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June 18, 2007

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D.
Director and Chief Medical Officer

SUBJECT: **DEPARTMENT OF HEALTH SERVICES FISCAL OUTLOOK UPDATE**

Attached for your information is a Summary of Changes in the Department of Health Services (DHS) Fiscal Outlook (Attachments A1-A2) since our last report on April 17, 2007.

In the April 17, 2007 DHS Fiscal Outlook Update, the Department committed to continue working with the Chief Administrative Office (CAO) to present a balanced Final Change Budget Request for Fiscal Year (FY) 2007-08. This memo includes an updated fiscal outlook showing a balanced DHS budget for FY 2007-08 (see line 22 on Attachment A1).

As for the five-year cumulative Fiscal Outlook, following the adjustments shown on Attachments A1 and A2, including the remaining proposed Deficit Management Plan Actions that are not included in the Final Change Budget Request, the cumulative shortfall (line 29 on Attachment A2) through FY 2010-11 is now estimated at $625.6 million. This is a $25.7 million improvement when compared to the previous shortfall of $651.3 million included in the April 17, 2007 Fiscal Outlook.

Pending Federal Rule Limiting Medicaid Reimbursement

The Centers for Medicare and Medicaid Services (CMS) issued a final version of the Medicaid cost limit regulation. Because of the congressional moratorium prohibiting implementation of the regulation that was signed by the President, the Final Rule cannot take effect before May 25, 2008. CMS states in the preamble that California's 1115 Waiver (Medi-Cal Redesign) is largely consistent with the policies addressed in the provisions of the regulation therefore, it is unlikely that the first 5 years (FY 2005-06 through FY 2009-10) would be adversely affected by the regulation. CMS does not, however provide any assurances as to whether we will be able to retain full funding in any waiver renewal.

	April 17, 2007*	June 18, 2007*	Improvement*
Action			
Estimated Cumulative Funding Shortfall Through Fiscal Year 2010-2011**	**$ (651.3)**	**$ (625.6)**	**$ 25.7**
Pending Federal Rule Limiting Medicaid Reimbursements	(821.0)	(228.0)	593.0
Adjusted Cumulative Shortfall	**$(1,472.3)**	**$ (853.6)**	**$ 618.7**

* $ in millions

** See line (29) on Attachment A2

Managed Care Rate Supplement

The Managed Care Rate Supplement is still pending Federal approval. CMS has sent two sets of questions based on its review of the proposed Managed Care Rate Supplement. The first set of questions has been forwarded to the California Department of Health Services (CDHS). The second set will be finalized next week and then forwarded to CDHS. If the Managed Care Rate Supplement is not granted, the Department's financial position will worsen by the Federal component of the proposal, which is $160.7 million in FY 2007-08 ($71.5 million for FY 2006-07 and $89.2 million for FY 2007-08).

Mental Health Services

DHS and DMH have been working together to reach a mutual resolution for the provision of psychiatric services to the residents of Los Angeles County. To date, both Departments have agreed in concept to the following psychiatric service program change:

LAC+USC Psychiatric Outpatient Clinic – Effective September 1, 2007, LAC+USC will transfer the operation of the psychiatric outpatient clinic to DMH. DMH will retain approximately $1.3 million of the Interagency Agreement funds to operate the outpatient program. The DHS savings for FY 2007-08 is expected to be $1.0 million for ten months. Estimated annual DHS savings is approximately $1.2 M.

DHS and DMH are continuing to discuss the psychiatric emergency rooms, inpatient services, and urgent care centers.

Other Items Not Included in the DHS Fiscal Outlook

There are various healthcare proposals being considered in the California Legislature

that could have a material impact on the Department's Fiscal Outlook in the future, but not enough details are known to forecast the impact to the Department at this time. The Department is participating in and monitoring the developments of these proposals.

Please let me know if you have any questions or desire further information.

