

Major Challenge Ahead for Safety-Net Hospitals?

While state officials are still working to implement the last remaining changes in the Medical Assistance program (MA) necessitated by Pennsylvania's FY 2006 budget, the Department of Public Welfare (DPW) also is looking ahead to its FY 2007 budget. That budget, DPW officials hint, may pose the greatest financial challenge that the hospital industry, and safety-net hospitals, have ever faced.

Cleaning Up Old Business

Although Pennsylvania's 2006 fiscal year is six months old, state officials are still struggling to implement the budget that took effect on July 1. Among the matters they are still addressing are:

- implementing a new exceptions process for authorizing MA reimbursement for additional care for GA recipients affected by the new limit of one inpatient hospitalization a year;
- deciding which hospitals will share \$22 million in supplemental (state and federal) funds set aside to help the hospitals hurt most by the new GA benefit limits – and how much those hospitals will receive; and
- putting the finishing touches on a new quality incentive program for MA inpatient DSH hospitals that will affect their future MA inpatient DSH and medical education payments.

This work should be completed by the end of January.

Looming Ahead: A Massive Shortfall?

DPW officials have informally told SNAP that they expect a shortfall of \$500-900 million in state funds for the FY 2007 MA program – at least \$1 billion, including federal matching funds. Such a shortfall, if it came to pass, could dwarf the \$350 million shortfall the MA hospital program faced (\$175 million in state funds) coming into the current fiscal year and suggests that DPW may soon propose unprecedented changes in the MA program.

DPW officials are sending these budget signals at a time when many states are reporting treasuries flush with new revenue – and at a time when their own state budget officials recently

declared that state expenses and revenues are closely tracking the course predicted for them at the beginning of the current fiscal year. At this point, the true extent of the potential problem is unclear, but DPW officials base their projected shortfall on increased MA enrollment, the loss of federal Medicaid revenue, and growing long-term care costs.

How to Save \$1 Billion

Should there turn out to be the kind of shortfall of which DPW officials warn, those officials will have two ways to address it: cut expenses and raise revenue. Policy-makers usually look first to cut expenses, with three tools at their disposal: reduce payments to providers, reduce benefits for recipients, and reduce eligibility for services. This year's budget relied on benefits cuts – cuts that also reduced provider revenue. In the past, the state also has cut payments and eligibility.

Another approach is to raise revenue – by taking money from other programs or raising taxes. Last year, state officials indicated that they took funds from other programs to put into MA – probably a one-time remedy. Raising general taxes seems unlikely in a year in which the governor, all 203 members of the state House, and 25 members of the Senate are up for re-election.

During last year's budget talks, some state officials suggested that perhaps the time had come to introduce a hospital tax in Pennsylvania. After all, they noted, other states tax hospitals, and Pennsylvania's nursing homes and MA managed care organizations (MCOs) are already contributing to the state's solution to their financial problems through taxes. Why, they asked, should hospitals be any different? If there really is a significant MA budget problem, talk about a hospital tax will almost certainly resume.

Hospitals: Already Doing Their Share

Those who suggest that hospitals are not doing "their fair share" may be looking at the issue very narrowly – and not recognizing the degree to which the state has already turned to hospitals for help funding MA services. While nursing homes and MCOs may have "agreed" to allow themselves to be taxed, their situations are far different. Nursing homes and

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MCOs provide no uncompensated care; hospitals provided \$514 million worth of uncompensated care in 2004. Also, MA payments to hospitals cover only 75 percent of hospital costs, meaning that the state shortchanges its hospitals by another \$500 million a year – essentially, an in-kind contribution to the state from the hospital industry. This means that hospitals’ “fair share” now exceeds \$1 billion a year.

This suggests that the state has already turned – more than once – to the hospital industry for significant financial help and that the industry has already risen – again, more than once – to the challenge. In the coming months, the hospital industry needs to do a better job of telling its story to state officials and ensuring that before those officials consider asking hospitals to make another sacrifice on behalf of Pennsylvania taxpayers, they first have a clearer understanding of the sacrifices hospitals already have made. Hospitals – especially safety-net hospitals – also need to challenge the notion that they can still do more.

Where Does MA Reform Fit?

Even as whispering about a possibly massive MA shortfall begins, DPW officials and hospital industry representatives continue, as they have for two years, to talk about MA hospital payment reform. One of the biggest stumbling blocks in these talks has always been the lack of resources to pay for reform. The expected budget crisis would make that obstacle even greater.

But it also could create new opportunities for safety-net hospitals. One aspect of MA reform that SNAP strongly advocates, and in which DPW has expressed interest, is the possibility of redirecting some MA resources to where the need for those resources is greatest: to the hospitals that provide most of the MA care.

The need to protect safety-net hospitals from the potentially devastating impact of massive MA cuts could very well offer a powerful incentive for state officials to become more serious about redistributing MA resources.

What’s Next?

Governor Rendell will present his proposed FY 2007 budget to the General Assembly in early February. Traditionally, the hospital industry waits for the governor’s proposal before preparing to respond to whatever challenges it may pose. The possibility of an MA shortfall of \$1 billion and major spending cuts, however, suggest that this budget may be anything but traditional.

All the industry – and safety-net hospitals, in particular – can do for now is prepare: prepare by telling its story to public

policy-makers; prepare by continuing to focus on MA payment reform; prepare by continuing to expect nothing less than an adequate increase in reimbursement after a year of major cuts; and prepare, by developing strategies and analyzing data, to confront an effort to impose potentially unprecedented spending cuts on hospitals.

SNAP’s preparations have already begun. ■

What is SNAP?

The Safety-Net Association of Pennsylvania represents the interests of private, acute-care hospitals that play the leading role in caring for the poor, the disadvantaged, and the uninsured residents of the commonwealth. Safety-net hospitals are the twenty-five percent of hospitals in Pennsylvania that care for the highest combined proportion of uninsured patients, Medical Assistance recipients, and Medicare SSI recipients and that therefore constitute the state’s health care safety net. As a result of the patients they serve, safety-net hospitals face a significant, continuing, disproportionate challenge to their financial health.

For further information about the Safety-Net Association of Pennsylvania or any of the information or views offered in SNAPshots, please contact Charles DeBrunner, president, at 717-234-6970.