OLR RESEARCH REPORT

October 28, 2013 2013-R-0407

HOSPITAL FUNDING IN OTHER STATES

By: Nicole Dube, Principal Analyst
James Orlando, Associate Attorney
Robin K. Cohen, Principal Analyst

You asked if other states (1) subsidize acute care hospitals' uncompensated care, (2) issue bonds for capital improvements to acute care hospitals, or (3) provide other financial assistance to these hospitals.

SUMMARY

Other states subsidize acute care hospitals' uncompensated care, including Massachusetts, New Jersey, and South Carolina. Massachusetts' Health Safety Net Trust Fund reimburses hospitals for essential health services they provide to low-income, uninsured residents. Its funding comes from annual assessments on hospitals' private sector charges, surcharges, and state funds. New Jersey's Hospital Care Payment Assistance Program offers similar subsidized assistance to indigents using a dedicated fund, while South Carolina's program is a county-based program that is funded by state appropriations.

States take a variety of approaches regarding bonding for hospital capital improvements, in terms of frequency and amounts of bonding for this purpose. Some states, such as California, New Jersey, and Wisconsin, have established financing authorities to issue bonds to help finance capital improvements at hospitals and other health care

Sandra Norman-Eady, Director
Phone (860) 240-8400
FAX (860) 240-8881
http://www.cga.ct.gov/olr

Connecticut General Assembly
Office of Legislative Research

Room 5300
Legislative Office Building
Hartford, CT 06106-1591
Olr@cga.ct.gov

organizations. Some other states generally do not issue bonds for hospitals (e.g., Vermont) or limit bonding to state-owned institutions (e.g., Oregon and Pennsylvania).

In addition to subsidizing charity care or offering bonding for capital improvements, states offer other types of financial assistance to hospitals, such as grant or loan programs (which may be supported by bonding, federal grants, or other sources). Below, we offer a few examples of such programs. If you would like more information about any particular state or type of program, please let us know.

UNCOMPENSATED CARE

According to the American Hospital Association, hospitals across the country provided more than $41 billion in uncompensated care in 2011. This includes both charity care and "bad debt." It does not include government underpayments (such as Medicaid reimbursements). Below we describe the systems used in Massachusetts, New Jersey, and South Carolina.

Massachusetts

In 1985, Massachusetts created an Uncompensated Care Pool (UCP) to reimburse acute care hospitals and community health centers (CHCs) for uncompensated care provided to eligible low-income underinsured and uninsured residents. The pool was intended to (1) distribute the burden of uncompensated care among hospitals and CHCs and (2) eliminate financial disincentives for providing care to these populations.

In 2006, the state passed a comprehensive health care reform law that created near-universal health insurance coverage for residents. As part of this law, the UCP was replaced with the Health Safety Net Trust Fund (HSN). Like the UCP, the HSN reimburses hospitals and CHCs for essential health care services provided to low-income uninsured and underinsured residents (including both charity care and bad debt). It is not an insurance program and does not pay for medical services (1) provided by private physicians or specialty care groups or (2) covered under private or public (i.e., Medicare and Medicaid) health insurance (M.G.L. Chapter 118G, Section 36 et seq.).

The HSN is administered by MassHealth, the state's Medicaid program. Patients apply for free care at a hospital or CHC, which then sends the application to MassHealth for an eligibility determination. MassHealth first determines whether the patient is eligible for any other private or public health care coverage. Residents who are uninsured or

underinsured and have income up to 200% of the federal poverty level (FPL) are eligible for full coverage; residents with income between 201% and 400% of the FPL are eligible for partial coverage, which includes a sliding scale deductible. (In 2013, the FPL is $15,510 for a two-person household.)

