

Strengthening the Annual Hospital Assessment to preserve Tennessee's infrastructure

The Annual Coverage Assessment Act, SB438/ HB738, will enable the state to partially avoid cuts that face TennCare, the Department of Mental Health and the Department of Intellectual and Developmental Disabilities. But, as the assessment bill is now drafted, Tennessee's infrastructure will still face hundreds of millions of dollars in cuts. *It doesn't have to be that way.*

Background

Under the bill being promoted by the Tennessee Hospital Association, most hospitals will again pay a coverage fee to fund the TennCare program. The state increases payments to the hospitals for indigent care, and those increases offset the cost of the fee. The bill's purpose is to enable the state to draw down federal matching funds allocated to Tennessee, funds the state would otherwise be unable to match. The bill imposes no net costs on state government or on the hospital industry as a whole.

The bill will raise the fee from this year's level of 3.52% of private hospitals' net operating revenues to 4.52% in Fiscal Year 2012. According to the bill's fiscal note, the TennCare Bureau estimates the measure will raise an estimated \$449.8 million in state revenues. The part of those revenues spent to support TennCare will qualify for \$572.6 million in federal match.

Analysis

As presently amended, the bill still leaves a lot of federal matching funds on the table:

- Federal law permits states to set the rate of such assessments at 5.5% until September 30, 2011, and at 6.0% thereafter.
- As amended, the bill only assesses a fee of 4.52% throughout FY 2012.
- If the rate were at the federal maximum of 5.5% of net operating revenues for the first quarter of FY 2012, and 6.0% during the remaining three quarters, the coverage fee would generate approximately \$744.3 million in federal funds. That is **\$171.7 million more** than the bill now proposes.
- If properly designed, the fee could draw down those additional funds without any cost to the state or to the hospital industry as a whole.

Tennessee needs to use all available federal matching funds to sustain its infrastructure. At the 4.52% rate, TennCare still faces cuts exceeding \$200 million. The effect will damage the cornerstones of a health and social service infrastructure developed over decades. Tennesseans will see an immediate, serious impact on the availability and quality of services for the most vulnerable:

- Nursing home services for the elderly
- The community mental health safety net that serves children and adults in crisis
- Community services that enable families to care at home for loved ones with severe disabilities.

Why does THA's proposal not make full use of Tennessee's allotment of federal matching funds? If the rate is set to draw down the full federal allotment, the industry as a whole still does all right. But apparently not every THA member hospital does as well as it would like. The state cannot afford to let these few institutions veto an adequate rate, especially since, **without the bill, all hospitals will suffer TennCare losses that THA leaders say will be "catastrophic."**