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# County of Santa Cruz

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## HEALTH SERVICES AGENCY

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### HEALTH SERVICES AGENCY ADMINISTRATION

March 30, 2002

**AGENDA: April 9, 2002**

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:**

On November 20<sup>th</sup>, 2001 the Health Services reported on the impacts of a significant and unexpected federal rate reduction to the County FQHC clinics and took related actions. In October 2001 the State Department of Health Services (DHS), notified 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 rate reduction was unexpected for this fiscal year. The new rates were 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. The impact of this reduction was \$964,418 on the county clinics. Your Board approved a one-time transfer of \$475,000 to the clinics program to allow for time to reduce services in an orderly way.

### Short-term Activities to Improve Clinic Finances:

Clinic and Medicruz staff have been working intensively to identify mechanisms to reduce costs and improve revenues. These activities have included: (1) Changes in the Pharmacy program and services; (2) Improvements in obtaining health insurance benefits and options for clients who are currently uninsured; (3) Evaluating new clinic computer software for billing and care management; and (4) Obtaining professional consultation related to clinic efficiency and productivity.

Pharmacy: Since pharmaceutical cost increases have been a significant problem related to the budget, a two dollar co-payment was instituted in January of 2002 and over the counter medications were no longer provided for free to clinic patients. In addition, a review of the formulary and prescribing patterns of the clinics is in process to identify any areas where less expensive medications could be used with the same or better clinical outcomes. The other area of effort in reducing drug costs is the evaluation of programs and services for indigents provided by the pharmacy companies. There are a number of these programs being considered at this time. Some require software for doing the required applications of the different companies, tracking these applications and distribution of the medication to clients when they arrive. These drugs require special handling according to the California State Board of Pharmacy. Clinic managers are evaluating the associated administrative systems needed to utilize these free or low cost drug programs.

Health Benefits and Services: Currently the Clinics provide approximately 30% of their services to individuals with Medical and the majority of the remaining clients are uninsured. While the Medicruz budget provides an allocation to Clinics for these patients, the costs of their services significantly exceed the allocation. In order to improve both the Clinics and Medicruz budgets, the current systems for identifying and enrolling patients in Medical, Healthy Families and Veteran's Health Services are being re-evaluated. A social security disability advocate was recently added to the benefits screening staff for Clinics and Medicruz. A new Health Benefits Policy Committee has been formed with HRA to discuss and evaluate ways to expand eligibility for the uninsured patients presenting for care. This committee will redesign the applications process for Medicruz and integrate it into the Medicruz application. With support from HRA, there have been a number of very valuable trainings for case managers and eligibility staff in HSA on the new 3 page MediCal/Healthy Families application. HRA also developed an electronic format for this application to make it easier for staff to do with clients in the community on laptops. Medicruz staff will also begin screening for military service to identify individuals eligible to utilize Veteran's Administration (VA) health services in Capitola, San Jose, and Palo Alto. Finally, the Health Services Agency with other partners has continued to pursue grants to expand health insurance enrollment. If existing patients can obtain benefits, this will significantly improve the financial stability of both Clinics and Medicruz.

Compute Software Enhancements: As approved in the budget, Clinics administration has been evaluating new software for billing, practice management, and medical records. The current software was purchased in 1983 and has many limitations that impact efficiency, revenues, clinic productivity, and care management. The selection process is in a final stage (reference checks and getting bids for customization) prior to bringing a recommendation to your Board. Due to the complexity of health billing systems and care management, the software enhancements can improve the services

and financial position of clinics. HSA is also working with other community clinics to partner on this software.

Evaluation of Clinics Systems: Consultation and evaluation of the Clinic systems and finances was sought through ECG Management Consultants as a way to improve both services and finances. These health consultants work with both public and private health providers to improve care, billing, and efficiency of health services. This report will arrive in the next two weeks. HSA staff will evaluate it and proceed with implementation of recommendations that improve care, maximize new revenues and reduce costs as soon as possible. Some of these changes will, no doubt, be included in recommendations to your Board as part of the budget process.

In light of the State budget crisis and the loss the utilities tax revenues, it is anticipated that major program restructuring will be required to maintain the most critical health services as part of Medicruz and County clinics.

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 at budget hearings.

Obviously planning processes to change services must also take into account State and Federal funding changes that should be more fully understood later in 2002 when the State approves its budget and makes anticipated adjustments after the election. Meetings with health stakeholders are continuing. Their input will be part of the solutions proposed to your Board.

It is, therefore, RECOMMENDED that your Board:

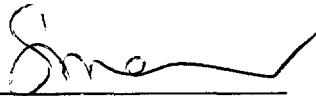
1. Accept and file this report on Clinic and Medicruz finances; and
2. Direct the Health Services Agency to report back in budget hearings with recommendations for health services program and finance changes.

Sincerely,



Rama Khalsa, Ph.D.  
Health Services Administrator

RECOMMENDED



Susan A. Mauriello  
County Administrative Officer

RK/jde

cc. County Administrative Office  
County Counsel  
Auditor-Controller  
HSA Administration  
Public Health Commission  
Central Coast Alliance for Health  
EMCC  
HRA Administration/Claudine Wildman  
LMHB