According to the Health Safety Net 2011 Annual Report, the HSN is primarily funded from three sources, in amounts determined by the legislature:

1. an annual assessment on acute care hospitals' private sector charges ($160 million in FY 11);

2. an annual surcharge on payments made to hospitals and ambulatory surgical centers by HMOs, insurers, third party administrators, and individuals ($160 million in FY 11); and

3. annual state General Fund appropriations ($30 million in FY 11).

When the HSN experiences a funding shortfall (i.e., demand exceeds available funding), the law requires the shortfall to be distributed among hospitals based on their (1) share of statewide patient care costs and (2) "proportional financial requirement for reimbursements from the fund" (M.G.L. Chapter 118G, Section 39(6)(b)).

The HSN reimburses hospitals based on Medicare payment principles. This means that rates vary according to the mix of cases served by the hospitals. Hospitals that treat a higher number of patients with complex medical needs receive higher payments.

New Jersey

The New Jersey Hospital Care Payment Assistance Program offers free or reduced charge care for eligible patients for necessary care at acute care hospitals. The program is funded through the Health Care Subsidy Fund.

To apply for the program, patients must apply at the hospital itself. To be eligible, patients must (1) be uninsured or have coverage that pays only part of the bill, (2) not be eligible for private- or government-sponsored coverage, and (3) meet the program's income and asset guidelines. According to the income guidelines, patients with incomes at or below 200% of the FPL are eligible for full coverage. Patients with incomes above that, up to 300% of the FPL, are eligible for partial coverage on a sliding scale. According to the asset guidelines, the

program is restricted to patients with individual assets up to $7,500 and family assets up to $15,000 (but they can spend down to meet these limits, by paying the excess toward the hospital bill and other approved out-of-pocket medical expenses).

According to the state Department of Health, the state will provide $675 million in charity care subsidies through this program in FY 14. A New Jersey Hospital Association document explains recent changes to the program: http://www.njha.com/media/34672/CharityCare101.pdf

South Carolina

South Carolina counties operate the Medically Indigent Assistance Program (S.C. Code Ann., § 44-6-132), which funds inpatient hospital services for needy individuals who do not qualify for Medicaid. The program offers fully subsidized care to individuals with income less than 100% of the FPL and partially subsidized care to individuals with family income between 100% and 200% of the FPL. The state reimburses hospitals that participate in the program provided their certificate of need application includes certain information, including how the services they provide will meet the health needs of medically underserved groups and the extent to which medically underserved populations currently use the hospital's services compared to the percentage of the medically underserved in the service area.

Clink onto this link from the official state website for more information about the program.

BONDING FOR HOSPITAL CAPITAL IMPROVEMENTS

Below we highlight three examples of states that issue bonds to finance capital improvements to hospitals: California, New Jersey, and Wisconsin. All three have created financing authorities by statute to issue bonds to finance capital improvements for health care organizations.

In addition to financing capital improvements or similar projects, states may also issue bonds for other purposes related to hospitals. For example, as reported in the *Portland Press Herald*, Maine recently sold a $220 million liquor revenue bond, using the proceeds to pay $183 million the state owed to hospitals for Medicaid reimbursements.

Please note that some states do not issue bonding for hospitals or only do so rarely. For example, according to Oregon's legislative fiscal office, the state only bonds for state-owned buildings, which generally

excludes hospitals. The state recently rebuilt the state-owned psychiatric hospital and bonded for the project. According to Pennsylvania's Bureau of Revenue, Capital and Debt in the Governor's Office, any state bonding for hospitals would be restricted to state-run hospitals. According to Vermont's Green Mountain Care Board, the state does not typically issue bonds for hospitals' capital improvements. However, the state may be financing certain capital improvements to rebuild facilities damaged by storms.

California

The California Health Facilities Financing Authority (CHFFA) provides loans, grants, and tax-exempt bonds to public and non-profit health care providers, including hospitals and several other types of facilities (Ca. Gov't Code § 15430 et seq.). CHFFA issued over $1.96 billion in bonds in 2012, and has issued over $29.1 billion in bonds since its inception.

