

## What is the Role of Safety Net Hospitals in Medicaid Expansion States?

A remarkable story has unfolded over the past several years as our county hospital, Broadlawns Medical Center, has transformed to become an institution of choice for patients and providers, while strengthening its financial standing to a level beyond what anyone would have once imagined. That’s good news. At the same time, it calls for a re-evaluation of the way the county hospital is funded, and the role it should play in the post Affordable Care Act (ACA) era.

Broadlawns Medical Center is an entity established under state law as a county hospital, mandated to provide free (charity) care to those unable to pay. Broadlawns is governed by its own independently elected, seven-member Board of Trustees. To help support its safety net mission, the board has authority to levy property taxes in Polk County. For the fiscal year (FY) ending June 30, 2015, property taxpayers provided about \$60 million in support for Broadlawns. For a typical taxpayer in Polk County, it represents 7-8 percent of the total property tax bill.

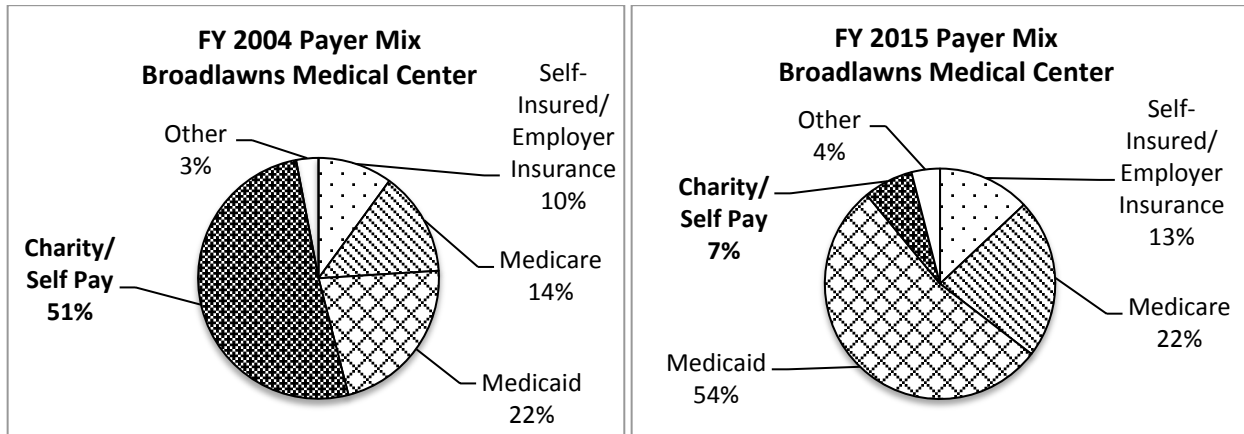
Broadlawns has struggled for most of its history to carry out its mission within the resources available, almost always needing all of its property tax revenue just to break even. It was historically viewed as the “county hospital” or a hospital of last resort.

Today, however, the picture is much different. Broadlawns has become a full-service, state-of-the-art medical center of choice with clinics and medical specialties that attract a broad range of paying and non-paying patients, as well as premium providers looking for a smaller organizational environment. The transformation of Broadlawns is one of the most remarkable examples of good management and board leadership of any public entity in central Iowa, and is a tribute to all involved: employees, administrators and the Board of Trustees.

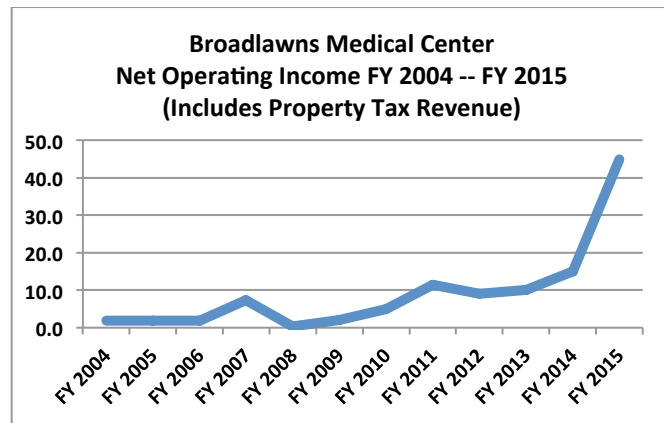
With these changes, Broadlawns has been perfectly positioned to capture a large share of Iowa’s 100,000+ patients newly eligible under Iowa’s Medicaid expansion, plus those insured for the first time under the ACA. Many or most of these patients would have been charity cases in the past.

