



County of Los Angeles  
**CHIEF EXECUTIVE OFFICE**

713 KENNETH HAHN HALL OF ADMINISTRATION  
LOS ANGELES, CALIFORNIA 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA  
Chief Executive Officer

December 18, 2007

R E V I S E D

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE B. BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

Dear Supervisors:

**DEPARTMENT OF HEALTH SERVICES: COMMUNITY HEALTH PLAN-LOCAL  
INITIATIVE AGREEMENT/OTHER RELATED SERVICE AGREEMENTS  
AND APPROVAL OF AMENDMENT NO. 2 OF AGREEMENT NO. H-213078  
WITH CARE 1<sup>ST</sup> HEALTH PLAN  
(ALL SUPERVISORIAL DISTRICTS)  
(3 VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

1. Delegate authority to the Director of Health Services (Director), or his designee, to extend and amend Agreement No. H-207980 with L.A. Care Health Plan (L.A. Care) effective January 1, 2008, on a month to month basis not to exceed six months, up to June 30, 2008, contingent upon prior review and approval by County Counsel and the Chief Executive Office (CEO), and written notification to the Board within 30 days of full execution of the Amendment.
2. Delegate authority to the Director, or his designee, to extend previous delegated Board authority granted on June 19, 2007 to negotiate and execute a Replacement Agreement with L.A. Care during the extension term, and execute future Amendment(s) to the Replacement Agreement, contingent upon prior review and approval by County Counsel and the CEO, and written notification to the Board within 30 days of full execution of the Replacement Agreement and Amendment(s).

3. Delegate authority to the Director, or his designee, to: a) offer and execute new i) Fee-for-Service Hospital Agreements and ii) direct Service Agreements with Individual Primary Care Physicians and Specialists, Ancillary Providers, and other service providers under reimbursement methodology determined by Community Health Plan (CHP) for any or all of its product lines, provided that such Agreements will expand CHP's provider network, increase capacity or access to care to its Members, enhance CHP's ability to grow market share, and develop new product lines, and that such providers meet the CHP's contracting criteria listed in Attachment B; and b) execute future Amendments to these Agreements, subject to availability of each respective funding source, contingent upon prior review and approval by County Counsel and the CEO, with written notification to the Board within 30 days of execution of the new Agreements and Amendments.
4. Approve and instruct the Director, or his designee, to execute Amendment No. 2 to Agreement No. H-213078, substantially similar to Exhibit I, with Care 1<sup>st</sup> Health Plan (Care 1<sup>st</sup>) for the continued provision of hospital and professional inpatient and outpatient services to Care 1<sup>st</sup> Medi-Cal and Healthy Families Members by Department of Health Services (DHS or Department) facilities, effective January 1, 2008 up to December 31, 2008, contingent upon prior review and approval by County Counsel and the CEO, and written mutual agreement by both parties.
5. Delegate authority to the Director, or his designee, to execute a Replacement Agreement with Care 1<sup>st</sup> effective the first day of the month following the date of successful contract negotiations by both parties, through September 2009, with annual renewals for three years through September 2012, contingent upon prior review and approval by County Counsel and the CEO, and written mutual agreement by both parties.

#### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS**

DHS is recommending approval of these actions to: a) ensure continued funding and provision of health services to Medi-Cal beneficiaries enrolled in CHP; b) enable and support CHP in its goal of expanding its provider network, increasing capacity or access to care for all its Members, and enhancing CHP's ability to increase market share and develop new product lines; and c) ensure the continued provision of health care services by DHS facilities at fee-for-service rates to Care 1<sup>st</sup> Medi-Cal and Healthy Families Members while meeting the County's Strategic Plan Goals of Fiscal Responsibility and Organizational Effectiveness by increasing utilization of DHS facilities and thereby increasing revenue to DHS.

**FISCAL IMPACT/FINANCING**

**L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program**

CHP receives a per member per month capitated rate from L.A. Care for each Medi-Cal beneficiary enrolled in the CHP. These rates are confidential in accordance with Section 1457 of the California Health and Safety Code, and have been shared with each Board Office, the CEO, and County Counsel.

