CALIFORNIA CHILDREN'S HOSPITAL ASSOCIATION

P.E.A.C.H., INC.
Private Essential Access Community Hospitals

CALIFORNIA HOSPITAL ASSOCIATION

DISTRICT HOSPITAL LEADERSHIP FORUM

CAPH
CALIFORNIA ASSOCIATION OF PUBLIC HOSPITALS AND HEALTH SYSTEMS

April 23, 2012

Dear California Congressional Delegation:

On behalf of California's safety net hospitals, the California Hospital Association Disproportionate Share Hospital (DSH) Task Force is writing to urge you to protect the Medicaid program from any additional cuts to hospitals. These hospitals are high Medi-Cal providers, often operating with a negative margin, and cannot sustain additional cuts to reimbursement.

The DSH Task Force comprises a wide variety of California's hospitals and hospital systems – including county-owned and operated; hospitals affiliated with the University of California; district hospitals; private community; and children's hospitals. Although the size, structure, and payer mix varies, these providers serve high numbers of low-income, uninsured and Medicaid patients. The Medicaid (called Medi-Cal in California) program has a long history of recognizing the special needs of hospitals that serve as the safety net for vulnerable populations. Safety net hospitals ensure access to vital health care services for those most in need as well as essential community services for everyone, insured and uninsured, such as primary and specialty care including trauma, neonatology, burn care, pediatric and psychiatric services.

California hospitals provided more than $12.5 billion in uncompensated care annually. Medicare and Medi-Cal payments were $8.3 billion less than the actual cost of providing necessary health care services, while charity care and bad debts totaled more than $4 billion.

We understand that the State of California continues to face unprecedented challenges in filling a budget deficit of more than $9.2 billion, after already making difficult budget cuts to close prior gaps. Governor Brown has recently acknowledged that the budget deficit is likely larger than he previously estimated. At the same time, however, hospital care in California is at the crossroads of a crisis. During the past 10 years, 70 California hospitals and emergency rooms have closed, resulting in the loss of thousands of acute-care beds and emergency services. Many more hospitals have had to reduce or scale back critically important services. A key reason for these service reductions is inadequate reimbursement for care provided to Medi-Cal beneficiaries.

California's Medi-Cal program already spends less per enrollee than any other state in the U.S. or the District of Columbia. With more people accessing the Medi-Cal program in California due to the downturn of the economy and stubbornly high unemployment rates, now is exactly the wrong time to cut reimbursement to providers. Cuts to reimbursement will directly impact access to care for all Californians. The closure of a hospital, a burn unit, outpatient programs or an emergency room impacts the entire community, those with public and private insurance as well as those without insurance.

Two of the programs slated for reductions or elimination – the provider fee (hospital assessment fees) and Disproportionate Share Hospital (DSH) payments – are particularly important to

California's safety-net. These programs provide critical means for hospitals to bolster their ability to preserve health care services for the State's most needy patients.

Specifically, provider assessments allow hospitals to self-fund part of their Medicaid shortfalls; provide health care coverage to vulnerable populations; and preserve patient access to care. In the past year, several federal proposals call for the reduction, restriction or elimination of provider assessments. Even before the economic downturn, California's Medi-Cal program under funded hospital providers by more than $4 billion annually. In the past several years, hospitals have seen significant increases in uninsured and Medi-Cal patients. Consequently, hospitals are struggling to maintain access and keep emergency rooms and other critical services open — especially those serving significant Medi-Cal populations.

The hospital tax does not solve California's Medi-Cal shortfall. However, it will continue to be the largest programmatic action to mitigate the lack of sufficient funding since the program was founded. It is vital to California hospitals that provider assessments continue to serve as a lifeline for patients, communities, hospitals and states. Nearly all states employ some form of provider assessments as a means to obtain federal matching funds for their Medicaid programs. All of the federal funds generated under California's program go towards funding health care services. We urge you to maintain the federal provider tax program so states like California can continue to access funds to supplement their underfunded Medicaid programs.

Additionally, California's safety net providers rely on Medicaid Disproportionate Share Hospital (DSH) payments. The $2 billion in Medicaid DSH that California's DSH-eligible hospitals receive each year help mitigate part of the considerable financial distress that such chronic shortfalls in funding cause. Even with these DSH funds, ours is an industry in crisis: the state's DSH hospitals have a collective operating margin of minus 3.1 percent and a net revenue margin of minus -6.6 percent, and last year, 63 percent of those hospitals operated in the red. Moreover, the ACA already includes significant reductions to Medicaid DSH funding that could have a negative impact on safety net providers. As Congress considers Medicaid cuts, we urge against looking to DSH, which is essential funding for safety net providers to ensure access to care.

We thank you for your efforts on behalf of California's safety-net and your continued support of the Medicaid program.

Sincerely,

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