HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 254 **PRINTER'S NO: 4076** **PRIME SPONSOR: Fairchild**

FISCAL IMPACT SUMMARY	FY 2010/11	FY 2011/12
Expenditure Increase/(Decrease):		
General Fund	($121,000,000)	($59,000,000)

OVERVIEW:

House Bill 254 amends the Public Welfare Code to establish a statewide hospital assessment, modernize the current payment system for Medical Assistance inpatient services, provide for increased payments to hospitals, and provide protections for managed care organizations. It also provides the Commonwealth with savings by earmarking a portion of the hospital assessment revenue for the Department of Public Welfare (DPW). These provisions would be retroactive to July 1, 2010.

In addition, the bill requires DPW to make available on its website the standard form to be used by veteran service officers in determining eligibility for veteran's benefits.

This act would take effect immediately.

ANALYSIS:

House Bill 254 adds a new Article XIII-G authorizing the Department of Public Welfare (DPW) to implement a statewide hospital assessment (Quality Care Assessment) for three years, beginning July 1, 2010 through June 30, 2013. Section 805-G specifies the amount of assessment revenue to be retained by DPW for each of the three years: $121 million in 2010/11, $59 million in 2011/12 and $51.5 million in 2012/13. The department may use these retained assessment revenues for any purpose approved by the Secretary of Public Welfare. Consequently, using this assessment revenue, in lieu of state General Funds, to pay for DPW program expenditures will save the Commonwealth approximately $231.5 million over the three-year period. Specifically, the 2010/11 budget uses $121 million of hospital assessment revenue to reduce the need for state General Funds to pay for Medical Assistance Inpatient services.

The statewide assessment covers most Pennsylvania hospitals, the exceptions being: federal veteran's hospitals, free care hospitals, psychiatric hospitals, critical access hospitals, and long term care hospitals. DPW will impose the assessment on the net inpatient revenue of covered hospitals at a rate of 2.69 percent in 2010/11 and 2.84 percent for the following two years. The bill permits the Secretary of Public Welfare to adjust the assessment rate by going through a public comment process; however, the maximum assessment percentage cannot exceed 2.95 percent.

Revenues generated from the assessment are deposited in a new restricted receipt account in the General Fund, known as the Quality Care Assessment Account. After retaining its share of the assessment revenue, DPW uses the remaining funds in the account to make payments to hospitals and managed care organizations in accordance with the act. Specifically, the legislation requires DPW to use a new prospective payment system (APR-DRG) to pay hospitals in the Medical Assistance fee-for-service program for inpatient services provide on or after July 1, 2010. In addition, it requires DPW to make supplemental payments to hospitals, such as inpatient disproportionate share and medical and health professional education, in accordance with the state plan approved by the federal government – this will be accomplished through enhanced payments from DPW to the Medical Assistance managed care organizations, which will use their enhanced payments to make supplemental payments to hospitals for inpatient services provided to individuals enrolled in their managed care plan.

Before DPW can implement the hospital assessment and proceed with the required payments to hospitals and managed care organizations, it must receive the following three approvals from the federal government: (1) approval of the waiver needed to implement the assessment; (2) approval of a state plan amendment authorizing the changes to its payment methods and standards; and (3) approval of its waiver for the HealthChoices mandatory managed care program and amendments to its Medicaid managed care contracts authorizing the supplemental payments to hospitals for inpatient services.

The legislation includes provisions that protect managed care organizations from any adverse costs (i.e., higher rates) associated with the new APR-DRG payment system. For example, for contracts between managed care organizations and hospitals that were in effect as of June 30, 2010 and that link inpatient hospital payments to DPW's fee-for-service rates, the hospital payments in those contracts are locked at the DPW fee-for-service rates that were in effect as of June 30, 2010 (prior to the new APR-DRG system). The bill provides flexibility, however, permitting hospitals and managed care organizations to renegotiate their contracts on their own terms.

Finally, House Bill 254 requires DPW to submit a report to the General Assembly not later than 180 days prior to the sunset of the assessment on June 30, 2013. The report shall include: the amount of the total assessment revenue collected for each year; the assessment amount paid by each hospital; the type of supplemental payment and the payment amount received by each hospital; the total amount of fee-for-service inpatient acute care payments made to each hospital; the number of Medical Assistance days and discharges by hospital; and any proposed changes to the payment methodologies and standards.

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