

Program Summary
Arizona Health Care Cost Containment System
Payments to Hospitals

Program Overview and Funding

The Payments to Hospitals program includes supplemental monies paid to hospitals outside of the regular fee-for-service or capitated system in order to assist the hospitals in reducing absorbed costs. This category contains 3 programs:

- Disproportionate Share
- Rural Hospital Payments
- Graduate Medical Education

Disproportionate Share (DSH)

The Disproportionate Share Hospital program passes through federal and state dollars to “hospitals that serve a disproportionate share of low-income and Medicaid patients.” In order to qualify as a participating hospital, the hospital must:

- Serve a significantly higher number of Medicaid patients than other hospitals in the state, or have at least 25% of the effort and time of the medical staff spent on inpatient care being spent on low-income individuals; and
- Have at least 2 obstetricians with staff privileges who have agreed to provide service for citizens under the State Medicaid plan.

Arizona’s DSH program began in 1992. At that time, negotiations were made so that all participating hospitals would see a net gain. The negotiations detailed that revenue that was received through DSH would also be applied to pay for the increasing costs of AHCCCS.

The DSH program is funded by a combination of General Fund and Federal Expenditure Authority monies, with the option for local governments or universities to provide additional state matching funds. The federal government provides the state with roughly a 2:1 match on the state’s monies based on the Federal Matching Assistance Percentage (FMAP), which changes from year to year. The total distribution of DSH funds peaked at \$144.1 million in FY 2008. The FY 2012 allocation is (5.2)% below the FY 2001 allocation. (See Table 1.)

Disproportionate Share Funding History			
	<u>FY 2001</u>	<u>FY 2007</u>	<u>FY 2012</u>
Private Hospitals	\$ 15,150,000	\$ 26,147,700	\$ 9,248,800
County-Operated Hospitals (COH)	59,149,000	84,652,400	55,507,900
Supplemental COH payment		0	4,202,300
ASH	<u>28,474,900</u>	<u>28,474,900</u>	<u>28,474,900</u>
Total Allocations	\$102,773,900	\$143,477,300	\$97,433,900

The Benefits Improvement and Protection Act of 2000 extended to all states a special DSH provision which increased the amount of compensation that was offered to each state. The bill increased the hospital-specific DSH cap from 100% to 175% of undercompensation for Medicaid and uncompensated costs for FYs 2003, 2004, and 2005. However, beginning in FY 2006 this cap was reduced back to 100%. This decrease in the DSH cap is seen as a large decline in the gross distributions between FY 2005 and FY 2006.

In FY 2008, the DSH funding methodology was changed to align with a revised agreement between AHCCCS and the federal Centers for Medicare and Medicaid Services (CMS). The revision did not impact the amount of DSH funding provided to the participating hospitals nor the net General Fund impact.

In prior years, private hospitals retained their DSH allocation while publicly operated local hospitals had most of their payments recouped by the state by withholding a portion of the relevant county’s Transaction Privilege Tax (TPT) payments. Maricopa Integrated Health Services (MIHS) is the only current local level publicly operated hospital to qualify for DSH. MIHS is allowed to retain \$4,202,300 of its DSH allocation.

In the case of the Arizona State Hospital (ASH), it returned its DSH allocation in the form of a transfer to General Fund revenue.

Through an agreement with CMS put in place starting in FY 2008, the state only appropriates DSH payments to private hospitals (\$9,248,000) and monies retained by MIHS (\$4,202,300). Publicly operated hospitals are required to document uncompensated care costs to the federal government through a certified public expenditure (CPE) process.

ASH and MIHS' CPE serve as the state match for the federal DSH payment. This process results in a decrease in the level of DSH funding appropriated, as well as a corresponding decrease in revenue to the General Fund. TPT payments are no longer being withheld on behalf of MIHS.

In FY 2011, 43 private hospitals, in addition to Arizona State Hospital and the Maricopa Medical Center, received DSH payments. In 2001, Kino Hospital in Pima County was included in county hospital payments. In 2005, Kino was no longer paid as a county hospital; it was considered to be a private hospital.

