



Making the Case for at Least \$1.50 Cigarette Tax Increase Dedicated to Health Care – HB 1841

Feb. 13, 2017

Cuts to Medicaid Funding for Hospitals

Medicaid and Medicare have cut payment rates to Oklahoma hospitals **by more than \$520 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 **55 percent of rural hospitals now operate with negative margins**;
- A known **42 of 76 rural Oklahoma hospitals are now at risk of closing** (iVantage Analytics);
- **Three rural hospitals** have closed or no longer provide inpatient services;
- **One urban specialty hospital** has closed;
- Position cuts, employee layoffs and reduced work schedules at several large urban hospitals.

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.¹ 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 FY2017 DHS budget was funded for only 10 months of services, and the agency has submitted a supplemental appropriations request needed to continue provider payments to the end of the year. Contractors at risk for not being paid include those providing services to the elderly (Advantage program) and the disabled (Developmentally Disabled Services).

Cigarette Tax Increase Dedicated to Health Care – HB 1841 (Osborn, David)

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.** ² 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.*)

¹Mental 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.

² 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, Jan. 9, 2017.