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The Abaris Group

The TAG Line

The Abaris Group | *Innovative Solutions for the Emergency Care Field*
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Los Angeles Emergency Departments Hit Hard

A mix of higher costs and rapidly declining revenues is forcing Los Angeles County emergency departments (EDs) out of business. The county has lost 6 EDs in the past 14 months, and recent news articles suggest that worse may lie ahead.

According to the *Los Angeles Times*, the county has already lost capacity that treated 75,000 patients, and additional cuts expected at large private hospitals would reduce the county's capacity by a further 10 to 15 percent. The impact of those cuts might then force others to close.

Uninsured Patients

The number one reason for the closures is an increase in uninsured or underinsured patients, who make up approximately 30 percent of the payer mix in the county. According to the *Times*, historically two-thirds of uninsured patients have been transferred to LA County's public hospitals, but a year ago the cash-strapped County began limiting these transfers to cut costs. Another cost-cutting measure was the closure of 16 county clinics in 2002.

As a result, transfers of uninsured patients to public hospitals have declined by more than 40 percent, and the number of uninsured patients has doubled at some private hospitals and tripled at others, according to Carol Meyer, director of the Los Angeles County EMS Agency, quoted by the *Times*.

There is a domino effect because when an emergency department closes due to losses from uninsured patients, those uninsured patients then seek care at other hospitals and threaten to destabilize those hospitals.

Even skeptics are concerned. For example, Glen Melnick, a healthcare economist at USC, previously reported that although the number of EDs in Los Angeles County decreased by 21 percent from 1990 to 2000, overall capacity actually increased by 9 percent through expansion. During that period, not only did capacity increase, it outpaced population growth. Melnick also has previously pointed out the significant financial contribution made

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Los Angeles EDs Struggling

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by ED patients who are admitted to the hospital. (See *The TAG Line's* article on that study.)

However, there is no incentive for ED expansion if it will only expand losses. The *Times* quotes Melnick as saying, "If [the reports of expected cuts are] true, this suggests the predicted meltdown may actually be starting."

Increasing Costs

Among other concerns cited by hospitals are increased costs due to seismic improvement requirements and the recently implemented nursing ratios. Hospitals are required to be seismically safe by 2008, although extensions are now available through 2013. The nursing ratios were implemented in January and require a minimum of 1 nurse per 4 patients in the emergency department, among other requirements.

Funding Initiatives

Two years ago, Los Angeles County approved a property tax hike which provides the trauma system with $170 million per year. However, that does not cover the rest of the emergency care system.

An initiative on California's November ballot (Proposition 67) would address emergency care funding statewide through a phone tax that would generate a projected $550 million annually. (See *The TAG Line's* article on this initiative.)

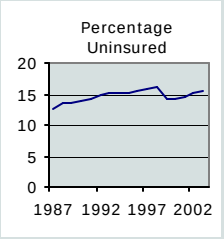
The federal government also has allocated $1 billion to fund emergency care for undocumented immigrants nationwide over the next four years. California is expected to receive the most funding, at $72 million per year. (See related article below.)

Although these initiatives help, the long-term stability of the Los Angeles emergency care system depends on the issue of the uninsured being more comprehensively addressed. (See related box below.)

> *"If [the reports of expected cuts are] true, this suggests the predicted meltdown may actually be starting."*
> *- Glen Melnick, USC Healthcare Economist*

Census Bureau Reports Increased Rate of Uninsured Nationwide

The percentage of people in the US who are uninsured increased for the third year in a row in 2003, according to a new report from the Census Bureau. An estimated 45 million people lacked health insurance in 2003, representing 15.6 percent of the population. The recent increases reflect a trend that has persisted since comparable data began being collected in 1987, with only 1999 and 2000 seeing decreases in the uninsured rate. (See chart at right.)



Source: US Census Bureau

Concern Over Undocumented Immigrant Emergency Care Funding

New federal funding for emergency care of undocumented immigrants comes with a requirement that has many hospitals and immigrant advocates concerned.

As called for in the Medicare Modernization Act of 2003, the Centers for Medicare & Medicaid Services (CMS) have announced that $1 billion will be provided over four years to help hospitals and other providers recoup the costs of providing emergency care to undocumented aliens.

However, in order to receive the funding, providers are required to ask patients about their immigration status and maintain a file with copies of the patient's immigration records.

CMS argues that the requirement is only for the purposes of determining reimbursement and is necessary to verify that providers qualify for the funds. They say that undocumented immigrant patients will not be pursued by the government.

But many hospitals fear the

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Funding Requirement Concerns

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requirement will cause undocumented immigrants to avoid seeking emergency care, which could impact their health and the health of others if they are contagious. Some also say the requirement shifts their role from providing care to acting as law enforcement. As a result, some hospitals are planning to turn down the money.

The law calls for payments to be made directly to hospitals, physicians, and ambulance providers for unreimbursed care to undocumented immigrants. Two-thirds of the funds will be distributed to all states with the remaining third going to those states with the largest number of undocumented aliens. For more information, click here.

In May, a bill which would have called for the deportation of undocumented immigrants seeking emergency care was defeated in the House by a vote of 88-331.

Laidlaw Seeks to Sell AMR and EmCare

Laidlaw International Inc., which emerged from bankruptcy a little over a year ago, has reportedly put its subsidiaries American Medical Response Inc. (AMR) and EmCare Holdings Inc. up for sale.

