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COUNTY OF LOS ANGELES  
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November 3, 2005

TO: Each Supervisor

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

*fw* Jonathan E. Fielding, M.D., M.P.H.  
Director of Public Health and Health Officer

SUBJECT: **PROPOSED HIV/AIDS CONTRACT REDUCTIONS**

On October 25, 2005, the Board approved a motion by Supervisor Yaroslavsky, as amended by Supervisors Knabe and Molina, which instructed the Interim Director of the Office of AIDS Programs and Policy (OAPP) to:

1. In conjunction with the Commission on HIV, review and identify all administrative costs, including all net County costs, in an amount sufficient to mitigate the proposed \$1.6 million contract services reductions and report back to the Board by November 1, 2005.
2. Suspend contract renewal and negotiations processes for year 16 with HIV/AIDS care service Providers until the Board has received the requested report.
3. In conjunction with the Commission on HIV, the Chief Administrative Officer and the Auditor-Controller to:
  - Analyze the necessity of the current practice of "overcommitting" contractual amounts in anticipation of "underspending" by providers; and
  - report back within 30 days with recommendations for a new methodology and implementation plan that discontinues the overcommitment practice, does not involve additional service reductions, and maximizes Care Act Grant Award(s) to the extent required by federal partners and most beneficial to the County's award competitiveness; and
4. Begin disclosing all of its operational and service projections, budgets, and expenditure categories regardless of funding source, to the Commission on HIV for purposes of planning the allocation and monitoring the utilization of HIV/AIDS funding for HIV Care and Support Services.

This is the response to this motion.

### **Suspension of Contract Negotiations**

On October 19, 2005, the Interim Director of the Office of AIDS Programs and Policy notified HIV/AIDS Care Services providers that budget negotiations for Year 16 CARE Act renewals were temporarily suspended for the categories of services for which reductions were initially proposed. Negotiations continued on the other categories of services, to try to keep on schedule to file a Board letter for contract continuations in February 2006 for the term beginning March 1, 2006.

### **Review and Identify Administrative Costs to Mitigate the Proposed Reductions**

On October 28, 2005, Public Health and OAPP staff met with staff from the Chief Administrative Office, Auditor-Controller, and County Counsel to discuss the response to the motion. On October 31, staff from the departments met with the Executive Director and a Co-Chair of the HIV Commission to further discuss the response to the motion. The Department sought County Counsel advice regarding the conflict of interest issues of the Commission's involvement in deliberations about contracts and County Counsel monitored the discussion to assure that this response to the Board and the Department's recommendations about the contracts was not compromised by conflict of interest.

Information concerning the Year 15 CARE Act Title I and II allocation and total contract amounts, the actual use of net County cost funds in FY 04-05, and the administrative, program support and program costs of OAPP were shared and discussed.

The departments and the Commission were able to identify \$800,000 of savings in projected administrative costs and net County costs, to keep the contracts funded at their current levels. The \$800,000 is composed of the following:

- \$500,000 in projected reduced lease expense for OAPP. OAPP met with the CAO's leasing staff and DHS facilities staff and determined that OAPP, could reduce the amount of space allocated to it in the lease, space which could be used by other programs, thus reducing OAPP's share,
- \$200,000 in projected savings from HIV care service contracts currently in place, and
- \$100,000 in savings within the Commission on HIV allocation, based on the Commission's agreement to voluntarily accept a reduction.

Additional savings cannot be readily identified which do not reduce existing contracts funded from net county costs in HIV prevention or capacity building or do not reduce OAPP's ability to administer the CARE and prevention grants.

However, the Department recommends that OAPP complete the negotiation of the CARE service contracts without reductions. In the meantime, we will continue to review budgets and expenditure projections to determine if there are other areas to achieve savings.

The Department and the Commission both agree that it is possible that the CARE award for Year 16, beginning March 1, 2006, will be less than the Year 15 award and thus the contract amounts will need to be revisited at that time. The Commission, in setting priorities for Year 16, has already approved some contingency plans for the priorities if the award is less. Unfortunately, the award amount will not be known in time to negotiate the contracts for continuation, so if changes are needed, they will have to follow initial Board approval.

#### **Analyze the Practice of Over-committing and Recommend a New Methodology**

The departments and the Commission discussed options to the practice of over-committing by the amount of projected underspending. The most straightforward method would be to contract only for the amount available, but include provisions, similar to that used for the Public Private Partnership program contracts, to periodically "sweep" funds from providers not fully utilizing their allocations and moving the funds to providers who are exceeding their contracted visits. This would be most effective for those service categories with a form of "fee for service" contract, rather than cost-reimbursement.

However, the departments and the Commission were unable to identify a means of moving to this process for the March 1 contract renewals, without reducing contracts. Instead the departments and the Commission recommended that as service categories are re-bid, a new methodology be considered.

The largest service category, Medical Outpatient, is currently undergoing a rate analysis study by a consultant to convert the category to a form of fee-for-service. It is expected that this service will be competitively bid in 2006 for the March 1, 2007 contracts, at which time a conversion to the revised methodology could be fully explored.

#### **Provide Additional Financial Information to the Commission**

OAPP will continue to regularly provide the Commission with information about the allocation and expenditure of its prevention funding and its net County cost, for the Commission's utilization in setting funding priorities and allocations for HIV/AIDS funding for HIV care and support services.

#### **Summary**

As described above, the Department will:

1. Resume contract negotiations, without the proposed reductions, in order to prepare a Board letter for consideration in February,
2. Continue to review the OAPP budget and expenditures to determine other savings,
3. Work with the CAO, County Counsel, and the Auditor-Controller to develop, evaluate and implement the new methodology for assuring full grant utilization, beginning in March 2007, and
4. Provide additional financial information to the Commission for its use in setting funding priorities and allocations of CARE Act funds.

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We will provide an update on these efforts in February 2006, when the Board letter is filed for contract renewals. In the meantime, if you have any questions or need additional information, please let either of us know.

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c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors  
Auditor-Controller  
Co-Chairs, Commission on HIV