MEDICAID DEMONSTRATION PROJECT FOR LOS ANGELES COUNTY
1115 WAIVER EXTENSION PROPOSAL
FISCAL YEARS 2000-2005

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EXECUTIVE SUMMARY

This is a request to extend the Medicaid Demonstration Project for Los Angeles County ("1115 Waiver," "Waiver," or "Demonstration Project") for five years to continue the transformation of the second largest County health care system in the nation.

INTRODUCTION

At the start of the 1995-96 fiscal year, Los Angeles County was faced with an unprecedented $655 million budget deficit in health services—the loss of one out of every two dollars available—and a devastating collapse of the safety net. In response, State, Federal, and County officials intensively collaborated to develop a five-year Medicaid Demonstration Project to address the County's structural and financing crisis by helping to stabilize the County Department of Health Services ("DHS") system, and, over time, move it away from expensive hospital services toward community-based primary and preventive care services.

DHS has made notable progress toward meeting the Demonstration Project goals. However, the fundamental restructuring goals of reducing inpatient and expanding outpatient care cannot be fully met by the end of the current Project term, June 30, 2000. The County's considerable progress cannot be sustained unless the structural and financial problems which contributed to the original fiscal crisis are addressed. Continued State, Federal and County collaboration is needed to address the underlying problems confronting the County, which have not been resolved, including:

Welfare Reform and Declining Medi-Cal — After more than twenty years of steady growth, the number of Medi-Cal eligibles has declined throughout the State. For example, the number of Medi-Cal eligibles in Los Angeles County has steadily decreased from 1.9 million to about 1.7 million since 1995. Between January 1996 and January 1998, the number of AFDC/TANF cases in Los Angeles County decreased by 23%. Major studies demonstrate that welfare reform has been a significant factor in the decline in Medicaid enrollment.

Shift of Medi-Cal Population/Reliance on Safety Net —The County public hospital system has lost 132,000 Medi-Cal inpatient days, a 26.1 percent drop, since FY 1994-95. This has serious implications for the County's health care system, which provides over 85% of all uncompensated care in Los Angeles County. Because the County relies heavily on revenue from inpatient hospital services, these reductions jeopardize the continued ability of the health care safety net to serve both Medi-Cal and indigent patients.

Limited Success of Expanding Insurance Coverage — Despite recent improvements to expand insurance coverage to children at the Federal and State levels, these do not offset the annual declines in Medi-Cal coverage and the low rate of job-based insurance. The uninsured rate for children has not changed significantly; even under the "best case" scenarios there would still be more than 300,000 children uninsured.

Large and Rising Uninsured — The uninsured population has steadily increased despite a rebounding local economy. Most estimates indicate that the highest job growth has been in low-wage jobs that typically do not offer health insurance coverage. Thus, the uninsured population is expected to continue to rise. Over the past two years, the County has averaged about 150 new uninsured persons per day.

Continued financial incentives for inpatient and emergency services — Despite the program changes that have reduced inpatient and inappropriate emergency services, very little net savings to the County have resulted due to loss in Federal and State revenues. The current Medi-Cal funding mechanisms create a "Catch 22" for County DHS. Progress toward the County's restructuring goals does not produce the significant financial savings necessary to maintain the changes.

Limits in Payments to Safety Net — Even with 1115 Waiver funds, the total federal funding available to County DHS has declined from $1.2 billion to $1.1 billion since the beginning of the Demonstration Project. The proportion of the DHS budget composed of federal funds has dropped from 50 percent of total funding to 47 percent. The Disproportionate Share Hospital program is scheduled to decline by 19% in FFY 2002, based on the Balanced Budget Act of 1997 (BBA). Moreover, the elimination of Federal cost-based reimbursement for Federally Qualified Health Centers, relied upon by many of the County's private partners, is proceeding in phases and will end after FFY 2003.

JUSTIFICATION

An extension is justified because:

- Although the County has made a fundamental shift in the delivery of health

care, more work is needed to achieve the complex and difficult process of restructuring. Major goals of the Demonstration Project have not yet been fully accomplished. While the County has demonstrated a firm commitment to change, restructuring that expands ambulatory care, integrates public and private partners, and changes long-standing clinical practices requires additional time.

- Continuation of the current Project funding and the addition of the Healthy Students Partnership, Workforce Retraining and other requested funding components will provide the funding flexibility necessary to support progress toward community-based primary and preventive care services and the implementation of inpatient efficiencies.

- Continuation of the Demonstration Project will allow the County to build on the initial phase of stabilization and structural changes to improve the management of diseases for at-risk-Medicaid and the indigent population.

- Los Angeles County has a disproportionate share of the nation's working uninsured—twice the nation's rate. The total number of uninsured is projected to be 3 million by the year 2005. In the absence of national health policy reform, the Demonstration Project provides the vehicle for the federal government to assist the County in responding to the financial pressures on its health care system brought about by the expanding uninsured population and to maintain the safety net that serves Medicaid beneficiaries and the indigent.

- The aggressive expansion of managed care and the reduced revenue associated with low capitation payments strain and reduce the resources of those safety net providers that serve substantial number of Medicaid eligibles and serve as the last resort for the uninsured.

- Public schools must become a partner in the emerging public and private delivery system to better serve the children eligible under Medicaid and the State's Children's Health Insurance Program (i.e., "Healthy Families"). This will expand access to ambulatory care, provide a nexus for increased enrollment in the Medi-Cal and Healthy Families programs, and improve the health status of children and youth where they are—in school.

- A labor-management initiative that retrains and prepares the workforce that serves both Medicaid and indigent populations is essential to sustaining the ongoing restructuring under the Project. As the County system undergoes dramatic changes, it needs a workforce prepared for new responsibilities with new or enhanced skills responsive to the dynamic health care environment.

- Increased demand for specialty services, a consequence of the expansion of primary care, needs to be accommodated.

Without continuation of federal assistance through a Waiver extension and new amendments, accomplishments to date could be jeopardized and emerging opportunities will not be realized. Approval of this request would reaffirm the initial commitment of the Federal government to the restructuring of the County's health care system, and incorporate new strategies consistent with existing efforts.

MAJOR RECOMMENDATIONS

The restructuring process requires fundamental changes throughout the County's health care system. The County has demonstrated its deep commitment to making the necessary changes. However, once the changes are made, they must become institutionalized in policies and in the behavior of individuals throughout the system, from County employees to public/private partners. A continuation of the Demonstration Project will support this effort through the following elements:

A five-year extension of the core financing elements in the existing Terms and Conditions, enabling the Department to:

- Support and continue the restructuring efforts achieved through June 30, 2000.
- Advance integration of public and private health services for the indigent and Medi-Cal populations.

A Restructuring/Stabilization Program that changes financial disincentives to invest in ambulatory care expansion and disease management interventions that can ultimately reduce the burden of disease. The recommended fiscal amendments would enable the Department to:

- Expand community-based ambulatory care services by 900,000 additional visits through public and private providers to reach the initial target of 3.9 million.
- Reduce by another 10 percent the inappropriate utilization of inpatient care.
- Implement a new approach that is not solely geared to reducing beds, but also managing diseases more effectively. The implementation of disease management programs for pediatric asthma, diabetes, congestive heart failure, HIV/AIDS, and other selected diseases, will decrease resource consumption, change clinical practices, and improve the health status of patients.

- Expand community-based risk reduction programs for high-risk families and individuals to reduce reversible risk factors for common diseases and injuries, including tobacco, alcohol, drug abuse, poor diet, sedentary life style, and violence.

- Gain flexibility in obtaining disproportionate share hospital ("DSH") revenues to enable County DHS to receive a one-to-one replacement of DSH dollars lost from inpatient reductions by increasing Supplemental Project Pool funds available for ambulatory care under the Waiver.

- Gain State and HCFA approval of budget neutrality limits based on: (1) FY 1999-2000 budget neutrality limit, (2) carryover of budget neutrality savings expected under the current Waiver (as was granted for Oregon), and (3) non-DSH Medicaid inflation rate factor of 8.4% per year.

- Engage the State and HCFA in identifying/developing funding mechanisms to realize additional revenues allowed under renewed budget neutrality limits.

- Institutionalize funding arrangements to the extent that successful program changes demonstrate efficient use of resources.

An amendment to fund the Healthy Students Partnership program for school-based and school linked services with public school districts, enabling:

- Expansion of ambulatory care services, targeting uninsured school-age children and youth, for a projected 500,000 annual visits by 2005.

- Linkage of schools with the emerging public and private health care delivery system of DHS clinics and partners to secure more effective outreach, health promotion, enrollment in Medi-Cal and Healthy Families, and coordination of care.

An amendment to fund an essential multi-year Health Care Workforce Retraining Project based on the recommendations by the *President's Advisory Commission on Consumer Protection and Quality in the Health Care Industry.* This project would:

- Design and implement workforce training and retraining programs for an estimated 2,400 workers at immediate risk due to restructuring.

- Retrain employees to change organizational culture and accelerate transition towards an integrated delivery system, guided by public health principles, and facilitated by a strategic alliance between management and SEIU Local 660.

- Assure a properly staffed delivery system for Medi-Cal beneficiaries and the indigent.

An amendment to provide specialty care services at public hospitals to medically indigent patients, enabling the Department to:

- Support the changing role of public hospitals in the coordination and provision of 250,000 added specialty care visits above the current level of services.

- Reduce waiting times to less than 21 days for high-demand specialty care services (as a result because of expanding access to primary care).

THE FIRST FIVE YEARS: CHARTING A NEW COURSE

During the current five-year Demonstration Project, the County has shifted the direction of DHS and achieved notable progress in key areas, including:

Expansion and Restructuring of Ambulatory Care Capacity and Access

- Increased ambulatory care sites throughout the County, from 45 to 149 sites, through a new Public/Private Partnership ("PPP") program with safety net and traditional providers.

- Increased ambulatory care visits by 600,000 after stabilization, mostly for primary care services.

- Decreased inappropriate use of the emergency room by 27%.

- Established specialty care referral centers to coordinate care for the medically indigent patients referred by DHS and PPP providers. (Long appointment waiting times for specialty care continues to be an issue for DHS.)

- Developed an innovative set of ambulatory care indicators to assess the full extent of increased access, including nurse encounters, home health visits, telephone contacts, nurse triage, etc.

- Initiated a comprehensive, community-based health planning process, involving over 400 participants and using data from the L.A. County Health Survey, that produced the County's first Ambulatory Care Plan approved by the Board of Supervisors in February 1999.

- Established the Office of Ambulatory Care to develop policies that increase access to cost-effective ambulatory care services and effective health promotion and disease prevention programs.

Reduced Inpatient Services

- Decreased budgeted beds by 28%—five times higher than the State trend and three times the national trend.
- Decreased average daily census by 24%—five times higher than the State trend and three times the national trend.
- Reduced average length of stay from 6.4 days to 5.9.

