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April 17, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

PUBLIC-PRIVATE PARTNERSHIP ALLOCATION FORMULA WORKING GROUP REPORT AND RECOMMENDATIONS (ITEM NO. 36, AGENDA OF APRIL 22, 2008)

On September 18, 2007, on motion by Supervisors Molina and Yaroslavsky, your Board instructed the Chief Executive Office (CEO) to convene a five-member Public-Private Partnership (PPP) allocation formula working group to provide recommendations on an equitable, countywide funding allocation methodology that will best meet the health care needs of the uninsured and underinsured residents of Los Angeles County. This memorandum provides the report and recommendations of the working group (Attachment), which will be scheduled for presentation at your Board's April 22, 2008 meeting.

Working Group Process

As instructed in the motion, the five-member working group consisted of the Deputy Chief Executive Officer, Health and Mental Health Cluster, who served as Chair of the working group; the Director of Planning and Analysis from the Department of Health Services (DHS); the DHS Interim Director of Ambulatory Care; and two representatives of the Community Clinics Association of Los Angeles County, neither of whom are current nor potential future PPP providers.

The working group conducted five public meetings between December 20, 2007 and March 4, 2008, all of which drew significant participation by current and potential future PPP providers, as well as other interested parties. While the specific task for the working group members was the development of the Allocation Formula, the discussion at the meetings also included the exchange of information on the current solicitation process being conducted by DHS and short-term and medium/long-range issues for the PPP Program, primarily current funding gaps and the need for additional funds to address unmet service needs.

Therefore, the attached report of the working group includes not only the recommendations of the members specific to the Allocation Formula and when it should be used, but also a brief discussion of the issues raised at the public meetings which should be pursued by the DHS Office of Ambulatory Care, with continued participation, as appropriate, by the PPP providers and other stakeholders. Most often mentioned and emphasized was the need for additional funding to meet patient care needs of Los Angeles County for the Public-Private Partnership Program.

Working Group Recommendations

Regarding the Allocation Formula itself, the working group recommends a 2008 Allocation Formula based 100 percent on the distribution of unmet need by Service Planning Areas (SPAs). While other components were reviewed, the working group found that the data elements for those components were, in some cases, very complex and raised concerns about accuracy and applicability of the data, while not materially affecting the percentage distribution.

Therefore, the working group agreed to recommend the simplest, least complex 2008 Allocation Formula, since it captured the most significant component of distribution of unmet need.

Regarding the use of the 2008 Allocation Formula, the current percentage distribution of PPP Program funds by SPAs varies, in some cases significantly, from the percentages in the Allocation Formula. Applying the Allocation Formula to the current PPP Program funds would consequently result in some large shifts of funds between SPAs in order to achieve equity.

Therefore, due to concerns regarding the potential impact on patients receiving services, the working group recommends that the 2008 Allocation Formula not be used to redistribute the PPP Program funding between SPAs, except as otherwise specified below.

However, the working group recommends that all new, unallocated funds be distributed to SPAs based on the 2008 Allocation Formula in order to gradually reduce variances between the current distribution of funds and the Allocation Formula distribution.

In discussions at the public meetings, DHS staff identified $1.2 million in funds in the DHS Office of Ambulatory Care budget, which are not currently allocated to PPP provider contracts. Therefore, the working group further recommends that the $1.2 million, as well as other new, unallocated funds, be distributed proportionately only to Under-Equity SPAs (i.e., current percentage distribution of funds lower than Allocation Formula percentage) until equity is achieved.

In addition, the working group recommends that DHS set aside any funds which may be unspent at year-end and distribute those funds using the Allocation Formula in order to address inequities.

Finally, the working group recommends that the five-year Agreement terms being considered for the Agreements beginning in 2008-09 be revised to two-year terms with an option of an additional year. This shorter term period recognizes the uncertainty regarding the DHS Fiscal Outlook and the continuing development of the DHS budget deficit mitigation plan.

Next Steps

If the working group recommendations are approved by your Board, they will provide direction to DHS in completing their negotiations with current and new PPP providers and the PPP Agreements beginning in 2008-09. We expect that, following these negotiations, DHS will submit the Agreements for approval by your Board in early June 2008.

If you have any questions or need additional information, please contact me or your staff may contact Sheila Shima, Deputy Chief Executive Officer, at (213) 974-1160.

WTF:SRH:SAS
MLM:JT:bjs

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Director and Chief Medical Officer, Department of Health Services
Community Clinic Association of Los Angeles County

Attachment

Public-Private Partnership Program
Allocation Formula Working Group
Report and Recommendations

On September 18, 2007, on a motion by Supervisors Molina and Yaroslavsky, the Los Angeles County Board of Supervisors (Board) instructed the Chief Executive Officer to convene a five-member Public-Private Partnership (PPP) Program allocation formula working group to provide recommendations on an equitable, Countywide funding allocation methodology that will best meet the health care needs of the uninsured and underinsured residents of Los Angeles County.

