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THE WHITE HOUSE

WASHINGTON

May 1, 1996

MEMORANDUM FOR THE VICE PRESIDENT

FROM: Diana Fortuna
Domestic Policy Council

SUBJECT: Update on Los Angeles County Medicaid Waiver

I understand you are meeting with officials from Los Angeles County tomorrow. Here is an update on the crisis the county encountered last year with its health care system, and how the Administration has worked to alleviate it through a Medicaid waiver. The chief of staff, John Emerson, and Jack Lew have been very involved in this issue over the past year.

L.A. County has an extensive system of public hospitals and clinics. Last summer, L.A. County was facing a \$1 billion budget deficit that led them to seriously consider a plan to close the county's major hospital (Los Angeles County-USC Medical Center), as well as dozens of clinics.

After an extensive search for solutions (made much more difficult by the state's unwillingness to assist), we agreed to develop a Federal Medicaid demonstration waiver to provide the county with up-front relief of \$364 million and breathing space to change the county health system over five years. The President announced this agreement in principle at a press conference last September with the Board of Supervisors. That announcement averted a shutdown of hospitals and clinics and was described as the first step toward "restructuring" the county system -- moving it away from inpatient services and toward community-based outpatient services. The county has moved to eliminate hospital beds and close or privatize a number of its clinics since then.

The process of approving the waiver itself took longer than expected and questions were raised in the press about whether it would get done, but it was finally completed just last month. The county supervisors are now reviewing a budget proposal that is far less draconian than last year's plan.

The latest problem is that county officials believe they will need additional help, perhaps in the form of waiving various requirements, in order to pull off their five-year restructuring plan. OMB and HHS are extremely concerned that the county will propose a solution that would set a bad precedent on Medicaid disproportionate share, a part of Medicaid law that has been prone to abuse by states. However, we have agreed to work with them collaboratively on any option they present and respond to any request within 45 days. They have not yet submitted a proposal.

County supervisors are sensitive to the question of whether they are truly committed to the difficult actions required to restructure their system and ensure financial stability. They felt that some of our public comments during the waiver negotiations undermined them on this issue. We therefore made positive statements about their work to date and commitment when we announced the waiver approval.

You should also be aware that John Sweeney and the Service Employees International Union have been involved in trying to save as many county health care jobs as possible, and have been disappointed that we have not done more to help them. We have urged the county to include the union in its restructuring process.

cc: Carol Rasco
Martha Foley
John Emerson
Jack Lew

Los Angeles Times; 4-23-96

County Budget Avoids Deep Cuts

■ **Finances:** The \$11.9-billion proposal by chief administrator Reed counts on one-time infusions of funds. Last year, she said such a strategy was too risky.

By JEFFREY L. RABIN and JOSH MEYER, TIMES STAFF WRITERS

In a dramatic departure from her bottom-line approach, outgoing Chief Administrative Officer Sally Reed on Monday unveiled a "compromise" \$11.9-billion budget for Los Angeles County that avoids deep cuts in public safety and social programs by counting on one-time money she previously considered too risky.

After the Board of Supervisors rejected much of her tough fiscal medicine during last year's contentious budget battles, Reed concluded that recommending hundreds of millions of dollars in new spending cuts for the coming year would be too devastating and is not realistic politically.

"I am doing some of what Sally Reed told them last year not to do," Reed acknowledged in an interview before she released her last budget. Reed will join the Wilson administration in June as director of the Department of Motor Vehicles.

After preaching that the county must move away from reliance on one-time revenues to pay for ongoing programs, Reed relented and is counting on hoped-for federal funds, plus nearly \$400 million from county pension funds and carry-over balances to avoid cuts in the fiscal year that starts July 1.

In short, her steady-as-you-go spending plan reflects a desire not to engage in political combat with her bosses. It cuts \$220 million in spending from the current year's adopted budget, but maintains most basic services.

Unlike last year, when an unprecedented \$1.2-billion deficit caused Reed to recommend cutting one of every five county jobs and closing County-USC Medical Center, the new budget proposes a minor reduction in positions and avoids sweeping cuts in the troubled health care system. It would, however, continue a freeze on employee pay raises.

Reed's more politically palatable approach pleased county supervisors, who will adopt a final budget this summer.

Supervisor Zev Yaroslavsky expressed relief that the county is in a stronger financial position this year because of actions taken last summer and fall. He said what Reed offered is "largely a hold-the-line budget" that does not change much from current operations.

"There is no significant movement in her budget to further belt tightening," Yaroslavsky said.

Public safety would remain the county's highest budget priority. But the Sheriff's Department would not receive enough money to open the high-security Twin Towers jail downtown, which stands ready to receive inmates but cannot because of the county's fiscal problems.

Sheriff Sherman Block called Reed's proposal "the best budget we have seen in years" and expressed the hope that the new jail may actually open midway through the new fiscal year.

"It does not provide for anything new or replacing anything that has been lost, but there may be some dollars to open one of the Twin Towers," he said. "That would be good news." Block said opening one of the towers in January would make available 2,000 badly needed beds for inmates.

Reed said the only option for opening part of the ultramodern jail involves use of \$18 million in taxes that are being kept in reserve because of a court decision which invalidated tax increases imposed without a vote of the people.

Reed did not recommend providing the county's overburdened

Please see BUDGET, A20

BUDGET: 'Compromise' Spending Plan for County

Continued from A1

criminal justice system with an infusion of new money to pay the costs of the state's "three strikes" sentencing law, which is clogging the jails with felony defendants and the courts with criminal cases. The only addition was a scant \$1.3 million to hire a small number of additional sheriff's deputies.

A spokesman for Dist. Atty. Gil Garcetti said that his biggest concern is that the budget does not include about \$4 million needed to bring his prosecutors' salaries up to par with attorneys in the county counsel's office. Garcetti wants money from assets seized in criminal cases to be used to raise the salaries of his 930 or so prosecutors. But Reed's budget calls for the forfeiture funds to be used for other purposes within his office.

Rather than urging sweeping reductions in the county's vast health system as she did last year, Reed reversed course and is counting on President Clinton to come through with more federal funds to avoid deeper downsizing of the hospital system. Reed said the county has no contingency plans and would be plunged into another health crisis like last summer's if the additional federal assistance is not realized.

The county has promised the federal government that it will

move the nation's second-largest public health system away from its heavy reliance on expensive hospital treatment to less-costly outpatient care at community clinics.

In line with those promises, Reed's budget assumes the county will move ahead with the privatization of Rancho Los Amigos Medical Center in Downey. And she counts on private operators taking over 22 more community health clinics despite recent difficulties with that effort.

If the privatization proceeds, the Health Services Department would lose the vast majority of the 1,000 county positions that would be eliminated if Reed's budget is adopted by the supervisors. The Probation and Internal Services departments also could see a loss of jobs.

Nevertheless, the county would remain the region's biggest employer, providing nearly 80,600 jobs.

To hold the line on spending, Reed's budget again contains no pay raises for county workers. She said the virtual freeze on most salaries in recent years has proven to be "one of the most successful cost-containment tools" used by the supervisors to address the county's fiscal problems.

A spokesman for the county's largest employee union said that Reed's budget proposal is far better

than last year's, when she outraged union leaders and workers by calling for the elimination of county jobs.

But Dan Savage, a spokesman for the Service Employees International Union, Local 690, said the union was troubled by the proposed elimination of 830 positions at Rancho Los Amigos and of several hundred other jobs. "We will as always fight any layoffs that we consider unnecessary or counterproductive to quality patient care," Savage said.

Reed's budget would eliminate a \$516-million budget deficit largely by relying on \$186 million in onetime money from the county's pension funds generated by the stock market's surge, and \$202 million carried over from the current year, as well as another health system bailout from Washington.

Asked if she gave up on her strict regimen of fiscal medicine in advance of her departure to become head of the DMV, Reed said: "I don't think it's a capitulation. I think it would be a capitulation if I said I was only kidding last year."

"There are options this year," Reed said. "I didn't see any options last year. In fact, the only option ended up being a special trip by the president and absolutely unique federal intervention" to save the

health system.

Reed said this year's budget "is certainly more thoughtful, and in the end may have a better outcome." She said her hands were tied in part by expanded state requirements that the county maintain a specific level of law enforcement, health and welfare services or risk the loss of state funds.

Absent from this budget are the proposals for widespread closures of parks and libraries that were contained in her spending plan last year. Instead, Reed is recommending that the county begin a two-year process of turning over four regional parks to cities in which they are located.

Candidates for the handoff include Apollo Regional Park in Lancaster, Arcadia Regional Park, Crescenta Valley Park in Glendale, El Cerrito Park in Sylmar, Cerritos Regional Park, La Mirada Park, Jesse Owens Park in Los Angeles, Victoria Park in Carson, and the Tapia Natural Area in the Santa Monica Mountains.

The supervisors' initial reactions to Reed's budget were tempered compared to last year.

Yaroslavsky cautioned that the budget could convey the erroneous impression that the county is out of the financial woods, when it is not. "We have to restructure the health

Please see BUDGET, A21

BUDGET

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system radically," he said. "We cannot go back to the way we've been doing business in previous years. The momentum for change could be slowed and that cannot be allowed to happen."

Reed's strongest detractor, Supervisor Gloria Molina, said the budget "presents some good [longer-term] goals." But she said adopting a budget "isn't just a dollars and cents balance. It is also a responsibility and moral duty to provide services."

Already, the two Republican supervisors are appealing to Gov. Pete Wilson for more financial help for the state's most populous county.

Board Chairman Mike Antonovich wrote Wilson the governor that "even to achieve this survivalist budget will require your continued support and cooperation. . . ."

LOS ANGELES TIMES

A Spending Blueprint for L.A. County

The \$11.9-billion Los Angeles County budget proposed Monday by Chief Administrative Officer Sally Reed is \$220 million smaller than the current spending plan for the nation's largest county government. The budget maintains most basic county law enforcement, health and welfare services and avoids deep cuts in programs by relying on nearly \$400 million in one-time revenues.

THE HIGHLIGHTS

- **Public Safety:** The budget does not contain funding to open the new high-security Twin Towers jail in downtown Los Angeles. But one tower of the complex could be opened in January if the Legislature acts to overturn a recent court decision that invalidated local tax increases not approved by voters.
- **Three Strikes:** With the exception of a minor increase in the Sheriff's Department, Reed is proposing no additions to the budgets of criminal justice agencies to pay for the costs of the state's "three strike" sentencing law. That could further delay civil court proceedings.
- **Health:** Significant reduction in services at Rancho Los Amigos Medical Center in Downey as part of the county's effort to privatize the renowned rehabilitation center and 22 community health clinics.
- **Looking to Washington:** Budget assumes a further bailout from the Clinton administration to pay for restructuring the county's health system from its emphasis on expensive hospital treatment to less costly primary and preventive care at community clinics. There are no contingency plans if the federal assistance is not provided.
- **Job Losses:** More than 1,000 positions would be eliminated, mostly in the health department, as a result of privatization, but precise figures on layoffs are not available. Some job losses are likely in the Probation and Internal Services departments.
- **Pay Increases:** Budget contains no pay raises for county workers.
- **Revenues:** Unlike last year, Reed's budget relies on one-time monies, including \$202 million in carry-over balances from the current budget and \$186 million in excess earnings from the county's pension fund because of a sharply higher stock market.
- **Parks and Recreation:** The budget proposes turning over four of the county's community regional parks to cities where they are located and reducing county support for those parks by 50% in the next year.
- **Libraries:** No further reductions in operating hours.

San Francisco Chronicle; 4-23-96

Wilson Now Sees Budget Shortage

Reversal of earlier optimistic forecast

By Greg Lucas
Chronicle Sacramento Bureau

Sacramento

Governor Pete Wilson has told legislative leaders that the state faces at least a \$3 billion budget shortfall — a sharp change from the GOP governor's rosy expectations in January, when he offered a \$58.6 billion spending plan for the coming fiscal year.

Wilson's calculation of the budget problem is based on the federal government's failure to pass sweeping changes in welfare reform, the state Legislature's refusal to back Wilson's proposed cuts in welfare and aid to the elderly, blind and disabled, and the return of the renters tax credit.

Financial predictions could worsen depending on tax collections this month by the Franchise Tax Board. April is the biggest month for income tax collection, which accounts for 45 percent of the state's revenue.

"The governor's budget was premised on a bunch of action to take money away from the elderly and the poor. We haven't done that yet, and he is worried about that," said Assemblyman Phil Isenberg, D-Sacramento. "We're going to have the seventh unbalanced budget in a row."

Wilson's comments to legislative leaders, made in a closed-door meeting late last week, were an attempt to change the tone of early budget negotiations. In part because of his January budget, which had the state ending the 1996-97 fiscal year with a cash reserve, lawmakers have been busy since then finding ways to spend — not save — money.

His comments also serve as a preview of the so-called May Revision, in which the governor updates the figures used in his January budget to reflect fiscal reality.

Wilson's estimate of the cash shortage is probably high. Privately, several Democratic lawmakers scoffed at his numbers because his total assumes lawmakers will do nothing to help balance the budget.

One likely budget-balancing move that Wilson will not like is the Democratic-dominated Senate's expected refusal to enact his 15 percent cut in personal, bank and corporation taxes. Killing the idea would save the state \$540 million.

Wilson's Department of Finance also says that as of March 31, the state had \$334 million more in its coffers than was predicted in January.

Offsetting that is a loss of \$1.6

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BUDGET

From Page 1

billion over the remaining two months of this fiscal year. Wilson's budget counted on savings of \$1.6 billion due to passage of federal legislation overhauling welfare.

That legislation would have allowed California to impose a variety of welfare changes Wilson sought, including cuts in grant levels.

The day before Wilson presented his budget, the bill was vetoed by President Clinton and the savings vanished.

Renters Credit Remains

Also included in Wilson's \$3 billion budget shortfall is the Legislature's refusal to back his plan to eliminate the renters tax credit, which was temporarily ended to solve previous budget shortfalls but is slated to return July 1.

Wilson estimates that if the tax credit returns, it will cost the state \$520 million he did not count on in his January budget.

Wilson's budget also assumes California will receive about \$600 million in federal reimbursement for the cost of jailing and providing health care for illegal immigrants — \$500 million for health care and \$100 million for incarceration.

Welfare Increases

Lawmakers also have balked at permanently eliminating automatic cost-of-living increases in welfare and aid to the elderly, blind and disabled sought by Wilson.

The governor and lawmakers eliminated the cost-of-living increases for five years to close a 1991 budget shortfall. They are scheduled to return July 1, along with the renters tax credit.

The Legislature agreed to wait until Nov. 1 for the automatic increases to return. That, the Wilson administration says, will cost the state \$510 million.

