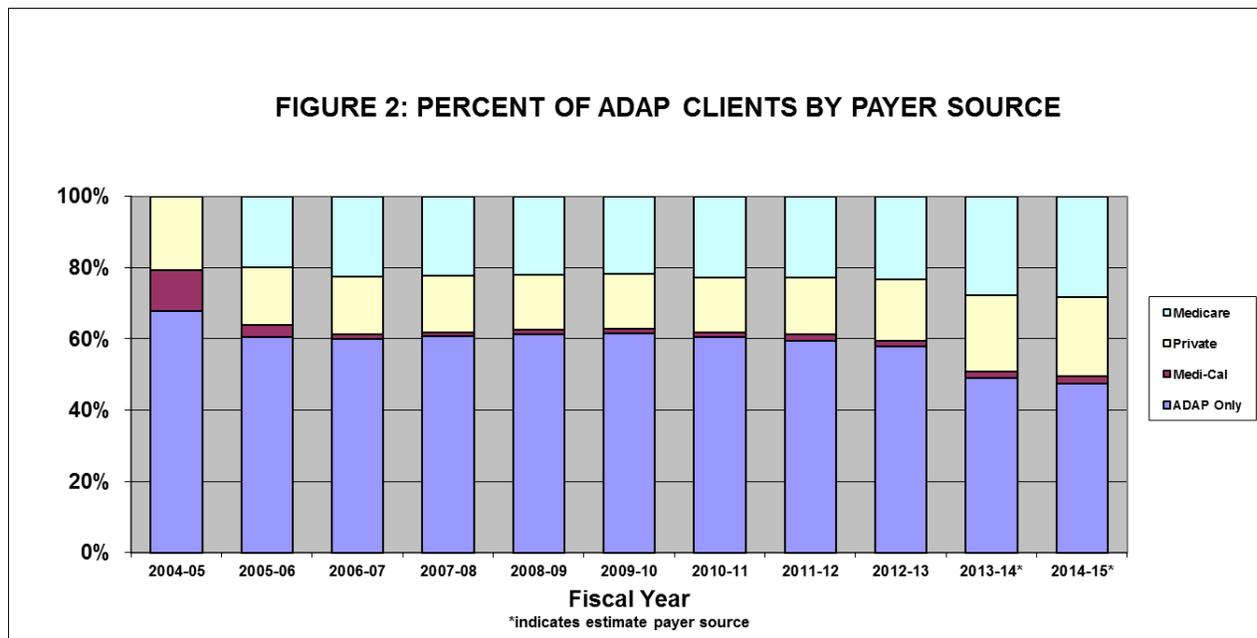
4. HISTORICAL PROGRAM DATA AND TRENDS*

(*Data for FYs 2013-14 and 2014-15 are estimated, all other data are actuals)

For all figures and tables in Section 4, the data prior to FY 2013-14 is the observed historical data. To develop client and prescription estimates for FYs 2013-14 and 2014-15, 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 Medi-Cal Expansion, Covered California, and LIHP (MA 1, MA 2, and MA 4, as applicable).

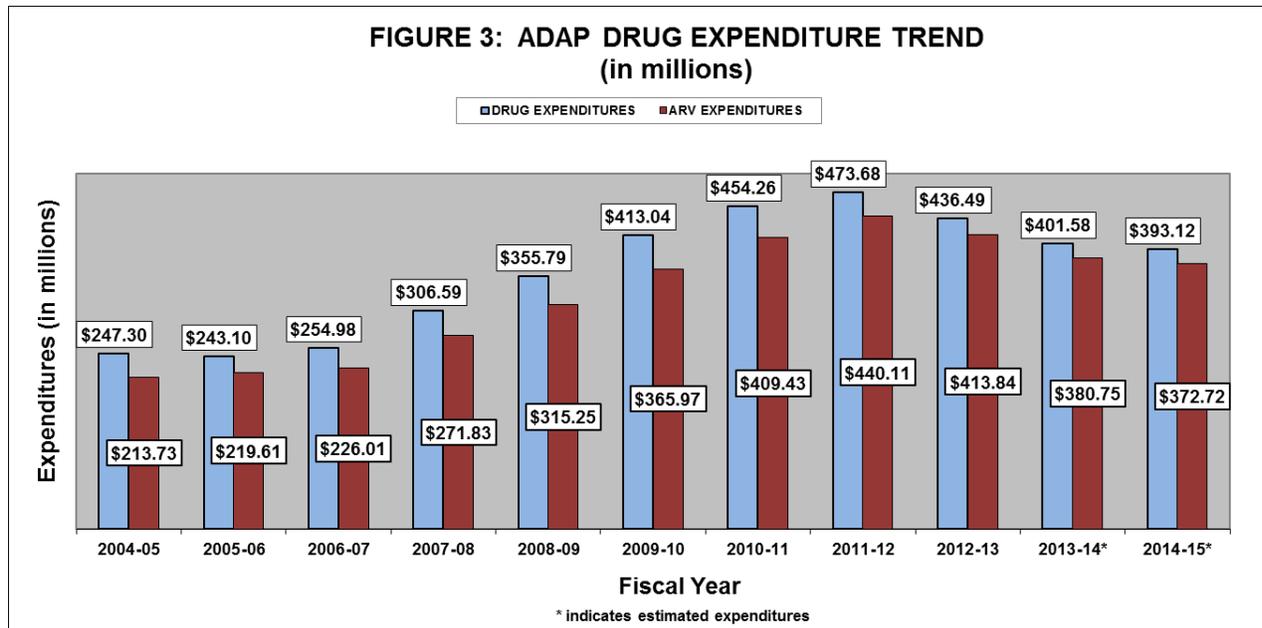


Note: Clients shifting out of ADAP due to Medi-Cal Expansion in FY 2013-14 are still considered to be ADAP clients for FY 2013-14; they will no longer be clients in FY 2014-15. LIHP clients who shifted out of ADAP and successfully transitioned to Medi-Cal Expansion will no longer be ADAP clients in FYs 2013-14 or 2014-15. LIHP HCCI clients who do not qualify for Medi-Cal Expansion will come back to the ADAP program in FYs 2013-14 and 2014-15, either as ADAP-only clients (if they do not purchase insurance through Covered California), or as ADAP Private Insurance clients (if they do purchase insurance through Covered California).

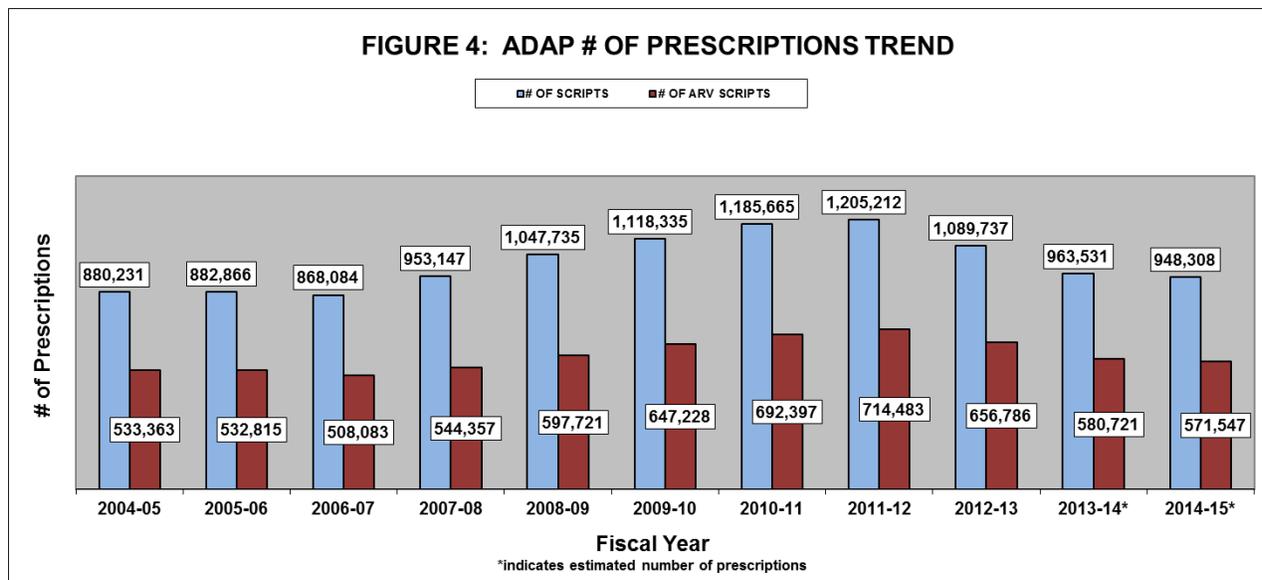


Note: For Figure 2 and Table 10, the actual percentage of ADAP clients by payer source/coverage group in FY 2012-13 was applied to the estimated client counts in FYs 2013-14 and 2014-15 to estimate the percentage of clients by payer source. These percentages were then adjusted to account for the shift of ADAP-only clients to private insurance due to Covered California, MA 2.

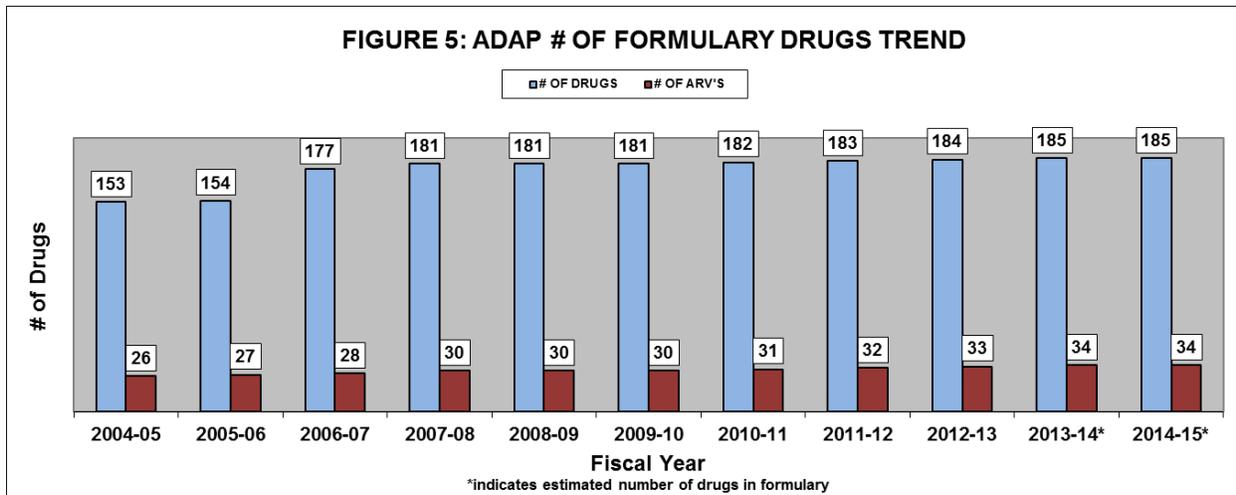
Coverage Group	FY 2013-14		FY 2014-15	
	Clients	Percent	Clients	Percent
ADAP-only	17,674	48.92%	17,441	47.54%
Medi-Cal	686	1.90%	708	1.93%
Private Insurance	7,714	21.35%	8,163	22.25%
Medicare	10,053	27.83%	10,375	28.28%
TOTALS	36,127	100.00%	36,688	100.00%



Note: Drug expenditures do not include annual administrative support for local health jurisdictions, Medicare Part D, OA-HIPP, or OA-PCIP premium payments. For these costs, see the FCS on page 26.



Note: To estimate the number of ARV prescriptions, OA used the percentage of ARV prescriptions in FY 2012-13 and applied it to the estimated drug prescriptions in FYs 2013-14 and 2014-15.



