Legislative Analysis

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REPLACEMENT OF MEDICAID MANAGED CARE PROVIDER TAX WITH USE TAX

House Bill 5192 (H-3)
Sponsor: Rep. Steve Tobocman
Committee: Tax Policy

Complete to December 9, 2008 - As Introduced

A SUMMARY OF HOUSE BILL 5192 (H-3):

House Bill 5192 (H-3) would amend the Use Tax Act by taxing in the same manner as tangible personal property the use or consumption of medical services provided by Medicaid managed care organizations. The entities are defined within two sections of the Social Welfare Act and they are specifically Medicaid contracted health plans (HMOs), MCL 400.106, and specialty prepaid inpatient health plans (PIHPs) for Medicaid mental health services, MCL 400.109f. The proposed legislation replaces the current Medicaid managed care provider tax that otherwise would be terminated October 1, 2009.

It also repeals Section 224b of the Insurance Code, the language which establishes the current quality assurance assessment fee for Medicaid HMOs and PIHPs which support the Department of Community Health's managed care quality assurance assessment program (QAAP). The bill would take effect April 1, 2009.

FISCAL IMPACT:

Beginning in 2002, Michigan established the quality assurance assessment programs (QAAPs) as a means to provide Medicaid rate increases for hospitals, nursing homes, and managed care organizations and leverage additional federal Medicaid matching funds. Under the QAAP, a tax is imposed by the State on a broad class of health care providers and the revenues are appropriated in the Department of Community Health budget to finance increases in the payment rates for Medicaid funded services. Because the State funds allocated in this manner qualify for federal Medicaid matching funds, the Medicaid reimbursement increase provided exceeds the total amount of revenue collected through the assessment.

The net financial impact of the QAAP varies for each health care organization or 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.

Michigan also retains a portion of the QAAP revenue to offset State General Fund/General Purpose (GF/GP) revenue that otherwise would be required to fund the Medicaid program. Table 1 details the FY 2008-09 estimates of the HMO and PIHP assessment, State retained amount, and provider benefit.

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Table 1. FY 2008-09

	Total Assessment	State Retained	Assessment Balance	Federal Medicaid Match	Provider QAAP Payment	Net Provider Benefit
HMOs	$173,813,100	$53,269,900	$120,543,200	$182,862,800	$303,406,000	$129,592,900
PIHPs	$99,066,000	$42,591,800	$56,474,200	$85,670,700	$142,144,900	$43,078,900
Total:	$272,879,100	$95,861,700	$177,017,400	$268,533,500	$445,550,900	$172,671,800

Source: State Budget Office, 7/17/08

Beginning October 1, 2009, Michigan's current HMO and PIHP provider taxes will be terminated because the Federal Deficit Reduction Act changes the provider class definition to include Medicaid and non-Medicaid managed care organizations on this date. The only way to continue a managed care provider tax under current federal law would be to tax the Medicaid managed care organizations as well as all private/commercial HMOs and PPOs such as those operated by Blue Cross-Blue Shield. The managed care entities that don't serve the Medicaid population would be "big" losers under such an arrangement, making it very difficult to enact legislation to continue the provider tax beyond October 1, 2009.

Without a Medicaid managed care QAAP, annual State Medicaid costs would increase by $95.9 million GF/GP to replace the loss of provider tax revenue currently retained by the State. In addition, the Medicaid HMOs and PIHPs would receive a net reimbursement reduction of $172.7 million per year.

House Bill 5192 (H-3) would repeal the HMO and PIHP QAAP, which is currently levied at a 5.5%* rate, and instead impose the 6.0% use tax on the medical services specified in the bill. It should be noted that 2% (or 1/3) of the 6% use tax is Constitutionally earmarked to the School Aid Fund (SAF) and the remaining 4% (or 2/3) is GF/GP revenue. The total State revenue change for FY 2008-09 would be an increase of an estimated $14.5 million. On a full year basis, this bill would increase State revenue by an estimated $25 million.

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* The HMO and PIHP QAAP was previously lowered from 6.0% to 5.5% in the Federal Deficit Reduction Act.