Health Services
LOS ANGELES COUNTY

April 23, 2019

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TO: Each Supervisor

FROM: Christina R. Ghaly, M.D.
Director

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

This is to provide an update to DHS' fiscal outlook for Fiscal Years (FY) 2018-19 through 2021-22 (Attachment I).

The Department is anticipating important changes to key programs in light of the upcoming expiration of the current 1115 Waiver on December 31, 2020, the implementation of federal requirements related to Medi-Cal managed care, as well as possible changes to Medi-Cal managed care coverage programs. Based on our current understanding, it seems unlikely that certain Waiver funds will be renewed, while there is a reasonable possibility that other Waiver funding streams will not be renewed but that there may be opportunities to incorporate them into the Medi-Cal managed care system.

The Department's forecast is based on our assessment of what is most likely to occur with regard to these various programs. Even assuming our forecast for these revenues is on target, the Department will still need to use fund balance to cover projected shortfalls for FYs 2019-20, 2020-21, and 2021-22 (see Attachment II). The assumptions on which the forecast is based are detailed below.

ASSUMPTIONS INCLUDED IN FISCAL OUTLOOK

Waiver Revenues

Two of the major Waiver funding programs, the Global Payment Program (GPP), which is a combination of Disproportionate Share Hospital (DSH) and Safety Net Care Pool (SNCP) funds, and the Public Hospital Redesign and Incentives (PRIME) program expire at the end of June 2020, while Whole Person Care (WPC) continues through the end of December 2020 when the 1115 Waiver itself expires.

The Department of Health Care Services (DHCS) believes that the SNCP program will not be renewed due to budget neutrality issues. However, because of the key significance of GPP to public hospitals, DHCS is planning to advocate for the continuation of the GPP (without approximately $106.8 million in SNCP funding) under a renewed Waiver.

Accordingly, for the forecast, the Department eliminated SNCP funding in FY 2020-21, and assumed that the GPP (without SNCP funding) will be continued with no cuts in DSH funding. We note that, based on the December 31, 2020 expiration date of the current Waiver, the effective date of a renewed Waiver is expected to be January 1, 2021. Under this scenario, there would be a six-month gap between the end of GPP on June 30, 2020 and the Waiver's new effective date of January 1, 2021. It is not clear whether there would be any ramifications or unintended consequences impacting DSH funds related to the 6-month GPP gap, but the Department will work with DHCS to resolve any issues that might arise.

With regard to DSH funding, under the Affordable Care Act, reductions in DSH allotments were slated to begin in 2014. Since then, Congress has approved several delays so no reductions in DSH funding have occurred thus far. However, under current law, the reductions are scheduled to start in October 2019. Without a further delay being approved by Congress, the Department would experience a DSH reduction of $116.1 million in FY 2019-20, and a $236.9 million cut in FY 2020-21 and ongoing. DHS believes it is more likely than not that another delay will be approved, and therefore, included DSH funding with no reductions in the forecast. If Congress does not pass a delay in DSH cuts by October 2019, DHS' fiscal forecast will need to be revised downward accordingly.

With regard to PRIME, there is strong consideration being given to the idea of incorporating PRIME into the Quality Incentive Program (QIP) under Medi-Cal managed care. There may also be a possibility that WPC services and funding could be incorporated into Medi-Cal managed care, though it is less clear how the integration might be formulated. Based on these expectations, the Department included WPC funds beginning January 2021, and PRIME funds beginning FY 2020-21, in the Medi-Cal managed care forecast.

Medicaid Managed Care Rule

Two revenue replacement programs, the Enhanced Payment Program (EPP) and the QIP were designed in collaboration with DHCS to mitigate the impact of the Medicaid Managed Care rule's prohibition of directed payments.

Enhanced Payment Program

The EPP establishes a pool to supplement the base rates received by public hospitals through their managed care contracts. DHS successfully argued that it should be in its own class which we believe will enhance DHS' ability to maximize EPP revenues. The funds are allocated to DHS' class based on 90% capitated lives and 10% fee-for-service (FFS).

