

**Testimony Submitted to the
Pennsylvania House of Representatives
Appropriations Committee
by the
Safety-Net Association of Pennsylvania**

**Luzerne County Community College
May 9, 2003**

The Safety-Net Association of Pennsylvania appreciates this opportunity to submit testimony to the House Appropriations Committee regarding the potential effects of the recently adopted Pennsylvania state fiscal year 2003-2004 budget on the state's hospital industry in general and its safety-net hospitals in particular.

An Introduction to Safety-Net Hospitals

Safety-net hospitals are hospitals that treat especially high proportions of low-income patients. The Safety-Net Association of Pennsylvania (SNAP) measures a hospital's service to low-income patients by looking at the combination of services it provides to three low-income groups: Medical Assistance recipients, Medicare SSI beneficiaries, and uninsured patients. The General Assembly uses this same approach, sometimes referred to as a low-income variable, to distribute uncompensated care tobacco settlement funds. SNAP has defined safety-net hospitals as the 25 percent of acute-care hospitals in Pennsylvania that care for the highest combined proportion of these low-income patients.

Safety-net hospitals can be found throughout Pennsylvania in both rural and urban areas; there are safety-net hospitals in 21 of the state's 67 counties. They are large and small, teaching and non-teaching. The common thread that binds them is that safety-net hospitals all serve large proportions of low-income patients – distinctly larger proportions than other hospitals in the state. Late last year, the state House acknowledged the special situation of these hospitals when it unanimously passed a resolution recognizing these hospitals as safety-net hospitals and calling on the General Assembly to pay special attention to their needs when making public policy.

The Challenges That Safety-Net Hospitals Face

Today, Pennsylvania's safety-net hospitals face enormous challenges – challenges to their financial viability, challenges to their existence, and challenges to their ability to continue fulfilling their mission of caring for the poor and the disadvantaged as well as other members of their communities.

In the absence of the kind of public hospital system found in most large states, poor and uninsured Pennsylvanians rely on private safety-net hospitals for much of their care. But this commitment to serving the poor and disadvantaged does not come without consequences.

Safety-net hospitals are much worse off financially than other hospitals. The average safety-net hospital receives payments that cover only 92 percent of its costs while other hospitals are paid on average 97 percent of their costs. This is because safety-net hospitals serve many

more patients who either have no means to pay or are covered by government programs that pay less than costs. Safety-net hospitals serve more than three times as many Medicaid patients and 65 percent more uninsured patients than other hospitals. Safety-net hospitals also receive little help from private health insurers: today, those insurers pay only 104 percent of the cost of caring for their members, compared to 125 percent in 1992.

Safety-net hospitals cannot manage their way out of these problems because ultimately, this is a revenue problem, not an expense problem (a 2001 study performed for the General Assembly found these hospitals to be among the most efficient in the nation). As long as a situation exists in which safety-net hospitals are expected to give away 20 cents worth of care for every dollar they provide to Medical Assistance recipients – as is the case in Pennsylvania today, where the Medical Assistance program reimburses hospitals for only about 80 percent of the costs they incur caring for Medical Assistance recipients – some hospitals will constantly battle insolvency and others will probably close. The Medical Assistance recipients they leave behind, however, will bring to their new hospitals the same financial challenges they visited upon the old.

In the end, hospitals are businesses, and no business can operate indefinitely without enough revenue to cover its costs. A number of safety-net hospitals in Pennsylvania have closed in the last decade, and without a better approach by the state, more will close in the future. In the meantime, Pennsylvania is jeopardizing its private safety-net hospitals in a way that will affect the disadvantaged who count on those hospitals as well as insured Pennsylvanians who live in or near areas where safety-net hospitals are located. Addressing these problems calls for timely and effective action by state government working in partnership with its health care safety net to assure access to care for all Pennsylvanians.

The Present Challenge: Pennsylvania's 2003-2004 State Budget

The fiscal year 2003-2004 budget proposed by Governor Rendell, approved by the General Assembly, and then signed into law by the governor calls for the state to reduce its funding of Medical Assistance hospital programs by \$90.8 million. Because the state receives federal matching funds for its Medical Assistance expenditures, this will amount to a spending reduction of more than \$168 million.

Just 25 percent of the state's acute-care hospitals – Pennsylvania's safety-net hospitals – provide 55 percent of all hospital services to Medical Assistance recipients. Despite this extraordinary contribution and commitment to the health and welfare of Pennsylvanians, these same hospitals have been unfairly targeted to suffer 82 percent, or \$138 million, of this \$168 million spending cut.

Cuts of this magnitude threaten the viability of the very hospitals that play the greatest role in caring for low-income Pennsylvanians. In hard times like these, with unemployment on the rise and more people losing their health insurance, the demand for Medical Assistance

services will certainly increase, not decrease. Consequently, the most logical and appropriate public policy response should be to do more to help those that provide the lion's share of essential health care to those in need. The state's 2003-2004 budget, however, moves Pennsylvania in the opposite direction, doing less for providers and less for those people in need, not more.

Consider the specific cuts this budget makes.

- The budget eliminates Medical Assistance hospital outpatient disproportionate share payments; these are funds specifically earmarked for hospitals that serve especially high proportions of low-income Pennsylvanians. During the current fiscal year, these payments account for \$59.2 million in combined state and federal funds. Next year's state budget targets safety-net hospitals to suffer 94 percent of the planned reduction – \$55.8 million.
- The budget eliminates Medical Assistance hospital medical education payments. During the current fiscal year, these payments account for \$74.4 million in combined state and federal funds. Next year's state budget targets our small group of safety-net hospitals to suffer 77 percent of the planned reduction – \$57.4 million.
- The budget eliminates the state's Community Access Fund, which directs funds to hospitals that care for large numbers of Pennsylvanians that lost Medical Assistance coverage as a result of welfare reform. During the current fiscal year, these payments account for \$35.4 million in combined state and federal funds. Next year's state budget targets our small group of safety-net hospitals to suffer 72 percent of the planned reduction – \$25.4 million.

