

HEALTHCARE CUTS HURT ARIZONA



Proposed FY 2011 Healthcare Cuts Will Hurt Economy

Governor Brewer has offered lawmakers a budget plan for fiscal year 2011 that includes the deepest cuts to the Arizona Health Care Cost Containment System (AHCCCS) and the Arizona Department of Health Services (ADHS) budgets in recent memory. The governor's budget would eliminate healthcare coverage for 310,500 low-income adults and 47,000 children; cut off mental health treatment for 36,500 adults and children; zero out Graduate Medical Education (GME) physician training funds; virtually eliminate Disproportionate Share Hospital (DSH) payments to safety net hospitals; and authorize the AHCCCS Administration to freeze and reduce provider payments as necessary.

The governor's plan is designed to save the state general fund \$910.4 million in FY 2011, but it would *cost* Arizona's economy an additional \$1.8 billion in lost federal funds. **The governor and lawmakers should consider the shortsightedness of withdrawing \$2.7 billion from an industry—the healthcare community—that has bolstered Arizona's economy throughout the recession.** In fact, new figures from the Arizona Department of Commerce show that, although the state's jobless rate climbed to 9.1 percent in December 2009, the healthcare sector *added* 1,700 jobs in the same month and 6,400 in the last year overall. Arizona hospitals alone employ more than 80,000 people.

The Joint Legislative Budget Committee (JLBC) staff has also developed a list of options to close the budget gap that includes many of the governor's ideas. The JLBC options would cost healthcare \$434.9 million. These potential reductions, too, would significantly harm Arizona's healthcare system, as well as the state's economy.

Throughout the last decade, Arizona's healthcare community remained an economic catalyst for the state. For example, at a time when many industries were cutting jobs, Arizona hospitals hired the workforce necessary to meet the healthcare needs of the state's population. And as hospitals continued to expand or build new facilities, they offered a boon to the state's ailing construction industry. According to the most recent hospital economic impact study—conducted by the W.P. Carey School of Business at Arizona State University's (ASU) Seidman Research Institute, Arizona hospitals produce an economic multiplier effect, creating 81,400 additional jobs due to goods and services purchased by hospital employees and 37,400 jobs generated by hospital purchases. **The study concluded that Arizona hospitals contribute a total of \$11.5 billion to Arizona's state product.**

Arizona's healthcare community has demonstrated an ability to shore up the state's economy even during economic downturns. Cutting \$955.2 million in healthcare funds will undercut the ability of hospitals and other providers to assist with Arizona's economic recovery and treat the state's most vulnerable citizens. **As the governor and lawmakers consider options to resolve Arizona's current fiscal crisis and revitalize the economy, they should resist the temptation to balance the budget on the back of an industry with a proven track record as an economic catalyst and consider the critical role healthcare can and should play in the state's economic recovery.**

Eliminating Health Coverage & Services Hurts Patients; Drives Up Hidden Healthcare Tax

The governor's budget would eliminate health benefits for 310,500 low-income adults and 47,000 children, as well as services for 36,500 behavioral health patients. The harm to these individuals—who would lose primary, elective and mental health treatment—is incalculable. But this policy shift would do

immeasurable damage to Arizona's economy by adding 357,500 people to the number of Arizonans who lack basic health insurance. A recent report by the U.S. Census Bureau concluded that 1.2 million Arizonans—nearly one in five—do not have health insurance, placing the state near the bottom of U.S. health coverage rankings. When these individuals require emergency care, they turn to hospitals—which are federally mandated to medically screen and stabilize all patients who present without regard to their ability to pay for care. In 2008, Arizona hospitals provided approximately \$392 million in uncompensated care to uninsured patients. Hospitals must make up for this loss by absorbing or shifting costs to commercial health plans, which in turn charge businesses and individuals higher health insurance premiums. This cost shift—coupled with further cuts in AHCCCS hospital payment rates that already cover only 76 percent of hospitals' costs—amounts to a hidden tax on Arizona healthcare consumers.

The proposed cuts to AHCCCS health insurance programs and ADHS behavioral health services described below will drive up the hidden healthcare tax on businesses, families and individuals at a time when they are struggling to cover basic expenses.

Prop. 204 Approved by the voters in 2000, Prop. 204 increased eligibility for AHCCCS from 33 percent of the federal poverty level (FPL) to 100 percent, adding childless adults, parents, and persons with disabilities. The governor proposes a referendum asking voters to withdraw general fund support for the populations added under Prop. 204. **If passed, an estimated 310,500 individuals would lose their health benefits. While the state would save \$765 million, this move would cost the state \$1.5 billion in federal matching funds for a combined reduction to Arizona's healthcare system of \$2.3 billion. Hospitals alone will lose an estimated \$851 million in revenue.**

KidsCare Program KidsCare provides a common-sense alternative for working parents who want and need to provide their children with medical services and preventative healthcare. In 2008, children under the age of 15 comprised 23 percent of all visits to emergency departments (EDs). The most frequent diagnosis for these children was diseases of the respiratory system. Families without health insurance often delay seeking treatment for their children until their care becomes emergent, at which time they turn to hospital EDs, the most expensive setting in which to treat patients.

