



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #466

Nursing Home Reimbursement (DHFS -- Medical Assistance)

[LFB 2001-03 Budget Summary: Page 350, #3 (part)]

CURRENT LAW

The Department of Health and Family Services (DHFS) reimburses nursing homes for care provided to medical assistance (MA) recipients through payments based on a daily rate, adjusted for patient level of care. DHFS determines the daily rate annually, based on the amount of funding budgeted for MA nursing home reimbursement and projected costs for the state's nursing homes. Within statutory requirements, DHFS has significant discretion in establishing the formula it uses to determine nursing home payment rates. DHFS must provide public notice of any proposed changes to the nursing home formula as part of the process to amend Wisconsin's MA state plan.

State law requires DHFS to consider six cost centers and permits DHFS to consider a seventh, over-the-counter-drugs, when developing facility-specific daily rates. The six mandatory cost centers are: (1) direct care; (2) support services; (3) administrative and general; (4) fuel and other utilities; (5) property taxes, municipal services or assessments; and (6) capital. In general, nursing homes are reimbursed for their expenses in a given cost center as long as their costs per patient day do not exceed "targets" (maximum rates) that are based on the costs for all nursing homes in the state. Before 1999-00, these targets could not be less than the state median level, but 1999 Wisconsin Act 9 repealed this requirement, and instead, only requires DHFS to establish standards that take into account these costs.

GOVERNOR

Provide \$152,100,100 (\$89,358,800 FED and \$62,741,300 SEG) in 2001-02 and \$194,260,700 (\$113,778,500 FED and \$80,482,200 SEG) in 2002-03 to increase payments to nursing homes for services they provide to MA recipients. This funding would enable DHFS to:

(a) maintain the current supplemental payments DHFS makes to nursing homes operated by counties and other municipalities to offset a portion of their deficits (\$37,100,000 annually); (b) increase these supplemental payments by \$40,000,000 annually so that a total of \$77,100,000 would be provided for this purpose in each year; and (c) provide rate increases for all nursing homes (\$75,000,000 in 2001-02 and \$117,160,700 in 2002-03). The following table summarizes how this additional funding would be allocated under the bill.

| | <u>2001-02</u> | <u>2002-03</u> |
|---|-------------------|----------------------|
| Continue Current County and Municipal Supplements | \$37,100,000 | \$37,100,000 |
| Increase County and Municipal Supplements | 40,000,000 | 40,000,000 |
| General Rate Increases | <u>75,000,000</u> | <u>\$117,160,700</u> |
| Total | \$152,100,000 | \$194,260,700 |

County and Municipal Supplemental Payments. Specify that, if the state receives less than \$115,200,000 of federal matching funds based on intergovernmental transfers (IGT funds) in a state fiscal year, DHFS could distribute no more than \$37,100,000 in supplemental payments to county- and municipally-owned homes in that year. For the purpose of making these supplemental payments, define "operating deficits" as they are defined under the methodology DHFS used in December, 2000, which is the definition included in the current MA state plan for nursing home reimbursement. Specify that if the state receives \$115,200,000 or more of these IGT funds in a state fiscal year, DHFS could distribute up to \$77,100,000 in supplemental payments in that year.

Transition to a Case-Mix Payment System

In addition to the changes included in the Governor's budget, DHFS intends to implement a change in the formula to transition to a payment system that is based on levels of care of residents (case-mix), rather than using a cost-based system with maximum limits (targets). Under a case-mix system, every nursing home would be paid the same amount for a resident in a given care category, before any adjustments, such as a regional labor cost adjustment. DHFS plans to implement the case-mix system over a four-year period. In 2001-02, a nursing home's rate would be based on a weighted average of the two methods -- the payment under the case-mix method would have a weight of 25% while the current cost-based system would have a weight of 75%. In 2002-03, the weights would be 50% and 50%. The case-mix system is currently used by Medicare, and was implemented by Medicare beginning in 1998.

Although this change would not affect the total amount of funding required for MA nursing home reimbursement, it could have a significant redistribution effect. Increasing nursing home reimbursement, as proposed in the Governor's budget, could reduce the distributional effect for nursing homes that would be adversely affected by this formula change.

DISCUSSION POINTS

1. In 2000-01, it is estimated that MA spending for nursing homes, other than the three state Centers for the Developmentally Disabled, will total \$913.5 million (all funds), including \$278.6 million from state general purpose revenue (GPR). This amount represents approximately 35% of total estimated MA expenditures in that year.

2. On December 31, 1999, the most recent date for which information is available, MA was the primary payment source for 68% of nursing home residents (approximately 28,500 residents), Medicare was the primary pay source for 7% of nursing home residents and approximately 23% of nursing home residents paid for their care with their own funds.

3. Direct care is the largest cost center, and, on average, accounts for nearly 60% of a facility's payment rate. The support services cost center represents about 20% of the MA total rate a facility receives.

4. In 1999-01, DHFS provided two significant supplemental payments to nursing homes, in addition to the regular per diem rate that is based on the seven cost centers. First, 1999 Wisconsin Act 9 provided \$8.3 million in 1999-00 and \$11.1 million in 2000-01 to fund a "wage pass-through" of 5% for nurse's assistants. In order to receive this supplement, a nursing home was required to apply for the supplement and provide additional cost information to demonstrate that the supplement was used to increase total wages and fringe benefits of nurse's assistants over the previous year. DHFS may recoup payments if it determines that a facility that received a supplement did not meet this requirement. A nursing home can meet this requirement by increasing employee hours or fringe benefits, as well as by increasing wage rates.

5. The second supplement, which DHFS has paid in each year since 1989, is paid to county- and municipal-operated nursing facilities with operating costs that are not fully reimbursed by the regular MA per diem rate. In order to reduce these deficits, a base amount of \$37.1 million in 2000-01 is budgeted to support supplemental payments to these facilities. In addition, county- and municipal-operated nursing homes may also receive total supplemental funding above \$37.1 million if the actual amount of federal matching funds received exceeds the budgeted amounts.

