Oregon Health Plan Financing and Medicaid Provider Taxes

Oregon Health Authority
Presented to the Human Services Legislative Subcommittee
on Ways and Means

February 24, 2017

What we will cover:

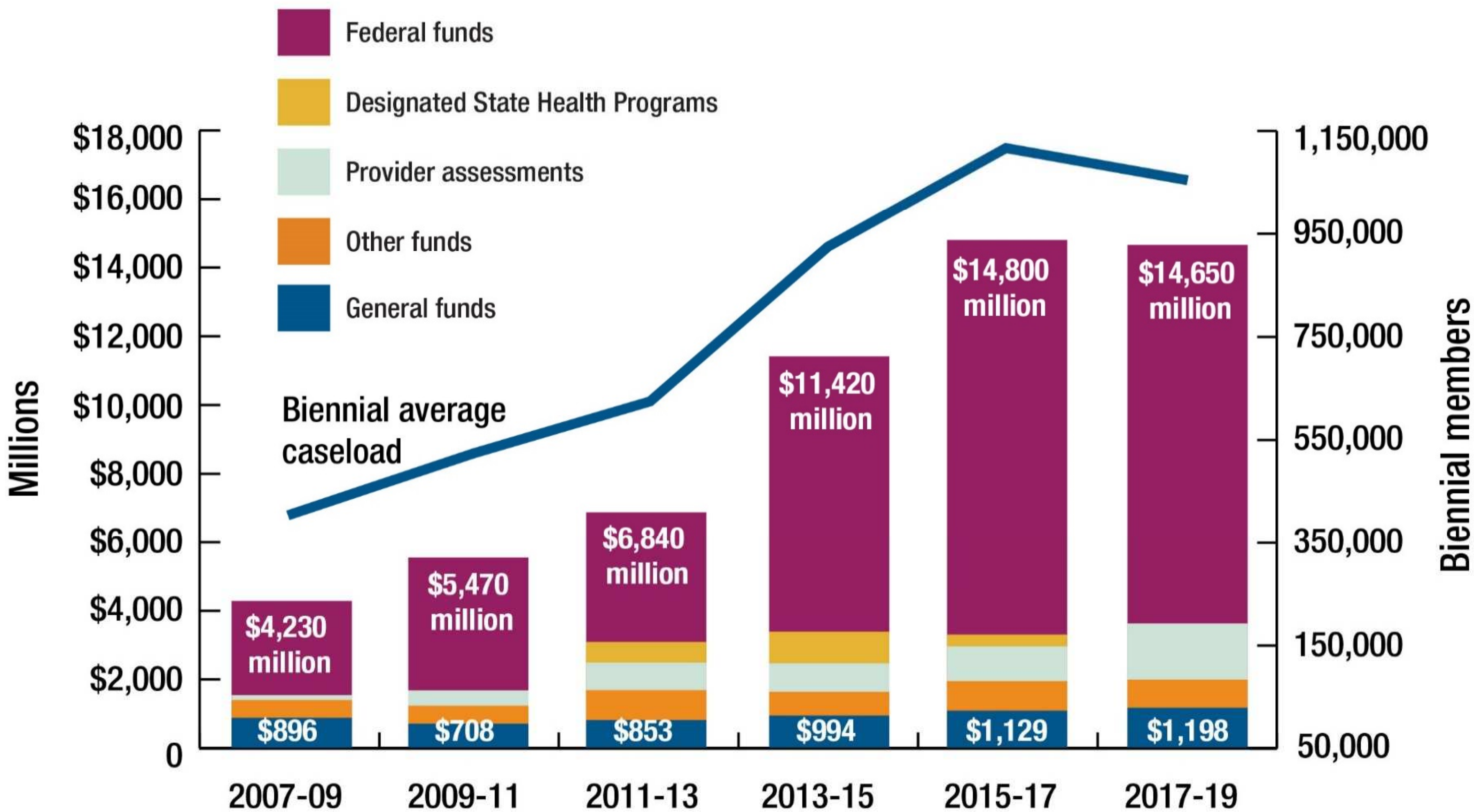
- ❑ How the Oregon Health Plan is funded
- ❑ Oregon’s use of provider taxes
- ❑ Requirements for provider taxes
- ❑ History of the hospital assessment program
- ❑ How the hospital assessment program works today
- ❑ Changing financial landscape

What’s a provider tax?