Improved Cost Management

- Reduced expenditures, including staff for hospital services in the County DHS public system, by $123 million from FY 1994-95 to FY 1997-98.
- Reduced the annual federal funding levels by an average of $174 million, even with the inclusion of Demonstration Project funds, through FY 1998-99.
- Projected savings of $408 million in federal revenues below the budget neutrality limit.
- Reduced the workforce by 15 percent, a decrease of 4,300 employees (permanent and temporary workers) and 2,500 layoffs, between October-November 1995 and July 1998.
- Began a system-wide reengineering process with savings targets of $40.7 million for FY 1998-99.

Forged New Community Initiatives

- Initiated the Healthy Students Partnership process with public school districts, targeting uninsured school-age children. Implementation of this program is expected to result in 500,000 ambulatory care and prevention visits.
- Developed a cooperative project with SEIU Local 660, partially funded by a $1.2 million grant from the US Department of Labor, to plan for the retraining of workers at-risk due to restructuring.
- Developed a system-wide workforce and diversity training program.
- Established the Office of Women's Health to develop policies and programs that improve the health status of women.
- Began a series of initiatives to improve the health status of children, such as the Healthy Students Partnership, the first Children's Health Policy Summit, and a set of priority "Interventions for Children 0-5" years of age.

- Conducted a countywide health survey to document a profile of the insured and uninsured, and their health status—with results reported in a new periodic DHS publication, *L.A. Health*.

- Incorporated survey data into the community-based planning process.

Expanded Managed Care

- Increased the enrollment of Medi-Cal members in the County's HMO, CHP, from 14,000 to approximately 95,400 lives as of March 1999.

- Earned State designation for two consecutive years as the preferred "Community Provider Plan" in Los Angeles County for Healthy Families—California's SCHIP program.

GOALS NOT YET MET

Although substantial progress has been made, major objectives during the first five years were not fully accomplished and require additional time, including:

- Achieving the ambulatory care access objective of increasing access by 50%. The Department has not yet met the initial target of 3.9 million visits.

- Implementing cost efficiencies and service consolidations. The initial reengineering targets were unrealistic. A revised target to save $82 million annually by FY 2000-01 has taken into consideration the complex issues of system-wide implementation.

GENERAL LESSONS LEARNED

The first years of the Demonstration Project provide several significant lessons to guide the process for the next five years. These include:

- Privatization demands adequate reimbursement for uncompensated care.

- Public/private partnerships are effective in increasing ambulatory care access.

- Increased access is more than increased number of visits. It includes other cost-effective methods such as nurse encounters, home health visits, telephone contacts, nurse triage, etc.

- Reforming a health care system requires broad participation from community, labor, and other stakeholders, with an emphasis on reducing the burden of disease.

- Appropriately assessing the special circumstances of large public teaching hospitals is a necessary part of developing benchmarks and determining any potential revenue impacts.

- Fiscal reform will be essential to advance community-focused restructuring.

THE NEXT FIVE YEARS: MANAGING DISEASE AND PATIENT CARE

The next phase in charting the new course is rooted in the general lessons learned during the current Demonstration Project period. It involves (1) a continuation of the structural changes already underway, (2) realization of expanded ambulatory care services to the medically indigent, and (3) a concerted effort to reduce the burden of chronic disease through patient/disease management and disease prevention. These combined efforts are reflected in the following strategies and objectives outlined for the next five years. These include:

Further Increasing Access

- Meet the initial target of 50 percent increase in access by delivering 900,000 additional annual visits through public and private partnerships by 2004-2005.

- Implement Healthy Students Partnership, targeting uninsured school-age children—resulting in 500,000 additional visits by 2005.

- Expand specialty care services by 250,000 additional annual visits by 2005.

- Enhance the mix of services through cost-effective methods that serve uninsured patients relying on the safety net system.

    - Expand home health services by at least 50%
    - Increase telephone encounters (including pharmacy) by at least 50%
    - Increase nurse only visits by at least 50%
    - Increase referrals by at least 50%

- Create a community assistance program under the Office of Ambulatory Care to inform consumers and stakeholders, respond to community concerns, and focus on other areas of improvement.

Managing Disease

- Reduce by 10 percent the number of preventable hospitalizations in each acute care hospital by implementing disease management programs for:
  - Pediatric Asthma
  - Diabetes
  - Congestive Heart Failure
  - HIV/AIDS
- Reduce the number of inappropriate emergency room visits by an additional 10%.
- Expand community-based risk reduction programs for high-risk families and individuals.

Service and Quality Improvement

- Improve the performance of safety net systems for Medi-Cal and uninsured populations through enhanced monitoring of networks, contracts, and service standards.
- Improve quality assurance programs based on a consumer-driven and continuous service/quality improvement process. The biannual L.A. Health Survey and the current patient survey being conducted by UCLA will help in assessing the effectiveness of a "restructured system," focusing on major areas of care.
- Invest in planning and evaluation functions to ensure integrated networks of public health and managed health care services that meet the health needs of communities.

New Initiatives

- Increase the focus of graduate medical training programs on primary care based on the newly negotiated affiliation agreements.
- Institute a public health rotation for graduate medical trainees in the County system by academic year 2002.
- Expand the community-based planning process using the findings from the L.A. Health Survey—which is conducted every two years—to address reversible risk factors for common diseases and injuries.
- Respond to strategies and recommendations developed by the Women's and Children's Health Policy Summits.

Managing Costs

- Continue implementation of cost efficiencies and service consolidations. The enterprise-wide reengineering project is still underway, with a revised target to save $82 million annually by FY 2000-01.

- Improve the cost-effectiveness of inpatient services by 5% through the implementation of clinical pathways (e.g., improve management of cellulitis, pneumonia, and congestive heart failure).

Reducing the Burden of Disease

- Complete the reorganization of public health to improve the assessment of health needs and priorities for each major planning area.

- Reduce reversible risk factors for common diseases and injuries, including tobacco, alcohol, drug abuse, sedentary life style, and violence.

Health Care Workforce Retraining

- Enhance the skills of ambulatory care workers to meet the evolving and changing demands under managed care through a collaborative labor-management process.

- Support assessment, training, placement, and other transition strategies for the 2,400 hospital-based employees at-risk due to the largest and most complex reengineering project in the nation among public health systems.

- Improve core public health competencies of 3,700 workers and prepare new employees for emerging roles in the assessment, development, and evaluation of health services.

The approval of the extension request and the proposed amendments to the Medicaid Demonstration Project for Los Angeles County will advance the restructuring of the County health system, and assist in implementing new programmatic initiatives through fiscal reform.

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Under the current Demonstration Project, the County has made significant progress toward structural changes and seeks to continue that process and move toward managing disease and patient care. Restructuring that involves expanding ambulatory care, integrating public and private providers ("partners"), changing fiscal disincentives and long-standing clinical practices requires both time and the commitment of resources. To continue the restructuring process,

the County is requesting the State and Federal governments to extend the Project for another five years.

The extension of the Project will allow the County to continue working with its partners, including private health service providers, free and community clinics, health care organizations, academic institutions, labor, and consumer advocates/community representatives to realize a common vision: a vastly improved health services system for the County's vulnerable Medi-Cal and indigent populations.

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JUSTIFICATION

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- Developed an innovative set of ambulatory care indicators to assess the full extent of increased access, including nurse encounters, home health visits, telephone contacts, nurse triage, etc.
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- Reduced the annual federal funding levels by an average of $174 million, even with the inclusion of Demonstration Project funds, through FY 1998-99.
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GOALS NOT YET MET

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- Implementing cost efficiencies and service consolidations. The initial reengineering targets were unrealistic. A revised target to save $82 million annually by FY 2000-01 has taken into consideration the complex issues of system-wide implementation.

GENERAL LESSONS LEARNED

The first years of the Demonstration Project provide several significant lessons to guide the process for the next five years. These include:

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- Public/private partnerships are effective in increasing ambulatory care access.

- Increased access is more than increased number of visits. It includes other cost-effective methods such as nurse encounters, home health visits, telephone contacts, nurse triage, etc.

- Reforming a health care system requires broad participation from community, labor, and other stakeholders, with an emphasis on reducing the burden of disease.

- Appropriately assessing the special circumstances of large public teaching hospitals is a necessary part of developing benchmarks and determining any potential revenue impacts.

- Fiscal reform will be essential to advance community-focused restructuring.

THE NEXT FIVE YEARS: MANAGING DISEASE AND PATIENT CARE

The next phase in charting the new course is rooted in the general lessons learned during the current Demonstration Project period. It involves (1) a continuation of the structural changes already underway, (2) realization of expanded ambulatory care services to the medically indigent, and (3) a concerted effort to reduce the burden of chronic disease through patient/disease management and disease prevention. These combined efforts are reflected in the following strategies and objectives outlined for the next five years. These include:

Further Increasing Access

- Meet the initial target of 50 percent increase in access by delivering 900,000 additional annual visits through public and private partnerships by 2004-2005.

- Implement Healthy Students Partnership, targeting uninsured school-age children—resulting in 500,000 additional visits by 2005.

- Expand specialty care services by 250,000 additional annual visits by 2005.

- Enhance the mix of services through cost-effective methods that serve uninsured patients relying on the safety net system.

    - Expand home health services by at least 50%
    - Increase telephone encounters (including pharmacy) by at least 50%
    - Increase nurse only visits by at least 50%
    - Increase referrals by at least 50%

- Create a community assistance program under the Office of Ambulatory Care to inform consumers and stakeholders, respond to community concerns, and focus on other areas of improvement.

Managing Disease

- Reduce by 10 percent the number of preventable hospitalizations in each acute care hospital by implementing disease management programs for:
  - Pediatric Asthma
  - Diabetes
  - Congestive Heart Failure
  - HIV/AIDS
- Reduce the number of inappropriate emergency room visits by an additional 10%.
- Expand community-based risk reduction programs for high-risk families and individuals.

Service and Quality Improvement

- Improve the performance of safety net systems for Medi-Cal and uninsured populations through enhanced monitoring of networks, contracts, and service standards.
- Improve quality assurance programs based on a consumer-driven and continuous service/quality improvement process. The biannual L.A. Health Survey and the current patient survey being conducted by UCLA will help in assessing the effectiveness of a "restructured system," focusing on major areas of care.
- Invest in planning and evaluation functions to ensure integrated networks of public health and managed health care services that meet the health needs of communities.

New Initiatives

- Increase the focus of graduate medical training programs on primary care based on the newly negotiated affiliation agreements.
- Institute a public health rotation for graduate medical trainees in the County system by academic year 2002.
- Expand the community-based planning process using the findings from the L.A. Health Survey—which is conducted every two years—to address reversible risk factors for common diseases and injuries.
- Respond to strategies and recommendations developed by the Women's and Children's Health Policy Summits.