APPENDIX A: EXPENDITURE AND REVENUE ESTIMATE METHODS**Updated Expenditure Estimate for FY 2013-14**

TABLE 11: LINEAR REGRESSION MODEL FOR 2013-14 GOVERNOR'S BUDGET COMPARED TO BUDGET ACT FOR FY 2013-14			
Revised Estimate for FY 2013-14	Estimate from Budget Act FY 2013-14	Change from Previous Estimate (\$)	Change from Previous Estimate (%)
\$549,874,133	\$571,604,776	-\$21,730,643	-3.80%

New Expenditure Estimate for FY 2014-15

TABLE 12: LINEAR REGRESSION MODEL FOR 2014-15 GOVERNOR'S BUDGET COMPARED TO 2013-14 BUDGET ACT			
Governor's Budget for 2014-15	Estimate from Budget Act FY 2013-14	Change from Previous Estimate (\$)	Change from Previous Estimate (%)
\$597,602,503	\$571,604,776	\$25,997,727	4.55%

Linear Regression Model – Expenditure Estimates

The linear regression methodology is similar to the method used to estimate expenditures for FYs 2013-14 and 2014-15 in the *2014-15 Governor's Budget* with two changes: (1) OA used the updated range of actual expenditures, from October 2010 through August 2013; and (2) OA estimated September 2013 expenditures by: (A) taking the invoiced expenditures for the second full week of September without the Labor Day holiday; (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 May Revision*, seven pre-regression adjustments were made for ADAP counting towards TrOOP, reduced PBM transaction fees, increased split fee savings, reduced reimbursement rate, OA-HIPP expansion savings, OA-PCIP savings, and LIHP savings. There was no longer a need for adjusting for the elimination ADAP services in jails, and PBM (approved) transaction fees were increased from \$4 to \$4.75. Using a more recent set of actual expenditure data to predict future expenditures allowed OA to "fine tune" previous estimates.

Figure 6, page 34, 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 to not underestimate the need for ADAP to utilize the ADAP Rebate Fund to address increasing expenditures, OA continues to use the upper bound of the 95 percent confidence interval (CI) around the point estimate (blue line) for regression estimates. This is the same strategy used during the previous estimate development.

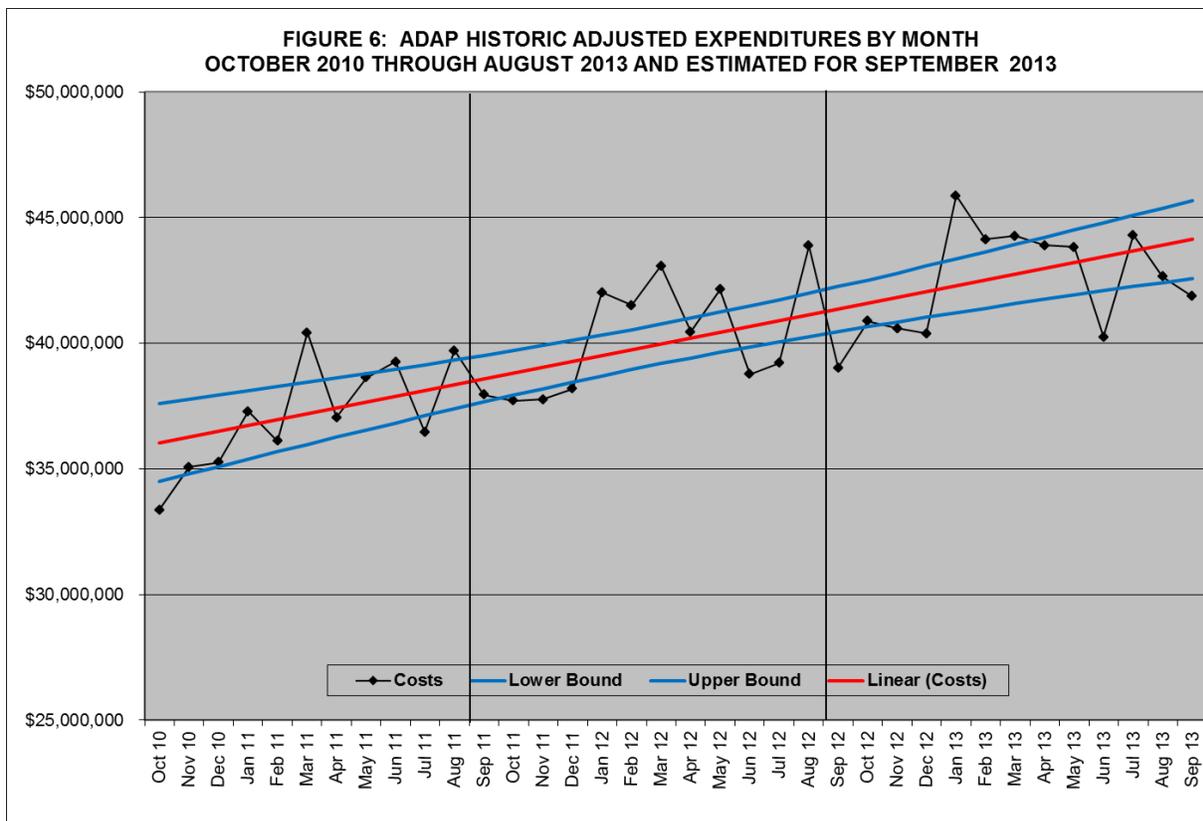


Table 13 displays historic drug expenditures by fiscal year, annual change, and percent change.

TABLE 13: ADAP HISTORIC AND PROJECTED DRUG EXPENDITURES			
(*Data for FY 2013-14 and FY 2014-15 are projected, all other data are actuals)			
Fiscal Year	Expenditures	Annual Change in Expenditures	Pct Annual Change
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	\$436,497,134	-\$37,187,370	-7.85%
2013-14*	\$401,583,982	-\$34,913,152	-8.00%
2014-15*	\$393,123,479	-\$8,460,503	-2.11%
Total Average	FY 97-98 to 14-15	\$18,387,421	9.45%

Note: Drug costs include administrative costs at the pharmacy and PBM level. Drug costs do not include annual administrative support for local health jurisdictions, Medicare Part D, OA-HIPP, or OA-PCIP premium payments. For these costs, see FCS (Table 9, page 26).

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 decrease for FY 2012-13 are mainly due to LIHP, while for FY 2013-14 the decrease is mainly due to LIHP, Medi-Cal Expansion, and Covered California.

ADAP Rebate Revenue Estimate Method

In general, to forecast future revenue, the rebate revenue estimate method applies an expected revenue collection rate to actual drug expenditures and projected drug expenditures (based on a linear regression and adjusted for the impact of assumptions). Using the most recent four quarters of actual rebates collected, the expected revenue collection rate is 65 percent. Revenue development for a given FY is based on actual rebates collected and actual expenditures, if available, and/or projected drug

expenditures (based on linear regression). A six-month delay is necessary to take into account the time required for billing the drug manufacturers and receipt of the rebate. Therefore, revenue estimates are based on drug expenditures for the last two quarters of the previous FY and the first two quarters of the current FY.

The method used to project revenues for the *2014-15 Governor's Budget* differs from the method used in earlier estimates. Previously, OA applied the expected revenue collection rate to projected drug expenditures and then adjusted this amount based on revenue impact from assumptions. In this estimate, OA applied the expenditure impact from assumptions before applying the expected revenue collection rate to prevent overestimating rebate revenue.

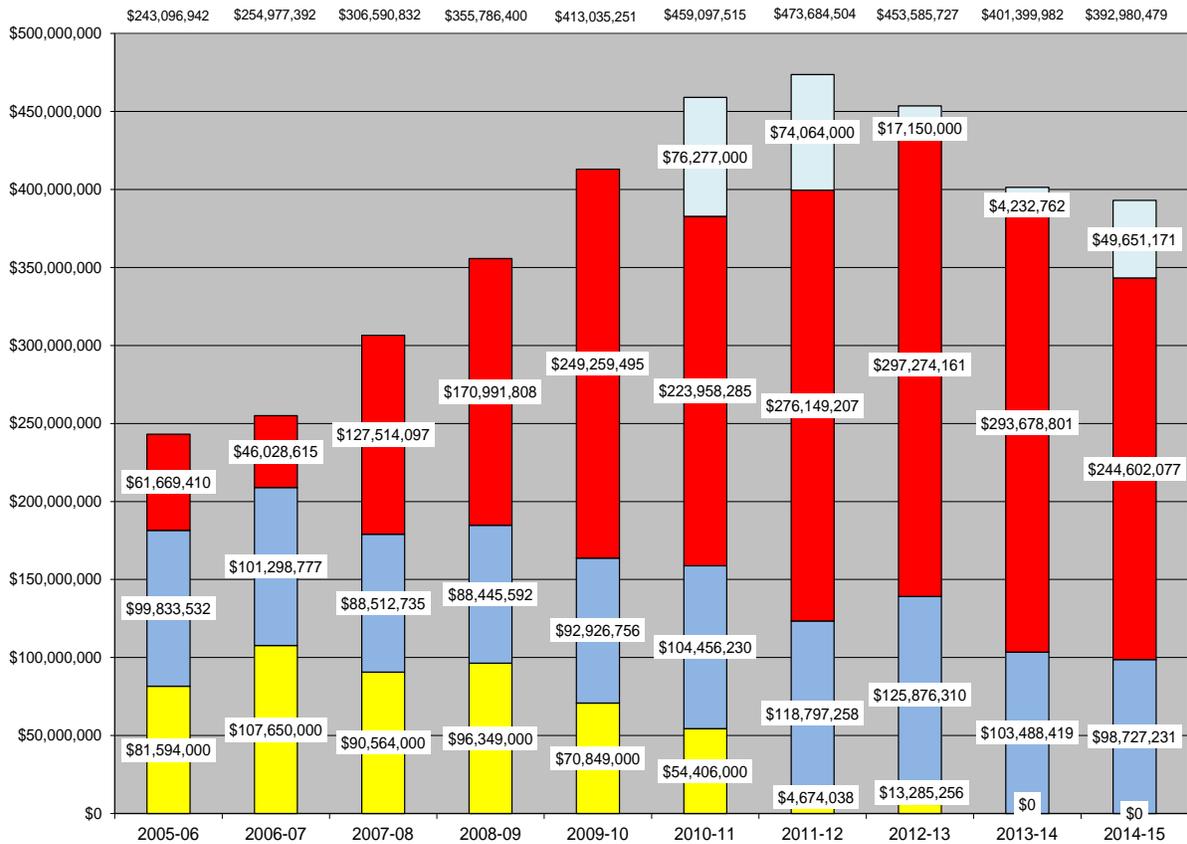
Revenue estimates for FY 2013-14 in the *2014-15 Governor's Budget* included: actual rebates (\$79,418,673) collected for the period January through March 2013, estimated rebates from actual drug expenditures from April to June 2013 (\$67,703,185), and estimated rebates from projected drug expenditures for July to December 2013 (\$131,417,427).

FY 2014-15 revenue was based on projected drug expenditures (based on a linear regression) for the period January through December 2014, adjusted for the impact of assumptions and application of the 65 percent expected revenue collection rate. A reduction of \$3,000 was made to arrive at the estimated revenue of \$260,567,038.

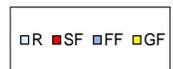
It should be noted that the revenue estimate method uses average expenditures for each six-month period and does not directly take into account the seasonal behavior of expenditures. Historical data show that drug expenditures are lower in the first half of the FY (July through December) compared to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

APPENDIX B: FUND SOURCES

FIGURE 7: ADAP HISTORIC DRUG EXPENDITURES BY FUNDING SOURCE
(Data for FYs 2013-14 and 2014-15 are estimated, all other data are actuals)



FY 2013-14: Reflects \$22.4M FF decrease, \$13.3M GF decrease, \$3.4M SF decrease, and \$12.9M Reimbursement decrease.
FY 2014-15: Reflects \$4.6M FF decrease, no change in GF, \$49.3M SF decrease, and \$45.4M Reimbursement increase.



General Fund

The local assistance budget for ADAP, which includes insurance assistance programs, will not include General Fund for FYs 2013-14 or 2014-15.

Federal Fund

Federal funding from the annual HRSA grant award through RW 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 RW 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.

On March 27, 2013, OA received the Notice of Award for partial 2013 RW Part B Grant funding due to the Federal Continuing Resolution. ADAP received \$38,554,404, or 36 percent of the 2012 California ADAP Earmark award. On June 26, 2013, OA received the Notice of Award for the remainder of the 2013 funding for \$59,825,799. This amount included \$159,135 in 2011 carryover, for a total 2013 ADAP Earmark amount of \$97,206,303; ADAP will use this award for drug expenditures in FY 2013-14.

In the *2013-14 May Revision*, OA requested an additional \$15 million in federal fund expenditure authority in FY 2012-13 to utilize some of the available 2013 RW Part B award. Since OA spent \$2,912,359 of the \$15 million in FY 2012-13, the remainder will be spent in FY 2013-14.

ADAP received three 2013 Supplemental awards: (1) RW ADAP Supplemental award for \$7,713,428, (2) RW Part B Supplemental award for \$1,738,531, and (3) ADAP ERF award for \$10,761,268. ADAP will use these funds for drug expenditures.

