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Arizona Hospital and Healthcare Association



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Behind
the Big
Blue



*A briefing for new
lawmakers on hospital
issues facing the
Arizona Legislature*

November 20, 2008





Behind
the Big
Blue



Overview

- **Hospitals by the numbers**
- **Hospitals as healthcare providers**
- **Hospitals as community benefit providers**
- **Hospitals as economic catalysts**
- **Hospitals as employers**
- **Hospitals as educators**
- **How you can support Arizona's hospitals**
- **Question & Answer Panel**



Hospitals by the Numbers

- **Arizona has 117 hospitals in 14 counties**
- **2.0 beds per 100,000 population compared to the national average of 2.7 per 100,000 population**
- **Average length of stay in the hospital is 4.4 days, compared to a national average of 5.6 days**
- **Hospital employ 73,3000 individuals**



Hospitals by the Numbers

- **23,727 trauma patients in 2006**
- **2 million emergency department visits**
- **1.2 million uninsured Arizonans, including 231,000 children—42nd highest number of uninsured in the nation**
- **\$311,993,000 in uncompensated care in 2006**



Arizona Hospitals Serve Many Roles in the Community



Hospitals as Healthcare Providers



- **Essential Healthcare Services**
 - **Emergency care**
 - **Medical/surgical care**
 - **Behavioral health & rehabilitative services**

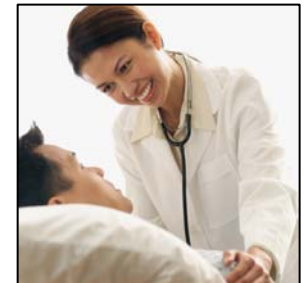




Hospitals as Community Benefit Providers



- Improving the health of their communities
 - Providing care to everyone, regardless of ability to pay
 - Offering health improvement programs





Hospitals as Community Benefit Providers

- **Relevant Policy Considerations**
 - ✓ **Hospitals provide more than just medical care to their communities**

 - ✓ **As the economy worsens, hospitals face financial challenges in providing community benefits:**
 - ✓ **Uncompensated care and bad debt increase**
 - ✓ **ED takes on greater role as primary care provider**
 - ✓ **Charitable contributions decrease**



Arizona Hospitals: Caring For Their Communities

- **Arizona hospitals provided more than \$1 billion in uncompensated care, community health improvement programs, subsidized healthcare services and other programs in 2006**
- **Hospitals provide community health improvement programs that in FY 2006 reached more than 1.5 million Arizonans, about 25 percent of Arizona's population**



Arizona Hospitals: Caring For Their Communities

- **Hospitals infused more than \$30 million into community health improvement programs that serve significant numbers of poor, medically underserved and uninsured Arizonans, as well as arm residents with information to improve their health**



Arizona Hospitals: Caring For Their Communities

- **Community health improvement programs hospitals provide include:**
 - **Unbilled or discounted services offered to poor, medically underserved and/or broader community**
 - **Education, support groups, family counseling**
 - **Clinics, health screening, immunization, medicines**
 - **Meals, transportation, in-home services**



Hospitals as Economic Catalysts



- **Bolstering the state's economy**
 - **Contributing to the state's gross product**
 - **Generating jobs statewide**
 - **Investing in construction and expansion projects**





Hospitals as Economic Catalysts

- **Relevant Policy Considerations**
 - ✓ **Shortage of hospital beds**
 - ✓ **Economic impact of hospital expansion**
 - ✓ **Effect of hospital cuts on the availability of healthcare**
 - ✓ **Impact of downturn in economy on hospital expansion & hiring plans**
 - ✓ **Effect of hospital cuts on the state's economy**

