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

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November 29, 2011

TO: Each Supervisor

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

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (BOARD AGENDA, ITEM S-1 NOVEMBER 29, 2011)**

This is to provide DHS' Fiscal Overview for Fiscal Year (FY) 2011-12 (Attachment I), updated since our last Budget Committee of the Whole report to your Board on August 30, 2011. As of November 15, 2011, the Department is projecting a surplus for FY 2011-12 of $1.2 million.

The Workload schedule (Attachment II) provides a comparison between FY 2010-11 and FY 2011-12 on key workload indicators, e.g., days and visits. A key element of the Department's continuing efforts to reduce expenses is a focus on reducing denied days. Measurable progress is being made. For example, Harbor-UCLA Medical Center (H-UCLA MC), has reduced its denied days percentage from approximately 20% in FY 2010-11 to 8% and 3%, respectively, in July and August 2011. This example demonstrates the Department's commitment to implementing effective ways of appropriately managing its resources while still focusing on quality of care. Such efforts are continuing throughout the Department's facilities.

For FY 2012-13, our current projections estimate a shortfall of $146.3 million (Attachment III). We are projecting this shortfall based on critical one-time expenses that are not included in the budget but must be incurred to meet various obligations. These items include Electronic Health Record costs, increased retirement and other employee benefit costs, and equipment costs for H-UCLA MC's Surgery/Emergency Department. The Department is working with the Chief Executive Office to determine ways of funding these unavoidable additional expenses. Attachment IV summarizes the changes that have occurred since our last report to your Board in August 2011.

As previously reported, the Department is dealing with major changes as it transforms to a managed care delivery system. The biggest impact on the Department is expected from two major programs: a) Medi-Cal Seniors and Persons with Disabilities (SPDs) and their transition into managed care, and b) the enrollment of significant numbers of previously uninsured patients into the Healthy Way LA (HWLA) matched

program. There are uncertainties associated with both of these populations. The transition to managed care for SPDs is occurring on a phased-in basis, with full transition of this population not occurring until May 2012. The Medi-Cal Coverage Expansion, i.e., the HWLA matched program, is in its first year of implementation and we are still refining the enrollment projections and associated revenues.

In addition, there are outstanding issues pending approval from the Centers for Medicare and Medicaid Services, including the waiver amendment related to Ryan White eligibles who are now to be covered under HWLA, the managed care rate supplement, and others. The timing of these approvals could potentially impact the current and/or next fiscal year's forecasts.

Also, because of the many changes expected to occur in FY 2013-14, such as the conversion of HWLA enrollees to full Medi-Cal, the impact of Health Care Reform, and the State's intention to revisit health care realignment funding, the Department is continuing to collect and refine available data and plans to provide a comprehensive forecast for FY 2013-14 by the end of this fiscal year.

The Department will also continue working closely with the CEO on budgetary and other fiscal-related issues and will report to your Board on any material changes impacting the fiscal outlook.

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

MHK:aw
Fiscal Outlook Nov 29 2011
609:005

Attachments (5)

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

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

FISCAL OVERVIEW

FISCAL YEAR 2011-12

(AS OF 11/15/11)

