Testimony of

Gundersen Lutheran Health System

Joint Finance Committee
Hearing on the 2007-2009 Biennial Budget

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Medical Society, and Wisconsin Manufacturers and Commerce, we believe 98% universal coverage can be achieved.

The Governor plans to achieve 98% universal coverage through a broad expansion of Medicaid eligibility. We are concerned about pushing more individuals into an underfunded program whose recipients have difficulty accessing health care services. Dental coalitions from around the state, for example, have drawn attention to Medicaid recipients' inability to access routine dental care.

The Governor's budget expands Wisconsin's Medicaid programs to include a number of new eligibles:[21]

- All Wisconsin children
- All Wisconsin residents with incomes at or below 200% of the federal poverty level (FPL)
- Families, caretaker relatives and pregnant women starting in January 2008
- Childless adults with incomes at or below 200% FPL starting in January 2009
- Youths aging out of the foster care system up to age 21

The Administration estimates these expansions will be cost neutral, saying cost neutrality will come from administrative simplification and the consolidation of Family Medicaid, Healthy Start and BadgerCare into one program called BadgerCare Plus. **Unfortunately, keeping the program cost neutral means keeping the program underfunded**. **Without an infusion of *additional* resources into the Medicaid budget, this program will continue to fall short for even more of Wisconsin's families and children.**

The current Medicaid budget results in chronic underfunding of provider reimbursements. Medicaid currently pays providers at a rate that is both damaging and unsustainable. If three patients present in Gundersen Lutheran's Emergency Department – one is commercially insured, one is Medicaid, and one is Medicare – each incur $100.00 of medical care. Gundersen Lutheran will recuperate $55 less from the Medicaid patient than the commercially insured patient. Similarly, Gundersen will recuperate $46 less from the Medicare patient than the commercially insured patient.

Gundersen Lutheran serves more Medicaid/Medicare patients than commercially insured patients (51:49%, respectively). In the interest of remaining operational, we are hesitant about significantly increasing the number of Wisconsin residents who have government health care without substantially increasing funding for those programs.

Maintaining the status quo should not be considered an option. At this point, Gundersen Lutheran believes universal coverage is best achieved through a combination of public, private, employer-based and mixed insurance options in conjunction with a number of reforms to each health-related industry (Appendix 3).

CREATING A HEALTH CARE DEFICIT

One of the most troubling components of the Governor's proposed budget is the Administration's decision to de-fund the Medicaid budget by removing more than $900 million in GPR.[22]

Instead of using GPR, the Governor plans to use segregated funds (PCF), a hospital tax, and tobacco revenues to fund health care in Wisconsin (See Legislative Fiscal Bureau Analysis table below).[23]

Budget Summary						FTE Position Summary				
	2006-07	Governor		2007-09 Change Over Base Year Doubled			Governor		2008-09 Over 2006-07	
Fund	Adjusted Base	2007-08	2008-09	Amount	%	2006-07	2007-08	2008-09	Number	%
GPR	$2,713,210,500	$2,334,521,500	$2,305,225,700	- $786,673,800	- 14.5%	2,150.57	2,173.35	2,104.13	- 46.44	- 2.2%
FED	3,429,244,300	3,707,085,500	3,739,531,200	588,128,100	8.6	1,066.56	1,054.79	917.42	- 149.14	- 14.0
PR	421,314,700	496,231,400	475,885,600	129,487,600	15.4	2,552.32	2,653.17	2,491.48	- 60.84	- 2.4
SEG	111,633,700	713,725,100	737,783,100	1,228,240,800	550.1	2.00	2.00	5.00	3.00	150.0
TOTAL	$6,675,403,200	$7,251,563,500	$7,258,425,600	$1,159,182,700	8.7%	5,771.45	5,883.31	5,518.03	- 253.42	- 4.4%

Governor Doyle's mechanism for managing and appropriating these dollars is the new Health Care Quality Trust Fund. The Wisconsin Hospital Association (WHA) analyzed the Budget bill's and the Legislative Fiscal Bureau's presentations of the Health Care Quality Trust Fund. **WHA found that the Governor's budget would create a health care deficit in 2010 of more than $100 million; it would require a hospital tax increase of 48 percent.**

	FY08	FY09	FY10 (WHA estimate)
REVENUES			
Injured Patients & Family Fund Transfer	$175,000,000	$ 0	$0
Tobacco Tax Increase	275,700,000	270,500,000	265,000,000
Tobacco Permanent Endowment Transfer	50,000,000	50,000,000	50,000,000
Hospital Assessment	205,532,800	212,726,500	220,200,000
Balance from prior year		$97,300,000	243,500
TOTAL	$706,232,800	$630,526,500	$535,443,500
EXPENDITURES			
Healthy Wisconsin Authority Admin	$500,000	$500,000	500,000
Childless Adult Expansion	0	6,153,700	12,200,000
Hospital Assessment MA Funding	59,409,700	63,250,200	63,200,000
Hospital Rate Increase	146,123,100	149,476,300	149,500,000
Tobacco Control Activities	30,000,000	30,000,000	30,000,000
E-Health	10,000,000	10,000,000	10,000,000
MA Funding Stabilization	362,900,000	370,902,800	370,900,000
TOTAL	**$608,932,800**	**$630,283,000**	**636,300,000**
Fund Balance	**$97,300,000**	**$243,500**	**(100,900,000)**

AN ALTERNATIVE SOLUTION

We urge the Joint Finance Committee not to transfer GPR funding out of Medicaid and, instead, adopt the recommendations of the Governor's Healthy Wisconsin Council, which recommends that tobacco tax revenues be used to build upon base GPR in the Medicaid budget (See Appendix 7).[24] When used to fund programs like Medicaid, the tobacco tax would draw in federal matching dollars that could more greatly leverage our health care dollars and significantly improve health care costs, quality, and access in Wisconsin.

