Exhibit A

file name: mia and short doyle and uninsured losses covered by NMC 10 26 12

KEY SUPPORT BY NMC FOR THE COUNTY OF MONTEREY AND ITS PROGRAMS

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Sept YTD Annualized FY 13	All Years Totals
A **Annual losses absorbed by NMC on Short Doyle patients in NMC IP Psych unit**	(2,832,006)	(2,620,524)	(1,629,294)	(591,819)	(586,061)	(686,681)	(1,183,788)	(1,053,281)	(11,183,454)
NMC has run/administered the Section 17000 program for several decades. The MIA program.									
MIA Revenues from the County	5,318,539	6,200,000	8,200,000	6,200,000	6,200,000	6,200,000	6,200,000	6,200,000	50,718,539
Less: Outside physicians, clinics county clinics, and other hospital payments	(1,086,110)	(1,514,128)	(1,529,021)	(1,312,601)	(1,327,736)	(2,218,067)	(2,062,062)	(2,000,000)	(13,049,725)
Wholesale cost of care by NMC for IP's and OP's	(5,184,424)	(4,902,492)	(6,534,375)	(7,524,065)	(7,952,686)	(8,757,240)	(9,231,858)	(9,313,043)	(59,400,183)
Net Loss Carried by NMC attempting to assist the County on the MIA program	(951,995)	(216,620)	136,604	(2,636,666)	(3,080,422)	(4,775,307)	(5,093,920)	(5,113,043)	(21,731,369)
Total Loss on Short Doyle and MIA carried by NMC to assist the County (A)	**(3,784,001)**	**(2,837,144)**	**(1,492,690)**	**(3,228,485)**	**(3,666,483)**	**(5,461,988)**	**(6,277,708)**	**(6,166,324)**	**(32,914,823)**

Footnotes: A: The losses noted above on the Short Doyle program do not reflect the full loss NMC has born each year on the IP psych program where the county Mental Health program provides all physicians for all admits and discharges for this unit.

							4,137,938	4,200,000	
						Reimbursement %	10.26%	10.01%	
NMC's cost of care is:						Cost of Care %	22.90%	22.20%	
Separately NMC has quietly born a rapidly growing Uninsured patient population annual wholesale loss not included above. (B)	**(7,518,454)**	**(7,797,526)**	**(9,775,454)**	**(10,668,780)**	**(12,240,430)**	**(13,092,511)**	**(12,629,635)**	**(15,782,657)**	**(89,505,447)**
Grand Total of NMC Losses (A + B)	**(11,302,455)**	**(10,634,670)**	**(11,268,144)**	**(13,897,265)**	**(15,906,913)**	**(18,554,499)**	**(18,907,343)**	**(21,948,981)**	**(122,420,270)**
Less: County Subsidies	**21,000,000**	**10,000,000**	**4,000,000**						**35,000,000**
Net Profit/(Loss) Absorbed by NMC	**9,697,545**	**(634,670)**	**(7,268,144)**	**(13,897,265)**	**(15,906,913)**	**(18,554,499)**	**(18,907,343)**	**(21,948,981)**	**(87,420,270)**

Natividad MEDICAL CENTER

Administration
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Salinas, CA, 93906
831-783 2553

MEMORANDUM

DATE: October 31, 2012

TO: **The Monterey County Board of Supervisors**

FROM: Harry Weis, Chief Executive Officer, Natividad Medical Center (NMC) and Ray Bullick Director of Health, County of Monterey

SUBJECT: Further Updates on Monterey County's Contemplated Low Income Health Plan (LIHP) "Via Care" and its Medically Indigent Adult Program (MIA)

Core Attributes of Via Care a Contemplated New LIHP for Monterey County:

Beginning in 2011, NMC, the Health Department (HD) and the Department of Social and Employment Services (DSES) began to meet nearly weekly until the second quarter of calendar year 2012 on all of the operational details of a new LIHP for the County of Monterey. Then many states started to file law suits against the Affordable Care Act of March 2010 (ACA) which included law suits against early expansion of Medicaid all across America. NMC was advised to wait on the outcome of these law suits which ended up at the US Supreme Court in mid year 2012 where the ACA was upheld, to avoid starting up a program for which no funds would be forthcoming if the US Supreme Court did not uphold the ACA.

