Making the Case for the Supplemental Hospital Offset Payment Program Act
HB 1381

April 2011

Background: The budget agreement reached at the end of the 2010 state legislative session called for a series of "revenue enhancements" to balance the budget while attempting to minimize cuts to state programs. A 1 percent claims payer fee to generate $78 million in state funding for Oklahoma's Medicaid program was part of this agreement. However, HB 2437 – the Payer Fee, did not pass with an emergency clause so the earliest effective date would have been Aug. 27, 2010.

On Aug. 24, 2010, the Oklahoma Supreme Court found that the payer fee was unconstitutional, thus barring collection. This decision reduces the Oklahoma Health Care Authority's (OHCA) budget by an anticipated $52 million (state share) for the remainder of the current fiscal year, with a corresponding loss of $135 million in federal matching funds – for a total impact of $187 million. The annual impact of this decision is an annualized cut of $78 million in state funds for the Oklahoma Health Care Authority (plus an additional $141 million in federal match) for medical benefits for poor elderly, disabled, and pregnant women and children who qualify for SoonerCare due to low income.

More than one-third of the OHCA's FY 2010 budget was funded through federal Stimulus dollars. OHCA's current FY 2011 budget is $1.1 billion, with $490 million coming from general revenue funds and the remainder (more than half) from one-time funding sources such as federal Stimulus dollars, Rainy Day Funds and transferring the cash balance of Insure Oklahoma. On Aug. 10, President Obama signed legislation that produces for all states a six-month extension of Medicaid's temporary enhanced Federal Medical Assistance Percentage (FMAP). The six-month extension, through June 2011, equates to between $140 million and $150 million for the OHCA budget *for Medicaid*.

Current State Medicaid Budget:

The FMAP extension cited above is intended for Medicaid expenditures incurred beginning Jan. 1, 2011, through June 30, 2011. This should avert an immediate funding crisis for the Medicaid program and in essence provides a bridge for the remainder of the fiscal year due to HB 2437 (the payer fee) being overturned. While the state budget appears to be showing improvement, it is unlikely there will be enough improvement to offset the amount of special federal funds that have been required to balance the OHCA budget.

Where will the state's Medicaid budget likely be as of July 1, 2012?

Legislators will likely face a **huge budget challenge for funding Medicaid in SFY '12.** OHCA's budget could easily reflect a $350 million deficit due to the loss of enhanced FMAP and other one-time funds. If additional funding is not identified and provided:

1. Providers of care (hospitals, doctors, dentists, nursing homes, pharmacies and other health care groups) who contract with Medicaid (SoonerCare) will experience horrific rate reductions….several multiple times greater than the 3.25 percent cut and the additional targeted cuts implemented in 2010.
2. Optional benefit programs could be eliminated. Optional programs include prescription drugs, behavioral health services, durable medical equipment, dental, dialysis, etc. Eliminating optional programs would impact a little more than 200,000 Oklahomans with a cost savings of $92.5 million.

OHA's Supplemental Hospital Offset Payment Program Proposal: The Oklahoma Hospital Association (OHA) strongly advocates for Oklahoma's hospitals to be adequately paid for the cost of care they provide to Medicaid patients, thereby reducing the need to cost shift to the private sector. The OHA is seeking legislation to establish a hospital provider fee that would enable hospitals to be paid at a federally approved upper payment limit through funds they provide themselves. Recognizing the serious budget constraints the state is facing, hospitals are willing to help fund this current state Medicaid shortfall temporarily for hospitals to avoid massive cuts to hospital payments. However, the goal remains for the state to fund its respective responsibilities for the cost of Oklahoma's Medicaid program.

The Oklahoma Hospital Association recommends assessing selective hospitals a fee of approximately 2.5 percent of annual net patient revenue that would be used to match federal Medicaid funds. As the proposal currently stands (April 2011), the fee is expected to generate approximately $152 million in state share that, when combined with the federal match of $269 million, would total $421 million. Provisions in OHA's Hospital Provider Fee are:

- 77 Oklahoma hospitals would be assessed a fee of approximately 2 percent on hospital net patient revenue, based upon 2009 Medicare cost reports.
- 71 hospitals would be exempt from the fee. Exemptions are allowed under federal law if the assessment passes a statistical test that evaluates the relationship of the proposed assessment to one that is broad based. Exempted hospitals include:
    1. 34 critical access hospitals.
    2. 14 long-term care hospitals.
    3. 14 specialty hospitals, a hospital "for which a majority of its admissions are restricted to cardiac, brain injury, cancer, surgical or obstetrical services."
    4. 7 state-owned hospitals, including OU Medical Center.
    5. 1 Medicare-certified children's hospital.
    6. 1 hospital that provides the majority of care under a state agency contract.

- Hospital funds paid into the Hospital Quality and Access Fund via the hospital provider fee would be used for supplemental Medicaid payments to participating hospitals for inpatient and outpatient services. Supplemental payments may be made to critical access hospitals that are paid less than 101 percent of Medicare cost for Medicaid services.

- Assessments and payments would be made quarterly.
- The fee would supplement, not supplant, appropriations to support hospital reimbursement.
- The Oklahoma Health Care Authority would be authorized to transfer $30 million state share ($7.5 million quarterly) from the SHOPP Fund to be used to stabilize rates.

- The bill would sunset in 2014. Any extension past 2014 would require new legislation.