

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3576-02  
Bill No.: Truly Agreed to and Finally Passed SB 1123  
Subject: Elderly; Medicaid; Nursing and Boarding Homes; Social Services Department  
Type: Original  
Date: June 2, 2004

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General	(\$16,331,254 to \$16,740,724)	(\$37,766,416 to \$38,379,401)	(\$64,446,082 to \$65,151,530)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$16,331,254 to \$16,740,724)</b>	<b>(\$37,766,416 to \$38,379,401)</b>	<b>(\$64,446,082 to \$65,151,530)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Total Estimated Net Effect on <u>All</u> 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 2005</b>	<b>FY 2006</b>	<b>FY 2007</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>

\*Income and costs of approximately \$60,000,000 would net to \$0.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **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)** assumes the proposal does not include DMH operated ICF/MRs since their rates are currently recalculated/adjusted annually.

Officials from the **Office of Attorney General** state they would represent the Department of Social Services in defending recalculation decisions. Based on DMS projections as to the number of nursing homes that would appeal, AGO assumes it would need 7 additional attorneys and 3 support staff. AGO states the General Revenue portion is 25 percent.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state annually recalculating Medicaid reimbursement rates for the nursing home industry would significantly increase the cost to the Medicaid program. DMS states there is a three year transition period for the recalculated Medicaid rates to be the actual rates paid. By recalculating the rates annually, the DMS would not be able to control program expenditures.

ASSUMPTION (continued)

DMS assumptions used to calculate fiscal impact:

- a. Used 1999 audited cost report data, trended to 2005. The proposal specifies an effective date for recalculated rates to be effective the later of passage and approval or July 1, 2004. DMH is using a July 1, 2004 effective date. Rates effective July 1, 2004 would require the 2001 cost reports; however, not all of the cost reports have been audited. Also, the recalculation of rates and the impact would take several weeks to complete 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 July 1, 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 July rebase. Therefore, additional staff would be needed to complete the audits and recalculate the rates on a timely basis. DMS has included 3 additional staff in the fiscal impact (1 Senior Auditor, 2 Auditor II). DMS states if reported costs are used (i.e., vs. audited data), the Division estimates that it would cost an additional \$3.39 per day to rebase (based on comparison of 1999 unaudited data to 1999 audited data).
- b. Calculation based on current regulations, which includes rebased ceilings, incentives, FRV, etc.
- c. One-third of the annual impact for fiscal year 2005, two-thirds for fiscal year 2006 and full impact for fiscal year 2007 was realized for the three (3) year transition period.
- d. To determine subsequent years' impact for rebasing, DMS trended the 1999 rebasing analysis to 2006 and 2007 (an additional 2.8% trend for each year - based on CMS Market Basket Index for 2005) and compared it to the 2005 / 2006 rebased rates. DMS assumed that the medians and ceilings would also be recalculated base on the 2006 / 2007 trended costs. Only the pass through expenses of the FRV rates have been recalculated due to time constraints.

ASSUMPTION (continued)

Summary of costs / calculations:

SFY05:

Cost to Rebase - 2005 (1999 cost trended to 2005)	\$1,066,432,146
Cost for Current Rates	<u>\$941,633,384</u>
Annual Rebase Impact - FY05	<u>\$124,798,762</u>

One-third effective July 1, 2004, SFY05 fiscal impact \$ 41,599,587

SFY06:

Cost to Rebase - 2006 (1999 cost trended to 2006)	\$ 1,086,647,543
Cost to Rebase - 2005 (1999 cost trended to 2005)	<u>\$ 1,066,432,146</u>
Rebase Impact - FY 06 (using FY 05 estimated days)	<u>\$ 20,215,397</u>
Estimated per day impact - FY 05 estimated days 9,160,408	\$2.21
Estimated SFY 06 days	<u>9,206,210</u>
Annual Rebase Impact - FY 06	\$20,316,474
Annual Rebase Impact - FY 05	<u>\$ 124,798,762</u>
Total	<u>\$ 145,115,236</u>

Two-thirds effective July 1, 2005, SFY06 fiscal impact \$ 96,743,490

SFY07:

Cost to Rebase - 2007 (1999 cost trended to 2007)	\$ 1,106,736,236
Cost to Rebase - 2006 (1999 cost trended to 2006)	<u>\$ 1,086,647,543</u>
Rebase Impact - FY 07 (using FY 05 estimated days)	<u>\$ 20,088,693</u>
Estimated per day impact - FY 05 estimated days 9,160,408	\$2.19
Estimated SFY 07 days	<u>9,252,241</u>
Annual Rebase Impact - FY 07	\$ 20,290,082
Annual Rebase Impact - FY 06	\$ 20,316,474
Annual Rebase Impact - FY 05	<u>\$ 124,798,762</u>
Total	<u>\$ 165,405,318</u>

Entire rebase effective July 1, 2006, SFY 07 fiscal impact \$ 165,405,318

If the rebase was calculated using reported costs that were not audited, an additional \$10 million would be needed.

