

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, Maryland 21244-1850

CMS

CENTERS for MEDICARE & MEDICAID SERVICES

FEB 10 2012

Tom Betlach
Director
Arizona Health Care Cost Containment System
801 East Jefferson Street
Phoenix, AZ 85034

Dear Mr. Betlach:

We have reviewed the State's proposal to utilize provider-related donations to fund the non-Federal share of certain section 1115 demonstration expenditures. The proposal, which was submitted as part of the State's November 23, 2011 section 1115 demonstration project amendment request, consisted of an August 19, 2011 proposal previously submitted to the Centers for Medicare & Medicaid Services (CMS) directly from Copper Queen Community Hospital on behalf of some of Arizona's rural and critical access hospitals.

While we are committed and actively working with the State as it finalizes its proposal to create a Safety Net Care Pool, including dedicating funding to significantly increase enrollment in the State's KidsCare program and are eager to work with Arizona on ways rural and critical care hospitals can participate in the pool, CMS is unable to approve the Copper Queen Community Hospital proposal. The proposal is inconsistent with the longstanding partnership between the Federal Government and the State regarding the financing of Arizona's Medicaid program as reflected in the terms and conditions of the section 1115 demonstration.

The Copper Queen Community Hospital proposal relies on donated funds from private hospitals to draw additional Federal Medicaid funding to fund an uncompensated care program which will benefit those hospitals as well as potentially funding a portion of the non-Federal share of expenditures associated with re-opening enrollment for the State's CHIP program. You indicate that the donations are necessary in order to prevent significant financial harm to the hospitals due to the State's recent reductions to provider reimbursement, the enrollment freeze for childless adults, and the elimination of the Medical Expense Deduction (MED) program.

The proposal cites language in P.L. 102-234, the law that added section 1903(w) to the Social Security Act to address the use of provider taxes and donations in the financing of the Medicaid program, which has been implemented through regulations indicating that restrictions on the use of provider taxes and donations are not applicable to a State that operates its entire program under a section 1115 demonstration. While this exception provides CMS with flexibility in demonstrations, it does not limit CMS' ability to make such restrictions applicable in a demonstration when necessary to further the objectives of the program. As you know, these

restrictions have long been built into Arizona's demonstration. CMS believes that there are other avenues to fund the initiative that honor and are consistent with the current State/Federal financing partnership.

We recognize and appreciate the provider-related donation proposal's attempt to stabilize Arizona's rural and critical access health care network and to allow Arizona's most vulnerable citizens living in rural communities to receive coverage for hospital services, however, experience with such financing mechanisms has shown that they do not provide such stability in the long term and give rise to inappropriate funding arrangements. CMS continues to work with Arizona and other States to develop sustainable financing and payment strategies that will create a stable continuum of health care coverage that is effective, affordable and provides quality and value for all stakeholders including providers and beneficiaries. We remain committed to continuing work with Arizona to ensure that Arizona's most vulnerable citizens, including its children, receive the hospital services they need.

Should you have any questions regarding the use of provider-related donations, I'm happy to discuss this further and you may also contact Dianne Heffron, Director of the Financial Management Group at (410)-786-3247 or at dianne.heffron@cms.hhs.gov.

Sincerely,



Cindy Mann