



## **AHCCCS Funding Proposal Alternative to Enacted FY 2012 Budget**

The FY 2012 budget signed by the governor on April 7, 2011 imposes nearly \$600 million in state general fund cuts to the healthcare community and \$1.8 billion in total cuts. The cuts include:

- Eliminating state general fund support for the Proposition 204 program at a cost of \$522 million. Of this amount, \$479 million comes from the Arizona Health Care Cost Containment System (AHCCCS) budget and \$43 million from the Arizona Department of Health Services (ADHS) budget.
- Annualizing a 5 percent provider rate reduction that went into effect on April 1, 2011, under which providers will lose \$76 million -- \$62 million in AHCCCS payments and \$14 million in behavioral health payments from ADHS.

The budget grants AHCCCS broad authority to enact rules relating to eligibility, benefits, provider rates, and cost-sharing in order to implement the program within available appropriations. AHCCCS is given specific authority to cap inpatient benefits and reduce provider rates by up to 5 percent. This reduction would be in addition to the 5 percent cut that went into effect on April 1.

In a recent letter to U.S. Department of Health and Human Services Secretary Sebelius, Governor Brewer signaled how her administration would modify the AHCCCS program to fit within the appropriation. Under her plan, hospital revenue would be reduced by an estimated \$530.7 million in FY 2012 as follows:

Eliminate enrollment of new childless adults	\$191,339,375
Eliminate "spend down" program	\$70,493,454
Eliminate enrollment of parents earning 75-100% of FPL	\$17,119,838
Eliminate Federal Emergency Services for non-qualified aliens	\$20,140,986
Require 6-month redetermination of eligibility	\$15,105,740
Impose new benefit limits -- capping the allowable patient days to 25	\$120,845,921
Reduce reimbursement rates	\$95,669,688
<b>Total</b>	<b>\$530,715,002</b>

Added to the more than \$700 million in AHCCCS payment decreases hospitals have absorbed since 2008, the cumulative cuts to Arizona hospitals would increase to nearly \$1.3 billion. Hospitals cannot be expected to absorb additional cuts of this magnitude.

There are only four options hospitals can take:

1. *Cut Jobs.* The loss of jobs will begin first in the healthcare community and then ripple across all sectors of the state's economy. The table below shows the estimated loss of jobs within each county if Proposition 204 is rolled back. A recent study by Arizona State University estimates a loss of over 30,000 jobs. (See the table below for county level impacts.)
2. *Cut Services.*
3. *Delay Construction Projects.*
4. *Cost-Shifting to the Commercial Payers, Businesses and Patients.* AHCCCS currently pays hospitals about 70 percent of cost. Further cuts will exacerbate the "hidden healthcare tax," in which healthcare providers have no choice but to shift a portion of losses from public payers to the private sector.

A coalition of healthcare providers and AHCCCS health plans has proposed an alternative to these cuts that would not impact the state general fund or increase taxes on Arizona families. Under this proposal, hospitals, nursing homes and AHCCCS managed care plans would provide a loan to the state in the form of a special healthcare assessment to maintain the financial viability of the AHCCCS program and to support a portion of the existing Proposition 204 program. The key components of the proposal are:

1. **Cost-neutral to the state general fund:** Revenue provided by special assessment is loaned to the state and used to leverage two-to-one federal matching dollars that will be used to reimburse providers and support health coverage for a portion of the existing Proposition 204 program.
2. **No cost-shifting:** The assessment model has been crafted in a way to avoid cost-shifting. Since hospitals, health plans, and nursing facilities will be paid back the assessment from federal matching dollars, any pressure to pass on the cost of the assessment to consumers is eliminated. The legislation includes a clause prohibiting cost-shifting.

The assessments would fund a reformed Proposition 204 program, of which the components are:

1. **Enrollment is limited to dedicated funds:** Current enrollment in the Proposition 204 program would be frozen. After a sufficient period of time to bring the size of enrollment into alignment with revenues, enrollment would be capped.
2. **More personal responsibility included:** Similar to the governor's plan to reform Medicaid and the budget enacted by the Legislature, this proposal increases cost-sharing responsibilities for enrollees. Each enrollee in the program would be required to pay an enrollment fee or premium, and AHCCCS would be directed to explore options with the Centers for Medicare & Medicaid Services (CMS) to increase copayments charged to the "childless adult" and "spend-down" populations.

- 3. Benefit redesign ideas:** In addition to applying the traditional AHCCCS exclusions for covered benefits, the AHCCCS Administration would explore new options with CMS.

Arizona hospitals believe this alternative is a fiscally responsible solution to the AHCCCS funding crisis. The plan saves the state money and leverages billions of federal dollars Arizona taxpayers are already paying that will otherwise go to other states.

As the impacts of the devastating cuts to healthcare are realized by lawmakers and citizens alike and other scenarios unfold – including a potential lawsuit over changes to the Proposition 204 program, which is voter-protected – we remain optimistic that policymakers will reconsider this alternative funding proposal, which is used effectively in over 40 states.

*Urge your state legislators and the governor to support the special healthcare assessment as a way to forestall devastating harm to healthcare and the economy.*

Total Jobs Lost in Year One of Prop. 204 Rollback

County	Total Jobs Lost	County	Total Jobs Lost
Apache County	333	Mohave County	904
Cochise County	408	Navajo County	619
Coconino County	835	Pima County	5,184
Gila County	194	Pinal County	481
Graham County	117	Santa Cruz County	132
Greenlee County	9	Yavapai County	676
La Paz County	27	Yuma County	868
Maricopa County	19,470	Total	30,258

Source: The Potential Economic Impact of Withdrawing from Medicaid in Arizona. W.P. Carey School of Business, Arizona State University. January 2011.