

**ASSOCIATION OF SAFETY-NET COMMUNITY HOSPITALS**

**Presentation Before**

**THE SENATE COMMITTEE ON DEFICIT REDUCTION**

**March 10, 2009**

On behalf of the Association of Safety-Net Community Hospitals, I thank you for this opportunity to speak before the Senate Committee on Deficit Reduction.

Our Association was organized to increase the understanding by government entities and elected officials of the specific mission and needs of safety-net community hospitals in Illinois. Our mission is critical because, with very limited exceptions, we serve only the neediest members of society.

Within the City of Chicago, safety-net hospitals account for 37% of all Medicaid days. If public charity hospital services are excluded, our percentage of Medicaid days increase to 43%. Individually, some of our members are over 60% Medicaid. Clearly, by any definition, we serve a “disproportionate” share of our state’s Medicaid clients.

Our safety-net hospitals are themselves needy because we have limited opportunity, if any, to cross subsidize with commercial business; yet we face daunting financial pressures from rising costs (principally labor, pharmaceuticals and malpractice coverage), significant charity care and the need to keep pace with technology.

Among the critical issues safety-net hospitals face are the following:

- Increasing numbers of uninsured and underinsured patients
- Lack of capital for facility, technology, life safety and equipment improvement and/or replacement
- Disparity of cost vs. payment in Medicaid and Medicare funding
- Difficulty to recruit and retain staff physicians due to low payments and high malpractice
- Increased incidence of disease and complications due to lack of primary care access
- Difficulty to recruit and retain staff due to financial, benefit and community safety conditions
- Cook County Health Services diminishment/fragility
- Increased cost of leveraging funds (negative bond outlook)

- Increased mortality and morbidity due to lack of specialty care referrals
- Cost of providing cultural and language appropriate treatment and care management
- Increased education, medication and follow up needs due to lower community health indexes
- Decrease in or total inability to cost shift from better payment insured patients

The following are responses to the questions asked by Senator Trotter and members of the committee:

- It is critical that all funding sources for Medicaid, specifically including all “quarterly” payments, be maintained. The State has been extremely deficient in both the amount of annual appropriations and keeping payments current. By way of example, base inpatient Medicaid rates for hospitals have not been increased since 1995. Similarly, rates and payments to physicians and other providers are also substantially less than the cost to provide the care. Any attempt to reduce Medicaid funding will have a devastating impact on an already stressed delivery system.
- Under the Federal stimulus package there is an enhanced FMAP reimbursement level of over 60% and, as of April 1, nearly 62%. Provided all Medicaid funding is maintained and all opportunities to create “match” are optimized (including meeting the federal mandate that practitioners, NPs and hospitals be paid at 30 days), the State can realize annual benefits of over \$1 billion. Notwithstanding, it is essential that these additional funding sources be used to bolster the current system and not to create new programs and obligations.
- In a study commissioned by the State of Illinois Commission on Government Forecasting and Accountability looking at the Certificate of Need program, the financial health of safety-net hospitals is listed as the greatest concern. The singular cause of financial risk to safety-net hospitals identified therein is the focus of specialty hospitals and ASTC’s on “the more profitable patients to the exclusion of less profitable patients”. This “cherry-picking” puts additional financial stress on all hospitals and safety-net hospitals in particular. SB 1617 has been introduced to deal with this problem and targeted solution sets are being considered.
- In addition to operating funding issues, capital needs for safety-net hospitals must be addressed; particularly for any life-safety concerns. Unfortunately, our revenues do not afford sufficient opportunity for facility, technology, life-safety and equipment improvements and/or replacements. If and when the legislature deals with Statewide capital concerns, we ask that a component be included for hospitals, particularly those serving a disproportionate share of the poor and

uninsured. This will allow safety-net hospitals to become more efficient and deliver a higher quality of service to the Medicaid recipients, uninsured and underinsured populations we serve.

- By maximizing FMAP, as discussed above, the State will greatly reduce its exposure to prompt pay penalties. We estimate the annual savings could be as much as \$ 50 million.