Health Services
LOS ANGELES COUNTY

January 26, 2010

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TO: Each Supervisor

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

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK**

This is to provide a Summary of Changes in the DHS Fiscal Outlook (Attachment I) since our last Budget Committee of the Whole report to your Board on September 15, 2009. As indicated in the Summary of Changes, the current estimated shortfalls are $(213.1) million for Fiscal Year (FY) 2009-10 and $(576.7) million for FY 2010-11. The developments contributing to these changes are summarized in the attached Summary of Changes.

Managed Care Rate Supplement

The Department has been informed by the State that the Centers for Medicare and Medicaid Services (CMS) approved the Managed Care Rate Supplement. Official confirmation of CMS' approval is pending at this time, but is expected to be received shortly. The estimated $69.9 million attributable to the Managed Care Rate Supplement is included in the FY 2009-10 Final Budget and the current forecast.

Impact of Anticipated Additional State Cuts

The FY 2010-11 Governor's Budget was released on January 8, 2010. There are some Medi-Cal programs specifically impacted, for example, the elimination of non-emergency services for certain immigrant classifications. However, the most significant reduction of $750 million in State General Fund (SGF) savings is only vaguely identified as "Medi-Cal Cost Containment Strategies." The SGF savings are not detailed but include unspecified payment reductions, unspecified limits on services, and "other programmatic changes." It is critical to point out that the $750 million reduction in SGF will also result in the loss of federal matching funds. Therefore, if the State reduces SGF in the Medi-Cal program by $750 million, the total dollar reduction to the Medi-Cal program would be significantly higher. Based on the Governor's assumptions regarding various Federal Medical Assistance Percentages (FMAP), the overall reduction in Medi-Cal funding could range from $1.7 billion to $2.4 billion. The Department anticipates a significant negative impact but until more detailed information is provided, an estimate cannot be determined.

Potential Solutions to Reduce FYs 2009-10 and 2010-11 Deficits

There are three areas that the Department has been working on with the California Association of Public Hospitals (CAPH) and other stakeholders which could bring in additional revenues. Each of the items discussed below, if successful, could potentially have a significant positive impact on the Department's forecast; however, they are not enough in themselves, or in combination, to solve the Department's structural deficit. The Department believes that even if all or some of these proposals are implemented, some part of Tobacco Settlement funding will be necessary to balance the FY 2009-10 budget.

Hospital Provider Fee

CMS approval remains pending at this time. If CMS approves the hospital provider fee, the estimate of the benefit to the Department will depend on the effective date of approval. If the proposal is approved effective July 1, 2009 and ends December 31, 2010, which is the current ending date of the enhanced FMAP, the value to the Department is $205.5 million for FYs 2009-10 and 2010-11. If the proposal is approved with an effective date of April 1, 2009, which is believed less likely to be approved by CMS, the additional quarter (April through June 2009) of enhanced FMAP is estimated to be $34.3 million for FY 2009-10.

FMAP Extension

H.R. 2847, the Jobs For Main Street Act, 2010, contains a provision to extend the FMAP rate at the current enhanced levels, which for California is 61.59%, through June 30, 2011. If the bill passes with the enhanced FMAP extension included, the Department would receive an estimated additional $27.6 million for FY 2010-11. In addition, if the enhanced FMAP is extended through June 2011, the hospital provider fee could be worth an additional $68.5 million to the Department for FY 2010-11. The County's legislative delegation is actively lobbying for approval of the Jobs bill.

1115 Waiver

The State's Waiver Concept document has been submitted to CMS. The State has also convened the Waiver Stakeholder Advisory Group meetings and it is also assigning work groups to deal with specific components of its Waiver concept. The Department has had several discussions with the State on various Waiver proposals and will continue to meet and discuss Waiver issues with the State. The Department also continues to work with CAPH and other stakeholders on Waiver issues.

