

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0695-01  
Bill No.: SB 209  
Subject: Elderly; Medicaid; Nursing and Boarding Homes; Social Services Department  
Type: Original  
Date: February 11 2003

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$31,334,139)	(\$72,054,323)	(\$81,568,442)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$31,334,139)</b>	<b>(\$72,054,323)</b>	<b>(\$81,568,442)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Federal*	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\*Revenues and expenditures of approximately \$100,000,000 would net to \$0.**

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### FISCAL ANALYSIS

#### ASSUMPTION

Officials from the **Department of Mental Health (DMH)** assume this proposal does not include ICF-MR's, therefore DMH assumes no fiscal impact.

Officials from the **Department of Health and Senior Services** assume this proposal would not fiscally impact their agency. DOH officials state this proposal may have an economic impact on nursing homes depending on the annual recalculation of medicaid per diem reimbursement rates.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state that annually recalculating Medicaid reimbursement rates for the nursing home industry would significantly increase the cost to the Medicaid program in the first year and increase the cost to the Medicaid program in future years. By recalculating the rates annually, the DMS would not be able to control program expenditures. This proposal does not allow a minimum utilization adjustment greater than the most current statewide average occupancy minus 3%. DMS states the overall state occupancy has steadily been decreasing over the past several years so this would also add to the cost of the program.

DMS used the 1999 audited cost report data, trended to 2004. DMS assumed the effective date

for recalculated rates to be dates of service beginning January 1, 2004. The DMS assumes the ASSUMPTION (continued)

language “based on its reported costs...for its fiscal year preceding the two facility fiscal years preceding the effective date of the recalculated rates...” to be the third prior fiscal year cost report. Rates effective January 1, 2004 would require the 2001 cost reports; however, these are not currently audited so the DMS used 1999 which is the latest best available information at the time this fiscal note was completed. The DMS estimates that the 2001 cost reports will be completely audited by September 2003 which should allow enough time for DMS to recalculate the rates by January 2004. However, the DMS predicts that numerous facilities will appeal the rate recalculation (based on the rebase done in 1995, approximately 60% of the facilities filed appeals). DMS believes a significant amount of time will be spent on the appeals and that it probably will not be able to finish subsequent years’ audits in time for a January rebase. Therefore, additional staff would be needed to complete the audits and recalculate the rates on a timely basis. DMS has included 2 additional staff in the fiscal impact (1 Senior Auditor and 1 Auditor II).

If reported costs are used (i.e. vs. audited data), the DMS estimates that it would cost an additional \$3.39 per day to rebase (based on comparison of 1999 unaudited data to 1999 audited data).

DMS calculations were based on current regulations, which includes rebased ceilings, incentives, etc. DMS assumes a minimum utilization of 71% (average state occupancy from June 2002 quarter survey reveal an occupancy of 73.66%).

To determine subsequent years’ impact for rebasing, the DMS trended the 1999 rebasing analysis to 2005 and 2006 (an additional 3.3% trend for each year - based on CMS Market Basket Index for 2005) and compared it to the 2004/2005 rebased rates. DMS assumed that the medians and ceiling would also be recalculated based on the 2005/2006 trended costs. Only the pass through expenses of the FRV rates have been recalculated due to time constraints. Occupancy and minimum utilization percent was reduced by .5% for each year; minimum utilization = 70% for 2005 and 2006.

ASSUMPTION (continued)

Summary of costs:

**SFY 04**

Cost to Rebase - 2004 (1999 cost trended to 2004)	\$1,071,097,872
Cost for Current Rates	\$ 909,870,173
Annual Rebase Impact - FY 04	\$ 161,227,699
Rates effective January 1, 2004 - 6 months in SFY 04	<u>\$ 80,613,850</u>

**SFY 05**

Cost to Rebase - 2005 (1999 cost trended to 2005)	\$1,095,905,363
Cost to Rebase - 2004 (1999 cost trended to 2004)	<u>\$1,071,097,872</u>
Rebase Impact - FY 05 (using FY 04 estimated days)	<u>\$ 24,807,491</u>
Estimated per day impact - FY 04 estimated days 9,345,733	\$2.65
Estimated SFY 05 days 9,392,462	
Annual Rebase Impact - FY 05	\$ 24,931,529
Annual Rebase Impact - FY 04	<u>\$ 161,227,699</u>
Total	<u><u>\$ 186,159,228</u></u>

