



Arizona Hospital and Healthcare Association

THERE TO CARE: INVESTING IN A HEALTHY ARIZONA

Who Really Pays?

When Healthcare Services Go Under the Budget Knife

To balance the state budget, the appropriations committees, along with the Joint Legislative Budget Committee, are considering drastic, across-the-board cuts to many state agencies and programs, such as the Arizona Health Care Cost Containment System (AHCCCS), the state's Medicaid agency. Lawmakers also are considering rollbacks and even deeper cuts to hospitals, healthcare programs and the patients they serve.

By cutting AHCCCS payments and programs, Arizona lawmakers are asking the business community—and ultimately ill and injured patients—to serve as a solution for a lean economy. That's not the right course of treatment for our state's fiscal woes. These short-term cuts will have long-term, negative consequences. This year, next year and the year after that, we need to make the cost of caring a part of our investment in a healthy Arizona.

- **Payments for Patients Requiring Catastrophic, Complex & Costly Medical Services (Outlier Program)**—A total of \$33.6 million in cuts in 2009 and an ongoing annual cut of \$44 million.
- **10 Percent Cut to AHCCCS Hospital Payments in 2009**—A total of \$7,516,500 in 2009, impacting:
 - Disproportionate Share—\$2,614,800
 - Graduate Medical Education—\$3,518,900
 - Critical Access Hospitals—\$169,500
 - SAVE (Stable, Accessible, Viable and Efficient Rural Hospital Payments program)—\$1,213,500
- **Graduate Medical Education**—A total of \$4,425,000 in 2009, which translates to 48 fewer residency positions in hospitals, according to AHCCCS, and ultimately fewer physicians.

Total Proposed AHCCCS Cuts: \$45,541,500 (This includes the loss of \$30,000,900 in federal matching funds.)

UPDATE: GME PROGRAM CUT BY LEGISLATURE IN '08 BUDGET—The Graduate Medical Education (GME) program sustained a potentially crippling hit on April 17 when the Legislature passed the FY 2008 budget plan and the governor signed it on April 18. The \$1.37 billion budget plan included a \$1.5 million cut to the GME program, which is funded by AHCCCS. With the federal matching monies the state receives, this translates to a \$4.4 million cut.

How would such a cut impact access to healthcare in Arizona? It would reduce the number of residency slots in the state by 48 thus exacerbating an already dire shortage of physicians. Funded by AHCCCS, the GME program supports physician residency programs at Arizona teaching hospitals and is critical to addressing the state's dire physician shortage. GME has proved to be an effective

strategy for increasing the number of physicians in Arizona. Sixty percent of physicians who complete their training in an Arizona teaching hospital remain in the state to practice. Arizona ranks a dismal 43rd in the nation for physicians per 100,000 population. With this cut to the GME, this ranking, no doubt, will fall even further as more doctors choose not to practice in Arizona.

Six Reasons Hospitals Oppose the Proposed AHCCCS Payment Cuts

1. The cuts are a “hidden tax” on Arizona businesses and sick people.

By mission and mandate, a hospital’s first priority is to deliver safe and effective care to its patients, regardless of their ability to pay. Clearly, large-scale AHCCCS cuts could place this patient care mission at risk. Faced with inadequate payments from the government, hospitals are left with two equally unpleasant options:

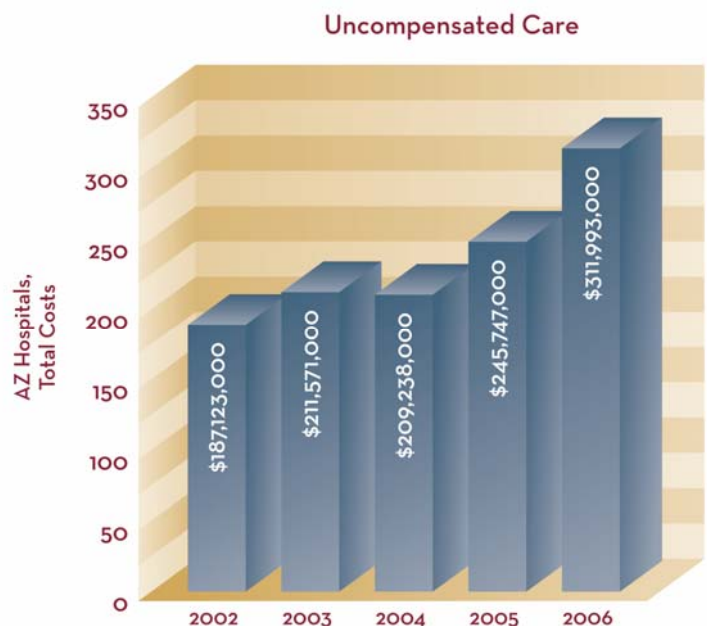
- shift costs to businesses and private pay patients; and
- eliminate, reduce and/or delay healthcare services.