**New Fee-for-Service Hospital Agreements / Direct Service Agreements for All CHP Product Lines**

The total fiscal impact of this recommended action cannot be determined at this time, because calculations will depend on the future number of new contracts, member assignments, and reimbursement rates. The funding for new agreements falling under the following CHP product lines is as follows:

Medi-Cal Managed Care Program – 100 percent offset by capitation payments received from L.A. Care on a per member per month basis for each Medi-Cal beneficiary enrolled in CHP.

Healthy Families Program (HFP) – 100 percent offset by State and Federal funds received from the State's Managed Risk Medical Insurance Board on a capitated basis for each CHP HFP subscriber.

In-Home Supportive Services Program - partially offset by State and Federal funds, with remaining costs covered by net County cost, under the terms of the Personal Assistance Services Council-Services Employees International Union (PASC-SEIU) Homecare Workers Health Care Program.

**Care 1<sup>st</sup> Health Plan – Medi-Cal and Healthy Families Program**

DHS receives reimbursement at fee-for-service rates from Care 1<sup>st</sup>. These rates are on file with DHS and kept confidential in accordance with Health and Safety Code Section 1457.

The amount of revenue DHS will generate from this Agreement cannot be determined at this time because it depends on the number of Care 1<sup>st</sup> patients that will actually be served by DHS facilities. During Fiscal Year 2006-07, DHS facilities collected approximately \$2.5 million.

## **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

### **Community Health Plan**

The CHP is a full-service State-licensed and federally-qualified Health Maintenance Organization (HMO) publicly operated by the County of Los Angeles and administered by the Department's Office of Managed Care. CHP's core business is the provision of health care to eligible members enrolled under CHP's Medi-Cal Managed Care Program, HFP, and PASC-SEIU Homecare Worker Health Care Plan.

### **L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program**

On February 11, 1997, the Board approved the Local Initiative Agreement / Medi-Cal Agreement with L.A. Care. On subsequent occasions, the Board approved a Replacement Agreement effective December 2002 and Amendments through December 31, 2007.

Negotiations with L.A. Care for a new Replacement Agreement are ongoing. The Department is seeking authorization to extend the existing Agreement No. H-207980 effective January 1, 2008, on a month-to-month basis not to exceed six months, up to June 30, 2008, to allow both parties to complete their negotiations and execute the Replacement Agreement, which shall be effective the first day of the month following the date of successful contract negotiations by both parties, up to March 31, 2009. The Replacement Agreement will align the term of the Agreement with other L.A. Care Plan Partner Services Agreements, including Blue Cross, Care 1<sup>st</sup>, and Kaiser Permanente. As with the existing Agreement, the new Replacement Agreement will comply with all applicable State laws and regulations.

### **New Fee-for-Service Hospital Agreements / Direct Service Agreements for All CHP Product Lines**

CHP's customary method of reimbursement for contracted health care services is based on capitation, an amount paid to a physician group or hospital on a certain fixed rate per member per month, whereby such rates are actuarially sound based on utilization and cost data. The main advantage of a capitation agreement is that providers have no incentive to provide more services than are medically necessary. The fee is paid whether or not services are rendered, and it provides a consistent source of revenue for the providers and enables CHP to control the rising costs of health care.

In recent years, however, hospitals have started pushing back on capitation agreements and risk sharing arrangements negotiated with physician organizations as costs of providing health care services have risen and legal and regulatory requirements have tightened. Consequently, many health plans have now converted their hospital agreements from capitation to discounted fee-for-service or per diem arrangements. As a result, certain current CHP capitated contracted hospitals will not renew their existing agreements with CHP and are now requiring a shift from the capitation agreement to a fee-for-service agreement. The new fee-for-service agreements will also be offered to potential hospital providers who are critical to maintaining or expanding CHP's network and increasing capacity or access to care by all of CHP's Members. It is incumbent upon CHP to control utilization through authorizations and concurrent review.