We estimate the value of EPP to DHS at approximately $391.6 million for FY 2017-18, although the value could change materially depending on the specifics ultimately approved by CMS for drawing down the EPP funds. DHS expects to receive the FY 2017-18 EPP funds during FY 2019-20.

Quality Incentive Program

The QIP program was developed in collaboration with DHCS and will provide value-based payments based on clinically-established quality measures for Medi-Cal managed care enrollees. CMS approved the amount of QIP funding, approximately $320.0 million net Statewide, for FY 2017-18. The Department submitted the baseline data required by the December 15, 2018 deadline and expects to receive the FY 2017-18 estimated net amount of $69.6 million in FY 2019-20.

QIP and EPP Summary

In coming years, QIP payments will be conditioned on DHS' achievement of specific quality measures for Medi-Cal managed care enrollees. CMS has approved the next four years of QIP with an annual COLA, with a State option to revisit the program in two years. While the amount for QIP for FY 2017-18 has been approved, the methodology on how to allocate the funds among the State's public hospitals has not been approved by CMS.

The pool amount for the EPP program has been approved for FY 2017-18, but the rates that will be used to draw down the funds are still pending CMS approval. Because key components of QIP and EPP have not been approved by CMS, the estimated revenues for these two programs could change materially from the values noted above.

Pending CMS Approval

Graduate Medical Education (GME) / Indirect Medical Education (IME) Proposal

The GME/IME proposal would provide additional payments for public hospitals for Medi-Cal Managed Care beneficiaries. The proposed payments would cover Medi-Cal's share of the salaries and benefits of interns and residents receiving training at public hospitals, as well as certain indirect costs associated with their training. CMS Region 9 has reviewed the proposal and forwarded it to CMS' national headquarters in Baltimore, MD for approval. We have included GME/IME estimated net revenue of $70.0 million annually in the fiscal outlook.

Summary of Fiscal Assumptions

In summary, the Department based the fiscal outlook on the following assumptions:

1. SNCP funding, valued at approximately $106.8 million, will end June 30, 2020.
2. PRIME is scheduled to end June 30, 2020 but there is a reasonable possibility that it may be included in the QIP program in Medi-Cal managed care.
3. WPC funding is scheduled to end December 31, 2020, but there is a reasonable possibility that WPC could be incorporated into Medi-Cal managed care.
4. GPP will be continued under a renewed Waiver with no cuts in DSH funding.
5. QIP funds for FY 2017-18 will be received in FY 2019-20; estimated net value is $69.6 million annually.
6. EPP funds for FY 2017-18 will be received in FY 2019-20; estimated net value is $391.6 million annually.
7. GME/IME will be approved by CMS with funds expected in FY 2019-20; annual estimated net value is $70.0 million.

Other Fiscal-Related Information

Attached are additional graphs presenting information discussed in this letter as well as other information that relates to the DHS budget (see Attachments III through V).

Conclusion

DHS will continue working diligently with DHCS to develop other revenue programs to assist in offsetting projected future shortfalls. The Department is also working on efforts to increase revenue related to non-DHS assigned managed care patients who utilize DHS emergency rooms and inpatient services. Another key effort is to analyze the higher than average utilization rates that patients assigned to DHS generally have and develop appropriate strategies to manage their care. We are also focused on purchasing and implementing a cost accounting system that will allow the Department to analyze its current cost structure, perform detailed cost analyses, and track budget compliance. Work on various other internal initiatives aimed at enhancing cost effectiveness, strengthening core clinical services, and supporting our role as a safety net provider for the residents of Los Angeles County is ongoing.

