

New State Hospital Tax Extra Burden in a Failing Economy

November 2009



Executive Summary

The economy continues to threaten the financial health of Ohio hospitals, with many planning more cuts in staff, services and vital renovation to pay a new state tax. If hospitals are to remain open to provide care to all Ohioans, they cannot continue to face reductions in payments or additional cuts.

Ohio's fiscal year 2010-11 two-year budget created \$1.1 billion per year in new state agency fees, including a \$718 million tax on hospitals under the plan proposed by the governor and passed by the legislature.

Hospitals will recoup a portion of the tax over the biennium through a 5 percent Medicaid update and an expansion of the Medicaid supplemental payment program.

However, those payments will fall far short of fully reimbursing hospitals for the \$718 million tax.

Like all businesses, hospitals are cutting costs to deal with the current economic downturn. Unlike businesses, hospitals are expected to provide efficient, quality health care, regardless of ability to pay, to anyone who walks through their doors.

This new state budget tax adds undue burden to hospitals' already strained financial situation.

In early November, OHA surveyed its member hospitals to learn how the economy, coupled with this new tax, is impacting their ability to provide quality care for all Ohioans. Results of that survey are the basis for this report.

Key Findings

To deal with continued underpayments from Medicaid and Medicare, ever-increasing numbers of uninsured patients and the new state budget tax, OHA's survey found Ohio hospitals are being forced to cut costs at every level.

Hospital employees are facing layoffs and reductions in benefits.

Hospitals are cutting vital services such as obstetrics, cardiac units, oncology and home health.

Necessary renovations and expansions to hospital emergency rooms or investments in new technology are not being realized because of capital investment freezes.

Even without the new tax Medicaid pays hospitals only 84 cents for every \$1 in cost for patient care. Medicare pays 89 cents for every \$1.

Ohio's hospitals are driven by their missions to provide health care to all, regardless of ability to pay, and to invest in the health of their communities. Unfortunately, those missions are being jeopardized and all Ohioans will suffer.

Hospitals have already implemented cuts:

- 48% have already enacted layoffs
- 67% have not filled vacancies
- 37% have reduced or eliminated services
- 12% have cancelled or delayed expansion or renovation projects
- 81% have taken other cost-cutting measures

Expected future cuts:

- 18% plan to lay off additional employees
- 50% will leave future vacancies unfilled
- 39% plan to reduce or eliminate services
- 49% plan to cancel or delay expansion or renovation projects
- 64% will take additional cost-cutting measures

Layoffs and Vacancies

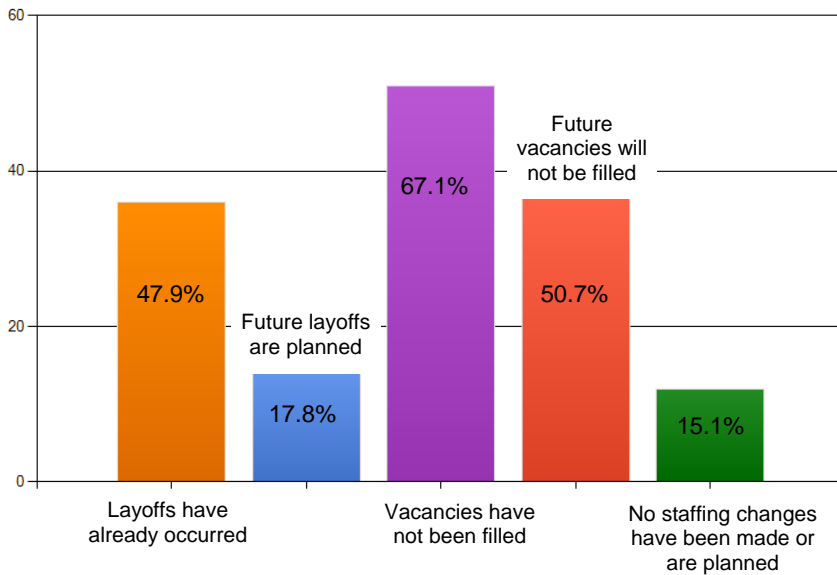
One of the most obvious impacts of the state budget tax and economic downturn has been and will continue to be reductions in hospital workforces.