6. Nursing home residents with Medicare as a primary payment source account for almost 7% of all nursing home residents. Before July 1, 1998, Medicare used a "retrospective cost" payment that would reimburse reasonable costs. Beginning on July 1, 1998, the Medicare payment system began moving to a prospective payment system that uses a nationally determined payment schedule for 44 care levels that is adjusted for regional cost variations. The change has been phased in over a three-year period.

7. Nursing home operators, through their trade associations, have raised a concern about the level of reimbursement nursing homes receive under MA. The Wisconsin Health Care Association and the Wisconsin Association of Homes and Services for the Aging contracted with BDO Seidman to conduct a study on the financial condition of nursing home facilities in Wisconsin.

The report found that "for the rate year that ended June 30, 2000, only 17% of all nursing facilities were reimbursed their Medicaid costs; average Medicaid losses were almost \$11 per patient day; and aggregate Medicaid losses for all Wisconsin facilities exceeded \$100 million." The report also concluded that the financial condition of Wisconsin nursing homes has been adversely affected by: (a) the changes in Medicare payments under the new PPS system; (b) decreases in occupancy rates; and (c) labor shortages due to low unemployment rates.

8. The analysis in the BDO Seidman report concerning the relationship of cost and MA rates did not incorporate \$39.6 million in supplemental payments made to county-owned nursing homes during 1999-00, nor did it reflect any payments that were available to nursing homes under the wage pass-through program. Further, at the time BDO was preparing its report, only 75% of the cost reports for Wisconsin nursing homes were available. Consequently, it is possible that the information BDO Seidman used was not representative of all nursing homes in the state.

9. This paper presents an analysis similar to the one conducted by BDO Seidman to explore the impact of the items that were not considered as part of the BDO Seidman study. In this analysis, the costs relative to reimbursement in the 1999-00 fiscal year represent estimates, since the cost figures are based on 1998 costs that are inflated to 1999-00, based on a national cost index for skilled nursing homes. More recent cost data are not available. The analysis uses actual 1999-00 per diem reimbursement rates, and actual supplemental payments to county- and municipally-owned nursing homes. Since the full amount budgeted for the 1999-00 wage pass-through payments was not awarded, this analysis assumes that each facility only received 75% of the possible amount for the wage pass-through.

10. This analysis found that 76% of nursing homes did not have their costs fully reimbursed under MA in 1999-00. Table 1 provides a frequency distribution to indicate the relative amount of the difference between costs and reimbursement rates. Table 1 indicates that 55.4% of nursing homes had 95% or more of their costs covered by MA payments, and that 76.9% of homes had 90% or more of their costs covered. On the other hand, 8.2% of homes had 80% or less of their costs covered, and 23.1% of homes had less than 90% of their costs covered.

TABLE 1

**Estimated Percentage of Allowable Costs
Covered by MA Reimbursement
1999-00**

| <u>Percentage of Costs Covered</u> | <u>Number of Homes</u> | <u>Percentage of Homes</u> |
|--|----------------------------|--------------------------------|
| 0% to 50% | 2 | 0.50% |
| 51% to 60% | 1 | 0.25 |
| 61% to 70% | 3 | 0.75 |
| 71% to 75% | 12 | 2.99 |
| 76% to 80% | 15 | 3.73 |
| 81% to 85% | 23 | 5.72 |
| 86% to 90% | 37 | 9.20 |
| 91% to 95% | 78 | 19.40 |
| 96% to 100% | 134 | 33.33 |
| 101% to 105% | <u>97</u> | <u>24.13</u> |
| Total | 402 | 100.00% |

11. This analysis was based on the 1999-00 fiscal year. In 2000-01, budgeted funding provided a 2% rate increase. Since this rate increase is less than the 3.8% projected increase for nursing home market basket, it is likely that, in 2000-01, the reimbursement rates fund a lower percentage of costs than indicated in the analysis for 1999-00.

12. Another way to consider the issue of the adequacy of MA nursing home rates is to examine changes in the targets or maximum limits for the most significant cost centers. The four largest cost centers, in order of relative size, are direct care, support services, administration/general, and capital.

13. Table 2 indicates the changes to these targets since the 1994-95 fiscal year. In 1994-95, the direct care target was 110% of the statewide median cost, and decreased to 102.3% in 1999-00 and to 100.3% in 2000-01. The targets for support services have also decreased, from 103.0% of the statewide median in 1994-95 to 102.0% in 1999-00 and to 95% of the statewide median in 2000-01. In 1994-95, the target for the administration/general cost center was set at 103% of the statewide median, and has decreased to 102.0% of the statewide median in 1999-00. For 2000-01, there will be two different targets. For homes with 40 or fewer beds, DHFS will set the target at 100% of the statewide median. For facilities with 40 or more beds, the target will be set at 91.2% of the statewide median. The difference in the two targets for the administration/general cost center is \$1.26 per patient day.

14. Capital costs are limited in a different way than the three other primary cost centers. Full reimbursement of capital costs is limited to costs that do not exceed 7.5% of the replacement value of the nursing home. Partial reimbursement (20%) is provided for costs between 7.5% and 15% of the replacement value. The replacement value is limited to \$50,100 per bed in 2000-01. The target for full reimbursement (currently 7.5%) has not changed since 1995-96 and was higher (8.9%) in 1994-95. The excess cost sharing percentage was 50% in 1994-95, and was reduced to 40% in 1995-96, and further reduced to the current 20% in 1997-98. The replacement value limit has increased each year.

TABLE 2

**Nursing Home Targets/Maximum Limits
Major Cost Centers
1994-95 to 2000-01**

| Target as a Percentage Of Statewide Median | <u>1994-95</u> | <u>1995-96</u> | <u>1996-97</u> | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| Direct Care | 110.0% | 110.0% | 103.0% | 103.0% | 102.3% | 102.3% | 100.3% | |
| Supportive Services | 103.0 | 103.0 | 102.0 | 102.0 | 102.0 | 102.0 | 95.0 | |
| Administration/General | 103.0 | 103.0 | 102.0 | 102.0 | 102.0 | 102.0 | 91.2 | (>=40 beds) |
| | | | | | | | 100.0 | (<40 beds) |
| Capital Costs | | | | | | | | |
| (% of replacement value) | 8.9% | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% | |
| (excess cost share) | 50.0 | 40.0 | 40.0 | 20.0 | 20.0 | 20.0 | 20.0 | |

15. Another way to measure the adequacy of the MA reimbursement for nursing home services is to compare MA per diem rates with estimates of increases in the costs of providing nursing home services. Table 3 lists the average payments per patient day under several different categories for each year for the period beginning in 1995-96 through 1999-00. The first row of figures in Table 3 identifies, for each fiscal year, the average payment per patient day for all non-state nursing homes. Table 3 also includes the annual change in a national cost index for a skilled nursing home market basket.

