



February 11, 2010

**ILLINOIS HOSPITAL ASSOCIATION  
MEMORANDUM**

**TO:** Governor Pat Quinn  
**FROM:** Howard A. Peters III, Senior Vice President  
**SUBJECT:** Rural Health Care Initiative

Given your commitment to ensuring that all Illinoisans have access to accessible, quality health care, especially in rural and underserved areas, the Illinois Hospital Association respectfully submits for your consideration this proposal to assist 53 Critical Access Hospitals (CAHs), who form the foundation of the health care safety net for rural areas across the state.

**Proposal: Reimburse CAHs' Outpatient Medicaid Claims Based on Cost**

In your state budget address, we urge you to include outpatient Medicaid reimbursement based on cost for Illinois' 53 Critical Access Hospitals, which serve as the safety net to provide access to health care services in rural areas. These hospitals of 25 beds or less provide a broad range of primary and emergency care and community services to medically vulnerable populations, particularly the elderly. Individuals 65 and older represent more than half of the patients who receive services in CAHs.

Reimbursing Illinois' CAHs for their Medicaid claims based on cost would require a relatively small expenditure of additional state funds, but would have an enormous impact on rural health care in many communities across Illinois. Based on our calculations of current Medicaid utilization and costs, reimbursing CAHs' outpatient Medicaid claims would require an additional \$12 million in state funds in addition to the federal match.

**Background:**

CAHs are the only hospitals in their communities, many miles from the nearest hospital, and thus serve large geographic regions of the state. In addition to providing critically needed medical services, CAHs are major economic engines for their communities. In two-thirds of the rural counties in which CAHs are located, the hospital is among the three larger employers in the county. Collectively, Illinois CAHs contribute nearly \$800

million to their local economies through expenditures and payroll, according to a study conducted by Northern Illinois University.

The U.S. Centers for Medicare and Medicaid Services has a provision in its regulations that allows Critical Access Hospitals to be reimbursed at cost for Medicaid claims, and many states are currently doing so. Illinois CAHs receive, on average, only 41% of Medicaid costs, without the Hospital Assessment Program. Even with the assessment program, the portion of Medicaid costs covered for CAHs is 73% on average.

A large percentage of CAHs' patients are Medicare and Medicaid patients. Consequently, CAHs have little ability to shift the shortfalls from these payers to other commercially insured patients and have limited bargaining power with commercial payers. In order for CAHs to be financially viable, the Medicare and Medicaid programs need to cover their costs. This was the policy rationale for the establishment of CAH program and why CMS permits states to easily adopt a Medicaid state plan amendment to pay CAHs at cost.

The state recognized the need to support CAHs and their vital role in serving rural areas. In 2003, the Department of Healthcare and Family Services established the Rural Adjustment Payment (RAP) to provide \$7 million in additional funds to CAHs annually. In 2003, there were 21 CAHs in Illinois sharing this \$7 million pool. Today there are 53 CAHs sharing the same \$7 million.

We would welcome the opportunity to discuss this proposal with you in greater detail.

cc: Maryjane Wurth, IHA President