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October 28, 2009

TO: Each Supervisor

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

SUBJECT: COMMUNITY HEALTH PLAN'S MEDI-CAL FUNDING AGREEMENT WITH LA CARE HEALTH PLAN

This is to advise you that the Department of Health Services will be filing a Board letter soon, for Board consideration of a new Plan Partner Medi-Cal funding agreement with LA Care Health Plan (LA Care) for the Department's Community Health Plan (CHP). This agreement must come to the Board for approval, because there are substantial changes in payment methodologies and other contractual provisions that govern the compensation to CHP for the Medi-Cal managed care program.

The current agreement expired on September 30, 2009 and, using delegated authority, I signed a 30-day extension of that agreement, and will execute additional extensions offered by LA Care through December 31, 2009.

The changes in payment methodologies will have a significant revenue impact on the Department. A summary of the projected funding reductions follows:

CONTRACT CHANGE	YEAR 1 IMPACT	YEAR 2 IMPACT	YEAR 3 IMPACT
Risk-Based Rates	($4.0 million)	($12.0 million)	($20.0 million)
Maternity Rates	($4.5 million)	($4.5 million)	($4.5 million)
Quality Program	($3.5 million)	($3.5 million)	(3.5 million)
E-Health	($0.1 million)	($0.1 million)	($0.1 million)
Total Annual Impact	($12.1 million)	($20.1 million)	($28.1 million)
Current Annual LA Care Revenue to CHP	$156 million	$156 million	$156 million
% Funding Decrease	7.8%	12.9%	18.0%

RISK-BASED RATES

On October 1, 2009, the State Department of Health Care Services (SDHCS) implemented risk-based rates. In Los Angeles County, SDHCS adjusted the rates of Health Net and LA Care, according to the acuity of the population enrolled in each plan, with a phase-in over three years. Although not required by SDHCS, LA Care decided to implement risk-based rates for its Plan Partners [Blue Cross, Care First, Kaiser, CHP, and LA Care's own direct plan], using the same phase-in schedule. CHP's enrolled population had measured lower acuity than the average in LA Care and thus the overall rate reduction was calculated at $20 million, with 20% ($4.0 million) in the first year, 60% ($12.0 million) the second, and 100% ($20.0 million) the third. The methodology used by LA Care, one of the accepted methodologies for assessing acuity, used pharmacy data, both scripts and high-cost injectible medications. CHP was disadvantaged in this respect by under-reported injectible data. DHS is actively working to find ways to obtain better injectible data prior to an electronic health record implementation.

MATERNITY RATES

SDHCS also implemented a new fee-for-service methodology to pay for live births, effective October 1, 2009, and adjusted both LA Care and Health Net's rates to carve out the maternity. Again, while not required by SDHCS, LA Care decided to implement this new methodology with its Plan Partners. The gross amount of the reduction for CHP was $13.6 million annually. Based on recent birth data, CHP projects 1800 deliveries per year, earning $9.1 million in revenue. The annual net revenue loss in projected to be $4.5 million, because CHP's birth rate is 1.2 births/1000 members, compared with the LA Care average of 1.8 births/1000 members.

QUALITY IMPROVEMENT PROGRAM

Since 2006, SDHCS had implemented a quality improvement program which provided LA Care with an additional 3% funding to improve quality of care. LA Care used two-thirds of these funds to provide direct incentives of providers of each of the Plan Partners. The remaining one-third could be earned by Plan Partners. SDHCS eliminated this program on September 30, reducing the funding to LA Care. LA Care has decided to reduce each Plan Partner by this 3%, to fund the quality improvement program. CHP can earn back 1% of this, based on performance criteria. Assuming that CHP meets performance criteria, the net impact will be $3.5 million.

E-PRESCRIBING

Another new feature of the proposed agreement requires CHP to spend up to $100,000 annually to participate in LA Care's e-prescribing initiative.

CONTRACT NEGOTIATIONS

Negotiations were difficult. Although LA Care provided CHP with an initial draft contract proposal and began negotiations in April 2009, the new rates for CHP were not provided by LA Care until September. Back-up information to determine how the rate changes were implemented was hard to obtain. During negotiations, LA Care remained firm on its proposed financial terms and CHP had no alternative but to present the new contract to your Board. LA Care also indicated that if CHP was unwilling to present the proposed terms to your Board, LA Care would implement a freeze to CHP's enrollment effective November 1, 2009.

SUMMARY

The total fiscal impact for these changes is estimated at $12.1m for the first year, $20.1m for the second year, and $28.1m for the third year of the contract term. Some of the projected losses attributable to risk-based rates in both years two and three can be partially mitigated with improved data collection. These reductions are significant funding losses to CHP. DHS has asked LA Care to provide grant funding to assist with improved data capture, so that the risk-adjusted rates for CHP can be based on a more accurate and complete evaluation of the acuity of the members.

The Department expects to file the Board letter for an early December agenda. In the meantime, if you have any questions or require additional information, please let me know.

JFS:tl

c: Chief Executive Officer
Acting County Counsel
Executive Officer, Board of Supervisors