16. Table 3 indicates that, for each year between 1995-96 through 1998-99, the increase in the average payment per day (3.3%, 3.8% and 5.5%) was higher than the increase in the SNF cost index (2.8%, 3.2% and 3.1%), but in 1999-00, the increase in the average payment per patient day (3.2%) was less than the increase in the cost index (4.4%). It is likely that the increase in payments rates in 2000-01 will be less than the increase in the index because the state MA rates were budgeted to increase by 2%, but projected inflation for nursing home services is 3.8%.

17. The SNF market basket does not adjust for increases in acuity levels. It may be that nursing homes require a rate increase above the SNF market basket rate increase because the care

needs of their patients are increasing, which requires higher staffing at these facilities. Nursing home administrators have argued that acuity levels have increased in recent years. However, it is not clear how this change in acuity should be factored in to make these comparisons.

TABLE 3

**Average MA Per Diem Payments
1995-96 to 1999-00**

| Type of Nursing Home | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | Average Annual % Increase |
|---|----------|----------|----------|----------|----------|---------------------------|
| All Non-State Nursing Facilities | \$86.88 | \$89.78 | \$93.20 | \$98.28 | \$101.45 | |
| % increase over prior year | | 3.3% | 3.8% | 5.5% | 3.2% | 4.0% |
| All Skilled Nursing Facilities | \$84.04 | \$87.03 | \$90.31 | \$95.21 | \$98.36 | |
| % increase over prior year | | 3.6% | 3.8% | 5.4% | 3.3% | 4.0% |
| Non-State Facilities for the Developmentally Disabled | \$119.41 | \$122.04 | \$129.23 | \$135.71 | \$139.23 | |
| % increase over prior year | | 2.2% | 5.9% | 5.0% | 2.6% | 3.9% |
| Price Index for SNF market basket | | | | | | |
| % increase over prior year | | 2.8% | 3.2% | 3.1% | 4.4% | 3.4% |

18. In the last three years, there have been significant changes in the reimbursement methodology for Medicare. Beginning in July, 1998, Medicare began transitioning from a cost-based system to a case-mix system. It appears that the new payment system under Medicare has reduced payments to nursing homes. According to the 1999 survey of Wisconsin nursing homes, the average per diem rate for skilled nursing care decreased by 11% for Medicare-funded residents from calendar year 1998 to 1999. However, although the Medicare payment changes have resulted in lower payments, based on a recent GAO report, it appears that current Medicare payments should, in general, cover necessary costs. A GAO report issued September 5, 2000, concluded that aggregate Medicare payments "likely cover the cost of care needed...although some refinements to the present system are needed." The report stated that "Medicare policy changes have required many nursing homes to adjust their operations," especially those homes that "took advantage of Medicare's previous payment policies to finance inefficient and unnecessary care delivery."

19. Recently, Congress has provided several significant increases in Medicare rates. Although the increase varied, the therapy categories increased by 27% between October, 1999, and October, 2000, and increased by an additional 11% in April, 2001. The rehabilitation categories did not increase as much, but also increased significantly.

20. Utilization of nursing facilities has decreased since 1994. From 1994 to 1999,

inpatient days for nursing facilities decreased 10%, from 16.2 million to 14.6 million, while for facilities for the developmentally disabled other than the state Centers, inpatient days decreased 16%, from 848,973 in 1994 to 712,104 in 1999. In addition, the percentage of licensed beds that are occupied decreased from 90.6% in 1994 to 84.6% in 1999 for nursing facilities and from 93.5% to 92.1% for facilities for the developmentally disabled. As a result, nursing home costs per patient day may have been adversely affected, since facilities have a smaller base of residents over which to spread their fixed costs.

21. A final factor that may be affecting nursing homes is the relatively tight labor market, which has made it difficult for some nursing homes to recruit and retain staff. This contributes to increasing costs for nursing homes, since nursing homes may need to raise wages to attract staff and may have to employ more expensive, temporary help. In addition, staffing shortages might lead a nursing home to restrict admissions, since shortages might prevent a nursing home from having enough staff to care for new residents. Since the national labor market has also been tight, the upward pressures on wages may be reflected in the national cost index for the SNF market basket.

22. In the last fiscal year, 44 nursing homes in Wisconsin filed for bankruptcy in Wisconsin. This represented close to 10% of all nursing homes. Information on the number of bankruptcies in previous years is not available, but DHFS staff has indicated that the number of bankruptcies in previous years has been very limited. Nationally, approximately 12% of nursing homes are operating in bankruptcy.

23. An important question is whether the lower reimbursement level has led to a decrease in the level of care provided by nursing homes. Table 4 lists statistics on the number of federal deficiencies and state violations over calendar years 1996 to 2000. Table 4 indicates that the total number of federal deficiencies and the number of federal actual harm deficiencies violations has not increased. However, there does appear to be increases in the most serious types of citations -- federal immediate jeopardy citations and state Class A violations. Also, there appears to be some upward trend in state Class B violations, which are not as serious as Class A, but is defined as a situation directly threatening to the health, safety or welfare of a resident.

TABLE 4
Nursing Home Citations
Calendar Year 1996 Through 2000

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Total Federal Health Care Deficiencies | 1,958 | 1,986 | 2,086 | 1,824 | 1,674 |
| Federal Actual Harm Deficiencies | 0 | 248 | 182 | 183 | 143 |
| Federal Immediate Jeopardy | 3 | 2 | 8 | 12 | 27 |
| State Class A Violations | 19 | 8 | 11 | 13 | 24 |
| State Class B Violations | 76 | 180 | 226 | 236 | 255 |

Regular Per Diem Nursing Home Rate – 2001-03

24. The Governor's recommends that \$75,000,000 (all funds) in 2001-02 and \$117,160,700 (all funds) in 2002-03 be provided for general per diem rate increases. Based on projected changes in utilization of nursing homes, this funding would provide estimated rate increases of 8.81% and 4.73%, respectively. The recommended rate increase are higher than current inflation rates. However, if the Committee determines that the current reimbursement level is inadequate, it may be appropriate to provide rate increases that exceed projected inflation rates in the 2001-03 biennium.

