

August 29, 2104

Ms. Wakina Scott
Division of State Demonstrations and Waivers
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-01-16
Baltimore, MD 21244

Dear Ms. Scott:

Phoenix Children's Hospital (PCH) greatly appreciates the efforts of the Arizona Health Care Cost Containment System (AHCCCS) and the Centers for Medicare and Medicaid Services (CMS) to achieve last year's extension of the Safety Net Care Pool (SNCP), and urges AHCCCS and CMS to again continue this program that has proven so beneficial to PCH and our patients. As concluded in an independent report by the Public Consulting Group (PCG), such policy is justifiable and has benefitted PCH's ability to provide quality care to the children of Arizona.

As you know, the extension of the SNCP for PCH through December 31, 2017 was an important component of Governor's Brewer's legislation to expand AHCCCS coverage to childless adults. The state recognized that as Arizona's only licensed free-standing children's hospital and a leading safety net provider, PCH serves a critical role in our state's healthcare system, yet we do not obtain relief from ongoing uncompensated care through the expansion of AHCCCS to childless adults. PCH provides more than half of AHCCCS tertiary care for cardiac, orthopedic, neurology, and oncology pediatric patients across the state, and is the only hospital in the state fully equipped to receive children at the highest level of acuity and complexity. Without PCH, children and their families would have to leave the state for advanced health care, or go without. The SNCP has continued to play an essential role in maintaining PCH's viability over the last few years, offsetting a substantial growth in uncompensated care costs. Consistent with the intent of the legislature, we urge AHCCCS and CMS to allow the SNCP to continue through 2017 to provide security to the hospital in allocating projected resources and to allow longer-term planning for improvements in care.

Fulfilling part of the terms of the extension, PCG has conducted an analysis of the impact and continued need for the SNCP. PCH appreciates the opportunity we were given to review this report and strongly concurs with PCG's conclusion that the extension of the SNCP is justifiable. We are gratified that the report acknowledges PCH's efforts to be a national leader in high quality pediatric care, to be equipped with cutting-edge medical technology, to attract top physician talent, and produce highly-respected research—all to the benefit of AHCCCS patients. PCH provides services that no other hospital in the region has the capacity or willingness to provide in order to meet the needs of Arizona's children, regardless of their income or insurance status. This mission drives our decisions to pursue new models of care, to provide new services, and to gain the benefits of research from the bench to our patients' bedside.

In pursuit of improved access and quality for our patients, cost containment has always been and remains a primary focus at PCH. When compared to other children's hospitals on a national level, PCH is

15% below the median in healthcare costs.^[1] In addition, PCH's Medicaid cost per case mix adjusted discharge decreased 11.3% from 2009 to 2013, while our case mix increased by 16% over that same period.

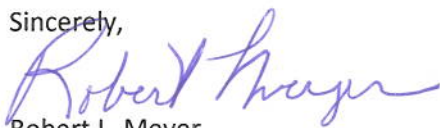
As PCG's report notes, higher acuity patients do lead to increased costs of care at PCH. Yet, even as total costs of care have risen, this data demonstrates that PCH's efficiency in providing that care has improved. And as AHCCCS considers the most medically appropriate and efficient setting for high acuity patients, PCH has capacities and experience not available at other hospitals. The SNCP helps to ensure that PCH can remain viable and provide access to efficient and high quality, specialized care.

The report also negates any concern that the availability of funds to support uncompensated care could undermine incentives for PCH to be a good steward of public funds. To the contrary, "PCG's analysis indicates that SNCP funding has not adversely affected the hospital's capability or willingness to achieve greater efficiencies." Rather, SNCP payments have "allowed PCH the budgetary room to implement additional efficiencies, including value-based delivery system and payment reforms, without substantially disruptive effects on the hospital's level of quality."

While our data on PCH's uncompensated costs differs from PCG's, we agree that our Medicaid shortfalls increased precipitously since 2010, and that the SNCP has been key to addressing those shortfalls. We do strongly disagree, however, with PCG's suggestion that the factors driving uncompensated care will be mitigated in 2014. As of midyear 2014, PCH projects that overall uncompensated care, Medicaid payments, and Medicaid shortfall will remain at similar levels experienced in 2013. We would be happy to share that analysis with CMS. In any event, it will be critical to monitor this data over time. And PCG and PCH agree that the SNCP has been and will continue to be an "essential mechanism" to support availability of care to children in Arizona going forward.

PCH is committed to the goal, shared with AHCCCS and CMS, to provide high value, needed care to children in the Medicaid and CHIP programs. We are hopeful that you will continue to make available the valuable tool that is the SNCP in achieving that goal in the years to come.

Sincerely,



Robert L. Meyer
President and Chief Executive Officer
Phoenix Children's Hospital

^[1] Children's Hospital Association Buyers Cost Index and Hospital Cost Index Analysis, 11/2013