



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: September 8, 2011

TO: Legislative Finance Committee

FROM: Lois Steinbeck  
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RE: Overview of Medicaid Provider Fees/Taxes

### Purpose

The following summary provides an overview of Medicaid provider fees and taxes as an introduction for the Legislative Finance Committee. The Committee added Medicaid provider fees as an item to its interim work plan.

### Medicaid Provider Fees/Taxes in General

States, including Montana, levy fees on certain health services and use the revenue to pay a portion of the state match for Medicaid services. In most instances, the fees collected by Montana have been used to fund higher reimbursement rates for Medicaid services to businesses that provide the services. In FY 2011, 46 states and Washington D.C. imposed at least one Medicaid provider fee (see attachment for a listing by state).<sup>i</sup>

### Montana Provider Fees

Montana levies three Medicaid provider fees, which are those that are most commonly imposed by all states. The services assessed a Medicaid provider fee in Montana, the FY 2011 receipts by service, and the rate and unit of taxation are:

- Hospitals - \$21.8 million (\$50.00 per inpatient bed day)
- Nursing homes - \$14.5 million (\$8.30 per bed day)
- Intermediate care facilities for the developmentally disabled (ICFMR/DD)<sup>ii</sup> - \$0.2 million (per bed day rate varies - \$46.20 estimated for FY 2012)<sup>iii</sup>

In Montana, provider fees are an integral component of funding hospital and nursing home Medicaid services. For example, absent the state matching funds provided by the hospital bed fee, the Medicaid reimbursement rate would have paid 69% of the cost of providing hospital services<sup>iv</sup> in FY 2009. Over the last several years, the hospital bed day fee provides sufficient state match to raise reimbursement rates to 95% - 97% of the cost of providing services.<sup>v</sup>

## Federal Rules

The federal government has a fiscal interest in ensuring that states do not draw down federal Medicaid matching funds in excess of the cost of Medicaid services and divert federal Medicaid funds to other uses. Therefore, it has enacted rules governing the use of provider fees and taxes.

Federal rules:

- Establish classes of health services that can be taxed
- Require that fees be broad based and uniform (imposed on all providers in a class and at the same rate for all providers)
- Require that no provider be held harmless (state cannot guarantee that a provider paying the tax will receive increased Medicaid reimbursement sufficient to cover the cost of the tax)
- Require that total tax receipts are not more than 6% of the net patient revenue by provider class or health service items subject to the tax
- Allow waivers of the broad based and uniform tax requirements if proposed fees meet certain statistical tests and financial thresholds<sup>vi</sup>

Federal rules also allow the Centers for Medicare and Medicaid to reduce the amount of state Medicaid expenditures eligible for federal participation by the amount of revenue generated by health care-related taxes that do not comply with federal rules governing such taxes.

## Deficit Reduction

The amount and type of Medicaid provider taxes have been subjects of discussion related to federal deficit reduction. However, historically changes in state Medicaid financing mechanisms have been made incrementally with transition implementation over several years.

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<sup>i</sup>Vernon K. Smith, Ph.D., Kathleen Gifford, Eileen Ellis, Robin Rudowitz and Laura Snyder, Kaiser Commission on Medicaid and the Uninsured, "Hoping for Economic Recovery, Preparing for Health Reform: A Look at Medicaid Spending, Coverage and Policy Trends Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2010 and 2011", September 2010, p. 77.

<sup>ii</sup> The Montana Developmental Center is the only ICFMR/DD in Montana.

<sup>iii</sup> The utilization fee is 6% of the quarterly revenue of the intermediate care facility divided by the resident bed days for the quarter - 15-67-102(2), MCA.

<sup>iv</sup> This statistic applies only to hospitals that are not critical access hospitals. Medicaid and Medicare reimburse critical access hospitals 100% of allowable cost. FY 2009 is the most recently completed year for which data is available.

<sup>v</sup> Ibid.

<sup>vi</sup> Code of Federal Regulations, Title 42, Chapter IV, Subchapter C, Part 433.68.

**Table 1: Provider Taxes in Place in the 50 States and the District of Columbia  
FY 2010-2011**

States	Hospitals		ICF/MR-DD		Nursing Facilities		Managed Care Organizations		Other		Any Provider Tax	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Alabama	X	X			X	X			X	X	X	X
Alaska												
Arizona							X	X			X	X
Arkansas	X	X	X	X	X	X					X	X
California		X	X	X	X	X			X	X	X	X
Colorado	X	X	X	X	X	X					X	X
Connecticut					X	X					X	X
Delaware												
District of Columbia	X	X	X	X	X	X	X	X			X	X
Florida	X	X	X	X	X	X					X	X
Georgia		X			X	X					X	X
Hawaii												
Idaho	X	X			X	X					X	X
Illinois	X	X	X	X	X	X					X	X
Indiana			X	X	X	X					X	X
Iowa		X	X	X	X	X					X	X
Kansas	X	X				X					X	X
Kentucky	X	X	X	X	X	X			X	X	X	X
Louisiana			X	X	X	X			X	X	X	X
Maine	X	X	X	X	X	X			X	X	X	X
Maryland	X	X	X	X	X	X	X	X			X	X
Massachusetts	X	X			X	X			X	X	X	X
Michigan	X	X			X	X				X	X	X
Minnesota	X	X	X	X	X	X	X	X	X	X	X	X
Mississippi	X	X	X	X	X	X					X	X
Missouri	X	X	X	X	X	X			X	X	X	X
Montana	X	X	X	X	X	X					X	X
Nebraska			X	X							X	X
Nevada					X	X					X	X
New Hampshire	X	X			X	X					X	X
New Jersey	X	X	X	X	X	X	X	X	X	X	X	X
New Mexico							X	X	X	X	X	X
New York	X	X	X	X	X	X			X	X	X	X
North Carolina			X	X	X	X					X	X
North Dakota			X	X							X	X
Ohio	X	X	X	X	X	X					X	X
Oklahoma					X	X					X	X
Oregon	X	X			X	X	X		X	X	X	X
Pennsylvania	X	X	X	X	X	X	X	X			X	X
Rhode Island	X	X	X	X	X	X	X	X			X	X
South Carolina	X	X	X	X							X	X
South Dakota			X	X							X	X
Tennessee		X	X	X	X	X	X	X			X	X
Texas			X	X			X	X			X	X
Utah		X	X	X	X	X					X	X
Vermont	X	X	X	X	X	X			X	X	X	X
Virginia				X								X
Washington	X	X	X	X			X	X			X	X
West Virginia	X	X	X	X	X	X					X	X
Wisconsin	X	X	X	X	X	X			X	X	X	X
Wyoming												
<b>Total</b>	<b>29</b>	<b>34</b>	<b>33</b>	<b>34</b>	<b>37</b>	<b>38</b>	<b>12</b>	<b>11</b>	<b>14</b>	<b>15</b>	<b>46</b>	<b>47</b>

Source: Kaiser Commission on Medicaid and the Uninsured  
 Medicaid Financing Issues: Provider Taxes, May 2011, p. 05.