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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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March 15, 2016

TO: Each Supervisor

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

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK**

This is to provide DHS' fiscal outlook for Fiscal Years (FY) 2015-16, 2016-17, and 2017-18. The Department's fiscal outlook is significantly impacted by the recent extension of the 1115 Waiver for five years through December 31, 2020.

1115 Waiver Extension

The State's 1115 Waiver extension, "Medi-Cal 2020", was approved by the Centers for Medicare and Medicaid Services (CMS) on December 30, 2015. There are three major components of the Waiver:

1) the Global Payment Program (GPP) combines Disproportionate Share Hospital (DSH) funding with Safety Net Care Pool (SNCP) funding;

2) the Public Hospital Incentives and Redesign in Medi-Cal (PRIME) continues the transformative work of the Delivery System Reform Incentive Program (DSRIP) begun under the prior Waiver; and

3) the Whole Person Care (WPC) pilot aims to coordinate the physical health, behavioral health (e.g., mental health and substance use disorders), and social service needs (e.g., homeless or at risk of homelessness), of high risk populations who are high users of urgent and emergent services across multiple county systems, with the goal of improving their overall health outcomes and reducing emergency room use and inpatient readmissions.

GPP Reductions After First Year

For the first year, the SNCP portion of the GPP for DHS is $83.0 million, the same amount as the last year of the prior Waiver. However, the amount of SNCP funding for the remaining four years of the Waiver will be decided by a survey that will determine and then set

the level of federal funding of uncompensated care for the uninsured. The State must submit the survey to CMS on May 15, 2016.

In addition, pursuant to current federal law, our fiscal outlook was reduced, accordingly, for the DSH reductions slated to begin in federal fiscal year 2017-18 for the remaining years of the Waiver. However, in the past, federal law was amended numerous times to postpone the DSH reductions. The overall value of the GPP will increase and our fiscal outlook will improve if DSH reductions are again delayed in the future.

PRIME

DHS is allocated $223.7 million of PRIME funds in FYs 2015-16, 2016-17, and 2017-18. In order to receive PRIME funding, counties must meet quality benchmark goals that ensure improved patient outcomes. Each county must undertake a minimum of nine challenging PRIME projects and the funding each county will receive is contingent on achieving difficult project goals. Funding for this program will be reduced by 10% starting in year four with an additional 15% funding reduction in the last year of the Waiver.

Whole Person Care Pilot

A competitive application process will determine which counties will be eligible to participate. No county can receive more than 30% of the funding. DHS is planning to submit an application for $90.0 million, the maximum allowed. WPC pilot funds can be used for infrastructure to integrate services and for services not otherwise reimbursed by Medi-Cal. The Department is currently designing a WPC pilot and will submit it to the State Department of Health Care Services once the application parameters and deadline are issued.

Balanced Budgets Projected for FYs 2015-16, 2016-17 and 2017-18

Using prior year surpluses, the Department is currently projecting balanced budgets for these three fiscal years (see Attachment I).

It is important to note, however, that the Department has not factored in the impact of the pending Medicaid Managed Care Rules which, as originally drafted, would significantly impact the supplemental payments the Department receives. The new Medicaid Managed Care Rules are expected to be issued in April 2016. Los Angeles County and the state provided feedback to ensure changes are made to preserve funding for our safety net population in California.

In addition to the DSH cuts and potential SNCP reductions under the GPP mentioned above, there are also scheduled reductions in the Federal Medicaid Assistance Percentage (FMAP) for the Medi-Cal Coverage Expansion (MCE) population enacted under the Affordable Care Act. The FMAP for the MCE population decreases from

100% to 95% in calendar year 2017, 94% in calendar year 2018, 93% in calendar year 2019, and 90% in calendar years 2020 and beyond. These decreases will impact the Department's budget beginning in FY 2016-17.

Due to anticipated future reductions in revenue, the Department is focused on efforts to slow, to the degree possible, the rise in costs, reduce Medi-Cal denied days, restructure Medi-Cal managed care contracts, improve productivity efficiencies, and increase revenue maximization efforts.

Although the impacts of impending changes, e.g., the Medicaid Managed Care Rule, the value of SNCP, etc., are unknown at this time, we have based this fiscal outlook on conservative assumptions and anticipate being able to resolve shortfalls that may occur.