In addition, CHP currently only contracts with Medical Groups or Independent Practice Associations, groups of physicians organized as a legal entity to deliver or arrange for the delivery of health services to CHP Members. While such contracting mechanisms have allowed CHP to maintain its current provider network, rapid changes in the HMO industry in response to competitive pressure has limited CHP's ability to strengthen its market position. As part of CHP's goal to expand its provider network, thereby increasing competitiveness and improving efficiency in meeting immediate market needs and delivering effective health care services to Members, the Department recommends direct contracting with Independent Primary Care Physicians and Specialists, ancillary providers, and other service providers, e.g. Skilled Nursing Facilities, Home Health agencies, Hospitalists, etc.

Under both instances, the CHP will determine the reasonable reimbursement rates and methodology to use in negotiating each contract by evaluating current and historical utilization data, financial responsibility matrix, the surrounding market, current industry standard, and available compilation of research data by health industry, other health plans, hospitals, health systems, individual physicians and physician organizations, and other notable research data engines, subject to review and approval by County Counsel and the Chief Executive Office.

Under the recommended action, the Department will use delegated authority to execute such new Agreements and Amendments, subject to availability of each respective funding source. The new Agreements will contain termination provisions by which either party at any time and for any reason may terminate the Agreement by giving at least 90 calendar days prior written notice, and shall contain preferred County contractual language that is in the CHP's current standard agreements, subject to final review and approval by County Counsel and the CEO.

Care 1<sup>st</sup> Health Plan

On October 2, 2001, the Board approved Agreement No. H-213078 with Care 1<sup>st</sup>, effective upon Board approval and continued, thereafter, with renewals through June 30, 2007. On June 12, 2007, the Board approved Amendment No. 1 extending the term of the Agreement through December 31, 2007.

Amendment No. 2 to the Agreement will allow access by Care 1<sup>st</sup> Medi-Cal and Healthy Families Members to DHS facilities for primary, specialty, inpatient, and emergency care. Such care provided is subject to County Code Section 2.76.130, Priority of Admissions.

DHS and Care 1<sup>st</sup> are continuing to negotiate the terms for the Replacement Agreement. Due to the protracted negotiations between DHS and Care 1<sup>st</sup>, the Department intends to extend the current Agreement effective January 1, 2008 through December 31, 2008 to allow both parties to fully complete their negotiations and execute the Replacement Agreement, which shall be effective the first day of the month following the date of successful negotiations by both parties through September 2009, with annual renewals for three years through September 2012, upon written agreement by both parties. As with the existing Agreement, the Replacement Agreement will comply with all applicable State laws and regulations.

Attachment A provides additional information.

**CONTRACTING PROCESS:**

It is not appropriate to advertise these Amendments and Agreements on the Los Angeles County Online Website.

**IMPACT ON CURRENT SERVICES (OR PROJECTS):**

L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program

The Agreement with L.A. Care will provide continued funding and provision of health care services to Medi-Cal beneficiaries enrolled in CHP.

New Fee-for-Service Hospital Agreements / Direct Service Agreements for All CHP Product Lines

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These new Agreements will allow CHP to flexibly expand its provider network, thus increasing capacity or access to care to all its members, enhance market share and ability to develop new product lines.

Care 1<sup>st</sup> Health Plan

Approval of the Amendment will maximize revenue to DHS for Care 1<sup>st</sup> Medi-Cal and Healthy Families Members who utilize DHS facilities.

**CONCLUSION**

When approved, DHS requires four signed copies of the Board's action.

Respectfully submitted,



WILLIAM T FUJIOKA  
Chief Executive Officer

WTF:SRH  
SAS:AT:bjs

Attachments (3)

c: County Counsel  
Director and Chief Medical Officer, Department of Health Services

121807\_DHS\_CHP

## SUMMARY OF AGREEMENTS

1. Type of Services:

The Community Health Plan (CHP) provides or arranges for health benefit services for Medi-Cal Managed Care Program (Medi-Cal) beneficiaries, Healthy Families Program subscribers, and In-Home Supportive Services workers delivered through a combined network of County facilities and contracted providers. The Department of Health Services (DHS) facilities provide primary, specialty, inpatient and emergency care services for Care 1<sup>st</sup> Health Plan Medi-Cal and Healthy Families Members at fee-for-service rates.

