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 4 programs which are all partially funded by the General Fund. These 4 programs are:

- Disproportionate Share;
- Graduate Medical Education;
- Critical Access Hospitals;
- Rural Hospital Reimbursement.

Disproportionate Share (DSH)

The Disproportionate Share program is intended to "pass 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 Disproportionate Share program is funded by a combination of General Fund and Federal Expenditure Authority monies. The federal government provides the state with a roughly 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 has increased by $19.4 million (18.8%) since FY 2001. See *Table 1*.

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 has been 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.

DSH payments are distributed to Arizona State Hospital (ASH), Maricopa County, and qualifying private hospitals. Sales tax revenues for the public hospitals (minus a portion retained by Maricopa County) are withheld, resulting in a net increase in the General Fund. The net gain to the General Fund through sales tax withholdings has increased by $32.3 million since FY 2001. The amount of the sales tax revenues withheld has increased more rapidly than the DSH amounts paid to hospitals. These revenues are not withheld from private hospitals.

After the passage of Proposition 204 in 2002, the agreement was modified. The new agreement is reflected in the change in amounts of sales tax revenues withheld to Maricopa County. Although DSH payments to Maricopa County have increased, due to the increased amount of sales tax withheld, Maricopa County has seen a decrease of $(8.9) million (68.0%) in net funds received since FY 2001.

In FY 2004, 38 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; Kino was considered to be a private hospital.

Table 1
Disproportionate Share Payments

	FY 2001	FY 2005	FY 2006
Private Hospitals	$15,150,000	$26,147,700	$26,147,700
Maricopa County	45,895,500	87,732,400	67,568,900
Kino	13,253,500	0	0
ASH	28,474,900	28,474,900	28,474,900
Gross Payments	**$102,773,900**	**$142,355,000**	**$122,191,500**

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 2005, 13 hospitals received GME payments.

The spending for the GME program has increased $3.5 million (19.3%) since FY 2001. Although the

total funding for the program has increased, the amount that the state allocates from the General Fund has decreased. *Table 2* displays the historical data on funding levels using FY 2001, FY 2005 and FY 2006.

Table 2

Graduate Medical Education Funding History

Fund	FY 2001	FY 2005	FY 2006
GF	$ 7,766,700	$ 6,883,500	$ 7,179,300
Fed	10,523,100	14,264,000	14,640,700
Total	**$18,289,800**	**$21,147,500**	**$21,820,000**

The GME allocation is required by state law to be adjusted annually by the increase or decrease in the Data Resources Incorporated hospital market index for prospective hospital reimbursement.

Critical Access Hospitals (CAH)
The Critical Access Hospitals program provides supplemental payments to small rural hospitals that are federally designated as critical access hospitals. In order to qualify as a CAH, the federal government requires that the hospital must:

- 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, will sunset on January 1, 2006. Those hospitals that were designated as a CAH prior to January 1, 2006 will be grandfathered as CAHs on and after January 1, 2006. In FY 2005, 7 hospitals received CAH payments.

The Critical Access Hospital program began in FY 2003. The total funding has remained constant at $1.7 million, but the General Fund amount changes from year to year based on the FMAP and has decreased $32,600 (6%) from FY 2001 to FY 2006. *Table 3* summarizes the funding levels of this program.

Table 3

Critical Access Hospitals Funding History

Fund	FY 2003	FY 2005	FY 2006
GF	$ 591,900	$ 554,200	$ 559,300
Fed	1,108,100	1,145,800	1,140,700
Total	**$1,700,000**	**$1,700,000**	**$1,700,000**

Rural Hospital Reimbursement
This is a new program in FY 2006 which increases inpatient reimbursement rates for qualifying rural hospitals. To qualify as a rural hospital, Arizona statute requires that the hospital must:

- Be licensed as an acute care hospital that has 100 or fewer beds and is located in a county with a population of less than 500,000; or
- Be designated as a critical access hospital.

$4.0 million (33%) of the funds are from the General Fund. The remaining $8,158,100 is from Federal Expenditure Authority.

Attachment 1 details monies received by specific hospitals through the Payments to Hospitals line items. FY 2004 DSH payments and FY 2005 GME and CAH payments are illustrated in the attachment.