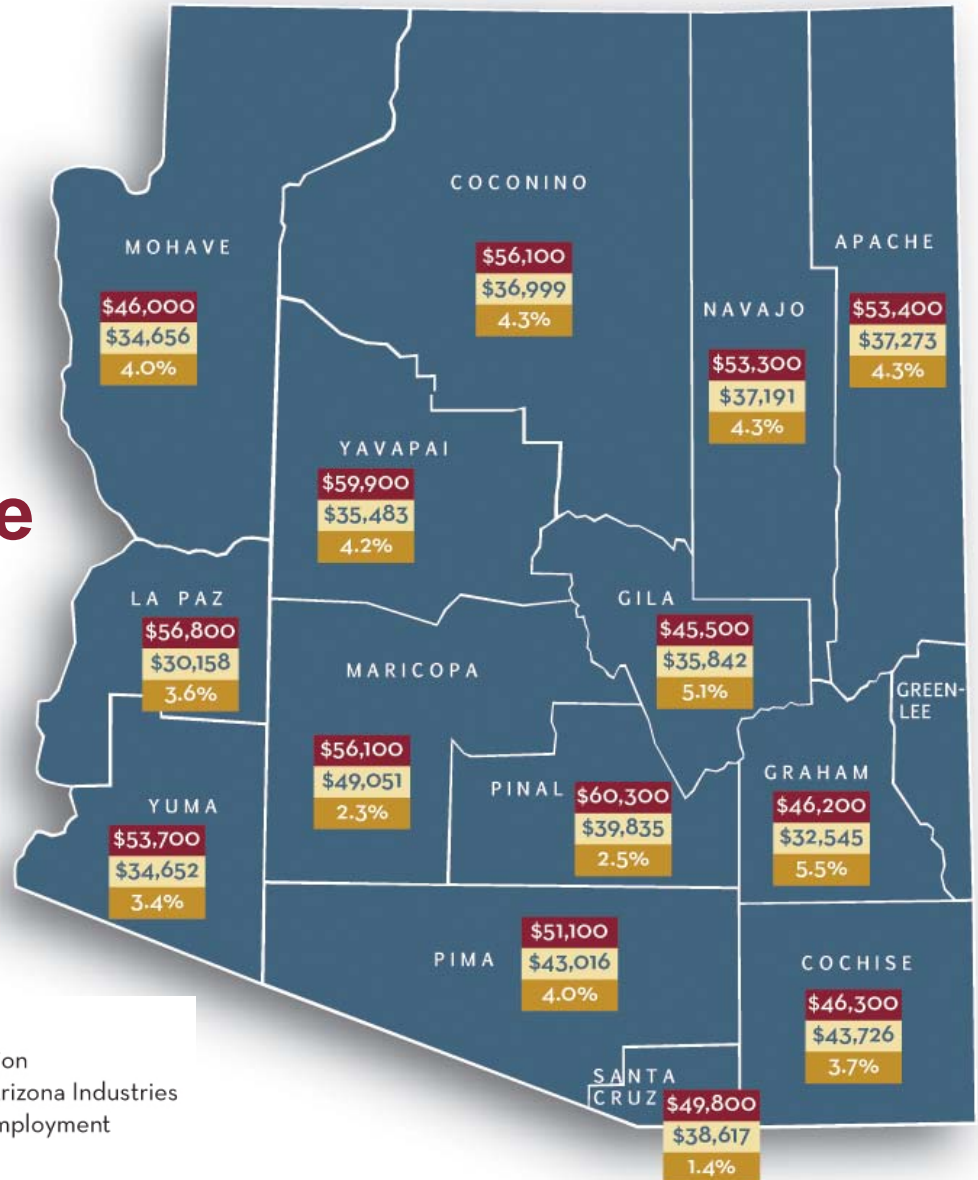


Hospitals – Invigorating the State’s Economy

- A 2006 study – conducted by the W.P. Carey School of Business at ASU’s Seidman Research Institute – revealed:
 - Arizona hospitals contribute \$11.5 billion to Arizona’s economy
 - For every dollar of hospital activity, the state realizes \$2.75 in gross state product
 - \$7.9 billion in compensation to hospital employees and their suppliers
 - Arizona hospitals generate 192,100 jobs statewide



Arizona's Hospitals and their Positive Impact on Economies Close to Home



MAP KEY:

- Average Hospital Employee Compensation
- Average Employee Compensation—All Arizona Industries
- Hospital Employment as % of County Employment



Hospitals & the Construction Industry: Building for Tomorrow

- **Arizona currently ranks 45th in the nation in the number of hospital-staffed beds per 100,000 population.**
- **Since 2000, Arizona's hospitals have invested nearly \$1.3 billion in new hospital construction and expansion projects**



Hospitals & the Construction Industry: Building for Tomorrow

- **Since 2000, Arizona's hospitals 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**
 - **Infused \$1.7 billion in Arizona's gross economy**



Hospitals & the Construction Industry: Building for Tomorrow

- **Before the economic downturn and state budget cuts, hospitals planned to continue construction activity in Arizona from 2007 - 2011.**
- **Hospitals had hoped to invest \$3.3 billion, resulting in nearly 2,900 new inpatient beds, a 20% increase in hospitals' current inpatient bed capacity.**



Hospitals & the Construction Industry: Building for Tomorrow

- From 2007-11, hospital construction in Arizona would have:
 - Put people to work, creating 14,900 Arizona jobs each year
 - Boosted the economy and bolstered family finances through \$2.6 billion in total compensation from 2007-11
 - Enhanced the state's economy by infusing \$4.1 billion into Arizona's gross economy



Economic Downturn & State Budget Cuts Stall Hospital Growth

- **As the economic picture continues to worsen, hospitals are experiencing:**
 - **A decline in revenue resulting from decreasing volumes of inpatient admissions and elective procedures**
 - **An increase in bad debt and charity care as a percentage of total revenue**
 - **An increase in community need for subsidized health services and other services to support low-income populations**
 - **A decrease in the level of charitable support**



Economic Downturn & State Budget Cuts Stall Hospital Growth

- **To weather the economic storm and state budget cuts enacted last legislative session, hospitals are:**
 - **Reconsidering or postponing building projects**
 - **Postponing the opening of new facilities**
 - **Implementing hiring freezes and/or laying employees off**



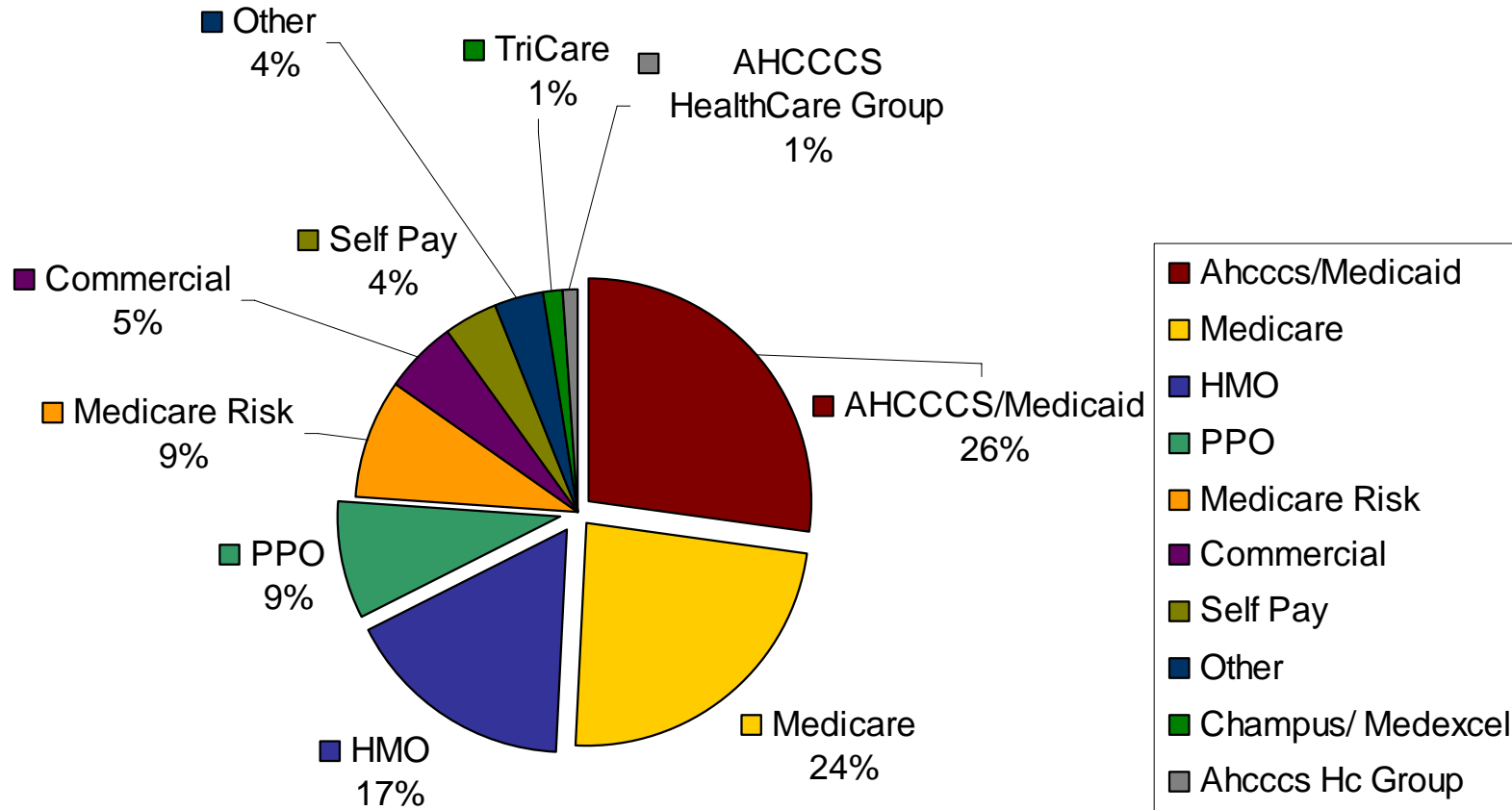
Healthcare Finance Falls Short = Hospital Economic Stimulus Stymied

