COMMITTEE ON LEGISLATIVE RESEARCH-
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4951-01
Bill No.: SB 1240
Subject: Medicaid; Nursing and Boarding Homes; Elderly; Social Services Department
Type: Original
Date: March 11, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General	($27,601,246)	($66,154,617)	($77,102,902)
Total Estimated Net Effect on All State Funds	**($27,601,246)**	**($66,154,617)**	**($77,102,902)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Federal*	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Health and Senior Services** assume this proposal would not fiscally impact their agency.

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

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state that they requested $134.5 million to fund the rebasing of nursing facility rates. DMS states their request is based on current regulations and is similar to this proposal, except for the following provisions: 1) The proposal specifies that the recalculated rate shall not be less than ninety dollars per day. DMS' request does not set a minimum rate. 2) The proposal specifies that DMS cannot apply a minimum utilization adjustment greater than the most current statewide average occupancy of all licensed nursing homes less three percent (average occupancy is approximately 75%). DMS' request uses 85% for its minimum utilization adjustment.

This proposal requires the DMS to annually recalculate Medicaid reimbursement rates for the nursing home industry. This would significantly increase the cost to the Medicaid program. By recalculating the rates annually, the DMS would not be able to control program expenditures. The proposal also would not allow a minimum utilization adjustment greater than the most current statewide average occupancy minus 3%. The overall state occupancy has steadily been decreasing over the past several years so that provision would also add to the cost of the program.

DMS made the following assumptions:

(a) The DMS used 1999 audited cost report data, trended to 2003 because the proposal specifies an effective date for recalculated rates to be dates of service beginning January 1, 2003.

(b) The DMS interprets the proposal 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 3rd prior fiscal year cost report. Rates effective January 1, 2003 would require the 2000 cost reports; however, these are not currently audited so the Division used 1999. The DMS estimates that the 2000 cost reports will be completely audited by September 2002 which should allow enough time for DMS to recalculate the rates by January 2003. 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 two additional staff in the

ASSUMPTION (continued)

fiscal impact (1 Auditor II, 1 Auditor I).

(c) 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).

(d) The calculation is based on current regulations, which includes rebased ceilings, incentives, FRV, etc.

(e) Minimum Utilization = 73% (average state occupancy from Sept. 01 Quarterly Survey = 75.62%).

(f) To determine subsequent years' impact for rebasing, DMS trended the 1999 rebasing analysis to 2004 and 2005 (an additional 3.6% trend for each year - based on CMS Market Basket Index for 2004) and compared it to the 2003 / 2004 rebased rates. DMS assumed that the medians and ceilings would also be recalculated based on the 2004 / 2005 trended costs. Only the pass through expenses of the FRV rates have been recalculated due to time constraints. Occupancy and minimum utilization percent reduced by 0.5% for each year : minimum utilization = 72% for 2004 and 2005.

Based upon these assumptions, the DMS estimates cost of rebasing to be $71,045,389 in FY 03 (½ year; $27,544,297 GR; $43,501,092 Federal); $170,479,382 in FY 04 ($66,094,857 GR; $104,384,525 Federal) and $198,714,541 in FY 05 ($77,041,628 GR; $121,672,913 Federal). In addition, the DMS would need two additional FTE at a cost of $119,520 ($58,978 GR; $59,760 Federal).

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005

GENERAL REVENUE

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Costs - Department of Social Services - Division of Medical Services			
Additional nursing home services costs	($27,544,297)	($66,094,857)	($77,041,628)
Personal Services (2 FTE)	($33,292)	($40,949)	($41,973)
Fringe Benefits	($11,988)	($14,746)	($15,114)
Equipment and Expenses	($11,669)	($4,065)	($4,187)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($27,601,246)**	**($66,154,617)**	**($77,102,902)**
FEDERAL			
Income - Department of Social Services- Division of Medical Services			
Medicaid Reimbursements	$43,558,041	$104,444,285	$121,734,187
Costs - Department of Social Services - Division of Medical Services			
Additional nursing home services costs	($43,501,092)	($104,384,525)	($121,672,913)
Personal Services (2 FTE)	($33,292)	($40,949)	($41,973)
Fringe Benefits	($11,988)	($14,746)	($15,114)
Equipment and Expenses	($11,669)	($4,065)	($4,187)
ESTIMATED NET EFFECT ON FEDERAL	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses which are nursing homes could be affected by this proposal.

DESCRIPTION

This proposal requires the Division of Medical Services to annually recalculate the Medicaid nursing home reimbursement amount. The recalculated amount of a nursing home can not be reduced below the rate allowed at the initial recalculation for the first three years following recalculation. The recalculated amount shall not be less than $90 per day. When recalculating the 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 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 Mental Health
Department of Health and Senior Services
Department of Social Services

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