Performance Measures
AHCCCS Payments to Hospitals programs are subsidies paid to qualifying hospitals. As such, performance measures for these programs focus on timely payments to qualifying hospitals. AHCCCS reported 100% success.

Other
Under Section 1011 of the federal Medicare Modernization Act, $250 million is provided 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 will be divided among all 50 states and the District of Columbia based on their relative percentages of unauthorized immigrants. One-third will be divided among the 6 states with the largest number of unauthorized immigrant apprehensions.

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.

Since Arizona is included as one of the 6 states with the largest number of undocumented alien apprehensions, additional funds are provided to Arizona care providers. In FY 2005, this amount was $44,979,206. 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.

Hospital	SFY 04 DSH	SFY 05 CAH	SFY 05 GME	Hospital Total
ASH	$28,474,900	-	-	$28,474,900
Arrowhead Community Hospital	$5,000	-	-	$5,000
Banner Baywood (Valley Lutheran)	$5,000	-	-	$5,000
Banner Desert	$986,725	-	-	$986,725
Banner Good Samaritan	$3,004,823	-	$2,408,362	$5,413,185
Banner Mesa Lutheran	$14,395	-	-	$14,395
Benson Hospital	$26,298	$94,591	-	$120,888
Carondelet Holy Cross Hospital	$411,464	-	-	$411,464
Carondelet St. Joseph's Hospital	$71,394	-	-	$71,394
Carondelet St. Mary's Hospital	$315,332	-	-	$315,332
Casa Grande Regional Medical Center	$300,364	-	-	$300,364
Chandler Regional Hospital	$29,943	-	-	$29,943
Cobre Valley Community Hospital	$93,734	-	-	$93,734
Copper Queen Comm Hospital	$5,000	-	-	$5,000
Flagstaff Medical Center	$224,812	-	-	$224,812
Hacienda de los Ninos	$763,557	-	-	$763,557
John C. Lincoln - Deer Valley	-	-	$15,826	$15,826
John C. Lincoln - North Mtn.	$78,160	-	-	$78,160
Kingman RMC	$5,000	-	-	$5,000
Maricopa Medical Center	$103,317,300	-	$7,159,855	$110,477,155
Maryvale Hospital Medical Center	$3,782,843	-	-	$3,782,843
Mesa General Hospital	$208,391	-	$33,717	$242,108
Mt. Graham	$76,446	-	-	$76,446
Navapache Reg Med Ctr	$5,000	-	-	$5,000
Northern Cochise Community Hospital	$314,288	$129,827	-	$444,115
Northwest	$53,765	-	-	$53,765
Page Hospital	$222,415	$359,145	-	$581,560
Phoenix Baptist Hospital	$39,855	-	$155,321	$195,176
Phoenix Children's Hospital	$4,672,069	-	$4,039,691	$8,711,760
Phoenix Memorial Hospital	$847,988	-	-	$847,988
Sage Memorial Hospital	$563,727	$237,181	-	$800,908
Scottsdale Healthcare Osborn	$56,486	-	$174,235	$230,721
Scottsdale Healthcare Shea	-	-	$48,236	$48,236
Sierra Vista Reg Health Ctr.	$5,000	-	-	$5,000
Southeast Arizona Medical Center	$130,244	$437,195	-	$567,439
St. Joseph's Hospital - Phoenix	$4,098,325	-	$2,995,906	$7,094,231
Tempe St. Lukes	-	-	$98,489	$98,489
Thunderbird Samaritan Hospital	$389,788	-	-	$389,788
Tucson Medical Center	$1,454,286	-	$665,080	$2,119,366
University Medical Center	$1,997,233	-	$3,349,507	$5,346,741
Walter Boswell Memorial Hospital	-	-	$3,274	$3,274
White Mtn.	$11,951	-	-	$11,951
Wickenburg Regional Hospital	-	$136,463	-	$136,463
Winslow Memorial Hospital	$554,173	$305,598	-	$859,771
Yuma Regional Medical Center	$322,425	-	-	$322,425
SFY Total	**$157,939,900**	**$1,700,000**	**$21,147,499**	**$180,787,399**

The Rural Hospital line is excluded as it is a new program and there is no data to report.