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May 24, 2010

To: Supervisor Gloria Molina, Chair
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From: William T Fujioka
Chief Executive Officer

RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER OPERATIONAL EFFICIENCIES AND REVENUE OPPORTUNITIES (AGENDA OF JUNE 1, 2010)

On March 16, 2010, your Board instructed the Chief Executive Officer (CEO) to defer current discussions to seek a private operator for Rancho Los Amigos National Rehabilitation Center (Rancho), due to operational changes at Rancho and throughout the Department of Health Services (DHS), pending further consideration by your Board.

Your Board also directed this office, in conjunction with the Interim Director of Health Services, to develop a plan with a timeline and specific milestones, for enhancing operational efficiencies and identifying revenue-generating opportunities at Rancho; implementation of the plan will help mitigate the financial impact on DHS of restoring Rancho operations to the fiscal forecast for future budget years. The directive also required that the plan be presented to your Board within 60 days.

This report provides the plan proposal developed by Rancho in consultation with DHS leadership and this office. The key element of the plan is to maximize Rancho's marketing opportunities available through the new Medi-Cal Waiver as well as patient referrals from health plans. It is estimated that such efforts may provide additional revenue of \$5.0 – \$10.0 million annually. Unless otherwise instructed by your Board, Rancho will proceed with elements of the plan that can be accomplished currently as operational initiatives. Items requiring approval by your Board will be submitted in separate communications. Rancho will develop additional cost savings proposals as they proceed with implementation.

SUMMARY

Relevant to the efforts currently underway by DHS to develop integrated and coordinated healthcare systems in Los Angeles County, Rancho has expanded its role beyond providing rehabilitative care and services.

During the time period 2003 - 2010, Rancho has continued to serve a critical role in the Los Angeles County health care safety net providing 74,000 outpatient visits and an average daily census of 190 inpatients. Rancho has maintained its national and international reputation for effectively managing the medical, surgical, and rehabilitation needs of the most complex case mix patients. This expertise will be critical to the future of DHS as it prepares itself for the "new landscape" of health services delivery as federal Healthcare Reform is implemented through the Medi-Cal Waiver. DHS will need a provider in its delivery system that not only has the experience and resources to provide people with disability care that will optimize functional recovery, but which can be achieved in a cost-effective manner.

As noted, the plan will maximize the marketing of Rancho to private health plans. The new Medi-Cal Waiver, currently being negotiated by the State with the Centers for Medicare and Medicaid, is expected to provide a bridge to the implementation of federal Healthcare Reform in 2014 through a significant expansion of the Coverage Initiative (CI). The CI expansion is anticipated to provide coverage for patients who are currently uninsured. It is anticipated that additional patients will obtain coverage under the CI and this will change Rancho's payor mix resulting in additional revenue. Rancho will serve as the Specialized Medical Home for CI patients who have short-term disability and are not eligible for Medi-Cal.

Additional annual revenue of $3.0 – $5.0 million is expected to be generated once the CI program expansion is fully implemented. Rancho will also work to expand its marketing and referral development to contracted health plans and expects to increase revenue from new health plan contracts by $2.0 – $5.0 million annually.

Rancho is currently poised to manage the comprehensive care of people with chronic conditions: intensive medical, surgical and rehabilitation services when necessary, preventive care, treating co-morbidities and promoting wellness across the life-span. Rancho's unique expertise and scope of services has already provided Rancho with resources to obtain contracts with private health plans, which allows Rancho a mechanism for inclusion in delivery networks outside of DHS.

Success in the new environment will require Rancho and DHS to compete effectively in the general healthcare market. As such, their cost structure must be competitive and it will be necessary to move from an episodic and hospital-centric approach to one that proactively manages the care of populations in more cost-effective care settings (e.g. outpatient, home, community).

PROPOSED NET COUNTY COST REDUCTIONS

Following your Board's March 16, 2010 action, Rancho was restored to the DHS Fiscal Outlook for April 6, 2010, effective July 1, 2010 and takes into account the reversal of $24.2 million in annual savings related to Rancho's closure or transfer to a private provider. Rancho has been diligent in its efforts to reduce costs and increase revenue since 2003.

In the last two years, Rancho has reduced its operating expenses by $7.0 million. These cost savings were the result of enhancing access to services and improving efficiencies.

In order to further reduce net County costs, the report on Rancho's plan proposal (Attachment) identifies $6.2 million in savings through the following three primary means: revenue enhancements, operational efficiencies, and programmatic changes, as discussed further in the attached report.