Half of Ohio’s hospitals have already enacted layoffs and two-thirds have not filled vacancies. Looking to the future, one in five hospitals is planning additional layoffs and nearly half will not fill additional vacancies.

According to hospitals responding to the survey, workforce cuts at individual facilities range anywhere from five employees to 500, totaling at least 2,842 full-time equivalents impacted by hospital layoffs and unfilled vacancies. The full impact is likely even greater.

Health care is one of Ohio’s only growing industries. Drastic workforce reductions in hospitals have the potential to further cripple Ohio’s economy in an already stagnant job market.

Has the hospital made staffing level changes for budget reasons, or are future cutbacks planned?



Hospital Employment Facts

- ✓ In 2007, there were **330,000 people working in Ohio hospitals**. This includes more than 255,000 employees as well as physicians with rights to practice, physicians-in-training and volunteers.
- ✓ Including the many other industries supported by hospitals, a total of **558,000 Ohioans had a job** in 2007 thanks to the state’s hospital community.
- ✓ The Ohio Department of Development Reports **5 of Ohio’s 11 “major” employers** are hospitals or health systems.
- ✓ In 2007, **Ohio hospitals pumped \$14 billion** into their local economies through paid wages and benefits.
- ✓ Health care—comprised of ambulatory health care, hospitals and nursing and residential care—accounts for approximately **one of every eight payroll jobs in Ohio**. It is expected to be one of the fastest growing sectors of the economy over the next 10 years.

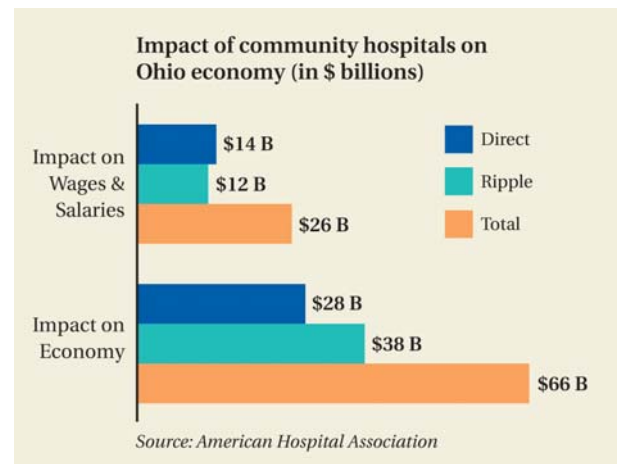
Economic Impact

Hospitals and health systems had a \$66 billion economic impact on the state of Ohio in 2007, according to the American Hospital Association.

The field of health care is one of the few growing sectors in the economy, particularly the state’s bioscience industry which, in 2007, pumped \$148.2 billion into Ohio’s economy.¹

Hospitals, health care providers and Ohio’s seven medical colleges are responsible for the largest share (90%) of bioscience-related jobs, including doctors, researchers, nurses, ancillary medical staff, and laboratory technicians, among many other professions.²

In addition, hospitals pay for pharmaceuticals, utilities, waste disposal, insurance, supplies and non-medical services and food service. Many of these goods and services are purchased from local and Ohio businesses.



