



Arizona Hospital and Healthcare Association

THERE TO CARE: STRONGER HOSPITALS FOR A HEALTHIER ARIZONA

M E D I A R E L E A S E

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Legislative Cuts Hurt Arizona Hospitals, Weaken the Economy & Harm the Healthcare Safety Net

Arizona Hospital and Healthcare Association (AzHHA) today released a report that demonstrates the uncertain financial situation of the state’s hospitals and debunks the notion that the hospital community is recession proof. The report shows nearly half of the reporting hospitals lost money during the third quarter of 2008. This coincides with increased financial pressure on Arizona hospitals following the Oct. 1, 2008 start of the Arizona Health Care Cost Containment System (AHCCCS) hospital payment rate freeze, which legislators passed during the last session and propose again as part of the FY 2010 state budget.

“If nothing is done to halt legislative cuts to healthcare, we’ll look back at the AHCCCS payment rate freeze and other recent state budget decisions as the unraveling of Arizona’s healthcare safety net,” said John Rivers, AzHHA president and CEO. “Hospitals already were in a downward financial slide prior to the AHCCCS rate freeze. Further legislative cuts will accelerate that decline.”

The AHCCCS payment rate freeze slashes hospitals’ total reimbursement by \$37.5 million for FY 2009, including \$25 million in lost federal matching funds. Since the rate freeze took effect, AHCCCS payments only cover 82 percent of costs incurred by hospitals caring for AHCCCS patients. In the FY 2009 budget passed last week, legislators also cut the Disproportionate Share Hospital (DSH) program, a federally matched program to compensate hospitals that treat large numbers of Medicaid (AHCCCS) and uninsured patients. The \$30 million cut will result in Arizona losing \$17 million in federal matching funds.

The legislature’s FY 2010 proposed budget includes \$219 million in cuts to hospitals, which will result in a \$143 million loss of federal matching funds. The FY 2010 plan would:

- continue the AHCCCS payment rate freeze (\$64 million cut to hospitals, including \$42 million in federal matching funds);
- cut deeper into the DSH program (\$30 million cut to hospitals, including \$17 million in federal matching funds);

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- slash Graduate Medical Education funding (\$21 million cut to hospitals, including \$14 million in federal matching funds); and
- impose an additional 5 percent reduction in AHCCCS payments to hospitals (\$104 million cut to hospitals, including \$70 million in federal matching funds).

Legislative Cuts Exacerbate the Hidden Healthcare Tax

“It’s important for the public to understand exactly who pays for cuts to the AHCCCS program,” said Jim Haynes, AzHHA’s vice president of Finance and chief financial officer. “Businesses and consumers end up paying more when the state cuts or freezes AHCCCS or DSH payments to hospitals. It’s no different than the legislature imposing a tax on businesses and consumers. Those additional costs show up in the form of higher health insurance rates and co-pays.”

According to AzHHA’s report, 47 percent of reporting Arizona hospitals lost money during the third quarter of 2008. Hospitals’ total income margin—income realized from operations, investments and philanthropy—dropped 91 percent from the same quarter in 2007. Additionally, 54 percent of hospitals participating in the survey reported a decrease in philanthropic support.

Hospital margins declined from the third quarter ending Sept. 30, 2007 to the same quarter in 2008. AzHHA’s Haynes attributes much of the income decline to a change in the payer mix—Medicaid (AHCCCS), Medicare, private health plans and others. In 2008, more than 72,000 Arizonans enrolled in AHCCCS, increasing membership in the state’s Medicaid program by 7 percent. The increase is most likely due to people losing their jobs, as well as their healthcare coverage, during the economic decline.

“As unemployment increases, more Arizonans are turning to AHCCCS for healthcare coverage,” Rivers said. “It also means businesses and consumers who are insured will pay more for private coverage because the state has decided it will pay less for AHCCCS patients.”

Hospitals’ Work to Weather the Economic Storm

Healthcare consumers with private coverage appear to be delaying services. Sixty-one percent of hospitals participating in the AzHHA survey reported they have experienced a decline in elective procedures, which typically are covered by private insurance payers.

The survey revealed participating Arizona hospitals are addressing their economic challenges by:

- 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);
- suspending information technology improvements (52 percent); and
- implementing hiring freezes (45 percent).

Seventy-one percent of Arizona hospitals participating in the survey estimate their capital projects will be delayed more than a year.

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 is 43rd in the nation for its number of uninsured residents. This means 1.2 million of Arizona's approximately 6.3 million citizens have no access to health coverage because they do not qualify for AHCCCS or cannot afford private health insurance.

The Hospital Community: An Arizona Economic Engine

“Healthcare is one of the few stable sectors of our economy,” Rivers said. “Economists agree that hospitals are economic engines for the state. It makes no sense to weaken hospitals, particularly at this time when they could participate in Arizona's economic recovery.”

A study conducted by the W.P. Carey School of Business at Arizona State University's (ASU) L. William Seidman Research Institute demonstrated hospitals are significant contributors to the state's economy. They deliver \$11.5 billion annually to Arizona's gross state product. Hospitals generate a total of 192,100 Arizona jobs, including 73,300 hospital employees and 118,800 jobs created as a result of hospital operations as well as the goods and services purchased by their employees. Arizona's hospitals employ 63 percent more than the state's hotel industry and 37 percent more than the electronics and aerospace industries. Hospital employees account for 7 percent of Arizona's wages and salaries.

Even during these dismal economic times, healthcare is one of the only sectors that continues to hire. In a report released Jan. 9, the Bureau of Labor Statistics announced that healthcare employment continued to grow in December 2008 (32,000), with over-the-month job gains in ambulatory services (14,000) and hospitals (12,000).

Below is a description of the surveys, both of which were issued to AzHHA-member chief financial officers on Dec. 8, 2008:

Hospital Financial Performance Survey—This ongoing survey measures hospitals' financial performance from the most recent quarter available as compared to the same quarter the previous year. This first AzHHA Hospital Performance Survey measures hospitals' performance from the third quarter ending Sept. 30, 2007 to the third quarter ending Sept. 30, 2008. The results of the next quarterly survey will be released in March.

Response Rate for Current Survey: Represents 64 percent of hospitals' discharges for the quarter.

One-Time Survey of Hospitals—The Association also conducted a one-time survey of members to measure the impact of the economic downturn and the Arizona Health Care Cost Containment System (AHCCCS) hospital payment rate freeze, enacted by the legislature during its 2008 session and implemented Oct. 1, 2008.

Response Rate for One-Time Survey: Represents 61 percent of Arizona's inpatient hospital beds including acute care (short term), behavioral health, children's, critical access and rehabilitation.