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To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners.

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June 19, 2012

TO: Each Supervisor

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (BOARD AGENDA, ITEM S-2 JUNE 19, 2012)**

This is to provide DHS' fiscal overview for Fiscal Year (FY) 2011-12 (Attachment I), updated since our last Budget Committee of the Whole report to the Board on March 20, 2012. As of June 12, 2012, the Department is projecting a surplus for FY 2011-12 of $9.4 million (see Attachment I).

The Department's current projections, however, may be significantly impacted by the upcoming ruling expected from the Supreme Court by the end of this month on the constitutionality of the Affordable Care Act (ACA). There are various rulings the Supreme Court could make, each having potentially different ramifications and impacts on the Department. The possible rulings by the Supreme Court include, for example, upholding the ACA in its entirety, striking it down in its entirety, or upholding some parts and striking down others. Once the ruling is published, the Department will work with the Chief Executive Office and County Counsel to provide the Board with our best understanding of how the ruling is expected to impact the Department's programs and finances. The Department will also work closely with the State to initiate and support efforts to minimize as much as possible any negative impacts on the Department.

Attachment II provides information on key workload indicators, for example, days and visits, by facility, comparing FY 2010-11 to FY 2011-12.

The Department is projecting a $52.7 million shortfall in FY 2012-13 (Attachment III), primarily due to increased employee benefit costs. To address the anticipated shortfall, DHS continues to work with the Department of Public Social Services on a proposal to increase the In-Home Supportive Services health plan rates as a partial offset to the increasing cost of medical services to enrollees. If the rate increase is approved for FY 2012-13 with a projected effective date of September 1, 2012, the Department estimates additional revenue of approximately $57.4 million.

Attachment IV lists potential items that could impact the fiscal forecast for FYs 2011-12 and 2012-13. One of the items is the transition of individuals currently receiving services funded by the Ryan White program to coverage

under the Healthy Way LA program. A waiver amendment to address these transition issues was submitted to the Centers for Medicare and Medicaid Services for approval but remains pending at this time.

The Department continues its efforts to adjust to the changes taking place in the health care marketplace to ensure patients receive the care they need in appropriate care venues. At the same time, we continue our efforts to maximize all available revenues to ensure long-term viability. We will continue to provide reports to the Board on any material changes to the Department's fiscal outlook.

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

MHK:aw
Fiscal Outlook Memo 061912
609:005

Attachments (4)

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

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

FISCAL OVERVIEW

FISCAL YEAR 2011-12

$ IN MILLIONS

(AS OF 6/12/12)

