CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION
651 Pine Street, Sixth Floor • Martinez, CA 94553-1229
e-mail: LTexe@lafco.cccounty.us
(925) 335-1094 • (925) 335-1031 FAX

December 14, 2011 (Agenda)

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Agenda Item 8

Contra Costa Local Agency Formation Commission
651 Pine Street, Sixth Floor
Martinez, CA 94553

West Contra Costa Health Care District Update

Dear Commissioners:

SUMMARY

In August 2007, LAFCO completed a comprehensive Municipal Service Review (MSR) covering healthcare services in Contra Costa County. The MSR report is available online at www.contracostalafco.org. The MSR focused primarily on the healthcare services provided by agencies under LAFCO's purview, including the West Contra Costa Health Care District (WCCHCD).

In accordance with the MSR report, LAFCO has requested annual progress reports on key issues, including the District's plans for long-term fiscal viability.

The District has provided an update (attached) and WCCHCD representatives will attend the December 14th LAFCO meeting to review provide additional information.

BACKGROUND

WCCHCD was formed in 1946 and serves an estimated population of 246,000 in the western portion of Contra Costa County, including Hercules, El Sobrante, Richmond, Richmond Heights, Kensington, Pinole, Rodeo, El Cerrito, Crockett, and San Pablo. The District owns and operates Doctors Medical Center (DMC) in San Pablo. WCCHCD is the largest of the three healthcare districts in the County, and is the only healthcare district in the County that owns and operates a hospital.

The MSR report provided any overview of district services, operations and governance, financial challenges and opportunities, and other issues as required by statute. At the time the MSR was prepared, WCCHCD had recently declared bankruptcy, and had entered into a JPA with the County to address funding issues and to keep the hospital open. The District, in conjunction with the County, had conducted a comprehensive hospital assessment and developed new business plan options that were being considered. The assessment found that DMC was much worse off financially than previously thought, and the business plan provided options that specifically addressed the long-term financial needs of the hospital.

WCCHCD receives revenue from hospital operations and property tax. Since 2004, when the District resumed operations of DMC, it has been a constant struggle to keep the hospital afloat. The District has taken measures to cut losses, close units/services not profitable, increase revenue through various contracts, and partner with the County to address its fiscal situation. However, the District continues to face fiscal challenges, and currently has approximately $32 million in total debt.

In its ongoing efforts to remain solvent, the WCCHCD submitted to its voters a proposed parcel tax (Measure J) of $47 (per residential property holder) in November 2011. The special tax was approved by the voters and is expected to generate $5.1 million.

Prior to the election, the District provided LAFCO with a progress report, which included information regarding the District's current plan for long-term sustainability, including operating performance measures; the proposed parcel tax; refinancing plan; and the District's Regional Plan Initiative.

At that time, the Commission expressed concern regarding the ongoing fiscal and operational challenges faced by the District. The Commission asked that WCCHCD provide an update following the November 2011 election, including the District's plans for going forward and ensuring that Doctors Medical Center can continue to provide necessary services.

The District has provided an update (attached) which explains the decline in external financing (i.e., changes in State and federal funding, discontinuation of funding from Kaiser and Muir) and the resulting impacts to Doctors Medical Center. The update also provides an overview of the District's plan for improved performance and liquidity. The plan is multi-faceted and includes 1) operational improvements/ expense reductions; 2) collaboration with County Health Services and others to achieve economies of scale; 3) parcel tax increase; and 4) aggressive payer contract negotiations.

The District realizes that a new model for care is necessary to ensure continued future viability of the hospital and to address the changing landscape of healthcare services. The plan will focus on the development of a long-term strategy to refine the business and delivery system models for the District. Representatives from the District will attend the LAFCO meeting on December 14th to provide additional information and respond to questions.

RECOMMENDATION

Receive the WCCHCD progress report, and provide input and direction as desired.

Sincerely,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment – LAFCO Update from West Contra Costa Health Care District – December 2011

WEST CONTRA COSTA HEALTHCARE DISTRICT

DOCTORS MEDICAL CENTER – SAN PABLO

UPDATE TO LAFCO

DECEMBER 2011

Background:

It is widely recognized that Doctors Medical Center – San Pablo (DMC) is a safety net hospital, one of only two facilities in the County contracted with the State to provide care to the Medi-Cal population. DMC has historically experienced negative cash flow and operating losses - the direct result of the nature of the population served: the elderly and indigent. In 2010, more than 86% of DMC's patients were government pay or uninsured.

None of these payers reimburse the full cost of providing care. Other hospitals offset these losses by charging more to commercial/HMO payers – essentially cost shifting. DMC does not have a sufficient volume of HMO patients to close the gap – and it is not practical to believe that sufficient HMO volume will be realized in the near future. Instead, the gap has most recently been closed through special financing provided by the State and Federal governments, and with grants from other area providers. In 2008 and 2009, this outside funding totaled approximately $17 million annually. In 2010, that amount fell to less than $10 million with changes in the funding approach at the State and Federal levels. In 2011 these changes were formalized with the passage of legislation governing the distribution of special or extraordinary funds, and funding from the state to the District dropped from $12 million annually to a projected $1.2 million annually. At the same time, the funding from Kaiser and Muir came to an end. Combined, these changes resulted in a 93% decline in external support.

