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*Hospital*

*Issues*

*Alert for*

*New Jersey's*

*Opinion*

*Leaders*

## SICK TAX WOULD LEAVE HOSPITALS WITH TOUGH CHOICES

New Jersey's hospitals are perched on the edge of a financial precipice where the slightest breeze could result in closures, layoffs and diminished access to care.

Why then is Gov. Corzine asking them for more money that they don't have?

The governor's 2007 budget calls for a sick tax that would charge hospitals \$1,424 per bed each month to raise \$430 million for the state's coffers. This is much more than a slight breeze. This tax is more like a 60-mph wind gust.

"For some hospitals, the money they'd be taxed could be the difference between staying open or closing their doors. And for others, the tax could force hospitals to cut jobs, eliminate certain healthcare services and reconsider investments like new technology," states NJHA President and CEO Gary Carter.

The state mandates that hospitals provide care to all regardless of their ability to pay. So New Jersey's healthcare providers are being asked to pay for care that they must provide. That's like requiring restaurants to feed the homeless and then taxing them to pay for it.

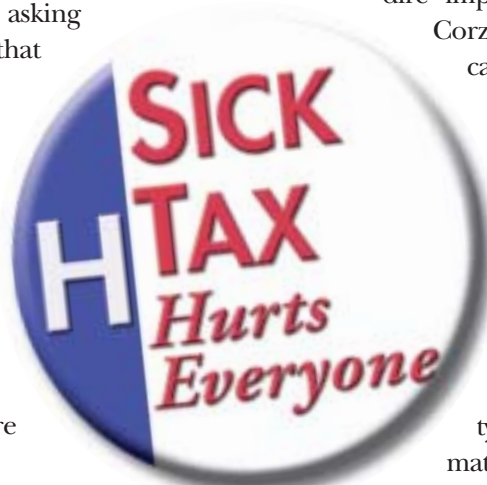
New Jersey hospitals already provide nearly \$55 million in state tax revenues each year through a 0.53 percent gross receipts tax and a \$10 per admission assessment. That money supports programs like the state's federally qualified healthcare centers. With the average hospital operating margin hovering at just 1 percent in

New Jersey, the additional tax would push many hospitals to the breaking point.

The sick tax isn't the only budget provision with dire implications for hospitals. The Corzine budget freezes charity care funding at \$583 million but eliminates \$65 million in hospital assistance grants for facilities that treat large numbers of underserved patients. And worse yet, the budget calls for using 2002 rates to determine hospitals' charity care reimbursements. With the charity care burden growing dramatically each year — it now stands at \$1 billion annually — the use of old data undercuts the amount of reimbursement returned to hospitals. And the gap between hospitals' costs and the state's reimbursement widens.

The Corzine team maintains that the sick tax is needed to pull in additional federal matching funds for New Jersey. The tax would generate \$430 million, with \$215 million going into the state's general fund. The remaining \$215 million would be used to procure federal matching funds. No one wants to see that money disappear, but there are several important considerations in this tax gimmick:

- These matching funds would apply to any state funding that is earmarked for Medicaid services. The money doesn't have to come from hospitals.
- Taxing hospitals leaves the state's healthcare infrastructure in an especially precarious situation, especially with no guarantee that the





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## Issues Alert for Opinion Leaders

### **FORGOTTEN VICTIMS: MENTAL HEALTH PATIENTS COULD FEEL BUDGET PAIN**

Lost amid much of this year's budget debate is a healthcare provision that could have troubling consequences for one of New Jersey's most vulnerable groups — those suffering from mental illness.

Gov. Jon Corzine's 2007 budget proposal would cut \$20 million for partial hospitalization services. These funds pay for hospital-based outpatient behavioral health services for both adults and children.

On paper, the Corzine budget appears to cut just \$7.5 million from the program. But a closer look reveals that the reduced funding would begin early, in October 2006. Those added months of reduced funding bring the impact to \$10 million. Coupled with a loss of federal matching funds, the partial hospitalization program stands to lose \$20 million.

New Jersey policymakers and the state's healthcare providers have

worked collaboratively for years to improve mental health services in the state. This tax would wipe out much of that progress. The cut is especially biased against intensive child and adolescent programs that have high staff-to-patient ratios and a greater need for psychiatric and nursing care. Healthcare providers agree that there is room to make behavioral healthcare more efficient. But unilaterally slashing these funds denies the level of care necessary for many of the state's patients.

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The cut also poses a great threat to the future availability of partial hospitalization mental health services in New Jersey. With funding reduced, fewer healthcare providers will be able to provide this necessary level of care. Programs will close, staff will be laid off. And a segment of New Jersey's mental health patients will lose their best option for treatment.

### **SICK TAX CONTINUED**

federal government will approve the tax. That's a big risk that could have tremendous consequences for New Jersey patients.

- These matching funds are far from a sure thing. The sick tax must win approval from the Centers for Medicare and Medicaid Services before the state would receive any matching funds. The Bush Administration is becoming increasingly skeptical of funding such schemes from states and has already proposed a change that would reduce the allowable amount for these matching funds from 5.5 percent of tax revenues to 3 percent.

And it's not just hospitals that would suffer the impact. If this tax passes, the consumer could pay the price, literally.

"The hospital industry could not sustain such a tax and would leave the industry no choice but to eventually pass along the cost to consumers," said Betsy Ryan, NJHA's general counsel and chief operating officer.