Board of Supervisors Memorandum

August 19, 2013

County Reinvestment in the Community Hospital System Utilizing Local Match Initiatives for Uninsured Care Available through the Arizona Healthcare Cost Containment System (AHCCCS)

Background

There are an estimated 1.2 million uninsured individuals in Arizona. Pima County's uninsured population, based on census data, is estimated at 133,000. The number of uninsured has risen significantly since 2008 when the State made the decision to eliminate essentially all funding for Graduate Medical Education, restrict eligibility for Medicaid and reduce the scope of reimbursed services.

The care provided to the uninsured by the local healthcare system generates costs for which there is no payer, requiring other funding streams to avoid ongoing operating losses that jeopardize solvency. The impact is particularly severe for local hospitals as the uninsured frequently present to emergency rooms for medical or behavioral health issues. Federal law prohibits hospitals from turning them away; forcing the hospitals, at a minimum, to respond with triage and essential care without regard to the individual's ability to pay.

The outcome of a collaboration formed among the County, The University of Arizona Medical Center hospital leadership, and The University of Arizona working closely with AHCCCS and their oversight agency the Centers for Medicare and Medicaid Services (CMS), has subsequently provided some relief to a number of hospitals hit hardest by the State's reductions in funding for medical and behavioral health services.

AHCCCS, like all Medicaid agencies, secures federal funds for certain expenditures using State funding as the required matching funds. In 2008, a State statute was passed permitting local governments and tribes to provide the State match to secure federal funds because State funding was no longer available for a number of programs, resulting in a loss of both State and federal funds for healthcare providers. In 2010, the State statute was amended to also permit universities to provide local match. CMS approved the initiative outlined in the State statute for qualifying expenses related to physician training known as Graduate Medical Education (GME) and two programs funding care for the uninsured known as Disproportionate Share Hospital (DSH) and the Safety Net Care Pool (SNCP).

Hospitals Eligible to Receive Federal Funding

Distribution of the funds by AHCCCS to the hospitals is based on factors such as the number of physicians training, as well as the percentage of uninsured. Not all hospitals are eligible for GME, DSH and SNCP payments. To be eligible for GME payments, the hospital must be affiliated with the university and operating an accredited GME program, including physician

faculty and oversight. To be eligible for DSH and SNCP, the hospital must provide a large volume of services to Medicaid and charity care patients. To receive DSH payments, a minimum of 25 percent of the hospital's business must be comprised of low income patients. Examples of hospitals not eligible for DSH are Carondelet St. Joseph's, Northwest Medical Center and Northwest Oro Valley Hospital.

County Funds for Local Match

Historically, Pima County funds have been leveraged for local match opportunities benefitting the two hospitals in The University of Arizona Health Network (UAHN), UAMC–University Campus and UAMC–South Campus, via The University of Arizona. The University executes an Intergovernmental Agreement (IGA) with AHCCCS for funds the County provides, as well as those available from the University, which serve as the local match. AHCCCS then sends the local match to the federal government to generate the new federal funds, at which point AHCCCS issues payment directly to the hospitals. In Fiscal Year 2012, the County entered into an IGA with AHCCCS to provide County funds for local match to secure federal funding for reimbursement of GME and uninsured care costs to Tucson Medical Center (TMC).

To date, local match provided by the County and The University of Arizona totaling $97.4 million has generated $216.2 million in new federal funds that would otherwise not have been available for qualifying area hospitals. Generation of these federal funds represents a return on investment of slightly more than 200 percent, or roughly $2 for each $1 of County taxpayer funds.

Opportunity to Provide Local Match for Tucson Medical Center and St. Mary's Hospital

In my July 2, 2013 memorandum to the Board of Supervisors regarding Agreements for the Development of the Julian Wash Multiuse Path Resulting in a New Opportunity to Provide Local Match for Area Hospitals, I recommended the Board approve the following: 1) the Agreement for the Development of the Julian Wash Multiuse Path; 2) the Escrow Agreement from which payments will be made for the costs related to the Julian Wash construction; and 3) the commitment of $3,325,000 for local match for TMC and St. Mary's Hospital. On July 2, 2013, the Board of Supervisors voted its approval contingent upon resolving any outstanding legal issues with AHCCCS identified by the Pima County Attorney's Office.

The Board's approval of these Agreements reinforces and expands further the County's investment in the healthcare infrastructure in our community. TMC and St. Mary's Hospital have struggled to maintain their financial viability in spite of the rising levels of uninsured. The County's commitment to provide the local match for these two hospitals to receive DSH payments will provide a partial offset to their cost of uncompensated care.

Upon receiving the Board's approval on July 2, 2013, I directed staff to prepare an IGA between Pima County and AHCCCS to utilize $3,325,000 of County funds as local match to secure new federal funds for TMC and St. Mary's. Through this IGA, AHCCCS will secure federal funding and make payments directly to TMC and St. Mary's. TMC will receive $6,231,332 ($4,103,332 in new federal monies plus $2,128,000 in local match); and St. Mary's will receive $3,505,124 ($2,308,124 in new federal monies plus $1,197,000 in local match).

County staff and AHCCCS' counsel worked closely to resolve the open legal items. While finalizing the Julian Wash Agreements, County staff recognized that the amount of $3,590,000 shown in the Agreements overstated the cost of the project by $265,000. The management fee of $265,000 was written in the Julian Wash Agreements as an addition to the project cost, when, in fact, the amount was already included in the initial cost of the project. I directed staff to amend both Julian Wash Agreements, making the project cost $3,325,000 inclusive of the $265,000 management fee.

Recommendations

I recommend the Board of Supervisors approve the following:

1. Amendments to the Julian Wash Agreements revising the amount of the contribution to $3,325,000, the cost of the project inclusive of the management fee; and
2. The Intergovernmental Agreement with the Arizona Health Care Cost Containment System to utilize $3,325,000 of County General Funds as the local match to secure $6,411,456 in new federal funds to offset a portion of indigent care costs at Tucson Medical Center and St. Mary's Hospital.

Respectfully submitted,

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County Administrator

CHH/mjk – August 9, 2013

c: Jan Lesher, Deputy County Administrator for Medical and Health Services
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