

Repeal FY2013 SMART Act Cuts/Restore Medicaid Funding to Hospitals

Issue: Since enacted, Illinois hospitals have absorbed more than \$800 million in funding reductions resulting from 3.5% Medicaid rate cuts under the SMART Act (P.A. 97-689) passed by the General Assembly in 2012.

Since that time, the State's revenue situation has improved – the State has seen its projected revenues increase this year by \$7 billion, primarily as the result of more than \$100 billion in federal COVID-19 relief funds pumped into the economy. In addition, the State continues to receive an enhanced federal Medicaid matching rate (FMAP) during the COVID-19 public health emergency.

Hospitals, the only major providers which have not had their SMART Act cuts repealed, continue to face serious financial challenges from substantial revenue losses and major additional costs incurred due to the COVID-19 pandemic, as well as other increased costs for salaries, benefits, drugs and technology.

IHA Position: The General Assembly should repeal the SMART Act 3.5% rate cuts to hospitals, use that restored funding to leverage and maximize the State's federal match and thereby increase the State's investment in healthcare next year by \$175 million at a time when it is sorely needed.

Background: When the General Assembly passed the SMART Act in 2012, the State was projected to save more than **\$91 million annually** from hospital payment cuts.

Since hospital base rates do not have an annual inflator, unlike other providers, hospitals continue to experience the full impact of these rate cuts year after year. Nursing homes and even Managed Care Organizations (MCOs) have seen their rates increased numerous times since the implementation of the SMART Act cuts.

Hospitals Finance Other Medicaid Providers: Through the hospital-funded assessment program, hospitals help the State leverage billions of dollars in federal funding for the Medicaid program. Despite this arrangement, the State still consistently ranks near the bottom in federal Medicaid support per beneficiary and has one of the lowest federal matching rates of any state in the nation.

State Commitment to Hospital Medicaid Services Erodes: The Hospital Assessment tax is one of the largest revenue sources to the State of Illinois. Due to the Hospital Assessment Program and cuts in State GRF support, only about 17% of the Hospital Medicaid payments now come from GRF – 83% comes from the Hospital Assessment tax and Federal matching funds. The State should restore its commitment to the hospital patients insured by Medicaid.

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