



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of
Health and Social Services**

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April 11, 2015

The Honorable Representative Steve Thompson
Co-Chair, House Finance Committee
Alaska State Capitol
Juneau, Alaska

Dear Representative Thompson:

On April 8, 2015, the House Finance Committee took up HB 148. During discussion, a question was asked regarding provider taxes. The question specifically asked for the estimated collections generated if the State were to assess the maximum allowable provider tax under federal law, which is 6 percent, on hospital and skilled nursing facility revenues.

While the question presented seems straightforward, the response must be substantially qualified for several reasons. First, there are different interpretations on what exactly constitutes taxable "revenues." For example, there are different classifications of revenue that could be considered (i.e. total revenue, patient-services revenue, investment revenue, non-operating revenue, etc.).

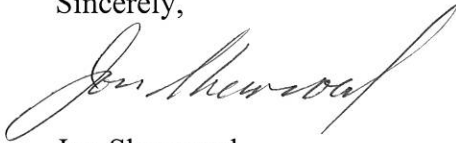
Provider taxes on hospitals and skilled nursing facilities can be calculated in a variety of ways, many of which do not involve revenues. For example, some provider taxes are based on total bed days, while others are based on number of discharges. If revenues are used to calculate the tax, depending on which revenue streams are used, it may not be practical to use a flat tax.

We would also add that the estimate cannot be viewed as a net increase in revenue to the state because, as in other states, the cost of paying the tax would be factored in to Medicaid rates for those providers. Nor can we say what facilities would have the financial capacity to pay the maximum allowable tax of 6 percent and remain solvent, even if Medicaid rates were adjusted.

Given these qualifications, we attempted to identify net revenues from patient services, and applied the maximum allowable tax of 6 percent as a hypothetical across all facilities. The result of this calculation is approximately \$100 million. Again, we emphasize that this is not what we would expect this tax to bring into to the state. We are looking forward to a thorough report and recommendations from a subject expert contractor, with input from the provider community, and will report those findings and recommendations to the Legislature in 2016.

Please distribute this response to the other members of the House Finance Committee.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jon Sherwood".

Jon Sherwood
Deputy Commissioner