



# County of Santa Cruz

0233

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## HEALTH SERVICES AGENCY

P.O. BOX 962, 1080 EMLINE AVENUE  
SANTA CRUZ, CA 95061  
(831) 454-4066 FAX: (831) 454-4770

HEALTH SERVICES AGENCY  
ADMINISTRATION

November 6, 2001

**AGENDA: November 20, 2001**

BOARD OF SUPERVISORS  
County of Santa Cruz  
701 Ocean Street  
Santa Cruz, CA 95060

**SUBJECT: REPORT BACK ON STATE RATE CHANGES & IMPACTS ON  
COMMUNITY CLINICS & MEDICRUZ AND RELATED ACTIONS**

Dear Members of the Board:

**Background:**

During the 2001-02 budget hearings, the Health Services Agency (HSA) shared new information with your Board from the State Department of Health Services (DHS), notifying Counties and community clinics that they intended to change the reimbursement program for Federally Qualified Health Centers (FQHCs) from cost reimbursement to fixed rates based on the average of two years of prior cost reports. The County Clinics became a Medical FQHC in 1988 after the County was awarded a federal grant for health care services to the homeless. This status allowed for full cost recovery of all services needed for the Medical population served by the County Clinics in partnership with the Homeless Persons Health Project and the County Mental Health Program. Due to FQHC reimbursement, the Clinics enjoyed a long period of stability in reimbursement and operations. This FQHC reimbursement structure also allowed Medicruz to pay less of the Clinics operation costs for indigent care thus benefiting the Medicruz program.

The FQHC change was unexpected for this fiscal year. The State had previously absorbed the rate changes from a variety of federal adjustments to the FQHC program and had minimized changes to this safety net program. DHS had indicated they would move to these new rates but it was anticipated for the budget beginning July 2002, not retroactively. Due to a number of legal and fiscal issues, DHS proceeded to implement this fiscal year. The budget approved by your Board in June did not adjust for lower FQHC rates. On October 23rd, 2001 the State officially notified Santa Cruz County of the new rate options for clinic medical services to persons with Medical (Attachment I). The new rates are retroactive to July 1, 2001, and are also approximately \$125 per visit less than current expenditures. The FQHC Medical program includes clinic medical

services, lab services, pharmacy services, and psychiatric services. It is a bundled rate which includes and averages all of these costs.

#### Recommended Approach to HSA Budget Shortfall:

The impact of the rate reduction on this year's HSA budget is a loss of \$967,418. This estimate assumes stable levels of service units and payor mix. The majority of the impacts of the rate reduction fall on the clinics and pharmacy. The losses to clinics are \$885,998. The balance of the loss falls on Mental Health. Mental Health is confident the program can manage this level of reduction with reorganizing its services to increase FQHC productivity. The Clinics will not be able to make changes rapidly enough to fully absorb the \$885,998 reduction during this fiscal year. The County Administrative Office and HSA anticipated future problems with FQHC financing. In the prior year's budget HSA and the County Administrative Office recommended to your Board that funds be set aside from a favorable FQHC audit settlement in a contingency account. To have more time to make structural changes to the Clinic and Medicruz services, it is recommended that half of the shortfall for this fiscal year be appropriated from this contingency account. The balance of the reductions would be addressed through service reductions and, if possible, revenue increases.

It is important that Clinic and Medicruz staff with support from HSA Administration take time to carefully develop strategies that are realistic but that continue to make available as much service to Santa Cruz County residents as possible. HSA has been working on a number of interim actions to bring costs down including changes in the pharmacy program and formulary, prioritizing clinic access for urgent and life threatening conditions, reducing services which are readily available through other community clinics with state funds such as family planning, renegotiating contracts and rates, and evaluating eligibility for other programs and health coverage more aggressively to try to reduce costs to the uninsured budget.

As shared with your Board in budget hearings, controlling pharmacy costs has been a significant and serious problem for the County clinics as well as for the Alliance and other health providers. Pharmacy costs have been inflating at approximately 16%-18% per year but the new FQHC rate will only inflate at approximately 2.6% or less per year per the new State rate formula. HSA has been studying ways to deal with this new shortfall and is considering billing changes, formulary reductions, co-payments, targeting pharmacy costs for treatment of serious illnesses and limits on the number of prescriptions per month covered through the County. Now that the State has notified the County of the new rate, administrative changes will be implemented to reduce the level of inflation for this expanding area of health utilization.

