Health Services
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To improve health through leadership, service and education.

June 17, 2008

TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D.
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES (DHS) FISCAL OUTLOOK UPDATE**
(Agenda Item S-1, June 17, 2008)

Attached for your Board's information is a Summary of Changes in the DHS Fiscal Outlook (Attachments A1 - A2) since our last report on April 22, 2008.

As indicated in the Summary of Changes, the estimated Fiscal Year (FY) 2007-08 year-end balance in the Department's designation fund is $108.1 million (see line 12 on Attachment A1), a reduction of $17.8 million from our last update. The reduction is primarily related to updates for FY 2006-07 Medi-Cal Redesign and Cost Based Reimbursement Clinics (CBRC) revenues. The estimated cumulative funding shortfall for FY 2008-09 is $(213.5) million and the estimated five year cumulative funding shortfall through FY 2011-12 is $(1,443.8) million. The various factors contributing to these changes are summarized in Attachments A1 and A2.

CBRC Revenues for Medicare/Medicaid Crossover Patients

The Department is currently in discussions with the Centers for Medicare and Medicaid Services (CMS) regarding CBRC payments for Medicare/Medicaid crossover patients (dual eligibles). The initial response regarding CBRC payments for dual eligibles received from CMS is favorable. If approved, the financial impact through FY 2008-09 is estimated to be $96.4 million, which will reduce the projected deficit for 2008-09. A final decision from CMS is expected by September 2008.

Balancing the Budget

DHS faces a substantial budget shortfall over the next five years, due to an ongoing structural budget deficit. Working with the Chief Executive Office (CEO), the Department is currently focusing on resolving the $(589.6) million cumulative shortfall through FY 2009-10. This shortfall cannot be solved through County resources and initiatives alone. Thus, we continue to work on key federal/state financing issues to assist in closing the gap.

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The FY 2008-09 budget contains a placeholder in the Final Changes Budget which will be addressed through cost reductions and the proposed use of one-time Measure B and Tobacco Settlement funds. The Department continues to work with the CEO to explore and implement options to replace this placeholder with specific ongoing cost reductions and/or revenue enhancements. We will return to your Board with the goal of incorporating these revisions during the Supplemental Budget Resolution phase of the budget process.

In the meantime, if you have any questions or need additional information, please let me know.

JFS:aw
(fiscal outlook memo 061708)
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