Managing Costs

- Continue implementation of cost efficiencies and service consolidations. The enterprise-wide reengineering project is still underway, with a revised target to save $82 million annually by FY 2000-01.

- Improve the cost-effectiveness of inpatient services by 5% through the implementation of clinical pathways (e.g., improve management of cellulitis, pneumonia, and congestive heart failure).

Reducing the Burden of Disease

- Complete the reorganization of public health to improve the assessment of health needs and priorities for each major planning area.

- Reduce reversible risk factors for common diseases and injuries, including tobacco, alcohol, drug abuse, sedentary life style, and violence.

Health Care Workforce Retraining

- Enhance the skills of ambulatory care workers to meet the evolving and changing demands under managed care through a collaborative labor-management process.

- Support assessment, training, placement, and other transition strategies for the 2,400 hospital-based employees at-risk due to the largest and most complex reengineering project in the nation among public health systems.

- Improve core public health competencies of 3,700 workers and prepare new employees for emerging roles in the assessment, development, and evaluation of health services.

The approval of the extension request and the proposed amendments to the Medicaid Demonstration Project for Los Angeles County will advance the restructuring of the County health system, and assist in implementing new programmatic initiatives through fiscal reform.

* * *

Under the current Demonstration Project, the County has made significant progress toward structural changes and seeks to continue that process and move toward managing disease and patient care. Restructuring that involves expanding ambulatory care, integrating public and private providers ("partners"), changing fiscal disincentives and long-standing clinical practices requires both time and the commitment of resources. To continue the restructuring process,

the County is requesting the State and Federal governments to extend the Project for another five years.

The extension of the Project will allow the County to continue working with its partners, including private health service providers, free and community clinics, health care organizations, academic institutions, labor, and consumer advocates/community representatives to realize a common vision: a vastly improved health services system for the County's vulnerable Medi-Cal and indigent populations.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

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Number of Pages + cover _____

REMARKS: LA start

MEDICAID DEMONSTRATION PROJECT
FISCAL YEAR 1997/98 ANNUAL REPORT
JULY 1, 1997 – JUNE 30, 1998

EXECUTIVE SUMMARY

This report outlines the County of Los Angeles Department of Health Services' ("Department," "DHS," or "County") key accomplishments during Year 3 (FY 1997/98) of the five year Medicaid Demonstration Project ("Project" or "Demonstration Project"). The financing for the first two years of the Project was negotiated on an annual basis under a crisis-driven environment. Year three is the first year of the three-year extension of the funding of the Project. The three-year funding and two-year OBRA 1993 Disproportionate Share Hospital approval provided the fiscal stability needed by the Department for a more thoughtful and planned approach to restructuring.

During this fiscal year, the Department undertook various planning activities related to re-engineering (including Clinical Resource Management ("CRM")), ambulatory care expansion, and public health restructuring. Overall, the Department continued to make progress toward achieving Project goals. FY 1997/98 achievements include:

- Enterprise-wide re-engineering planning resulting in over 1,200 potential performance improvement recommendations amounting to an estimated $261 million in annual savings. Re-engineering savings recommendations are being reviewed by the Chief Administrative Office ("CAO") and the Auditor-Controller's Office ("A-C") to verify their viability.

- Approximately $5.0 million in net savings from re-engineering ideas was realized.

- As of June 29, 1998, the CAO verified and the County Board of Supervisors approved $33.4 million of the $83 million budgeted in recommended re-engineering savings ideas for FY 1998/99. The approved savings represent only that portion which was validated by the CAO at the time. The A-C and CAO are conducting a joint review of the Department's remaining re-engineering ideas to verify their viability.

- Decline in the Department's projected operating deficit from the $655 million that was projected for FY 1995/96 to $380.5 million projected for FY 2000/01. These deficit projections are as of June 1998, and do not include Medicaid Demonstration Project funds.

- Continued reduction in inpatient expenditures. A comparison of actual hospital expenditures in FY 1994/95 to FY 1997/98 reveals a decline of over $200 million, i.e., by 11%.

- Increased expenditures for ambulatory care services by $15 million (14.6%) over FY 1996/97 expenditures. Increased expenditures are expected to continue as the Department implements ambulatory care expansion plans this coming fiscal year.

- Continued expansion of Public/Private Partnerships (P/PP), including innovative partnerships with family practice programs throughout the County. In FY 1997/98, 34 additional P/PP sites were added to the Department's P/PP network, increasing total countywide service sites (DHS, P/PP, and General Relief ["GR"] sites) from 117 to 151. From FY 1994/95 to FY 1997/98, the Department increased access points by over 235%.

- Reduced budgeted beds in the system by an additional 107 beds (5.1%) from 2,079 in FY 1996/97, declining by an overall 24% since the start of the Medicaid Demonstration Project in July 1995.

- Since the implementation of the Medicaid Demonstration Project, system-wide average daily census and inpatient days have declined by approximately 26% and 25% respectively.

- Workforce downsizing has resulted in the reduction of 4,292 positions, or 15.5% of the total number of positions, since the implementation of the Medicaid Demonstration Project. In October-November 1995, the reduction in the Department's workforce from layoffs (1,560) and attrition/releases (965) totaled 2,525. During the period of October 1996 through July 1998, there was an additional 277 reductions in the Department's workforce—100 from layoffs and 177 from attrition/releases.

- Strengthened labor-management relations through the establishment of a Labor-Management Restructuring Council.

- The entire County health system (DHS, P/PP & GR providers) provided a total of 2,443,996 outpatient visits. This increase represents growth of almost 13% from the FY 1996/97 low of 2,162,897 visits, and reflects a turning point in declining visits.

- Continued migration of specialty services from outpatient hospital settings to freestanding outpatient settings. The availability of County specialty services to P/PP and GR providers resulted in an overall increase of more than six-fold in the total volume of referrals processed by all County Referral Centers between FY 1996/97 (7,700 referrals) and FY 1997/98 (49,214 referrals). As data become available, the Department will analyze the impact of referrals on access to and decompression of specialty clinics at its facilities.

- The County's HMO plan, Community Health Plan ("CHP"), increased its enrollment from 33,328 to 78,784, which represents an increase of over 136%.

- Completion of a comprehensive population-based survey of Los Angeles County residents ("L.A. Health Survey"), resulting in data on the health status, needs, barriers to health, and insurance coverage of residents. Based on survey results, it is estimated that there are 2.7 million uninsured people in Los Angeles County.

- Completion of a "zero-based" study of the Department's Public Health Programs and Services ("PHP&S") division, resulting in major recommendations for restructuring of PHP&S field operations; creation of a Health Assessment and Epidemiology Unit; and creation of the central offices for Planning, Policy Development, and Quality Assurance and Evaluation.

- On November 12, 1997, the Los Angeles County Board of Supervisors approved the replacement of the 65 year-old LAC+USC Medical Center ("Medical Center") with a new 600-bed facility. The 600-bed replacement hospital will address life safety and inefficiencies in the old Medical Center, as well as maintain safety net capabilities countywide for trauma, emergency and indigent care. The project is in the design and programming phase, with completion estimated in 2007.

Although the Department continued making headway in increasing ambulatory care access this year, operational issues related to human resources and workforce reductions limited expansion at DHS-operated ambulatory care facilities. The migration of prenatal, pediatric, and OB/GYN patients to Medi-Cal managed care private providers, as a result of the implementation of the State's Two-Plan Model, has impacted the Department's market share of revenue-linked patients. Between FY 1994/95 and FY 1997/98, the Department's inpatient market share of Medi-Cal and Medicare patients declined by 26.1% and 28.8% respectively. Medi-Cal days declined by 132,119 in FY 1997/98.

Fiscal Year 1998/99 Plans

Top priorities for the Department in the coming year include the following:

- Full implementation of ambulatory care expansion at DHS-operated facilities. This will complement current P/PP expansion and further the Department's effort in achieving an expansion in ambulatory care access by 50% under the Project.

- Implementation of approved facility-specific and system-wide re-engineering ideas beginning in the first quarter of FY 1998/99.

- An augmentation in the Public Health Programs and Services budget by $10 million for the coming year as the first increase towards a total commitment of $30 million

over a two year period to enhance core public health functions and competencies as part of a fundamental shift in department-wide priorities.

- A community-based planning process designed to examine ambulatory care service needs by service planning area is scheduled in early FY 1998/99 as part of a system-wide assessment of ambulatory care priorities. Results from the L.A. Health Survey will be used for analyzing community health needs and identifying health improvement opportunities.

- The Department will continue to work with public and private providers to develop solutions for specialty care capacity issues.

Post-Waiver Planning

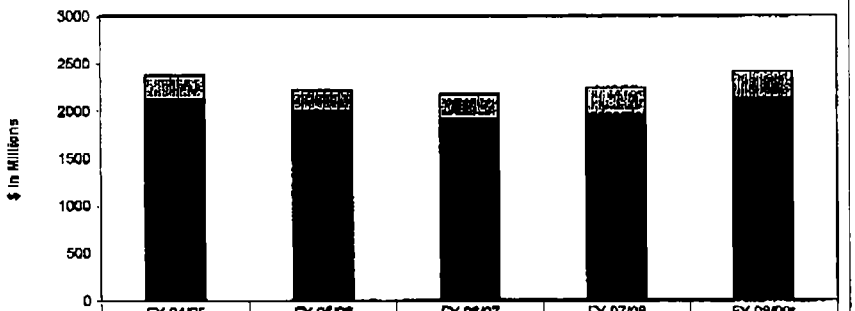
Year 4 of the Project will be highlighted by increased activity in formulating policy strategies and recommendations in preparation for the last year of the currently approved Demonstration Project. Major topical issues such as sustainability of restructuring efforts, impact of re-engineering—including CRM implementation—on the Department's revenue streams, impact of Project interventions, "lessons learned" from restructuring, and "best practices" from other national efforts, will be studied and analyzed in preparation of a transition plan to be developed with local community stakeholders and providers. The Department will submit the plan for consideration and approval by the Los Angeles County Board of Supervisors.

VII. SYSTEM AND POLICY ISSUES

A. Financing

Federal funding for the Department has been and continues to be critical in maintaining and stabilizing the County's health system. Although the operating budget for the County's health system is large by any measure, the County's reliance on federal funding has decreased since FY 1994/95, at which time federal funds comprised 50% of the Department's operating budget. Since then, that percentage has decreased to 45% in FY 1997/98. Re-stated in absolute dollar amounts, federal funding decreased from $1.185 billion to $1.015 billion, or a 14.3% decrease.

