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To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles residents through direct services at DHS facilities and through collaboration with community and university partners.

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February 1, 2011

TO: Each Supervisor

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (BOARD AGENDA, ITEM S-1, FEBRUARY 1, 2011)**

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 November 30, 2010. The revisions contributing to these changes are detailed in the Summary of Changes.

The Potential Solutions document (Attachment II) reflects the current estimated shortfall for Fiscal Year (FY) 2010-11 of $(252.5) million, and the non-cumulative shortfalls for FYs 2011-12 and 2012-13 of $(431.9) million and $(538.0) million, respectively. The Attachment II document also lists various possible solutions to the deficits for FYs 2010-11 through 2012-13.

The majority of funding solutions reflected in the potential solutions schedule would come from various elements of the new Waiver. If we were to include these items in the fiscal forecast, the deficits would be reduced to $(82.0) million for FY 2010-11, $(126.0) million for FY 2011-12, and $(195.6) million for FY 2012-13.

An update report on the Waiver is being provided to your Board for this agenda item as a separate memo.

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

MHK:JFS:aw
Fiscal Outlook Memo 011811
609:005

Attachments (2)

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

NOVEMBER 9, 2010 THROUGH JANUARY 5, 2011

		Fiscal Year / $ In Millions					
		10-11	11-12	12-13	13-14	14-15	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 11/9/10 [A]**	**$ (246.0)**	**$ (696.9)**	**$ (1,234.6)**	**$ (1,879.3)**	**$ (2,648.0)**	**$ (2,648.0)**
	Subsequent Adjustments						
(2)	Temporary reduction of County's matching contribution for Horizons and Savings Plans based on CEO's estimates provided on January 5, 2011	19.0	19.3	-	-	-	38.3
(3)	Phase-out of two months of Overrealization of Prior Year Revenue	(13.3)	-	-	-	-	(13.3)
(4)	Revised revenue estimates for Hospital Provider Fee [B]	(10.1)	-	-	-	-	(10.1)
(5)	Other changes in current year operating forecast / minor updates to future estimates	(2.1)	(0.3)	(0.3)	(0.3)	(0.3)	(3.3)
(6)	Forecast improvement/(reduction) roll-forward	-	(6.5) [C]	12.5 [C]	12.2 [C]	11.9 [C]	-
(7)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 1/5/11 [A]**	**$ (252.5)**	**$ (684.4)**	**$ (1,222.4)**	**$ (1,867.4)**	**$ (2,636.4)**	**$ (2,636.4)**

Notes:

[A] FYs 10-11 through 14-15 do not include the impact of Health Care Reform in 2014 and assume Medi-Cal Redesign 1115 Waiver extension at current levels.

[B] This reflects insufficient Hospital Provider Fee collections to pay the psych component of the Hospital Provider Fee for FYs 08-09 through 10-11.

[C] These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $11.9 million on Line# 6 in FY 14-15 is $(1,867.4) million - $(1,879.3) million from FY 13-14.

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

POTENTIAL SOLUTIONS / ISSUES THAT WOULD IMPACT THE FISCAL FORECAST

FISCAL YEARS 2010-11 THROUGH 2012-13 (NON-CUMULATIVE)

($ IN MILLIONS)

	FY 10-11	FY 11-12	FY 12-13	Total	Comments
Estimated Year-End Shortfalls - Before Adjustments for Financial Stabilization	**($383.5)**	**($563.6)**	**($670.3)**	**($1,617.4)**	
Financial Stabilization	131.0	131.7	132.3	395.0	
Estimated Year-End Shortfalls (as of 1/5/11)	**($252.5)**	**($431.9)**	**($538.0)**	**($1,222.4)**	
POTENTIAL SOLUTIONS					
> Additional revenues from the new **Waiver**	169.2	290.1	307.7	767.0	Based on preliminary estimates
> **Coverage Initiative revenue** for County Jail inmates	-	9.0	9.0	18.0	
> Reallocated unused **Health Care Coverage Initiative (HCCI) fund**	-	??	??	??	
> **Mental Health's State Plan Amendment (SPA)**	-	??	??	??	To change from Statewide Maximum Allowance (SMA) rate payments to cost based payments, funded by County Certified Public Expenditures (CPE)
> IGT based **Hospital Provider Fee** for managed care services	??	??	??	??	
> Direct grant **Hospital Provider Fee** for fee-for-service inpatient services	??	??	??	??	
> Additional **Managed Care Rate Supplement**	??	??	??	??	
> Reduction of **denied days** for Medi-Cal patients	-	??	??	??	
> Funding for **salary COLAs** included in the base estimates above	-	18.3	37.1	55.4	Assume an annual salary cost of living adjustment (COLA) of 3% effective January 1, 2012.
> Unallocated County **Measure B fund**	-	5.5	5.5	11.0	
> Savings from Materials Management proposed **GHX Formulary System**	1.3	3.0	3.1	7.4	Assume an implementation date of April 1, 2011
POTENTIAL ISSUES					
> **State Budget Impact**	-	(20.0)	(20.0)	(40.0)	Reflect quantifiable amounts at this time
> **Investments for milestones** of the new Waiver	(??)	(??)	(??)	(??)	
> Additional **Coverage Initiative's expenses**	(??)	(??)	(??)	(??)	Include out-of-plan costs which may be paid by Hospital Provider Fee
Adjusted Estimated Year-End Shortfalls	**($82.0)**	**($126.0)**	**($195.6)**	**($403.6)**	

ATTACHMENT II