	TOTAL DEPARTMENT			HOSPITALS													AMBULATORY CARE [B]			JUVENILE COURT HEALTH SERVICES [C]			EMERGENCY MEDICAL SERVICES			OTHER GENERAL FUNDS		
				LAC+USC MEDICAL CENTER [A]			HARBOR-UCLA MEDICAL CENTER			RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER			OLIVE VIEW-UCLA MEDICAL CENTER														
	BUDGET [D]	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE
Expenses																											
Salaries:																											
- Salaries (excluding Overtime)	$ 1,271.8	$ 1,229.6	$ 42.2	$ 433.3	$ 425.2	$ 8.1	$ 280.8	$ 267.9	$ 12.9	$ 98.2	$ 93.7	$ 4.5	$ 161.8	$ 160.1	$ 1.7	$ 190.2	$ 184.0	$ 6.2	$ 19.8	$ 15.8	$ 4.0	$ 13.1	$ 12.4	$ 0.7	$ 74.6	$ 70.5	$ 4.1
- Overtime	55.2	61.0	(5.8)	26.3	28.4	(2.1)	11.3	14.1	(2.8)	2.7	2.7	-	7.2	9.3	(2.1)	4.7	3.6	1.1	1.7	2.1	(0.4)	0.1	0.1	-	1.2	0.7	0.5
Total Salaries	1,327.0	1,290.6	36.4	459.6	453.6	6.0	292.1	282.0	10.1	100.9	96.4	4.5	169.0	169.4	(0.4)	194.9	187.6	7.3	21.5	17.9	3.6	13.2	12.5	0.7	75.8	71.2	4.6
Employee Benefits	594.1	581.7	12.4	201.6	197.5	4.1	119.6	116.1	3.5	45.2	44.9	0.3	75.3	73.3	2.0	102.2	100.0	2.2	7.3	7.2	0.1	6.4	6.1	0.3	36.5	36.6	(0.1)
Total Salaries & Employee Benefits	1,921.1	1,872.3	48.8	661.2	651.1	10.1	411.7	398.1	13.6	146.1	141.3	4.8	244.3	242.7	1.6	297.1	287.6	9.5	28.8	25.1	3.7	19.6	18.6	1.0	112.3	107.8	4.5
Net Services & Supplies (S&S):																											
- Centralized Pharmacy	158.5	136.6	21.9	54.7	50.7	4.0	27.5	22.5	5.0	6.9	4.7	2.2	17.8	15.8	2.0	49.1	41.5	7.6	2.5	1.4	1.1	-	-	-	-	-	-
- Medical/Dental/Laboratory	153.2	178.7	(25.5)	70.0	92.5	(22.5)	41.3	46.7	(5.4)	10.5	6.8	3.7	18.2	21.1	(2.9)	12.7	10.6	2.1	0.3	0.2	0.1	0.2	0.2	-	-	0.6	(0.6)
- Medical School Affiliation Agreement	152.4	145.4	7.0	120.7	113.3	7.4	9.1	9.1	-	-	-	-	17.3	17.2	0.1	4.9	5.5	(0.6)	0.4	0.3	0.1	-	-	-	-	-	-
- Nurse Registries	33.8	48.9	(15.1)	30.3	38.0	(7.7)	0.6	1.3	(0.7)	0.4	0.9	(0.5)	1.4	5.2	(3.8)	0.9	2.0	(1.1)	0.2	1.5	(1.3)	-	-	-	-	-	-
- Other Registries	34.7	45.7	(11.0)	13.1	14.5	(1.4)	7.2	9.4	(2.2)	1.6	2.9	(1.3)	4.9	9.6	(4.7)	7.6	9.1	(1.5)	0.2	0.2	-	-	-	-	0.1	-	0.1
- Specialty Contracts (Physicians/Non-Phys.)	40.0	41.4	(1.4)	0.9	1.0	(0.1)	6.8	6.4	0.4	4.5	5.0	(0.5)	4.4	6.6	(2.2)	23.0	22.2	0.8	0.4	0.2	0.2	-	-	-	-	-	-
- S&S-Other	1,013.7	937.4	76.3	219.3	220.2	(0.9)	129.4	123.0	6.4	46.9	45.9	1.0	91.8	85.1	6.7	403.4	355.7	47.7	5.0	5.0	-	17.1	16.8	0.3	100.8	85.7	15.1
Total Net S&S	1,586.3	1,534.1	52.2	509.0	530.2	(21.2)	221.9	218.4	3.5	70.8	66.2	4.6	155.8	160.6	(4.8)	501.6	446.6	55.0	9.0	8.8	0.2	17.3	17.0	0.3	100.9	86.3	14.6