"We will continue to reflect in the May Revision that the Legislature needs to take action on both the renters tax credit and the programs scheduled to come back on the books in the coming fiscal year in order to make the budget work," said H.D. Palmer, a spokesman for Wilson's Department of Finance.



FAX TRANSMISSION

U.S. Department of Health and Human Services
Office of the Secretary

To: John Emerson + Diana Fortuna

Organization: White House

From: John Moulton

Intergovernmental Affairs

Date: 4/23/96

Intergovernmental Affairs
200 Independence Ave., SW
Room 630 F
Washington, DC 20201
phone: (202) 401-5899
fax: (202) 690-5672

Call

Recipient's Fax Number: _____

Number of pages including this sheet: 4

Remarks:

Draft ltr re 28 CA Counties
interested in pursuing
an LA County-like waiver.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Memo from John Monahan

Director for Intergovernmental Affairs

Date: 4/23/96To: John Emmons
Diana Fortner☐ For necessary action☒ For your information

Date due: _____

☐ Comments/Recommendations☐ Please see me**Remarks:**

Attached you will find a copy of
a draft letter to California regarding
our proposed process for handling
the 27 counties which expressed
an interest in the L.A. waiver. Pls.

review + call me.

The Honorable Pete Wilson
Governor of California
State Capitol
First Floor
Sacramento, California 95814

DRAFT

ball on whose
court

and county
(11/16/94)

Dear Gov. Wilson:

As you know, we recently approved California's Section 1115 demonstration project for Los Angeles County. We are extremely pleased that we were able to help Los Angeles County avert a crisis and begin restructuring its health care system toward more primary and outpatient-based care. We look forward to working with you and the county as its restructuring plans progress.

We understand that California law required the state to notify all counties about the demonstration for Los Angeles County and offer them an opportunity to participate. Our records indicate that 28 counties have expressed an interest in participating in this demonstration. As you know, we do not enter into agreements or demonstration projects directly with counties. As with Los Angeles County, any proposal or application for a demonstration must be made by the state on behalf of a county; the state must also participate actively with the county and the federal government in the review process.

In order to guide decisions regarding how to proceed, we have identified the key components of the Los Angeles County demonstration. To be considered on the same basis as the Los Angeles County demonstration, a county must: (1) have a public hospital or hospitals; (2) be committed to a fundamental restructuring of its health care system to move more toward outpatient care; (3) meet the same budget neutrality requirements as other Section 1115 demonstration projects; and (4) comply with the standards set forth in the public notice requirements published in the Federal Register on September 27, 1994.

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diff? In the case of counties meeting these criteria and with which the state has agreed to support a demonstration project identical, or nearly identical to Los Angeles County's, we will begin working with your staff and the county's staff on their proposals. As part of this process, a county will need to submit county-specific budget data and meet the public notice requirements established for Section 1115 demonstrations.

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deals?
Diff from our
prop.

For counties which do not meet the criteria, but on behalf of which the state wishes to pursue a demonstration project appropriate for that county, we would be pleased to meet with the state to consider the merits of these proposals in the ordinary waiver process. The proposals would also require submission of county-specific budget data and compliance with applicable public notice requirements.

We look forward to working with you to provide greater access to health care for Medicaid beneficiaries and other indigent people.

CALIFORNIA COUNTIES INTERESTED IN OBTAINING 1115 DEMONSTRATION WAIVERS		
COUNTY	PUBLIC HOSPITAL(S)	
Alameda	Yes	
Contra Costa	Yes	
Fresno	Yes	
Kern	Yes	
Merced	Yes	
Monterey	Yes	
Riverside	Yes	
San Bernardino	Yes	
San Francisco	Yes	
San Joaquin	Yes	
San Luis Obispo	Yes	
San Matco	Yes	
Santa Clara	Yes	
Stanislaus	Yes	
Tuolumne	Yes	
Ventura	Yes	
Del Norte		No
El Dorado		No
Humboldt		No
Lassen		No
Madera		No
Orange		No
Placer		No
Plumas		No
San Diego		No
Siskiyou		No
Sutter		No
Tehama		No
28 Total:	16	12

Note: It is assumed that all counties would be able to meet the additional criteria (commitment to restructuring, budget neutrality, and compliance to Public Notice guidelines).

MEMORANDUM FOR INTERESTED PARTIES

FROM: Office of Media Affairs
SUBJECT: Press coverage of LA County Medicaid Announcement
DATE: April 17, 1996

Attached is a clip packet from the final approval of the LA County Medicaid waiver announcement on April 15. In addition to these clips Secretary Shalala taped an actuality for all of the radio stations in the county.

Health Care System Bailout Wins Approval

■ **Reform:** The county's request for a waiver of federal Medicaid rules passes the final hurdle. Now officials must reduce the size of the hospital system.

By JEFFREY L. RABIN and JACK CHEEVERS

THOM STAFF WRITERS

The Clinton administration granted final approval Monday of a \$384-million bailout for Los Angeles County as part of a five-year effort to transform the nation's second largest public health care system from heavy reliance on hospital treatment to an emphasis on community-based preventive care.

U.S. Health and Human Services Secretary Donna Shalala delivered the long-awaited word that the county's request to become a national demonstration project for health care reform had been approved.

That was welcome news to county supervisors who gambled last summer that a last-minute infusion of federal aid would avoid hospital closures and even deeper cuts in the health care safety net.

"We are very grateful to the president," said Supervisor Yvonne Brathwaite Burke. "We're going to do what is expected of us. We definitely intend to keep our commitments."

Those commitments, embodied in the county's request for a waiver of federal Medicaid rules, involve significantly downsizing the county hospital system by eliminating at least one-third of its beds and privatizing two of its smaller hospitals.

At the same time, the county promised to expand by 50%

Please see BAILOUT, B3

LOS ANGELES TIMES / WASHINGTON EDITION

TUESDAY, APRIL 16, 1996

B3

CALIFORNIA

BAILOUT: Emphasis on Community-Based Preventive Care

Continued from B1

the amount of outpatient primary care services that are provided to poor people and those lacking health insurance.

With the waiver approved, county officials now face the challenge of actually remaking the county's \$2.3-billion-a-year health system.

"There have been a lot of promises made in the waiver," said Jim Lott, senior vice president of HealthCare Assn. of Southern California, which represents mostly private hospitals.

It remains to be seen, Lott said, whether the supervisors have the political will to

downsize the system. "The supervisors will have to allow that to happen, even if it means taking services and jobs out of their districts," he said.

Final approval of the waiver came almost seven months after President Clinton announced in Santa Monica that the federal bailout would prevent the closure of County-USC Medical Center and the shut-down of clinics amid the county's worst-ever fiscal crisis.

County Health Services Director Mark Finucane readily acknowledged that "along with the \$364 million come very, very high expectations" that the county will "aggressively move into the outpatient world."

The 300-page waiver document submitted last month to federal officials by the county and state offers a broad vision of how the county's hospital-heavy system might be restructured.

The plan calls for reducing the number of hospital beds from 2,585 to 1,719 by eliminating some beds at the county's four major hospitals and privatizing High Desert Hospital in the Antelope Valley and Rancho Los Amigos Medical Center in Downey.

At the same time, the county would expand its primary care services in outpatient community clinics. But precisely how and where this will be accomplished still is being studied.

E. Richard Brown, director of UCLA's Center for Health Policy Research, sounded a note of caution, saying the restructuring might be derailed by bureaucratic resistance.

"The main obstacle is the county's lack of experience in running a system focused on primary care and prevention, rather than emergency rooms and [hospital] inpatient services," Brown said.

The waiver approach was conceived last summer when the health system had an enormous \$635-million budget deficit, and the supervisors were faced with harsh choices about closing hospitals and drastically cutting services.

After agreement was reached in September on the outlines of the waiver, the supervisors were able to avoid the most severe cuts.

It took multiple lobbying trips to Washington by some supervisors and former county health czar Burt Margolin, endless telephone conference calls and the direct intervention of the White House to finalize the agreement.

Clinton administration officials insisted that the waiver will be "budget neutral"—that it will not cost the federal government any more than the county's health program would have cost without the exemption over the next five years.

Funding to revamp health system OK'd

By David Bloom
Daily News Staff Writer

After months of negotiations, federal officials delivered a \$364 million funding package Monday to allow Los Angeles County's battered health system to move toward outpatient, clinic-based care and away from a heavy reliance on hospitals.

Health and Human Services Department Secretary Donna Shalala announced the approval Monday morning, saying the waiver "reflects the Clinton administration's commitment to working with state and county officials to ensure that low-income individuals continue to receive high-quality health care."

County officials — who had grown anxious that the funding might never materialize — expressed relief.

"It's great that it's all set," said Supervisor Yvonne Braithwaite Burke. "It certainly makes a lot of difference in terms of our security."

President Clinton first announced his funding package in dramatic fashion in

September, just as the county Health Services Department seemed on the verge of fiscal collapse because a \$665 million shortfall in its \$2.5 billion budget.

Clinton's proposal included a small amount of outright public health grants, but much of the relief came in the form of waivers of federal Medicaid rules that had to be negotiated.

Ever since, intensive negotiations have been going on between officials of the county, state and U.S. Health and Human Services Department.

"It can't cost the federal government any more over the five-year period than without the waiver," said John Emerson, deputy assistant to Clinton charged with overseeing the waiver's approval process.

Emerson met with Burke and other supervisors Monday morning in Los Angeles while Shalala phoned county officials with official confirmation of the waiver approvals.

"This is a big deal," Emerson said. "It was a complex waiver that allows for the final delivery of the \$364-million announced in September."

\$364 million health bailout wins formal OK

Federal officials helping L.A. County

By Dori Meiner
COPLEY NEWS SERVICE

The Clinton administration Monday gave formal approval to a promised \$364 million health-care bailout for Los Angeles County.

The funding is part of a larger, five-year plan to restructure the county's health-care services, shifting the focus from expensive in-hospital care to community-based outpatient care.

"The president is pleased that we have averted a crisis, and that Los Angeles County has the opportunity to create a better, more cost-effective health-care system," said White House Chief of Staff Leon Panetta.

To restructure its health-care delivery system, the financially troubled county needed a waiver of federal Medicaid rules. The U.S. Department of Health and Human Services approved the funding and the waiver as part of a five-year demonstration project. Similar health-care reform demonstration projects have been approved to 12 states since Jan. 1, 1992, according to department officials. Eight already have been implemented. When all 12 are implemented, 23 million previously uninsured individuals are expected to receive health coverage, they said.

Trying new approaches

Such projects allow states to test new approaches to benefits, services, eligibility, program payments and service delivery. They are usually intended to save money so that states can provide Medicaid coverage to more low-income and uninsured people, according to an HHS fact sheet.

President Clinton last fall promised the \$364 million bailout of the county's health-care system on the condition that it be restructured to solve long-term funding problems.

Federal officials have maintained that the project would be "budget-neutral," meaning that the initial expenditure of federal funds would be repaid in savings over five years.

County officials said that...

"What this does is basically give us the breathing room to solve the problems. This does not make us well. This is the first dose of the medicine."

— JOEL BELLMAN,
spokesman for
Supervisor Zev Yaroslavsky

ed the money by the end of June, which is the end of the county's fiscal year, to avoid another threatened shutdown of county hospitals.

At a March 4 White House meeting with Panetta and Clinton aide John Emerson, who is the White House liaison to California, three Los Angeles County supervisors announced the Clinton administration had granted tentative approval to the project.

County supervisors cheered the infusion of money, but stressed that it was only the first of many steps needed to turn around the perennially cash-poor health agency.

'Tremendous boost'

"It's a tremendous boost to the County of Los Angeles," said South Bay Supervisor Deane Dana. But Dana added that "it's not a gift package for us, and we need to restructure the entire health system."

Supervisor Yvonne Brathwaite Burke said health workers are "very, very relieved. They feel that they have gotten over this very big hurdle."

"What this does is basically give us the breathing room to solve the problems," said Joel Bellman, spokesman for Supervisor Zev Yaroslavsky. "This does not make us well. This is the first dose of the medicine."

Contributing to this article was Copley News Service staff writer Henry

Torrance Daily
Breeze
4/16/96

DIGEST

States' rights again the issue before Court

WASHINGTON - The Supreme Court, which has recently enhanced state powers at the expense of Congress, agreed Monday to hear two cases that promise to prolong the legal struggle over states' rights.

In a case from California, the justices agreed to decide whether a federal law bars states from enforcing their own minimum-wage laws for public-works projects. More than half the states have such laws.

The justices also voted to revisit the Constitution's 11th Amendment, which shields states from being sued in federal courts without their consent. Just three weeks ago, the court applied the little-known amendment to curb the authority of individuals to sue states for violating U.S. laws.

Wilson's tax cut proposal passes State Assembly vote

SACRAMENTO - On Tax Day, when taxpayers are most painfully aware of taxes, the State Assembly for the second time passed Gov. Pete Wilson's 15 percent tax cut proposal Monday.

"For the millions of Californians who are scrambling to meet today's tax deadline, they can take some comfort that the Assembly took the first step in giving all hard-working Californians a 15 percent across-the-board tax cut," the Republican governor said after the vote.

member, Assemblyman Dominic Cortese of San Jose, joining the 41 Republicans in favor.

Monkeys from Philippines arrive in Texas with Ebola

WASHINGTON - The deadly Ebola virus has struck several monkeys imported into Texas from the Philippines, public health officials confirmed Monday as they worked to contain the outbreak at a primate quarantine facility.

Doctors gave no reports of bites or scratches to monkey handlers at HRP Inc., in Alice, Texas, but are watching the employees carefully as a precaution, said state epidemiologist Dr. Diane Simpson.

Two monkeys out of a shipment of 100 have been found sick so far.

L.A.'s health system gets \$364 million funding package

LOS ANGELES - After months of negotiations, federal officials have delivered a \$364 million funding package to allow Los Angeles County's battered health system to move toward outpatient, clinic-based care and away from a heavy reliance on hospitals.

Health and Human Services Department Secretary Donna Shalala announced the approval Monday morning, saying the waiver "reflects the Clinton administration's commitment to working with state and county officials to ensure that low-income individuals continue to receive high-quality health care."

From Press-Telegram wire services

1ST STORY of Level 1 printed in FULL format.

Copyright 1996 City News Service of Los Angeles, Inc.
City News Service

April 15, 1996, Monday

LENGTH: 297 words

HEADLINE: Burke Announces Federal Government Approval of Medicaid Waiver

DATELINE: LOS ANGELES

BODY:

The Clinton administration's approval today of a Medicaid waiver ensures the county will get \$364 million to convert a costly, in-patient health care system to a cheaper one based on prevention.

