

Recession cut hospitals' relief from new tax

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Faced with dramatic increases in bad debt and charity care during the economic recession, Wisconsin hospitals will get far less financial relief than they initially anticipated out of the state's controversial hospital tax.

Double-digit increases in bad debt and charity care will consume about half the net gain Wisconsin hospitals will realize through the new tax, levied in March, according to the Wisconsin Hospital Association, Fitchburg.

While hospitals never pledged to use the additional tax revenue to cut the rates they charge the private sector, rate relief was the primary reason business groups such as the Metropolitan Milwaukee Association of Commerce and the Greater Milwaukee Committee supported the hospital tax.

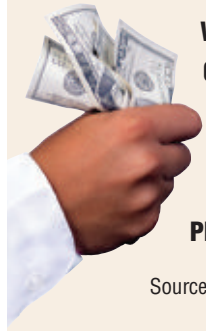
Without the tax, hospital rate increases, which were 5 percent to 8 percent in Milwaukee this year, undoubtedly would have been higher, said Eric Borgerding, vice president of the Wisconsin Hospital Association. Still, Borgerding said, the positive impact hospitals were hoping the tax would have is being overshadowed by the recession.

"The economy and the shortfall in Medicaid reimbursement rates are just pieces of a hospital's total financial picture," Borgerding said. "But the direct impact, dollar for dollar, of the tax is blunted by the fact that we've seen such a massive increase in charity care and bad debt."

The Wisconsin Legislature passed the hospital tax in March. As part of the state budget bill passed in June, lawmakers increased the rate

Tax plan

Under the hospital tax, the net gain for Wisconsin hospitals is approximately \$200 million per year. The following is the net benefit expected to southeastern Wisconsin hospital systems in fiscal years 2009 to 2011.



WHEATON FRANCISCAN HEALTHCARE, GLENDALE: \$151 million
CHILDREN'S HOSPITAL & HEALTH SYSTEM, WAUWATOSA: \$99.7 million
AURORA HEALTH CARE, MILWAUKEE: \$67.3 million
FROEDTERT & COMMUNITY HEALTH, WAUWATOSA: \$36.6 million
COLUMBIA ST. MARY'S INC., MILWAUKEE: \$29.3 million
PROHEALTH CARE, WAUKESHA: \$4.3 million

Source: Wisconsin Department of Health Services

hospitals are taxed. The current tax is 1.56 percent of gross patient revenue from fiscal 2007.

The federal government matches money generated by the tax at a rate of 65 cents for every \$1 raised. About 30 percent of the pooled money will be used to fund expanded state health care programs, such as BadgerCare Plus for childless adults. The remaining money will be returned to the hospitals through higher Medicaid payments.

In Wisconsin, hospitals currently receive about 48 cents from the state for every \$1 it costs to treat low-income and disabled patients covered by the government's Medicaid.

To make up for the gap in Medicaid reimbursement, hospitals have to charge more to patients with private insurance, hospital administrators say. In 2007, Wisconsin hospitals cost-shifted \$635 million to commercial insurers to close the Medicaid gap, according to the hospital as-

sociation.

The hospital tax is expected to increase the reimbursement rate for Medicaid to about 70 cents.

Because most hospitals, particularly in southeast Wisconsin, will receive more money than they paid in taxes, they could use the net proceeds to slow the growth rate of price increases of commercial charges.

QUESTIONS RAISED

Questions about the tax benefit to the private sector were raised in a July 31 report from the Web site HCTrends.com, a local health care data tracking firm.

The analysis showed that, even if Wisconsin hospitals returned all the money they get from the hospital tax, the private sector will see only a 5 percent reduction in both inpatient and out-

patient costs.

The savings will equal about \$695 per inpatient stay, according to the analysis.

"I don't think the business community knew what to expect (from the hospital tax), which is part of the reason we did this," said Dave Jensen, editorial director of HCTrends.com.

Jensen said the true test of how much the tax is benefiting the private sector will be when hospitals file their annual rate increases next year.

Hospitals saw a 20 percent increase in bad debt and charity care in the fourth quarter of 2008 compared with the same time period in 2007. Borgerding expects the trend has continued through the first half of 2009.

The HCTrends analysis shows Milwaukee hospitals could net up to \$141 million from the tax and matching federal funds in fiscal 2009.

While the hospital tax will not close the cost-shifting as much as it might have in a more stable economy, it was still necessary to increase the federal government's share of Medicaid funding in Wisconsin, said Phil Dougherty, senior executive officer of the Wisconsin Association of Health Plans, which represents 18 health insurance plans.

Dougherty said the HCTrends analysis mixes two separate issues — the economy and the Medicaid reimbursement shortfall — which implies the tax won't be effective because of the economic downturn.

That assumption is not true, Dougherty said. "Our view remains the same, and that is the hospital assessment addresses a significant problem and its benefit remains, despite any other financial issues the hospitals may be going through," Dougherty said.



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