With this decline in external financing, the District and other providers moved quickly to 1) assess the community impact of the closure of the Hospital and 2) develop a plan to replace/reduce the need for outside support and therefore avoid a closure.

Impact of DMC Closure:

Contra Costa EMS Agency commissioned an independent analysis of the impact of a potential closure or downsizing of the Hospital. That study found:

- The loss would be catastrophic to West Contra Costa County
- Closure would have a substantial, harmful effect on local healthcare providers and to the general public in West Contra Costa County
- The other hospital in the region, Kaiser in Richmond, would be inundated by new patient volume and West County ED waiting times will likely reach 10-12 hours
- The region already does not have enough ED treatment rooms or Intensive Care beds (even with the Hospital open today). The current shortage would become significantly worse.

- Additional ambulance hours needed to maintain current EMS performance would cost $2.5M annually and critical infrastructure would be eliminated to support a disaster

Plan for Improved Performance/Liquidity:

With the need for continued operations clear, the District completed its plan to address the loss of nearly $16 million in funding. This plan includes:

- Operational improvements/expense reduction initiatives: The District's 2012 budget includes a reduction in expenses of more than million on a normalized basis (before inflation). These reductions include, but are not limited to:
  - Elimination of 40+ positions (including salary and benefit cost savings)
  - Changes to employee health benefits plan, including increase in employee contributions to coverage
  - Select vendor contract renegotiation and/or elimination
  - Expansion of 340b pharmacy purchasing program
  - Change in employee staffing patterns to reduce employee call-coverage payment
- Collaboration with County Health Services and others to gain economies of scale: Through collaboration with other providers, including the County, John Muir Health and Kaiser Permanente, a goal of $6 million in operating improvement has been targeted. Such saving will come from a number of initiatives, including:
  - Participation in VHA/Novation's Western Purchasing Coalition, along with John Muir Health and several other hospitals
  - Shared physician call coverage
  - Clinical program Integration
- Parcel tax increase: On November 15 the West Contra Costa County voters overwhelmingly approved a new parcel tax that will generate $5.1 million per year in additional tax funding. This measure passed with nearly seventy-four percent (74%) voter approval.
- Aggressive payer contract negotiations: The District has been able to achieve rate increases above normal inflation rates for most of its commercial payers, many resulting in rate increases in excess of 10%. In addition, it received over a 20% rate increase from its largest Managed Medi-Cal payer.

Despite these measures, the negative cash flow will continue, although at a significantly reduced level. As a result, on November 16th the Governing Body also approved the issuance of Certificates of Participation, providing significant additional funding to support operations for the next 2+ years.

While each of these initiatives provides for more secured liquidity in the future, the District realizes that a new model for care is necessary to ensure continued future viability and to address the changing landscape as a result of Federal healthcare reform. As a result, a collaborative committee including the County Health Services, Kaiser, John Muir Health, the Hospital Counsel, Alameda Contra Costa Medical Association and the Board, management and medical staff of the District came together in July 2011 to initiate a planning process focused on the development of a long term strategy to redefine the business and delivery system models for the District. In doing so, the goal was to provide a model that continues to meet the healthcare needs of area residents in a financially sustainable fashion. The specific objectives outlined at the beginning of the project included:

- Investigate multiple options for the provision of care in West County;
- Evaluate the impact of each option on healthcare access for local residents;
- Understand the impact of each option on other area providers; and
- Develop options that are feasible and sustainable.

The committee reviewed a number of potential models. In each instance, they evaluated the impact on healthcare access for local residents and the impact on other area providers. Options evaluated included:

- Conversion to/creation of:
    - a free standing emergency department, with and without additional ancillary services (including cancer services)
    - an urgent care center, with and without additional ancillary services (including cancer services)
    - a smaller hospital footprint: 50, 75, 100 beds
- Creation of a management agreement with other provider(s) to gain efficiencies and economies of scale
- Construction of a new hospital in an alternate location, combined with management agreement and shared services with other providers (see above):
    - In a northern area of the District
    - In San Pablo adjacent to the new County Health Clinic – shared ancillary services, urgent care, etc
    - Others
- Construction of a new facility with limited number of beds (approximately 14) in San Pablo adjacent to the new County Health Clinic, shared ancillary services, urgent care, etc. Inpatients transferred to receiving hospitals in the County
- Merger of DMC with other area providers, including those participating in this planning process, or sale to another area provider and national/regional party.

The above models warrant exploring in more detail. Beginning in early 2012, the District will initiate a more robust planning process to further investigate each of these outlined options.