The Workload schedule (Attachment II) provides a comparison between FY 2014-15 actuals and FY 2015-16 projections on key workload indicators, e.g., days and visits.

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

MHK:aw
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Attachments (2)

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

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

FORECAST *

FY 2015-16 TO FY 2017-18

($ IN MILLIONS)

		A	B	C = A+B	D	E = C+D	F	G = E+F	
		2015-16 FINAL BUDGET	ADJUSTMENTS	2015-16 FORECAST	ADJUSTMENTS	2016-17 FORECAST	ADJUSTMENTS	2017-18 FORECAST	
(1)	**Expenses**								(1)
(2)	Salaries & Employee Benefits	$ 2,319.350	$ 29.087	$ 2,348.437	$ 166.723	$ 2,515.160	$ 118.244	$ 2,633.404	(2)
(3)	Net Services & Supplies	1,611.266	12.140	1,623.406	92.897	1,716.303	(2.928)	1,713.375	(3)
(4)	Other Charges	172.620	(15.021)	157.599	2.466	160.065	4.035	164.100	(4)
(5)	Capital Assets	20.011	0.850	20.861	(7.853)	13.008	(0.850)	12.158	(5)
(6)	Operating Transfers Out + Capital Project	58.231	-	58.231	(10.656)	47.575	-	47.575	(6)
(7)	Intrafund Transfer	(44.196)	-	(44.196)	-	(44.196)	-	(44.196)	(7)
(8)	**Total Expenses**	$ 4,137.282	$ 27.056	$ 4,164.338	$ 243.577	$ 4,407.915	$ 118.501	$ 4,526.416	(8)
(9)	**Revenues**								(9)
(10)	**Medi-Cal Inpatient**	$ 478.129	$ (108.091)	$ 370.038	$ 18.234	$ 388.272	$ 7.400	$ 395.672	(10)
(11)	**GPP**	352.029	143.883	495.912	(24.934)	470.978	(58.991)	411.987	(11)
(12)	**PRIME**	155.167	68.543	223.710	-	223.710	-	223.710	(12)
(13)	**Managed Care-Base**	549.920	40.485	590.405	(13.066)	577.339	(0.788)	576.551	(13)
(14)	**Managed Care-Supplemental**	309.446	66.855	376.301	(48.650)	327.651	(4.073)	323.578	(14)
(15)	**OCD-Mental Health**	51.730	27.910	79.640	1.028	80.668	1.455	82.123	(15)
(16)	Whole-Person Care	-	-	-	90.000	90.000	-	90.000	(16)
(17)	Medi-Cal ER	36.155	30.720	66.875	0.746	67.621	1.034	68.655	(17)
(18)	Medi-Cal CBRC	212.770	(18.643)	194.127	5.824	199.951	5.999	205.950	(18)
(19)	Medi-Cal SB 1732	3.777	-	3.777	-	3.777	-	3.777	(19)
(20)	Hospital Provider Fee	38.719	2.335	41.054	-	41.054	-	41.054	(20)
(21)	Federal & State - Other	44.262	-	44.262	-	44.262	-	44.262	(21)
(22)	OCD-Other	291.269	-	291.269	-	291.269	-	291.269	(22)
(23)	Other	103.490	2.950	106.440	14.450	120.890	(67.400)	53.490	(23)
(24)	Self-Pay	15.663	(5.238)	10.425	-	10.425	-	10.425	(24)
(25)	ORCHID Incentive Payments	24.373	(11.627)	12.746	(0.230)	12.516	(3.289)	9.227	(25)
(26)	Medicare	152.516	4.667	157.183	(2.405)	154.778	(2.405)	152.373	(26)
(27)	Insurance	64.715	-	64.715	-	64.715	-	64.715	(27)
(28)	IHSS	147.023	-	147.023	1.273	148.296	-	148.296	(28)
(29)	AB 85 Redirection	-	-	-	79.506	79.506	(60.599)	18.907	(29)
(30)	**Total Revenues**	$ 3,031.153	$ 244.749	$ 3,275.902	$ 121.776	$ 3,397.678	$ (181.657)	$ 3,216.021	(30)
(31)	**Expenses Less Revenues**	$ 1,106.129	$ (217.693)	$ 888.436	$ 121.801	$ 1,010.237	$ 300.158	$ 1,310.395	(31)
(32)	**Operating Subsidy**								(32)
(33)	Sales Tax & VLF	$ 265.506	$ 5.236	$ 270.742	$ 101.314	$ 372.056	$ -	$ 372.056	(33)
(34)	County Contribution	344.828	-	344.828	(0.713)	344.115	3.321	347.436	(34)
(35)	Measure B	210.278	-	210.278	-	210.278	-	210.278	(35)
(36)	Tobacco Settlement	62.588	-	62.588	(5.629)	56.959	-	56.959	(36)
(37)	Fund Balance	222.929	(222.929)	-	26.829	26.829	296.837	323.666	(37)
(38)	**Total Operating Subsidy**	$ 1,106.129	$ (217.693)	$ 888.436	$ 121.801	$ 1,010.237	$ 300.158	$ 1,310.395	(38)
(39)	**Beginning Designation Balance**	$ 350.495		$ 350.495		$ 350.495		$ 323.666	(39)
(40)	Use of Fund Balance	(222.929)		-		(26.829)		(323.666)	(40)
(41)	**Ending Designation Balance**	$ 127.566		$ 350.495		$ 323.666		$ -	(41)

