



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 24, 2011

Joint Committee on Finance

Paper #346

Essential Access City Hospital Payment (DHS -- Medical Assistance -- Services)

[LFB 2011-13 Budget Summary: Page 222, #10]

CURRENT LAW

Under current law, the Department of Health Services (DHS) is authorized to make a payment of not more than \$4,748,000 (all funds) annually to an essential access city hospital (EACH). According to standards established in Wisconsin's medical assistance (MA) inpatient hospital state plan, a hospital qualifies for the EACH payment if it met the following criteria during the year July 1, 1995 through June 30, 1996: (a) it is located in the inner city of Milwaukee; (b) at least 30% of its MA recipient inpatient stays are for MA recipients who reside in the designated inner city area of Milwaukee; (c) more than 30% of its total inpatient days are MA-covered inpatient days; and (d) it is an acute care general hospital that provides medical and surgical, neonatal ICU, emergency and obstetrical services. Since the EACH payment was first created in 1991 Act 39, the only hospital that has received the annual payment is Aurora Sinai Medical Center in Milwaukee.

The EACH payment is currently one of several supplemental payments made to hospitals under the MA program. Other examples in fiscal year 2010-11 include the following: (a) \$2,000,000 in pediatric inpatient supplemental payments to Children's Hospital of Wisconsin and UW Hospital & Clinics; (b) \$8,000,000 in supplemental payments to Froedert Memorial and UW Hospital & Clinics as Adult Level I trauma centers; (c) \$2,900,000 in rural hospital supplemental payments to 17 rural hospitals; (d) \$3,000,000 supplemental payment to UW Hospital & Clinics for uncompensated care; and (e) \$800,000 in independent rural hospital supplemental payments made to Bay Area Medical Center and the Monroe Clinic (these independent rural hospital supplemental payments do not continue after 2010-11). In addition, revenues collected under the hospital assessment were used to partially support \$5,000,000 (AF) in pay-for-performance payments to hospitals in 2010-11. DHS indicates that numerous hospitals throughout the state received a portion of that \$5,000,000.

GOVERNOR

Reduce funding for MA benefits by \$4,748,000 (-\$1,878,400 GPR and -\$2,869,600 FED) in 2011-12 and by \$4,748,000 (-\$1,884,000 GPR and -\$2,864,000 FED) in 2012-13 to reflect the elimination of the EACH payment.

DISCUSSION POINTS

1. Aurora Sinai Medical Center is located in the City of Milwaukee. It unquestionably plays an important role in the delivery of health care services to people in that community.

2. Compared to most hospitals in the state, Aurora Sinai serves a high percentage of MA recipients. According to figures contained in the Wisconsin Hospital Association's "Wisconsin Health Care Data Report," the state's MA program was the "Expected Pay Source" for 57.5% of Aurora Sinai's patients in 2009. Of the 128 general medical surgical (GMS) hospitals listed in that report, only Children's Hospital of Wisconsin - Kenosha had a higher percentage of MA patients (63.1%). The average for all 128 GMS hospitals in 2009 was 15.9%.

3. Reimbursement rates under the MA program generally do not fully compensate hospitals for the costs they incur to provide inpatient and outpatient services to MA recipients. An exception is the 100% cost-based MA reimbursement rates paid to the state's 59 critical access hospitals, which by definition are comparatively small, rural hospitals. As a result, non-critical access hospitals with relatively high MA caseloads can experience financial losses on their MA book of business.

4. Table 1 presents financial results for Aurora Sinai for the years 2006 through 2010. The net income figures for years 2006 through 2009 are based on data contained in the Wisconsin Hospital Association's annual "Guide to Wisconsin Hospitals." The net income information for 2010 was provided separately by the Wisconsin Hospital Association, as was the "MA Service Costs in Excess of MA Revenues" information for all years.

TABLE 1

**Aurora Sinai Medical Center
Revenue, Expenses, Net Income, and MA Service Costs in Excess of MA Revenues
2006 through 2010**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Five-Year Totals</u>
Gross Patient Revenue	\$422,966,600	\$411,027,900	\$502,033,900	\$596,468,200	\$627,526,200	\$2,560,022,800
Deductions	<u>-242,475,600</u>	<u>-221,436,500</u>	<u>-296,425,100</u>	<u>-348,305,500</u>	<u>-378,906,700</u>	<u>-1,487,549,400</u>
Net Patient Revenue	\$180,491,000	\$189,591,400	\$205,608,800	\$248,162,700	\$248,619,500	\$1,072,473,400
Other Revenue	<u>\$7,433,100</u>	<u>\$7,272,200</u>	<u>\$6,604,300</u>	<u>\$6,026,200</u>	<u>\$5,984,700</u>	<u>\$33,320,500</u>
Total Revenue	\$187,924,100	\$196,863,600	\$212,213,100	\$254,188,900	\$254,604,200	\$1,105,793,900
Expenses	\$198,508,800	\$205,524,300	\$211,799,200	\$260,690,200	\$255,461,900	\$1,131,984,400
Non-Operating Gains/Losses	<u>104,900</u>	<u>273,200</u>	<u>-5,300</u>	<u>225,000</u>	<u>235,300</u>	<u>833,100</u>
Subtotal	\$198,613,700	\$205,797,500	\$211,793,900	\$260,915,200	\$255,697,200	\$1,132,817,500
Net Income (Loss)	-\$10,689,600	-\$8,933,900	\$419,200	-\$6,726,300	-\$1,093,000	-\$27,023,600
MA Costs in Excess of MA Revenues	-\$32,246,900	-\$27,647,400	-\$36,498,500	-\$33,494,900	-\$35,856,100	-\$165,743,800