ASSUMPTION (continued)

Average total per diem audit adjustment made to reported cost	\$3.39
Estimated 05 days	<u>9,160,408</u>
Additional cost using Reported Costs vs. Audited Costs	<u>\$31,053,783</u>
One-third effective July 1, 2004	\$10,351,261

DMS states the proposal is unclear as to whether the nursing facilities' rates will be held harmless (a facility's rate will not be reduced under the rebase). If a hold harmless provision is assumed, additional funding would be needed - \$1,053,979 for FY 05, \$1,577,825 in FY 06 and \$1,815,826 in FY 07. Since the bill is unclear on hold harmless, the fiscal impact of the bill will be reported as a range. The DMS believes the fiscal impact of the proposed legislation would be as follows:

FY 05 - \$41,776,249 to \$42,830,228\*  
 FY 06 - \$96,936,591 to \$98,514,416\*  
 FY 07 - \$165,603,300 to \$167,419,126\*

\* Impact includes funding for 3 additional staff.

<u>FISCAL IMPACT - State Government</u>	FY 2005	FY 2006	FY 2007
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**GENERAL REVENUE**

Costs -Office of Attorney General

Personal Services (10 FTE)	(\$60,860)	(\$74,857)	(\$76,729)
Fringe Benefits	<u>(\$25,196)</u>	<u>(\$30,991)</u>	<u>(\$31,766)</u>
Total <u>Costs</u> - Office of Attorney General	(\$86,056)	(\$105,848)	(\$108,495)

Costs - Department of Social Services -  
 Division of Medical Services

Program costs	(\$16,161,440 to \$16,570,910)	(\$37,584,846 to \$38,197,831)	(\$64,259,966 to \$64,965,414)
Personal Services (3 FTE)	(\$51,470)	(\$52,756)	(\$54,075)
Fringe Benefits	(\$21,309)	(\$21,841)	(\$22,387)
Expense and Equipment	<u>(\$10,979)</u>	<u>(\$1,125)</u>	<u>(\$1,159)</u>
Total <u>Costs</u> - Department of Social Services - Division of Medical Services	(\$16,245,198 to \$16,654,668)	(\$37,660,568 to \$38,273,553)	(\$64,337,587 to \$65,043,035)

<b>ESTIMATED NET EFFECT TO GENERAL REVENUE</b>	<u><b>(\$16,331,254 to \$16,740,724)</b></u>	<u><b>(\$37,766,416 to \$38,379,401)</b></u>	<u><b>(\$64,446,082 to \$65,151,530)</b></u>
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## **FEDERAL**

### Income - Department of Social Services - Division of Medical Services

Program Reimbursements	\$25,521,905 to \$26,166,414	\$59,234,366 to \$60,199,206	\$101,222,973 to \$102,333,351
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### Income - Office of Attorney General

Program Reimbursements	\$258,165	\$317,543	\$325,481
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### Costs - Department of Social Services - Division of Medical Services

Program costs	(\$25,438,147 to \$26,082,656)	(\$59,158,644 to \$60,123,484)	(\$101,145,352 to \$102,255,730)
Personal Services (3 FTE)	(\$51,470)	(\$52,756)	(\$54,075)
Fringe Benefits	(\$21,309)	(\$21,841)	(\$22,387)
Expense and Equipment	<u>(\$10,979)</u>	<u>(\$1,125)</u>	<u>(\$1,159)</u>
Total <u>Costs</u> - Department of Social Services - Division of Medical Services	(\$25,521,905 to \$26,166,414)	(\$59,234,366 to \$60,199,206)	(\$101,222,973 to \$102,333,351)

### Costs -Office of Attorney General

Personal Services (10 FTE)	(\$182,578)	(\$224,571)	(\$230,185)
Fringe Benefits	<u>(\$75,587)</u>	<u>(\$92,972)</u>	<u>(\$95,296)</u>
Total <u>Costs</u> - Office of Attorney General	<u>(\$258,165)</u>	<u>(\$317,543)</u>	<u>(\$325,481)</u>

## **ESTIMATED NET EFFECT TO FEDERAL**

<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>
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### FISCAL IMPACT - Local Government

FY 2005 (10 Mo.)	FY 2006	FY 2007
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<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>
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### 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. Medicaid rates shall be recalculated for all Missouri facilities over three state fiscal years in three separate payments beginning July 1, 2004. The Department shall recalculate the class ceilings for patient care (120% of the median), ancillary (120% of the median), and administration (110% of the median), with each facility receiving one-third of the unpaid amount.

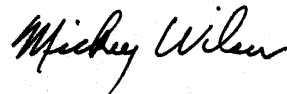
For July 1, 2004, the Department, using the adjusted costs in the Medicaid cost report for the fiscal year ending in 2001, shall redetermine the allowable per patient day costs for each facility. Each facility shall receive a rate increase of 1/3 the amount that is underpaid. For July 1, 2005, the Department shall perform the same calculations, but shall use the adjusted costs for the fiscal year ending in 2002. For July 1, 2006, the Department shall perform the same calculations using the adjusted costs for the fiscal year ending in 2003. For July 1, 2007, each facility shall receive a full recalculation based upon its 2004 Medicaid cost report of adjusted costs.

This act shall take effect on July 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

Office of Attorney General  
Department of Mental Health  
Department of Health and Senior Services  
Department of Social Services



Mickey Wilson, CPA  
Director  
June 2, 2004