25. The additional \$75,000,000 in 2001-02 is projected by DHFS to support a target of 104% for direct care, 95% for support services and administration and a capital limit of 9.5%. As noted previously, for the 2000-01 fiscal year, the target for direct care is 100.33%, for support services 95%, for administration 95% (100% for facilities with less than 40 beds), and for capital 7.5%.

26. The intent of the 4.73% increase in 2002-03 is to maintain the direct care targets and other targets at the level anticipated in 2001-02. Historically, nursing home costs have increased at a rate of 4% to 5% annually.

IGT & Nursing Home Agreement

27. The funding in the Governor's bill for nursing home rate increases reflects an agreement between the Department of Administration, Department of Health and Family Services, the Wisconsin Counties Association, Wisconsin Association of Homes and Services for the Aging and the Wisconsin Health Care Association. In addition to the funding increase for per diem rates, the agreement also specifies that supplemental payments to counties will be increased by \$40,000,000 in each year.

28. The agreement further specifies that all new IGT funds would be devoted to the MA program, and that most of the IGT funds would be used for nursing home reimbursement. Further, the agreement calls for establishment of an interest-bearing MA trust account that would receive all IGT funds. The agreement would retain the current use of \$78.1 million of IGT funds for offsetting state GPR costs for MA base expenditures related to past nursing home rate increases.

29. In exchange for committing these additional IGT funds for nursing homes, counties agreed to participate in a wire transfer to obtain these funds. As a result of a wire transfer in March, 2001, Wisconsin will receive a total of \$372.7 million in IGT funds in 2000-01, which is an increase of \$254.5 million over 2000-01 budgeted levels. Budgeted expenditures from IGT funds in 2000-01 will utilize \$94.5 million of these IGT funds, leaving an estimated \$278.2 million for expenditures in 2001-03. Under the agreement, Sheboygan, Walworth, Rock, Outagamie and Manitowoc Counties have agreed to continue to pursue their downsizing plans for their county-operated nursing homes.

30. The agreement was based on the assumption that Wisconsin would receive

additional IGT funds of \$260 million in 2000-01, \$190 million in 2001-02 and \$155 million in 2002-03 above the current budgeted level of \$118.2 million. The agreement stated that the parties would renegotiate a revised funding agreement if actual IGT revenues are significantly different from the assumed levels.

IGT Revenues

31. HCFA has raised questions about the validity of Wisconsin's previous methodology for claiming IGT, and has proposed regulations that would limit Wisconsin's and other states' expanded IGT claims that were recently submitted and approved. These actions by HCFA suggest that Wisconsin may only be able to make limited wire transfers to counties that are equal to the gap between what Medicare would reimburse county-owned nursing homes and actual MA payments (including the supplemental payments) made to these nursing homes. This gap will depend on future Medicare rates and future MA rates and supplemental payments, but it may be that total IGT revenues will be reduced to \$50 to \$100 million annually, and could eventually be eliminated.

32. However, it is possible that annual IGT revenue could equal or exceed the previous level of \$118 million of IGT funds, due to a federal budget provision that was intended to provide Wisconsin and other states an eight-year transition period. However, HCFA may dispute the argument that the provision covers Wisconsin, and the resolution may depend on negotiations with HCFA or legal action. No final determination on this matter is expected in the near future.

33. Due to the IGT revenues the state received in 2000-01, Wisconsin will have \$278.2 million available in the 2001-03 biennium. The Governor's budget bill would budget \$383.8 million in IGT funds, although \$33.1 million of those expenditures are contingent on annual IGT revenues of \$115.2 million in each year of the biennium. Although there is uncertainty, IGT revenues of \$75 million annually in 2001-03 might be assumed, which in combination with the opening balance would provide a total of \$428.2 million of IGT funds for 2001-03.

Options for the Regular Per Diem Rate Increase

34. Because of the uncertainty of IGT revenues and the structural imbalance that would be created between future annual expenditures and revenues, the Committee may wish to reduce the Governor's recommended increases for nursing homes or to make part of the increase contingent on the receipt of additional IGT revenues.

35. Any reduction in the Governor's proposed rate increase may result in an increase in IGT revenue the state receives, since lower MA payments may increase the gap between what Medicare would pay and state MA payments. Assuming that county- and municipal-owned homes would receive 20% of any increase in nursing home payments, for every \$1 reduction in nursing home payments IGT revenues may increase by \$0.12. This increase in IGT revenues would depend on: (a) counties participating in the wire transfer; and (b) the amount of MA payments to county- and municipal-owned homes not exceeding what would be paid under Medicare.

36. The relative reimbursement level of nursing homes has declined over recent years.

Since MA residents are such a large part of the nursing home population (68% on average), the reimbursement level under MA is critical for the financial health of an average nursing home. Given this situation, it may be desirable to provide an increase that raises the relative reimbursement level and that exceeds inflation. In the past, nursing home costs have increased at an annual rate of 4% to 5%, and thus, a rate increase in excess of 5% would be needed to raise the relative reimbursement level.

37. The Governor recommends a rate increase of 8.81% in 2001-02 and 4.73% in 2002-03. If the rate increases were reduced to 7.81% in 2001-02 and 4.73% in 2002-03, there would be savings of \$8,515,300 all funds (\$3,512,600 SEG) in 2001-02 and \$8,795,400 all funds (\$3,649,900 SEG) in 2002-03 plus an estimated increase of \$2,012,100 in IGT revenues. A reduction of the rate increase in the first year to a 7.00% rate increase, rather than 8.81%, would result in biennial SEG savings of \$12,947,300 with an estimated increase in IGT revenues of \$3,637,000.

