

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0718-01
Bill No.: Perfected SB 11
Subject: Health Care; Medicaid/MO HealthNet; Nursing Homes and Long-term Care Facilities; Public Assistance; Social Services Department
Type: #Updated
Date: May 2, 2019
To reflect new information from Department of Social Services and Oversight addendum.

Bill Summary: This proposal modifies provisions relating to Medicaid per diem reimbursement rates.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
# General Revenue	Could exceed (\$2,327,938 to \$7,635,395)	Could exceed (\$5,626,566 to \$18,746,886)	Could exceed (\$8,573,381 to \$28,846,324)	Likely to exceed (\$11,547,086 to \$39,199,905)
#Total Estimated Net Effect on General Revenue	Could exceed (\$2,327,938 to \$7,635,395)	Could exceed (\$5,626,566 to \$18,746,886)	Could exceed (\$8,573,381 to \$28,846,324)	Likely to exceed (\$11,547,086 to \$39,199,905)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
#Federal*	\$0	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

* Income and expenses to exceed \$10.6 to \$35.3 million annually and net to \$0.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Total Estimated Net Effect on FTE	0	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§208.225 - Capital expenditures by long-term care facilities - rebase

Officials from the **Department of Health and Senior Services (DHSS)** state the proposed changes to section 208.225 would modify the way the Nursing Facility per diem rate is calculated for MO HealthNet. DHSS assumes there will be a corresponding fiscal impact to Home- and Community-Based Services expenditures because reimbursement for these services is based on the Nursing Facility rates.

DHSS defers to the Department of Social Services (MoHealthNet) (DSS) to calculate the fiscal impact of altering long-term care facility (nursing home) provider rates.

In estimating the impact on DHSS home- and community-based programs, DHSS used the DSS (MoHealthNet) nursing home provider rate estimates. Any increase or decrease in the average monthly cost will equate to a corresponding increase or decrease to the monthly maximum allowable cost of home- and community-based services (HCBS) that eligible participants could potentially use. Currently, recipients of State Plan Basic Personal Care and Consumer-Directed Services HCBS are limited to a maximum monthly cost not to exceed 60 percent of the average monthly cost of nursing facilities for a participant, as calculated by DSS. Additionally, recipients of State Plan Advanced Personal Care, as well as Adult Day Care services, within both the Adult Day Care Waiver and the Aged and Disabled Waiver are limited to a maximum monthly cost not to exceed 100 percent of the average monthly cost of nursing facilities for a participant, as calculated by DSS.

DHSS used HCBS participant data for the last three fiscal years where the nursing facility rate increased, but the provider rate did not simultaneously increase (FY 14, FY 16, and FY 18). For the purposes of this fiscal note, only those participants that were authorized for services within the range of the previous fiscal years' 60 percent cap and the new fiscal years' 60 percent cap were considered to be those affected by the HCBS 60 percent cost cap increase in those specific years. By taking an average of the participants with increased authorization within this range from those years, DHSS estimates that the number of participants that will benefit from a new 60 percent cost cap increase would be 1,572 participants per year. DHSS used this participant count and the DSS (MHD) estimated rate calculations and ranges to estimate the HCBS cost cap ranging from \$1,932 to \$1,947 for FY 2020, \$1,940 to \$1,972 for FY 2021, and \$1,948 to \$1,998 for FY 2022. Subtracting the FY 2019 cost cap of \$1,924 from these projections results in the increased cost cap range of \$7.67 to \$23.18, \$15.69 to \$47.63, and \$23.91 to \$73.55 per participant for FY 2020, FY 2021, and FY 2022, respectively. DHSS estimates additional total costs ranging from:

ASSUMPTION (continued)

FY 2020 - \$144,656 ($\$7.67 * 1,572 * 12$) to \$437,175 ($\$23.18 * 1,572 * 12$);
FY 2021 - \$295,913 ($\$15.69 * 1,572 * 12$) to \$898,302 ($\$47.63 * 1,572 * 12$); and
FY 2022 - \$450,943 ($\$23.91 * 1,572 * 12$) to \$1,387,153 ($\$73.55 * 1,572 * 12$).