**SFY 06**

Cost to Rebase - 2006 (1999 cost trended to 2006)	\$1,120,330,464
Cost to Rebase - 2005 (1999 cost trended to 2005)	<u>\$1,095,905,363</u>
Rebase Impact - FY 06 (using FY 04 estimated days)	<u>\$ 24,425,101</u>
Estimated per day impact - FY 04 estimated days 9,345,733	\$2.61
Estimated SFY 06 days 9,439,424	
Annual Rebase Impact - FY 06	\$ 24,669,963
Annual Rebase Impact - FY 05	\$ 24,931,529
Annual Rebase Impact - FY 04	<u>\$ 161,227,699</u>
Total	<u><u>\$ 210,829,191</u></u>

Officials from the **Department of Social Services - Division of Legal Services (DLS)** state that DLS customarily represents the Department of Social Services in defending agency decisions, including decisions involving er diem reimbursement rates. Based on DMS projections as to the

number of nursing homes that would appeal (60% or 306 of 510), DLS assumes it would need 7 additional attorneys and 3 support staff. DLS estimates 50 hours per case (attorney time only).

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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**GENERAL REVENUE**

Costs - Department of Social Services -  
 Division of Medical Services

Additional nursing home services costs	(\$31,060,516)	(\$71,727,151)	(\$81,232,487)
Personal Services (2 FTE)	(\$15,913)	(\$39,147)	(\$40,125)
Fringe Benefits	(\$6,440)	(\$15,483)	(\$16,239)
Equipment and Expenses	<u>(\$8,319)</u>	<u>(\$750)</u>	<u>(\$773)</u>
Total <u>Costs</u> - Division of Medical Services	(\$31,091,188)	(\$71,782,531)	(\$81,289,624)

Costs - Department of Social Services -  
 Division of Legal Services

Personal Services (10 FTE)	(\$130,793)	(\$160,940)	(\$164,964)
Fringe Benefits	(\$52,932)	(\$65,132)	(\$66,761)
Equipment and Expenses	<u>(\$59,226)</u>	<u>(\$45,720)</u>	<u>(\$47,093)</u>
Total <u>Costs</u> - Division of Legal Services	<u>(\$242,951)</u>	<u>(\$271,792)</u>	<u>(\$278,818)</u>

**ESTIMATED NET EFFECT ON  
 GENERAL REVENUE**

	<u>(\$31,334,139)</u>	<u>(\$72,054,323)</u>	<u>(\$81,568,442)</u>
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**FEDERAL**

Income - Department of Social Services-  
 Division of Medical Services

Medicaid Reimbursements	\$49,886,016	\$114,762,852	\$129,936,307
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Costs - Department of Social Services -  
 Division of Medical Services

Additional nursing home services costs	(\$49,613,507)	(\$114,432,077)	(\$129,596,704)
Personal Services (2 FTE)	(\$15,913)	(\$39,147)	(\$40,125)
Fringe Benefits	(\$6,440)	(\$15,483)	(\$16,239)
Equipment and Expenses	<u>(\$8,319)</u>	<u>(\$750)</u>	<u>(\$773)</u>
Total <u>Costs</u> - Department of Social Services - Division of Medical Services	<u>(\$49,644,179)</u>	<u>(\$114,487,457)</u>	<u>(\$129,653,841)</u>

Costs - Department of Social Services -  
 Division of Legal Services

Personal Services (10 FTE)	(\$137,721)	(\$169,465)	(\$173,701)
Fringe Benefits	(\$55,736)	(\$68,582)	(\$70,297)
Equipment and Expenses	<u>(\$48,380)</u>	<u>(\$37,348)</u>	<u>(\$38,468)</u>
	<u>(\$241,837)</u>	<u>(\$275,395)</u>	<u>(\$282,466)</u>

**ESTIMATED NET EFFECT ON  
 FEDERAL**

**\$0                      \$0                      \$0**

FISCAL IMPACT - Local Government

FY 2004                      FY 2005                      FY 2006  
 (10 Mo.)

**\$0                      \$0                      \$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

## DESCRIPTION

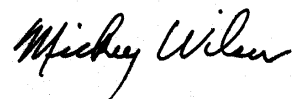
This proposal requires the Division of Medical Services to annually recalculate the Medicaid nursing home reimbursement amount. For three years, the recalculated Medicaid reimbursement amount cannot be reduced below the rate allowed at the initial recalculation. The recalculated Medicaid reimbursement amount shall not be less than ninety dollars per day. When recalculating the Medicaid reimbursement rate of any facility, the Division of Medical Services may not apply a minimum utilization adjustment greater than the current statewide average occupancy minus three percent.

This proposal will be effective on July 1, 2003, and the recalculated rates will be effective on January 1, 2004.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

## SOURCES OF INFORMATION

Department of Social Services  
Department of Health and Senior Services  
Department of Mental Health



Mickey Wilson, CPA  
Director  
February 11, 2003