Health Services
LOS ANGELES COUNTY

June 2, 2009

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Robert G. Splawn, M.D.
Interim Chief Medical Officer

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

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To improve health through leadership, service and education.

TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D.
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (ITEM S-1 ON JUNE 2, 2009 AGENDA)**

This is to provide a Summary of Changes in the DHS Fiscal Outlook (Attachment I) since our last Budget Committee of the Whole report to your Board on April 7, 2009. As indicated in the Summary of Changes, the current estimated shortfalls are $(25.0) million for Fiscal Year (FY) 2008-09 and $(356.8) million for FY 2009-10.

The Department's shortfall for the current fiscal year resulted directly from the reduction of $(43.6) million in Realignment funds. Further reductions are anticipated because of the continuing declines in Vehicle License Fees and Sales Taxes for the current fiscal year and FY 2009-10.

Governor's May Revise

The Governor's May Revise includes $750 million in savings to the Medi-Cal program based on securing a waiver to the requirements of the American Recovery and Reinvestment Act of 2009 (ARRA). Under ARRA requirements, California cannot reduce Medi-Cal eligibility to create savings. As announced, the Governor intends to petition the Obama Administration to allow eligibility reductions and other changes to the Medi-Cal program which would allow the State to slow the rate of program growth and manage the Medi-Cal program within available resources. If the State is successful, there could be future negative impact to the Department. Also, in view of recent reports that the State's budget deficit has worsened, the Legislature could make additional changes which could further negatively impact the Department's fiscal outlook.

Potential Solutions to Reduce Deficits for FYs 2008-09 and 2009-10

The Department has developed several ideas which could assist in reducing the projected deficits for this year and for FY 2009-10 (see Attachment II). Most of the ideas would require State and Federal

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approval and action, including in several options, amending the State's current 1115 Waiver to use funds currently in the Waiver, but not spent in prior years. In the current environment, with the State's fiscal crisis and the Obama Administration's stated objective for financing major health care reform through cost savings, obtaining the necessary State and Federal support to advance these ideas may be particularly difficult.

Proposals for the Next 1115 Waiver

On April 7, 2009, when the Department presented the previous fiscal forecast, the Board approved a motion by Supervisor Antonovich, directing the CEO and DHS to report back on the structure of a new waiver proposal that the State, DHS, and other affected stakeholders are developing and how it will reconcile with current activities, as well as identify any items that may have potential costs that have not previously been included.

The current State 1115 Waiver expires at the end of August 2010. Thus, County FY 2010-11 begins the new waiver period. The current strategy is to try to achieve enough of the ideas above to avoid service reductions in FY 2009-10 and get to the new Waiver.

The State Department of Health Care Services [DHCS] has indicated in various public forums and in meetings with County staff that the State is considering a range of Waiver renewal options ranging from an extension of the current Waiver with a cost of living adjustment to a much broader waiver including significantly more Medi-Cal program elements. DHCS has indicated that the administration plans to work collaboratively with legislative leaders to submit a new Waiver proposal by September 2009 and that it is beginning a stakeholder involvement process.

Given the projected ongoing structural deficit for the Department, as shown on the fiscal forecast, a simple COLA for the existing waiver will not be sufficient to resolve the County's health care structural deficit going forward and preserve the essential public health care safety net. Thus, the Department has been working with other public hospitals, through the California Association of Public Hospitals, to attempt to develop options for programmatic expansion of the waiver.

A related development is the proposal which the California Hospital Association (CHA) has been considering, for a hospital fee or tax, which could bring additional federal revenues to the Medi-Cal program. A hospital tax/fee is a financing mechanism which the County has generally supported, and a variation of which was part of the State Health Care Reform effort which failed in early 2008.

In the short term, such a hospital fee proposal could bring additional federal matching revenues. The Department's concern is that approval of this by the federal administration will require an amendment to the current Waiver and may impact the next Waiver negotiations.

The Department has been engaged in extensive ongoing discussions with private DSH hospitals, both individually and through the DSH Task Force, and the Hospital Association of Southern California and CHA to explore options for the hospital tax/fee proposal.

The most significant costs which are not included in the fiscal forecast are the costs of implementing an electronic health record [EHR] for the Department and a health information exchange [HIE] for the County. Although federal ARRA funds will be available over the next few years to support such efforts, the Department's preliminary estimates are that the federal funds will only cover a minimal portion of the total costs of implementing a DHS system-wide EHR and a County-wide HIE.

The Department will provide further information in the next fiscal forecast. In the meantime, if you have any questions or need additional information, please let me know.