2. Agencies and Contact Persons:

Howard Kahn, CEO  
L.A. Care Health Plan  
555 West Fifth Street, 29<sup>th</sup> Floor  
Los Angeles, CA 90013  
Telephone: (213) 694-1250 ext. 4151

Anna Tran, CEO  
Care 1<sup>st</sup> Health Plan  
601 Potrero Grande Drive  
Monterey Park, CA 91755  
Telephone: (323) 889-6638

The names and address of existing and potential CHP providers are on file with CHP.

3. Term:

<u>Contractor</u>	<u>Agreement No./Amendment No.</u>	<u>Term/Effective Date</u>
L.A. Care Health Plan	H-207980/Amendment No. 12	January 1, 2008 up to June 30, 2008
Care 1 <sup>st</sup> Health Plan	H-213078/Amendment No. 2	January 1, 2008 up to December 31, 2008

4. Financial Information:L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program

CHP receives a per member, per month capitated rate from L.A. Care for each Medi-Cal beneficiary enrolled in the CHP. These rates are confidential in accordance with Section 1457 of the California Health and Safety Code, and have been shared with each Board Offices, the Chief Executive Office, and County Counsel.

New Fee-for-Service Hospital Agreements/Direct Service Agreements for All CHP Product Lines

The total fiscal impact of this recommended action cannot be determined at this time because calculations will depend on future number of new contracts, member assignment, and reimbursement rates.

Care 1<sup>st</sup> Health Plan – Medi-Cal and Healthy Families Program

DHS receives reimbursement at fee-for-service rates from Care 1<sup>st</sup>. These rates are on file with DHS and kept confidential in accordance with Health and Safety Code Section 1457.

The amount of revenue DHS will generate from this Agreement cannot be determined at this time because it depends on the number of Care 1<sup>st</sup> patients that will actually be served by DHS facilities. During FY 2006-2007, DHS facilities collected approximately \$2.5 million.

5. Geographical Area to Be Served:

Countywide

6. Accountable for Monitoring:

Local Initiative Agreement – Medi-Cal Program

Office of Managed Care

Care 1<sup>st</sup> Health Plan

DHS Facility Administrators

7. Approvals:

Office of Managed Care/Community Health Plan: Teri Lauenstein, Director

Contracts and Grants Division: Cara O'Neill, Chief

County Counsel:

Care 1<sup>st</sup> Health Plan

Office of Managed Care/CHP:

Robert E. Ragland, Senior Deputy County Counsel

Edward Yen, Deputy County Counsel

COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES  
OFFICE OF MANAGED CARE -COMMUNITY HEALTH PLAN

CONTRACTING CRITERIA

1. Meets the administrative, programmatic, and fiscal objectives of the Community Health Plan (CHP) business model.
2. Agrees to accept as patients individuals enrolled in the CHP.
3. Locates service sites within Los Angeles County.
4. Demonstrates compliance with the geographic accessibility requirements under Knox-Keene Licensure and the State Department of Health Services.
5. Complies with CHP site certification process.
6. Complies with CHP credentialing process.
7. Agrees to cooperate in the maintenance and implementation of utilization management and quality assurance programs, submission of encounter data and other reporting requirements, and regular monitoring of all areas of service delivery to individuals enrolled in the CHP.
8. Demonstrates fiscal viability as determined by submission and review of most recent audited financial statements and last two (2) recent quarterly financial statements.
9. Agrees to comply with CHP's Insurance and Reinsurance requirements.
10. Accepts CHP's reimbursement rates or willing to negotiate reasonable reimbursement rates where appropriate.
11. Agrees to cooperate in the development and implementation of any other processes necessary in all areas of service delivery to CHP enrollees.
12. Accepts the terms and conditions of the CHP Agreement, including all the Standard Provisions required by County.
13. Joint Accreditation Commission Hospital Organization (JACHO) certified hospitals (preferred).
14. Safety Net Providers (preferred).