- **Relevant Policy Considerations**
 - ✓ **Healthcare finance**
 - ✓ **AHCCCS**
 - ✓ **KidsCare and KidsCare Parents**
 - ✓ **Proposition 204 threatened by Voter Protection Act legislation**
 - ✓ **Effect of inadequate and untimely hospital payment**
 - ✓ **Hidden Healthcare Tax**



Who Pays for Healthcare?

2007 Payor Mix in Arizona Hospitals





Healthcare Cost Drivers

- **Growth**
- **The workforce shortage**
- **Infrastructure**
- **Medical technology & complexity**
- **Uninsured**
- **Inadequate payment by government healthcare programs**
- **Cost shifting—The Hidden Healthcare Tax**



Arizona Health Care Cost Containment System (AHCCCS)

- **Medicaid is a federal/state partnership designed by Congress in 1965 to provide healthcare for low-income women, children, the elderly and disabled**
- **Arizona was the last state to join the Medicaid program in 1982**
- **Arizona's Medicaid program, AHCCCS, is a national model for other states**

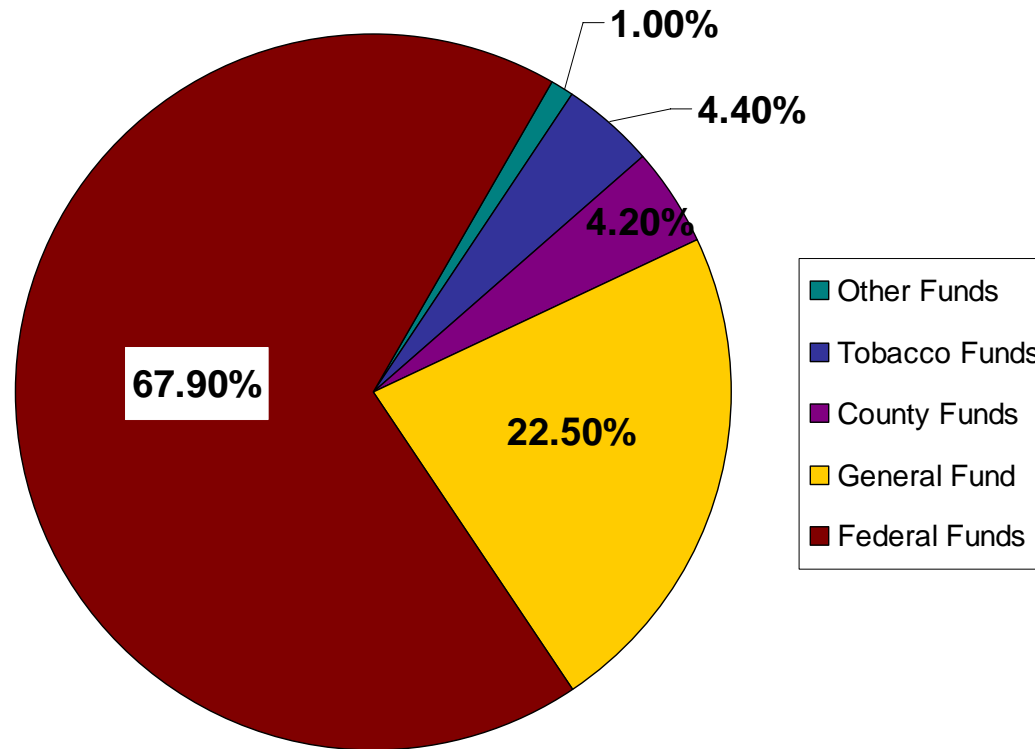


Arizona Health Care Cost Containment System (AHCCCS)

- **Today AHCCCS and KidsCare programs cover more than 1 million beneficiaries**
- **AHCCCS purchases healthcare coverage through managed care organizations (managed competition model)**



AHCCCS—Funding Sources



Source: AHCCCS Division of Business and Finance



The AHCCCS Model Produces Results

- **Overall less costly program**
- **Lowest pharmacy cost per member**
- **Lower percent of individuals in nursing facilities**
- **High member satisfaction**
- **Lower number of emergency room visits per 1000**
- **Less costly annual trend growth than commercial coverage**



Arizona's Annual Payment Per Member Compared to Other States

- **AHCCCS is the third most cost-effective Medicaid program in the nation, with an annual payment per member of \$3,035**
- **Other state's annual payment per member:**
 - **New York \$7,817** **Maryland \$5,542**
 - **Iowa \$4,937** **Oregon \$3,177**
 - **Washington \$3,956** **New Mexico \$3,501**
 - **Arkansas \$3,059** **Idaho \$4,139**
 - **Wyoming \$4,184** **Colorado \$4,893**