Figure VII.1. Trend of Major Funding Components



	FY 94/95	FY 95/96	FY 96/97	FY 97/98	FY 98/99*
Other	288	220	263	285	299
Federal	1,185	957	953	1,015	1,143
State	837	837	797	789	819
County	92	209	159	159	188

Source: DHS Finance, October 20,1998
* Board Adopted Budget

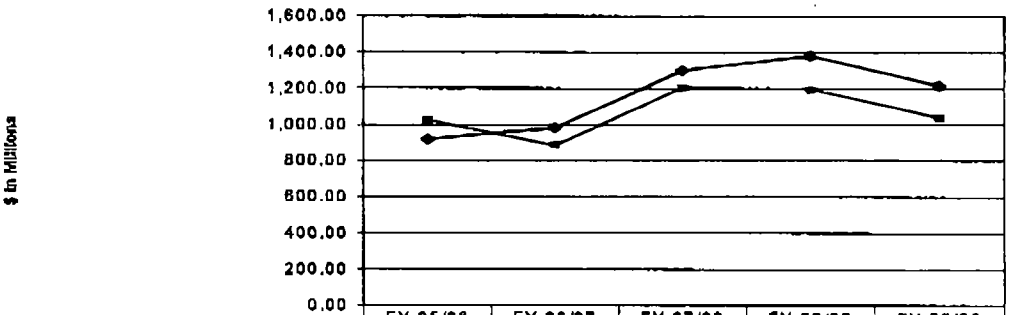
As Figure VII.1 shows, based on current projections, it is anticipated that federal revenues in FY 1998/99 will show an upward spike, reflecting an increase in the Department's operating budget for FY 1998/99. The Department's FY 1998/99 operating budget is included in Appendix V. A number of items have contributed to the increase in the Department's operating budget beginning in FY 1997/98, and which will continue into FY 1998/99. Among them include cost of living adjustments for County employees, effective January 1, 1998, following a period of four or more years without salary increases; debt service on the Bond Anticipation Notes ("BANs") for the originally designed replacement facility for LAC+USC Medical Center, and for capital projects completed at Harbor/UCLA, MLK/Drew, and Rancho Los Amigos Medical Center ("RLAMC"); and delays in implementation of significant re-engineering savings ideas.

As discussed in the section on re-engineering, the Department achieved approximately $5.0 million in re-engineering savings, which was about half of the $10 million projected in December 1997. Looking forward to FY 1998/99, the Department's Budget, adopted by the Board on June 29, 1998, includes re-engineering savings of $33.4 million in net savings. The Department remains committed to re-engineering, and will return to the Board during November 1998 to clarify additional re-engineering and performance improvement savings ideas, including the CRM initiative, for implementation. Subsequently, the Department will be able to quantify the total re-engineering and performance improvement savings that will be achieved in FY 1998/99.

Performance under Budget Neutrality

Appendix V includes a five-year forecast of the Department's performance under budget neutrality requirements. As illustrated in Figure VII.2 below, the Department continues to operate within its budget neutrality limit, and, on a cumulative basis, based on current projections, the Department has "room" amounting to $443.2 million by June 30, 2000.

Figure VII.2. Performance Under Budget Neutrality



	FY 95/96	FY 96/97	FY 97/98	FY 98/99	FY 99/00
Federal Revenue Ceiling	920.10	984.00	1,299.70	1,381.40	1,218.60
Federal Revenues Received	1,027.10	884.10	1,207.50	1,200.20	1,041.70

* Assumes OBRA '93 @ 175%
Source: DHS Finance, October 20, 1998

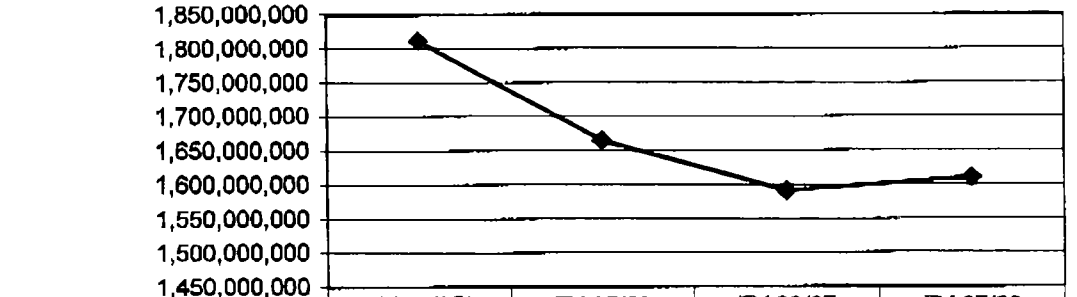
OBRA 93

The County continues to rely on disproportionate share hospital revenues to fund services for the Medi-Cal and uninsured populations, the County's predominant patient population. Federal legislation increasing the OBRA 93 limit from 100% to 175% will expire in 1999.

Expenditures

Overall, hospital-based expenditures are declining. As shown in Figure VII.3, below, from FY 1994/95 to FY 1997/98, expenditures have declined by over $200 million (11%). Note that this figure includes expenditures for hospital-based outpatient clinics (actual expenditures, rather than budgeted expenditures have been charted to provide a more accurate picture). Conversely, net expenditures for ambulatory care services have increased by $6.4 million (5.6%) for the same period. The trend in ambulatory care expenditures is shown in Figure VII.4 below. Note that this figure includes expenses incurred by County comprehensive health centers and health centers, as well as the P/PP and GR Programs; expenditures for public health programs and services have been excluded. As the Department continues to transition its delivery system, the two trends can be expected to continue.

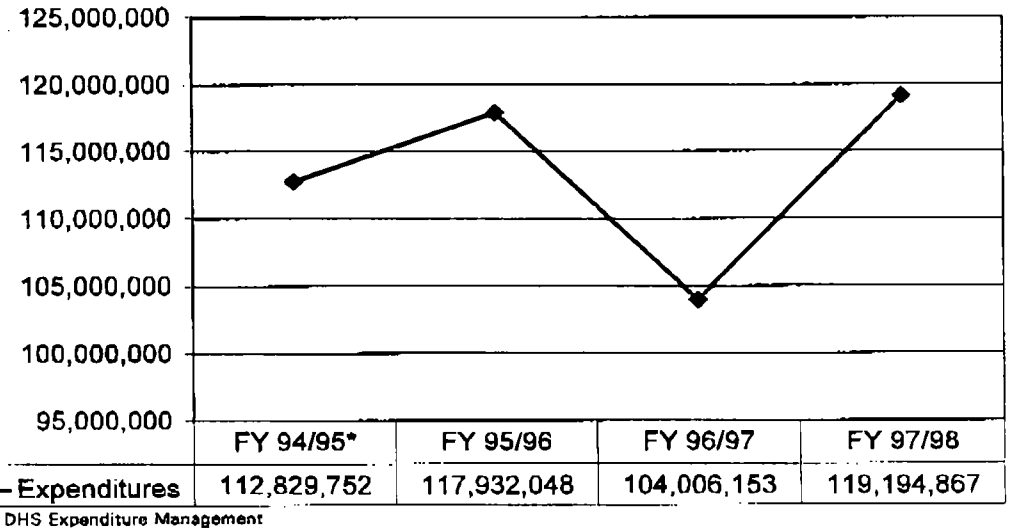
Figure VII.3. Actual Expenditures Hospital-Based Services*



	FY 94/95*	FY 95/96	FY 96/97	FY 97/98
Hospital Expenditures	1,811,492,095	1,665,893,573	1,592,235,717	1,611,340,056

Source: DHS Expenditure Management
* Includes Outpatient Clinics (i.e., visits)

Figure VII.4. Actual Expenditures
Non-Hospital Based Ambulatory Care Services*

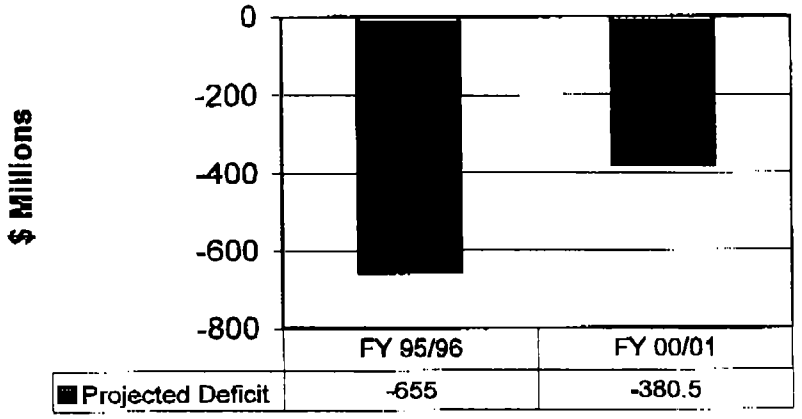


	FY 94/95*	FY 95/96	FY 96/97	FY 97/98
Expenditures	112,829,752	117,932,048	104,006,153	119,194,867

Source: DHS Expenditure Management
* Includes CHC/HC and P/PP & GR Programs; excludes public health (i.e., PHP&S).

Finally, the Department's fiscal condition is improving as a result of restructuring. As of a June 1998 projection, the Department's operating deficit is expected to decline from the $655 million that was projected for FY 1995/96 to $380.5 million for FY 2000/01 (Figure VII.5). Note that neither estimate includes Medicaid Demonstration Project funds.

Figure VII.5. DHS PROJECTED OPERATIONAL DEFICIT*



	FY 95/96	FY 00/01
Projected Deficit	-655	-380.5

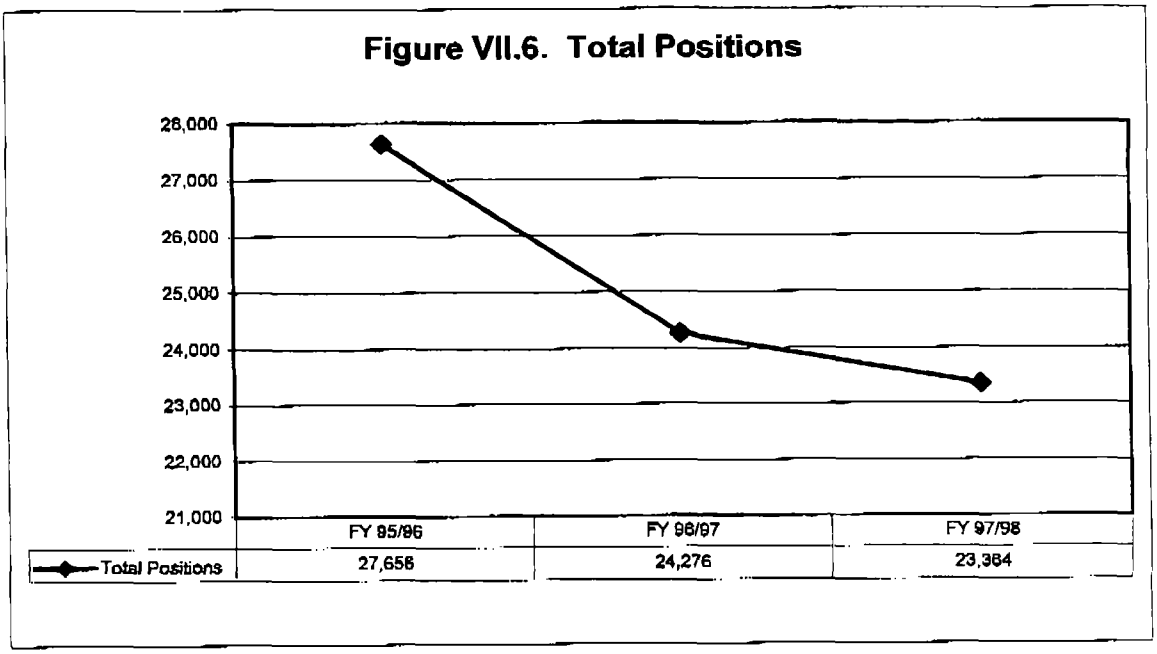
Source: DHS Finance, June 1998 Budgetary Outlook.
* Does not include Waiver funds.

