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Budget News

- The massive budget shortfall arose from a perfect storm of contributing factors
- Funding cuts will have dramatic effects on health-care access in Arizona
- Arizona economic experts differ on the solution to budget problems

Legislature News

- Arizona legislators attending the policy forum discussed possible actions

National reform

- The proposed House and Senate healthcare reforms would have different effects in Arizona

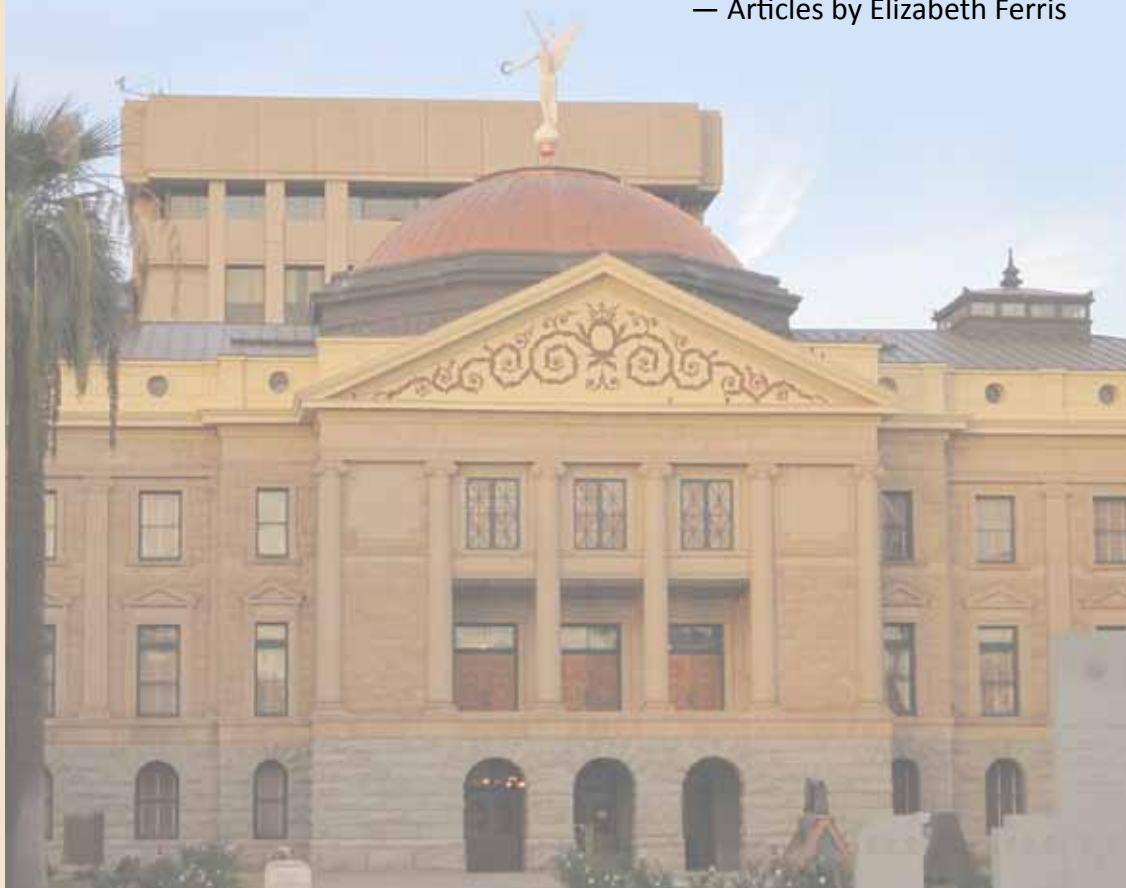
Honors

- Past presidents of the Arizona Rural Health Association Board were recognized

ARIZONA RURAL AND PUBLIC HEALTH POLICY FORUM REPORT

On January 12, the Rural Health Office hosted the annual Arizona Rural and Public Health Policy Forum at the state capitol in Phoenix. The Arizona Rural Health Association and the Arizona Public Health Association cosponsored the Forum, with attendance from 24 legislators and 82 participants. The Forum focused on the pressing issues facing Arizona: a staggering budget deficit, cuts to healthcare programs, and potential national health care. This special edition newsletter summarizes the key outcomes of the Forum and highlights the impact of these issues on health in rural Arizona.

— Articles by Elizabeth Ferris



THE STATE BUDGET CRISIS

THE SITUATION

Arizona is currently experiencing the worst fiscal crisis in state history. Beth Lazare, a policy advisor for the Office of Governor Brewer, outlined the reality of the crisis. The state faces a budget deficit of \$1.4 billion in the current fiscal year 2010. For the upcoming fiscal year 2011, which begins July 1, Arizona has a structural deficit of \$3.2 billion. This type of deficit refers to a misalignment of revenues and expenditures that cannot be solved with cuts alone. Finally, the state is experiencing daily cash flow problems and the operating cash balance has been negative since October 2009.

