



June 4, 2009

The Honorable Patrick Quinn  
Governor, State of Illinois  
100 W. Randolph, Suite 16-100  
Chicago, IL 60601-3220

RE: [Taxpayer Action Board \(TAB\) Final Report](#)

Dear Governor Quinn:

The Illinois Hospital Association (IHA) appreciates the difficult and important task of the Taxpayer Action Board (TAB) in identifying approaches to enable the State to be more fiscally responsible, efficient and accountable as a good steward of its resources for vital programs and services, including health care. We commend the TAB for its work and allowing us to provide input during the process.

As you review the recommendations of the TAB, we want to take this opportunity to inform you of our support, as well as our concerns regarding some of the “Medicaid Opportunities” proposed by the TAB. IHA conceptually supports:

- Enhancing non-capitated primary care case management program;
- Enhancing and expanding the State’s disease management program;
- Interconceptional care management strategies to significantly improve birth outcomes;
- Expanding community-based programs to reverse the bias towards institutional nursing facility care; and
- Enhancing pharmacy cost containment efforts.

However, to begin with we reject the notion that Medicaid spending on hospital care is out of control. The fact is that the increase in hospital spending in recent years is due predominantly to expanding the number of people covered by the program. And, most significantly, the hospital community is financing the cost of covering these individuals through the hospital assessment program. IHA strongly disagrees with the following “care management” cost reduction strategies:

- Exploring/expanding capitated managed care;
- Exploring/implementing global waivers (block grants)/Medicaid benefit redesign; and
- Implementing contracting programs for non-emergent, elective hospital procedures.

These strategies will cost the state more in lost federal funds than they will save in state funds, causing irreparable harm to the state’s Medicaid program and the people who depend on it. For example:

- The Medicaid program pays hospitals roughly \$4 billion per year. However, only \$1 billion of those payments comes from state coffers. Where does the other \$3 billion come from? Under the Hospital Assessment Program, hospitals pay \$900 million a year out of their own pockets to the Medicaid program. When that extra money along with the state funds is matched by the federal government, it produces the additional \$3

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- billion in reimbursement. So, the state's hospitals and the federal government cover 75% of the payments to hospitals for treating Medicaid patients – leaving Illinois taxpayers to cover only 25%.
- In addition to this massive subsidy to hospital reimbursement, the Hospital Assessment Program when matched with enhanced federal funding also generates yet another \$735 million for other – non-hospital – Medicaid services, like long-term care and developmental disability services.
- But the Hospital Assessment Program that generates *billions* in additional *federal* revenue for the state would be *impossible* if capitated managed care and global waivers were implemented. We would be happy to meet with you to explain in detail why this is so, but moving more Medicaid recipients into capitated managed care plans lowers the global amount of federal matching funds available to Illinois, wiping out the billions in enhanced funding generated by the Hospital Assessment Program.
- While costing the state billions in lost federal revenue, these strategies would produce negligible savings of state dollars. Why? Frankly, because without those additional federal dollars the State of Illinois has one of the most miserly Medicaid programs in the United States. Illinois ranks 42nd in the country on spending per Medicaid recipient. Hospital inpatient base rates have been frozen since 1995. Without the enhanced funding from the Hospital Assessment Program, Medicaid covers only 75% of the average hospital's *cost* of treating Medicaid recipients. You can't get blood from a stone, and the Medicaid program – at least in terms of hospital reimbursement – is already at rock bottom.
- So, these strategies will (1) produce trivial savings of state dollars and (2) eliminate billions in additional federal funds currently flowing into Illinois because of the Hospital Assessment Program.

The TAB report's "Medicaid opportunities" discusses savings projections and maximizing federal matching funds. However, the savings projections have not been analyzed to determine their exact impact on the Medicaid program and the total amount of federal matching funds that would be eliminated if the savings projections were met by certain "care management strategies" proposed in the final report. We truly believe that these strategies are flawed and will have far-reaching negative budgetary consequences in the immediate future and in the years to come.

To ensure that the State can adequately support the Medicaid program (and reduce its need for state funds), we strongly urge you to implement the changes we support and in addition encourage the General Assembly and Illinois Congressional Delegation to push for a permanent increase in the State's federal Medicaid matching rate. Illinois' temporary rate increase under the federal stimulus law is in place only through the end of 2010. Without the temporary increase, Illinois is at the lowest federal matching rate (50 percent).

The Illinois Hospital Association and the hospital community are strongly committed to its partnership with the State to preserve and protect the health care delivery system – especially our most vulnerable populations – by working with the State for a cost effective, efficient and quality Medicaid program and by continuing to collaborate on ways to develop and maintain reliable, sustainable and predictable funding sources. We thank the TAB and we thank you for giving us your consideration.

Sincerely,

Howard A. Peters  
Senior Vice President