

# WISCONSIN HOSPITAL ASSOCIATION, INC.



March 2, 2010

TO: Members, Assembly Committee on Rural Economic Development

FROM: Eric Borgerding, Executive Vice President

SUBJECT: Comments in Support of AB 770 – The Rural Healthcare Access Act

The Wisconsin Hospital Association represents over 130 non-profit hospitals across the state, including all of Wisconsin's fifty-nine small, rural Critical Access Hospitals (CAHs). On behalf of those members, we wish to thank Chairman Garthwaite for both sponsoring and quickly holding a hearing on AB770 -- the Rural Healthcare Access Act. With the 2009-10 session winding down, swift action is needed to avert damaging cuts to rural health care and we appreciate your commitment to acting on this legislation expeditiously.

We also want to express our gratitude to the authors of AB 770, Representatives Hraychuck and Ballweg and Senators Miller and Olsen, and the forty-one total sponsors of this important legislation. This impressive bipartisan show of support is a clear indication of the important role rural hospitals play in their communities across Wisconsin.

## **How We Got Here**

The 2009-11 state budget included roughly \$630 million in all funds cuts to Medicaid. These cuts were unspecified in the budget act and it fell to the Department of Health Services (DHS) to implement the reductions. Through a process involving multiple stakeholders, DHS focused on finding hundreds of millions in savings largely through reducing Medicaid utilization. Reducing eligibility and benefits were not options and avoiding provider reimbursement cuts was a goal.

It is difficult to find cuts of this magnitude within such tight parameters, yet WHA provided several options that saved millions by both reducing utilization and improving quality. Additionally, urban hospitals had recently contributed over \$300 million to the 2009-11 Medicaid budget through the hospital assessment enacted earlier in the 2009. At that time, CAHs were not included in the assessment.

While some of WHA's ideas were adopted, others were set aside for future consideration. We appreciate the Department's efforts to seek input from key stakeholders; however, one proposal did move forward that WHA strongly opposes - a ten-percent cut in Medicaid payments to CAHs. The cut will reduce Medicaid reimbursement to these rural hospitals by approximately \$15 million (all funds) over the remainder of the biennium, and by even more in future years.

From Sturgeon Bay to Superior, from Boscobel to Waupaca, there are 59 CAHs located in 29 Assembly and 17 Senate districts across Wisconsin. They serve large geographic areas with round-the-clock care

and employ thousands of people in rural areas. The cuts will have a damaging impact on many of these communities.

While CAHs typically operate on lower patient volumes, over half their patients are enrolled in government programs (Medicare and Medicaid). Due to the recession, they continue struggling with growing Medicaid losses, skyrocketing charity care and bad debt. In 2008, half of the state's CAHs reported operating margins that were either marginally positive or in the red. Many have already faced the necessary realities of scaling back employment and reducing services. A ten-percent reduction in Medicaid payments simply could not come at a worse time.

### **Cuts Will Impact Rural Healthcare and Rural Economies**

Though the cuts have now been in effect for just two months, the long-term impact will be severe. In February, WHA surveyed CAHs statewide to gauge the potential impact of the cuts. Thirty-seven CAHs (67%) responded. The findings are troubling, especially during a recession. When we asked CAH leaders how they will cope with the ten-percent reduction:

- Fifty-five percent say they will eliminate, modify or delay capital spending, including renovations and other projects that employ people in the construction trades, an industry already hit hard by the recession.
- Twenty-four percent said they would be forced to freeze hiring. This is particularly alarming given that hospitals are some of the largest, and often best, employers in rural communities. Other actions include scaling back hours and overtime, reducing FTEs and suspending retirement contributions.
- Preserving access to patient care is clearly a priority, with just nine percent responding they would have to eliminate some existing services. However nearly half (45%) said they might be forced to scale back services. In rural areas, CAHs are more than just 24/7/365 hospital care. Many subsidize other community health care services including nursing homes, hospice, home health, behavioral health and assisted living.

### **What is The Rural Healthcare Access Act (AB 770) and Why is it Needed?**

Given the condition of the economy and the impact Medicaid cuts will have on rural health care and jobs, we simply could not let this cut stand. Though disappointed with their decision to implement an across-the-board cut to rural hospitals, we immediately began a dialogue with DHS about potential alternatives. As a result, DHS delayed the cut for six months and WHA collaborated with the Rural Wisconsin Health Cooperative to develop a solution.

With the cuts scheduled to begin January 1, 2010, we convened a joint member task force with the goal of finding a solution-- quickly. The task force was comprised of CAH leaders from across the state and chaired by Ed Harding, CEO of Columbus Community Hospital. The group met three times during October and November and considered various options, ranging from doing nothing and letting the cuts take their toll to fighting the cuts/pushing them off to someone else. Neither were acceptable solutions.

Developed with the technical assistance of DHS and legislative staff, and receiving the unanimous support of the WHA/RWHC task force, we believe ***The Rural Healthcare Access Act (AB 770) is that solution.***

AB 770 is modeled after the successful program now in place for all other Wisconsin hospitals. It allows CAHs to pool their dollars to prevent crippling cuts and preserve “critical access” to hospital and hospital-supported health care in rural communities. Specifically, AB 770 imposes a modest assessment (approximately 1.6%) on each CAH’s gross patient revenues that will generate roughly \$10.6 million in FY2011. The revenue will be used in the following ways (see attached chart):

- About \$3.6 million will be used **to restore the 10% cut in FY11**, thereby preventing devastating and permanent cuts but also *keeping* roughly \$7 million in matching federal Medicaid dollars that would otherwise be given up.
- Approximately \$6 million will be matched with additional federal Medicaid dollars and used to improve Medicaid payments to CAHs, thereby strengthening, rather than cutting, the rural health care safety net.
- The remaining \$1 million will fund additional rural residencies for graduating physicians and increase loan forgiveness programs for health care professionals choosing to practice in rural Wisconsin. Both of these provisions will help address chronic rural health care workforce shortages projected to become much worse in the future.

The Rural Healthcare Access Act is being *requested and proposed by hospitals* to preserve access to health care in Wisconsin’s rural communities. WHA strongly supports AB 770 and believes it is a special opportunity to actually strengthen the rural healthcare safety net at time of unprecedented strain.