



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #399

Nursing Home Payment Methodology – Designate Rock County's Labor Region (DHFS – MA Long-Term Care)

Bill Agency

[LFB 2007-09 Budget Summary: Page 290, #6]

CURRENT LAW

Under current law, DHFS is required to establish standards for payment of allowable direct care costs that are based on direct care costs for all nursing homes, as adjusted to reflect regional labor cost variations. The statutes currently require DHFS to treat Dane, Iowa, Columbia, and Sauk County as a single labor region.

GOVERNOR

Require DHFS to include Rock County in a labor region that currently includes Dane, Iowa, Columbia, and Sauk County for the purpose of determining standards for payment of allowable direct care costs to nursing homes under the MA program.

DISCUSSION POINTS

1. Under state law, DHFS is required to reimburse nursing homes for care provided to MA recipients according to a prospective payment system that is updated annually. The payment system must include standards that meet quality and safety standards for providing patient care. In addition, the payment system must reflect all of the following: (a) a prudent buyer approach to payment for services; (b) standards that are based on allowable costs incurred by facilities and information included in facility cost reports; (c) a flat-rate payment for certain allowable direct care and support service costs; (d) consideration of the care needs of residents; (e) standards for capital

payments that are based upon the replacement value of the facility; and (f) assurances of an acceptable quality of care for all MA recipients that reside in of these facilities. When DHFS develops each facility's prospective payment rate, both patient levels of care and categories of expenditures are considered. Under MA nursing home reimbursement methods, DHFS considers four cost centers when developing facility-specific nursing home rates. These cost centers include: (1) direct care; (2) support services; (3) property tax and municipal services; and (4) property.

2. Also, under current law, DHFS must establish separate standards for payment of allowable direct care costs for non-billable services of registered nurses, licensed practical nurses, and nurse's assistants for facilities that do not primarily serve individuals with developmental disabilities and for facilities that primarily serve individuals with developmental disabilities. These standards must take into account direct care costs for a sample of all of those facilities in the state. Further, DHFS must adjust the standards to account for regional labor cost variations.

3. For facilities in Douglas, Pierce and St. Croix Counties, DHFS must perform the labor region adjustment by using the same wage index that the U.S. Department of Health and Human Services uses for the purpose of paying hospitals under the Medicare program. In all other counties, the labor region adjustment methodology uses the Medicare labor region designations, but indexes them based on Wisconsin facility-specific average wages. DHFS must give weight to the labor regions by MA patient day costs in each region. The calculation excludes average wages paid by county-owned nursing homes, but includes nursing homes with phase-down agreements. The Department is directed under current law to use this methodology each year until the state fiscal year following the year in which the federal Medicare program adopts a Medicare nursing home labor adjustment index. Beginning in that year, DHFS must use the same nursing home labor adjustment standard that Medicare uses.

4. The labor region adjustment affects each nursing home's direct care nursing services "target" -- the maximum payment a nursing home can receive for the direct care component of the facility's rate. Specifically, each nursing home's direct care nursing services target equals the product of the case mix index (an adjustment that takes into account relative resources necessary to provide care to individuals with different care needs) times the statewide direct care nursing services base times the labor region factor. If a nursing home is in a labor region that has a labor factor that is less than 1.0, the labor region factor adjustment reduces the nursing home's direct care target. However, if a nursing home is in a labor region that has a labor factor that is greater than 1.0, the labor region factor adjustment increases the nursing home's direct care target. The labor region adjustment has redistributive effects on MA payments to nursing homes.

5. The attachment to this paper shows the labor factor adjustments that the MA program applied in each year from 2004-05 through 2006-07 for nursing homes in each county. Using 2006-07 calculations as an example, if Rock County were included in the larger Dane, Columbia, Iowa, and Sauk labor region for the purpose of determining 2006-07 labor region factors, the labor factor used for Rock County would increase (from .977 to 1.055), and the factor for the remaining counties in the region would decrease (from 1.082 to 1.055). To provide an example of the effect of the change, if Rock County had been included in the larger Dane, Columbia, Iowa, and

Sauk County region in 2006-07, payments to facilities in Dane County would have declined by approximately \$444,000, while payments to nursing homes in Columbia, Iowa, and Sauk would have declined by approximately \$356,000. Payments to nursing homes in Rock County would have increased by almost \$771,000, with the remaining funds (approximately \$29,000) distributed between all other counties. The average impact on the rates paid to nursing homes in Dane County would have been a decline of \$1.44 per day, while daily rates in Columbia, Iowa, and Sauk would have declined by \$1.41 per day. Daily rates in Rock County would have increased by an estimated \$3.90 per day under this scenario.

