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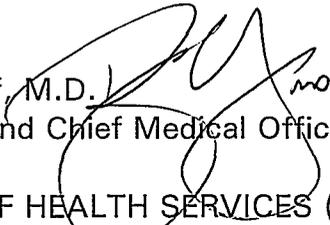
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January 13, 2006

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D. 
Acting Director and Chief Medical Officer

SUBJECT: DEPARTMENT OF HEALTH SERVICES (DHS)
FISCAL OUTLOOK UPDATE

Attached for your information is an updated DHS Fiscal Outlook, based on information available through January 10, 2006 (Attachment A). As indicated in the Summary of Changes (Attachment B), we are now projecting a current fiscal year-end balance in the Department's designation fund of \$240.1 million, up from \$218.3 million per our last update. For next fiscal year, the projected shortfall has declined from \$(126.7) million to \$(65.9) million during this period. The projected cumulative funding shortfall through Fiscal Year 09-10 has declined from \$(1258.2) million to \$(1145.8) million. The developments since our last report contributing to these changes are summarized in Attachment B.

With respect to the projected funding shortfall of \$(65.9) million for next fiscal year, we will be working with the Chief Administrative Office over the next few months to develop a balanced proposed DHS budget for Fiscal Year 06-07. During this time, we will also begin laying the groundwork to develop approaches for addressing the much larger cumulative future fiscal year projected shortfalls.

Medi-Cal Redesign

In regards to Medi-Cal Redesign, we continue to actively work with the California Hospital Association's DSH Task Force, the California Association of Public Hospitals, the University of California and the State to finalize reimbursement methodologies with the federal Centers for Medicare and Medicaid Services (CMS). Our forecast of anticipated revenues under Medi-Cal Redesign, as first provided to the Board last September, remains unchanged and is referenced in note (P) in

Each Supervisor
January 13, 2006
Page 2

Attachment A. We will update this forecast as new information dictates. The approach taken to generate these estimates is summarized in Attachment C.

As for to the State Administration's proposal to mandate Medi-Cal managed care enrollment for Seniors and Persons with Disability (SPD), the Governor's Fiscal Year 06-07 proposed budget provides only for \$2 million to increase voluntary enrollment and pilot mandatory enrollment in two, as yet unidentified, counties. We estimate such mandatory enrollment could potentially cost DHS from about \$50 to \$90 million over a five-year implementation period, depending on how many SPDs would remain users of DHS services.

Please let me know if you have any questions or desire further information.

BC:gww

Attachments

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

(O\ALICE\DHSFOU)

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
DHS FISCAL OUTLOOK - JANUARY 10, 2006
 (\$ IN MILLIONS BASED ON FY 05-06 SUPPLEMENTAL BUDGET RESOLUTION)

Line #	FISCAL YEARS / COLUMNS								TOTAL / (9)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	2008-09 / (7)	2009-10 / (8)	
1. Surplus/Deficit as of June 26, 2002		\$ (326.6)	\$ (549.2)	\$ (709.4)					
2. Scenario III Reductions / Use of Designation Funds	* <i>(see note)</i>	267.8	327.8	357.5					
3. Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)	* <i>(see note)</i>	\$ (58.8)	\$ (221.4)	\$ (351.9)	\$ (387.3) ^(A)	\$ (423.7) ^(A)	\$ (461.8) ^(A)	\$ (503.4) ^(A)	\$ (2,408.3)
4. Actual / Forecast Update ^{(B) (C) (D) (E) (F)}		263.9	340.0	321.8	821.0 ^(G)	175.1	188.0	156.6	(144.2)
5. Actual / Forecast Surplus/(Shortfall)		\$ 263.9	\$ 281.2	\$ 100.4	\$ 469.1	\$ (212.2)	\$ (235.7)	\$ (305.2)	\$ (647.6)
6. Beginning Fiscal Year Fund Balance		121.0 ^(H)	353.1 ^(I)	452.8 ^(J)	19.7 ^(K)	488.8	276.6	40.9	40.9
7. Estimated Cumulative Year-End Fund Balance/(Shortfall)		\$ 384.9	\$ 634.3	\$ 553.2	\$ 488.8	\$ 276.6	\$ 40.9	\$ (264.3)	\$ (606.7)
8. Defer Rancho Closure/Divestiture per Harris/Rodde Settlement through FY 07-08 and for One-Year Post-Settlement.	\$ -	\$ (49.5)	\$ (53.9)	\$ (59.5)	\$ (69.4)	\$ (76.9)	\$ (81.8)	\$ -	\$ (391.0)
9. Defer LAC+USC 100 Bed Reduction per Harris/Rodde Settlement through FY 09-10.	-	(16.1)	(29.8)	(31.9)	(34.1)	(36.5)	(39.1)	(41.8)	(229.3)
10. Net Impact of Harris/Rodde Proposal at LAC+USC ^(L)	-	-	-	(5.4)	(1.4)	8.7	19.2	19.8	40.9
11. Net Impact of Harris/Rodde Proposal at Rancho ^(M)	-	-	-	(0.4)	11.1	14.8	-	-	25.5
12. Net Impact of Operating Rancho for One-Year Post-Settlement ^(N)	-	-	-	-	-	-	17.0	-	17.0
13. Cost of Plaintiff Attorney Fees	-	-	-	(2.2)	-	-	-	-	(2.2)
14. Impact to Beginning Fiscal Year Fund Balance	-	-	(65.6)	(149.3)	(248.7)	(342.5)	(432.4)	(517.1)	N/A
15. Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 403.9	\$ 240.1	\$ (65.9)	\$ (391.5) ^(O)	\$ (781.4) ^(O)	\$ (1,145.8) ^(O)	\$ (1,145.8) ^(P)
16. Use of Designation Funds - Decrease/(Increase)		\$ (183.8)	\$ 164.8	\$ 163.8	\$ 240.1	\$ -	\$ -	\$ -	

