

# Safety-Net Association of Pennsylvania

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December 11, 2009

The Honorable Todd A. Eachus  
House Majority Leader  
Room 120  
Main Capitol Building  
Harrisburg, PA 17120

Dear Representative Eachus:

I am writing on behalf of the Safety-Net Association of Pennsylvania (SNAP) regarding the recently passed state budget and its implications, now and in the near future, for the hospitals in our state that provide the vast majority of care to our Medical Assistance and low-income populations.

We recognize the enormous budget challenges you faced this year: a troubled economy, declining revenue, and – in the case of health care – unprecedented demand for publicly supported medical services. Even amid these challenges, we feel it is important to describe more fully the implications of this budget for safety-net hospitals and to seek your support for ensuring that the pain that safety-net hospitals will suffer in the coming months as a result of this budget does not lead to a health care crisis over the next two years.

The short-term pain is considerable. Even though there was a great deal of discussion about producing a budget in which all recipients of state funding would share the impact of funding cuts, that proved not to be the case for Pennsylvania's acute-care hospitals. The recently passed budget imposed a nearly \$39 million cut in total spending on supplemental Medical Assistance payments to hospitals, and 82 percent of that cut will be absorbed by the 25 percent of hospitals in the state – safety-net hospitals – that care for the highest proportion of low-income Pennsylvanians. Some safety-net hospitals will be able to absorb these cuts but others will not. The latter will face the unenviable task of considering ways to reduce their expenses – ways that will include scaling back clinical services, reducing clinic hours, closing departments and clinics, and laying off employees. Any of these actions would have a real impact on patient care.

While we are very concerned about the impact in the near term, the long-term implications of this year's budget worry us even more. At the heart of this concern is the manner in which this year's Medical Assistance budget was funded.

As you know, the federal government, through the American Recovery and Reinvestment Act of 2009 (ARRA), provided the commonwealth with substantial funding to offset revenue losses by increasing the state's federal medical assistance percentage (FMAP) to approximately 66 percent. This enhanced FMAP, however, is only effective through December of 2010 – halfway through Pennsylvania's 2011 fiscal year. As of now, beginning January 2011, the FMAP will revert to approximately 55 percent, more than 10 percentage points lower. Consequently, the enormous challenges you faced in finding sufficient revenue to fund this year's budget will be even greater next year.

According to legislative briefing materials, this year's Medical Assistance budget includes \$1.7 billion generated by the enhanced FMAP, much of which will be used to pay Medical Assistance providers. This enabled the state to generally maintain current levels of Medical Assistance funding while greatly reducing

the state share. As a result, the state will need to increase the state share of Medical Assistance funding in FY 2011 by approximately \$900 million just to keep pace with spending for the current year.

This dynamic could have significant negative implications for Medical Assistance payments to hospitals in general and for already-reduced supplemental payments to hospitals in particular. Even if you do not reduce the FY 2010 commitment of state revenue by a single dollar in FY 2011 and FY 2012, vital Medical Assistance supplemental payments to hospitals would plummet an additional \$15.8 million and \$27.9 million, respectively, during those two years. These cuts would be on top of reductions made in the FY 2010 budget, resulting in cumulative cuts to hospital payments of \$54.1 million in FY 2011 and \$66.2 million in FY 2012. If the pattern for distributing these cuts is the same as in this year's budget, Pennsylvania's safety-net hospitals would suffer approximately 82 percent of those cumulative reductions – a potentially disastrous development that could jeopardize the ability of many safety-net hospitals to serve all of their patients, not just their low-income patients, and even jeopardize the ability of some to keep their doors open.

These safety-net hospitals cannot afford to suffer this even greater financial blow. Our hospitals, partners with the commonwealth in caring for the majority of low-income Pennsylvanians, are doing their fair share and more in the current fiscal year to help our state through its financial crisis. If anything, they will need more resources, not less, to help them with the increased Medical Assistance load they now bear and the still-growing numbers of uninsured people who continue to turn to them for care.

The ARRA funding has been truly helpful for Pennsylvania; it is frightening to imagine where we would be today without it. Because this additional funding is only temporary, however, it is imperative that we begin now to plan to replace the funding when it ends late next year. We hope you will give careful consideration to the challenges we face when the enhanced FMAP ends and the commonwealth faces a funding “cliff” beginning next year.

We appreciate your consideration of this matter and welcome any questions you may have about our analysis. We believe it is essential to balance your need for fiscally responsible budgets with the need of safety-net hospitals to have adequate Medical Assistance funding that ensures their ability to provide uninterrupted access to care for Medical Assistance recipients and other low-income Pennsylvanians, and we welcome an opportunity to work with you toward such a policy solution.

Sincerely,

Michael Chirieleison  
President