Public-Private Partnership Program Background

The Public-Private Partnership Program is a collaborative effort between the Department of Health Services (DHS) and private, community-based providers (PPP providers) to provide quality health care services to the uninsured and underinsured. This program is administered by the DHS-Office of Ambulatory Care and currently includes a budget of over $54 million, which is used to reimburse PPP providers for primary care, dental and specialty services provided to uninsured patients.

Request for Proposals

In May of 2006, DHS released a Request for Proposals (RFP) for their PPP provider network, with a proposal submission deadline of January 31, 2007. The RFP indicated that funding by Service Planning Areas (SPAs) would be based on the Allocation Formula previously approved by the Board.

During the period of February through approximately September of 2007, DHS performed its evaluation of bid proposals, including site reviews, determined qualifying bidders and issued notifications to current Partners and new agencies. Exhibit A includes maps showing the current and proposed PPP sites for primary care, dental and specialty services, reflecting sites of 47 current Partners and 10 new agencies.

Current PPP provider agreements were scheduled to expire on June 30, 2007; however they were extended twice by the Board, first to September 30, 2007 and then to June 30, 2008. New Agreements are being proposed to be effective July 1, 2008.

Working Group Process

As instructed in the motion, the five-member working group consisted of the Deputy Chief Executive Officer, Health and Mental Health Cluster, Chief Executive Office (CEO), who served as Chair of the working group; the Director of Planning and Analysis from the Department of Health Services (DHS); the DHS Interim Director of Ambulatory Care; and two representatives of the Community Clinics Association of Los Angeles County, neither of whom are current nor potential future PPP providers.

The working group conducted five public meetings between December 20, 2007 and March 4, 2008, all of which drew significant participation by current and potential future PPP providers, as well as other stakeholders and interested parties. While the specific task for the working group members was the development of the Allocation Formula, the discussion at the meetings also included the exchange of information on the current solicitation process being conducted by DHS and short-term and medium/long-range issues for the PPP Program, primarily the potential impact on patient services, current funding gaps and the need for additional funds to address unmet service needs. Participation in the meetings by PPP providers and other stakeholders was critical in gaining their perspective and input on the PPP Program and its role in providing health care services in the communities.

Therefore, the report of the working group includes not only the recommendations of the members specific to the Allocation Formula and when it should be used, but also a brief discussion of the issues raised at the public meetings, which should be considered by the DHS Office of Ambulatory Care, with continued participation, as appropriate, by the PPP providers and other stakeholders.

Allocation Formula Components

The current Allocation Formula consists of three components: 80 percent for distribution of unmet need for the uninsured; 10 percent for difficulty in obtaining medical care; and 10 percent for selected preventable hospitalizations in DHS hospitals. The current Allocation Formula was originally finalized in 2002 after 18 months of discussion, including intensive stakeholder input.

Based on a much shorter, but still intensive and comprehensive, discussion with PPP providers and other stakeholders at the public meetings, the working group recommends a 2008 Allocation Formula based 100 percent on the distribution of unmet need by SPAs.

While other components were reviewed, including components of the current Allocation Formula, the data elements for those components were, in some cases, very complex and raised potential concerns about accuracy and applicability of the data, as well as questions regarding which among many data elements should be included. These data elements included: the number of homeless individuals; service utilization rates by age groups; transportation needs which affect access to care; prevalence of specific factors, such as obesity, diabetes, hypertension, high cholesterol, asthma, etc; and poverty levels, among other factors.

After considerable work by DHS staff in providing numerous variations of the proposed Allocation Formula with various data elements for review, the working group determined that the percentages by SPAs did not change materially regardless of the data elements selected.

Therefore, the Allocation Formula based 100 percent on distribution of unmet need is being recommended, in large part, because it is the simplest, least complicated Allocation Formula for use in 2008 and reflects the key component of unmet need.

Use of the Allocation Formula in Distributing Funds

Comparing the current distribution of funds by SPAs to the current Allocation Formula revealed variances, in some cases significant (Exhibit B). Although the current Allocation Formula served as the basis for the initial SPA funding allocations and reflects percentages very similar to the 2008 Allocation Formula, other factors influenced the final distribution of funds by SPA, including the lack of capacity in some SPAs, catchment areas for some PPP providers overlapping SPA boundaries, and patient patterns of care (e.g., SPA of residence compared to SPA of services – see Exhibit C).

