

**Payments to Hospitals**  
**Arizona Health Care Cost Containment System**  
**Program Summary**

**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 absorbing costs. This category contains 5 programs:

- Disproportionate Share
- Rural Hospital Payments (including Critical Access Hospital Payments)
- Graduate Medical Education
- Safety Net Care Pool
- Proposition 202 - Trauma and Emergency Services

In federal fiscal year (FFY) 2015, a total of \$437.2 million in supplemental payments were made to hospitals through these programs.

Disproportionate Share (DSH)

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income 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 Fund 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 amount of eligible funding is adjusted annually for changes in prices and the federal match rate. The FY 2017 eligible funding of \$163,074,200 is 58.7% above the FY 2001 eligible funding (See Table 1).

<b>Table 1</b>				
<b>Disproportionate Share</b>				
<b>Funding History</b>				
	<u>FY 2001</u>	<u>FY 2007</u>	<u>FY 2016</u>	<u>FY 2017</u>
<b><u>Eligible Funding</u></b>				
County Hospitals	\$ 59,149,000	\$ 88,854,700	\$113,818,500	\$113,818,500
State Hospitals	28,474,900	28,474,900	28,474,900	28,474,900
Private Hospitals	15,150,000	26,147,700	884,800	884,800
Voluntary Match <sup>1/</sup>	<u>0</u>	<u>0</u>	<u>18,784,700</u>	<u>19,896,000</u>
<b>Total Funding</b>	<b>\$102,773,900</b>	<b>\$143,477,300</b>	<b>\$161,962,900</b>	<b>\$163,074,200</b>

<sup>1/</sup> Although the FY 2017 General Appropriation Act appropriated \$19,896,000 for voluntary payments, a footnote also appropriates any amount over that to the administration in FY 2017.

Publicly-Operated Hospitals

Since FY 2008, publicly-operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs serve as the state match for the

drawdown of Federal Funds. The publicly-operated hospitals of Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH) receive eligible funding of \$113,818,500 and \$28,474,900 in FY 2017, respectively.

While the state retains most of the MIHS federal match as General Fund revenue, \$4,202,300 of the federal drawdown is distributed to MIHS in FY 2017. This distribution to MIHS is appropriated in the Disproportionate Share Payments line. (The state match is part of the CPE and does not appear in the FY 2017 General Appropriation Act.)

Legislation was added for FY 2012 and FY 2013 which limited the DSH payment attributed to MIHS to \$89,877,700. This limitation allowed MIHS to use monies they spend on uncompensated care as a match for the Safety Net Care Pool program (*see below*) and resulted in the diversion of some federal funding for DSH which would have otherwise been distributed to the General Fund. Laws 2015, Chapter 14 increased payments attributed to MIHS to \$105,945,500 in FY 2015 and \$113,818,500 in FY 2016, thereby increasing the amount of Federal Funds transferred to the General Fund by \$11,000,000 in FY 2015 and an additional \$5,500,000 in FY 2016. Laws 2016, Chapter 122 continued the \$113,818,500 level of payments attributed to MIHS in FY 2017.

#### Private Hospitals

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The FY 2017 budget includes an \$884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line. Prior to the FY 2016 budget, the state appropriated \$9,284,800 of General Fund dollars to private hospitals a year. In FFY 2015, 30 private hospitals, in addition to ASH and the Maricopa Medical Center, received \$9,239,800 in DSH payments.

#### Voluntary Match

Since FY 2010, the state has allowed local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. The FY 2017 budget includes a \$19,896,000 total funds appropriation for this distribution. In FFY 2015, 9 hospitals contributed the voluntary state match for \$16,545,800 in DSH payments.

Under the federal Affordable Care Act (ACA), DSH payments were expected to decline nationwide by \$500 million in FFY 2014 and \$600 million in FFY 2015, or about 5% of overall payments. Subsequent federal legislation has delayed the start of reductions. DSH payments are now expected to decline nationwide by \$2.0 billion in FFY 2018 and to gradually decline by \$8.0 billion a year by FFY 2025.

#### 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 that date.

In FY 2006, the total annual appropriation increased to \$13,858,100. Under the Rural Hospital Reimbursement program, 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

remained constant from FY 2006 to FY 2014, the General Fund amount changed from year to year based on the FMAP.

