



March 20, 2012

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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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TO: Each Supervisor

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

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (BOARD AGENDA, ITEM S-1 MARCH 20, 2012)**

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 November 29, 2011. As of March 2, 2012, the Department is projecting a surplus for FY 2011-12 of \$9.6 million.

The Workload schedule (Attachment II) provides a comparison between FYs 2010-11 and 2011-12 on key workload indicators, e.g., days and visits. The Department continues its efforts to adapt to the changing health care marketplace through internal realignment and restructuring of resources and process changes focused on developing efficiencies and increasing productivity as much as possible. For example, over the last several months, LAC+USC Medical Center has implemented several process changes in its emergency department (ED) designed to improve the hospital's ability to see patients. These changes have resulted in increased numbers of patients being seen in the ED at LAC+USC.

The Department is projecting a \$73.4 million shortfall in FY 2012-13 (Attachment III), primarily due to a projected increase in employee benefit costs. DHS is working on various ideas to address the projected shortfall. One of the primary ideas is to secure an increase in the In-Home Supportive Services health plan rates, which were last increased in 2006. DHS is working closely with the Department of Public Social Services (DPSS) on a proposal for an actuarially sound rate increase, to be effective July 2012, to help offset the cost of medical care provided to enrollees in this health plan. DHS and DPSS will be coming to your Board shortly requesting approval to submit the request for a rate increase to the State. If the rate increase is approved, the Department estimates additional revenue of approximately \$54.0 million for FY 2012-13.

Attachment IV summarizes other potential items that could impact the fiscal forecast, including the proposed waiver amendment regarding Ryan White eligibles who are being transitioned to the Healthy Way LA (HWLA) program. The proposed amendment is still pending approval by the Centers for Medicare and Medicaid Services.

Another issue with significant impact on the fiscal forecast is the development of a plan to finance implementation of the Electronic Health

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Record (EHR), required by the Affordable Care Act. On December 19, 2011, DHS reported to your Board that it estimates its EHR costs at approximately \$283 million, with as much as \$100 million available from hospital and eligible professional incentive funds to offset this cost. The Department has been working closely with the Chief Executive Office (CEO) on this issue and a general financing plan has been outlined. The Department expects to go to your Board no later than the end of December 2012 to recommend a contract with the selected EHR vendor. At that time, the Department will also present for your Board's approval an EHR financing plan.

As currently contemplated through working with the CEO, the general plan is to fund the initial development of the EHR system through the issuance of taxable commercial paper over a two to three year period. During this initial development period, DHS would be responsible for interest-only payments using existing resources. Upon completion of the EHR development, DHS will utilize then available resources to redeem, to the extent possible, outstanding commercial paper. Any commercial paper that remained outstanding on the EHR would be converted to long-term bonds with a final maturity of eight to ten years. Each year, the Department would budget an amount sufficient to fund the payment of principal and interest due on the long-term bonds. The annual budgetary appropriation would be funded by items such as EHR incentive payments, waiver funds, tobacco settlement funds, increased revenue from Health Care Reform, and existing resources.

The Department is continuing to make adjustments that are necessary to accommodate the changes taking place in our patient population, including the phasing in of Seniors and Persons with Disabilities into managed care and the large numbers of previously uninsured patients enrolling in the HWLA program. Some of the changes being implemented include revising various patient identification, service tracking, payor designation, and data collection processes to ensure that necessary information is obtained, documented, and recorded. These changes are expected to result in improved overall data and provide a more accurate basis for making enrollment projections and estimating associated revenues.

In the future, it is likely that the State will consider changes to health care realignment funding, given reductions in the number of uninsured currently occurring under the waiver expansion programs and further reductions expected under Health Care Reform. DHS will continue working with the CEO to monitor proposals that could alter current funding streams, and will report to your Board any changes that would be material to the Department's fiscal outlook.