APPENDICES

Appendix 1 – WHA Analysis: Doyle Administration's Hospital Tax and Payment Plan

Appendix 2 – Western Wisconsin: Impact of Hospital Assessment

Appendix 3 – Health Information Technology at Gundersen Lutheran

Appendix 4 – Department of Health and Human Services SeniorCare Fact Sheet

Appendix 5 – Gundersen Lutheran Standards for Health Care Reform

Appendix 6 – Wisconsin Medicaid Savings from a $1.25 Cigarette Tax Increase

Appendix 7 – Healthy Wisconsin Council Report, Recommendation Four

WHA Analysis: Doyle Administration's Hospital Tax and Payment Plan

As part of its 2007-09 biennial budget, the Doyle Administration proposes a hospital tax equal to 1% of gross revenue, and to use the proceeds together with Federal matching funds to provide funding for Medicaid. Specifically, the plan proposes to tax hospitals a total of $418 million over the 2007-09 biennium, match it with $568 million of Federal funds, and increase hospital payments by $700 million, with a resulting net gain (after the tax) to hospitals of $284 million.

WHA has analyzed the plan, and has concluded that, contrary to a net gain, **there would be a net loss of between $132 million and $186 million for hospitals over the biennium**. This is because the payments proposed in the plan are either **contrary to Federal rules, or based on questionable assumptions.** A summary of the plan is outlined below, alongside a WHA projection of actual payments based on Federal rules.

SUMMARY OF ADMINSITRATION'S HOSPITAL TAX PLAN (million $)

1% Tax on Gross Patient Revenues	**Proposed FY 2008**	**Proposed FY 2009**	**WHA Projected Actual FY 2008**	**WHA Projected Actual FY 2009**
Tax	**$204.9**	**$212.1**	**$204.9**	**$212.1**
Matched with Federal Funds	$277.3	$288.5	$277.3	$288.5
Total	$482.2	$500.6	$482.2	$500.6
Less Amount Used for Other State Purposes	($138.7)	($144.3)	($138.7)	($144.3)
Net Available for Hospital Increases	$343.5	$356.3	$343.5	$356.3
Hospital Payment Increase				
Increase Fee-for-Service rates	$244.1	$253.4	$104.6	$108.2
Establish DSH Payments to CAH	$27.9	$28.9	$8.7	$9.0
Subtotal Without HMO Increases	$272.0	$282.3	$113.3	$117.3
Impact on Hospitals (Net of Tax Paid)	$67.1	$70.2	($91.6)	($94.8)
Increases in HMO rates*	$71.5	$74.0	$26.8	$27.6
Total Hospital Payment Increase	**$343.5**	**$356.3**	**$140.1**	**$144.9**
Less Tax Paid	($204.9)	($212.1)	($204.9)	($212.1)
Net Impact on Hospitals	$138.6	$144.2	($64.8)	($67.2)

*Assumes HMOs pass entire increase on to hospitals.

Western Wisconsin: Impact of Hospital Assessment and FFS, Supplemental and HMO Rate Increases

Physical Full Name	Physical City	CAH	Governor's Tax (Biennial)	Governor's Payment Incr (Biennial)	2005 Total Federal UPL (est)	CAH DSH Allowable 2008	Biennial Allowable Payment Incr	Governor's Est Biennial Gain/Loss pre-HMO	Actual Biennial Gain/Loss w/ UPL and DSH rules pre-HMO
						$0 = No OB, No DSH			
GUNDERSEN LUTHERAN MEDICAL	LA CROSSE	No	$8,427,224	$10,222,271	$3,068,000		$6,243,380	$1,795,047	($2,183,844)
FRANCISCAN SKEMP HEALTHCARE									
FRANCISCAN SKEMP ARCADIA	ARCADIA	Yes	$157,198	$690,540	$0	$59,043	$120,153	$533,342	($37,046)
FRANCISCAN SKEMP MED CTR	LACROSSE	No	$4,628,022	$7,682,153	$1,290,000		$2,625,150	$3,054,131	($2,002,872)
FRANCISCAN SKEMP MD CTR	SPARTA	Yes	$296,427	$1,180,000	$0	$216,992	$441,579	$883,573	$145,151
Total Franciscan Skemp HC			**$5,081,648**	**$9,552,694**	**$1,290,000**		**$3,186,881**	**$4,471,046**	**($1,894,767)**
BLACK RIVER MEMORIAL HOSPITA	BLACK RIVER FALLS	Yes	$635,773	$1,180,000	$0	$126,146	$256,707	$544,227	($379,066)
BOSCOBEL AREA HEALTH CARE	BOSCOBEL	Yes	$373,514	$858,139	$0	$18,633	$37,917	$484,625	($335,597)
ST JOSEPHS MEMORIAL HOSPITAL	HILLSBORO	Yes	$397,883	$470,722	$0	$1,623	$3,302	$72,840	($394,581)
PRAIRIE DU CHIEN MEMORIAL	PRAIRIE DU CHIEN	Yes	$406,590	$1,180,000	$0	$168,812	$343,533	$773,410	($63,057)
RICHLAND HOSPITAL INC	RICHLAND CENTER	Yes	$868,398	$1,180,000	$0	$589,535	$1,199,704	$311,602	$331,306
TOMAH MEMORIAL HOSPITAL INC	TOMAH	Yes	$582,722	$1,180,000	$0	$197,068	$401,033	$597,278	($181,690)
VERNON MEMORIAL HOSPITAL	VIROQUA	Yes	$947,934	$1,180,000	$228,000	$394,317	$802,436	$232,066	($145,498)
TRI COUNTY MEMORIAL HOSPITAL	WHITEHALL	Yes	$179,669	$728,841	$0	$0	$0	$549,172	($179,669)
TOTAL FOR WESTERN WISCONSIN			$17,901,355	$27,732,667	$4,586,000	$1,496,134	$12,474,893	$9,831,311	($5,426,462)

Health Information Technology at Gundersen Lutheran Health System

Gundersen Lutheran is a tri-state, regional, rural based health system consisting of 32 health facilities in Wisconsin, Minnesota and Iowa. Gundersen Lutheran provides community based primary care through nationally recognized specialty; level II trauma and tertiary care for a 19 county tri-state region. With 50% of our patients referred to us from communities and facilities outside of La Crosse County, the ability to access up-to-date medical, financial and administrative information is the cornerstone of coordinating care for our patients. Gundersen Lutheran and its regional non-Gundersen Lutheran partners have created a health care environment that progressively uses health information technology. The ability to exchange health information data has reduced fragmentation that would typically occur when coordinating health services between community-based health services and referral centers. Our health information network provides health services that promote efficient, safe, and coordinated medical care in a rural environment.