A tax on health care providers used to cover the state’s share of the Medicaid program, allowing the state to obtain federal matching funds.

How the Oregon Health Plan is funded

Medicaid Historical Funding Sources



[1]Includes program and administrative costs
[2]Provider assessments includes insurers' tax revenue through September 30, 2013

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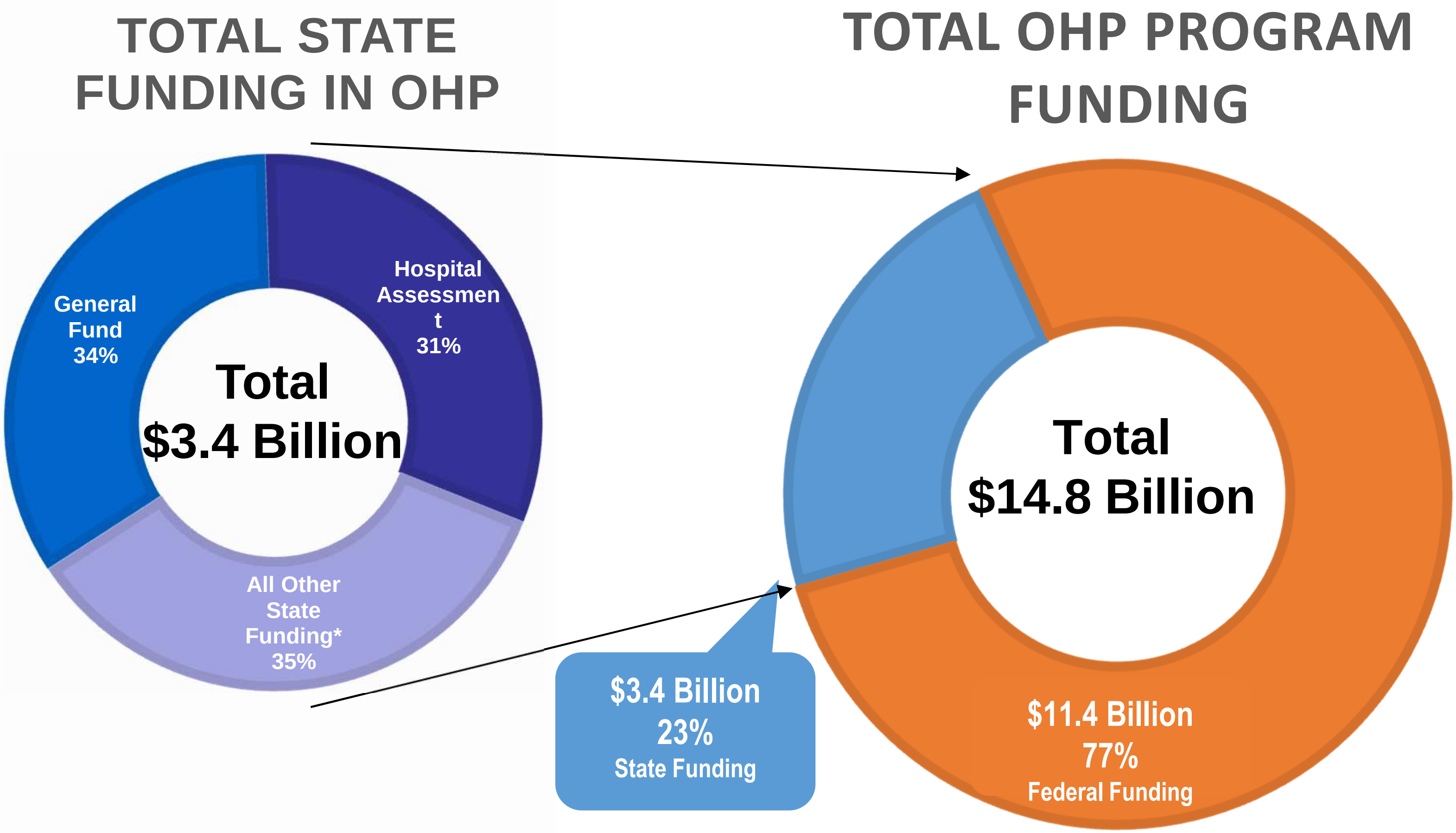
Hospital assessment funding is 31% of state funding for Oregon Health Plan in 2015-17



