Chief Executive Office.

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To: Supervisor Lindsey P. Horvath, Chair
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From: Fesia A. Davenport FAD
FAD (Jan 19, 2024 16:05 PST)
Chief Executive Officer

REPORT BACK ON REDUCING MEDICAL DEBT IN LOS ANGELES COUNTY THROUGH IMPROVED DATA COLLECTION AND INNOVATIVE STRATEGIES TO RETIRE MEDICAL DEBT (ITEM NO. 3, AGENDA OF OCTOBER 3, 2023)

On October 3, 2023, the Board of Supervisors (Board) adopted a motion directing the Chief Executive Officer (CEO) in collaboration with the Directors of Public Health (DPH), Department of Consumer and Business Affairs (DCBA), and Department of Health Services (DHS), to report back on Directive Number 4 of the Board Motion on the feasibility of purchasing and retiring County residents' medical debt and provide a report back on potential County, State, federal, and philanthropic funding sources to support this endeavor. This report back addresses this directive.

The issue of medical debt is a real concern for a large number of our residents and is particularly burdensome for those with low incomes. If the County were to decide to begin purchasing and retiring debt, it would create a new program that would need to be considered within the context of how the County determines the investment of its limited resources, as well as the priorities for the Poverty Alleviation Initiative as a whole. Additionally, this is a State and national issue, and policy changes at both levels are needed to resolve it.

Over the last two months, several meetings led by DPH were held with CEO, County Counsel, DCBA, and DHS representatives to discuss potential strategies for eliminating medical debt, explore funding options, and review a draft proposal we received for using an intermediary to purchase and eliminate medical debt for LA County residents.

Feasibility Study Regarding Funding
The cost of using an intermediary to purchase and eliminate roughly $2.8 billion in medical debt for approximately 800,000 County residents would be about $24 million dollars. This amount includes personnel, direct, and indirect costs for the intermediary. It is important to note that the estimated amount of $2.8 billion medical debt is distributed across all economic strata in the County, with almost half of that debt (about $1.3 billion) concentrated among lowest-income residents[1] (roughly 43 percent or 344,000 adults falling under 200 percent of the Federal Poverty Level (FPL) or a total of $1.75 billion of medical debt among 473,000 who fall under 300% of the FPL).[2,3] As proposed, this would be a one-time cost. However, without related policy changes being made at multiple levels, future accumulation of medical debt could return.

The CEO explored several potential funding options, including the American Rescue Plan Act (ARPA) funding, and funding from DCBA, DHS, and DPH. The results were that:

- The use of ARPA appears technically feasible from an eligibility standpoint. While ARPA funds have specific use limitations, including the need to demonstrate a negative economic impact or harm caused by or made worse by the COVID-19 pandemic for costs incurred after March 3, 2021, the County has successfully used these funds to provide direct economic assistance to many residents, though not specifically for medical debt relief. Moreover, other jurisdictions have used ARPA funding for relieving medical debt, demonstrating its potential viability for this purpose.[4]
- Currently, the County's ARPA funds are fully allocated, consistent with the Board-approved ARPA spending plans and subsequent Board-directed reallocations for specific programs. The deadline to obligate ARPA funding is December 31, 2024, and creating new ARPA-compliant programs at this stage would be very challenging and could result in the reversion of unspent ARPA funds to the federal government.
- DCBA was unable to identify funding to support this effort. DCBA's Fiscal Year (FY) 2023-24 discretionary budget is relatively small, and their ongoing

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[1] Used definition of "low income" based on article by Lillian Kilduff (2022), "How Poverty in the United States is Measured and Why It Matters," Population Reference Bureau, Washington, DC.
[2] Based on data from California Health Interview Survey (CHIS) in year 2022 for households below 200% and 300% of the FPL.
[3] Under California law (AB 1020, 2021), hospitals must provide financial assistance to patients below 400% of the FPL.
[4] What Governments Are Doing to End Medical Debt. https://www.thirdway.org/blog/what-governments-are-doing-to-end-medical-debt.

funding supports core departmental operations. As such, they are unable to reallocate funding for this effort.

- DHS was unable to identify available funding due to competing priorities. However, DHS is exploring the creation of comprehensive charity health care policies that could reduce patient account liabilities, as well as expanding existing policies to allow them to better cover eligible patients. In addition, DHS is exploring strategies to increase DHS' ability to waive and reduce patient account liabilities and prevent future medical debt.
- DPH has limited funding available and is exploring the use of other DPH program funding that could be realigned for medical debt relief, though these amounts are small. DPH is seeking approval from the State to use allocated funding made available by the California Future of Public Health Infrastructure Program. Approval from the State is pending, and a response time is unknown at this time. If approved, DPH plans to allocate up to $500,000 in one-time funding for medical debt relief.
- The Center for Strategic Partnerships was able to help secure initial philanthropic dollars for the exploration of this work. Those funders are continuing to support coalition-based efforts to standardize hospital financial assistance policies and processes in LA County, but they have indicated that debt relief at scale is not appropriate for philanthropic dollars.

The CEO Budget Team confirmed that there are no other potential funding sources at this time that can be realigned for this purpose other than a DPH request for net County cost (NCC) as part of the budget process.

Recommendations
The CEO recommends the following policy changes in this area for consideration:

- During the FY 2024-25 Recommended Budget phase, DPH should submit an unmet needs request which will allow the Board to consider funding for the program within the context of the overall budget process and numerous competing funding priorities and requests.

- Work with DHS to explore strategies that increase DHS' ability to waive and reduce patient account liabilities and prevent future medical debt.

- Review current federal, State, and County rules, guidelines, and provisions to determine the potential tax exemptions and benefits of expanding hospital charity care programs for uninsured and underinsured individuals and Medi-Cal patients who may be eligible.

- Work with the State Department of Health Care Services (DHCS) to explore how Medi-Cal insurance and other private healthcare insurance coverage programs could be expanded to cover medical costs and services or reduce charges for patients who are not able to afford care.

- Work with County Counsel and CEO Legislative Affairs and Intergovernmental Relations (CEO-LAIR) to identify and analyze federal and State legislation to broaden medical insurance coverage for those suffering from medical financial hardship, as well as expanding relief and regulating health care costs.

- Work with County Counsel to review existing tax codes and exemptions contained within the Internal Revenue Code and California Revenue and Taxation Code and identify any parameters or regulations specific to California to potentially qualify medical debt as an allowable deduction. Also, work with the Chief Executive Office Legislative Affairs and Intergovernmental Relations Branch to support legislation to lower the 7.5 percent Adjusted Gross Income threshold for itemizing medical expenses, and establish below-the-line medical expense and medical debt deduction options for taxpayers that elect the standard deduction.

Should you have any questions concerning this matter, please contact me or Carrie Miller at (213) 262-7823 or cmiller@ceo.lacounty.gov.

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c: Executive Office, Board of Supervisors
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