

ASSEMBLY, No. 2888

STATE OF NEW JERSEY

INTRODUCED MAY 1, 1997

By Assemblywoman ALLEN and Assemblyman DeSOPO

1 AN ACT concerning charity care subsidies for hospitals and amending
2 P.L.1996, c.28.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

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7 1. Section 7 of P.L.1996, c.28 (C.26:2H-18.59e) is amended to
8 read as follows:

9 7. a. Beginning January 1, 1996 through December 31, 1997, and
10 except as provided in section 8 of P.L.1996, c.28 (C.26:2H-18.59f),
11 the charity care subsidy shall be determined according to the following
12 methodology.

13 If the Statewide total of adjusted charity care is less than available
14 charity care funding, a hospital's charity care subsidy shall equal its
15 adjusted charity care.

16 If the Statewide total of adjusted charity care is greater than
17 available charity care funding, then the hospital-specific charity care
18 subsidy shall be determined by allocating available charity care funds
19 so as to equalize hospital-specific payer mix factors to the Statewide
20 target payer mix factor. Those hospitals with a payer mix factor
21 greater than the Statewide target payer mix factor shall be eligible to
22 receive a subsidy sufficient to reduce their factor to that Statewide
23 level; those hospitals with a payer mix factor that is equal to or less
24 than the Statewide target payer mix factor shall not be eligible to
25 receive a subsidy.

26 Charity care subsidy payments shall be based upon actual
27 documented hospital charity care.

28 As used in this section:

29 (1) The hospital-specific "documented charity care" shall be equal
30 to the dollar amount of charity care provided by the hospital that is
31 verified in the department's most recent charity care audit conducted
32 under the most recent charity care eligibility rules adopted by the
33 department and valued at the same rate paid to that hospital by the
34 Medicaid program.

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and intended to be omitted in the law.

Matter underlined thus is new matter.

1 For 1996, documented charity care shall equal the audited,
 2 Medicaid-priced amounts reported for the first three quarters of 1995.
 3 This amount shall be multiplied by 1.33 to determine the annualized
 4 1995 charity care amount. For 1997, documented charity care shall be
 5 equal to the audited Medicaid-priced amounts for the last quarter two
 6 years prior to the payment period and the first three quarters of the
 7 year prior to the payment period;

8 (2) In 1996, the hospital-specific "operating margin" shall be equal
 9 to: the hospital's 1993 and 1994 income from operations minus its
 10 1993 and 1994 charity care subsidies divided by its 1993 and 1994
 11 total operating revenue minus its 1993 and 1994 charity care subsidies.
 12 After calculating each hospital's operating margin, the department shall
 13 determine the Statewide median operating margin.

14 In 1997, the hospital-specific "operating margin" shall be calculated
 15 in the same manner as for 1996, but on the basis of income from
 16 operations, total operating revenue and charity care subsidies data
 17 from the three most current years;

18 (3) The hospital-specific "profitability factor" shall be determined
 19 annually as follows. Those hospitals that are equal to or below the
 20 Statewide median operating margin shall be assigned a profitability
 21 factor of "1." For those hospitals that are above the Statewide median
 22 operating margin, the profitability factor shall be equal to:

$$\begin{array}{l}
 23 \\
 24 \qquad \qquad \qquad .75 \times (\text{hospital specific operating} \\
 25 \qquad \qquad \qquad \text{margin} - \text{Statewide median operating margin}) \\
 26 \quad 1 - \frac{\hspace{15em}}{\hspace{15em}} \\
 27 \qquad \qquad \qquad \text{highest hospital specific operating} \\
 28 \qquad \qquad \qquad \text{margin} - \text{Statewide median operating margin} \\
 29
 \end{array}$$

30 (4) The hospital-specific "adjusted charity care" shall be equal to
 31 a hospital's documented charity care times its profitability factor;

32 (5) The hospital-specific "revenue from private payers" shall be
 33 equal to the sum of the gross revenues, as reported to the department
 34 in the hospital's most recently available New Jersey Hospital Cost
 35 Reports for all non-governmental third party payers including, but not
 36 limited to, Blue Cross and Blue Shield plans, commercial insurers and
 37 health maintenance organizations;

38 (6) The hospital-specific "payer mix factor" shall be equal to a
 39 hospital's adjusted charity care divided by its revenue from private
 40 payers; and

41 (7) The "Statewide target payer mix factor" is the lowest payer mix
 42 factor to which all hospitals receiving charity care subsidies can be
 43 reduced by spending all available charity care subsidy funding for that
 44 year.

45 b. For the purposes of this section, "income from operations" and
 46 "total operating revenue" shall be defined by the department in

1 accordance with financial reporting requirements established pursuant
2 to N.J.A.C.8:31B-3.3.

3 c. Charity care subsidy payments shall commence on or after the
4 date of enactment of P.L.1996, c.28 and the full calendar year 1996
5 allocation shall be disbursed by January 31, 1997.

6 d. Notwithstanding the provisions of this section to the contrary,
7 and taking into account the overall effect the 3.23% reduction in total
8 charity care funding from 1996 to 1997 has on hospital-specific charity
9 care subsidies, a hospital's charity care subsidy in 1997 shall not be
10 increased by greater than 10% or decreased by greater than 12% of
11 its 1996 subsidy.

12 (cf: P.L.1996, c.28, s.7)

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14 2. This act shall take effect immediately and shall be retroactive to
15 January 1, 1997.

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STATEMENT

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20 This bill limits the increase or decrease of a hospital's charity care
21 subsidy in 1997 from the amount received in 1996, to no more than
22 10% or no less than 12% of the 1996 amount, after taking into
23 account the overall effect the 3.23% reduction in total charity care
24 funding from 1996 to 1997 has on hospital-specific charity care
25 subsidies. The provisions of the bill are retroactive to January 1,
26 1997. These limitations on increases and decreases in the charity care
27 subsidy will ensure that no hospital sustains a major loss or, in some
28 cases, a major increase in their charity care subsidy from one year to
29 the next.

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34 Provides that no increase in charity care subsidies to hospitals from
35 1996 to 1997 shall exceed 10% and no decrease shall exceed 12%.