Match

HRSA requires grantees to have HIV-related non-HRSA expenditures. California's 2013 HRSA match requirement for FY 2013-14 funding is \$65,314,468. OA will meet the match requirement by using General Fund expenditures from OA's Surveillance Program and support, 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 2012-13 estimated expenditures at the time of the Year 2014 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 General Fund expenditures specific to HIV-related activities such as care, treatment, prevention, and surveillance. In 2009, HRSA stated that expenditures from rebate funds 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, CMS 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. ADAP estimates utilizing \$8.4 million of the \$66.3 million SNCP funds available for ADAP in FY 2013-14 due to ADAP's requirement to spend all available rebate funds prior to spending federal funds. For FY 2014-15, ADAP estimates utilizing \$51.2 million of the \$53.6 million SNCP funds available for ADAP. DHCS informed OA that SNCP funds are not restricted and may be used for expenditures not allowable under the RW Payer of Last Resort provision. Thus, in FYs 2013-14 and 2014-15, 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 Rebate Fund 3080

The use of this fund is established under both state law and federal funding guidance. The ADAP Rebate Fund was legislatively established in 2004 to support the provision of ADAP services. California HSC Section 120956, which established the ADAP Rebate Fund, states in part:

“... (b) All rebates collected from drug manufacturers on drugs purchased through the ADAP implemented pursuant to this chapter and, notwithstanding 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 HSC Section 120956,

subsequent federal (Medicaid) rebate law, and the subsequent nationally negotiated voluntary ADAP 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 through the end of calendar year 2014, with the exception of an agreement with one small manufacturer that ends on June 30, 2014, and another manufacturer that declined to extend its agreement, as its two ARV drugs have a very small and declining market share of ARV sales. These agreements are significant, as ARV drugs represented 95 percent of all ADAP drug expenditures in FY 2012-13. 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 both the AMP and the federally mandated Medicaid 340B rebate are 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, 13 are subject to a price

freeze rebate and one ARV was on a price freeze through December 31, 2012. These 14 drugs represented 62 percent of ADAP's drug expenditures in FY 2012-13. 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 rebate fund.

ADAP Rebate Invoicing

ADAP invoices the manufacturers for drug rebates on a quarterly basis (see Table 14, page 43), 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. The majority of large drug manufacturers have generally paid rebates close to the Medicaid payment timeframe, usually within 30 to 60 days from the date of invoicing, while the majority of smaller 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 receives drug rebates anywhere from 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.

Rebate fund budget authority for local health jurisdictions and premium payments is requested as follows:

- \$2 million in FYs 2013-14 and 2014-15 to local health jurisdictions 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;
- \$364,235 to cover premium payments for OA-PCIP in FY 2013-14 only; and

- \$10,188,916 and \$12,166,961 to cover premium payments for OA-HIPP in FYs 2013-14 and 2014-15, respectively.

TABLE 14: HISTORIC ADAP REBATE REVENUE COLLECTION PERCENTS BY QUARTER			
FY-QTR	\$ Drugs Purchased	Received in Rebate \$	Received / Purchased
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	\$109,105,789	\$55,287,500	50.67%
2010-11-Q1	\$108,993,239	\$56,542,481	51.88%
2010-11-Q2	\$109,126,234	\$60,632,240	55.56%
2010-11-Q3	\$117,756,733	\$69,854,403	59.32%
2010-11-Q4	\$118,549,848	\$67,571,808	57.00%
2011-12-Q1	\$113,894,685	\$65,608,229	57.60%
2011-12-Q2	\$113,441,625	\$66,278,515	58.43%
2011-12-Q3	\$126,356,874	\$83,124,919	65.79%
2011-12-Q4	\$119,991,320	\$74,162,107	61.81%
2012-13-Q1	\$113,135,974	\$73,360,369	64.84%
2012-13-Q2	\$107,160,900	\$69,484,815	64.84%
2012-13-Q3	\$111,981,513	\$79,418,673	70.92%

TABLE 15: COMPARISON OF REVENUE BETWEEN 2014-15 Governor's Budget and 2013-14 Budget Act						
UPDATED ESTIMATE FOR FY 2013-14*						
Expenditure Period	Available Data	FY 2013-14 Revised	Available Data	FY 2013-14 Budget Act	Change (\$)	Change (%)
Jan - Mar 2013	Actual Rebates	\$79,418,673	Estimated Expenditures @ 60%	\$76,947,081	\$2,471,592	3.21%
Apr - Jun 2013	Actual Expenditures @ 65%	\$67,703,185	Estimated Expenditures @ 60%	\$76,947,081	-\$9,243,896	-12.01%
Jul- Dec 2013	Estimated Expenditures with adjustments @65%	\$131,417,427	Estimated Expenditures @ 60%	\$171,481,433	-\$40,064,006	-23.36%
Subtotal Revenue Prior to Adjustments		na		\$325,375,595		na
Total Adjustments Due to Assumptions		na		-\$53,108,859		na
Subtotal Revenue After Adjustments		\$278,539,285		\$272,266,736	\$6,272,549	2.30%
Interest		\$120,000		\$120,000	\$0	0.00%
Total Revenue (see Table 9, Fund Condition Statement)		\$278,659,285		\$272,386,736	\$6,272,549	2.30%
ESTIMATE FOR FY 2014-15*						
Expenditure Period	Available Data	FY 2014-15 Governor's Budget	Available Data (Expenditure Period)	FY 2013-14 Revised	Change (\$)	Change (%)
Jan - Jun 2014	Estimated Expenditures @ 65%	\$129,545,375	Actual Rebates (Jan-Mar 2013) and Actual Expenditures @65% (Apr- Jun)	\$147,121,858	-\$17,576,483	-11.95%
Jul - Dec 2014	Estimated Expenditures @ 65%	\$131,024,663	Estimated Expenditures @65% (Jul-Dec 2013)	\$131,417,427	-\$392,765	-0.30%
	Adjustment	-\$3,000				
Subtotal Revenue after Adjustments		\$260,567,038		\$278,539,285	-\$17,972,247	-6.45%
Interest		\$120,000		\$120,000	\$0	0.00%
Total Revenue (see Table 9, Fund Condition Statement)		\$260,687,038		\$278,659,285	-\$17,972,247	-6.45%

Note: When actual rebate data are not available, revenue projection methodology is based on a percentage of 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 lower) and the second half (when expenditures are higher).

*Revenue projection development for FY 2013-14 has been revised for the November budget estimate. The Budget Act includes post-revenue adjustments, however, for the November Estimate, the expenditure estimate was adjusted before applying the 65 percent rebate return rate eliminating the need for post-revenue adjustments.

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 in 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. RW Reauthorization

The RW HIV/AIDS Treatment and Extension Act of 2009 was up for reauthorization in October 2013. The current law does not contain a sunset provision; therefore, Congress can continue to appropriate funding even if no modifications are made. The current Administration did not push for reauthorization given the impact of changes in the health system due to the onset of PPACA in 2014, and Congress did appropriate RW funding in 2014 without reauthorization.

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 RW 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 RW. CDPH will continue to closely monitor federal funding appropriations and the potential impact any changes or new developments may have on California's ADAP.

Predicted fiscal impact: No change.

2. Potential Savings Due to Cross Match of RW Client Data to Medi-Cal Eligibility Data Systems (MEDS)

Federal requirements stipulate that RW grant funds are to be used solely as a payer of last resort. To minimize the possibility of paying for medications that should be billed to Medi-Cal or other third-party payers, OA has drafted an interagency agreement with DHCS that will allow for a monthly cross match of RW and MEDS client data. OA worked with CDPH's Information Technology Services Division to vet the process and is moving forward with finalizing the interagency agreement.

This cross match between RW client data and MEDS client data, once implemented, will identify RW 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 +)

3. Renegotiated Supplemental Rebate Expires December 31, 2013

Supplemental rebate agreements are in place for all ARVs on the ADAP formulary through the end of calendar year 2013. This is significant, as ARV drugs represented 95 percent of all ADAP drug expenditures in FY 2012-13. The ACTF met with drug manufacturer representatives in June 2013 to negotiate continuation of rebate agreements beyond the current term, which were all due to end December 31, 2013. ACTF negotiation efforts to extend the existing supplemental rebate agreements through the end of calendar year 2014 have been relatively successful, with six ARV drug manufacturers agreeing to the extension at least through the end of calendar year 2014, including two extending their agreements through the end of calendar year 2015. The seventh manufacturer extended its existing terms through June 30, 2014, and the ACTF will attempt renegotiations prior to the agreement end date. Since this manufacturer represents only 0.1 percent of total ADAP drug expenditures, any impact in FY 2014-15 would be minimal. The eighth manufacturer declined to extend its agreement, as its two ARV drugs have a very small and declining market share of ARV sales.

Predicted fiscal impact: Unknown at this time.

New Drug Added to the ADAP Formulary

Dolutegravir (Tivicay)

Dolutegravir (Tivicay) is a new ARV drug of the integrase-inhibitor class, which was approved by the U.S. Food and Drug Administration (FDA) on August 12, 2013, for use in both treatment-naïve and treatment-experienced individuals infected with HIV. It is usually dosed once per day and must be used in combination with at least two other ARVs for treatment of HIV.

The ACTF reached a new pricing agreement with ViiV Healthcare, the manufacturer of dolutegravir, for all state ADAPs. Currently, all ARVs on the ADAP formulary have ACTF pricing agreements and the associated rebates are an integral part of the annual ADAP budget. The ADAP price of dolutegravir is less than raltegravir (Isentress), the only other FDA-approved single agent integrase inhibitor. This pricing, therefore, achieves the ACTF goal of cost neutrality with other drugs in the same class. The price will remain frozen for ADAPs until December 31, 2014. Some patients may require twice a day dolutegravir because of drug interactions with other ARVs (Sustiva, Lexiva, Aptivus) and rifampin, a tuberculosis drug, or due to resistance to the other integrase inhibitor. ViiV has projected that this will apply to less than 1 percent of patients on

dolutegravir. California ADAP will monitor dolutegravir utilization, and if utilization indicates that twice a day usage exceeds the estimated 1 percent, ADAP will consult with the Medical Advisory Committee (MAC) to consider establishing clinical guidelines for the implementation of a prior authorization process. Therefore, the addition of dolutegravir to the ADAP formulary is not expected to represent a significant new cost to the program.

The ADAP MAC members recommended that dolutegravir be added to the ADAP formulary. Estimated costs indicate that the addition of dolutegravir to the formulary will be cost neutral and does not require the removal of another ARV from the formulary. Therefore, dolutegravir was added to the ADAP formulary on September 9, 2013.

New Drugs that May be Available in the Next Three Years

Possible 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-daily protease inhibitors (PI) and non-nucleoside reverse transcriptase inhibitors once-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, Gilead, submitted a New Drug Application (NDA) to the FDA for elvitegravir on June 27, 2012. Elvitegravir had been given priority review status by the FDA and was expected to be on the market by May 2013; however, on April 29, 2013, Gilead announced that the company received a Complete Response Letter (CRL) from the FDA stating that the FDA was unable to approve the application for elvitegravir citing deficiencies in documentation and validation of certain quality testing procedures and methods. While Gilead is working with the FDA to address the questions raised on the CRL, there is no estimated timeline as to when the issues will be resolved and the application approved. If approved, ADAP will monitor pricing and supplemental rebate negotiations closely. As required by law, ADAP must add a new ARV to the formulary within 30 days of OA receiving notification by the manufacturer 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 MAC. 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 the cost for the new drug will be included as a New Major Assumption (NMA) in the *2014-15 May Revision*.

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, Gilead, submitted an NDA to the FDA on June 28, 2012, and cobicistat was expected to be on the market by May 2013; however, on April 29, 2013, Gilead announced that the company received a CRL from the FDA regarding the application for cobicistat. The letter stated that the FDA was unable to approve the application for cobicistat citing deficiencies in documentation and validation of certain quality testing procedures and methods. While Gilead is working with the FDA to address the questions raised on the CRL, there is no estimated timeline as to when the issues will be resolved and the application approved. If approved, ADAP will monitor pricing and supplemental rebate negotiations closely and follow the procedures outlined above regarding the addition of a new ARV to the ADAP formulary.

Possible Addition of Hepatitis C Drugs to the ADAP Formulary

Janssen Research and Development, LLC has developed a new hepatitis C virus (HCV) drug. On November 22, 2013, the FDA approved simeprevir (Olysio) as a new therapy to treat chronic HCV. ADAP will monitor drug pricing and rebate negotiations for simeprevir. If simeprevir is recommended for addition to the ADAP formulary by the ADAP MAC, the cost for the new drug will be included as a NMA in the *2014-15 May Revision*.