The actual impact on facilities in each county would vary somewhat based on other factors (such as changes in overall patient acuity and shifts in actual regional labor costs) for each year of the 2007-09 biennium.

6. Department of Administration staff indicate that the provision was included in the Governor's budget because the administration determined that Rock County should be considered part of the larger Dane County metropolitan region due to the fact that Rock County was becoming more metropolitan in character, and may be competing with the Dane County metropolitan region for staffing resources.

7. The labor factor for Rock County has declined somewhat in recent years, as shown in the following table.

Rock County Labor Region Factors

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Labor Factor	1.029	0.991	0.977

8. Changes in the calculation of a county's labor factor are driven by shifts in actual regional labor costs, weighted by the number of patient days. A declining labor factor over time may indicate that actual labor costs in Rock County have not increased as quickly as costs in surrounding counties, or it may indicate that a shift has occurred in the pool of nursing homes surveyed for labor costs (such as the downsizing or closure of a home). The closure of one nursing home with operating costs that are substantially higher or lower than the regional average may lead to a shift in the labor factor calculation. As the labor region adjustment is a measure of the variation between the change in counties' costs in relation to each other, the decrease in Rock County's adjustment could indicate that competition for staffing resources from a larger region may be less of a factor than perhaps originally estimated.

9. While changing the labor region designation of counties may cause some shift in the way that funds are distributed between counties, the change does not affect the total amount of funding provided to fund MA payments to nursing homes. As such, this provision has a distributional effect, but overall is cost-neutral in terms of MA expenditures for nursing homes.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to require DHFS to include Rock County in a labor region that currently includes Dane, Iowa, Columbia, and Sauk County for the purpose of determining standards for payment of allowable direct care costs to nursing homes under the MA program.
2. Delete provision.

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Attachment

ATTACHMENT

**Nursing Home Labor Regions and Labor Region Factors
Fiscal Years 2004-05 thru 2006-07**

2006-07 Region	County	2004-05	2005-06	2006-07	% Change
Rural	Adams Ashland Barron Bayfield Buffalo Burnett Clark Crawford Dodge Door Dunn Florence Forest Grant Green Green Lake Iron Jackson Jefferson Juneau Lafayette Langlade Lincoln Manitowoc	0.957	0.957	0.957	0.0%

2006-07 Region	County	2004-05	2005-06	2006-07	% Change
Minneapolis	Pierce	1.171	1.161	1.131	-3.4%
	St. Croix				
Superior	Douglas	1.096	1.071	1.038	-5.3
	Chippewa	0.964	0.970	0.961	-0.3
Eau Claire	Eau Claire				
	La Crosse	0.987	1.013	1.012	2.5
Wausau	Marathon	1.013	1.024	1.021	0.8
	Dane	1.121	1.124	1.082	-3.5
Madison	Madison	0.957	1.035	1.082	13.1
	Rural				
Janesville	Iowa, Sauk *				
	Rock	1.029	0.991	0.977	-5.1
Racine	Racine	0.982	0.976	0.988	0.6
	Kenosha	0.998	0.990	1.010	1.2
Green Bay	Green Bay	1.005	0.994	0.967	-3.8
	Rural	0.957	0.971	0.967	1.0
Oconto	Oconto				
	Sheboygan	1.041	1.035	1.034	-0.7
Milwaukee	Milwaukee	1.076	1.067	1.078	0.2
	Ozaukee				
Washington	Washington				
	Waukesha				
Appleton	Calumet	1.003	0.994	0.974	-2.9
	Outagamie				
Oshkosh	Appleton	1.003	1.015	1.021	1.8
	Fond du Lac	0.957	0.948	0.912	-4.7

*Sauk County was added to the Madison (Rural) labor region effective April 20, 2006.