#### Long Term Recommendations:

For a long-term solution with these reduced levels of reimbursement, HSA recommends consultation with community health stakeholders and providers. The primary mission of the services of HSA is oriented towards public health protection in the area of communicable diseases and health issues that threaten the community. In light of the lower level of funding, a community discussion of the priorities of the Health Department relative to other health programs seems appropriate. Through this type of process, HSA can make better recommendations to your Board on program changes.

Obviously planning processes to change services must also take into account State and Federal funding changes that should be more fully understood in Spring of 2002 when

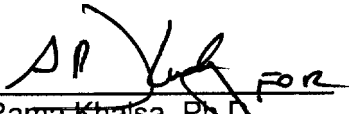
the State releases its preliminary budget in addition to impacts upon HSA funding as a<sup>0235</sup> result of the possible repeal of the County's utility tax. All of these factors should be considered in re-structuring the programs of HSA. It is therefore recommended that a report be developed for April for your Board consideration on these matters.

Fortunately, this fall your Board authorized HSA to contract with specialists to provide a full assessment of the finances and services of the clinics and consultation to improve the stability and future of these important programs. The consulting group will make its report in early 2002. Recommendations from that report should be helpful in making good decisions on the financial stability of the programs and improvements in service efficiency. These recommendations will be incorporated into the report to your Board.

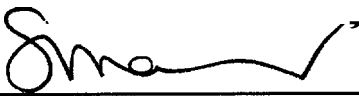
It is, therefore, RECOMMENDED that your Board:

1. Accept and file this report on FQHC Medical rate impacts; and
2. Direct the Health Services Agency to take steps to address the budget shortfall; and
3. Adopt the attached resolution canceling estimated revenues and appropriations in the amount of \$475,000 from the Clinics budget; and
4. Direct the Health Services Agency to report back on April 9<sup>th</sup> on long-term recommendations for health services changes.

Sincerely,

  
\_\_\_\_\_  
Rama Khalsa, Ph.D.  
Health Services Administrator

RECOMMENDED

  
\_\_\_\_\_  
Susan A. Mauriello  
County Administrative Officer

Attachment: Resolution  
State letter on FQHC rates

RK/jde

cc. County Administrative Office  
County Counsel  
Auditor-Controller  
HSA Administration  
Public Health Commission  
Central Coast Alliance for Health

BEFORE THE BOARD OF SUPERVISORS  
OF THE COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA

0236

RESOLUTION NO. \_\_\_\_\_

On the motion of Supervisor \_\_\_\_\_  
duly seconded by Supervisor \_\_\_\_\_  
the following resolution is adopted:

**RESOLUTION CANCELING ESTIMATED REVENUES AND APPROPRIATIONS**

WHEREAS, the Board of Supervisors of the County of Santa Cruz adopted by resolution certain estimated revenues and appropriations for the final budget; and

WHEREAS, certain of the estimated revenues will now not be realized; and

WHEREAS, pursuant to Government Code Section 29126.1, the Board of Supervisors may cancel any unused appropriation in whole or in part upon determining that the source of funding will be unrealized in whole or in part;

NCW, THEREFORE, BE IT RESOLVED AND ORDERED that the Auditor-Controller cancel estimated revenues in the amount of \$ 475,000 in

Department Health Services Agency

<u>T/C</u>	<u>Index Number</u>	<u>Revenue Subobject Number</u>	<u>Account Name</u>	<u>Amount</u>
002	361210	1674	Outpatient and Clinic Fees	320,000
002	361310	1674	Outpatient and Clinic Fees	155,000

and that appropriation be cancelled as follows:

<u>T/C</u>	<u>Index Number</u>	<u>Expenditure Subobject Number</u>	<u>PRJ/UCD</u>	<u>Account Name</u>	<u>Amount</u>
002	131375	9695		Approp. for contingencies	475,000

DEPARTMENT HEAD I hereby certify that the fiscal provisions have been researched and are sufficient to allow entering in the County records.