Gilead Sciences, Inc. has developed the first-in-kind nucleotide analog polymerase inhibitor, sofosbuvir, for the treatment of chronic HCV. On December 6, 2013, the FDA approved sofosbuvir (Sovaldi) as a new treatment option to be used in combination with other antiviral drugs (ribavirin or pegylated interferon and ribavirin). ADAP will monitor drug pricing and rebate negotiations. If the new drug is recommended for addition to the ADAP formulary by the ADAP MAC, the cost for the new drug will be included as a NMA in the *2014-15 May Revision*.

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 16, page 50. 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. ^[1]

Living HIV/AIDS cases in California 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.

^[1] 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.

TABLE 16: ESTIMATED PERSONS LIVING WITH HIV IN CALIFORNIA, 2011-2015

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. Previously, California has estimated that 5,000–7,000 new HIV infections occur 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 detailed surveillance data on HIV testing and ARV use and testing of these remnant samples. Results of this effort were first reported in the August 2008 issue of *Journal of the American Medical Association (JAMA)*^[1] and the *Morbidity and Mortality Weekly Report (MMWR)*.^[2] The most recent national report on incidence, which includes California data, estimates that there were 45,000 (95 percent CI 39,00–50,100) and 47,500 (95 percent CI 42,000–53,000) incident HIV infections in 2009 and 2010 respectively. Given the proportion of the general population and of all HIV/AIDS cases living in California, these national estimates are consistent with the

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

^[2] Subpopulation Estimates from the HIV Incidence Surveillance System — United States, 2006. *MMWR* 2008;57(36):1073-1076.

5,000 to 7,000 range OA estimated for California in 2005, suggesting new HIV infections have been relatively steady in recent years.^[3]

California has also implemented HIV incidence surveillance using the CDC-developed algorithm based on surveillance data and testing of remnant samples. The estimates of California incidence for 2009–2011 on the data and methodology provided by CDC are as follows:

- 2009: Estimated infections = 4,964 (95 percent CI 4,117–5,811);
- 2010: Estimated infections = 4,949 (95 percent CI 4,129–5,770); and
- 2011: Estimated infections = 5,275 (95 percent CI 4,275–6,275).

Surveillance data are dynamic and may change over time. Additionally, the number of tested samples increases with time, leading to more robust incidence estimates. Therefore, estimates from 2011 should be considered preliminary and will likely change as additional data become available. Data from the HIV incidence surveillance system will be used to revise and update California incidence estimates on an annual basis.

^[3] 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 2013-14**

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, ADAP started with the estimated total drug expenditures for FY 2013-14 using the upper bound of the 95 percent CI from the linear regression model and subtracted cost/savings for all assumptions impacting drug expenditures.

For these factors, clients and expenditures per client, ADAP 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 17, 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.

\$ / Client Scenarios	Number of Client Scenarios						
	Hi (-) CI	Med (-) CI	Lo (-) CI	Zero Change in Clients	Lo (+) CI	Med (+) CI	Hi (+) CI
Hi (-): Best	\$377,972,405	\$381,847,740	\$385,723,075	\$389,598,410	\$393,473,745	\$397,349,080	\$401,224,415
Med (-)	\$381,847,740	\$385,763,027	\$389,678,314	\$393,593,600	\$397,508,887	\$401,424,174	\$405,339,461
Lo (-)	\$385,723,075	\$389,678,314	\$393,633,552	\$397,588,791	\$401,544,030	\$405,499,269	\$409,454,508
Zero Change in \$ / Client	\$389,598,410	\$393,593,600	\$397,588,791	\$401,583,982	\$405,579,173	\$409,574,364	\$413,569,554
Lo (+)	\$393,473,745	\$397,508,887	\$401,544,030	\$405,579,173	\$409,614,315	\$413,649,458	\$417,684,601
Med (+)	\$397,349,080	\$401,424,174	\$405,499,269	\$409,574,364	\$413,649,458	\$417,724,553	\$421,799,647
Hi (+): Worst	\$401,224,415	\$405,339,461	\$409,454,508	\$413,569,554	\$417,684,601	\$421,799,647	\$425,914,694

The center cell highlighted in light blue shows the revised estimated expenditures for FY 2013-14, using the 95 percent CI 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 \$378 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 \$425.9 million (bottom right cell, red). The table provides a range of values to assist in projecting the total expenditures for FY 2013-14.

FY 2014-15

Below is the sensitivity analysis for FY 2014-15, using the same logic that was used for FY 2013-14. In this sensitivity analysis, ADAP adjusted for several assumptions that impacted ADAP's FY 2014-15 total expenditures and total client count. Similar to the FY 2013-14 sensitivity analysis, we started with the estimated total drug expenditures for FY 2014-15 using the upper bound of the 95 percent CI from the linear regression model. ADAP then 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 18, below, provides a range of values to assist in projecting the total expenditures for FY 2014-15.

\$ / Client Scenarios	Number of Client Scenarios						
	Hi (-) CI	Med (-) CI	Lo (-) CI	Zero Change in Clients	Lo (+) CI	Med (+) CI	Hi (+) CI
Hi (-): Best	\$370,009,346	\$373,803,036	\$377,596,727	\$381,390,417	\$385,184,107	\$388,977,797	\$392,771,487
Med (-)	\$373,803,036	\$377,635,837	\$381,468,637	\$385,301,437	\$389,134,238	\$392,967,038	\$396,799,839
Lo (-)	\$377,596,727	\$381,468,637	\$385,340,548	\$389,212,458	\$393,084,369	\$396,956,279	\$400,828,190
Zero Change in \$ / Client	\$381,390,417	\$385,301,437	\$389,212,458	\$393,123,479	\$397,034,500	\$400,945,521	\$404,856,541
Lo (+)	\$385,184,107	\$389,134,238	\$393,084,369	\$397,034,500	\$400,984,631	\$404,934,762	\$408,884,893
Med (+)	\$388,977,797	\$392,967,038	\$396,956,279	\$400,945,521	\$404,934,762	\$408,924,003	\$412,913,244
Hi (+): Worst	\$392,771,487	\$396,799,839	\$400,828,190	\$404,856,541	\$408,884,893	\$412,913,244	\$416,941,595

APPENDIX F: ASSUMPTION METHODOLOGY

Major Assumptions

1. 2014 Medi-Cal Expansion

FY 2013-14

Savings attributed to Medi-Cal Expansion in FY 2013-14 were estimated for four groups of clients: (1) ADAP-only clients who previously transitioned to LIHP or clients who were eligible for their county LIHP but were not expected to have transitioned to LIHP by January 1, 2014 (Group 1); (2) ADAP-only clients potentially eligible for Medi-Cal Expansion who exceed the LIHP upper limits of their residing counties or from counties who did not implement LIHP (Group 2); and (3) and (4) current OA-PCIP and OA-HIPP clients eligible for Medi-Cal-Expansion (Groups 3 and 4, respectively):

- a. Using FY 2012-13 data, computed total expenditures based on Medi-Cal Expansion's upper limit of 138 percent FPL for documented, ADAP-only clients who had already transitioned to LIHP or were eligible for LIHP but did not transition by December 31, 2013 (Group 1, see green columns in Table 19, page 55), and for ADAP-only clients potentially eligible for Medi-Cal Expansion (Group 2, yellow columns).
- b. Summed up total expenditures from Table 19; (\$123.7 million, orange column, sum of Groups 1 and 2) and multiplied by 52 percent, the percentage of expenditures from January through June in FY 2012-13 (\$123.7 million X 52 percent = \$64.3 million). Also summed up the total clients who would transition to Medi-Cal Expansion directly (Group 2, yellow column) or indirectly via LIHP (Group 1, green column) and multiplied by 54 percent, the percentage of clients from January through June in FY 2012-13 (9,651 X 83.49 percent = 8,058, total in orange).

COUNTY	LIHP MCE*	LIHP EXPEND	LIHP CLIENTS	ADAP-ONLY EXPEND	ADAP-ONLY CLIENTS	TOTAL EXPEND	TOTAL CLIENTS
Alameda	133%	\$5,904,235	452	\$0	0	\$5,904,235	452
CMSP (35)	100%	\$2,731,670	231	\$928,124	50	\$3,659,794	281
Contra Costa	133%	\$385,283	36	\$0	0	\$385,283	36
Kern	133%	\$551,229	69	\$0	0	\$551,229	69
Los Angeles	133%	\$63,050,171	4,689	\$3,169,998	181	\$66,220,169	4,870
Monterey	100%	\$554,715	26	\$234,483	9	\$789,198	35
Orange	133%	\$4,335,839	439	\$0	0	\$4,335,839	439
Placer	100%	\$112,029	12	\$18,927	2	\$130,956	14
Riverside	133%	\$1,838,350	184	\$89,011	5	\$1,927,362	189
Sacramento	67%	\$3,478,446	333	\$1,404,492	100	\$4,882,938	433
San Bernardino	100%	\$2,470,004	232	\$892,453	50	\$3,362,457	282
San Diego	133%	\$7,614,498	855	\$931,300	50	\$8,545,798	905
San Francisco	133%	\$10,029,616	688	\$633,652	36	\$10,663,268	724
San Joaquin	80%	\$1,068,257	91	\$453,518	26	\$1,521,776	117
San Mateo	133%	\$662,797	44	\$25,088	2	\$687,886	46
Santa Clara	133%	\$2,484,774	234	\$92,506	7	\$2,577,280	241
Santa Cruz	100%	\$200,118	20	\$101,781	9	\$301,898	29
Tulare	75%	\$592,676	33	\$180,306	8	\$772,983	41
Ventura	133%	\$276,698	38	\$0	0	\$276,698	38
Fresno	Withdrawn	\$0	0	\$3,477,569	249	\$3,477,569	249
Merced	Withdrawn	\$0	0	\$373,177	27	\$373,177	27
San Luis Obispo	Withdrawn	\$0	0	\$496,643	30	\$496,643	30
Santa Barbara	Pending	\$0	0	\$527,345	41	\$527,345	41
Stanislaus	Pending	\$0	0	\$1,322,190	63	\$1,322,190	63
TOTAL		\$108,341,405	8,706	\$15,352,564	945	\$123,693,969	9,651
Highlighted counties had LIHP HCCI programs with 200% FPL and 133-138% FPL are counted in LIHP above.							
% Savings, Jan-Jun 2013		52.00%	83.49%	52.00%	83.49%	52.00%	83.49%
Est Savings, Jan-Jun 2013		\$56,337,531	7,269	\$7,983,334	789	\$64,320,864	8,058
LIHP Adj		\$39,944,266	0	\$0	0	\$39,944,266	0
Unadj Savings, Jan-Jun 2013		\$96,281,796	7,269	\$7,983,334	789	\$104,265,130	8,058
70% Adj Factor		70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Adj Savings, Jan-Jun 2013		\$67,397,258	5,088	\$5,588,333	552	\$72,985,591	5,640
Adj Total, FY 2012-13		\$506,248,996	41,806	\$506,248,996	41,806	\$506,248,996	41,806
% Savings, FY 2012-13		13.31%	12.17%	1.10%	1.32%	14.42%	13.49%
Est Total, FY 2013-14		\$549,874,133	43,148	\$549,874,133	43,148	\$549,874,133	43,148
FINAL SAVINGS, FY 2013-14		\$73,205,100	5,251	\$6,069,899	570	\$79,274,999	5,821

* LIHP upper income limits as of June 28, 2013.

- c. Similar to the pre-regression adjustment in which ADAP expenditures for LIHP clients in FY 2012-13 were added back into the data, OA added back in estimated ADAP expenditures for those transitioning out of ADAP from January through June 2013 to make FY 2012-13 ADAP data "whole," as if no clients had left ADAP for LIHP in January–June 2013 (for unadjusted expenditure savings, \$64.3 million + \$39.9 million = \$104.3 million). Otherwise, estimated FY 2012-13 LIHP expenditures would be underestimated.
- d. Applied a 70 percent adjustment factor, which covers all the potential disparities in data used to determine eligibility, including income and immigration status (for adjusted expenditure savings, 70 percent of \$104.3 million = \$73 million; and for clients, 70 percent of 8,058 = 5,640).

