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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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February 19, 2013

TO: Each Supervisor

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

SUBJECT: **REPORT ON PROJECTED IMPACT OF AFFORDABLE CARE ACT ON THE DEPARTMENT OF HEALTH SERVICES IN FISCAL YEAR 2014-15**

This report focuses on the projected fiscal impact of the Affordable Care Act (ACA) on the Department of Health Services (DHS) in Fiscal Year (FY) 2014-15.

As previously discussed, the ACA is effective January 1, 2014 which is at the midpoint of the County's fiscal year. In order to provide a full year analysis of the impact of the ACA, the Department is using FY 2014-15, the first full fiscal year post-ACA implementation, as its base year.

The analysis is based on multiple factors and assumptions, including the Department's experience to date with the Healthy Way LA program and anticipated levels of participation in the Medi-Cal expansion and ACA exchange coverage programs. Although we used all available data to make some of the projections, we also had to make some significant assumptions regarding program enrollment percentages, level of patient retention, expected utilization trends, and capitation rates. In addition, because funding from Disproportionate Share Hospital (DSH) and the Safety Net Care Pool are shared among the 21 public hospitals statewide using a distribution formula based on the numbers of uninsured and other factors, there are assumptions regarding these two funding streams included in the projections.

Overview

As part of the Bridge to Reform Waiver, certain revenues were front-loaded to provide support to public hospitals in transforming their systems to adapt to changes under the ACA, and then those funds are reduced in each subsequent year of the Waiver. In addition to the Waiver reductions, the ACA specifies DSH reductions beginning in 2014.

Overall, the implementation of the ACA is expected to have a positive impact, with Medi-Cal revenue expected to increase as more people obtain coverage under expanded Medi-Cal. However, it is also critical to recognize that the increase in Medi-Cal revenue will be offset by the scheduled reductions in Waiver and DSH revenues as well as the additional costs the Department will need to incur to ensure the DHS system is able to meet the requirements and challenges of health care reform.

Given the numerous factors involved in the analysis and because we had to make assumptions regarding future patient behavior, I thought it would be illustrative to present three scenarios projecting the fiscal impact on DHS for FY 2014-15. The three scenarios and other information are provided in the slide presentation (attached).

Scenario I

The first scenario assumes that the Department will have essentially the same utilization, enrollment and retention levels as FY 2012-13. Effective January 1, 2014, the FMAP will increase for the Healthy Way LA (HWLA) population transitioning to ACA Medi-Cal expansion from 50% County/50% Federal to 100% Federal. Based on the FMAP increase, the Department projects additional Medi-Cal expansion revenue of $108 million. Under this set of assumptions, the Department projects a balanced budget for FY 2014-15 that includes $41.3 million to pay for future committed ACA investments, e.g., the Electronic Health Record.

Scenario II

Under this scenario, we assumed that there would be a 30% reduction in HWLA members and their associated revenues as they gain coverage under Medi-Cal expansion in FY 2014-15. If this occurs, the difference in the Department's FY 2014-15 budget from Scenario I would be a net financial loss of $(59.7) million.

Scenario III

Under this scenario, we assumed that there would be a 10% increase in HWLA members and their associated revenue as they gain coverage under Medi-Cal expansion in FY 2014-15. If this occurs, the difference in the Department's FY 2014-15 budget from Scenario I would be a net financial gain of $19.9 million. Under this set of circumstances, the additional funds would be used to pay for ACA-related investments.

The Department will provide budget projections for FY 2013-14 at the Budget Committee of the Whole, scheduled for March 19, 2013.

Please let me know if you have any questions or need additional information.

MHK:aw

Attachment
(ACAreportFeb 19 2013)

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

DHS Fiscal Impact Projections:
Affordable Care Act
Fiscal Year 2014-15

Mitchell H. Katz, MD
Director
LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES

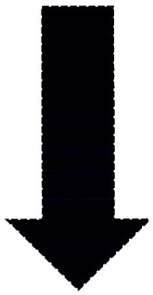
February 19, 2013

ACA Impact on DHS Revenue

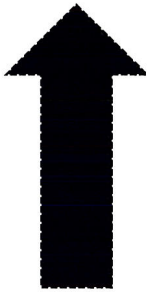
BIG PICTURE

Waiver

Disproportionate Share Hospital



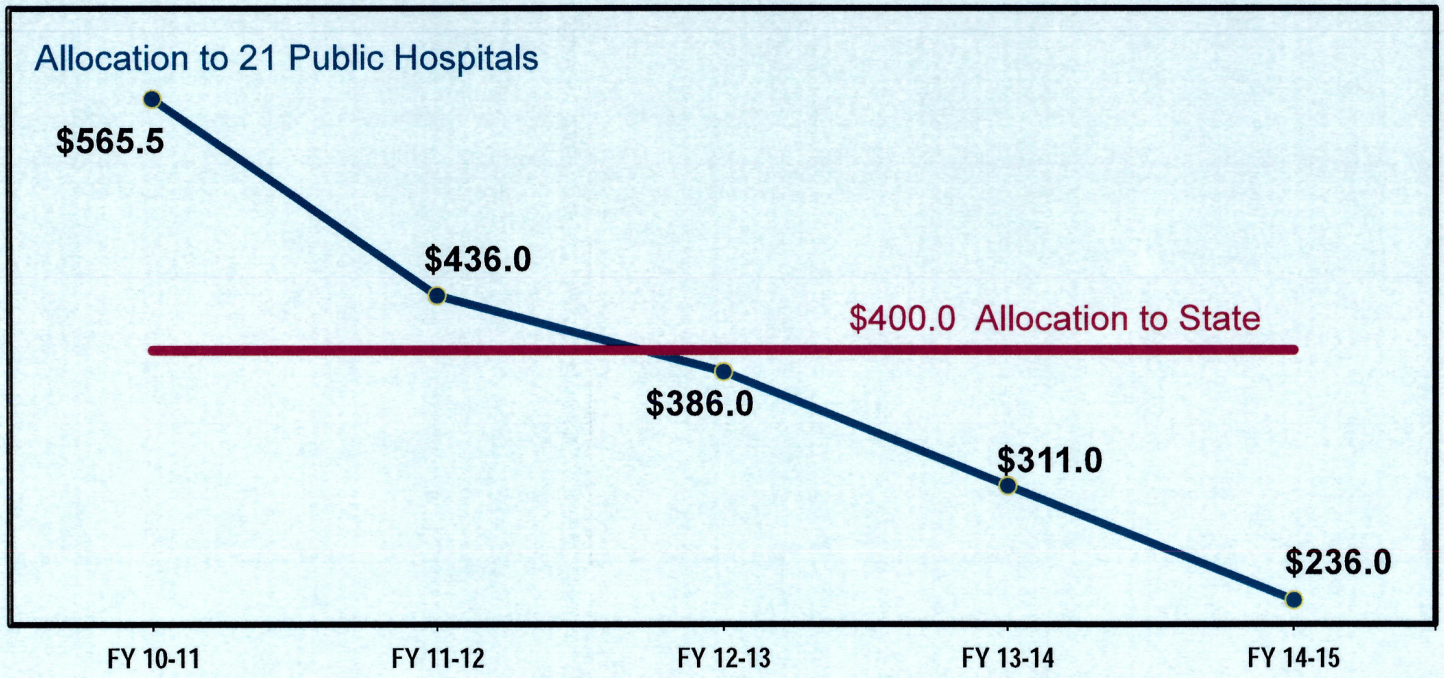
Medi-Cal



Safety Net Care Pool
Uncompensated Care Funding *

Payments Front Loaded in Waiver

($ in millions)



* Does not include any unspent Health Care Coverage Initiative (HCCI) funding converted to SNCP uncompensated care funding. These amounts will be shared 50/50 with the State.

Disproportionate Share Hospital Funding Reductions

	2014	2015	2016	2017	2018	2019	2020
Reductions Nationwide	$500M	$600M	$600M	$1.8B	$5.0B	$5.6B	$4.0B

DSH formula allocation has not been issued by CMS
Estimates below are based on pro rata

Estimated Reductions to LAC DHS	$18M	$22M	$22M	$66M	$184M	$206M	$147M

Estimated Revenue Increase from Medi-Cal Expansion

$ in Millions

2014	2015	2016	2017	2018	2019	2020
$108	**$111**	**$115**	**$118**	**$122**	**$125**	**$129**

Increase in DHS Revenue results from change in FMAP percentage from 50/50 County/Federal from HWLA to 100% Federal for Medi-Cal expansion effective January 1, 2014

Additional Medi-Cal Revenues Due to ACA

- More patients eligible for expanded Medi-Cal limited scope (Emergency Care)
- Due to administrative simplification and increased outreach, there will be more traditional Medi-Cal beneficiaries

DHS Budget FY 2014-15
Scenario I

- Assumes no change in HWLA membership for transition to Medi-Cal expansion
- Assumes no change in utilization for transition from HWLA to Medi-Cal expansion
- Assumes Medi-Cal expansion additional revenue of $108 million
- Includes previously approved increased Employee Benefits and Debt Service costs of $71 million
- Assumes $41.3 million to pay for future committed ACA Investments
- Assumes balanced budget

$ in millions				
COSTS	**REVENUES**			
Uninsured	DSH	SNCP	Self Pay	Realignment
$808	$359	$106	$19	$333

Vital Investments In DHS

MAJOR INVESTMENT PROJECTS ALREADY BOARD-APPROVED

- Olive View-UCLA ER
- Harbor-UCLA ER expansion
- Electronic Health Records
- MLK MACC
- MLK Hospital
- High Desert MACC
- Rancho Inpatient

Vital Investments In DHS

UNMET CAPITAL NEEDS
NOT YET APPROVED BY BOARD

- Harbor-UCLA Inpatient
- LAC+USC Expansion and Parking
- MLK Master Plan Additions
- Rancho Outpatient

DHS Budget FY 2014-15

Scenario II

- Only difference from Scenario I is a 30% reduction in HWLA Members and their associated revenues as they gain coverage under Medi-Cal expansion
- Only variable costs are reduced
- Difference from Scenario I is net financial loss of $(59.7) million on FY 14-15 Budget

DHS Budget FY 2014-15

Scenario III

- Only difference from Scenario I is a 10% increase in HWLA Membership and their associated revenues as they gain coverage under Medi-Cal expansion
- Only variable costs are increased
- Difference from Scenario I is net financial gain of $19.9 million on FY 14-15 Budget

ACA Financial Model

- Model is a work in progress
- Model based on multiple assumptions
- Key assumptions with greatest impact
  - Next Waiver negotiations (value of existing Waiver in FY 14-15 is $339M)
  - Medi-Cal expansion rates and lives
  - DSH allotment to California
  - Uninsured volume at public hospitals