



# HOUSE BILL 383: Medicaid Modernized Hospital Assessments.

2021-2022 General Assembly

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<b>Committee:</b>		<b>Date:</b>	September 8, 2021
<b>Introduced by:</b>		<b>Prepared by:</b>	Jennifer Hillman Staff Attorney
<b>Analysis of:</b>	S.L. 2021-61		

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**OVERVIEW:** *S.L. 2021-61 enacts two modernized hospital assessments that support continued funding for Medicaid payments to hospitals under the new Medicaid managed care system that began July 1, 2021. The modernized assessments replace two hospital assessments that historically provided funding for Medicaid payments to hospitals but that could not continue to be operated in the same manner upon the transition of the Medicaid program to managed care.*

*The repeal of the 2020 Revised Hospital Assessments became effective July 1, 2020. The remainder of the act became effective July 1, 2021.*

## **BACKGROUND:**

**2011 Hospital Provider Assessment Act (S.L. 2011-11):** In 2011 the General Assembly enacted two hospital assessments in Article 7 of Chapter 108A of the General Statutes as a mechanism to draw down increased federal Medicaid dollars to enable the State to pay hospitals additional Medicaid amounts above the revenues earned by hospitals in the form of Medicaid claims payments. These additional amounts are referred to as "supplemental payments". A portion of the receipts the State received from these hospital assessments, called "State retention," has been used to help fund the rest of the State Medicaid program. The amount collected from hospitals under the 2011 hospital assessments was calculated by the Department of Health and Human Services (DHHS) quarterly to equal the amount of money needed for the State share of the supplemental payments plus the State retention amount.

**2015 Medicaid Transformation Legislation (S.L. 2015-245):** In 2015 the General Assembly enacted Medicaid transformation legislation requiring the Medicaid fee-for-service program to transition to a managed care model. Under a waiver approved by the federal Centers for Medicare and Medicaid Services (CMS), the State began paying commercial and nonprofit prepaid health plans a monthly per-person, capitated rate to cover Medicaid services for their enrollees on July 1, 2021.

**2020 Revised Hospital Assessments (S.L. 2020-88, repealed by Section 1 of S.L. 2021-61):** Federal regulations prohibited the State from operating the 2011 hospital assessments upon the transition of the Medicaid program to managed care. To ensure continued assessment collections, the General Assembly enacted Section 15.1 of S.L. 2020-88, which repealed the 2011 hospital assessments and replaced them with two revised hospital assessments to begin July 1, 2021. The revised hospital assessments each utilized a fixed percentage of hospital costs to be set by the General Assembly annually. The rates to be used for the first quarter of the 2021-2022 fiscal year were set in S.L. 2020-88. Because of the uncertainty involved in converting the 2011 hospital assessments to prospective fixed rates during the first year of managed care operations, Section 15.2 of S.L. 2020-88 authorized the use of funds from the Medicaid Contingency Reserve to cover any shortfall in receipts during the 2021-2022 fiscal year, and Section 15.3 created the

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# House Bill 383

Page 2

Hospital Assessment Fund to hold potential over-collections of receipts to be used to decrease the assessment rates in the 2021-2022 taxable year.

## **BILL ANALYSIS:**

**Modernized Hospital Assessments:** This act repeals the revised hospital assessments enacted in S.L. 2020-88 and replaces them with two modernized hospital assessments that are more like the 2011 assessments because they are calculated by DHHS based on a statutory formula and data available during the applicable fiscal year. However, like the 2020 revised hospital assessments, the modernized hospital assessments serve as a replacement funding mechanism for the 2011 hospital assessments.

**Section 1** repeals the revised hospital assessments that were enacted in S.L. 2020-88, retroactively effective July 1, 2020. This repeal was enacted before the revised hospital assessments were ever utilized, and the revised hospital assessments were effectively entirely replaced by the modernized hospital assessments established in Section 2.

**Section 2** enacts modernized hospital assessments in Article 7B of Chapter 108A of the General Statutes, effective July 1, 2021, consisting of a public hospital assessment and a private hospital assessment, with the following features:

- The public hospital assessment applies to hospitals that are qualified to certify public expenditures under federal Medicaid regulations, and the private hospital assessment applies to hospitals that are not qualified to certify public expenditures. The following hospitals are exempt from both assessments: critical access hospitals, specified hospitals within the UNC Healthcare System, the primary hospital affiliated with East Carolina University Brody School of Medicine, freestanding psychiatric hospitals, freestanding rehabilitation hospitals, long term care hospitals, and State-owned and State-operated hospitals.
- Each assessment is assessed as a percentage of total hospital costs. Each quarter, DHHS determines the assessment percentages according to a statutory formula and determines the amount of the assessment owed by each subject hospital based on the assessment percentages. This approach takes into account changing conditions, such as enrollments, federal match percentages, and capitation rates, during the fiscal year.
- The total amount to be collected from both assessments represents a portion of the State share of Medicaid expenses for hospital services (paid through managed care capitation rates, fee-for-service claims, and Graduate Medical Education) plus the State retention and minus certain intergovernmental transfers from hospitals that offset State Medicaid costs. The CMS market basket percentage is used as the annual inflation factor for the components of the total amount to be collected in future years.
- Of the total amount to be collected from both assessments, the statutory formula allocates a percentage to be collected through the public hospital assessment and a percentage to be collected through the private hospital assessment, based on the percentage of assessment collections that historically have been paid by each hospital type under the 2011 hospital assessments.
- Whenever certain changes in hospital status have occurred (*e.g.*, a change of ownership from public to private or private to public, a hospital closure, etc.), or DHHS has been notified of a possible change, a report is due to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice proposing any needed adjustments to the formula.

**Section 2.1** contains a technical clarification to account for the enhanced federal Medicaid funding available to the State under the federal Families First Coronavirus Response Act.

# House Bill 383

Page 3

During the first quarter of managed care operations, some of the data necessary to calculate the modernized hospital assessment rates will not exist. Accordingly, **Section 3** sets the percentage rates for the modernized hospital assessments for the first quarter.

Once the data for the first quarter is available, **Section 4** requires DHHS to calculate a reconciliation component by comparing the amount of the assessments collected during the first quarter under the rates set in Section 3 to the amount of the assessments that would have been collected for the first quarter under the statutory formula with the data from the first quarter. The reconciliation component will increase or decrease the assessment rates in the second quarter of managed care operations to account for any over- or under-collection during the first quarter, and the reconciliation process does not continue in subsequent quarters.

Because the Medicaid reimbursement environment may change after the transition to managed care, **Section 5** requires DHHS to submit a report to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice by January 1, 2026, on a proposal to adjust the annual inflation factor used in the modernized hospital assessments beginning July 1, 2026.

**EFFECTIVE DATE:** The repeal of the 2020 Revised Hospital Assessments became effective July 1, 2020. The remainder of the act became effective July 1, 2021.