Supervisor Yvonne Brathwaite Burke said the five-year waiver of federal regulations will give the county some breathing space.

Under this waiver program, Los Angeles County will serve as a national model for restructuring public health care," she said.

Los Angeles County is pleased to accept such a great responsibility, and looks forward to continuing its health care commitment to its residents."

The Democratic supervisor thanked the president, who is running for re-election, and White House chief Leon Panetta and Health and Human Services Secretary Donna Shalala for their efforts on behalf of the county.

The approval of this demonstration project reflects the Clinton administration's commitment to working with state and county officials to ensure that low-income individuals continue to receive high quality care," Shalala said.

The money will be provided during what is left of FY 1995-96, which ends June 30, and the county will be able to seek more funding over the remaining years of the project.

Clinton announced the waiver proposal last September during a Southland visit, following intense negotiations between county health czar" Burt Margolin and federal and state officials.

At the time of the announcement, the Board of Supervisors faced a \$1.2 billion budget deficit, more than half of it in health services outlays, and the immediate prospect of laying off or demoting about 5,200 health service workers.

The waiver enabled the supervisors to save about 2,000 jobs.

LANGUAGE: ENGLISH

AM-CA--LA County-Health,310

Clinton Administration Approves \$364 Million Waiver

lmlrjl

LOS ANGELES (AP) A federal Medicaid waiver was approved on Monday that will give Los Angeles County \$364 million and allow it to restructure a health care system near collapse.

The waiver, announced by U.S. Health Secretary Donna Shalala, releases the millions in federal aid during the current fiscal year that ends on June 30.

"We are pleased we were able to help Los Angeles County avert a crisis and improve the effectiveness of its health care system," Shalala said.

The bailout announced by President Clinton in September hinged on the nation's second-largest public health system switching from costly hospitalization to an emphasis on outpatient and preventive care.

The county can seek more federal funding over the life of its five-year plan to downsize the health care system.

"President Clinton pledged last fall to provide funds to protect the county's safety net and preserve essential public health services. Today, he has kept that promise," said Richard Cordtz, president of the 1.1-million member Service Employees International Union of North America.

SEIU represents 475,000 public and private health care workers, including more than 40,000 in the county.

The county's six public hospitals and many clinics serve about 4.4 million poor residents. The \$2.3 billion-a-year system nearly shut down last year but was saved by the promised funding, which was written into the budget. Even so, the county laid off or demoted more than 3,000 health care workers.

Downsizing plans include privatizing two hospitals and 23 clinics and reducing the number of public hospital beds by a third.

"Under this waiver program, Los Angeles County will serve as a national model for restructuring public health care," said county Supervisor Yvonne Brathwaite Burke.

**** filed by:APW-(CA) on 04/15/96 at 23:54EST ****

**** printed by:WHPR(JSIL) on 04/16/96 at 17:55EST ****

PM-CA--LA County-Health,270

Clinton Administration Approves \$364 Million Waiver

lmlrjlrrj2

LOS ANGELES (AP) A \$364 million bailout of the county's collapsing health care system won federal approval, allowing it to restructure as a model program for the nation.

U.S. Health and Human Services Secretary Donna Shalala announced Monday that the county had been granted a waiver of Medicaid rules and was approved as a demonstration project in health care reform.

"We are pleased we were able to help Los Angeles County avert a crisis and improve the effectiveness of its health care system," Shalala said.

The \$364 million was promised by President Clinton last September on condition that the county change its health care emphasis from costly hospitalization to outpatient and preventive care.

The money will be released by the June 30 end of the current fiscal year. The county can seek additional funding for the rest of its five-year plan to downsize the \$2.3 billion health care system, which is the nation's second-largest.

"We are very grateful," said county Supervisor Yvonne Brathwaite Burke. "We're going to do what is expected of us. We definitely intend to keep our commitments."

The county's six public hospitals and many clinics serve about 4.4 million poor residents. The system nearly shut down last year but was saved by the promised funding, which was written into the budget. Even so, the county laid off or demoted more than 3,000 health care workers.

Downsizing plans include privatizing two hospitals and 23 clinics and reducing the number of public hospital beds by a third.

**** filed by:APW-(CA) on 04/16/96 at 00:15EST ****

**** printed by:WHPR(JSIL) on 04/16/96 at 17:55EST ****

Health Care System Bailout Wins Approval

■ Reform: The county's request for a waiver of federal Medicaid rules passes the final hurdle. Now officials must reduce the size of the hospital system.

By JEFFREY I. RABIN and JACK CHEEVERS
Times Staff Writers

The Clinton administration granted final approval Monday of a \$364-million bailout for Los Angeles County as part of a five-year effort to transform the nation's second largest public health care system from heavy reliance on hospital treatment to an emphasis on community-based preventive care.

U.S. Health and Human Services Secretary Donna Shalala delivered the long-awaited word that the county's request to become a national demonstration project for health care reform had been approved.

That was welcome news to county supervisors who gambled last summer that a last-minute infusion of federal aid could avert hospital closures and even deeper cuts in the health care safety net.

"We are very grateful to the president," said Supervisor Yvonne Brathwaite Burke. "We're going to do what is expected of us. We definitely intend to keep our communities."

Those commitments, embodied in the county's request for a waiver of federal Medicaid rules, involve significantly downsizing the county hospital system by eliminating at least one-third of its beds and privatizing two of its smaller hospitals.

At the same time, the county promised to expand by 50%

Please see BAILOUT, B5

LOS ANGELES TIMES / WASHINGTON EDITION

CALIFORNIA

TUESDAY, APRIL 16, 1996

BAILOUT: Emphasis on Community-Based Preventive Care

Continued from B1

the amount of outpatient primary care services that are provided to poor people and those lacking health insurance.

With the waiver approved, county officials now face the challenge of actually remaking the county's \$2.3-billion-a-year health system.

"There have been a lot of promises made in the waiver," said Jim Lott, senior vice president of HealthCare Assn. of Southern California, which represents mostly private hospitals.

It remains to be seen, Lott said, whether the supervisors have the political will to

downsize the system. "The supervisors will have to allow that to happen, even if it means taking services and jobs out of their districts," he said.

Final approval of the waiver came almost seven months after President Clinton announced in Santa Monica that the federal bailout would prevent the closure of County-USC Medical Center and the shut-down of clinics amid the county's worst-ever fiscal crisis.

County Health Services Director Mark Finucane readily acknowledged that "along with the \$364 million come very, very high expectations" that the county will "aggressively move into the outpatient world."

The 300-page waiver document submitted last month to federal officials by the county and state offers a broad vision of how the county's hospital-heavy system might be restructured.

The plan calls for reducing the number of hospital beds from 2,595 to 1,719 by eliminating some beds at the county's four major hospitals and privatizing High Desert Hospital in the Antelope Valley and Rancho Los Amigos Medical Center in Downey.

At the same time, the county would expand its primary care services in outpatient community clinics. But precisely how and where this will be accomplished still is being studied.

E. Richard Brown, director of UCLA's Center for Health Policy Research, sounded a note of caution, saying the restructuring might be derailed by bureaucratic resistance.

"The main obstacle is the county's lack of experience in running a system focused on primary care and prevention, rather than emergency rooms and (hospital) inpatient services," Brown said.

The waiver approach was conceived last summer when the health system had an enormous \$855-million budget deficit, and the supervisors were faced with harsh choices about closing hospitals and drastically cutting services.

After agreement was reached in September on the outlines of the waiver, 11 supervisors were able to avoid the most severe cuts.

It took multiple lobbying trips to Washington by some supervisors and former county health czar Burt Margolin, endless telephone conference calls and the direct intervention of the White House to finalize the agreement.

Clinton administration officials insist that the waiver will be "budget neutral"—that it will not cost the federal government any more than the county's health program would have cost without the exemption over the next five years.



MARK FINUCANE, Director

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

(213) 240-8101

Gloria Molina
First District

Yvonne Brethwaite Burke
Second District

Zev Yaroslavsky
Third District

Deana Dana
Fourth District

Michael O. Antonovich
Fifth District

April 11, 1996

cc Jennifer O'Connor ✓
Fy1
- Diana

Mr. Gilbert Cedillo
General Manager
SEIU Local 660
950 Washington Boulevard
Los Angeles, California 90015

Dear Mr. Cedillo:

Thank you very much for SEIU's effort in assisting the Department through the 1995-96 fiscal crisis and involvement in securing a five-year 1115 Waiver for the County.

Both Local 660's and SEIU International's energy and influence have been instrumental, and I look forward to similar interaction regarding restructuring of the County health system in the coming months. In this vein, I would like to suggest the following to accomplish SEIU's involvement in restructuring:

- Monthly update meetings on the waiver and restructuring. These meetings will be with me and the staff assigned to manage the Waiver and you and your designees, and may include others, as appropriate, depending on mutually developed agendas.
- Local 660 involvement with the Oversight Committee under the 1115 Waiver.
- Joint DHS-SEIU planning regarding operational and workforce issues. Such a planning process will involve the union in a significant and substantive way in a committee forum convened by both of us, linked to the Department's overall plan and implementation of restructuring, and will occur as soon as possible. Particular attention will be placed on assessing the impact on the employment of the health care workforce, fair and equitable arrangements to alleviate adverse effects, rehiring rights, retraining, and continuation of collective bargaining rights.

Mr. Gilbert Cedillo
April 11, 1998
Page 2

- Development of a common vision statement on health care restructuring to include, among other substantive issues, workforce development, job re-training, and public-private partnerships. We should begin work on this immediately in order to facilitate the restructuring under Phase II of the Waiver.

Please let me know your thoughts on the above. I look forward to hearing from you.

Regards,



Mark Finucane
Director of Health Services

MF:jr
cedillo.wpd

c: Dr. Bruce Vladeck
John Monahan

Draft Panetta quote

"I am very pleased that HHS has been able to grant California a waiver that will address both L.A. county's short-term fiscal problems and their efforts to restructure their health care system. Because of President Clinton's leadership, a crisis has been averted, and L.A. county has been given the opportunity to create a better, more cost-effective health care system."

Draft Emerson quote

This agreement is the result of close cooperation between federal, state and county officials. I'm convinced it will bring the kind of change to L.A. county's health care system that its citizens need and deserve."

Monahan: agree on tone; Pat will work w/Hcfa; one year of policy changes approved; have to emphasize may be Phase 2, but this a complete deal; nothing one year or unclear about it; public description is this is a self-contained project; acknowledge LP promise; fact sheet just on phase 1, with bullet at bottom;

union issue still outstanding; spoke to carol regan; Friday union met w/county, had gd convers; today to share draft side letter describing nature of consultation process; carol will call to let him know if sufficient; must wait for that before rollout

criteria unique to LA; nada on rollout day, except to say process, begin to lay out criteria; need to have meeting on how to handle; lay out as much up front as possible to keep flex; use opp. to lay gdwk that will ph, dram restg; hcfa working on

DRAFT*Comments Mon @ 3*

TO: The Secretary
Through: DS _____
COS _____
ES _____

FROM: Administrator
Health Care Financing Administration

SUBJECT: Approval of Phase I of California's Section 1115 Medicaid Demonstration
Project for Los Angeles County--ACTION

ACTION REQUESTED BY: ASAP

ISSUE

To request that you notify the Governor of California of the approval of Phase I of the State of California's request for a section 1115 Medicaid demonstration for Los Angeles County.

PURPOSE

Attached is a letter to Governor Wilson notifying him that we have approved the State of California's request to implement its Medicaid demonstration for Los Angeles County (Attachment A). Also attached are talking points for your call to Governor Wilson ? + Syps? (Attachment B), a detailed description of the demonstration in a decision memorandum I approved (Attachment C), and the award letter to the State containing the terms and conditions of this approval (Attachments D & E). In addition, Attachment I is a comparison of the components of the September agreement that was announced by the President on September 26 and the components of Phase I. The award letter will be released after you release the letter to Governor Wilson.

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

Bruce C. Vladeck

CALIFORNIA-LOS ANGELES COUNTY 1115 DEMONSTRATION -- ROLLOUT
(Phase I)

ATTACHMENTS

- A Secretary's Letter to Governor ✓
- ~~B Talking Points for Secretarial Call to Governor~~
- C HCFA Decision Memo - hope not
- D Award Letter ✓
- E Special Terms and Conditions - Not attached
- F Timetable for Rollout - Not attached
- G Fact Sheet - ??
- H Questions and Answers - assume not
- I Comparison of September Agreement and Phase I - hope not

Public?

When goes out?

DRAFT

The Honorable Pete Wilson
Governor of California
State Capitol
First Floor
Sacramento, California 95814

Dear Governor Wilson:

I am pleased to inform you that the Department of Health and Human Services has approved California's request for authority under section 1115 of the Social Security Act to implement Phase I of its health care reform demonstration project for Los Angeles County.

The formal award letter, which is being sent under separate cover, includes the Special Terms and Conditions for conducting the demonstration. These terms are designed to ensure that the demonstration provides high quality health care services to eligible Medicaid beneficiaries, and maintains Federal cost neutrality.

I look forward to following the progress of this demonstration. Congratulations.

Sincerely,

DRAFT

Donna E. Shalala

DATE**DRAFT****FROM** Acting Director
Office of Research and Demonstrations**SUBJECT** Recommendation for Approval of the California Medicaid Demonstration
Project for Los Angeles County--DECISION**TO** Administrator
THRU: AAP _____
ES _____**ISSUE**

California has requested a section 1115 demonstration waiver to implement the Medicaid Demonstration Project for Los Angeles County (the Project), a health care reform demonstration for the County health care system.

BACKGROUND

Preliminary Discussions. In July, 1995, Department representatives met with State and County officials to begin discussions on measures that could be undertaken that would avert a crisis shutdown of the County's health care delivery system and foster long-term restructuring to develop a more cost-effective out-patient system.

Agreement in principle reached. During meetings on September 20 and 21, senior officials from the Administration met with State and County senior officials and reached agreement in principle on joint actions to provide fiscal relief for the County public health system. The agreement was intended to avert a crisis shutdown of major County health facilities while supporting a longer-term transformation of the system toward improved primary and outpatient care. At the conclusion of the meetings, it was agreed that the State would work expeditiously to submit a formal 1115 demonstration proposal that encompassed the agreement as the framework. (The formal proposal was submitted by the State on February 29, 1996.)

Presidential Announcement. On September 26, 1995, the President announced the \$364 million fiscal relief plan which the County Board of Supervisors endorsed. A Press Release was issued on September 22, 1995.

County working draft proposal submitted. Following the September meeting, several follow-up discussions and meetings were held with State and County officials. Consistently, Federal representatives informed State and County representatives that we would not agree to waive the OBRA 1993 disproportionate share hospital (DSH) provisions. On November 21, we received a County working draft of the 1115 demonstration that included a request for waiver of the OBRA 1993 provisions and minimal plans to restructure the County health system.