	<b><u>FY 2003</u></b>	<b><u>FY 2007</u></b>	<b><u>FY 2017</u></b>
<b><u>Rural Hospital Reimbursement Program</u></b>			
General Fund	\$ 281,000	\$ 4,092,400	\$ 3,739,800
Federal	<u>469,800</u>	<u>8,065,700</u>	<u>8,418,300</u>
<b>Subtotal</b>	<b>\$750,800</b>	<b>\$12,158,100</b>	<b>\$12,158,100</b>
<b><u>Critical Access Hospital Program</u></b>			
General Fund	\$ 310,900	\$ 567,800	\$ 3,227,300
Federal	<u>638,300</u>	<u>1,132,200</u>	<u>7,264,600</u>
<b>Subtotal</b>	<b>\$ 949,200</b>	<b>\$1,700,000</b>	<b>\$10,491,900</b>
<b>Total Payments</b>			
General Fund	\$ 591,900	\$ 4,660,200	\$ 6,967,100
Federal	<u>1,108,100</u>	<u>9,197,900</u>	<u>15,682,900</u>
<b>Total</b>	<b>\$1,700,000</b>	<b>\$13,858,100</b>	<b>\$22,650,000</b>

The Rural Hospital Reimbursement program and the Critical Access Hospital program are combined in the Rural Hospital Payments line item. The total annual appropriation for this line is \$22,650,000 in FY 2017, which consists of \$12,158,100 for the Rural Hospital Reimbursement program and \$10,491,900 for Critical Access Hospitals (See Table 2). In FY 2016, 21 hospitals received Rural Hospital payments of \$13,858,100, including 11 that received Critical Access Hospital payments.

Subject to federal approval, the FY 2016 Health Budget Reconciliation Bill (Laws 2015, Chapter 14) permits political subdivisions, tribal governments or universities to provide a voluntary state match contribution for additional federal funding for CAHs. The FY 2016 and FY 2017 budgets did not include a specific appropriation for voluntary payments to CAHs.

**Graduate Medical Education (GME)**

The GME program reimburses hospitals with graduate medical education programs through 2 means: 1) direct allocations and 2) indirect payments.

Direct allocations are Medicare payments for a program’s share incurred through residency stipends, benefits, salaries of faculty who supervise residents, and other overhead costs exclusively related to the GME program. Indirect payments are made to teaching hospitals in an attempt to offset the additional costs of those teaching programs that provide patient care, medical training, and research.

In FY 2009, the appropriation provided funding for 458 residency positions. Since FY 2010, no state monies have been appropriated for GME. Table 3 displays the historical data on funding levels for FY 2001, FY 2007, and FY 2017.

Laws 2007, Chapter 263 allowed local, county, and tribal governments to increase federal funding for GME programs by providing additional voluntary state match monies. Laws 2010, Chapter 86 expanded this provision to public universities. In FFY 2014, 11 hospitals received \$151.4 million in total funds.

<b><u>Fund</u></b>	<b><u>FY 2001</u></b>	<b><u>FY 2007</u></b>	<b><u>FY 2017</u></b>
GF	\$7,766,700	\$11,519,800	\$ 0
Federal	10,523,100	26,993,000	112,725,700
Voluntary	<u>0</u>	<u>0</u>	<u>50,266,900</u>
<b>Total</b>	<b>\$18,289,800</b>	<b>\$38,512,800</b>	<b>\$162,992,600</b>

1/ Although the FY 2017 General Appropriation Act appropriated \$162,992,600 for GME payments in FY 2017, it also included a footnote appropriating any amount above that to the Administration in FY 2017.

**Safety Net Care Pool**

In April 2012, AHCCCS received federal approval to establish a Safety Net Care Pool (SNCP) to fund unreimbursed costs incurred by hospitals in caring for the uninsured and AHCCCS recipients through December 31, 2013. A year later, CMS gave approval to expand this program using monies from a City of Phoenix hospital assessment.

SNCP uses monies from political subdivisions to draw down federal matching monies at a 2:1 match. The funds are then distributed to participating hospitals. As a federal condition of participating in the program, some of the monies were required to be used to expand AHCCCS coverage. These monies were initially used to expand KidsCare enrollment, but the program was frozen on January 31, 2014 with the expansion of Medicaid coverage to childless adults, parents and children under the federal ACA. Prior to that expansion of coverage, the SNCP monies

from the City of Phoenix assessment were also used to fund coverage for a limited amount of childless adults up to 100% FPL. *Table 4* displays the historical data on funding levels for the program through FY 2017.