BAC:aw
Fiscal Outlook 6-15-07
609:005

Attachments

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

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

MARCH 30, 2007 THROUGH JUNE 18, 2007

		Fiscal Year / Columns / $ In Millions					
		06-07 / (1)	07-08 / (2)	08-09 / (3)	09-10 / (4)	10-11 / (5)	Total / (6)
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 3/30/07 [A]**	**$ 207.8**	**$ (39.6)**	**$ (267.2)**	**$ (498.3)**	**$ (786.7)**	**$ (786.7)**
	Inclusion of Deficit Management Plan Actions into the Final Change Budget *						
(2)	Nursing Registry Conversion to County Emp. [B]	-	0.8	3.3	6.1	9.2	19.4
(3)	10% Reduction in TAR Denials	-	0.1	0.1	0.1	0.1	0.4
(4)	Transfer of LAC+USC Outpatient Clinic to DMH, effective 9/1/07	-	1.0	1.2	1.2	1.2	4.6
(5)	Managed Care Rate Supplement [C]	-	35.4	35.4	35.4	35.4	141.6
(6)	Unused FY 05-06 County Contribution [D]	-	47.0	-	-	-	47.0
(7)	Coverage Initiative (Healthy Way LA) approved on March 29, 2007 [E]	-	1.2	1.2	1.2	1.2	4.8
	Other Adjustments included in the Final Change Budget Request						
(8)	Increase nursing salaries per the Board approved nursing salary reclassification included in the FY 07-08 Final Change Budget Request for June 18, 2007.	(17.8)	(74.1)	(76.3)	(78.5)	(80.7)	(327.4)
(9)	Adjust MetroCare costs, including the MLK-H staffing plan, census increases at H/UCLA and Rancho, and other adjustments included in the FY 07-08 Final Change Budget Request for June 18, 2007. [F]	9.0	44.3	51.5	46.0	46.1	196.9
(10)	Increase salaries per potential changes to the Physician Pay Plan included in the FY 07-08 Final Change Budget Request for June 18, 2007.	-	(17.1)	(17.6)	(17.8)	(18.1)	(70.6)
(11)	Include one-time Measure B funds per the FY 07-08 Final Change Budget Request for June 18, 2007.	-	25.0	-	-	-	25.0
(12)	Adjust LAC+USC replacement facility transition capital project costs to reflect the use of Tobacco Settlement funds to pay for the projects per the FY 07-08 Final Change Budget Request for June 18, 2007.	-	23.1	-	-	-	23.1
(13)	Adjust LAC+USC replacement facility transition costs per the FY 07-08 Final Change Budget Request for June 18, 2007. Primarily reflects the shift of some of the costs to FY 08-09 and the removal of amounts included in the transition capital projects line above (line 12).	-	7.8	(3.8)	-	-	4.0
(14)	Adjust LAC+USC replacement facility OM/DI costs per the FY 07-08 Final Change Budget Request for June 18, 2007.	-	1.8	-	-	-	1.8
(15)	Adjust capital projects per the FY 07-08 Final Change Budget Request. [L]	-	(14.3)	3.6	1.4	(0.2)	(9.5)
(16)	Add Section 1011 revenue (Federal reimbursement for emergency health services for undocumented aliens) per estimate developed on May 23, 2007.	11.1 [M]	-	-	-	-	11.1
(17)	Adjust Cost Based Reimbursement Clinics (CBRC) revenue based on the final FY 2003-04 audit settlement, and extended through FY 10-11, per estimates developed on May 2, 2007.	8.5 [G]	0.3	0.1	(0.2)	(0.5)	8.2
(18)	Adjust CHP Equity Distribution per OMC's latest estimates developed on May 16, 2007, including the impact of the OMC Operational Adjustment included in the Final Change Budget Request.	9.2	(2.1)	(2.8)	(1.6)	(0.7)	2.0
(19)	Adjust Medi-Cal Redesign revenues per DHS estimates developed on May 25, 2007.	22.0	6.7	(4.6)	(12.1)	(13.5)	(1.5)
(20)	Other changes included in the current year operating forecast received in May 2007 and the Final Change Budget Request for June 18, 2007. [H]	21.4	(5.0)	(5.2)	(5.2)	(5.1)	0.9
(21)	Forecast improvement/(reduction) roll-forward	-	63.4 [I]	145.3 [I]	131.4 [I]	107.4 [I]	-
(22)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - per the Final Change Budget [A]**	**$ 271.2**	**$ 105.7**	**$ (135.8)**	**$ (390.9)**	**$ (704.9)**	**$ (704.9)**
	Developments Subsequent to the Final Change Budget Request						
(23)	Update Section 1011 revenue based on estimates developed on June 12, 2007. [N]	6.6	7.7	1.9	-	-	16.2
(24)	Forecast improvement/(reduction) roll-forward	-	6.6 [I]	14.3 [I]	16.2 [I]	16.2 [I]	-
(25)	**Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 6/18/07 [A]**	**$ 277.8**	**$ 120.0**	**$ (119.6)**	**$ (374.7)**	**$ (688.7)**	**$ (688.7)**