Proposition 204

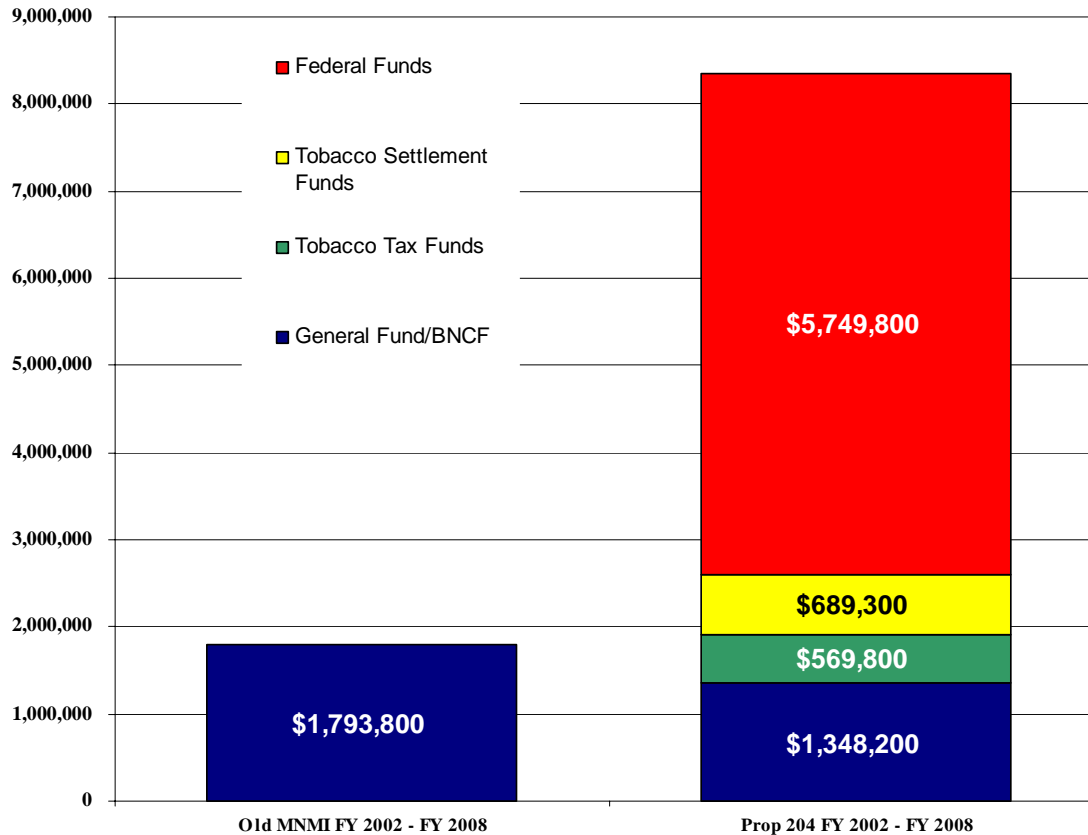
The Healthy Arizona Initiative

- **Proposition 204, passed by the voters in 2004, expanded AHCCCS eligibility to 100 percent of the federal poverty level and secured federal funds to pay a significant share of the costs of care**
- **133,682 Arizonans receive healthcare coverage as a result of Prop 204**
- **Prior to Prop 204, the counties were responsible for the care of the indigent sick**



The AHCCCS Model Produces Results

Proposition 204 Funding (FY 2002 – FY 2008)



NOTE: Pre-Prop 204 MNMI costs were grown by maintaining constant population and a 6% medical inflation factor.



AHCCCS Hospital Payment

- **AHCCCS receives state and federal funding to provide healthcare coverage for its enrollees**
- **For every \$1 the state invests, AHCCCS receives \$2 from the federal government**
- **AHCCCS contracts with private health plans to administer healthcare to enrollees**



The Big Chill: AHCCCS Hospital Rate Freeze

- **During the 2008 legislative session, lawmakers froze AHCCCS hospital rates at 2008 levels, cutting hospital payments by \$37.5 million**
- **The budget package prohibited AHCCCS from providing the annual, statutorily required cost-of-living adjustment to hospital payment rates**



The Big Chill: AHCCCS Hospital Rate Freeze

- The rate freeze saved the state \$12.5 million, but cost Arizona \$25 million in federal funds and cut total payments to all Arizona hospitals by \$37.5 million
- The FY 2009 rate freeze applied to nine months of the fiscal year
- Annualized, the rate freeze amounts to a permanent \$50 million to hospitals



AHCCCS Hospital Rate Freeze—Widening the Gap

- **The rate freeze exacerbates inadequate payment to hospitals for care provided to AHCCCS patients**
- **A recent independent study commissioned by the AHCCCS Administration found that AHCCCS currently pays hospitals significantly below the costs they incur caring for AHCCCS patients**



AHCCCS Hospital Rate Freeze—Widening the Gap

- **AHCCCS estimates that, when payment reductions the Legislature enacted in FY 2008 are taken into consideration, AHCCCS payments only cover 85 percent of hospitals' total costs**
- **AzHHA estimates that the rate freeze drops the percentage of costs covered to 82 percent**



The Waiting Game: AHCCCS Health Plans Holding the Money

- **AHCCCS health plans receive funding at the beginning of each month to reimburse hospitals for care provided to AHCCCS members**
- **Arizona hospitals are currently experiencing significant delays in AHCCCS health plan payments for hospital services**



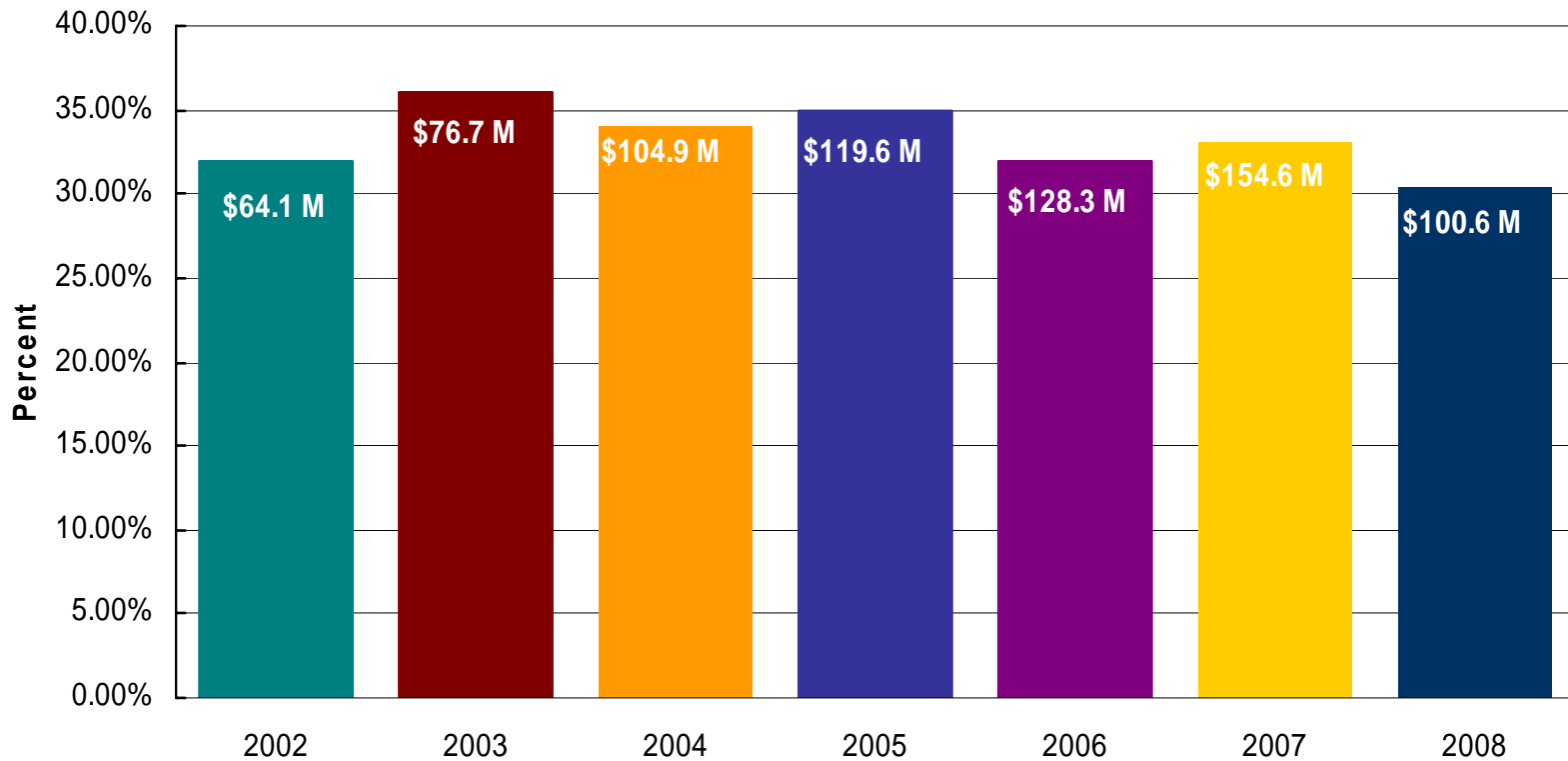
The Waiting Game: AHCCCS Health Plans Holding the Money

