



Arizona Hospital and Healthcare Association

January 11, 2010

Thomas J. Betlach
Director
Arizona Health Care Cost Containment System
801 East Jefferson
Phoenix, Arizona 85034

Attention: Mariaelena Ugarte
Office of Legal Assistance
701 East Jefferson, Mail Drop 6200
Phoenix, Arizona 85034

Dear Director Betlach:

I am writing on behalf of the Arizona Hospital and Healthcare Association (AZHHA) and its 95 member hospitals and health systems to urge you to reconsider your recently announced plan to transfer all remaining Graduate Medical Education (GME) funds and virtually all remaining private Disproportionate Share Hospital (DSH) funds for other uses within the Arizona Health Care Cost Containment System (AHCCCS) budget. As you know, this action—when combined with your plan to implement the Legislature's recent lump sum cut—will result in a total loss of \$67.7 million in state and federal funds hospitals need to train physicians and care for AHCCCS and uninsured patients. This cut comes on the heels of \$273 million in cumulative cuts Arizona hospitals have sustained since 2008.

The hospital community is particularly concerned that, at a time when our policymakers seek ways to grow our way out of the current recession, the plan to cut \$18.9 million in state GME and DSH funds will actually *shrink* Arizona's economy by \$48.8 million in federal Medicaid matching funds that will now go to other states. We would argue that now more than ever, when policymakers are looking for services to cut, those programs that generate two or three federal dollars for every one state dollar should be the absolute last to go.

Arizona's economic recovery will depend on the creation of jobs, particularly high-paying positions in growing fields like healthcare. Throughout this decade, Arizona's hospital community has been an economic driver, contributing \$11.5 billion to Arizona's gross state product and employing 73,300 people, according to a recent Arizona State University (ASU) study. Conducted by the W.P. Carey School of

Business at ASU's L. William Seidman Research Institute, the study revealed that Arizona hospitals produce an economic ripple effect that bolsters the entire state's economy. Cutting \$67.7 million from an industry with a proven track record as an economic catalyst is bad fiscal medicine for Arizona's ailing economy.

Arizona needs a wide variety of new jobs in fields where demand is high. Cutting \$42 million in GME funds for hospitals that train physicians flies in the face of any strategy to grow Arizona's workforce. Arizona's physician shortage is well-documented: Part II of the *Arizona Physician Workforce Study* found that our state had 219 physicians per 100,000 population in 2005, compared with the national average of 293/100,000. Experts agree that 60 percent of physicians who train in Arizona will stay in the state to practice—all the more reason to invest in, rather than cut, GME funds for teaching hospitals. In the short-term, a mid-year loss of \$42 million in 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.

The plan to cut \$25.6 million in DSH funds from safety net hospitals—all but \$500,000—is equally short-sighted and penalizes 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. Hospitals are federally mandated to provide emergency care to all patients who come to their emergency departments without regard to their ability to pay. The loss of \$25.6 million in DSH funds will require safety net hospitals to shift the cost of caring for uninsured and AHCCCS patients to commercial health plans, which will in turn charge higher premiums to Arizona businesses and families. A 2009 Arizona Chamber of Commerce and Industry study by The Lewin Group (see attached) found that AHCCCS underpayment for hospital care cost Arizona employers and their workers \$407 million in 2007. Cutting \$25.6 million in DSH funds will drive up this *hidden healthcare tax* on Arizona businesses and families, threatening their ability to continue to purchase commercial health insurance.

It is also worth noting that, while under this plan private hospitals will lose \$25.6 million in DSH funds, the state general fund will still net approximately \$68 million in FY 2010 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.

AzHHA member hospitals are acutely aware of the state's dire fiscal situation; they are living it along with policymakers. Having incurred \$273 million in cuts since 2008, hospitals have made hard choices of their own. In a recent AzHHA survey, 64 percent of responding hospitals indicated they had raised rates charged to private health plans as a result of recent AHCCCS payment cuts and freezes and the economic downturn. Thirty-six percent have implemented hiring freezes and 71 percent have delayed planned capital projects. A loss of an additional \$67.7 million in DSH and GME funds will only exacerbate this trend and further undercut Arizona hospitals' ability to assist in the state's economic recovery.

Arizona is at a critical juncture where difficult choices face policymakers at every turn. AzHHA continues to support Governor Brewer's call for a temporary increase in the state sales tax to support state services. Beyond the sales tax increase, it is clear we need to explore new options to finance healthcare for low-income Arizonans. AzHHA welcomes the opportunity to offer constructive recommendations and we look forward to working with you and the governor, as well as lawmakers, to identify a long-term, sustainable funding source for AHCCCS.

Thank you for the opportunity to comment on the AHCCCS Administration's plan to implement the lump sum cut and eliminate virtually all funds for teaching and safety net hospitals in 2010. If you have questions about AzHHA's concerns or need additional information, please feel free to contact me.

Sincerely,



John Rivers, FACHE
President and Chief Executive Officer

cc: The Honorable Jan Brewer, Governor of Arizona
Eileen Klein
Beth Kohler Lazare
Scott Smith
Members of the Arizona Legislature
Wendy Baldo
Holly Bauman
Ingrid Garvey
Steve Moortel
Patsy Osmon
Melissa Taylor

Attachment: *2009 Analysis of Hospital Cost Shift in Arizona* by The Lewin Group