The original SNCP funding of \$166.0 million in FY 2014 only funded 3 hospitals: Phoenix Children’s Hospital, Maricopa Integrated Health Systems, and the University of Arizona Health Network. The original amount was increased from \$166.0 million to \$488.0 million as a result of the City of Phoenix Hospital Assessment, which created a new funding source from political subdivisions to pay to acute care hospitals that provided uncompensated care to uninsured and low income patients. The City of Phoenix adopted a 6% assessment on net in-patient hospital revenues at designated acute care hospitals. In FY 2014, there were 9 hospitals that agreed to be levied an assessment and that qualified for a federal match. Participation in the program ended December 31, 2013 for all hospitals except Phoenix Children’s Hospital. Laws 2013, 1<sup>st</sup> Special Session, Chapter 10 prohibits municipalities from imposing a hospital assessment, such as the City of Phoenix Hospital Assessment, after December 31, 2013.

<b>Fiscal Year</b>	<b>State Match</b>	<b>Federal Match</b>	<b>Total Funds</b>
FY 2012	\$49,050,000	\$100,950,000	\$150,000,000
FY 2013	122,296,100	239,658,800	361,954,900
FY 2014	160,865,600	327,087,700	487,953,300
FY 2015	56,429,500	118,705,000	175,134,500
FY 2016 <sup>1/</sup>	43,052,200	93,947,800	137,000,000
FY 2017 <sup>2/</sup>	42,141,200	94,858,800	137,000,000

<sup>1/</sup> Although the FY 2016 General Appropriation Act appropriated \$137,000,000 for SNCP payments in FY 2016, it also included a footnote appropriating any amount above that to the Administration in FY 2016.

<sup>2/</sup> Although the FY 2017 General Appropriation Act appropriated \$137,000,000 for SNCP payments in FY 2017, it also included a footnote appropriating any amount above that to the Administration in FY 2017.

In November 2013, CMS reviewed the request from 4 other cities (Casa Grande, Globe, Mesa, and Tucson) to use hospital assessments to provide the state match for SNCP payments. Although CMS did not approve the request for the 4 cities, a FY 2014 Health and Welfare BRB allowed Phoenix Children’s Hospital to continue to participate in the SNCP program through December 31, 2017 if approved by the federal government. The federal government since approved Phoenix Children’s Hospital’s continued participation in the program through September 30, 2016 and has indicated that 2017 will be the last year the program would receive funding.

*Table 5* details monies received by specific hospitals through the Payments to Hospitals line items. FFY 2015 payments totaling \$437.2 million for DSH, Rural Hospital payments, GME, and SNCP are listed in the table.

**Proposition 202 – Trauma and Emergency Services**

Proposition 202 (2002) allowed the Governor to enter into tribal gaming compacts allowing tribes to operate certain gaming activities in exchange for a percentage of the gaming revenues. The proposition further specified that approximately 25.5% would fund trauma and emergency services. AHCCCS distributes 90% of these monies to the 8 hospitals with trauma departments. The remaining 10% is distributed to hospital emergency rooms. In FY 2016, \$25.1 million was allocated to hospitals for trauma and emergency services (FY 2016 actuals will be available in September 2016 when AHCCCS submits their agency budget year request to the Governor). In FY 2017, this funding source will provide an estimated \$25.1 million to hospitals.

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**Table 5**

**FFY 2015 Payments to Hospitals\***

<u>Hospital</u>	<u>General Fund Match Payments</u>			<u>Political Subdivision Match Payments</u>			<u>Total Payments</u>
	<u>DSH</u>	<u>Rural Hospital</u> <sup>1/</sup>	<u>Subtotal</u>	<u>GME</u> <sup>2/</sup>	<u>DSH</u>	<u>SNCP</u> <sup>3/</sup>	
Abrazo Arrowhead Hospital							
Abrazo Central Campus	350,702		350,702				350,702
Abrazo Maryvale Campus	1,113,124		1,113,124				1,113,124
Abrazo Scottsdale Campus							
Abrazo West Campus	206,495		206,495				206,495
Arizona Regional Medical Center							
Arizona Regional - Apache Junction							
Arizona State Hospital (ASH)	28,474,900		28,474,900				28,474,900
Banner Casa Grande Medical Center	105,064		105,064				105,064
Banner Desert Medical Center	933,230		933,230				933,230
Banner Estrella Medical Center	881,719		881,719				881,719
Banner Gateway Medical Center							
Banner Goldfield Medical Center		149,136	149,136				149,136
Banner Ironwood Medical Center	73,043	1,153,452	1,226,495				1,226,495
Banner Payson Medical Center		888,213	888,213				888,213
Banner Thunderbird Medical Center	832,424		832,424				832,424
Banner University Med. Ctr. Phoenix	782,834		782,834	21,486,463		21,486,463	22,269,297
Banner University Med. Ctr. South	265,608		265,608	8,558,921		8,558,921	8,824,529
Banner University Med. Ctr. Tucson	362,084		362,084	41,375,931		41,375,931	41,738,015
Benson Hospital	6,754	480,913	487,667		51,915	51,915	539,582
Canyon Vista Medical Center		1,271,256	1,271,256				1,271,256
Carondelet Holy Cross Hospital		2,836,119	2,836,119				2,836,119
Carondelet St. Mary's Hospital	264,582		264,582				264,582
Chinle Comprehensive							
Cobre Valley Community Hospital		2,778,215	2,778,215				2,778,215
Copper Queen Community		894,013	894,013				894,013
Cochise Regional Hospital		467,119	467,119				467,119
Deer Valley Medical Center	171,516		171,516				171,516
Flagstaff Medical Center	95,166		95,166		6,975,270	6,975,270	7,070,436
Florence Hospital at Anthem		98,494	98,494				98,494
Ft. Defiance Physicians Indian							
Hopi Health Care Center							
Hu Hu Kam Memorial Hospital	21,881		21,881				21,881
John C. Lincoln Medical Center	112,474		112,474				112,474

