



## Legislative Fiscal Bureau

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May 20, 2003

Joint Committee on Finance

Paper #401

### **Nursing Homes -- Labor Region Adjustment (Health and Family Services -- Nursing Homes)**

[LFB 2003-05 Budget Summary: Page 231, #3]

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#### **CURRENT LAW**

Under the state's medical assistance (MA) program, the Department of Health and Family Services (DHFS) is required to establish standards for payment of allowable direct care costs in nursing homes that are adjusted for regional labor cost variations. DHFS implements this provision by establishing a statewide direct care services base maximum payment (\$60.19 in 2002-03) and adjusts this maximum by a corresponding labor factor. Labor factors are calculated for each standard metropolitan area and a single factor is applied for all rural counties. For example, the direct care services maximum for nursing homes in Brown County is \$61.21 ( $\$60.19 \times 1.017$ ) and \$56.88 ( $\$60.19 \times 0.945$ ) for Door County in 2002-03.

DHFS is required to use, for all facilities in the state -- with the exception of facilities in St. Croix, Douglas and Pierce Counties -- a labor region adjustment that uses the Medicare labor region designations, weighted to patient day costs, based on Wisconsin facility-specific average wages, excluding county-owned nursing homes. Nursing homes in St. Croix, Douglas and Pierce Counties have a labor region adjustment to their allowable direct care costs that is based on the Medicare hospital cost index.

#### **GOVERNOR**

Eliminate the requirement that DHFS use the Medicare hospital cost index to calculate the labor region adjustment for nursing homes in St. Croix, Douglas and Pierce Counties. Reduce MA benefits funding by \$513,900 (-\$213,700 SEG from the MA trust fund and -\$300,200 FED) annually to reflect the projected savings of eliminating this requirement.

## DISCUSSION POINTS

1. 2001 Wisconsin Act 16 (the 2001-03 biennial budget act) included a provision that required DHFS, together with representatives from the nursing home industry and organized labor, to develop a comprehensive plan that specified varying regions of the state with respect to labor costs for nursing home staff and required DHFS to submit the proposed plan to the Joint Committee on Finance on or before the later of: (a) September 1, 2001; or (b) the first day of the second month after the bill's effective date

2. On December 18, 2001, the Committee met to review and approve the plan recommended by DHFS. The Committee considered several options, including an option that would have directed DHFS to use a regional labor cost adjustment that used the Medicare hospital labor cost index.

Beginning in 1999-00, DHFS had begun transitioning toward using this index and had anticipated that, beginning in 2001-02, this index would be used for all nursing homes in the state. Under the Medicare labor cost index, there are 14 different regions in Wisconsin that include 13 standard metropolitan statistical areas (SMSAs), centered on such urban areas as Milwaukee, Madison, and Appleton/Oshkosh, and a rural classification that encompasses the remaining areas of the state. In the aggregate, it was estimated that nursing homes in the Minneapolis and Superior labor regions would have received greater MA reimbursement under the Medicare labor cost index than under the other plans the Committee considered.

3. Ultimately, the Committee adopted a plan, recommended by DHFS, that directed DHFS to use, for all facilities in the state a labor region adjustment that uses the Medicare labor region designations, weighted to patient day costs, based on Wisconsin facility-specific average wages, excluding county-owned nursing homes. Under the Committee's plan, DHFS would use this method of making a labor region adjustment to direct care costs for all nursing homes in the state.

The outcome of this decision had distributional effects, but did not modify the total funding that would be available to support MA rate increases for nursing homes, since the amount of funding available for nursing home rate increases was established as part of the 2001-03 budget deliberations.

4. The requirement that DHFS use a labor region adjustment to allowable direct care costs for facilities in St. Croix, Douglas and Pierce Counties was enacted as part of 2001 Wisconsin Act 109 and first applied to 2002-03 MA payments to nursing homes in those three counties.

5. Act 109 provided \$513,900 SEG and \$725,100 FED in 2002-03 to fund the estimated costs of increasing MA payments to nursing homes in St. Croix, Douglas, and Pierce Counties to reflect the use of the Medicare hospital cost index in determining the labor region adjustment to direct care cost targets for facilities in these three counties. This funding is part of the MA base.

6. As a result of the Act 109 provision, DHFS used, in 2002-03, a labor region

adjustment factor for nursing homes in Pierce and St. Croix Counties of 1.171, rather than 0.98, and a labor region adjustment factor for nursing homes in Douglas County of 1.114, rather than 0.918. Consequently, the direct care services base maximum payments were greater for nursing homes in these counties than they otherwise would have been under the plan approved by the Committee.

7. The Governor's bill would reduce funding by \$213,700 SEG and \$300,200 FED annually to reflect the estimated cost savings of reimbursing facilities in these three counties by using the same labor region adjustment as DHFS uses in the other 69 counties. However, the Governor's all funds reduction (\$513,900) equals the amount of SEG funding in the base that was provided in 2002-03 under Act 109, not the all funds amount (\$1,239,000).

Consequently, if the Committee approves the Governor's recommendation, it could reduce MA benefits funding by \$722,000 (-\$300,200 SEG and -\$421,800 FED) in 2003-04 and by \$721,700 (-\$300,200 SEG and -\$421,500 FED) in 2004-05 to delete all of the funding in the MA base for enhanced payments to nursing homes in these counties. Under this option, the amount of unallocated funding in the MA trust fund would be increase by \$600,400.

8. However, since the revenue in the MA trust fund is similar to GPR in that it is budgeted as the state match for federal MA funding, the Committee could reduce GPR, rather than SEG, MA benefits funding to fully reflect the cost savings of the Governor's proposal.

9. Finally, the Committee could delete the Governor's recommended statutory change, and continue to require DHFS to use the Medicare hospital labor region adjustment for nursing homes in St. Croix, Pierce and Douglas Counties. However, since the Governor's budget would fully budget all anticipated revenues to the MA trust fund, GPR funding would be required to support a portion of the state share of the cost of these enhanced payments.

**ALTERNATIVES**

1. Adopt the Governor's recommendation to repeal the requirement that DHFS use the Medicare hospital cost index to calculate the labor region adjustment for nursing homes in St. Croix, Douglas and Pierce Counties. In addition, reduce MA benefits funding by \$722,000 (-\$300,200 SEG and -\$421,800 FED) in 2003-04 and by \$721,700 (-\$300,200 SEG and -\$421,500 FED) in 2004-05 to delete all of the funding in the MA base for enhanced payments to nursing homes in these counties.

<u>Alternative 1</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$843,300	- \$600,400	- \$1,443,700

2. Adopt the Governor's recommendation to repeal the requirement that DHFS use the Medicare hospital cost index to calculate the labor region adjustment for nursing homes in St. Croix, Douglas and Pierce Counties. In addition, reduce MA benefits funding by \$722,000 (-\$300,200 GPR and -\$421,800 FED) in 2003-04 and by \$721,700 (-\$300,200 GPR and -\$421,500 FED) in

2004-05 to delete all of the funding in the MA base for enhanced payments to nursing homes in these counties.

<u>Alternative 2</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$600,400	- \$843,300	- \$1,443,700

3. Delete the Governor's recommendation. Increase MA benefits funding by \$213,700 GPR and \$300,200 FED annually to restore funding to support labor region adjustments for nursing homes in St. Croix, Douglas and Pierce Counties that are based on Medicare hospital cost index.

<u>Alternative 3</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$427,400	\$600,400	\$1,027,800

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