- **As of June 30 2008, AHCCCS health plans had \$332,334,000 in claims outstanding for AHCCCS services hospitals have provided**
- **Of this, 30.3% (\$100,656,000) were more than 60 days old**
- **On average since 2002, 33.7% of claims have been more than 60 days old**



AHCCCS—Untimely Hospital Payment

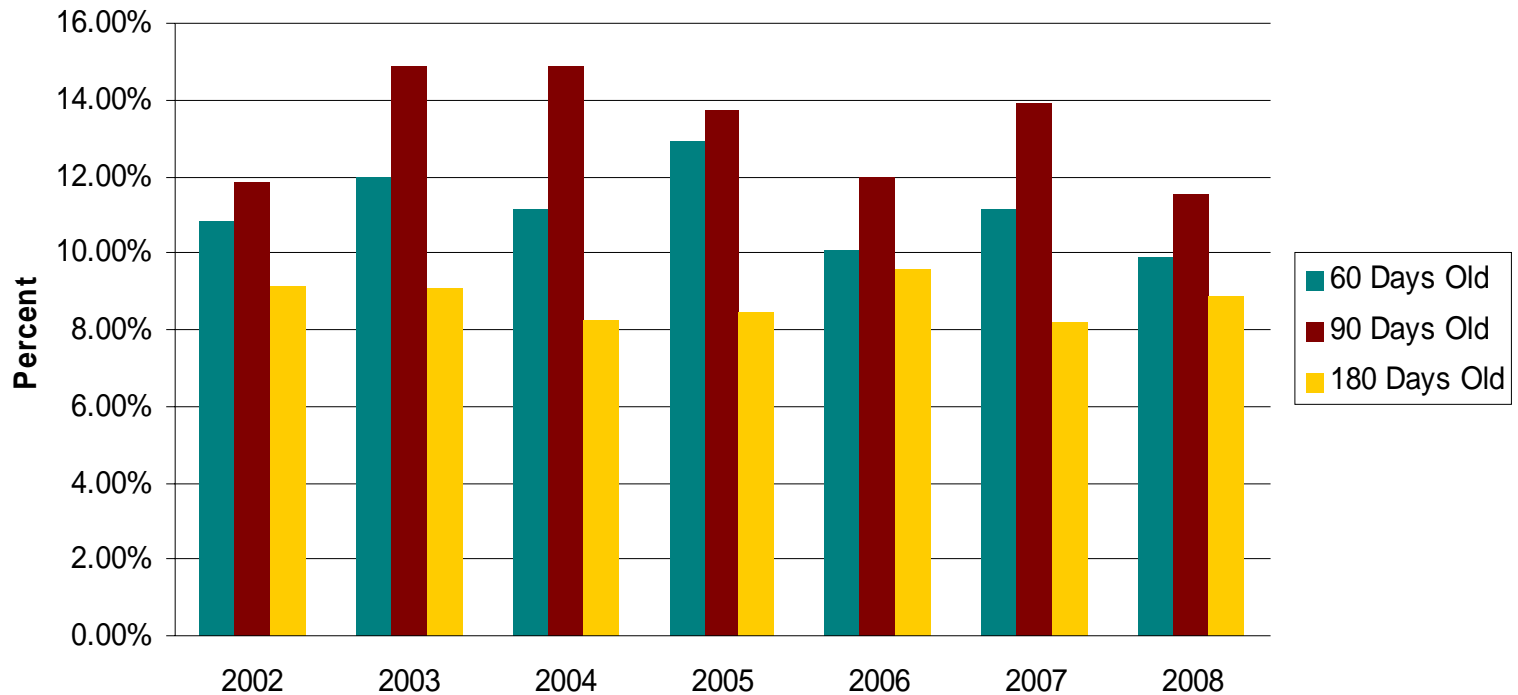
Percentage of Unpaid Claims Over 60 Days Old