The state receives \$3 for every \$1 it invests in KidsCare. Continuing KidsCare at its current eligibility level is a modest investment that can improve children's healthcare and reduce healthcare costs for all consumers. Terminating KidsCare is a shortsighted move that will result in more uninsured children and drive up the hidden healthcare tax, making health insurance less affordable for all Arizonans.

The elimination of KidsCare would leave 47,000 children without health insurance. While saving the state \$22.9 million, it will cost Arizona \$96.5 million in federal matching dollars for a total loss of \$119 million to the state's healthcare system. Hospitals will lose an estimated \$44 million in revenue.

Optional Acute Populations Medicaid establishes minimum categorical eligibility thresholds for certain programs and provides states the option of funding at a higher rate. Over the years, the Legislature has traditionally allocated additional funding above the minimum threshold for women under 65 who need treatment for breast or cervical cancer who are not otherwise eligible for Medicaid, children who have

aged out of foster care at 18 up to age 21, and "Freedom to Work" individuals. **JLBC proposes requiring AHCCCS to maintain the minimum funding for these groups, among others, saving the state \$3.8 million. Arizona's healthcare system would lose \$7.6 million in federal funds, for a total of \$11.4 million.**

Optional AHCCCS Services The governor and JLBC propose scaling back available AHCCCS benefits to include only those required by federal law. As a result, AHCCCS enrollees would no longer receive benefits such as emergency dental services; medically necessary dentures; insulin pumps; most wellness exams for adults; and podiatry care.

Eliminating optional benefits would save the state \$8.4 million under the governor’s plan at the expense of \$16.8 million in federal funds. The JLBC option would save the general fund \$16 million, while costing the state \$32 million in federal dollars.

Behavioral Health Services In a significant policy shift, the governor proposes altering the state’s current statutory obligation to provide mental health services to the seriously mentally ill. By making state-funded care permissive rather than mandatory, the Legislature could potentially eliminate mental health services for 14,600 seriously mentally ill adults. The plan also would eliminate virtually all non-Title XIX behavioral health funding, terminating services for 4,200 children, 11,100 adults with general mental health-related illnesses, and 6,600 adults undergoing treatment for substance abuse. Remaining funds would be combined into a “crisis system,” which would be administered by ADHS.

When behavioral health patients are left without services, they are often picked up by police or first-responders such as firefighters and emergency medical technicians , and taken to hospital EDs or local jails, most of which are not equipped to provide the proper care for these individuals. This shift exacerbates the ever-increasing burden on safety net providers and leaves the patient without appropriate care. When these patients present at the hospital, the facility is legally obligated to stabilize them, but will do so without compensation, **yet again increasing the hidden healthcare tax on commercial health plans.** After stabilization, the patients will be released back into the community without further treatment, possibly endangering themselves or others. The governor’s budget message identifies preserving public safety as one of her top priorities. AzHHA strongly agrees public safety is a core function of government. **Unfortunately, the proposed cuts do not protect public safety; they threaten it.**

This cut to behavioral health services will save the state \$35.9 million in the governor’s plan. JLBC also identifies \$39.9 million in optional cuts to various behavioral health services.

Proposed Cuts Widen the Gap Between Hospital Payment and Cost

The governor also proposes a number of cuts to AHCCCS hospital payments and programs that further reduce reimbursement already inadequate to cover the cost of care hospitals provide to AHCCCS patients. A 2009 Arizona Chamber of Commerce study by the Lewin Group revealed that AHCCCS payments—when the most recent rate freeze is factored in—now cover only 76 percent of hospitals’ costs. Just as hospitals must shift uncompensated care costs onto commercial payors, they must compensate for inadequate AHCCCS payment by charging higher rates to commercial health plans. Commercial health insurers then pass these costs on to businesses and individuals in the form of higher premiums—**increasing the hidden healthcare tax.**

Provider Rate Freezes and Cuts The governor proposes zero percent growth in capitation rates for AHCCCS health plans in FY 2011 and indicates AHCCCS should implement provider rate freezes and cuts as necessary to cover the costs of increased utilization. As hospitals’ costs have continued to rise, AHCCCS hospital payments have been frozen at 2008 levels. Arizona hospitals have sustained a total of \$424.5 million in cumulative rate cuts and freezes since FY 2008. Additional hospital rate freezes and/or

cuts will widen the current gap between AHCCCS payment and the costs hospitals incur caring for AHCCCS patients. **Both the governor and JLBC propose nearly \$60 million in provider rate freezes/cuts, costing the state almost \$110 million in federal matching funds for a combined loss of approximately \$165 million.**

Graduate Medical Education Arizona's physician supply is not keeping up with its population growth, and investments in Arizona's Graduate Medical Education (GME) program are crucial to addressing the state's significant physician shortage. Part II of the *Arizona Physician Workforce Study* confirms that Arizona's physician workforce is not increasing at a rate sufficient to meet the needs of a growing population and remains well below the national average. The study found that Arizona had 219 physicians per 100,000 population in 2005, compared with the national average of 293/100,000. Another recent study found that approximately 60 percent of physicians who completed their training in Arizona teaching hospitals remained in Arizona to practice.

