



# County of Santa Cruz

0123

---

## 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  
August 21, 2002

**AGENDA: September 10, 2002**

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

### **RE: MEDICARE REIMBURSEMENT TO LOCAL PHYSICIANS**

Dear Members of the Board:

On May 7, 2002, your Board considered a report on hospital emergency rooms and related matters. During that session you heard testimony from county staff and community providers of medical services regarding the Medicare physician fee schedule, and how that fee schedule adversely impacts local physicians and results in a major barrier to the recruitment efforts of our county's hospitals and medical groups. Your Board directed the Health Services Agency (HSA) to work with the hospitals and the medical society on changing the Medicare regional designation and report back on options. This letter is meant to provide you with an update of efforts to date, and to recommend that your Board communicate your concern about this issue to the U.S. Congress by authorizing Chairperson Beautz to send the attached letter to the Chairperson of the House Ways and Means Health Subcommittee.

Since May, HSA staff has developed an understanding of how Medicare developed the fee schedule. The flawed methodology used by Medicare and the resultant inequity for Santa Cruz County providers (as well as those in Sonoma and Santa Barbara Counties) are presented in the attached letter. We have discussed the issues involved with Catholic Healthcare West, Sutter Health, our hospitals, medical groups, the medical society, and state and federal policy makers. We will continue to do so. We will be discussing the issue with the California Medical Association, and with representatives of health care systems and provider organizations in Sonoma and Santa Barbara, and perhaps other Counties. At this time, it appears that the most viable immediate option is to appeal to Congress for a more fair application of the methodology used by Medicare to establish physician fee schedules that equitably reflect the cost of practice. The House Ways and Means Subcommittee on Health has held a series of hearings on the Medicare physician fee schedule, and we are informed that they will resume those hearings in the fall. If your Board agrees with the HSA recommendation to write the chairperson of the subcommittee at this time, we will resubmit the letter in the form of written testimony when they resume hearings. It is possible that the hearings could result in an administrative remedy to the situation.

There may be other options available. We will continue to work with the organizations mentioned above to develop a list of other options or opportunities to correct the problem. We will keep your Board informed of our progress.

It is, therefore, RECOMMENDED that your Board:

1. Accept and file this report; and
2. Authorize the chairperson to send the attached letter to the U.S. Congress on behalf of the Board of Supervisors.

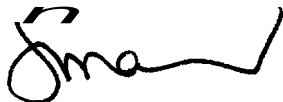
Sincerely,



Rama Khalsa  
Health Services Agency Director

Attachment

RECOMMENDED



---

Susan A. Mauriello  
County Administrative Officer

cc: County Administrative Officer  
Auditor-Controller  
County Counsel  
HSA Administration

**California Locality/County Geographic Adjustment Factors\*****Locality 99**

<b><u>Counties</u></b>	<b><u>GAF</u></b>
<b>Santa Cruz</b>	<b>1.087</b>
<b>Sonoma</b>	<b>1.077</b>
<b>Santa Barbara</b>	<b>1.065</b>
San Diego	1.052
Sacramento	1.037
San Luis Obispo	1.034
Monterey	1.030
San Bernardino	1.026
Riverside	1.016
San Joaquin	1.010
Placer	1.010
El Dorado	1.004
Yolo	1.001
San Benito	0.999
Mono	0.995
Kern	0.994
Stanislaus	0.988
Nevada	0.986
Mendocino	0.973
Madera	0.972
Fresno	0.972
Amador	0.972
Tuoleme	0.971
Tulare	0.967
Shasta	0.966
Merced	0.966
Butte	0.966
Lake	0.965
Humboldt	0.963
Calaveras	0.963
Del Norte	0.963
Sutter	0.960
Yuba	0.960
Inyo	0.959
Imperial	0.958
Mariposa	0.956
Alpine	0.953
Kings	0.952
Sierra	0.950
Lassen	0.948
Modoc	0.946
Plumas	0.946
Colusa	0.946
Glenn	0.946
Siskiyou	0.946
Tehama	0.946
Trinity	0.946