38. A second option to generate savings would be to lower the rate increase in the first year, and increase the rate increase in the second year by the same amount and tie the higher, second year rate increase to the receipt of additional IGT revenues. This would provide the same amount of funding for nursing homes in the second year, which would be the base for future bienniums, and would result in only a one-time decrease in 2001-02 for nursing home reimbursement. Rate increases of 7.81% in 2001-02 and 5.73% in 2002-03 would produce savings of \$3,405,200 SEG in the 2001-03 biennium with an estimated increase of IGT revenues of \$970,800, and \$20,505,100 all funds (\$8,509,100 SEG) of the rate increase in 2002-03 could be tied to the receipt of additional IGT revenues. Rate increases of 6.81% and 6.73% would produce savings of \$6,880,100 SEG in the 2001-03 biennium with an estimated increase of IGT revenues of \$1,960,900, and \$34,940,300 all funds (\$14,499,300 SEG) in 2002-03 could be tied to the receipt of additional IGT revenues.

County Supplement

39. The Governor's budget proposes that \$77,100,000 (all funds) annually, including be provided as supplemental payments to county-owned nursing homes, which represents an increase of \$40,000,000 (all funds) annually compared to the base funding level. The Governor's budget specifies that the additional \$40,000,000 of funding be contingent on the state receiving at least \$115,200,000 of IGT funds in that same year, which represents the level of IGT revenues prior to the use of the wire transfer methodology.

40. County nursing homes serve approximately 20% of the MA nursing home residents in the state, and based on their share of MA patient days, could be expected to receive approximately 20% of any increase in regular per diem rates. Since county-owned nursing homes tend to have higher direct care costs and the agreement would focus most of the funding increase in the direct care area, county-owned homes may receive more than 20% of any regular per diem funding increase. County-owned nursing homes' share of the Governor's recommended funding increases might be expected to exceed \$15,000,000 in 2001-02 and \$23,500,000 in 2002-03.

41. The combined effect of the regular rate increase and the additional supplemental

payments of \$40 million under the Governor’s recommendations would likely allow total MA payments to equal total costs so that county-owned nursing homes would have all of their deficits reimbursed by the supplemental payments, assuming normal growth in costs.

42. Table 5 shows the history of county deficits and the allocation of IGT revenues that were derived based on those deficits. Table 5 indicates that supplemental payments to county-owned homes have been relatively flat and have declined as a percentage of their total deficits while, the amount allocated to offset the GPR costs of general rate increases has steadily increased.

TABLE 5

**Intergovernmental Transfer Program
(\$ in Millions)**

| <u>Fiscal Year</u> | <u>Deficit Before Supplement</u> | <u>Allocation of IGT Revenues</u> | | |
|--------------------|----------------------------------|-----------------------------------|--|--|
| | | <u>County Supplement</u> | <u>County Supplement as a % of Deficit</u> | <u>Offset to State GPR Costs for Nursing Home Rate Increases</u> |
| 1992-93 | \$47.2 | \$18.6 | 39.4% | \$0.0 |
| 1993-94 | 43.1 | 37.1 | 86.1 | 5.4 |
| 1994-95 | 48.1 | 37.1 | 77.1 | 30.4 |
| 1995-96 | 56.4 | 37.1 | 65.8 | 26.1 |
| 1996-97 | 61.1 | 46.1 | 75.5 | 72.4 |
| 1997-98 | 65.8 | 40.2 | 61.1 | 53.9 |
| 1998-99 | 66.7 | 37.1 | 55.6 | 58.3 |
| 1999-00 | 73.6 | 39.7 | 53.9 | 65.3 |
| 2000-01 | 81.6 | 40.1 | 49.1 | 78.1 |
| 2001-02 (Gov.) | \$77.1 | \$77.1 | 100.0% | \$91.9 |
| 2002-03 (Gov.) | 82.2 | 77.1 | 93.8 | 102.3 |

43. As indicated by Table 5, the Governor’s budget would increase the amount of IGT revenues that are used by the state to offset the GPR costs of past nursing home increases. The amount used for this offset would increase from \$78.1 million in 2000-01 to \$91.9 million in 2002-03 and \$102.3 million in 2002-03. Since the increases for nursing home reimbursement are separately supported by other IGT funds, the increase of the \$78.1 million offset is effectively funding other MA service cost increases totaling \$33.5 million in 2001-02 and \$58.3 million in 2002-03.

44. The additional \$40 million supplemental payment is contingent upon the receipt of at least \$115.2 million of IGT revenues in that year which would provide \$230.4 million to add to

the \$278.2 million that would be available from 2000-01, which is a total of \$508.6 million. This exceeds the \$383.8 million of IGT revenues that would be needed for IGT-supported expenditures in the Governor's budget.

45. Although the budget provision would prohibit payment of the additional \$40 million supplemental payment if IGT revenues are less than \$115.2 million in a year and the state would not have to make that payment, Wisconsin may be able to perform a wire transfer that would generate IGT revenues of \$50 to \$100 million annually. However, the budgetary provision prohibits any additional supplemental payment. This would eliminate any incentive for the counties to cooperate in any wire transfers.

46. It may be desirable to amend the budget to state that if IGT revenues are less than \$115.2 million, than an additional supplemental payment of up to \$40 million could be made, contingent on the receipt of additional IGT revenues in that year, if recommended by the DHFS and approved by the Joint Committee on Finance. Alternatively, the amount of the additional supplemental payment could be tied to the amount of IGT revenues in that year.

47. If the additional county supplemental payment were tied to 34.7% of the IGT revenues received in that year, this would result in an additional supplement approaching \$40 million as IGT revenues approach \$115.2 million, and as a result, may be consistent with the IGT agreement with the counties.

48. A key factor in providing the additional supplemental payment to county-owned homes is to elicit their cooperation in participating in the wire transfers. In addition to this factor, the following arguments could be made:

- Supplemental payments have been flat for a number of years and have declined as a percentage of county deficits, even though IGT revenues have been increasing;
- County nursing homes are a key element in the state's ability to claim IGT revenues;
- A greater percentage of residents at county nursing homes exhibit challenging behaviors, which many private homes would not admit, and thus, county-owned homes provide a service for a group that may be difficult to place in other settings.
- County-owned homes tend to pay their workers at higher rates, which reduces turnover among staff and may contribute to better quality staff and care. Higher supplemental payments would help support these higher wages and the associated benefits.

