

Senate Health and Human Services Committee

Sophie Walsh 271-3469

SB 249-FN, relative to the uncompensated care and Medicaid fund.

Hearing Date: February 19, 2025

Time Opened: 2:54 p.m.

Time Closed: 3:36 p.m.

Members of the Committee Present: Senators Rochefort, Avard, Birdsell, Prentiss and Long

Members of the Committee Absent: None

Bill Analysis: This bill revises the funding mechanism for uncompensated care costs under the state Medicaid program, including the distribution of disproportionate share hospital payments. The percentage of funds used for Medicaid payments to hospitals is repealed July 1, 2032.

Sponsors:
Sen. Birdsell

Who supports the bill: Jennifer Milkey and Jessica Crowley.

Who opposes the bill: No one.

Who is neutral on the bill: Steve Ahnen (NH Hospital Association), John Jurczyk (St. Joseph Hospital), Holly McCormack (Cottage Hospital), and Matthew Houde (Dartmouth Health).

Summary of testimony presented:

Senator Regina Birdsell, Senate District 19

- Senator Birdsell stated that this bill addresses the MET/DSH issues that the legislature struggled with in Committees of Conference last year.
- MET stands for Medicaid Enhancement Tax. It is a 5.4% assessment upon the net patient services revenue of certain hospitals for each hospital's fiscal year ending during the calendar year in which the taxable period begins.
- MET revenues in fiscal year 2024 totaled \$319.2 million.
- MET is paid by general hospitals required to be licensed under RSA 151 that provide inpatient and outpatient hospital services. This assessment is not paid by government facilities or rehabilitation hospitals by statute.

- DSH stands for Disproportionate Share Hospital payments.
- These payments are for hospital's uncompensated care made by the Department of Health and Human Services (DHHS) to hospitals that do not meet the definition of critical access hospitals, but provide essential access to hospital services.
- DSH payments are determined via amendment to the New Hampshire Medicaid State Plan each year.
- MET revenue is deposited into the uncompensated care and Medicaid fund, which is used by DHHS to generate a federal match on hospital payments.
- The federal match rate for DSH payments is 50% and is up to 90% for rates and directed payments.
- Senator Birdsell explained that MET and DSH work together when hospitals are required to pay the 5.4% tax on net patient services revenue, the tax revenue is collected, and then a total of state and federal funds equivalent percentage is paid to hospitals via enhanced inpatient rates, directed payments, and DSH payments.
- The total of state and federal funds is historically 91% and is currently 80%.
- During the Committee of Conference last year, the MET DSH agreement expired. They tried putting something together, but the Governor chose not to accept it and brought forth a percentage of 80% instead of 91%.
- This bill mirrors what is currently in the Governor's budget, and it is a starting point.

Steve Ahnen, New Hampshire Hospital Association

- Mr. Ahnen introduced himself as the President of the New Hampshire Hospital Association, representing all 26 of the community hospitals who pay the MET.
- The Medicaid Program is a shared commitment among hospitals, other providers, and the State to ensure access to high quality care for the most vulnerable citizens.
- Hospitals and other providers lose money providing services to Medicaid patients.
- During the last State budget, historic investments in Medicaid rate increases were made to help offset those losses. Hospitals chose not to accept those rate increases, so that others could receive larger increases to serve more patients in the community.
- Mr. Ahnen emphasized that this bill is a starting point. The Hospital Association does not believe it is the ending point, as it poses significant implications and losses for hospitals across the state.
- MET/DSH began in the early 1990's, when the state was facing a significant financial crunch, and other states were utilizing a mechanism to draw down additional federal dollars to support their Medicaid programs.

- These mechanisms used provider assessments, in which hospitals would pay an assessment, and the federal government would match it and use it for the Medicaid program.
- Hospitals agreed to this with the objective of not harming themselves in doing so.
- Mr. Ahnen explained that the program worked this way for two decades until federal rules and regulations changed, and New Hampshire had to modify its program in the 2011 plan year. At that time, some hospitals were paying more in MET than they were receiving back in benefits.
- This became a crisis in the 2012 and 2013 budgets, when all hospitals were paying the MET, but only 13 critical access hospitals received DSH payments.
- Lawsuits then began challenging the constitutionality of the MET. Two Superior Court judges found the MET to be unconstitutional. The State and hospitals then worked together to continue a partnership that allowed MET payments to continue in return for fair and reasonable returns.
- Those settlement agreements have been maintained, but it is important that this gets resolved before the April 15th deadline when hospitals must pay the MET.
- Mr. Ahnen addressed the decrease from 91% to 80% and explained that it will result in a cut in funding of \$40 million and up to \$70 million for larger hospitals.
- In essence, this is a \$70 million tax increase on hospitals, while the State receives an additional \$67 million above the prior agreement.
- Hospitals are continuing to financially struggle. Last year, not-for-profit hospitals had a negative 0.4% operating margin.
- Last week, an increased demand was reported due to the spread of the flu and other respiratory viruses, resulting in 100% capacity being reached.
- There is also ongoing workforce challenges and an inability to discharge patients to appropriate care settings.
- If forced to accept the Medicaid reductions, hospital leaders will have to look at all of these challenges and the things they are able to do in their communities.
- Mr. Ahnen explained that the federal government allows states to collect MET assessments of up to 6%.
- The hospitals would be willing to use the 6%, as long as the payments coming back to hospitals continue to be fair and reasonable.
- Mr. Ahnen outlined the reasons why they want to move to directed payments, as many other states are doing.
- It is an add-on payment for a Medicaid service that is based upon utilization. That service generates an enhanced match for the state.
- Our federal medical assistance percentage is currently 50%.