B. Human Resources

Workforce Reduction

Since the beginning of the Project, the Department has lost 4,292 positions (15.5%) of the total number of positions at the beginning of FY 1995/96, through a variety of workforce reduction actions. In October-November 1995, the reduction in the Department's workforce from layoffs (1,560) and attrition/releases (965) totaled 2,525. During the period from October 1996 through July 1998, there were an additional 277 reductions in the Department's workforce—100 from layoffs and 177 from attrition/ releases. Figure VII.6 shows the trend since FY 1995/96.

Figure VII.6. Total Positions

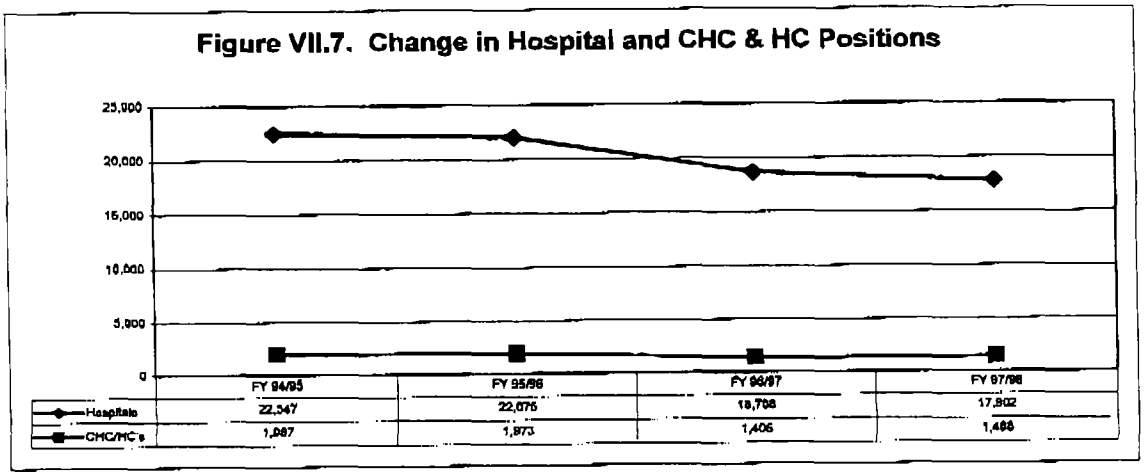


The reduction in positions has been as dramatic at the hospitals as it has been for the ambulatory care facilities. As indicated in Table VII.1 below, hospitals have lost 22.8% of their positions since FY 1994/95, which is closely proportional to the loss experienced by ambulatory care facilities (21.2%). This loss is a major reason for the limited expansion of ambulatory care services that has occurred at Department-operated facilities.

Table VII.1. Hospital and Comprehensive Health Center ("CHC") and Health Center ("HC") Positions, FY 1994/95 – FY 1997/98				
Site	FY 94/95	FY 95/96	FY 96/97	FY 97/98
Hospitals	22,547	22,075	18,708	17,902
% Change	-	(2.1)	(15.3)	(4.3)
CHC/HC's	1,987	1,973	1,406	1,488
% Change	-	(<1)	(28.7)	5.8

Although the Department has slightly reversed this trend for ambulatory care facilities in FY 1997/98, the CHCs and HCs continue to operate at staffing levels below those of FY 1994/95 (Figure VII.7).

Figure VII.7. Change in Hospital and CHC & HC Positions



Re-engineering Human Resources Group

A critical area for the success of transforming the public health care system clearly lies in the development and retraining of human resources. Recognizing this, a significant activity during Year 3 of the Project was the establishment of the Human Resources Change Enablement Team to review current human resources policies, procedures, and systems to support system-wide re-engineering efforts and align human resources with broad Departmental objectives, such as ambulatory care expansion.

This team, which included representatives from labor and management, analyzed and made recommendations in seven major human resources functions: civil service classification, workforce reduction, placement of impacted employees, hiring and testing, position control, employee recognition, and human resources functions.

A total of seven work groups were organized to develop concept papers for each area that described the current situation: analyzed strengths, weaknesses, opportunities and threats ("SWOT" analysis) for the assigned topic, considered alternative approaches, and developed recommendations in concept. A summary of their recommendations is included as Appendix VI.

C. Workforce Development and Training

During the first two years of the Medicaid Demonstration Project, changes in human resources, such as workforce reductions and dislocations, have occurred in a crisis-driven environment. Worker layoffs and displacements have caused severe disruptions in the delivery of health care services. Training for employees moving into new positions as a result of various workforce reduction actions has been provided on an ad-hoc and limited basis. As a result of budget reductions, the Department has neither a centralized nor systematic staff training and development unit; the last year such a unit existed was 1992.

Labor-Management Restructuring Council

Beginning this fiscal year, a more disciplined and thoughtful approach was implemented to analyze and prepare for the organizational changes needed on a long-term, strategic basis. A Labor/Management Restructuring Council, composed of Department senior executives and labor union representatives, has been established to implement a collaborative process to plan for workforce changes, prepare for new demands on service delivery systems, and further develop the labor/management strategic alliance around restructuring. An initial task of the council is the identification of "sponsored" restructuring projects (i.e., joint projects between the County and its labor unions) where a joint decision-making process can be instituted from-design-through-implementation.

Several other labor/management teams have also been established to deal with the many aspects of restructuring, including a team to develop a Department-wide framework for training, retraining, and development for employees impacted under system restructuring. Recognizing that retraining of the current workforce is a major and significant issue, particularly under a civil service system, this team developed a set of strategies and recommendations for human resources development and strategic planning.

Health Care Worker Retraining Work Group

A separate labor/management work group developed a proposal for a training and development project for consideration by the U.S. Department of Labor. In May 1998, the Department and Los Angeles County labor representatives had an initial meeting with high-level senior managers of the Department of Labor to discuss the proposal. The meeting resulted in a tentative commitment of $1.2 million for a planning grant from

the Department of Labor. The labor/management work group plans to submit a formal request to the Department of Labor next fiscal year. Major project goals are listed below.

- A jointly administered, project management structure to oversee planning efforts (including workforce training and development for alignment with current and future workplace reorganization plans).
- A labor market study and analysis to identify the current and future labor force needs of the health care industry in Los Angeles County.
- An analysis of Department jobs impacted by re-engineering, for the1998-2003 period.
- A survey of the skills of displaced workers and those who are at high risk for displacement, and determination of the skills needed for the newly created jobs under restructuring.
- A pilot Healthcare Retraining Program under the recently constituted Labor/ Management Restructuring Council for sponsored restructuring projects.

D. Post-Waiver Planning

Fiscal year 1997/98 is the mid-point of the five-year Project. The Department began the process of shaping a "post-waiver" strategy to create a sustainable design for the health system currently under transition by convening two preliminary executive strategy sessions to define the scope, timing, and process for the development of Post-Waiver strategies and policy recommendations.

Long-range planning for the County's health system is a daunting challenge. Many complex factors contribute to this challenge, including the magnitude and complexity of the health problems facing Los Angeles County, the challenges in transitioning a large fragmented system into a fully integrated comprehensive inpatient and ambulatory care system. Uncertain financing for health care and lack of federal health reform policy, a colossal public bureaucracy and demanding constituencies, and a local health system crippled by declining revenues and lack of an historical experience in a competitive and aggressive managed care environment are among the most pressing issues underscoring this challenge.

Recognizing that the Demonstration Project is a "work-in progress," the Department plans to address the following fundamental key questions through a variety of policy and system solutions.

→ What will work to improve service delivery, and ultimately the health of the community, in the post-waiver environment?

→ What is the long-term strategic vision and direction of the Department to improve the health status of the County's population?

→ What are the strategies that can effectively realize the County's role in the post-waiver environment?

→ How does the Department align system restructuring with other State, federal, and/or private sector health care initiatives and reforms?

→ What roles will the Federal and State Governments need to undertake in moving forward with fundamental changes in the current reimbursement structure to support the County's system after the Medicaid Demonstration Project?

→ What roles will the Federal and State Governments need to undertake to finance health care coverage for the uninsured?

→ How does the County continue to support the essential functions of the system after the Medicaid Demonstration Project?

To accomplish such a sweeping and overarching process, the Department has enlisted the assistance of major private and public consultant/institutions to advance this strategic thinking (inset below).

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

FINANCIAL FORECAST
MEDICAID DEMONSTRATION PROJECT
BUDGET NEUTRALITY LIMIT ADJUSTMENT - OBRA '93 @ 175%*

($ in Millions)

	Fiscal Years					
	95-96	96-97	97-98	98-99	99-00	TOTAL***
DHS Operating Needs (Appropriation)	2,235.26	2,173.46	2,248.72	2,489.04	2,588.04	11,734.52
Projected Funding Available - No 1115 Waiver	2,149.82	1,970.97	2,128.96	2,135.69	2,114.95	10,500.39
Surplus (Deficit)	(85.44)	(202.49)	(119.76)	(353.35)	(473.09)	(1,234.13)
1115 Waiver - FFP increases plus PHS Grants						
(PHASE I Fiscal Relief Package plus "Extension" of 4 Elements)	277.25	163.44	197.00	209.68	218.53	1,065.90**
Adjusted Surplus (Deficit)	191.81	(39.05)	77.24	(143.67)	(254.56)	(168.23)
Budget Neutrality "Room" (for Additional Federal Medicaid Funding)	(107.00)	99.90	92.20	181.20	176.90	443.20
Budget Neutrality "Room" Beyond Operating Deficits	84.81	60.85	169.44	37.53	(77.66)	274.97

annual

* As provided under current law, in state's FY's 1997-98 and 1998-99.

** Potentially reducible by the advance provided in FY 95/96 proceeds.

*** The total is not the sum total of the FY columns

① ~~extended~~

②

690-8168
690-6262

3 NAMD Ways & means on Y2K

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

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COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

MEDICAID DEMONSTRATION PROJECT

Keep IMD!!