Other Expenses [E]	382.8	375.3	7.5	107.6	104.4	3.2	128.6	125.1	3.5	25.9	25.6	0.3	42.2	41.6	0.6	14.7	13.8	0.9	(31.1)	(30.0)	(1.1)	(2.2)	(2.3)	0.1	97.1	97.1 [F]	-
Total Expenses	**$ 3,890.2**	**$ 3,781.7**	**$ 108.5**	**$ 1,277.8**	**$ 1,285.7**	**$ (7.9)**	**$ 762.2**	**$ 741.6**	**$ 20.6**	**$ 242.8**	**$ 233.1**	**$ 9.7**	**$ 442.3**	**$ 444.9**	**$ (2.6)**	**$ 813.4**	**$ 748.0**	**$ 65.4**	**$ 6.7**	**$ 3.9**	**$ 2.8**	**$ 34.7**	**$ 33.3**	**$ 1.4**	**$ 310.3**	**$ 291.2**	**$ 19.1**
Revenues																											
Waiver Revenues	$ 1,535.8	$ 1,512.1	$ (23.7)	$ 667.8	$ 636.9	$ (30.9)	$ 367.2	$ 384.5	$ 17.3	$ 114.4	$ 107.0	$ (7.4)	$ 224.7	$ 221.8	$ (2.9)	$ 161.7	$ 161.9	$ 0.2	$ -	$ -	$ -	$ -	$ -	$ -	$ (0.0)	$ -	$ 0.0
Federal & State - Other Revenues	410.4	411.6	1.2	136.4	144.0	7.6	90.9	89.3	(1.6)	35.3	33.6	(1.7)	58.0	56.8	(1.2)	75.0	74.4	(0.6)	0.5	0.5	-	13.5	12.2	(1.3)	0.8	0.8	-
Managed Care Revenues	440.4	367.0	(73.4)	78.1	64.0	(14.1)	64.7	65.9	1.2	0.7	1.6	0.9	37.1	34.8	(2.3)	259.8	200.7	(59.1)	-	-	-	-	-	-	-	-	-
Other County Department Revenues	268.7	249.0	(19.7)	41.9	26.4	(15.5)	18.1	13.1	(5.0)	1.1	1.1	-	18.4	14.0	(4.4)	9.8	9.9	0.1	-	-	-	-	-	-	179.4	184.5	5.1
Other Revenues [G]	227.7	167.3	(60.4)	93.3	79.2	(14.1)	62.9	52.6	(10.3)	11.7	6.2	(5.5)	24.5	16.2	(8.3)	21.7	4.4	(17.3)	-	(0.2)	(0.2)	13.6	12.5	(1.1)	-	(3.6)	(3.6)
Total Revenues	**$ 2,883.0**	**$ 2,707.0**	**$ (176.0)**	**$ 1,017.5**	**$ 950.5**	**$ (67.0)**	**$ 603.8**	**$ 605.4**	**$ 1.6**	**$ 163.2**	**$ 149.5**	**$ (13.7)**	**$ 362.7**	**$ 343.6**	**$ (19.1)**	**$ 528.0**	**$ 451.3**	**$ (76.7)**	**$ 0.5**	**$ 0.3**	**$ (0.2)**	**$ 27.1**	**$ 24.7**	**$ (2.4)**	**$ 180.2**	**$ 181.7**	**$ 1.5**
Net Cost - Before PYs' Surplus/(Deficit)	$ 1,007.2	$ 1,074.7	$ (67.5)	$ 260.3	$ 335.2	$ (74.9)	$ 158.4	$ 136.2	$ 22.2	$ 79.6	$ 83.6	$ (4.0)	$ 79.6	$ 101.3	$ (21.7)	$ 285.4	$ 296.7	$ (11.3)	$ 6.2	$ 3.6	$ 2.6	$ 7.6	$ 8.6	$ (1.0)	$ 130.1	$ 109.5	$ 20.6
Prior Years (PYs)' Surplus/(Deficit)	-	76.9	76.9	-	58.2	58.2	-	(8.2)	(8.2)	-	(10.0)	(10.0)	-	(9.8)	(9.8)	-	45.0	45.0	-	(1.0)	(1.0)	-	-	-	-	2.7	2.7
Net Cost - After PYs' Surplus/(Deficit) [H]	**$ 1,007.2**	**$ 997.8**	**$ 9.4**	**$ 260.3**	**$ 277.0**	**$ (16.7)**	**$ 158.4**	**$ 144.4**	**$ 14.0**	**$ 79.6**	**$ 93.6**	**$ (14.0)**	**$ 79.6**	**$ 111.1**	**$ (31.5)**	**$ 285.4**	**$ 251.7**	**$ 33.7**	**$ 6.2**	**$ 4.6**	**$ 1.6**	**$ 7.6**	**$ 8.6**	**$ (1.0)**	**$ 130.1**	**$ 106.8**	**$ 23.3**