	TOTAL DEPARTMENT			HOSPITALS												AMBULATORY CARE [B]			JUVENILE COURT HEALTH SERVICES [C]			EMERGENCY MEDICAL SERVICES			OTHER GENERAL FUNDS		
				LAC+USC MEDICAL CENTER [A]			HARBOR-UCLA MEDICAL CENTER			RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER			OLIVE VIEW-UCLA MEDICAL CENTER													
	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE	BUDGET	FORECAST	VARIANCE
Expenses																											
Salaries:																											
- Salaries (excluding Overtime)	$ 1,283.9	$ 1,239.5	$ 44.4	$ 444.3	$ 430.9	$ 13.4	$ 280.8	$ 271.7	$ 9.1	$ 99.7	$ 92.2	$ 7.5	$ 161.8	$ 159.0	$ 2.8	$ 190.6	$ 184.4	$ 6.2	$ 19.3	$ 17.0	$ 2.3	$ 13.1	$ 12.8	$ 0.3	$ 74.3	$ 71.5	$ 2.8
- Overtime	55.2	67.2	(12.0)	26.3	31.9	(5.6)	11.3	14.8	(3.5)	2.7	2.7	-	7.2	9.9	(2.7)	4.6	4.5	0.1	1.7	2.2	(0.5)	0.2	0.1	0.1	1.2	1.1	0.1
Total Salaries	1,339.1	1,306.7	32.4	470.6	462.8	7.8	292.1	286.5	5.6	102.4	94.9	7.5	169.0	168.9	0.1	195.2	188.9	6.3	21.0	19.2	1.8	13.3	12.9	0.4	75.5	72.6	2.9
Employee Benefits	598.2	589.4	8.8	205.8	202.5	3.3	119.6	118.5	1.1	45.2	44.7	0.5	75.3	75.1	0.2	102.2	98.6	3.6	7.2	7.2	-	6.4	6.2	0.2	36.5	36.6	(0.1)
Total Salaries & Employee Benefits	1,937.3	1,896.1	41.2	676.4	665.3	11.1	411.7	405.0	6.7	147.6	139.6	8.0	244.3	244.0	0.3	297.4	287.5	9.9	28.2	26.4	1.8	19.7	19.1	0.6	112.0	109.2	2.8
Net Services & Supplies (S&S):																											
- Centralized Pharmacy	158.6	138.5	20.1	54.7	47.5	7.2	27.5	23.0	4.5	6.9	5.9	1.0	17.8	17.3	0.5	49.1	43.3	5.8	2.5	1.5	1.0	-	-	-	0.1	-	0.1
- Medical/Dental/Laboratory	145.2	182.5	(37.3)	66.0	93.9	(27.9)	41.3	46.7	(5.4)	10.5	6.9	3.6	14.2	21.1	(6.9)	12.7	10.7	2.0	0.3	0.3	-	0.2	0.2	-	-	2.7	(2.7)
- Medical School Affiliation Agreement	152.4	146.5	5.9	120.7	114.4	6.3	9.1	9.1	-	-	-	-	17.3	17.3	-	4.9	5.3	(0.4)	0.4	0.4	-	-	-	-	-	-	-
- Nurse Registries	23.4	34.1	(10.7)	19.8	25.1	(5.3)	0.6	1.1	(0.5)	0.4	0.8	(0.4)	1.4	4.0	(2.6)	1.0	1.7	(0.7)	0.2	1.4	(1.2)	-	-	-	-	-	-
- Other Registries	33.7	43.7	(10.0)	11.5	13.2	(1.7)	7.2	9.0	(1.8)	1.6	2.8	(1.2)	4.9	8.9	(4.0)	8.3	9.5	(1.2)	0.2	0.3	(0.1)	-	-	-	(0.0)	0.0	(0.0)
- Specialty Contracts (Physicians/Non-Phys.)	39.9	40.6	(0.7)	0.9	1.0	(0.1)	6.8	6.0	0.8	4.5	5.0	(0.5)	4.4	6.4	(2.0)	22.9	22.0	0.9	0.3	0.2	0.1	-	-	-	0.1	-	0.1
- S&S-Other	1,016.5	1,010.3	6.2	219.4	235.1	(15.7)	129.2	134.3	(5.1)	46.9	45.6	1.3	91.7	88.9	2.8	406.2	404.5	1.7	5.0	5.0	-	16.5	16.5	-	101.6	80.4	21.2
Total Net S&S	1,569.7	1,596.2	(26.5)	493.0	530.2	(37.2)	221.7	229.2	(7.5)	70.8	67.0	3.8	151.7	163.9	(12.2)	505.1	497.0	8.1	8.9	9.1	(0.2)	16.7	16.7	-	101.8	83.1	18.7
