

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Chief Executive Office

BOARD AGENDA # B-19

Urgent

Routine

AGENDA DATE June 26, 2007

CEO Concurs with Recommendation YES NO

4/5 Vote Required YES NO

(Information Attached)

SUBJECT:

Approval of Actions to Fund the Operating Deficit in the 2006-2007 Health Services Agency Clinics and Ancillary Services Budget

STAFF RECOMMENDATIONS:

1. Approve the actions to fund the operating deficit in the 2006-2007 Health Services Agency Clinics and Ancillary Services budget.
2. Authorize the undesignation of funds for the Health Services Agency Strategic Plan to be transferred to the Health Services Agency Clinics and Ancillary Services budget unit.
3. Authorize the undesignation of funds from the Tobacco Settlement Fund to be transferred to the Health Services Agency Clinics and Ancillary Services budget unit.
4. Authorize the undesignation of funds from the Public Health Special Revenue Fund balance to be transferred to the Health Services Agency Clinics and Ancillary Services budget unit.

Continued on Page 2

FISCAL IMPACT:

In order for the Health Services Agency Clinics and Ancillary Services budget to end 2006-2007 in a positive fiscal position, additional funds are recommended to be transferred for the shortfall of approximately \$4.8 million in the Clinics and Ancillary Services Enterprise Fund. It is recommended that funds be transferred to the Clinics and Ancillary Services budget unit as follows: \$1,439,000 from the Health Services Agency Strategic Plan contingency funds and \$1,736,630 from the Health Services Agency Public Health fund balance.

Continued on Page 2

BOARD ACTION AS FOLLOWS:

No. 2007-517

On motion of Supervisor Grover, Seconded by Supervisor Mayfield
 and approved by the following vote,
 Ayes: Supervisors: Mayfield, Grover, Monteith, DeMartini, and Chairman O'Brien
 Noes: Supervisors: None
 Excused or Absent: Supervisors: None
 Abstaining: Supervisor: None

- 1) Approved as recommended
- 2) Denied
- 3) Approved as amended
- 4) Other:

MOTION:



ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

STAFF RECOMMENDATIONS: (Continued)

5. Authorize the Auditor-Controller to make the necessary budget changes as described in this report.
6. Authorize the Chief Executive Officer and the Auditor-Controller to take all necessary actions to ensure the 2006-2007 Clinics and Ancillary Services budget closes in a positive fiscal position.

FISCAL IMPACT: (Continued)

Additionally, it is recommended that at year end close, up to \$1,723,770 be transferred from the Tobacco Settlement fund to the Clinics and Ancillary Services budget unit, to end the year in a positive fiscal position.

DISCUSSION:

In late April 2007 the Health Services Agency (HSA) identified a growing fiscal exposure as a result of a drug pricing issue in the Clinics and Ancillary Services budget. Additionally, HSA reported a growing cash deficit of \$8 million in the Clinics and Ancillary Services budget at Mid-year 2006-2007, that was attributed to timing differences in the flow of one-time monies, compared to the previous year (2005-2006). By the third quarter report of 2006-2007, it was apparent that it is not a timing issue, but a significant under realization of revenue, and other emerging issues. The funding shortfall is a result of numerous factors that can generally be described as follows:

- Decreasing Medi-Cal patient visits;
- Increasing Medically Indigent Adult (MIA) visits;
- Declining ancillary volumes without a corresponding drop in expenses;
- Increased pharmaceutical pricing and utilization;
- Overstatement of revenues;
- Inaccurate budget estimates; and
- Accounting errors.

Staff from HSA, the Chief Executive Office and the Auditor-Controller are working diligently on a detailed fiscal analysis and to verify the estimated shortfall, which is projected at \$4.9 million. This shortfall is over and above the 2006-2007 General Fund contribution of \$6,255,618 that the Board authorized as part of the three-year Strategic Plan, adopted on September 13, 2005. The Strategic Plan funding is shown below:

Approval of Actions to Fund the Operating Deficit in the 2006-2007 Health Services Agency Clinics and Ancillary Services Budget

HSA Initial Strategic Plan Funding				
Funding Needed:	Year 1	Year 2	Year 3	
- Ongoing Operating	\$ 7,440,000	\$ 5,600,000	\$ 3,750,000	
- One time	\$ 1,221,500	\$ 378,000	\$ -	
Total	\$ 8,661,500	\$ 5,978,000	\$ 3,750,000	
- Contingency Reserve	\$ 400,000	\$ 400,000	1,039,000	
Funding Sources:				
General Fund Discretionary Revenue	\$ -		\$ 3,750,000	
Fund Balance (General Fund)	\$ 5,561,500			
Community Trust Fund	\$ 3,500,000			
GF Fund Balance (designation)*		\$ 6,378,000	\$ 1,039,000	
3-year General Fund contribution	\$ 16,728,500			

Staff is continuing to work on an action plan and objectives for the 2007-2008 Fiscal Year that, as presented in the Proposed Budget, includes an estimated deficit of \$12.6 million. Also, staff and the outside Auditor are conducting a complete review of Fiscal Year 2005-2006 to determine the actual operating position at year-end. Initial review of 2005-2006 indicates a net loss, although the full exposure is not yet known. Additional fund transfers will likely be required.

Mitigating solutions for Fiscal Year 2007-2008 are being established and will be fully developed and incorporated into the Final Budget submission. Regular reports on the fiscal stability and future scope and role of the clinic system will be brought to the Board prior to and in conjunction with the 2007-2008 Final Budget.

Staff is meeting regularly with the Board of Supervisors Health Executive Committee and will continue those meetings on a regular basis to fully understand the impacts on the clinics and ancillary services budget, and solutions for this emerging increased exposure.

Survival of the Stanislaus County Health Services Agency clinic system is dependent on achieving the Federally Qualified Health Center Look A-Like (FQHC-LA) designation by the Federal Government, as well as continued streamlining and efficiencies. This budget does not reflect any potential revenues that may result from this designation. Without the FQHC-LA designation, the County could be forced to serve only the mandated Medically Indigent Adult (MIA) population.

It is recommended that in order for the 2006-2007 Fiscal Year to end in a positive position, funds are recommended to be transferred as follows:

HSA Strategic Plan contingency funds	\$1,439,000
HSA Public Health fund balance	\$1,736,630
Unsecuritized Tobacco Settlement funds	<u>\$1,723,770</u>
Maximum total transfer	\$4,899,400

The Health Executive Committee concurs with staff recommendations to fund the 2006-2007 operating shortfall through the combination of fund transfers reflected above.

It is recommended that the transfer of Tobacco Settlement funds occurs at year-end close and that only the amount necessary to end in a positive fiscal position be transferred, up to a maximum of \$1,723,770. The recommended transfers will use all remaining Strategic Plan contingency funds, a significant portion of the Public Health fund balance, and will leave approximately \$1.4 million remaining in unsecuritized Tobacco Settlement designations.

POLICY ISSUES:

This recommendation supports the Board's priority of a healthy community.

STAFFING IMPACT:

Staff from the Chief Executive Office, HSA and the Auditor-Controller Internal Audit Division remains dedicated to this effort.