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Health Provider and Industry State Fees and Taxes —A Colorado Story

Colorado Medicaid Background

Colorado's Medicaid program provides health care services to a forecasted 476,632 low-income people in FY 2009-10. The state also administers the Children's Basic Health Plan, a health insurance program for a forecasted 67,152 low-income children and approximately 1,821 adult pregnant women in FY 2009-10.ⁱ

Medicaid Caseload	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Estimate
<i>Total Medicaid Caseload</i>	402,218	392,228	391,962	436,812	476,632
<i>Annual Percent Change</i>	(0.8)%	(2.5)%	(0.1)%	11.4%	9.1%

The Department's total budget request for FY 2009-10 was \$4,058,708,543 billion or approximately 21.1 percent of the state's total budget. Total expenditures for Medicaid medical services premiums are expected to increase by 5.4 percent or \$130.9 million (\$51.6 million in General Fund) over the revised FY 2008-09 estimated expenditures.ⁱⁱ

Establishing a Provider Fee (Tax) – Legislative Process

The Colorado General Assembly's Joint Budget Committee, the bipartisan group of legislators responsible for setting the annual state budget, sponsored HB09-1293, the Colorado Health Care Affordability Act of 2009. Colorado's Governor Bill Ritter and the Department of Health Care Policy and Financing (HCPF) estimated that the legislation would provide health coverage to more than 100,000 uninsured Coloradans and would stem the rising cost of health insurance for Colorado businesses and families. The legislation allowed HCPF to assess a provider fee on hospitals. Colorado sought to use the provider tax mechanism to generate additional federal Medicaid matching funds to expand health care access, to improve the quality of care for clients serviced by public health insurance programs, to increase funding for hospital care for Medicaid and uninsured clients, and to reduce cost-shifting to private payers.

Hospitals will pay a provider fee of approximately \$336.8 million in FY 2009-10, which could then be used to draw down an additional \$600 million in federal matching funds.^{iii,iv} More than \$580 million was estimated in payments directly to Colorado hospitals, of which \$80 million will be new federal funds. The total net benefit for hospitals is \$82.9 million. Because federal regulations require that there cannot be a "hold harmless" provision in provider fee arrangements, the Department estimates that a total of 71 hospitals will receive a net benefit from HB 09-1293 in FY 2009-10 while 12 hospitals will receive a net loss.^v Approximately \$7.5 million was set aside to pay the Department's administrative expenses for implementing the legislation and expanding health care coverage to low-income populations. For FY 2009-10, state expenditures for HCPF were expected to increase by \$411.4 million and 12.0 FTE. For FY 2010-11, expenditures are expected to increase by \$533.6 million and 41.0 FTE.^{vi} State cash funds revenue is expected to increase by \$389.8 million in FY 2010-11, \$488.2 million in FY 2011-12, and \$629.8 million in FY 2012-13.^{vii}

Colorado cited a number of public program enhancements and expansions to cover with the increased funds: including covering parents with incomes of up to 100 percent of the Federal Poverty Level (FPL); covering Medicaid eligible children and pregnant women to 250 percent of the FPL; covering childless adults with incomes of up to 100 percent FPL; creating a Medicaid buy-in program for disabled adults and children whose family incomes are too high for Medicaid eligibility but are under 450 percent FPL; implementing twelve month continuous eligibility for Medicaid eligible children; increasing Medicaid hospital inpatient rates up to 100 percent of Medicare rates; increasing Medicaid hospital outpatient rates to up to 100 percent of costs; increasing hospital reimbursement rates through the Colorado Indigent Care Program up to 100% of cost; and implementing quality incentive payments for hospitals. On April 21, 2009, Colorado Governor Bill Ritter signed House Bill 09-1293 to enact the Colorado Health Care Affordability Act of 2009.

