



December 4, 2006

Dear Member of Congress:

On behalf of the American Hospital Association, the Association of American Medical Colleges and the National Association of Public Hospitals and Health Systems, we are writing to express our concern with the administration's plan to cut the Medicaid program through the regulatory process. The administration has proposed cutting \$12.2 billion from Medicaid in fiscal year (FY) 2007 – of which, \$5.8 billion would affect hospital payments directly. These regulatory spending and policy changes would limit payments to government safety-net hospitals, restrict intergovernmental transfers (IGTs) and decrease allowable provider taxes.

We are asking you to prevent the Centers for Medicare & Medicaid Services (CMS) from moving forward with the implementation of these rules.

Specifically, the proposed rules would:

- **Limit payments to government providers.** Because Medicaid is the most significant payer for government safety-net hospitals, prohibiting them from obtaining even a reasonable margin on Medicaid patients would be economically devastating, effectively eliminating their ability to reinvest in their physical plants and decimating efforts to subsidize care for uninsured people.
- **Redefine “public hospitals” and thus limit federal matching dollars for legitimate Medicaid expenditures by public safety-net providers.** The proposal would limit the type of public hospitals eligible to certify public expenditures, thereby restricting a state's use of certified public expenditures (CPE) to obtain Medicaid matching dollars. These funds are used to partially offset losses incurred by hospitals when caring for Medicaid and uninsured patients. Federal law clearly provides that these expenditures are eligible for federal matching funds.
- **Further curb state Medicaid “financing practices.”** Some states may have used IGTs to inappropriately “recycle” federal funding. However, CMS has worked over the last several years to eliminate such practices. CMS did not identify any practice it deemed illegitimate for which it did not have the authority to terminate, and has, in fact, touted its success in eliminating inappropriate IGT use. Additional administrative restrictions in this area are simply unnecessary.

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- **Decrease the allowable provider tax rate from 6 to 3 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.

The solution to Medicaid's problems is not harsh spending cuts. The program deserves a thoughtful, deliberative reform process that ensures that the nation meets its obligation to care for the neediest of our society. The Medicaid program continues to be underfunded, with providers receiving 87 cents for every dollar spent by hospitals on care for its beneficiaries. The administration's proposal comes on the heels of \$4.7 billion in Medicaid spending cuts included in the *Deficit Reduction Act of 2005* and before the Medicaid Commission has submitted its final reform recommendations to Department of Health and Human Services Secretary Michael Leavitt.

Throughout the year, lawmakers have voiced opposition to these cuts – 55 senators and 300 members of the House of Representatives wrote Secretary Leavitt warning that the administration's cuts could jeopardize health care access for the most vulnerable Americans. Medicaid cuts were not included in either the House- or Senate-passed FY 2007 budget resolutions.

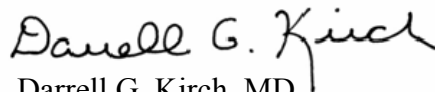
Despite this significant opposition, we understand that the administration plans to move forward with its regulatory cuts. As Congress works to finish its legislative business in the next week, please act to prevent CMS from proceeding with the implementation of these rules.

Thank you for your attention to this matter.

Sincerely,



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