The combined changes are reflected in Broadlawns’ financials. While ten years ago Broadlawns collected less in property taxes than the amount of charity care it provided, today property taxes greatly exceed the amount of charity care provided. Net revenue from paying patients has increased substantially. The charts below depict some of these changes:

<b>Comparison of Charity Care and Property Tax Revenue (\$ Millions)</b>		
	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2015</b>
Charity Care/ Bad Debt	39.4	20.6
Property Tax Funding	39.3	60.5



The result has been an improvement in the bottom line, greatly accelerating with implementation of the ACA in 2014. Incredibly, after the first full year of Medicaid expansion and ACA implementation, Broadlawns ended the fiscal year on June 30, 2015 with an unspent balance of \$46 million, representing a 26 percent operating margin compared with annual expenses. In other words, only about \$15 million of the \$60 million received from property taxpayers was actually spent. Six months into the current fiscal year, Broadlawns is on track to deliver virtually the same results as last year.



The improvement in Broadlawns’ financial status is due both to the quality and efficiency improvements it has made, but also to the huge expansion in taxpayer-financed health insurance programs that has occurred through the ACA, especially in Medicaid expansion states like Iowa. Indeed, given the expansion of taxpayer-financed health insurance programs coupled with mandated coverage through the ACA, some have questioned why there continues to be a need for a property tax supported “safety net” hospital at all. Who is now left out of the health care system? Are taxpayers now paying twice for the same patients – once through expanded state and federal health insurance programs and again with their property taxes?

# ISSUE BRIEF

February 11, 2016

Broadlawns has already accumulated a year's worth of cash (nearly \$130 million), and it is still growing. There is a five-year plan to reinvest about \$60 million of those dollars into a variety of capital improvements including a new four-story clinic building, new eastside clinic, and new psych. residency facilities. The Taxpayers Association of Central Iowa has supported the expansion plan. Broadlawns has also purchased two blocks worth of properties fronting on Hickman Road across from the current hospital grounds. Operations have expanded into a variety of medical specialties including oncology, gerontology, neurology and interventional pain, all of which are more profitable and have helped improve results. However, at some point these capital and operational expansions raise a number of new questions such as:

- Is there a point beyond which Broadlawns is being unfairly subsidized in competition with other hospitals that do not receive property tax support?
- How relevant is the traditional safety net mission today? What mission is envisioned for the future?

The Taxpayers Association alone cannot answer these questions, but believes they should be part of a broader community conversation about the role and funding of Broadlawns in the post-ACA era. As the Broadlawns board engages in its own strategic planning, input from key stakeholders will be vital.

Broadlawns has a more immediate opportunity to reduce its property tax rate (currently \$3.21 per \$1,000 of taxable value) as a part of the upcoming budget that will be finalized in March of this year. A 14 percent reduction from the current rate – likely the first ever -- has been proposed by Broadlawns. It represents a \$5.5 million reduction compared with what taxpayers are being charged this year, but is \$12 million less than the maximum that could be levied next year. The Taxpayers Association supports Broadlawns' operation and its \$60 million expansion plan, and recognizes the uncertainty that abounds in the health care environment. Even so, the association continues to urge a more ambitious approach to working down surplus funds by granting additional property tax relief.

Broadlawns' financial situation is virtually the opposite of what it was ten years ago when the community came together and determined that the survival of Broadlawns was critical to the health and well being of central Iowans. (1) Such a conclusion is likely to be reached again, but the funding model will look much different.

Every year local government entities hold a public hearing on their proposed budget for the coming year. In the case of Broadlawns, the public hearing is scheduled for Wednesday, March 2, at 4 pm. Members of the public are welcome to attend.

Board members may be contacted at any time. Contact information can be found on the Broadlawns website at <http://www.broadlawns.org/board-of-trustees.cfm>.

(1) Lea Nolan, MA, Marsha Regenstein, PhD, and Marisa Cox, MA, Center for Health Services Research and Policy, Department of Health Policy, School of Public Health and Health Services, The George Washington University Medical Center, "An Assessment of Hospital-Sponsored Health Care for the Uninsured in Polk County/Des Moines, Iowa," June 14, 2005.