Implementation

On September 15, 2009, the Hospital Provider Fee Oversight and Advisory Board, a thirteen member board appointed by the Governor to provide oversight and makes recommendations to the Department and the Medical Services Board on implementation, approved the submission of the hospital provider fee and payment methodologies to the federal Centers for Medicare and Medicaid Services (CMS). The federal Centers for Medicare and Medicaid Services (CMS) approved the hospital provider fee and payments in March 2010. The state will collect fees from and payments will be made to hospitals effective retroactively to July 1, 2009. Implementation of two of the health coverage expansions will begin upon CMS approval, with implementation of additional expansion programs anticipated over the next two years.^{viii}

Attached:

1. Colorado Provider fee law – Agency fact sheet
2. Hospital Fee Oversight and Advisory Board -2009 Annual Report
3. Denver Business Journal article "Point / Counterpoint", 2009

Notes and Sources

ⁱ Colorado Joint Budget Committee, *FY 2009-10 Joint Budget Committee Staff Budget Briefing, Department of Health Care Policy and Financing* (Denver, CO: COJBC, December 8, 2009); http://www.state.co.us/gov_dir/leg_dir/jbc/hcpbrf1.pdf.

ⁱⁱ Governor's Office of State Planning and Budgeting, *Department of Health Care Policy and Financing: A Fact Sheet* (Denver, CO: OSPB, November 2008); http://www.colorado.gov/cs/Satellite?c=Document_C&cid=1228738027155&pagename=HCPF%2FDocument_C%2FHCPFAAddLink.

ⁱⁱⁱ Ibid, FY 2009-10 Joint Budget Committee Staff Budget Briefing.

^{iv} Colorado Department of Health Care Policy and Financing, *Colorado Health Care Affordability Act Fact Sheet* (Denver, CO: HCPF, October 2009);

http://www.colorado.gov/cs/Satellite?c=Document_C&childpagename=HCPF%2FDocument_C%2FHCPFAAddLink&cid=1251567138456&pagename=HCPFWrapper.

^v Ibid, FY 2009-10 Joint Budget Committee Staff Budget Briefing.

^{vi} Colorado Legislative Council, *Final Fiscal Note (Denver, CO: CLC, May 5, 2009)*;

http://www.leg.state.co.us/clics/clics2009a/csl.nsf/fsbillcont3/D71C48DD229F80CD872575540079F3A0?Open&file=HB1293_f1.pdf.

^{vii} Ibid, Colorado Legislative Council, *Final Fiscal Note*.

^{viii} Colorado Department of Health Care Policy and Financing, *Hospital Provider Fee Oversight and Advisory Board, 2009 Annual Report* (Denver, CO: HCPF, January 15, 2010);

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Colorado Health Care Affordability Act

Governor Ritter signed House Bill 1293, the Colorado Health Care Affordability Act on April 21, 2009. The Act authorizes the Department to collect a hospital provider fee. The Act will expand health care coverage to more than 100,000 Coloradans.

What will implementation of the Act accomplish?

- Secure sustainable funding for expanding health care access
 - Increase Medicaid eligibility for parents up to 100% of the FPL
 - Increase CHP+ eligibility for children and pregnant women up to 250% of the FPL
 - Offer medical benefits to adults without dependent children up to 100% of the FPL
 - Offer Medicaid buy-in programs to people with disabilities up to 450% of the FPL
- Improve the quality of health care for clients served by public health insurance programs
 - Provide twelve-month continuous Medicaid eligibility for children
 - Implement quality incentive payments for hospitals
- Secure increased funding for hospital care for Medicaid and uninsured clients
 - Increase Medicaid hospital inpatient rates up to 100% of Medicare rates
 - Increase Medicaid hospital outpatient rates up to 100% of costs
 - Increase hospital CICIP rates up to 100% of costs
- Reduce cost-shifting to private payers
 - Increase the number of insured Coloradans by 100,000
 - Increase Medicaid and CICIP reimbursement rates to hospitals

How much funding will be generated?

- Hospital provider fees – not to exceed 5.5 percent of net patient revenues – will be assessed and matched by federal dollars
- When fully implemented, an estimated \$600 million will be collected to be matched by \$600 million federal dollars for a total of \$1.2 billion annually

What is the timeline?