Gundersen Lutheran's health information technology network has achieved the following:

- **Our internally developed electronic medical record, *Clinical Workstation* (CWS©), connects the Gundersen Lutheran Health System and our regional partners. Ultimately, the goal is to establish a regional health care network capable of complete electronic sharing, run as a quasi-public network, open to all who comply with connectivity standard and wish to digitally exchange health information.**
    - Gundersen Lutheran Health System and Regional Partners includes:
        - 8 Hospitals (3 are Gundersen Lutheran; 5 are independent)
        - 22 Primary Care Clinics
        - 12 Eye and Vision Clinics
        - 7 Mammography Centers
        - 7 Renal/Kidney Dialysis Centers
        - 14 Behavioral Health Centers
        - 2 Sports Medicine Clinics
        - Express Clinic with Degen Berglund Pharmacy
        - Rockwell Richland Center Employee Wellness Center
- **Electronic interconnectivity with six long-term care health facilities in the region.**
    - Bethany Riverside (Wisconsin)
    - Bethany St. Joe (Wisconsin)
    - Hillview (Wisconsin)
    - Onalaska Care Center (Wisconsin)
    - Southeast Minnesota Health Consortium
        - Tweeten Health Services (Minnesota)
        - Harmony Health Care (Minnesota)
- **Integrated hospital electronic medical records into clinical medical records (CWS)© to achieve a full continuum of care record.**
- **Complete electronic access to patient medical records and data at a free local health care clinic in Wisconsin called St. Claire's Mission**
- **Integrated the Picture Archiving System (PACS) radiology server into Gundersen Lutheran's electronic medical record system.** This allows for instant electronic transmission and access to all radiologic data (imaging).
- **Developed an Electronic Prescription Drug module as part of the regional health information network.** Prescriptions are now electronically entered and sent to local pharmacies as a way to eliminate paper faxes and medication errors.
- **Created a Remote Fetal Monitoring system that allows OB/GYN specialists to assist Family Practice physicians and nurses delivering babies in rural and regional settings.** Mother and baby's heart rate and vital signs are electronically transmitted (real-time) to any location within our health information network.

- **Mobile MRI, PET, and CT equipment travels throughout the region, capturing digital images and forwarding the images to Gundersen Lutheran's main medical center for review by specialists.**

- **Implementation of a software "security wrapper" that regulates non-Gundersen Lutheran facilities access to Gundersen Lutheran patients' medical records.** Gundersen Lutheran also developed systems for auditing requirements, training and technical consultation for web access.

- **Established prototypes and usage protocols for allowing and assessing non-Gundersen Lutheran facilities access to the regional health information network.**

- **Our Chief Information Officer is a representative on Wisconsin Governor James Doyle's Electronic Health Initiative Task Force (eHealth Initiative).**

Gundersen Lutheran Health System map: This map accurately portrays Gundersen Lutheran's internal health information network. It does not show the full extent of our external, affiliate, and partner sites for health IT.

State of Wisconsin
Department of Health and Family Services

Jim Doyle, Governor
Kevin R. Hayden, Secretary

SeniorCare Fact Sheet
March 12, 2007

- The state's SeniorCare waiver is set to expire June 30, 2007. In fall 2005, Governor Doyle negotiated with HHS Secretary Leavitt to not end SeniorCare prematurely because Medicare Part D was going to be launched January 1, 2006.

- As of February 25, 2007, 103,344 seniors were enrolled in SeniorCare

- Governor Doyle submitted a request to HHS on October 23, 2006 to extend the state's SeniorCare waiver for three years to June 30, 2010

- SeniorCare enrollment increased by 26 percent in the last year, when seniors had to choose between SeniorCare and Medicare Part D

- An AARP study found that 94 percent of SeniorCare recipients are better served under SeniorCare than they would be under Medicare Part D

- The average annual federal subsidy for a SeniorCare waiver participant is $617, about half as much as the $1,174 the federal government spends to subsidize a Part D participant

- We estimate that SeniorCare will save Medicaid roughly $697 million between 2008 to 2010. This includes $404 million in reduced federal expenditures

- SeniorCare has already saved Wisconsin seniors and taxpayers hundreds of millions of dollars sine its inception. In State Fiscal Year 2006 alone, SeniorCare reduced drug costs to Wisconsin seniors by almost $200 million

- Of the $252 million in drug costs billed to SeniorCare in State Fiscal Year 2006, the federal government paid only $46 million (or about 18 percent) net of rebates. Without a federally approved SeniorCare extension, drug manufacturers would no longer be required, as they currently are under federal law, to provide SeniorCare with "best price" rebate levels.

STANDARDS for HEALTH CARE REFORM

Providers, Insurers, Employers, Consumers and Government have a shared responsibility to pay for health care as well as to reform the delivery and consumption of health care. Pluralistic working groups, representative of all five of the above sectors, should be formed to craft and address health care reform.

PROVIDERS

Health care has the first responsibility. Providers must improve quality and increase efficiency to reduce costs.

- Health care reform should promote transparency. Currently, the law penalizes transparency.
- Government mandates requiring efficiency and quality improvements are unnecessary. Rather, providers are responsible to proactively conduct improvements to lower costs and improve patient health.

INSURERS

Insurers must provide coverage options at varying price points, adequate payment, and incentives for businesses.

- Health care reform should preserve the existence of the private insurance marketplace.
- Health care reform should push insurers towards adopting a universal claims form to eliminate waste.

EMPLOYERS

Businesses should offer the best possible health coverage or financing options to their employees.