TRANSFORMING CARE DELIVERY: A MANAGED, SYSTEMS APPROACH

The urgent need to transform DHS' delivery system in preparation for Healthcare Reform was highlighted by the recent Health Management Associates (HMA) report presented to the Board of Supervisors on April 13, 2010. The key findings of the HMA report addressed the need for integration of services and for the development of innovative, cost-efficient and clinically effective models that target the most complex and expensive patients. Innovation will include deploying state-of-the-art technology to minimize patients' time in institutions and return home. Telemedicine, robotics and other techniques will allow Rancho to monitor health, safety and deliver intensive rehabilitation in the community. Rancho is committed to this transformation and has demonstrated the ability to successfully achieve its vision.

<u>Stroke System of Care</u>
One of Rancho's greatest successes has been its partnership with LAC+USC, Harbor-UCLA, and Rancho's Acute Stroke/Neurology unit that transfers patients directly from the emergency department to Rancho. In creating its novel acute stroke program, Rancho developed an integrated system for stroke treatment. This has allowed acute

stroke patients to move seamlessly into Rancho's rehabilitation services when needed and has overall decreased the acute stroke length of stay from an average of seven days in other DHS hospitals to an average of three days in Rancho's acute service. At the same time, patients with acute rehabilitation needs receive intensive rehabilitation far more rapidly and transition into the community sooner. Rancho is actively exploring means for monitoring the health and activities of stroke patients in the community, as well as methods for promoting intensive rehabilitation treatments in the community. Rancho is currently developing a model Medical Home for patients with stroke and diabetes, with assistance from the California Association of Public Hospital's Hospital Safety Net Institute.

<u>Outpatient Rehabilitation</u>
The ability to deliver intense rehabilitation outside of an inpatient setting will be required to be able to effectively manage a population of individuals with disability. To that end, Rancho developed a Day Rehabilitation and Wellness Program that has improved patient access and provider productivity by 40 percent. This innovative program has been supported by a $912,000 grant from L.A. Care, the Local Initiative Health Authority.

<u>Future Innovation</u>
Rancho is well on its way to creating a cutting edge rehabilitation model that will be more intense and effective, yet less expensive than anything that currently exists in the rehabilitation world. It will minimize inpatient care and use technology (e.g. robotics, telemedicine, telerehab) to deliver cost-efficient and clinically effective care in the person's home and community. Rancho seeks to become the specialized medical home for all with chronic disability, integrating inpatient and outpatient services, and eventually moving many of the clinical services needed to achieve best health outcomes into the community. This innovation will ensure a long-term competitive advantage in the private rehabilitation market, and is consistent with the vision of Healthcare Reform and Medi-cal Waiver discussions.

INVESTMENT IN RANCHO'S FUTURE

In order to fully realize efficiencies, revenue enhancements, and prepare Rancho for Healthcare Reform, an ongoing re-investment of some savings will likely be required to:

- respond to Healthcare Reform and develop the infrastructure for managed care delivery, including transitioning seniors and persons with disabilities into managed care settings;
- ensure that the current Medi-Cal and indigent patient population choose Rancho at the point when they have a choice/coverage; and

- grow a population of funded patients through newly contracted health plans that will serve to generate revenue and offset the cost of indigent care.

The reinvestment will support the care delivery transformation through technology infrastructure, IT systems to more effectively deliver care, care management, specialized medical home creation, patient experience initiatives and ongoing innovation. In addition, as Rancho fully executes contracts with health plans, it will need to invest in community outreach, marketing and business development functions to create new referral patterns.

RECOMMENDATIONS AND TIMELINE

Items requiring approval by your Board will be submitted on an expedited timeframe. However, the items described above and in the attached documents which can be implemented without further action by your Board, will be implemented immediately in order to achieve the maximum benefit. In view of the potential benefit of Rancho to the DHS system under the expected Medi-Cal Waiver and the implementation of Healthcare Reform, as well as the proposed Rancho plan, this office recommends your Board's approval to cease discussions and terminate search efforts for a private operator. In addition, this office and DHS will inform your Board of our efforts to implement Rancho's plan.

Please contact me if you have any questions, or your staff may contact Sheila Shima, Deputy Chief Executive Officer, at (213) 974-1160 or Jorge Orozco, Department of Health Services, at (562) 401-7022.

