Tom Bell
President and CEO

TO: Members of the House Republican Caucus

FROM: Tom Bell, President and CEO
Chad Austin, Senior Vice President Government Relations

DATE: October 5, 2015

RE: KHA Response to Medicaid Expansion Communication

It is our understanding that a communication was distributed last week to members of the House Republican Caucus downplaying the importance of Medicaid expansion on hospitals, health care providers, Kansans and the state's economy. Because we are troubled by many of the statements contained in the document, we feel that a specific response is necessary. As always, please don't hesitate to contact us should you have any questions regarding our responses below.

Section: "Background on Rural Hospitals Struggles"

There has been significant coverage of the unfortunate situation in Independence with the impending closure of Mercy Hospital Independence. KHA remains committed to assisting the community of Independence and the people of Southeast Kansas in identifying possible options for the continuation of appropriate health care services. We are extremely troubled by several of the statements included in last week's communication that diminish the importance of the local hospital and the impact of its loss on the local community. Bulleted below are excerpts of the document being circulated, as well as our responses.

- "Montgomery County has a population of 35,000 and had two hospitals; the County still has one."
    - **KHA's Response:** We are concerned this statement suggests that because the county still has one hospital, the closure of Mercy Hospital Independence is not a problem. We believe that the state should be supportive of communities like Independence that are trying to maintain access to health care, not suggesting that the closure of a particular hospital is ok. There are numerous situations in our state where there is more than one hospital in a county and we are confident that those communities feel their hospitals are critical.

- "Hospital officials said they are not sure that expanded Medicaid would have kept Mercy open."

- **KHA's Response:** According to the State's own numbers, Medicaid expansion would have had an annualized impact of $1.6 million in additional revenue to Mercy Hospital Independence. As stated by the hospital's spokesperson, the additional revenue that would have been generated by Medicaid expansion would have been "very significant for a small facility like ours". Speculating that Medicaid expansion would not have had ANY impact as some would suggest, is just plain wrong.

- "All of the rural hospitals combined only receive $19 million, or 2%, of the funding from expanding Medicaid"

  - **KHA's Response:** It is uncertain as to how these figures were determined. According to data released by the Kansas Department of Health and Environment, the 2016 benefit of expansion on the 84 Critical Access Hospitals and 22 rural, non-CAHs is $21,203,957 and $ 13,701,263, respectively. The chart below depicts the average KanCare expansion impact per hospital for 2016 and as well as a 10-year annual average per hospital.

Impact of KanCare Expansion on Kansas' Hospitals:

Hospital Type:	# of Hospitals:	Avg. 2016 Impact per Hospital, per Year:	Avg. Annual 10-Year Impact per Hospital, per Year:
Critical Access Hospital (CAH)	84	$255,469	$370,255
Rural, Non-CAH	16	$913,418	$1,323.828
Urban	28	$6,255,445	$9,256,302

- "The vast majority of Medicaid expansion funding would go to Johnson, Wyandotte, Shawnee and Sedgwick hospitals."

  - **KHA's Response:** The proportion of Medicaid expansion funding closely resembles the state's population and service areas. What should be cogitated is the effect the increased funding has on rural hospitals. It should be noted that, on average, the annual 10-year average impact of expansion for a Critical Access Hospital is $370,255. This is a significant amount of money relative to the size of those CAHs. Further, this statement appears to suggest that assisting health care providers, patients and the economy of our less populated areas is not important. On the contrary, *ALL* hospitals, from the smallest Critical Access Hospital to the largest tertiary care center, help to form the safety net that protects vulnerable Kansas citizens. *ALL* hospitals, no matter what size, serve as economic anchors for their communities, providing excellent employment opportunities and improving the quality of life. *ALL* hospitals, regardless of the number of beds, serve as a valuable community resource. So to propose that one group of hospitals gets left out of the benefits of expansion is not only wrong, it suggests a lack of understanding regarding the strong interdependencies among Kansas hospitals.

Other Considerations Offered by KHA:

- How much are the reimbursement cuts to Kansas hospitals that are directly related to ObamaCare?

  - As a result of ObamaCare, Kansas hospitals began enduring reductions to federal reimbursement in 2010. The total estimated federal reimbursement reduction for Kansas

hospitals through 2024 will be approximately $1.65 billion, or $110 million per year. These are federal dollars that are no longer coming back to Kansas. Medicaid expansion is the solution to recouping these lost federal funds – which will be used to support our state, local communities and health care providers.