*All Other State Funding includes Tobacco Tax, Drug Rebates, Tobacco Master Settlement Agreement and Leverage/Limitation funding

Oregon’s use of provider taxes

Oregon currently has two provider taxes:

- Hospital Assessment Program provides funding for OHP and other hospital initiatives
  - Average biennial tax of 5.5% on Diagnostic Related Group (DRG) hospital net patient revenue

- Long Term Care Facility Tax
  - Used to offset General Fund expenditures for Nursing Facility services.

Oregon Hospital Assessment Program

Hospital tax program was originally created in 2003 to generate revenue to expand coverage and increase hospital reimbursement levels.

Oregon's assessment applies only to "DRG" hospitals. Of the 60 acute care inpatient hospitals in Oregon, 28 are "DRG" hospitals. These are typically large, urban hospitals that receive payments based on the prospective Diagnostic Related Group (DRG) system.

Small, rural hospitals do not pay the assessment.

Requirements for provider taxes

Federal rules for provider taxes

Provider taxes can take many forms such as assessments, fees, or taxes

Federal regulations require:

- The tax must be broad based, meaning the tax must be imposed on all providers within the class of providers;
- The tax must be uniformly imposed; and
- The tax program must not violate the hold-harmless provisions. In other words, the state cannot explicitly or implicitly guarantee that the tax-paying entities will receive increased Medicaid payments to make up for the taxed amount.

Tax is limited to 6% of revenue.

- The rate is limited unless a more stringent “hold-harmless” test is met.

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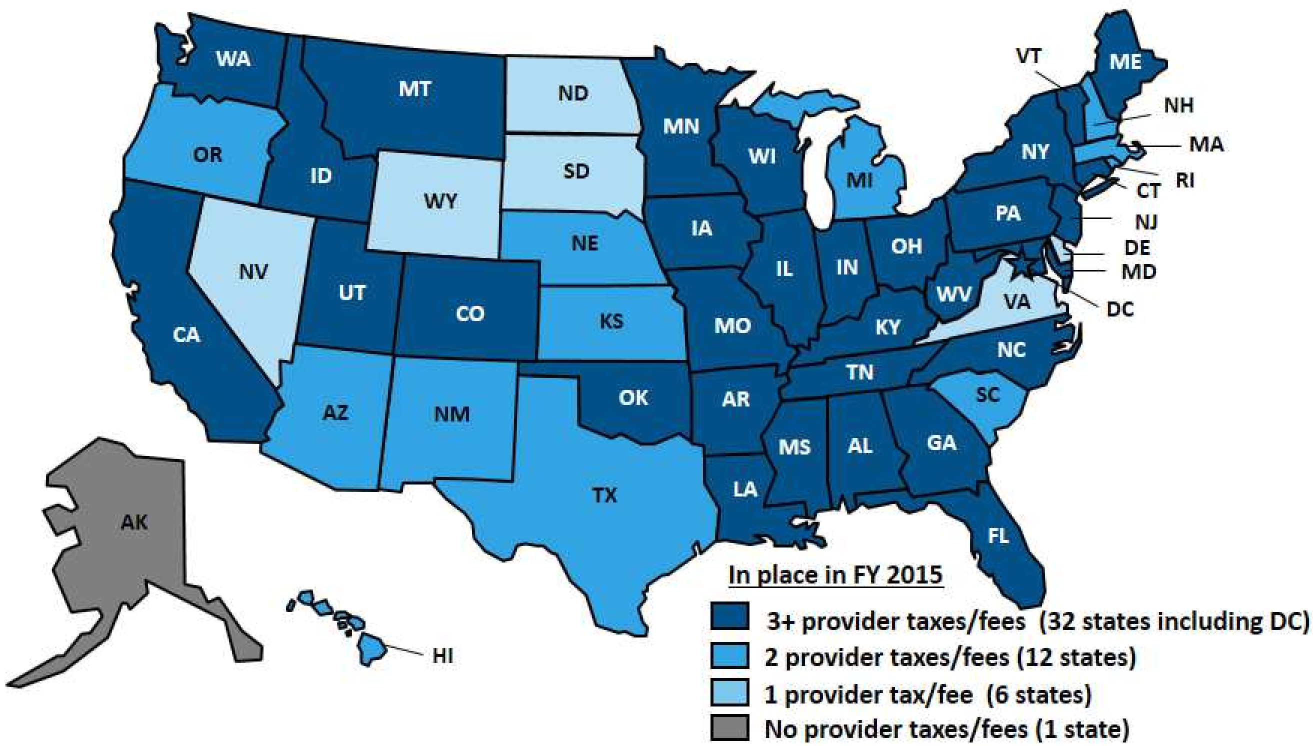
49 states use provider taxes

