



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-2768  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 1063 (S-1 Draft 1 as reported)  
Committee: Appropriations

**FY 2003-04 Year-to-Date Gross Appropriation ..... \$9,712,606,100**

**Changes from FY 2003-04 Year-to-Date:**

- 1. **Medicaid Match Rate.** The Federal Medicaid match rate will decrease from its average rate of 58.10% in FY 2003-04 to 56.71% in FY 2004-05, costing \$102,569,300 GF/GP. 0
- 2. **Medicaid Base, Caseload, and Utilization Adjustments.** The Senate Subcommittee concurred with the Executive's base adjustments for Medicaid programming. 261,498,200
- 3. **Medicaid Special Financing.** The Senate Subcommittee concurred with the Executive's adjustments to Medicaid special financing. Due to a continued phase-out of such mechanisms, GF/GP savings from special financing will decline by \$152 million. (318,238,600)
- 4. **Healthy Michigan Fund.** The Senate Subcommittee rejected the Executive's proposed expansion of Healthy Michigan Fund programming. Instead the Subcommittee used the \$26,785,800 in new revenue to supplant GF/GP in Medicaid. 0
- 5. **Actuarially Sound Rates for Managed Care.** The Senate Subcommittee concurred with the Executive's proposed 2% increase for Community Mental Health and 7.5% increase for Medicaid Health Maintenance Organizations (HMOs). The Subcommittee included language limiting the HMO contracts to one year. 153,361,400
- 6. **Medicaid Cost Reductions.** The Senate Subcommittee concurred with the Executive on various reductions to Medicaid programming, including pharmacy cost reductions, an end to paying for nursing home hospital leave days, and the removal of one-time funding for the Detroit Medical Center. The Senate Subcommittee also took savings from a proposed contract with a private firm to identify Medicaid overpayments. (138,488,000)
- 7. **Restoration of Medicaid Optional Services.** The Senate Subcommittee restored funding for Medicaid adult dental, chiropractic, podiatric, and hearing aid services. 27,720,000
- 8. **Economic Adjustments.** Standard economic adjustments were made. 38,333,000
- 9. **Tobacco Revenue.** The Senate Subcommittee budget transferred \$68,200,000 in Tobacco revenue to support the Medicaid base. 0
- 10. **Other Changes.** The net change due to other changes results in an increase to the budget. 6,981,500
- 11. **Comparison to Governor's Recommendation.** The Senate Subcommittee budget was \$498,170,000 GF/GP over the Executive budget. This was due to the Subcommittee not taking a position on the \$513,400,000 in Tobacco and Estate tax revenue included as Restricted revenue in the Executive budget. In terms of GF/GP and GF/GP equivalent funding, the Senate Subcommittee budget was \$15,330,000 GF/GP under the Executive.

Total Changes..... \$31,169,300

**FY 2004-05 Senate Appropriations Subcommittee Gross Appropriation ..... \$9,743,775,400**

**Changes from FY 2003-04 Year to Date:**

1. **Hiring Freeze.** The Senate Subcommittee retained current year language imposing a hiring freeze on State classified civil service. The Executive proposal deleted this section. (Sec. 205)
2. **Contingency Funds.** The Executive proposal restored contingency fund language that had been included prior to Fiscal Year 2003-04. The Senate Subcommittee rejected this language. (Sec. 206)
3. **Restrictions on Travel.** The Senate Subcommittee included language prohibiting the Department from spending funds for travel outside the State of Michigan. In addition, the language prohibits the Department from spending on travel in Fiscal Year 2004-05 more than 50% of the amount spent on travel in FY 2003-04. (Sec. 266)
4. **Two-year Implementation Period for Actuarially Sound Capitation Rates for Community Mental Health Service Providers (CMHSPs).** The Senate Subcommittee included language requiring the Department to request a waiver from the Centers for Medicare and Medicaid Services to obtain approval to implement over a two-year period actuarially sound capitation rates for Medicaid mental health and substance services provided by CMHSPs. The Subcommittee rejected similar language for Medicaid physical health services that was included in the Executive proposal (see Sec. 1700). (Sec. 451)
5. **Medicaid Managed Care.** The Senate Subcommittee included language limiting to one year all new contracts with managed care organizations to provide Medicaid physical health services. In addition, the language would require the Department to study alternative approaches to providing Medicaid physical health services to clients currently served by HMOs. The study is to examine the following approaches: continuation of the current managed care approach, returning to a fee-for-service system, implementing a primary care case management approach, and contracting with a single managed care organization that would provide statewide coverage for Medicaid clients. (Sec. 1700)
6. **Two-tier Reimbursement Methodology for Medicaid Emergency Physicians.** The Senate Subcommittee concurred with the Executive proposal to reduce the physician emergency room visit payment rate but retained the two-tier reimbursement methodology language that the Executive proposal rejected. Modifications to the current year language were made to ensure that the savings can be attained. (Sec. 1711)
7. **Disproportionate Share Hospital (DSH) Payments.** The Senate Subcommittee included language requiring the Department to create two pools of DSH funding. The first pool, totaling \$40 million, would be distributed by providing each eligible hospital 8/9ths of the payment they received in FY 2003-04. The second pool, totaling \$5 million, would be distributed to unaffiliated hospitals and hospital systems that received less than \$900,000 in DSH payments in FY 2003 based on a formula that is weighted proportional to the product of each system's Medicaid revenue and utilization. (Sec. 1717)
8. **Study on Payments to Hospitals for Maternity Services.** The Senate Subcommittee included language requiring the Department to provide a report to the Legislature that compares Medicaid fee-for-service, Medicaid HMO, and commercial insurance payment rates to hospitals for providing labor and delivery services. The report shall include information on costs incurred by hospitals for providing such services and information on payments and costs by geographic region. (Sec. 1719)

Date Completed: 3-22-04

Fiscal Analysts: Steve Angelotti  
Dana Patterson