- At least for the foreseeable future, an employer-based coverage option must be preserved.
- Health care reform should not mandate employers to carry a specific type or model of coverage. Rather, it should encourage businesses to provide a variety of health care plans, including an affordable benefit plan and/or adequate health care financing options.
- Health care reform should include a number of financial and social incentives encouraging businesses to offer health care benefits, participate in wellness programs, and improve employee health.

CONSUMERS

Consumers must make informed health care coverage choices and become prudent consumers of medical services.

- Consumers must be personally responsible for changing one's own health-damaging behaviors or lifestyle
- Consumer-based financing options are inappropriate for certain population sectors, including low-income or chronically ill persons. Responsible reform will go beyond consumer-based financing.

GOVERNMENT

Government's responsibility is to fund its health care programs, so as to eliminate unsustainable cost shifting onto employers, providers and consumers.

- Health care reform should consist of innovative and enhanced public-private sector models of health care coverage that extend affordable, high-quality health care to every citizen. Every private and public model should be adequately funded.
- Until reimbursement rates are adequate, legislation must put a freeze on unfunded health care mandates.
- Gundersen Lutheran supports the idea of a statewide basic coverage plan for underinsured populations. A basic coverage plan should not eliminate private insurance or employer-based coverage.
    - Depending on a person's socio-economic status, payers of a basic coverage plan could be one or a combination of insurers, consumers, employers, or government.
    - Statewide data, research, and market-forces must determine the basic benefits package.
- Government should support private and employer-based innovations in health care financing by creating favorable environments for innovations like Section 125 plans, Health Savings Accounts (HSAs), and Association Health Plans.
- Government is responsible for implementing consistent definitions, rules, and regulations to reduce costly, nonsensical administrative burdens on health care providers and insurers. Sunset clauses should be placed on all Administrative rules to allow for reexamination or to prevent continued waste.
- Make prevention and wellness a priority for improving health and reducing health care costs.
    - Implement laws committed to wellness, like a statewide ban on smoking in public. Reward consumer participation in wellness programs as well as employer wellness and care coordination.
- Create a safe practice environment for medical professionals. Caps on non-economic damages and protection for transparency efforts will reduce health care costs and improve recruitment and retention.

PROJECTED MEDICAID PROGRAM SAVINGS IN WISCONSIN FROM A 125-CENT CIGARETTE TAX INCREASE
(All Dollar Amounts in Millions of Dollars)

Tax Increase Amount	New State Revenue	Adults Who Quit	Youths Prevented From Addicted Use	Premature Smoking Deaths Prevented	Smoking-Affected Births Avoided Each Year	5-Year Pregnancy Medicaid Savings	5-Year Heart & Stroke Medicaid Savings	5-Year Medicaid H&S and Pregnancy Savings	Long-Term Medicaid Savings From Adult Smoking Declines	Long-Term Medicaid Savings From Youth Smoking Declines	Total Future Medicaid Savings Locked In By Cig. Tax Increase
$1.25	**$252.8**	**42,500**	**84,100**	**38,100**	**2,340**	**$9.9**	**$2.9**	**$12.8**	**$58.1**	**$211.6**	**$269.7**

- The current cigarette tax in Wisconsin is $0.77 per pack; and the nationwide average is $1.00 per pack. According to the U.S. Centers for Disease Control & Prevention, smoking-caused health costs and lost worker productivity in Wisconsin total $9.53 per pack sold in the state.
- All savings amounts in 2004 dollars. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and tax revenues) from new tax avoidance efforts after the tax increase by continuing continuing in-state smokers, and from fewer sales to smokers from other states or to informal or small-scale smugglers. The projected Medicaid savings are even more conservative because they do not account for the fact that smoking rates are much higher among Medicaid recipients than among the general population or that lower-income smokers are much more likely to quit in response to cigarette tax increases than higher income smokers – which means the cigarette tax increase should produce even larger reductions in smoking-related demands on Medicaid than projected here.
- Medicaid Savings equal reductions to the state Medicaid program's smoking-caused expenditures. Medicaid covers approximately 14.4% of the state's total smoking-caused health costs and 50% of state smoking-caused pregnancy-related health costs. Miller, L. et al., "State Estimates of Medicaid Expenditures Attributable to Cigarette Smoking, Fiscal Year 1993," *Public Health Reports* 113: 140-151, March/April 1998; Orleans, CT, et al., "Helping Pregnant Smokers Quit: Meeting The Challenge in the Next Decade", *Tobacco Control* 9(Supplemental III): 6-11, 2000.
- Adults that quit equals those adults who quit because of the state's tobacco prevention efforts. Youths prevented from addicted use equals the number of kids alive today in Wisconsin who will not become addicted adult smokers because of the tobacco tax increase.
- The 5-Year savings from fewer smoking-caused heart attacks and strokes and from fewer smoking-effected pregnancies accrue in the first five years after the state cigarette tax increase. Heart attack and stroke savings start out small and increase sharply each year until peaking in 8 or 10 years and then staying at that high rate thereafter. These Medicaid savings represent only the tip of the iceberg. Substantial reductions to other Medicaid smoking-caused costs will also occur in the short term, but available research and data does not yet provide an adequate basis for making projections of these additional savings. Other Medicaid savings from reduced smoking-caused cancer will begin to accrue in 5 to 10 years and then rise sharply. The state will also see reductions to the smoking-caused costs in other state or state-funded programs because of the smoking declines prompted by the cigarette tax increase – and private sector and individual smoking-caused costs will also decline sharply.
- Long-term state Medicaid program savings from the adult and youth smoking declines prompted by the cigarette tax increase occur over the lifetimes of those adults and youth alive in the state today who quit or never start smoking because of the cigarette tax increase.

Projections will be updated and improved as updated underlying data becomes available and when new data and research findings prompt refinements to the underlying models and formulas. Please direct questions to Eric Lindblom, Campaign for Tobacco-Free Kids, elindblom@tobaccofreekids.org, 202-296-5469.

For additional information, see the TFK factsheets at http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18 .