Bond Financing Program. CHFFA's bond financing program gives eligible health care facilities access to low-interest loans funded by the bond issuance. Borrowers for small projects (minimum of $500,000) are sometimes pooled into a single bond financing, so that they can share bond issuance costs. Under the program, facilities can use financing for, among other things, facility construction, expansion, remodeling, or renovation; land acquisition; acquisition of existing facilities; refinancing prior debt; and bond issuance costs.

Children's Hospital Program. Under the Children's Hospital Program, the state provides capital grants to eligible children's hospitals. In 2004, California voters passed Proposition 61, authorizing the state to issue $750 million in general obligation bonds to fund the program (Cal. Health & Safety Code § 1179.10 et seq.). In 2008, California voters passed Proposition 3, authorizing the state to issue $980 million in general obligation bonds for the same purpose (Cal. Health & Safety § 1179.50 et seq.).

Under the 2004 program, CHFFA accepts grant requests of up to $30 million for eligible University of California children's hospitals and up to $74 million for other eligible children's hospitals. Under the 2008 program, CHFFA accepts grant requests of up to $39.2 million for eligible University of California children's hospitals and up to $98 million for other eligible children's hospitals. (Grants are generally reduced by bond issuance costs and administrative costs.)

Grant funds can be used for hospital construction, expansion, remodeling, renovation, furnishings, or equipment or financing or refinancing of capital assets. Hospitals cannot use grant funds for the costs of issuance for project financing or refinancing. They can use funds for land acquisition under certain conditions.

The 2004 program awarded over $36 million in grants in 2012, and has awarded over $682 million in grants since its inception. The 2008 program awarded over $226 million in grants in 2012 and has awarded over $606 million in grants since its inception.

New Jersey

The New Jersey Health Care Facilities Financing Authority (N.J. Stat. Ann. § 26:2I-1 et seq.) is the primary issuer of municipal bonds for the state's health care organizations. The law initially authorized the authority to provide financing only to nonprofit health care providers. In 1998, the legislature expanded the financing authority to include all health care organizations. According to the authority's 2012 Annual Report, since 1972, the authority has issued over $18 billion in bonds on behalf of about 150 health care organizations.

Organizations can use the financing for, among other things, acquisition, construction, improvement, renovation, or rehabilitation of lands, buildings, and equipment, and refinancing (N.J. Stat. Ann. § 26:2I-3). According to the 2012 Annual Report, the authority issued over $459 million in bonds in 2012, in addition to over $29 million in other financing. Only 4% of that amount was for new projects; the rest was for refunding prior projects, cost of issuance, and debt service reserves.

Wisconsin

According to Wisconsin's Legislative Fiscal Bureau, Wisconsin law has established two independent authorities that can issue bonds for hospital capital improvements.

In addition, legislation in 2007 (Act 20) authorized $1 million in general fund-supported, state general obligation bonds for a $4 million hospital project (Bond Health Center in Oconto). Legislation in 2005 (Act 25) authorized $10 million in general fund supported, state general obligation bonds for a $40 million project (Children's Research Institute at the Wisconsin Children's Hospital and Health System).

Health and Educational Facilities Authority. The Wisconsin Health and Education Facilities Authority (WHEFA) provides low-cost capital financing for nonprofit institutions, including health care institutions, through the sale of revenue bonds (Wisc. Stat. Ann. § 231.01 et seq.). The law initially allowed the authority to provide financing to only nonprofit health care institutions. The legislature expanded this authorization several times; in 2013, it was expanded to include all nonprofit institutions. Institutions can use financing for, among other things, facility construction, expansion, renovation, or remodeling; land or building acquisition; and reasonable financing costs.

According to the Legislative Fiscal Bureau, WHEFA-issued bonds are not considered state debt under the state's constitutional debt limit. The state also has no obligation to repay WHEFA debt if its revenues are insufficient to meet debt service costs. As of June 30, 2012, WHEFA had outstanding revenue bonds of about $8.6 billion.

