

## Article 6: Relating to Fees

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### SECTION 5: HOSPITAL LICENSE FEE

The hospital license fee is a provider tax which the State levies on hospitals. This fee is federally capped at 6.0 percent and requires annual legislative action in order to continue. It is calculated as a percent of gross patient services revenue, which includes revenues from patient care activity but excludes other activities such as research, academic activity, or investment earnings. It is assessed against all community hospitals in Rhode Island, including the State-run Eleanor Slater Hospital. Bradley and Butler Hospitals and the Rehabilitation Hospital of Rhode Island are exempt from paying the fee because their primary services and patient beds are psychiatric in nature. Hospitals pay the fee each July but the revenues are booked as a receivable to the prior fiscal year.

Because the State's largest hospitals are non-profit and do not pay corporate income or property taxes, the hospital license fee is a considerable source of revenue for the State. In past fiscal years, the hospital license fee has been used as a mechanism to generate State funds, approximately one-third of which are then matched with federal Medicaid funds and returned to hospitals to offset uncompensated care costs through the Disproportionate Share Hospital (DSH) program. The hospital license fee and DSH are usually reauthorized at the same time; the Governor's Budget reauthorizes DSH payments in Article 14.

<b>Fiscal Year</b>	<b>Fee</b>	<b>Revenue</b>
FY2016	5.862%	\$169.0
FY2017	5.652%	168.8
FY2018	5.856%	182.0
FY2019	6.000%	180.8
FY2020	6.000%	193.8
FY2021 Gov.	6.000%	193.8
FY2022 Gov.	6.000%	178.2

*\$ in millions*

Article 6 increases the fee from 5.0 percent to 6.0 percent in FY2021 and reauthorizes the fee at 6.0 percent in FY2022. The rate is discounted by 37.0 percent for hospitals located in Washington County (South County and Westerly Hospitals). The Budget assumes \$193.8 million in revenue collections in FY2021, or \$32.3 million more than the Enacted Budget, and \$178.2 million in new revenues in FY2022, or \$15.6 million less than FY2020 and FY2021 collections.

#### **FY2021**

The hospital license fee was assessed at the statutory maximum of 6.0 percent in FY2019 and FY2020. However, due to planned federal cuts to the DSH program, the FY2020 Enacted Budget lowered the fee to 5.0 percent for FY2021 to recognize a corresponding reduction in revenues needed to make the DSH payment. The federal DSH cuts were ultimately delayed by the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) in December 2020. The Governor restores the fee to 6.0 percent, accordingly, to provide the additional DSH funds.

The 6.0 percent hospital license fee is expected to generate \$193.8 million in FY2021 based on a hospital fiscal year 2018 patient revenue base. The November 2020 revenue estimate included \$161.5 million from the 5.0 percent fee based on current law, which was included in the FY2021 Budget as Enacted in December 2020. The Governor's Revised Budget assumes an additional \$32.3 million in collections from the 1.0 percentage point increase.

*Analyst Note: The FY2021 fee is assessed against a hospital fiscal year 2018 revenue base. Typically, the fee is assessed against revenues from each hospital's most recently-completed fiscal year (two years behind the budget year), which would normally be 2019 revenues for FY2021. When the FY2021 fee was initially authorized, 2018 was the most recently-completed fiscal year that could be included in the enabling statute. Typically, the revenue base would have been updated in the FY2021 Enacted Budget once the 2019 data became available. Because the General Assembly enacted a "skinny" budget for FY2021, it did not include language to amend the base year. The Governor's Budget does not update the base year to 2019. Of note, a 6.0 percent fee assessed against 2019 revenues would generate an additional \$1.1 million.*

**FY2022**

The Governor’s Budget includes \$178.2 million in new revenues from the 6.0 percent hospital license fee in FY2022. This represents a significant loss compared to prior year hospital license fee collections, including a \$15.6 million revenue loss compared to the FY2021 Revised Budget.

Article 6 assesses the fee against hospital fiscal year 2020 patient revenues. Hospitals experienced a significant decline in activity in 2020 due to the onset of the COVID-19 pandemic and the mandated suspension of elective procedures that followed. According to initial reports from the Hospital Association of Rhode Island, COVID-19 resulted in an approximately 4.9 percent decline in revenues between 2018 and 2020. Because hospital fiscal year 2020 patient revenues are not yet available, the Budget uses an estimated figure to approximate the 2020 revenue base for the fee calculation.

<b>Hospital</b>	<b>2018 Hospital Revenues</b>	<b>Revenue Trend</b>	<b>2020 Hospital Revenues (est.)</b>	<b>License Fee Rate</b>	<b>FY2022 Fee Revenue</b>
Eleanor Slater Hospital	\$113,808,358	-94.6%	\$6,142,948	6.00%	\$368,577
Kent Hospital	333,131,126	-4.9%	316,850,578	6.00%	19,011,035
Landmark Medical Center	122,851,913	-4.9%	116,847,982	6.00%	7,010,879
Miriam Hospital	432,069,972	-4.9%	410,954,155	6.00%	24,657,249
Newport Hospital	107,157,575	-4.9%	101,920,646	6.00%	6,115,239
Rhode Island Hospital	1,261,059,365	-4.9%	1,199,429,767	6.00%	71,965,786
Roger Williams	162,804,976	-4.9%	154,848,487	6.00%	9,290,909
St. Joseph's	134,622,907	-4.9%	128,043,712	6.00%	7,682,623
South County Hospital	160,376,076	-4.9%	152,538,290	3.78%	5,765,947
Westerly Hospital	65,349,407	-4.9%	62,155,697	3.78%	2,349,485
Women & Infants	421,116,177	-4.9%	400,535,686	6.00%	24,032,141
<b>Total</b>	<b>\$3,314,347,852</b>		<b>\$3,050,267,948</b>		<b>\$178,249,870</b>

Also contributing to the revenue loss is a substantial decline in revenues from Eleanor Slater Hospital, which reported \$6.1 million in patient care activity in FY2020, a 94.6 percent decline from FY2018 activity of \$113.8 million. This results in a \$6.5 million loss in hospital license fee revenues. It is unclear at this time whether these revenues were properly reported.

*Analyst Note: Actual 2020 hospital revenues should be available in May 2021. The Governor’s Budget typically bases the calculation on the most recent data available, which is currently 2019 revenues. However, due to the expected decline in patient revenues from 2019 to 2020, the Budget includes the lower estimate to recognize that revenues would be overstated if the 2019 base year was utilized.*

*Additionally, the Governor’s Budget Amendment dated April 19, 2021, includes an adjustment to FY2020 patient revenues from Eleanor Slater Hospital, increasing revenues from \$6.1 million to \$16.1 million. This increases the FY2022 revenue assumption by \$596,363 to \$178,846,233.*