AMR is the largest provider of healthcare-related transportation services in the U.S. It reportedly has earnings before interest, taxes, depreciation, and amortization (EBITDA) of about $90 million. If AMR goes for 6 to 8 times EBTIDA, its price would be in the range of $540 million to $720 million, which is significantly less than the $1.1 billion Laidlaw paid for AMR in 1996.

EmCare is an emergency medicine practice management group staffing 4,500 physicians who treat over 5 million patients annually. EmCare reportedly has about $30 million in EBITDA, which indicates a potential sale price between $180 million and $240 million. Laidlaw paid $400 million for EmCare in 1997.

Combining what AMR and EmCare might sell for individually, Laidlaw might expect between $720 million and $960 million for both. The total price Laidlaw paid for the two was $1.5 billion.

A number of private equity firms have reportedly placed first-round bids for the companies, and second-round bids are expected in September.

Laidlaw previously indicated an interest in selling AMR and EmCare in 1999. Throughout most of 2000, AMR was actively seeking buyers for AMR, EmCare, and its medical call center service, American Medical Pathways (AMP). It was widely believed that the sale of AMR was a "done deal", scheduled to close in October of 2000, but the transaction was never consummated. Reports emerged that the subsidiaries were no longer for sale in early 2001.

Urgent Matters Resources Available

Urgent Matters, the national initiative examining emergency department crowding and the healthcare safety net, recently conducted two free webinars to share the strategies and results of the 10 communities selected to participate in the first phase of the *Urgent Matters* project.

Resources from the first webinar are now available for free download (click here).

Urgent Matters also publishes a monthly e-newsletter, which is available here.

Urgent Matters is supported by a grant from The Robert Wood Johnson Foundation.

Update:

Urgent Matters is expected to release information on additional webinars and an upcoming seminar in early September. Check www.urgentmatters.org for more information.

URGENT Matters

New Rural EMS and Trauma Web Site

The federal Office of Rural Health Policy has launched a Rural Emergency Medical Services and Trauma Technical Assistance Center web site at www.ruralhealth.hrsa.gov/ruralems. Featured resources on the site include funding opportunities, training materials, links to related sites, and news and events. Among the documents linked is the Rural EMS Agenda for the Future, Version 3.1.

Medicare Increases Ambulance Service Payments

The Centers for Medicare and Medicaid Services (CMS) has issued an interim final rule that will increase Medicare payments to ambulance services by $840 million between July 2004 and December 31, 2009.

The rule implements the ambulance provisions contained in Section 414 of the Medicare Modernization Act (MMA) signed into law last year. It will benefit both hospital-based providers and freestanding suppliers of ground ambulance services. According to CMS, the MMA aims to ease the transition to the national fee schedule that went into effect on April 1, 2002.

Rate Increases

The new rule provides a 1 percent increase in payments for urban ambulances and a 2 percent increase for rural ambulances for services provided between July 1, 2004 and December 31, 2006. In addition, for services provided between July 1, 2004 and December 31, 2008, both urban and rural services will receive a 25 percent increase in their mileage rates for all miles greater than the 50th while carrying a beneficiary.

Also, CMS is establishing nine regions and will set a floor for ambulance payments for each region. No region will receive decreased payments with the floor, but the five regions that would have been paid at lower rates without the floor will receive payment increases of as much as 38.6 percent. This provision will be effective for services provided July 1, 2004 to December 31, 2009.

Super-Rural Bonus

Lastly, the interim final rule implements a "super-rural bonus" that will increase the base rate by 22.6 percent when the ambulance transport originates in a rural area in the lowest 25 percent of population densities.

"This new rule improves payments for all ground ambulance services, and it's especially important for ensuring the continued viability of ambulance services in rural areas as they make the transition to the national fee schedule," said CMS Administrator Mark McClellan.

Comments will be accepted on the interim final rule until August 30. A final rule responding to those comments will be published at a later date. It should be noted that these temporary payment provisions do not apply to air ambulance services.

To visit the CMS web site for ambulance providers, click here.

The interim rule will increase Medicare payments to ambulance services by $840 million.

OIG Issues Advisory Opinion On Payments to First Responders

The federal Office of the Inspector General (OIG) has found that a county can provide an exclusive contract to a transport agency in exchange for payment for first response services without violating the federal anti-kickback law.

Advisory Opinion No. 04-10 responds to a specific county's request for clarification. The OIG found that the proposed arrangement does implicate the anti-kickback statute (section 1128(b) of the Social Security Act), but several factors would lead the OIG to not impose sanctions. These factors include the following:

> The proposed arrangement was established by a valid governmental entity with authority over the county's EMS system.

> The county expects the reimbursement to be less than the cost of providing

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OIG Issues Advisory

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first response services, so the transport agency will not be overpaying for services provided.

> Medicare expressly contemplates payment by the transport agency to suppliers of other services.

> The per-response fees are not expected to result in over-utilization and increased federal costs.

> The contract was awarded through a competitive bidding process, so the exclusivity of the contract should not have an adverse impact on competition.

> Finally, the remuneration will benefit the public rather than a private agency.

The Advisory Opinion goes on to state that the following circumstances might have changed the OIG's position:

> If the County began first response services only in response to proposed payment from the transport agency

> If the proposed arrangement was a result of a unilateral solicitation from a transport agency to provide payment in exchange for an exclusive contract

> If the arrangement had otherwise been initiated by a bidder rather than the county

The Advisory Opinion notes that its findings cannot be relied upon by any other agency, as it is based on the specific circumstances of the county that requested clarification.

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