

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 992 (1st Edition)

SHORT TITLE: Debt Setoff for Hospital Services

SPONSOR(S): Representatives Insko and Justus

| FISCAL IMPACT | | | | | |
|--|--------------------------|--------------------------|---|--------------------------|--------------------------|
| | Yes (X) | No () | No Estimate Available () | | |
| | <u>FY 2003-04</u> | <u>FY 2004-05</u> | <u>FY 2005-06</u> | <u>FY 2006-07</u> | <u>FY 2007-08</u> |
| REVENUES | | | | | |
| Dept. of Revenue | | | <u>* See Assumptions and Methodology *</u> | | |
| Public Hospitals | | | <u>* See Assumptions and Methodology *</u> | | |
| EXPENDITURES | | | | | |
| Dept. of Revenue | | | <u>* See Assumptions and Methodology *</u> | | |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue and Public Hospitals. | | | | | |
| EFFECTIVE DATE: Effective January 1, 2004 and applies to income tax refunds determined on or after that date. | | | | | |

BILL SUMMARY: The bill allows public hospitals to use the Department of Revenue's debt collection program to assist them in collecting unpaid debts owed to that public hospital for hospital services. Hospitals may not submit a debt to Revenue for collection if: 1) there is a written payment agreement between the hospital and the debtor and the debtor is current on that obligation; 2) payment by a third party payer is under appeal; or 3) the debtor demonstrates that their family income is at or below 150% of the federal poverty level.

ASSUMPTIONS AND METHODOLOGY: This legislation adds public hospitals to the Setoff Debt Collection Act, under which the Department of Revenue diverts part or all of an individual's income tax refund to pay a debt the individual owes to a State or local agency. Thus, the debt the individual owes the agency is set off against the individual's income tax refund. Before January 1, 2001, the setoff program was open only to State agencies. Now, counties and municipalities participate through a clearinghouse to limit the administrative burden on the Department of Revenue.

Like counties and cities, a public hospital would be authorized to submit its debts for collection by setoff only after providing the debtor with notice, an opportunity to be heard before the authority, and an appeal process pursuant to the Administrative Procedure Act. In

addition, the hospital could not submit the debt to Revenue if any of these three items are true:

1. The debtor and the hospital have entered into a written payment agreement and the debtor is current on that agreement.
2. Payment by a third party payer is under appeal.
3. The debtor demonstrates that their income is equal to or less than 150% of the federal poverty line.

Under a different portion of the statute, public hospitals are defined as hospitals owned by units of local government (counties and municipalities) as well as nonprofit hospitals. The North Carolina Hospital Association believes there are approximately 105 hospitals in the state that would fit this definition. While the Association reports that their members provide a total of \$1.4 billion in uncompensated care each year, only a small proportion of this amount would be collected through the new system, as some of that is charity care (and would be excluded under the 150% poverty test). This amount would also be limited, as the debt would only be collected through Revenue if the debtor was scheduled to receive a state tax refund.

Currently the state provides this service for cities, counties, UNC Hospitals, and the state psychiatric hospitals. As noted previously, counties and municipalities submit their debts for setoff by the Department of Revenue through a clearinghouse. According to officials from the Hospital Association, the Department of Revenue, and the County Commissioners Association (which oversees the clearinghouse), the public hospitals have agreed to submit their claims through this clearinghouse. Assuming the clearinghouse is used, the Department of Revenue indicates that whatever additional cost they may incur through the program will be offset by the \$15 collection fee they charge. Therefore, there is no negative fiscal impact associated with this legislation.

SOURCES OF DATA: NC Hospital Association.

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