



PUBLIC HEARING QUESTIONS

RESPONSES OF THE MAINE HOSPITAL ASSOCIATION

1. Rep. Zager – Please provide an overview of the hospital tax.

Maine's 15 PPS hospitals pay an income tax to Maine.

- Tax Rate - 3.25%
- Tax Base – 2022 Net Patient Service Revenue (e.g. gross revenues) Excluded are non-patient revenues like philanthropy.
- Amount: \$177 million per year (divided into two payments annually).
- CAH Hospitals – Exempt

Maine statute dedicates that revenue to reimburse costs for services provided to Medicaid recipients by hospitals. Those payments draw down federal matching funds. (Maine hospitals contribute as much as the General Fund to fund Medicaid reimbursement for care at hospitals.) Prior to the hospital “rate reform” in 2024, all hospitals paid the tax at a lower rate (2.23%). Critical Access Hospitals no longer pay the tax. Nursing homes are the only other provider that pays such a tax. PNMIs formerly paid a tax but CMS disallowed it.

Our objection is that this re-basing of the tax year (from 2022 to 2024) is not being done consistently with the way previous legislative re-basing was done. As a result, this is a straight \$24 million tax on healthcare.

2. Rep. Fredette – Please provide an overview of the impact of HR1/OBBBA on hospitals.

Here is our summary of Medicaid & other policy-related cuts.

- **Work Requirements** (Starting in 2027)– Universe is 90,000 recipients. Hard to know how many will lose coverage but DHHS estimates it will be 30,000 (1/3). DHHS estimates roughly \$110 Million loss to hospitals statewide.
- **Immigrant Groups Excluded from Medicaid** (Starting in October) – approximately 3,000 enrollees; but, they are not evenly distributed throughout Maine. DHHS provided no estimate of cost impact; we would estimate a \$10M loss to hospitals.

- **Administrative Requirements** – There are a bunch of administrative rules will trip-up some Medicaid recipients such as having eligibility renewals occur every 6 months rather than annually; not automatically enrolling some people in Medicaid; limiting some retroactive enrollments to 30 days rather than 90 days. There will be cuts associated with these requirements because the CBO scored them as saving money. We’ve not seen a state estimate of impact, but we estimate it will be in the \$5 Million range.
- **MaineCare Co-pays** – There will be some minimal co-pays from Medicaid recipients, many of which simply won’t get paid and hospitals will take the loss.
- **Tax & Match is “Frozen”** – The ability for Maine to change the base year for the tax calculation is not clear based on federal guidance provided to date. Hard to know the impact of this until final guidance is clear; could be significant long-term.
- **Exchange Subsidies** – While not part of HR1, it matters. Congress has not extended the “enhanced” subsidies. Not sure of the impact on enrollment. As of January 1, approximately 7,000 people dropped from the exchanges. We fear more will drop during the year under the weight of higher premiums. We believe firm data on coverage loss and the type of coverage purchased on the exchange will be available in March or April

Best overview we’ve seen is the DHHS overview from last summer. Link [here](#).

Policy	# of People Impacted	Statewide Cut to Hospitals
Immigrant Groups	3,000 lose coverage	\$10-12M
Work Requirements	30,000 lose coverage	\$100-\$110M
Other Administrative Cuts	No Estimate	\$5M
MaineCare Co-Pays	No Estimate	\$1M (guess)
Exchange Subsidies	58,000 on the exchange; most with subsidies; 7,000 or 7.5% have dropped.	Unclear

3. Rep. Ducharme – Please Provide an Estimate of Settlement Amounts Owed to Hospitals.

We estimate approximately \$237 Million is owed. We have not done a detailed survey since last March; at which time it was \$195 Million. Northern Light and MaineHealth have provided updates. We have not surveyed other members for their numbers.

	2024	2025	Total
NorthernLight	\$53 Million	\$40 Million (est.)	
MaineHealth	\$49 Million	\$41 Million	
Other Hospitals (30%)	\$30 Million (est.)	\$24 Million	
Total:	\$132 Million	\$105 Million	\$237 Million

What LD 331 would do is require the state to pay 75% of what is owed within 90 days of the submission of the hospital’s cost report to the department. LD 331 proposes a one-time payment that skips the timeliness of payment forward. It only has to be done once. As noted in testimony nursing homes already have this timely payment requirement.

4. Rep. Blier – Please Explain Why Rural Healthcare in Trouble.

Obviously, this is not a question to be answered in a couple paragraphs. However, DHHS gave an amazing answer in pages 2-8 of its application to CMS for Rural Transformation funds (see [here](#)). Most of it is related to the underlying demographics (older, sicker, sparser) and the economy (many rural hospital towns are former mill towns). We summarized the DHHS application in a power point on the MHA website ([here](#)). I would like to offer two graphs for you to consider.

