



County of Los Angeles
CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

August 12, 2009

To: Supervisor Don Knabe, Chair
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

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**REPORT ON DISCUSSIONS WITH THE UNIVERSITY OF CALIFORNIA REGARDING
THE OPENING OF MARTIN LUTHER KING, JR. HOSPITAL (ITEM NO. S-1, AGENDA
OF AUGUST 18, 2009)**

Item Number S-1 on your August 18, 2009 agenda is the Chief Executive Officer's report on the status of discussions with the University of California (UC) regarding the opening of the new Martin Luther King, Jr. (MLK) Hospital and request for authorization to proceed with further discussions.

This memorandum summarizes the key elements of a proposal to the UC. The proposal is based on a series of discussions with representatives of the UC and the State of California, and represents the best structure for an agreement between the parties. If authorized by your Board, this Office will submit this offer to the UC for consideration.

This report also responds to your Board's March 17, 2009 request, on motion by Supervisor Antonovich, for a plan that would include timeframes, estimated operational costs for an independent non-profit entity, estimated start-up costs, financial model, and a legal opinion as to the County's obligation. In response to your Board's instruction, this Office has been working with the UC to identify major elements for an agreement between the County and UC that will lead to the opening and operation of the MLK Hospital.

Further, on December 2, 2008, your Board instructed my office, the Director of Public Works, and Interim Director of Health Services to develop a plan, including cost estimates and schedule, to conform the existing campus facility and/or construct new facilities, to include a 120 licensed bed inpatient hospital, emergency room, multi-service ambulatory care center, and any necessary hospital support services.

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The capital project program, along with the associated costs, is being presented separately in a letter to your Board on the same agenda. In addition, County Counsel provided a separate confidential report dated August 7, 2009, to give your Board a legal opinion as to the County's commitments under the proposed offer.

BACKGROUND

Since the closure of the MLK-Harbor Hospital in August 2007, the County has been working on developing options to provide hospital services at the MLK site. In Spring 2008, the County approached the UC to assist in this effort. Since that time, both parties have discussed a joint initiative to open MLK Hospital.

The County proposal outlines our view of how the County and UC commitments regarding their respective roles in the opening of the MLK Hospital should be structured. If the County proposal is approved by your Board, the UC and its Board of Regents, an agreement will be prepared committing the parties to create a private non-profit facility ("HospitalCo").

Additional agreements will be required between the County and the State, the County and HospitalCo, the UC and HospitalCo, and the State and HospitalCo. Liability and medical malpractice issues will be addressed in the agreements with HospitalCo as the non-profit will be the hospital operator. The agreement between the County and HospitalCo will also address the use of the facility, indigent care services, and overall service integration. In addition, State legislation and regulatory approvals will be necessary to implement parts of this proposal.

SERVICES

At full operation, the proposed service model would have 120 licensed beds with an estimated average daily census of 108. The hospital's emergency department would provide an estimated 30,000 annual visits and an additional 10,000 annual outpatient service visits, including follow-up care.

The MLK hospital will serve as a safety net provider treating a high volume of Medi-Cal and uninsured patients; it will be coordinated with the County's existing network of specialty and primary care ambulatory clinics, and optimize public and private resources to fund care.

It is anticipated that inpatient services could commence in late 2012.

FINANCING

One-time and ongoing funding from the County, combined with Medi-Cal reimbursements, will be the principal financing mechanisms for the hospital. As proposed, the UC would not provide start-up or ongoing financial support for the new hospital. The estimated County funding requirements for the MLK Hospital would include:

- \$50.0 million – one-time start-up fund (\$10.0 million per year over the first five years once an agreement is signed);
- \$28.0 million – a reserve fund (\$8.0 million) to be in place on the fifth anniversary of the hospital agreement, and access to as much as \$20 million in temporary funding to be available as soon as hospital operations commence, with repayment and interest, for use by the hospital under “exigent circumstances.” Temporary funding will be on deposit in treasury pool and will be made available for borrowing at treasury rates;
- \$50.0 million – on-going annual intergovernmental transfer (IGT) for drawing down federal matching revenue; and
- \$13.3 million – on-going annual support for indigent care services.

The \$50.0 million IGT would provide for growth if there is growth in funding under the South Los Angeles Fund and in the money received by the County-operated hospitals.

It is anticipated that services could commence in late 2012 and, except for the start up funds, the funding noted above would be requested in subsequent fiscal years (FY) in the Department of Health Services’ (DHS) budget, as necessary. Of the amounts reflected above, the \$50.0 million and the \$13.3 million in on-going funding is already included in the DHS budget for inpatient services related to patients who would otherwise have been seen at the former MLK-Harbor Hospital.