* The budget and forecast expenses and revenues are net of IGTs and other double counts such as internal transfers.

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

WORKLOAD

FY 2014-15 ACTUAL VS FY 2015-16 PROJECTION

	TOTAL DEPARTMENT			LAC+USC MEDICAL CENTER			HARBOR-UCLA MEDICAL CENTER			RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER			OLIVE VIEW-UCLA MEDICAL CENTER			AMBULATORY CARE & OTHER GENERAL FUNDS [A]		
	FY 14-15 ACTUAL	FY 15-16 PROJECTION	CHANGE	FY 14-15 ACTUAL	FY 15-16 PROJECTION	CHANGE	FY 14-15 ACTUAL	FY 15-16 PROJECTION	CHANGE	FY 14-15 ACTUAL	FY 15-16 PROJECTION	CHANGE	FY 14-15 ACTUAL	FY 15-16 PROJECTION	CHANGE	FY 14-15 ACTUAL	FY 15-16 PROJECTION	CHANGE
Average Daily Census	1,212	1,182	(30)	538	528	(10)	329	321	(8)	158	157	(1)	187	176	(11)	-	-	-
Inpatient Days	442,380	431,430	(10,950)	196,370	192,720	(3,650)	120,085	117,165	(2,920)	57,670	57,305	(365)	68,255	64,240	(4,015)	-	-	-
Admissions	63,891	62,767	(1,124)	29,449	29,449	-	19,204	19,204	-	3,418	3,235	(183)	11,820	10,879	(941)	-	-	-
Average Length of Stay	6.4	6.6	0.2	6.3	6.4	0.1	6.0	6.0	-	17.0	19.3	2.3	5.5	5.8	0.3	-	-	-
Ambulatory Care / Urgent Care Visits	1,923,290	1,947,169	23,879	552,189	525,572	(26,617)	311,366	298,437	(12,929)	80,882	64,964	(15,918)	224,233	218,345	(5,888)	754,620	839,851	85,231
Community Partners Visits	391,123	514,927	123,804	-	-	-	-	-	-	-	-	-	-	-	-	391,123	514,927	123,804
Emergency Department Visits	270,781	290,755	19,974	135,396	144,951	9,555	77,772	76,207	(1,565)	-	-	-	57,613	69,597	11,984	-	-	-
Emergency Department Psych. Visits	21,148	20,958	(190)	8,563	8,652	89	6,611	6,611	-	-	-	-	5,974	5,695	(279)	-	-	-
Juvenile Court Health Services Visits	73,008	87,410	14,402	-	-	-	-	-	-	-	-	-	-	-	-	73,008	87,410	14,402

(A) Includes MLK Outpatient Center, High Desert Regional Health Center, Comprehensive & Community Health Centers, and Other General Funds (Community Partners and Juvenile Court Health Services).

ATTACHMENT II