Notes:

(A) Includes unreimbursed estimated costs of: (1) Sheriff's Department $36.1 million - for providing inpatient, outpatient, and specialty services to inmates in County jails, and (2) Departments of Probation and Coroner $0.9 million - for power plant's maintenance service costs provided to both Departments. In addition, DHS' FY 11-12 Capital Projects Budget (not reflected on this schedule) includes $2.7 million for Departments of Probation's and Coroner's share of the Central Plant one-time upgrade to be in compliance with the South Coast Air Quality Management District Rule 1146.

(B) Includes Multi-Service Ambulatory Care Centers, Comprehensive & Community Health Centers, Community Partners, Office of Managed Care, and Ambulatory Care's administrative units.

(C) Juvenile Court Health Services provides medical services to Probation youth who are under the responsibility of the Department of Probation. The current forecast reflects $4.4 million (net of $0.2 million projected shortfall of Vehicle License Fee reflected in Other Revenues) unreimbursed net cost from Probation for FY 11-12. The $1.8 million reduction from the budgeted funding gap of $6.2 million from Probation is primarily due to hiring delays for the Department of Justice Camp Settlement Agreement and under-realized pharmaceutical expenses.

(D) Includes the budget adjustments approved by the Board of Supervisors on February 28, 2012 to reallocate/realign appropriations within DHS.

(E) Includes Other Charges, Capital Assets, and Operating Transfer Out, and net of Intrafund Transfers. The Other Charges include intergovernmental transfers for Managed Care Rate Supplement and Delivery System Reform Incentive Pool revenues.

(F) Includes capital projects' surplus of $3.9 million due to implementation delays.

(G) Includes Vehicle License Fee deficit of $21.3 million.

(H) The Net Cost of $1,007.2 million is comprised of County Contribution, Vehicle License Fee, Sales Tax, Measure B, Tobacco Settlement fund, and DHS' Fund Balance.

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

WORKLOAD

FISCAL YEAR 2010-11 ACTUAL vs FISCAL YEAR 2011-12 PROJECTION

(AS OF 6/12/12)

	TOTAL DEPARTMENT			LAC+USC MEDICAL CENTER			HARBOR-UCLA MEDICAL CENTER			RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER			OLIVE VIEW-UCLA MEDICAL CENTER			AMBULATORY CARE [A]			OTHER GENERAL FUNDS		
	FY 10-11 ACTUAL	FY 11-12 PROJECTION [B]	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE
Average Daily Census	1,321	1,279	(42)	587	574	(13)	359	332	(27) [C]	183	178	(5)	192	195	3	-	-	-	-	-	-
Inpatient Days	482,165	466,835	(15,330)	214,255	209,510	(4,745)	131,035	121,180	(9,855)	66,795	64,970	(1,825)	70,080	71,175	1,095	-	-	-	-	-	-
Admissions	72,308	71,180	(1,128)	32,601	32,751	150	22,109	21,066	(1,043)	3,930	3,904	(26)	13,668	13,459	(209)	-	-	-	-	-	-
Average Length of Stay	6.4	6.3	(0.1)	6.4	6.2	(0.2)	5.7	5.5	(0.2)	16.9	16.6	(0.3)	4.9	5.1	0.2	-	-	-	-	-	-
Ambulatory Care / Urgent Care / Community Partners Visits	2,951,155	2,924,434	(26,721)	541,814	536,541	(5,273)	337,799	333,614	(4,185)	76,509	76,400	(109)	212,775	214,401	1,626	1,782,258	1,763,478	(18,780)	-	-	-
Emergency Department Visits	256,479	266,196	9,717	135,751	142,449	6,698 [D]	72,607	71,157	(1,450)	-	-	-	48,121	52,590	4,469	-	-	-	-	-	-
Emergency Department Psych. Visits	22,736	21,681	(1,055)	8,976	8,143	(833) [E]	8,029	7,844	(185)	-	-	-	5,731	5,694	(37)	-	-	-	-	-	-
Juvenile Court Health Services Visits	95,568	83,392	(12,176)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	95,568	83,392	(12,176)

(A) Includes Multi-Service Ambulatory Care Centers, Comprehensive & Community Health Centers, and Community Partners.

(B) FY 11-12 projection is based on the February 2012 workload report.

(C) The census is appropriately decreasing due to continued efforts to reduce denied days.

(D) The increase in emergency department (ED) visits is primarily due to implementation of various ED process changes designed to improve the hospital's ability to see patients.

(E) The continued decrease in ED Psych visits is primarily due to the availability of services at the Exodus Urgent Care Center.