APRIL 14, 2008 THROUGH JUNE 9, 2008

		Fiscal Year / $ In Millions					
		07-08	08-09	09-10 [C]	10-11 [C]	11-12 [C]	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 4/14/08 [A]**	**$ 125.9**	**$ (197.8)**	**$ (574.9)**	**$ (1,024.7)**	**$ (1,428.6)**	**$ (1,428.6)**
	Adjustments after 4/14/08 Fiscal Outlook and Included in the Final Change Budget						
(2)	CEO adjust Financial Stabilization	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)
(3)	Various other adjustments included in the Final Change Budget	-	(0.3)	(0.2)	(0.2)	(0.1)	(0.8)
(4)	Forecast improvement/(reduction) roll-forward	-	- [B]	(0.5) [B]	(0.9) [B]	(1.3) [B]	-
(5)	**Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - per Final Change Budget [A]**	**$ 125.9**	**$ (198.3)**	**$ (575.8)**	**$ (1,026.0)**	**$ (1,430.2)**	**$ (1,430.2)**
	Adjustments Subsequent to the Final Change Budget						
(6)	Update FY 06-07 Medi-Cal Redesign revenues (one-time adjustment based on cost reports)	(12.0)	-	-	-	-	(12.0)
(7)	Update Cost Based Reimbursement Clinics (CBRC) revenues	(5.8)	(0.7)	(0.8)	(0.8)	(0.8)	(8.9)
(8)	Transfer of LAC+USC Psychiatric Outpatient Clinic to DMH	-	1.3	1.3	1.3	1.3	5.2
(9)	Update Financial Stabilization	0.8	1.4	(0.6)	(0.6)	(0.6)	0.4
(10)	Various other changes per the current year operating forecast received in April 2008	(0.8)	0.6	1.5	0.8	(0.4)	1.7
(11)	Forecast improvement/(reduction) roll-forward	-	(17.8) [B]	(15.2) [B]	(13.8) [B]	(13.1) [B]	-
(12)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 6/09/08 [A]**	**$ 108.1**	**$ (213.5)**	**$ (589.6)**	**$ (1,039.1)**	**$ (1,443.8)**	**$ (1,443.8)**
	Potential Issues/Solutions						
	County						
(13)	Use of one-time Measure B reserves (included as a placeholder in the Proposed Budget) [D] UPDATE	-	32.0	-	-	-	32.0
(14)	Use of one-time Tobacco Settlement funds (included as a placeholder in the Proposed Budget)	-	44.8	-	-	-	44.8
(15)	Measure B Funds COLA [E] NEW	-	32.6	32.6	32.6	32.6	130.4
(16)	FY 07-08 Medi-Cal Redesign revenues (one-time adjustment; pending DHS' analysis of public hospitals' data) NEW	(18.6)	-	-	-	-	(18.6)
(17)	Health care initiatives supplements	-	(3.2)	-	-	-	(3.2)
(18)	Electronic Health Record (EHR) Pilot Initiation	-	(3.0)	(11.0)	(2.9)	(2.5)	(19.4)
(19)	Emergency Department Automation	-	(2.8)	(5.3)	(1.4)	(0.7)	(10.2)
(20)	Enterprise Laboratory Information System	-	(1.2)	(2.8)	(2.3)	(2.4)	(8.7)
(21)	Medical School Agreements (USC + UCLA currently under negotiations) NEW	-	?	?	?	?	?
	State						
(22)	Additional Managed Care Rate Supplements NEW	-	3.0	4.0	4.0	4.0	15.0
(23)	Coverage Initiative Maintenance of Effort (MOE) [F]	-	(31.5)	(31.5)	(31.5)	(31.5)	(126.0)
(24)	Proposed State Budget [G]	-	(24.4)	(24.4)	(24.4)	(24.4)	(97.6)
(25)	CHIP revenue loss up to $5.349 million (per Governor's May Revised Budget as of 5/14/08) NEW	-	(5.3)	(5.3)	(5.3)	(5.3)	(21.2)
(26)	Section 1931(b) Medi-Cal (per Governor's May Revised Budget as of 5/14/08) [H] NEW	-	(5.0)	(5.0)	(5.0)	(5.0)	(20.0)
(27)	Medi-Cal eligibility for legal immigrants (per Governor's May Revised Budget as of 5/14/08) [I] NEW	-	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)
	Federal						
(28)	Adjust CBRC revenues (hospital only) to include "crossover" patients with dual eligibility on Medicare and Medi-Cal programs	72.8	23.6	24.5	28.2	29.3	178.4
(29)	Unused $360 million Waiver funds (State-wide)	-	-	125.0	-	-	125.0
(30)	Increase revenues for Mental Health services NEW	-	9.0	9.3	9.5	9.8	37.6
(31)	Pending GME regulation disallowing use of Interns & Residents costs for Certified Public Expenditures	-	(40.3)	(41.5)	(42.8)	(44.1)	(168.7)
(32)	Adjust Medicare revenue to include President's proposed budget effective October 1, 2008	-	(5.2)	(8.6)	(14.1)	(16.2)	(44.1)
(33)	Pending Federal rule limiting Medicaid reimbursement to public hospitals to Medicaid cost [J]	-	-	-	(228.0)	(228.0)	(456.0)
(34)	Revise Treatment Authorization Request (TAR) process for Medi-Cal eligibles for inpatient services	-	?	?	?	?	?
(35)	Forecast improvement/(reduction) roll-forward	-	54.2 [B]	75.8 [B]	134.3 [B]	(150.6) [B]	-
(36)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - after Potential Issues/Solutions [A]**	**$ 162.3**	**$ (137.7)**	**$ (455.3)**	**$ (1,189.7)**	**$ (1,880.3)**	**$ (1,880.3)**

Attachment A1

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

APRIL 14, 2008 THROUGH JUNE 9, 2008

Notes

(A) This 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 FYs 05-06 through FY 07-08 Adopted State Budgets. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval. FYs 10-11 and 11-12 assume Medi-Cal Redesign 1115 Waiver extension and continuance of its Coverage Initiative component.

(B) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $54.2 million on Line# 35 in FY 08-09 is $162.3 million - $108.1 million from FY 07-08.

(C) For FY's 08-09 through 11-12, amounts reflect LAC+USC Medical Center as a 671 bed facility; for FY's 09-10 through 11-12, amounts reflect MLK MACC converted back to a 120-bed hospital on January 1, 2010 and Rancho Los Amigos not operated by the County.

(D) This amount is being updated from $31.0 million per the 4/22/08 DHS Fiscal Outlook.

(E) The increase is based on the Board's ability to adjust the rate on all improved parcels (from $0.03 to $0.0372 per square foot) as adjusted by the cumulative increases to the medical component of the Western Urban CPI from July 1, 2003. This would generate an additional $45.2M approximately per year, of which $32.6M could be allocated to DHS hospitals.

(F) DHS is currently working with the California Department of Health Care Services to develop the County's MOE and the related issue of changing our non-hospital based delivery system. DHS will also work with the State to ensure that the Department can fully utilize the administrative components of the Coverage Initiative program.

(G) This reflects estimated financial impact to the County for the following State issues:

Reallocation of County funding to fund various State programs		
- Federal Safety Net Care Pool	$	14.4
- South Los Angeles Preservation Fund		10.0
	$	24.4

(H) The May Revision proposes to roll back the income eligibility level from 100 percent of the Federal Poverty Level (FPL) to 68 percent of the FPL for applicant families who currently qualify for zero share of cost Medi-Cal benefits, and to reinstate the 100-hour rule for these families. In addition, principle wage earners who work more than 100 hours per month would not be eligible for Medi-Cal benefits.

(I) The May Revision proposes to eliminate full-scope benefits for newly qualified immigrants who have been in the United States for less than 5 years and for immigrants who permanently reside under the color of law.

(J) This reflects the impact of reduced Safety Net Care Pool funds due to limited availability under the pending Federal rule.

Attachment A2