* *Gross Patient Revenues* are defined as total charges billed by a hospital for inpatient and outpatient services. *Deductions* are defined as the portion of charges incurred by patients but not reimbursed by third-party payers (including charity care but excluding bad debt). *Expenses* are defined as the cost of operations charged to a hospital during a fiscal year, including bad debt. *Net Income* is defined as revenues and gains in excess of expenses and losses.

5. As the information presented in Table 1 shows, Aurora Sinai incurred net losses totaling \$27,023,600 in the past five years. During those same five years, Aurora Sinai's costs to serve MA patients exceeded its MA revenues by a total of \$165,743,800, according to information provided by WHA.

6. While Table 1 confirms that MA reimbursement rates have not fully compensated Aurora Sinai for the costs it has incurred to serve its high MA caseloads, those rates have increased since the creation of the hospital assessment in 2009 Wisconsin Act 2. Under that legislation, DHS is authorized to collect from most hospitals in the state a percentage of their gross patient revenues. Although not identified in statute, that percentage is approximately 1.6% of gross patient revenues. A portion of the assessment revenue collected by DHS, along with federal MA matching funds, is used to support MA payments to hospitals, which were increased when the hospital assessment was enacted. Hospitals with higher MA caseloads tend to benefit from the assessment to a greater degree than hospitals with lower MA caseloads, after adjusting for the assessment amounts paid.

7. The administration has identified the recent increase in hospital reimbursement rates,

funded from the hospital assessment, as a reason for eliminating the EACH payment. Table 2 presents information on the assessment's impact on Aurora Sinai. The presentation of this information is complicated by the fact that in 2009, Aurora Sinai and St. Luke's Medical Center (both part of Aurora Health Care) combined for purposes of Medicare reporting, thereby requiring an allocation of the assessment's relative impact on those two hospitals. Therefore, Table 2 shows the hospital assessment's impact on Aurora Sinai and St. Luke's separately (based on the split assumed by DHS) and on a combined basis. The information in Table 2 is based on DHS reports to the Joint Committee on Finance regarding implementation of the hospital assessment.

TABLE 2

**Hospital Assessment Results for Aurora Sinai and St. Luke's Medical Center
State Fiscal Years 2009 and 2010**

	<u>Assessment Paid</u>	<u>Additional MA Reimbursement under Hospital Assessment</u>	<u>Net Gain/Loss</u>
State Fiscal Year 2009			
Aurora Sinai Medical Center	\$6,108,083	\$22,405,950	\$16,297,867
St. Luke's Medical Center	<u>33,367,953</u>	<u>18,170,425</u>	<u>-15,197,528</u>
Total	\$39,476,036	\$40,576,375	\$1,100,339
State Fiscal Year 2010			
Aurora Sinai Medical Center	\$7,720,090	\$48,879,386	\$41,159,296
St. Luke's Medical Center	<u>37,940,604</u>	<u>8,725,966</u>	<u>-29,214,638</u>
Total	\$45,660,694	\$57,605,352	\$11,944,658

8. As noted, Aurora Sinai is part of the Aurora Health Care system. According to information on its website, Aurora Health Care is a not-for-profit Wisconsin integrated health care provider with locations in more than 90 communities throughout eastern Wisconsin, including 15 hospitals, more than 155 clinics and over 80 community pharmacies. According to its 2009 Annual Report, Aurora Health Care had total net service revenues of over \$4 billion in 2009.

9. Table 3 shows the impact of the hospital assessment on the Aurora Health Care system as a whole in state fiscal years 2008-09 and 2009-10, based on the DHS annual reports to the Joint Committee on Finance. The figures in Table 3 include the assessment's estimated impacts on Aurora Sinai and St. Luke's Medical Center.

