



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 21, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

SUBJECT: **QUARTERLY REPORT ON IMPACT OF HEALTH CARE REFORM ON
COUNTY CASH FLOWS (Board Agenda Item 36-A, June 25, 2013)**

On June 25, 2013, your Board instructed the Auditor-Controller to report quarterly on the impact of health care reform on the County's cash flows and the Department of Health Services' (DHS) financial performance. This report is for the quarter ended September 30, 2014.

During FY 2013-14, the State withheld \$88 million of health care realignment funds. In accordance with Assembly Bill 85 (AB85), DHS calculated that the County is entitled to recoup the entire withheld amount of \$88 million, based on final FY 2013-14 book closing results. Per AB85, the recoupment amount is subject to a "true-up" process over the next two fiscal years, FY 2014-15 and FY 2015-16. At the end of FY 2015-16, the State will determine the final amount of FY 2013-14 over-withheld realignment funds and the County will be eligible for reimbursement at that time.

For FY 2014-15, the amount of State health care realignment revenues subject to withholding is \$238 million. The State began monthly withholding of \$23.8 million in September 2014, and will continue withholding for ten months, until the targeted amount is achieved in June 2015. The \$238 million withhold will be subject to the same AB85 process discussed above for FY 2013-14 and the funds could eventually be returned to the County. However, the amount of recoupment will not be known with certainty until the end of FY 2016-17.

As anticipated, the Hospital Funds' accounts receivable increased to \$1.732 billion on June 30, 2014, from \$1.652 billion as of June 30, 2013. The \$80 million increase is primarily due to the increase of County patients covered by health insurance. In our previous quarterly report, we indicated that the County's loans to the Hospitals increased by \$132 million during FY 2013-14, and higher accounts receivable were a contributing factor.

We will continue to work with the Chief Executive Office and DHS to monitor these changes for possible cash flow impacts, and will provide more information in our January 2015 report.

If you have any questions, please contact me, or your staff may call Connie Yee at (213) 974-8321.

JN:RGC:CY

c: William T Fujioka, Chief Executive Officer
Sachi A. Hamai, Executive Officer, Board of Supervisors
Mitchell H. Katz, M.D., Director, Department of Health Services
Joseph Kelly, Acting Treasurer and Tax Collector
Audit Committee
Public Information Office