The options available to the Department to close its FYs 2009-10 and 2010-11 budget shortfalls are limited and very tenuous at this point. The forecast depends in large part

on activities taking place on the Federal and State levels related to each of the areas discussed above. Any one or all of them may or may not be successful, or may be only partially successful. The Department is monitoring developments on these items closely because each one has complex components and timelines and each of those factors is integral to determining the impact on the forecast.

How these issues are ultimately resolved may differ materially from current proposals. To illustrate the interplay of the different components and timelines on the Department's budget, four different scenarios are provided as examples of possible outcomes (see Attachment II). If, when, and how the hospital provider fee, the FMAP extension, and the Waiver are finally resolved will determine the impact to the Department's deficit and the need to access Tobacco Settlement funding to address any remaining deficit. For your reference, we have included the latest Tobacco Settlement funds schedule (Attachment III).

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

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Attachments

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

AUGUST 25, 2009 THROUGH JANUARY 6, 2010

		Fiscal Year / $ In Millions					
		09-10	10-11 [B]	11-12 [B]	12-13 [B]	13-14 [B]	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 8/25/09 [A]**	**$ (256.1)**	**$ (671.1)**	**$ (1,204.7)**	**$ (1,848.9)**	**$ (2,493.1) [C]**	**$ (2,493.1)**
	Subsequent Adjustments						
(2)	Adjustments to the assumed salary COLA included in Line (1) above [D]	18.0	54.8	74.5	76.5	78.5	302.3
(3)	Adjustments to the assumed S&S CPI included in Line (1) above [E]	-	20.7	30.5	32.3	34.4	117.9
(4)	Vehicle License Fee and Sales Tax updates (future estimates adjusted to the current FY 09-10 projected level provided by the CEO on 12/8/09)	(12.8)	(27.8)	(27.8)	(27.8)	(27.8)	(124.0)
(5)	Adjustments to the FY 13-14 expense base primarily for salaries and employee benefits COLA, S&S CPI, pharmaceuticals CPI, and services from other County departments COLA, offset by adjustments to the revenue base primarily for Medi-Cal Redesign, CBRC, and Medicare revenues.	-	-	-	-	(116.2)	(116.2)
(6)	Adjustments to estimated retirement costs [F]	-	10.1	24.7	26.7	28.9	90.4
(7)	Community Health Plan (CHP) forecast updates including rate adjustments and enrollment projections [G]	(1.7)	(3.7)	(6.4)	(9.3)	(13.3)	(34.4)
(8)	CBRC updates based on updated FY 08-09 cost reports	(2.7)	(3.8)	(6.2)	(6.4)	(6.6)	(25.7)
(9)	Hospital services are being added to the Coverage Initiative program (one-time adjustment)	21.7	-	-	-	-	21.7
(10)	Salary surplus due to hiring freeze and delays offset by higher utilization on overtime, registries, and physician specialties to cover critical service needs (one-time adjustment)	16.2	-	-	-	-	16.2
(11)	Employee benefits updates [H]	4.0	1.1	(0.9)	(3.3)	(3.5)	(2.6)
(12)	Other changes included in the current year operating forecast	0.3	-	-	-	-	0.3
(13)	Forecast improvement/(reduction) roll-forward	-	43.0 [I]	94.4 [I]	182.8 [I]	271.5 [I]	-
(14)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 1/6/10 [A]**	**$ (213.1)**	**$ (576.7)**	**$ (1,021.9)**	**$ (1,577.4)**	**$ (2,247.2)**	**$ (2,247.2)**

Notes

(A) FYs 10-11 through 13-14 assume Medi-Cal Redesign 1115 Waiver extension at current levels.

(B) For FYs 10-11 through 13-14, amounts reflect Rancho Los Amigos National Rehabilitation Center not operated by the County effective July 1, 2010.

(C) This amount is computed by taking the difference in FY 12-13 over FY 11-12 ($1,848.9 million - $1,204.7 million = $644.2 million) and adding it to the Estimated Cumulative Year-End Shortfall of $1,848.9 million ($1,848.9 million + $644.2 million = $2,493.1 million).