\*Locality GAFs adjusted for budget neutrality by 0.9953

**SO**

## CALIFORNIA LOCALITY/COUNTY GEOGRAPHIC ADJUSTMENT FACTORS\*

**Locality 26 (Anaheim/Santa Ana; GAF = 1.097)**

<u>Counties</u>	<u>GAF</u>
Orange	1.102

**Locality 18 (Los Angeles; GAF = 1.088)**

<u>Counties</u>	<u>GAF</u>
Los Angeles	1.093

**Locality 03 (Marin/Napa/Solano; GAF=1.104)**

<u>Counties</u>	<u>GAF</u>
Marin	1.186
Napa	1.055
Solano	1.056

**Locality 07 (Oakland/Berkeley; GAF = 1.113)**

<u>Counties</u>	<u>GAF</u>
Alameda	1.118
Contra Costa	1.118

**Locality 05 (San Francisco; GAF = 1.221)**

<u>Counties</u>	<u>GAF</u>
San Francisco	1.227

**Locality 06 (San Mateo; GAF = 1.199)**

<u>Counties</u>	<u>GAF</u>
San Mateo	1.205

**Locality 09 (Santa Clara; GAF=1.184)**

<u>Counties</u>	<u>GAF</u>
Santa Clara	1.190

**Locality 17 (Ventura; GAF = 1.062)**

<u>Counties</u>	<u>GAF</u>
Ventura	1.067

\* Locality GAFs adjusted for budget neutrality by 0.9953

Congresswoman Nancy Johnson  
Chairwoman, Ways and Means Health Subcommittee  
2113 Rayburn House Office Building  
Washington, DC 20515-6349

Dear Chairperson Johnson:

I am writing on behalf of the Board of Supervisors and the residents of Santa Cruz County, California regarding the geographic cost adjustments in the Medicare Physician Fee Schedule. The fee schedule adversely affects not only the providers of medical care in our community, but has also been a major contributing factor to a crisis of stability of our health care system which affects all county residents.

I would like to focus on a particularly troubling aspect of the physician fee schedule that unfairly impacts physicians in Santa Cruz County. The problem stems from the methodology used in 1997 to create new payment "localities." Each locality includes one or more counties within a state. Each locality has a unique geographic adjustment factor (GAF) that reflects the relative resource cost differences among all localities. The GAF is a composite number, developed from the geographic practice cost indices. It is reflective of the cost of practicing medicine in the locality: the higher the GAF, the more costly it is to practice. This factor is applied to the base rate to determine the adjusted

rate to be paid to physicians in the respective locality. The theory is that the physician fee schedule should reflect the cost of practicing medicine in the area.

The 1997 methodology established unique localities in areas where costs were at least 5 percent higher than the combined average costs of all lower cost localities in the state. The rest of the localities in the state – those under the 5 percent threshold - were combined into a single rest-of-state locality because it was assumed their costs were relatively homogeneous. These rest-of-state localities are known as “Locality 99.”

The major flaw in this methodology is that Medicare did not look at the relative cost difference in each county. Instead, it used multiple county groupings established in 1967 for Medicare’s old reasonable charge based physician payment system. The current localities in California were established by comparing costs in the previously existing localities, not by comparing individual county costs.

The result of this is that Santa Cruz County, with cost differences that clearly exceed the 5 percent threshold was unfairly placed in Locality 99. If Medicare had used individual counties instead of the old “charge based localities”, our county would be grouped in a more appropriate locality, or in a new unique locality, and not grouped into Locality 99. The flawed methodology placed Santa Cruz, with a GAF of 1.087 (7.7% above the base rest-of-California GAF of 1.010) in a grouping with Monterey County (GAF of 1.030) and San Benito County (GAF of 0.999). The average costs within this “charge based localities” grouping do not exceed the 5 percent threshold, and Santa Cruz was combined with California’s rest-of-state locality, Locality 99. (Two other counties, Sonoma and Santa Barbara, were also grouped with lower cost counties, and unfairly placed in Locality 99.)

