



**Kansas Hospital**  
ASSOCIATION

To: Senate Ways and Means Committee

From: Audrey Dunkel, Vice President of Financial Advocacy

Date: March 20, 2019

Re: KHA Testimony in Support of SB 225

Thank you for the opportunity to speak in support of Senate Bill 225 on behalf of our 126 community hospital members. The Health Care Access Improvement Program, also known as the hospital provider assessment, was implemented in 2005 as a way to leverage state dollars to draw down additional federal funds that would be put towards improving physician and hospital Medicaid reimbursement rates. Under current law, the funds generated under the program are distributed with not less than 80 percent going to hospitals, not more than 20 percent going to physicians and not more than 3.2 percent going to graduate medical education. The program has operated smoothly, with one adjustment to update the base year of the assessment, in 2012. However, as the state's Medicaid program shifted to a managed care environment, it became increasingly clear that the expenditures of the HCAIP funds was nearly impossible for providers to track.

As you may remember, the 2018 Legislature directed the Kansas Department of Health and Environment to work with the KHA to determine if the HCAIP program was overspending the resources available to it. This directive was included in the appropriations with the expectation that a solution would be developed and presented to the 2019 Legislature.

After working through the summer and fall with Health Management Associates and KDHE on the calculations and methodology used to determine how the funds are spent, it was agreed that the program was exceeding its revenues. As KDHE shared with you last year, the source of the overspending is a higher than anticipated growth in physician services. KanCare was implemented to bend the cost curve on the Medicaid program by providing the right services, in the right place, at the right time. The result of has been an increase in the utilization of physician services, which has doubled the cost of the physician rate enhancements funded by the hospital provider assessment.

The Kansas Hospital Association convened an internal Medicaid Provider Assessment Committee, made up of a cross-section of our hospital members, to working on a solution to address the concerns related to the provider assessment program. The simplest solution to the

correct the overspending of the program would have been to reduce the physician rate enhancement, which exceeds 20 percent of revenues collected. However, that would mean reducing the rate in enhancement by 83 percent. Even reducing the physician enhancement to align it with the 20 percent limit would result in a 45 percent reduction. Resolving the issue by cutting hospital rates would have resulted in a 29 percent reduction in the enhancement and remained in violation of the statute. Given that the strong message we received from the legislature last session was that there was no desire to provide other state funds to support KanCare provider rates, it fell on hospitals to find another solution.

That solution is SB 225. Hospitals have chosen to be good partners with physicians and the states by:

1. Increasing the tax rate from 1.83% to 3.0%;
2. Increasing the base taxed from net inpatient revenue to net inpatient and net outpatient revenue; and
3. Updating the tax year annually to capture increased revenues available – about 4.8% annually.

The proposal increases the assessment paid by Kansas hospitals, from \$47.5 million to \$164 million. These funds will be used to draw down the federal matching funds. The proceeds would support physician Medicaid rates at their current enhancement level, and adds enough additional funding continue supporting hospital rates that make this assessment rate sustainable. In addition, updating the base year annually guarantees increased funding for the program each year to continue support Medicaid provider rates. As a safeguard, it include a review and report every three years from the Health Care Access Improvement Panel to help address any variances in the program.

This program has always been a partnership between the state and providers, as is the entire KanCare program. Kansas hospitals have made a commitment to being strong partners with the state, and we are asking the same of you.