NOTES TO FISCAL OUTLOOK

- * The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (B) Includes revenues previously shown separately (Measure B, SPCP/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement).
- (C) These amounts are potentially improved by the managed care supplement proposal currently being worked on with the State and Federal governments.
- (D) Reflects an "unidentified budget surplus" of \$90.0M for FY's 05-06 through 09-10 added by the CAO.
- (E) Does not include the impact of the medical school agreements which are currently being negotiated for LAC+USC, H/UCLA and OVMC for FY's 05-06 through 09-10. Assumes CBRC/FQHC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-06 Adopted State Budget. A Medi-Cal State Plan Amendment to extend the program currently pending CMS approval.
- (F) Does not take into account the opening of the LAC+USC replacement facility in July 2007 for FY's 07-08 through 09-10. Per LAC+USC, current financial projections for the new LAC+USC are still in progress.
- (G) Reflects release of the \$96.1M trust fund reserve.
- (H) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (I) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.
- (J) Reflects a beginning fund balance of \$568.7M less the \$115.9M fund balance included in the FY 04-05 Supplemental Budget Resolution.
- (K) Reflects a beginning fund balance of \$403.9M less the \$384.2M fund balance included in the FY 05-06 Supplemental Budget Resolution.
- (L) Per Harris/Rodde settlement proposal, census will be reduced through a reduced average patient length of stay (6.5 to 6.0); includes enablers and resulting savings.
- (M) Per Harris/Rodde settlement proposal, includes Rancho takeover negotiations, oversight panel and review with plaintiffs, liver clinic monitoring and reducing Rancho's budgeted census from 191 to 147.
- (N) Reflects savings from operating Rancho at a reduced census (147) for one-year post-settlement in preparation for closure/divestiture on June 30, 2009.
- (O) The forecast annual operating shortfalls for FY's 07-08, 08-09, and 09-10 are \$325.6M, \$389.9M, and \$364.4M, respectively.
- (P) - Does not include the impact of the medical school agreements which are currently being negotiated for LAC+USC, H/UCLA and OVMC. Assumes CBRC/FQHC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-06 Adopted State Budget. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval.
 - Includes additional Medi-Cal Redesign funding of \$72.7M, \$92.1M, \$106.4M, \$112.7M, and \$119.1M for FY's 05-06 through 09-10, respectively, for a total benefit of \$503.0M over five years.
 - Includes efficiency savings for K/DMC of \$20.9M, \$29.5M, \$30.8M, and \$32.1M for FY's 06-07 through 09-10 respectively.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES - DHS FISCAL OUTLOOK
OCTOBER 25, 2005 THROUGH JANUARY 10, 2006

	Fiscal Year / Columns / \$ In Millions					
	<u>05-06 / (1)</u>	<u>06-07 / (2)</u>	<u>07-08 / (3)</u>	<u>08-09 / (4)</u>	<u>09-10 / (5)</u>	<u>Total / (6)</u>
(1) Revised Estimated <u>Cumulative</u> Year-End Fund Balance / (Shortfall) - October 25, 2005	\$ 218.3	\$ (126.7)	\$ (482.4)	\$ (866.0)	\$(1,258.2)	\$(1,258.2)
(2) Per CAO on January 6, 2005, reduce <u>debt service</u> costs to reflect current estimates.	\$ 10.3	\$ 8.7	\$ 14.9	\$ (4.7)	\$ 13.3	\$ 42.5
(3) Increase <u>CHP Equity Distribution</u> earnings based on estimates developed with OMC in December 2005 for FY's 05-06 through 09-10. Updated estimates reflect higher IHSS enrollment than the previous estimates.	5.4	3.1	5.9	8.2	12.0	34.6
(4) Per CAO reduce <u>employee benefits</u> costs for FY 05-06 based on information received on November 29, 2005 for fixed employee benefits costs. FY 06-07 based on estimates from the CAO and extended through FY 09-10 by DHS.	6.3	1.6	3.6	3.6 ^(B)	6.3	21.4
(5) Per CAO Risk Management on November 29, 2005, adjust <u>medical malpractice / insurance</u> costs for FY 06-07 and DHS extended through FY 09-10. Also updates the CPI on the expense base for FY's 07-08 through 09-10.	-	4.0	3.9	3.8	3.7	15.4
(6) Increase <u>Medicare</u> revenue based on estimates from Programs and Audits on January 9, 2005 for FY's 05-06 through 09-10.	-	3.3	3.3	3.3	3.0	12.9
(7) Shift implementation of the <u>time and attendance system</u> into FY 06-07.	-	(5.5)	-	-	-	(5.5)
(8) Adjust <u>order management/document imaging and transition costs</u> for the LAC+USC replacement hospital per facility estimates on January 6, 2006.	0.8	24.8	(0.6)	(19.6)	(9.7)	(4.3) ^(D)
(9) Change in <u>FY 05-06 operating forecast</u> received in December 2005/ Other minor ongoing changes to the future years estimates.	(1.0)	(1.0)	(0.9)	(0.9)	(0.8)	(4.6)
(10) Forecast improvement/(reduction) roll-forward	-	21.8 ^(C)	60.8 ^(C)	90.9 ^(C)	84.6 ^(C)	-
(11) Revised Estimated <u>Cumulative</u> Year-End Fund Balance / (Shortfall) - January 10, 2006 ^(A)	<u>\$ 240.1</u>	<u>\$ (65.9)</u>	<u>\$ (391.5)</u>	<u>\$ (781.4)</u>	<u>\$(1,145.8)</u>	<u>\$(1,145.8)</u>