WTF: BC:SAS
MLM:DL:gl

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Health Services

Attachment

BACKGROUND

On January 29, 2003, your Board instructed the Chief Executive Office (CEO) and DHS to work with interested parties to transition Rancho to be operated by a private entity, as part of the 2002 DHS System Redesign. Implementation of the Rancho proposal was delayed due to a lawsuit filed against the County. However, the County was able to move forward with its efforts to seek an outside operator over a three-year period, commencing March 10, 2006, which was the effective date of the Settlement Agreement. Additionally, on February 3, 2009, your Board instructed the CEO to prepare a report that addressed the potential for keeping Rancho open as a County facility and with any other options and additional information for consideration.

PROPOSAL FOR OPERATIONAL EFFICIENCIES AND REVENUE OPPORTUNITIES

- Operational Efficiencies - includes areas of the organization that can be maximized to perform or deliver care at a higher, more efficient level, thus resulting in both decreased costs and increased productivity. It examines the relationship between the results and the resources needed to create those results. For example, Rancho redesigned its outpatient delivery system and increased the number of visits by 10,000 per year without additional personnel. On average, Rancho is seeing an additional 50 inpatients per day, which translates to 1,000 additional admissions per year.

- Revenue Enhancements - includes items related to the ability to either generate additional revenue, recover outstanding revenue and/or create a new ongoing revenue stream. Rancho successfully negotiated several revenue generating contracts with private health plans (e.g. Kaiser Foundation Health Plan Inc., Aetna Health Management, LLC, Veterans Administration) which will become operational in late 2009-10 and early 2010-11.

- Programmatic Changes - is the first step to a deep, cultural change and addresses areas that affect the current practice, without compromising the quality of care delivered. In addition, since the closure of Martin Luther King Medical Center (MLK), Rancho's medical/surgical census has increased from a Fiscal Year (FY) 2006-07 average daily census (ADC) of 64 inpatients to a projected FY 2009-10 ADC of 110 inpatients. Rancho continues to expand its capacity by helping manage the overflow of patients from LAC+USC Medical Center (LAC+USC) and Harbor-UCLA Medical Center (Harbor-UCLA) and has provided comprehensive services for patients previously served by MLK.

RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER

Plan to Reduce Net County Cost
Summary

Rancho Projected Net County Cost (Net of Fixed Costs)	$	24,211,000
Operational Efficiencies		(3,336,000)
Revenue Enhancements		(2,535,000)
Programmatic Changes		(367,000)
Reduction in Medi-Cal revenue based on Rancho revised costs/revenues		876,000
Subtotal	$	18,849,000
Re-investment required to achieve and sustain plan:		
Care delivery modifications in preparation for Healthcare Reform and Medi-Cal Waiver		TBD
Community Outreach, Marketing and Business Development		TDB
Additional Revenue	$	5.0 - 10.0 million

OPERATIONAL EFFICIENCIES

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
1. Savings projected as a result of recently negotiated contracts. No additional Board approval required.	FY 10/11		
	Q1	0%	$ -
	Q2	100%	201,000
	Q3	100%	402,000
	Q4	100%	604,000
2. Deletion of vacant budgeted positions identified by various departments as a result of restructuring our care model and support staff functions. Budgeted positions to be taken off-line in FY 10/11 budget. Requires Board approval of budget actions.	FY 10/11		
	Q1	100%	$ 246,250
	Q2	100%	492,500
	Q3	100%	738,750
	Q4	100%	985,000
3. Realignment of existing budgeted positions to more appropriately reflect the required levels for services being provided. Budgeted positions to be reallocated in FY 10/11 Budget. Requires Board approval of budget actions.	FY 10/11		
	Q1	100%	$ 139,000
	Q2	100%	278,000
	Q3	100%	417,000
	Q4	100%	556,000
4. Rebase Nursing Admin Supervisory Items. Budgeted positions to be deleted in FY 10/11 Budget. Requires Board approval of budget actions.	FY 10/11		
	Q1	100%	$ 98,500
	Q2	100%	197,000
	Q3	100%	295,500
	Q4	100%	394,000

OPERATIONAL EFFICIENCIES

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
5. Consolidation of space - Utility & Facility Mgt savings - includes one time cost of $75,000 for moves of staff, lines, etc. Once building have been vacated, reduction in Facility Mgt positions (combination of vacant and filled items) will occur in second year. Requires Board approval of budget actions.	FY 10/11		
	Q1	0%	$ -
	Q2	25%	43,000
	Q3	50%	86,000
	Q4	100%	130,000
	FY 11/12		
	Q1	100%	$ 150,500
	Q2	100%	301,000
	Q3	100%	451,500
	Q4	100%	602,000
6. Review number of county vehicles owned and maintained - elimination of 7 vehicles effective 7/1/10. Reduction in maintenance & gas to be taken in FY 10/11 budget. Requires Board approval of budget actions.	FY 10/11		
	Q1	100%	$ 3,000
	Q2	100%	6,000
	Q3	100%	9,000
	Q4	100%	13,000

