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Senate Bill 444 (as introduced 8-20-19)
Sponsor: Senator Curtis Hertel, Jr.
Committee: Appropriations

Date Completed: 8-20-19

CONTENT

The bill would amend the Public Health Code to extend the sunsets on fees and other assessments for health facility and agency licenses. These fees are due to sunset on October 1, 2019, after which the fees would be eliminated. The bill would delay this sunset until October 1, 2023.

The bill also would extend the sunset on the quality assurance assessment programs (QAAPs) for nursing homes and hospital long-term care units, hospitals, and ambulance services from October 1, 2019, to October 1, 2023.

QAAP Background

Since 2002, the State has used Quality Assurance Assessment Programs to help generate restricted revenue to reduce General Fund/General Purpose (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: members of an entire provider group, say nursing homes, are taxed at a fixed percentage of their non-Medicare revenue, a tax base that exceeds \$4.5 billion. The State retains a portion of that revenue to offset GF/GP funding. The remaining revenue is used, along with Federal Medicaid match, to increase Medicaid reimbursement rates for Medicaid nursing home services. Using round numbers, and assuming a 6.0% tax rate, the State could potentially tax nursing homes \$270.0 million, retain a statutorily determined \$70.0 million of that to offset GF/GP support, and then use the remaining \$200.0 million, along with \$350.0 million in Federal Medicaid match, to increase Medicaid nursing home provider rates by \$550.0 million. The net result is that the State would be better off by the \$70.0 million retention, and the nursing homes, overall, would be better off by \$280.0 million (\$550.0 million in increased Medicaid payments less \$270.0 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 nursing homes, the amount of tax paid exceeds the Medicaid rate increase they receive, so those nursing homes are net "losers" under the QAAP. Most nursing homes, however, 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. Michigan has three QAAPs in place: one for hospitals, one for long-term care services, and one for ambulance services. The hospital QAAP is projected to bring in over \$1.0 billion in

fiscal year (FY) 2019-20, the long-term care QAAP projected to generate over \$280.0 million in FY 2019-20, and the ambulance QAAP is projected to generate over \$20.0 million in FY 2019-20.

MCL 333.20161

FISCAL IMPACT

The bill would have a positive fiscal impact on the Department of Licensing and Regulatory Affairs and no fiscal impact on local units of government. The extension of the current fees would preserve about \$875,000 in annual fee revenue. The revenue from these fees is deposited into the Health Systems Fees Fund.

Fee Sunsets and Potential Revenue Losses			
Fee	Current Fee	Fee After Sunset	Revenue Loss from Fee Sunset
Acute Care Hospitals	\$500 per license; \$10 per bed	\$0	\$342,800
Freestanding Surgical Outpatient Facilities	\$500 per license	\$0	\$75,500
Nursing Homes, County Medical Care Facilities, Hospital Long Term Care Units	\$500 per license; \$3 per bed over 100 beds	\$0	\$259,064
Homes for the Aged	\$6.27 per bed	\$0	\$119,387
Hospice Agencies	\$500 per license	\$0	\$68,500
Hospice Residences	\$500 per license; \$5 per bed	\$0	\$9,750
Total			\$875,001

Extension of the QAAP sunset would maintain current policy. The Executive-proposed, Senate-passed, and House-passed versions of the FY 2019-20 Department of Health and Human Services budget all assume extension of the QAAP sunset. If the sunset were not extended, GF/GP costs would increase by the estimated revenue collected, about \$1.3 billion.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.