Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 957 (as introduced 5-10-16)
Sponsor: Senator Jim Marleau
Committee: Appropriations

Date Completed: 5-13-16

BACKGROUND

Since 2002, the State has used Quality Assurance Assessment Programs (QAAPs) to help generate Restricted revenue to reduce GF/GP costs and enhance Medicaid reimbursements to certain Medicaid provider groups. The QAAPs are broad-based taxes on medical providers and are alternatively known as provider taxes.

A QAAP generally works in the following fashion: The members of an entire provider group, say hospitals, are taxed at 5% of their non-Medicare revenue, a tax base that exceeds $14.0 billion. The State retains a portion of that revenue to offset GF/GP support. The remaining revenue is used, along with Federal Medicaid match, to increase Medicaid reimbursement rates for Medicaid hospital services.

Using round numbers, the State could potentially tax hospitals $800.0 million, use $200.0 million of that to offset GF/GP funding, and then use the remaining $600.0 million, along with $1,100.0 million in Federal Medicaid match, to increase provider rates by $1,700.0 million. The net result is that the State is better off by $200.0 million and the providers, as a whole, are better off by $900.0 million ($1,700.0 million in increased Medicaid payments less $800.0 million in tax paid).

It is important to note that, while the provider group is better off as a whole, there are almost always "winners" and "losers" among individual providers. For some low-Medicaid volume hospitals, the amount of tax paid exceeds the Medicaid rate increase they receive, so such hospitals would be net "losers" under the QAAP. Most hospitals, however, would pay less in tax than they receive from the Medicaid rate increase, so they are net "winners".

Section 1903(w) of the Social Security Act, along with subsequent Federal regulations, created the parameters for provider taxes. Taxes must be broad-based, they cannot exceed a rate of 6.0%, and the increased reimbursement rates due to the taxes must also be broad-based. In other words, the State cannot increase Medicaid reimbursements in such a way as to directly offset the cost of the tax for individual providers and avoid the "winner" vs. "loser" problem.

The amount the State retains from these QAAPs has varied over the years. The most recent version of the law states that the State retention must be equal to 13.2% of the Federal match on the QAAP revenue. In practical terms, given the current match rate, this equals about one-fourth of the total QAAP revenue. Therefore, an $800.0 million hospital QAAP would lead to about a $200.0 million retention, with that retention offsetting $200.0 million GF/GP.

Public Act 104 of 2015 created a new, separate one-time FY 2015-16 retention of $92,856,100 in addition to the 13.2% retention. This funding was used to offset an equal amount of GF/GP funding and to avert direct reductions to hospital funding.

CONTENT

Senate Bill 957 would amend the Public Health Code to replace the $92,856,100 one-year retention in FY 2015-16 with a new retention of $105,000,000 in FY 2016-17 and beyond. This retention would offset an equal amount of GF/GP revenue.

The bill also would direct the Department of Health and Human Services, the State Budget Office, and the Michigan Health and Hospital Association by May 31, 2019, to identify an appropriate retention amount for FY 2019-20 and beyond.

MCL 333.20161

FISCAL IMPACT

Increasing the hospital QAAP retention from $92,856,100 to $105,000,000 would result in a reduction in GF/GP spending of $12,143,900 below FY 2015-16 levels in FY 2016-17 and subsequent fiscal years. Passage of this legislation and the corresponding reduction in GF/GP spending were assumed in the Executive, Senate, and House versions of the FY 2016-17 Department of Health and Human Services budget.

Fiscal Analyst: Steve Angelotti

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