



Arizona Hospital and Healthcare Association

THERE TO CARE: STRONGER HOSPITALS FOR A HEALTHIER ARIZONA

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AzHHA Member Organization Message Points: AzHHA’s Focus on the Financial Health of Hospitals & State Budgets to Healthcare Programs

Today, the Arizona Hospital and Healthcare Association (AzHHA) will release to the media a document summarizing the results of two surveys of hospital chief financial officers: a one-time survey of hospitals on the impact of the Arizona Health Care Cost Containment System (AHCCCS) payment rate freeze as well as the economic downturn and a new quarterly financial performance survey.

AzHHA has developed the following message points to assist members with media questions as well as other community contacts pertaining to the economic health of Arizona’s hospitals and state legislative budget proposals. Please enhance these message points with examples from your organization. Additionally, this document includes supporting information to use with the message points. The survey summary document, media release and fact sheet complete the communications kit AzHHA has developed.

Message Points

Message Point 1

The legislature is proposing cuts for FY 2010 that would slash \$219 million from AHCCCS payments to hospitals, weaken hospitals’ role in the economic recovery and drive up the state’s hidden healthcare tax.

Message Point 2

The Arizona Hospital and Healthcare Association survey of hospital chief financial officers underscores hospitals’ uncertain financial future, made more uncertain by recently implemented and newly proposed legislative cuts to AHCCCS payments.

Message Point 3

Congress is poised to pass an economic recovery package that will provide federal Medicaid matching funds to support AHCCCS in FY 2010. *[Insert Name of Organization]* is joining other Arizona hospitals to urge state legislators to use those funds for their intended purpose—protecting healthcare services for vulnerable citizens who receive care in Arizona hospitals.

Message Point 4

Using the federal Medicaid matching funds for their intended purpose will prevent deeper cuts to AHCCCS hospital payments and have the added value of bolstering Arizona's economy. If the state pays hospitals rates that keep pace with their costs, they will free hospitals to participate in the state's economic recovery.

Message Point 5

Arizona's hospitals are economic engines. They hire both professional and non-skilled staff; generate jobs throughout the Arizona economy; and bolster the economy even during downturns that stall other business sectors. Legislators should capitalize on hospitals' capacity to bolster the state's economy. Reducing AHCCCS payments and cutting programs only undercuts the hospital community's ability to participate in Arizona's economic recovery.

Message Point 6

Cuts to AHCCCS hospital payments exacerbate what is called the "hidden healthcare tax" on businesses and consumers. When the state pays hospitals less than what it costs them to provide care, some of those costs are passed on to other healthcare payers in the form of higher premiums. All Arizonans who purchase private health insurance pay the "hidden healthcare tax" because the state chooses to pay hospitals below their total costs.

Supporting Information for Message Points

Below is information to support the message points. The media release and fact sheet provide additional details as well.

Message Point 1, Supporting Information—The Proposed FY 2010 AHCCCS Cuts & The Impact on Arizona's Hospitals (*see Message Points 2 & 6, Supporting Information for additional detail*)

- The legislature's FY 2010 proposed budget includes \$219 million in cuts to hospitals, which would result in a \$143 million loss of federal matching funds. The proposed FY 2010 budget cuts that would impact Arizona's hospitals include:
 - 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 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.

- Arizona hospitals already have shouldered \$93 million cuts in the FY 2008 and FY 2009 state budgets.

Message Point 2, Supporting Information—Impact of the Economic Downturn & the AHCCCS Hospital Payment Rate Freeze on Arizona’s Hospitals

AzHHA’s financial performance survey shows Arizona hospitals are feeling the impact of the economic downturn. AzHHA’s financial performance survey compares the third quarter ending September 30, 2007 to the same quarter in 2008. The survey revealed the following:

- 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 in the third quarter of 2008 as compared to the third quarter of 2007.
- Hospitals’ uncompensated care—charity care and bad debt—increased 8 percent from the quarter ending Sept. 30, 2007 to the same time in 2008.

AzHHA also asked hospital chief financial officers to identify steps their organizations were taking to address the financial impact of the AHCCCS hospital payment rate freeze, which began October 1, 2008, as well as the economic downturn. The survey found that Arizona’s hospitals are:

- 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).

In that same survey, 71 percent of reporting Arizona hospitals estimated their capital projects will be delayed more than a year.

Please be prepared to discuss actions your organization has taken to address the impact of the AHCCCS hospital payment rate freeze and the economic downturn.

Message Points 3 & 4, Supporting Information—Use Federal Matching Funds (Federal Medical Assistance Percentage Funds) to Prevent Further AHCCCS Cuts & the Impact of AHCCCS Payment Cuts (*see Message Point 1, Supporting Information, for additional supporting information*)

- A recent independent study 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. The legislature is considering cuts to the FY 2010 budget that would reduce AHCCCS payments to 75 percent of hospitals’ total costs.
- More than 72,000 Arizonans enrolled in AHCCCS in 2008, increasing membership in the state’s Medicaid program by 7 percent. This increase in the AHCCCS population is most likely due to the growing numbers of the unemployed and uninsured.

Message Points 5 & 6, Supporting Information—Allow Arizona Hospitals to Participate in the Economic Recovery

- A study conducted by the W.P. Carey School of Business at Arizona State University's (ASU) L. William Seidman Research Institute showed hospitals:
 - contribute \$11.5 billion to Arizona's gross state product; and
 - generate a total of 192,100 Arizona jobs (includes 73,300 hospital employees and 118,800 jobs produced by the purchases of goods and services hospital employees make as well as purchases by hospitals to support their organizational operations).
- Even during these difficult economic times, healthcare is one of the only sectors that continues to positively impact the economy. In its January 2009 report, the Bureau of Labor Statistics noted that healthcare employment—hospital and ambulatory services—continued to grow in December 2008.
- Arizona's hospitals have consistently contributed to the state's economy. From 2000-05, hospital construction and expansion projects have:
 - added 1,300 inpatient beds to the state;
 - created more than 4,440 Arizona jobs each year;
 - produced total payroll of \$1.1 billion; and
 - infused \$1.7 billion into Arizona's gross economy.

Message Point 6, Supporting Information—AHCCCS Hospital Payment Cuts Exacerbate the Hidden Healthcare Tax

- When government purchasers of healthcare services underpay providers, businesses (private payers) essentially pay a "tax" in order to finance the care of patients who are covered by public insurance programs such as AHCCCS (Medicaid), Medicare or are uninsured.
- 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.