



Arizona Hospital and Healthcare Association

THERE TO CARE: STRONGER HOSPITALS FOR A HEALTHIER ARIZONA

F A C T S H E E T

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Contact: Bridget O’Gara, vice president of communications
602-445-4300, ext. 4318, or bogara@azhha.org

The Facts on How State Budget Cuts Threaten the Healthcare Safety Net, Stall Hospitals’ Economic Engine & Increase the Hidden Healthcare Tax

Arizona’s State Budget & Healthcare: Proposed 2010 Cuts to Hospitals & the Healthcare Safety Net

- Arizona legislators are proposing cuts to the FY 2010 budget that would slash \$219 million from Arizona Health Care Cost Containment System (AHCCCS) payments to hospitals and result in a \$143 million loss of federal matching funds. The proposed FY 2010 budget cuts that would threaten the healthcare safety net for Arizona’s most vulnerable citizens includes:
 - AHCCCS Hospital Payment Rate Freeze—\$64 million (including \$42 million in lost federal funds).
 - 5 Percent Reduction in AHCCCS Hospital Payment—\$104 million (including \$70 million in lost federal funds).
 - Cut to the Disproportionate Share Hospital program—\$30 million (including \$17 million in lost federal funds).
 - Cut in Graduate Medical Education funding—\$21 million (including \$14 million in lost federal funds).
- The \$219 million in proposed cuts to AHCCCS hospital payments in the FY 2010 state budget would widen the gap between AHCCCS payment and the costs incurred by hospitals that care for AHCCCS patients.
- The cuts the legislature is considering in the FY 2010 budget would reduce AHCCCS payments to 75 percent of hospitals’ total costs.
- On its own, the proposed 5 percent cut in AHCCCS hospital payments would reduce hospitals’ revenue by \$104 million—the equivalent of 30 percent of Arizona hospitals’ total operating margin for FY 2007.

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Arizona's State Budget: The Cuts Already Inflicted to Hospitals & the Healthcare Safety Net in FY 2008 & FY 2009

- Arizona hospitals already have shouldered \$93 million in funding cuts in the FY 2008 and FY 2009 state budgets.
- During the 2008 session, the Arizona legislature froze AHCCCS hospital payments to 2008 levels. This move resulted in a \$37.5 million cut to AHCCCS hospitals payments in FY 2009, including the loss of \$25 million in matching federal funds.
- A recent independent study sponsored by AHCCCS and conducted by Milliman Inc. shows AHCCCS payments fall significantly below hospitals' total costs. Payment reductions enacted by the legislature in FY 2008 and FY 2009 drop AHCCCS payments even lower to 82 percent of hospitals' total costs. Proposed 2010 budget cuts would lower AHCCCS hospital payment rates to 75 percent of hospitals' total costs. (*see page 1 for more information*)
- More than 72,000 Arizonans enrolled in AHCCCS in 2008, increasing membership in the state's Medicaid program by 7 percent. (*Source: Intellimed International Corp., 2009*) This increase in the AHCCCS population is most likely due to the growing numbers of the unemployed and uninsured.

Arizona Hospital and Healthcare Association Survey Shows the Negative Impact of State Budget Cuts & the Economic Downturn to Arizona Hospitals

- An Arizona Hospital and Healthcare Association (AzHHA) survey of hospital chief financial officers in December 2008 reveals nearly half of the reporting hospitals lost money during the third quarter of 2008. This loss coincides with increased financial pressure on Arizona hospitals following the Oct. 1, 2008 start of the AHCCCS hospital payment rate freeze, which legislators passed during the last session and propose again as part of the FY 2010 state budget. (*see page 1 for more information*)
- AzHHA's financial performance survey, which compared the third quarter ending Sept. 30, 2007 to the same quarter in 2008, found:
 - 47 percent of reporting Arizona hospitals lost money during the third quarter of 2008.
 - Hospitals' total income margin—income from operations, investments and philanthropy—dropped 91 percent in the third quarter of 2008.
 - Hospitals' uncompensated care—charity care and bad debt—increased 8 percent from the quarter ending Sept. 30, 2007 to the same time in 2008.
- Arizona hospitals that participated in the AzHHA survey reported implementing the following measures to address the financial impact of the AHCCCS hospital payment rate freeze and the economic downturn:
 - postponing construction and renovation projects (74 percent);
 - delaying the purchase of clinical equipment (74 percent);
 - increasing the hidden healthcare tax by shifting costs to businesses (59 percent);

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- suspending information technology improvements (52 percent); and
 - implementing hiring freezes (45 percent).
- Seventy-one percent of Arizona hospitals participating in the AzHHA survey estimated their capital projects would be delayed more than a year.

Arizona's Hospitals: Economic Engines for the State

- A recent economic impact study of Arizona's hospitals showed hospitals are a major economic engine. Arizona's hospitals:
 - contribute \$11.5 billion to Arizona's gross state product; and
 - generate a total of 192,100 Arizona jobs (*Source: The Economic Impact of Arizona's Hospitals on the State & Its Counties*, L. William Seidman Research Institute, W.P. Carey School of Business, 2007)
- Healthcare is a growing field nationally, but in Arizona it is growing especially fast because of the state's rapid population increase. From 1990-2005 Arizona hospital employment increased 46 percent. Nationally, hospital employment increased by 24 percent during those same 15 years. (*Source: The Economic Impact of Arizona's Hospitals on the State & Its Counties*)
- Each Arizona hospital job supports an additional 1.7 jobs in the state. That translates to hospitals supporting one of 13 jobs in Arizona. (*Source: The Economic Impact of Arizona's Hospitals on the State & Its Counties*)
- Arizona hospital employees earn an average of \$54,400, significantly more than the \$46,200 average earnings in other Arizona industries. (*Source: The Economic Impact of Arizona's Hospitals on the State & Its Counties*)
- Even during these difficult economic times, healthcare is one of the only sectors that continues to positively impact the economy. In a report released Jan. 9, the Bureau of Labor Statistics noted that healthcare employment—hospital and ambulatory services—continued to grow in December 2008.

AHCCCS Cuts Deepen the "Hidden Healthcare Tax"

- When legislators cut AHCCCS hospital payments to below hospitals' costs to deliver those services, they are increasing what is called the "hidden healthcare tax." The hidden healthcare tax increases healthcare costs for private payers—businesses that purchase healthcare coverage for their employees. Essentially, because of the hidden healthcare tax, businesses pick up the tab to finance the care of patients who are covered by public insurance programs that underpay—AHCCCS (Medicaid) and Medicare—or are uninsured.
- In Arizona, AHCCCS currently pays hospitals 82 percent of their total costs to provide services to AHCCCS patients. The proposed FY 2010 budget would reduce that to 75 percent of hospitals' total costs to care for AHCCCS patients. (*see page 1 for more information*)

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- Arizona's ranks 43rd in the nation for its number of uninsured. This means 1.2 million of Arizona's approximately 6.3 million residents have no access to health coverage. (*Source: The Henry Kaiser Family Foundation, 2009*)
- According to a recent Milliman Inc. study, government underpayment for Medicare and Medicaid services to hospitals and physicians adds \$1,512 (10.6 percent) to the average premium for a family of four. Of this, employers pay an average of \$1,115 while the employees' share is \$397. Additionally, cost shifting adds \$276 to coinsurance and deductibles.

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