



Arizona Hospital and Healthcare Association

July 14, 2011

The Honorable Jon Kyl
U.S. Senate
730 Hart Building
Washington, D.C. 20510

Dear Senator Kyl,

On behalf of the Arizona Hospital and Healthcare Association (AzHHA) and our 102 member hospitals, I am writing to urge you to protect funding for hospital care as Congress works to resolve the federal deficit. AzHHA and our members recognize the daunting task you face, and we agree that the federal deficit must be confronted. However, this must be accomplished in a balanced way that addresses both sides of the equation – revenues and expenditures. We do not believe it is mathematically feasible for Congress to cut its way out of this crisis, nor is it fair to balance the budget on the backs of our most vulnerable citizens—seniors, children, low-income and medically fragile patients. Hospitals are already struggling under the weight of previously enacted Medicare and Medicaid payment cuts, as well as the cost of complying with new regulatory requirements. We are committed to participating constructively in this dialogue by offering solutions to make the Medicare and Medicaid programs function more efficiently. Unfortunately, many of the proposals that are being discussed do nothing more than shift costs to local governments or private payers.

As we shared with you and your staff in April, the Arizona Health Care Cost Containment System (AHCCCS) chronically underpays Arizona hospitals, which receive less than 70 percent of the cost of caring for AHCCCS patients. Hospitals must make up the remaining 30 percent by shifting costs to commercial health plans, which in turn increase the premiums they charge to businesses and families. Exacerbating this “hidden healthcare tax” is the fact that Arizona hospitals have absorbed more than \$700 million in AHCCCS cuts since the recession began in 2008. As part of the FY 2012 budget, Arizona hospitals stand to lose another \$530 million, which is expected to come in the form of a direct rate cut; benefit changes such as capping inpatient days and emergency department visits; and freezing enrollment of childless adults in the Proposition 204 program. The freeze and benefit restrictions will further increase uncompensated care, which in 2009 exceeded \$400 million.

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Arizona hospitals have also been subject to federal payment cuts during this time period. Under the *Affordable Care Act*, Arizona hospitals are expected to absorb more than \$1.8 billion in Medicare payment cuts over 10 years. Continued implementation of the “coding offset” will result in Arizona hospitals losing \$155 million in payments during FY 2011 and FY 2012. These reductions come at a time when hospitals are expending vast resources to improve clinical care and comply with new federal electronic health records requirements and ICD-10 coding updates.

AzHHA and our members appreciate the challenge you face as members of Congress struggle to rein in the federal deficit. Hospitals are also struggling under the weight of this fiscal crisis as they work to keep critical services open for their communities. We hope you will recognize the sacrifice that the healthcare industry has already made and reject further cuts to Medicare and Medicaid that will impact our ability to care for patients. We ask that you take into account the following recommendations in your deliberations:

Medicaid Provider Assessments

Proposals being considered would either eliminate or cap provider assessments that more than 40 states use to support some portion of their Medicaid program. Currently, Arizona imposes an assessment on health plans only, but a coalition of healthcare providers, including AzHHA, has proposed expanding the assessment to other providers in an effort to avoid some of the deep cuts recently approved by the Legislature. While the expanded healthcare assessment was not included in the state budget approved in April, several factors may necessitate the Legislature revisiting the budget and possibly reconsidering the assessment. These factors include litigation over the Proposition 204 enrollment freeze and federal review of the state’s Medicaid reform proposals.

We are deeply concerned that removing provider assessments from the Medicaid financing tool box will place further pressure on cash-strapped state general funds. As states struggle to balance their budgets, the end result will be additional cuts to healthcare providers and other state programs. While provider assessments cannot and should not be the basis upon which a state’s Medicaid program is financed, they are a viable short-term option states need to have while they work through the current fiscal crisis.

AzHHA urges you to oppose the elimination of or drastic reductions to provider assessments, on which many states rely to fund a portion of their state Medicaid match.

Blended Federal Medical Assistance Percentage Rate

President Obama’s April deficit reduction framework proposes replacing the various Federal Medical Assistance Percentage (FMAP) rates at which states are reimbursed for their Medicaid and Children’s Health Insurance Program (CHIP) costs with a lower,

single, blended rate for each state, saving at least \$100 billion nationwide over 10 years. While much of this proposal remains undefined, we are concerned that states will be forced to pick up the difference between the existing FMAP rates and the lower blended rate – a loss that will be passed on to healthcare providers and other state programs.

AzHHA urges you to oppose the blended FMAP rate that would shift \$10 billion a year in costs to states.

Spending Caps

A number of different proposals would cap overall federal spending and mandate cuts should the caps be exceeded. Most notably, legislation introduced by Senators Claire McCaskill (D-MO) and Bob Corker (R-TN) would limit federal spending to 20.6 percent of gross domestic product (GDP) by 2023. Today, federal spending is at about 24 percent of GDP. Annual spending targets would be established, and automatic cuts (“sequesters”) would be implemented, if Congress failed to legislate changes to achieve the targets. Increasing revenue is not included as an option to achieve the budget targets. This approach, with its arbitrary caps and targets, would result in enormous cuts to both Medicare and Medicaid and have devastating results for vulnerable populations including the elderly, children, and low-income families.

