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BILL ANALYSIS

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House Bill 4185 (Substitute S-1)
Sponsor: Representative George Cushingberry, Jr.
House Committee: Appropriations
Senate Committee: Appropriations

Date Completed: 9-18-07

BACKGROUND

In 2002, the State of Michigan instituted a Quality Assurance Assessment Program (QAAP) for hospital services and nursing homes. A QAAP is a financing arrangement that permits the State to increase net funding to Medicaid providers while producing GF/GP savings for the State.

A Quality Assurance Assessment Program is a tax upon an entire provider group. Revenue from this tax accrues to the State and supplants State funds used to support the Medicaid program, thus producing GF/GP savings. The State uses most of the revenue from the provider assessment to increase Medicaid reimbursement rates paid to the taxed provider group. When these funds are combined with Federal Medicaid matching funds, the total increase in Medicaid rates exceeds the tax that was paid, leading to a net gain for that provider group as a whole.

While a provider group will see a net increase through a QAAP, individual facilities may end up paying more in tax than they receive in increased Medicaid reimbursement. Vulnerable to this outcome are providers with low Medicaid volume, who may have difficulty recouping their tax payment through an increase in Medicaid reimbursement. That being said, a sizable majority of hospitals in the State enjoy a net increase in funding through QAAPs.

The structure of QAAPs is subject to several Federal restrictions. The tax imposed upon providers must be broad-based, covering an entire provider group. The tax rate may not exceed 5.5%. The method for distributing the increase in Medicaid reimbursement may not be manipulated by the State to minimize the number of financial losers through the provider tax arrangement.

CONTENT

The bill would amend the Public Health Code to modify the nursing home and hospital QAAPs by delaying previously-established sunsets and reflecting the amount of tax retained by the State in the current fiscal year and in FY 2007-08.

A sunset fixed in statute to end the nursing home QAAP as of October 1, 2007, would be delayed to October 1, 2011. The bill also would reflect the $39.9 million in nursing home QAAP revenue generated in FY 2007-08 that the State would retain as GF/GP savings. New language in the bill also describes the $66.4 million in FY 2006-07 and $81.4 million in FY 2007-08 in hospital QAAP revenue retained by the State to reduce GF/GP expenditure in Medicaid.

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FISCAL IMPACT

As noted above, enactment of the bill would permit the State to continue to generate GF/GP savings through the operation of the hospital and nursing home QAAPs. Postponing the sunset currently established for the nursing home QAAP would permit the State to continue to generate GF/GP savings of $39.9 million through the retention of nursing home QAAP revenue. The bill also would increase the amount of QAAP revenue the State may retain by $25.0 million in FY 2007-08. This increase in retained revenue would offset the anticipated loss of Medicaid special financing revenue and would fund efforts to retain Federal certification of State-operated hospitals and centers.

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