

# Legislative Analysis

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## Hospital QAAP

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### Senate Bill 176

**Sponsor: Sen. Cherry**

**Committee: Appropriations**

**First Analysis (February 20, 2007)**

**BRIEF SUMMARY:** SB 176 would amend the Public Health Code to reflect the actual amount of hospital QAAP retained by the State in FY 2005-06. The amount is increased by \$4.0 million, from \$42.4 million to \$46.4 million. Adjustments of the retained amount are anticipated in FY 2006-07, and proposed in the FY 2007-08 Executive Recommendation.

**FISCAL IMPACT:** Beginning in 2002, Michigan established several health care provider assessment programs as a means to provide Medicaid rate increases for hospitals, nursing homes, and health maintenance organizations and leverage additional federal Medicaid matching funds. These initiatives are also referred to as Quality Assurance Assessment Programs (QAAP).

Under these financing arrangements, a tax is imposed by the State on a broad class of health care providers and the revenues are appropriated in the Community Health budget to fund increases in the payment rates for Medicaid funded services. Because the state funds allocated in this manner qualify for federal Medicaid matching funds, the result is a very significant increase in the Medicaid payment rates.

Provider taxes require federal approval and must be broad based and uniformly imposed on an entire class of providers. In addition, the assessment cannot include a hold harmless provision to repay the provider for the fees paid.

The net impact of the assessment fee varies for each facility based on the volume of Medicaid services it provides. Those that serve a high volume of Medicaid patients receive the most benefit while those that provide a smaller percentage of Medicaid services, receive less benefit. In fact, some providers may pay a higher tax than they receive in the form of higher Medicaid payments. Within the federal restrictions that apply, Michigan has sought to minimize the potential losses for those facilities that provide fewer Medicaid services.

Michigan also retains a portion of the QAAP revenue to offset State GF/GP that otherwise would be required to fund the Medicaid program. SB 176 specifies that the amount retained from the hospital QAAP will be \$46.4 million

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