- e. Computed the percentage of Medi-Cal Expansion savings and clients in FY 2012-13 as if Medi-Cal Expansion had started on January 1, 2013 (for expenditure savings, $\$73 \text{ million} / \$506.3 \text{ million} = 14.42 \text{ percent}$; and for clients, $5,640 / 41,806 = 13.49 \text{ percent}$). FY 2012-13 expenditures and clients were adjusted as if LIHP and OA-PCIP had not taken place.
- f. Applied the percentage of savings and clients in FY 2012-13 to the corresponding linear regression estimates for FY 2013-14 (for unadjusted expenditure savings, $14.42 \text{ percent of } \$549.9 \text{ million} = \79.3 million ; and for clients, $13.49 \text{ percent of } 43,148 = 5,821$) to estimate savings attributed to eligible ADAP to LIHP (Group 1) and ADAP-only (Group 2) clients transitioning to Medi-Cal Expansion from January-June 2014.
- g. For savings attributed to OA-PCIP clients who will be eligible for Medi-Cal Expansion in 2014, we extended the methodology described in MA 5 on page 18 to arrive at an estimate of 57 documented clients with an FPL up to 138 percent. The estimated savings for six months of averted drug expenditures for these clients were $\$746,244$. To arrive at this number, OA multiplied the average cost per month for an ADAP-only client by six months and then multiplied this again by the number of OA-PCIP clients potentially eligible for Medi-Cal Expansion ($\$2,182 \text{ per month} \times 6 = \$13,092 \text{ for six months} \times 57 = \$746,244$). Applying the 70 percent adjustment factor resulted in $\$522,371$ for 40 OA-PCIP clients.
- h. ADAP clients who previously transitioned to LIHP (5,251 in Group 1) and current OA-PCIP (Group 3) clients eligible for Medi-Cal Expansion (40) were initially 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 (Group 2, $\$6.1 \text{ million}$ in savings for 570 clients out of the totals in Step f), reductions were calculated to accommodate a ramp-up period. OA anticipates that these clients will start applying to MCE in their birth month starting in January 2014. Clients will be granted a one-month grace period for applying to Medi-Cal and then a 60-day grace period for application processing. Thus, ADAP projected expenditure savings starting in April 2014. ADAP assumed that one-twelfth would enroll in Medi-Cal Expansion in April 2014, followed by one-twelfth per month from May through the end of June. This resulted in a 95.83 percent reduction of the initial savings and number of clients (see Table 20, page 57 for methodology to calculate the reduction percentage). Based on the 95.83 percent reduction, expenditures for this group of clients (Group 2) were reduced by $\$5.8 \text{ million}$ ($\$6.1 \text{ million} \times 95.83 \text{ percent}$) and clients were reduced by 546 ($570 \times 95.8 \text{ percent}$). This reduction was applied to the unadjusted ADAP-only estimates in the ADAP-only columns in Table 19 (page 55) (for adjusted total expenditures, $\$79.3 \text{ million} - \$5.8 \text{ million} = \$73.5 \text{ million}$; and for adjusted total clients, $5,821 - 546 = 5,275$).

TABLE 20: MEDI-CAL EXPANSION ENROLLMENT FOR NON-LIHP, ADAP-ONLY CLIENTS (RAMP-UP), FY 2013-14			
MONTH	MULTIPLIER	PERCENT MULTIPLIER	SAVINGS
APR	1 / 12	8.33%	\$42,152
MAY	2 / 12	16.67%	\$84,304
JUN	3 / 12	25.00%	\$126,456
TOTAL			\$252,912
% SAVINGS			4.17%
% SAVINGS REDUCTION			95.83%
Savings = Percent Multiplier X (6,069,899 / 12).			
% Savings = Total Savings / 6,069,899.			
% Savings Reduction = 100% – % Savings.			
Reduction = \$6,069,899 – \$5,816,986 = \$252,912.			

- i. Premiums for OA-HIPP clients were computed by first identifying the number of OA-HIPP clients with 138 percent FPL who qualified for Medi-Cal Expansion (n = 492) and applying the same ramp-up period as in Table 20 for non-LIHP, ADAP-only clients with the 70 percent adjustment factor (for April, 1 / 12 of 492 = 41, and 41 X 70 percent = 29; for May 2 / 12 of 492 = 82, and 82 X 70 percent = 57; and for June, 3 / 12 of 492 = 123, and 123 X 70 percent = 86). For each month, the number of clients was multiplied by the average monthly premium of \$764 (for April, 29 X \$764 = \$21,927; for May 57 X \$764 = \$43,854; and for June, 86 X \$764 = \$65,780). Premiums were summed up for all clients (\$131,561 for 86 clients). Drug expenditures (co-pays and deductibles) for OA-HIPP clients were based \$237 per month per client (for April, 29 X \$237 = \$6,788; for May, 57 X \$237 = \$13,576; and for June, 86 X \$237 = 20,363) for a total of \$40,727.
- j. Final Medi-Cal Expansion savings and clients were computed by summing up the LIHP and ramp-up adjusted ADAP-only savings with OA-PCIP (Group 3) and OA-HIPP (Group 4,) savings (for final savings, \$73.5 million + \$522,371 + \$40,727 = \$74 million; and for clients, 5,275 + 40 + 86 = 5,401).

TABLE 21: SUMMARY OF MEDI-CAL EXPANSION SAVINGS, FY 2013-14		
LINE ITEM ESTIMATE	TOTAL EXPENDITURE SAVINGS	TOTAL CLIENTS
Adjusted Total ADAP Savings, Jan-Jun 2012	\$72,985,591	5,640
Adjusted Total Expenditures, FY 2012-13	\$506,248,996	41,806
Percent Savings, FY 2012-13	14.42%	13.49%
Estimated Total Expenditures, FY 2013-14	\$549,874,133	43,148
Unadjusted Total ADAP Savings, FY 2013-14	\$79,274,999	5,821
ADAP-Only Ramp-Up Reduction, FY 2013-14	-\$5,816,986	-546
Adjusted Total ADAP Savings, FY 2013-14	\$73,458,013	5,275
OA-PCIP Savings, FY 2013-14	\$522,371	40
OA-HIPP Savings, FY 2013-14	\$40,727	86
EXPENDITURE SAVINGS, FY 2013-14	\$74,021,110	5,401
LOSS REBATE REVENUE, FY 2013-14	\$0	5,401
NET SAVINGS\$, FY 2013-14	\$74,021,110	5,401

k. Finally, OA also broke out by client group the final Medi-Cal expenditure savings and clients transitioning for FY 2013-14.

CLIENT GROUP	PREMIUM SAVINGS\$	DRUG EXP SAVINGS\$	TOTAL CLIENTS
Group 1 (ADAP to LIHP)	\$0	\$73,205,100	5,251
Group 2 (ADAP to MCE)	\$0	\$252,912	24
Group 3 (OA-PCIP)	\$0	\$522,371	40
Group 4 (OA-HIPP)	\$131,561	\$40,727	86
EXPENDITURE SAVINGS\$, FY 2013-14	\$131,561	\$74,021,110	5,401
LOSS REBATE REVENUE, FY 2013-14	\$0	\$0	5,401
NET SAVINGS\$, FY 2013-14	\$131,561	\$74,021,110	5,401

FY 2014-15

Medi-Cal Expansion savings for FY 2014-15 were computed similarly to FY 2013-14 with the following changes described below:

a. No change.

COUNTY	LIHP MCE*	LIHP EXPEND\$	LIHP CLIENTS	ADAP-ONLY EXPEND\$	ADAP-ONLY CLIENTS	TOTAL EXPEND\$	TOTAL CLIENTS
TOTAL		\$108,341,405	8,706	\$15,352,564	945	\$123,693,969	9,651
Highlighted counties had LIHP HCCI programs with 200% FPL and 133-138% FPL are counted in LIHP above.							
% Savings, FY 2012-13		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Est Total, FY 2012-13		\$108,341,405	8,706	\$15,352,564	945	\$123,693,969	9,651
LIHP Adj		\$59,898,762	0	\$0	0	\$59,898,762	0
Unadj Savings, FY 2012-13		\$168,240,167	8,706	\$15,352,564	945	\$183,592,731	9,651
90% Adj Factor		90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Adj Savings, FY 2012-13		\$151,416,150	7,835	\$13,817,308	851	\$165,233,458	8,686
Adj Total, FY 2012-13		\$506,248,996	41,806	\$506,248,996	41,806	\$506,248,996	41,806
% Savings, FY 2012-13		29.91%	18.74%	2.73%	2.03%	32.64%	20.78%
Est Total, FY 2014-15		\$597,602,503	44,533	\$597,602,503	44,533	\$597,602,503	44,533
FINAL SAVINGS, FY 2014-15		\$178,739,457	8,347	\$16,310,665	906	\$195,050,122	9,252

* LIHP upper income limits as of June 28, 2013.

b. No change (except full year).

c. No change.

- d. The 70 percent adjustment factor in FY 2013-14 was increased to 90 percent in FY 2014-15 to reflect that most of the ADAP to LIHP clients (Group 1) will have transitioned to Medi-Cal Expansion at the beginning of the second year.
- e. No change.
- f. No change.
- g. For savings attributed to OA-PCIP clients who will be eligible for Medi-Cal Expansion in 2014-15, ADAP multiplied the FY 2013-14 savings of \$746,244 by two for full-year savings of \$1,492,488. Applying the 90 percent adjustment factor resulted in \$1,343,239 in savings for 51 clients.
- h. For ADAP-only clients potentially eligible for Medi-Cal Expansion who exceed the LIHP upper limits of their residing counties or who were from counties that did not implement LIHP (Group 2, \$16.3 million in savings for 906 clients out of the totals in Step e), reductions were calculated to accommodate a ramp-up period that continued from FY 2013-14. This resulted in a 25 percent reduction of the initial savings and number of clients (for expenditures 25 percent of \$16.3 million = \$4.1 million; and for clients, 25 percent of 906 = 226). This reduction was applied to the unadjusted FY 2014-15 ADAP-only estimates in the yellow ADAP-only columns in Table 23 (page 59) (for adjusted total expenditures, \$195.1 million – \$4.1 million = \$191 million; and for adjusted total clients, 9,252 - 226 = 9,026).

TABLE 24: MEDI-CAL EXPANSION ENROLLMENT FOR NON-LIHP, ADAP-ONLY CLIENTS (RAMP-UP). FY 2014-15			
MONTH	MULTIPLIER	PERCENT MULTIPLIER	SAVINGS
JUL	4 / 12	33.33%	\$453,074
AUG	5 / 12	41.67%	\$566,343
SEP	6 / 12	50.00%	\$679,611
OCT	7 / 12	58.33%	\$792,880
NOV	8 / 12	66.67%	\$906,148
DEC	9 / 12	75.00%	\$1,019,417
JAN	10 / 12	83.33%	\$1,132,685
FEB	11 / 12	91.67%	\$1,245,954
MAR	12 / 12	100.00%	\$1,359,222
APR	12 / 12	100.00%	\$1,359,222
MAY	12 / 12	100.00%	\$1,359,222
JUN	12 / 12	100.00%	\$1,359,222
TOTAL			\$12,232,999
% SAVINGS			75.00%
% SAVINGS REDUCTION			25.00%
Savings = Percent Multiplier X (\$16,310,665 / 12).			
% Savings = Total Savings / \$16,310,665.			
% Savings Reduction = 100% – % Savings.			
Reduction = \$16,310,665 – \$4,077,666 = \$12,232,999.			

- i. No change.
- j. For FY 2014-15, net savings for Medi-Cal Expansion is estimated to be \$128,212,057 (\$193.3 million in drug expenditures with \$65.1 million in rebate loss). Loss rebate revenue consisted of estimated Medi-Cal Expansion expenditure savings in FY 2013-14 (39 percent of \$74 million = \$28,868,233) and the first six months of FY 2014-15 (48 percent of \$193.3 million X 39 percent = \$36,177,941), with \$28.9 million + \$36.2 million = \$65.1 million.