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

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Attachments (4)

c: Chief Executive Office
County Counsel

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Executive Office, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
FISCAL OVERVIEW
 FISCAL YEAR 2011-12
 (AS OF 3/27/12)

	HOSPITALS												OTHER GENERAL FUNDS															
	TOTAL DEPARTMENT		LAC+USC MEDICAL CENTER (A)		HARBOR-UCLA MEDICAL CENTER		RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER		OLIVE VIEW-UCLA MEDICAL CENTER		AMBULATORY CARE (B)		JUVENILE COURT HEALTH SERVICES (C)		EMERGENCY MEDICAL SERVICES													
	BUDGET (H)	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	BUDGET	FORECAST	VARIANCE									
Expenses:																												
Salaries:	\$ 1,271.9	\$ 1,231.2	\$ 40.7	\$ 426.6	\$ 6.7	\$ 268.5	\$ 12.3	\$ 98.2	\$ 93.6	\$ 4.6	\$ 161.8	\$ 160.4	\$ 1.4	\$ 190.3	\$ 182.8	\$ 7.5	\$ 19.8	\$ 18.7	\$ 3.1	\$ 13.1	\$ 12.4	\$ 0.7	\$ 74.6	\$ 70.2	\$ 4.4			
- Salaries (excluding Overtime)	55.2	65.0	(9.8)	26.3	30.0	(3.7)	11.3	27.5	23.0	4.5	7.2	9.4	(2.2)	4.7	4.5	0.2	1.7	2.1	(0.4)	0.1	0.1	-	1.2	1.1	0.1			
- Overtime	1,327.1	1,296.2	30.9	459.6	3.0	292.1	283.6	8.5	100.9	96.3	4.6	169.0	169.8	0.8	187.3	7.7	21.5	18.8	2.7	13.2	12.5	0.7	75.8	71.3	4.5			
Total Salaries	594.1	584.6	9.5	201.6	199.6	2.0	119.6	452.4	44.7	0.5	75.3	73.5	1.8	102.2	6.0	1.9	7.3	7.2	0.1	6.4	6.0	0.4	36.5	36.9	(0.4)			
Employee Benefits	1,921.2	1,880.8	40.4	661.2	656.2	5.0	411.7	146.1	141.0	5.1	244.3	243.3	1.0	297.2	287.6	9.6	28.8	28.0	2.8	19.6	18.6	1.1	112.3	108.2	4.1			
Total Salaries & Employee Benefits	158.5	138.5	20.0	54.7	47.5	7.2	27.5	6.9	5.9	1.0	17.8	17.3	0.5	49.1	43.3	5.8	2.5	1.5	1.0	-	-	-	-	-	-	-		
Net Services & Supplies (S&S):	149.2	182.2	(33.0)	70.0	95.3	(25.3)	41.3	10.5	6.8	3.7	14.2	21.1	(6.9)	12.7	11.0	1.7	0.3	0.3	-	0.2	0.3	-	-	0.7	(0.7)			
- Centralized Pharmacy	152.4	145.5	6.9	120.7	113.3	7.4	9.1	-	-	-	17.3	17.2	0.1	4.9	5.5	(0.6)	0.4	0.4	-	-	-	-	-	-	-			
- Medical/Dental/Laboratory	39.4	48.7	(9.3)	31.8	37.9	(6.1)	0.6	1.3	(0.7)	0.4	5.4	5.3	0.1	1.0	2.0	(1.0)	0.2	1.3	(1.1)	-	-	-	-	-	-			
- Medical School Affiliation Agreement	34.2	46.0	(11.8)	11.5	14.2	(2.7)	7.2	1.6	2.9	(1.3)	4.9	9.2	(4.3)	8.8	10.0	(1.2)	0.2	0.2	-	-	-	-	(0.0)	(0.0)	(0.0)			
- Nurse Registries	40.2	42.6	(2.4)	0.9	1.0	(0.1)	6.8	7.0	0.2	0.2	4.4	6.4	(2.0)	23.2	22.9	0.3	0.4	0.2	0.2	-	-	-	-	-	-			
- Other Registries	1,012.2	933.8	78.4	219.4	234.0	(14.6)	129.4	131.3	(1.9)	46.9	91.7	87.8	3.9	401.8	334.8	67.0	5.0	5.1	(0.1)	17.1	16.0	1.1	100.9	79.9	21.0			