- Spring 2010
 - Obtain approval of the provider fee and State Plan Amendment related to increased Medicaid and CICIP payments from CMS to:
 - Implement Medicaid eligibility for parents up to 100% of the FPL
 - Implement CHP+ eligibility for children and pregnant women up to 250% of the FPL
 - Increase inpatient rates up to 100% of Medicare rates
 - Increase outpatient rates up to 100% of costs
 - Increase hospital CICIP rates up to 100% of costs
- Summer 2011
 - Offer Medicaid buy-in programs to people with disabilities up to 450% of the FPL
- Early 2012
 - Offer medical benefits for adults without dependent children up to 100% of the FPL
- Spring 2012
 - Implement 12-month continuous Medicaid eligibility for children

Who will provide oversight?

- A 13-member Hospital Provider Fee Oversight and Advisory Board that includes five hospital members; one statewide hospital organization member; one health insurance organization or carrier member; one health care industry member; two consumers; one business representative who purchases health insurance for employees; and two Department members.

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Improving access to cost-effective, quality health care services for Coloradans

Colorado.gov/hcpf

October 2009

Hospital Provider Fee Oversight and Advisory Board
2009 Annual Report

Executive Summary

The Colorado Health Care Affordability Act (the Act) authorizes the Department of Health Care Policy and Financing (the Department) pursuant to federal approval to assess a hospital provider fee to generate additional federal Medicaid matching funds to expand health care access, improve the quality of care for clients serviced by public health insurance programs, increase funding for hospital care for Medicaid and uninsured clients, and to reduce cost-shifting to private payers.

A thirteen member Oversight and Advisory Board (the Board) appointed by the Governor provides oversight and makes recommendations to the Department and the Medical Services Board on the implementation of the Act. On September 15, 2009, the Board approved the submission of the hospital provider fee and payment methodologies to the federal Centers for Medicare and Medicaid Services (CMS) for their review and approval.

Upon CMS approval, fee collection, hospital payment increases, and coverage expansions will begin. In FY 2009-10, approximately \$335 million in fees will be collected from hospitals that, in combination with federal matching funds, will fund health coverage expansions, payments to hospitals, and the Department's administrative expenses. The estimated results for FY 2009-10 are listed below:

- Approximately \$60 million will be available for health coverage expansions for 20,000 children and parents under the Children's Health Plan *Plus* and Medicaid,
- More than \$580 million will be paid directly to Colorado hospitals, of which \$80 million will be new federal funds, and
- \$7.5 million will be available to pay the Department's administrative expenses for implementing the Act and expanding health care coverage to low-income populations.

As federal approval has not been obtained, this annual report provides a summary of the implementation process to date. An addendum to this report will be published after CMS has approved the model, anticipated in April 2010.

**DENVER
BUSINESS JOURNAL**

Friday, March 20, 2009

HB 1293 would help state's health care

Denver Business Journal - by [Steven J. Summer](#)

Creating smart and sensible health care policy is a challenge even in promising economic times.

As our state faces major budget cuts in every sector, we must be even more innovative in seeking solutions that will reduce the cost shift that burdens Colorado business and employees, make health care affordable and provide health care to more uninsured Coloradans.

The Colorado Healthcare Affordability Act (House Bill 1293) is exactly the type of forward-thinking policy that our state needs to embrace as it finds new ways to improve access to health care and reduce its rising cost. The Colorado Healthcare Affordability Act is good for business, good for our health care system, and most importantly, good for Colorado residents.

Known as a provider fee, HB 1293 uses a federally approved strategy that permits states to leverage private resources to draw down additional federal money. This is in place in more than 20 states.

Under the proposed legislation, the state would collect a fee from hospitals, and that revenue would go directly into the state general fund, where it would be matched by federal dollars. Both the revenue from the hospital fee and the federal match must be used for increased Medicaid payments to hospitals and expanded Medicaid eligibility.