Campaign for Tobacco-Free Kids 11.29.06, January 23, 2007 / Eric Lindblom

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OPENING STATEMENT

Thank you for allowing us to provide testimony to you today. As a health care system, and a large employer, the State Budget impacts both our ability to provide patient care and provide our employees with a great place to work. Our goal in testifying is to provide the Joint Finance Committee with information on how the Governor's goals to expand health coverage can be accomplished in a way that does not increase the cost of existing health care programs. Specifically, we will convey our concerns regarding a hospital tax and use of Patient Compensation Funds in the State Budget. We believe increased health care coverage can be achieved by maintaining GPR funding coupled with new monies raised from the cigarette tax.

There is much to support in the Governors budget including:

1) Reducing the prevalence of cigarette smoking and the negative public health impact of tobacco use;
2) Achieving 98% universal coverage in Wisconsin;
3) Achieving administrative simplification in the Medicaid programs;
4) Increasing Medicaid provider payment rates;
5) Maximizing federal matching programs to support Medicaid and senior health related programs.

Any Wisconsin Budget must enable Gundersen Lutheran to continue providing the same level of quality care our patients' value and expect. We are concerned that a few provisions in the Governor's Budget will hinder our ability to do so. Namely, the Governor's budget seeks to transfer more than $900 million in existing/base revenue from the Medicaid program to other non-health programs and non-health state spending. This leaves a funding hole that will require the use of funding sources like a hospital tax that channel resources away from direct patient care.

We have spent the last few weeks weighing the various components of the proposed Budget, determining which will most directly impact hospitals, clinics, patients, our ability to maintain programs and services, as well as recruit and retain high performing staff. In the following testimony we discuss the hospital tax, the use of segregated funds, SeniorCare, the tobacco tax, Medicaid coverage expansions, and the resulting $100 million health care deficit Wisconsin will face by 2010. Throughout our testimony, we present alternative funding options and suggested solutions.

Our position is consistent with and supported by other organizations like the Wisconsin Hospital Association, Wisconsin Medical Society, Wisconsin Primary Health Care Association, and Wisconsin Manufacturing and Commerce. We thank the Wisconsin Hospital Association for their timely and quality analysis and advocacy regarding the Budget. We also appreciate the Legislative Fiscal Bureau's vital publications regarding the Budget. Finally, we thank you, the Joint Finance Committee, for your willingness to hear our concerns.

HEALTHY WISCONSIN COUNCIL REPORT

Recommendation Four

Subsidy

A subsidy is an important component of a successful reinsurance program to lower reinsurance premiums which will lead to lower rates. A state match is needed to fund the Medicaid expansion. Therefore, the Council recommends funding a subsidy by raising the cigarette tax. Currently, the cigarette tax in Wisconsin is $0.77 per pack. Annual state revenues from the state cigarette tax are $294.3 million (2005). It is estimated that a $1 increase per pack of cigarettes would increase tax revenue by $227.5 million (Campaign for Tobacco Free Kids provided this estimate during the public hearing).

The Council recommends depositing revenues from the additional tobacco taxes into a Health Care Trust Fund. In addition to funding the Healthy Wisconsin Council's recommended programs, the Council members recommended using funds for Medicaid provider rate increases and/or other health care reforms. Also, the Council urges the Governor and legislature to explore other means to encourage and increase provider participation in the Medicaid program, including higher reimbursement rates for providers serving a disproportionate share of Medicaid recipients.

The subsidy used for reinsurance programs and Medicaid expansion would help uninsured residents gain access to health care and would also help to stabilize and lower premium costs in the small group market. In result, more people would have health insurance. In addition to providing potential revenue for a subsidy, a cigarette tax increase is estimated to help decrease youth smoking by 16.7 percent. If used for Medicaid state match, this revenue has a potential to generate an additional $1.35 for each dollar spent.

SOURCES

[1] The Social Security Act, Federal Regulations 42 CFR 447.272 and 447.321
[2] Wisconsin Hospital Association letter from Steve Brenton, President, dated February 21, 2007.
[3] Injured Patients and Families Compensation Fund, Legislative Fiscal Bureau Analysis – Informational Paper 83, January 2007, Eric Peck.
[4] Ibid.
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[6] Who Will Care for Our Patients? Wisconsin Takes Action to Fight a Growing Physician Shortage. March 2004. Wisconsin Hospital Association, Wisconsin Medical Society. Page 6.
[7] SeniorCare Push Intensifies. Wisconsin State Journal. Mark Pitsch. March 7, 2007. www.madison.com/wsj/home/local/index.php?ntid=121834&ntpid=1
[8] Ibid.
[9] Sourced from the Smoke Free Wisconsin website resources (http://www.smokefreewi.org/resources/other.html), and includes the following: CDC, *Data Highlights 2006* [and underlying CDC data/estimates; CDC's STATE System average annual smoking attributable productivity losses from 1997-2001 (1999 estimates updated to 2004 dollars); See also, CDC, "Annual Smoking-Attributable Mortality, Years of Potential Life Lose, and Economic Costs -- United States 1995-1999," MMWR, April 11, 2002; Zhang, X., et al., "Cost of Smoking to the Medicare Program, 1993," Health Care Financing Review 20(4): 1-19, Summer 1999; Office of Management & Budget, The Budget for the United States Government - Fiscal Year 2000, Table S-8, January 1999; Leistikow, B., et al., "Estimates of Smoking-Attributable Deaths at Ages 15-54, Motherless or Fatherless Youths, and Resulting Social Security Costs in the United States in 1994," Preventive Medicine 30(5): 353-360, May 2000. CDC, "Medical Care Expenditures Attributable to Smoking -- United States, 1993," MMWR 43(26): 1-4, July 8, 1994.
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[21] WAHP Summary
[22] Legislative Fiscal Bureau Analysis – Budget Summary Table 4, Summary of General Fund Appropriations by Agency. Various materials provided by the Wisconsin Hospital Association.
[23] Legislative Fiscal Bureau Analysis – Health and Family Services Departmentwide Budget. Pg. 1
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HOSPITAL TAX

Gundersen Lutheran respectfully requests the Joint Finance Committee remove the proposed hospital tax from the 2007-2009 Wisconsin Budget. The budget provides an opportunity to answer the public's call for reduced health care costs and increased access to care. Unfortunately, the Governor's hospital tax would make those goals unreachable.

According to WHA analysis of Governor Doyle's methodology and Budget documents, **Gundersen Lutheran will lose between $1.15 and $2.2 million dollars** in the biennium if a hospital tax was applied. The proposed hospital tax will have a direct, negative impact on Gundersen Lutheran's ability to continue providing high quality and affordable care to our patients.

Our argument against the hospital tax is not based on risk-averse assumptions. State and Federal rules are clear, and they allow us to model out the proposed hospital tax using real data. As a result, Gundersen Lutheran has the following concerns regarding the proposed hospital tax:

1. **Fee-for-Service increases violate Medicare Upper Payment Limit restrictions.**

   The Administration proposed increasing Medicaid fee-for-service payment rates to "100% of costs basis" ($497 million over 2007-2009). Federal law prohibits this provision. Under Federal law, Upper Payment Limits (UPLs) dictate that Medicaid fee-for-service payments cannot exceed the Medicare payment rate for the same services.[1] Thus, predicating payment rates on an across-the-board 100% rate renders the Governor's numbers inaccurate. The below chart shows the actual impact to Gundersen Lutheran, incorporating Federal UPL rules and based on the 2005 data the Department of Administration (DOA) used in their preparation of the Budget.

	Governor's Figure (Without Federal UPL restrictions)	**Actual Figure** (With Federal UPL restrictions)
Gundersen Lutheran Gain/Loss 2007-09 (Pre-HMO)	$1,795,047	**($2,183,844)**

The Administration's basic argument for the hospital tax is that it would produce a collective payment increase for hospitals of $497 million over the biennium. However, the Department of Health and Family Services' (DHFS) own UPL calculations show that only about $200 million would be possible over the biennium, *as a best-case scenario* (See Appendix 1). Without consideration of the UPL rules, the Administration claimed 42 hospitals would suffer losses from a hospital tax. In reality, with UPL rules properly incorporated, **112 of Wisconsin's 133 hospitals will suffer losses from the hospital tax. The average loss per hospital would be approximately $1.9 million.**

The 12 hospitals serving western Wisconsin would experience a combined loss of more than $5.4 million over the biennium (See Appendix 2)**.** Ten of these 12 hospitals are Critical Access Hospitals (CAHs), who are already struggling to provide health care services to rural and underserved populations. Gundersen Lutheran absorbs the greatest losses for western Wisconsin, with a loss of between $1.14 and $2.2 million (depending on HMO payment). Franciscan Skemp follows with a loss of between $1.2 and $1.9 million (depending on HMO payment). The remaining hospitals in western Wisconsin will lose, on average, approximately $240,000.

Maintaining the Status Quo Should Not be an Option

Gundersen Lutheran's overall reimbursement rate in 2006 from all payers was 56% of our charges. Medicaid reimburses Gundersen Lutheran at an average rate of less

than 30%. Our average Medicaid reimbursement rate in 2005 underfunded by approximately 20%of the cost for every dollar of care provided to these patients. Those unfunded costs of providing care must be compensated by other payer sources. We would like to remind the committee that when the Budget and the Administration talk about funding programs "at their current level" or the past "cost of the program" they are referring to a status quo that is both damaging and unsustainable as the costs of health care technology, salaries and medical supplies increase.

2. **A 3.5% fixed-rate tax increase will further exacerbate hospitals' losses.**

   The Administration's budget bill requires the hospital tax increase by 3.5% in the second year. The Administration assumes that each hospital in Wisconsin will experience a 3.5% increase in gross revenues at this time. This tax will be collected whether or not a hospital actually realizes a 3.5% increase in their gross revenues, or any increase in revenues whatsoever. Given the losses hospitals will experience in the first year of the hospital tax, combined with the Governor's proposed expansion of Badger Care and Medicaid eligibility, this 3.5% tax increase will only result in further diverting money away from direct patient care.

3. **Payment rates to HMOs were erroneously calculated.**

   Similar to UPL restrictions on provider payments, the Administration failed to recognize Federal limits on what state Medicaid can pay HMOs. Federal law requires HMO payments align actuarially with fee-for-service payments within the UPL.

   - The Centers for Medicaid and Medicare (CMS) State Medicaid Manual reads: *"[T]he total amount paid to the HMO cannot exceed the upper payment limit of what it would have cost you to provide these same services under FFS to an actuarially equivalent population."*

   Therefore, the Legislature must take into consideration that $93 million of the Governor's proposed $147 million payment increase to HMOs would not be allowed (See Appendix 1). For Gundersen Lutheran, this could result in nearly $1 million in uncompensated payments promised by the Governor's budget.

4. **HMOs are not required to pass on fee-for-service payment increases to providers.**

   The Administration's model assumes that HMOs will pass on the increased Medicaid fee-for-service payments to their providers, but there is no language in the budget to enforce this. When challenged on this omission, the Administration has not offered to reconcile this omission to require HMOs to pass on these payments. For Gundersen Lutheran, this means the difference between a $1.15 million loss and a $2.2 million loss.

5. **A hospital tax is not needed to capture federal matching dollars.**

   In his March 8, 2007 letter to the Joint Finance Committee, Department of Administration Secretary Michael Morgan presented inaccurate statements regarding the necessity of a hospital tax. He stated that a hospital tax is the only way Wisconsin can capture lucrative federal matching dollars. In truth, any funds Wisconsin applies toward the Medicaid program will capture federal matching dollars. Increased General Purpose Revenues (GPR) would attract more federal dollars. Revenues from a higher tobacco tax, which is expected to generate $545 million, could be matched with federal Medicaid dollars to generate $1.3 billion over the biennium. The Governor's own Healthy Wisconsin Council unanimously endorsed this approach.

