

Oregon's Provider Tax System Can Provide the Path to Rebuild the Oregon Health Plan and Bring Health Care to All Children

Provider taxes and the matching funds they secure from the federal government are critical to the financing of the Oregon Health Plan (OHP).

But changes in federal regulations and the expiration of the state law that authorizes these taxes will put this financing in jeopardy in 2009. Unless we renew and restructure existing provider taxes, we will lose the funding that supports the expansion population of OHP Standard and have to reduce payments in the larger OHP Plus program.

This proposal offers a path to renewing, restructuring and expanding our provider tax system to:

- sustain the Oregon Health Plan;
- enroll those now on waiting lists and others who qualify for coverage under OHP Standard; and,
- finance the Governor's Healthy Kids Plan, which will provide affordable coverage to all children in Oregon.

Provider Taxes Benefit All Oregonians

In the 2007-09 biennium, the state will collect \$215 million in provider taxes from hospitals and Medicaid managed care organizations. These dollars will generate another \$343 million in federal matching funds to pay for health care coverage for low-income adults. Combined, these funds sustain coverage under the OHP Standard program (also known as the "expansion population") and support payments to hospitals and Medicaid managed care organizations for providing services to all OHP enrollees.

This arrangement provides benefits to providers, to the Oregonians who are enrolled in OHP and to all Oregonians who pay for health insurance.

- Hospitals benefit by getting back what they pay in provider taxes in the form of increased revenues for treating patients enrolled in OHP.
- Low-income Oregonians benefit by gaining access to health care coverage.
- All Oregonians benefit from lower health care costs – by reducing the number of uninsured patients, we reduce the costs of treating the uninsured that hospitals pass on to those with private insurance.

The Need for Change and the Opportunity to Do More

Oregon's current provider tax system is now in jeopardy. The state's provider tax law expires in September 2009. At the same time, the federal government will enforce new rules which will deny matching payments for certain provider taxes, such as the tax paid exclusively by Medicaid managed care organizations.

As a result, we must renew and restructure our provider taxes to continue to secure the federal matching funds which are crucial to the survival of the Oregon Health Plan as we know it.

This is also an opportunity to secure more federal matching funds to expand coverage to children and low-income adults, while averting further cost shifts to those with private health insurance and protecting reasonable operating margins for hospitals and insurers.

Expand Provider Taxes to Tap an Additional Billion Dollars in Unused Federal Funds

The federal government has approved more Medicaid matching funds for the Oregon Health Plan than we've been able to use, because the state has not been able to come up with its (38%) share to secure these federal funds. These unused federal funds exceed a billion dollars in the current two-year budget period.

Each dollar in provider taxes will be matched with \$1.66 in federal Medicaid funds.

These funds will be used to:

- **Provide affordable health coverage to all children in Oregon** – extending coverage to lower-income families and, in conjunction with existing private plans, cover 95% of all children in Oregon by 2011; and,
- **Rebuild the Oregon Health Plan Standard program to reach the low-income adults it was designed to cover** – extending coverage to Oregonians who are eligible for federal matching funds. Our goal is to cover 100,000 low-income adults by 2011 and continue to increase enrollments thereafter.

Benefits will flow to the providers who pay the tax, the children and adults who gain health care coverage, the hospital and doctors who provide care for these persons and all Oregonians with health insurance who will be protected from further cost shifts from the delivery of medical care to the uninsured.

Hospitals throughout Oregon will get back most of what they pay in new revenues from new paying patients. It is estimated that a hospital provider tax of 4% would be sufficient to finance these expansions of coverage. Ambulatory surgical centers will be included in this tax.

Rural hospitals will reap extra benefits. As is the case now, smaller, rural hospitals (all with fewer than 50 beds designated as 'A' and 'B' hospitals) will be exempt from the tax, but they will continue to benefit from expanded coverage of the uninsured.

Doctors will benefit from new paying patients who are currently uninsured and unable to pay for or obtain physician services.

Insurers would pick up the amounts now paid by managed care organizations, now 5.5%. But by spreading this among all commercial insurers, a rate of 1.5% would be sufficient to fully fund the Healthy Kids program.

The Oregon Health Plan will benefit with a sustainable funding base that keeps pace with health care cost increases.

All Oregonians with health insurance will benefit by reducing the cost shift that penalizes private insurance plans and employers who purchase health insurance. Hospitals acknowledge that they charge more to private insurance plans to make up for the cost of treating the uninsured. As we reduce the number of uninsured, we should stem the cost shift to employers and working families.

Oregon's economy will benefit, as we bring in more than a billion dollars in new federal funds into Oregon's economy – creating more than 4,000 new jobs and providing new services in our local communities.