

# SENATE BILL REPORT

## EHB 2069

---

---

As Reported by Senate Committee On:  
Ways & Means, May 11, 2011

**Title:** An act relating to increasing the sum available to the state from the hospital safety net assessment fund by reducing hospital payments.

**Brief Description:** Concerning hospital payments.

**Sponsors:** Representative Cody.

**Brief History:** Passed House: 5/09/11, 52-44.

**Committee Activity:** Ways & Means: 5/10/11, 5/11/11 [DP, DNP, w/oRec].

---

### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Brown, Conway, Fraser, Hatfield, Keiser, Kohl-Welles, Pflug, Pridemore, Regala, Rockefeller and Tom.

**Minority Report:** Do not pass.

Signed by Senators Honeyford and Schoesler.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Baxter.

**Staff:** Tim Yowell (786-7435)

**Background:** At the maintenance level budget baseline, Washington is expected to spend \$3.7 billion during the 2011-13 fiscal biennium on inpatient and outpatient hospital services for the 1.2 million low-income children and adults covered by Medicaid and the other state medical assistance programs. Of this total expenditure, \$1.5 billion is expected to be paid from the state General Fund (GF-S); \$368 million from the Hospital Safety Net Assessment Fund; and the balance from federal Medicaid matching funds.

These funds will be expended for care provided at 90 in-state and ten border county hospitals. Of the 90 in-state hospitals, 11 are government-owned facilities that are paid under a certified public expenditure (CPE) mechanism; 37 are designated rural critical access hospitals for which state Medicaid payments are set at 100 percent of cost; and the remaining

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

42 are private facilities that are paid under the hospital prospective payment system (PPS) adopted by the state in 2007.

The safety net assessment fund was established by legislation enacted in 2010 that imposed fees ranging from \$10 to \$200 per patient day on all non-Medicare patient days of care delivered by non-governmental hospitals in the state. This assessment is projected to raise \$427 million of revenue during the 2011-13 fiscal biennium. Revenues in the fund, and associated federal Medicaid matching funds, may only be used for payments to hospitals. The 2010 legislation establishing the assessment and fund directed that funds were to be used to rescind a 4 percent reduction in Medicaid inpatient and outpatient payment rates that had been budgeted for implementation in July 2009; to increase Medicaid inpatient payment rates by amounts ranging from 3 percent for governmental hospitals to 13 percent for PPS hospitals; to increase Medicaid outpatient payment rates by amounts ranging from 4 percent for non-state CPE hospitals to 37 percent for PPS hospitals; and to pay \$49.3 million of hospital billings that would otherwise need to be paid from the GF-S.

In preparation for the 2011 session, at the request of the chairs of the legislative health care and fiscal committees, the Department of Social and Health Services contracted with Navigant Consulting to assess the adequacy of Washington's Medicaid hospital payment rates following enactment of the assessment and associated rate increases. Among other findings, the review concluded that there is sufficient access to hospital services in Washington; that the quality of care in Washington's hospitals is comparable to that provided nationwide; that 2011 Medicaid inpatient and outpatient rates for PPS hospitals exceed the rates the federal Medicare program would pay for the same services by an average of 6 percent and 5 percent respectively; and that the net operating margin of the 27 hospitals that provided more than 5000 days of care to Medicaid patients in fiscal 2009 totaled \$664 million, and averaged 6.1 percent of revenue.

**Summary of Bill:** Effective July 1, 2011, Medicaid inpatient rate increases to PPS hospitals are reduced by 8 percent, from 13 percent to 3.96 percent. Effective July 1, 2011, Medicaid outpatient rate increases to PPS hospitals are reduced by 7 percent, from 36.83 percent to 27.25 percent. The amount that may be paid to hospitals from the Hospital Safety Net Assessment Fund rather than from the GF-S is increased to \$199.8 million for the 2011-13 fiscal biennium.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2011.

**Staff Summary of Public Testimony:** CON: The prospective payment system (PPS) hospitals agreed last year to tax themselves in return for rate increases that would benefit both them and the state. By now reducing those rate increases, the Legislature is from the PPS hospitals' perspective imposing a new tax on them; since they will receive less back in rate increases than they pay in assessments. The Legislature should not assume that it can

reduce hospital revenues by \$150 million GF-S, plus about \$110 million in federal matching funds, without affecting hospital patients and workers. The hospital association is not arguing that passage of this bill will leave state payment rates below the 9th Circuit Court of Appeals standard. Rates will still be somewhat above that level.

**Persons Testifying:** CON: Len McComb, Washington State Hospital Association.