Legislative Fiscal Bureau

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ICF-MR Bed Assessment (DHFS -- MA -- Long-Term Care)

Bill Section

[LFB 2007-09 Budget Summary: Page 285, #3]

CURRENT LAW

The nursing home bed assessment was created as part of 1991 Wisconsin Act 269 as a means to support medical assistance (MA) nursing home rate increases that took effect in 1991-92. Under current law, nursing facilities are required to pay a $75 monthly assessment per licensed bed, while intermediate care facilities for the mentally retarded (ICFs-MR) are required to pay a $445 monthly assessment per licensed bed.

Under the Federal Tax Relief and Health Care Act of 2006 (P.L. 109-432), the amount of taxes that a state may impose on certain classes of providers is reduced to 5.5% of gross revenues for the period beginning January 1, 2008, and ending on September 30, 2011.

GOVERNOR

Provide $2,060,000 (-$1,183,400 GPR, $1,183,400 FED and $2,060,000 SEG) in 2007-08 and $2,599,400 (-$1,489,200 GPR, $1,489,200 FED, and $2,599,400 SEG) in 2008-09 to reflect the net effect of increasing the monthly assessment on licensed beds of ICFs-MR for the purpose of increasing MA rates paid to ICFs-MR and reducing base GPR funding for MA benefits.

Statutory Changes

Delete the current law provision requiring ICFs-MR to pay an assessment of $445 per month, per licensed bed to the state. Rather, authorize DHFS to set the amount of the bed assessment for each state fiscal year, subject to a statutorily specified formula.

Direct DHFS to establish the monthly rate for each year by multiplying the projected annual gross revenues of all ICFs-MR in the state by 0.055, dividing the product by the number of licensed beds in the facilities, and dividing the quotient by 12. Direct DHFS to calculate the amount of the assessment that will be applied prior to the start of each fiscal year. Permit DHFS to reduce the amount of the assessment during a state fiscal year to avoid collecting an amount that exceeds 5.5% of the aggregate gross revenues for ICFs-MR for the fiscal year. Specify that DHFS would not be required to calculate the amount of the bed assessment for state fiscal year 2007-08 until October 1, 2007, or until the first day of the third month beginning after the effective date of the bill, whichever is later.

Revenue and Funding Changes

Revenue. The administration estimates that these changes would increase the monthly assessment to approximately $587 in 2007-08 and $649 in 2008-09. Based on these estimates and DHFS projections of licensed beds at these facilities, the administration estimates that an additional $2,060,000 in 2007-08 and $2,599,400 in 2008-09 would be deposited to the MA trust fund as a result of the assessment increase.

Rate Increase. Provide $2,060,000 ($876,600 GPR and $1,183,400 FED) in 2007-08 and $2,599,400 ($1,110,200 GPR and $1,489,200 FED) in 2008-09 to increase MA rates for ICFs-MR by 2% in 2007-08 and by an additional 2% in 2008-09 and to increase reimbursement to ICFs-MR by the amount of the additional bed assessments they would pay under the proposed assessment increase.

Substitute SEG Funding for GPR Base Funds. Reduce MA base funding by $2,060,000 GPR in 2007-08 and by $2,599,400 GPR in 2008-09 and increase SEG funding from the MA trust fund by corresponding amounts.

DISCUSSION POINTS

1. The Governor proposes to increase the ICF-MR bed assessment to the maximum level permitted under federal law, and to use the revenues from the assessment (combined with federal matching MA funds) to support a 2% rate increase in 2007-08 and an additional 2% rate increase in 2008-09, without increasing GPR funding to support the proposed rate increase. Revenues from the assessment that exceed the cost of providing a 2% annual rate increase, after accounting for federal matching funds that would partially support the rate increase, would be deposited to the MA trust fund, and would be available to support the state's share of MA benefits costs.

2. 2003 Wisconsin Act 33 included provisions that were intended to limit the placement of individuals with developmental disabilities in ICFs-MR and nursing homes. As part of this initiative, beginning in calendar year 2005, DHFS allotted funding to counties that equaled

the MA fee-for-service costs for institutional services to individuals with developmental disabilities in ICFs-MR and nursing homes. Counties may use this funding to either provide institutional care or provide community-based care under the community integration program (CIP IB). Base funding for these allotments is approximately $96.8 million ($41.1 million GPR and $55.7 million FED).

