Hospitals are quietly pleading with state legislators to reconsider rejecting a key provision of President Obama's health care reform—namely, the expansion of a program that provides health care to low-income Americans.

According to industry observers, states that opt out of Medicaid expansion may cost medical centers hundreds of millions of dollars, prompt closures, reduce services and cause staff layoffs.

"It puts the safety net hospital (that are) already at risk even further at risk," said Trahan Whitten, CEO of California-based HFS Consultants, a health care financial management company. "This is one more problem on top of a whole list of problems that have been forcing hospitals to close."

Under last year's landmark Supreme Court decision on the Affordable Care Act, President Obama's health care reform law, states were given the power to choose whether or not they would participate in a dramatic upcoming expansion of Medicaid coverage. The expansion was designed to bring 17 million Americans into the government's health coverage by increasing the program's eligibility limit to include those who earn up to 133 percent of the federal poverty level, or roughly $31,000 for a family of four, according to the American Public Health Association.

The rules currently differ by state, but many states do not make Medicaid available even to those who earn less than the federal poverty level. Few states offer benefits to childless adults. The expansion will be fully funded by federal reimbursements until 2020. After that, the government will provide 90 percent of the costs, with states making up the remaining 10 percent.
Though the question of whether to participate is often seen as political, with many Republican-led states such as Texas refusing to join, it's fundamentally an economic choice that could drastically damage health care providers in states that decline the new government funds, according to industry experts.

That possibility has prompted some surprising political decisions. In Ohio earlier this month, Republican Gov. John Kasich announced he would take the money, despite being opposed to health care reform. Not taking the funds would simply send the money to other states and drain Ohio's economy, the governor said.

Opting in will "prevent increases to health care premiums and potentially devastating impacts to local hospitals," Kasich wrote in his budget analysis. Medicaid expansion could mean a $1.4 billion gain for Ohio's budget and extend coverage to more than 600,000 residents, according to a report by the nonpartisan Health Policy Institute of Ohio.

A day after Kasich announced his state would expand Medicaid, neighboring Michigan said it would also opt in, joining six other Republican-led states such as Arizona, which has a large uninsured population driven by undocumented immigrants. But at least 11 Republican states have rejected the expansion, saying it would drain already stretched state resources. Industry and health care advocates say refusing the federal money is a blow to both hospitals and insurance payers, who could face higher premiums to offset losses caused by treating the uninsured.

Much of the statehouse lobbying by health care industry leaders is going on quietly behind closed doors, Whitten said, as care providers try to educate legislators without contributing to the heated public debate on the president's massive overhaul of the health care system.

"I don't think the legislators understand the real impact of what will happen if they don't set up a Medicaid exchange," he said. "Hospitals that serve multiple states have a little bit of a cushion because they have hospitals in states that have opted in… But this isn’t just a health industry problem. It’s a U.S. economic problem."

Financial impacts to hospitals could potentially be a double-dip as Congress also considers severe cuts to Medicare reimbursements in an ongoing effort to curb federal spending.

Such Medicare cuts "would constrain revenue growth for both for-profit and not-for-profit acute care hospitals as a result of reduced payments for services they provide to Medicare patients," Moody's vice president and senior credit officer Dean Diaz said in a January analysis.

On average, Medicare accounts for 29 percent of revenues generated by for-profit hospitals and nearly 50 percent of not-for-profit hospital revenues.

Further complicating matters is the fact that under Obamacare, Disproportionate Share Hospital payments (DSH), which hospitals rely on to cover the costs of indigent care, are scheduled to be cut by 75 percent over the next few years, according to Whitten.

For hospitals in states that don’t accept the new Medicaid funds, the possible outcomes may be closures and cost-cutting measures that involve staff layoffs and reductions in services.