DRAFT**Decision Memo -- Los Angeles County
Page Two**

Federal officials reiterate that a waiver of OBRA 1993 would not be granted. On November 29, senior officials from the County and State were informed that the Department had great concerns about reviewing the working draft proposal because it was not fully endorsed by the State. The County and State were informed that, based on a preliminary review, the working draft did not reflect the September agreement and also raised concerns about several policy and programmatic issues. Specifically, the lack of a comprehensive restructuring plan, budget neutrality calculations, the phase-in of managed care, the inclusion of mental health services, waiver of OBRA 1993 provisions, and the request to recalculate DSH to include services provided in free-standing clinics were significant areas that needed to be addressed. From November 1995 through February 1996, State, County, and Federal representatives discussed the problems with the working draft and attempted to find alternative approaches to the State's request to waive the OBRA 1993 DSH provisions while still addressing the County's fiscal crisis.

State submits formal 1115 demonstration application. On February 29, 1995, the State submitted a five-year demonstration proposal that tied provisions agreed to in September to a five year financial plan that would in essence violate the 1993 OBRA provisions. The State and County were informed that the demonstration could not be approved as submitted. On March 4 and 5, State, County, and Federal representatives met to discuss the demonstration and agreed to work expeditiously on the approval of Phase I, which would fulfill the September \$364 million dollar commitment (with a few component changes). Discussions regarding Phase II were postponed until such time as agreement had been reached on Phase I, and the State had submitted a revised proposal for Phase II that was in compliance with Federal guidelines. (See attachment for a comparison of the September agreement and Phase I components.)

Department Technical Review Panel. On March 13, a Technical Review Panel was held to discuss the technical merits of the demonstration. The Panel unanimously approved Phase I of the project with several conditions for the State to meet prior to approval of Phase II. The conditions include: the submittal of a detailed restructuring plan that includes milestones, parties responsible for implementing and monitoring the Project, timelines for achievement of the milestones, and funding mechanisms that would ensure the restructured system could be supported throughout Phase II and continued once the demonstration ends.

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**Decision Memo -- Los Angeles County
Page Three**

DESCRIPTION OF THE LOS ANGELES COUNTY MEDICAID DEMONSTRATION

Finance

- For the first year of the Project, in addition to all other amounts otherwise payable by HCFA to the State, Federal financial participation (FFP) will be available at the applicable Federal matching rate for the following components:
 - Administrative cost categories associated with the administration of the Project;
 - Federally reimbursable ambulatory service costs (as defined in the terms and conditions) 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.
- Under the demonstration, as part of the interagency agreement between the State and County, the County will recognize its obligation to meet the non-Federal share of certain disproportionate share payments to private hospitals. Because this obligation lies with the County on behalf of its hospitals, the amounts expended by the County in meeting this obligation will be treated as a hospital cost. ? *Cal*
- For the 1995-96 State fiscal year, disproportionate share hospitals operated by the County of Los Angeles will receive the adjusted, projected total DSH payment amount calculated under the terms of the Project with respect to each such facility. If, under the demonstration project, the Federal component of DSH payments received by the County for the 1995-96 State fiscal year is in excess of OBRA 1993 limits, the excess shall be deemed an obligation of the County to repay Federal funds under a calculated repayment schedule at the time any amount over the limit is determined.
- As part of the demonstration, the County will receive additional grant assistance through U.S. Public Health Service agencies to support a variety of health services targeted for low income people.) *mic?*

DRAFT

DRAFT**Decision Memo -- Los Angeles County
Page Four****Eligibility**

- For the first year of the Project, Federal financial participation will be available for federally reimbursable ambulatory service costs incurred by the County in County Health Clinics and Health Centers, public mental health clinics, and mental health clinics and Health Centers under contract with County Department of Health Services and County Department of Mental Health for the Medi-Cal and indigent population. For the purpose of the Project, the indigent population will be defined as those whose income is less than 133 1/3 percent of the Federal poverty level (FPL) and individuals whose income exceed that level, but whose income under an ability to pay calculation is found to be less than the cost of services provided. Federal financial participation will not be available for non-emergency services for individuals without satisfactory immigration status, as defined in Federal law.
- The Project will not expand eligibility for Medi-Cal beyond those requirements under the State Medi-Cal plan.

Benefit Package

- The full scope of services offered by a facility (public or private) in the County health system will be available to the Medi-Cal and indigent population, with the exception of non-emergency services for individuals without satisfactory immigration status, as specified in the Federal law.

Delivery System

- County Health Clinics (CHCs);
- Health Centers (public or private);
- Public mental health clinics operated by County Department of Mental Health;
- Private mental health clinics under contract with County Department of Mental Health;
- County Department of Health Services hospitals; and
- Community Health Plan (CHP).
- Throughout the demonstration, the County will continue to reconfigure the County health system to meet the goals of the demonstration.

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Decision Memo -- Los Angeles County
Page Five

ISSUES IDENTIFIED BY HCFA AND DEPARTMENTAL REVIEWERS

- Waiver of the OBRA 1993 provisions - Within the working draft proposal submitted in November, and in the formal application submitted February 29, the State and County sought a waiver of the OBRA 1993 provisions whereby non-hospital outpatient service costs are included in the computation of the OBRA 1993 limit or, whereby the hospital-specific DSH limits are set prospectively at the level prior to the full implementation of OBRA 1993 limits and not recalculated each year based upon actual costs. On several occasions, the State and County have been informed by Federal officials that the OBRA 1993 provisions would not be waived.
- Restructuring - The intent of the September agreement was to stabilize the County's health care delivery system while supporting a longer-term transformation of the system toward improved primary and outpatient care. As presented by the State and County in the demonstration proposal, long-term restructuring is only possible with significant additional Federal financial assistance, over and above the amount that was agreed to in the September agreement. }
- Magnitude of the L.A. County Fiscal Crisis - During discussions that took place in January, it became apparent that the fiscal crisis faced by L.A. County was could not be resolved through the September agreement alone. According to information presented by County representatives, the County is facing a \$1 billion dollar cumulative deficit over the next five years without additional Federal revenue. Further, even if the Federal revenues were provided to resolve the \$1 billion five-year deficit, there would be a deficit in subsequent years if the County continued current operations. Why?

BUDGET NEURALITY

The following were the principal budget neutrality issues:

- Whether the budget neutrality limit would be applied to all Medi-Cal expenditures in Los Angeles County, or only the Medi-Cal funds going to the County's own facilities.
- Whether a per capita or aggregate method would be used to calculate the budget neutrality limit.
- Which categories of State Medi-Cal expenditures received by the County (i.e., County revenues) would be included in the budget neutrality calculations.
- How the base year amount for disproportionate share hospital expenditures would be determined.

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**Decision Memo -- Los Angeles County
Page Six**

DRAFT

- What trend factors would be applied to future County revenue categories.
- Whether expenditures applicable to the budget neutrality limit would be monitored on a date of payment or date of service basis.
- What adjustments would be made to the without-waiver baseline to account for the anticipated impact of the Two-Plan Model 1915(b) program.
- How, and when, the budget neutrality limit would be determined if the demonstration were to end before the five year duration.

We will apply the following annual budget neutrality limits during the demonstration:

State Fiscal Year	Total Expenditure
1996	\$1,830,201,966
1997	1,948,053,276
1998	2,077,336,164
1999	2,219,159,492
2000	2,374,739,683
Total	\$10,449,490,580

WAIVERS

The waivers under section 1115(a)(1) and Federal matching under section 1115(a)(2) described below will be approved for the first year of the demonstration - July 1, 1995 - June 30, 1996.

1. Statewideness

Section 1902(a)(1)

To enable the State to implement the demonstration project in only certain delivery sites in Los Angeles County.

Under the authority of section 1115(a)(2) of the Social Security Act, expenditures made by the State for the items identified below (which are not otherwise matchable as expenditures under section 1903 of the SSA) shall, for the period of this demonstration project, be regarded as expenditures under the State's Title XIX plan.

1. Expenditures made by the State and/or County under paragraphs 1 and 2 of Attachment A of the Special Terms and Conditions.

DRAFT

DRAFT**Decision Memo -- Los Angeles County
Page Seven****DISCUSSION**

The Office of Research and Demonstrations recommends approval of Phase I of California's section 1115 Demonstration Project for Los Angeles County. The demonstration assists in promoting the objectives of Title XIX because the project would provide the State with the flexibility required to serve the Medi-Cal and eligible indigent populations. The Project will provide a large scale testing ground for the transformation of a large, decentralized public health care system into an integrated system that will focus on the provision of comprehensive ambulatory and preventive health care to Medi-Cal and eligible indigent populations through both public and private providers. This feature is unique and is not replicated in any other State health reform demonstration.

RECOMMENDATION

Approve Phase I of the Medicaid Demonstration Project for Los Angeles County.

Barbara S. Cooper

Attachment

DECISION**DRAFT**

Approved: _____

Disapproved: _____

Date: _____

DRAFT

Mr. John Rodriquez
Deputy Director
Medical Care Services
Department of Health Services
714/744 P Street
P.O. Box 942732
Sacramento, CA 94234-7320

Dear Mr. Rodriquez:

We are pleased to inform you that your application, entitled "Demonstration Project for Los Angeles County," has been approved as project No. 11-W-00076/9 for the period of July 1, 1995 through June 30, 2001. The approval is under the authority of section 1115 of the Social Security Act (SSA).

Our approval of Phase I of the Los Angeles County demonstration (and the waivers and Federal matching provided for thereunder) is contingent upon compliance with the enclosed special terms and conditions. These terms and conditions also set forth in detail the nature, character, and extent of anticipated Federal involvement in the project. The award is subject to our receiving your written acceptance of the award within 30 days of the date of this letter.

All requirements of the Medicaid program expressed in law, regulation, and policy statement, not expressly waived or identified as not applicable in this letter, shall apply to the Los Angeles County Medicaid Demonstration.

The waivers under section 1115(a)(1) and Federal matching under section 1115(a)(2) described below will be approved for the first year of the demonstration beginning July 1, 1995.

1. Statewideness

Section 1902(a)(1)

To enable the State to implement the demonstration project in only certain delivery sites in Los Angeles County alone.

Under the authority of section 1115(a)(2) of the SSA, expenditures made by the State for the items identified below (which are not otherwise included as expenditures under section 1903 of the SSA) shall, for the period of this demonstration project, be regarded as expenditures under the State's Title XIX plan.

1. Expenditures made by the State and/or County under paragraphs 1 and 2 of Attachment A of the Special Terms and Conditions.

DRAFT

Mr. John Rodriguez
Page Two

DRAFT

Your project officer for this project is Ms. Gina Clemons. Ms. Clemons is available to answer any questions concerning the scope and implementation of the project described in your application. She can be reached at (410) 786-9644. Correspondence to Ms. Clemons should be sent to: Health Care Financing Administration, Office of Research and Demonstrations, Mail Stop C-3-18-26, 7500 Security Boulevard, Baltimore, Maryland 21244-1850. Communications regarding program matters should be submitted simultaneously to Richard Chambers, Associate Regional Administrator, San Francisco Regional Office. Mr. Chamber's address is: Health Care Financing Administration, 75 Hawthorne Street, 4th Floor, San Francisco, California 94105-3903.

We extend our congratulations on this award and look forward to working with you during the course of the project.

Sincerely,

DRAFT

Bruce C. Vladeck
Administrator

Enclosure

DRAFT

DRAFT

**CALIFORNIA-LOS ANGELES COUNTY HEALTH REFORM DEMONSTRATION
FACT SHEET**

Name of Section 1115 Demonstration: Medicaid Demonstration Project
for Los Angeles County--Phase I

Date Proposal Submitted: February 29, 1996

Date Phase I Approved: April 3, 1996

Implementation Date: July 1, 1995

address?

SUMMARY

The goal of Phase I of the Los Angeles County Medicaid Demonstration Project (the Project) is to stabilize the County's health care delivery system in order to preserve those elements of the system critical to successful public health. Additionally, as part of Phase I, the State and County will identify revenue sources (private, philanthropic, or State) to ensure viability of the County health care system during Phase II and after the Project ends.

It is anticipated that during Phase II, the State and County will reconfigure its health care system in a manner consistent with a long-term vision of coordinated ambulatory care, with an emphasis on prevention and comprehensive care. The State and County are currently working on a revised proposal submission of Phase II for achievement of this goal.

STATUS

The demonstration has been approved for five years; however, the 1115 waivers have only been granted for the initial year of the demonstration, July 1, 1995-June 30, 1996. There is a commitment on the part of the State, County, and Federal government to review Phase II within 45 days of formal submission by the State.

asking for

DRAFT

DRAFT**Fact Sheet -- Los Angeles County
Page Two****FINANCE**

- For the first year of the Project, in addition to all other amounts otherwise payable by HCFA to the State, Federal financial participation (FFP) will be available at the applicable Federal matching rate for the following components:
 - Administrative cost categories associated with the administration of the Project;
 - Federally reimbursable ambulatory service costs (as defined in the Special Terms and Conditions) incurred by the County in rendering services to Medi-Cal and 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.
- Under the demonstration, through an interagency agreement between the State and County, the County will recognize its obligation to meet the non-Federal share of certain disproportionate share payments to private hospitals. Because this obligation lies with the County on behalf of its hospitals, the amounts expended by the County in meeting this obligation will be treated as a hospital cost. *Code highlight?*
- As part of the demonstration, the County will receive additional grant assistance through U.S. Public Health Service agencies to support a variety of health services targeted for low income people. *rec?*

ELIGIBILITY

- For the first year of the Project, Federal financial participation will be available for federally reimbursable ambulatory service costs incurred by the County in County Health Clinics and Health Centers, public mental health clinics, and mental health clinics and Health Centers under contract with County Department of Health Services and County Department of Mental Health for the Medi-Cal and indigent population. For the purpose of the Project, the indigent population will be defined as those whose income is less than 133 1/3 percent of the Federal poverty level (FPL) and individuals whose income exceed that level, but whose income under an ability to pay calculation is found to be less than the cost of services provided. Federal financial participation will not be available for non-emergency services for individuals without satisfactory immigration status under Federal law.
- The Project will not expand eligibility for Medi-Cal beyond those individuals otherwise eligible under the State Medi-Cal plan.

DRAFT

DRAFT

Fact Sheet – Los Angeles County Page Three

BENEFIT PACKAGE

- The full scope of services offered by a facility in the County health system will be available to the Medi-Cal and indigent population, with the exception of non-emergency services for individuals without satisfactory immigration status.

