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BILL ANALYSIS



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House Bill 5834 (Substitute S-1 as reported without amendment)

Sponsor: Representative Gary McDowell

House Committee: Appropriations

Senate Committee: Appropriations

CONTENT

During 2002, a Quality Assurance Assessment Program (QAAP) was instituted for hospital services. A quality assurance assessment is a tax upon an entire provider group. The hospital QAAP is a way to increase net funding to a provider group while producing GF/GP savings for the State.

The QAAP revenue accrues to the State and supplants General Fund support, thus producing GF/GP savings. In turn, the State uses most of the GF/GP savings to increase Medicaid rates paid to the 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 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.

Certain Federal restrictions apply to QAAPs. The tax must be broad-based, covering an entire provider group. The tax rate cannot exceed 5.5%. 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. The hospital QAAP was expanded in FY 2006-07 and the additional revenue was passed through the Medicaid health maintenance organizations (HMOs) to the hospitals.

House Bill 5834 (S-1) has three distinct provisions.

First, the bill would amend Section 20161(12) of the Public Health Code to allow the Department of Community Health to retain the unreserved fund balance in fees and assessments to support the nursing home background check program. This would allow the Department to put into effect the May 2008 transfer of \$1.8 million to support the program. This provision is identical to the provision included in House Bill 4840 (H-2) as reported by the Senate Appropriations Committee on June 12, 2008.

Second, House Bill 5834 (S-1) would extend the sunset on the hospital QAAP from September 30, 2009, to September 30, 2010.

Finally, the bill would increase the amount of hospital QAAP revenue retained by the State from \$66.4 million in FY 2007-08 to \$81.4 million, to reflect the FY 2007-08 expansion of the pass-through via HMOs to the hospitals. The retention would be increased to \$98,850,000, however, if there is an increase in Medicaid disproportionate share hospital (DSH) payments of at least \$100.0 million in FY 2007-08. The increase in the retention to \$98,850,000 and the increase in DSH were both assumed in the FY 2007-08 DCH budget.

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FISCAL IMPACT

The background check program provision in House Bill 5834 (S-1) would free up the revenue necessary to implement the May 2008 transfer and would avert an overexpenditure in the background check program line item.

Implementation of the bill would increase State hospital QAAP gainsharing revenue by \$32,450,000, offsetting a similar amount of GF/GP funding. Of that \$32,450,000 in GF/GP savings, \$15.0 million would be from the expansion of the pass-through via HMOs to the hospitals. The other portion of GF/GP savings, \$17,450,000, was part of a \$60.0 million increase in the hospital QAAP tax. Of that revenue, \$17,450,000 would be retained by the State and \$42,550,000 would be combined with \$59.0 million in Federal match to create two new DSH pools. Each of these items was included in the FY 2007-08 DCH budget, so the bill would reflect the provisions of the budget. The net benefit to the hospital industry as a whole would be the \$101.5 million from the funding pools less the \$60.0 million in increased tax, or \$41.5 million.

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