Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 1073 (as discharged)
Sponsor: Senator Randy Richardville
Committee: Government Operations

CONTENT

The bill would amend Part 222 of the Public Health Code, which governs the certificate of need (CON) program, to do the following:

-- Allow the relocation of hospital beds, without a CON, from a hospital to a freestanding surgical outpatient facility site that was within eight miles of the hospital and in a county with a population between 1.2 million and 1.5 million, and met other criteria.
-- Require the hospital to verify that it would continue to do the following at its current site: provide at least $10.0 million in uncompensated care annually, maintain at least 70 licensed beds, develop a medical education and job training program, and provide access to health care services.
-- Require the construction of a new facility site, if applicable, to begin within 12 months after the bill's effective date.
-- Add two public members to the CON Commission, and require one of the public members to be the chairperson of the Commission.
-- Require the Commission to evaluate all CON review standards to determine if they allowed for actual approval of an application.
-- Require the Commission to express plainly in the CON review standards if it determined that a service would be capped at a specific number of providers.
-- Require voting on all motions before CON advisory committees to be documented by roll call vote and recorded in the minutes.

MCL 333.22201 et al. Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would allow for the building of a hospital near Clarkston by authorizing licensed hospital beds to be shifted from Pontiac, which is 10 miles away. Two key potential fiscal impacts would involve State and local expenditures on health care services and State and local tax revenue.

The State's Medicaid program represents the most significant expenditure by government on health care services. The shifting of beds from one location to another would not affect Medicaid caseloads. There is no reason to believe that demand for Medicaid services would be affected by a change in location for a limited number of hospital beds. Movement of beds could result in a change of where Medicaid clients seek services, but that would not have an impact on total expenditures. Differences in cost structures among hospitals could lead to greater or lesser costs at a new facility, but since Medicaid reimbursements would not be affected by this, it would have no fiscal impact on the State.

While there has been some discussion about creation of spin-off jobs and possible increases in tax revenue, a shift of beds would lead to a shift of jobs (and any spin-off jobs) from one location to another. To the extent that patients chose to go to the new hospital rather than other area hospitals owned by other entities, the gain in jobs related to the new hospital would be offset by similar losses tied to the other hospitals. There is little reason to expect a significant change in tax revenue upon the opening of a new hospital, other than the potential property tax revenue increase in the Village of Clarkston or Independence Township less the potential property tax revenue loss in Pontiac.

Although construction of the facility would lead to jobs, the money spent on construction otherwise could be spent on different endeavors (the opportunity cost), such as upgrading the present facility, which likely would create jobs directly or indirectly. Thus, it is difficult to conclude that there would be a significant increase in income and sales tax revenue, even short-term, if the bill passed. Advocates have noted that the building would likely be financed through bonding, which would mean the initial funding for construction would come from outside sources. However, the debt service would have to be paid, which would lead to opportunity cost issues with whatever revenue would be directed to cover that debt service. While there could be some initial economic benefit from bond-financed construction, there also would be longer-term reduced availability of resources due to the debt service.

Similarly, some opponents have expressed concern about an increase in health care costs, based on a belief that movement in hospital beds from one site to another would lead to greater demand for services. This does not appear to be a significant issue. The reasons a person is placed in a hospital have less to do with location and more to do with his or her medical needs, especially in an area where thousands of hospital beds are already available.

Therefore, while one cannot state that these aspects of the bill would have no fiscal impact, it is the view of the Senate Fiscal Agency that the impact would be marginal, both on the tax revenue side and the medical expenditure side. (The latter would affect State and local governments as employers providing health insurance to employees.) There would not be any fiscal impact on the State's Medicaid program.

In addition, although the bill itself would have no fiscal impact on the Department of Licensing and Regulatory Affairs (LARA), allowing the opportunity for a new hospital to be built would create some new revenue and costs for LARA. Assuming a hospital was built, the bill would have a negative fiscal impact on LARA, as the costs of plan review, inspections, and licensure would exceed the revenue generated by fees charged to the hospital and Federal grants that would likely be received.

For construction plan review, the Bureau of Fire Services (BFS) would receive a fee based on the project's construction cost, as annually provided for in the LARA budget bill. The BFS also would receive an $8 per-bed fee for periodic operation and maintenance inspections. The Bureau of Health Care Services (BHCS) would receive fees for licensure of the new hospital at the rate of $8.28 per bed, as well as some Federal revenue as it is assumed the hospital would participate in the Federal Medicare and Medicaid programs. All of these fees have been at their current rates for a number of years, and while the Federal grants for Medicaid/Medicare inspections would help cover some of the BHCS's costs, both bureaus receive annual General Fund/General Purpose (GF/GP) appropriations to cover the shortfalls in fee revenue from these and other fees. If a new hospital were built, it would result in both new revenue and costs, but the costs would exceed revenue by an indeterminate amount, and those excess costs would be borne by current LARA GF/GP appropriations.

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