Health Services
LOS ANGELES COUNTY

Los Angeles County Board of Supervisors

Gloria Molina
First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

John F. Schunhoff, Ph.D.
Interim Director

Robert G. Splawn, M.D.
Interim Chief Medical Officer

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

www.dhs.lacounty.gov

To improve health through leadership, service and education.

April 2, 2009

TO: Each Supervisor

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

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (ITEM S-2 ON APRIL 7, 2009 AGENDA)**

This is to provide a Summary of Changes in the DHS Fiscal Outlook (attached) since our last Budget Committee of the Whole report to your Board on February 3, 2009. As indicated in the Summary of Changes, the estimated shortfalls are $(13.8) million for Fiscal Year (FY) 2008-09 and $(343.8) million for FY 2009-10.

The major changes from the last report are the estimated impact of an increase in the Federal Medical Assistance Percentage (FMAP), from 50.0% to 61.6%, and an increase in the Disproportionate Share Hospital (DSH) allotment based on the Federal Stimulus Plan. The FMAP change is effective from October 1, 2008 through December 31, 2010 and the DSH allotment change is effective for FYs 2008-09 and 2009-10.

This report includes the estimated FY 2009-10 reductions to the Federal Safety Net Care Pool, the South Los Angeles Medical Services Preservation Fund and the Optional Medi-Cal Benefits.

Because of the continuing economic downturn in the State, there may be further Medi-Cal program reductions or other unanticipated cuts included in the Governor's May Revise. There may also be further reductions because of continuing declines in Vehicle License Fees and Sales Taxes for the current fiscal year and FY 2009-10.

The Department has met with the State and other stakeholders about plans for renegotiating the 1115 Waiver beginning in FY 2010-11. The State plans to submit a proposal to the Centers for Medicare and Medicaid Services by September 2009.

The Department continues to implement strict restrictions on expenditures by limiting approval to critical functions and revenue-related or cost saving activities.

www.dhs.lacounty.gov

Without funding changes at the state and federal levels, the Department will continue to have an ongoing structural budget deficit. Working with the Chief Executive Office (CEO), we are currently focusing on resolving the cumulative shortfall of $(343.8) million through FY 2009-10 and will continue to work with the CEO on key Federal/State financing issues to assist in closing the gap.

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

JFS:aw
O:\ALICE\FISCAL OUTLOOK MEMO 040709 _V4
609:005

Attachment

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

DECEMBER 31, 2008 THROUGH MARCH 30, 2009

		Fiscal Year / $ In Millions					
		08-09	09-10 [C]	10-11 [C]	11-12 [C]	12-13 [C]	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 12/31/08 [A]**	**$ (67.0)**	**$ (412.9)**	**$ (832.0)**	**$ (1,211.2)**	**$ (1,659.4)**	**$ (1,659.4)**
	Subsequent Adjustments						
(2)	Changes in Federal Medical Assistance Percentage (FMAP) and 2.5 percentage points for Disproportionate Share Hospital (DSH) allotment per the Federal Stimulus Plan [D]	66.8	82.1	45.5	-	-	194.4
(3)	Refinement and updates for debt service costs [E]	-	(19.5)	(7.3)	(73.8)	(73.8)	(174.4)
(4)	Medi-Cal Redesign revenue updates for DSH's Consumer Price Index (CPI)	6.2	7.3	11.3	11.5	12.4	48.7
(5)	State Budget impact on Federal Safety Net Care Pool and Medi-Cal optional benefits [F]	-	(20.0)	(5.8)	(5.9)	(6.1)	(37.8)
(6)	Financial Stabilization updates (primarily for pharmaceuticals)	(2.0)	9.2	9.2	9.2	9.2	34.8
(7)	Human Resources reorganization and establishment of Risk Management Unit [G]	-	(8.1)	(8.3)	(8.6)	(8.8)	(33.8)
(8)	Delay in Rancho's privatization for one year (expected effective date: July 1, 2010) [H]	-	(32.6)	-	-	-	(32.6)
(9)	Reduction of Prior Year Over-realization Revenue	(30.0)	-	-	-	-	(30.0)
(10)	Increased billings from Other County Departments received through February 2009 (primarily due to increased ISD utilities and medical malpractice costs)	-	(7.3)	(7.4)	(7.5)	(7.6)	(29.8)
(11)	Increase in Managed Care Rate Supplement due to higher than anticipated LA Care enrollees	3.2	4.2	4.2	4.2	4.2	20.0
(12)	Vehicle License Fees and Sales Tax updates [I]	(3.6)	(3.9)	(3.9)	(3.9)	(3.9)	(19.2)
(13)	One-time Community Health Plan's (CHP) equity in excess of the tangible net equity reserve	6.0	-	-	-	-	6.0
(14)	One-time Measure B surplus fund	-	4.0	-	-	-	4.0
(15)	Retention of Martin Luther King (MLK) as a Multi-Service Ambulatory Care Center in FY 09-10 and State Budget impact on South Los Angeles Medical Services Preservation Fund [J]	-	(2.2)	-	-	-	(2.2)
(16)	Other changes included in the current year operating forecast and the FY 09-10 DHS Budget Request / Other minor ongoing changes	6.6	2.7	6.9	4.3	(4.1)	16.4
(17)	Forecast improvement/(reduction) roll-forward	-	53.2 [B]	69.1 [B]	113.5 [B]	43.0 [B]	-
(18)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - per 3/30/09 [A]**	**$ (13.8)**	**$ (343.8)**	**$ (718.5)**	**$ (1,168.2)**	**$ (1,694.9)**	**$ (1,694.9)**