At the time these provisions were approved, DHFS indicated to counties that these allotments would be increased in the future by an amount equal to any rate increase provided to the nursing home industry. For this reason, the Governor's recommendations and all of the options offered in this paper include funding to support an increase in these county allocations. Without supporting an equal increase in the ICF-MR allocations, counties would be required to absorb all of the increased costs of providing care to these residents.

3. Based on reestimates of the number of licensed beds at these facilities, it is anticipated that, under the Governor's proposal, these changes would increase the monthly assessment to approximately $587 in 2007-08 and $653 in 2008-09. With these increases, an additional $1,952,000 in 2007-08 and $2,378,700 in 2008-09 would be deposited to the MA trust fund. In order to provide sufficient funds to pay back institutions for the amount of the assessment increase, and to provide a rate increase of 2% in 2007-08 and an additional 2% in 2008-09 to both private ICFs-MR and to counties for care under the ICF-MR relocation initiative, $3,630,800 ($1,540,200 GPR and $2,090,600 FED) in 2007-08 and $5,800,000 ($2,433,100 GPR and $3,367,000 FED) in 2008-09 would be provided.

The following table shows the estimated revenue and expenditure effect of the Governor's proposal, based on the assumption that bed assessment increase would be effective January 1, 2008, and the rate increase would occur on July 1, 2007.

ICF-MR Bed Assessment and Rate Increase -- Reestimate of Revenue and Costs

	2007-08	2008-09	Biennial Total
Cost to Reimburse Facilities for Increased Bed Assessment	$1,952,000	$2,378,700	$4,330,700
Cost to Increase Provider Rates 2% Each Year (All Providers except State Centers)	1,678,800	3,421,400	5,100,200
Total Funding Increase Required	$3,630,800	$5,800,100	$9,430,900
State Share of Total Cost	$1,540,200	$2,433,100	$3,973,300
Federal Share of Total Cost	2,090,600	3,367,000	5,457,600
Total	$3,630,800	$5,800,100	$9,430,900
Revenue Generated by Increased Bed Assessment	$1,952,000	$2,378,700	$4,330,700
State Share of Total Cost	1,540,200	2,433,100	3,973,300
Difference (Revenue Effect on MA Trust Fund)	$411,800	-$54,400	$357,400

4. As shown in the table, the net benefit to the state of the Governor's proposal is to increase revenue to the MA trust fund by an estimated $357,400 in the biennium, rather than $2,672,600, as assumed in the Governor's budget bill.

Under the bill, the Governor proposed using the net revenue increase to the MA trust fund to replace GPR base funding for MA benefits. The Committee could use these additional MA trust fund revenues for the same purpose. However, because the net increase in revenue to the trust fund is $2,315,200 less than the Governor assumed, the bill would need to be amended to increase funding for MA benefits by this amount in the 2007-09 biennium to correct the funding change in the bill and to reflect current estimates of the net revenue effect of the proposal on the MA trust fund.

5. The administration has acknowledged that its previous estimates of the net trust fund revenue available to replace GPR MA base funds should be revised downward. In a memorandum dated March 19, 2007, from the Secretary of the Department of Administration to the Co-Chairs of the Joint Committee on Finance requesting changes to the bill, Secretary Morgan indicated that the amounts provided under the bill to accomplish the Governor's intent for this provision required adjustment, and requested that an increase of $2,253,200 ($1,183,400 GPR, $1,123,200 FED, and -$53,400 SEG) be provided in 2007-08 and $3,369,900 ($1,489,200 GPR, $2,161,200 FED, and -$280,500 SEG) in 2008-09 to reflect the Governor's intent.

6. Increases in the institutional bed assessment rate adversely affect private-pay residents and organizations that operate facilities with licensed, unoccupied beds. Since facilities are likely to add the amount of the bed assessment increase (up to $142 per month in 2007-08 and up to $208 per month in 2008-09) to the bills paid by private-pay residents, private pay ICF-MR residents' out-of-pocket costs could increase by $1,704 in 2007-08 and by $2,496 in 2008-09 if the provision were approved. However, while approximately 21% of nursing home residents are private-pay (7,200), only 1% of ICF-MR residents are private pay (nine residents). Given the comparatively small number of private-pay individuals who are likely to be assessed this higher rate, compared to the potential increase in available funding for provider reimbursements generated by the assessment (when both the revenues generated by the increase in the assessment and the resulting matching federal funds are accounted for), it may be argued that increasing the ICF-MR bed assessment is a better mechanism for maximizing federal MA matching funds than increasing the nursing home bed assessment.