First is a table that was included in the DHHS application to CMS for Rural Transformation funds. They reviewed 23 (of 34) Maine hospitals they considered rural. Standard & Poor’s (S&P) has 4 primary credit ranking criteria (e.g., operating margins, days cash on hand, age of plant, total margin). The failure rates of Maine’s hospitals are alarming (red oval). The fact that 8 failed all 4 of the rankings (red rectangle) makes us fear that even a minor financial hiccup will be too much for them to handle. As DHHS noted in its application: *“Eight of the 23 rural hospitals failed in all four benchmarks, underscoring widespread financial vulnerability.”*

Rural Hospitals (n=23)	Performance Target	2023 Only	2021-2023 3-year average
Below Target for Days Cash on Hand) n (%)	Could operate for at least 110 Days without new income	19 (82.6%)	15 (65.2%)
Below Target for Operating Margin n (%)	>=1.0%	10 (43.4%)	6 (26.1%)
Below Target for Total Margin n (%)	>=2.5%	13 (56.5%)	8 (34.8%)
Below Target for Average Age of Plant n (%)	<=12 years	17 (73.9%)	23 (100%)
Off Target for all Four Financial Metrics± n (%)	(Does not meet any above)	8 (34.8%)	6 (26.1%)

Notes: Performance targets for hospital financial metrics were derived from S&P Global Ratings' methodology for assigning credit ratings to not-for-profit hospital and health systems. S&P Global standard credit ratings methodology assesses the financial performance of not-for-profit hospitals and health systems by measuring their performance on multiple financial metrics to established performance targets. Performance targets were generated from S&P Global analysis of 173 not-for-profit hospitals and health systems within the U.S. and Canada. Financial performance metric targets reported here represent the threshold that S&P Global considers adequate financial performance for hospitals.

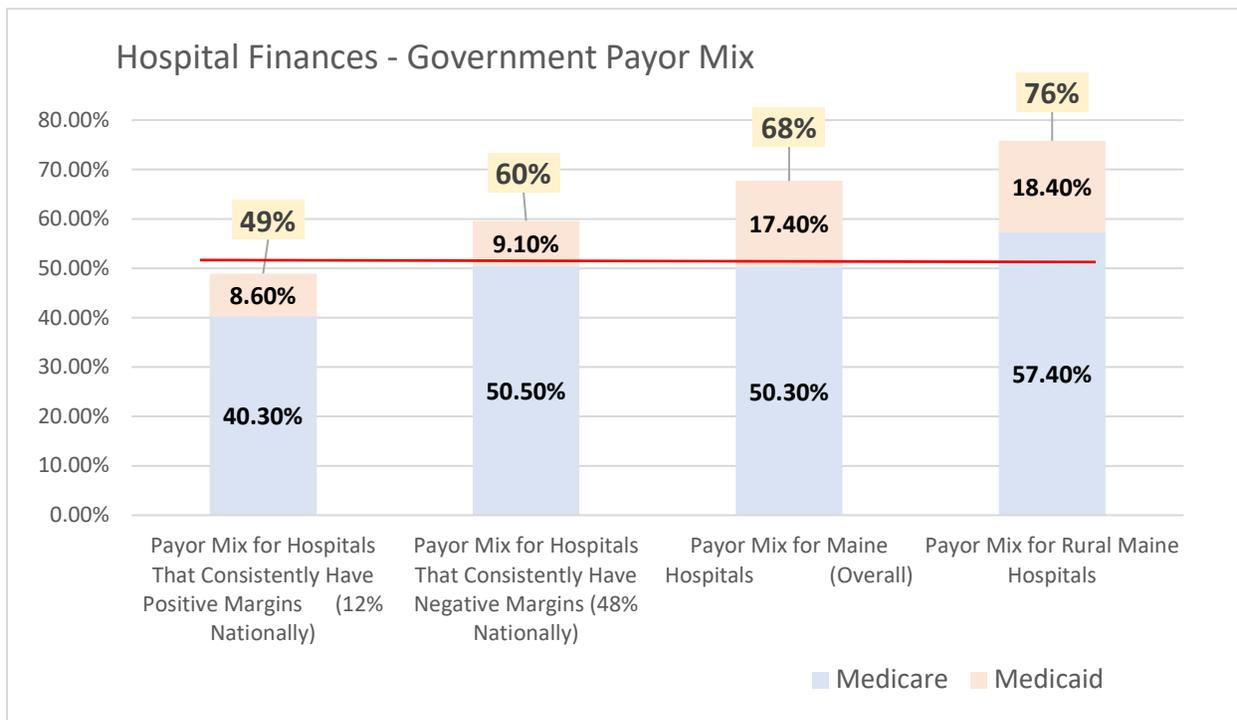
Definitions:
 Excess (Total) Margin: Are the hospital's total activities profitable (including investment income and fundraising)?
 Operating Margin: Are the hospital's core activities profitable?
 Average Age of Plant: How old are the hospital's fixed assets?
 Days Cash on Hand Including Board Designated & Undesignated Investments: How long could the hospital operate and pay its bills without additional income?

Source: Maine Health Data Organization.

The second graph is basically a simple explanation of potentially why. The American Hospital Association was asked to explain why some hospitals make money and some hospitals consistently lose money. Their search for a clear and simple explanation led to one factor – government payors.

Here are the findings:

- Hospitals that make money: 50% of the patients on Medicaid & Medicare
- Hospitals that lose money: 60% of the patients on Medicaid & Medicare
- Maine Hospitals overall: 68% of the patients on Medicaid & Medicare
- Maine Rural Hospitals: 76% of the patient on Medicaid & Medicare



Bottom line: A hospital doesn't want its government payor mix to get too far above 50%. Once the mix hits 60%, AHA's study finds that the hospital will have consistently negative margins. Maine's hospitals, particularly its rural hospitals, are well-above that mark.

We're happy answer any further questions you may have.