

CHAPTER 15. MEDICAL PROVIDER TAXES

The 2003 Legislature created four new taxes, collectively referred to here as the Medical Provider Taxes. These four taxes are: (1) hospital tax, (2) long-term care facility tax, (3) medicaid managed care tax, and (4) tax on programs of all-inclusive care for elderly persons (repealed in 2007). These taxes are used to finance Medicaid services and leverage additional federal funds. Only the hospital and long-term care facility taxes are discussed here because they are the only ones with tax expenditures.

Hospital tax

The assessment on each hospital subject to this tax is imposed at a rate determined by the director of the Department of Human Services (DHS) and is revised as needed. The tax rate used is the best estimate of the rate needed to fund identified services and costs. The rate may not exceed 1.5 percent of net revenue of each hospital. For the period beginning January 1, 2008, the tax rate is 0.63 percent. The tax applies to net revenues earned by hospitals before the earlier of October 1, 2009 or the date the tax no longer qualifies for federal matching funds. Net proceeds from this tax are deposited in the Hospital Quality Assurance Fund. These revenues are to be used to partially fund an Oregon Health Plan (OHP) standard hospital benefit, to increase Medicaid rates to certain hospitals, and to restore the practice of allowing OHP eligibility retroactively, after medical costs have already been incurred. Other potential uses for these funds include expanding, continuing or modifying hospital services for persons 19 years of age or older with incomes below the federal poverty guidelines who do not have federal Medicare coverage. Hospital tax receipts are forecast to be \$82.5 million for the 2007-09 biennium and \$10.5 million for the 2009-11 biennium.

Long-term care facility tax

The assessment for this tax equals the rate times the number of patient days at the long-term care facility for a calendar quarter. The Oregon Department of Human Services director establishes an annual assessment rate that applies for a 12-month period beginning July 1. The rate was initially \$8.25, and has increased to \$14.85 as of July 2008. The assessment is imposed in calendar quarters beginning before July 1, 2014. Net proceeds from this tax are deposited in the Long-Term Care Facility Quality Assurance Fund. These revenues are intended to increase nursing facility reimbursement rates and improve the financial stability of the nursing home industry. Long-term care facility tax receipts are forecast to be \$76.7 million for the 2007-09 biennium and \$82.8 million for the 2009-11 biennium.

15.001 TYPE A AND B HOSPITALS

Oregon Statute: Note following 409.750, Section 2(1)

Sunset Date: None (Tax sunsets 09-30-2009 or at cessation of federal matching funds.)

Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$14,700,000
2009–11 Revenue Impact:	\$4,200,000

* *There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt hospitals is shifted to non-exempt hospitals.*

DESCRIPTION: Type A and B hospitals in Oregon are waived from paying the hospital provider tax. Also waived are hospitals that provide only psychiatric care. Type A hospitals have fewer than 50 beds and are more than 30 miles from another hospital. Type B hospitals have fewer than 50 beds and are less than 30 miles from another hospital. Type A and B hospitals are paid on a cost to charge ratio for Medicaid clients.

In general, to obtain federal matching funds the hospital tax must be broad based—it must apply to all hospitals. Exceptions to this rule may be granted by The Centers for Medicare and Medicaid Services under certain circumstances. The Centers for Medicare and Medicaid Services approved the Department of Human Services (DHS) requested waiver of Type A and B hospitals and psychiatric hospitals from the broad-based tax requirement on August 17, 2004.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to Type A and B hospitals and the Oregon State Hospital from the hospital provider tax assessment.

WHO BENEFITS: Psychiatric hospitals and 32 Type A and Type B hospitals.

EVALUATION: *by the Department of Human Services*

The hospital provider tax assessment is used to create a pool of State Other Funds revenue, along with the Federal matching of those funds, to be used to enhance payments to Diagnosis Related Group hospitals for treating Medicaid clients and providing hospital benefits for up to 25,000 Oregon Health Plan Standard clients. Type A & B hospitals are reimbursed at 100 percent of the hospital specific cost to charge ratio for Medicaid clients. If a hospital provider tax is assessed, DHS is unable to increase reimbursement above 100 percent without losing federal matching dollars. If the tax expenditure were discontinued, the costs for Type A & B hospitals would increase and Medicaid would not be able to reimburse hospitals for this additional cost. Current statutes afford these hospitals preferential reimbursement recognizing their importance to rural Oregon. Additional costs would strain their financial health.

15.002 VETERANS AFFAIRS AND PEDIATRIC SPECIALTY HOSPITALS

Oregon Statute: Note following 409.750, Section 2(6)
 Sunset Date: None (Tax sunsets 09-30-2009 or at cessation of federal matching funds.)
 Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$3,900,000
2009–11 Revenue Impact:	\$1,100,000

** There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt hospitals is shifted to non-exempt hospitals.*

DESCRIPTION: Hospitals operated by the U.S. Department of Veterans Affairs and pediatric specialty hospitals providing care to children at no charge are exempt from the hospital tax.

PURPOSE: To comply with federal law. The U.S. Department of Veterans Affairs is a federal entity and not subject to state taxation, and exempt pediatric specialty hospitals that provide care to children at no charge.

WHO BENEFITS: U.S. Department of Veterans Affairs and certain pediatric specialty hospitals in Oregon.

EVALUATION: *by the Department of Human Services*
 The hospital provider tax assessment is used to create a pool of State Other Funds revenue, along with the federal matching of those funds, to be used to enhance payments to Diagnosis Related Group hospitals for treating Medicaid clients and providing hospital benefits for up to 25,000 Oregon Health Plan Standard clients. Department of Veterans Affairs Hospital and pediatric specialty hospitals that provide free care are exempt from taxation because DHS does not pay for services provided by the facilities and the facilities would not receive enhanced reimbursement if they were taxed.

15.003 OREGON VETERANS’ HOME

Oregon Statute: Note after 409.750, Section 18(1)
 Sunset Date: None (Tax sunsets 06-30-2014)
 Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$1,500,000
2009–11 Revenue Impact:	\$1,500,000

** There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt long-term care facilities is shifted to non-exempt long-term care facilities.*

DESCRIPTION: The Oregon Veterans’ Home is exempt from the long-term care facility tax. It is state owned and privately managed.

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PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid taxing a state owned entity.

WHO BENEFITS: The Oregon Veterans’ Home and its residents and the spouses of residents.

EVALUATION: Not evaluated.

15.004 NURSING FACILITIES

Oregon Statute: Note after 409.750, Section 18(2)
 Sunset Date: None (Tax sunsets 06-30-2014)
 Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$11,100,000
2009–11 Revenue Impact:	\$11,500,000

** There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt long-term care facilities is shifted to non-exempt long-term care facilities.*

DESCRIPTION: Two types of nursing facilities are exempt from the long-term care facility tax: nursing facilities that are part of continuing care retirement communities; and nursing facilities in which a high percentage (more than 85 percent) of the residents are Medicaid clients.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to meet the federal regulatory hold harmless provisions. Continuing care retirement centers, which generally do not participate in Medicaid, and facilities with a high percentage of Medicaid clients must be excluded from taxation.

WHO BENEFITS: Nursing facilities in retirement communities and those with a significant reliance on Medicaid payments.

EVALUATION: Not evaluated.