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May 5, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

**SUBJECT: APPROPRIATION ADJUSTMENT FOR OFFICE OF MANAGED CARE –
COMMUNITY HEALTH PLAN**

This is to advise you that the Department of Health Services (DHS) plans to re-allocate \$185,000 in savings from Services and Supplies (S&S) to Salaries and Employees Benefits (S&EB) within the Office of Managed Care (OMC) budget unit. This appropriation adjustment will restore 32 budgeted positions to OMC to ensure the office has adequate staff to support the activities of the Community Health Plan (CHP).

Background

In adopting the final budget for Fiscal Year (FY) 2003-04, your Board approved the reduction of OMC's staffing allocation from 104 to 29 budgeted positions in anticipation that OMC's administrative functions would be contracted to L.A. Care Health Plan (L.A. Care). On September 16, 2003, your Board adopted a Supplemental Budget Resolution to address the unforeseen delays in negotiations with L.A. Care, described in earlier reports, by reinstating \$8 million and restoring OMC's staffing allocation to the current level of 104 budgeted positions (OMC currently has 136 ordained positions) until an agreement between the County and L.A. Care could be reached. In subsequent reports, I advised your Board that negotiations with L.A. Care were still delayed, and that L.A. Care had funded a management consultant to facilitate efforts to strengthen management and enhance the CHP's operational capacity to ensure its continued viability.

Discussion

It has been determined by DHS and L.A. Care leadership, with assistance from independent consultants, that outsourcing OMC-CHP administrative operations to L.A. Care is not feasible. Accordingly, the Department is requesting that OMC staffing be restored to levels sufficient to meet the responsibilities associated with operating the CHP. It should be noted that the CHP

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has experienced a tremendous growth in membership with no appreciable increase in staffing, as shown below:

| <u>Fiscal Year</u> | <u>Annual Average CHP Membership</u> | <u>Budgeted Positions</u> |
|--------------------|--|---------------------------|
| 2000-01 | 120,187 | 98.00 |
| 2001-02 | 145,003 | 103.08 |
| 2002-03 | 177,918 | 104.08 |
| 2003-04 | 170,762* | 104.00 |

* Anticipated decrease in Medi-Cal members resulting from new State required re-determination process.

The ongoing success of the CHP is dependent on its ability to provide services to its membership in line with that of its competitors, maintaining favorable status with the multiple regulatory agencies that oversee the health plan, developing and implementing new product lines as appropriate, expanding the CHP provider network as necessary, establishing or revising policies and procedures in response to State regulatory and funding requirements, and performing other managed care-related functions as required. It is recommended that DHS and CAO staff work together to reinstate CHP positions that were curtailed, moved, or frozen over the last few years as necessary to meet operational requirements.

Fiscal Impact

The appropriations adjustment is cost-neutral to the County. The savings in Services and Supplies are to be reallocated to Salaries and Employees Benefits to cover the costs for the remainder of the fiscal year.

Attachment I is the Department's Request for Appropriation Adjustment approved by the Auditor-Controller and Chief Administrative Officer (CAO) for the 32 positions. This is consistent with the Department's FY 2004-05 Budget request submitted to the CAO on January 30, 2004.

Conclusion

The restoration of these 32 positions will ensure that the CHP has adequate staff capacity to meet all regulatory requirements and continue to operate as a Knox-Keene-licensed health plan.

Please let me know if you have any questions.

TLG:ck

Attachment

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors