



March 6, 2006

The Honorable Judd Gregg
Senate Budget Committee
624 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Gregg:

The undersigned organizations strongly urge you to reject President Bush's proposals to reduce Medicaid payments by \$13.6 billion over five years in your fiscal year (FY) 2007 budget.

Of great concern to the hospital community are provisions in the President's budget to reduce Medicaid supplemental payments by \$13.6 billion through administrative action without Congressional input or oversight. The magnitude of such cuts would severely jeopardize patient care and the ability of hospitals to serve on the frontlines of care.

These reductions would be in addition to the \$4.7 billion in net savings from Medicaid and the State Children's Health Insurance Program (SCHIP) achieved through the Deficit Reduction Act of 2005. Moreover, they are incompatible with Congress' expectation that hospitals make substantial investments in health information technology, expand their role in public health and emergency preparedness, and absorb an increasing number of uninsured patients.

Specifically, the proposals of concern to Medicaid recipients and the providers who serve them include efforts to:

- **Cap payments to government providers** to no more than the cost of furnishing services to Medicaid beneficiaries. Because Medicaid is the most significant payer for governmental safety net hospitals, prohibiting these hospitals from obtaining even a reasonable margin on Medicaid patients will be devastating, effectively eliminating the ability for reinvestment in physical plants and decimating efforts to subsidize care to uninsured populations;
- Further **curb state Medicaid “financing practices.”** To the extent that some states may have used intergovernmental transfers (IGTs) to inappropriately “recycle” federal funding, CMS has already deployed a variety of mechanisms in the past several years to eliminate such practices. CMS has not identified any practice it deems illegitimate that it has not had the authority to terminate and has, in fact, touted its success in eliminating inappropriate uses of IGTs. Further administrative restrictions in this area are simply unnecessary; and
- **Decrease the allowable provider tax rate** from six to three percent. Given the growing demands on other sources of state general revenue, the proposal will have a substantial impact on some states’ ability to adequately fund their Medicaid programs. Some of the states with larger Medicaid populations that would be affected by this proposal include California, Florida, Illinois, Pennsylvania and many others.

The President’s Medicaid proposals would eliminate many of the Medicaid supplemental payments that allow hospitals to perform vital community services, and would shift health care costs to states who can ill afford to shoulder those burdens.

As you know, the hospital community also cannot bear the severe Medicare cuts proposed by the budget. We stand together in opposing the proposed legislative reductions to the hospital prospective payment system (PPS) update and the elimination of reimbursement for Medicare bad debt. We urge you to reject them as well.

We look forward to working with you during the 109th Congress to ensure that America’s hospitals can continue to keep our communities healthy and strong.

Sincerely,

American Hospital Association
Association of American Medical Colleges
The Catholic Health Association
Federation of American Hospitals
National Association of Children’s Hospitals
National Association of Public Hospitals and Health Systems
Premier
VHA Inc.