Additionally, those participants that were authorized for services within the range of the previous fiscal years' 100 percent cap and the new fiscal years' 100 percent cap were considered to be those affected by the 100 percent nursing facility cost cap increase in those specific years. By taking an average of the participants with increased authorization within this range from those years, DHSS assumed that the number of participants that will benefit from a new 100 percent cost cap increase would be 603 participants per year. DHSS used this participant count and the DSS (MHD) estimated rate calculations and ranges to estimate the average monthly nursing facility cost cap ranging from \$3,220 to \$3,246 for fiscal year 2020, \$3,233 to \$3,287 for fiscal year 2021, and \$3,247 to \$3,330 for fiscal year. Subtracting the FY 2019 cost cap of \$3,207 from these projections results in the increased cost cap range of \$12.78 to \$38.63, \$26.16 to \$79.39, and \$39.85 to \$122.58 per participant for FY 2020, FY 2021, and FY 2022, respectively. DHSS estimates additional total costs ranging from:

FY 2020 - \$92,527 ($\$12.78 * 603 * 12$) to \$279,681 ($\$38.63 * 603 * 12$);
FY 2021 - \$189,398 ($\$26.16 * 603 * 12$) to \$574,784 ($\$79.39 * 603 * 12$); and
FY 2022 - \$288,514 ($\$39.85 * 603 * 12$) to \$887,479 ($\$122.58 * 603 * 12$).

Accordingly, DHSS estimates total costs ranging from:

FY 2020 - \$237,183 ($\$144,656 + \$92,527$) to \$716,856 ($\$437,175 + \$279,681$);
FY 2021 - \$485,312 ($\$295,913 + \$189,398$) to \$1,473,086 ($\$898,302 + \$574,784$); and
FY 2022 - \$739,457 ($\$450,943 + \$288,514$) to \$2,274,632 ($\$1,387,153 + \$887,479$).

The current FMAP split for FY 2020 is 34.412 % GR and 65.588% Fed.

FY 2020: \$81,620 - \$246,684 (GR) and \$155,564 - \$470,172 (Fed)
FY 2021: \$167,006 - \$506,918 (GR) and \$318,306 - \$966,167 (Fed)
FY 2022: \$254,462 - \$782,746 (GR) and \$484,995 - \$1,491,886 (Fed).

Oversight determined from DHSS officials that the FY 2020 costs in the fiscal note are for a full year. Oversight will present FY 2020 costs for 10 months. Therefore, after applying the FMAP split, FY 2020 costs will be ranged from \$68,017 - \$205,570 (GR) and \$129,637 - \$391,810 (Fed).

#It should be noted, based on Oversight's Addendum (p. 6 - 9), it is likely DHSS' estimated increases in HCBS service costs would be higher than projected. Therefore, for fiscal note purposes, Oversight will assume costs will "likely exceed" the costs provided by DHSS.

ASSUMPTION (continued)

Officials from the **Department of Social Services (DSS), MO HealthNet Division (MHD)** state 208.225.3 states any enrolled MHD intermediate care facility or skilled nursing facility that incurs total capital expenditures in excess of two thousand dollars per bed shall be entitled to obtain a recalculation of its Medicaid per diem reimbursement by MHD. The rate is based on its additional capital costs or all costs incurred during the facility fiscal year when the capital expenditures were made. Recalculations shall become effective and payable by MHD as the date of application for rate adjustment.

MHD estimates a vendor would be needed to audit/adjust rates for nursing homes. MHD estimates this will cost:

FY 2020 total: \$136,383 (GR \$68,191, FF \$68,191);
FY 2021 total: \$141,565 (GR \$70,782, FF \$70,782); and,
FY 2022 total: \$146,945 (GR \$73,472, FF \$73,472).

Oversight does not have any information to the contrary. However, Oversight notes FY 2020 costs are for a full year. Oversight will reflect the vendor costs for FY 2020 for 10 months rather than 12 months for fiscal note purposes.

MHD used the average rate increase for rate adjustments granted in 2002 for the impact of the "Adjust Capital Rate Only" scenario (adjusted for increase in nursing facility rates between 2002-2019 + 2.1% inflation for SFYs 20-22). MHD only used allowable nursing facility related capital expenditures to determine qualifying facilities (excludes capital expenditures for non-allowable items (construction in progress, vehicles, land, etc) or non-nursing facility related items (RCFs, apartments, etc). MHD assumes a range due to different rates recalculated for the capital costs vs all costs.

