Health Services
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To improve health through leadership, service and education

June 23, 2009

REVISED

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

APPROVAL OF MEDICARE GRADUATE MEDICAL EDUCATION AFFILIATION AGREEMENT WITH THE UNIVERSITY OF SOUTHERN CALIFORNIA (SUPERVISORIAL DISTRICT 1) (3 VOTES)

SUBJECT

Request approval of two Medicare Graduate Medical Education (GME) Agreements with the University of Southern California (USC) on behalf of the USC University Hospital (USC-UH) to aggregate the Medicare allotted residency training slots of LAC+USC Medical Center (LAC+USC) and USC-UH to obtain additional Medicare reimbursement for currently unused LAC+USC residency slots.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Authorize the Interim Director of Health Services, or his designee, to execute two Medicare GME affiliation agreements with USC on behalf of the USC-UH to allow USC-UH to access the unused residency slots of LAC+USC to obtain reimbursement from Medicare, with payment of $1,400,000 to the County to offset the cost of maintaining the physician training program, effective July 1, 2009, through June 30, 2010.

2. Delegate authority to the Interim Director of Health Services, or his designee, to execute future agreements and/or extension amendments for up to a maximum period of five years, with substantially similar terms and conditions, upon review and approval of County Counsel and the Chief Executive Office.

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PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS

Approval of the recommended actions will allow the Interim Director of Health Services, or his designee, to sign two Medicare GME agreements with USC to aggregate the Medicare allotted residency training slots ("caps") of LAC+USC and USC-UH. This will allow USC to access the unused caps of LAC+USC to obtain additional reimbursement for Medicare. As part of this arrangement and based on final negotiations by the parties, USC-UH will pay to the Department an amount of $1,400,000.

In addition, a recent Senate Finance Committee report has recommended that up to 80% of unused caps in hospital throughout the country be redistributed to other hospitals. While ~~Federal~~ legislation has not yet been introduced in the Senate, the Department believes that a GME affiliation agreement with USC may prevent LAC+USC from losing its unused caps to a future redistribution, although no protection would be provided if the version of the legislation currently before the House of Representatives were to be enacted.

Implementation of Strategic Plan Goal

The recommended actions support Goal 4, Health and Mental Health, of the County's Strategic Plan.

FISCAL IMPACT/FINANCING

Payments to the County under the proposed GME affiliation agreement will offset the Department's unreimbursed GME program costs. The total amount of reimbursement that the County will receive from USC is $1,400,000 to be paid in two equal installments in January and June 2010.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Medicare reimburses teaching hospitals for the costs of training resident physicians at a hospital. The Medicare subsidy program has two parts: direct GME payments and an indirect medical education (IME) adjustment to other Medicare inpatient payments. Direct GME payments help pay for the direct costs of training physicians (e.g., salaries of medical residents and faculty, and related hospital overhead expenses) and are based on the number of full time equivalent (FTE) residents training at the teaching hospital, historical costs, and the hospital's volume of Medicare patients. The IME payments to teaching hospitals are designed to cover the indirect costs that teaching hospitals incur in caring for patients (e.g., costs associated with offering a broader range of services, using more services and employing a more costly staff mix) and are calculated as a percentage add-on to the payments that Medicare makes to a hospital for inpatient services provided to Medicare beneficiaries.

In 1996, Federal legislation established a general ceiling on the number of FTE allopathic and osteopathic residents upon which GME and IME reimbursement could be determined based on each participating hospital's number of FTE physician trainees in their Medicare cost report ending on or before December 31, 1996 (GME caps and IME caps). There are only limited opportunities to increase these GME and IME caps upon the start-up of new training programs. However, the Medicare regulations permit hospitals which share residency programs to aggregate and then redistribute their cap amounts among the participating hospitals by creating Medicare GME Affiliated Groups.

Based on the most recent Medicare cost report, LAC+USC has approximately 43 and 90 unused GME and IME caps, respectively. This amount may vary next year depending on the actual size of LAC+USC's training program. Based on the need of USC-UH, the parties have agreed to allow USC-UH to access approximately 40 GME and IME caps.

In order for USC-UH to utilize LAC+USC's unused GME and IME caps, USC and the County will have to execute a GME Affiliation Agreement in the form prescribed by Federal regulation. A copy of the executed document must be submitted to the Centers for Medicare and Medicaid Services (CMS) and the hospitals' fiscal intermediary by July 1, 2009 to be effective for Fiscal Year 2009-10. In addition, there is concern that LAC+USC, along with other hospitals participating in the Medicare Program, could lose its unused caps. In its April 29, 2009 report, the United States Senate Finance Committee recommended that 80% of all unused caps (calculated as an average over the last three years) at participating hospitals would be redistributed to other hospitals to encourage increased training. ~~A similar redistribution of 75% of the unused portion of the caps was done as a result of the passage of the Medicare Prescription Drug Improvement and Modernization Act in 2003. During that redistribution, caps that were part of a GME Affiliation Agreement were not subject to redistribution.~~ The last time a redistribution occurred, affiliation agreements protected the slots. Proposed legislation to redistribute slots is also pending in the House; however, the affiliation would have no effect under that proposal.

While it is unknown at this time ~~whether the recommendation in the Senate Finance Committee report will be turned into legislation, the establishment of~~ what final legislation might look like, a GME affiliation agreement may help to avoid the redistribution of LAC+USC's unused caps and will benefit LAC+USC by defraying medical education costs.

Given the additional reimbursement that USC-UH will receive as a result of the County allowing USC-UH to access LAC+USC's unused GME caps, USC will pay the County

$1,400,000 to offset the cost of maintaining the physician training program at LAC+USC. The terms and conditions for this payment will be set forth under a separate Agreement Regarding Shared Residents, which is one of the two recommended Agreements.

CONTRACTING PROCESS

Not Applicable.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Board approval of the recommended actions will help to defray the unreimbursed cost of LAC+USC's physician training programs and recognize the strong partnership between USC and the Department in physician training within the community.

Respectfully submitted,

John F. Schunhoff, Ph.D.
Interim Director

JFS:pps

c: Chief Executive Office
Acting County Counsel
Executive Officer, Board of Supervisors