Reducing those payments still further will undoubtedly jeopardize the future of many safety-net hospitals. As described in *The Challenges Facing Safety-Net Hospitals in Pennsylvania*, these hospitals already are seriously underfunded and cannot afford the *additional* loss of \$138 million – the amount that these new cuts total in state and federal funds. Safety-net hospitals cannot afford *any* reductions in Medical Assistance reimbursement, let alone the considerable cuts in this budget. The implications for safety-net hospitals and the communities they serve across the commonwealth are potentially enormous. While we appreciate and respect the decision not to tighten Medical Assistance eligibility requirements, it may be of little value to hold out the promise of continued eligibility for current Medical Assistance recipients if you do not appropriate funds for their care and if, as a result, the providers to which they normally turn for care are forced to close their doors.

Consider the implications of these cuts for individual hospitals and their communities.

- Albert Einstein Healthcare Network, in Philadelphia, will lose \$12.5 million under the new state budget. If these cuts stand, Einstein will be forced to lay off 250 people, close one of two emergency rooms, close several outpatient sites, and reduce, if not totally eliminate, its pediatric program and behavioral health crisis response program. It also will have to consider whether it can continue providing obstetrical services,

HIV clinic services, and neonatal intensive care unit services. It is easy to see how other safety-net hospitals in Philadelphia, facing similar Medical Assistance cuts, would be forced to consider similar cuts in service. If some or all of those cuts are actually made, they will clearly threaten access to care for entire communities in Philadelphia, not just the poor. When a hospital like Einstein closes its obstetric unit, for example, that unit is closed for all of its patients, not just its Medical Assistance and uninsured patients.

- Meadville Medical Center in Crawford County, the largest employer in the county and the only hospital within 25 miles of Meadville, would lose \$1.95 million in Medical Assistance funding. In response to these cuts, the hospital will lay off approximately 50 employees, end its wound care program, eliminate the county's only hospice program, and discontinue pharmacy benefits for more than 200 retired hospital employees. These cuts will have a major impact on patients, employees, their families, and the economy of Meadville.
- Monsour Medical Center, located in Jeannette, emerged from bankruptcy just late last year. The elimination of outpatient disproportionate share payments will cost that hospital \$1.3 million a year – out of a total budget of \$16 million. This could be enough to send the hospital back into bankruptcy.
- Three of Pennsylvania's children's hospitals together will lose a combined \$21.9 million a year.

These are just a few examples of how the 2003-2004 budget will affect safety-net hospitals in Pennsylvania; there are many more, all with potentially dire consequences for the communities that those hospitals serve.

These cuts may force some safety-net hospitals to close, while many, many others will be forced to take undesirable steps to stave off closure. They will lay off employees – and they will do so in communities in which almost all of them are one of the biggest employers, if not the biggest. They also will cut programs – including programs that their communities need. Currently, safety-net hospitals are planning their response to this significant loss of Medical Assistance funding, and among the cuts they are considering are:

- Hospitals are considering laying off anywhere from a dozen to hundreds of employees.
- One rural safety-net hospital operates a dental clinic for Medical Assistance recipients because the nearest dentist that accepts Medical Assistance is 45 miles away. That clinic was never expected to make money, or even break even, but accepting any losses may be impossible now if these cuts are made. The hospital is now considering closing the clinic.
- One rural safety-net hospital runs a clinic for people with diabetes. This clinic is unlikely to survive in the current environment.
- One rural safety-net hospital is considering closing its behavioral health unit while two others are contemplating closing specific kinds of behavioral health units: one for seniors and another for adolescents with substance abuse problems.

- A rural hospital is considering closing its OB unit. The closest hospital is more than 20 miles away.

The reduction of Medical Assistance funding for hospitals will almost unquestionably compromise access to care in low-income communities throughout the commonwealth. These cuts come at an especially bad time for many hospitals for other reasons as well. The medical malpractice crisis and shortage of key hospital professional support staff are wreaking havoc on hospital finances. Last week, moreover, the Pennsylvania Health Care Cost Containment Council reported that hospitals' non-operating income fell 82 percent from 2001 to 2002; non-operating income comes from sources other than patient revenue, such as parking, gift shops, contributions, and investments. Most of this decline can be traced to the weakness of the stock market, which in the late 1990s provided extra revenue from investments that helped many safety-net hospitals offset the losses they suffered caring for large numbers of Medical Assistance and uninsured patients. Hospitals were literally living off that non-operating revenue, and now, it is gone – and its departure coincides with a major state cut in Medical Assistance spending, dealing hospitals a doubly devastating blow.

For these and other reasons, we urge you to restore the \$90.8 million that you cut from next year's Medical Assistance budget; this actually would represent the return of \$168 million to the state's health care system when the federal matching funds for this sum are included.

Our hospitals are the backbone of the commonwealth's health care safety net, and at a time when the demands on that safety net are likely to increase, safety-net hospitals cannot afford to withstand *any* decreases in Medical Assistance reimbursement – nor can the commonwealth afford for these safety-net hospitals to go under at a time when the demand for their services is greater than ever.

We thank the House Appropriations Committee for holding this hearing and appreciate the opportunity to submit this testimony for the record. We also welcome any questions or comments you may have about the views expressed in this testimony.

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For further information about the views expressed in this testimony, please contact Charles DeBrunner, president of the Safety-Net Association of Pennsylvania, at (717) 234-6970. For additional information about the Safety-Net Association of Pennsylvania, please visit our web site at www.pasafetynet.org.