ATTACHMENT A1

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

MARCH 30, 2007 THROUGH JUNE 18, 2007

		Fiscal Year / Columns / $ In Millions					
		06-07 / (1)	07-08 / (2)	08-09 / (3)	09-10 / (4)	10-11 / (5)	Total / (6)
(26)	**Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 6/18/07 (A) (cont.)**	**$ 277.8**	**$ 120.0**	**$ (119.6)**	**$ (374.7)**	**$ (688.7)**	**$ (688.7)**
	Proposed/Potential Deficit Management Plan Actions (Not Included in the Final Change Budget)						
(27)	Mental Health - I/P services and of psych ER's (J)	-	5.3	18.7	19.3	19.8	63.1
(28)	Forecast improvement/(reduction) roll-forward	-	- (I)	5.3 (I)	24.0 (I)	43.3 (I)	-
(29)	**Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 6/18/07 (A) if all remaining actions are successful**	**$ 277.8**	**$ 125.3**	**$ (95.6)**	**$ (331.4)**	**$ (625.6)**	**$ (625.6)**
	Other Potential Items						
(30)	Pending Federal rule limiting Medicaid reimbursement to public hospitals to Medicaid cost (K)	-	-	-	-	(228.0)	(228.0)
(31)	Pending Managed Care Rate Supplement rule limiting public hospitals to managed care costs	-	-	?	?	?	?
(32)	Pending rule disallowing use of Interns & Residents costs for Certified Public Expenditures	-	-	?	?	?	?
(33)	Forecast improvement/(reduction) roll-forward	-	- (I)	- (I)	-	- (I)	-
(32)	**Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 6/18/07 (A) if all remaining actions are successful and pending Federal rule adopted**	**$ 277.8**	**$ 125.3**	**$ (95.6)**	**$ (331.4)**	**$ (853.6)**	**$ (853.6)**

Notes

* Excluding reimbursement for I/P mental health services and closure of the psych emergency rooms.

(A) - Assumes CBRC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-06 and FY 06-07 Adopted State Budgets. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval.

(B) Reflects the conversion of nursing registries to County employees. Utilization of nursing registries are to be reduced by 5% in both FY's 06-07 and 07-08, and 7.5% in FY's 08-09 through 10-11, and will be offset with additional salaries for County employees. The saving for FY 2006-07 are already included in line (1).

(C) The "base" amount for the managed care rate supplement of $715M ($143M per year x 5 years) is subject to State/Federal approval and is included in the cumulative fund balances/shortfalls on line (1), since it is already in the Final Budget for Fiscal Year 2006-07.

(D) This amount relates to the unused County contribution for the Managed Care Rate Supplement for FY 05-06. This amount is reserved in the County general fund in a designation account for DHS.

(E) Reflects the additional administrative claim net revenue (the total additional revenue is reduced by additional costs) from the previous Coverage Initiative net revenue of $30.4M. FY 10-11 amount assumes Medi-Cal Redesign 1115 Waiver extension and continuance of its Coverage Initiative component.

(F) DHS previously intended to use Tobacco Settlement funds to offset the net cost of implementing the MetroCare plan. Since the MetroCare plan is estimated to cost less than previously anticipated, DHS will no longer be funding the implementation with Tobacco Settlement funds. The forecast improvement for FY 08-09 increase from the FY 07-08 amount due to the expiration of the CMS Extension Agreement. The forecast improvement for FY 09-10 is reduced from the FY 08-09 amount since estimated reductions of $4.2M were already included in the April 17, 2007 DHS Fiscal Outlook.

(G) FY 06-07 primarily reflects a final settlement amount for FY 03-04, and includes minor adjustments for FY's 04-05 through 06-07 based on the final settlement for FY 03-04.

(H) FY 06-07 includes one-time surpluses primarily related to $11.5M for increased prior year Medi-Cal revenue, $4.5M for reduced prior year expenses, $5.4M reduced net cost due to various adjustments. FY 07-08 through FY 10-11 primarily related to a $3.1M restatement of retirement costs at Rancho, $1.9M for increased patient flow management costs at DHS hospitals, and $0.1M in increased net costs for various other budget adjustments included in the Final Change Budget Request.

(I) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $63.4 million in FY 07-08 is $271.2 million - $207.8 million from FY 06-07.

(J) Includes savings due to the restructuring of inpatient psych services and the psych emergency rooms. Amounts are for FY 07-08 and increased by a 3% COLA in FY's 08-09 through 10-11. Savings amount subject to change depending on the outcome of negotiations with DMH.

(K) Amounts reflect the impact of reduced Safety Net Care Pool funds due to limited availability under the pending Federal rule.

(L) Change primarily reflects increased FY 07-08 costs due to CAO requirement that funding for the full cost of capital projects is included in the year the project begins, as opposed to following the estimates of when the money will be spent.

(M) Reflects revenue for May 2005 through June 2006.

(N) FY 06-07 reflects reduced revenue of $1.1M for FY 05-06 from the amount shown in line (16) above and additional revenue of $6.6M for FY 05-06; FY 07-08 reflects July 2007 through June 2008; and FY 08-09 reflects July 2008 through September 2008.

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ATTACHMENT A2