- Based upon the model they have created, they believe the State will generate an additional \$104 million annually to support the Medicaid program.
- Those dollars could be used to support essential Medicaid services or provide additional resources for hospitals to help support the work they do and provide a reliable revenue stream.
- Mr. Ahnen emphasized that this is not a windfall for hospitals. There will still be hospitals paying more for their assessment than they get back in benefits.
- Hospitals across New Hampshire have worked collaboratively to find a solution that works for everyone, even if it means they may still be on the short end.
- Mr. Ahnen referenced a one-pager submitted to the Committee that outlines a comparison of current law and the New Hampshire Hospital Association's proposal.
- Under current law, the assessment rate is 5.4% with 80% going to the hospitals and 20% to the State. 100% of the match on all of this would come back to the State as well.
- The net impact for hospitals would be a \$70 million loss and the net impact for the state would be \$415-\$416 million in revenue.
- Under the proposal, the assessment rate is 6% (\$36 million more than the prior agreement).
- The net impact for the State would be almost \$452 million in total revenue and the net impact for the hospitals would be slightly positive, with a few still in the red.
- Mr. Ahnen said he appreciates the opportunity to find a solution that is a win for everyone.
- Senator Avard confirmed that with the current model, \$67 million would be going back to the State, but if the proposed directed payment system is utilized, 5.4% would be going back to the State.
- Mr. Ahnen noted that the current 80% model does envision using directed payments for the State; that is partly how the State generated the additional \$67 million. Under their proposal, of the first 5.4% of the MET revenue raised, 91% would be coming back to the hospitals as traditionally done, with 9% going to the State in addition to the match on all of the revenue.
- This proposal is saying that since hospitals are willing to pay the additional assessment, the amount above the 5.4% generated through the assessment and its match would come back to support the hospitals.
- By doing so, we will be able to minimize losses to the greatest extent possible, while maximizing reimbursement from the federal government.
- Senator Avard confirmed that there will be a net gain for the State as well, and Mr. Ahnen confirmed there is a net gain of almost \$104 million for the State on an annual basis.
- Senator Avard asked how difficult it is to change this process.

- Mr. Ahnen stated that the process has already been started, as the State has already submitted the appropriate materials for the rate increases put in place as well as the directed payments. This proposal is not much different from what has already been done; there is just more funding available.
- Senator Birdsell asked if Mr. Ahnen has had a conversation with the Governor's office.
- Mr. Ahnen said they have spoken with the Governor several weeks ago, and they are looking to further engage that conversation soon.
- Senator Avard asked where we go from here.
- Mr. Ahnen explained that an amendment would be needed in order to implement the changes outlined in the proposal. He would be happy to work with the Committee.
- Senator Birdsell noted that it is up to the Governor's Office and the Hospital Association to reach an agreement, and then an amendment can be made to the bill.
- Senator Rochefort noted that the bill needs to be reported out of the Committee by March 5th.

John Jurczyk, St. Joseph Hospital

- Mr. Jurczyk stated that he is the President of St. Joseph Hospital and is the Secretary Treasurer for the New Hampshire Hospital Association.
- As written, this bill would jeopardize the financial health of hospitals like St. Joseph.
- As a hospital that delivers both inpatient and outpatient services, they often shoulder the burden of uncompensated care for individuals who lack insurance or cannot afford necessary treatments.
- While this bill ensures hospitals will continue to receive Medicaid payments, it falls short in ensuring that access to services is not interrupted.
- This bill allocates 80% of funds collected under RSA 84-A to hospitals in 2026. This is an 11% drop in funding compared to last year.
- Even at the current 91% funding level, hospitals are struggling to fund key programs.
- Mr. Jurczyk noted that the state currently has several rural areas that are maternity deserts, and we are struggling to build capacity for behavioral health and substance use treatments.
- He emphasized that the hospitals of New Hampshire are community assets.
- Specialty services, such as geriatric psychiatry, maternity, and outpatient pediatrics generate losses in the millions for most hospitals. For St. Joseph Hospital, those three specific service lines generate a combined loss of \$8 million annually.