DELIVERY SYSTEM

- County Health Clinics (CHCs);
 - Health Centers (public or private);
 - Public mental health clinics operated by County Department of Mental Health;
 - Private mental health clinics under contract with County Department of Mental Health;
 - County Department of Health Services hospitals; and
 - Community Health Plan (CHP).
- Throughout the demonstration, the County will continue to reconfigure the County health system to meet the goals of the demonstration.

QUALITY ASSURANCE

- Under the Project, the State will continue to monitor the average waiting time for routine primary care appointments, specialty care appointments, urgent care, and emergency care. Further, the State will analyze any increases or decreases in light of the Project goals, and take corrective measures if it is determined that the results are inconsistent with expectations under the Project.

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DRAFT**CALIFORNIA SECTION 1115 MEDICAID DEMONSTRATION
LOS ANGELES COUNTY PROJECT
-- QUESTIONS AND ANSWERS --**

Q. How is this project the same or different from the agreement in principle that the parties reached in September?

A. Phase I of the Los Angeles County Medicaid Demonstration Project that has been approved fulfills the agreement in principle that was reached with State and County officials on September 21, and announced by the President on September 26. The agreement will provide \$364 million in fiscal relief from various Federal and State sources. While Phase I of the Project varies in the funding components, the total financial commitment of \$364 million remains the same. (See Attachment I for a comparison of the original September funding components and the components under Phase I.)

Q. How will this project help to stabilize and restructure the Los Angeles County health care system?

A. The Project will provide the fiscal assistance necessary to avert a crisis shut-down of the County health care system, as well as the time necessary for the State and County to begin development of a comprehensive restructuring plan designed to transform the County health care delivery system from a costly, hospital-based system, to a more effective system that fosters primary and preventive care delivered in outpatient settings. To this end, the County has already taken definitive actions to begin implementing the Project goals such as the restoration of a substantial portion of the scheduled service reductions and the adoption of six public/private partnership agreements for the operation of Health Centers.

Q. Why did the Federal government "bail-out" Los Angeles County?

A. Neither, the September agreement in principle that was reached, or the approval of Phase I of the demonstration, constitutes a "bail-out". Rather, the HCFA has approved Phase I of an 1115 demonstration project that will provide the State/County with the financial flexibility (as in other 1115 demonstrations) so that the State/County can receive Federal assistance for care provided in outpatient settings (with the exception of non-emergency care provided to individuals without proper immigration status, as defined in Federal law) that could not be realized without 1115 waiver authority. Of paramount importance is the fact that the demonstration is subject to the same budget neutrality requirements as all other 1115 demonstrations. Thus, although Federal assistance is available in outpatient settings, the cost of the demonstration will not be more than it would have cost the Federal government in the absence of the demonstration.

DRAFT

DRAFT**Q&A -- Los Angeles County
Page Two****Q. Why was only Phase I of the demonstration approved?**

A. Approval of Phase I, with one-year waiver authority, is consistent with the September agreement to provide \$364 million in funding to stabilize the County's financing for health care. Since the agreement was reached, the State/County have indicated that further Federal financial assistance may be necessary in order to permit the County to undergo the restructuring required for long-term financial stability. The State/County plan to submit a revised proposal to HCFA to address this phase of the demonstration (Phase II). The intent is that during Phase II, the State and County ~~will reconfigure~~ its health care system consistent with a long-term vision of coordinated ambulatory care, with an emphasis on prevention and comprehensive care. There is a commitment on the part of the State, County, and Federal government to review Phase II within 45 days of formal submission by the State. However, the actual amount of time necessary to reach agreement will largely be contingent on the State's and County's ability to demonstrate in the proposal that they can conduct meaningful restructuring without violation of the OBRA 1993 hospital DSH guidelines and that they can operationally and financially support the reconfigured health care system once the demonstration ends.

why { reg ?

Q. Why was this demonstration approved so fast when other waivers have taken a year and still have not been approved?

A. Because of the urgent situation that exists in L.A. County, and the potential for a true health care emergency if the County were forced to close hospitals and clinics, it was agreed that it was in the best interest of the beneficiaries to approve the stabilization aspect of the demonstration, Phase I, as quickly as feasible while still permitting time for public input. Further, although it only took a relatively short period of time to approve Phase I of the demonstration once the formal proposal was submitted, Federal, State, and County representatives have been working closely since late summer on developing the demonstration. By approving Phase I, the County and State have been afforded the time and financial resources necessary to develop a more comprehensive, long-term restructuring plan for Phase II consideration.

✓

Q. Why did it take so long to approve the demonstration if agreement in principle was reached in September?

A. Although State, County, and Federal representatives agreed to the framework for the demonstration which included a one year commitment of additional Federal revenues, the State and County had significant details to work out before submitting its proposal. We did not receive the State's formal section 1115 waiver application for L.A. County until February 29. Once we received the proposal, we expeditiously completed a thorough review.

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DRAFT**Fact Sheet -- Los Angeles County
Page Three**

Q: Why is the implementation date prior to the approval date? And, has this ever occurred before?

A. The implementation date is consistent with when the State and County began to take actions to realize the goals of Phase I, stabilization of the County's health care system. Yes, there is precedent for this in other section 1115 demonstrations - such as Welfare Reform.

agreed in pr in Sept.

Q. How does this project interact with the recently approved California Two-Plan Model demonstration?

A. The County Department of Health Services intends to participate in the delivery of health service under the Two-Plan Model through both the Local Initiative Plan and the Mainstream (Commercial) Plan. This transition to managed care is consistent with the goals of the demonstration and will serve as a catalyst to the County's long-term restructuring goals.

Q. What about the other 28 counties that have expressed interest in participating in the project? What are HCFA's plans for working with them?

A. The Health Care Financing Administration is committed to reviewing any 1115 demonstration application that is submitted by the State and that is in compliance with Federal laws and regulations. All proposals are subject to the full 1115 demonstration waiver review process and must meet the budget neutrality requirements. In addition, all proposals must comply with the standards set forth in the public notice guidelines published in the September 27, 1994, Federal Register.

Q. Did HCFA agree to grant California a waiver of the OBRA 1993 disproportionate share hospital funding limitations?

A. No. While the 1115 demonstration provides for funding flexibility permissible under 1115 waiver authority, and is similar to the flexibility afforded to other 1115 demonstration States, HCFA did not agree to grant a waiver of the OBRA 1993 disproportionate share hospital funding limitations. We have not granted such a waiver in any 1115 demonstration.

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**Fact Sheet -- Los Angeles County
Page Four**

Q: What steps did California take to ensure that the public had an opportunity to comment on the Los Angeles County Medicaid Demonstration Project? Does HCFA believe these measures were adequate?

A: Consistent with the policy of HCFA, and as required under California law, State DHS undertook a full public notice process that included: the holding of public hearings, with an opportunity for public comments (both during the meeting and following the meeting) and the dissemination of informational material - including the proposal. On November 22, 1995, the State was informed by HCFA that the public notice plan complied with the standards set forth in the Department's Public Notice guidelines published in the September 27, 1994, Federal Register.

Q: How many comprehensive statewide health care reform demonstrations have been granted so far, and to which States?

A: With the approval of the L.A. County Medicaid Demonstration, the Department has approved 14 State health reform demonstration projects, including the longstanding program in Arizona. The other States with approved 1115 demonstration are: Oregon, Hawaii, Rhode Island, Tennessee, Minnesota, Kentucky, Florida, Ohio, Massachusetts, Delaware, Vermont, and Oklahoma. HCFA has also approved South Carolina's demonstration framework, but South Carolina has decided to indefinitely postpone proceeding with the developmental phase of the project.

Q: How many applications are currently under review and for which States?

A: There are currently 10 comprehensive health reform demonstration proposals under review in HCFA. The states are: Alabama, Georgia, Illinois, Kansas, New Hampshire, Louisiana, New York, Texas, Missouri, and Utah.

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COMPARISON OF SEPTEMBER AGREEMENT AND PHASE I OF THE PROJECT			
Description	September agreement Original Estimate	Phase I Current Estimate	Difference Between Agreement
FFP for indigent care at County DHS outpatient clinics.	\$40 million	\$34 million (According to the County's current estimate's, there is only \$34 million in indigent care available for FFP.)	\$6 million
Inter-agency Agreement between the State and the County regarding funding of indigent care in hospital settings.	\$92 million	\$28 million (\$59 million of the \$92 million turned out to be non-permissible according to Federal policy.)	-\$64 million
County reevaluation of accrual of hospital revenues to comply with the OBRA '93 DSH limits.	\$82 million	\$79 million	\$3
A revised payment plan for a portion of the annual payment from the County to the State.	\$125 million	\$0 (County auditor did not agree to original provision.)	-\$125 million
U.S. Public Health Service grants to support a variety of health services targeted for low income individuals. <i>+ emerg??</i>	\$25 million	\$25 million	0
FFP for indigent care at mental health clinics	—	\$18 million	+18 million
Supplemental Project Pool established for use in outpatient clinics.	—	\$62.5 million	+62.5 million
For SFY '95, County DSH hospitals will receive adjusted, projected total payment amounts calculated with respect to each facility.	—	\$125 million	+125 million
TOTAL	\$364 million	\$371.5 million	+7.5 million
DIFFERENCE FROM THE SEPTEMBER AGREEMENT AND PHASE I	Plus \$7.5 million		

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**Statement for Congressional Members
Representing Los Angeles County and Other Counties.**

The Health Care Financing Administration is committed to reviewing any 1115 demonstration application that is submitted by the State and that is in compliance with Federal laws and regulations. All proposals are subject to the full 1115 demonstration waiver review process and must meet the budget neutrality requirements. In addition, all proposals must comply with the standards set forth in the public notice guidelines published in the September 27, 1994, Federal Register.

DRAFT

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

02-Apr-1996 11:20am

TO: Diana M. Fortuna
FROM: Joshua Silverman
 Office of the Press Secretary
CC: John B. Emerson
CC: Barry J. Toiv
SUBJECT: LA Medicaid

This will be pretty big -- alot of these people have been looking for some closure.

Bornemeier has been covering this for the LA Times --
(202)293-4650.

Dori has also been covering this for both the Union-Tribune and the Daily Breeze -- (202)737-6960.

You should also contact Rick Orlov at the LA Daily News --
(213)485-3720.

Barry - I agree on the quote.

If you need anything else just give me a call at 456-5670.

Thanx.
Josh

THE WHITE HOUSE

WASHINGTON

March 7, 1996

MEMORANDUM FOR PHIL CAPLAN

FROM: Diana Fortuna 
Domestic Policy Council

SUBJECT: Los Angeles County Medicaid Waiver

HHS and White House officials are trying to come to closure with Los Angeles County on its Medicaid waiver, in order to implement the \$364 million fiscal assistance package for the county's health care system announced by the President last September.

- o The September agreement averted a immediate shutdown of hospitals, and was envisioned as the first step toward "restructuring" the county system -- moving it away from hospitals and toward community-based care. A five-year demonstration waiver is the vehicle for implementing the agreement.
- o County officials say they can't restructure unless we waive the law on disproportionate share hospitals (DSH) or give them more aid. Waiving DSH sets a bad precedent for other states and risks negative scrutiny by Congress. Other forms of assistance are hard to find given our policy that waivers not increase the Federal deficit.
- o In a meeting this week with 3 of the 5 county supervisors (Gloria Molina, Yvonne Burke, and Zev Yaroslavsky), the Chief of Staff agreed:
 - o to try to resolve the waiver this week so that the \$364 million is secured (formal approval can't occur before the end of March because of public notice requirements);
 - o to name John Emerson as the county's contact with the Administration; and
 - o that we would respond within 45 days after the county presents a plan for additional Federal help.
- o Two days of negotiations this week produced agreement on all issues except the waiver budget. County staff decided to return to California to consult with the Supervisors before agreeing to this item. They hope to resolve this next week.
- o County officials were stung by our criticism in the press two weeks ago that they had not yet proposed any meaningful restructuring. Since then, we have made positive statements about the county's work to date and about our progress on the waiver.
- o We can tell the press that we are committed to the \$364 million plan we announced in September, and we have made substantial progress with the county and the state on finishing the waiver.

TALKING POINTS

LA County Agreement

March 6, 1996

- o Following the submission of a waiver application last Friday by the state of California, as well as the visit to Washington by Los Angeles County Supervisors this week, administration, state and county representatives made substantial progress in coming to closure on the Medicaid waiver that would implement the \$364 million commitment made last September.
- o County, state and federal officials now need to review their work product based on data that was not available at the meetings in Washington. Developing the new data will involve work both in Washington and California. The California team is returning to the state to carry out its portion of the work. We are hopeful that discussions can be completed very shortly, perhaps without the need for further face-to-face meetings.
- o HHS expects to be able to indicate its intention to approve the waiver following review of the final product by all parties. Under federal policy, formal approval of the waiver could then be made 30 days after the waiver's submission, to allow for the required comment period.

###

REVISED DRAFT TALKING POINTS

LA County Agreement

March 6, 1996

- o Following the submission of a waiver application last Friday by the state of California, as well as the visit to Washington by Los Angeles County Supervisors this week, administration, state and county representatives have held productive and substantive discussions regarding the Medicaid waiver that would implement the \$364 million commitment made last September.
- o At this time, additional data need to be generated and analyzed to flesh out details of the waiver "terms and conditions" that have been discussed. The inclusion of "terms and conditions" is a normal part of the waiver approval process. Developing the new data will involve work both in Washington and California. The California team is returning to the state to carry out its portion of the work. The new data will enable both sides to consider a final product. We are hopeful that this should constitute the final stage in completing our discussions regarding the waiver.
- o HHS expects to be able to indicate its intention to approve the waiver following review of the final product by all parties. Under the law, formal approval of the waiver could then be made 30 days after the waiver's submission, to allow for the required comment period.

###

Mechanics of Free-Standing Outpatient Clinic/Restructuring Pool

- o The first element of the September agreement reflects HCFA's agreement to match "indigent care at County clinics." Staff agree that this includes **both** costs for indigent care and the difference between Medicaid payments and costs. The result is that clinics will receive payment up to 100 percent of unreimbursed costs. The County's current estimate of this match is \$33 million.
- o In addition to the indigent care match, HCFA would allow the County to establish a limited Free-standing Outpatient Clinic/Restructuring Pool. Payments from the pool would be made to free-standing outpatient clinics and be used for restructuring purposes (i.e. expanding capacity, etc.)
- o The State share of the pool payments could be funded by IGT's transferred from the County to the State.
- o The amount of the pool payments would be limited to **the lower of** (1) the Medicare upper payment limit (UPL) for free-standing outpatient clinic services net of current Medicaid payments for clinic services and the new federal match for uncompensated care costs in the clinics or (2) \$74 million (\$37 million Federal and \$37 million State share)¹.
- o The county has estimated that current outpatient clinic payments are approximately \$40 million below the aggregate Medicare UPL.
- o Before calculating the pool payments, HCFA will need answers to the following questions.
 - How did the County calculate the aggregate Medicare UPL?
 - Was the Medicare UPL calculated on a state-wide or county-wide basis?
 - Is the estimated \$40 million Federal share only?
 - Did the County net out the \$33 million in federal match for indigent care?
 - How was the \$33 million calculated?