Colorado's provider fee revenue plus the matching federal funds would bring in an estimated \$1.2 billion to the state.

As a result of the Colorado Healthcare Affordability Act, more than 100,000 uninsured individuals would become eligible for Medicaid or CHP+ coverage. The proposal would provide coverage for vulnerable populations that lack access to physicians and other primary care providers.

Providing coverage to high-risk populations that use the health care system without insurance would, in turn, reduce costs.

An insured individual is more likely to use the health care system for primary care and before the onset of a more serious illness, thereby avoiding an expensive emergency room visit after the condition has worsened. This means that the health care system is used more efficiently and effectively.

Additionally, the Colorado Healthcare Affordability Act would increase the rate at which hospitals are reimbursed for the care they provide to Medicaid patients. Thus the provider fee would have a positive impact by reducing health care costs that are shifted by Medicaid underpayments.

There are critics who have said that HB 1293 would increase cost shifting, arguing that hospitals that receive little Medicaid funding would pay more into the system than they receive, and in turn, increase rates charged to insurers and patients. We don't believe this would happen.

In years when Medicaid payments to hospitals have been increased, evidence from Colorado and other states shows that the cost shift actually goes down — a benefit to all privately insured individuals.

In fact, by reducing the rate of health care cost increases, the Colorado Healthcare Affordability Act is designed to slow the rate of premium increases for commercial health insurance. This should help make health care more affordable for all.

The Colorado Healthcare Affordability Act is an investment in the state's health care system, its residents and the economy. It would increase access to health care for the uninsured, address the problem of Medicaid underpayment and slow the cost shift to Colorado employers. For these reasons, it has strong support in Colorado's business community, including that of the Colorado Hospital Association.

Steven J. Summer, president and CEO of the Colorado Hospital Association, and who served on Colorado's Blue Ribbon Commission on Healthcare Reform, can be reached at steven.summer@cha.com or 720-489-1630.

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**DENVER
BUSINESS JOURNAL**

Friday, March 20, 2009

Health care reform at what price?

Denver Business Journal - by [Spencer Swalm](#)

Gov. Bill Ritter is proposing a complex, costly scheme that would dramatically expand government meddling in our health care system, with no certainty it would lead to better or more affordable outcomes.

House Bill 1293 proposes to infuse hundreds of millions of matching federal dollars into the state's health care system by imposing a new tax ("provider fee") on hospital revenues. Taken together, the \$600 million hospital tax and the federal match (all of it deficit spending) would generate \$1.2 billion.

Half of the money would be spent putting 100,000 new beneficiaries on state Medicaid rolls, the government-paid health insurance program for low-income individuals. As we all know, once a program has been expanded, it's nearly impossible to trim it back.

The other half of the money is supposed to reduce "cost shifting," the widespread hospital practice of overcharging privately insured patients to make up for chronic underpayments from government programs such as Medicaid and Medicare, and for providing charity care to patients with no insurance.

The bill creates an 11-person advisory board to decide how to allocate the cost-shifting reimbursements among the state's 84 hospitals. Federal law mandates that some hospitals be "winners" in this process and some be "losers." With hundreds of millions of dollars at stake, it's easy to imagine the infighting and back-room dealmaking that's going to become an inevitable part of picking those "winners" and "losers."

The bill also prohibits hospitals from adding the provider fee to patients' bills. It's unclear how this new cost shifting is to be avoided in an industry that already has been plagued with a history of the practice. Again, with millions at stake, costly government meddling seems a likely outcome.

HB 1293 is bad medicine.

In the face of a severe recession that's forcing all Colorado families to cut back, it massively expands the state's Medicaid obligations. Despite its proponents' claims, it's also no panacea for cost shifting. Finally, it relies entirely on deficit spending at the federal level. It's irresponsible and immoral to expect our children and grandchildren to bail us out of our health care mess. We can certainly do better.

Rep. Spencer Swalm, D-Centennial, who serves in the state House of Representatives and is an employee benefits broker, can be reached at siswalm@mho.com.

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