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

CRG:anw
Fiscal Outlook April 2019.docx
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Attachments (V)

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

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

FORECAST *

FY 2018-19 TO FY 2021-22

($ in Millions)

		Year 1		Year 2		Year 3		Year 4	
		A	B	C = A+B	D	E = C+D	F	G = E+F	
		FY 2018-19 Forecast	Adjustments	FY 2019-20 Forecast	Adjustments	FY 2020-21 Forecast	Adjustments	FY 2021-22 Forecast	
(1)	**Expenses**								(1)
(2)	Salaries & Employee Benefits	$ 2,986.280	$ 64.400	$ 3,050.680	$ 82.285	$ 3,132.965	$ 73.517	$ 3,206.482	(2)
(3)	Net Services & Supplies	2,228.233	114.229	2,342.462	(11.328)	2,331.134	32.603	2,363.737	(3)
(4)	Other Charges - Debt Services	69.161	41.702	110.863	(16.417)	94.446	25.850	120.296	(4)
(5)	Other Charges - Other	69.991	-	69.991	-	69.991	-	69.991	(5)
(6)	Capital Assets	58.893	(2.795)	56.098	(26.496)	29.602	0.020	29.622	(6)
(7)	Operating Transfers Out + Capital Projects	59.271	57.750	117.021	(32.250)	84.771	(25.500)	59.271	(7)
(8)	Intrafund Transfer	(203.678)	(4.817)	(208.495)	(4.076)	(212.571)	(3.235)	(215.806)	(8)
(9)	**Total Expenses**	$ 5,268.151	$ 270.469	$ 5,538.620	$ (8.282)	$ 5,530.338	$ 103.255	$ 5,633.593	(9)
(10)	**Revenues**								(10)
(11)	Medi-Cal Inpatient	410.729	3.019	413.748	4.291	418.039	8.154	426.193	(11)
(12)	Global Payment Program (GPP)	545.570	8.981	554.551	(97.673)	456.878	9.352	466.230	(12)
(13)	PRIME **	181.205	(27.181)	154.024	(154.024)	-	-	-	(13)
(14)	Enhanced Payment Program (EPP)	477.423	(16.930)	460.493	(4.837)	455.656	1.886	457.542	(14)
(15)	Quality Incentive Program (QIP) **	72.706	3.272	75.978	157.443	233.421	3.572	236.993	(15)
(16)	Managed Care ***	688.335	(13.303)	675.032	55.868	730.900	64.780	795.680	(16)
(17)	Mental Health	62.970	(0.103)	62.867	(0.078)	62.789	-	62.789	(17)
(18)	Whole-Person Care (WPC) ***	59.050	111.422	170.472	(108.184)	62.288	(62.288)	-	(18)
(19)	Medi-Cal Outpatient - E/R	104.596	1.839	106.435	2.022	108.457	2.542	110.999	(19)