Since most of the PPP Program funding in the provider agreements is spent each year, the working group was concerned about the potential impact on patients being served by the PPP providers if the working group were to recommend that the current funding be reallocated between SPAs based on the 2008 Allocation Formula.

Therefore, due to concerns regarding the potential impact on patients currently receiving services, the working group recommends that the 2008 Allocation Formula not be used to reallocate the current distribution of funds between the SPAs, except as otherwise specified below.

However, in order to reduce variances between the current distribution of funds and the 2008 Allocation Formula distribution, the working group recommends that all new, unallocated funds be distributed using the 2008 Allocation Formula. (Note: this does not include specified use funds such as the Healthy Way L.A./Coverage Initiative or SB 474 South Los Angeles Fund.)

At each of the public meetings, participants emphasized the need for substantial amounts of additional funds for the PPP Program. Since the issue of prioritizing existing DHS and County resources is being addressed in the DHS budget deficit mitigation process, the working group focused on identifying currently available funds within the DHS Office of Ambulatory Care budget which could be subject to the 2008 Allocation Formula.

Currently budgeted, unallocated funds: During the working group discussions, DHS staff identified approximately $1.2 million in the Office of Ambulatory Care budget which is not currently included in PPP provider agreements. Approximately $0.3 million is related to a PPP provider agreement which was terminated in 2006-07 and the funds were not reallocated to other provider agreements; the remaining $0.9 million is related to PPP Program research and development costs and an expired consultant agreement which was not renewed in 2007-08.

While the working group members agree that this amount of funding is small compared to the overall program needs, it nonetheless provides an opportunity to begin the effort of reducing variances between the current distribution of funds and the 2008 Allocation Formula distribution.

In applying the 2008 Allocation Formula, the working group distinguished between Over-Equity SPAs, which have current allocations of funds above the percentage which they would be allocated using the 2008 Allocation Formula, and Under-Equity SPAs, which have current allocations below the percentage using the 2008 Allocation Formula.

The recommendation is to provide new, unallocated funds only to Under-Equity SPAs and not to Over-Equity SPAs until they are at equity. In this case, then, the funds which would have been allocated to Over-Equity SPAs based on the 2008 Allocation Formula would be distributed instead proportionately to the Under-Equity SPAs.

Funds Available for "New" Agencies: Additional funds for new agencies in Over-Equity SPAs may further increase the disparities among SPAs, therefore the new agencies determined by DHS as successful bidders in the RFP process, who proposed sites and services in Over-Equity SPAs (Exhibit D), may not be funded.

The working group is not providing recommendations regarding this issue, because this was felt to be beyond the scope of the working group's instruction from the Board, which was to address an allocation methodology across SPAs and not for individual agencies.

Under the provisions of the RFP and County contracting guidelines, recommending funding awards for individual agencies pursuant to the RFP process rests with DHS, subject to contract negotiations, and is at the discretion of the DHS Director. All DHS recommendations will be subject to Board approval. It is anticipated that DHS will present the new PPP provider agreements to the Board in early June 2008.

Unspent funds at year-end: At the end of each fiscal year, the Office of Ambulatory Care evaluates the performance of the PPP providers to determine which providers provided fewer reimbursable services than their contract maximum amount. In the past, the surplus funds from these providers were re-distributed to agencies which provided more services than could be reimbursed under the contract maximum amount, to cover a portion of their additional expenditure needs. However, in the following fiscal year, the funding in the maximum contract amount for all providers remained the same.

The working group recommends that these surplus funds be another pool which could be subject to the 2008 Allocation Formula.

At the public meetings, DHS staff developed an initial proposal which would have used a three-year average spending amount by providers, with an adjustment of up to five percent to account for minor workload variations, to determine the potential pool of "unspent funds" by SPA, which could have been subject to the 2008 Allocation Formula. In addition, DHS staff was requested by the working group to develop an estimate of 2007-08 spending by providers which could have been used as an alternate method of determining a potential pool of "unspent funds".

Because of concerns that 1) the three-year average spending method might understate the current (2007-08) level of services provided by agencies and 2) the data for the current (2007-08) year was not sufficient to provide a reliable year-end projection, the working group did not propose the use of either of these methods to determine a pool of unspent funds.

However, the working group recommends that DHS revise its current practice of re-distributing surplus funds at year-end, and instead consider reallocating unspent funds, if available at year-end, based on the 2008 Allocation Formula to address inequities.

Term of Agreements Beginning in 2008-09

Pursuant to the RFP issued by DHS, the contract term for PPP Agreements beginning in 2007-08 could be up to five years. Given the uncertainty regarding the PPP Program, including potential changes based on the DHS budget deficit mitigation plan currently being developed by DHS and CEO staff, the working group is recommending that the term of the Agreements be reduced to terms of two years, with a one year option for extension. This would provide DHS an opportunity to re-issue an RFP to reflect any changes to the PPP Program based on the budget deficit mitigation plan, while alerting the PPP provider agencies of that potential.

