Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

Governmental Nursing Home QAAP & QAAP Sunset

House Bill 5055 (S-1)
Sponsor: Rep. Caswell
Analysis (October 12, 2005)

BRIEF SUMMARY: HB 5055 would amend the Public Health Code to update provisions related to the quality assurance assessment program (QAAP) for nursing homes and hospitals that have been implemented to reduce state GF/GP costs and finance Medicaid payment rate increases to the affected providers. The bill would: (1) include county-operated medical care facilities in the nursing home QAAP; (2) change the nursing home assessment from a per day bed tax to a tax based on non-Medicare patient days of care; (3) increase the amount retained by the State by $18.0 million, consistent with the FY 2005-06 DCH budget; and (4) extend the sunset date for the hospital QAAP from September 30, 2007 to September 30, 2008. In addition, the Department of Community Health would be required to seek federal approval for a two-tiered nursing home tax and to exempt "continuing care retirement centers" from the QAAP.

FISCAL IMPACT: Beginning in 2002, Michigan established several health care provider assessment programs as a means to provide Medicaid rate increases for hospitals, nursing homes, and health maintenance organizations and leverage additional federal Medicaid matching funds. These initiatives are also referred to as Quality Assurance Assessment Programs (QAAP).

Under these financing arrangements, a tax is imposed by the State on a broad class of health care providers and the revenues are appropriated in the Community Health budget to fund increases in the payment rates for Medicaid funded services. Because the state funds allocated in this manner qualify for federal Medicaid matching funds, the result is a very significant increase in the Medicaid payment rates.

Provider taxes require federal approval and must be broad based and uniformly imposed on an entire class of providers. In addition, the assessment cannot include a hold harmless provision to repay the provider for the fees paid.

The net impact of the assessment fee varies for each facility based on the volume of Medicaid services it provides. Those that serve a high volume of Medicaid patients receive the most benefit while those that provide a smaller percentage of Medicaid services, receive less benefit. In fact, some providers may pay a higher tax than they receive in the form of higher Medicaid payments. Within the federal restrictions that apply, Michigan has sought to minimize the potential losses for those facilities that provide fewer Medicaid services.

Michigan also retains a portion of the QAAP revenue to offset State GF/GP that otherwise would be required to fund the Medicaid program. HB 5055 specifies that the amount retained from the nursing home QAAP will be $39.9 million which is the amount reflected in the recently enacted

FY 2005-06 Department of Community Health budget. This is an increase of $18.0 million from the previous year.

The bill would include county-operated medical care facilities in the nursing home QAAP for the first time. These government-owned nursing homes exist in over 30 counties across the state, and all would benefit financially through participation in the quality assurance assessment program because they serve significant numbers of Medicaid patients.

By shifting the nursing home assessment from a bed tax to one based on non-Medicare patient days, HB 5055 would reduce the adverse financial impact on those facilities emphasizing rehabilitation services that serve substantial number of Medicare patients. At the same time, it would lessen the net increase to facilities that serve a higher volume of Medicaid patients and have proportionately fewer Medicare patient days.

Under the required federal waiver request specified in the bill, the state would be seeking permission to establish a two-tier nursing home tax. Facilities with fewer than 40 beds or greater than about 300 beds would pay a fee of $2 per non-Medicare patient day of care. For all other nursing homes, the assessment would be based on their proportional share of total non-Medicare days of care so as not to exceed 6% of all nursing home revenues. Lastly, the proposed waiver exclusion for continuing care retirement communities would apply to entities that typically provide independent living arrangements along with assisted living and nursing home services. These waiver provisions are intended to redistribute some of the tax burden to reduce the negative financial impact on those nursing homes that serve relatively few or no Medicaid patients. These proposed changes would only occur if the federal waiver is approved.

Fiscal Analyst: Bill Fairgrieve
Steve Stauff