

FY 2006 Budget Poses Challenge for Safety-Net Hospitals

\$60 billion in proposed Medicaid cuts and the possibility of additional spending reductions by a deficit-hawking Congress make the proposed 2006 federal budget a real challenge for urban safety-net hospitals.

At the same time, Congress has put budget deliberations on a fast track, targeting the end of March for passage of a budget resolution.

President Bush's proposed 2006 federal budget calls for \$60 billion in Medicaid spending cuts over the next 10 years. While additional restrictions on the use of intergovernmental transfers have drawn the most attention from the news media and hospital industry, the President also has proposed eight other spending cuts, including enforcement of cost-based reimbursement, phase-down of the safe harbor tax, managed care provider tax changes, reducing the targeted case management match to 50 percent, preventing cost shifting for targeted case management and other services, cutting Medicaid administrative costs, restructuring pharmacy reimbursement, and changing policies governing the transfer of assets to qualify for Medicaid assistance for long-term care.

The proposed budget also calls for a number of new health care initiatives over the next 10 years, including \$74 billion for health insurance tax credits, \$4 billion for grants to states to establish health purchasing pools, \$28.5 billion for tax incentives with Health Savings Accounts (HSAs), and \$19.2 billion for rebates to small employers that contribute to their employees' HSAs.

But the proposed cuts have raised far more eyebrows in health care circles.

"\$60 billion is a lot of money to take out of a program with growing enrollment," said Ellen Kugler, NAUH's executive director. "It just doesn't make sense to expect

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The National Association of Urban Hospitals advocates for adequate recognition and financing of the nation's private, urban, safety-net hospitals, which serve America's needy urban communities.

For further information about the Association, or the information presented in this document, please contact Ellen Kugler at 703-444-0989.

NAUH Asks Congress to Create New "Urban Safety-Net Index"

NAUH will ask Congress to create a new "urban safety-net index" to provide supplemental assistance to selected non-profit urban safety-net hospitals that care for especially high proportions of low-income patients.

Approximately 330 hospitals nation-wide, according to NAUH's analysis, would benefit from the payments, which would be made as part of hospitals' Medicare payments via a new "urban safety-net index" that would become part of the Medicare DRG formula for qualified hospitals.

The poor financial performance of urban safety-net hospitals in the face of growing demand for their services justifies the call for additional help, according to NAUH executive director Ellen Kugler.

"The operating margins of urban hospitals are consistently worse than those of rural hospitals," she explains. "When you look at large urban hospitals that care for significant proportions of Medicaid patients, the operating margins of those urban hospitals average literally ten percentage points lower than comparable rural hospitals. Those low margins are a clear sign of hospitals in danger of closing their doors."

The situation is even worse, Kugler notes, for hospitals that would qualify for NAUH's proposed supplemental payments.

"Our analysis suggests that the operating margins of privately owned hospitals as a whole are nearly five times greater than those of the 330 non-profit urban hospitals that would qualify for assistance through the urban safety-net index. Clearly, these hospitals are in trouble, and we're asking Congress for some very modest assistance.

"After years of seeing Congress provide a great deal of much-needed help to rural hospitals, our message is very simple: 'We need help, and it's our turn.'"

Driving the declining financial performance of urban safety-net hospitals are three key factors: continued growth in Medicaid enrollment, continued growth in the ranks of the uninsured, and the inadequacy of

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FY 2006 Budget Poses Challenge for Safety-Net Hospitals (Continued)

to spend less and less money on a program that's consistently asked to take care of more and more people."

Worse, Kugler notes, is that many members of Congress think the President did not go far enough in wielding his spending knife.

"There's definitely a movement afoot, with the support of key congressional committee leaders, to add more Medicaid cuts in the budget resolution. It's entirely possible that we may look back on this year's budget process with fond memories of when the President proposed 'only' cutting \$60 billion."

Hospitals may face a similar challenge in dealing with Medicare as some members of Congress, alarmed by the growing price tag on implementation of the prescription drug benefit voted into law as part of the Medicare Modernization Act of 2003, look for ways to offset those greater costs with new Medicare cuts. The President proposed no specific Medicare cuts – although the budget assumes implementation of the 75 percent rule for rehab hospitals and expansion of the Medicare inpatient transfer policy, both of which should reduce federal spending – but some members of Congress are dissatisfied with this proposal and are talking, as they are with Medicaid, about adding cuts during the budget resolution process.

That process, moreover, is expected to move at a rapid rate. House leaders have targeted early March for passage of a budget resolution by the House Budget Committee, with passage by the full House expected by the end of March. While this gives proponents of additional cuts relatively little time to act, it will give opponents even less time to respond.

"This situation is very volatile," observes NAUH legislative director Kelly Maxwell. "Nothing could happen, or things could happen so fast that it's almost impossible to respond to them in a timely manner."

NAUH will monitor this month's budget deliberations carefully and contact members with updates and calls to action, as appropriate. ♦

NAUH Asks Congress to Create New "Urban Safety-Net Index" (Continued)

State Medicaid programs, many of which pay providers less than cost for the care they deliver to their Medicaid patients.

To qualify for urban safety-net index assistance, hospitals first would need to meet two basic criteria: they must be urban and non-profit. Hospitals that fulfill those criteria would have to satisfy at least one of three other criteria, all of which are tied to caring for exceptionally high percentages of Medicaid patients or caring for a combination of a high proportion of Medicaid patients and having very high emergency room volume compared to other hospitals throughout the country.

Currently, NAUH is seeking congressional co-sponsors for its urban safety-net index proposal. Once such sponsorship is secured, the association hopes the bill will be introduced in both the House and the Senate and that hearings will be held on the need to provide supplemental assistance to a limited number of qualified urban safety-net hospitals.

To learn if your hospital would qualify for the urban safety-net index and how much it might benefit from NAUH's urban safety-net index proposal, please call Ellen Kugler, NAUH's executive director, at 703-444-0989. ♦

For further information about the news and views presented in NAUH Update, or to learn about membership, please contact Ellen Kugler, executive director, at 703-444-0989.