- What is the impact of KanCare expansion?
    - The State's cost of the newly eligible expansion population over the next decade is estimated at $653 million and the additional revenue to Critical Access Hospitals during that time would be $307 million, according to the Kansas Department of Health and Environment. The result, after the Obamacare cuts to hospitals are accounted for, is an average net gain for CAHs in the state of roughly $370,000 per year, per hospital over the next decade. This is a significant amount of money to our CAHs and would help offset the local community support of health care services.

- What is the economic impact to the local and state economy from the closure of Mercy Hospital Independence?
    - Although the connections between health care services and local economic development are often overlooked, there are at least three important linkages to be recognized. A strong health care system can (1) help attract and maintain business and industry growth, (2) attract and retain retirees, and (3) create jobs in the local area. A vigorous and sustainable health care system is essential not only for the health and welfare of community residents, but to enhance economic opportunity as well. According to the 2015 report *"The Importance of the Health Care Sector to the Kansas Economy"* released by Dr. John Leatherman with the Department of Agricultural Economics at Kansas State University, every one job in a Kansas hospital creates another .81 jobs in the state's economy. Therefore, not only will the 190 jobs at Mercy Hospital Independence be lost when the hospital's operations cease on Oct. 10, but an additional 154 jobs in the community are at risk.

Section: "How KanCare Fits"

- "At the state level, Kansas Republican leadership has strived to insulate providers, … from the unwieldy effects of Obamacare and its ensuring court decisions."
    - **KHA Response:** The single largest health care policy that has been adopted in Kansas over the past five years is the state's movement towards KanCare. While it is the Governor's goal that KanCare will "bend the Medicaid cost curve", the program has done little to financially improve the state's Medicaid providers.

Section: "The Question of Expanding Medicaid"

- "When Obamacare passed, mandatory Medicaid expansion was a critical piece of the plan. With the June 2012 Supreme Court ruling, states were left with the decision of whether or not to expand this element of additional federal spending and government intrusion. In Kansas, Medicaid expansion would cost $100 million per year to raise eligibility to individuals up to 138 percent of federal poverty

guidelines ("KDHE: Medicaid Expansion Could Cost More Than $100 Million Per Year," March 19, 2015)."

- **KHA Response:** While it is true that KDHE's estimates indicate the state cost for the newly eligible would reach $100 million in 2023, none of the numbers provided by the administration have included any of the additional revenues collected from drug rebates and the managed care privilege fee that would help offset the cost of expansion. Nor do the estimates include cost savings gained by using federal dollars instead of state dollars for the General Assistance program which is funded entirely with state dollars or for the number of medically needy spenddown beneficiaries who could qualify in the expansion population at the enhanced match rate. Also ignored are the revenue increases to be generated in the state by the large influx of spending for the newly eligible population. When these dollars are taken into account, *expansion pays for itself*.

- "1) Costs will definitely go up by 2017 when 5 percent of the expansion expenses shift to states. The costs will continue to shift until Kansas has to pick up 10 percent of the cost beginning in 2020 (HHS.gov, "HHS Finalizes Rule Guaranteeing 100 Percent Funding for New Medicaid Beneficiaries," March 29, 2013). The 90% federal funding has been a priority of the Obama administration but is far from a certainty with the next administration."

  - **KHA Response:** It is often argued that there is no guarantee that the 90% federal funding will continue for expanded Medicaid. While is true that "anything" could happen, it is important to note that 31 states, including the District of Columbia have expanded Medicaid at this time. Given the number of votes controlled by expansion states, it becomes less and less likely that the expansion portion of the bill will be repealed.

- "2) Other states that have expanded have seen costs skyrocketing above estimates"

  - **KHA Response:** Several state example are cited regarding higher than estimated enrollment, resulting in higher than estimated costs, but not one has decided to repeal Medicaid expansion for their state. While Medicaid expansion has not always been implemented smoothly, the information provided does not tell the whole story.

    <u>Oregon</u>

    - While Oregon enrollment did come in higher than anticipated, it turns out that newly eligible population is using fewer services than the pre-expansion population. In fact, it's the growth rate of expenditures of the pre-expansion population causing greater concern in Oregon. http://www.bizjournals.com/portland/blog/health-care-inc/2015/09/lawmakers-raise-concerns-about-oregon-medicaid.html

Arkansas

- There may have been concerns in Sept. 2014 about the costs of expansion, but less than a year later the Arkansas program was back on track, with department officials estimating program costs over three years to be under the limit set in the waiver. ('15 ushers in dip in private option's cost" Arkansas Democrat-Gazette, January 28, 2015). The Arkansas expansion waiver has had an added benefit for those purchasing in the marketplace as well – some of the lowest insurance rate increases in the country.