- As written, this will create a loss of \$6 million for St. Joseph Hospital. This is \$1.75 million more than under the prior agreement. This will jeopardize the viability of the aforementioned service lines that impact over 12,600 patients.
- Mr. Jurczyk emphasized that this impact will not be unique to them, as they are one of the 9 out of 26 hospitals that reported an operating loss in 2023.
- He emphasized that this bill will not maximize federal matching funds as written. With an increased match, state resources will be protected, and services will not be as threatened.
- Mr. Jurczyk urged the Committee to amend this bill to safeguard hospital services and protect access to care for all New Hampshire residents.
- Senator Rochefort referenced the formula proposed by Mr. Ahnen and asked if Mr. Jurczyk supports it. Mr. Jurczyk confirmed.
- Senator Avard asked how the MET assessment is collected, and Mr. Jurczyk explained it is usually paid on April 15th by each hospital.

Holly McCormack, Cottage Hospital

- Ms. McCormack stated that she is the President and CEO of Cottage Hospital. It is a critical access hospital located in Woodsville.
- Since the pandemic, Cottage Hospital has experienced a steady increase in volume. However, the increase in expenses continues to outpace the increase in volume and revenue.
- To remain competitive and recruit and retain competent staff, Cottage Hospital had to increase staff wages significantly. Their salary budget is 28% higher than it was in 2019. Despite this, recruitment and retainment continues to be a struggle.
- In addition, drug costs have increased by 25.6% from 2019 to 2023 and overall hospital supplies have increased by 42%.
- This increase in expenses has resulted in a negative operating margin for Cottage Hospital.
- The traditional business model that would normally pass these increases onto consumers cannot be followed in healthcare because they provide care regardless of ability to pay.
- The healthcare system in New Hampshire is already stressed and cracking. Under this model, hospitals will be harmed. Ms. McCormack fears some will not survive.
- Because New Hampshire hospitals often work together collaboratively and transfer patients for appropriate care, the closure of one hospital can have a wide-ranging and potentially harmful impact on patients.
- Ms. McCormack explained that Cottage Hospital has a geriatric psychiatry unit, which is the only 10-bed distinct part unit dedicated to serving the older population offered by a critical access hospital in New Hampshire.

- Because there is a provider shortage, they were having difficulty recruiting a psychiatrist to oversee the unit. With the help of Dartmouth Hitchcock, Cottage Hospital was able to find someone. This type of collaboration may also be threatened in the case of closure.
- As it currently stands, the changes to MET/DSH would make finding a path forward difficult for many hospitals.
- Senator Rochefort asked how Cottage Hospital is affected differently as a border hospital.
- Ms. McCormack explained that as a border hospital, they are taxed on their total revenue when assessed for the MET. This includes the revenue from serving both Vermont and New Hampshire patients.
- Senator Rochefort clarified that they are getting taxed for everything but only get paid back for their New Hampshire patients. Ms. McCormack confirmed.

Matthew Houde, Dartmouth Health

- Mr. Houde introduced himself as the Vice President of Government Relations with Dartmouth Health.
- He is speaking to the implications of starting at 80% for Mary Hitchcock Memorial Hospital.
- There is an approximate \$25,000 difference in what they pay for MET and receive in DSH. Alternatively, there is an almost \$26 million difference in what they would receive in DSH payments compared to the previous agreement.
- Mr. Houde acknowledged that this is a significant amount to absorb, and he would argue that they cannot absorb those costs seamlessly.
- Mr. Houde emphasized focus on the rural concerns for diminishment and retrenchment if this model were to move forward.
- Dartmouth Health has invested significant resources in telehealth, addressing maternity deserts, and establishing remote clinical sites. Under this model, they would have no choice but to scale back some of those investments.
- Mr. Houde urged the Committee to acknowledge the challenges and threats that exist with maintaining the established access levels.
- Senator Prentiss asked what this recalibration will cost Dartmouth Health both in terms of dollars and services.
- Mr. Houde explained that they were facing financial challenges in fiscal year 2022 and thus implemented a performance improvement plan to find \$120 million in savings for expenses.
- He emphasized this is not a question of margins or being efficient. The margin in fiscal year 2024 was 1.75%. Thus, they must ask some of the difficult questions about their impact in rural areas and how much they can partner with and support stakeholders in the community.

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Date Hearing Report completed: March 4, 2025