TABLE 25: SUMMARY OF MEDI-CAL EXPANSION SAVINGS, FY 2014-15		
LINE ITEM ESTIMATE	TOTAL EXPENDITURE SAVINGS	TOTAL CLIENTS
Adjusted Total ADAP Savings, FY 2012-13	\$165,233,458	8,686
Adjusted Total Expenditures, FY 2012-13	\$506,248,996	41,806
Percent Savings, FY 2012-13	32.64%	20.78%
Estimated Total Expenditures, FY 2014-15	\$597,602,503	44,533
Unadjusted Total ADAP Savings, FY 2014-15	\$195,050,122	9,252
ADAP-Only Ramp-Up Reduction, FY 2014-15	-\$4,077,666	-226
Adjusted Total ADAP Savings, FY 2014-15	\$190,972,455	9,026
OA-PCIP Savings, FY 2014-15	\$1,343,239	51
OA-HIPP Savings, FY 2013-14	\$942,536	443
EXPENDITURE SAVINGS, FY 2014-15	\$193,258,231	9,520
LOSS REBATE REVENUE, FY 2014-15	\$65,046,174	9,520
NET SAVINGS, FY 2014-15	\$128,212,057	9,520

k. No change.

TABLE 26: SUMMARY OF MEDI-CAL EXPANSION SAVINGS, FY 2014-15			
CLIENT GROUP	PREMIUM SAVINGS\$	DRUG EXP SAVINGS\$	TOTAL CLIENTS
Group 1 (ADAP to LIHP)	\$0	\$178,739,457	8,347
Group 2 (ADAP to MCE)	\$0	\$12,232,999	679
Group 3 (OA-PCIP)	\$0	\$1,343,239	51
Group 4 (OA-HIPP)	\$3,044,693	\$942,536	443
EXPENDITURE SAVINGS, FY 2013-14	\$3,044,693	\$193,258,231	9,520
LOSS REBATE REVENUE, FY 2014-15	\$0	\$65,046,174	9,520
NET SAVINGS, FY 2014-15	\$3,044,693	\$128,212,057	9,520

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

ADAP savings for the last six months of FY 2013-14 resulting from the transition of LIHP HCCI, ADAP-only, and OA-PCIP clients into coverage purchased through Covered California was estimated in a similar manner as with Medi-Cal Expansion (MA 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 (MA 4) 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 ADAP-only clients eligible for Covered California were those who did not transition to LIHP HCCI prior to January 2014 because: (1) their income exceeded the 200 percent FPL limit of their county-specific LIHP HCCI; or (2) they resided in one of 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 who transitioned to LIHP prior to January 1, 2014, and then transition to Covered California as of January 1, 2014, or clients who are eligible for LIHP HCCI but were not expected to have transitioned to LIHP HCCI by January 1, 2014 (Group 1, identified as ADAP to LIHP clients throughout MA 2); (2) the current ADAP-only clients who 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 from 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). For the FY 2013-14 Budget Act, OA estimated 2.8 (4 percent of 70 percent) percent of all clients in Group 2 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 internal data system modifications to streamline processes. 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 and January 31, 2014, and that 25 percent will enroll in February, and the remaining 25 percent in March 2014.

For the current OA-PCIP clients, OA estimated that 70 percent of them would transition to Covered California on January 1, 2014. OA 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.

Insurance premiums and drug co-pays and deductibles were based on costs for Silver Plans for individuals with income between 138–200 percent FPL, and Platinum Plans for 200 percent FPL-\$50,000 (see Table 27, page 65), using data available from Covered California's website (<https://www.coveredca.com>). Because information by FPL was not available for Platinum Plans, premiums were based on the average cost for five plans in Los Angeles County, where 42 percent of ADAP clients reside, for a 19 year old at 201 percent FPL, and a 65 year old at 401 percent FPL.

TABLE 27: COVERED CALIFORNIA'S 2014 PLANS (SINGLE PERSON)					
LINE ITEM	SILVER: 138-150% FPL	SILVER: 150-200% FPL	PLATINUM: 200-250% FPL	PLATINUM: 250-400% FPL	PLATINUM: 400%-\$50,000
Premiums	\$19-\$57	\$57-\$121	\$494	\$494	\$494
Medical Deductible	None	None	None	None	None
Brand Drug Deductible	None	\$50	None	None	None
Brand Drug Co-Pay	\$5	\$15	\$15	\$15	\$15
Generic Drug Co-Pay	\$3	\$5	\$5	\$5	\$5
MAX OUT-OF-POCKET	\$2,250	\$2,250	\$4,000	\$4,000	\$4,000
400% FPL-\$50,000 based on 250-400% FPL.					

- a. Using FY 2012-13 data, OA computed total expenditures based on income of 138 percent FPL to \$50,000 for documented, ADAP-only clients (Group 2, in yellow) and clients who had already transitioned to LIHP (Group 1, in green), by county (see Table 28, page 67).
- b. Summed up total expenditures from Table 28 (page 66) (\$109.3 million) and multiplied by 52 percent, the percentage of expenditures from January through June in FY 2012-13 (\$109.9 million X 52 percent = \$56.9 million). Also, summed up the total potentially eligible ADAP-only clients who would transition to Covered California directly (Group 2 in yellow, n = 5,794) or indirectly via LIHP (Group 1 in green, n = 198) (total sum of Group 1 and 2 clients = 5,992 in orange, which was multiplied by 83.5 percent, the percentage of clients from January through June in FY 2012-13, for a total of 5,003).
- c. Similar to the pre-regression adjustment in which LIHP expenditures in FY 2012-13 were added back into the data, OA added back in ADAP expenditures for those transitioning out of ADAP and into LIHP from January through June to make FY 2012-13 LIHP data "whole" (for unadjusted expenditure savings, \$56.9 million + \$4.1 million = \$60.9 million). Otherwise, LIHP expenditures would be underestimated.
- d. Based on the proportion of ADAP-only clients who voluntarily co-enrolled in OA-PCIP in FY 2011-12, 2.8 percent (4 percent of 70 percent) of clients Groups 1 and 2 were estimated to enroll in Covered California and pay for their own HIV-related outpatient medical out-of-pocket costs (for expenditures, \$60.9 million X 2.8 percent = \$1.7 million; and for clients, 5,003 X 2.8 percent = 140, figures in the orange-colored columns).

- e. Computed the percentage of total Covered California savings and clients in FY 2012-13 as if Covered California had started in that FY (for expenditure savings, $\$1.7 \text{ million} / \$506.3 \text{ million} = 0.34 \text{ percent}$; and for clients, $140 / 41,806 = 0.34 \text{ percent}$). FY 2012-13 expenditures and clients were adjusted as if LIHP and OA-PCIP had not taken place.
- f. The percentage of savings and clients in FY 2012-13 were applied to the corresponding linear regression estimates for FY 2013-14 (for expenditure savings, $0.34 \text{ percent of } \$549.9 \text{ million} = \1.9 million ; and for clients, $0.34 \text{ percent of } 43,148 = 145$) to estimate averted drug expenditure savings attributed to eligible LIHP and ADAP-only clients (Groups 1 and 2) transitioning to Covered California.
- g. For savings attributed to OA-PCIP clients (Group 3) who will be eligible for Covered California in 2014, ADAP used September 2013 actuals to arrive at an estimate of 132 documented clients with 138 percent FPL to \$50,000 with premiums, but only 104 clients in ADAP with drug deductibles and co-pays offsetting averted drug expenditures. After the 70 percent adjustment factor, the estimated savings for six months of averted drug expenditures for these clients were \$953,098. To arrive at this number, OA multiplied the average cost per month for an ADAP-only client by six months and then multiplied this again by the number of OA-PCIP clients potentially eligible for Covered California and served in ADAP ($\$2,182 \text{ per month} \times \text{six months} = \$13,092 \text{ for six months} \times 73 \text{ clients} = \$953,098$; OA-PCIP tables are in blue).

TABLE 28: AVERTED ADAP-ONLY DRUG EXPENDITURES FOR COVERED CALIFORNIA, FY 2013-14							
COUNTY	LIHP HCCI	LIHP EXPEND\$	LIHP CLIENTS	ADAP-ONLY EXPEND\$	ADAP-ONLY CLIENTS	TOTAL EXPEND\$	TOTAL CLIENTS
Alameda	200%	\$1,425,247	86	\$2,917,597	167	\$4,342,844	253
Butte	n/a	\$0	0	\$199,571	9	\$199,571	9
Contra Costa	200%	\$132,566	16	\$303,394	23	\$435,960	39
Del Norte	n/a	\$0	0	\$25,719	2	\$25,719	2
El Dorado	n/a	\$0	0	\$47,131	3	\$47,131	3
Fresno	n/a	\$0	0	\$915,476	60	\$915,476	60
Humboldt	n/a	\$0	0	\$106,097	6	\$106,097	6
Imperial	n/a	\$0	0	\$61,968	5	\$61,968	5
Inyo	n/a	\$0	0	\$2,975	1	\$2,975	1
Kern	n/a	\$0	0	\$334,334	21	\$334,334	21
Kings	n/a	\$0	0	\$8,904	3	\$8,904	3
Lake	n/a	\$0	0	\$53,990	3	\$53,990	3
Los Angeles	n/a	\$0	0	\$58,562,081	3,079	\$58,562,081	3,079
Marin	n/a	\$0	0	\$271,309	13	\$271,309	13
Mendocino	n/a	\$0	0	\$80,490	3	\$80,490	3
Merced	n/a	\$0	0	\$59,140	7	\$59,140	7
Mono	n/a	\$0	0	\$1,805	1	\$1,805	1
Monterey	n/a	\$0	0	\$923,069	38	\$923,069	38
Napa	n/a	\$0	0	\$128,233	9	\$128,233	9
Nevada	n/a	\$0	0	\$20,350	2	\$20,350	2
Orange	200%	\$1,306,550	91	\$2,655,064	147	\$3,961,614	238
Placer	n/a	\$0	0	\$79,642	5	\$79,642	5
Riverside	n/a	\$0	0	\$2,806,739	168	\$2,806,739	168
Sacramento	n/a	\$0	0	\$2,367,560	156	\$2,367,560	156
San Bernardino	n/a	\$0	0	\$2,631,951	142	\$2,631,951	142
San Diego	n/a	\$0	0	\$13,005,226	724	\$13,005,226	724
San Francisco	n/a	\$0	0	\$10,584,380	575	\$10,584,380	575
San Joaquin	n/a	\$0	0	\$610,236	35	\$610,236	35
San Luis Obispo	n/a	\$0	0	\$145,173	6	\$145,173	6
San Mateo	n/a	\$0	0	\$787,629	50	\$787,629	50
Santa Barbara	n/a	\$0	0	\$453,156	24	\$453,156	24
Santa Clara	n/a	\$0	0	\$2,164,398	137	\$2,164,398	137
Santa Cruz	n/a	\$0	0	\$205,938	12	\$205,938	12
Shasta	n/a	\$0	0	\$157,746	7	\$157,746	7
Solano	n/a	\$0	0	\$294,192	22	\$294,192	22
Sonoma	n/a	\$0	0	\$1,048,739	58	\$1,048,739	58
Stanislaus	n/a	\$0	0	\$707,508	29	\$707,508	29
Sutter	n/a	\$0	0	\$30,935	1	\$30,935	1
Tehama	n/a	\$0	0	\$11,961	1	\$11,961	1
Tuolumne	n/a	\$0	0	\$10,221	1	\$10,221	1
Tulare	n/a	\$0	0	\$252,251	14	\$252,251	14
Ventura	200%	\$70,308	5	\$253,527	17	\$323,834	22
Yolo	n/a	\$0	0	\$74,216	6	\$74,216	6
Yuba	n/a	\$0	0	\$42,860	2	\$42,860	2
TOTAL		\$2,934,671	198	\$106,404,881	5,794	\$109,339,552	5,992
Highlighted counties had LIHP HCCI programs with 200% FPL and are counted in LIHP expenditures and LIHP clients.							
% TOTAL, JAN-JUN 2013		52.00%	83.49%	52.00%	83.49%	52.00%	83.49%
EST TOTAL, JAN-JUN 2013		\$1,526,029	165	\$55,330,538	4,837	\$56,856,567	5,003
LIHP ADJ		\$4,072,424	0	\$0	0	\$4,072,424	0
UNADJ TOTAL, JAN-JUN 2013		\$5,598,453	165	\$55,330,538	4,837	\$60,928,991	5,003
% ADJ TOTAL, JAN-JUN 2013		2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
ADJ TOTAL, JAN-JUN 2013		\$156,757	5	\$1,549,255	135	\$1,706,012	140
ADJ TOTAL, FY 2012-13		\$506,248,996	41,806	\$506,248,996	41,806	\$506,248,996	41,806
% SAVINGS, FY 2012-13		0.03%	0.01%	0.31%	0.32%	0.34%	0.34%
EST TOTAL, FY 2013-14		\$549,874,133	43,148	\$549,874,133	43,148	\$549,874,133	43,148
FINAL SAVINGS, FY 2013-14		\$170,265	5	\$1,682,759	140	\$1,853,024	145

TABLE 29: COVERED CALIFORNIA ESTIMATE FOR OA-PCIP CLIENTS				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	92	\$103,879	\$0	\$103,879
Drug Deduct & Co-Pays	73	\$18,489	\$0	\$18,489
Averted Drug Expend\$	73	-\$953,098	\$0	-\$953,098
TOTAL	92	-\$830,730	\$0	-\$830,730

- h. Unadjusted savings (also known as averted drug expenditures) were computed by summing up savings from LIHP clients (Group 1), ADAP-only clients (Group 2) and from OA-PCIP clients (Group 3) (\$1.9 million + \$953,096 = \$2.8 million, steps f plus g). However, these savings would be offset by Covered California premiums and drug deductibles and co-pays.
- i. To estimate the cost of premiums in Covered California for LIHP and ADAP-only clients in 138 percent-200 percent FPL, based on FY 2012-13 clients, ADAP 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 30). For those with 200 percent FPL-\$50,000, OA used the average Platinum premium in Los Angeles County. The average monthly premium was \$314 (\$272,566 / six months then divided by 145 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.