Additional Discussion at Working Group Meetings

As mentioned above, the discussion at the public meetings also included the exchange of information regarding short-term and medium/long-range issues for the PPP Program, primarily the potential impact on patient services, current funding gaps and the need for additional funds to address unmet service needs.

Most often mentioned and emphasized was the need for additional funding to meet patient care needs of Los Angeles County for the Public-Private Partnership Program.

Other recommendations to DHS from the PPP providers and other stakeholders at the meetings included, among others:

- Conduct future RFPs so they are targeted for agencies to provide services only in Under-Equity SPAs.
- Consider distribution of funds on bases other than SPA boundaries.
- Conduct further review on issues raised by Exhibit C, SPA of residence compared to SPA of services, to develop alternative methods of addressing unmet need and distribution of funds.

Following the public meetings, additional written comments were submitted to the working group. Responses will be provided by DHS directly to these individuals.

Working Group Recommendations - Summary

In summary, the working group recommends the following:

- The 2008 Allocation Formula should be based 100 percent on distribution of unmet need for the uninsured.

- Due to concerns regarding potential impact on patients receiving services, the Allocation Formula should not be used to redistribute current PPP Program funding between SPAs for Agreements beginning in 2008-09, except as otherwise specified below.

- New, unallocated funds should be distributed to SPAs based on the Allocation Formula in order to reduce variances between current distribution of funds and 2008 Allocation Formula distribution.

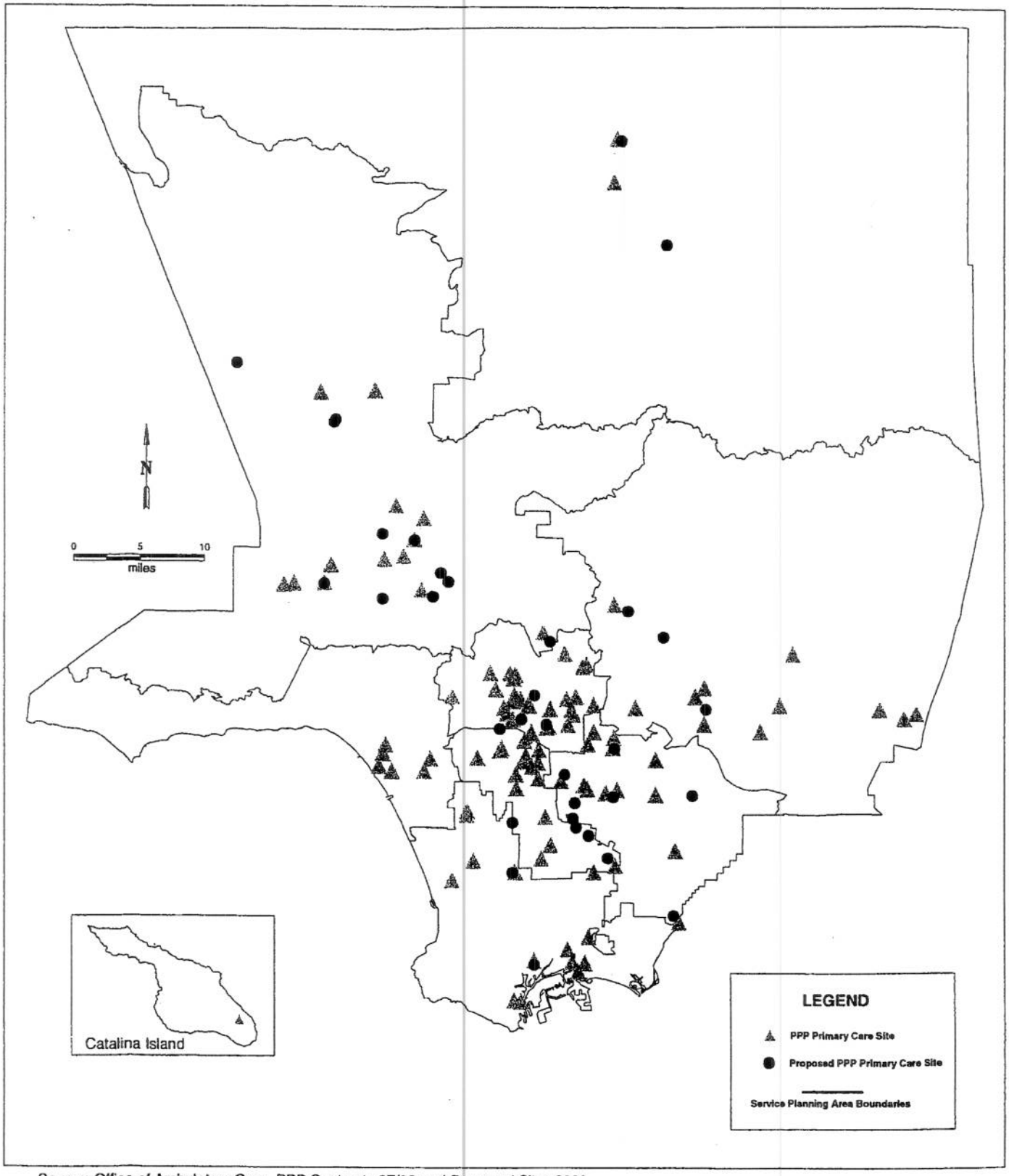
    i. Over-Equity SPAs have current allocations above the percentage provided by using the 2008 Allocation Formula. Over-Equity SPAs would not receive new, unallocated funds until at equity.

