

**Arizona Health Care Cost Containment System
Medicaid Section 1115 Demonstration Amendment Request
Safety Net Care Pool Extension**

I. Summary

The Arizona Health Care Cost Containment System (AHCCCS) is requesting approval of the continuation of the Safety Net Care Pool (SNCP) in Special Term and Condition (STC) 26 only for Phoenix Children's Hospital as the single participating entity. As adopted by the Arizona legislature as part of the negotiations to expand Medicaid under the Affordable Care Act (ACA), the legislature has authorized the extension of the SNCP to provide much needed support to PCH for uncompensated care and Medicaid shortfalls from January 1, 2014 through December 31, 2017.

II. Amendments to the Safety Net Care Pool

Currently, under STC 26, the SNCP expires December 31, 2013. This amendment request would restructure the SNCP to limit participation to freestanding children's hospitals. In Arizona, there is one such hospital meeting that designation – Phoenix Children's Hospital (PCH).

The Continuation of SNCP for PCH was an Important Component of the Legislative Agreement Authorizing Arizona's Medicaid Expansion

Arizona's narrow passage of legislation to implement an expansion of AHCCCS to childless adults involved long, careful consideration and significant compromise by all sides. Each component of the legislation was included as a result of this painstaking effort, including the provision extending the SNCP for PCH in recognition of its unique and essential role in Arizona's healthcare system. The authorizing legislation specifically stated¹:

Sec. 15. AHCCCS political subdivisions; freestanding children's hospitals; definition; delayed repeal

A. The Arizona health care cost containment system administration, subject to the approval of the centers for medicare and medicaid services and pursuant to section 36-2903, subsection B, paragraph 1, Arizona Revised Statutes, may authorize any political subdivision of this state to provide monies necessary to qualify for federal matching monies in order to provide matching monies for uncompensated care payments to freestanding children's hospitals with one hundred beds or more.

¹ The legislation can be found on the Arizona State Legislature's website at this link:
<http://www.azleg.gov/legtext/51leg/1s/laws/0010.pdf>

B. The Arizona health care cost containment system administration shall not increase in a given federal fiscal year the total of the payments made pursuant to this section plus the amount of disproportionate share hospital payments made to the same freestanding children's hospital by more than three per cent per year above the total of the payments made to the hospital pursuant to Laws 2011, chapter 234, section 2, as amended by this act, in federal fiscal year 2013 plus the disproportionate share hospital payments in federal fiscal year 2013.

C. For the purposes of this section, "political subdivision" means a local, county or tribal government, a university under the jurisdiction of the Arizona board of regents and any other governmental entity that is legally qualified to participate in funding program expenditures pursuant to title 36, chapter 29, Arizona Revised Statutes.

D. This section is repealed from and after December 31, 2017.

The expansion of Medicaid in Arizona is of critical importance to the health care system in our state, and to the effort across the country. As one of the earliest expansion states, Arizona will serve as a leader, maximizing its unique and cost-effective managed care program to provide health care services to new enrollees. This effort will help to stem the significant challenges created by the problem of high levels of uninsured in Arizona, including a vast percentage of Arizona's population not seeking care in the right place, at the right time, in the right setting.

AHCCCS requests CMS' approval to implement the authority explicitly intended by the legislature to extend the SNCP as an adjunct to expanding coverage and access in our state—not just for the newly eligible, but for the full AHCCCS population including children.

The SNCP is Essential to PCH's Financial Viability

PCH is a leading safety net provider in the state. With 60% of its patients covered by AHCCCS— compared to a statewide hospital average of 23.3%— PCH is highly reliant on Medicaid reimbursement and less able to absorb below-cost Medicaid rates. PCH estimates that it will realize more than \$145 million in losses from unreimbursed care and shortfalls in Medicaid in 2013. The SNCP has been a critical resource to help offset this magnitude of losses. While other hospitals will realize significant new revenues from the expansion of AHCCCS to the adult population, PCH will have no revenue to replace the loss of the SNCP if CMS does not approve its extension. The expiration of the SNCP, combined with PCH's exclusion from the benefits of Medicaid expansion, will threaten PCH's financial viability in the years to come.

PCH Serves a Unique and Essential Role in Arizona's Health Care System that Cannot Be Filled by Other Providers

As Arizona's only licensed free-standing children's hospital, PCH provides the full continuum of care to a vulnerable and distinctive population. From preventative care to specialty transplant, Level 1 trauma, and neuroscience services, PCH is the only hospital in the state fully staffed and trained to receive children at the highest level of acuity and complexity. Indeed, PCH provides approximately 60% of AHCCCS tertiary care for cardiac, orthopedic, neurology and oncology pediatric patients statewide.

Other Arizona providers are not equipped to manage such patients, as reflected by the fact that more than 30,000 of PCH's patient days in 2012 were from transfers of patients from other facilities. With no other provider capable of sharing this patient load, PCH's volume of outliers and complex patients creates a fiscal crisis not experienced by other hospitals in the state. Moreover, PCH's payor mix makes cost-shifting and other funding mechanisms used by other hospitals ineffective in managing the hospital's finances.

PCH is the pinnacle of pediatric care in Arizona and a critical resource to all hospitals and to all patients in Arizona. Without PCH, children and their families would have to receive advanced health care outside of the state or go without. Arizona must ensure that PCH remains viable.

Past SNCP Support has Ensured PCH's Viability and Enabled Improvements in Access, Quality, and Efficiency

With the support of SNCP payments to date, PCH has demonstrated improvements in access to care and health outcomes while realizing cost efficiencies, including by:

- Establishing two new ambulatory care centers with full specialty services and after-hours urgent care;
- Establishing cost effective pediatric heart and liver transplant programs;
- Decreasing hospitalizations through use of outpatient services, improved management of patients with chronic conditions, and standardizing care protocols; and
- Maintaining costs per adjusted patient day that are 10% below national averages, while supporting a case mix index in the top quartile of children's hospitals nationally

III. Conclusion

National data shows PCH is one of the most cost effective children's hospitals in the country. Because of the heavy number of transfers to PCH, the higher acuity of these patients and the Medicaid volume that cannot be absorbed through other cost shifting, PCH sits in a unique position with respect to other Arizona hospitals. The legislature recognized this and elected to address their unique circumstance as party of the legislation authorizing restoration/expansion.

About Phoenix Children's Hospital:

Phoenix Children's Hospital is Arizona's only licensed children's hospital and among the largest freestanding facilities of its kind in the country. With 465 licensed beds, nearly 50 subspecialty fields of pediatric medicine, 6 Centers of Excellence, and an employed medical staff of more than 720 members, PCH serves as a critical ambulatory, tertiary and quaternary resource for general specialty, high acuity, high intensity pediatric care for Arizona and the southwestern United States. PCH's ACS-verified Level 1 Pediatric Trauma Center exclusively for children is the only one of its kind in the state and one of only 35 such centers in the United States. In 2012, PCH had 13,404 inpatient admissions; 63,554 visits to its Emergency Department; 178,749 outpatient visits; and 13,745 surgical procedures.