7. The administration and the industry argue that it is necessary to increase rates paid to providers both because current MA per diem rates are below most facilities' actual costs of caring for MA recipients, and because institutional costs continue to increase, both as a result of inflation and due to set overhead costs being supported by a declining population of residents. It could also be argued that there are too few private pay ICF-MR residents to enable effective cost-shifting from MA residents to private pay residents to occur, increasing pressure on the state MA program to more fully fund incurred institutional costs to ensure that these resources remain available to the consumers who use their services. From this perspective, the Committee may wish to support an increase in the bed assessment as a means to increase MA reimbursement.

8. The bed assessment is applied to all beds in licensed facilities, including beds in the state centers for the developmentally disabled. Unlike private ICFs-MR, the MA program reimburses three state centers in full for their costs to provide care. Consequently, if the amount of the monthly bed assessment for ICFs-MR is increased, the centers will pay the difference from their respective operating budgets. In order to accurately account for this anticipated expense (should the Committee decide to approve the Governor's proposal), $535,900 PR in 2007-08 and $1,542,500 PR in 2008-09 should be provided to adjust the operations appropriation to accurately reflect anticipated expenditures.

9. Alternatively, if the Committee wished to increase provider reimbursement rates without increasing the monthly bed assessment, the fee increase proposal included under the bill could be supported by general purpose revenues. The Committee could support an increase of 2% in 2007-08 and an additional 2% in 2008-09 by providing $1,678,800 ($712,100 GPR and $966,700 FED) in 2007-08 and $3,421,400 ($1,435,300 GPR and $1,986,100 FED) in 2008-09 without increasing the amount of the bed assessment beyond current levels.

ALTERNATIVES TO BILL

1. Approve the Governor's statutory changes. However, modify funding in the bill to: (a) correct the administration's funding changes resulting from the proposal; (b) increase the operations appropriation for the three state centers by $535,900 PR in 2007-08 and by $1,542,500 PR in 2008-09 to reflect anticipated increases in the centers' operations expenditures as a result of the bed assessment increase; and (c) to reflect reestimates of available revenues from the increase in the ICF-MR assessment by increasing MA benefits by $1,570,800 ($771,600 GPR, $907,200 FED and -$108,000 SEG) in 2007-08 and by $3,200,700 ($1,543,600 GPR, $1,877,800 FED, and -$220,700 SEG) in 2008-09. Finally, reduce estimated revenue to the MA trust fund by $108,000 in 2007-08 and by $220,700 in 2008-09.

ALT 1	**Change to Bill**		**Change to Base**	
	Revenue	Funding	Revenue	Funding
GPR	$0	$2,315,200	$0	- $357,400
FED	0	2,785,000	0	5,457,600
PR	0	2,078,400	0	2,078,400
SEG	- 328,700	- 328,700	4,330,700	4,330,700
Total	- $328,700	$6,849,900	$4,330,700	$11,509,300

2. Delete the Governor's recommendation. Instead, provide $1,678,800 ($712,100 GPR and $966,700 FED) in 2007-08 and $3,421,400 ($1,435,300 GPR and $1,986,100 FED) in 2008-09 to increase MA rates paid to private ICFs-MR and to counties providing services to individuals relocated from ICFs-MR into the community by 2% in 2007-08 and by an additional 2% in 2008-09.

ALT 2	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
GPR	$0	$4,820,000	$0	$2,147,400
FED	0	280,200	0	2,952,800
SEG	- 4,659,400	- 4,659,400	0	0
Total	- $4,659,400	$440,800	$0	$5,100,200

3. Delete provision.

ALT 3	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
GPR	$0	$2,672,600	$0	$0
FED	0	- 2,672,600	0	0
SEG	- 4,659,400	- 4,659,400	0	0
Total	- $4,659,400	- $4,659,400	$0	$0

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