Reduced or Eliminated Services

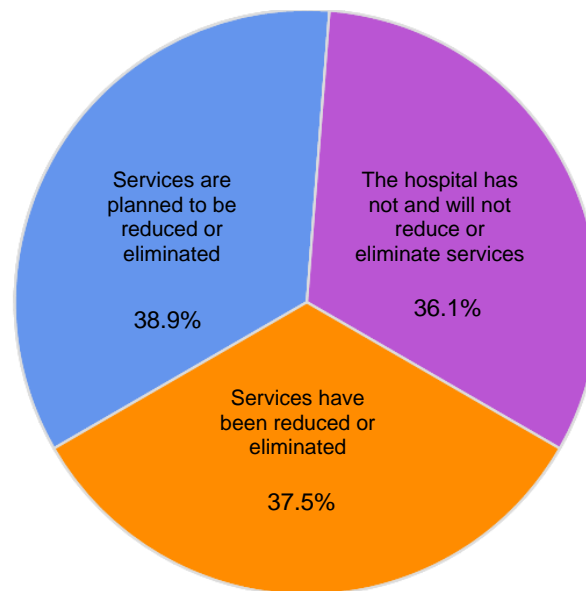
Hospitals exist to care for their communities by providing direct care within their four walls and prevention and other outreach in the community. That mission is being jeopardized by today's economy and the new state budget tax on Ohio hospitals.

One-third of hospitals have already reduced or eliminated services to their communities and over one-third plan to eliminate even more in the future.

Hospitals have already or are considering reducing or eliminating:

- Obstetrics
- Cardiac catheterization and rehabilitation
- Oncology and cancer radiation
- Trauma designation
- Radiation therapy
- Pulmonary rehabilitation
- Outpatient psychiatric services
- Home health and hospice
- Ambulance services
- Skilled nursing units
- Occupational health

Have any health care services offered by your hospital been reduced or eliminated, or are there plans to do so?



The question is not whether Ohioans will receive quality care in an Ohio hospital. The question is how long will patients have to wait or how far will they have to drive to get their health care, especially in rural areas.

Renovation Delays or Cancellation

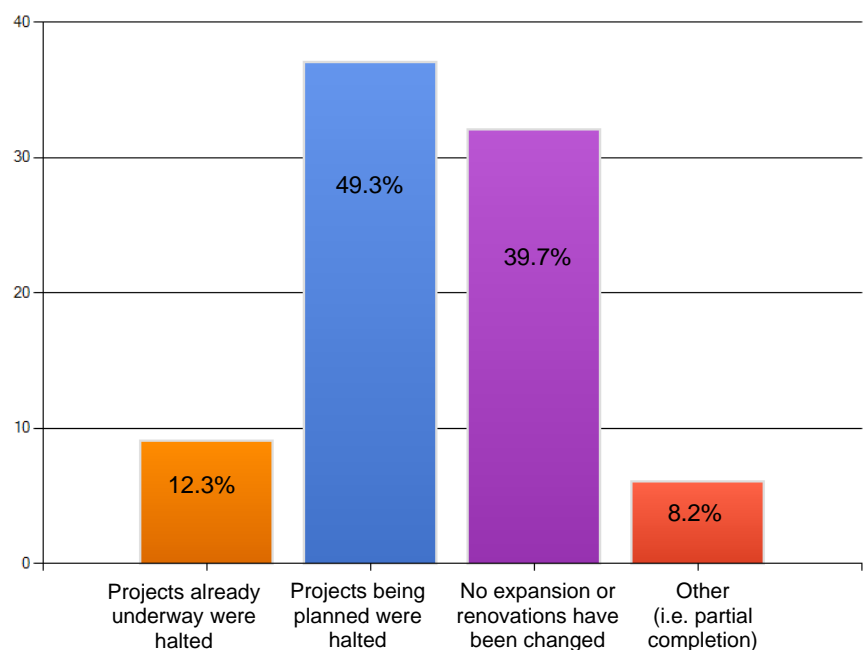
One in 10 hospitals has already delayed or cancelled a construction or renovation project because of tough financial times leaving Ohio construction workers idle.

Half of hospitals plan to delay or cancel a vital project in the future such as:

- Emergency department modernizations
- Maternity and nursery unit renovations
- Conversion to private rooms
- Equipment/technology upgrades

Delayed ED modernizations are particularly concerning with the current H1N1 flu epidemic that is already overcrowding hospital EDs. All Ohioans can expect longer waits and higher costs.

