Legislative Fiscal Bureau
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May 26, 2005 Joint Committee on Finance Paper #373

Essential Access City Hospital Supplement (DHFS -- MA, BadgerCare, and SeniorCare -- Eligibility, Payments, and Services)

[LFB 2005-07 Budget Summary: Page 246, #7]

CURRENT LAW

The statutes require the Department of Health and Family Services (DHFS) to distribute up to $4,748,000 (all funds) in each fiscal year to an essential access city hospital (EACH) under the state's medical assistance (MA) program.

DHFS defines an EACH in the MA state plan as an acute care general hospital with medical and surgical, neonatal intensive care, emergency and obstetrical services, located in the inner City of Milwaukee, as defined by certain zip codes. The hospital must have 30% or more of its total inpatient days attributable to MA patients, including MA patients enrolled in HMOs, and at least 30% of its MA inpatient stays must be for MA recipients who reside in the inner City of Milwaukee. In addition, the state plan specifies that a hospital qualifies for an EACH supplement if the hospital met these criteria during the year July 1, 1995, through June 30, 1996.

In each year since the creation of the EACH supplemental payment in 1991, the only hospital that has met the criteria to receive the EACH supplemental payment is Aurora Sinai Medical Center (Aurora Sinai, formerly, Sinai-Samaritan Hospital).

GOVERNOR

Provide $1,506,400 ($635,400 SEG and $871,000 FED) in 2005-06 and $1,525,400 ($646,000 SEG and $879,400 FED) in 2006-07 to increase the amount of the EACH supplement. Modify the statutory allocation amount to increase, from $4,748,000 to $6,248,000 ($1,500,000), the maximum amount DHFS could distribute for this MA supplemental hospital payment in each year. The SEG funding increase would be supported from the health care quality improvement fund, which would be created in the bill.

DISCUSSION POINTS

1. Aurora-Sinai, located at 945 N. 12th Street, is the only hospital in the inner City of Milwaukee, as defined by the zip codes in the MA state plan. The hospital predominantly serves low-income and uninsured residents.

2. Table 1 provides information on Aurora Sinai's uncompensated care (the combination of charity care and bad debt), for calendar years 2000 through 2004. The table also shows, for each year, information on the total number of inpatient days, the total number of inpatient days paid by MA, and the percentage of the total inpatient days MA patients represented.

TABLE 1

Aurora Sinai Medical Center Selected Operating Statistics
Calendar Years 2000 through 2004

Year	Charity Care	Bad Debt	Total Uncompensated Care	Net Income (Losses)	Total Inpatient Days	MA Patient Days	MA Inpatient Days as % of Total
2000	$24,747,000	$ 9,000,000	$33,747,000	-$13,876,000	68,346	31,705	46.4%
2001	30,137,000	10,172,000	40,309,000	-17,184,000	88,184	36,992	41.9
2002	37,071,000	8,067,000	45,138,000	-17,014,000	71,592	29,756	41.6
2003	30,893,000	9,989,000	40,882,000	-23,742,000	63,261	27,827	44.0
2004	17,237,000	6,895,000	24,132,000	-14,137,000	50,963	23,785	46.7

Source: Wisconsin Hospital Association.

Table 1 shows that, between calendar year 2000 and calendar year 2004, Aurora Sinai's annual net income (losses) ranged from approximately -$13.9 million to -$23.7 million. In 2004, Aurora Sinai reported net income (losses) of approximately -$14.1 million. The table also shows that, in 2004, MA recipients accounted for approximately 46.7% of the total number of inpatient days at Aurora Sinai, the highest percentage of the total inpatient days paid by MA of any hospital in the state. Together, Medicare and MA recipients represented approximately 80% of Aurora Sinai's inpatient days in 2004, while commercial payers represented only 13% of the hospital's inpatient days.

3. Because of the population Aurora Sinai serves, the percentage of the total revenue Aurora Sinai receives from government sources, including MA and Medicare, is high. MA and Medicare payment rates are low compared with other payers. Consequently, Aurora Sinai’s high

percentage of MA patients makes that hospital less able than other hospitals to offset losses it incurs in serving MA recipients and other publicly funded patients with payments from other payment sources.

4. In 2002, Aurora Sinai reported net patient service income of approximately -$17.2 million, and had a net operating margin, which is total revenue minus total expenses expressed as a percentage of total revenue, of -8.5%. In 2003, the hospital's net patient service income was approximately -$23.8 million, and had a net operating margin of -12.5%.

5. One other hospital operating in the City of Milwaukee, St. Michael Hospital, which is owned and operated by the Covenant Healthcare System, had 31% of its inpatient days attributable to MA patients in 2003, but does not meet the other criteria for an EACH payment, as specified in the MA state plan. St. Michael reported a total loss of approximately $15.9 million in 2003.