By   
Department Head

Date 11/14/11

COUNTY ADMINISTRATIVE OFFICER      Recommended to Board  
    Not Recommended to Board

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PASSED AND ADOPTED by the Board of Supervisors of the County of Santa Cruz,  
State of California, this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_\_  
by the following vote (requires three-fifths vote for approval):

AYES:            SUPERVISORS  
NOES :           SUPERVISORS  
ABSENT :        SUPERVISORS

\_\_\_\_\_  
Chairperson of the Board

ATTEST :

\_\_\_\_\_  
Clerk of the Board

APPROVED AS TO FORM:

*Ralu Garcia*  
\_\_\_\_\_  
County Counsel

APPROVED AS TO ACCOUNTING DETAIL:

\_\_\_\_\_  
Auditor-Controller

Distribution:

- Auditor-Controller
- county Council
- County Administrative Officer
- Originating Department

**DEPARTMENT OF HEALTH SERVICES**

591 NORTH 7<sup>TH</sup> STREET  
 P.O. BOX 942732  
 SACRAMENTO, CA 94234-7320  
 (916) 324-9264



0238

October 12, 2001

County of Santa Cruz Health Services  
 P.O. Box 962  
 Santa Cruz, CA, 95061

Dear Sir or Madam:

Facility name: Santa Cruz Health Center  
 Provider Number: FHC70042F  
 Fiscal Year: July 1, 1999, through June 30, 2000

Recently enacted federal legislation repealed the reasonable cost-based reimbursement requirements for services rendered to Medicaid beneficiaries by Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) and is requiring instead a payment for such services consistent with a new prospective payment system effective January 1, 2001.

**Federally Mandated Prospective Payment System (Box 1 on Attachment)**

Under this new federally mandated payment system, states are required to implement a prospective payment system calculating a base rate (on a per visit basis) for each FQHC and RHC using the average of the reported costs as determined from your fiscal year 1999 and 2000 annual cost reports. This base rate is adjusted annually, on a compounded basis, by the percentage increase in the Medicare Economic Index (MEI) and is listed below.

**Alternative Prospective Payment System (Box 2 on Attachment)**

The Federal legislation also provided states the option to implement an alternative payment methodology. The State of California has chosen this option and will be establishing base rates (on a per visit basis) using as reported cost-based rates for fiscal year 2000, updated to reflect increases in the MEI. This rate is also listed below.

**Choosing a Prospective Payment System**

Your facility is required to elect reimbursement through either the Federally mandated prospective payment system or the alternative prospective payment system described in the preceding paragraph. Rates (on a per-visit basis) specific to your facility through September 30, 2002, under both systems are as follows.

OCT 23 2001

RECEIVED



**Federally Mandated Prospective Pavment System Rates**

January 1, 2001, through September 30,2001 \$265.22

October 1, 2001 , through September 30,2002 \$270.78

**Alternative Prospective Pavment System Rates**

January 1, 2001 , through June 30,2001 \$270.49

July 1, 2001, through September 30,2002 \$275.46

Regardless of which payment system chosen, conversion to prospective payment reimbursement will take effect on July 1, 2001. If you would like to convert to the federally mandated prospective payment system, please check box number 1 on the enclosed sheet. If you would like to convert to the alternative prospective payment system, please check box number 2 on the enclosed sheet.

If you do not select one of the above payment system rates within 30 days of this letter, your prospective payment system will automatically default to the federally mandated payment system rate.

**Option to Receive Reimbursement Retroactive to January 1,2001**

You also have the option to receive reimbursement under either prospective payment system retroactive to January 1, 2001 by accepting one of the above prospective payments rates. Otherwise, you can continue to receive cost-based reimbursement until June 30, 2001.

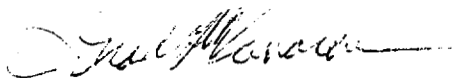
If you select one of the above prospective payment rates effective January 1, 2001 ,you will have to file a year end cost report, but you will only have to cost settle until December 31 , 2000 . If, however, you choose not to receive retroactive reimbursement under either prospective payment system and to remain under the current cost-based reimbursement process through June 30,2001 , and begin prospective payment reimbursement on July 1, 2001, you will have to file a yearly cost report and cost settled for the entire fiscal year.

If you do not indicate to the Department within 30 days of this letter when you want to receive your prospective payment reimbursement rate, your facility will, by default, receive reimbursement under the federally mandated prospective payment system retroactive to January 1, 2001.

Although conversion to prospective payment reimbursement will take effect for your facility no later than July 1, 2001, claims will not be paid at the rate applicable to your chosen prospective payment system until such time that the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) has approved the Department's State Plan Amendment regarding prospective payment reimbursement for FQHCs and RHCs. Regardless of the date when approval is granted, the rate applicable to your chosen system will be applied retroactively to July 1, 2001.