- Specialty Contracts (Physicians/Non-Phys.)	1,586.1	1,537.3	48.8	509.0	543.2	(34.2)	221.9	227.9	(6.0)	70.8	155.7	164.3	(8.6)	501.5	429.5	72.0	9.0	9.0	0.0	17.3	16.3	1.0	100.9	80.6	20.3			
- S&S-Other	161.6	156.4	5.2	18.2	17.5	0.7	43.2	39.6	3.6	11.9	9.7	7.9	1.8	14.7	13.7	1.0	(31.1)	(30.0)	(1.1)	(2.2)	(2.2)	-	97.2	98.5	(1.3)			
Total Net S&S	\$ 3,668.9	\$ 3,574.5	\$ 94.4	\$ 1,188.4	\$ 1,216.9	\$ (28.5)	\$ 676.8	\$ 667.5	\$ 9.3	\$ 228.8	\$ 218.9	\$ 9.9	\$ 409.7	\$ 415.5	\$ (5.8)	\$ 813.4	\$ 730.8	\$ 82.6	\$ 6.7	\$ 5.0	\$ 1.7	\$ 34.7	\$ 32.6	\$ 2.1	\$ 310.4	\$ 287.3	\$ 23.1	
Other Expenses (E)																												
Revenues																												
Waiver Revenues	\$ 1,314.6	\$ 1,287.7	\$ (26.9)	\$ 578.4	\$ 547.2	\$ (31.2)	\$ 281.8	\$ 298.8	\$ 17.0	\$ 100.4	\$ 93.6	\$ (7.4)	\$ 192.1	\$ 189.3	\$ (2.8)	\$ 161.9	\$ 159.4	\$ (2.5)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.0)	\$ -	\$ 0.0	
Federal & State - Other Revenues	410.4	425.4	15.0	136.4	150.5	14.1	90.9	93.0	2.1	35.3	35.3	-	58.0	59.1	1.1	75.0	74.4	(0.6)	0.5	0.5	-	13.5	11.8	(1.7)	0.8	(0.0)		
Managed Care Revenues	440.4	366.9	(73.5)	78.1	69.3	(8.8)	64.7	71.2	6.5	0.7	1.6	0.9	37.1	38.2	1.1	259.8	186.6	(73.2)	-	-	-	-	-	-	-	-		
Other County Department Revenues	268.8	248.9	(19.9)	41.9	25.9	(16.0)	18.1	13.0	(5.1)	1.1	1.1	1.1	18.4	13.3	(5.1)	9.8	10.0	0.2	-	-	-	-	-	-	179.5	185.6	6.1	
Other Revenues (G)	227.5	176.4	(51.1)	93.3	81.2	(12.1)	62.9	53.6	(9.3)	11.7	6.4	(5.3)	24.5	18.3	(6.2)	21.5	7.8	(13.7)	-	(0.2)	(0.2)	13.6	12.6	(1.0)	-	(3.3)		
Total Revenues	\$ 2,661.7	\$ 2,505.3	\$ (156.4)	\$ 928.1	\$ 874.1	\$ (54.0)	\$ 518.4	\$ 529.6	\$ 11.2	\$ 149.2	\$ 137.4	\$ (11.8)	\$ 330.1	\$ 318.2	\$ (11.9)	\$ 528.0	\$ 438.2	\$ (89.8)	\$ 0.5	\$ 0.3	\$ (0.2)	\$ 27.1	\$ 24.4	\$ (2.7)	\$ 180.3	\$ 183.1	\$ 2.8	
Net Cost - Before PYs' Surplus/(Deficit)	\$ 1,007.2	\$ 1,069.2	\$ (62.0)	\$ 260.3	\$ 342.8	\$ (82.5)	\$ 158.4	\$ 137.9	\$ 20.5	\$ 79.6	\$ 81.5	\$ (1.9)	\$ 79.6	\$ 97.3	\$ (17.7)	\$ 285.4	\$ 292.6	\$ (7.2)	\$ 6.2	\$ 4.7	\$ 1.5	\$ 7.6	\$ 8.2	\$ (0.6)	\$ 130.1	\$ 104.2	\$ 25.9	
Prior Years (PYs)' Surplus/(Deficit)	-	71.6	71.6	-	55.5	55.5	-	(9.7)	(9.7)	-	(11.0)	(11.0)	(10.4)	(10.4)	44.5	-	44.5	44.5	-	(1.0)	(1.0)	-	-	-	-	3.7	3.7	
Net Cost - After PYs' Surplus/(Deficit) (H)	\$ 1,007.2	\$ 997.6	\$ 9.6	\$ 260.3	\$ 287.3	\$ (27.0)	\$ 158.4	\$ 147.6	\$ 10.8	\$ 79.6	\$ 92.5	\$ (12.9)	\$ 79.6	\$ 107.7	\$ (28.1)	\$ 285.4	\$ 248.1	\$ 37.3	\$ 6.2	\$ 5.7	\$ 0.5	\$ 7.6	\$ 8.2	\$ (0.6)	\$ 130.1	\$ 100.5	\$ 29.6	