(20)	Medi-Cal CBRC	212.720	4.255	216.975	4.339	221.314	4.427	225.741	(20)
(21)	Hospital Provider Fee	14.666	-	14.666	-	14.666	-	14.666	(21)
(22)	Federal & State - Other	79.347	(5.019)	74.328	0.541	74.869	0.557	75.426	(22)
(23)	OCD - Other	363.503	-	363.503	-	363.503	-	363.503	(23)
(24)	Other	78.411	2.686	81.097	2.590	83.687	(4.304)	79.383	(24)
(25)	Measure H	79.315	0.615	79.930	0.267	80.197	0.275	80.472	(25)
(26)	Self-Pay	8.619	-	8.619	-	8.619	-	8.619	(26)
(27)	ORCHID Incentive Payments	4.105	(4.105)	-	-	-	-	-	(27)
(28)	Medi-Cal Managed Care GME	70.000	-	70.000	-	70.000	-	70.000	(28)
(29)	Medicare	201.305	1.469	202.774	1.832	204.606	2.203	206.809	(29)
(30)	Hospital Insurance Collection	96.549	-	96.549	-	96.549	-	96.549	(30)
(31)	In-Home-Supportive-Services (IHSS)	152.248	-	152.248	-	152.248	-	152.248	(31)
(32)	**Total Revenues**	$ 3,963.372	$ 70.917	$ 4,034.289	$ (135.603)	$ 3,898.686	$ 31.156	$ 3,929.842	(32)
(33)	**Net Cost - Before PY**	$ 1,304.779	$ 199.552	$ 1,504.331	$ 127.321	$ 1,631.652	$ 72.099	$ 1,703.751	(33)
(34)	AB 85 Redirection	-	-	-	-	-	-	-	(34)
(35)	Prior-Year Surplus / (Deficit)	181.700	(181.700)	-	-	-	-	-	(35)
(36)	**Net Cost - After PY & AB 85 Redirection**	$ 1,123.079	$ 381.252	$ 1,504.331	$ 127.321	$ 1,631.652	$ 72.099	$ 1,703.751	(36)
(37)	**Operating Subsidy**								(37)
(38)	Sales Tax & VLF	379.822	1.181	381.003	-	381.003	-	381.003	(38)
(39)	County Contribution	671.283	7.950	679.233	13.754	692.987	13.000	705.987	(39)
(40)	Measure B	211.263	-	211.263	-	211.263	-	211.263	(40)
(41)	Tobacco Settlement	56.959	-	56.959	-	56.959	-	56.959	(41)
(42)	**Total Operating Subsidy**	$ 1,319.327	$ 9.131	$ 1,328.458	$ 13.754	$ 1,342.212	$ 13.000	$ 1,355.212	(42)
(43)	**Surplus / (Deficit) = (42) - (36)**	$ 196.248	$ (372.121)	$ (175.873)	$ (113.567)	$ (289.440)	$ (59.099)	$ (348.539)	(43)
(44)	**Beginning Fund Balance**	$ 911.827		$ 1,108.075		$ 932.202		$ 642.762	(44)
(45)	Change	196.248		(175.873)		(289.440)		(348.539)	(45)
(46)	**Ending Fund Balance Surplus/(Deficit)**	**$ 1,108.075**		**$ 932.202**		**$ 642.762**		**$ 294.223**	(46)