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Attachments (2)

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

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

MARCH 30, 2009 THROUGH MAY 1, 2009

		Fiscal Year / $ In Millions					
		08-09	09-10 [B]	10-11 [B]	11-12 [B]	12-13 [B]	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 3/30/09 [A]**	**$ (13.8)**	**$ (343.8)**	**$ (718.5)**	**$ (1,168.2)**	**$ (1,694.9)**	**$ (1,694.9)**
	Subsequent Adjustments						
(2)	Increased billings from Other County Departments (primarily due to increased eCAPS maintenance costs)	-	(1.4)	(1.4)	(1.4)	(1.5)	(5.7)
(3)	Vehicle License Fees and Sales Tax updates for FY 08-09 [C]	(10.6)	-	-	-	-	(10.6)
(4)	Other changes included in the current year operating forecast / Other minor ongoing changes	(0.6)	(0.4)	1.0	(1.0)	(3.0)	(4.0)
(5)	Forecast improvement/(reduction) roll-forward	-	(11.2) [D]	(13.0) [D]	(13.4) [D]	(15.8) [D]	-
(6)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - per 5/1/09 [A]**	**$ (25.0)**	**$ (356.8)**	**$ (731.9)**	**$ (1,184.0)**	**$ (1,715.2)**	**$ (1,715.2)**

Notes

(A) FYs 10-11 through 12-13 assume Medi-Cal Redesign 1115 Waiver extension and continuance of its Coverage Initiative component.

(B) For FYs 09-10 through 12-13, amounts reflect:

- LAC+USC Medical Center as a 671-bed facility;
- Rancho Los Amigos National Rehabilitation Center (Rancho) not operated by the County effective July 1, 2010; and
- Los Angeles County is currently in negotiations with the University of California to establish a non-profit to open a community hospital located at the Martin Luther King site.

(C) This reflects the latest FY 08-09 estimates for Vehicle License Fees and Sales Tax provided by the CEO on May 1, 2009. The total estimated shortfall for Vehicle License Fees and Sales Tax for FY 08-09 is now $43.6 million, increased from the $33.0 million shortfall included in the April 7, 2009 DHS Fiscal Outlook. Note that FYs 10-11 through 12-13 are projected at the reduced FY 09-10 level, and the impact on the current and future fiscal years continues to be volatile and may fluctuate further based on the economic conditions and legislative changes.

(D) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $(15.8) million on Line# 5 in FY 12-13 is the difference from FY 11-12 [$(1,184.0) million - $(1,168.2) million].

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

IDEAS FOR POTENTIAL SOLUTIONS

FISCAL YEAR 2009-10

($ IN MILLIONS)

	FY 08-09	FY 09-10 *	Total	Comments
Estimated Cumulative Year-End Shortfalls - Before Adjustments for Financial Stabilization	**($103.8)**	**($430.8)**	**($534.6)**	
Financial Stabilization	78.8	99.0	177.8	
Forecast improvement/(reduction) roll forward	-	(25.0)	-	
Estimated Cumulative Year-End Shortfalls - per 6/2/09 DHS Fiscal Outlook [1]	**($25.0)**	**($356.8)**	**($356.8)**	
POTENTIAL SOLUTIONS (DIFFICULT TO ACHIEVE):				
Federal				
> FMAP increase for Safety Net Care Pool revenue	-	70.0	70.0	Requires CMS' approval
> Managed Care Rate Supplement (MCRS) - (including $26.8 million IGT for 2 years) [2]	-	69.8	69.8	Requires CMS' approval
> Mental Health SMA (up to 12 months)	8.6	3.7	12.3	Requires CMS' approval
Subtotal - Federal	8.6	143.5	152.1	
County				
> Additional savings	-	35.0	35.0	
> Funding for assumed FY 09-10 salary COLA for six months (January through June 2010) [3]	-	18.0	18.0	
> Funding for S&S COLA for contracts with COLA provision [3]	-	2.9	2.9	
Subtotal - County	-	55.9	55.9	
Forecast improvement/(reduction) roll forward	-	8.6	-	
Subtotal - Potential Solutions (Difficult to Achieve)	**8.6**	**208.0**	**208.0**	
Deficit Balance (running total)	**($16.4)**	**($148.8)**	**($148.8)**	
POTENTIAL ISSUES:				
> Hospital Provider Fee	???	???	???	
> State Budget Impact	???	???	???	
POTENTIAL SOLUTIONS (ADDITIONAL IDEAS WITH LOW PROBABILITY OF ACHIEVEMENT):				
Federal				
> Recapture share of $360.0 million (one-time adjustment)	-	96.8	96.8	Needs to modify terms and conditions of the 1115 Waiver, which requires approval from CMS and OMB - very difficult to achieve
> Capture unused FY 07-08 Coverage Initiative fund (one-time adjustment)	-	24.0	24.0	Needs to modify terms and conditions of the 1115 Waiver, which requires approval from CMS and OMB - difficult to achieve
> Convert prior years' IGT (FYs 06-07 and 07-08) for MCRS to include the FMAP impact	-	17.3	17.3	Requires CMS' approval - could be difficult to achieve
Subtotal - Federal	-	138.1	138.1	
County				
> Funding for pharmaceuticals COLA [3,4]	-	19.3	19.3	
> Full-cost reimbursement for services provided to Other County Departments	-	25.2	25.2	
Subtotal - County	-	44.5	44.5	
Forecast improvement/(reduction) roll forward	-	-	-	
Subtotal - Potential Solutions (Additional Ideas with Low Probability of Achievement)	**-**	**182.6**	**182.6**	
Deficit Balance after All Potential Solutions	**($16.4)**	**$33.8**	**$33.8**	
Tobacco Settlement Designation (Net of Health Net IGT)	$162.0	$168.0	$168.0	

ATTACHMENT II