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BILL ANALYSIS

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Senate Bill 1015 (as introduced 5-16-18)
Sponsor: Senator Dave Hildenbrand
Committee: Appropriations

Date Completed: 5-16-18

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 $15.0 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 revenue 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 Medicaid hospital reimbursement 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 also must 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 QAAP retention beyond the 13.2% retention in the FY 2015-16 budget. This new QAAP retention was tied to the Healthy Michigan Plan (HMP), also

known as the Medicaid expansion. Public Act 189 of 2016 increased this separate HMP hospital QAAP retention from $92,856,100 to $105,000,000. This funding was used to offset an equal amount of GF/GP funding.

The QAAP revenue that was not retained was used to increase Medicaid payments to hospitals. The increased payments to hospitals are made in two ways: 1) enhancements to Medicaid fee-for-service hospital reimbursement through the Michigan Access to Care Initiative ($588.1 million in FY 2017-18), and 2) enhancements paid through Medicaid managed care organizations (MCOs) for MCO managed care hospital reimbursement through the Hospital Rate Adjustment (HRA) program.

The Federal government has issued new regulations on Medicaid hospital payments that are passed through Medicaid MCOs. These new regulations would force changes to the HRA program, with greater use of claims information and limitations on pass-through payments to hospitals. Payments now must be directly tied to services and benefits provided to Medicaid enrollees or be designed to be provided through a value-based approach.

Governor Snyder's FY 2018-19 Department of Health and Human Services budget and his proposed supplemental adjustments for FY 2017-18 reflect changes made to the HRA to comply with the new Federal rules. The HRA payments would be directly tied to claims, payments would be weighted more toward outpatient claims, and the total size of the HRA would be increased from $1,450.2 million to $1,613.6 million. This HRA payment increase, which was negotiated with representatives of Michigan hospitals, would require an increase in the hospital QAAP tax paid of $61.1 million and a corresponding increase in the State QAAP retention of $21.3 million. Of that increased retention, $7.9 million would be tied to the 13.2% retention for traditional Medicaid and $13.4 million would be tied to the HMP hospital QAAP retention.

CONTENT

Senate Bill 1015 would amend the Public Health Code to replace the $105,000,000 HMP hospital QAAP retention in the statute with a new HMP hospital QAAP retention of $118,420,600 in FY 2017-18 and beyond to reflect the changes made to the HRA. This retention would offset an equal amount of GF/GP revenue.

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FISCAL IMPACT

Increasing the HMP hospital QAAP retention from $105,000,000 to $118,420,600 would result in a reduction in GF/GP spending of $13,420,000 below FY 2016-17 levels in FY 2017-18 and subsequent fiscal years.

The change in the HMP hospital QAAP retention reflected in this bill was included in Governor Snyder's proposed FY 2017-18 supplemental as well as the Executive, Senate, and House versions of the FY 2018-19 Department of Health and Human Services budget.

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