Via Care was constructed around the specific requirements of the State of California (DHS) and of the Centers for Medicare and Medicaid Services (CMS). Our proposed LIHP is for individuals 18 to 64 years of age who are legal residents of Monterey County and who have a household income level at or below 100% of the federal poverty level and who are not eligible for Medicare, or Medi-Cal.

Every LIHP in the state of CA has to shut down completely on 12/31/13 as all LIHP enrollees will automatically become Medi-Cal enrollees on 1/1/14 where CMS will pay DHS 100% of the cost of these new Medi-Cal enrollees beginning on 1/1/14. CMS is not willing to pay Monterey County prior to 1/1/14 100% of the cost of the care of LIHP enrollees.

Via Care was to have limited enrollment of 1,000 to 1,500 enrollees, maximum (on a trial basis) during the period that ends on 12/31/13 and would have a maximum annual expense budget of 12 to 14 M dollars. It is expected that a "waiting list" of hopeful individuals desiring to be enrolled in the LIHP would exist for the duration of the program. It was originally anticipated that NMC would receive "incremental" or new cash receipts of 6 to 7 M dollars (50 cents on the dollar of cost) after CMS audited and approved the cost reports of NMC for this new LIHP. New findings noted below, now create material doubt about NMC receiving the

6 to 7 M in "incremental" cash receipts from the new LIHP.

Via Care would have a medical and a mental health component in its design. Blue Shield Foundation assisted many counties, including Monterey County, in the startup planning for their LIHP's and they have informally shared we have one of the most innovative LIHP designs in the state. The LIHP's health plan content is very similar to California's Medi-Cal health plans. This LIHP would be a "closed health plan" meaning that a limited number of healthcare clinics and hospitals are available to provide care to all enrollees. These clinics are the Monterey County Health Department Clinics, the NMC Clinics, and the Mee Memorial Hospital Clinics in Greenfield and in King City. Additional specialty care referral services are available at Salinas Valley Memorial Healthcare System and at Community Hospital of the Monterey Peninsula and for their medical staff who care for Via Care patient referrals.

Via Care because it's a Medi-Cal health plan type of program, does provide Emergency Care coverage no matter where a Via Care enrollee travels in the US. This is a new material financial risk for the sponsors of Via Care.

The current DHS and CMS standard language application for the LIHP declares that all expenses of the LIHP place the General Fund of Monterey County at risk.

It is contemplated that the Central CA Alliance for Health (CCAH) would serve as the administrator of this LIHP as they have great experience in utilization review, approving claims and making claims payments in a Medi-Cal environment. A joint oversight committee made up of NMC senior leadership, the Health Department senior leadership and from DSES leadership would oversee all functions of this new LIHP.

The NMC Financial Counseling Department performs financial screenings on thousands of Monterey County residents annually as it searches for possible new Medicare, Medi-Cal, other third party payors, MIA, self pay discount, or charity care for each resident. This department would prepare all of the initial screening materials; it would send eligible applications to DSES for final review and approval per state and federal guidelines for the new LIHP. The state and federal government will audit all LIHP processes to make sure it conforms to their requirements.

MAINTENANCE OF EFFORT (MOE) REQUIREMENTS BY ALL COUNTIES FOR "REALIGNMENT" MONIES:

For multiple reasons, in the past several weeks, including the state's continuing budget deficits, the State of CA has developed a growing keen interest in the "Realignment Monies", that are paid out to all 58 counties in CA for Health services, and there is strong evidence the state will not back down on its desire to retrieve and to keep permanently some or all of these monies for multiple years into the future. These Health Realignment monies come from Sales Tax and Vehicle License Fees. In FY 10/11, Monterey County received 10.78 M dollars and in FY 11/12 it received 10.19 M dollars. This topic is an ongoing topic of grave concern at the California Association of Public Hospitals and at the County Health Executives Association of California. This is new information/action by the State of CA which needs our full attention as it's critical that Realignment monies continue to be received in Monterey County in a robust manner for many years into the future.

Monterey County is "significantly underfunded/in a deficit mode" operationally for many years now as even the current level of Health Realignment monies is not sufficient to cover the cost of applicable programs in

funding to administer the County's MIA program. So the cost of care for patients in the MIA program has decreased 10 years later by 19% and the funding from the County from Realignment and Tobacco Tax revenue sources has decreased 10 years later by 44% resulting in a loss for NMC of 5.1 M dollars in FY 12.

NMC has worked very carefully to be a good steward regarding its responsibilities in administering the County's MIA program.