According to a recent LewinGroup analysis of the Corker-McCaskill bill, such a cap would reduce overall federal spending by \$4.2 trillion, reducing mandatory spending by 14.3 percent between 2013 and 2021, and cutting:

- \$859 billion from the Medicare program;
- \$575 billion in federal Medicaid payments to states; and
- \$1.3 trillion from the Social Security program.

The analysis found that the across-the-board cuts would result in:

- 5.1 million individuals losing their health insurance;
- Hospitals being forced to operate in the red, jeopardizing access to care;
- Drastic physician fee reductions that will lead to fewer physicians participating in Medicare;
- Up to 1.3 million healthcare workers potentially losing their jobs; and
- Cost shifting of federal payment shortfalls to private employers, which could lead to a nearly 5 percent increase in health insurance premiums.

These reductions would contribute to losses in health insurance coverage, exacerbate healthcare workforce shortages, and jeopardize access to care by undermining financially fragile hospitals and health systems.

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AzHHA urges you to oppose spending caps that will result in arbitrary across-the-board reductions in healthcare services.

Medicare Support for Graduate Medical Education

Many hospitals, including community hospitals, teaching hospitals, children's hospitals and academic medical centers, rely on support from Graduate Medical Education (GME) programs to train physicians and other healthcare professionals. Communities benefit from GME programs because the funds permit participating hospitals to provide care to the most medically complex patients in a highly specialized environment. This is a critical, but costly, element of a quality healthcare delivery system. The Simpson-Bowles report and other deficit reduction proposals recommend reducing Direct and Indirect GME payments to the nation's teaching hospitals by \$60 billion over 10 years.

Over the past several years, the Arizona Legislature has reduced state general fund support for Medicaid GME programs. Because of these cuts, only five out of an original 15 hospitals still participate in the Medicaid GME program. The other hospitals rely on Medicare GME funds to support their physician training programs.

AzHHA urges you to protect the Medicare GME program and oppose any payment reductions.

Medicare Bad Debt

Hospitals incur bad debt when they cannot obtain reimbursement for care provided. Patients may be unable to pay their bills, but do not apply or qualify for charity care. Bad debt may also arise from unpaid Medicare copayments and/or coinsurance. Currently, Medicare makes up part of this loss by reimbursing hospitals a percentage of the Medicare bad debt total after hospitals make a reasonable effort to collect the unpaid amount. The Simpson-Bowles report and other deficit reduction proposals recommend eliminating Medicare reimbursement to hospitals to cover beneficiary bad debt, at a savings of \$23 billion nationwide over 10 years.

Under the Simpson-Bowles proposal, hospitals will be forced to absorb additional uncompensated care, which will intensify the pressure to cost shift Medicare losses to commercial payers, resulting in an increase in the hidden healthcare tax on businesses and individuals.

AzHHA urges you to oppose reducing or eliminating the partial reimbursement of Medicare bad debt.

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Rural Hospital Payments

We have recently learned that House Republican Leadership has proposed \$16 billion in cuts to rural hospitals and frontier areas. The plan includes:

- \$14 billion over 10 years to “reform rural hospital programs”; and
- \$2 billion over 10 years to “repeal Frontier State Adjustments.”

Rural hospitals are critical access points for more than 1.5 million rural patients across Arizona. The proposed cuts, particularly those impacting sole community hospitals and critical access hospitals, will have a devastating impact on access to care in rural Arizona. It is important to note that rural areas have higher combined Medicaid and Medicare utilization rates than urban areas. Reducing Medicare rates for rural providers, when coupled with recent AHCCCS cuts, will force rural facilities to eliminate many services and jobs. In extreme circumstances, some hospitals will be in danger of closing. A closed hospital could mean as much as a 20 percent loss of revenue to the local rural economy.

AzHHA urges you to oppose cuts to rural hospitals, which are critical to the patients they serve and to the rural economy.

In conclusion, I want to express my appreciation for the magnitude of the challenge you and your congressional colleagues face. Reaching consensus on a plan to reduce the federal deficit is a Herculean task. But as you deliberate, AzHHA and our members hope you will keep in mind the sacrifice that the hospital community and our healthcare workforce have already made over the past several years and reject further cuts to hospital services under Medicare and Medicaid. We do believe alternatives exist. These include, for example:

- Creating a better alternative to the current liability system;
- Increasing Medicare beneficiary accountability to incentivize more efficient utilization of services; and
- Increasing federal revenues through fee increases, the sale of federal property, or closing tax loopholes.

Thank you again for your service to the citizens of Arizona. If you have any questions, please feel free to contact me at lliles@azhha.org or Debbie Johnston, Vice President of Advocacy for AzHHA, at djohnston@azhha.org. Either of us can be reached at 602-445-4300.

Sincerely,



Laurie Liles

President and Chief Executive Officer