



Which hospitals are going to close in New Mexico? I've been receiving some form of that question more and more over the last few months.

The closure of any hospital in our state would have monumental impact on patients, providers and communities but, at the moment, none are at that drastic stage.

The challenges on hospitals are huge, nationally and locally. It would be more helpful to frame the challenges in a different set of questions as follows:

What services will close? The most immediate concerns revolve around the tough decisions being made about which services can be supported in the changing healthcare environment. Within the last 4 years, 3 rural hospitals have dropped their obstetric service. Just within the last year, hospitals have eliminated services in home health, ICU, clinics and physician offices.

What will the personal and economic impact be of downsizing and layoffs? In 2012, New Mexico's hospitals employed over 35,000 jobs with a payroll of \$2.4 billion. Adding in other expenditures and applying a modest multiplier effect, hospitals contributed \$8.9 billion to our State's economy. During much of the recent recession, the healthcare sector was the only bright spot but the tide is turning. In response to ongoing reimbursement cuts hospitals are "redefining the 'H'". With more focus on primary care and prevention, hospitals of the future will undoubtedly fill different roles. Inevitably, these changes impact the mix and number of staff that are needed.

What will the ownership structure be? Hospitals need to work more collaboratively and to deliver economies of scale so the trend has been toward market consolidation through mergers and acquisitions. It's estimated that as many as 1,000 of the nation's roughly 5,000 hospitals will seek a merger within the next five to seven years. There are some hospitals and health systems that are determined to stay independent but most don't have the market clout to back up their reimbursement expectations. And the different parts of the government don't help these decisions. The Affordable Care Act (ACA) seems to encourage consolidation based on the effect it's expected to have in coordinating care, while at the same time colliding with the antitrust priorities of the Federal Trade Commission.

How will access be impacted? That is a major concern. We expect the general demand for healthcare services to grow along with expanded Medicaid coverage and the uptake of coverage on the health insurance exchange. At the same time, hospitals have fewer resources to meet the demand. Rural facilities and the patients they serve will be most acutely impacted. Creative solutions and community support will be critical.

Who will hire doctors and providers? This is yet another challenge. In the last several years, the number of physicians employed by hospitals has grown. It's been partly a physician preference but also often the only means to recruit and retain physicians. Unfortunately, many employed practices are subsidized by the hospital at a time they can least afford to do so.

What will the impact be on management? Hospital administration is one of the toughest management jobs and the current environment makes it that much more difficult. Among our 44 member hospitals we've seen a turnover of 39% of the CEOs in the last year. This trend erodes both community relations and hospital operations.

What is causing the pressure on hospitals? Decisions being made at both the federal and state level are converging on hospitals. Beginning in 2010, the Affordable Care Act reduced Medicare reimbursement to hospitals, to the tune of roughly a \$75 million per year impact in New Mexico. The federal budget sequestration further reduced Medicare payments for our hospitals by \$16.2 million per year. On the Medicaid side in 2009, the State cut hospital outpatient payments by \$250 million per year. That action has had a heavy ripple effect and now Medicaid reimburses hospitals for only 58% of the cost of providing hospital care to recipients.

Hospitals have been required to spend millions to implement electronic health records. Federal requirements impose penalties for failure to meet implementation deadlines. Software vendors can't keep up with the demand and sell their products at a premium. Hospitals incur not only the software cost but significant staffing costs that also detract from direct patient care.

Beyond those pressures on *all* hospitals, there is an added impact on 29 hospitals as a result of changes in the new Centennial Care version of Medicaid being implemented on Jan. 1. As part of the federal approval of Centennial Care, special supplemental hospital payments known as Sole Community Provider (SCP) payments have been drastically reduced. That program has been cut by 30% from \$278 million down to \$192 million. Within that aggregate total some individual hospitals anticipate cuts as high as 70%. Many of the most impacted facilities are fragile, small, rural hospitals.

What about uncompensated care? The expanded Medicaid and exchange coverage envisioned by ACA will be a blessing to many of those who are currently uninsured. Better coverage should lead to less uncompensated care for hospitals. But as we see daily in the news, the promise is not yet reality. Enrollment has been slow and hospitals are still absorbing a heavy uncompensated care burden even though they paid up front for the coverage expansion. At the local level, under the Indigent Hospital Act, counties are still required to pay hospitals for indigent services.

What's the good news? In spite of all the pressures, New Mexico's hospitals are making great improvement in quality. Recent joint efforts have reduced infections, patient falls and pre-term deliveries with an estimated savings to the health care system of \$17 million.

What can be done to support community hospitals? For Medicaid in general, we'd ask that the State consider more adequate reimbursement for hospital services to cover the cost of delivering those services. For the Sole Community Provider program, the non-federal match comes from counties. We'd ask counties to commit to dedicated, stable, county funding for the redesigned program. We're committed to working with counties, the Human Services Department and the Legislature to develop those new funding mechanisms. Creative solutions are critical to maintain essential services for our communities.

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