



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Health System



Date: November 25, 2013
Board Meeting Date: January 7, 2014
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Jean S. Fraser, Chief, Health System
Gina Wilson, Chief Financial Officer, Health System

Subject: Selection of formula to determine the amount of Health Realignment funds to be returned to the State each year under AB 85

RECOMMENDATION:

Adopt a Resolution to use the County Savings Determination Process for the AB 85 Health Realignment Program, Option 2.

BACKGROUND:

The Affordable Care Act (ACA) authorized, but did not require, states to expand their Medicaid programs to cover all citizens with incomes below the federal poverty level. California elected to expand Medicaid (called Medi-Cal in California) but only after negotiating with counties to recoup some of the Health Realignment funds that are given to counties to offset the cost of providing medical care to uninsured indigents. On June 27, 2013, Governor Brown signed into law AB85, providing a mechanism for the State to redirect health realignment funding to fund social services programs.

AB 85 gives counties with public hospitals two options to determine the amount of Health Realignment dollars that will be retained by the State. Counties must make an irrevocable selection of one of the options by January 22, 2014.

Option 1: The "60/40 formula" redirects 60 percent of the 1991 Health Realignment funds plus 60 percent of the amount the County has traditionally contributed to indigent medical care. This option has the benefit of being a certain amount, but would require the Health System to return money to the State even in years when San Mateo Medical Center (SMMC) ran at a deficit. Under this formula the Health System would lose approximately \$15M each year.

Option 2: The "County Savings Determination formula" measures county health care costs and revenues. Counties would lose 80% (70% in fiscal year 2013-14) of the

savings realized by the County, if any savings are realized, up to a maximum annual amount of \$17.6 million. This option has the benefit of taking into account the projected decreases in federal supplemental funds (such as Disproportionate Share Hospital funds) that are planned to decrease in the future, but could exceed the amount we would have paid under Option 1 in years when SMMC runs a large surplus. Compared to selecting Option 1, the maximum amount we could save each year would be \$15M. The maximum amount we could *lose* each year by selecting Option 2 as opposed to Option 1 is about \$2.6M.

The State required counties to tentatively choose an option by November 1, 2013 and requires that the Board of Supervisors make a final decision by January 22, 2014.

We have been analyzing these options since June 2013 and tentatively determined in November that Option 2, the County Savings Determination Formula, is the best option for San Mateo County. We are now asking of the Board to formally adopt Option 2.

DISCUSSION:

While Option 1 is a set amount and provides certainty during a very uncertain time, the County would lose approximately \$15M each year, regardless of SMMC's financial situation.

Option 2 takes into account fluctuating revenue and patient enrollment, and reduces or even eliminates the payback to the state in a given year if SMMC does not benefit as much as is hoped under the ACA. The amount annually paid back to the state is based on SMMC's net revenue for that year. Option 2 best protects our Health Realignment revenue in future years. We already know that certain revenue sources such as the Hospital Fee and Disproportionate Share Hospital will be reduced in future years. Option 2 best positions us to retain as much of the Health Realignment revenue as possible to offset these reductions and possible fluctuations in patient numbers.

At this time, nearly all counties with public hospitals plan to select Option 2 because of the large potential savings compared to the potential loss when compared to Option 1.

The Resolution has been reviewed and approved by County Counsel as to form.

The Resolution contributes to the Shared Vision 2025 outcome of a Healthy Community by assuring optimal funding opportunities and options for the services provided by the San Mateo Medical Center. It is anticipated that the percent of patient care revenue in the SMMC budget that comes from Medi-Cal will be 50%.

PERFORMANCE MEASURE(S):

Measure	FY 2013-14 Estimated	FY 2014-15 Projected
Percent of patient care revenue in the SMMC budget that comes from Medi-Cal	43%*	50%

*Includes six months of ACA

FISCAL IMPACT:

Option 1 would result in a certain annual loss of approximately \$15M in Health Realignment funds. The impact of Option 2 will fluctuate based on the “savings” realized by SMMC due to the ACA, but the cost to the County would never exceed \$17.6M.

Under Option 2, we anticipate the potential loss would be the same as for Option 1 at approximately \$15M for FY 2014-15 and increasing slightly to \$16M for FY 2014-15. However, we expect the loss to decline in future years due to reductions in the Hospital Fee and DSH funding, resulting in a more favorable long-term outcome