TABLE 30: PREMIUMS FOR LIHP AND ADAP-ONLY CLIENTS				
FPL	CLIENTS	MONTHLY	6 MONTHS	TOTAL
138-149	12	\$38	\$228	\$2,833
150-199	50	\$89	\$534	\$26,799
200-249	37	\$494	\$2,964	\$110,275
250-400	42	\$494	\$2,964	\$124,435
401-\$50,000	3	\$494	\$2,964	\$8,224
TOTAL	145			\$272,566

- j. For Covered California premiums for OA-PCIP clients, ADAP applied the same computations as above for LIHP and ADAP-only clients, except that ADAP used the distribution of FPL for 92 OA-PCIP clients, resulting in an estimate of \$103,879. (Table 31, next page).

TABLE 31: PREMIUMS FOR OA-PCIP CLIENTS				
FPL	CLIENTS	MONTHLY	6 MONTHS	TOTAL
138-149	5	\$38	\$228	\$1,117
150-199	25	\$89	\$534	\$13,457
200-249	20	\$157	\$942	\$19,123
250-400	39	\$279	\$1,671	\$64,334
401-\$50,000	4	\$279	\$1,671	\$5,849
TOTAL	92			\$103,879

- k. To estimate the cost of drug deductibles and co-pays for LIHP and ADAP-only clients in Covered California, ADAP multiplied the estimated number of clients in each FPL by the monthly Covered California 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 \$42 (\$36,115 / six months and then divided by 145 clients). Deductibles and co-pays shown in Table 32 were multiplied by the average number of drug prescriptions per month per client for ADAP-only clients in FY 2012-13 (2.3 for brand and 1.2 for generic).

TABLE 32: DRUG DEDUCTIBLES AND CO-PAYS FOR LIHP AND ADAP-ONLY CLIENTS					
FPL	CLIENTS	MONTHLY	6 MONTHS	TOTAL	TOTAL W/ DEDUCTIBLE
138-149	12	\$15	\$92	\$1,137	\$1,137
150-199	50	\$41	\$246	\$12,331	\$14,840
200-249	37	\$41	\$246	\$9,141	\$9,141
250-400	42	\$41	\$246	\$10,315	\$10,315
401-\$50,000	3	\$41	\$246	\$682	\$682
TOTAL	145			\$33,605	\$36,115

Table 33 summarizes the unadjusted premiums, drug deductibles and co-pays, and averted drug expenditures for LIHP and ADAP-only clients. Loss rebate was included for the five LIHP clients (39 percent of \$170,265 = \$66,403).

TABLE 33: UNADJUSTED ESTIMATE FOR LIHP AND ADAP-ONLY CLIENTS				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	145	\$272,566	\$0	\$272,566
Drug Deduct & Co-Pays	145	\$36,115	\$0	\$36,115
Averted Drug Expend\$	145	-\$1,853,024	-\$66,403	-\$1,786,621
TOTAL	145	-\$1,544,344	-\$66,403	-\$1,477,940

- I. For Covered California drug deductibles and co-pays for OA-PCIP clients, multiplied the \$42 monthly average by six months by the 73 clients for an estimate of \$18,489 (Table 34).

TABLE 34: DRUG DEDUCTIBLES AND CO-PAYS FOR OA-PCIP CLIENTS					
FPL	CLIENTS	MONTHLY CO-PAYS	6 MONTH CO-PAYS	TOTAL CO-PAYS	TOTAL W/ DEDUCT
138-149	4	\$15	\$92	\$357	\$357
150-199	20	\$41	\$249	\$4,936	\$5,929
200-249	16	\$41	\$249	\$3,976	\$3,976
250-400	30	\$41	\$249	\$7,541	\$7,541
401-\$50,000	3	\$41	\$249	\$686	\$686
TOTAL	73			\$17,496	\$18,489

- m. ADAP-only clients who previously transitioned to LIHP (n = 5, Group 1) and current OA-PCIP clients (n = 73) 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 exceeded the LIHP upper limits of their residing counties or from counties that did not implement LIHP (\$1.7 million in savings for 140 clients out of the totals in Step f) (Table 35), reductions in savings were calculated to accommodate a ramp-up period. ADAP assumed that 25 percent of the 140 clients would enroll in January, followed by 25 percent each in February and March, and the remaining 25 percent in April (Tables 36 and 37, page 71). This resulted in a 25 percent reduction of the initial savings and number of clients for these ADAP-only clients (for expenditures, \$1.7 million X 12.50 percent = \$420,690, 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 \$420,690 and zero clients from the overall unadjusted savings estimated. The same 25 percent reduction was also applied to premiums (\$263,559 X 25 percent = \$65,890) and drug deductibles and co-pays (\$34,921 X 25 percent = \$8,730) for the 140 clients.

TABLE 35: UNADJUSTED ADAP-ONLY CLIENTS				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	140	\$263,559	\$0	\$263,559
Drug Deduct & Co-Pays	140	\$34,921	\$0	\$34,921
Averted Drug Expend\$	140	-\$1,682,759	\$0	-\$1,682,759
TOTAL	140	-\$1,384,279	\$0	-\$1,384,279

TABLE 36: COVERED CALIFORNIA ENROLLMENT FOR NON-LIHP, ADAP-ONLY CLIENTS (RAMP-UP)			
MONTH	FRACTIONAL MULTIPLIER	PERCENT MULTIPLIER	SAVINGS
JAN	3 / 12	25.00%	-\$57,678
FEB	6 / 12	50.00%	-\$115,357
MAR	9 / 12	75.00%	-\$173,035
APR	12 / 12	100.00%	-\$230,713
MAY	12 / 12	100.00%	-\$230,713
JUN	12 / 12	100.00%	-\$230,713
TOTAL			-\$1,038,209
% SAVINGS			75.00%
% SAVINGS REDUCTION			25.00%
Savings = Percent Multiplier X (\$1,384,279 / 6).			
% Savings = Total Savings / \$1,384,279.			
% Savings Reduction = 100% – % Savings.			
Reduction = \$1,384,279 – \$346,070 = \$1,038,209.			

TABLE 37: NON-LIHP, ADAP-ONLY ADJUSTED FOR RAMP-UP (Group 2)				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	140	\$197,669	\$0	\$197,669
Drug Deduct & Co-Pays	140	\$26,191	\$0	\$26,191
Averted Drug Expend\$	140	-\$1,262,070	\$0	-\$1,262,070
TOTAL	140	-\$1,038,209	\$0	-\$1,038,209

The adjusted savings for all clients (LIHP, ADAP-only, and OA-PCIP) represent savings of \$1,962,601 to ADAP (Table 38, below). Finally, OA factored in cost estimates of \$724,180 to modify and automate processes and reduce application processing timelines in anticipation of the increased demand for premium payment assistance and the corresponding workload. Therefore, final savings in FY 2013-14 totals \$1,228,421.

LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	237	310,555	\$0	\$310,555
Drug Deduct & Co-Pays	237	45,873	\$0	\$45,873
Averted Drug Expend\$	237	-2,385,432	-66,403	-\$2,319,029
SUBTOTAL	237	-2,029,004	-\$66,403	-\$1,962,601
TOTAL WITH ADMIN		\$724,180		-\$1,228,421

FY 2014-15

Covered California savings for FY 2014-15 were computed similarly to FY 2013-14, with the following changes described below:

a. No change.

COUNTY	LIHP HCCI	LIHP EXPEND\$	LIHP CLIENTS	ADAP-ONLY EXPEND\$	ADAP-ONLY CLIENTS	TOTAL EXPEND\$	TOTAL CLIENTS
TOTAL		\$2,934,671	198	\$106,404,881	5,794	\$109,339,552	5,992
Highlighted counties had LIHP HCCI programs with 200% FPL and are counted in LIHP expenditures and LIHP clients.							
% TOTAL, FY 2012-13		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
EST TOTAL, FY 2012-13		\$2,934,671	198	\$106,404,881	5,794	\$109,339,552	5,992
LIHP ADJ		\$6,294,381	0	\$0	0	\$6,294,381	0
UNADJ TOTAL, FY 2012-13		\$9,229,052	198	\$106,404,881	5,794	\$115,633,933	5,992
% ADJ TOTAL, FY 2012-13		7.20%	7.20%	7.20%	7.20%	7.20%	7.20%
ADJ TOTAL, FY 2012-13		\$664,492	14	\$7,661,151	417	\$8,325,643	431
ADJ TOTAL, FY 2012-13		\$506,248,996	41,806	\$506,248,996	41,806	\$506,248,996	41,806
% SAVINGS, FY 2012-13		0.13%	0.03%	1.51%	1.00%	1.64%	1.03%
EST TOTAL, FY 2014-15		\$597,602,503	44,533	\$597,602,503	44,533	\$597,602,503	44,533
EST SAVINGS, FY 2014-15		\$784,400	15	\$9,043,619	444	\$9,828,020	460

b. Summed up total expenditures from Table 39 above (\$109.3 million) and multiplied by 100 percent for full-year savings (\$109.3 million X 100 percent =

\$109.3 million). Also, summed up the total potentially eligible ADAP-only clients who would transition to Covered California directly (Group 2 in yellow, n = 5,794) or indirectly via LIHP (Group 1 in green, n = 198) (total sum of Group 1 and 2 clients = 5,992 in orange, which was multiplied by 100 percent for full-year savings.

- c. Since FY 2012-13 data excluded ADAP expenditures for those transitioning out of ADAP and into LIHP, added back in estimated LIHP numbers for full year to make FY 2012-13 LIHP data “whole” (for unadjusted expenditure savings, \$109.3 million + \$6.3 million = \$115.6 million).
- d. Increased the percentage of clients in Groups 1 and 2 who would enroll in Covered California from 4 percent to 8 percent. Then, applying the 90 percent adjustment factor resulted in 7.2 percent (8 percent of 90 percent) (for expenditures, \$115.6 million X 7.2 percent = \$8.3 million; and for clients, 5,992 X 7.2 percent = 431, figures in the orange-colored columns). The 70 percent adjustment factor in FY 2013-14 was increased to 90 percent in FY 2014-15 to reflect that most of the ADAP-only to LIHP clients will have transitioned to Covered California at the beginning of the second year
- e. No change.
- f. No change.
- g. No change (except full year). For simplicity, loss rebate revenue was computed in the final tables to avoid confusion with the six-month rebate delay.

TABLE 40: COVERED CALIFORNIA ESTIMATE FOR OA-PCIP CLIENTS				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	92	\$207,757	\$0	\$207,757
Drug Deduct & Co-Pays	73	\$97,744	\$0	\$97,744
Averted Drug Expend\$	73	-\$1,906,195	\$0	-\$1,906,195
TOTAL	92	-\$1,600,694	\$0	-\$1,600,694

- h. No change.
- i. No change (except full year).

TABLE 41: PREMIUMS FOR LIHP AND ADAP-ONLY CLIENTS				
FPL	CLIENTS	MONTHLY	12 MONTHS	TOTAL
138-149	39	\$38	\$456	\$18,011
150-199	160	\$89	\$1,068	\$170,377
200-249	118	\$494	\$5,928	\$701,082
250-400	133	\$494	\$5,928	\$791,104
401-\$50,000	9	\$494	\$5,928	\$52,286
TOTAL	460			\$1,732,859

j. No change (except full year).