    ii. Under-Equity SPAs have current allocations below the percentage provided by using the 2008 Allocation Formula. Only Under-Equity SPAs would receive a proportional share of the new, unallocated funds until at equity.

- If there are unspent funds at year-end, DHS should reallocate funds based on the 2008 Allocation Formula to address equity.

- Agreements beginning in 2008-09 should have terms of two years with one year option for extension, rather than the up to five years indicated in the RFP.

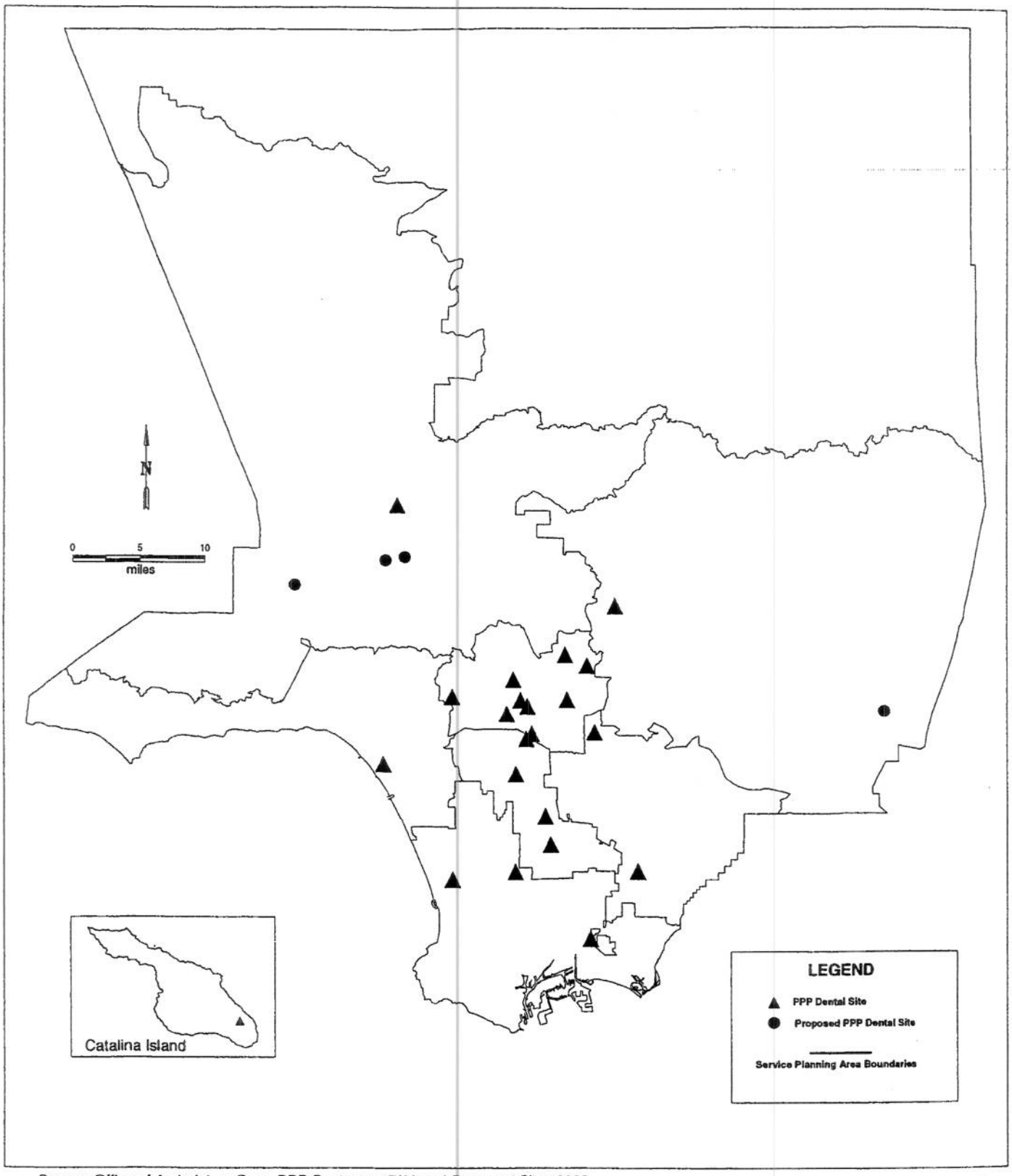
Los Angeles County Current PPP and Proposed PPP Sites
Primary Care Sites