   The Administration may argue that no GPR exists to capture federal matching dollars. In truth, GPR existed in the Medicaid budget until the Governor proposed this budget, which takes at least $900 million in GPR out of Wisconsin's health care budget to fund other programs. Wisconsin should keep the base GPR funding in the Medicaid program and add tobacco tax revenues to fund new health care initiatives and increase provider payment rates. Unfortunately, tobacco tax revenues are being

used to replace GPR, rather than build upon them. Gundersen Lutheran believes this is a fundamental misstep and a missed opportunity to reduce health care costs and improve access in Wisconsin.

Just $60 million from the tobacco tax revenues would fully fund hospital Medicaid payment increases, the Governor's health care initiatives and coverage expansions. Instead, the Governor wants to tax hospitals $205 million annually to accomplish the same thing. [2]

6. **Availability of federal matching dollars is questionable.**

   The President and our Federal legislators confirm that the Federal Medicaid budget is likely to be reduced by 20-25% in the coming years. President Bush has called for $25 billion in cuts to Medicaid over the next five years. The Department of Health and Human Services (DHHS) and Centers for Medicaid and Medicare Services (CMS) are committed to reducing budgets associated with Medicaid and Medicare and reducing or eliminating the practice of intergovernmental transfers (IGTs). Governor Doyle is relying on these two mechanisms to fund his State Budget.

7. **Cost-shifting will increase as a result of any provider tax.**

   Wisconsin employers and working families cannot sustain the rate of cost-shifting resulting from Government's failure to invest in and adequately pay for its health care programs. **The Governor's Hospital Tax may increase the rate of cost-shifting to businesses and employees located in Gundersen Lutheran's service area** in the first two years, and increasingly more in subsequent years.

   - In keeping with Gundersen Lutheran's commitment to both quality and cost transparency, however, we feel it is important the Legislature and the community understand what happens when government continues to under-fund its programs, increase health care taxes and establish costly mandates.

PATIENT COMPENSATION FUND

The Governor intends to take $175 million from the Injured Patients and Families Compensation Fund (formerly the PCF). **On behalf of our 525 physicians and 6,000 employees, Gundersen Lutheran respectfully requests the Joint Finance Committee preserve the PCF by removing the PCF from the Wisconsin Budget.**

1. **PCF rates for medical professionals will skyrocket further.**

   Gundersen Lutheran paid $924,545 to the PCF in 2006. PCF rates have increased by 30% in the last two years alone. These increases were necessary to offset current and future risks and prevent deficits in the PCF. We do not yet know the full impact the Governor's $175 million raid will have on providers when PCF rates are increased.

Year	Rate Increase	Gundersen Lutheran PCF Costs
2005	-	($693,409)
2006	+ 25%	($924,545)
2007	+ 5%	($970,772)

The PCF Board completed an actuarial study of the fund; the results showed the PCF to have a neutral balance. The Legislative Fiscal Bureau cited the PCF's net balance as $59.9 million (see Table 6 below).[3] Whichever figure is used, **the raid will result in a deficit of $115 to $175 million. The deficit will need to be eliminated through increased provider rates on top of the 30% rate increase since 2005. Essentially, this is another "provider tax" to fund the state budget.**

Table 6: Statement of Net Equity as of June 30, 2006	
Assets	
Total Current Assets	$92,628,100
Total Non-Current Assets	653,770,100
Total Assets	$746,398,200
Liabilities:	
Total Current Liabilities	$84,778,800
Total Noncurrent Liabilities	601,759,300
Total Liabilities	$686,538,100
Total Net Equity	$59,860,100

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2. **Taking funds away from health care providers diverts resources away from direct patient care. This year, Gundersen Lutheran will pay $970,772 to the PCF. That's more than a quarter of a million dollars more than in 2005.** These numbers will compound if additional funds are taken from the PCF. What could Gundersen Lutheran do with the 25% rate increase ($231,236) we paid to the PCF last year?

    - Equip a Pediatric Trauma Simulation Lab to train our nurses in providing care to infants and children who present with life-threatening injuries, or

    - Equip every ambulance in western Wisconsin with an electrocardiogram machine (EKG) that transmits a heart attack patient's vital signs to the nearest hospital, while the patient is en route, or

    - Complete the digital electronic connection of every Gundersen Lutheran clinic to our main medical center, allowing for complete sharing of radiologic data (images). This means rural western Wisconsin women will have their breast mammography images read in real time by the same renowned sub-specialized breast radiologists as women who seek mammography care in La Crosse.

3. **A PCF raid may be neither legal nor ethical.**
   Beyond the economic and health impact of a PCF raid, there are questions of legality and ethics. It is unacceptable to take money from the PCF to fund a state Budget. The PCF belongs to the injured patients and families it was created to compensate. Until the funds are appropriated to those families, the PCF belongs to the medical professionals serving Wisconsin's patients and families.

4. **A PCF raid will exacerbate recruitment and retention problems in Wisconsin.**
   Given the rising PCF and medical malpractice insurance costs in Wisconsin, we must remember that **the average student loan debt for a young doctor is more than $130,000.[5] Similarly, there is an unmet need for 506 additional primary physicians in Wisconsin,** according to a 2004 collaborative report by the Wisconsin Hospital Association and Wisconsin Medical Society.[6] **If we make practicing in Wisconsin too expensive for medical professionals, they simply will not come to or stay in Wisconsin.**

5. **Using the PCF to Fund e-Health is not a sustainable funding source and will do little to advance Health IT in Wisconsin.**
   The Governor intends to use PCF monies to help fund e-health initiatives in Wisconsin. The proposed budget designates $30 million to be used for e-health in the next two years. Gundersen Lutheran is operationally and financially committed to incorporating health information technology into health care delivery (See Appendix 3). **We have already invested more than $50 million in capital dollars toward the acquisition and implementation of health information technology since 2003.** Each year, we consistently allocate more than $10 million to the development of health IT. Not only

are the funds proposed in the Governor's Budget insufficient to developing e-health in Wisconsin, but using a one-time transfer from the PCF to fund e-health is not a sustainable or appropriate funding source and we respectfully urge the Joint Finance Committee to remove it.