49. There are several consequences to increasing the supplemental payments, especially if the supplemental payments completely reduce these homes' deficits. First, the incentive to become more efficient would be reduced if all or almost all of the deficit is covered. Second, the incentive for county nursing homes to downsize would be reduced. In the long-run, this may increase costs to the state's MA program.

50. For every \$1 reduction in supplemental payments, IGT revenues could increase by \$0.59. If county supplemental payments were reduced by \$10 million, IGT revenues could increase by \$5.9 million. As previously indicated, the increase in IGT revenues would depend on counties cooperating in the needed wire transfers.

51. If the Committee decides to reduce the Governor's proposed increase for county supplemental payments, it could use all or part of that reduction for additional increases for the regular per diem reimbursement rate.

52. Another alternative would be to use the funding for increasing community options program (COP) payments to counties that own nursing homes with deficits. This would provide these counties with resources to place individuals needing long-term care in the community, rather than an institution. This might help these counties to downsize their facilities, which might benefit the state by substituting less expensive care settings. The same formula that is used to distribute the county supplemental payments could be used to distribute the increase in COP funding, which would direct funding in proportion to the size of the county home's unreimbursed deficit.

53. The Governor's proposed \$40 million increase in supplemental payments would be funded with approximately \$16.5 million of IGT funds with the remainder funded by federal MA matching funds. If \$16.5 million of IGT funds were provided to these counties as COP allocations, the counties could use those funds to support COP-waiver slots and CIP IB slots, which would also be eligible for federal matching funds under MA.

54. If county supplemental payments are reduced by \$40,000,000, there would be a corresponding increase in the difference between the Medicare upper limit and MA payments. This would allow additional wire transfers of \$40,000,000 and additional IGT claims of 59% of that amount --\$23.6 million.

55. Since providing these additional COP dollars would still leave these counties with deficits for their nursing homes, this alternative would not be as attractive to these counties. However, this additional IGT revenue could be used to support, additional COP funding. If an additional \$10 million of IGT funds were added to the \$16.5 million, this would provide the counties a total of \$26.5 million of COP funding that could be used to provide total MA waiver services of \$64 million. This would leave the state an additional \$13.6 million of IGT revenues in each year.

ALTERNATIVES TO BASE

A. Funding for Regular Per Diem Rate

1. Approve the Governor's recommendation to provide \$75,000,000 (\$44,062,500 FED and \$30,937,500 SEG) in 2001-02 and \$117,160,700 (\$68,541,900 FED and \$48,618,800 SEG) in 2002-03 provide rate increases of 8.81% in 2001-02 and 4.73% in 2002-03 for all nursing homes.

| Alternative A1 | FED | SEG | TOTAL |
|---|---------------|--------------|---------------|
| 2001-03 FUNDING (Change to Base) | \$112,604,400 | \$79,556,300 | \$192,160,700 |
| <i>[Change to Bill]</i> | \$0 | \$0 | \$0] |

2. Modify the Governor's recommendation by deleting \$8,515,300 (\$5,002,700 FED and \$3,512,600 SEG) in 2001-02 and \$8,795,400 (\$5,145,500 FED and \$3,649,900 SEG) in 2002-03 to increase rates by 7.81% in 2001-02 and 4.73% in 2002-03. Increase estimated IGT revenues by \$1,000,500 in 2001-02 and \$1,011,500 in 2002-03.

| Alternative A2 | FED | SEG | TOTAL |
|---|----------------|---------------|-----------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$2,012,000 | \$2,012,100 |
| <i>[Change to Bill]</i> | \$0 | \$2,012,000 | \$0] |
| 2001-03 FUNDING (Change to Base) | \$102,456,200 | \$72,393,800 | \$174,850,000 |
| <i>[Change to Bill]</i> | - \$10,148,200 | - \$7,162,500 | - \$17,310,700] |

3. Modify the Governor's recommendation by deleting \$15,392,800 (\$9,043,300 FED and \$6,349,500 SEG) in 2001-02 and \$15,899,100 (\$9,301,300 FED and \$6,597,800 SEG) in 2002-03 to increase 7.00% in 2001-02 and 4.73% in 2002-03. Increase estimated IGT revenues by \$1,808,700 in 2001-02 and \$1,828,500 in 2002-03.

| Alternative A3 | FED | SEG | TOTAL |
|---|----------------|----------------|-----------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$3,637,200 | \$3,637,200 |
| <i>[Change to Bill]</i> | \$0 | \$3,637,200 | \$3,637,200] |
| 2001-03 FUNDING (Change to Base) | \$94,259,800 | \$66,609,000 | \$160,868,800 |
| <i>[Change to Bill]</i> | - \$18,344,600 | - \$12,947,300 | - \$31,291,900] |

4. Modify the Governor's recommendation by deleting \$8,515,300 (\$5,002,700 FED and \$3,512,600 SEG) in 2001-02 and providing \$258,800 (\$151,400 FED and \$107,400 SEG) in 2002-03 to increase rates by 7.81% in 2001-02 and 5.73% in 2002-03. In addition, specify that 1.00% of the 5.73% rate increase in the second year (\$20,505,100 all funds) would be contingent on the receipt of at least \$115.2 million of IGT revenue in both years of the biennium. Modify estimated IGT revenues by \$1,000,500 in 2001-02 and -\$29,800 in 2002-03.

| Alternative A4 | FED | SEG | TOTAL |
|---|---------------|---------------|----------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$970,700 | \$970,700 |
| <i>[Change to Bill]</i> | \$0 | \$970,700 | \$970,700] |
| 2001-03 FUNDING (Change to Base) | \$107,753,100 | \$76,151,100 | \$183,904,200 |
| <i>[Change to Bill]</i> | - \$4,851,300 | - \$3,405,200 | - \$8,256,500] |

5. Modify the Governor's recommendation by deleting \$17,030,600 (\$10,005,500 FED and \$7,025,100 SEG) in 2001-02 and providing \$349,600 (\$204,600 FED and \$145,000 SEG) 2002-03 to fund rate increases of 6.81% in 2001-02 and 6.73% in 2002-03. In addition, specify that

