

My name is Jim Bolotin and I am the Chief Accounting Officer for Accretive Health.

Accretive Health is a one-of-a-kind health care company assisting hospital systems in becoming more efficient and effective in the health care market place. In Michigan we are proud to serve the Henry Ford Health System(Detroit), the St John's Health System(Warren), Borgess Medical Center(Kalamazoo), Genesys Health System(Grand Blanc/SE Michigan) , St. Joseph Health System (Tawas City/NE Michigan), St. Mary's Standish(NE Michigan) St. Mary's Medical Center (Saginaw/NE Michigan). To date we have approximately 600 employees in the State of Michigan serving both Michigan clients and many more clients outside of Michigan. We hope to continue to grow in Michigan and 3,000 employees in Michigan is a reasonable short term goal given our current growth rate.

We use a multifaceted approach to improve the revenue cycle performance in all aspects of hospital administration; scheduling, bill payment, interaction with insurance companies, information and technology improvements, just to name a few. In short we help hospitals focus on their true mission which is serving patients and providing quality health care.

Our gross receipts problem is this: because of accounting rules we are required to book as revenue the entire cost of the hospitals' administrative services which we invoice the hospital for in accordance with our contract. However, we reimburse the hospitals for a large percentage of the cost of the administrative services, since although we manage their employees, they remain on the hospital payroll. As a result, we send 60 to 70% of the revenue we record back to the hospital. SB 962 seeks to remedy this by modifying the gross receipts portion of our calculation to deduct the amount we reimburse back to the hospital. A few points on SB 962: First, there is precedence for this. We operate much like a temporary employment agency like Kelly Services and the legislature, when the Michigan Business Tax was originally passed, recognized this problem and exempted temporary services from the gross receipts calculation. Second, the hit to the treasury will be, by our calculations, less than \$1m but our overall tax burden will still be higher than it was under the Single Business Tax. In addition we have paid nearly \$1m in Michigan payroll taxes in 2009 for the employees in Michigan. We expect this to grow at an accelerated rate.

Thank you for your time and attention.

Accretive Health is a leading provider of healthcare revenue cycle management services. We assist hospitals, physicians and other healthcare providers manage their revenue cycle operations more efficiently. Our integrated, end-to-end technology and services offering helps our customers realize sustainable improvements in their operating margins and improve the satisfaction of their patients, physicians and staff. Through the implementation of our distinctive operating model that includes people, processes and technology, our customers can generate significant and sustainable revenue cycle improvements. Our service offerings are adaptable to evolution of the healthcare regulatory environment, technology standards and market trends, and require no up-front cash investment by our customers.

In 2008, Accretive Health received a grant from the Michigan Economic Growth Authority as an incentive to bring jobs to Michigan. Accretive Health now has 243 employees located in Kalamazoo and a total of 533 in various cities in Michigan. It has several large hospital systems in its network such as St John's Health System, Henry Ford and Borgess Medical Center.

The Problem

The Michigan Business Tax (MBT) is based on a taxpayer's gross receipts. The Accretive Health business model is based, in part, on managing a clients assets and then sharing in the savings through a menu of cost saving measures. Accretive only makes money if our clients realize sustainable improvements in their operating margins. However, under the MBT, Accretive Health is required to account for a client's gross receipts as its own even though they do not, by contract, realize it as profit.

For example, a financial planner will manage assets for various retirement accounts but will only pay MBT on the fees associated with the management of the funds; not on the total value of the funds managed. Another example would be a real estate agent. An agent will pay MBT on the fees associated with the sale of a house; not the total value of the transaction.

In addition, Accretive Health's revenue includes the cost of the hospital employee's payroll, even though we realize no profit from it. The hospital continues to pay the employees, and therefore invoices Accretive back for the total cost of the payroll. Michigan currently provides a deduction to staffing agencies for what effectively represents the same economics. Staffing agencies invoice their clients for the cost of the people they provide, but get a deduction for what they then pay these employees. Accretive invoices their clients for the cost of the people at the hospital, but under the current law, gets no deduction for what they then pay back the hospital for the cost of these people.

Furthermore, the Accretive Health MEGA credit is valued at approximately \$200,000 for 2009. In 2008, the MBT liability was \$1.4 million, compared to the \$300,000 tax expense it would have been under the old law, an increase of \$1.1 million, so the new MBT liability far exceeds this MEGA credit. Since Accretive Health's profit margins are so low due to their desire to add value to hospitals while earning only a modest profit margin, their income before taxes in 2008 was just 1% of revenue. Due to the nature of the gross receipts tax based upon revenue, Accretive Health's state income tax expense for 2008 was an effective tax rate of 62%, most of which was Michigan tax. Had Accretive Health known about the effect of new MBT changes in 2007, we would not have opened our shared service center in Michigan. The majority of the 533 Accretive Health employees in Michigan work in shared service centers, and could easily be relocated to another state with more favorable tax treatment.

The Solution

Senator Tom George has introduced SB 962 to address this issue. Specifically, SB 962 would limit Accretive Health's MBT liability to its own actual revenue, net of client reimbursements and third party expenses paid by the Company on behalf of its clients, not the gross receipts the company manages for its clients.

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1 under section 851 of the internal revenue code.

2 (cc) For a regulated investment company as that term is
3 defined under section 851 of the internal revenue code, receipts
4 derived from investment activity by that regulated investment
5 company.

6 (dd) For fiscal years that begin after September 30, 2009,
7 unless the state budget director certifies to the state treasurer
8 by January 1 of that fiscal year that the federally certified rates
9 for actuarial soundness required under 42 CFR 438.6 and that are
10 specifically developed for Michigan's health maintenance
11 organizations that hold a contract with this state for medicaid
12 services provide explicit adjustment for their obligations required
13 for payment of the tax under this act, amounts received by the
14 taxpayer during that fiscal year for medicaid premium or
15 reimbursement of costs associated with service provided to a
16 medicaid recipient or beneficiary.

17 **(EE) FOR A TAXPAYER THAT PROVIDES HEALTH CARE MANAGEMENT**
18 **CONSULTING SERVICES, AMOUNTS RECEIVED BY THE TAXPAYER AS FEES FROM**
19 **ITS CLIENTS THAT ARE EXPENDED BY THE TAXPAYER TO REIMBURSE THOSE**
20 **CLIENTS FOR LABOR AND NONLABOR SERVICES THAT ARE PAID BY THE CLIENT**
21 **AND REIMBURSED TO THE CLIENT PURSUANT TO A SERVICES AGREEMENT.**

22 (2) "Insurance company" means an authorized insurer as defined
23 in section 106 of the insurance code of 1956, 1956 PA 218, MCL
24 500.106.

25 (3) "Internal revenue code" means the United States internal
26 revenue code of 1986 in effect on January 1, 2008 or, at the option
27 of the taxpayer, in effect for the tax year.