ATTACHMENT II

ATTACHMENT III

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF DHS FISCAL OUTLOOK

AS OF JUNE 12, 2012

		Fiscal Year (FY) / $ In Millions
(1)	**Estimated Year-End Fund Balance for FY 2011-12** [A]	**$ 9.4**
	Major Changes for FY 2012-13 [B]	
(2)	Projected increase in employee benefit costs [C]	(46.2)
(3)	Projected Hospital Provider Fee for FY 2011-12 and FY 2012-13	42.0
(4)	Projected reduction in Vehicle License Fee per the CEO	(21.3)
(5)	Projected net increase in performance-based Delivery System Reform Incentive Pool revenue	17.0
(6)	Equipment costs for the Harbor-UCLA Medical Center's Surgery/Emergency Department (Year 2) [D]	(16.3)
(7)	Equipment costs for the new Martin Luther King Multi-Service Ambulatory Care Center (Year 1) [E]	(7.9)
(8)	Reduced projected net benefit from Managed Care Rate Supplement revenue for Health Net due to intergovernmental transfer requirements to compensate increased administrative fees imposed by the State [F]	(5.7)
(9)	Projected net out-of-plan costs for the Healthy Way LA population	(5.0)
(10)	Capital projects to be carried over from FY 2011-12 due to implementation delays	(3.9)
(11)	Information system equipment costs for the new High Desert Multi-Service Ambulatory Care Center (Year 1) [G]	(3.7)
(12)	Increased General County Overhead costs per the CEO	(1.8)
(13)	Reimbursements from Probation and Coroner Departments for power plant's maintenance service costs	0.9
(14)	Other minor operational changes	(0.8)
(15)	**Estimated Year-End Shortfall for FY 2012-13**	**(52.7)**
(16)	**Total**	**$ (43.3)**

Notes:

(A) This includes projected unspent funds for Harbor-UCLA Surgery/Emergency Department of $4.1 million (line 6 above) and capital projects of $3.9 million (line 10 above).

(B) This does not include necessary system improvements/investments such as Electronic Health Record information system and standardized nurse staffing plan including compliance with the Assembly Bill (AB) 394 requirements for meals and breaks coverage. The Department is currently refining its plan, estimating costs, and determining funding solutions for these items. The Department is also working with the Chief Executive Office to explore financing options for the Electronic Health Record information system.

(C) This reflects projected increased employer contribution rates for County Retirement based on the downturn in the investment market. In addition, the reduced County matching contribution percentages are resumed to 4% effective FY 2012-13 (which had been reduced to 2% or 3%, depending on the cafeteria health plans of the participating employees, for both Horizons and Savings Plans in FY 2011-12). Also reflects changes in estimates primarily for variable employee benefits based on historical trends and year-to-date actual.

(D) This reflects an incremental budgetary change of $12.2 million for Year 2, and $4.1 million to be carried over from Year 1 (FY 2011-12) due to implementation delays. The total costs through FY 2017-18 are projected to be $58.4 million.

(E) The total costs through FY 2017-18 are projected to be $30.3 million.

(F) The projected intergovernmental transfer is $24.2 million. Of this amount, $17.7 million will be funded by Tobacco Settlement fund and $6.5 million by existing resources within DHS' FY 2012-13 Recommended Budget. The associated revenue is $40.6 million.

(G) In order to maintain the project schedule and prepare for occupancy when the new facility is completed, information system network equipment and end-user devices will need to be purchased and set up in FY 2012-13. The facility is also working on a complete equipment list, with the majority of the equipment expected to be procured in FY 2013-14.

ATTACHMENT IV

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

POTENTIAL ITEMS THAT WOULD IMPACT THE FISCAL FORECAST

FISCAL YEARS (FY) 2011-12 THROUGH 2012-13 (NON-CUMULATIVE)

($ IN MILLIONS)

	FY 11-12	FY 12-13	Total
Base Assumption: Estimated Year-End Surpluses / (Shortfalls)	**$9.4**	**($52.7)**	**($43.3)**
POTENTIAL ADDITIONAL REVENUES / FUNDS			
> Obtain an actuarially sound **rate increase**, expected to be effective July 2012, **for the In-Home Supportive Services program** to help offset the costs of medical care provided to enrollees in the health plan. The projected effective date is September 1, 2012	-	57.4	57.4
> **Additional Waiver revenues** resulting from amending the existing Waiver agreement to assure that persons with HIV make the transitions of coverage from Ryan White to Healthy Way LA (HWLA) for October 2011 through December 2013	-	38.0	38.0
> One-time excess **Measure B reserve fund** from FY 2011-12	-	6.1	6.1
> Obtain an increase in **Measure B rate**	-	??	??
POTENTIAL LOSSES IN REVENUES / FUNDS (1)			
> **Unreimbursable costs of transitioning persons with HIV from Ryan White to HWLA**	-	(38.0)	(38.0)
Revised Estimated Year-End Surpluses / (Shortfalls)	**$9.4**	**$10.8**	**$20.2**

Notes:

1) This does not include necessary system improvements/investments such as Electronic Health Record information system and standardized nurse staffing plan including compliance with the Assembly Bill (AB) 394 requirements for meals and breaks coverage. The Department is currently refining its plan, estimating costs, and determining funding solutions for these items. The Department is also working with the Chief Executive Office to explore financing options for the Electronic Health Record information system.