Figure 1

States with provider taxes or fees in place in FY 2015



NOTES: Includes Medicaid provider taxes as reported by states. It is possible that there are other sources of revenue from taxes collected on health insurance premiums or health insurance claims that are not reflected here.

SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2015.

How the hospital assessment program works today

How the hospital assessment program works in Oregon?

DRG hospitals are assessed on net patient revenue

Total Revenue	-	Uncompensated Care	-	Contractual Amounts	=	Net Patient Revenue

Creates state fund revenue to match with federal Medicaid funding

Funds the Oregon Health Plan and additional hospital programs:

- Hospital Enhanced Payments and Rates
- Disproportionate Share Hospital Program (DSH)
- Graduate Medical Education Programs (GME)
- Hospital Transformation Performance Pool (HTPP)

Hospitals receive entire tax amount back in aggregate through certain hospital enhanced payments

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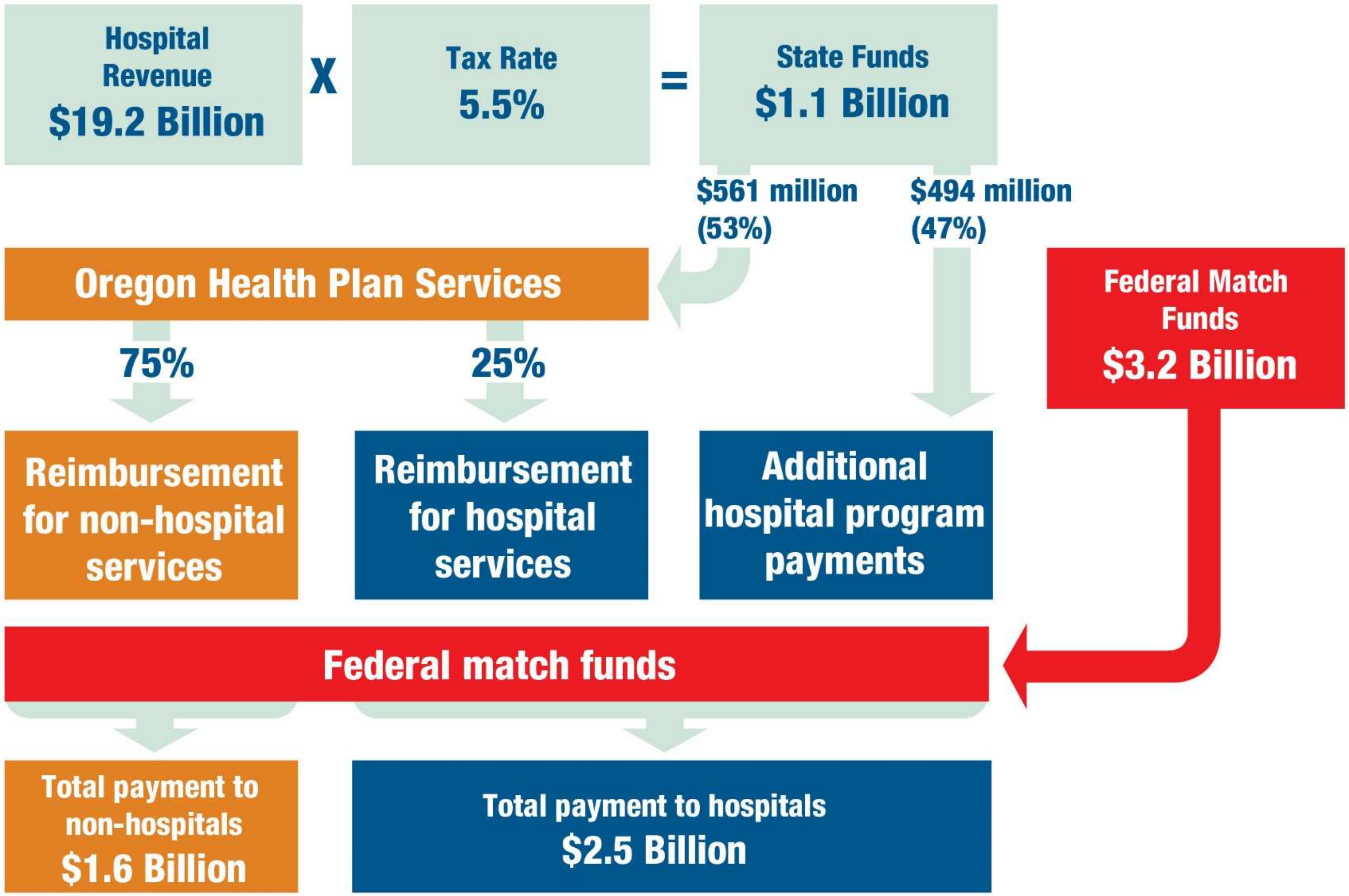
2015-17 estimate of program funding



2015-2017 Provider Tax Program Projections

- Estimated Hospital Net Patient Revenue = $19,218,000,000
- Average Tax Rate = 5.5%
- Estimated State Funds Revenue = $1,055,000,000

	Estimated Revenue	Current Funding to OHP	Supplemental Payments To Hospitals	Total Expenditures
State Funds	$ 1,055,000,000	$ 561,000,000	$ 494,000,000	$ 1,055,000,000
Federal Funds		$ 1,683,000,000	$ 1,478,000,000	$ 3,161,000,000
Total Funds		$ 2,244,000,000	$ 1,972,000,000	$ 4,216,000,000
Estimated Portion Distributed to Hospitals:		25%	100%	
Total Hospital Payment:		$ 561,000,000	$ 1,972,000,000	$ 2,533,000,000

Changing financial landscape

Before and After the ACA

Before the ACA:

- 15% of state was uninsured
- 15% of total charges to DRG hospitals was from Medicaid
- DRG hospital revenues and margins were growing before expansion, but so was uncompensated care

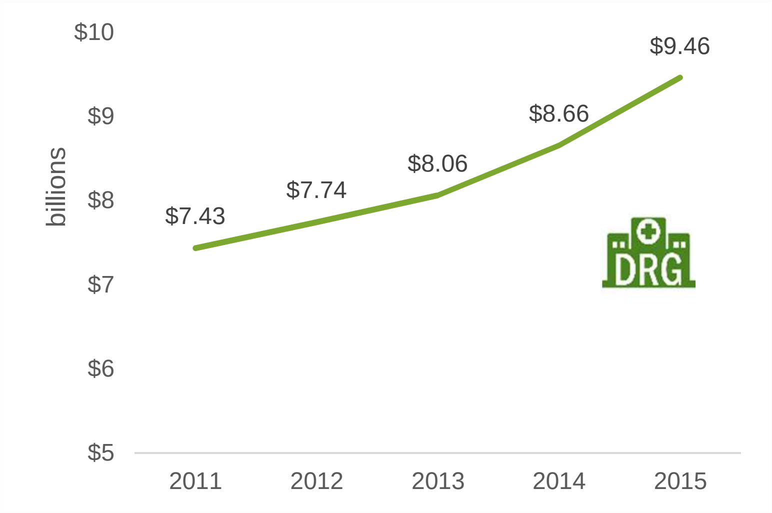
Today

- 5% of the state is uninsured
- 23% of total charges to DRG hospital is from Medicaid
- DRG hospital revenues and margins have continued to grow. Uncompensated care has dropped significantly.

