

HB 1293 Hospital Provider Fee Pro/Con Analysis
For the Health District of Northern Larimer County Board of Directors
March 24, 2009

Issue Summary:	The bill would assess a fee on hospitals and use that money to draw down federal matching funds. The new revenue stream could fund a variety of initiatives including expansions of the public health insurance programs.
Bill History:	03/13/2009 House Health and Human Services Refer Amended to Appropriations 03/16/2009 House Appropriations Refer Unamended to Finance 03/17/2009 House Finance Re-Refer Unamended to Appropriations
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Prepared by:	Carrie Cortiglio

What is a Provider Fee?

A provider fee is a state tax on a specific category of providers such as nursing homes or hospitals. The tax generates a state revenue source that can then be matched with the Federal Medicaid funds. Many states use the newly generated revenue stream to increase Medicaid payments to providers. Federal laws and regulations restrict the ability of states to use the provider fee to fund their share of the Medicaid match. According to the National Conference of State Legislatures (NCSL), provider fees cannot exceed 25% of the state's share of Medicaid expenditures and states cannot guarantee providers that the tax will be returned to them. Federal law does have a "safe harbor" provision which removes the prohibition on guaranteeing the return of tax funds as long as the taxes returned to the provider are less than 6% of the provider's revenues.

What does the Bill do?

HB 1293 authorizes the Department of Health Care Policy and Financing (HCPF) to charge and collect a fee from licensed or certified hospitals beginning in fiscal year 2009. The fee will be used to do the following:

- Increase reimbursement to hospitals providing care under the state medical assistance program (Medicaid) and the Colorado Indigent Care Program (CICP)
- Increase the number of people covered by the public health insurance programs
- Pay the costs of administering the fee to the Department of Health Care Policy and Financing (HCPF)
- Pay quality incentive payments to hospitals based on performance standards that improve patient care

The Medical Services Board is charged with determining the amount of the fee. They must set it so that it will achieve the goals outlined above, and will consider the recommendations of the Hospital Provider Fee Oversight and Advisory Board, created in the bill.

After increasing reimbursements to hospitals under the Medicaid and CICP programs and paying the quality incentive payments, the bill allocates any remaining new revenue to the following public health insurance program expansions:

- Expands eligibility for Medicaid to:
 - 1) parents of children eligible for medical assistance or CHP+ up to 100% of the federal poverty level
 - 2) disabled individuals participating in the Medicaid buy-in program up to 450% of the federal poverty level
 - 3) childless adults or adults without a dependent child in the home up to 100% of the federal poverty level subject to federal authorization.
- Provides for continuous eligibility in Medicaid for children for 12 months.
- Expands eligibility for children and pregnant women under CHP+ to up to 250% of the federal poverty level.

What are other states doing?

According to NCSL, 43 states and the District of Columbia, including Colorado, had some sort of provider fee by the end of fiscal year 2007. The following provides some examples of the types of fees employed by states:

- Alabama taxes nursing homes at \$1,900 per bed with a cap at 6% of gross revenue.
- California taxes skilled nursing facilities a fee of up to 6% of gross revenue

- Florida assesses hospitals 1.5% of the annual net operating revenue. Other health care entities such as clinical labs, ambulatory surgical centers, and diagnostic imaging are assessed 1% of annual net operating revenues.

WHY IS THIS ISSUE IMPORTANT?

The hospital provider fee has the potential to generate as much as \$1.2 billion in revenue for the state (\$600 million from the fee and \$600 million from the federal match). With the new revenue dedicated to increasing Medicaid and CICIP reimbursement rates and particularly the expansion in eligibility for the public health insurance programs, there is the potential for a substantial increase in coverage among the previously uninsured.

The Health District has long advocated on behalf of coverage of the uninsured because of the health implications of going without insurance. According to the Institute of Medicine (IOM) 2002 report, "Care Without Coverage," uninsured patients with chronic conditions like diabetes or heart disease are less likely to have regular check-ups or get medications to control their disease.¹ The report also found that uninsured patients with breast, cervical, colorectal and prostate cancer or melanoma are more likely to die prematurely because of delayed diagnosis.

At the local level, Poudre Valley Hospital notes that although it is too early to analyze the impact because the details aren't set, they are likely to be supportive of the proposal because it would increase Medicaid reimbursement and might fund some eligibility expansions without causing negative fiscal repercussions to them.

REASONS TO SUPPORT BILL:

- The net effect of the provider tax would be to draw down more federal Medicaid dollars for health care in Colorado. Maximizing federal matching funding is critically important for Colorado, which has very limited ability to generate new funding via taxes or fees for any healthcare expansions. By drawing down new streams of federal funding, the state is taking appropriate advantage of opportunities that exist to shore up and expand our public health insurance programs. Any expansion in those eligible for Medicaid or CHP+ is a double benefit, because it will mean more people who have comprehensive health care coverage, and fewer uninsured showing up at the doors of hospitals and other health care providers.
- Another argument in favor of the bill is that provider taxes are a stable revenue stream because they generally do not fall when the economy takes a downturn. Health care costs will continue to rise, and demand for public insurance programs generally increases in the event of an economic downturn. As the costs of health care go up, so does the revenue generated from a provider tax.
- As the recession deepens, there will be greater demand for Medicaid and SCHIP and the state will have to find additional sources of funding for these programs. According to a study done by the Urban Institute, a one percent increase in unemployment produces an increase in Medicaid enrollment of about 4.1% for adults and 4.5% for children.² Medicaid is an entitlement program meaning that anyone who is eligible must be granted benefits. Without new revenue streams to meet increased demand, the legislature will have no choice but to make even deeper cuts elsewhere in the budget.

REASONS TO OPPOSE BILL:

- Some might argue that expansion of the public health insurance programs at a time of severe economic downturn is fiscally unwise at the federal and state level because of the question of whether enough funds exist to pay for the expansion, and the levels being set for the future.
- If there is only enough money generated to fund the increase in reimbursements to hospitals, and no funding can be allocated towards expansion of those covered by health care, the net benefit will not be as great as initially intended.
- There are those who are ideologically opposed to public health insurance, and are of the opinion that is not the role of government to provide health care or insurance.

¹ Institute of Medicine, Care Without Coverage, Too Little, Too Late, May 2002

² Holahan, J. and B. Garrett, "Rising Unemployment and Medicaid," Urban Institute, October 16, 2001

About this Analysis

This analysis was prepared by Health District of Northern Larimer County staff to assist the Health District Board of Directors in determining whether to take an official stand on various health-related issues. Analyses are based on bills or issues at the time of their consideration by the Board and are accurate to the best of staff knowledge. It is suggested that people check to see that a bill has not changed during the course of a legislative session by visiting the Colorado General Assembly web page at www.state.co.us/gov_dir/stateleg.html. To see whether the Health District Board of Directors took a position on this or other policy issues, please visit www.healthdistrict.org/policy.

About the Health District

The Health District is a special district of the northern two-thirds of Larimer County, Colorado, supported by local property tax dollars and governed by a publicly elected five-member board. The Health District provides medical, mental health, dental, preventive and health planning services to the communities it serves.

For more information about this analysis or the Health District, please contact Carrie Cortiglio, Policy Coordinator, at (970) 224-5209, or e-mail at ccortiglio@healthdistrict.org