The cost of practicing medicine in Santa Cruz County is high. The cost is reflected in a GAF of 1.087. This is higher than the GAF of 1.067 in Ventura County, and that county is in a unique locality. Costs of practicing medicine in Santa Cruz County are approximately equal to the costs of practicing in Los Angeles County (GAF of 1.093), which is also in a unique locality. The high cost of practicing medicine here is not reflected in the Medicare physician fee schedule, and that is not fair, or in keeping with the stated purpose of establishing a cost-based system of reimbursement. The inequity is compounded by the fact that many other payers of health care services tie their fee schedule to that of Medicare.

This issue is of concern to our Board of Supervisors and to our entire community. The low rate of reimbursement compared to the cost of practice has been a major obstacle to physician recruitment efforts by our community's health care system. As many of our community's physicians near or reach retirement age, it is imperative that our community be able to attract new physicians. We are not able to do that. In 1989, at the time of our last major earthquake, there were thirteen general surgeons sharing call at our largest hospital. Today, there are four. Similar shortages are occurring in many specialty areas, and in primary care as well. If we were to experience another disaster, whether natural or manmade, our medical system could not respond. It can barely respond to the daily needs of our residents. Our hospitals are having difficulty providing a full spectrum of specialty on-call services, and our residents face the prospect of having to be transported or travel great distances for necessary medical services.

When we discuss this issue with our elected officials, or with Medicare officials, we are told the same thing: our argument is valid, but nothing can be done to remedy the

situation. In order for Santa Cruz County to be moved to a more appropriate adjacent locality (for example Locality 09 with Santa Clara County, or Locality 06 with San Mateo County), or for Santa Cruz to be assigned a unique Locality, Medicare requires that the move must be agreed to by physicians in the new locality and physicians in the area from which we would be moved. Under the budget neutrality provisions of the enabling physician fee schedule statute, the loss of the higher cost county (Santa Cruz) would lower the adjustment rate for the remaining physicians in Locality 99, and the adjustment factor in the locality to which our county would be moved would probably be reduced. Physicians in those localities are very unlikely to support a move that results in lower Medicare reimbursement for them even if they agree that the methodology used by Medicare in 1997 was unfair and inequitable for physicians in our county.

We are requesting your assistance in this matter. We recommend that Congress establish a mechanism for individual counties, such as ours, with practice costs at least 5 percent higher than the combined average costs of all lower-cost localities in the state to request reclassification to a more appropriate locality or a unique locality. A mechanism which allows counties a reasonable chance of success in their request – one without the insurmountable barriers which currently exist. Our understanding is that hospitals have an option to apply to the Medicare Geographic Classification review Board for reclassification, and that remedies for inequities exist. That type of option might be used as a model for correcting inequities in the area of the physician fee schedule. We strongly encourage your subcommittee to consider this and other options.



We make this request on behalf of the physicians in Santa Cruz County, and also on behalf of the residents of the county who depend on and deserve a robust health care system.

Thank you for your attention to this important matter.

Sincerely,

Jan Beautz, Chairperson  
Santa Cruz County Board of Supervisors

Attachments: California Locality/County Geographic Adjustment Factors

cc:

Congressman Sam Farr  
Congressman Fortney Pete Stark  
California State Senator Bruce McPherson  
California Assembly member Fred Keeley  
California Medical Association  
Terrence L. Kay, Center for Medicare and Medicaid  
Barry Straube M.D., Center for Medicare and Medicaid, Region IX  
Santa Cruz County Medical Society  
Board of Supervisors, Sonoma  
Board of Supervisors - Santa Barbara

*SO*

Medical Society, Sonoma County

Medical Society, Santa Barbara County

Larry DeGhetaldi M.D., Santa Cruz Medical Clinic

Wells Shoemaker M.D., Physicians Medical Group

Dominican Santa Cruz Hospital

Watsonville Community Hospital

Sutter Maternity & Surgical Center