TABLE 42: PREMIUMS FOR OA-PCIP CLIENTS				
FPL	CLIENTS	MONTHLY	12 MONTHS	TOTAL
138-149	5	\$38	\$456	\$2,234
150-199	25	\$89	\$1,068	\$26,914
200-249	20	\$157	\$1,884	\$38,245
250-400	39	\$279	\$3,342	\$128,667
401-\$50,000	4	\$279	\$3,342	\$11,697
TOTAL	92			\$207,757

k. No change (except full year).

TABLE 43: DRUG DEDUCTIBLES AND CO-PAYS FOR LIHP AND ADAP-ONLY CLIENTS					
FPL	CLIENTS	MONTHLY	12 MONTHS	TOTAL	TOTAL W/ DEDUCTIBLE
138-149	39	\$15	\$183	\$7,228	\$7,228
150-199	160	\$41	\$491	\$78,393	\$86,369
200-249	118	\$41	\$491	\$58,116	\$58,116
250-400	133	\$41	\$491	\$65,578	\$65,578
401-\$50,000	9	\$41	\$491	\$4,334	\$4,334
TOTAL	460			\$213,649	\$221,626

TABLE 44: UNADJUSTED ESTIMATE FOR LIHP AND ADAP-ONLY CLIENTS				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	460	\$1,732,859	\$0	\$1,732,859
Drug Deduct & Co-Pays	460	\$221,626	\$0	\$221,626
Averted Drug Expend\$	460	-\$9,828,020	\$0	-\$9,828,020
TOTAL	460	-\$7,873,535	\$0	-\$7,873,535

i. No change (except full year).

TABLE 45: DRUG DEDUCTIBLES AND CO-PAYS					
FPL	CLIENTS	MONTHLY CO-PAYS	12 MONTH CO-PAYS	TOTAL CO-PAYS	TOTAL W/ DEDUCT
138-149	4	\$15	\$185	\$713	\$713
150-199	20	\$41	\$497	\$9,872	\$10,865
200-249	16	\$94	\$1,122	\$17,951	\$21,949
250-400	30	\$141	\$1,691	\$51,282	\$58,865
401-\$50,000	3	\$141	\$1,691	\$4,662	\$5,351
TOTAL	73			\$84,480	\$97,744

m. No change (except no ramp-up for ADAP-only clients, since all have transitioned to Covered California).

TABLE 46: UNADJUSTED ADAP-ONLY CLIENTS				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	444	\$837,799	\$0	\$837,799
Drug Deduct & Co-Pays	444	\$107,151	\$0	\$107,151
Averted Drug Expend\$	444	-\$9,043,619	\$0	-\$9,043,619
TOTAL	444	-\$8,098,669	\$0	-\$8,098,669

For FY 2014-15, initial net savings for Covered California were estimated at \$10.5 million. OA factored in cost estimates of \$100,000 associated with maintaining and modifying current data systems to help manage the OA-HIPP workload resulting in a final net savings of \$10,351,472.

TABLE 47: COVERED CALIFORNIA, FY 2014-15 (ALL CLIENT GROUPS)				
LINE ITEM	CLIENTS	EXPEND\$	REBATE REVENUE	NET
Premiums	552	\$1,074,187	\$0	\$1,074,187
Drug Deduct & Co-Pays	552	\$208,557	\$0	\$208,557
Averted Drug Expend\$	552	-\$11,734,215	\$0	-\$11,734,215
SUBTOTAL	552	-\$10,451,472	\$0	-\$10,451,472
TOTAL WITH ADMIN		\$100,000		-\$10,351,472

4. Impact of LIHP on ADAP

LIHP savings were estimated in the following manner:

- a. Using FY 2012-13 data, computed total expenditures based on LIHP upper FPL limit per county (see Table 48, page 76) as of June 28, 2013. Additional criteria included ADAP-only clients and documented status.

TABLE 48: LIHP, JUL-DEC, FY 2012-13			
COUNTY	UPPER FPL LIMIT	TOTAL EXPEND\$	CLIENTS
Alameda	200%	\$7,329,482	538
CMSD	100%	\$2,731,670	231
Contra Costa	200%	\$517,849	52
Kern	133%	\$551,229	69
Los Angeles	133%	\$63,050,171	4,689
Monterey	100%	\$554,715	26
Orange	200%	\$5,642,389	530
Placer	100%	\$112,029	12
Riverside	133%	\$1,838,350	184
Sacramento	67%	\$3,478,446	333
San Bernardino	100%	\$2,470,004	232
San Diego	133%	\$7,614,498	855
San Francisco	133%	\$10,029,616	688
San Joaquin	80%	\$1,068,257	91
San Mateo	133%	\$662,797	44
Santa Clara	133%	\$2,484,774	234
Santa Cruz	100%	\$200,118	20
Tulare	75%	\$592,676	33
Ventura	200%	\$347,006	43
TOTAL		\$111,276,076	8,904
% TOTAL, JUL-DEC 2012		48.00%	77.77%
EST TOTAL I, JUL-DEC 2012		\$53,412,516	6,925
EST LIHP, JUL-DEC 2012		\$25,210,169	0
EST TOTAL II, JUL-DEC 2012		\$78,622,686	6,925
ADJ TOTAL, FY 2012-13		\$506,248,996	41,806
% SAVINGS, FY 2012-13		14.87%	16.56%
EST TOTAL, FY 2013-14		\$549,874,133	43,148
EST SAVINGS, FY 2013-14		\$81,784,222	7,147
85% ADJ FACTOR		\$69,516,589	6,075

- b. Summed up total expenditures from Table 48 (\$111.3 million) and multiplied by 48 percent, the percentage of expenditures from July through December in FY 2012-13 (\$111.3 million X 48 percent = \$53.4 million). Also, summed up the total clients who would transition to LIHP and multiplied by 46 percent, the percentage of clients from July through December in FY 2012-13 (8,904 X 77.77 percent = 6,925).

- c. Similar to the pre-regression adjustment in which ADAP expenditures for LIHP clients in FY 2012-13 were added back into the data, OA added back in estimated ADAP expenditures for LIHP clients transitioning out of ADAP and from July through December 2012 to make FY 2012-13 LIHP data "whole" (for unadjusted expenditure savings, \$53.4 million + \$25.2 million = \$78.6 million).
- d. Computed the percentage of LIHP savings and clients in FY 2012-13 as if LIHP had started in that FY (for expenditure savings, \$75.3 million / \$506.3 million = 14.87 percent; and for clients, 6,925 / 41,806 = 16.56 percent). FY 2012-13 expenditures and clients were adjusted as if LIHP and OA-PCIP had not taken place.
- e. Applied the percentage of savings and clients in FY 2012-13 to the corresponding linear regression estimates for FY 2013-14 (for unadjusted expenditures, 14.87 percent of \$549.9 million = \$81.8 million, and for clients, 16.6 percent of 43,148 = 7,147) to estimate savings attributed to eligible clients transitioning to LIHP.
- f. For the final LIHP savings and clients, applied the same 85 percent adjustment factor as in the *2013-14 May Revision*, which covers all the potential disparities in data used to determine LIHP eligibility, including income, residency status, and immigration status (for adjusted expenditures, 85 percent of \$81.8 million = \$69.5 million, and for clients, 85 percent of 7,147 = 6,075).

(The following steps appear in Table 49, page 79.)

- g. Computed the rebate revenue loss at a 39 percent return rate associated with the adjusted expenditure savings (39 percent of \$69.5 million = \$27.1 million) and subsequent net savings (\$69.5 million – \$27.1 million = \$42.4 million).
- h. Using FY 2013-14 LIHP data, estimated back-billing savings based on prescriptions submitted to LIHP pharmacies by ADAP's PBM (\$1.5 million,) less rebate revenue (39 percent of \$1.5 million = \$594,545), and net savings (\$1.5 million – \$594,545 = \$929,929).
- i. Overall, in both Legacy and Non-Legacy counties, for FY 2013-14, ADAP will realize an estimated net savings due to LIHP of \$43.3 million, consisting of \$42.4 million in savings due to client shift, and a net gain of \$929,929 due to back-billing. In FY 2013-14, an estimated 6,075 clients will shift over to LIHP, which includes those clients who transitioned in FY 2012-13.

TABLE 49: TOTAL ADJUSTED NET SAVINGS\$ ESTIMATES DUE TO LIHP	
IMPACT ESTIMATES	FY 2013-14
<i>Clients Shifting to LIHP</i>	
Client Shift	6,075
Expenditure Reductions	\$69,516,589
Rebate Reductions	-\$27,111,470
NET LIHP IMPACT SAVINGS	\$42,405,119
<i>LIHP BACK-BILLING</i>	
Expenditure Reductions	\$1,524,473
Rebate Reductions	-\$594,545
NET LIHP BACKBILLING SAVINGS	\$929,929
<i>TOTAL LIHP IMPACTS</i>	
Expenditure Reductions	\$71,041,062
Rebate Reductions	-\$27,706,014
NET SAVINGS	\$43,335,048

5. OA-PCIP Implementation

Current PCIP data was analyzed to calculate the impact of federal PCIP on both premiums and drug costs.

- a. For premiums, federal PCIP data was available for July–September 2013. Estimates for the remaining months (October–December 2013) were based on September 2013 totals for both premiums and clients. Estimated federal PCIP premiums for the six-month period were \$494,952.

TABLE 50: PCIP PREMIUMS, FY 2013-14		
MONTH	PREMIUM\$	CLIENTS
JUL	\$81,821	212
AUG	\$82,919	214
SEP	\$82,553	220
OCT	\$82,553	220
NOV	\$82,553	220
DEC	\$82,553	220
TOTAL	\$494,952	220

- b. It was anticipated that with the federal PCIP program's higher premium costs, there would be additional ADAP drug expenditures for these OA-PCIP clients who transitioned to the federal PCIP. Using July 2013 data, OA matched OA-PCIP clients with ADAP prescriptions. Of 212 OA-PCIP clients, 147 (69.34

percent) had drug deductibles and co-pays paid by ADAP. The average drug expenditure per month for these OA-PCIP clients was \$414 in July (for July, \$413.70 X 147 clients = \$60,813). For averted drug expenditures, using FY 2012-13 ADAP data, the average ADAP-only expenditure per month was \$2,182 (for July, \$2,182.27 X 147 clients = \$320,793). Since ADAP data was also available for August 2013, the same method described above was applied.

For September 2013, OA estimated that 73.4 percent of OA-PCIP clients would receive ADAP prescriptions based on August 2013 data (157 / 214). The resulting number of clients was multiplied by the corresponding expenditure per month for federal PCIP (for August, \$351) and ADAP-only clients (\$2,182). Differences were computed for each month, and totals were computed for federal PCIP and ADAP-only expenditures. Similar to premiums, estimates for the remaining months (October–December 2013) were based on September 2013 totals for both drug expenditures and clients. Estimated six-month savings in drug expenditures were \$1.7 million.

MONTH	PCIP EXPENSE\$	ADAP ONLY EXPENSE\$	DIFFERENCE	CLIENTS
JUL	\$60,813	\$320,793	-\$259,980	147
AUG	\$57,928	\$342,616	-\$284,688	157
SEP	\$59,552	\$352,222	-\$292,670	161
OCT	\$59,552	\$352,222	-\$292,670	161
NOV	\$59,552	\$352,222	-\$292,670	161
DEC	\$59,552	\$352,222	-\$292,670	161
TOTAL	\$356,951	\$2,072,297	-\$1,715,347	161
REBATE	\$808,196	\$808,196	\$0	161
ADJ TOTAL	-\$451,246	\$1,264,101	-\$1,715,347	161

Finally, rebate revenue was computed at a 39 percent return rate on ADAP-only expenditures totaling \$808,106. Since the same prescription drugs would be purchased through federal PCIP, the rebate revenue would be the same, or cost neutral. Estimated six-month savings in drug expenditures with rebate would remain at \$1.7 million.

- c. Finally, OA estimates savings for the first six months of FY 2013-14 of \$760,478 (\$494,952 in premiums, \$1.7 million in drug expenditure savings, and \$459,917 due to loss rebate revenue from January - June 2013 state PCIP expenditures, in which no rebate was collected).

TABLE 52: SUMMARY OF PCIP CHANGES, FY 2013-14					
ISSUE	PREMIUMS	DRUG EXPEND\$	REBATE REVENUE	TOTAL ESTIMATE	CLIENTS
TOTAL	\$494,952	-\$1,715,347	-\$459,917	-\$760,478	161
Reimburse for prem	\$130,717				43
SF for prem	\$364,235				119