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To improve health through leadership, service and education.

November 30, 2010

TO: Each Supervisor

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

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (BOARD AGENDA, ITEM S-1, NOVEMBER 30, 2010)**

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 September 28, 2010. As indicated in the Summary of Changes, the current estimated shortfalls are $(246.0) million for Fiscal Year (FY) 2010-11 and $(696.9) million cumulatively for FY 2011-12.

The developments contributing to these changes are detailed in the attached Summary of Changes. Adjustments to the forecast resulted primarily from salary savings and reductions in capital asset purchases and other operational savings.

Potential Solutions to Reduce FYs 2010-11 and 2011-12 Deficits

Attachment II reflects items that could potentially improve the Department's fiscal forecast in FYs 2010-11 and 2011-12.

A summary report of key elements of the Waiver approved on November 2, 2010 by the Centers for Medicare and Medicaid Services is being provided to your Board for this agenda item as a separate memo.

If you have any questions or need additional information, please let me know.

JFS:aw
Fiscal Outlook Memo 113010_v1
609:005

Attachments (2)

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

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COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

AUGUST 24, 2010 THROUGH NOVEMBER 9, 2010

		Fiscal Year / $ In Millions					
		10-11	11-12	12-13	13-14	14-15	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 8/24/10** [A]	**$ (270.6)**	**$ (739.1)**	**$ (1,297.1)**	**$ (1,965.4)**	**$ (2,633.7)** [B]	**$ (2,633.7)**
	Subsequent Adjustments						
(2)	Adjustments to the FY 14-15 expense base primarily for salaries and employee benefits cost of living adjustment (COLA), services and supplies (S&S) Consumer Price Index (CPI), pharmaceuticals CPI, and services from other County departments COLA, offset by adjustments to the revenue base primarily for Medi-Cal Redesign, Cost Based Reimbursement Clinic (CBRC), and Medicare revenues	-	-	-	-	(127.4)	(127.4)
(3)	Reduced Medi-Cal revenue estimates for FYs 04-05 through 09-10 based on recent State audits	(25.0)	-	-	-	-	(25.0)
(4)	Additional Financial Stabilization savings on pharmaceuticals	10.2	10.9	11.5	12.3	13.1	58.0
(5)	Revised General County Overhead cost estimates based on CEO's input	3.4	3.4	3.5	3.7	3.8	17.8
(6)	Updated S&S CPIs [C]	-	2.0	3.5	5.2	7.0	17.7
(7)	Continued efforts to control expenditures on hiring and capital assets purchases	12.9	-	-	-	-	12.9
(8)	Lower than anticipated prior year expenditures due to cancellation of / reduction in commitments and accounts payables [D]	10.6	-	-	-	-	10.6
(9)	Lower than anticipated retirement costs primarily due to refinement of the effective date of increased employer contribution rates from July 2010 to October 2010 per the CEO	8.7	-	-	-	-	8.7
(10)	One-time funding approved by the Board of Supervisors on September 28, 2010 for the net cost of opening the Olive View-UCLA Medical Center's Tuberculosis Unit on January 1, 2011	1.1	-	-	-	-	1.1
(11)	Other changes in current year operating forecast / minor updates to future estimates	2.7	1.3	1.8	2.4	3.1	11.3
(12)	Forecast improvement/(reduction) roll-forward	-	24.6 [E]	42.2 [E]	62.5 [E]	86.1 [E]	-
(13)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 11/9/10** [A]	**$ (246.0)**	**$ (696.9)**	**$ (1,234.6)**	**$ (1,879.3)**	**$ (2,648.0)**	**$ (2,648.0)**

Notes

[A] FYs 10-11 through 14-15 assume Medi-Cal Redesign 1115 Waiver extension at current levels.

[B] This amount is computed by taking the difference in FY 13-14 over FY 12-13 ($1,965.4 million - $1,297.1 million = $668.3 million) and adding it to the Estimated Cumulative Year-End Shortfall of $1,965.4 million ($1,965.4 million + $668.3 million = $2,633.7 million).

[C] This is to adjust the estimates on Line#1 to reflect projected S&S CPIs at 1.2% for FY 11-12 and 3.3% for FY 12-13 going forward based on the latest Bureau of Labor Statistics published by Department of Labor and the historical trends of medical care CPIs.

[D] This includes the projected unused Accumulative Capital Outlay (ACO) fund of $5.8 million previously set aside for the LAC+USC Medical Center Replacement Project.

[E] These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $86.1 million on Line# 12 in FY 14-15 is $(1,879.3) million - $(1,965.4) million from FY 13-14.

ATTACHMENT I

ATTACHMENT II

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

IDEAS FOR POTENTIAL SOLUTIONS

FISCAL YEARS 2010-11 AND 2011-12 (NON-CUMULATIVE)

($ IN MILLIONS)

	FY 10-11	FY 11-12	Total	Comments
Estimated Year-End Balance/(Shortfall) - Before Adjustment for Financial Stabilization	**($377.0)**	**($582.6)**	**($959.6)**	
Financial Stabilization	131.0	131.7	262.7	
Estimated Year-End Balance/(Shortfall) - 11/9/10	**($246.0)**	**($450.9)**	**($696.9)**	
POTENTIAL SOLUTIONS				
> **Waiver**	125.0	150.0	275.0	This amount will be updated as soon as the negotiations within the Hospital Community are finalized
> Additional **Hospital Provider Fee** from FMAP Extension	37.0	-	37.0	Due to 6-month extension of FMAP (January - June 2011)
> Ongoing **Hospital Provider Fee**	-	40.0	40.0	Estimated annual value based on FMAP at 50%
> Funding for **Salaries COLA** included in the base estimate above [1]	-	18.3	18.3	
> Funding for **Pharmaceuticals CPI** included in the base estimate above [1]	9.8	9.9	19.7	
> Additional County **Measure B** fund	-	7.5	7.5	
> Savings from Materials Management proposed **GHX Formulary System**	1.3	3.0	4.3	Assume an implementation date of April 1, 2011
> **State Budget Impact**	-	??	??	
Adjusted Estimated Year-End Balance/(Shortfall)	**($72.9)**	**($222.2)**	**($295.1)**	

Notes:

1) Assume a cost of living adjustment (COLA) of 3% for salaries for 6 months (January through June 2012), and Consumer Price Index (CPI) adjustments of 6.4% and 6.1% for pharmaceuticals for FYs 10-11 and 11-12, respectively.