If you should have any questions regarding the development of the rates provided in this letter, please contact Mr. Grant Gassman at (916) 654-2932. If you have questions regarding the cost report or the cost settlement process, please contact Ms. Donna Shine at (916) 324-9658.

Sincerely,



Frank Vanacore  
Acting Chief  
Financial Audits Branch

Enclosure



**Santa Cruz Health Center**  
 County of Santa Cruz Health Services  
 P.O. Box 962  
 Santa Cruz, CA 95061  
 Provider Number FHC70042F

Please select one rate by checking the box next to the rate.

Box 1 (BIPA)

January 1, 2001 through September 30, 2001 \$265.22

October 1, 2001 through September 30, 2002 \$270.78

**OR**

Box 2 (Alternative)

January 1, 2001 through June 30, 2001 \$270.49

July 1, 2001 through September 30, 2002 \$275.46

Please select one effective date.

January 1, 2001

July 1, 2001

Please Return To: Department of Health Services  
 Audits and Investigations Division  
 Audit Review and Analysis Section  
 Attn: Donna Shine  
 591 North Seventh Street  
 P.O. Box 942732  
 Sacramento, CA 94234-7320



**DEPARTMENT OF HEALTH SERVICES**

591 NORTH 7<sup>TH</sup> STREET  
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 (916) 324-9264



0242

October 12, 2001

County of Santa Cruz Health Services  
 P.O. Box 962  
 Santa Cruz, CA, 95061

Dear Sir or Madam:

Facility name: Watsonville Health Center  
 Provider Number: FHC70044F  
 Fiscal Year: July 1, 1999, through June 30, 2000

Recently enacted federal legislation repealed the reasonable cost-based reimbursement requirements for services rendered to Medicaid beneficiaries by Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) and is requiring instead a payment for such services consistent with a new prospective payment system effective January 1, 2001.

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**Alternative Prospective Payment System (Box 2 on Attachment)**

The Federal legislation also provided states the option to implement an alternative payment methodology. The State of California has chosen this option and will be establishing base rates (on a per visit basis) using as reported cost-based rates for fiscal year 2000, updated to reflect increases in the MEI. This rate is also listed below.

**Choosing a Prospective Payment System**

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Page 2  
October 12, 2001

**Federally Mandated Prospective Payment System Rates**

January 1, 2001, through September 30, 2001    \$265.22

October 1, 2001, through September 30, 2002    \$270.78

**Alternative Prospective Payment System Rates**

January 1, 2001, through June 30, 2001            \$270.49

July 1, 2001, through September 30, 2002        \$275.46

Regardless of which payment system chosen, conversion to prospective payment reimbursement will take effect on July 1, 2001. If you would like to convert to the federally mandated prospective payment system, please check box number 1 on the enclosed sheet. If you would like to convert to the alternative prospective payment system, please check box number 2 on the enclosed sheet.

If you do not select one of the above payment system rates within 30 days of this letter, your prospective payment system will automatically default to the federally mandated payment system rate.

**Option to Receive Reimbursement Retroactive to January 1, 2001**

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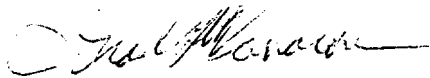
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Although conversion to prospective payment reimbursement will take effect for your facility no later than July 1, 2001, claims will not be paid at the rate applicable to your chosen prospective payment system until such time that the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) has approved the Department's State Plan Amendment regarding prospective payment reimbursement for FQHCs and RHCs. Regardless of the date when approval is granted, the rate applicable to your chosen system will be applied retroactively to July 1, 2001.

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Sincerely,



Frank Vanacore  
Acting Chief  
Financial Audits Branch

Enclosure

**Watsonville Health Center**  
County of Santa Cruz Health Services  
P.O. Box 962  
Santa Cruz, CA 95061  
Provider Number FHC70044F

0245

Please select one rate by checking the box next to the rate.

Box 1 (BIPA)

January 1, 2001 through September 30, 2001 \$265.22

October 1, 2001 through September 30, 2002 \$270.78

**OR**

Box 2 (Alternative)

January 1, 2001 through June 30, 2001 \$270.49

July 1, 2001 through September 30, 2002 \$275.46

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Please select one effective date.

January 1, 2001

July 1, 2001

Please Return To: Department of Health Services  
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