Notes:

(A) Includes unreimbursed estimated costs of: (1) Sheriff's Department \$40.4 million - for providing inpatient, outpatient and specialty services to inmates in County jails, and (2) Departments of Probation and Coroner \$10 million - for utilities and maintenance costs provided to both Departments. In addition, DHS' FY 11-12 Capital Projects Budget (not reflected on this schedule) includes \$4.5 million for the share of Departments of Probation and Coroner the Central Plant one-time upgrade to be in compliance with the South Coast Air Quality Management District (AQMD) Rule 1146.

(B) Includes Multi-Service Ambulatory Care Centers, Comprehensive & Community Health Centers, Community Partners, Office of Managed 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 Department of Probation. The current forecast reflects \$5.5 million (net of \$0.2 million projected shortfall of Vehicle License Fee reflected in Other Revenues) unreimbursed net cost from Probation for FY 11-12. The \$0.7 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 the budget adjustments approved by the Board of Supervisors on February 28, 2012 to reallocate/realign appropriations within DHS.

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

(F) Includes capital projects' surplus of \$3.9 million due to implementation delays.

(G) Includes Vehicle License Fee deficit of \$20.0 million.

(H) The Net Cost of \$1,007.2 million is comprised of County Contribution, Vehicle License Fee, Sales Tax, Measure B, Tobacco Settlement fund, and DHS' Fund Balance.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

WORKLOAD

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

(AS OF 3/2/12)

	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)	FY 10-11 ACTUAL	FY 11-12 PROJECTION	FY 10-11 ACTUAL	FY 11-12 PROJECTION	FY 10-11 ACTUAL	FY 11-12 PROJECTION	FY 10-11 ACTUAL	FY 11-12 PROJECTION	FY 10-11 ACTUAL	FY 11-12 PROJECTION	FY 10-11 ACTUAL	FY 11-12 PROJECTION
Average Daily Census	1,321	1,283	587	576	359	334	183	179	192	194	-	-	-	-
Inpatient Days	482,165	468,295	214,255	210,240	131,035	121,910	66,795	65,335	70,080	70,810	-	-	-	-
Admissions	72,308	71,374	32,601	32,628	22,109	21,128	3,930	3,902	13,668	13,716	-	-	-	-
Ambulatory Care / Urgent Care / Community Partners Visits	2,951,155	2,929,638	541,814	542,653	337,799	335,074	76,509	75,288	212,775	212,116	1,782,258	1,764,507	-	(17,751)
Emergency Department Visits	256,479	272,485	135,751	149,029	72,607	71,479	-	-	48,121	51,977	-	-	-	-
Emergency Department Psych. Visits	22,736	21,969	8,976	8,348	8,029	7,748	-	-	5,731	5,873	-	-	-	-
Juvenile Court Health Services Visits	95,568	83,402	-	-	-	-	-	-	-	-	-	-	95,568	83,402
		(12,166)												(12,166)

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

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

(C) The census is appropriately decreasing due to efforts to reduce denied days. Denied days is down to 5% for December 2011.