AHCCCS—Untimely Hospital Payment

Percentage of Unpaid Claims Over 60, 90, 180 Days Old



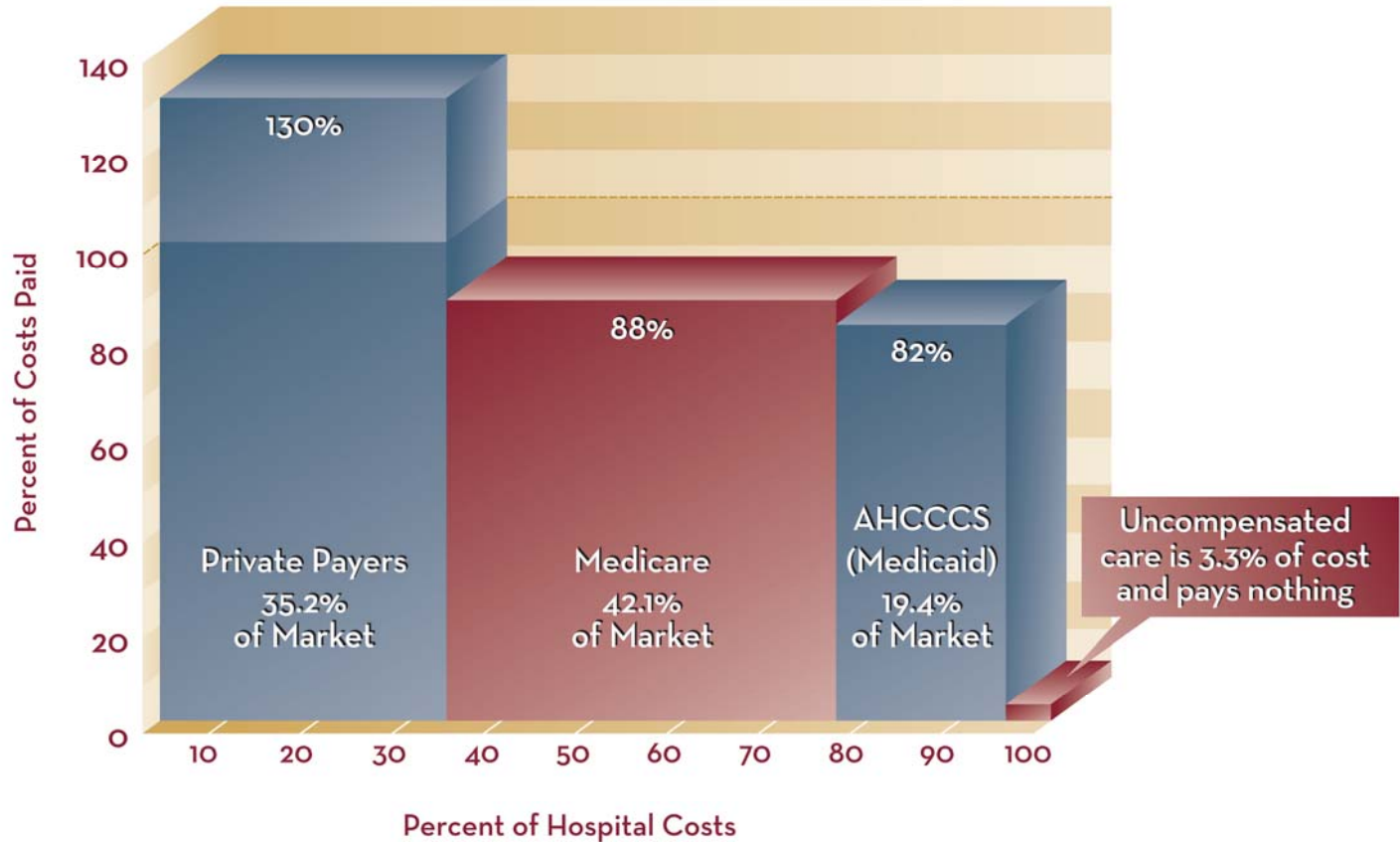


Driving Up Arizona's Hidden Healthcare Tax

- Hospitals must make up for inadequate and untimely AHCCCS reimbursement by charging higher rates to hospital patients and commercial health plans
- Commercial health plans must, in turn, pass these costs on to business and individuals in the form of higher health insurance premiums
- This cost shift is a “hidden healthcare tax”



The Hidden Healthcare Tax Revealed



Sources: Intellimed, Uniform Accounting Reports, American Hospital Association, Milliman USA

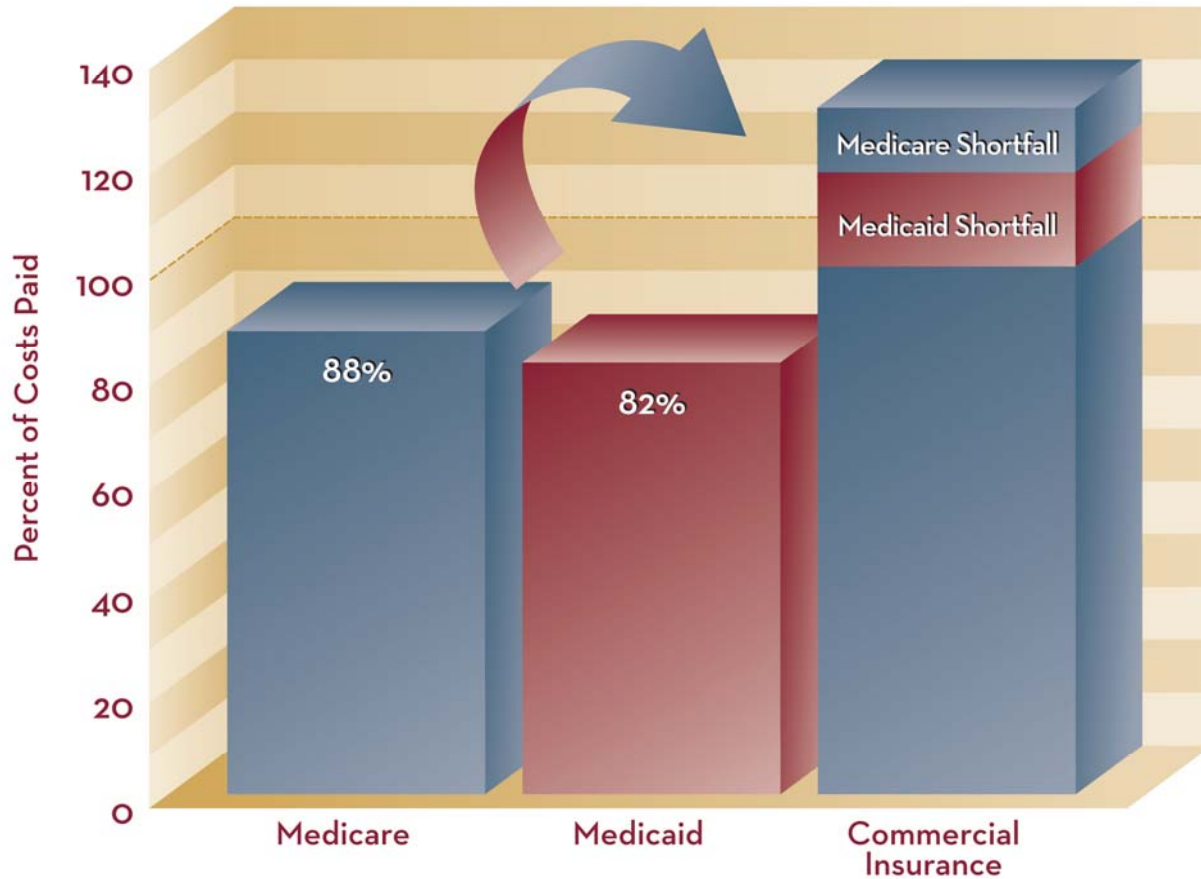


Driving Up Arizona's Hidden Healthcare Tax

- **The \$50 million reduction in hospital payments and significant reimbursement delays drive up the hidden healthcare tax on businesses and individuals**



Business & Private Payers Bear the Brunt of the Hidden Healthcare Tax



Sources: Intellimed, Uniform Accounting Reports, American Hospital Association, Milliman USA



Arizonans Against the Hidden Healthcare Tax

- **During the 2008 legislative session, 17 commercial health plans and business groups formed Arizonans Against the Hidden Healthcare Tax (AAHHT), a coalition dedicated to combating the hidden healthcare tax that results from inadequate AHCCCS hospital reimbursement**



Arizonans Against the Hidden Healthcare Tax

- **During the 2009 legislative session, AAHHT will urge lawmakers to lift the AHCCCS hospital rate freeze and oppose all proposed cuts to hospital payments**
- **AAHHT's long-term goal is to reduce the hidden healthcare tax by closing the gap between AHCCCS payments and hospital cost**



Arizonans Against the Hidden Healthcare Tax

Aetna Inc.

