SENATE BILL REPORT

SB 5957

AS REPORTED BY COMMITTEE ON WAYS & MEANS, MARCH 19, 1993

Brief Description: Changing the tax rate on intermediate care facilities for the mentally retarded.

SPONSORS: Senator Rinehart; by request of Department of Social and Health Services

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5957 be substituted therefor, and the substitute bill do pass.
Signed by Senators Rinehart, Chairman; Spanel, Vice Chairman; Bauer, Bluechel, Gaspard, Hargrove, Hochstatter, Moyer, Owen, Pelz, Quigley, Snyder, and Williams.

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

Hearing Dates: March 18, 1993; March 19, 1993

BACKGROUND:

Over the past several years, many states began to use health care provider-specific taxes to help finance their Medicaid programs. Such taxes can be acceptable to providers who do a large amount of Medicaid business, because their tax cost can often be reimbursed in full as part of their Medicaid rate. These taxes are attractive to states because the state receives all of the tax receipts, but only has to pay the state Medicaid share of the reimbursement to providers. The federal share of the Medicaid reimbursement becomes a net gain to the state.

The 1992 Legislature enacted a 15 percent provider-specific tax on Medicaid intermediate care facilities for the mentally retarded, or IMRs. IMRs include five of the six state-operated developmental disabilities institutions, five nursing home-licensed facilities, and 19 group homes. The tax was expected to result in a $19.5 million net gain to the state general fund this biennium.

In November, the federal government issued new regulations on provider-specific taxes. These regulations establish new requirements which any tax in excess of 6 percent must meet in order to be eligible for federal reimbursement. Washington's present IMR tax does not meet those new requirements. Unless the tax rate is lowered to 6 percent by April 1, 1993, the federal government will no longer reimburse the cost of the tax. This would result in a net loss to the state general fund of about $1.4 million this biennium, and about $11 million during the 1993-95 biennium.

The new regulations also require states to tax community residences for the mentally retarded that are covered under a Medicaid waiver, provided that, as of December 24, 1992, at least 85 percent of such facilities were IMRs prior to the grant of the waiver. Washington’s developmental disabilities group homes do not meet this test, and therefore may not be taxed.

SUMMARY:

The tax is broadened to include not only IMR services, but also similar services which the Secretary of the Department of Social and Health Services determines are allowable under federal Medicaid rules. The tax rate is lowered from 15 percent to whatever rate the Secretary of Social and Health Services determines is allowable under federal law.

EFFECT OF PROPOSED SUBSTITUTE:

The tax rate on IMR facilities is lowered from 15 percent to 6 percent when the Secretary of Social and Health Services certifies that the 15 percent rate is no longer eligible for federal financial participation. The secretary is not delegated the authority to determine what activities are to be taxed, or the tax rate.

Appropriation: none

Revenue: yes

Fiscal Note: requested March 9, 1993

Effective Date: April 1, 1993

TESTIMONY FOR: None

TESTIMONY AGAINST: None

TESTIFIED: No one