¹This \$37 million, when added to \$22 million in federal match for mental health services, adds to \$59 million, the shortfall from the amounts in the second element of the September agreement.

BUDGET NEUTRALITY PROPOSAL

3/5/96

SUMMARY DATA

	Medi-Cal .	DSH	Total
1995	\$1,071,819,918	\$1,238,641,356	\$2,310,461,274
1996	\$1,192,483,500	\$610,000,000	\$1,802,483,500
1997	\$1,308,154,399	\$610,000,000	\$1,918,154,399
1998	\$1,435,045,376	\$610,000,000	\$2,045,045,376
1999	\$1,574,244,777	\$610,000,000	\$2,184,244,777
2000	\$1,726,946,521	\$610,000,000	\$2,336,946,521
Total	\$7,236,874,574	\$3,050,000,000	\$10,286,874,574

Fed. share	Medi-Cal .	DSH	Total
1996	\$596,241,750	\$305,000,000	\$901,241,750
1997	\$654,077,200	\$305,000,000	\$992,202,764
1998	\$717,522,688	\$305,000,000	\$1,058,960,809
1999	\$787,122,389	\$305,000,000	\$1,132,204,321
2000	\$863,473,260	\$305,000,000	\$1,212,563,387
Total	\$3,618,437,287	\$1,525,000,000	\$5,143,437,287

Changes from earlier draft:

	Total Computable	Federal share
Add targeted case mgmt.	\$139,805,607	\$69,902,804
DSH based on 100% cost	(\$177,900,000)	(\$88,950,000)
Subtract long-term care	(\$35,812,558)	(\$17,906,279)
Net change	(\$73,906,951)	(\$36,953,475)

Per capita cap??

I'm concerned about Denise's statement
that the T+C should say they don't
have to restructure unless they get more
money. I

Diana -
restarting your
Question:

How do you (county)
know that your
with waiver spending
will be \$5.4 B vs \$5.1 B?

**Monitoring Budget Neutrality for the
Los Angeles County, California 1115 Medicaid Demonstration**

The following describes the method by which budget neutrality will be assured under the Los Angeles County, California 1115 Medicaid Demonstration (LACMD). Los Angeles County will be subject to a limit on the amount of Federal Title XIX funding that they may receive during the waiver period. This limit will be determined using an aggregate cost method. For the purpose of calculating the overall expenditure limit for the demonstration, separate budget estimates will be calculated for each year, on a State fiscal year (SFY) basis. The annual estimates will then be added together to obtain an expenditure estimate for the entire waiver period. This estimate will represent the maximum amount of Federal Financial Participation (FFP) that the County may receive during the 5-year waiver period.

Calculation of the Limit

The following describes the method for estimating what County Medicaid revenues would have been in the absence of the demonstration. A base year expenditure total is selected for each County Medicaid revenue source listed below. Estimates of County revenues for the demonstration years are then computed by applying a pre-determined trend factors to each base year total. The resulting annual estimates are added together across categories and years, giving an estimate of total County Medicaid revenues for the five years of the demonstration. These calculations are shown in detail below. All dollar totals represent Federal share only. The Federal Medicaid Assistance Percentage for California is assumed to remain at 50.00% for the entire demonstration period.

Category	Medi-Cal Revenue	DSH Revenue
Base year	SFY 1995*	SFY 1995**
Base year amount	\$535,909,959	\$322,790,000
Trend factor	9.7%	0.0%
Annual estimates (SFY basis):		
1996	\$587,893,225	\$322,790,000
1997	644,918,868	322,790,000
1998	707,475,998	322,790,000
1999	776,101,170	322,790,000
2000	851,382,983	322,790,000
Category totals	\$3,567,772,244	\$1,613,950,000
Five-Year Limit:		\$5,181,722,244

L.A. COUNTY FISCAL RELIEF PLAN

	Sept. Agreement	County Refinement to Sept. Agreement	Federal View of Sept. Agree.
	95/96	95/96	95/96
1 Federal match for indigent care at County clinics	40.0	34.0	34.0
2 Interagency Agreement regarding funding for indigent care in hospitals	92.0	85.0	28.0
3 County reevaluation of its accrual of hospital revenues	82.0	79.0	79.0
4a Revised payment plan for portion of County payment to State 1/	125.0	125.0	0.0
4b Revised payment plan for portion of County payment to State 1/	0.0	0.0	125.0
5 Package of PHS grants	25.0	13.0	25.0
Subtotal	364.0	336.0	291.0
6 Federal match for indigent care at hospital outpatient settings	??	42.0	42.0
Total	364.0	378.0	333.0
7 Federal match for Mental Health 2/	0.0	18.0	18.0
8 Restructuring pool 2/, 3/	0.0	0.0	55.0
New Total	364.0	396.0	406.0

1/ 4a = Original agreement; included \$125 m benefit to County

4b = Federal revision; includes zero net benefit to County over 5 years

2/ Not included in original Sept. agreement

3/ Pool amount equal to amount required to meet \$364 m total, not including hospital outpatient match

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3/ Pool amount equal to amount required to meet \$364 m total, not including hospital outpatient match

- Elements
- BN
- TTC?
- Phase 2?

- Not this yr. - exceeds DSH cap

Budget cuts
grants
keds
(DyffHC)
Baseline BN

DRAFT -- FOR DISCUSSION**Attachment D****Monitoring Budget Neutrality for the
Los Angeles County, California 1115 Medicaid Demonstration**

The following describes the method by which budget neutrality will be assured under the Los Angeles County, California 1115 Medicaid Demonstration (LACMD). Los Angeles County will be subject to a limit on the amount of Federal Title XIX funding that they may receive during the waiver period. This limit will be determined using an aggregate cost method. For the purpose of calculating the overall expenditure limit for the demonstration, separate budget estimates will be calculated for each year, on a State fiscal year (SFY) basis. The annual estimates will then be added together to obtain an expenditure estimate for the entire waiver period. This estimate will represent the maximum amount of Federal Financial Participation (FFP) that the County may receive during the 5-year waiver period.

Calculation of the Limit

The following describes the method for estimating what County Medicaid revenues would have been in the absence of the demonstration. A base year expenditure total is selected for each County Medicaid revenue source listed below. Estimates of County revenues for the demonstration years are then computed by applying a pre-determined trend factors to each base year total. The resulting annual estimates are added together across categories and years, giving an estimate of total County Medicaid revenues for the five years of the demonstration. These calculations are shown in detail below. All dollar totals represent Federal share only. The Federal Medicaid Assistance Percentage for California is assumed to remain at 50.00% for the entire demonstration period.

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2000	851,382,983	322,790,000
Category totals	\$3,567,772,244	\$1,613,950,000
Five-Year Limit:		\$5,181,722,244

DRAFT – FOR DISCUSSION

- * The category “Medi-Cal Revenue” includes (and is limited to) the following:
 - Medi-Cal paid claims (FFY 95: \$247,700,237) **[This number will be adjusted to eliminate long term care revenues.]**
 - SB 1255 payments (FFY 95: \$219,000,000)
 - Community Health Plan claims (FFY 95: \$6,724,220)
 - Mental Health - DHS revenues (FFY 95: \$7,393,242)
 - Department of Mental Health revenues (FFY 95: \$28,092,160)

- ** The SFY 95 base year total for DSH (\$322,790,000) is an estimate of the amount of DSH payments that could have been received by County hospitals if the SFY 96 OBRA 93 hospital specific limits (based on 100% of uncompensated care costs) had been in effect in SFY 95. This figure does not include any amounts related to the Interagency Agreement between the State and the County. (HCFA estimated the effect of the Interagency Agreement at \$92 million. This amount is preliminary and will need to be verified.)

Two-Plan Model Adjustment

The without waiver baseline will be adjusted to account for the effect of the California Two-Plan Model. HCFA, in conjunction with the State, will establish the methodology for this adjustment.

How the Limit Will Be Applied

The limit calculated above will apply to actual revenues, as reported by the State under Attachment A, Special Term and Condition XXX. If at the end of the demonstration period the budget neutrality provision has been exceeded, the excess Federal funds will be returned to HCFA. If the demonstration is terminated prior to the 5-year period, the budget neutrality test will be based on the time period through the termination date.

Expenditure Review

HCFA shall enforce budget neutrality over the life of the demonstration, rather than on an annual basis. However, no later than six months after the end of each waiver year, the State will calculate annual revenue targets for the completed year. The annual component targets will be summed to calculate a target annual spending limit. This amount should be compared with the actual claimed FFP for Medicaid. Using the schedule below as a guide, if the State exceeds these cumulative targets they shall submit a corrective action plan to HCFA for approval. The State will subsequently implement the approved program.

- Year 1 target spending limit	+8 percent
- Years 1 to 2 combined target spending limit	+6 percent
- Years 1 to 3 combined target spending limit	+4 percent
- Years 1 to 4 combined target spending limit	+2 percent
- Years 1 to 5 combined target spending limit	+0 percent

Budget Neutrality Issues

OMB and HCFA staff have discussed the major budget neutrality issues in this waiver. HCFA has been charged with resolving all major waiver issues by Wednesday. There are major and minor issues:

Major Issues:

HCFA's budget neutrality option. Under this option, all three revenue streams (Medi-Cal, DSH, and SB 1255) would be included in L.A. County's base year of FY 1995. Only the County health system would be included in budget neutrality. DSH would be trended at "0," and the other two components would be trended together, either at President's Budget aggregate growth rates over 5 years (around 9%, excluding DSH), or County-proposed 10%. This is an aggregate cap proposal.

- *What is included in the County Medi-Cal rate? Why is Medi-Cal included in the base?*
- *How will non-County residents that receive care in the County be accounted for in the WOW baseline?*
- *How will the County account for enrollment into the 2-plan model in the WOW baseline?*
- *What is the PB projected growth without Long-Term Care?*

Public and Private clinic reimbursement. Since the September agreement, L.A. has privatized a number of their clinics. HCFA would like to reimburse indigent care at all clinics that were public in September, regardless of whether they are private now. HCFA believes the County estimate includes the newly-privatized clinics. Finally, since the clinics are getting reimbursement through Certified Public Expenditures (CPE), there will be an issue with allowing private clinics funds through this mechanism. HCFA argues that Tennessee was allowed special exemptions for two private facilities in their §1115 waiver. For mental health, HCFA proposes reimbursing for public facilities' indigent care only.

- *How is the Medicare upper payment limit currently enforced?*
- *How will the pool be constructed? Is indigent care an estimate?*
- *Isn't this a with-waiver issue (i.e., County will not get credit for this match in the WOW baseline)?*

The \$59 million (or \$37 million) hole. HCFA would like a staff consensus on which option to allow the county to fill the \$59 million hole created by the misunderstanding in September. In addition to the September agreement, HCFA has agreed to allow the County to receive an estimated \$22 million for mental health clinics, and an estimated \$42 million for indigent care at hospital outpatient settings (not estimated and not included in the total of \$364 million from September). One could argue that the "hole" has been filled.

- *How will reimbursement for hospital outpatient indigent care be made to the County? (Will the County get match under CPE?) Is the County currently paying for indigent care in hospital outpatient settings?*

11:15 -

12 → David Lane

Lunch 1:15

↓
Sky

3 - Trip Mtg

↓
say LA Gz

4 - Susan → Δ

- *Will we be seen as negotiating in “bad faith” if we retract the option to do an outpatient clinic pool?*

Minor Issues:

DSH calculation in the without waiver baseline. What happens when L.A. County closes a hospital? HCFA would like us to think about the implications for the WOW baseline. In past waivers, this concept has been discussed but it was argued that a State would find another hospital to allocate the DSH funds used by the newly-closed hospital. In a fixed system, this would not be the case. Finally, if the County closes a hospital, presumably this would adjust their OBRA cap downward, and their with-waiver spending would be reduced accordingly.

- *The County claims, on page 128, that its WOW baseline reflects the anticipated reductions from HD and Rancho divestitures. Does this mean this issue is resolved?*

Administrative Costs. The County may want to include, in both the WOW and with-waiver baselines, the Administrative costs. They are claiming \$180 million worth of savings from Administrative costs over 5 years. HCFA and OMB staff are unclear on what the County has included in the baseline.

You should think about
a strategy of, when
you leave, saying you'll
be back at a certain time
later in the day to check
on progress. - You maybe

~~I decided~~ ✓

To then a phone here? after
we got this Th, I can call + see
if my 11:00 can be resched.
to 4:00 (it's abt. 10 people)
or later)

LA COUNTY - INTERNAL SUMMARY

Background

In September 1995, senior Federal officials reached an agreement in principle with officials from the state of California and Los Angeles County on joint actions to provide fiscal relief for the County's public health system. At the time, the federal government, the state and L.A. county were in mutual agreement on its goals -- averting a crisis shutdown of major County health facilities and facilitating restructuring of the county health system. The goal of the restructuring was to downsize inpatient hospital capacity and increase treatment in outpatient settings.

Under the agreement, \$364 million in additional revenue would be made available to the county for state FY 94-95. The agreement was contingent upon the granting of a Section 1115 demonstration waiver, which would allow both the reallocation of existing funding and extension of coverage to people not currently eligible for MediCal. Although the county had repeatedly asked for a waiver of the Medicaid limits on inpatient hospital payments for disproportionate share hospitals (DSH limits) as part of the agreement, we were adamant that we would not do so, and the agreement did not include a DSH waiver. (A detailed explanation of the terms of the September agreement follows.)

After the agreement was reached, the next step was for the county to submit a proposal for an 1115 waiver which embodied the terms of the agreement. The county did not submit its proposal until November 21, and even then it was still a working draft. The county informed us that they are still anticipating making substantial changes to it. The draft proposal did not conform to the outlines of the September agreement in several important respects. It still contemplated a waiver of the DSH limits and did not contain plans for restructuring -- an essential component of the agreement. Although the government furlough and subsequent snow storms prevented us from meeting with county as soon as we had hoped, senior HCFA officials communicated (by telephone) to the county that the draft proposal did not comport with the September agreement and that we would work with them to revise the proposal so that it could be approved.