According to AHCCCS, in fiscal year 2009, GME payments to hospitals helped fund 1,360 residents across the state. Arizona needs a wide variety of new jobs in fields where demand is high. Eliminating GME funds for hospitals that train physicians, flies in the face of *any* strategy to grow Arizona's workforce. In the short term, a loss of GME funds will force teaching hospitals to absorb the costs associated with training residents with whom they have contracted by shifting costs or making cuts in other programs. Long-term, these cuts will likely prompt teaching hospitals to seriously consider their own investments in physician training programs.

A portion of the GME funds proposed to be cut are targeted toward rural Arizona, where the state's physician shortage is extreme. Part II of the *Arizona Physician Workforce Study* also found that the physician shortage is particularly severe in rural communities. For example, in Apache County, the physician/population ratio is 50/100,000. In 2007, lawmakers recognized the need to bolster GME funding in order to increase physician supply in rural areas of the state. Reducing funds for GME is a step in the wrong direction to ensuring adequate medical care in all parts of Arizona. **By eliminating \$13.3 million in state funds for this program as the governor proposes, Arizona will lose \$24 million in federal matching funds for the program, resulting in a total cut of approximately \$37.3 million to the state's hospitals. JLBC's option would save the state \$14.6 million, but would cost the state \$29.2 million in federal matching funds, for a total loss of \$43.8 million.**

Disproportionate Share Hospital payments The governor proposes cutting \$22.9 million in state and federal Disproportionate Share Hospital (DSH) funds from safety net hospitals—all but \$500,000. This proposal would penalize the very hospitals that provide the lion's share of care to AHCCCS and uninsured patients. Congress established the DSH program in 1981 to support hospitals that serve a disproportionate share of low-income and Medicaid patients, who tend to be sicker and more costly to treat. **The loss of these DSH funds will require safety net hospitals to shift the cost of caring for uninsured and AHCCCS patients to commercial health plans, driving up the hidden healthcare tax even further.**

It is important to note that, while under the governor's plan private hospitals will lose \$22.9 million in DSH funds, **the state general fund will still net approximately \$68 million in FY 2011 as a result of Arizona's complicated DSH formula. So while private hospitals must continue to provide the services the DSH program was designed to support throughout 2010, they must do so without compensation while the state realizes a financial benefit.**

By eliminating \$7.8 million in state funds for this program, Arizona will lose \$15.1 million in federal matching dollars for the program, resulting in a total loss to hospitals of \$22.9 million. JLBC's

option would save the state \$13.1 million, but at the expense of \$26.2 million in federal funds. Hospitals will lose \$30.3 million of these funds.

Rural Hospital Payments Established by the Legislature in 2005, the Safe, Accessible, Viable and Efficient (SAVE) rural hospital program is intended to maintain access to healthcare services in rural Arizona and prevent hospital closures in rural communities. When legislators passed SAVE, rural hospitals were paid just 62 percent of their costs for services delivered to AHCCCS patients. The SAVE program offsets losses incurred by rural hospitals due to AHCCCS underpayment. The loss of SAVE funds would be devastating to rural hospitals—among the largest and highest paying employers in many rural communities. **JLBC identifies eliminating rural hospital payments as a budget reduction option, saving the state \$4.6 million, but sacrificing \$9.2 million in federal matching funds, for a total loss of \$13.8 million to rural hospitals in fiscal year 2011.**

The proposed cuts to AHCCCS hospital reimbursement, GME, DSH and SAVE payments could reduce total AHCCCS payments to hospitals by up to \$225.2 million under the executive proposal and \$261.9 million in fiscal year 2011 under the JLBC options.

Conclusion

As the governor and lawmakers begin to consider options to address the state's FY 2011 budget deficit, AzHHA urges all policymakers to consider the broader economic ramifications of healthcare cuts. During this economic crisis, **it is critical to remember that hospitals are economic catalysts.** Additional payment cuts will handicap hospitals' continued ability to bolster the state's economy and reduce the availability and affordability of healthcare in Arizona.

Attached please find a chart detailing the impact of the proposed budget cuts on Arizona hospitals and the state's healthcare system.