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BILL ANALYSIS

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House Bill 5055 (Substitute S-1 as reported)
Sponsor: Representative Bruce Caswell
House Committee: Appropriations
Senate Committee: Appropriations

BACKGROUND

During 2002 Quality Assurance Assessment Programs (QAAPs) were instituted for nursing home and hospital services. The nursing home and hospital QAAPs are a way to increase net funding for providers while producing GF/GP savings for the State. Both the nursing home and the hospital QAAPs have been in existence for three years.

A Quality Assurance Assessment is a tax upon an entire provider group. This revenue accrues to the State and supplants General Fund dollars, thus producing GF/GP savings. In turn, the State uses most of the GF/GP savings to increase Medicaid rates paid to that provider group. When combined with Federal Medicaid match, the total increase in Medicaid rates exceeds the tax that was paid, leading to a net gain for that provider group as a whole.

The net gain does not mean that each individual hospital or nursing home sees a net gain from its respective QAAP. A provider with a low Medicaid volume compared to other providers ends up paying more in taxes than that provider gains from the increased Medicaid rates. A provider that does not accept Medicaid at all pays the tax but receives no increase whatsoever. It is the case, however, that the large majority of providers see a net increase in funding.

QAAPs are subject to certain Federal restrictions. The tax must be broad-based, covering an entire provider group. The tax rate cannot exceed 6%. The method of distributing the Medicaid increase must meet certain statistical tests to ensure that if there are net winners and net losers, there is no gaming of the system to minimize the losses experienced by the losers.

CONTENT

The bill would modify the nursing home and hospital QAAP programs to extend sunsets, reflect the amount of tax retained by the State, and change the way the nursing home QAAP is assessed. The enacted FY 2005-06 Department of Community Health (DCH) budget reflects assumed changes to the nursing home QAAP. The details of these changes are included in House Bill 5055 (S-1).

The revised nursing home QAAP would include county-owned nursing homes for the first time. Such homes once benefited from Medicaid special financing. Those special financing mechanisms, however, have been fully phased out by the Federal government. Inclusion of the county-owned homes in the QAAP would lead to a net revenue gain for each of these homes as they all have a significant Medicaid volume.

The structure of the QAAP for privately owned nursing homes also would change in FY 2005-06—the present statute sets up a bed tax. The bill would change the nursing home QAAP from a bed tax to a tax on non-Medicare bed days. Exemption of Medicare bed days from the tax base is allowed by the Federal government. The exemption would ease the tax burden on nursing homes that have a heavy volume of rehabilitation services, which are mostly covered by Medicare.

Also as part of this revised QAAP, the State would retain $18 million more in nursing home QAAP revenue, thus leading to savings for the State of $18 million GF/GP, savings that are assumed in the enacted FY 2005-06 DCH budget. The State's assumed gainsharing, as included in the enacted FY 2005-06 DCH budget for both the nursing home and hospital QAAPs, is reflected in the bill.

Another provision of the bill would direct the DCH to submit an application to the Federal government for a waiver of the broad-based tax requirement to implement two provisions.

The first provision would be a two-tiered nursing home tax. This two-tiered tax would subject nursing homes with fewer than 40 licensed beds or more than a yet-undetermined maximum number of beds to a $2 per non-Medicare patient day tax, while subjecting all other nursing home beds to a tax on non-Medicare revenue sufficient that the total tax collected would not exceed 6% of all revenue.

The maximum number of beds would be chosen in order to assure that the proposed two-tier tax meet statistical tests set forth by the Federal government, in order to increase the probability that the two-tiered tax would be approved. If the two-tiered tax were not approved by the Federal government, then the original uniform tax on non-Medicare revenue would remain in effect.

The second provision of the waiver request would direct the Department to ask the Federal government for permission to exempt continuing care retirement centers from the quality assurance assessment. The bill would define a "continuing care retirement center" as "a nursing care facility that provides independent living services, assisted living services, and nursing care and medical treatment services, in a campus-like setting that has shared facilities or common areas, or both". A further restriction would be a requirement that, in order to qualify as a "continuing care retirement facility", such a facility require each new resident to provide an initial life interest payment averaging $150,000.

If the exemption for continuing care retirement centers were not approved by the Federal government, then such centers would be subject to the tax.

The final provisions of the bill would adjust the sunset date for the hospital QAAP from September 30, 2007, to September 30, 2008.

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FISCAL IMPACT

As noted above, implementation of the bill as written would provide for revision of the nursing home QAAP. These revisions would allow the State to increase the amount of tax it retains from $21.9 million to $39.9 million, for $18.0 million GF/GP savings. These savings were assumed in the enacted version of the FY 2005-06 DCH budget.

Date Completed: 10-7-05 Fiscal Analyst: Steve Angelotti

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