2.00% of the 6.73% rate increase in the second year (\$34,940,300 all funds, \$14,499,300 SEG) would be contingent on the receipt of at least \$115.2 million of IGT revenue in both years of the biennium. Modify estimated IGT revenues by \$2,001,100 in 2001-02 and -\$40,200 in 2002-03.

| Alternative A5 | FED | SEG | TOTAL |
|---|---------------|--------------|---------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$1,960,900 | \$1,960,900 |
| <i>[Change to Bill]</i> | \$0 | \$1,960,900 | \$1,960,900 |
| 2001-03 FUNDING (Change to Base) | \$102,803,500 | \$72,676,200 | \$175,479,700 |
| <i>[Change to Bill]</i> | -\$9,800,900 | -\$6,880,100 | -\$16,681,000 |

B. County Supplemental Payment

1. Approve the Governor's recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. In addition, approve the Governor's recommendation to provide \$23,500,000 FED and \$16,500,000 SEG in 2000-01 and \$23,401,000 FED and \$16,599,000 SEG in 2002-03 to increase the county supplemental payment by \$40,000,000 annually, but specify that the additional \$40,000,000 payment would be contingent on annual IGT revenues of \$115,200,000 in the year of the payment.

| Alternative B1 | FED | SEG | TOTAL |
|---|--------------|--------------|---------------|
| 2001-03 FUNDING (Change to Base) | \$90,401,600 | \$63,798,400 | \$154,200,000 |
| <i>[Change to Bill]</i> | \$0 | \$0 | \$0 |

2. Approve the Governor's recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. In addition, approve the Governor's recommendation to provide \$23,500,000 FED and \$16,500,000 SEG in 2000-01 and \$23,401,000 FED and \$16,599,000 SEG in 2002-03 to increase the county supplemental payment by \$40,000,000 annually, but modify the contingency requirements to specify that if annual IGT revenues are less than \$115,200,000, the additional IGT payment would be lowered to one of the following amounts:

(i) 34.7% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$40,000,000 as IGT revenues approach \$115,200,000)

(ii) 30% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$35,000,000 as IGT revenues approach \$115,200,000)

(iii) 25% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$28,800,000 as IGT revenues approach \$115,200,000)

\$115,200,000)

(iv) 20% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$23,000,000 as IGT revenues approach \$115,200,000)

(v) An amount recommended by DHFS and approved by the Joint Committee on Finance.

| Alternative B2 | FED | SEG | TOTAL |
|---|--------------|--------------|---------------|
| 2001-03 FUNDING (Change to Base) | \$90,401,600 | \$63,798,400 | \$154,200,000 |
| <i>[Change to Bill]</i> | \$0 | \$0 | \$0] |

3. Approve the Governor's recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. However, modify the Governor's recommendation by deleting \$5,000,000 (\$2,937,500 FED and \$2,062,500 SEG) in 2000-01 and \$5,000,000 (\$2,925,100 FED and \$2,074,900 SEG) in 2002-03 to reduce the increase in the county supplemental payment to \$35,000,000 annually. Increase estimated IGT revenues by \$2,937,500 in 2001-02 and \$2,875,100 in 2002-03. In addition, specify that the additional \$35,000,000 payment would be contingent on annual IGT revenues of \$115,200,000 in the year of the payment. If annual IGT revenues are less than \$115,200,000, the additional IGT payment would be reduced to one of the following amounts:

(i) 30% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$35,000,000 as IGT revenues approach \$115,200,000)

(ii) 25% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$28,800,000 as IGT revenues approach \$115,200,000)

(iii) 20% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$23,000,000 as IGT revenues approach \$115,200,000)

(iv) An amount recommended by DHFS and approved by the Joint Committee on Finance.

| Alternative B3 | FED | SEG | TOTAL |
|---|---------------|---------------|-----------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$5,812,600 | \$5,812,600 |
| <i>[Change to Bill]</i> | \$0 | \$5,812,600 | \$5,812,600] |
| 2001-03 FUNDING (Change to Base) | \$84,539,000 | \$59,661,000 | \$144,200,000 |
| <i>[Change to Bill]</i> | - \$5,862,600 | - \$4,137,400 | - \$10,000,000] |

4. Approve the Governor's recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. However, modify the Governor's recommendation for the amount of the additional payment to delete \$10,000,000 (\$5,875,000 FED and \$4,125,000 SEG) in 2000-01 and \$10,000,000 (\$5,850,200 FED and \$4,149,800 SEG) in 2002-03 to lower the increase in the county supplemental payment to \$30,000,000 annually. Increase estimated IGT revenues by \$5,875,000 in 2001-02 and \$5,750,300 in 2002-03. In addition, specify that the additional \$30,000,000 payment would be contingent on annual IGT revenues of \$115,200,000 in the year of the payment. If annual IGT revenues are less than \$115,200,000, the additional IGT payment would be lowered to one of the following amounts:

(i) 25% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$28,800,000 as IGT revenues approach \$115,200,000)

(ii) 20% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$23,000,000 as IGT revenues approach \$115,200,000)

(iii) An amount recommended by DHFS and approved by the Joint Committee on Finance.

| Alternative B4 | FED | SEG | TOTAL |
|---|-----------------------|----------------------|-----------------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$11,625,300 | \$11,625,300 |
| <i>[Change to Bill]</i> | <i>\$0</i> | <i>\$11,625,300</i> | <i>\$11,625,300</i> |
| 2001-03 FUNDING (Change to Base) | \$78,676,400 | \$55,523,000 | \$134,200,000 |
| <i>[Change to Bill]</i> | <i>- \$11,725,200</i> | <i>- \$8,274,800</i> | <i>- \$20,000,000</i> |

5. Approve the Governor's recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. However, modify the Governor's recommendation for the amount of the additional payment to delete \$15,000,000 (\$8,812,500 FED and \$6,187,500 SEG) in 2000-01 and \$15,000,000 (\$8,775,300 FED and \$6,224,700 SEG) in 2002-03 to lower the increase in the county supplemental payment to \$25,000,000 annually. Increase estimated IGT revenues by \$8,812,500 in 2001-02 and \$8,625,400 in 2002-03. In addition, specify that the additional \$25,000,000 payment would be contingent on annual IGT revenues of \$115,200,000 in the year of the payment. If annual IGT revenues are less than \$115,200,000, the additional IGT payment would be lowered to one of the following amounts:

(i) 20% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$23,000,000 as IGT revenues approach \$115,200,000)

(ii) 10% of the amount of IGT revenues received in that year (this percentage would

result in an additional payment that would approach \$11,520,000 as IGT revenues approach \$115,200,000)

(iii) An amount recommended by DHFS and approved by the Joint Committee on Finance.

| Alternative B5 | FED | SEG | TOTAL |
|---|----------------|----------------|-----------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$17,437,900 | \$17,437,900 |
| <i>[Change to Bill]</i> | \$0 | \$17,437,900 | \$17,437,900] |
| 2001-03 FUNDING (Change to Base) | \$72,813,800 | \$51,386,200 | \$124,200,000 |
| <i>[Change to Bill]</i> | - \$17,587,800 | - \$12,412,200 | - \$30,000,000] |

6. Approve the Governor’s recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. However, modify the Governor’s recommendation for the amount of the additional payment to delete \$20,000,000 (\$11,750,000 FED and \$8,250,000 SEG) in 2000-01 and \$20,000,000 (\$11,700,500 FED and \$8,299,500 SEG) in 2002-03 to reduce the increase in the county supplemental payment to \$20,000,000 annually. Increase estimated IGT revenues by \$11,750,000 in 2001-02 and \$11,500,500 in 2002-03. In addition, specify that the additional \$20,000,000 payment would be contingent on annual IGT revenues of \$115,200,000 in the year of the payment. If annual IGT revenues are less than \$115,200,000, the additional IGT payment would be lowered to one of the following amounts:

(i) 15% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$17,280,000 as IGT revenues approach \$115,200,000)

(ii) 10% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$11,520,000 as IGT revenues approach \$115,200,000)

(iii) An amount recommended by DHFS and approved by the Joint Committee on Finance.

| Alternative B5 | FED | SEG | TOTAL |
|---|----------------|----------------|-----------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$23,250,500 | \$23,250,500 |
| <i>[Change to Bill]</i> | \$0 | \$23,250,500 | \$23,250,500] |
| 2001-03 FUNDING (Change to Base) | \$66,951,100 | \$47,248,900 | \$114,200,000 |
| <i>[Change to Bill]</i> | - \$23,450,500 | - \$16,549,500 | - \$40,000,000] |

7. Adopt Alternative B4, except specify that the annual \$10,000,000 reduction in additional county supplemental payment would instead be used to further increase the regular per diem nursing home reimbursement rate. Increase estimated IGT revenues by \$4,700,000 in 2001-02

and \$4,600,200 in 2002-03.

| <u>Alternative B7</u> | <u>FED</u> | <u>SEG</u> | <u>TOTAL</u> |
|---|--------------|--------------------|--------------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$9,300,200 | \$9,300,200 |
| <i>[Change to Bill]</i> | <i>\$0</i> | <i>\$9,300,200</i> | <i>\$9,300,200</i> |
| 2001-03 FUNDING (Change to Base) | \$90,401,600 | \$63,798,400 | \$154,200,000 |
| <i>[Change to Bill]</i> | <i>\$0</i> | <i>\$0</i> | <i>\$0</i> |

8. Adopt Alternative B5, except specify that the annual \$15,000,000 reduction in additional county supplemental payments would be used to further increase the regular per diem nursing home reimbursement rate. Increase estimated IGT revenues by \$7,050,000 in 2001-02 and \$6,900,300 in 2002-03.

| <u>Alternative B8</u> | <u>FED</u> | <u>SEG</u> | <u>TOTAL</u> |
|---|--------------|---------------------|---------------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$13,950,300 | \$13,950,300 |
| <i>[Change to Bill]</i> | <i>\$0</i> | <i>\$13,950,300</i> | <i>\$13,950,300</i> |
| 2001-03 FUNDING (Change to Base) | \$90,401,600 | \$63,798,400 | \$154,200,000 |
| <i>[Change to Bill]</i> | <i>\$0</i> | <i>\$0</i> | <i>\$0</i> |

9. Approve the Governor's recommendation to provide \$21,796,200 FED and \$15,303,800 SEG in 2001-02 and \$21,704,400 FED and \$15,395,600 SEG in 2002-03 to continue the base \$37,100,000 annual county supplemental payment. However: (a) delete the Governor's recommendation to increase county supplement payments by \$40,000,000 annually (-\$16,500,000 SEG and -\$23,500,000 FED in 2001-02 and -\$16,599,000 SEG and -\$23,401,000 FED in 2002-03); and (b) to increase COP funding by \$26,500,000 SEG and \$37,742,400 FED and in 2000-01 and \$26,699,000 SEG and \$37,498,800 FED in 2002-03 for a special COP allocation that will be distributed to counties based of the amount of unreimbursed deficits of county- and municipal-owned nursing homes. Increase estimated IGT revenues by \$23,500,000 in 2001-02 and \$23,401,000 in 2002-03. Specify that this distribution is contingent on the receipt on annual IGT revenues of \$115,200,000 in the year of the payment. If annual IGT revenues are less than \$115,200,000, the additional IGT payment would be reduced to one of the following amounts:

(i) 20% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$23,000,000 as IGT revenues approach \$115,200,000)

(ii) 15% of the amount of IGT revenues received in that year (this percentage would result in an additional payment that would approach \$17,280,000 as IGT revenues approach \$115,200,000)

(iii) An amount recommended by DHFS and approved by the Joint Committee on Finance.

| <u>Alternative B9</u> | <u>FED</u> | <u>SEG</u> | <u>TOTAL</u> |
|---|--------------|--------------|---------------|
| 2001-03 REVENUE (Change to Base) | \$0 | \$46,901,000 | \$46,901,000 |
| <i>[Change to Bill]</i> | \$0 | \$46,901,000 | \$46,901,000] |
| 2001-03 FUNDING (Change to Base) | \$75,241,300 | \$53,099,000 | \$128,340,300 |
| <i>[Change to Bill]</i> | \$28,340,300 | \$20,000,000 | \$48,340,300] |

Prepared by: Richard Megna