The legislature convened a special session in December to address the budget crisis, which resulted in sweeping cuts to AHCCCS, Kids-Care, and graduate medical education. These cuts will affect access to care for uninsured patients, limit the number of doctors trained in Arizona, and exacerbate the current physician shortage. The Arizona Republic reported that the state cuts combined with the loss of federally matched dollars total \$67.7 million ([Arizona Hospitals Decry Cuts to AHCCCS, January 13, 2010](#)).

Deficit looming on Arizona's financial horizon

State tax revenues have declined 34 percent over the past three years



Fiscal Year
2010



Fiscal Year
2011

Source: Beth Lazare, Office of Governor Jan Brewer

HOW WE GOT HERE

Governor Brewer's office identified six contributors that fueled the crisis: the economy, reduced revenues, added spending, the federal government, state actions, and constraints imposed by voters. Forecasters predict it may take until 2014 to reach 2007 peak levels of employment, which is a much longer time frame than in previous recessions. In addition, revenues have declined by 34 percent since 2007, while our population continues to grow. Current revenues are at 2004 levels, yet AHCCCS rolls have grown by 30 percent since 2007. As a condition of accepting federal stimulus money through

34 percent

Amount state tax revenues have declined in the past three years

the American Recovery and Reinvestment Act, the state was locked into certain spending levels by the federal government. This includes AHCCCS eligibility, which cannot be amended before Dec. 31, 2010.

The state has dealt with the deficit mainly through one-time options and federal ARRA funds, but with the expiration of stimulus dollars in

FY 2011, those funds will need to be replaced to fund programs such as AHCCCS, ADHS, K-12 education, universities, and corrections. However, even if all unprotected funds were cut from the state budget, this action would not fill the gap.

Population growth

While revenues have decreased, the population of Arizona has grown substantially. Since fiscal year 2004 the state has added:

144,700

Kindergarten-12th grade students

18,100

Students enrolled in state universities

11,600

Prisoners incarcerated in the corrections system

475,000

New members enrolled in AHCCCS

THE STATE BUDGET CRISIS

WHAT HAPPENS NEXT?

Solutions to the budget crisis fall along ideological lines. Bipartisan agreement on how much to spend, how much to cut, and how much to raise is not easily reached. Governor Brewer has proposed a 1 cent sales tax increase, and on February 4, the Legislature approved a ballot referral that will allow voters to decide (see sidebar). Supporters and opponents alike point out that a 1 cent sales tax increase will only raise \$1 billion, and would not be enough to fill the gap, while a 2 cent increase would be more realistic.

A panel of experts discussed Arizona's options for addressing the budget dilemma: George Cunningham, a consultant to the Arizona Budget Coalition; Dennis Hoffman, director and associate dean for Research and Doctoral Programs at the L. William Seidman Research Institute, W.P. Carey School of Business, ASU; and Byron Schlomach, director of the Center for Economic Prosperity, Goldwater Institute.

Cunningham argued that the assertion that the state budget crisis is a result of overspending is mostly inaccurate, while the argument that the state does not have enough revenue to support basic functions is mostly true. To date, the budget crisis has been masked with one-time options that have not caused great hardship to the majority of middle-class citizens. However, further pain is imminent, and Hoffman noted that most voters would be asked to support tax increases before they begin to feel the inevitable pain of further cuts and reduction in government services. Hoffman pointed out that general fund spending today is below historical norms, as well as tax revenues, which have decreased over the past 15 years. Hoffman and Cunningham both support an increase in taxes.

Schlomach, who does not support a tax increase, pointed to a systematic failure of government to balance the FY 2008 and 2009 budgets as the cause of the fiscal crisis. Schlomach sees the crisis as an opportunity for Arizona to rethink and redefine some areas of the budget to determine the worth of each program and the core functions of government.

Hoffman suggested a two-fold strategy: immediate action by the Legislature to raise revenue, followed by

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BUDGET OPINIONS DIFFER

“If the tax structure ... had stayed the same as 1995, we wouldn't have a budget crisis today. We'd be doing something else more productive in our offices.”



— **Dennis Hoffman, director, associate dean for research and doctoral programs, L. William Seidman Research Institute, W.P. Carey School of Business, ASU**

“(It's) a giant opportunity to rethink, to redefine, to fundamentally repurpose some areas in our budget, to think about, okay, what are we really getting from some of these programs?”



