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ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

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**DATE:** February 12, 2010  
**TO:** Interested Parties  
**FROM:** Thomas J. Betlach, Director  
**SUBJECT:** Provider Tax Update

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As a follow-up to the November 2009 report, AHCCCS has continued to provide technical support and respond to questions from stakeholders and legislative staff regarding Provider Tax issues. As part of our efforts to increase transparency, AHCCCS is making some additional information available. AHCCCS takes no position on Provider Taxes and none of these items have been included in the Executive Budget. This information is solely being provided as technical support in response to numerous questions we have received from various stakeholders.

AHCCCS has had some preliminary discussions with staff at the Center for Medicare and Medicaid Services (CMS) to review some of the more technical aspects of how to define net revenues for both hospitals and nursing facilities. Based on CMS input, AHCCCS developed a draft methodology for how net revenues would be defined based on Hospital Medicare Cost Reports. Those definitions can be found in [Attachment A](#).

Based on the above definitions, AHCCCS has established a [Hospital Impact Model \(1<sup>st</sup> tab of the Excel worksheet\)](#). The data for the model comes from either AHCCCS or the Medicare Cost Reports. This information has NOT been validated by our hospital partners. If any hospitals have concerns about their estimates, AHCCCS welcomes the opportunity to review the data. If adjustments need to be made, AHCCCS will update the table based on additional information.

The model was designed to be interactive for the user. The establishment of any Provider Tax requires multiple policy decisions. AHCCCS does not have any position on these issues but simply wants to provide technical support. Some of those decisions have been included in the model. Each hospital may plug-in different information in the decision points (blue cells) to determine a potential impact.

- At what rate should inpatient or outpatient revenues be taxed? Please note that federal law limits provider taxes to 5.5%.
- What are the costs of restoring DSH and GME funding and what hospitals benefit from having those funds restored based on FY 2009 payments?
- What hospitals currently receive the Rural Hospital Payment and what amounts are attributable to that program?

- If the decision were made to increase inpatient or outpatient reimbursement, what would be the costs and which hospitals are projected to benefit?
- If all hospitals received Indirect Medical Education reimbursement from Medicaid similar to an IME program that existed for rural hospitals, what would be the benefit by hospital?

In addition to the individual hospital impact, AHCCCS has also created a model that can be used to look at the potential impact of any adjustments to the [Insurance Premium Tax \(2<sup>nd</sup> tab of the Excel worksheet\)](#). Again the model is interactive and requires the user to determine the rate they would like to see modeled.

Finally, AHCCCS has a [Summary model \(3<sup>rd</sup> tab of the Excel worksheet\)](#) that combines the assumptions made in the Hospital and Premium Insurance Tax models and builds an overall summary showing the net impact to the General Fund.

*\*\*\* If you are a hospital representative and need technical support in using and understanding these models, please contact [JeanEllen.Schulik@azahcccs.gov](mailto:JeanEllen.Schulik@azahcccs.gov). \*\*\**

## Attachment A

Definitions		
	Hospital Inpatient Revenues	Hospital Outpatient Revenues
<b>High Level</b>	Revenues from general inpatient routine care services for hospital, subprovider, intensive care unit, coronary care unit, burn intensive care unit, surgical intensive care unit, and inpatient related ancillary services less the in-patient portion of contractual allowances and discounts, and less the inpatient portion of bad debt expense.	Revenues from outpatient services and the inpatient portion of ancillary services less the outpatient portion of contractual allowances and discounts, and less the outpatient portion of bad debt expense.
<b>Detail Level</b>	<p>The amounts that tie to the hospital's most recently audited income statement , as of January 1, 2010, that correspond to the following data as designated on form CMS 2552-96 Medicare Cost Report as required by 42 CFR413.20 and 42 CFR 413.24. Where there is no form CMS 2552-96 designation, the amount will tie to the most recently audited income statement.</p> <p>Worksheet G-2, column 1, lines 1, 2, 10, 11, 12, 13,14</p> <ul style="list-style-type: none"> <li>• <i>Plus</i> Worksheet G-2, column 1, line 17 (ancillary services) multiplied by <b>Z</b>, the percentage applicable to hospital inpatient services</li> <li>• <i>Minus</i> Worksheet G-3, column 1, line 2 (contractual allowance and discounts) multiplied by <b>X</b>, the percentage applicable to hospital inpatient services.</li> <li>• <i>Minus</i> The Inpatient portion of bad debt expense which ties to the above-mentioned audited income statement.</li> </ul> <p>Where <b>Z</b> = an estimated percentage of the hospital inpatient portion of ancillary services. Worksheet D-4 (Hospital, Title XIII), column 2, line 101 divided by the total of Worksheet D-4 (Hospital, Title XIII), column 2, line 101 plus Worksheet D-4 (SNF, Title XIII), column 2, line 101.</p> <p>Where <b>X</b> = the hospital inpatient portion of total patient revenues: The total of Worksheet G-2, column 1, lines 1, 2, 10, 11, 12, 13, 14, and portion of line 17 as computed above, divided by Worksheet G-3, line 1</p>	<p>The amounts that tie to the hospital's most recently audited income statement , as of January 1, 2010, that correspond to the following data as designated on form CMS 2552-96 Medicare Cost Report as required by 42 CFR413.20 and 42 CFR 413.24. Where there is no form CMS 2552-96 designation, the amount will tie to the most recently audited income statement.</p> <p>Worksheet G-2, column 2, lines 17 and 18</p> <ul style="list-style-type: none"> <li>• <i>Minus</i> Worksheet G-3, column 1, line 2 (contractual allowance and discounts) multiplied by <b>Y</b>, the percentage applicable to hospital outpatient services.</li> <li>• <i>Minus</i> The outpatient portion of bad debt expense which ties to the above-mentioned audited income statement.</li> </ul> <p>Where <b>Y</b> = the outpatient portion of total patient revenues: The total of Worksheet G-2, column 2, lines 17 and 18. divided by Worksheet G-3, line 1.</p>