The county's crisis manager indicated that he fully understood our concerns regarding the draft proposal and would work closely with us in revising the proposal. However, when state and county officials came to Washington in January, it was clear that the County had not modified the proposal to address our concerns. In fact, the county indicated that the \$364 million deal contemplated in September would be insufficient to deal with their multi-year fiscal problems. They presented data showing that their 5 year deficit would be nearly \$1 billion if they continued current operations. They presented several options designed to either eliminate or substantially reduce this deficit. These options rely on mainly on an explicit or implicit waiver of the OBRA 93 DSH limits and do not contemplate any real restructuring or down scaling of the county's health care system.

The county's presentation of the options is based on an interpretation of the September agreement that is different from the Federal understanding. Further, in the county's view, they must address their deficit before they can seriously contemplate any restructuring and they appear to be unwilling to consider any down scaling of their mission. The County believes that any immediate restructuring results in a loss of revenues for the County because of the imbalance in

revenues between in-patient and out-patient reimbursement.

ISSUE

The issue for consideration by the department is whether to implement the September agreement, or to accede to the county's request for a longer term solution to the problems caused by the implementation of the OBRA 93 DSH limits. Implementing the September agreement would require approval of a Section 1115 waiver. However, the state and the county would not be satisfied with just implementing the September agreement. Limiting federal assistance to the September agreement would not resolve the county's fiscal problems for the fiscal year beginning July 1 and could result in closure of some facilities or layoffs.

The county has discussed several options for a longer term solution with us. These options raise some important issues for discussion: whether to allow the county to use intergovernmental transfers to match federal funds, or whether to explicitly and/or implicitly waive the DSH limits.

SEPTEMBER AGREEMENT

The elements of the agreement, and the points of disagreement, are as follows:

- o **Federal Medicaid matching payments for indigent care at County clinics. (Estimate \$40 million net Federal funds.)**

HCFA agreed to provide matching payments under a demonstration for indigent care at freestanding outpatient clinics. This provision cannot be implemented without a waiver from HCFA.

Current Status: The County originally estimated that this would result in \$40 million net Federal funds for the County. They now estimate it would result in \$36 million net Federal funds, with a possible additional \$22 million in net Federal funds if mental health services are included in the demonstration.

- o **An interagency agreement between the State and the County regarding funding of indigent care in hospital settings. (Estimate \$92 million net Federal funds.)**

Under this provision, the State and County would enter into an agreement that would allow the State to make the DSH payment directly to private hospitals on behalf of the County, thus increasing the costs counted under the OBRA '93 DSH cap.

Current Status: HCFA agreed to count as County costs that portion of the required intergovernmental transfer from the County to the State used as the State's share of DSH payments to private hospitals. HCFA did not agree to count as costs that portion of the IGT that is kept by the state to fund general Medi-Cal costs. In data presented to HHS on January 31, the County revealed that only \$40 million of the \$92 million is used for private

hospital DSH; the remaining \$52.m is paid to the State's general Medi-Cal fund.

- o **County reevaluation of its accrual of hospital revenues to comply with the OBRA '93 limits on DSH payments. (Estimate \$82 million net Federal funds.)**

Current status: This arrangement has been worked out by the State and County and the estimate remains at \$82 million net Federal funds.

- o **A revised payment plan for a portion of the annual payment from the County to the State. (Estimate \$125 million.)**

Current Status: The County auditor disapproved this provision. As an alternative, the State will be allowed to exceed the OBRA '93 DSH limit by \$125 million in '95-'96 through the receipt of additional SB1255 funds. It was agreed that the County would pay this back over 5 quarters beginning in '97-'98. However, the financial analysis presented by the County on January 31 does not account for repayment.

- o **A package of PHS grants. (Original estimate, \$25 million.)**

Current status: It appears that this money will get to the County, though some of the money will require additional County expenses, and thus will only generate \$12-\$16 million in net Federal funds to the County.

- o **Federal Medicaid matching payments for indigent care at hospital outpatient settings, subject to applicable Federal law. Funding for this provision was to be determined.**

Current Status: The County expects this may generate \$42 million, although the County has not determined whether they will include this provision in the demonstration.

In total, the original agreement would have provided the County with \$364 million in fiscal relief, plus additional FFP for indigent care at hospital outpatient settings. The Federal understanding of the original agreement now appears to generate about \$299 million (plus an additional \$42m for indigent care at hospital outpatient settings). The County's understanding of the September agreement would generate an additional \$22m for the inclusion of mental health services and \$52m for the portion of the intergovernmental transfer for the general Medi-Cal fund. (See attachment for a comparison of the Federal and County interpretation of the September agreement.)

The County now estimates that even with a Federal concession of waiving the County's obligation to repay the \$125 million and recognizing the IGT used by the State for Medi-Cal payments (\$52 million), the County will continue to have a structural budget deficits in its health care system. This deficit is estimated to be \$966 million over the five years of the demonstration. Further, the County believed that the September agreement was a Phase I stabilization agreement (July '95- June '96) and that further assistance is necessary for the restructuring planned for Phase II (July '96- June '00).

LA COUNTY FINANCING OPTIONS FOR DEALING WITH ITS DEFICIT

LA County has submitted detailed financial information that projects an estimated \$1 billion budget deficit over the next five years, assuming current operations and their interpretation of the September agreement and several options to reduce or eliminate that deficit. Each option described below has substantial implications for our DSH policy, demonstrations, and other states. In order to negotiate in good faith with the County, several threshold policy questions need to be answered. It is important to understand that there are several assumptions underlying the County's presentation of their problem.

COUNTY AND STATE ASSUMPTIONS:

- o The state will not contribute to any relief strategy (fiscal and/or statutory).
- o The County claims no significant restructuring can occur, even in the out years, until the County eliminates its deficit.
- o The County is not considering restructuring options that generate savings. Instead, the County intends their restructuring to preserve current spending trends to satisfy unmet health needs of the indigent.
- o Because inpatient care reimbursement is significantly greater than outpatient care, the County's ability to shift resources to the outpatient sector is extremely constrained (i.e. \$400,000 in cuts for inpatient services results in only \$100,000 net savings).
- o Even after 5 years, structural deficits in excess of \$300 million a year will remain.

COUNTY'S OPTIONS:

(All options presented assumed the County's interpretation of the September agreement.)

- A. Apply OBRA '93 cap with Federal reconciliation to actual costs, adjusted for inclusion of the County's IGT related to State administrative fee and private DSH hospitals. Any DSH funds beyond the OBRA '93 cap would be used for non-hospital outpatient services. The County would provide its share through County intergovernmental transfers (IGT).

100%

B. At the start of the demonstration, the hospital-specific OBRA '93 limit would be established in each of the 5 years of the waiver. The limit will be set at 100 percent of the FY '94-'95 DSH limit. In addition, the full \$92 million IGT would be included in the calculation of the total DSH limit even though the interagency agreement is not effective until fiscal year '95. Reconciliation will be to the pre-determined limit only, not actual costs, (ie, total DSH payments could not exceed the established limit, although total payments to the hospitals could exceed costs). There would be additional pool funds available beyond the OBRA '93 limit for non-hospital outpatient services. The size of the pool would be determined based on the County's estimate of the remaining funds needed to attain fiscal relief.

C. As in Option B, at the start of the demonstration, the hospital-specific OBRA '93 limit would be established in each of the 5 years of the waiver with the exception that there would be downward adjustments in the later years ('97-'00) to reflect restructuring. The initial limit would be set at 100 percent of the FY '94-'95 DSH limit, with the inclusion of the full \$92 million IGT even though the interagency agreement is not effective until fiscal year '95. There would be a decrease of the initial limit of 2% in FY '97-'98, a decrease of 4% in FY 98-99, and a decrease of 3% in FY '99-'00. As in Option B, reconciliation would be to the pre-determined limit only, not to actual costs. There would be additional pool funds available beyond the OBRA '93 limit for non-hospital outpatient services. The size of the pool would be determined based on the County's estimate of the remaining funds needed to attain fiscal relief.

All three options include recognition of the IGT for private DSH and Medi-Cal payments as costs and no repayment provisions for the \$125 million loan. As mentioned, we have not agreed to either of these provisions, and have explicitly required repayment of the \$125 million.

QUESTIONS:

1. **What is the extent of the Administration's commitment to provide fiscal relief for LA County's budget shortfall:**

Options

1. Hold to the one-year September agreement (\$364 million fiscal relief package). This option does not resolve the five-year \$1 billion shortfall and would force the County to find other revenue sources or dramatically cut services. (See table for discrepancies in September agreement).

Federal fiscal risk: \$195 million plus \$125 loan.

2. Provide partial fiscal relief over the five years. The County's Option A provides partial relief but would force the county to find other revenue sources or dramatically cut services. This option still results in a \$540 million shortfall over 5 years.

Federal fiscal risk: \$1.11 billion (See table)

3. Provide complete fiscal relief over five years.
Options B and C could provide complete relief over the five years, but would require a waiver of OBRA '93.

Federal fiscal risk: \$1.65 billion.

- d. Provide either partial or complete relief beyond the life of the waiver.
As currently proposed, the County will continue to face annual structural shortfalls of over \$300 million in year 6 and beyond.

2. Are we willing to waive OBRA '93? To what extent are we willing to deviate from its intent? (Options B and C require an explicit waiver. Option A may be possible without a waiver, but threatens the spirit of the law.)

- o Both waiving and circumventing OBRA '93 DSH limits will lead to serious financial exposure. Allowing California to circumvent the OBRA '93 limits without a waiver sets a precedent for other States to attempt to use this methodology simply through State Plan Amendments. We can anticipate that States that have recycled DSH to leverage Federal funds in the past will use this mechanism.
- o According to a 1994 Urban Institute survey of 40 states by the Urban Institute, of the \$15.3 billion of federal funds spent on DSH in those 40 states, about half was used to pay back providers for their contribution, one-sixth went to help private and county providers, and one-third, or about \$5 billion was retained by states (or counties) to finance diverse expenditures. **The total risk to the federal government would be greater than \$5 billion annually if the OBRA caps are waived or circumvented.**
- o An explicit waiver in the context of a demonstration would theoretically limit exposure outside California because other states will not be able to bypass OBRA '93 limits without an approved demonstration. However, we would anticipate that States seeking this mechanism will submit waivers similar to the one approved in LA County. (Louisiana and Alabama have already indicated their interest in obtaining waivers to these limits and will renew their requests.) Also, there are 28 other counties in California requesting to participate in the State's proposed demonstration. In addition, it is questionable whether the calculation of cost could be constrained to the waiver approval since hospital-specific DSH caps have not yet been enforced or regulated.

3. To what extent are we willing to make fiscal relief dependent on significant restructuring, which would ameliorate long term structural deficits?

- o HHS's demonstration programs have been scrutinized by the General Accounting Office and Congressional authorizing committees. GAO has been particularly critical of our approval process. In their opinion, these demonstration programs increase overall Medicaid spending.
- o Congressional critics could also perceive a Federal bail-out of the LA County health system as an indication of the Administration's inability to control Medicaid expenditures -- and thus bolster arguments for converting Medicaid to a block grant program.
- o Alternatively, if we fail to provide full fiscal relief to LA County, other critics could charge that we have reneged on the President's promise.

OPTION A WITHOUT COUNTY ASSUMPTIONS-TOTAL DEFICIT

Description	96-97	97-98	98-99	99-00	Total
Calculations with County assumptions from September agreement	(\$129.11)	(\$232.53)	(\$278.15)	(\$326.25)	(\$1,095.15)
\$125 loan repaid FY 97-98	(\$129.11)	(\$357.53)	(\$278.15)	(\$326.25)	(\$1,220.15)
Only IGT for private DSH allowed as cost	(\$233.11)	(\$284.53)	(\$330.15)	(\$378.25)	(\$1,459.15)
Repayment of loan and only IGT for private DSH allowed as cost	(\$233.11)	(\$409.53)	(\$330.15)	(\$378.25)	(\$1,584.15)

REVISED DRAFT TALKING POINTS**Meetings with LA County Supervisors, 3-4-96**

- o We are happy that HHS has now received the waiver application from the state of California. This should enable us to move toward implementation of the agreement we made with the county and state last September. We hope to work quickly to iron out the terms and conditions of a waiver approval with the state and county, enabling us to finally approve the waiver at the earliest possible date (30 days from submission is the earliest allowed under the law, due to the required comment period).
- o We are also pleased that the Supervisors were in Washington today to formally present the urgency of their situation to the Secretary, to the White House chief of staff, and others.
- o We remain committed to providing the county with the \$364 million package which we agreed to in September.
 - That agreement was built around a 5-year demonstration in which the federal government would provide funds in the early years of the waiver, as part of a long-term budget neutral demonstration. This 1-year, \$364 million cash infusion was aimed both at averting a short-term crisis and helping address the longer-term need for a more efficient county health system.
- o The restructuring of the county health system remains central to our initial agreement, and of key importance to the county leadership. We ~~are~~ were pleased by our discussions with state and county officials over the past several months regarding the county's restructuring proposal. We are happy that the state and county's waiver proposal reflects our discussions and outlines a thoughtful process for meeting the county's ambitious restructuring goals.

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Def us, not just HHS

EXECUTIVE OFFICE OF THE PRESIDE
EXECUTIVE OFFICE OF THE PRESIDE

N T
N T

04-Mar-1996 05:32pm

TO: (See Below)

FROM: Diana M. Fortuna
Domestic Policy Council

SUBJECT: Please look at these LA county press talking pts AS
SUBJECT: _____

AP

Jack and John, you need to look at this asap. Barry Toiv needs to talk to the press tonight.

I did not include naming Emerson at the point man, because I wasn't sure that was helpful.

As you know, HHS has legal authority to act on waivers, and yet we want to reassure the county of our interest; I tried to strike the right balance here. Let me know if you think I went into excessive detail.

I want to send this to HHS too, because they make the excellent point that we should be saying more or less the same thing to the press.

HHS was hoping that we would send press inquiries to them; but I told HHS that at the meeting today we pretty much committed to have a statement out of here.

L.A. COUNTY MEDICAID WAIVER MEETINGS 3/4/96
Talking Points for Press

- o The Administration remains committed to providing the county with the \$364 million package that we agreed to in September. This week officials from HHS, (the White House?), and Los Angeles County are holding a series of meetings in order to resolve the elements of the \$364 million package announced last September. This process is made possible by the county and state's formal submission of a waiver proposal last week.

as soon as possible
We expect that this will enable HHS, the state, and the county to resolve all the outstanding issues on the \$364 million package this week. This will not constitute a formal waiver approval because HHS is not able to take

as quickly as we can. -Fri/Mon

formal action on a waiver for at least 30 days after it is submitted.

- o The September agreement was built around a 5-year demonstration in which the Federal government would provide funds as part of a long-term budget neutral demonstration. The \$364 million cash infusion was aimed both at averting a short-term crisis and helping address the longer-term need for a more efficient county health system.