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

DECEMBER 31, 2008 THROUGH MARCH 30, 2009

Notes

(A) FYs 10-11 through 12-13 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 $43.0 million on Line# 17 in FY 12-13 is $(1,168.2) million - $(1,211.2) million from FY 11-12.

(C) For FYs 09-10 through 12-13, amounts reflect:

- LAC+USC Medical Center as a 671-bed facility;
- Rancho Los Amigos National Rehabilitation Center (Rancho) not operated by the County effective July 1, 2010; and
- Martin Luther King Multi-Service Ambulatory Care Center (MLK MACC) converted back to a 120-bed (108 Average Daily Census (ADC)) public hospital on July 1, 2010.

(D) This reflects the impact of the change in FMAP to 61.59% effective October 1, 2008 through December 31, 2010, and the change of 2.5 percent increase in DSH allotment effective July 1, 2008 through June 30, 2010.

(E) This reflects debt service estimates as of February 2009 in accordance with the CEO-Real Estate Division's debt service payment schedule. FY 11-12 includes one-time payments to payoff short term debts issued for two Senate Bill (SB) 1953 seismic retrofit capital projects at H/UCLA Medical Center and OV/UCLA Medical Center, in the amount of $45.2 million and $20.4 million, respectively. FY 12-13 includes initial payments for the H/UCLA Surgery/Emergency Room and the Rancho's North Campus and Outpatient Building Consolidation capital projects, in the amount of $6.3 million and $60.0 million, respectively.

(F) Due to State's budget issues, an estimated revenue loss of $14.4 million (one-time in FY 09-10) for the Federal Safety Net Care Pool revenue is anticipated. Amounts also include an estimated ongoing revenue loss of $5.6 million for the Cost Based Reimbursement Clinic (CBRC) revenue as a result of dental and optometry services being eliminated as benefits under the Medi-Cal program.

(G) This reflects the Human Resources reorganization included in the FY 09-10 DHS Budget Request for enhancement of Performance Management functions and for better utilization of appropriate standards and technology in providing a significantly higher level of services to all DHS areas, healthcare facilities, and administrative offices.

(H) As indicated in (C) above, this reflects the change in estimates from the February 3, 2009 DHS Fiscal Outlook which assumed Rancho not operated by the County beginning in FY 09-10.

(I) FYs 08-09 and 09-10 reflect the change in estimates from the February 3, 2009 DHS Fiscal Outlook. The total estimated shortfall for Vehicle License Fees and Sales Tax included in the last report was $29.3 million. The revised estimated shortfall amounts were provided by the CEO in February 2009, which were calculated based on actual data through January 2009. FYs 10-11 through 12-13 are projected at the reduced FY 09-10 level. Note that the impact on the current and future fiscal years continues to be volatile and may fluctuate further based on the economic conditions and legislative changes.

(J) As indicated in (C) above, this reflects the change in estimates from the February 3, 2009 DHS Fiscal Outlook which assumed MLK converted to a County operated hospital beginning in January 2010. This also includes an estimated revenue loss of $10.0 million (one-time in FY 09-10) for the South Los Angeles Medical Services Preservation Fund due to State's budget issues.