OPERATIONAL EFFICIENCIES

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
7. Reduction in non-patient care meal supplements. Does not require Board approval.	FY 10/11		
	Q1	100%	$ 13,000
	Q2	100%	26,000
	Q3	100%	39,000
	Q4	100%	52,000
Milestones - TOTAL BY QUARTER	FY 10/11		
	Q1		$ 499,750
	Q2		1,243,500
	Q3		1,987,250
	Q4		2,734,000
	FY 11/12		
	Q1		$ 150,500
	Q2		301,000
	Q3		451,500
	Q4		602,000

REVENUE ENHANCEMENTS

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
1. Increase Rehab census by approximately 10% as a result of negotiated contracts with health plans. Phase-in of 10% increase over FY 10-11 with full implementation effective June 2011. Savings in NCC to span FY 10-11 and FY 11-12. Contracts may be executed under DHS' delegated authority, upon review and approval by County Counsel and the Chief Exceutive Office, and notification to the Board.	FY 10/11		
	Q1	14%	$ 93,000
	Q2	29%	280,000
	Q3	57%	614,000
	Q4	86%	1,148,000
COMPLETED: Aetna Health; Veterans Administration; L.A. Care; Kaiser Foundation Hospitals; Professional Sports Affilliation. UNDER NEGOTIATION: Cigna HealthCare; Heritage Provider Network; Blue Shield; Blue Cross; HealthNet; CalOptima	FY 11/12		
	Q1	100%	$ 622,000
	Q2	100%	1,244,000
	Q3	100%	1,852,000
	Q4	100%	2,468,000
2. Reduce Medi-Cal Denied Days by appealing at the State level denials related to admissions from our other county hospitals, aggressively review and appeal at the State level inappropriate denials, increase chart documentation, modify operating room schedules, etc. Does not require Board approval.	FY 10/11		
	Q1	25%	$ 328,860
	Q2	50%	657,720
	Q3	75%	986,580
	Q4	100%	1,315,440

REVENUE ENHANCEMENTS

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
3. Reduce the amount of Outpatient write-offs due to lack of prior authorization. Reorganization of Outpatient Patient Patient Resource Worker staff to Finance will occur where obtaining prior authorizations for treatment is required before patient is seen in clinic. Does not require Board approval.	FY 10/11		
	Q1	0%	$ -
	Q2	100%	26,000
	Q3	100%	39,000
	Q4	100%	51,000
4. Initiate charge to other county departments for services provided by our Occupational Health Services department for employee health screenings, etc. Charges to be effective July 1, 2010. Does not require Board approval.	FY 10/11		
	Q1	100%	$ 5,250
	Q2	100%	10,500
	Q3	100%	15,750
	Q4	100%	21,000
Milestones - TOTAL BY QUARTER	FY 10/11		
	Q1		$ 427,110
	Q2		974,220
	Q3		1,655,330
	Q4		2,535,440
	FY 11/12		
	Q1		$ 622,000
	Q2		1,244,000
	Q3		1,852,000
	Q4		2,468,000

PROGRAMMATIC CHANGES

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
1. Reduction in expenditures associated with rental of Specialty Beds. Savings to be achieved due to enhanced screening of requests, monitoring of patients utilizing beds, and the purchase of Sports Beds at the facility. Does not require Board approval.	FY 10/11		
	Q1	100%	$ 25,000
	Q2	100%	50,000
	Q3	100%	75,000
	Q4	100%	100,000
2. Durable Medical Expenditures of $2,403,000 reduced by 10%. Does not require Board approval.	FY 10/11		
	Q1	100%	$ 60,000
	Q2	100%	120,000
	Q3	100%	180,000
	Q4	100%	240,000

PROGRAMMATIC CHANGES

Milestones	Implementation Timeline (running total)		
		% Completed	Estimated Net County Cost Reduction
3. Review Physician Practice patterns for pharmaceuticals (intravenous to oral conversion). Does not require Board approval.	FY 10/11		
	Q1	100%	$ 6,750
	Q2	100%	13,500
	Q3	100%	20,250
	Q4	100%	27,000
Milestones - TOTAL BY QUARTER	FY 10/11		
	Q1		$ 91,750
	Q2		183,500
	Q3		275,250
	Q4		367,000