



Arizona Hospital and Healthcare Association

THERE TO CARE: STRONGER HOSPITALS FOR A HEALTHIER ARIZONA

What's at Stake for Hospitals in the 2010 Elections?

As the state continues to climb out of a grueling recession, November 2 brings an election with **31 open seats** in the Arizona House of Representatives and the Arizona State Senate, giving us a unique opportunity to cultivate new champions for the hospital community. Your contribution to the Arizona Hospital and Healthcare Association (AzHHA) Political Action Committee (PAC) will allow us to support the candidates who stand up for quality healthcare.

When considering the state's budget crisis, along with the challenges and opportunities that come with implementing national health reform, it's clear the stakes for hospitals and health systems couldn't be higher. Around the state, crowded emergency departments and a high number of uninsured patients are symptoms of the serious funding and staffing shortages you face every day. Caring for hospital patients has never been more challenging. Here are just a few of the obstacles hospitals will face and the tough choices lawmakers must make as we head into the 2011 legislative session.

State Budget Still Looking Grim

Legislative budget staff project a budget shortfall in FY 2012 ranging from \$220 million to \$1.3 billion. The variance, they say, mostly relates to maintaining the current Arizona Health Care Cost Containment System (AHCCCS) population as the recently enacted federal healthcare reform legislation requires.

Prop. 204 and Uncertain FMAP Extension

As Arizona's recession has deepened, the state has seen a dramatic increase in the numbers of both children and adults enrolled in (AHCCCS), placing greater pressure on the state general fund. In the FY 2011 budget, Governor Brewer and the Legislature repealed the KidsCare program and eliminated funding for the Prop. 204 population (adults between 33-100% of the federal poverty level) effective January 1, 2011. However, the federal healthcare reform legislation forced the governor and lawmakers to reinstate KidsCare and fully fund Prop. 204 in order to meet the federal law's maintenance of effort (MOE) requirements. The final approved FY 2011 budget includes a provision that earmarks any federal dollars the state receives to be used to fund KidsCare and the Prop. 204 population.

Since early this year, Congress has been debating whether to extend the federal medical assistance percentage (FMAP) granted under the *American Recovery and Reinvestment Act of 2009*. These funds—if approved—will provide the state with nearly \$400 million to cover the cost of the KidsCare Program and six months of benefits for the Prop. 204 population, funding the programs through the end of FY 2011. If these funds are not allotted, in

order to comply with the federal MOE requirements the state will need to find the funds elsewhere, most likely through deeper provider rate cuts.

Provider Payment Cuts Drive Up the Hidden Healthcare Tax

AHCCCS provider rates have been frozen at 2008 levels for the last two budget cycles, and the recently signed FY 2011 budget contains a 5 percent provider rate cut in addition to the freeze. Arizona business groups are growing increasingly concerned that these inadequate payments from public healthcare programs like AHCCCS, along with economic pressures, force hospitals to shift costs by charging higher rates to private health plans in what amounts to a “hidden healthcare tax” on businesses and other private healthcare consumers. The Arizona Chamber Foundation in March 2009 released a study conducted by The Lewin Group, which found that Arizona employers and the state’s 3.5 million privately insured consumers pay 40 percent more for hospital services primarily because AHCCCS and Medicare underpay hospitals for those same services. AHCCCS payments currently cover around 70 percent of hospitals’ total costs, and are vulnerable to additional cuts as state revenues continue to decline.

Behavioral Health Patients in Hospital EDs

Behavioral health services administered by the Arizona Department of Health Services (ADHS) have been significantly reduced during the last several years. With the most recent round of budget cuts, nearly 15,000 seriously mentally ill (SMI) individuals statewide will be left without any services, or with very limited services. This population, plus an additional 20,000 adults and children with general mental health and substance abuse problems, will be left to rely on a minimally funded crisis system. Many of these individuals will undoubtedly seek care in hospital emergency departments, while others may end up homeless. Many advocates are concerned not only about the increased pressure on hospital emergency departments, but about the impact of inadequate services on these patients, who without care may be a danger to themselves or others.

Hospital Provider Tax

As Medicaid programs continue to grow, many states are turning to funding sources other than the general fund. Among these alternative funding sources are various types of healthcare provider assessments, also sometimes called provider taxes. Federal law permits states to levy and collect taxes from certain broad categories of healthcare providers or services—including hospitals, nursing care institutions, health insurers and others—and the tax proceeds can be used to draw down federal matching funds to fund various activities, including raising provider payment rates and paying for a portion of the state’s share of the Medicaid program. Depending on their patient mix, this could create a system of winners and losers, in terms of what the provider pays out in tax compared to what they recoup in Medicaid payments. Some Arizona lawmakers, along with several AzHHA members and others, have suggested the state consider a hospital provider tax as a possible vehicle for funding AHCCCS. As AzHHA members and policymakers weigh this option—with all its complexities—it will be critical to carefully evaluate its impact on access to healthcare services across the state.