Source: Office of Ambulatory Care, PPP Contracts 07/08 and Proposed Sites 2008

LAC DHS Office of Planning and Analysis
January 11, 2007

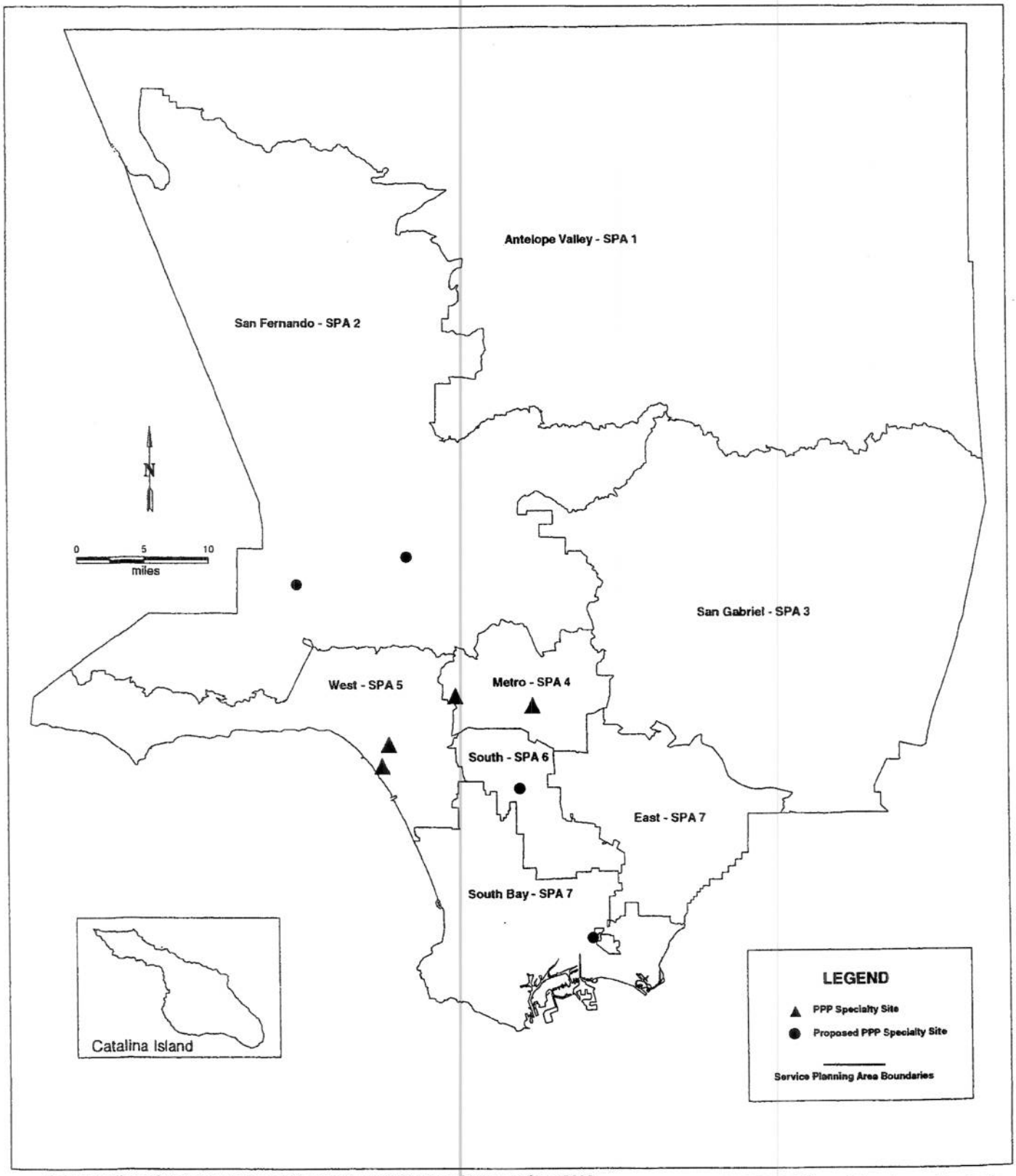
Los Angeles County Current PPP and Proposed PPP Sites
Dental Sites