— **Byron Schlomach, director, Center for Economic Prosperity, Goldwater Institute**

“Here's what AZ will look like (without a tax increase): you'll have large class sizes, increased tuition, prisoners released, and we will have to stop the AHCCCS program.”



— **George Cunningham, consultant, Arizona Budget Coalition**

Sales tax increase slated for voter approval

On February 4, the Arizona legislature voted to refer a temporary sales tax increase to a special election ballot on May 18. The 1-cent increase would expire after three years and is projected to generate \$1 billion a year.

LEGISLATIVE ACTION

A contingent of state legislatures convened to discuss how policy makers are working together to address change, including Senator Carolyn Allen, District 8; Representative Matt Heinz, District 29; Senator and Majority Whip Steve Pierce, District 1; and Senator and Assistant Minority Leader Rebecca Rios, District 23.

While the legislators called for bipartisan efforts to address the budget crisis, in reality there may not be the political will to achieve true bipartisanship. Sen. Rios noted that because this is an election year, legislators would be even more polarized than in the past. She advocated for broadening the tax base to services that are currently not taxed to reduce the



Elizabeth Ferris / Arizona Rural Health Office
Senate Majority Whip, Steve Pierce, talked as part of a panel of state legislators.

sales tax and distribute the tax burden more equitably across business and individuals.

Concerning cuts to health care, Sen. Allen noted that Governor Brewer had secured \$30 million for medications. Rep. Heinz, who is also a physician at Tucson Medical Center, said cuts to AHCCCS would only drive up emergency room visits and ultimately cost the state more than they are saving by reducing the roles of AHCCCS, which is one of the most efficient Medicaid programs in the country.

Sen. Allen, a Republican, addressed the issue of political will and said that too often, political ambitions get in the way of public policy. All of the legislators agreed that strong leadership from the Governor is key to advancing legislative action to address the state's problems.

HEALTHCARE CUTS

Graduate medical education

During the December 2009 special legislative session, the legislature made \$7.6 million in cuts to the Arizona Health Care Cost Containment System, which is the state's version of Medicaid. The special session also resulted in an \$8.8 million reduction in GME funds. Hospitals are required to find their own funds to pay graduate students under three year contracts ([Arizona Republic, "Arizona Hospitals Decry Cuts to AHCCCS," Jan. 13, 2010](#)).

KidsCare

KidsCare is Arizona's version of the State Children's Health Insurance Program authorized by the addition of Title XXI to the Social Security Act. It is a federal and state program providing health care services to children under age 19. As of

Jan. 1, the AHCCCS administration instituted an enrollment cap on the KidsCare program due to insufficient funding. AHCCCS will no longer be processing new applications. Governor Brewer recommended eliminating the KidsCare program to save \$22.9 million.

Proposed AHCCCS cuts

Proposition 204 expanded Medicaid coverage to all populations earning under 100 percent of the federal poverty level (approximately \$22,000 for family of four), including childless adults. The proposition was passed by voters in November of 2000 and requires all money received through the tobacco litigation settlement be put into a fund to pay for the expanded AHCCCS

eligibility. The previous levels were set at 34 percent below the federal poverty level. The Legislature and the AHCCCS administration cannot reduce or limit the number of persons who would be able to enroll in AHCCCS, so the proposition would have to be returned to the voters to be decreased.

Governor Brewer has proposed returning Proposition 204 to the voters to decide whether general funding for the expansion should be eliminated. Approximately 310,500 would lose coverage, representing about 25 percent of AHCCCS enrollees. The state general fund would save a projected \$382.5 million in FY 2011.

Source: Office of Governor Jan Brewer

Find AHCCCS news at
[www.azahcccs.gov/
shared/news.aspx](http://www.azahcccs.gov/shared/news.aspx)

HEALTHCARE REFORM

National healthcare reform seemed imminent in January, and several Forum speakers focused on the differences between the House and Senate bills and the implications for Arizona. However, the results of the special election in Massachusetts to fill Sen. Ted Kennedy's seat have changed the course of reform. President Obama appealed to the House and Senate to compromise on a bill, however passage of either bill as is seems doubtful as legislative priorities shift to the economy. While healthcare reform is uncertain now, it is still important to understand differences in the proposed House and Senate bills to foresee potential effects on the health of rural Arizonans.

Medicaid Expansion

The feature of the Senate bill that will have the most impact on Arizona is the expansion of Medicaid to adults with incomes between 100 and 133 percent of the Federal poverty level. The House bill expands coverage up to 150 percent of the FPL. Through Proposition 204, Arizona

voters expanded AHCCCS coverage to childless adults who earn up to 100 percent of the FPL. Arizona is one of six states that voted to expand coverage, and the majority of these states will be penalized under the Senate bill. While the House bill rewards states that have already elected to expand Medicaid coverage by covering those costs, the Senate bill forces Arizona to continue paying these costs.

