

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7910

BILL NUMBER: HB 1866

DATE PREPARED: Mar 26, 2001

BILL AMENDED: Mar 5, 2001

SUBJECT: Case-Mix Reimbursement for Nursing Homes.

FISCAL ANALYST: Alan Gossard

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**FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) *Medicaid Case-Mix Reimbursement System:* This bill requires the Office of the Secretary of Family and Social Services (FSSA) to make various amendments to the administrative rule regarding the Medicaid case-mix reimbursement system for nursing homes. The bill also requires the Office of Medicaid Policy and Planning (OMPP) to apply to the federal Health Care Financing Administration (HCFA) for a Medicaid state plan amendment to implement certain rule changes. The bill prohibits FSSA from repealing or amending certain administrative rules without statutory authority.

Eldercare Trust Fund: This bill also establishes the Eldercare Trust Fund. The bill provides that the Trust Fund consists of the money deposited from the reimbursement allowance collected under this act. The bill also provides that the Office shall until August 1, 2003, collect a reimbursement allowance from each health facility of \$5 for each patient day in the health facility. OMPP shall deposit the money in the Eldercare Trust Fund. The Trust Fund shall be used to pay the state's share of Medicaid costs. The bill provides that if federal financial participation becomes unavailable to match money from the Trust Fund for the purpose of supplementing and enhancing reimbursement to nursing facilities for Medicaid services, the office shall cease collection of the reimbursement allowance and refund all of the money remaining in the Trust Fund.

Refundable Tax Credit: This bill also provides a refundable tax credit for an individual who receives services in a health facility on a 24-hour basis that were not paid for by Medicaid, Medicare, or a Department of Veterans Affairs program. It also provides that the credit is equal to \$150 for each 30 days the individual receives the qualifying services.

Nursing Home Patient Evaluation: The bill also requires a nursing facility certified to provide nursing facility care to annually submit to OMPP certain minimum data set information for its Medicaid residents. OMPP or the Office's designated contractor is to evaluate the information.

Effective Date: (Amended) Upon passage; July 1, 2001; August 1, 2001.

Explanation of State Expenditures: (Revised) *Refundable Tax Credit:* There will be some administrative expenses for the Department of State Revenue to revise tax forms, instructions, and computer programs. These expenses can be covered under the Department's existing budget.

Medicaid Case-Mix Reimbursement System: This bill makes several changes to the Medicaid case-mix reimbursement system used for reimbursing nursing home providers in the Medicaid program. A preliminary estimate of the total cost to the state Medicaid program is estimated to be \$52.09 M initially, and \$35.14 M annually. (The additional cost in the first year is a cost associated with the initial timing of payments, rather than an additional cost on the system. These expenditures would have otherwise been made to nursing homes at some time in the future.) In addition, it is important to note that the effects of interactions between the various components of the bill have not been modeled at this time. Consequently, the total cost estimate is preliminary and may overestimate the total cost if all provisions were implemented. Total additional expenditures are estimated to be about \$137.4 M initially with federal reimbursement of \$85.32 M. The estimated cost of each individual proposal is provided in the following table, along with federal and state shares of the expenditures. These rates will be in effect for a two-year period (through August 1, 2003).

In addition, the fees paid by nursing homes to fund the Eldercare Trust Fund (described in Explanation of State Revenues, below) are considered an allowable cost for Medicaid reimbursement through the case-mix reimbursement system. This amounts to an additional \$75.8 M for each of two years that would be reflected in higher nursing home reimbursement.

The Indiana State Veterans Home would not be exempt under the bill from paying the \$5 fee to fund the Eldercare Trust Fund. Annual expenditures for this purpose are estimated to be about \$666,000. This is assumed to be paid from the state General Fund.