- ***Gov. Hutchinson makes pitch for keeping Medicaid expansion — with changes* – Aug. 2015**

  Link: http://www.arktimes.com/ArkansasBlog/archives/2015/08/19/gov-hutchinson-makes-pitch-for-keeping-medicaid-expansion-with-changes

- "We can say no to Medicaid expansion ... We have that option. Again, the result is $1.4 to $1.7 billion drained out of our Arkansas economy." More importantly, he (Gov. Hutchinson) said, "220,000 would have their health care coverage ended." As he said a little later in his remarks, "We know now that those covered ... are our friends, our neighbors, our families. We care about them."

Ohio

Ohio is another example of a state where concerns during the initial implementation of Medicaid expansion were resolved with costs coming in less than anticipated.

- *Kasich defends Medicaid expansion in Ohio* – July 14, 2015

Link: http://thehill.com/blogs/ballot-box/gop-primaries/247895-kasich-defends-medicaid-expansion-in-ohio

- "There is no money in Washington, it's money we sent from our state of Ohio to Washington that I was able to bring back to help the mentally ill get on their feet," he said in an interview with CNBC.

Ohio's Medicaid costs $2 billion less than estimates – August 13, 2015
Link: http://www.dispatch.com/content/stories/local/2015/08/12/medicaid-costs-below-estimates.html

- Despite higher-than-expected enrollment of Ohioans newly eligible for Medicaid, overall costs of the tax-funded health-insurance program in the most-recent fiscal year were nearly $2 billion below original estimates.

Michigan

- *The Medicaid Expansion Experience in Michigan* – August 28, 2015

  Link: http://healthaffairs.org/blog/2015/08/28/michigan-the-path-to-medicaid-expansion-in-a-republican-led-state/

- At a March 2015 conference sponsored by the Center for Healthcare Research and Transformation, the University of Michigan Institute for Healthcare Policy and Innovation, and the University of Michigan School of Public Health, consumers, providers, employers, and state leaders reviewed the first-year experience of the ACA's coverage expansions. While some described challenges, particularly in the small employer market, the Healthy Michigan Plan was almost uniformly praised as being clearly successful to date.

New Hampshire

- *Substance Abuse Crisis Could Shape Medicaid Expansion Debate* – September 23, 2015

  Link: http://www.concordmonitor.com/news/18724772-95/substance-abuse-crisis-could-shape-medicaid-expansion-debate

- Substance abuse providers in New Hampshire are telling the administration they are ready to expand much needed services if they know Medicaid expansion is going to be fully authorized and permanent.

- **KHA Note:** Kansas providers are already struggling to care for those with mental health and substance abuse problems in Kansas, many of whom fall within the coverage gap. Strengthening the mental health/substance abuse safety net can only help move these Kansans toward the ultimate goal of self-sufficiency for these Kansans.

Other Considerations Offered by KHA:

- "The population Medicaid expansion would cover mostly consists of healthy adults without children, who could receive private coverage for free if they work 33 hours a week at the minimum wage."
  - **KHA Response**: According to data from the US Census Bureau American Community Survey, among the uninsured who would be newly eligible under expansion:
    - 54.4 percent are working, compared to only 49.7 percent of the currently insured population. These Kansans work as dishwashers, housekeepers, health care support workers, janitors, nursing assistances, landscapers, bus drivers, child care workers, medical assistances, retail sales people and fast food workers in Kansas communities.
    - 18.2 percent are unemployed
      - 26.4 percent have less than a high school diploma
      - 19 percent are women with children under the age of 18

        - 15 percent have a disability
    - 67.7 percent have incomes below 100 percent of the Federal Poverty Level and are not eligible for assistance in the marketplace.

- "Expanding Medicaid would not only put strain on the rest of the Medicaid system by increasing the load on providers, it would also increase the strain on the state budget's other vital responsibilities."
    - **KHA Response:** Contrary to this statement, expanding Medicaid would actually provide financial relief to the state's health care providers by decreasing the amount of uncompensated care. Covering more individuals reduces the cost of uncompensated care and in turn reduces the costs that are passed along to those who have insurance. Additionally, expansion could actually produce a net savings to the state of Kansas. If the state expands KanCare by 2016, there are increased state Medicaid costs, but those are offset by new state revenue and reductions in other health care spending. The net savings to Kansas, if KanCare is expanded, would total $29 million in 2016 and approximately $36 million from 2016 to 2020, according to the financial analysis by the Center for Health Policy Research at George Washington University and Regional Economic Models, Inc.