Under the first scenario, businesses and consumers get stuck with higher healthcare bills—in essence, a “hidden tax” imposed on the private sector due to government underpayments. Under the second scenario, reduction in availability of hospital services would lead to delays in elective procedures (e.g., having a painful hip replaced), potentially limit access to care as hospitals delay the implementation of new programs and require patients to ‘queue’ in order to receive routine diagnostic tests or surgery.

2. Asking hospitals to simply absorb cuts or “share the pain” is wrong.

According to the state’s own studies, Arizona’s hospitals are already underpaid, even in times of economic prosperity. The latest AHCCCS-commissioned study, conducted by Milliman, Inc.—an independent actuarial firm—found that AHCCCS reimburses hospitals 88 cents for every dollar of healthcare services they provide to Medicaid patients.

What’s more, between 2002-2006, during a period of strong economic growth, the cost of uncompensated care borne by Arizona hospitals nearly doubled. From 2005 to 2006 alone, Arizona’s hospitals experienced an increase of 26 percent (*see chart at right*).



3. The proposed cuts’ impact goes far deeper than at first glance.

Unfortunately, many of the budget cuts impact programs with federal matching dollars, a loss of \$30,000,900 to our state and its healthcare programs. Thus, Arizona’s budget “savings” are really a fraction of the total costs to our state. Federal funding for programs—such as those needed to recruit and train badly needed physicians—will instead be given to other states. We can ill afford to lose these funds, as Arizona is competing with those states amidst a nationwide physician shortage.

And the toll of these proposed cuts goes beyond dollars and cents. For example, AHCCCS predicts Arizona's graduate medical education (GME) program will lose 48 residency slots and potentially physicians who are needed in our state. Because 60 percent of doctors who train in Arizona remain in Arizona to practice, our state will lose specialty care providers. Patients who need special medical care may opt to leave the state if they cannot find a needed physician specialist.

4. The cuts could threaten rural hospitals and their communities.

In rural Arizona, hospitals are the lifeblood of their communities. Studies show rural areas have a higher percentage of uninsured, low-income residents, who tend to be sicker and more costly to treat. In 2007, Arizona lawmakers acknowledged this and helped mitigate the problem by creating the SAVE program to boost payments to rural hospitals, many of which operate on razor-thin margins and would be in jeopardy of closing without federal funds. Today, proposed cuts would eliminate funding for this program, and Arizona would lose out on millions of federal matching funds, putting these hospitals and their patients at risk. Cuts to the Critical Access Hospital program alone could threaten access to care in Benson, Bisbee, Douglas, Ganado, Globe, Nogales, Page, Wickenburg, Wilcox and Winslow.

5. Hospitals could be financially penalized for providing care to the sickest and most critically ill patients (e.g., infants born too early or with medical complications and victims of car crashes as well as other traumatic injuries).

Legislative leaders have proposed more than \$33.6 million in cuts to AHCCCS payments for care hospitals provide to catastrophically ill and injured patients. These patients include infants born prematurely who, for example, require complex care in hospital neonatal intensive care units, victims of traumatic injury, and others with complex medical conditions. Because regular AHCCCS payment rates only cover a small fraction of the actual cost of providing care to catastrophically ill or injured patients—often called outlier patients—AHCCCS pays hospitals a different rate for outlier patients that is intended to recognize the high cost of care these patients receive. In 2007, lawmakers enacted reforms to reduce outlier payments to Arizona's hospitals, but agreed to phase in the changes over three years, allowing hospitals to budget for the cuts. This year, lawmakers are considering fully implementing the changes in 2009 and making additional reforms that will result in a total of \$33.6 million in hospital payment cuts.

6. The cuts will negatively impact access to healthcare by reducing the number of Arizona residency programs, currently the most effective physician pipeline in the state.

At 43rd, Arizona is among the worst in the U.S. for physicians per 100,000 population. Arizona has 219 physicians per 100,000 population—according to Part II of the *Arizona Physician Workforce Study*—compared to the national average of 293 per 100,000 population. The 2008 budget passed April 17 by the legislature will worsen the state's physician shortage by reducing the number of residency slots in the state by 48. The proposed cut targets GME programs in rural communities, where the physician shortage is at its most acute. Consider, for example, Apache County where the physician to population ratio is 50/100,000. In 2007, the legislature provided GME funds to foster residency programs in the state's medically underserved rural communities. With the legislature's budget plan, these programs will be reduced or not launched at all.

Contact: Bridget O'Gara
Arizona Hospital and Healthcare Association
602-445-4300, ext.4318
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