The County's MIA program will need to remain in place even if there is a new LIHP for an unknown length of time after the LIHP short duration program is required to be shut down on 12/31/13. As long as there are legal residents in Monterey County who meet the MIA federal poverty guidelines and have a qualifying illness, who have no other health plan eligibility, there continues to be a strong need for a quality MIA program.

MIA is known as a "payor of last resort" after an exhaustive screening for Medicare, Medi-Cal, and any other third party payors. Even then only a small portion of the uninsured population NMC treats, qualify for the County's MIA program, as you have to be a legal resident, you have to meet the federal poverty guidelines, and you have to have a covered illness condition.

<u>It is very likely that many of NMC's historic Uninsured or MIA patients will attempt to sign up for a new LIHP.</u>

In all of FY 12, the MIA program included 9,346 "member months" (an average monthly enrollment of 779 individuals) an increase of 15% from the fiscal year before.

NMC is forecasted to treat 154,000 patient "Episodes" in FY 13 annualized across all payor types. Each "Episode" includes one or more OP visits, or one or more IP patient days.

In FY 13 annualized, NMC is forecasted to treat 35,000 patient Episodes who are Uninsured including MIA. MIA episodes in FY 13 are annualizing out at 16,000 and Uninsured Episodes are annualizing out at 19,000.

In FY 13, the NMC Uninsured Episodes have a 36% higher acuity (4002 vs. 2542) than the MIA Episodes. NMC has seen its cost of patient care grow more rapidly in its Uninsured patient category than it has in its MIA category over the past 7 years.

In the 7 years (FY 06 to FY 13) ended June 30, 2013 with FY 13 being a forecast year (see Exhibit A attached), it is estimated that NMC will lose 21.7 M dollars cumulatively administering the MIA program. NMC's cost of care is validated in its "expense to charge" ratios or "cost to charge" ratios which are common and required in healthcare cost accounting. These "expense to charge" ratios are also validated in our separate external annual audits.

NMC has lost or is forecasted to lose 5.1 M dollars/year in both FY 12 and FY 13 administering the MIA program.

NMC was happy to cover these annual MIA losses when it had the revenue streams from other sources to

the County. So any Realignment reductions would directly impact County programs. Back in 1991 when the Realignment program began in CA, Monterey County's MOE was statutorily established at 3.37 M dollars from its own local County General Fund in order to receive the state Health Realignment monies.

The application for the new LIHP in Monterey County notes a greatly increased MOE amount to roughly 13 M dollars. This large increase in MOE comes from the large and growing amount of uninsured patients NMC treats each year, and has been paying out of its own NMC revenue streams, not from the County General Fund. It is unknown what consequences would result from a re-submittal of our application to DHS with a MOE at the statutorily established 3.37 M dollars or 9.63 M dollars less than original submittal.

WHAT IS THE IMPACT TO CORE DISPROPORTIONATE SHARE (DSH) REVENUES TO NMC IF A NEW LIHP IS STARTED?

Monterey County is one of eight counties in CA out of 58 counties in the state that is known as a designated public safety net hospital county because of the presence of NMC.

All revenues, expenses and statistics of NMC and of other relevant programs are filed annually in NMC's Medicare and Medi-Cal cost reports with P 14 supplemental filings. A new LIHP for Monterey County is also required to be included fully in the P 14 Medi-Cal Cost Report for NMC.

NMC has been given new information in the past few weeks that its core DSH revenues will likely decrease further if it starts up a new LIHP. Also its core DSH revenues will increase slightly if it doesn't start the LIHP. Certified Public Expenditures (CPEs) are reported in its cost reports each year across all of NMC's expenses to operate its programs. NMC has been advised that unless all LIHP patients are entirely new patients to NMC who have never been seen before at NMC, only then will there be a reasonable probability that most of the 6 to 7 M in "incremental" cash receipts (50 cents on the dollar of CPEs) will be realized by NMC from a new LIHP. If many of the new LIHP patients are already in the category of MIA or Uninsured patients at NMC there will be little or no new "incremental" cash receipts for taking on a significant new financial risk of starting up a LIHP.

In just the last 18 months NMC has already seen its annual core DSH revenues drop from 24 M dollars to a budgeted 12 M in FY 13. This is a material negative change to core annual DSH funding which is essential for NMC to be financially viable relative to the large amount of Medi-Cal services NMC provides annually.