Other Expenses [D]	161.4	152.7	8.7	19.0	15.5	3.5	43.2	43.1	0.1	10.4	11.6	(1.2)	9.7	8.2	1.5	14.6	13.9	0.7	(30.4)	(30.2)	(0.2)	(2.2)	(2.2)	-	97.1	92.8	4.3
Total Expenses	**$ 3,668.4**	**$ 3,645.0**	**$ 23.4**	**$ 1,188.4**	**$ 1,211.0**	**$ (22.6)**	**$ 676.6**	**$ 677.3**	**$ (0.7)**	**$ 228.8**	**$ 218.2**	**$ 10.6**	**$ 405.7**	**$ 416.1**	**$ (10.4)**	**$ 817.1**	**$ 798.4**	**$ 18.7**	**$ 6.7**	**$ 5.3**	**$ 1.4**	**$ 34.2**	**$ 33.6**	**$ 0.6**	**$ 310.9**	**$ 285.1**	**$ 25.8**
Revenues																											
Waiver Revenues	$ 1,314.6	$ 1,304.6	$ (10.0)	$ 578.4	$ 573.6	$ (4.8)	$ 281.8	$ 278.9	$ (2.9)	$ 100.4	$ 99.6	$ (0.8)	$ 192.1	$ 190.6	$ (1.5)	$ 161.9	$ 161.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (0.0)	$ (0.0)	$ -
Federal & State - Other Revenues	409.8	432.2	22.4	136.4	147.4	11.0	90.9	97.0	6.1	35.3	37.5	2.2	58.0	61.5	3.5	75.0	74.7	(0.3)	0.5	0.5	-	13.1	13.1	-	0.6	0.5	(0.1)
Managed Care Revenues	440.4	388.6	(51.8)	78.1	60.3	(17.8)	64.7	42.1	(22.6)	0.7	-	(0.7)	37.1	32.3	(4.8)	259.8	253.9	(5.9)	-	-	-	-	-	-	-	-	-
Other County Department Revenues	270.9	283.1	12.2	41.9	44.9	3.0	18.1	20.5	2.4	1.1	1.1	-	18.4	21.0	2.6	9.8	9.6	(0.2)	-	-	-	2.3	2.3	-	179.3	183.7	4.4
Other Revenues	225.4	213.0	(12.4)	93.3	92.2	(1.1)	62.9	58.0	(4.9)	11.7	11.0	(0.7)	24.5	22.4	(2.1)	21.5	18.5	(3.0)	-	-	-	9.3	9.0	(0.3)	2.2	1.9	(0.3)
Total Revenues	**$ 2,661.1**	**$ 2,621.5**	**$ (39.6)**	**$ 928.1**	**$ 918.4**	**$ (9.7)**	**$ 518.4**	**$ 496.5**	**$ (21.9)**	**$ 149.2**	**$ 149.2**	**$ (0.0)**	**$ 330.1**	**$ 327.8**	**$ (2.3)**	**$ 528.0**	**$ 518.6**	**$ (9.4)**	**$ 0.5**	**$ 0.5**	**$ -**	**$ 24.7**	**$ 24.4**	**$ (0.3)**	**$ 182.1**	**$ 186.1**	**$ 4.0**
Net Cost - Before Prior Years' Surplus/(Deficit)	$ 1,007.3	$ 1,023.5	$ (16.2)	$ 260.3	$ 292.6	$ (32.3)	$ 158.2	$ 180.8	$ (22.6)	$ 79.6	$ 69.0	$ 10.6	$ 75.6	$ 88.3	$ (12.7)	$ 289.1	$ 279.8	$ 9.3	$ 6.2	$ 4.8	$ 1.4	$ 9.5	$ 9.2	$ 0.3	$ 128.8	$ 99.0	$ 29.8
Prior Years (PY)' Surplus/(Deficit)	-	17.4	17.4	-	11.9	11.9	-	0.8	0.8	-	-	-	-	0.2	0.2	-	1.0	1.0	-	-	-	-	-	-	-	3.5	3.5
Net Cost - After PYs' Surplus/(Deficit) [E]	**$ 1,007.3**	**$ 1,006.1**	**$ 1.2**	**$ 260.3**	**$ 280.7**	**$ (20.4)**	**$ 158.2**	**$ 180.0**	**$ (21.8)**	**$ 79.6**	**$ 69.0**	**$ 10.6**	**$ 75.6**	**$ 88.1**	**$ (12.5)**	**$ 289.1**	**$ 278.8**	**$ 10.3**	**$ 6.2**	**$ 4.8**	**$ 1.4**	**$ 9.5**	**$ 9.2**	**$ 0.3**	**$ 128.8**	**$ 95.5**	**$ 33.3**

