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BILL ANALYSIS

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Senate Bill 1467 (Substitute S-1 as reported)
Sponsor: Senator Deborah Cherry
Committee: Appropriations

CONTENT

During 2002, quality assurance assessment programs (QAAPs) were instituted for nursing home and hospital services. The nursing home and hospital QAAPs are a way to increase net funding for providers while producing GF/GP savings for the State.

A quality assurance assessment is a tax upon an entire provider group. This revenue accrues to the State and supplants General Fund dollars, thus producing GF/GP savings. In turn, the State uses most of the GF/GP savings to increase Medicaid rates paid to that provider group. When 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.

The net gain does not mean that each individual hospital or nursing home sees a net gain from its respective QAAP. A provider with a low Medicaid volume compared with other providers ends up paying more in taxes than that provider gains from the increased Medicaid rates. A provider that does not accept Medicaid at all pays the tax but receives no increase whatsoever. It is the case, however, that the large majority of providers see a net increase in funding.

Certain Federal restrictions apply to QAAPs. The tax must be broad-based, covering an entire provider group. The tax rate may not exceed 6%. The method of distributing the Medicaid increase must meet certain statistical tests to ensure that if there are net winners and net losers, there is no "gaming" of the system to minimize the losses experienced by the losers.

Both the nursing home and the hospital QAAPs have been in existence for four years. Senate Bill 1467 (S-1) would delay sunsets on the nursing home and hospital QAAP programs to reflect agreements included in the FY 2006-07 Department of Community Health (DCH) budget.

The current statute directs that the State retain $39.9 million of the nursing home QAAP revenue in FY 2005-06 to support the Medicaid program, but does not include any language regarding subsequent years. Senate Bill 1467 (S-1) would authorize the continued retention of $39.9 million in nursing home QAAP revenue in FY 2006-07, bringing the statute into conformity with the enacted DCH budget.

The FY 2006-07 DCH budget also provides for an expansion of the hospital QAAP. The tax rate would be increased by 1% or about $150.0 million. Most of that additional revenue would be used, along with Federal Medicaid match, to increase Medicaid hospital diagnosisrelated group (DRG) rates by about $320.0 million. This rate increase would be passed through the Medicaid health maintenance organizations (HMOs) to the hospitals. The State would retain $20.0 million of the additional QAAP tax revenue.

Senate Bill 1467 (S-1) would adjust the amount of hospital QAAP retained revenue to $46.4 million in FY 2005-06 and $66.4 million in FY 2006-07 and FY 2007-08 to reflect the FY 2005-06 and 2006-07 DCH budget agreement.

MCL 333.20161

FISCAL IMPACT

Implementation of Senate Bill 1467 (S-1) would continue the retention of $39.9 million in nursing home QAAP revenue in FY 2006-07 and allow for the retention of an additional $20.0 million in hospital QAAP revenue in FY 2006-07. The bill also would allow the retention of $46.4 million in hospital QAAP revenue in FY 2005-06. Each of these adjustments was assumed in the enacted versions of the FY 2005-06 and FY 2006-07 DCH budgets.

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