Costs associated with adjustment to Capital Rate only:

FY 2020 total: \$3,666,401 (GR \$1,261,682; FF \$2,404,719) to \$11,094,434 (GR \$3,817,817; FF \$7,276,617);
FY 2021 total: \$7,465,126 (GR \$2,568,899; FF \$4,896,227) to \$22,780,587 (GR \$7,839,256; FF \$14,941,331); and,
FY 2022 total: \$11,399,319 (GR \$3,922,734; FF \$7,476,585) to \$35,093,336 (GR \$12,076,319; FF \$23,017,018).

Oversight notes the DSS has provided "cumulative" costs for Capital Rate-only and costs incurred during the facility fiscal year for FY 2021 and FY 2022. For fiscal note purposes, Oversight will present estimated costs for each year. In addition, Oversight will present FY 2020 costs for 10 months rather than 12 months.

ASSUMPTION (continued)

Grand estimated total with Vendor Costs:

FY 2020 total: \$3,802,784 (GR \$1,329,873; FF \$2,472,910) to \$11,230,817 (GR \$3,886,008; FF \$7,344,809)

FY 2021 total: \$7,606,691 (GR \$2,639,682; FF \$4,967,009) to \$22,922,152 (GR \$7,910,038; FF \$15,012,114)

FY 2022 total: \$11,546,264 (GR \$3,996,206; FF \$7,550,058) to \$35,240,281 (GR \$12,149,791; FF \$23,090,490)

#Oversight Addendum

#Oversight obtained additional information from the DSS relating to potential Medicaid costs for capital expenditures by long-term care facilities (rebase). For fiscal note purposes, costs will be taken out to FY 2023.

#DSS indicated there are approximately 510 Medicaid-certified long-term care facilities in Missouri. Reimbursement rates (effective July 1, 2018) ranged from \$142.84 to \$184.98 per bed per day. The average occupancy rate per facility is approximately 75%. FY 2019 projected bed days to be paid for by DSS are assumed to be approximately 8.7 million. DSS assumes bed days will increase by approximately 1.5% annually. Therefore, for fiscal note purposes, bed days are assumed to be as follows:

Projected Medicaid Bed Days (1.5% growth factor)

FY 2019	8,700,000
FY 2020	8,830,500
FY 2021	8,962,978
FY 2022	9,097,402
FY 2023	9,233,863

#Provisions of this proposal allow intermediate care or skilled nursing facilities that incur more than \$2,000 per bed in capital improvements to obtain a recalculation of its Medicaid per diem reimbursement rate based on its additional capital costs or all costs incurred during the facility fiscal year during which such capital expenditures were made (§208.225.3). Such recalculated reimbursement rate shall become effective and payable when granted by MO HealthNet as of the date of application for a rate adjustment. Once a facility's reimbursement rate is adjusted, the new rate continues indefinitely (or until a new rebasing occurs).

ASSUMPTION (continued)

#The last time facility rates were rebased by DSS was in 2002. DSS rebased facility rates based on capital improvements only, increased between \$0.05 to \$4.92 per bed, per day (with an average rate increase of \$2.27).

#At the 2002 average rate increase of \$2.27 per bed, per day, it would take a 100-bed facility that invests \$200,001 in capital improvements 3.22 years to “recoup” their investment with a 75% occupancy rate (100 beds * 75% = 75 beds * 365 days = 27,375 bed days/year * \$2.27 = \$62,141.25 increase in reimbursement per year; \$200,001 investment/\$62,141.25 = 3.22 years). As an example, Oversight assumes a facility with 100 beds would need to expend \$200,001 in capital improvements to qualify for a rebasing of its per diem rate. Below is a table that provides possible rate increase scenarios depending on the return on investment (ROI) a facility might consider when determining whether or not to invest in additional capital improvements.

