

With Alabama health care at crossroads, hospital CEOs mount bid for Medicaid expansion



While other industries have successfully emerged from the recession, the state has experienced 12 hospital closures, including six in rural areas where access to care was already a challenge for many. Another hospital – Georgiana Medical Center – will close March 31. Many others are operating in the red.

As those closures mount, Alabama health care providers have also faced increases in uncompensated care for uninsured patients. Combined uncompensated care at UAB Medicine totaled \$143 million in fiscal 2017, including \$78 million at UAB Hospital alone.

And, with potential reimbursement changes threatening to hit another revenue source for many hospitals already operating on thin margins, health care executives say more challenges are looming.

With those factors coinciding to threaten one of Birmingham's most critical industries and job creators, Alabama hospital CEOs have mounted a campaign to expand Medicaid under the provisions of the Affordable Care Act.

It's a push that includes the leaders of several Birmingham hospitals, the Alabama Hospital Association and multiple studies that illustrate the potential benefits of an expansion.

They're seeking a goal that has proven elusive in the recent past, although some political observers say the current landscape may offer the best chance yet as the regular session of the Alabama Legislature prepares to kick off in Montgomery.

To make expansion a reality, they'll have to sway a Republican-dominated Alabama Legislature that has, to this point, largely opposed an expansion, citing the cost increase to the state and an unwillingness to inject more money into a system many officials have argued is in need of an overhaul.

Since 2010, Alabama's state leaders – both in the executive and legislative branches – have largely resisted Medicaid expansion. Alabama was one of 26 states that didn't initially participate in the expansion. But in the subsequent years, other states have joined the ranks – including some Republican-leaning states.

The stakes in the battle are particularly high in Birmingham, which is one of the Southeast's health care hubs. Hospital CEOs and expansion supporters say expanding Medicaid – a move that would give coverage to nearly 350,000 individuals – could create a significant amount of jobs and pump millions into the local economy. By contrast, they say the status quo is resulting in increased uncompensated care – a trend that could be exacerbated if hospital closures continue to pile up around the state – and budget strains for many providers.

The cost debate

Speaking in downtown Birmingham prior to last year's election, Alabama Gov. Kay Ivey was asked about the potential of expanding Medicaid.

While she didn't rule out considering an expansion, Ivey said some of the estimates touted by expansion supporters for the state's costs were too low and noted that an expansion could carry an additional burden for Alabama – a state often battling with budget strains of its own.

The Alabama Medicaid Agency's budget request from the legislature tops \$700 million per year.

Alabama already missed out on the biggest possible benefits of an expansion, since the federal government would have covered 100 percent of the expansion cost for the first years of the program. Starting in 2020, the federal government would cover 90 percent of the expansion cost moving forward.

A new study commissioned by the Alabama Hospital Association and conducted by UAB's David Becker estimated the expansion would cost Alabama \$227 million in fiscal 2020 and a total of \$1 billion from 2020 to 2023.

But, when estimated new state and local tax revenue begins to flow in 2021, the net four-year total would drop from \$1 billion to \$285 million. When anticipated cost savings are also included, the study found expansion would have a net-positive impact on Alabama's overall budget of \$31 million over the four-year period.

Thanks to improved match rates and replacement of current state funding mechanisms for maternity, disability and other programs, hospital leaders said the cost would amount to the equivalent of a one-time \$168 million investment and then \$25 million annually for the state's general fund.

Overall, Becker's study found an expansion could have an annual economic impact on the state of more than \$2 billion annually.

The status quo

While Alabama didn't initially choose to participate in the expansion, hospital leaders like UAB Health System CEO [Will Ferniany](#) say the state is actually paying taxes that support the expansion in other states without getting a return.

“When the ACA was passed, certain cuts were made to hospitals with the understanding that they would get expansions, so it wasn’t going to cost them a lot,” Ferniany said. “But we didn’t expand, so Alabama is paying taxes in effect and paying for expansion in 36 other states. But we’re not getting anything.”

Instead, Alabama hospitals like UAB – metro Birmingham’s largest hospital – are seeing increases in uncompensated care. That’s due in part to the threshold for receiving Medicaid in Alabama.

Ferniany said the state’s Medicaid-eligibility threshold of 18 percent of the poverty level leaves working people out the Medicaid system who can’t afford insurance on their own. An expansion would bring that total to 138 percent of the poverty level and would allow nearly 350,000 people to gain coverage.

For Alabama hospitals and the overall economy, Ferniany said that would be a major benefit. Many of those people are currently being treated for free.

“For UAB, we’ve lost millions of dollars we have had to provide in uncompensated health care,” Ferniany said.

Drew Mason, CEO of Grandview Medical Center, said Alabama hospitals fund more than \$500 million each year caring for uninsured patients.

“The simple problem is that our Medicaid coverage does not cover enough lives. A family of three has to make roughly less than \$400 per month in order to qualify for Medicaid coverage,” Mason said. “The expansion proposition estimates an additional 340,000 covered lives, which goes to providers who have fixed-cost structures already in place to take care of these patients. We simply get paid for the good work these talented facilities provide every day around the state.”

Experts say there are a number of factors that have led to the current challenges facing local hospitals on the financial front.

