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Private Essential Access Community Hospitals



**CALIFORNIA
HEALTHCARE
ASSOCIATION**



**CALIFORNIA ASSOCIATION OF
PUBLIC HOSPITALS AND HEALTH SYSTEMS**



RESTORE THE 150% UPPER PAYMENT LIMIT PRESERVE CALIFORNIA'S SAFETY NET

Federal Action Needed

California's hospital industry urges Congress to act this year to restore the 150% Medicaid UPL for California and ensure that the state's program to support safety net hospitals and the low-income patients they serve is held harmless from CMS's final rule to eliminate the higher UPL.

Overview

- The Centers for Medicare and Medicaid Services (CMS) issued a final rule in January 2002, to eliminate the 150 percent Medicaid upper payment limit (UPL) for public hospitals (the Medicaid UPL is the maximum amount the federal government will pay states and specified groups of providers for Medicaid services). Implementation of this rule will devastate California's Medicaid program and threaten the ability of public and private safety net hospitals to meet the health care needs in their community and respond to natural or other disasters.
- Over the course of the transition period included in the rule, California will lose *at least \$1 billion* in federal Medicaid payments to safety net hospitals. Once the rule is fully implemented, the loss to California will be *at least \$300 million* per year.
- The magnitude of this loss will result in major reductions in health care services and could force some hospitals to close.
- As a last resort to prevent devastating cuts to safety net hospitals, a group of state and national hospital associations and individual hospitals on March 7, 2002, filed suit against the U.S. Department of Health and Human Services (HHS) to block implementation of the rule ending the 150 percent UPL. It is anticipated that the court will rule on this matter by mid-April.
- California's congressional delegation has demonstrated strong bipartisan support to protect the health care safety net and has actively sought to maintain the 150 percent UPL. Fifty of 52 California House members and both Senators signed letters last year in support of preserving the 150 percent UPL.

The Issue

CMS has issued a final rule to reduce from 150% to 100% the Medicaid Upper Payment Limit for public hospitals, which will significantly cut funding for health care services to low-income populations and destabilize California's entire health care industry.

The Impact

California will lose *at least \$1 billion* in federal Medicaid payments to safety net hospitals over the course of the transition outlined in the rule. Once the rule is fully implemented, the loss to California will be *at least \$300 million* per year, jeopardizing access to vital health care services for communities throughout the state.

The Solution

Congress must act this year to restore the 150% UPL for California and ensure that the state's program is held harmless from CMS's final rule.

- The state of California strongly supports maintaining the 150 percent UPL.
- The final rule completely undermines the bipartisan compromise adopted as part of the Benefits Improvement and Protection Act (BIPA) of 2000 and regulations issued by CMS one year ago that recognized and protected California's program. This compromise safeguarded federal dollars by setting more stringent limitations on states' use of Medicaid funding while protecting states, like California, with legitimate programs that use the funds exclusively to support access to care for low-income populations.
- For more than 10 years, California has consistently directed its supplemental Medicaid funds to safety net hospitals that care for the greatest numbers of low-income, uninsured and medically needy Californians. These funds have become an integral part of the patchwork of funding that supports safety net hospitals. The loss of these funds pushes this fragile and unstable financing system to the brink of collapse.

Effective Date of Final Rule

- In its publication of the final rule in the January 18, 2002, *Federal Register*, CMS indicated that the rule would become effective March 19, 2002. However, in response to arguments raised in the hospital industry's lawsuit that HHS had not provided Congress with 60 days to review the final rule, as required by the Congressional Review Act, HHS conceded that implementation of the rule should be delayed until April 15, 2002. Despite this delay, the final rule provides no long-term protection for California's safety net hospitals.

Impact of Final Rule: Devastating Losses to California

- ***Access to health care services for California's increasingly diverse, working poor and uninsured populations will be seriously jeopardized.*** Over 5 million Medi-Cal beneficiaries and 7 million uninsured Californians rely on safety net providers to meet their health care needs.
- ***Implementation of the final rule will reduce or eliminate access to high quality, essential health care services used by all community residents.*** In addition to low-income and uninsured populations traditionally served by the safety net, entire communities use services, such as emergency room and trauma care, provided by safety net hospitals. It is critical that communities not lose access to these vital, life-saving services.
- ***Implementation of the final rule will jeopardize the ability of safety net hospitals to prepare for and respond to a natural or other catastrophe.*** These hospitals provide emergency care to thousands of Californians every day and are the first place people turn to in a health care crisis. At a time when hospitals are being asked to redouble their efforts to prepare to respond to a potential terror attack, the proposed rule will only further erode an already weakened safety net system.
- ***Implementation of the final rule will devastate California's Medi-Cal program.*** Although the higher payment limit applies only to public hospitals, the structure of California's Medi-Cal program intrinsically links public- and private-sector hospitals. Private safety net hospitals, children's hospitals and teaching hospitals—as well as public hospitals—all receive supplemental Medi-Cal payments and all will be seriously harmed by the implementation of the final rule.