FISCAL YEARS 1995-96 THROUGH 1999-2000

($ in Millions)

	95-96	96-97	97-98	98-99	99-00	TOTAL
NEW						
SB 1255	$125.00	$0.00	$0.00	($125.00) (1)	$0.00	$0.00
Indigent Care Clinic Match	47.25 (2)	52.53 (2)	61.84 * (2)	66.90 * (2)	78.72 * (2)	309.24 * (2)
Indigent Care Match - General Relief	3.57	3.57	3.57	3.67	3.57	17.85
Supplemental Pool	62.79	62.79	64.04 *	62.50 *	62.50 *	314.62 *
Public Health Services Grant	16.00	0.00	0.00	0.00	0.00	16.00
Mental Health	20.09	20.34	20.90 *	20.45 *	20.40 *	102.18 *
Interagency Agreement	26.21	43.45 (3)	52.33 * (4)	51.51 * (4)	50.45 * (4)	223.94 *
TOTAL	$300.91	$182.68	$202.68 *	$81.93 *	$215.64 *	$983.83 *
LESS: Mental Health amounts Anticipated to be non-available for DHS Operations (5)	$20.09	$20.34	$0.00	$0.00	$0.00	$40.43
ADJUSTED TOTAL	$280.82	$162.34	$202.68	$81.93	$215.64	$943.40

VALUE OF THE EXTENDERS (PRESS RELEASE)	
INDIGENT CARE MATCH	
HEALTH (3 YEARS)	$209.46
MENTAL HEALTH (3 YEARS)	61.75
GENERAL RELIEF (5 YEARS)	17.85 NU
SUPPLEMENTAL PROJECT POOL	169.04
INTERAGENCY AGREEMENT	154.28
TOTAL	$632.38

614.53

* Assumes Extenders for all 5 years of the 1115 Waiver.
(1) Assumes audit payback of $125 Million.
(2) This amount does not include Public Health Centers, Juvenile Court Health Services juvenile halls, MacLaren Children's Center, and AIDS.
(3) SB 855 returns to a "Full Program".
(4) Includes additional IGT from Rancho and High Desert privatization.
(5) An agreement between DHS and DMH has not been reached regarding the transferring of these funds to DHS. DHS believes that these revenue are generated by existing CPE at DMH, without incremental costs and, therefore, believes that these funds should be transferred and made available to DHS.

For Internal Discussion Only!
February 21, 1996

SEPTEMBER AGREEMENT			
Description	**Original Estimate**	**Current Estimate**	**Difference Between Agreement**
FFP for indigent care at County Clinics	$40 million	$40 million available to County (The County estimate's that there is only $36 million in indigent care available for FFP.)	$0
IGT between the State and the County regarding funding of indigent care in hospital settings.	$92 million	$33 million	$59 million (IGT for general Medi-Cal)
County reevaluation of accrual of hospital revenues to comply with the OBRA '93 DSH limits.	$82 million	$82 million	$0
A revised payment plan for a portion of the annual payment from the County to the State.	$125 million	$125 million (County auditor did not agree to original provision. The 125m is now additional SB1255 funds which may be in excess of OBRA '93 DSH limit.)	$0
PHS Grants	$25 million	$25 million (County estimate is $16 million available for general use.)	$0
SUBTOTAL	$364 million	$305 million	$59 million
FFP for mental health	------	$22 million	-----
TOTAL	$364 million	$327 million	------
DIFFERENCE	$37 million		
NOTE: The original agreement included the provisions for matching indigent care at hospital settings although the amount was not determined.			
FFP for matching payments for indigent care at hospital outpatient settings.	Undetermined	$42 million	-----

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
BUDGET NEUTRALITY - PROJECTED FEDERAL EXPENDITURES
SUMMARY
STATE FISCAL YEAR 1994/95 - 1999/2000
($ in Millions)

	Without Waiver	With Waiver
1994-95 (Baseline Costs)	$865.9	$865.9
1995-96	920.1	1,027.1
1996-97	984.0	884.1
1997-98	1,299.7	1,207.5
1998-99	1,381.4	1,200.2
1999-2000	1,218.6	1,041.7
5-Year Total	$5,803.8	$5,360.6

facsimile
TRANSMITTAL

to: Deborah Adler

fax #: (202) 456-7431

re:

date: 2/24/99

pages: 3+c

Ben David Cade, attached are fact sheets for the LA County demonstration.

Anne Wedgeworth

From the desk of...

Anne Wedgeworth
Acting Deputy Director
Division of Integrated Health Systems/FCHPG
7500 Security Blvd., Mailstop S2-01-16
Baltimore, MD 21244-1850

(410) 786-4175
Fax: (410) 786 8534

FOR IMMEDIATE RELEASE
Monday, April 15, 1996

Contact: HCFA Press Office
(202) 690-6145

APPROVAL OF CALIFORNIA'S SECTION 1115 MEDICAID DEMONSTRATION FOR LOS ANGELES COUNTY

Overview: HHS has approved California's Section 1115 Medicaid Demonstration Project for Los Angeles County. This five-year, budget-neutral demonstration will provide fiscal relief to the County, stabilize the public health system, and assist the process of restructuring the County's health care delivery system to rely more on primary and outpatient care. It will implement the agreement reached in September 1995 with State and County officials, and is the result of a partnership effort by federal, state, and county governments.

Background

Under the terms of the agreement, an additional $364 million will be available to Los Angeles County for the first year of the demonstration. Like all other Section 1115 Medicaid Demonstration Projects, this plan will be budget neutral over five years.

For the first year of the demonstration:

- Eligibility will be expanded to indigent individuals for ambulatory services provided in county health clinics and health centers, public mental health clinics and health centers under contract with the County Department of Health Services and County Department of Mental Health. The indigent population is defined as those whose income is less than 133 1/3 percent of the federal poverty level.
- A special funding pool will be established for certain outpatient clinics in order to facilitate the restructuring of the county's health care delivery system.

Also through this agreement, the county will receive grant assistance through U.S. Public Health Service agencies to support a variety of health services targeted for low income people.

Section 1115 demonstrations allow states to test new approaches to benefits, services, eligibility, program payments, and service delivery. These approaches are frequently aimed at saving money to allow states to extend Medicaid coverage to additional low-income and uninsured people.

- More -

Since Jan. 1, 1993, comprehensive health care reform demonstration waivers have been approved for 12 states and eight have already been implemented. When all 12 are implemented, 2.2 million previously uninsured individuals are expected to receive health coverage.

As Los Angeles County further develops its restructuring plan, the state may submit amendments or other proposals to further the goals of this demonstration project and respond to the county's ongoing plans to shift from hospital based care to more cost-effective primary and outpatient care. The Health Care Financing Administration is committed to considering any new proposals submitted by the county and to participating in an expedited process to complete our review of those proposals within 45 days of their submission.

# # #

FOR IMMEDIATE RELEASE
June 14, 1996

Contact: HCFA Press Office
(202) 690-6145

CLINTON ADMINISTRATION APPROVES AMENDMENT TO CALIFORNIA'S 1115 MEDICAID DEMONSTRATION FOR LOS ANGELES COUNTY

Overview: HHS has approved an amendment to California's 1115 Medicaid Demonstration Project for Los Angeles County. By extending several provisions of the demonstration for an additional year, this amendment will ensure that the state and county have sufficient time for the restructuring of the County's health care delivery system that was begun in the original demonstration project. The focus of the demonstration project is to provide fiscal relief to the County, stabilize the public health system, and restructure the County's health care delivery system to rely more on primary and outpatient care. It is the result of a partnership of federal, state, and county governments.

Background

Under the terms of the original agreement, an additional $364 million was made available to Los Angeles County for the first year of the demonstration. Extension of the financial provisions will provide an additional $172 million for the second year. Like all other Section 1115 Medicaid Demonstration Projects, this plan will be budget neutral over five years.

The amendment will provide federal financial participation for the following components:

- Administrative cost categories associated with the administration of the project;
- Federally reimbursable ambulatory service costs incurred by the County in rendering services to Medi-Cal and eligible indigent patients in the County health system; and
- Expenditures made as State disbursements from a Supplemental Project Pool that has been established for use in outpatient clinics.

Section 1115 demonstrations allow states to test new approaches to benefits, services, eligibility, program payments, and service delivery. These approaches are frequently aimed at saving money to allow states to extend Medicaid coverage to additional low-income and uninsured people.

Since January 1, 1993, comprehensive health care demonstration waivers have been approved for 12 states and eight have already been implemented. When all 12 are implemented, 2.2 million previously uninsured individuals are expected to receive health coverage.

Federal representatives will work with the county and state to provide technical assistance in the development of their restructuring plan. The Health Care Financing Administration remains committed to considering further refinements to the plan submitted by the County, and to participating in an expedited review process.

SUSAN J. WHITE & ASSOCIATES, INC.
1020 North Fairfax Street, Suite 202
Alexandria, Virginia 22314

(703) 683-2573 phone
(703) 683-0865 fax

FAX COVER SHEET

TO: Chris Jennings

FAX NO: (202) 456-2878

FROM: Susan White

DATE/TIME: 5/3/99

NO. of PAGES: 18 (including cover sheet)

SUBJECT: LA County Bd. of Supervisors re: 1115 Waiver Renewal

MESSAGE:

FYI

Susan J. White & Associates, Inc.
1020 North Fairfax Street
Suite 202
Alexandria, VA 22314

TELEPHONE: 703 683-2573
TELECOPIER: 703 683-0865

MEMO TO: Chris Jennings, Deputy Assistant to the President for Health Policy Development

FROM: Susan J. White, Los Angeles County Representative for Health Issues

DATE: May 3, 1999

SUBJECT: Los Angeles County 1115 Medicaid Waiver Materials

I have left a couple of messages for you this morning about the meetings this week while the Los Angeles County Board of Supervisors is in Washington, DC, and I wanted you to have the attached materials as well.

The documents include a letter from Mark Finucane, Director of the Department of Health Services, the letter to the Los Angeles County Board of Supervisors, and the summary of the Waiver extension request which was approved by the Board on April 27.

I would be pleased to discuss any issues with you further if you would like and can be reached at my office at 703 683-2573.

MARK FINUCANE, Director
COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012
(213) 240-8101

April 29, 1999

Mr. Chris Jennings
Deputy Assistant to the President for Health Policy
216 Old Executive Office Building
The White House
Washington, D.C. 20502

Dear Chris:

This is to let you know the County Board of Supervisors approved in principle that we proceed with an extension request of the County's current Medicaid Demonstration Project (1115 Waiver).

Attached is a copy of the Board letter and an advance copy of the DRAFT executive summary outlining the County's request. We will be working closely with Grantland Johnson as we proceed with our extension request.

