

Informational Hearing  
Medi-Cal Reimbursements and Outpatient Procedures:  
Impact on Children's Health  
April 1, 2009  
1:30 pm  
State Capitol, Room 4203

Increasing numbers of medical procedures in the United States are occurring on an outpatient basis. According to a new report from the Centers for Disease Control and Prevention, from 1996 to 2006, the number of outpatient surgery visits nationally increased from 20.8 million to 34.7 million. Outpatient surgery accounted for nearly two-thirds of surgery visits in 2006, up from about half of surgeries a decade earlier. Experts estimate that by the year 2017, that number will reach 75 percent. The growth in outpatient procedures has been driven by several factors, including important medical breakthroughs which have led to better anesthetics and refined surgical equipment. Outpatient procedures can also offer the advantages of cost savings and convenience.

At the same time, medical professionals are grappling with a significantly diminished network of care for the state's 10 million children. According to research conducted by the Los Angeles Times, more than 65 hospitals have either eliminated their children's units or shut down altogether, and more than two dozen others have reduced the number of beds for children. Most counties north of Sacramento now lack any dedicated pediatric beds. In total, more than 800 inpatient children's beds were lost from 1998 through 2007 -- a 19 percent drop, the Times analysis found.

Children's hospitals are an important element in California's pediatric care network, and their necessity has grown with the diminished pediatric service presence in other hospitals. There are thirteen children's hospitals, including five University of California (UC) children's hospitals and eight private nonprofit hospitals, in California. The eight private, non-profit children's hospitals are located in Palo Alto, Oakland, Madera, Los Angeles, Long Beach, Loma Linda, Orange, and San Diego. The UC children's hospitals are located at its five academic medical centers in San Francisco, Davis, Los Angeles, Irvine, and San Diego.

California's children's hospitals provide specialized care and traditionally treat the most serious and life threatening diseases such as childhood leukemia, cancer, heart defects, sickle cell anemia, diabetes and cystic fibrosis. The California Children's Hospital

Association states that because of their mission to treat very sick children, the “acuity” (a measure of their care requirements) of patients treated at these hospitals is more than 25 percent higher than that of other hospitals that treat children. While children’s and UC hospitals provide hospital care to almost 39 percent of the total pediatric patients, these hospitals treat more than 71 percent of the pediatric cancer cases, provide more than 88 percent of the state’s pediatric cardiac surgeries and provide 97 percent of the pediatric organ transplants.

Children’s hospitals also have a different mix of payors than other acute care hospitals in California. A much greater portion of their patients are covered by Medi-Cal and a much smaller proportion is uninsured or medically indigent (for whom the county reimburses facilities for their care). The large proportion of Medi-Cal patients results in large uncompensated care costs for these hospitals because Medi-Cal reimbursements are significantly less than the cost of providing the health care services. For example, the California Children’s Hospital Association states that Medi-Cal reimburses a maximum of \$263 for outpatient surgery – regardless of the complexity of the case, the surgical team, or the length of surgery

Of the seven private children’s hospitals for which data from the Office of Statewide Health Planning and Development (OSHPD) are available (data for the U.C. hospitals and Loma Linda University Children’s Hospital are not available because these hospitals are part of a larger hospital campus and not separately licensed as children’s hospitals), five of the children’s hospitals receive a greater part of disproportionate share hospital payments, which are additional funds provided to certain hospitals that serve Medi-Cal or other low-income patients, than the statewide average. All seven hospitals receive a greater percentage of Medi-Cal revenue than the statewide average, and three of the hospitals had a negative operating margin at the end of fiscal year 2006-07.

Because children’s hospitals provide significantly more Medi-Cal outpatient services than other hospitals, they are disproportionately affected by Medi-Cal’s low reimbursement levels for outpatient procedures. According to the California Children’s Hospital Association, California’s eight private, not-for-profit, children’s hospitals lose approximately \$90 million a year providing outpatient services to Medi-Cal beneficiaries.

In addition, on the physician side, revenue for pediatric subspecialist’s services is derived heavily from public programs, such as California Children’s Services (CCS), Medi-Cal, and Healthy Families. Federal law requires Medi-Cal rates must be set at a level to ensure appropriate access to health care services. In reality, California has only adjusted physician reimbursement once in the last 27 years, and has some of the lowest physician reimbursement in the country. Fewer and fewer physicians in California accept Medi-Cal patients. Pediatric specialty medical groups state that in California, because state reimbursement does not cover the cost of care, they are losing pediatric subspecialists. At least partly due to this, according to the American Board of Pediatrics, California is lower than the national average in the ratio of pediatric subspecialists to children in areas such as pediatric hematology-oncology, pediatric endocrinologists, pediatric critical care specialists, and pediatric cardiologists among others

This hearing will focus on the issues of Medi-Cal reimbursement for pediatric outpatient procedures and for pediatric subspecialist care, concentrating specifically on the impact of Medi-Cal reimbursement procedures on children's hospitals and pediatric subspecialists.