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SFA BILL ANALYSIS

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House Bill 5507 (as reported without amendment)
Sponsor: Representative Terry Geiger
First House Committee: Family and Children Services
Second House Committee: Appropriations
Senate Committee: Families, Mental Health and Human Services

Date Completed: 5-24-00

RATIONALE

Under the Social Welfare Act, counties that provide Medicaid-funded nursing home services in county-owned facilities must reimburse the State according to a county "maintenance of effort" rate determined under the Act. The current formula was enacted in 1984 and is based, in part, on the variable costs of operating county-owned facilities. Since the rate of some counties would have been higher under the 1984 formula than it was under the previous law, the 1984 amendments provided that the older rate would remain in effect until computations under the new formula produced a lower rate. This hold-harmless provision originally was scheduled to expire after five years, but it was extended in 1990, 1994, 1995, 1996, and again in 1997, and currently is scheduled to sunset on December 31, 2000. Since the expiration of the cap on counties' maintenance of effort rates could result in higher costs to some counties, it has been suggested that the cap again be extended for a three-year period.

CONTENT

The bill would amend the Social Welfare Act to extend for three years, until December 31, 2003, provisions under which a county's maintenance of effort (MOE) rate for Medicaid-funded nursing home services is limited to the MOE rate in effect on September 30, 1984.

Under the Act, the State Department of Community Health (DCH) is required to pay for nursing home services in accordance with the State plan for medical assistance, but a county is required to reimburse a county MOE rate determined on an annual rate for each patient day of Medicaid nursing home services provided to eligible persons in licensed long-term care facilities owned by the county. If a county-owned facility's "per patient day updated variable costs" exceed the variable cost limit for the facility, the rate is "45% of the difference between per patient day updated variable cost and the concomitant nursing home-class variable cost limit, the quantity offset by the difference between per patient day updated variable cost and the concomitant variable cost limit for the county facility". If a facility's per patient day updated variable costs do not exceed the variable cost limit for the facility, the rate is 45% of the difference between per patient day updated variable cost and the concomitant nursing home class variable cost limit. The rate is zero for a facility with per patient day updated variable costs that do not exceed the concomitant nursing home class variable cost limit.

If the county MOE rate computed according to these provisions exceeds the rate in effect as of September 30, 1984, the rate in effect on that date is to remain in effect until the rate computed under the Act is less than the 1984 rate. This limitation is scheduled to expire on December 31, 2000. For each subsequent county fiscal year the maintenance of effort rate may not increase by more than $1 per patient day each year.

The bill would extend the December 31, 2000, expiration date to December 31, 2003.

MCL 400.109

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would give counties three more years to adjust their variable costs so that their maintenance of effort rate under the current statutory formula is less than what they would have had to pay under the pre-1984 rate. If the existing freeze on rates is not extended, some counties might experience financial difficulty in meeting their obligation to support medical care facility operations. This could have the long-range effect of causing some medical care facilities to close.

The sunset was extended a number of times, on an annual basis, and then for a three-year period in 1997. The provision should be extended for three more years.

Legislative Analyst: P. Affholter

FISCAL IMPACT

Nominally this bill would have no direct fiscal impact on the FY 2000-01 DCH budget as the estimated revenue from counties for Medicaid long-term care services, in county-owned facilities, was not adjusted for possible changes in the maintenance of effort (MOE) rate. The State will forego the opportunity to collect additional revenue to offset General Fund/General Purpose (GF/GP) expenditures, of someplace in the area of $1,000,000 annually, as approximately 30 county facilities will have their MOE rate increased by up to $1 per patient day if the current moratorium lapses. It should be noted that if these additional costs to the counties placed the continued operation of these facilities in danger, then the State would have to deal with the possibility of closures and substantial transfers of elderly and disabled patients with unknown costs. Finally, these county facilities are a major link in one of the State's Medicaid special financing mechanisms. The loss of their participation could cost the State around $150,000,000 in GF/GP offset.

Fiscal Analyst: J. Walker