SENIORCARE WAIVER

Gundersen Lutheran appreciates the Governor's support of SeniorCare. We are concerned about the future of SeniorCare given the communication we have received from Washington, DC. Our federal legislators and Department of Health and Human Services Secretary Michael Leavitt continue to warn us that the SeniorCare Waiver will not be approved. Consequently, **Wisconsin must prepare for the SeniorCare program to expire on June 30, 2007.**

SeniorCare is a prescription drug program covering 104,000 Wisconsin seniors. The full cost of the SeniorCare program this year will be $173.4 million, with seniors billing $252 million in drug costs to the SeniorCare program in Fiscal Year 2006[7] (See Appendix 4). Enrollment in SeniorCare increased by more than 25% last year, largely due to its preferential benefits compared with the Medicare Part D program.[8] The average annual federal subsidy for a Senior Care waiver participant is $617, or less than half of the $1,174 the federal government spends to subsidize a Medicare Part D recipient. In addition, the coverage benefit does not include a "donut hole," thereby reducing the costs to seniors and increasing their compliance to their medication therapy.

The Budget, which effects Wisconsin until 2009, should take into account the possibility of SeniorCare's discontinuation. **Neither a hospital tax, tobacco tax revenues, nor PCF monies are viable funding sources for Wisconsin's seniors' prescription drug program, and thus, the Budget should not presume these sources will fill the SeniorCare hole when the program is discontinued even if the Federal Government would allow a State program outside of Medicare Part D.**

CIGARETTE TAX

In the face of rising health care costs, the public has challenged Government to reform health care. In order to improve public health and reduce smoking-related health care costs, the Administration's Budget includes a cigarette tax increase of $1.25, bringing the total tax to $2.02. **Gundersen Lutheran strongly supports the Governor's effort to address this important health issue.**

1. **The economic burden of cigarette smoking is a long-standing burden on Wisconsin taxpayers.**

   Wisconsin's health care costs from smoking are $2.02 billion *every year*. Of these costs, Medicaid pays $480 million annually, or 24%.[9] For every pack of cigarettes sold in Wisconsin, the smoking-related health care costs equal $9.53 per pack.[10]

   Nearly one million Wisconsin residents are smokers; 83,000 of them are middle school and high school aged youths.[11] Still, 83% of Wisconsin's residents *do not smoke*, so what is the burden on these non-smokers? Each Wisconsin household pays $603 per year for someone else's smoking-related costs.[12] For every eight smokers that die from tobacco, one non-smoker dies with them due to secondhand smoke exposure.[13] Wisconsin loses more than $1.64 billion annually in lost productivity due to smoking, according to DHFS.[14] This is the true tobacco tax on Wisconsin's residents, and raising the price of cigarettes by $1.25 can help eliminate it. (For more on Medicaid and the tobacco tax, see Appendix 6).

2. **Increasing the cigarette tax will improve public health and save lives.**
   We believe the proposed cigarette tax will act to alleviate the smoking burden in two ways. First, the tax will reduce the number of smokers, which will *significantly* reduce long-term health care costs.

The tax will avert preventable deaths to save 7,215 Wisconsin lives each year, according to DHFS.[15] The same study finds that the costs of lost productivity from smoking due to both sickness and premature death reach approximately $1.64 billion annually.[16] In the next decade, Wisconsin's economy will lose more than $16.4 billion dollars due to *preventable* smoking-related deaths.

Again, Wisconsin has a choice: pay $9.53 per pack in health care costs or tax the pack $2.02 to prevent smoking.

Annual Toll of Tobacco in Wisconsin[17]	
Deaths	7,215
Health Care Costs	$2.02 Billion
Lost Productivity Costs	$1.64 Billion
Per Capita Costs (2003)	$390/person
Kids who Become Daily Smokers	8,200

3. **Increasing the cost of cigarettes is proven to reduce smoking rates.**
The proposed cigarette tax increase will reduce smoking rates in Wisconsin. We point to the experience of the State of California, which enacted a cigarette tax increase in 1988. A 2004 study from the California Department of Health Services showed a **33% drop** in smoking rates since implementation of their cigarette tax.[18]

The Healthy Wisconsin Council Report (2007) estimates **Wisconsin's proposed cigarette tax will reduce youth smoking by 16.7%.**[19] However, the success of these reductions depends on how the tobacco tax revenues are used. A significant portion of the tobacco tax revenues must be allocated for smoking cessation programs and other tobacco education programs. In California, the Department of Health Services attributed the reduction in smoking rates to the increased cigarette tax, a comprehensive smoking education program and a public smoking ban. By reducing the number of smokers in Wisconsin, an increased cigarette tax will produce healthier and more productive residents, as well as save tremendously by avoiding smoking-related health care expenditures.

4. **A tobacco tax can help expand health care coverage to more Wisconsinites and also reduce health care costs.**
The tobacco tax is expected to generate $545 million dollars. It these revenues were matched with federal Medicaid dollars, it could generate $1.3 billion over the biennium. Rather than backing at least $900 million in GPR out of the Medicaid budget and replacing it with tobacco tax revenues, we urge the Legislature to take the advice of the Governor's own Healthy Wisconsin Council, and **use a portion of the tobacco tax revenues to *build upon* base GPR in the Medicaid budget. Just $60 million from the tobacco tax revenues would fund Medicaid provider payment increases, the Governor's health care initiatives and his coverage expansions.**[20]

Using tobacco tax revenues to adequately reimburse providers will reduce private insurance and employer-based health premiums by eliminating cost-shifting. It will also allow health care providers to reallocate growing uncompensated care costs back into patient care and medical services. For Gundersen Lutheran, this would mean sustainability of needed health care services provided to our patients in rural and underserved communities.

MEDICAID BENEFIT EXPANSIONS

Gundersen Lutheran supports Governor Doyle's goal of achieving healthcare coverage for 98% of Wisconsin residents. In cooperation with the Legislature, health care providers, DHFS, and organizations such as the Wisconsin Collaborative on Healthcare Quality, Wisconsin Hospital Association, Wisconsin