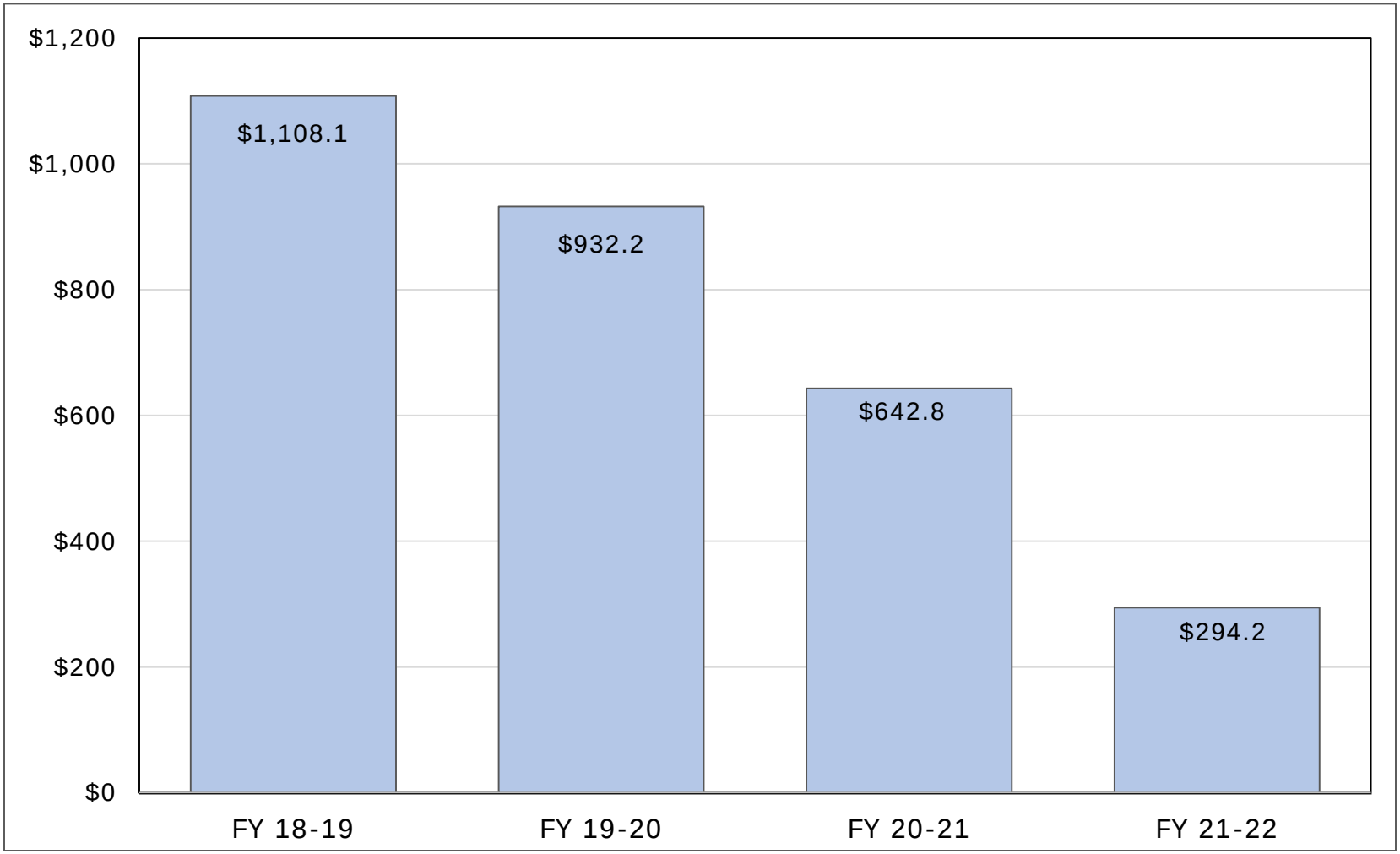
* The forecast is net of IGTs and other double-counts, such as internal transfers and includes Correctional Health and Office of Diversion.

