**ARKANSAS AMERICAN RESCUE PLAN ACT STEERING COMMITTEE**

**ARPA Funding Request from the Department of Human Services**

**Emergency Aid Relief to Hospitals**

**August 30, 2022**

Hospitals continue to experience severe financial strain due to the economic impacts of the ongoing COVID-19 pandemic. Increased costs and labor shortages have resulted in lesser revenues for the hospitals. This means that several hospitals across the state, particularly those that serve rural populations, are at immediate risk of closure.

Therefore, this proposal seeks to use a portion of the American Rescue Plan Act of 2021’s (ARPA) State Fiscal Recovery Funds (SFRF) Arkansas Allotment to address the negative impacts of the public health emergency due to the COVID-19 pandemic (PHE), such as staffing and bed shortages; extraordinary costs of providing COVID-19 mitigation, prevention, and treatment; and disruptions in utilization of health care services across payers. Simultaneously, DHS is working with the Arkansas Hospital Association (AHA) to undergo a rate review for Arkansas inpatient and outpatient hospital rates, as well as examine policies to help address the strains placed on hospitals through the pandemic. Hospitals should develop and implement a sustainability plan.

Specifically, the Department of Human Services (DHS) will make an allotment of funds to each qualifying hospital – those meeting the definition of immediate jeopardy defined below – for the purpose of mitigating and preventing the spread of COVID-19 by retaining and recruiting much needed staff to treat COVID-19 patients and other patients in need of acute care and keep hospitals open.

Use of these funds will allow hospitals to maintain operations to ensure patients receive the care they need during and between the pandemic disease “surges.” The purpose of these payments is to assist hospitals to offset extraordinary costs related to mitigating and preventing COVID-19 and retaining and acquiring frontline staff that have occurred as a result of the COVID-19 pandemic.

**Therefore, DHS requests $60 million in ARPA funding to provide immediate relief to hospitals determined to be in immediate jeopardy of closure due to the extraordinary circumstances caused by the ongoing public health emergency.**

**Eligible Hospitals:** Hospitals eligible to seek Emergency Aid Relief must be deemed in “immediate jeopardy” by showing the following two things:

* Insufficient assets to cover liabilities, as indicated by a quick ratio[[1]](#footnote-1) of less than one as shown by the most recent month end financial statements and attested to by the Chief Executive Officer or Chief Financial Officer of the Hospital.
* Less than 90 days cash on hand OR operating margin of less than -10% in Q1 or Q2 CY2022.

Additionally, hospitals must meet the following criteria:

* Must be licensed by the Arkansas Department of Health as a general hospital.
* Must be currently enrolled with AR Medicaid.

**Formula**: Hospitals will be able to apply for funding in the amount of three months’ worth of payroll expenses and contract labor, not to exceed $10 million per hospital. To apply for this amount, hospitals will be required to submit expense documentation for the previous three months preceding the date of application.

Funds may be used to recruit or retain healthcare staff. Other than executive staff, all staff employed or contracted by an eligible hospital are deemed healthcare staff. Because of the COVID-19 pandemic’s damaging effect on healthcare staffing costs, funds may also be used for healthcare staff payroll expenses generally, including contract labor.Funds may not be used for indirect costs for administrative, management, and financial management personnel.

DHS will audit hospitals that receive funding under this proposal to ensure they met the eligibility criteria, and the funding is used for appropriate purposes. If it is determined funds were not used appropriately by eligible hospitals, those funds may be recouped by DHS.

**Disbursement**: The funds will be disbursed by DHS, through the Arkansas Medicaid payment system, as follows:

* Qualifying applications from hospitals that meet all three of the following criteria will be paid in the order in which they are received by DHS:
	+ Independent (not part of a for-profit or 501(c)(3) nonprofit multi-hospital system);
	+ Not designated as a Critical Access Hospital (CAH), as these hospitals receive more favorable Medicare funding than other hospitals; and
	+ Located in a county with a population of less than 50,000.
* Any unallocated funding remaining as of December 1, 2022, will be distributed next to qualifying applications received from independent (non-system) Critical Access Hospitals on a *pro rata* basis.
* Any remaining unallocated funding will be distributed next to the remaining qualifying applications until all funds are exhausted.

**Restrictions on Funds:** Recipients of funds will be required to attest that these funds are necessary to cover expenses incurred during the program period to mitigate and prevent the spread of COVID-19, and to address extraordinary costs related the to the PHE, including but not limited to closing critical gaps in infrastructure, capacity, sustainability, and strategic planning, and that none of these funds will be used to:

* Duplicate or supplant funding from any other federal or state program. Payments or other reimbursement for direct patient care is not included as funding from a federal or state program.
* Pay any increase in management fees to administrative personnel.

The total amount of the reimbursement may not exceed the maximum payment as set forth in this proposal, even if the particular provider incurs costs greater than the maximum amount determined by the formulae. To the extent that expenses are subsequently reimbursed under another federal or state program, funds disbursed from the state’s portion of the American Rescue Plan approved by the American Rescue Plan Act Steering Committee and authorized by the Arkansas Legislative Council will be reconciled and recovered.

**Application and Expense Review:** Hospitals will be required to submit an application attesting to the requirements and limitations outlined above (form to be created by DHS); and documentation created by the hospital demonstrating its quick ratio (as outlined above) signed by the hospital’s CEO or CFO. Within 90 days of submitting an application, a hospital receiving funds under this Proposal must submit to DHS a plan for achieving sustainability, along with a statement of steps taken to date to improve the hospital’s business model and practices. The plan and statement must be submitted in a form to be created by DHS and signed by the hospital’s CEO or CFO. The plan and statement will be reviewed in the event an additional round of funding for hospitals is considered. A hospital’s failure to timely submit a plan and statement will be grounds for DHS to recover the total amount of the reimbursement from the hospital.

Funds must be expended during the time period of July 1, 2022—June 30, 2023.

Documentation of expenditure of funds will be subject to audit and review by DHS and must be submitted by July 31, 2023. Any funding that is not supported by expense documentation will be recovered from the hospital.

1. Quick ratio is a liquidity ratio, which measures the ability of a company (in this case, a hospital) to use its cash, cash equivalents, and accounts receivable reasonably expected to be collected to extinguish its current liabilities (bills, notes, loans, and accounts payable). [↑](#footnote-ref-1)