(D) The decrease in ED Psych visits are primarily due to the opening of the Exodus Urgent Care Center in April 2010. The acuity patients that were seen at ED Psych are now seen at the Exodus Urgent Care Center.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF DHS FISCAL OUTLOOK

AS OF MARCH 2, 2012

	Fiscal Year (FY) / \$ In Millions
(1) Estimated Year-End Fund Balance for FY 2011-12	\$ 9.6
Major Changes for FY 2012-13 ^(A)	
(2) Projected increase in employee benefit costs ^(B)	(51.6)
(3) Equipment costs for the Harbor-UCLA Medical Center's Surgery/Emergency Department ^(C)	(18.5)
(4) Projected net benefits from transfer of Community Health Plan to LA Care	17.3
(5) Equipment costs for the new Martin Luther King Multi-Service Ambulatory Care Center (Year 1)	(8.1)
(6) Updated revenue estimates for Managed Care Rate Supplement and Medicare	(5.8)
(7) Capital projects to be carried over from FY 2011-12 due to implementation delays	(3.9)
(8) Increased General County Overhead costs provided by the CEO in February 2012	(1.8)
(9) Other minor operational changes	(1.0)
(10) Estimated Year-End Shortfall for FY 2012-13	<u>(73.4)</u>
(11) Total	<u>\$ (63.8)</u>

Notes:

- (A) This does not include necessary system improvements/investments such as Electronic Health Record information system, standardized nurse staffing plan including compliance with the Assembly Bill (AB) 394 requirements for meals and breaks coverage, and additional equipment costs for the new High Desert MACC. The Department is currently refining its plan, estimating costs, and determining funding solutions for these items. The Department is also working with the Chief Executive Office to explore financing options for the Electronic Health Record information system.
- (B) This reflects projected increased employer contribution rates for County Retirement based on the downturn in the investment market. In addition, the reduced County's matching contribution percentages are resumed to 4% effective FY 12-13 (which 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.
- (C) Includes incremental change of \$13.9 million for Year 2, and \$4.6 million to be carried over from Year 1 due to implementation delays.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

POTENTIAL ITEMS THAT WOULD IMPACT THE FISCAL FORECAST

FISCAL YEARS 2011-12 THROUGH 2012-13 (NON-CUMULATIVE)

(\$ IN MILLIONS)

	FY 11-12	FY 12-13	Total
Base Assumption: Estimated Year-End Surpluses / (Shortfalls)	\$9.6	(\$73.4)	(\$63.8)
<u>POTENTIAL ADDITIONAL REVENUES / FUNDS</u>			
> Additional Waiver revenues resulting from amending the existing Waiver agreement to assure that persons with HIV make the transitions of coverage from Ryan White to Healthy Way LA (HWLA) for October 2011 through December 2013	32.0	43.0	75.0
> Obtain an actuarially sound rate increase , to be effective July 2012, for the In-Home Supportive Services program to help offset the costs of medical care provided to enrollees in the health plan	-	54.0	54.0
> Additional HWLA revenue for County Jail inmates	-	7.0	7.0
> Distribution of one-time unspent fund in County's Health Services Designation	-	7.0	7.0
> Obtain an increase in Measure B rate	-	??	??
<u>POTENTIAL LOSSES IN REVENUES / FUNDS</u> ⁽¹⁾			
> Unreimbursable costs of transitioning persons with HIV from Ryan White to HWLA	(32.0)	(43.0)	(75.0)
Revised Estimated Year-End Surpluses / (Shortfalls)	\$9.6	(\$5.4)	\$4.2
<u>USE OF TOBACCO SETTLEMENT AND/OR OTHER FUNDS TO FUND ONE-TIME EXPENSES INCLUDED IN THE BASE ESTIMATES ABOVE</u>			
> Equipment costs for the new Martin Luther King Multi-Service Ambulatory Care Center (MACC)	-	8.1	8.1
Adjusted Estimated Year-End Surpluses - After Use of Tobacco Settlement Fund	\$9.6	\$2.7	\$12.3

Notes:

- 1) This does not include necessary system improvements/investments such as Electronic Health Record information system, standardized nurse staffing plan including compliance with the Assembly Bill (AB) 394 requirements for meals and breaks coverage, and additional equipment costs for the new High Desert MACC. The Department is currently refining its plan, estimating costs, and determining funding solutions for these items. The Department is also working with the Chief Executive Office to explore financing options for the Electronic Health Record information system.