** For FY 2020-21 forward, PRIME is incorporated in QIP.

*** For FY 2020-21, 6 months of WPC is included in Managed Care; annual amounts included going forward.

FUND BALANCE
FYs 2018-19 to 2021-22

($ in Millions)



Attachment III

KEY ASSUMPTIONS FOR FISCAL OUTLOOK

PROGRAM	FUNDING AMOUNT	EFFECTIVE DATE	FUNDING LOSS MITIGATED	FUNDING IMPACT
SNCP	$106M	Expires June 30, 2020	No	Loss of all SNCP funding
WPC	$127M	Expires December 31, 2020	Yes	Funding included in Medi-Cal Managed Care effective January 1, 2021
PRIME	$154M	Expires June 30, 2020	Yes	Funding included in Medi-Cal Managed Care QIP effective July 1, 2020
GPP	$100M	FY 2018-19	Yes	DSH funding retained ongoing under renewed 1115 Waiver
	$200M	FYs 2019-20, 2020-21, and 2021-22		
GME/IME	$70M	January 1, 2017	N/A	Approval by CMS will represent new funding

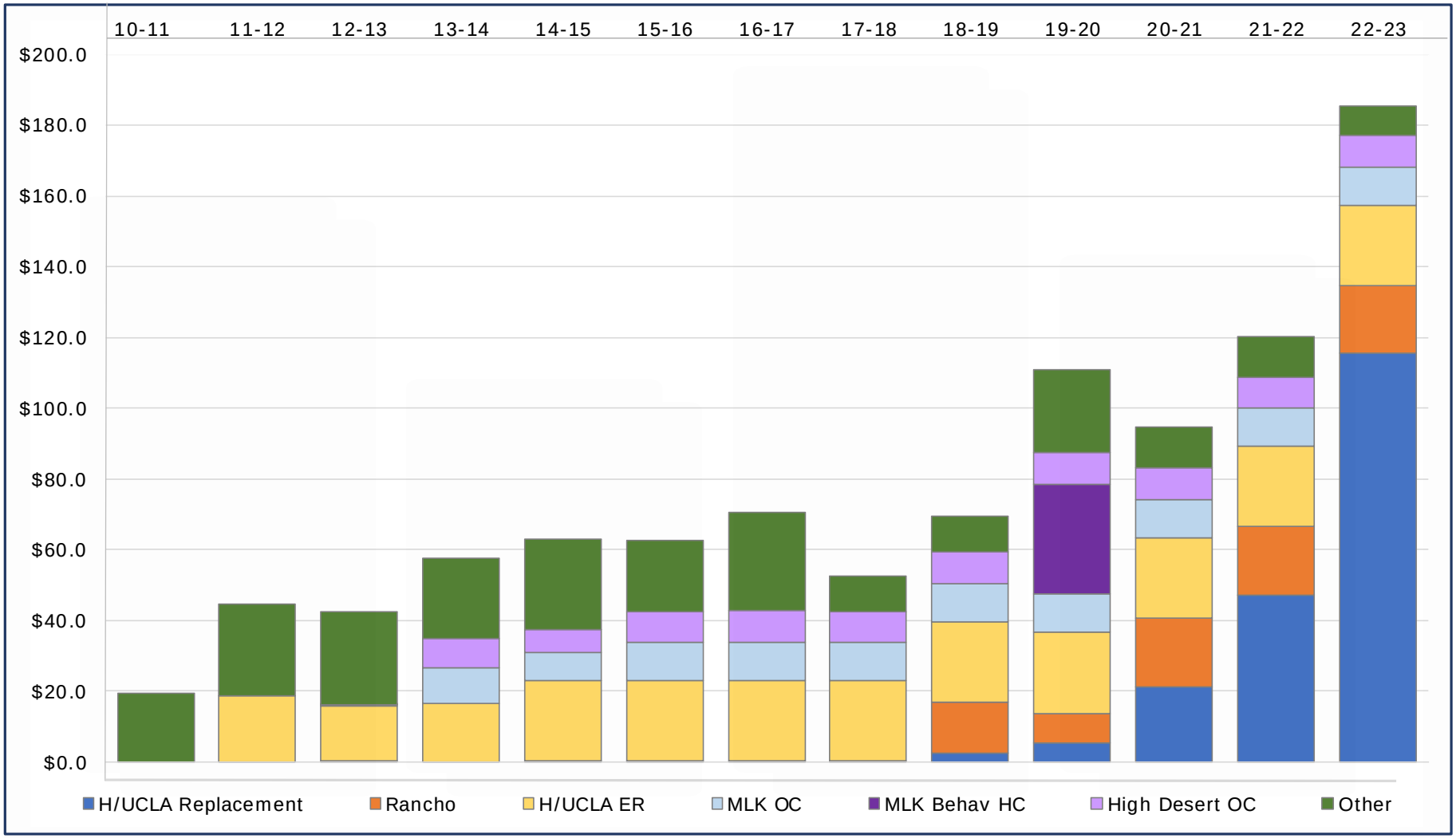
LEGEND:

SNCP – Safety Net Care Pool
WPC – Whole Person Care
PRIME – Public Hospital Redesign and Incentives
QIP – Quality Improvement Program
GPP – Global Payment Program
DSH – Disproportionate Share Hospital
GME/IME – Graduate Medical Education/Indirect Medical Education

DEBT SERVICE

FYs 2010-11 to 2022-23

($ in Millions)



% of Debt to Appropriation	0.56%	1.29%	1.20%	1.43%	1.64%	1.60%	1.63%	1.11%	1.40%	2.14%	1.83%	2.28%	3.44%

Note: H-UCLA Mental Health Inpatient and Outpatient Debt Service is not included. The full amount is $20.4 million in Fiscal Year 2022-23.

KEY PLANNED ACTIONS

- Increase emergency room and inpatient services revenue for non-DHS assigned Medi-Cal managed care patients.
- Analyze the higher than average utilization rates that DHS-assigned patients generally have and develop appropriate strategies to manage their care.
- Purchase and implement cost accounting system.