SENATE BILL REPORT

SHB 2967

AS OF MARCH 4, 1992

Brief Description: Expanding federally authorized medicaid taxes and appropriations to IMR facilities.

SPONSORS: House Committee on Revenue (originally sponsored by Representatives Wang, Locke, Braddock and Paris)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7715); Tim Yowell (786-7715)

Hearing Dates: March 4, 1992

BACKGROUND:

In recent years, many states have begun to use provider-specific taxes to help finance their Medicaid programs. The hospital tax enacted last session is an example of such a tax. Such taxes can be acceptable to providers who do a large share of Medicaid business, because their tax can be reimbursed in full under Medicaid. The taxes are attractive to states because the state receives all of the tax receipts, but only has to pay to providers the state's share of the reimbursement. The federal share of the Medicaid reimbursement becomes a net gain to the state.

In the fall of 1991, federal law was changed to limit the use of provider-specific taxes. Under the new law, such taxes must be broad-based. This means that states may no longer exempt providers within a class who do little Medicaid business, and whose taxes would therefore not be reimbursed. Additionally, the tax and any tax reimbursement system may not have the effect of holding providers harmless. The system must redistribute money from some providers to others.

These new restrictions make the taxes less attractive in the case of providers such as nursing homes, hospitals, and home health agencies, where there are many members of the class who do little medicaid business, and whose tax costs would therefore not be reimbursed. However, the restrictions have little effect upon intermediate care facilities for the mentally retarded (ICF/MRs), because virtually all of the residents of such facilities are financed by Medicaid. There are presently 29 ICF/MR facilities in the state, consisting of the five state developmental disabilities institutions, and 24 private facilities.

SUMMARY:

A new business and occupation tax on intermediate care facilities for the mentally retarded is created. The tax is equal to 15 percent of the gross income from inpatient services, payable on a monthly basis. Appropriations are provided to reimburse the increased cost of the tax to providers through prospective rate increases.

The tax and rate increases expire on the date federal matching funds become unavailable or are substantially reduced, or on the effective date of a permanent injunction, court order, or final court decision prohibiting the collection of the tax.

Tax collections are estimated at $36.6 million through the end of the biennium, of which $19.5 million will be a net gain to the general fund from federal Medicaid reimbursements.

Appropriation: $17,088,000 from the General Fund-State, and $20,886,000 from the General Fund-Federal.

Revenue: yes

Fiscal Note: available

Effective Date: The bill contains an emergency clause and takes effect April 1, 1992.