



## Making the Case for at Least \$1.50 Cigarette Tax Increase Dedicated to Health Care

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### Cuts to Medicaid Funding for Hospitals

Medicaid and Medicare have cut payment rates to Oklahoma hospitals **by more than \$489 million annually**. This includes a **combined 18 percent in forced cuts to Medicaid provider rates**; cuts that are directly influenced by state appropriations. Cuts have impacted all providers with community hospitals being hit hardest:

- 3.25% across the board cuts to all providers (4/1/2010);
- 7.75% across the board cuts to all providers (7/1/2014);
- 4% (on average) cuts to hospitals (7/1/2015);
- 3% across the board cuts to all providers (1/1/2016).

The results:

- More than two-thirds of the state's **rural hospitals now operate with negative margins**;
- A known **42 of 81 rural Oklahoma hospitals are now at risk of closing** (iVantage Analytics);
- **Four hospitals** have closed or no longer provide inpatient services;
- Urban hospitals are now cutting jobs and laying off employees.

**Oklahoma hospitals already provide more than \$577 million in uncompensated care annually**. These cuts, combined with one of the highest uninsured rates in the nation, **means a bad situation is getting worse!**

### The FY2017 State Budget– What Happened?

The Oklahoma Health Care Authority's (OHCA) FY2017 appropriations did not force that agency to make additional rate cuts. **However, appropriations for the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS) were approximately \$20 million below what the agency needed just to maintain services. This forced devastating cuts to already low provider rates (among the lowest provider rates in the region)**. The cuts to ODMHSAS are unacceptable for Oklahoma's entire health care system (behavioral health patients represent more than 25 percent of all emergency department visits).

### OHCA/ODMHSAS/DHS FY2018 Budget Requests

- The federal Medicaid matching rate (FMAP – Federal Medical Assistance Percentage) is decreasing to 58.57 percent in FY2018 and **will require an additional \$55.4 million in state funds (OHCA \$41.4 million; ODMHSAS \$4.4 million; DHS \$9.6 million) just to maintain current programs, services and rates.**
- **Without additional funding, previous rate cuts will continue and additional service cuts will be required.**

## Mental Health Cuts

The FY2017 cut to ODMHSAS appropriations **forced cuts to behavioral health provider rates resulting in more than \$70 million of lost provider reimbursement** (\$27.4 million state appropriations and \$42.7 million in lost federal matching dollars); this included approximately \$24.8 million in lost revenue to rural Oklahoma communities.<sup>1</sup> Rate cuts included:

- 3% cut to the acute inpatient reimbursement rate
- 15% cut to the psychiatric residential treatment services rate
- 10% cut to the reimbursement rate for a therapist in the process of licensure
- 30% cut to licensed behavioral professionals in independent practice
- 10% rate cut to psychologists in independent practice

Caps on outpatient therapy treatments caused **73,000 Oklahomans to lose all or a significant portion of their services.** The result has been more people in the back of police cars, lost jobs and health benefits, and an added strain on local hospital services such as emergency care.

## Department of Human Services Budget

The FY 2017 DHS budget was funded for only 10 months. In March 2017, DHS received supplemental funding of \$34 million for provider payments to the end of FY 2017. For FY 2018, if DHS is cut a further 14 percent, the cut would mean reductions to or elimination of programs providing critical health and safety services for vulnerable seniors, people with disabilities, and children. Examples include: freezing of enrollment in Advantage, eliminating Adult Day Services, and eliminating DDS In Home Support Waivers.

## Cigarette Tax Increase Dedicated to Health Care

**A proposed cigarette tax increase of at least \$1.50 per pack will help fund the FY2018 service maintenance needs for state health care agencies.** It will also produce a continuing revenue source. A conservative estimate is that **the proposed new cigarette tax will generate nearly \$184 million in state revenue.**<sup>2</sup> Additionally, it will bring nearly \$1.50 in federal matching funds for every state \$1 invested into the identified health services.

## Facts on the Cigarette Tax

- Oklahoma is one of only 14 states that has not increased the cigarette tax in the last decade;
- Smoking is the number one preventable cause of death in Oklahoma, and increasing the price point of cigarettes is the single most effective strategy to reduce cigarette consumption.
- Increasing the unit price for cigarettes by \$1.50 per pack will:
  - Reduce overall consumption of cigarettes by 26 million fewer packs sold in the first year.
  - Reduce prevalence of adult smoking use by 5 percent with 30,400 adults who quit smoking in the first year.
  - Prevent 28,200 kids, living today, from becoming adult smokers.
- **Reducing overall consumption substantially would reduce Oklahoma's annual health care costs caused by smoking.**
- **Oklahoma spends \$1.62 billion, including \$264 million in Medicaid, on smoking-related health care costs.**
- Oklahoma households pay \$899 annually in federal and state taxes to cover smoking-related health care costs.
- Reducing consumption would generate long-term health care cost savings of \$1.22 billion.
- Cigarette tax revenue will be deposited into a "Health Care Revolving Fund" at OMES; **dedicated for health care.**
- The Legislature will appropriate to eligible agencies from this fund **for services that can be matched with federal Medicaid funds or safety net services.**
- **Raising the cigarette tax has widespread public support, with 74 percent of voters supporting increasing the tobacco tax to fund health care.** (*Sooner Survey, Cole Hargrave Snodgrass and Associates, April 2016.*)

<sup>1</sup>Mental Health providers were also cut by more than \$34 million state dollars FY'11-FY'15, bringing them down to only 71 percent of Medicare before the FY'17 cuts took place.

<sup>2</sup> Source: *New Revenues, Public Health Benefits & Cost Savings from \$1.50 Cigarette Tax Increase in Oklahoma*, Factsheet from Campaign for Tobacco Free Kids, Cancer Action Network and Tobacconomics, January 9, 2017.