Notes

- (A) - Does not include the impact of the medical school agreements which are currently being negotiated for LAC+USC, H/UCLA and OVMC. Assumes CBRC/FQHC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-06 Adopted State Budget. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval.
- Includes additional Medi-Cal Redesign funding of \$72.7M, \$92.1M, \$106.4M, \$112.7M, and \$119.1M for FY's 05-06 through 09-10, respectively, for a total benefit of \$503.0M over five years.
- Includes efficiency savings for K/DMC of \$20.9M, \$29.5M, \$30.8M, and \$32.1M for FY's 06-07 through 09-10 respectively.
- Does not include potential changes in LAC+USC's future operating cost in the new hospital pending completion of a zero-based budget consultant review.
- (B) Reflects internal adjustments to the revenue offsets in FY 08-09 that were not included in the October 25, 2005 update.
- (C) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$17.5 million in FY 06-07 is \$235.8 million - \$218.3 million from FY 05-06.
- (D) The total estimated costs of order management/document imaging and transition are \$139.7M, which is an increase of \$4.3M since our last update to the Board.

Estimate of Medi-Cal Redesign of LAC-DHS

Recent legislation (SB 1100) will dramatically restructure inpatient Medi-Cal payments to the California's safety net DSH hospitals (SNDH) under the State's new 1115 waiver. According to a data analysis distributed by the State on 8/29/05, a total of \$433.2M of the new \$766M Safety New Care Pool (SNCP) under the waiver will be required to meet "hold harmless" baselines of SNDHs in FY 05-06. These baselines are actual FY 04-05 inpatient Medi-Cal revenue levels earned by SNDHs, including fee-for-service, DSH, SB 1255 and GME components.

Further, the SNCP is diminished by \$180M annually unless the State meets specific managed care milestones in FY's 05-06 and 06-07 and establishes a new coverage program(s) in the last three years of the waiver. Since it is unclear as to whether the State will meet these requirements and, even if so, unclear as to the adverse impact on SNDHs workload of mandatory managed care enrollment of the aged, blind and disabled Medi-Cal eligibles (representing 40% of LAC-DHS' Medi-Cal patients), and the creation of a new coverage program(s), we have excluded the availability of the \$180M from our financial estimates at this time. Further, the value of the \$180M will likely be diminished in FYs 07-08 through 09-10, as the Waiver requires that these amounts, and all other SNCP funds be counted as \$1.75, for each dollar received, against hospital OBRA '93 DSH caps.

Based on the State's 8/29/05 analysis, after deducting the baseline and \$180M amounts, and applying the equity adjustments and formulas in SB 1100 to the residual SNCP amount, it is roughly estimated that LAC-DHS will receive about \$55M in "stabilization" funds beyond its "hold harmless" baseline in FY 05-06. This amount is contingent on a pending CMS interpretation of allowable CPEs, which will impact both DSH and non-DSH revenue levels.

Accordingly, we have adjusted the DHS Fiscal Outlook to reflect the total (\$841.0M) of the "hold harmless" baseline and "stabilization" funds for FY 05-06. The previous amount, adjusted for Harris/Rodde, was \$768.3M, per the last (June 20, 2005) Fiscal Outlook update to the Board. For future fiscal years, we have anticipated 3% growth in the Medi-Cal inpatient component, except for the undocumented alien component, which must be funded by DSH funds for both Medi-Cal eligibles and the uninsured. The statewide totals for DSH and the SNCP do not grow over the five-year waiver term. Similar to DSH, we have held constant SNCP funding which covers 50% of the allowable inpatient uninsured cost.

(Even though the post-equity adjustment, public-private sharing percentages of 60%/40% expire after two years and the public hospital 70% baseline/30% donor percentages expire after one year, these formulas are used to project amounts through all five years, since the probability of their continuance is likely as good as any alternatives.)