Tom Betlach, director of AHCCCS, summed it up: "In terms of fiscal impact, the House bill is good, and the Senate bill is bad." Betlach noted that between now and 2020, the House bill saves Arizona \$7 billion, the Senate bill costs \$4 billion, and both plans add between 250,000 to 300,000 new AHCCCS enrollees. Had Arizona not chosen to expand Medicaid coverage, the costs to do so under the Senate bill would have been \$1 billion, but since the state did, Arizona faces \$17 billion in costs. Taxpayers will be essentially paying twice to fund the current expansion in Arizona and the expansion costs in other states.

REFORMING RURAL HEALTH

Gary Hart, director of the Arizona Rural Health Office, discussed the implications of national healthcare reform on rural health. He noted that regardless of which bill is adopted, the percentage of insured rural people in Arizona would increase from 79 percent to 93 percent. However, while the Senate bill negatively impacts Arizona as a fiscal whole, Dr. Hart emphasized that the Senate bill is better for rural health than the House bill for several reasons.

The Senate Bill:

- Emphasizes rural physician training, including training for rural primary care residencies
- Expands the AHEC program, which currently pays for 80 percent of all rural training in the state
- Changes graduate medical education to include more slots for rural Arizona
- Expands the National Health Service Corps under GME to put greater



Elizabeth Ferris / Arizona Rural Health Office
Arizona Rural Health Office Director Gary Hart talks about the advantages to rural Arizona in the Senate Bill.

emphasis on primary care

- Creates a National Healthcare Workforce Commission for the first time in our nation

Rural Workforce Training

Expanding graduate medical education is crucial for preventing a further loss of

primary care providers in rural Arizona. About 70 percent of all medical school graduates leave the state after training. Currently, less than 7 percent of the family medicine training in the country takes place in rural areas, and Arizona ranks second to last in the nation in this area. The bottom line is that Arizona needs to find new, more efficient ways to provide access to care and primary care providers, and health care reform increases rural provider production. Though the details of a final bill are unknown, the hope is that Arizona will ultimately receive relief at a federal level around rural training.

Native American Health

Fred Hubbard, executive director of the Advisory Council on Indian Health Care, discussed the significant improvement to Native American health care that could result from federal health care

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HONORS



Elizabeth Ferris / Arizona Rural Health Office

Arizona Rural Health Association Board past presidents, Rick Swanson, Dana Johnson, Jack Beveridge, Alison Hughes, and Edith Faust received recognition at the end of the forum.

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reform. If the Indian Health Care Improvement Act is reauthorized as an attachment to the health care bill, this would provide substantial changes to the Indian Health Service.

The long-awaited reauthorization would allow the IHS to offer services that it has not provided in the past, such as dialysis, long-term care, and hospice, as well increase appropriations for existing services. The reauthorization could ultimately reduce the load on the AHCCCS system. Since long-term care is not available on the majority of Tribal lands, many elders and others with chronic conditions wait too long to seek care, knowing they will have to leave the reservation, and end up with acute, high-cost conditions. The reauthorization will also increase eligibility for Contract Health Service Delivery Areas, which is a separate fund to pay for specialty services that IHS cannot provide.

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an overhaul of the tax structure, including a strong budget stabilization fund. Cunningham argued that voters need to know what Arizona will look like if action is not taken to raise revenues and the decision is turned over to the voters. Areas with broad-based voter support such as education, health care, and public safety, will be adversely affected by deeper cuts.

For additional information concerning Arizona's revenue system, read "Riding the Fiscal Roller Coaster: Government Revenue in Arizona," a publication of highlights from the 95th Arizona Town Hall in November 2009, available online [here](#). The Arizona Town Hall is a non-profit membership organization that identifies crucial issues facing organizations and provides a forum to explore these issues.

Following the panel discussion and audience questions, moderator Tara Jackson, president of the Arizona Town Hall, read the following outcome statement from the session:

"To address Arizona's budget dilemma, we need both further spending cuts and a tax increase. We simply can't solve this problem without a combined approach. As part of this effort, we need to consider the unintended consequences of some budget cuts that may have short-term financial benefits but have a significant negative impact in the long term. We should be especially concerned about how some short-term cuts will impact future economic development and cause us to not be as competitive as other states. We also need to consider how budget cuts and spending impact the general health of Arizona citizens. To ensure the success of any effort, we need to better educate the public about the real impact of significant budget cuts. In addition to an approach that combines both spending cuts and a raise in taxes, we also need to take an approach that looks at short-term responses and a long-term systematic approach to change."