TABLE 3

**Hospital Assessment Results for Aurora Health Care
State Fiscal Years 2009 and 2010**

	<u>Assessment Paid</u>	<u>Additional MA Reimbursement Under Hospital Assessment</u>	<u>Net Gain/Loss</u>
State Fiscal Year 2009			
Aurora Health Care (inc. Aurora Sinai and St. Luke's)	\$69,232,229	\$83,890,407	\$14,658,178
State Fiscal Year 2010			
Aurora Health Care (inc. Aurora Sinai and St. Luke's)	\$80,272,556	\$103,975,992	\$23,703,436

10. Like many of the MA-related proposals in the bill, this item requires the Committee to decide how to allocate limited resources in an MA program that faces significant funding issues. The EACH payment is, for example, one of several supplemental payments the MA program makes to hospitals in the state. The Committee may wish to weigh the proposed elimination of the EACH payment against the possible reduction or elimination of the other supplemental hospital payments identified above, or against the 100% cost-based reimbursement critical access hospitals receive under the MA program.

11. One specific issue Committee members may consider with respect to this item is the degree to which Aurora Sinai should be viewed as a separate entity, apart from Aurora Health Care. Viewing Aurora Sinai in isolation, members could reasonably conclude that the hospital continues to serve a disproportionately high percentage of MA patients in the inner city of Milwaukee. Given that MA reimbursement rates (hospital assessment notwithstanding) do not fully reimburse Aurora Sinai for providing those services, members could decide that the conditions that presumably led to the establishment of the EACH payment in 1991 Wisconsin Act 39 still exist, and that the supplemental payment should continue.

12. Alternatively, there are several reasons why members might decide to eliminate the payment. First, while it is true that MA reimbursement rates do not fully compensate most hospitals for the cost of serving their MA patients, those rates have increased since the creation of the hospital assessment in 2009. Under that assessment, Aurora Health Care in general, and Aurora Sinai in particular, have been net beneficiaries.

13. Second, members could focus on the fact that Aurora Sinai is part of the much larger Aurora Health Care system. In that regard, the EACH payment appears to have represented approximately one-tenth of one percent of Aurora Health Care's total net service revenues in 2009. Given those facts, members could decide that in a time of scarce resources, Aurora Sinai is better positioned to withstand this funding reduction than are other hospitals, other MA providers, or MA recipients.

14. Under current law, DHS must distribute "up to \$4,748,000" to an essential access city hospital. Arguably, DHS could comply with the statutory requirement by providing a lesser amount in each year. The current statutory amount was established in 1991 Wisconsin Act 39 and does not necessarily have any relation to the current financial performance of the facility. For this reason, if the Committee wishes to maintain a supplemental payment to this hospital, it could revise the amount of the supplemental payment, based on current funding priorities. Alternative 3 provides several funding options for the Committee's consideration.

ALTERNATIVES

1. Adopt the Governor's proposal to eliminate the EACH payment.

2. Delete provision. Increase funding in the bill by \$4,748,000 (\$1,878,400 GPR and \$2,869,600 FED) in 2011-12 and \$4,748,000 (\$1,884,000 GPR and \$2,864,000 FED) in 2012-13 to continue funding the annual EACH payment.

ALT 2	Change to Bill Funding
GPR	\$3,762,400
FED	<u>5,733,600</u>
Total	\$9,496,000

3. Delete provision. However, modify funding and statutory provisions relating to the EACH payment to require DHS to provide one of the following amounts annually as an EACH supplemental payment.

a. \$2,000,000 (all funds) per year. Increase funding in the bill by \$791,200 GPR and \$1,208,800 FED in 2011-12 and by \$793,600 GPR and \$1,206,400 FED in 2012-13.

ALT 3a	Change to Bill Funding
GPR	\$1,584,800
FED	<u>2,415,200</u>
Total	\$4,000,000

b. \$3,000,000 (all funds) per year. Increase funding in the bill by \$1,186,800 GPR and \$1,813,200 FED in 2011-12 and by \$1,190,400 GPR and \$1,809,600 FED in 2012-13.

ALT 3b	Change to Bill Funding
GPR	\$2,377,200
FED	<u>3,622,800</u>
Total	\$6,000,000

c. \$4,000,000 (all funds) per year. Increase funding in the bill by \$1,582,400 GPR and \$2,417,600 FED in 2011-12 and by \$1,587,200 GPR and \$2,412,800 FED in 2012-13.

ALT 3c	Change to Bill Funding
GPR	\$3,169,600
FED	<u>4,830,400</u>
Total	\$8,000,000

d. \$5,000,000 (all funds) per year. Increase funding in the bill by \$1,978,000 GPR and \$3,022,000 FED in 2011-12 and by \$1,984,000 GPR and \$3,016,000 FED in 2012-13.

ALT 3d	Change to Bill Funding
GPR	\$3,962,000
FED	<u>6,038,000</u>
Total	\$10,000,000

Prepared by: Eric Peck