America's Health Insurance Plans

Arizona Association of Health Insurance Underwriters

Arizona Chamber of Commerce and Industry

Arizona Hospital and Healthcare Association

Blue Cross and Blue Shield of Arizona

CIGNA Healthcare of Arizona, Inc.

East Valley Chambers of Commerce

Flagstaff Chamber of Commerce

Greater Phoenix Chamber of Commerce

Health Net of Arizona

Humana, Inc.

LifeWise Health Plan of Arizona

National Federation of Independent Business/Arizona

Prescott Chamber of Commerce

Southern Arizona Chamber of Commerce Alliance

Tucson Metropolitan Chamber of Commerce



Hospitals as Employers



- Hiring workers to meet growing demand
 - Hiring new workers despite economic slowdown
 - Paying higher salaries
 - Generating jobs in other industries





Hospitals as Employers

- **Relevant Policy Considerations**
 - ✓ **Jobs generated by hospitals**
 - ✓ **Shortage of physicians, nurses and other healthcare professionals**
 - ✓ **Effect of hospital cuts on workforce shortage and availability of healthcare**



Hospital Jobs: Family Sustaining and Community Enhancing

- **Arizona hospitals employ 73,300 people, nearly 3 percent of all of the state's workers and 63 percent more than Arizona's hotel industry and 37 percent more than the electronics and aerospace industry**
- **Arizona hospital employees earn an average of \$54,400, significantly more than the \$46,200 average earnings in other industries**



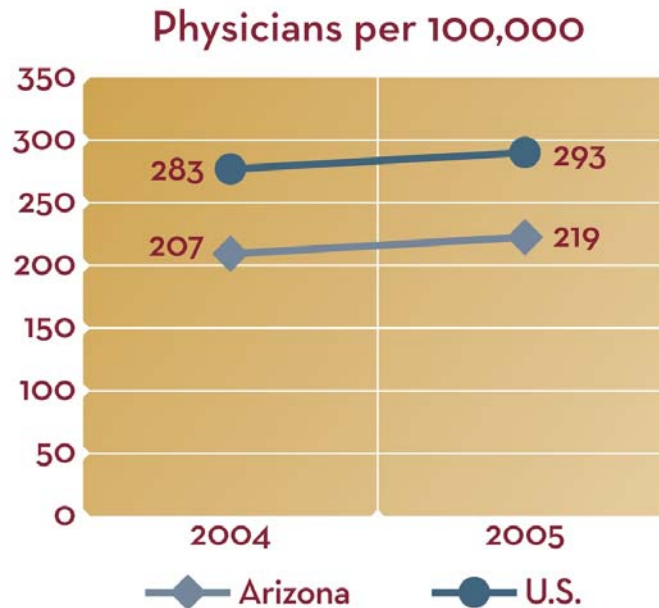
Hospital Jobs: Family Sustaining and Community Enhancing

- **Hospitals are responsible for a total of 192,000 Arizona jobs, including hospitals' 73,300 employees, and an additional:**
 - **81,4000 job generated by the goods and services purchased by hospital employees; and**
 - **37,400 jobs produced by hospital purchases to support their operations**



Hospitals as Employers: Growing Challenges

- **Workforce shortages, exacerbated by Arizona's growing population, have hampered hospital employment growth overall**



- **Arizona estimated shortage of physicians was approximately 2,218 physicians in 2005**



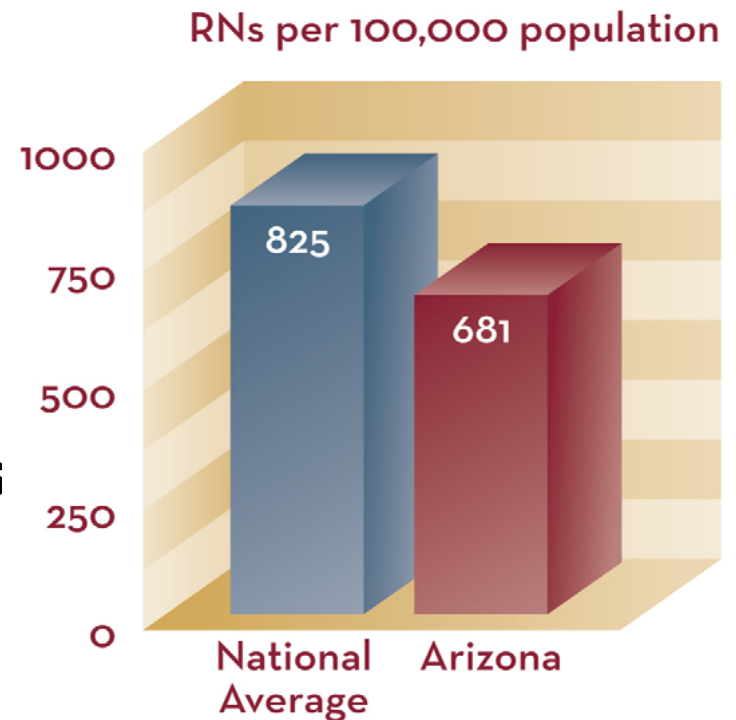
Hospitals as Employers: Growing Challenges

- **In some rural areas, the physician ratio is as low as 50 physicians per 100,000 residents in Apache County**
- **Two counties do not have any general surgeons or orthopedists**



Hospitals as Employers: Growing Challenges

The national U.S. average is 825 registered nurses (RNs) per 100,000 residents; the Arizona average is 681 RNs per 100,000 residents. Arizona ranks 45th among all states for employed RNs per 100,000.