During the fiscal year ending June 30, 2013, WHEFA completed 47 bond issues totaling over $1.7 billion. As of June 30, 2013, WHEFA has issued over $19.8 billion in bonds since the program's inception.

University of Wisconsin Hospitals and Clinics Authority. The University of Wisconsin Hospital and Clinics Authority (which manages the university's hospital and clinics) can issue bonds for any corporate purpose. To issue new bonds, the authority needs the approval of the Joint Finance Committee and the Department of Administration secretary. This approval is not required to refinance the authority's existing bonds or indebtedness (Wisc. Stat. Ann. § 233.20 to 233.26).

According to the Legislative Fiscal Bureau, as of June 30, 2012, the authority had $234.9 million in outstanding bonds.

OTHER FINANCIAL ASSISTANCE FOR HOSPITALS

Below, we highlight three examples of other state programs offering financial assistance for hospitals. Some of these programs may be supported by bonding.

California's HELP II Loan Program

In addition to the bonding and children's hospital programs noted above, California has other programs offering financial assistance to health care facilities. One example is the HELP II Loan Program, which offers loans of up to $1 million to nonprofit small or rural health facilities, with an interest rate of 3%. The program is available to health

facilities (1) with gross annual revenues of up to $30 million and (2) in rural areas, without revenue limitations. Among other things, facilities may use the loans to purchase, construct, renovate, or remodel real property; purchase equipment and furnishings; or refinance existing debt under certain conditions. CHFFA specifies that facilities may not use loans for day-to-day operational expenses.

Since the program's inception in 1988, CHFFA has loaned more than $87 million under the program.

Illinois Jobs Now! Program

In August 2013, Illinois Governor Pat Quinn announced more than $71 million in grants to over 100 hospitals throughout the state. The funding is part of the Illinois Jobs Now! capital construction program.

While some grants are for as much as $3.5 million, most are in the $150,000 to $400,000 range. Examples of grant purposes include equipment upgrades, building renovations, and information technology upgrades. For details on the grant recipients, amounts, and purposes, see the governor's office press releases for August 8, 2013.

The Jobs Now! Program was created by 2009 legislation. Funding for the $31 billion program is through a combination of state bonding and federal and local matching funds.

Massachusetts Grants and Health Policy Commission

In September 2013, Massachusetts Governor Deval Patrick's administration announced $14.5 million in funding to 57 hospitals. According to a press release, the funding was included in the FY 13 state budget and the awards are supported by federal matching funds. Funding was awarded for the following five priority areas at hospitals and community health centers:

1. developing fully integrated health care delivery systems (such as integrating physical and behavioral health),

2. developing alternatives to fee-for-service payments that promote system sustainability,

3. improving health outcomes and quality,

4. enhancing outreach and enrollment, and

5. building strategic business and operations capacity.

More information on these five areas, as well as a list of grant recipients and amounts, is available in the press release.

Another source of grant funding for hospitals in Massachusetts is the Health Policy Commission, a state agency established in 2012 to monitor health care reform and develop policy to reduce the costs of health care while improving its quality. The commission administers certain grant programs. For example, the law requires the commission to establish a competitive process to award grants or other assistance for health care entities developing, implementing, or evaluating promising models in health care payment and service delivery (Mass. Gen. Laws Ann. ch. 6D, § 7).

The commission also administers the Distressed Hospital Fund, funded by a one-time assessment on certain hospitals (Mass. Gen. Laws Ann. ch. 29, § 2GGGG). According to a presentation in July 2013 by one of the commission's committees, the assessment is expected to generate approximately $119 million. The commission is still in the process of approving requests for proposals to award grants from this fund through the community hospital acceleration, revitalization, and transformation (CHART) grant program. For more information on the program, see this presentation from the commission's October 16, 2013 board meeting.

ND/JO/RC:ts