Notes:

(A) Includes unreimbursed estimated cost of: (1) Sheriff Department $40.4 million - for providing inpatient, outpatient, and specialty services to inmates in County jails, and (2) Probation and Coroner's Department $1.0 million - for utilities and maintenance costs provided to the both Departments. In addition, DHS' FY 11-12 Capital Projects Budget (not reflected on this schedule) includes $4.5 million - Probation and Coroner's Department share of the Central Plant one-time upgrade to be in compliance with AQMD Rule 1146.

(B) Includes Multi-Service Ambulatory Care Centers, Comprehensive & Community Health Centers, Community Partners, Office of Manged Care, and Ambulatory Care's administrative units.

(C) Juvenile Court Health Services (JCHS) provides medical services to Probation youth who are under the responsibility of the Probation Department. The current forecast reflects $4.8 million unreimbursed net cost from Probation for FY 11-12. The $1.4 million reduction from the budgeted funding gap of $6.2 million from Probation is primarily due to hiring delays for the Department of Justice Camp Settlement Agreement and under-realized pharmaceutical expenses.

(D) Includes Other Charges, Capital Assets, and Operating Transfer Out, and net of Intrafund Transfers.

(E) The Net Cost of $1,007.3 million is comprised of County Contribution, Vehicle License Fee, Sales Tax, Measure B, Tobacco Settlement fund, and DHS' Fund Balance.

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

WORKLOAD

FISCAL YEAR 2010-11 ACTUAL vs FISCAL YEAR 2011-12 PROJECTION

(AS OF 11/15/11)

	TOTAL DEPARTMENT			LAC+USC MEDICAL CENTER			HARBOR-UCLA MEDICAL CENTER			RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER			OLIVE VIEW-UCLA MEDICAL CENTER			AMBULATORY CARE [A]			OTHER GENERAL FUNDS		
	FY 10-11 ACTUAL	FY 11-12 PROJECTION [B]	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE	FY 10-11 ACTUAL	FY 11-12 PROJECTION	CHANGE
Average Daily Census	1,321	1,295	(26)	587	567	(20)	359	336	(23) [C]	183	186	3	192	206	14	-	-	-	-	-	-
Inpatient Days	482,165	472,675	(9,490)	214,255	206,955	(7,300)	131,035	122,640	(8,395)	66,795	67,890	1,095	70,080	75,190	5,110	-	-	-	-	-	-
Admissions	72,308	74,156	1,848	32,601	32,524	(77)	22,109	21,768	(341)	3,930	3,930	-	13,668	15,934	2,266	-	-	-	-	-	-
Ambulatory Care / Urgent Care / Community Partners Visits	2,951,155	2,940,600	(10,555)	541,814	541,814	-	337,799	335,997	(1,802)	76,509	74,144	(2,365)	212,775	212,548	(227)	1,782,258	1,776,097	(6,161)	-	-	-
Emergency Department Visits	256,479	258,381	1,902	135,751	135,882	131	72,607	72,188	(419)	-	-	-	48,121	50,311	2,190	-	-	-	-	-	-
Emergency Department Psych. Visits	22,736	22,521	(215)	8,976	8,803	(173) [D]	8,029	7,935	(94)	-	-	-	5,731	5,783	52	-	-	-	-	-	-
Juvenile Court Health Services Visits	95,568	94,693	(875)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	95,568	94,693	(875)

(A) Includes Multi-Service Ambulatory Care Centers, Comprehensive & Community Health Centers, and Community Partners.

(B) FY 11-12 projection is based on the August 2011 workload report.

(C) The census is appropriately decreasing due to efforts to reduce denied days. Denied days is down to 8% and 3%, respectively, for July through August 2011.

(D) The decrease in ED Psych visits are primarily due to the opening of the Exodus Urgent Care Center. The acuity patients that were seen at ED Psych are now seen at the Exodus Urgent Care Center.

ATTACHMENT II

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF DHS FISCAL OUTLOOK

AS OF NOVEMBER 15, 2011

		Fiscal Year (FY) / $ In Millions	
(1)	**Estimated Year-End Fund Balance of FY 11-12**	**$**	**1.2**
	Major Changes for FY 12-13		
(2)	Projected Electronic Health Record costs	$	(72.2)
(3)	Projected increase in retirement costs [(A)]		(40.6)
(4)	Projected increase in other employee benefits costs [(B)]		(21.8)
(5)	Incremental change for H-UCLA MC Surgery/Emergency Department's equipment costs		(11.3)
(6)	Other miscellaneous operational changes		(0.4)
(7)	**Estimated Year-End Shortfall of FY 12-13**		**(146.3)**
(8)	**Total**	**$**	**(145.1)**

Notes:

(A) Reflects projected increased employer contribution rates for County Retirement based on the downturn in the investment market.