Hospitals as Employers: Growing Challenges

- **Nationally, nursing is the occupation with the largest projected job growth through 2012**
- **A total of 48,772 additional Arizona RNs will be needed in Arizona by 2017 to close the gap and meet the U.S. average of 825 RNs per 100,000 population**



Hospitals as Employers: Growing Challenges

Health Professions Per 100,000 8 Professions AZ to US

	<u>US</u>	<u>AZ</u>
Pharmacist	67	77
Pharmacy Technician	104	105
Physical Therapist	42	49
Occupational Therapist	21	30
Respiratory Therapist	39	32
Laboratory/Medical Tech	78	101
Radiologic Technologist	67	62



Hospitals as Educators



- Educating our future healthcare workforce
 - Teaching and training nurses, physicians and healthcare professionals
 - Developing and expanding residency programs to grow tomorrow's workforce





Hospitals as Educators

- **Relevant Policy Considerations**
 - ✓ **Financial investment required of teaching hospitals**
 - ✓ **Shortage of physicians, nurses and other healthcare professionals**
 - ✓ **Effect of hospital cuts on hospital education efforts and workforce shortage**



Hospitals as Educators

- **Hospitals educate and train physicians, nurses and other healthcare professionals**
- **In 2006, Arizona hospitals poured \$98 million into efforts to address the dire shortage in healthcare professionals**



Hospitals as Educators

- **Hospitals provide clinical settings for undergraduate training, internships and residencies**
- **Hospitals also provide scholarships, tuition payments, continuing medical education classes and funding to external organizations to provide medical education**



Hospitals as Educators: Graduate Medical Education

- **Arizona's Graduate Medical Education (GME) program supports physician residency programs at Arizona teaching hospitals and is critical to addressing our state's physician shortage**
- **The Medicaid GME funds are distributed by AHCCCS and the program receives \$44.9 million in state and federal funds**
- **For every \$1 the state cuts from the GME program, \$2 in federal matching funds are lost**



Hospitals as Educators: Graduate Medical Education

- **Thirteen Arizona hospitals participate in the GME program offering training in anesthesiology, emergency medicine, family medicine, internal medicine, neurology, neurosurgery, obstetrics & gynecology, pathology, pediatrics, surgery, etc.**
- **60% of physicians trained in Arizona remain in Arizona to practice**



How You Can Protect Arizona's Hospitals

A photograph of the Arizona State Capitol building, showing its ornate facade with a central pediment and a dome topped with a statue. The building is set against a clear blue sky.

- **Avoid harming hospitals' ability to bolster the economy:**
 - **Thaw the rate freeze**
 - **Oppose cuts in rural hospital payments**
 - **Oppose measures that increase the number of uninsured**
 - **Support adequate and timely AHCCCS payments**
 - **Protect voter-approved measures and funding**



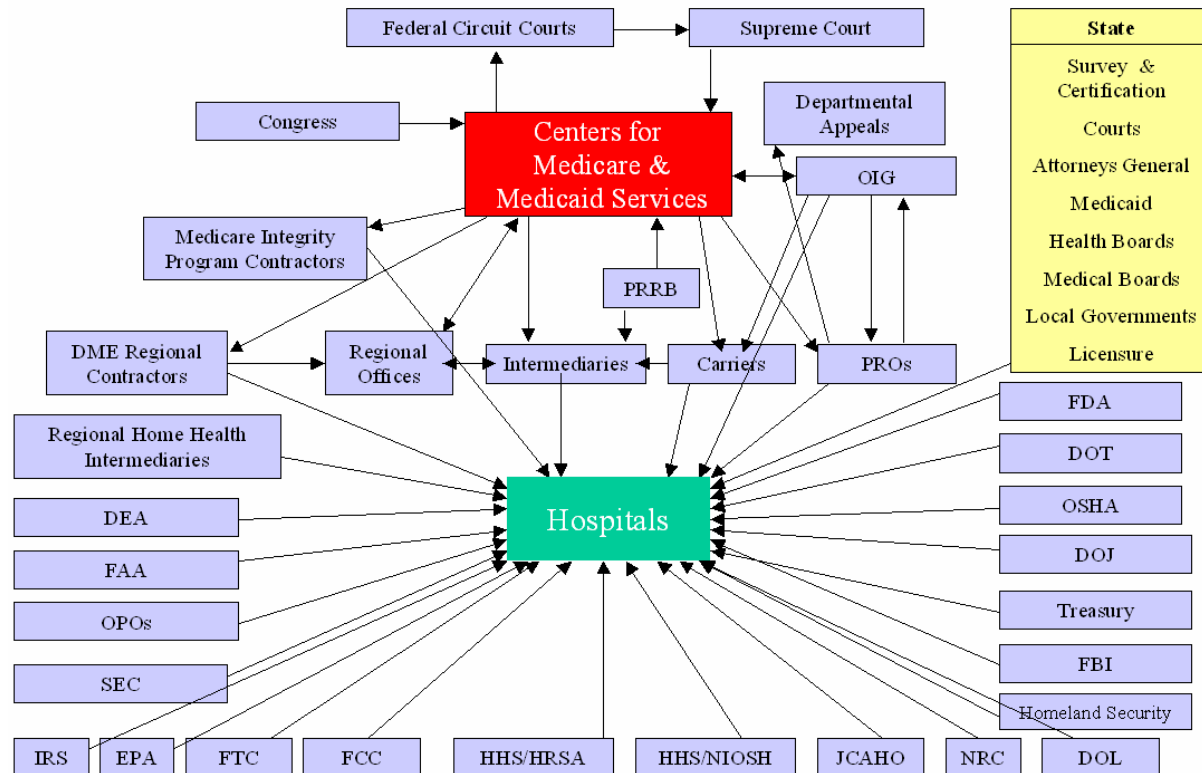
How You Can Protect Arizona's Hospitals

- **Assist hospitals in combating the healthcare workforce shortage**
 - **Oppose efforts to reduce funding to Graduate Medical Education programs**
 - **Support ongoing investments in university and community college healthcare professions education programs**
 - **Oppose legislation mandating nurse staffing ratios**



How You Can Protect Arizona's Hospitals

- **Avoid creating burdensome, duplicative regulations**





Question & Answer Panel

- **Pat Walz, Yuma Regional Medical Center, Chief Financial Officer**
- **Dan Coleman, John C. Lincoln Health Network, President & CEO**
- **Jim Haynes, AzHHA, Chief Financial Officer**
- **Dan Weinman, Banner Health, Regional VP Financial Operations**
- **Michelle Bolton, National Federation of Independent Business, Arizona Chapter Director**
- **Debbie Pendergast, Mayo, Chair of Division of Nursing Services/Associate Administrator**
- **Dr. Michael Grossman, University of Arizona College of Medicine-Phoenix, Associate Dean of GME**
- **Bill Bradel, Flagstaff Medical Center, Chief Executive Officer**