ROI Years	Rate Increase Needed (per bed, per day)
2	\$3.65
5	\$1.46
10	\$0.73
15	\$0.49
20	\$0.37

#In supporting documentation received from DSS, using FY 2009 data, DSS assumed 56 facilities would qualify for and seek rate increases per year. Since rate increases would continue every year after a facility rebases, costs would “stack” on top of each other; therefore, if 56 facilities are rebased in FY 2020, those costs would continue each future fiscal year. DSS assumes a 2.40% increase for annual inflation in the 2002 rate adjustment of \$2.27 to \$3.48/bed/day for qualifying facilities for FY 2020.

#**Oversight** notes it is difficult to predict the number of facilities that will be impacted by the rate increase created in the proposal as it depends on each facility’s ROI, which include factors such as the age of the facility and current per diem rate. Additionally, Oversight assumes the proposal could allow a facility to receive a rate increase each year. This may result in some facilities being incentivized to invest in capital expenditures every year while other may not benefit from the proposal. For the purposes of the fiscal note, Oversight assumes up to 25% of the facilities would choose to upgrade each year until, or until all facilities are upgraded. Oversight will use the total bed days and the adjusted rate of \$3.48/bed/day for fiscal note purposes.

ASSUMPTION (continued)

Projected Rebased Days

FY	Annual Projected Bed Days	Days for Facilities Rebasing (25%)
2020	8,830,500	2,207,625
2021	8,962,978	2,240,745
2022	9,097,402	2,274,350
2023	9,233,863	2,308,466

Capital Costs Rebasing

FY	Total Bed Days	Rate Increase per Bed Day	Increase in Costs	Total Costs	General Revenue (34.412%)	Federal Funds (65.588%)
2020	2,207,625	\$3.48	\$6,402,112	\$6,402,112	\$2,203,095	\$4,199,017
2021	2,240,745	\$3.56	\$7,977,050	\$15,659,585	\$5,388,777	\$10,270,809
2022	2,274,350	\$3.65	\$8,301,379	\$23,960,965	\$8,245,447	\$15,715,518
2023	2,308,466	\$3.74	\$8,633,662	\$32,594,627	\$11,216,463	\$21,378,164

#However, provisions of the proposal also allow for facilities to rebase on all costs incurred during the facility fiscal year during which such capital expenditures were made rather than just capital costs, as long as the more than \$2,000 investment per bed is made.

#Under this assumption, DSS assumed that recalculated per diem rates could increase an average of \$11.65/bed day with a 3.8% annual growth rate for future years. Using a 100-bed facility with 75% occupancy, that invests \$200,001 in capital improvements, they could “recoup” their investment in less than 1 year (100 beds * 75% = 75 beds * 365 days = 27,375 bed days/year * \$11.65 = \$318,919 increase in reimbursements per year; \$200,001 investment/\$318,919 = 0.63 years or 7.6 months).

#**Oversight** notes that each facility’s ROI will be different depending on the age of the facility and current per diem rate. This may result in some facilities being incentivized to invest in capital expenditures every year while other may not benefit from the proposal. Oversight assumes, under the “all cost” method, it is likely that most facilities would choose to invest over \$2,000 in

ASSUMPTION (continued)

capital improvements per bed to obtain a higher per diem rate. Oversight assumes one-fourth of all 510 facilities will choose to rebase each year and is presenting the estimated costs in the table below:

All Costs Rebasing

FY	Total Bed Days	Rate Increase per Bed Day	Increase in Costs	Total Costs	General Revenue (34.412%)	Federal Funds (65.588%)
2020	2,207,625	\$11.65	\$25,710,795	\$21,425,662	\$7,372,999	\$14,052,663
2021	2,240,745	\$12.09	\$27,088,185	\$52,798,980	\$18,169,185	\$34,629,795
2022	2,274,350	\$12.55	\$28,539,234	\$81,338,214	\$27,990,106	\$53,348,108
2023	2,308,466	\$13.03	\$30,079,309	\$111,417,523	\$38,340,998	\$73,076,525

#**Oversight** notes the DSS has assumed there will be additional vendor costs associated with this provision of the proposal. Vendor costs are contracted auditors that go in and audit facility costs to determine the adjusted rates for facilities. Vendor costs for FY 2020 are estimated to be \$136,383; FY 2021 costs are estimated to be \$141,565; and FY 2022 vendor costs are estimated to be \$146,945. Oversight will extrapolate vendor costs to FY 2023 and assumes costs of \$152,323. These costs are reimbursed 50% GR/50% Federal.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other nursing homes were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