(B) The reduced County's matching contribution percentages are resumed to 4% effective FY 12-13. They were reduced to 2% or 3%, depending on the cafeteria health plans of the participating employees, for both Horizons and Savings Plans in FY 11-12. Also reflects changes in estimates primarily for variable employee benefits based on historical trends and year-to-date actual.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

AUGUST 19, 2011 THROUGH NOVEMBER 15, 2011

		Fiscal Year (FY) / $ In Millions		
		11-12	12-13	Total
(1)	**Estimated Non-Cumulative Year-End Fund Balances/(Shortfalls) - 8/19/11 [A]**	**$ (59.1)**	**$ (231.5)**	**$ (290.6)**
	Subsequent Developments			
(2)	Hospital Provider Fee for July 2011 through December 2013	30.0	30.0	60.0
(3)	Additional Out of Plan costs for the new Healthy Way LA contract with the Centers for Medicare and Medicaid Services	(8.0)	(20.0)	(28.0)
(4)	Forecast improvements for lower than anticipated expenditures and higher than anticipated revenues [B]	26.0	-	26.0
(5)	Additional efficiency savings included in the FY 11-12 Final Budget	12.5	12.5	25.0
(6)	Revised projected Electronic Health Record costs	38.2	(13.6)	24.6
(7)	Adjustments to projected employee benefits costs [C]	8.8	15.7	24.5
(8)	Adjustments to the assumed salary COLA included in Line (1) above [D]	-	18.2	18.2
(9)	Implementation of Plan of Correction at OV-UCLA Medical Center included in the FY 11-12 Final Budget [E]	(4.8)	(9.6)	(14.4)
(10)	Reduced projected costs for other County departments charges and contracts with COLA provisions to reflect the change in COLA assumptions as stated in Line (7) above	-	5.4	5.4
(11)	Projected delay in receiving Managed Care Rate Supplement revenue	(33.8)	33.8	-
(12)	Projected delay in receiving reallocation of Health Care Coverage Initiative revenue	(10.0)	10.0	-
(13)	Other changes in current year operating forecast / minor updates to future estimates	1.4	2.8	4.2
(14)	**Revised Estimated Non-Cumulative Year-End Fund Balances/(Shortfalls) - 11/15/11 [A]**	**$ 1.2**	**$ (146.3)**	**$ (145.1)**

Notes:

(A) This does not include necessary system improvements/investments such as increasing the nurse staffing ratio to comply with the Assembly Bill (AB) 394 requirements, and additional equipment costs for the new High Desert Multi-Service Ambulatory Care Center (MACC) and Martin Luther King MACC. The Department is continuing to work on these items and determine the fiscal impact.

(B) This reflects reduced working capital interest expenses per the Auditor-Controller, reduced indemnity charges per the CEO-Risk Management, and reduced prior year expenditures due to anticipated cancellation of / reduction in commitments and accounts payables. Improved revenues include Medi-Cal Outpatient, Section 1011, Medi-Cal Health Maintenance Organization (HMO), Medicare HMO, and Medicare.

(C) This primarily reflects the revised potential financial impact on the employer contribution rate for the retirement costs due to the recent investment market decline. Based on CEO's input, the percentage increase in the employer contribution rate is reduced from previously projected. This also reflects reduced employee benefit costs based on FY 10-11 final actual adjusted for historical experiences and inflation factors extended through FY 12-13.

(D) For planning purposes, in order to present conservative cost estimates, the DHS Fiscal Outlook assumes an annual salary COLA of 3%, effective January 1, 2014. No increase would take place unless the Board approves a COLA increase for County staff in the future. This change reflects the removal of the assumed COLA that was included as of January 1, 2013.

(E) This reflects Board-approved additional positions (with 6-month funding for FY 11-12) to resolve an Immediate Jeopardy (IJ) finding by State Surveyors, who had identified procedural gaps in pain assessment, the communication of vital signs during the triage process, and length of time between triage and medical screening exams in the Department of Emergency Medicine. The surveyors extended this IJ status to the Centers for Medicare & Medicaid Services, which elevated it to a Federal Emergency Medical Treatment and Active Labor Act violation.