UPDATE ON THE MIA PROGRAM (AMENDED COUNTY RESOLUTION 03-408) ADMINISTERED BY NMC FOR THE PAST 37 YEARS:

In order to provide some context or history on the MIA program, a Board Report provided to the Monterey County Board of Supervisors on October 28, 2003, Agenda # 5-21, reported that the cost of the MIA program administered by NMC was 14 M dollars in FY 01/02 and that NMC received 11 M dollars in MIA funding from the County for FY 01/02 creating a loss for NMC of 3 M dollars in FY 01/02 relative to the MIA program.

Now 10 years later, during a decade where healthcare costs have materially increased across CA and across America, for the fiscal year ended June 30, 2012, NMC reports its total cost of running the MIA program in FY 12 to be 11.3 M dollars and it received 6.2 M dollars in Realignment and Tobacco Tax

cover these losses, but that no longer exists so it's critical that fair funding for the MIA program with NMC be established as NMC has not been paid for any MIA services since June 30, 2012. NMC's cost per discharge is also 11% below the state wide average for CA hospitals which greatly aides in minimizing the losses in caring for MIA or Uninsured patients.

Another reason NMC cannot continue to cover the large MIA losses from other revenue sources is that the loss in providing care each year for just the Uninsured, excluding MIA, has grown from 7.5 M dollars in FY 06 to 15.8 M dollars in FY 13.

In FY 13, annualized it's estimated that NMC will realize a cost of care of 27.1 M dollars for the combined MIA plus Uninsured patients and it is estimated to receive 6.2 M in reimbursement on the MIA population, leaving a loss for NMC of 20.9 M dollars in FY 13 on the total of MIA and Uninsured patients. This loss can't be shifted and covered by other revenue sources.

LIST OF POSSIBLE OPTIONS OR RECOMMENDATIONS FOR THE BOARD TO CONSIDER:

A. If there is strong support from the Board of Supervisors to continue the "start up" of a new LIHP for Monterey County, then the MOE level of approximately 13 M dollars should be lowered to 3.37 M dollars. If the DHS or CMS do not allow this change, then the LIHP shouldn't be started.

B. If there is strong support from the Board of Supervisors to continue the "startup" of a new LIHP for Monterey County, then our LIHP application should have its standard language modified as given to us by DHS and CMS to declare that "No costs associated with services to the LIHP population or CPEs generated for the LIHP shall be used as consideration for Realignment discussion or reduction(s) in subsequent years." If DHS or CMS does not allow this application language change, then the LIHP shouldn't be started.

C. If there continues to be strong support from the Board of Supervisors to continue the "start up" of a new LIHP for Monterey County after A and B above have also been approved by DHS and CMS then it is our joint recommendation that the General Fund of Monterey County contemplate how it could provide the financial backing for running the LIHP. It is estimated if the General Fund of Monterey County is to take on this new LIHP, that there may be program or staffing consequence impacts.

D. Last but not least, the Director of Health and the CEO of NMC or their designees will meet with the In Home Supportive Services workers to invite them to come to the County Clinics or the NMC Clinics for their medical care needs.

CONCLUSION:

A. NMC and the Health Department remain deeply committed to providing excellent care for all individuals whether they have third party coverage or not. We will happily treat them.

B. All CA counties that have a County hospital are providing large annual subsidies to their county hospital for their operating deficits or a new LIHP program. The average county hospital annual loss was approximately 66 M per hospital for the twelve months ended 9/30/11 per the Office of Statewide Health Planning and Development (OSHPD) information. In earlier years, the average county hospital annual operating loss has been in the 100 to 110 M range from OSHPD information. Monterey County as the

smallest county in CA with a county hospital does not have the financial ability to make these subsidies or take on the risk of loss for a new program of this type.

C. Further, we have the benefit of current and rapidly changing material information regarding the changing tactics of the state to recoup funds and to better understand the changing impact to DSH revenues in a county hospital before a "go live" of a LIHP that many other larger counties did not have. They are already locked in.

D. NMC's Net Income forecast for the future is to break even or to achieve very small Net Income performance due to material changes in Payor mix and reduced payments per Episode of care, that didn't exist 15 months ago, so NMC is unable to take on the risk of a new LIHP.

E. NMC's current Cash balance is unavailable for any new risk ventures as all present cash and future net cash flow is critically needed for equipment replacement, new critical programs and for building repairs as our present building is already over 15 years old and we are still past due on many critical capital updates.