Source: Office of Ambulatory Care, PPP Contracts 07/08 and Proposed Sites 2008

LAC DHS Office of Planning and Analysis
January 11, 2007

Los Angeles County Current PPP and Proposed PPP Sites
Specialty Sites

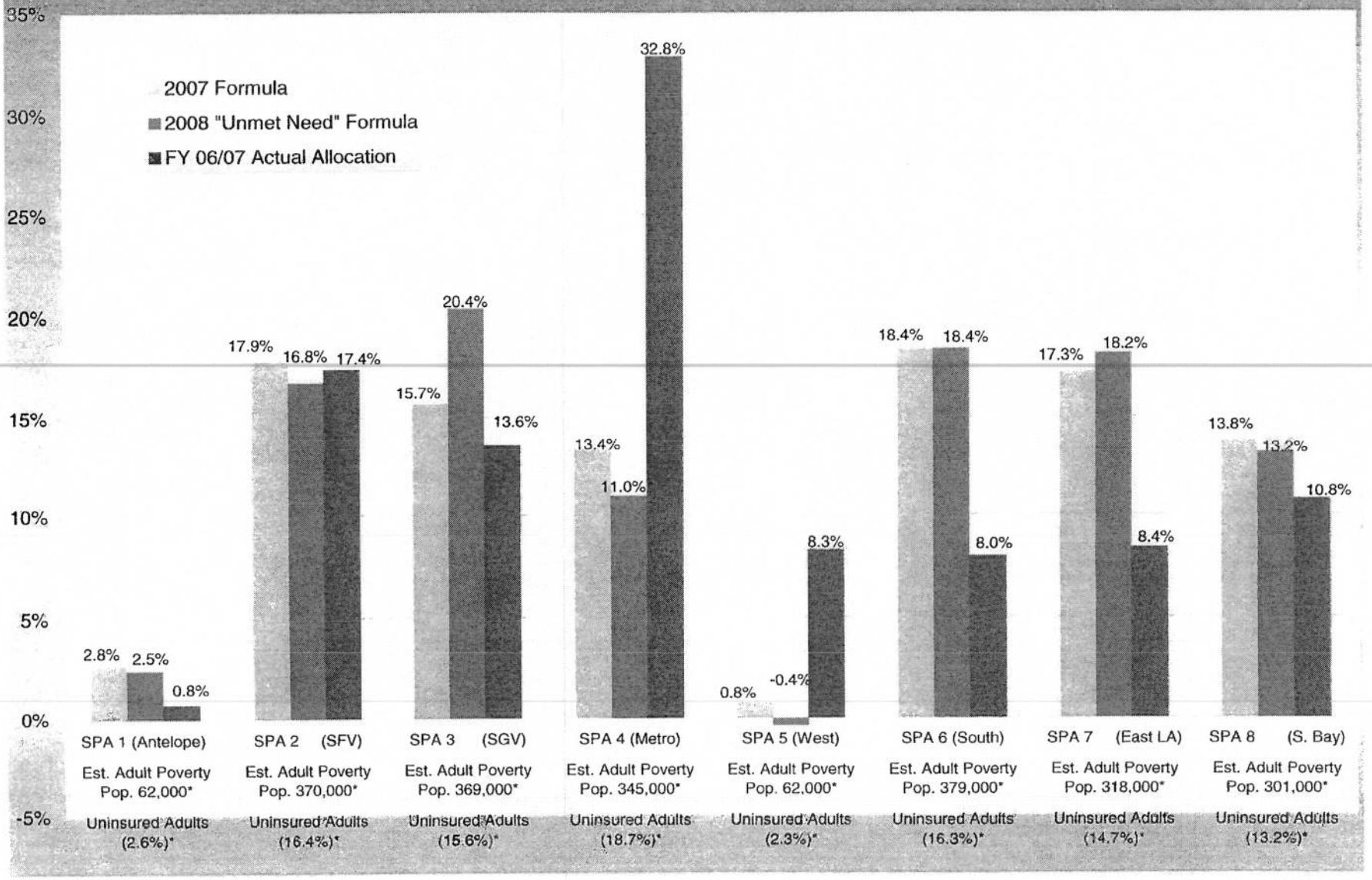


Source: Office of Ambulatory Care, PPP Contracts 07/08 and Proposed Sites 2008

LAC DHS Office of Planning and Analysis
January 11, 2007

Exhibit B

FY 06-07 PPP FUNDING COMPARED TO 2008 UPDATED NEEDS FORMULA



* Less than 200% FPL

SOURCES: LACDHS Data and 2005 LACDPH Health Survey

Updated by LA Health Action - April 8, 2008

Exhibit C

SPA of Patient Residence by SPA of Facility for PPP Visits, FY 2005/2006

SPA of Facility	SPA of Patient Residence: 1	2	3	4	5	6	7	8	Unknown	Other Calif. Co.	Total
1	481	46	17	16	3	15	18	32	4,763	832	6,223
	26.5	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*19.0*	*23.8*	
2	993	**73,925**	1,901	3,660	263	654	1,127	229	9,186	1,280	93,218
	54.7	***84.5***	*2.6*	*2.7*	*0.7*	*0.9*	*2.3*	*0.4*	*36.7*	*36.6*	
3	20	264	**60,793**	1,109	54	225	945	116	729	479	64,734
	1.1	*0.3*	***83.8***	*0.8*	*0.2*	*0.3*	*2.0*	*0.2*	*2.9*	*13.7*	
4	247	12,002	7,706	**119,613**	5,764	29,117	8,232	4,671	9,082	466	196,900
	13.6	*13.7*	*10.6*	***86.6***	*15.8*	*38.4*	*17.1*	*7.6*	*36.3*	*13.3*	
5	36	678	173	2,874	**29,340**	3,867	299	3,318	232	47	40,864
	2.0	*0.8*	*0.2*	*2.1*	***80.4***	*5.1*	*0.6*	*5.4*	*0.9*	*1.3*	
6	28	307	390	3,176	510	**32,578**	3,141	2,402	292	105	42,929
	1.5	*0.4*	*0.5*	*2.3*	*1.4*	***43.0***	*6.5*	*3.9*	*1.2*	*3.0*	
7	4	223	1,488	7,236	84	3,601	**32,262**	665	290	165	46,018
	0.2	*0.3*	*2.1*	*5.2*	*0.2*	*4.8*	***66.9***	*1.1*	*1.2*	*4.7*	
8	7	71	66	384	461	5,736	2,227	**50,361**	436	125	59,874