(D) This reflects a tentative agreement per negotiations with labor unions that calls for a two-year agreement with no cost of living adjustments (COLA) for salaries. An assumed 3% salary COLA is in FY 11-12 (January 2012) going forward.

(E) This reflects the assumed services and supplies (S&S) Consumer Price Index (CPI) adjustments to be 0% for FY 09-10 and FY 10-11, 1.9% for FY 11-12, and 3.8% for FY 12-13 going forward.

(F) This reflects the revised potential financial impact on the employer contribution rate for the retirement costs due to the overall investment market decline. Based on the initial study conducted by LACERA in October 2008, the increase was expected to be as much as 25% beginning in FY 10-11, which is now estimated to be approximately 19% per the CEO in October 2009.

(G) Amounts include projected impact of LA Care rate changes for risk adjusted rates on timelines proposed by the State, with an assumption of no change in measured acuity levels for CHP. Increased measured acuity levels may mitigate the potential revenue loss. Baseline assumes CHP membership growth of 6.8% in FY 10-11.

(H) Changes are primarily due to one-time savings in Workers Compensation for FY 09-10 and increased Retiree Health Insurance costs for FYs 11-12 through 13-14.

(I) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $271.5 million on Line# 13 in FY 13-14 is $(1,577.4) million - $(1,848.9) million from FY 12-13.

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

IDEAS FOR POTENTIAL SOLUTIONS

ATTACHMENT II

FISCAL YEARS 2009-10 AND 2010-11 (NON-CUMULATIVE) *

($ IN MILLIONS)

	FY 09-10	FY 10-11	Total	Comments
Estimated Year-End Balances/(Shortfalls) - before Adjustments for Financial Stabilization	**($304.8)**	**($455.3)**	**($760.1)**	
Financial Stabilization	91.7	91.7	183.4	
Estimated Year-End Balances/(Shortfalls) (1)	**($213.1)**	**($363.6)**	**($576.7)**	
SCENARIO I - NO HOSPITAL FEE				
> **Waiver Extension** - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County **Measure B** fund	9.0	-	9.0	Use of one-time Measure B fund
> Additional **Financial Stabilization** (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> **Tobacco Settlement** fund	136.5	-	136.5	Use of Tobacco Settlement fund from the Designation Balance
> **State Budget Impact**	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	**($59.0)**	**($346.4)**	**($405.4)**	
SCENARIO II - 18 MONTHS HOSPITAL FEE				
> **Waiver Extension** - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County **Measure B** fund	9.0	-	9.0	Use of one-time Measure B fund
> **Hospital Provider Fee** (2)	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional **Financial Stabilization** (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> **Tobacco Settlement** fund	58.5	78.6	137.1	Use of Tobacco Settlement fund from the Designation Balance
> **State Budget Impact**	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	**$0.0**	**($199.3)**	**($199.3)**	
SCENARIO III - 27 MONTHS HOSPITAL FEE + FMAP 6-MONTH EXTENSION				
> **Waiver Extension** - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County **Measure B** fund	9.0	-	9.0	Use of one-time Measure B fund
> **Hospital Provider Fee** (2)	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional **Hospital Provider Fee** (Additional Quarter)	34.3	-	34.3	Assumes effective date of April 1, 2009 (April - June 2009)
> **FMAP Extension** for 6 months (January - June 2011)	-	27.6	27.6	Assumes FMAP at 61.59% through June 2011
> Additional **Hospital Provider Fee** from FMAP Extension		68.5	68.5	Due to 6-month extension of FMAP (January - June 2011)
> Additional **Financial Stabilization** (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> **Tobacco Settlement** fund	24.2	113.3	137.5	Use of Tobacco Settlement fund from the Designation Balance
> **State Budget Impact**	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	**$0.0**	**($68.5)**	**($68.5)**	
SCENARIO IV - 27 MONTHS HOSPITAL FEE + FMAP 6-MONTH EXTENSION + NEW WAIVER				
> Additional County **Measure B** fund	9.0	-	9.0	Use of one-time Measure B fund
> **Hospital Provider Fee** (2)	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional **Hospital Provider Fee** (Additional Quarter)	34.3	-	34.3	Assumes effective date of April 1, 2009 (April - June 2009)
> **FMAP Extension** for 6 months (January - June 2011)	-	27.6	27.6	Assumes FMAP at 61.59% through June 2011
> Additional **Hospital Provider Fee** from FMAP Extension		68.5	68.5	Due to 6-month extension of FMAP (January - June 2011)
> Additional **Financial Stabilization** (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> **Waiver**	-	150.0	150.0	The estimated value of the Waiver is $450.0M Statewide. Estimate is based on LA County's current percentage of Waiver funding.
> **Tobacco Settlement** fund	24.2	31.8	56.0	Use of Tobacco Settlement fund from the Designation Balance
> **State Budget Impact**	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	**$0.0**	**$0.0**	**$0.0**	