FISCAL IMPACT -
State Government

	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
#GENERAL REVENUE FUND				
#Costs - DHSS (§208.225)				
Increase in HCBS cap rates	Could exceed (\$68,017 to \$205,570)	Could exceed (\$167,006 to \$506,918)	Could exceed (\$254,462 to \$782,746)	Expected to exceed (\$254,462 to \$782,746)
#Costs - DSS (§208.225)				
#Contractor costs	Could exceed... (\$56,826)	Could exceed... (\$70,783)	Could exceed... (\$73,472)	Could exceed... (\$76,161)
#Increase in capital expenditures	<u>(\$2,203,095 to \$7,372,999)</u>	<u>(\$5,388,777 to \$18,169,185)</u>	<u>(\$8,245,447 to \$27,990,106)</u>	<u>(\$11,216,463 to \$38,340,998)</u>
#ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>Could exceed</u> <u>(\$2,327,938 to</u> <u>\$7,635,395)</u>	<u>Could exceed</u> <u>(\$5,626,566 to</u> <u>\$18,746,886)</u>	<u>Could exceed</u> <u>(\$8,573,381 to</u> <u>\$28,846,324)</u>	<u>Likely to exceed</u> <u>(\$11,547,086 to</u> <u>\$39,199,905)</u>
#FEDERAL FUNDS				
#Income - DHSS (§208.225)				
#Increase in HCBS program reimbursements	Could exceed \$129,637 to \$391,810	Could exceed \$318,306 to \$966,167	Could exceed \$484,995 to \$1,491,886	Likely to exceed \$484,995 to \$1,491,886
#Income - DSS (§208.225)				
#Reimbursement for contractor costs	\$56,826	\$70,783	\$73,472	\$76,162
#Reimbursement for increase in capital expenditures	<u>\$4,199,018 to \$14,052,664</u>	<u>\$10,270,809 to \$34,629,795</u>	<u>\$15,715,518 to \$53,348,108</u>	<u>\$21,378,164 to \$73,076,525</u>
#Total All Income	<u>Could exceed</u> <u>\$4,385,481 to</u> <u>\$14,501,300</u>	<u>Could exceed</u> <u>\$10,659,898 to</u> <u>\$35,666,745</u>	<u>Could exceed</u> <u>\$16,273,985 to</u> <u>\$54,913,466</u>	<u>Likely to exceed</u> <u>\$21,939,321 to</u> <u>\$74,644,573</u>

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
FEDERAL FUNDS (continued)				
<u>#Costs - DHSS</u> (\$208.225)				
#Increase in HCBS cap rates	Could exceed (\$129,637 to \$391,810)	Could exceed (\$318,306 to \$966,167)	Could exceed (\$484,995 to \$1,491,886)	Likely to exceed (\$484,995 to \$1,491,886)
<u>#Costs - DSS</u> (\$208.225)				
#Contractor costs	Could exceed... (\$56,826)	Could exceed... (\$70,783)	Could exceed... (\$73,472)	Could exceed... (\$76,162)
#Increase in capital expenditures	<u>(\$4,199,018 to \$14,052,664)</u>	<u>(\$10,270,809 to \$34,629,795)</u>	<u>(\$15,715,518 to \$53,348,108)</u>	<u>(\$21,378,164 to \$73,076,525)</u>
#Total <u>All Costs</u>	<u>(\$4,385,481 to \$14,501,300)</u>	<u>(\$10,659,898 to \$35,366,745)</u>	<u>(\$16,273,985 to \$54,913,466)</u>	<u>(\$21,939,321 to \$74,644,573)</u>
#ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Under this act, any intermediate care facility or skilled nursing facility participating in MO HealthNet that incurs total capital expenditures in excess of \$2,000 per bed shall be entitled to obtain a recalculation of its Medicaid per diem reimbursement rate based on its additional capital costs or all costs incurred during the facility fiscal year during which such capital expenditures were made.

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 Health and Senior Services
Department of Social Services



Kyle Rieman
Director
May 2, 2019

Ross Strobe
Assistant Director
May 2, 2019