Beginning in FY 2010, the Health Budget Reconciliation Bill allows local governments, tribal governments and universities to provide voluntary payments in order to receive a federal match. In FY 2011, 4 hospitals contributed the state match for \$10,104,665 in DSH payments.

Rural Hospital Payments

The Rural Hospital Payments program provides supplemental payments to small rural hospitals. The program began in FY 2003 with annual total payments of \$1.7 million. Payments were originally provided only for Critical Access Hospitals (CAH). In order to qualify as a CAH, the federal government requires that the hospital:

- Be located in a rural area;
- Provide 24-hour emergency care services;
- Maintain an average length of stay of 96 hours or less;
- Be located more than 35 miles from a hospital or another CAH or more than 15 miles in areas with mountainous terrain or only secondary roads **OR** be certified by the state as being a “necessary provider” of health care services to residents in the area.

The federal “necessary provider” provision, allowing a state to waive the distance requirement, sunset on January 1, 2006. Those hospitals that were designated as a CAH prior to January 1, 2006 are grandfathered as CAHs on and after January 1, 2006.

In FY 2006, the total annual appropriation increased to \$13,858,100. Payments were also expanded to hospitals which were licensed as an acute care hospital that have 100 or fewer beds and are located in a county with a population of less than 500,000. While the annual appropriation has remained constant since FY 2006, the General Fund amount changes from year to year based on the FMAP.

With the addition of the Rural Hospital Reimbursement program, both programs are now combined in the Rural Hospital Payments program. In FY 2011, 19 hospitals received Rural Hospital payments. *Table 2* summarizes the funding levels of this program.

<u>Fund</u>	<u>FY 2003</u>	<u>FY 2007</u>	<u>FY 2012</u>
General Fund	\$ 591,900	\$ 4,660,200	\$ 4,613,000
Federal	<u>1,108,100</u>	<u>9,197,900</u>	<u>9,245,100</u>
Total	\$1,700,000	\$13,858,100	\$13,858,100

Table 4 details monies received by specific hospitals through the Payments to Hospitals line items. FY 2011 payments for DSH and Rural Hospital payments are illustrated in the table.

Graduate Medical Education (GME)

The GME program reimburses hospitals with graduate medical education programs. Payments are made to teaching hospitals in an attempt to offset the additional costs of those teaching programs. In FY 2009, the appropriation provided funding for 458 residency positions. Since FY 2010, no monies have been appropriated for GME. *Table 3* displays the historical data on funding levels for FY 2001, FY 2007, and FY 2012.

<u>Fund</u>	<u>FY 2001</u>	<u>FY 2007</u>	<u>FY 2012</u>
GF	\$ 7,766,700	\$11,519,800	\$0
Federal	<u>10,523,100</u>	<u>26,993,000</u>	<u>0</u>
Total	\$18,289,800	\$38,512,800	\$0

Laws 2007, Chapter 263 allowed local, county, and tribal governments to increase federal funding for GME programs by providing additional state match monies. In FY 2011, hospitals received an additional \$91.0 million. Laws 2010, Chapter 86 expanded this provision to public universities.

Other

Under Section 1011 of the federal Medicare Modernization Act, \$250 million was provided annually to eligible providers for emergency health services provided to unauthorized immigrants and other specified immigrants from FY 2005 through FY 2008. Two-thirds of the funds were divided among all 50 states and the District of Columbia based on their relative percentages of unauthorized immigrants. One-third was divided among the 6 states with the largest number of unauthorized immigrant apprehensions, including Arizona.

From the respective state allotments, payments will be made directly to hospitals, certain physicians, and ambulance providers for some or all of the costs of providing emergency health care. Payments under Section 1011 may only be made to the extent that care was not otherwise reimbursed (through insurance or otherwise) for such services during that fiscal year.

Health Services. It is likely that funds will continue to be drawn down into FY 2012. These monies come directly from the Centers for Medicare and Medicaid Services. As such, these monies do not flow through AHCCCS and are not included in the Payments to Hospitals line items.