	0.4	*0.1*	*0.1*	*0.3*	*1.3*	*7.6*	*4.6*	***81.5***	*1.7*	*3.6*	
Total	1,816	87,516	,	138,068	36,479	75,793	48,251	61,794	25,010	3,499	550,760
	100.0	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	

**Note: Figures in italics are column percentages.*

Source: LAC DHS Enterprise Data Repository FY 2005/2006 data as of 5/3/2007.

LAC DHS Office of Planning Analysis, 6/26/2007

Results of Proposed Methodology for Allocation of PPP RFP Dollars (Excluding Dental)
(Does not include any re-allocation of funds resulting from under-performance)

SPA	Updated Formula 2008*	FY 06/07 Allocation $	FY 06/07 Allocation %	Difference (FY 06/07 vs. Updated Formula 2008)	Proposed Alloc $ (adding $1.2M)	Proposed Alloc %	Difference (Proposed vs. FY 06/07)	Difference (Proposed vs. FY 06/07)	Difference (Proposed vs. Updated Formula 2008)	New Agencies	Current Agencies w/New Services
1	2.49%	$374,601	0.75%	-1.73%	$415,675	0.82%	$41,074	0.06%	-1.67%	1 agency/1 site	
2	16.78%	$8,660,792	17.44%	0.66%	$8,660,792	17.03%	$0	-0.41%	0.25%	2 agencies/3 sites	2
3	20.36%	$6,741,083	13.57%	-6.79%	$7,077,490	13.91%	$336,407	0.34%	-6.45%	1 agency/1 site	2
4	10.98%	$16,309,592	32.84%	21.85%	$16,309,592	32.06%	$0	-0.77%	21.08%	3 agencies/3 sites	1
5	-0.40%	$4,109,900	8.27%	8.67%	$4,109,900	8.08%	$0	-0.20%	8.48%		
6	18.40%	$3,955,663	7.96%	-10.44%	$4,259,639	8.37%	$303,976	0.41%	-10.03%		1
7	18.19%	$4,155,301	8.37%	-9.82%	$4,455,706	8.76%	$300,405	0.39%	-9.43%	4 agencies/4 sites	
8	13.21%	$5,363,860	10.80%	-2.41%	$5,581,998	10.97%	$218,138	0.17%	-2.23%		1
	100.00%	$49,670,790	100.00%	0.00%	$50,870,790	100.00%	$1,200,000	0.00%	0.00%		

* Updated formula 2008 contains Unmet Need only (excludes Difficulty Accessing Care and Ambulatory Care Sensitive Conditions)