MEMORANDUM

HOUSE FISCAL AGENCY

DATE: May 19, 2008

TO: Speaker Andy Dillon
Chairman George Cushingberry, Jr.

FROM: Mitchell E. Bean, Director

RE: Impact on Michigan of Proposed Federal Medicaid Rules

The following provides information currently available to the House Fiscal Agency about a potentially significant fiscal issue. This information was compiled by Bill Fairgrieve, HFA Deputy Director, and Steve Stauff, HFA Senior Fiscal Analyst.

During the past year, the federal government has proposed a series of new Medicaid regulations that would restrict the use of Medicaid funding for various services and activities that are currently allowed under the program. The proposed rules would:

- Reduce payments to public medical providers operated by units of government (by limiting reimbursement to each public provider's costs), narrow the definition of eligible government providers, and require providers to retain all Medicaid payments received.
- Prohibit Medicaid funding for graduate medical education payments to teaching hospitals.
- Reduce coverage of rehabilitation services and exclude habilitation services.
- Eliminate Medicaid payments for school-based services administrative costs and for certain transportation-related costs.
- Restrict the scope of outpatient hospital services that can be reimbursed with Medicaid funds to be more consistent with Medicare definitions.
- Place limitations on targeted case management services for which Medicaid will pay, including transitioning patients from nursing homes to community-based settings.
- Redefine which health care provider taxes are allowable, and provide broad authority to the federal government to approve or disapprove provider taxes.

The federal Centers for Medicare and Medicaid Services (CMS) anticipates that the new regulations could reduce federal Medicaid payments to all states by more than $12 billion over the next five years.

Based on preliminary information from the State Budget Office, the new federal Medicaid rules could potentially increase Michigan's GF/GP costs by an estimated $56 million in FY 2007-08 and $70 million in FY 2008-09. The loss to medical providers in the state could potentially be $340 million in the current fiscal year and $690 million in the next fiscal year. The Department of Community Health is developing a more complete analysis of the impact on Michigan's Medicaid program, and the estimates provided here are subject to change.

Because of widespread concerns over the proposed regulations, Congress imposed a moratorium on implementation of four of the rules that will expire in May and June of this year. U.S. Representative John Dingell recently introduced a bill to delay adoption of all seven new Medicaid regulations for one year. Passage of such legislation is uncertain, in part because of "pay-as-you-go" rules that require proposals which increase federal costs to be offset with changes to reduce spending or raise revenues of an equal amount.

The moratorium on implementation of several of the proposed federal Medicaid rules will expire on May 25, 2008.

Last week, the U.S. Senate Appropriations Committee approved a supplemental war appropriations bill that includes a provision to block, for one year, the seven new Medicaid regulations proposed by the Bush administration. The U.S. House of Representatives also passed legislation that would block the administration's Medicaid regulations for one year. The House and Senate versions of the legislation would eventually have to be reconciled before final passage. President Bush has threatened to veto the bill.

House Fiscal Agency will continue to monitor this issue and provide you with updates as more information becomes available. Please contact us if you have questions.

c: Cindy Peruchietti
Sarah Triplett
Wendy Larner
Griffin Rivers

C:08\SPEAKER\ProposedMedicaidRules update.doc