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Maine Hospital Association

MAINE'S LEADING
VOICE FOR HEALTHCARE

TESTIMONY OF THE MAINE HOSPITAL ASSOCIATION

Proposed FY 2024-25 Biennial Budget (LD 258)

February 25, 2023

Senators Rotundo and Baldacci, Representatives Sachs and Meyer, and members of the Appropriations and Health & Human Services Committees, my name is Jeffrey Austin and I am here on behalf of the Maine Hospital Association.

I am here today to express our support for the biennial budget and to ask you to consider one change.

Before I comment on the biennial budget, I do want to thank you, and the administration, for the support you provided to hospitals in the supplemental budget. It is greatly appreciated – thank you.

Hospital Financial Condition & State Financial Assistance

Hospitals are once again facing financial hardship.

Undoubtedly, you've seen the recent headlines about financial losses at hospital systems in Maine. Those losses are quite concerning.

Hospital finances are routinely challenging. Our non-profit members simply take all of the revenue they earn and plow those revenues back into services and our workforce. And at the end of the day, there is simply very little, if anything, left as a cushion.

Budget Context

Hospitals and some other providers are primarily reimbursed from the "payments to providers" account within Medicaid. The initiatives in this account can be found on pages A-364 to 370 of the biennial budget.

For context, General Fund appropriations for the "payment to providers" account has been flat for more than a decade.

State Fiscal Year	Payment to Provider Account General Fund Dollars	Annual Average % Change 2012-2023
SFY 2011 – 2012	$453,947,995	
SFY 2022 – 2023	$486,964,964	0.64%

Meanwhile, inflation has averaged over 3% per year during this time period. In real terms, General Fund appropriations on the payment to provider account has fallen in excess of 20%.

This is not to say that total spending on providers has only changed by this amount. We're only reflecting state General Fund expenditures here, not federal expenditures. The point is that our section of the budget has not placed stress on the General Fund for a very long time. The proposed biennial budget is putting more General Fund money in this portion of the MaineCare budget and we appreciate that investment.

Budget Initiatives

There are two primary hospital-related initiatives in the biennial budget.

- Hospital Inpatient Reimbursement Rates in Medicaid (DRGs) – Page A-369.

Our understanding is that DHHS is going to begin its rate making process for hospital inpatient reimbursement rates, called "Diagnosis Related Groups" or DRGs. We don't know how the Department arrived at the the amount of funding in the budget. They are proposing a full-year increase of $15M in SFY 25 (with a partial-year appropriation of half that amount in SFY 24). The General Fund portion of the increase is $4.18 million in SFY 25.

There are two types of hospitals with two different reimbursement systems. Smaller, rural hospitals, known as "Critical Access Hospitals" or CHAs, are reimbursed based upon their costs. There are 16 CAHs in Maine. The budget and proposed ratemaking do not impact these smaller hospitals.

The DRG ratemaking impacts the other 17 hospitals (Prospective Payment System or "PPS") which are larger and that comprise 80-85% of the hospital Medicaid work/spend in Maine.

Hospital rate making for PPS hospitals is different than ratemaking for other providers. For most Medicaid providers it is state policy to provide "cost" reimbursement; that is, the rates should cover the cost of providing the service. So ratemaking is often a review of provider costs and then rate setting to match those costs.

Not so PPS hospitals; for some reason it has not been state policy to cover our costs to provide care to Medicaid recipients. Hospital inpatient rates are rather arbitrary amounts, that do not

consider the cost of providing those services. Accordingly, the rate-making process is quite simple. In fact, ratemaking is about how much the state is willing to invest to update the DRG rates. Hence, the decision you make in the budget is important.

For context, in 2022, 13 out of 17 PPS hospitals had negative margins. If all 17 balance sheets were combined, their aggregate operating margins would have been negative 4%. These hospitals need and deserve this long-overdue DRG rate increase.

Maine converted to the DRG reimbursement system in the 2010-2012 time period. When implemented the DRGs did not fully cover the cost of providing the service. That is, hospitals lost money treating Medicaid inpatients using DRG reimbursement.

The DRG rates have not been increased since they were implemented over a decade ago. Currently, DRGs cover less than 70% of the cost of providing care. In other words, hospitals lose more than 30% on every Medicaid patient they see.

If the state were simply to update DRGs by inflation, they would need to increase the rates by at least 30%.

The amount that is in the budget would increase DRG rates by approximately 6.4%; the inflation rate for 2022 alone is 6.5%. In fact, the Part AAAA increases you have heard about are above 8% for this year. Why is the DRG adjustment so low?

While we thank Governor Mills for being willing to adjust DRG rates, we do not believe the first DRG increase in more than a dozen years should barely cover last year's inflation rate.

There are limits imposed by the federal government on how high you could increase our rates. That limit is complicated and is artificially low due to Maine $130 million tax on hospitals. Nevertheless, we believe there is some additional room beyond the amount in the budget.

Hospital request – DRGs should be based upon aggregate hospital costs to provide services. Please increase the GF contribution from $2M and $4.1M to $6M and $12M.

- Hospital Tax and Supplemental Payment (Two initiatives) - Page A-367.

Maine imposes a tax on hospitals. The annual tax burden on hospitals is approximately $127 million. A portion of that tax is used to provide "supplemental" payments to hospitals within the Medicaid program. The total of those supplemental payments is roughly $100 million. Accordingly, hospitals lose $27 million per year on this tax program. This is unusual. Many other states have provider tax programs, but rarely do hospital lose financially as a result.

Hospitals are currently paying a tax based upon their 2018 revenues. Historically, the Legislature re-bases the hospital tax in 2-year increments in the first year of a biennial budget. For the first time in memory, the tax would decrease because hospital revenues decreased in 2020. The budget shifts that re-base until the second year of the biennium and similarly reduces the supplemental payment. We expect that this line-item might get revisited in a supplemental budget in 2024.

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