Have expansion or renovation plans been halted or put on hold?



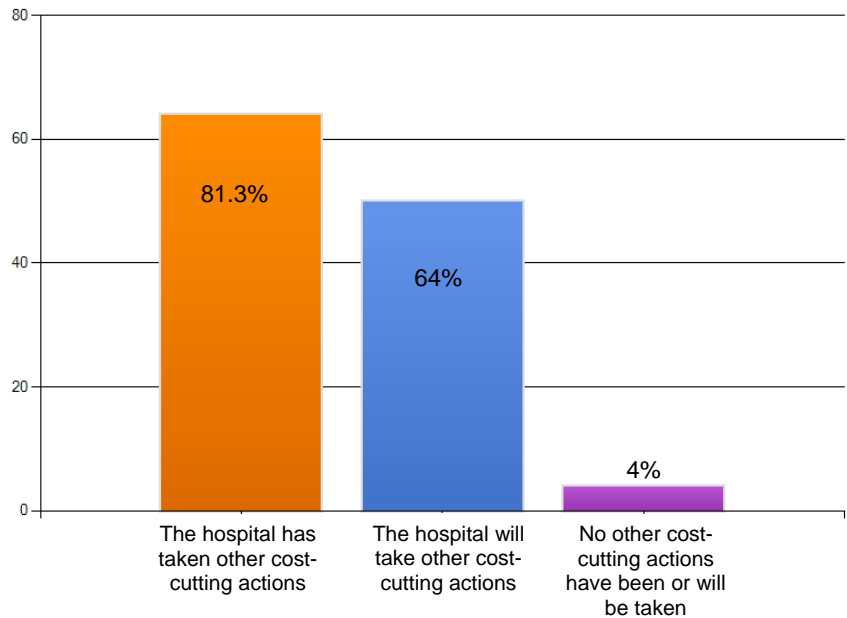
Additional Cuts

In addition to making the tough choice to enact layoffs, cut services or delay vital facility upgrades, four in five hospitals have taken additional cost-cutting measures to keep their doors open to their communities. Two-thirds plan to make even more cuts in the future.

Additional cost-cutting measures:

- Reducing community benefit spending
- Reducing employee benefits
- Freezing wages
- Hiring freezes
- Reducing spending for travel and supplies
- Increasing insurance premiums for employees

Has the hospital taken or does it plan to take other cost-cutting actions?



Community Benefit At-A-Glance

Medicaid Losses.....	\$835,688,272
Charity Care Expenses	\$893,469,170
Community Activity Expenses.....	\$1,037,108,318
HCAP Reimbursement*	-\$326,396,722
Medicare DSH Reimbursement**.....	-\$285,053,736
NET COMMUNITY BENEFIT	\$2,154,815,302
Medicare Losses.....	\$730,200,349
Bad Debt.....	\$665,654,364
TOTAL SERVICE TO OHIOANS.....	\$3,550,670,015

In 2007, hospitals provided over \$2 billion in community benefits to the state. Of that, \$893 million was charity care, \$836 million subsidized the state’s Medicaid program and \$1 billion went towards community outreach programs.

If financial pressures force hospitals to reduce or eliminate community benefit spending, communities could be without many valuable services:

- Research
- Cancer and other screenings
- Training future caregivers
- Disease prevention/wellness
- Support groups

Conclusion

OHA received 75 responses, representing 51 percent of OHA member hospitals, to its survey about hospitals’ current financial situation. The survey results are just a snapshot of the true impact the budget tax is having on Ohio’s safety net providers. OHA represents 175 hospitals and 18 health systems

throughout Ohio.

Hospitals exist to care for their communities by treating illness and preventing disease.

The economy and new state budget tax on hospitals puts hospital missions at risk—along with the health of all Ohioans.