The projected County funding requirements for the MLK Hospital are subject to annual appropriation by your Board. Although the County is proposing to be contractually bound to make the annual appropriation amounts, it would be contingent upon the UC providing designated physician services and directing and managing efforts to establish the physician teaching program at the hospital.

With the exception of the start up funds, the estimated County funding requirements referenced above would not be needed until FY 2012-13; however, there would be initial costs in the area of capital improvements for the campus. As noted, the capital project program to complete these improvements, along with the associated costs, is being presented separately to your Board.

PROPOSALS

The proposed County, UC, and mutual commitments, as well as termination provisions would include the following.

- County commitments - provide physical plant through a lease of hospital property and buildings and designated equipment; and financial support to establish and support ongoing hospital operation which includes start-up funding, reserve funding, intergovernmental transfer funding, indigent care payment, growth factor, participation in the creation of HospitalCo and appointments to its Board of Directors.
- UC commitments - participate in the creation of HospitalCo and appointments to its Board of Directors; provide physician coverage; including physician assistance with quality improvement and assurance of quality care and assist in the reestablishment of the physician teaching program. Significant provisions include:
 - UC would provide physicians to the non-profit so long as acceptable compensation can be worked out with the non-profit;
 - UC would work with regulatory agencies to reestablish the hospital as a teaching program; and
 - UC would work with the County and HospitalCo to establish a subcommittee of the HospitalCo board to oversee all aspects of quality assurance in accordance with HospitalCo's bylaws. Additionally, UC would assure its physicians play an active ongoing role in continuous quality improvement activities and in assurance of quality care.
- Mutual commitments - non-profit entity HospitalCo licensing the hospital, name, and acknowledgement. Significant provisions include:
 - The County and UC would ensure that HospitalCo is formed to act as the license holder and to control the operation of the hospital;
 - Both parties would agree that the County and UC are not responsible for the financial viability of the hospital, are not liable for the hospital debts, and the UC is not a source of capital or operating funds; and
 - The non-profit Board of Directors would be comprised of:
 - Members appointed by the County and the UC;
 - None of the County and UC seats will be filled by County or UC officers; and
 - Director qualifications will include ten or more years of demonstrated experience in health care, business and or law.

- HospitalCo - non-profit entity would be required to:
 - Operate the hospital including providing for management and staff, setting policy, maintaining licensure, accreditation, certification and other regulatory approvals; and
 - Independent of the County's reserve amounts, maintain a reserve in amount of ten percent of operating expenses on a phased-in basis.

- Term - agreement would be effective upon execution by both parties and would continue until the expiration or termination of the lease or until expiration or termination of the physician services agreements if the lease has expired or been terminated and the physician agreements continue at a later date.

- Termination provisions - agreement could be terminated by either party, and under certain circumstances, only by the County or the UC. Bases for termination include:
 - HospitalCo's failure to secure necessary licenses, Joint Commission accreditation, Medicare and Medi-Cal provider agreements, Office of Statewide Health Planning and Development (OSPHD) approval to open the hospital, or its exclusion/debarment or conviction of false claims in connection with federal and State healthcare programs, or bankruptcy (termination by either party);
 - Failure by HospitalCo to fund and maintain funding reserve (termination by either party);
 - Failure by the State to make available to HospitalCo certain specified types of reimbursement for inpatient and outpatient services to Medi-Cal beneficiaries, or Medi-Cal payment for debt services costs (termination by either party);
 - The UC may terminate if the County fails to make or maintain its commitments as to the physical plant or funding; and
 - The County may terminate if the UC fails to participate in clinical planning, provide designated physicians services, or direct and manage the efforts to reestablish the physician teaching program.

- Renegotiation - County and UC would agree to good faith renegotiations of the financial terms in the event of changes to the Medi-Cal program or to federal health care laws or regulations that materially affect the revenue amount the hospital would receive for inpatient or outpatient care.

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CONCLUSION

We are requesting that your Board authorize this Office to proceed with further discussions with UC representatives, including presenting the County's proposal to the UC for consideration.

Please contact me if you have questions or your staff may contact Sheila Shima, Deputy Chief Executive Officer, at (213) 974-1160.

WTF:SRH:SAS
MLM:yb

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Interim Director, Department of Health Services

081209_HMHS_MBS_MLK Proposal