Provision	Total Costs	Federal Share	State Share
Removal of therapies from direct care component; reimburse therapies as a separate component; utilize 34 grouper version 5.12 of the RUG-III classification system.	(\$16.0 M)	(\$9.92 M)	(\$6.08 M)
Increase indirect care overall rate limitation by 10% (to 110%).	11.4 M	7.07 M	4.33 M
Increase administrative overall rate limitation by 6% (to 106%).	3.4 M	2.11 M	1.3 M
Remove repairs and maintenance from capital and reimburse through the indirect care component.	3.6 M	2.23 M	1.37
Increase the owners and management compensation limit by 10%.	4.4 M	2.73 M	1.67 M
Increase direct care overall rate limitation by 10% (to 120%).	9.0 M	5.58 M	3.42 M
Increase capital overall rate limitation by 20% (to 100%).	27.3 M	16.93 M	10.37 M
Decrease minimum occupancy standard by 10%.	6.0 M	3.72 M	2.28 M
Remove property taxes from capital component and reimburse separately without limitation.	1.8 M	1.12 M	0.68 M
Redefines what cost reports to utilize when establishing medians.	12.5 M	7.75 M	4.75 M
Remove professional liability insurance from the administrative component and reimburse separately.	26.7 M	16.55 M	10.15 M
Hold harmless for ventilator providers.	1.6 M	0.99 M	0.61 M
Increased reimbursement for training related to dementia.	1.1 M	0.81 M	0.29 M
Total On-Going Costs	\$92.8 M	\$57.67 M	\$35.14 M
No phase-in for rate-setting. **	44.6 M	27.65 M	16.95 M
*** Total First Year	\$137.4 M	\$85.32 M	\$52.09 M
<p>** This item represents a preliminary estimate of the initial cost associated with changing reimbursement rates initially and would occur only in the initial year. This amount would have been paid to nursing facilities over the following 18 to 24 months, anyway. Consequently, it represents a <u>timing</u> difference, rather than an additional cost on the system.</p> <p>*** The effect of interactions between the various components of the bill have not been modeled at this time. Consequently, <u>the total cost of all provisions is a preliminary estimate</u> and may overstate the actual cost if all provisions were implemented.</p>			
Source: Myers and Stauffer LC, 1/9/01.			

Nursing Home Patient Evaluation: This bill requires each nursing home to annually evaluate each patient and provide the evaluations to OMPP. OMPP is to determine the most appropriate placement alternative for the patients and inform and counsel patients regarding the placement alternatives that are available and the most appropriate setting for the individual. To the extent that sufficient alternative settings exist and individuals are able to change to residential alternatives that are less expensive to the state, state Medicaid

expenditures may be reduced.

Explanation of State Revenues: (Revised) *Eldercare Trust Fund*: This bill also establishes the Eldercare Trust Fund into which will be deposited a fee paid by all nursing facilities in the amount of \$5 for each patient day. This provision is to be in effect for two years, until August 1, 2003. A preliminary estimate of the total revenues that would be generated is \$75.8 M. These revenues are to represent the state match in leveraging federal dollars through the Medicaid program resulting in a total of \$199.5 M (\$123.7 M in federal match and \$75.8 M in fee revenue). The money generated from this proposal is to be used for Medicaid services. If federal approval is not obtained for this provision, the fees are to be refunded to the nursing facilities.

Total additional on-going costs of the case-mix reimbursement provisions (\$92.8 M) plus the nursing home fees that are considered an allowable cost for Medicaid reimbursement through the case-mix reimbursement system (\$75.8 M) total \$168.6 M. Total estimated revenues (state and federal) in the Eldercare Trust Fund amount to \$199.5 M resulting in excess revenues of \$30.9 M that would be available for the Medicaid program.

Not all nursing facilities that will be required to pay the fee described above will receive the additional Medicaid reimbursement increases provided by this bill. Certain nonprofit nursing facilities, including the Indiana State Veterans Home, that do not participate in the Medicaid program or that have a small percentage of their beds devoted to Medicaid recipients are estimated to contribute about \$2 M in excess of Medicaid reimbursement generated by the bill.

Total expenditures are shared with the federal government reimbursing about 62% of expenditures. The state share represents about 38%.

Refundable Tax Credit: This bill also provides for a refundable tax credit for a two-year period against an individual's adjusted gross income tax liability in the amount of \$150 for each 30 days that an individual receives "qualifying services" in a nursing facility. Qualifying services are those services provided in a nursing home for which reimbursement did not occur from the Medicaid, Medicare, or a Department of Veterans Affairs program. The estimated reduction in income tax revenues is \$6.25 M in FY 2002, \$12.5 M in FY 2003, and \$6.25 M in FY 2004. This is based on an estimated 11,100 nursing facility residents whose nursing home stay is financed by private out-of-pocket payments, long term care insurance, or some other private source of funding. Fifty percent of nursing home residents are assumed to reside in the nursing facilities for six months or more.

Individual income tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Office of Medicaid Policy and Planning (OMPP).

Local Agencies Affected:

Information Sources: Kathy Gifford, OMPP, (317) 233-4455.