6. Aurora Sinai is one of 13 hospitals owned by Aurora Health Care, a not-for-profit organization. As a not-for-profit organization, Aurora Health Care reinvests all of its net income to support Aurora Health Care's activities, rather than distributes its net income to owners or shareholders. Some of Aurora Health Care's activities result in net revenue to the organization, while others, such as operating Aurora Sinai, result in a net loss for the organization. Table 2 identifies revenues, expenditures, and net income for Aurora Health Care for calendar years 2000 through 2004.

TABLE 2

Aurora Health Care System Total Revenue and Net Income
Calendar Years 2000 through 2004

Year	Revenue	Total Total Expenditures	Net Income Amount	Net Income Percentage of Revenue
2000	$1,695,083,000	$1,674,155,000	$20,928,000	1.23%
2001	1,991,243,000	1,973,832,000	17,411,000	0.87
2002	2,256,245,000	2,229,209,000	27,036,000	1.20
2003	2,454,464,000	2,431,015,000	23,449,000	0.96
2004	2,613,084,000	2,572,706,000	40,378,000	1.55

Source: Aurora Health Care System.

7. Table 2 shows that, during the past five years, Aurora Health Care's total net income ranged from approximately $17.4 million in 2001 to approximately $40.4 million in 2004. These net income amounts represented between approximately 0.9% of total revenues in 2001 to approximately 1.5% of total revenues in 2004.

8. Several arguments could be offered to increase state support for Aurora Sinai, as recommended by the Governor. First, the hospital serves a disproportionately large percentage of MA and other publicly funded patients, and, because MA does not fully support the costs of serving these patients, part of the costs is borne by Aurora Health Care as a whole, and its member hospitals. Second, the state has an interest in ensuring that Aurora Health Care continues to operate Aurora Sinai, based on its location. Aurora Health Care has indicated its commitment to continue to operate Aurora Sinai, but if Aurora Health Care decided to close Aurora Sinai, the other hospitals in the area would likely serve additional low-income and uninsured patients that Aurora Sinai currently serves. The final argument that could be offered to increase state support for Aurora Sinai relates to the level of care the hospital is able to provide. Aurora Health Care reports that Aurora Sinai has recently implemented initiatives to reduce the hospital's operating costs, including admitting fewer people that are served by the hospital's emergency room, consolidating the hospital's intensive care wards, and moving the psychiatric unit to another location. If these efforts do not result in the savings deemed necessary to continue current operations, it is possible that the hospital could reduce services, resulting in a lower quality of care for patients.

9. Several arguments could also be offered against providing the funding increase recommended by the Governor. The Governor recommends supporting the increase in the EACH supplemental payment with SEG funds from the proposed health care quality improvement fund, which would be funded primarily from revenue transferred from the injured patients and families compensation fund (IPFCF) and the proceeds from revenue obligation bonds. On April 20, the Committee voted to delete the Governor's proposal relating to the issuance of revenue obligation bonds from the bill. The Committee may not wish to increase funding for this purpose from the remaining source of funding for the HCQI fund – the IPFCF. Consequently, the Committee could increase state funding for the EACH supplemental payment with GPR, rather than SEG. Alternately, the Committee could reduce the amount of the Governor's proposed increase for the supplement.

10. As part of its executive action on the Governor's budget, the Committee has deleted the Governor's recommendations to: (a) transfer money from the injured patients and families compensation fund; and (b) authorize the state to issue revenue obligation bonds as the means to support a portion of the state's MA benefits costs, including an increase in the EACH supplemental payment, in the 2005-07 biennium. Consequently, there would be no segregated revenue available from this fund to support the Governor's proposed increase in the EACH supplemental payment. For this reason, all of the alternatives in this paper would fund the state's portion of EACH supplemental payment with GPR, rather than SEG revenues.

ALTERNATIVES

1. Delete provision (-$635,400 SEG and -$871,000 FED in 2005-06 and -$646,000 SEG and -$879,400 SEG in 2006-07). Instead, provide $1,500,000 ($632,700 GPR and $867,300 FED) in 2005-06 and $1,500,000 ($638,300 GPR and $861,700 FED) in 2006-07 to increase the EACH supplement by $1,500,000 (all funds), beginning in 2005-06.

Alternative 1	GPR	FED	SEG	TOTAL
2005-07 FUNDING (Change to Bill)	$1,271,000	- $21,400	- $1,281,400	- $31,800

2. Delete provision (-$635,400 SEG and -$871,000 FED in 2005-06 and -$646,000 SEG and -$879,400 SEG in 2006-07). Instead, provide $750,000 ($316,400 GPR and $433,600 FED) in 2005-06 and $750,000 ($319,100 GPR and $430,900 FED) in 2006-07 to increase the EACH supplement by $750,000 (all funds), beginning in 2005-06.

Alternative 2	GPR	FED	SEG	TOTAL
2005-07 FUNDING (Change to Bill)	$635,500	- $885,900	- $1,281,400	- $1,531,800

3. Delete provision.

Alternative 3	FED	SEG	TOTAL
2005-07 FUNDING (Change to Bill)	- $1,750,400	- $1,281,400	- $3,031,800

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