I look forward to working with you, Grantland, and other representatives, and to meet with you next week during our visit to Washington D.C.

Yours truly,

Mark

Mark Finucane
Director of Health Services

MF:mr
CJ-0499

Attachment

MARK FINUCANE, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012

(213) 240-8101
(213) 974-1102

April 27, 1999

Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

MEDICAID DEMONSTRATION PROJECT WAIVER EXTENSION REQUEST
(All Districts) (3-votes)

JOINT RECOMMENDATION WITH THE CHIEF ADMINISTRATIVE OFFICER:

1. Instruct and authorize the Director of Health Services and Chief Administrative Officer to proceed with an extension request for the County's Medicaid Demonstration Project for Fiscal Years 2000-01 to 2004-05.

2. Instruct the Director of Health Services and Chief Administrative Officer to submit to the State within 30 days, a five-year plan that includes: a) a core extension of the Demonstration Project; b) a Restructuring/Stabilization Reform amendment that includes fiscal restructuring; c) a proposed amendment to continue the Healthy Students Partnership for Fiscal Years 2000-01 to 2004-05; d) a Health Care Workforce Retraining project for Fiscal Years 2000-01 to 2002-03; and e) an Indigent Care Match for hospital-based outpatient specialty care.

PURPOSE OF RECOMMENDED ACTION:

The recommended action will allow the Department (DHS) and Chief Administrative Office (CAO) to proceed with the proposed request to extend the County's Medicaid Demonstration Project (1115 Waiver) and to take any necessary steps to facilitate timely consideration by the State and federal governments.

JUSTIFICATION:

Under the current Terms and Conditions, the State of California is required to submit a plan to the Health Care Financing Administration (HCFA) by January 1, 2000. Your Board's action will authorize our efforts to seek continued assistance from the federal government to proceed with the transformation of the health care system begun in FY 1995-96.

The DHS and CAO will develop a plan for a five-year extension to the current Medicaid Demonstration Project for Los Angeles County, which expires on June 30, 2000. The current project has provided DHS the means to transition toward a more balanced and cost-effective health care delivery system by funding ambulatory care services while restructuring hospital-based services. A draft executive summary of the waiver extension request is included as Attachment A.

Although the County has made a fundamental shift in the direction of the delivery of health care and achieved notable progress over the last three and one-half years, more work needs to be done. The extension request proposal needs to contain the necessary elements to support both system changes already achieved and structural changes needed for more long-term change. This would be accomplished through the elements listed below.

FINANCING

A five-year extension of the core financing elements in the existing Waiver's Special Terms and Conditions will enable the Department to: (1) continue expansion of community-based ambulatory care services; (2) advance integration of public and private health services for the indigent and Medi-Cal populations; and (3) continue the restructuring of inpatient care not only by reducing beds but by managing patients more appropriately.

RESTRUCTURING/STABILIZATION REFORM

A proposed amendment to support investment in key program areas that can balance the continuing need for more services and the goal of reducing the burden of disease borne by County residents. This amendment would enable the Department to expand ambulatory care by 900,000 additional visits and reduce by another 10 percent the inappropriate utilization of inpatient care. Fiscal reforms will include flexibility in the use of federal revenues and reasonable budget neutrality limits.

SCHOOL-BASED/LINKED SERVICES

An amendment to expand school-based and school-linked services with the Los Angeles Unified School District and other Los Angeles County school districts. This proposed amendment would enable: (1) expansion of ambulatory care services by an estimated 500,000 visits to uninsured school-age children and youth; and (2) linkage of schools with the emerging DHS public-private health care delivery system to secure more effective outreach, health promotion/preventive services, enrollment in Medi-Cal and Healthy Families, and coordination of care.

HEALTH CARE WORKFORCE RETRAINING

An amendment to fund an essential, multi-year health care workforce retraining project for three years. This project would: (1) design and implement workforce training and retraining programs for an estimated 2,400 workers at immediate risk of being displaced by restructuring; (2) retrain DHS employees to enable organizational culture changes as DHS transitions toward an integrated health care delivery system, and (3) facilitate a strategic alliance between management and SEIU Local 660 for joint implementation.

SPECIALTY CARE SERVICES

An amendment to provide specialty care services at public hospitals to medically indigent patients. This amendment would enable the Department to: (1) support the coordination and provision of 250,000 new specialty care visits to the Medi-Cal and medically indigent and other poor uninsured populations; and (2) reduce waiting times for high-demand specialty care services resulting from expanding access to primary care.

FISCAL IMPACT:

The recommended Board actions do not have an immediate fiscal impact. The extension request will describe any fiscal impact.

FINANCING:

The recommended Board actions do not have an immediate financing impact. The extension request will describe any financing recommendations.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

The County is required to submit an extension request proposal to HCFA should the County desire to continue its current Medicaid Demonstration Project granted on April 15, 1996 under Section 1115 of the Social Security Act.

CONTRACTING PROCESS:

The contracting process is not applicable.

IMPACT ON CURRENT SERVICES OR PROJECTS:

The recommended actions do not have an immediate impact on current services or projects. The extension request will describe impacts on current services or projects.

Upon approval, DHS and the CAO require three signed copies of the Board's action.

Respectfully submitted,

Mark Finucane
Director of Health Services

David E. Janssen
Chief Administrative Officer

MF:DEJ:mr

Attachments

c: County Counsel
Executive Officer, Board of Supervisors

REVISED

MEDICAID DEMONSTRATION PROJECT FOR LOS ANGELES COUNTY

1115 WAIVER EXTENSION PLAN 2000-2005

EXECUTIVE SUMMARY

This is a request to extend the Medicaid Demonstration Project for Los Angeles County ("1115 Waiver," "Waiver," or "Demonstration Project") for five years to continue the transformation of the second largest County health care system in the nation.

INTRODUCTION

At the start of the 1995-96 fiscal year, Los Angeles County was faced with an unprecedented $655 million budget deficit in health services—the loss of one out every two dollars available—and a devastating collapse of the safety net. In response, State, Federal, and County officials intensively collaborated to develop a five-year Medicaid Demonstration Project to address the County's structural and financing crisis by helping to stabilize the County DHS system, and, over time, move it away from expensive hospital services toward community-based primary and preventive care services.

Although the County Department of Health Services ("DHS") has made notable progress, the restructuring goals of reducing inpatient and expanding outpatient care cannot be sustained unless the structural and financial problems which contributed to the original fiscal crisis are addressed. The underlying problems confronting the County have not been resolved, including:

Large and Rising Uninsured. The uninsured population has steadily increased despite a rebounding local economy. The uninsured population now stands at 2.7 million individuals, with this number expected to increase to at least 3.0 million by 2005. Over the past two years, the County has averaged about 150 new uninsured persons per day.

Welfare Reform and Declining Medi-Cal. After more than twenty years of steady growth, the numbers of Medi-Cal eligibles have fallen throughout the State. Since the beginning of the Demonstration Project, the number of Medi-Cal eligible population in Los Angeles County has steadily decreased from 1.9 million to about 1.7 million.

Limited Success of Expanding Insurance Coverage. Despite the recent improvements to expand insurance coverage to children at the Federal and State

levels, these do not offset the annual declines in Medi-Cal coverage and the low rate of job-based insurance. The uninsured rate for children has not changed significantly; even under the "best case" scenarios there would still be more than 300,000 children uninsured.

Aggressive Managed Care and Divergence of Medi-Cal. The County public hospital system has lost 132,000 Medi-Cal inpatient days, a 26.1 percent drop, since 1994-95. This has serious consequences for a system that relies extensively on Medi-Cal revenues to finance care to the uninsured.

Increased Reliance on Safety Net. County DHS hospitals provide over 85% of all uncompensated care in Los Angeles County.

Continued financial incentives for inpatient and emergency services. Despite the program changes of reducing inpatient and inappropriate emergency services, current Medi-Cal funding creates a "Catch 22" for County DHS. A decline in inpatient care yields very little net savings to the County due to loss in Federal and State revenues.

Limits in Payments to Safety Net. Even with 1115 Waiver funds, the total federal funding available to County DHS has declined from $1.2 billion to $1.1 billion since the beginning of the Demonstration Project. The proportion of the DHS budget composed of federal funds has dropped from 50 percent of total funding to 47 percent. Disproportionate Share Hospital program is scheduled to decline by 19% in FFY 2002, and Federally-Qualified Health Center funding will decline and ultimately expire by FFY 2002.

JUSTIFICATION

An extension is justified because:

- Major goals of the current Demonstration Project have not been accomplished. Restructuring that expands ambulatory care, integrates public and private partners, and changes long-standing clinical practices requires time and an unflagging commitment.
- The movement toward community-based primary and preventive care services, and implementation of inpatient efficiencies, require changes in financial rules.
- The focus of the Demonstration Project is moving from the initial phase of stabilization and structural changes to improving the management of diseases for at-risk populations.

- In the absence of national health policy reform, demonstration projects are the primary means for the federal government to assist States with the rising uninsured. Los Angeles County is an epicenter of the working uninsured—twice the nation's rate. The total number of uninsured is projected at 3 million by the year 2005.

- The aggressive expansion of managed care strains and reduces the resources of safety net providers, the last resort for the uninsured.

- Public schools must become a partner in the emerging public and private delivery system to expand ambulatory care and improve the health status of children and youth where they are: in school.

- A labor-management initiative that retrains and prepares the workforce is essential to sustain restructuring.

- Increased demand for specialty services, a consequence of the expansion of primary care, needs to be accommodated.

Without continuation of federal assistance through a Waiver extension and new amendments, accomplishments to date could be jeopardized and emerging opportunities will not be realized. Approval of this request would reaffirm the initial commitment of the Federal government to the restructuring of the County's health care system, and incorporate new strategies consistent with existing efforts.

MAJOR RECOMMENDATIONS

The restructuring process—supported by the Demonstration Project—must be firmly institutionalized through a deep commitment to continuing change. This would be accomplished through the following major recommendations:

A five-year extension of the core financing elements in the existing Terms and Conditions, enabling the Department to:

- Support the restructuring efforts achieved through June 30, 2000.

- Advance integration of public and private health services for the indigent and Medi-Cal populations.

A Restructuring/Stabilization Program that changes financial disincentives to invest in ambulatory care expansion and disease management interventions that can ultimately reduce the burden of disease. The recommended fiscal amendments would enable the Department to:

- Expand community-based ambulatory care services by 900,000 additional visits through public and private providers to reach the initial target of 3.9 million.

- Reduce by another 10 percent the inappropriate utilization of inpatient care. The new approach is not solely geared to reducing beds but also managing diseases more effectively. The implementation of disease management programs for pediatric asthma, diabetes, congestive heart failure, HIV/AIDS, and other selected diseases, will decrease resource consumption, change clinical practices, and improve the health status of patients.