Notes:

* Amounts reflect:

- Rancho Los Amigos National Rehabilitation Center remains as a County-operated facility in FY 09-10; and
- Federal Medical Assistance Percentage (FMAP) at 61.59% through December 2010 (unless indicated otherwise).

1) Estimates are per the DHS Fiscal Outlook dated 1/6/10.
2) Pending CMS' review and approval. Amounts may vary depending on the effective date of implementation and State's share.

ATTACHMENT III

LOS ANGELES COUNTY
TOBACCO SETTLEMENT FUNDING SUMMARY

	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
	($ in millions)			
BEGINNING BALANCE	**$ 287.4**	**$ 232.8**	**$ 231.9**	**$ 225.2**
SOURCES				
Tobacco Settlement Funds (1)	98.8	105.2	115.6	117.7
Interest Earned (2)	8.8	5.4	2.1	2.0
Total Sources	**$ 107.60**	**$ 110.60**	**$ 117.70**	**$ 119.70**
USES				
Internal 10% Withhold (3)	$ -	$ -	$ -	$ (11.8)
1115 Waiver - Department of Health Services (DHS) (4)	(50.7)	(50.7)	(50.7)	(50.7)
1115 Waiver - Department of Public Health (DPH) (4)	(9.3)	(9.3)	(9.3)	(9.3)
Ambulatory Care (5)	(15.5)	(10.6)	(12.0)	(21.2)
Capital Projects (6)	(6.0)	-	-	-
Workforce Development Program (7)	-	-	(2.1)	-
Public Health Needle Exchange Program - DPH (8)	-	(0.4)	(0.5)	(0.5)
CEO Capital Projects (9)	(60.0)	-	-	-
Computed Tomography Scanners (10)	(20.7)	(0.4)	-	(3.0)
LAC+USC Post Occupancy Capital Projects (11)	-	(0.9)	(2.4)	(7.3)
Managed Care Inter-Governmental Transfer (IGT) (12)	-	(39.2)	-	(26.8)
South LA Medical Services Preservation Fund IGT (13)	-	-	(5.0)	(5.0)
Smoking Cessation Program - DPH	-	-	(1.1)	(2.6)
One-time funds to address DHS budget deficit	-	-	(41.3)	-
One-time Olive View/UCLA Medical Center equipment purchase (14)	-	-	-	(3.5)
One-time funds to address DPH budget deficit	-	-	-	(4.5)
Total Uses	**$ (162.20)**	**$ (111.50)**	**$ (124.40)**	**$ (146.20)**
ENDING BALANCE	**$ 232.80**	**$ 231.90**	**$ 225.20**	**$ 198.70**

Footnotes:

(1) Reflects final actuals for Fiscal Years (FY) 2006-07, 2007-08, and 2008-09 and an estimate for FY 2009-10 per the State's website dated July 2005. The Tobacco Settlement Funds received for FYs 2006-07 and 2007-08 reflect a reduction as a result of a few participating tobacco companies that began withholding payments in FY 2005-06. The basis for the withholds was a provision in the Master Settlement Agreement that participating tobacco companies are eligible for a payment reduction if their market share falls two percent below its 1997 market share because the State had not enforced a statute to prevent a competitive disadvantage for the participating companies. However, the State of California filed legal action in 2006 against these participating tobacco companies that withheld Tobacco Settlement payments, challenging that the laws and regulations governing non-participating tobacco companies were diligently enforced by the State.

(2) Reflects actual interest earned for FYs 2006-07 through 2008-09 and estimated interest for FY 2009-10.

(3) Reflects a 10% set aside pending resolution of the tobacco companies' complaint and possible litigation noted in footnote (1). Amounts remain in the Tobacco Settlement Designation, but will not be made available for use until the situation is resolved.

(4) Reflects the Board's $60.0 million annual 1115 Waiver commitment and the Tobacco Spending Plan. Funds cannot be spent until the Board has approved appropriation into the Department's operating budget. When DPH was formed on July 6, 2006, it was allocated $9.3 million and DHS was allocated $50.7 million effective FY 2006-07 and forward, based on the existing distribution of the funds for the respective budgets.

Footnotes (cont.):

(5) Reflects funding for an 11% Public-Private Partnership/General Relief (PPP/GR) rate increase ($5.1 million) and a PPP/GR Pharmacy Supplemental rate increase ($10.4 million) which totals $15.5 million, as reflected in the Tobacco Settlement Spending Plan approved by the Board on October 31, 2000.

(6) Reflects funding of $2.6 million to support the Harbor-UCLA Medical Center Surgery/Emergency Replacement Project and $3.4 million to support the High Desert MACC.

(7) Reflects funding for the Health Care Workforce Development Program per a budget adjustment was approved by the Board on 1/13/2009.

(8) Reflects the use of $0.5 million to support Phase I of the Needle Exchange Program per Board approval on August 2, 2005. This funding is included in the DPH budget along with the corresponding appropriation.

(9) Reflects a budget adjustment to transfer $60.0 million to the LAC+USC Replacement Capital Project No. 70787, per a Board letter dated February 13, 2007.

(10) Reflects $24.1 million in funding for Computed Tomography Scanners for Harbor-UCLA - $4.7 million, MLK-Harbor - $4.6 million, RLA - $1.5 million, OVMC - $4.6 million, HDHS - $1.5 million, and $7.2 million for the related Capital Projects. Amount updated from the Final Budget amount of $28.3 million to reflect reduced costs per the final bids received by ISD.

(11) Reflects funding for post occupancy capital projects required at the LAC+USC Replacement Facility, including an emergency room observation unit, pediatric intensive care unit gas/air connections, resident doctor on-call rooms, operating room control area, cage/gift shop build out, equipment cleaning and storage areas, pharmacy dispensing window changes, kitchen power upgrades, nuclear medicine patient restrooms, infusion center, and urgent access diagnostic center expansion.

(12) FY 2007-08 amount intended as the LA Care Managed Care Rate Supplement (MCRS) IGT, however when the total amount of the LA Care MCRS was approved by the Centers for Medicare and Medicaid Services (CMS) at a lower amount than projected, these funds were used to offset a portion of the revenue shortfall. FY 2009-10 amount intended for the Health Net MCRS that was recently approved by CMS.

(13) Reflects an IGT payment to the State to draw down federal funds for medical services at impacted South Los Angeles hospitals for FY 2008-09 and FY 2009-10 or up to when MLK-Harbor hospital is open.

(14) Reflects funding for the one-time purchase of equipment for the Olive View/UCLA Medical Center Emergency Room Replacement and Tuberculosis Unit.