We are committed to continuing to work with the county and the state on the transformation of the county's health care system. We have agreed that, after the county presents HHS with additional options for financial restructuring of the county system beyond the current fiscal year, HHS will examine these options as part of a collaborative process with the county, and will respond to these options within 45 days after receiving them.

Very quickly (if asked, ...)

- o We recognize the commitment of the county's leadership to restructuring its health care system and the actions it has already taken toward restructuring. We are pleased that the state and county waiver proposal reflects a commitment to restructuring and outlines a thoughtful process for meeting the county's restructuring goals.

Distribution:

TO: John B. Emerson
TO: Jacob J. Lew

CC: Barry J. Toiv
CC: Martha Foley
CC: Jill M. Blickstein
CC: Alison Bracewell

On a separate track,

*Those discussions, ~~as~~
demonstrates*

FAX



Health Division



Office of Management and Budget
Executive Office of the President
Washington, DC 20503

To: *Diana Fortung*

From: *Nani*

Number of Pages (excluding cover): *4*
6-7431 / 6-7028

Note:

I've included the 5364 M package and the LA Times story. Attendees at yesterday's meeting had both of these.

Voice Numbers:

Health Division (Front Office)	202/395-4922
Health & Human Services Unit	202/395-4925
Health Programs & Services Branch	202/395-4926
Health Financing Branch	202/395-4930

Fax Numbers:

Health Division (Front Office)	202/395-3910
Health Division (Room 7001)	202/395-7840

For Internal Discussion Only!
February 21, 1996

SEPTEMBER AGREEMENT			
Description	Original Estimate	Current Estimate	Difference Between Agreements
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	\$300 million	\$64 million
FFP for mental health	----	\$22 million	----
TOTAL	\$364 million	\$322 million	\$42 million
DIFFERENCE	\$42 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	----

~~scribble~~

Tex Welf- exploded Tues? Gov. bashed
then go to Bullock

T+C takes a while

*TP - for Monday

\$364 do

Non - DSA alt for 2/5 - 90 day dec.

Comfort letter

Mechanics of Free-Standing Outpatient Clinic/Restructuring Pool

- o The first element of the September agreement reflects HCFA's agreement to match "indigent care at County clinics." Staff agree that this includes both costs for indigent care and the difference between Medicaid payments and costs. The result is that clinics will receive payment up to 100 percent of unreimbursed costs. The County's current estimate of this match is \$33 million.
- o In addition to the indigent care match, HCFA would allow the County to establish a limited Free-standing Outpatient Clinic/Restructuring Pool. Payments from the pool would be made to free-standing outpatient clinics and be used for restructuring purposes (i.e. expanding capacity, etc.)
- o The State share of the pool payments could be funded by IGT's transferred from the County to the State.
- o The amount of the pool payments would be limited to the lower of (1) the Medicare upper payment limit (UPL) for free-standing outpatient clinic services net of current Medicaid payments for clinic services and the new federal match for uncompensated care costs in the clinics or (2) \$74 million (\$37 million Federal and \$37 million State share)¹.
- o The county has estimated that current outpatient clinic payments are approximately \$40 million below the aggregate Medicare UPL.
- o Before calculating the pool payments, HCFA will need answers to the following questions.
 - How did the County calculate the aggregate Medicare UPL?
 - Was the Medicare UPL calculated on a state-wide or county-wide basis?
 - Is the estimated \$40 million Federal share only?
 - Did the County net out the \$33 million in federal match for indigent care?
 - How was the \$33 million calculated?

¹This \$37 million, when added to \$22 million in federal match for mental health services, adds to \$59 million, the shortfall from the amounts in the second element of the September agreement.

1ST STORY of Level 1 printed in FULL format.

Copyright 1996 The Times Mirror Company
Los Angeles Times

February 28, 1996, Wednesday, Home Edition

SECTION: Metro; Part B; Page 3; Metro Desk

LENGTH: 536 words

HEADLINE: COUNTY, U.S. AT ODDS OVER LONG-TERM OVERHAUL OF HEALTH SYSTEM;
BUDGET: TIMING OF DEFINITE PLANS IS AT ISSUE, BUT LOCAL OFFICIALS STILL EXPECT
TO GET \$364 MILLION THIS YEAR.

BYLINE: By JOSH MEYER, TIMES STAFF WRITER

BODY:

Los Angeles County officials confirmed Tuesday they are at odds with the federal government over long-term restructuring of the troubled health system, and said they are worried about how to proceed without knowing the amount of money that will come from Washington.

At the weekly Board of Supervisors meeting, health officials said a proposed \$364-million bailout of the health system pledged by President Clinton last September is all but assured for this fiscal year, which ends June 30.

But, they acknowledged, another significant problem has cropped up, as reported in The Times on Saturday: The federal government does not want to negotiate how much money the county will receive in the remaining years of a five-year health restructuring effort until the \$364-million bailout is completed.

It is that insistence by federal officials on separating the short- and long-term financial issues that could pose serious problems, Health Services Director Mark Finucane and former county health czar Burt Margolin told the supervisors. They said the county will need more federal money to make the transition from their outmoded health system based on costly in-patient hospital services to less expensive, preventive outpatient care.

County officials say they are already facing a health deficit of more than \$150 million in the next fiscal year.

"You can't build new outpatient clinics if you are trying to fill a hole" created by the deficit, Finucane said.

The extraordinarily complicated negotiations focus on a proposed waiver of Medicaid regulations that the county is seeking so it can use federal money now earmarked for hospital care for outpatient services.

Supervisor Zev Yaroslavsky sought to counter criticism that the county does not have a restructuring plan by noting that the county has laid off 2,600 health workers, privatized six clinics and reduced the number of hospital beds.

While county officials sought Tuesday to downplay federal officials' concerns, they said they fear the county must resolve some long-term issues in

Los Angeles Times, February 28, 1996

Both Finucane and Margolin -- now a county legislative strategist -- said that in almost daily discussions with federal officials, they have strenuously objected to separating the short- and long-term issues because they want to ensure that their long-term concerns are addressed.

So far, however, federal officials are insisting on separating the two issues. "We're not going to mix the two," one senior White House official said last Friday.

Supervisor Deane Dana and Chief Administrative Officer Sally Reed said they were concerned because the county needs at least some estimate of federal funding levels while formulating its budget. Supervisor Gloria Molina added: "We've got to get going."

Margolin said negotiators are ready to head to Washington on a moment's notice. Finucane also said he has told federal officials: "We've got to get off the dime here. . . . I need some help about how we are going to move to this outpatient world and if it is not going to be forthcoming, let's just get that settled."

Times staff writer Jeffrey L. Rabin contributed to this story.

LANGUAGE: ENGLISH

LOAD-DATE: February 28, 1996

OFFICE OF INTERGOVERNMENTAL AFFAIRS
DEPARTMENT OF HEALTH AND HUMAN SERVICES
200 Independence Avenue, SW
Room 630F
Washington, DC 20201



F A X C O V E R S H E E T

DATE: 2/26/96

TO: Diana Fortuna

PHONE:
FAX:

FROM: John Monahan
Director

PHONE: (202) 690-6060
FAX: (202) 690-5672

RE:

CC:

Number of pages including cover sheet:

5

Message:

364 m res'd this wk
letter to follow soon

Once done, agree:

City dev init prop

Back to table

Zy: agreed to
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next yr + pos
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45 clock - collab process
~~strategy~~ - future yr testg issues

JE questions

745 days - OK or more ideas
Their submission triggers

JE Don't oversell today

point man

Zy hv wk to do

JE stable

convinced comtd to R

2500 ees, 300 beds

Warren app: approach

1/3 beds, expanding access

~~next yr test for~~

~~Warren approval~~

1ST STORY of Level 1 printed in FULL format.

Copyright 1996 The Times Mirror Company
Los Angeles Times

February 24, 1996, Saturday, Home Edition

SECTION: Part A; Page 1; Metro Desk

LENGTH: 1201 words

HEADLINE: U.S. BAILOUT OF COUNTY HEALTH SYSTEM STALLED

BYLINE: By JEFFREY L. RABIN and JOSH MEYER, TIMES STAFF WRITERS

BODY:

Five months after President Clinton promised \$364 million to save Los Angeles County's troubled public health system from collapse, the county has not finished a long-range plan to restructure its health system and already is seeking more money from Washington.

Traveling with the president in Los Angeles, White House Press Secretary Mike McCurry said Friday that Clinton still stands behind his commitment made in September to help the nation's second-largest public health system.

However, McCurry added, "the problem is the county is projecting much higher costs; \$364 million is not sufficient. The county and state would like additional funding."

Although it could not be determined how much more money the county wants, the latest projections show that the health system faces a potential deficit as high as \$168 million next year.

After countless telephone conference calls and numerous meetings in the months since September, the county has yet to provide a detailed outline of exactly how it plans to move away from reliance on expensive inpatient treatment at hospitals to less costly outpatient treatment at health centers and community clinics.

Sources say the county, which lags far behind the national trend toward preventive health care, has had difficulty presenting more than a general vision of what its restructured health system might look like. Urged by federal officials, the county has offered to provide goals and timetables for restructuring the system without specifics.

Officials say the money must arrive within the next two months or the county will once again face the extreme financial problems that threatened to drive it to the brink of bankruptcy last fall.

County Chief Administrative Officer Sally Reed said that if the \$364 million does not arrive soon, "the impact on our cash flow would be significant and it would be fast."

*

3/4/96

Unhappy w/ DS on DSH

Re - Undefined DSH $\rightarrow$ OP den was DSH breake thru now asking for
Does reduce it

GM - CMAc pmt - \$76m Mar 27
- not w/o app'd w

BM - didn't submit w cause HCFA said so
Phase 2

ZY Misspoke - Someone sd this am

YB Q is what is ind w of DSH - thought we had flex

LP April; wrap up \$364m; get thru yr 2
45/60/90 days; shorter for yr 2 -
by 3/26? Clarif.

BM: Expand what we did w/ DSH

JL: Next step not nec. OK

ZY: DSH on or off table; LP: can't promise; look @ todo
+ go off cliff

MF: 302, PC / residents - to decrease on specialties

GM: Can't get reaction from these people

45 Day - asks me - not just 'no' - Belman
JL clarifies maybe just yr 2

Deficit \$135-148m

GM need ~~clear~~ 5 yr clarity for planning, negot'g w/ ^{priv sector} ~~providers~~ etc.
LP: Get 364 done this wk; Do proposal for yr 2 or 75 - 45 days

Keet w/ upon
resting - algo
helpful

Less: rely on
ago bad

* Boxer - working
on them - another
file - Kathy Green

* HCFA +
Booth
conversations -
at least 1 ea.

yes or
alternative
Emerson

Los Angeles Times, February 24, 1996

Sat

Federal officials blame the county and the state for not submitting their formal request for a waiver of federal Medicaid regulations to move the county's health system from an emphasis on hospital treatment to a focus on outpatient care.

For years the \$2.3-billion county public health system has been plagued by a lack of leadership and has remained wedded to its six hospitals rather than shifting to more health centers and community clinics. Such problems have contributed to the inability to fashion a blueprint for restructuring.

In the absence of a detailed document, there has been no final agreement on the waiver, which is the key to unlocking the \$364 million.

McCurry said the Clinton administration cannot make some of the changes sought by the county because of concern that it would set an expensive precedent for other areas that the federal government could not live with.

It was the president's promise of \$364 million that averted the possible closure of the nation's busiest public hospital, County-USC Medical Center, comprehensive health centers and community clinics.

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Even so, the county, faced with its worst fiscal crisis ever, laid off 2,525 health workers last fall, including doctors and nurses, and dramatically scaled back outpatient services particularly in specialty clinics at its hospitals.

As the behind-the-scenes debate continues, some county officials are growing more concerned because county supervisors counted on the \$364 million in their precariously balanced budget for the fiscal year that ends June 30.

Mark Finucane, the county's new health services director, told the supervisors recently that failure to receive the money would have catastrophic consequences for the health system that he likened to a meteor hitting the county.

Finucane said in an interview Thursday evening that he expects the county and state to submit their waiver application to Washington next week.

He also expressed confidence that the county will receive the promised money. "I don't think the \$364 million is an issue," Finucane said. "I don't want to say it's a given. I don't want to jinx anything."

The county's former health czar, Burt Margolin, said the county is working with Wilson administration officials in Sacramento and the federal Health Care Financing Administration to resolve the remaining issues.

"We don't have a problem yet," Margolin said. "We are trying to work through with HCFA serious policy issues involving the restructuring of our system."

Officials of the federal agency declined repeated requests for comment.

John Monahan, a top aide to Health and Human Services Secretary Donna

Los Angeles Times, February 2, 1995

Shalala, said the Clinton administration is "absolutely committed to the process of working with the county on both the fiscal issues they are facing and the restructuring."

A senior White House official, who asked not to be identified, said the county needs to close a deal for one year and stop pressing for a five-year arrangement that would involve more money.

"We're trying to get the \$364 million done before sitting down to talk about the five years. They'd like to get everything at once," the official said.

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"Clearly, they want some help with their long-term problem and we are trying to separate the two. We're not going to mix the two. You can't. They are totally different things. This was a deal done for one specific year and all of a sudden, it's 'Let's talk five years.' "

The official said the \$364-million aid package by itself is tremendously complicated and has encountered bumps along the way in the past five months. Adding to the difficulty is the budget battle between the Democratic president and Republican Congress over the size and shape of federal Medicaid programs for the poor.

The difficulty completing the waiver and releasing the money stands in sharp contrast to the Santa Monica Airport news conference in September, when Clinton announced that the nation's most populous county "will not have to suffer the impacts of a crisis shutdown of county hospitals and clinics."

Instead, the president said the \$364-million package would move the county away from "its current reliance on hospital care to a system that emphasizes preventive and primary care."

As grateful county supervisors looked on, Clinton said the package was structured around a "federal waiver that will allow the county to restructure its health care system in a rational and planned way."

And he suggested that if successful, the transition could become a model for the nation.

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At the time, Clinton praised the biggest union representing county employees for its role in encouraging an agreement to save the health care safety net in Los Angeles from unraveling.

A leader of the Service Employees International Union, Local 660, said Friday the county needs to accept the \$364 million before proceeding with lengthy negotiations for more federal funds.

"We think that it is incumbent on the supervisors to reach a conclusion to these negotiations now," said the union local's general manager, Gilbert Cedillo.

"We all want long-term solutions," he said. "But you can't refuse immediate

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remedies in lieu of long-term solutions, because you need to be around for those long-term solutions."

Staff writer James Gerstenzang contributed to this story.

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