- Expand community-based risk reduction programs for high-risk families and individuals to reduce reversible risk factors for common diseases and injuries, including tobacco, alcohol, drug abuse, poor diet, sedentary life style, and violence.

- Gain flexibility in the use of County Department of Health Services' disproportionate share hospital ("DSH") revenues to enable a one-to-one replacement of DSH dollars lost from inpatient reductions by increasing Supplemental Project Pool funds available for ambulatory care under the Waiver.

- Gain State and HCFA approval of budget neutrality limits based on: (1) FY 1999-2000 budget neutrality limit, (2) carryover of budget neutrality savings expected under the current Waiver (as was granted for Oregon), and (3) non-DSH Medicaid inflation rate factor of 8.4% per year.

- Engage State and HCFA in identifying/developing "revenue delivery mechanisms" to realize additional funds allowed under renewed budget neutrality limits.

- Institutionalize funding arrangements to the extent that successful program changes demonstrate efficient use of resources.

An amendment for a Healthy Student Partnership for school-based and school linked services with public school districts, enabling:

- Expansion of ambulatory care services targeting uninsured school-age children and youth for a projected 500,000 annual visits by 2005.

- Linkage of schools with the emerging public and private health care delivery system of DHS clinics and partners to secure more effective outreach, health promotion, enrollment in Medi-Cal and Healthy Families, and coordination of care.

An amendment to fund an essential multi-year Health Care Workforce Retraining Project based on the recommendations by the *President's Advisory Commission on Consumer Protection and Quality in the Health Care Industry*. This project would:

- Design and implement workforce training and retraining programs for an estimated 2,400 workers at immediate risk due to restructuring.
- Retrain employees to change organizational culture and accelerate transition towards an integrated delivery system, guided by public health principles, and facilitated by a strategic alliance between management and SEIU Local 660.

An amendment to provide specialty care services at public hospitals to medically indigent patients, enabling the Department to:

- Support the changing role of public hospitals in the coordination and provision of 250,000 added specialty care visits above the current level of services.
- Reduce waiting times for specialty care services that are in high demand as a result of expanding access to primary care to less than 21 days.

THE FIRST FIVE YEARS: CHARTING A NEW COURSE

During the current five-year Demonstration Project, the County has shifted the direction of the Department of Health Services and achieved notable progress in key areas, including:

Expansion and Restructuring of Ambulatory Care Capacity and Access

- Increased ambulatory care sites throughout the County, from 45 to 149 sites, through a new Public/Private Partnership (P/PP) program with safety net and traditional providers.
- Increased ambulatory care visits by 600,000 after stabilization, mostly for primary care services.
- Decreased inappropriate use of the emergency room by 27%.
- Established specialty care referral centers for the medically indigent patients referred by DHS and P/PP providers to coordinate care. However, long appointment wait times for specialty care remain a problem.
- Developed an innovative set of ambulatory care indicators to assess the full extent of increased access, including nurse encounters, home health visits, telephone contacts, nurse triage, etc.

- Initiated a comprehensive community-based health planning process, involving over 400 participants and using data from the L.A. County Health Survey, that produced the County's first Ambulatory Care Plan approved by the Board of Supervisors in February 1999.

- Established the Office of Ambulatory Care to develop policies that increase access to cost-effective ambulatory care services and effective health promotion and disease prevention programs.

Reduced Inpatient Services

- Decreased budgeted beds by 28%—five times higher than the State trend and three times the national trend.

- Decreased average daily census (ADC) by 24%—five times higher than the State trend and three times the national trend.

- Reduced Average Length of Stay from 6.4 days to 5.9.

Improved Cost Management

- Reduced expenditures including staff for hospital services in the County public system by $123 million from FY 1994-95 to FY 1997-98.

- Reduced the annual federal funding levels by an average of $174 million, even with the inclusion of Demonstration Project funds, through FY 1998-99.

- Projected savings of $334 million in federal revenues below the budget neutrality limit.

- Reduced the workforce by 15 percent, a decrease of 4,300 positions and 2,500 layoffs, between 1995 and 1998.

- Began a system-wide reengineering process with savings targets of $40 million for FY 1998-99.

Forged New Community Initiatives

- Initiated the Healthy Students Partnership process with public school districts targeting uninsured school-age children. Implementation of this program is expected to result in 500,000 ambulatory care and prevention visits.

- Developed a cooperative project with SEIU Local 660, partially funded by a $1.2 million grant from the US Department of Labor, to plan for the retraining

of workers at-risk due to restructuring.

- Developed a system-wide workforce and diversity training program.
- Established the Office of Women's Health to develop policies and programs that improve the health status of women.
- Began a series of initiatives to improve the health status of children, such as the Healthy Student Partnership, the first Children's Health Policy Summit, and a set of priority "Interventions for Children 0-5" years of age.
- Conducted a countywide health survey to document a profile of the insured, uninsured, and their health status—with results reported in a new periodic DHS publication, *L.A. Health*.
- Incorporated survey data on the needs of the population to inform the ambulatory care planning process.

Expanded Managed Care

- Increased the enrollment of Medi-Cal for the safety net from 14,000 to approximately 95,400 lives as of March 1999.
- Earned State designation for two consecutive years as the preferred "Community Provider Plan" in Los Angeles County for Healthy Families—California's SCHIP program.

GOALS NOT MET

Although the County has made a fundamental shift in the direction of the delivery of health care, more work is needed to achieve the complex and difficult process of restructuring. Major objectives during the first five years were not accomplished and require additional time, including:

- Achieving the ambulatory care access objective of increasing access by 50%. The Department has not yet met the initial target of 3.9 million visits.
- Implementing cost efficiencies and service consolidations. The initial reengineering targets were unrealistic. A revised target to save $82 million annually by FY 2000-01 has taken into consideration the complex issues of system-wide implementation.
- Reforming financial disincentives to achieve optimum efficiencies in hospitals and invest in critical areas, such as ambulatory care.

GENERAL LESSONS LEARNED

The first years of the Demonstration Project provide several significant lessons to guide the process for the next five years. These include:

- Privatization demands adequate reimbursement for uncompensated care.
- Public/private partnerships are effective in increasing ambulatory care access.
- Increased access is more than increased number of visits. It includes other cost-effective methods such as nurse encounters, home health visits, telephone contacts, nurse triage, etc.
- Reforming a health care system requires broad participation from community, labor, and other stakeholders, with an emphasis on reducing the burden of disease.
- The need to appropriately assess benchmarks for large public teaching hospitals and their potential impacts on revenue.
- Fiscal reform and funding flexibility is essential to community-sensitive restructuring.

THE NEXT FIVE YEARS: MANAGING DISEASE AND PATIENT CARE

The next phase in charting the new course is rooted in the general lessons learned during the current Demonstration Project period. It involves a continuation of the structural changes already underway, realization of expanded ambulatory care services to the medically indigent, and a concerted effort to reduce the burden of chronic disease through patient/disease management and disease prevention. These combined efforts are reflected in the following strategies and objectives outlined for the next five years. These include:

Further Increasing Access

- Meet the initial target of 50 percent increase in access and deliver 900,000 additional annual visits through public and private partnerships by 2004-2005.
- Implement Healthy Students Partnership, targeting uninsured school-age children—resulting in 500,000 additional visits by 2005.
- Expand specialty care services by 250,000 additional annual visits by 2005.

- Enhance mix of services through cost-effective methods that serve uninsured patients relying on the safety net system.
  - Expand home health services by at least 50%
  - Increase telephone triage/encounters by at least 50%
  - Increase nurse only visits by at least 50%
  - Increase referrals by at least 50%
- Create a community assistance program under the Office of Ambulatory Care to inform consumers and stakeholders, reduce barriers to care, respond and improve the problem-resolution process, and focus on other areas such as construction of additional comprehensive health centers.

Managing Disease

- Reduce by 10 percent the number of preventable hospitalizations in each acute care hospital by implementing disease management programs for:
  - Pediatric Asthma
  - Diabetes
  - Congestive Heart Failure
  - HIV/AIDS
  - Other Selected Diseases
- Reduce by 10 percent the number of inappropriate emergency room visits.
- Expand community-based risk reduction programs for high-risk families and individuals.

Service and Quality Improvement

- Improve the performance of safety net systems for Medi-Cal and uninsured through enhanced monitoring of networks, contracts, and service standards.
- Improve quality assurance programs towards a consumer-driven, continuous service and quality improvement process. The biannual L.A. Health Survey and the current patient survey being conducted by UCLA will help in assessing the effectiveness of a "restructured system," focusing on major areas of care.
- Invest in planning and evaluation functions to ensure integrated networks of public health and managed health care services that meet the health needs of communities.

New Initiatives

- Increase the focus of graduate medical training on primary care based on the newly negotiated affiliation agreements.
- Institute a public health rotation for all graduate medical trainees in the County system by academic year 2002.
- Expand the community-based planning process using the findings from the L.A. health survey—which is conducted every two years—to address reversible risk factors for common diseases and injuries.
- Respond to strategies and recommendations developed by the Women's and Children's Health Policy Summits.

Managing Costs

- Continue implementation of cost efficiencies and service consolidations. The enterprise-wide reengineering project is still underway, with a revised target to save $82 million annually by FY 2000-01, and each year thereafter.
- Improve the cost-effectiveness of inpatient services by 5% through the implementation of clinical pathways (e.g., cellulitis, pneumonia, and congestive heart failure).

Reducing the Burden of Disease

- Complete the reorganization of public health to improve the assessment of health needs and priorities for each major planning area.
- Reduce reversible risk factors for common diseases and injuries, including tobacco, alcohol, drug abuse, sedentary life style, and violence.

Health Care Workforce Retraining

- Enhance the skills of ambulatory care workers to meet the evolving and changing demands under managed care through a collaborative labor-management process.
- Support assessment, training, placement, and other transition strategies for the 2,400 hospital-based employees at-risk due to the largest and most complex reengineering project in the nation among public health systems.
- Improve core public health competencies of 3,700 workers and prepare new employees for emerging roles in the assessment, development, and evaluation of health services.

The approval of the extension request and the proposed amendments to the Medicaid Demonstration Project for Los Angeles County will advance the restructuring of the County health system, and assist in implementing new programmatic initiatives through fiscal reform. Under the current Demonstration Project, the County is moving from the initial focus of immediate structural changes to managing disease and patient care. Restructuring—that expands ambulatory care, integrates public and private providers ("partners"), changes fiscal disincentives, and leads to changes in long-standing clinical practices—requires both time and unflagging commitment. The County is requesting State and Federal governments to extend the partnership for another five years to continue the restructuring process started in 1995. Approval will support alliances of public and private health service providers, health facilities and organizations, free and community clinics, academic institutions, labor, consumer advocates and community representatives sharing a common vision of a vastly improved health services system for the County's vulnerable populations.