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BILL ANALYSIS

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Senate Bill 176 (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 match, 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 to 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.

QAAPs are subject to certain Federal restrictions. 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.

The Public Health Code currently directs that the State retain \$42.4 million in hospital QAAP revenue in FY 2005-06, with no amount specified for subsequent years. Senate Bill 176 (S-1) would amend the Code to direct that \$46.4 million be retained in FY 2005-06, which would reflect the actual amount that was retained.

MCL 333.20161

FISCAL IMPACT

Enactment of the bill would reflect the retention of \$46.4 million in hospital QAAP revenue in FY 2005-06. It should be noted that the FY 2006-07 Department of Community Health budget assumes an expansion of the hospital QAAP that would result in the State's retention of an additional \$20.0 million. This budgeted expansion is not addressed in Senate Bill 176 (S-1).

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