**Table 5 (Continued)**

<u>Hospital</u>	<u>General Fund Match Payments</u>			<u>Political Subdivision Match Payments</u>			<u>Total Payments</u>	
	<u>DSH</u>	<u>Rural Hospital</u> <sup>1/</sup>	<u>Subtotal</u>	<u>GME</u> <sup>2/</sup>	<u>DSH</u>	<u>SNCP</u> <sup>3/</sup>		
Kingman Regional Medical Center	41,597		41,597	1,601,057	736,543		2,337,600	2,379,197
La Paz Regional Hospital		582,517	582,517					582,517
Little Colorado Medical Center	116,417	2,475,122	2,591,539		394,869		394,869	2,986,408
Los Ninos Hospital								
Maricopa Medical Center	89,877,700		89,877,700	32,604,877			32,604,877	122,482,577
Mt. Vista Medical Center								
Mt. Graham Regional	10,994	675,011	686,005		2,395,182		2,395,182	3,081,187
Northern Cochise Community	10,297	546,441	556,738		807,120		807,120	1,363,858
Page Hospital	147,430	1,388,484	1,535,914		48,889		48,889	1,584,803
Parker Indian Hospital								
Phoenix Children's Hospital				13,459,686		119,071,613	132,531,299	132,531,299
Phoenix Indian Medical Center								
Promise Specialty Hospital								
San Carlos Indian Hospital								
Scottsdale Osborn Medical Center				1,610,171			1,610,171	1,610,171
Scottsdale Shea Medical Center				306,204			306,204	306,204
Sells Indian Hospital	5,000		5,000					5,000
St. Luke's Medical Center	172,630		172,630					172,630
St. Joseph's Hospital - Phoenix	741,183		741,183	23,546,504			23,546,504	24,287,687
Summit Healthcare Regional	97,259	1,448,795	1,546,054					1,546,054
Tuba City Indian Medical Center								
Tucson Medical Center	449,785		449,785	6,096,116			6,096,116	6,545,901
Valley View Medical Center		866,364	866,364					866,364
Verde Valley Medical Center		1,638,441	1,638,441					1,638,441
White Mountain Regional		349,004	349,004					349,004
Whiteriver Physicians Indian Hospital	33,118		33,118					33,118
Wickenburg Regional Hospital		302,403	302,403					302,403
Yavapai Regional - East	40,589	1,360,488	1,401,007		2,346,820		2,346,820	3,747,827
Yuma Regional Medical Center	794,801		794,801	710,505	2,789,166		3,499,671	4,294,472
<b>FFY 2015 Total</b>	<b>\$127,592,400</b>	<b>\$22,650,000</b>	<b>\$150,242,400</b>	<b>\$151,356,433</b>	<b>\$16,545,774</b>	<b>\$119,071,613</b>	<b>\$286,973,800</b>	<b>\$437,216,222</b>

\* DSH payments reflect FFY 2015 allocations and GME payments reflect FFY 2014 allocations.

<sup>1/</sup> Amounts include payments made to Critical Access Hospitals and reflect SFY 2015 totals.

<sup>2/</sup> Amounts are total payments, which includes both local and federal match distributions, made in FFY 2014.

<sup>3/</sup> Amounts are total payments, which includes both local and federal match distributions, made in FFY 2015.