In total, Arizona has been allocated \$174.9 million. The Act allows states to continue to draw down funds beyond FY 2008 if it did not use its entire allocation. As of September 30, 2010, Arizona had drawn down \$122 million of these funds with approximately 86% getting distributed to hospitals. The remainder is distributed to ambulances, physicians, and Indian

Table 4

FY 2011 Payments to Hospitals

<u>Hospital</u>	<u>SFY 11 DSH</u> ^{1/}	<u>SFY 11 Rural Hospital</u>	<u>Hospital Total</u>
Arrowhead Community Hospital	\$ 23,625		\$ 23,625
Arizona State Hospital (ASH)	28,474,900		28,474,900
Banner Desert	140,176		140,176
Banner Estrella	504,894		504,894
Banner Gateway	5,011		5,011
Banner Good Samaritan	703,159		703,159
Banner Page	10,878		10,878
Banner Thunderbird	167,219		167,219
Benson Hospital	7,699	119,905	127,604
Carondelet Holy Cross Hospital	54,678	745,144	799,822
Carondelet St. Mary's Hospital	184,703		184,703
Casa Grande Regional	155,045		155,045
Chinle Comprehensive	14,161		14,161
Cobre Valley Community Hospital	7,823	689,266	697,089
Copper Queen Community	25,462	168,786	194,248
Flagstaff Medical Center	175,360		175,360
Ft. Defiance Physicians Indian	5,000		5,000
Hopi Health Care Center	5,000		5,000
Hu Hu Kam Memorial Hospital	5,227		5,227
Hualapai Mountain Medical Center		326,097	326,097
John C. Lincoln – Deer Valley	183,893		183,893
John C. Lincoln – North Mountain	352,459		352,459
Kingman RMC	20,920		20,920
La Paz Regional Medical Center		120,001	120,001
Little Colorado Medical Center	60,595	919,736	980,331
Maricopa Medical Center	75,251,304		75,251,304
Maryvale Hospital Medical Center	1,383,720		1,383,720
Mt. Vista Medical Center	51,811		51,811
Mt. Graham Regional	24,813	974,672	999,485

Table 4 (continued)

<u>Hospital</u>	<u>SFY 11 DSH</u>	<u>SFY 11 Rural Hospital</u>	<u>Hospital Total</u>
Northern Cochise Community		195,846	195,846
Page Hospital		451,722	451,722
Paradise Valley Hospital	111,055		111,055
Payson Regional Medical Center		1,481,298	1,481,298
Phoenix Baptist Hospital	444,787		444,787
Phoenix Children's Hospital	1,263,871		1,263,871
Phoenix Indian Medical	6,773		6,773
Promise Specialty Hospital	35,352		35,352
San Carlos OS Indian Hospital	5,000		5,000
Sells Indian Hospital	5,000		5,000
Sierra Vista Regional Health		1,501,424	1,501,424
Southeast Arizona Medical Center	29,840	331,529	361,369
St. Luke's Medical Center	264,855		264,855
St. Joseph's Hospital – Phoenix	1,461,796		1,461,796
Summit Healthcare Regional	54,667	1,561,724	1,616,391
Tuba City Indian Medical Center	5,409		5,409
Tucson Medical Center	338,858		338,858
University Medical Center	373,056		373,056
University Physician's at Kino	168,277		168,277
Valley View Medical Center		1,238,810	1,238,810
Verde Valley Medical Center		2,205,086	2,205,086
West Valley Hospital	245,819		245,819
White Mountain Regional		136,358	136,358
Whiteriver Physicians Indian	8,430		8,430
Wickenburg Regional Hospital		92,164	92,164
Yuma Regional Medical Center	<u>188,624</u>	<u>598,532</u>	<u>787,156</u>
SFY 2011 Total	\$113,011,004	\$13,858,100	\$126,869,104 ^{1/}

^{1/} Local government also supplied the state match for an additional \$10,104,665 in DSH payments for 4 hospitals. Little Colorado Medical Center received \$46,725, Phoenix Children's Hospital received \$4,981,577, University Medical Center received \$2,420,804, and University Physicians Hospital received \$2,655,559.

^{2/} Additionally, local governments supplied the state match for an additional \$90,977,251 in GME monies which were awarded to 5 hospitals. Kingman Regional received \$1,615,080, Maricopa Medical Center received \$34,767,304, Phoenix Children's Hospital received \$8,392,038, University Medical Center received \$42,900,656, and University Physicians Hospital received \$3,302,173.