2011-2012 General Assembly

SENATE BILL 32: Hospital Medicaid Assessment/Payment Program

Committee:	House Finance	**Date:**	March 2, 2011
Introduced by:	Sens. Brunstetter, Clodfelter	**Prepared by:**	Cindy Avrette Committee Counsel
Analysis of:	Second Edition		

SUMMARY: Senate Bill 32[1] would impose an annual assessment on hospitals, payable quarterly, and use the revenue derived from the assessment to obtain additional federal Medicaid funds. The assessment proceeds and corresponding Medicaid funds would be used to address hospitals' cost of treating Medicaid recipients and uninsured patients and to generate an additional $43,000,000 for the General Fund to be used for the State's Medicaid program.

CURRENT LAW: Forty-six states and the District of Columbia have some type of Medicaid-related provider tax, assessment, or fee this year. States have used Medicaid-related provider assessments since 1990 to help pay for the costs of states' Medicaid programs. North Carolina began utilizing provider assessments in 2003 to enhance payment rates for nursing facilities and intermediate care facilities for the mentally retarded and developmentally disabled.[2]

A Medicaid-related provider assessment collects revenue from specific categories of providers to generate new in-state funds and match them with federal funds so that the state gets additional federal Medicaid dollars. Because Medicaid is an entitlement program, the amount of total federal matching funds for Medicaid has no statutory limit. Federal spending is only limited by states' ability to provide matching funds.

In most states that impose a provider assessment, the cost of the assessment is promised back to providers through an increase in the Medicaid reimbursement rate. Under federal law, a state's ability to use provider-specific assessments to fund their state share of Medicaid expenditures has limits. Generally, those assessments cannot exceed 25% of the state's share of Medicaid expenditures and the state cannot provide a guarantee to the providers that the assessments will be returned to them. However, federal law provides a 'safe harbor' that says if the assessments returned to a provider are less than 6% of the provider's revenues, the prohibition on guaranteeing the return of assessment funds is not violated. Therefore, a state may impose a provider assessment of 5.5% of revenues, return those revenues directly or indirectly back to those providers in the form of a Medicaid payment and receive a federal match for those amounts. Unless altered by Congress, this maximum amount will increase to 6% of revenues in October 2011.

BILL ANALYSIS: Senate Bill 32 would impose two different Medicaid-related assessments on hospitals: an equity assessment and an upper pay limit (UPL) assessment. The assessments would be imposed as a percentage of total hospital costs on all licensed North Carolina hospitals. The Secretary of Health and Human Services would annually calculate the assessment amount for each hospital. The assessment would be payable quarterly. The Secretary would use the proceeds of the assessments to make quarterly distributions to the hospitals as well as a quarterly transfer to the General Fund of $10,750,000. The payments to the hospitals would be due within seven days after the assessment is paid. If an assessment payment is not made to a hospital when due, the Secretary must refund to the

[1] SB 32, as introduced, was identical to HB 53, introduced by Reps. Barnhart, Avila, Crawford, and Glazier. HB 53 is currently in House Finance.

[2] Section 10.28 of S.L. 2003-284, the Appropriations Act of 2003.

hospital the corresponding assessment proceeds collected in proportion to the amount of assessment paid by the hospital.

The equity assessment would be levied on the inpatient and outpatient Medicaid costs of each private hospital. Public hospitals are exempt from this assessment. The percentage of the assessment is to be calculated by DHHS so that the amount generated from the assessment, when matched with federal Medicaid funds, is sufficient to reimburse the 67 private hospitals for their Medicaid costs consistent with the Medicaid reimbursements received by the 43 public hospitals and to fund a pro-rata share of the State annual Medicaid amount. To fulfill this purpose, the rate would need to be set at 1.45% for the first year.

The UPL assessment would be levied on the inpatient and outpatient Medicaid costs of public and private hospitals, with the exception of the following:

- State-operated hospitals
- Teaching hospitals of the University of North Carolina Medical School.
- Critical access hospitals.
- Long-term care hospitals.
- Free-standing psychiatric and rehabilitation hospitals.

The percentage of the UPL assessment is to be calculated by DHHS so that the amount generated from the assessment, when matched with federal Medicaid funds, is sufficient to reduce the losses that both public and private hospitals sustain when treating Medicaid and uninsured patients and to fund a pro-rata share of the State annual Medicaid amount. To fulfill this purpose, the rate would need to be set at 0.76% for the first year.

The State's assessment program would need to be approved by the Centers for Medicare & Medicaid Services. DHHS would need to evaluate the assessment percentages and assessment payments each year to ensure that the assessments do not exceed the federal provider assessment guidelines. The bill directs DHHS to file a State plan amendment with the Centers for Medicare & Medicaid Services to implement the hospital assessments and payments by March 31, 2011.

EFFECTIVE DATE: The bill becomes effective when it becomes law.

Lee Dixon, in the Fiscal Research Division, substantially contributed to this summary. I also used resources from NCSL.

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