[Tim Puthoff](#), CEO of Brookwood Baptist Health, said an expansion would put the wider health system in a better financial position, while also ensuring Alabama was getting a piece of the taxes that are currently supporting the health care systems in other states.

“Brookwood Baptist would be in a better position to reinvest in capital,” he said. “Again I get back to, I’m a federal taxpayer. I don’t like seeing my dollars to go to other states and not be invested in the state that I live in.”

Puthoff said Brookwood Baptist, which has hospitals in both rural and urban areas, said the current situation is putting a strain on its facilities.

“Without expansion, it’s almost a foregone conclusion that rural hospitals will continue to close, and even the hospitals located in the more urban or metropolitan areas – without Medicaid expansion – it puts a ton of economic pressure on all hospitals and that translates into lower capital expenditures,” Puthoff said.

He said the status quo limits the amount of money hospitals have to spend on capital projects and improvements.

“We are still taking a negative impact on hospitals that remain in Alabama, because they simply aren’t funded at a rate comparable to other states in the country,” he said.

There are a number of factors at play. One of them is the state’s Medicaid setup.

[Dan Murphy](#), partner at Bradley Arant Boult Cummings, said the state has a large Medicaid population compared to numerous other states, but has benefits that are less generous.

“The federal law grants some flexibility to states depending on what services they cover. We are on the less generous end with the benefits we do cover,” Murphy said.

The combination of those factors has put many providers in a tough spot. Looming reductions to reimbursements will further strain hospital budgets.

The question is whether those factors are enough to convince Montgomery leaders to seriously consider an expansion.

Reforming Medicaid in Alabama

Alabama attempted to reform its Medicaid system under a regional care model under Gov. Robert Bentley, who was not a supporter of expansion.

The RCO model would have had a significant impact on Birmingham’s health care scene, with multiple local providers planning to participate in the new structure. Many were poised to add a significant number of jobs.

But those plans were scrapped in 2017 due to long-term concerns by many providers over the future of Medicaid funding in Alabama.

Two years later, hospital leaders say the clock is ticking to put Alabama’s health care industry on a more solid path.

In addition to rising uncompensated care, which the Alabama Hospital Association said totals more than \$500 million annually, there is the looming possibility of reduction in disproportionate share hospital payments – an important revenue source.

A reduction of those payments could cost Alabama hospitals \$119 million in federal funding unless Congress takes action and continues the payments.

According to the AHA, three-fourths of Alabama hospitals are currently operating in the red, with a median operating margin of negative 6.5 percent, according to the latest data available from the Centers for Medicare and Medicaid Services.

Owen Bailey, chairman of the board for the AHA and CEO of USA Health, said those additional cuts won’t be sustainable.

That's one of the factors driving the current push to convince Montgomery leaders to consider an expansion.

The appetite for change

While previous expansion efforts haven't gained much traction, some believe the groundwork is there for a possible push in 2019.

In addition to recent hospital closures, which have drawn more attention to the plight of Alabama health providers, some believe the recent support of many Democrats in the legislature for Ivey's Rebuild Alabama gas tax increase plan could lead to further discussions about Medicaid expansion.

Ivey did not respond to requests for this story, but Steve Flowers, a longtime lawmaker and political observer, said he believes an expansion plan could potentially come up for debate in 2019.

He said it's more of a possibility now than when Bentley was governor, and he believes Ivey is open to considering it.

"Keep an eye on it. (It has a) better chance than a year ago," he said.

If Alabama leaders prove unwilling to consider an expansion of Medicaid, hospital leaders like Ferniany say there are other options that could address some of the challenges facing Alabama hospitals.

Ferniany said one option could be a global budgeting process. He said that would allow society to choose, direct and enforce how much to spend on health care.

"A resource center would go out and work with the counties. Let's say Wilcox County. (A board could) work with Wilcox County and say, 'what do you need to do for health care?' Not what do you need to do to keep this hospital open. What to you need to do for health care? Develop that and submit a budget."

From there, a board would approve the budget, with Medicare, Medicaid and private insurers all involved in the system.

"For the first year, (payment) is proportional to the number of people they have in the area," Ferniany said. "After that year, it would be proportional to the number of people who use the service."

Murphy said adapting regulations concerning some health insurance plans to lower cost barriers could be another option that would boost Alabama hospitals.

But, most of the CEOs and health experts interviewed by the *BBJ* said an expansion of Medicaid is currently their preferred solution to address the state's health care challenges.

"Securing additional funding through Medicaid expansion is the short-term and long-term priority. We need to obtain the capital, secure our jobs and reap the economic benefits," Mason

said. “Meanwhile, we will continue to evolve the delivery models around the state to provide accessible, quality and cost- effective care.”

Aside from stabilizing the financial realities for health care providers, hospital CEOs are also touting the potential benefits of an expansion on the economy.

“If we can get the \$168 million the first year, then \$25 million a year after that we would get \$2 billion (to) re-invest in this state,” Ferniany said. “If this was any other business, if we went to the legislature and said, ‘Give me \$25 million in tax breaks, and I will bring \$2 billion in payroll into your state,’ they’d do it. It’s about \$2.7 billion a year when you add the economic multiplier. So for \$25 million a year and a \$168 million one-time payment, we’re going to get \$2 billion a year every year. It’s a really good deal.”

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