FEE-FOR-SERVICE  
CONTRACT NO. H-213078-2

AGREEMENT FOR PROVISION OF HEALTH CARE SERVICES  
MEDI-CAL AND HEALTHY FAMILIES MEMBERS

Amendment No. 2

THIS AMENDMENT for Provision of Health Care Services is  
made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2008

between COUNTY OF LOS ANGELES  
(hereinafter referred to as  
"County"),

and CARE 1<sup>ST</sup> HEALTH PLAN  
(hereinafter referred to as  
"Contractor").

WHEREAS, reference is made to that certain document  
entitled "FEE-FOR-SERVICE MEDI-CAL MEMBERS AGREEMENT FOR  
PROVISION OF HEALTH CARE SERVICES BY COUNTY", dated October 2,  
2001, and further identified as County Agreement H-213078 and  
all amendments thereto (all hereafter "Agreement");

WHEREAS, the parties wish to extend the term of the  
Agreement, and provide for other changes to the Agreement, and

WHEREAS, the Agreement provides that changes to the  
Agreement may be made in the form of a written amendment which  
is formally approved and executed by the parties.

NOW, THEREFORE, the parties agree as follows:

1. This Amendment shall become effective January 1, 2008 up to December 31, 2008, unless terminated earlier pursuant to the provisions of this Agreement.

2. The title of this Agreement shall be renamed to read as follows:

"FEE-FOR-SERVICE, MEDI-CAL AND HEALTHY FAMILIES MEMBERS, AGREEMENT FOR THE PROVISION OF HEALTH CARE SERVICES BY COUNTY"

3. "Plan Members" for purposes of this Amendment shall refer to Medi-Cal and Healthy Families Members who are enrolled in Contractor's Health Plan and who access the DHS facilities for the provision of Hospital and Professional Inpatient and Outpatient services ("Services").

4. Paragraph 38, NO COMMUNITY PROVIDER PLAN STATUS DESIGNATION, shall be added to the Agreement to read as follows:

"38. NO COMMUNITY PROVIDER PLAN STATUS DESIGNATION:

For so long as, and for the time period during which County of Los Angeles' Community Health Plan is designated as or pursues designation as the "Community Provider Plan" by the Managed Risk Medical Insurance Board for the Healthy Families Program, Contractor shall not seek designation as Community Provider Plan without the prior written consent of the Director of the County of Los Angeles Department of Health Services."

5. Exhibit C-COMPENSATION (FEE-FOR-SERVICE, shall be replaced in its entirety by Exhibit C-1, attached and incorporated herein by reference, to reflect the current confidential fee-for-service rates fully negotiated by both parties and are payable by Contractor to County for "Services" provided under this Agreement.

6. Except for the changes set forth hereinabove, Agreement shall not be changed in any other respect by this Amendment.

IN WITNESS WHEREOF, the Board of Supervisors of the County of Los Angeles has caused this Agreement to be subscribed by its

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Director of Health Services and Contractor has caused this Agreement Amendment to be subscribed in its behalf by its duly authorized officer, the day, month, and year first above written.

COUNTY OF LOS ANGELES

By \_\_\_\_\_  
Bruce A. Chernof, M.D.  
Director and Chief Medical Officer

CARE 1<sup>ST</sup> HEALTH PLAN  
Contractor

By \_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

Title \_\_\_\_\_  
(AFFIX CORPORATE SEAL)

APPROVED AS TO FORM  
BY THE OFFICE OF THE COUNTY COUNSEL

APPROVED AS TO CONTRACT  
ADMINISTRATION:

Department of Health Services

By: \_\_\_\_\_  
Cara O'Neill, Chief  
Contracts and Grants

**CARE 1ST HEALTH PLAN - COUNTY OF LOS ANGELES  
COMPENSATION RATES (FEE-FOR-SERVICE)**

**MEDI-CAL AND HEALTHY FAMILIES**

I. INPATIENT MEDICAL SERVICES	1st Year Effective January 1, 2008	2nd Year 4% Increase Effective January 1, 2009	3rd Year 3% Increase Effective January 1, 2010 - until Contract Expiration
MEDICAL/SURGERY (per diem)			
PEDIATRICS (per diem)			
OBSTETRICS (Vaginal Delivery) One Day thru Four Day Stay Per Diem after fourth day (Well baby included)			
OBSTETRICS (Caesarian Section) One Day thru Five Day Stay Per Diem after fifth Day (Well baby included)			
INTENSIVE CARE UNIT (ICU) (per diem)			
Trauma Transitional Care Unit			
TRAUMA RATE (per diem)			
CORONARY CARE UNIT (CCU) (per diem)			
DIRECT OBSERVATION UNIT (DOU) (per diem)			
OB SPECIALTY CARE NURSERY (NICU) LEVEL I (Rev. Code 172) & LEVEL II (Rev. Code 173) (per diem)			
NEONATAL INTENSIVE CARE UNIT (NICU) (Rev. Code 174) (per diem)			
BOARDER NURSERY (per diem)			
AWAITING SURGERY/DELAYED PLACEMENT Administrative day (Rev. Code 169)			
ACUTE REHABILITATION (RLANRC) (per diem)			
SPECIALTY SURGERY (RLANRC)			
OPEN HEART SURGERY (Up to 7 days) Includes Cardiac Catherization			
BURN UNIT (LAC + USC)			

(Excludes orthoses, prostheses, durable medical equipment, and other implants whose cost exceed \$500  
These excluded items are available at cost plus 5%. The Rehabilitation rate does not include any surgical days)

Except for DRG rates, all inpatient rates increase automatically by 4% for year 2; and another 3% increase at the beginning of year 3.

Except for the percentage of charges, all outpatient rates increase automatically by 6% for year 2 and another 6% increase at the beginning of year 3.

## CARE 1ST HEALTH PLAN - COUNTY OF LOS ANGELES

## COMPENSATION RATES (FEE-FOR-SERVICE)

## MEDI-CAL AND HEALTHY FAMILIES

II. OUTPATIENT SERVICES	1st Year Effective January 1, 2008	2nd Year 6% Increase Effective January 1, 2009	3rd Year 6% Increase Effective January 1, 2010 - until Contract Expiration
EMERGENCY ROOM (Rev. Code 450) (1)			
SPECIALTY CLINIC SERVICES (Rev. Code 519) (1)			
PRIMARY CARE CLINICS (Rev. Code 510) (1)			
OUTPATIENT SURGERY (Rev. Code 510) (1)			
OTHER OUTPATIENT SERVICES (Rev. Code 510) (1)			
URGENT CARE (Rev. Code 456) (1)			
EMERGENCY FOLLOW-UP VISIT (no auth req'd) (1)			
Magnetic Resonance Imaging (MRI)			

## Notes to Above:

(1) MRI's are obtained through contract providers at each county facility.

III. **Billing and Payment:** County shall submit bills to Contractor within one-hundred and eighty (180) business days after the month in which Outpatient services were rendered and within one-hundred and eighty (180) business days after a Member's discharge day from the Hospital for Inpatient Services.

The billing shall contain such information as is required by this Agreement and the Provider Operations Manual. Payment shall be made thirty (30) calendar days after Contractor receives a timely and complete billing from County Facility.

IV. **Definitions:** "Day", for purposes of the daily or per diem rates set forth in Section I, shall mean that twenty-four (24) hour period beginning at 12:01 a.m. and ending at 12:00 midnight during which a Plan Member is an inpatient of a County Facility receiving hospital services. For a Plan Member admitted through the ER, the Day shall begin when a County hospital physician decides the patient needs acute care and orders admission. The official time of admission will be when the hospital physician writes the admission order. A Plan Member shall be deemed discharged within the same day as a discharge order is given by the physician in charge, absent medical complications requiring the Plan Member to remain an inpatient for more than four hours of the following day.

(Excludes orthoses, prostheses, durable medical equipment, and other implants whose cost exceed \$500  
These excluded items are available at cost plus 5%. The Rehabilitation rate does not include any surgical days)

Except for the percentage of charges, all outpatient rates increase automatically by 6% for year 2 and another 6% increase at the beginning of year 3.