Hospital Data Trends

Recent DRG Hospital Data Shows Positive Trends; particularly since the implementation of the Affordable Care Act:

Total operating revenue increased 17% (from 2013 to 2015)



Uncompensated care dropped 65% (from 2013 to 2015)

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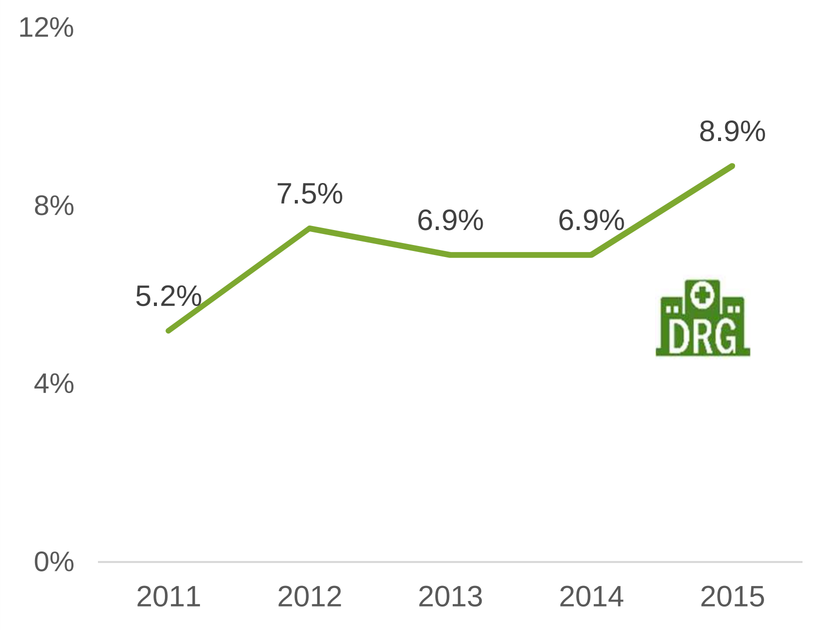
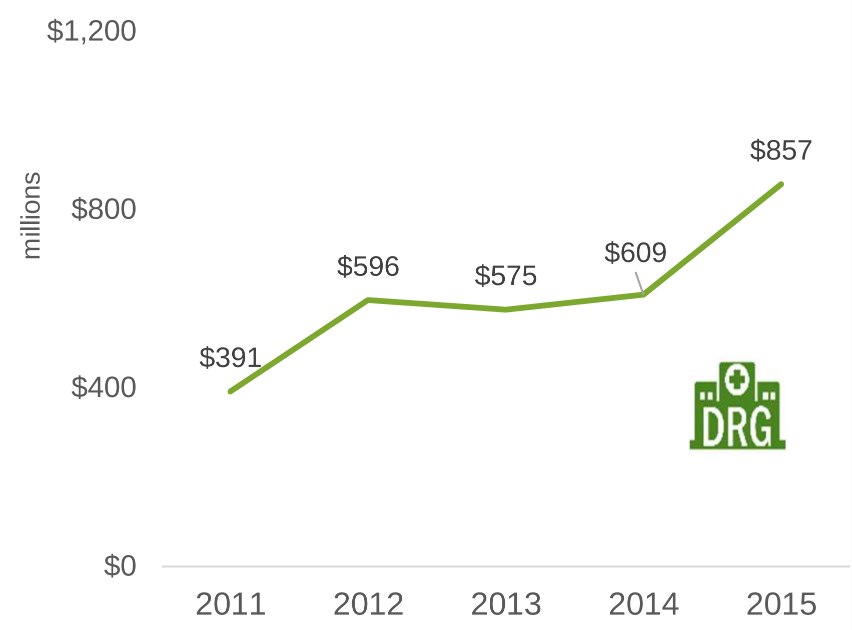
Hospital Data Trends

Total margins have grown from 5.2% in 2011 to 8.9% in 2015



Total margins have grown from $391 million in 2011 to $857 million in 2015



THANK YOU