

MEMORANDUM

TO: FAHSA Members

FROM: Erwin Bodo, Senior VP of Reimbursement

DATE: May 7, 2001

SUBJECT: Legislative Session - Budget Issues

This may have been the longest Legislative Session I have ever endured. But it is over and the budget news is very good.

The table below gives you a quick summary of the major items. Following the table is a detailed description of the various provisions and policies passed this year. While I am fairly certain of my interpretations, the final answers will not be available until the state unravels this maze and sets policy guidelines.

<i>Issue</i>	Appropriations	
	Proposed Amount	Implementation Date
Nursing Homes		
Increase in base budget for more cases and inflation	\$186.0M	July 1, 2002
Quality Improvements	\$76.6M	January 1, 2002
Part B Crossover - limited to 20% of fees paid	-\$4.1M	July 1, 2001
Changes of Ownership – Eliminate payment step-up	-\$15.5M	September 1, 2001
Serve ICF II level residents under the ALF waivers	-\$13.4M	January 1, 2002
Other Services		
Convert OSS to Assistive Services Waiver	\$32.0M	Not specified
Home and Community Based Services Waiver expansion	\$6.2M	July 1, 2001
Community Alternatives for Elders (ALF waivers etc. lumped)	\$17.8M	July 1, 2001
Increase OSS personal needs allowance to \$54 per month	Undetermined	Not specified

Nursing Homes

The usual budget increase for caseload growth and inflation amounts to \$186 million this year. There are no major policy changes that will impact the July 1, 2001 rates. A minor change is the revised calculation of Part B crossover claims. In the future, Medicaid will pay only the 20 percent of the Medicare fees for Part B services. It is questionable whether any claims in the last year were calculated as 20 percent of charges, so the savings may be minimal. Look for a notice from Consultec on this issue.

The second policy change eliminates the availability of Operating and Patient Care rate increases for changes of ownerships, beginning September 1, 2001. Under the new policy, the new licensee will be entitled to the Operating, Patient Care, and MAR rates received by the previous operator. Naturally, this will have an impact on your rates only if you buy a facility.

Although the actual date of implementation is dependent on Federal waivers, you will see an increased emphasis by the CARES preadmission screening unit to divert ICF II level residents into alternative settings. This category of service will not be eliminated, since that would prohibit the Federal government from granting a waiver (there would be nothing to waive if the service does not exist). Therefore, you might still see one or two ICF level residents sneak through, but I expect that the state will be very vigilant and convince most of these potential nursing home admissions to get service under the ALF waiver, or another community alternative.

The biggest news is the appropriation of \$76.6 million for nursing home quality improvements. This catch-all phrase encompasses staffing increases, more regulatory oversight/survey/monitoring visits, and payment improvements. Since the dollar amount was not agreed upon until Friday night 9:00 p.m., not all of the details are clear. This is what we do know. Staffing minimums for CNA's and licensed nurses will rise to 2.3 hours and 1.0 hours per day per resident, respectively, on January 1, 2002. Concurrent with these minimums, instead having a defined shift differential, a minimum staffing ratio of one CNA for every 20 residents, and one licensed nurse for every 40 resident will have to be maintained at all times after January 1, 2002. The CNA minimums will rise to 2.6 hours per day on January 1, 2003 and to 2.9 hours on January 1, 2004. These increases will force over 50 percent of the nursing homes to seek additional staff between now and January 1, 2002. Those that are below the stated minimums will be eligible for interim rate increases if the cost of the additional staff would increase their overall Medicaid per diem by more than one percent.

On January 1, 2002, the Medicaid payment scheme will be somewhat revised. First, the Patient Care cost component will be rebased; that is, rates will be set without the target limits. For those homes that are now limited by the Patient Care Target Ceiling, this change could represent about a \$6.50 per day increase. Concurrent with the rebasing, the Patient Care component will be split into direct care and indirect care subcomponents. The direct care subcomponent is comprised of direct care CNA, LPN, and RN staff salaries and benefits. All remaining costs in the Patient Care component will be allocated to the indirect care subcomponent. Once the costs are split, new ceilings will be calculated for each subcomponent. The direct care subcomponent will no longer be limited by a target. The indirect care subcomponent will still be target limited. (As an educated guess, all nursing homes will be required to submit an abbreviated six-month cost report to determine the split between direct and indirect patient care costs.)

Additionally, the Agency will have to develop, by October 31, 2001, a standard chart of accounts for the nursing home cost report. All cost reports ending December 31, 2002 or later will have to use this new chart of accounts for cost reporting purposes. Keep in mind that this does not mean that you need to change your internal chart of accounts, but rather, that you will need to prepare the cost report using the new account structure. Usually, this is just a relatively simple crosswalk between your internal accounts and the uniform chart of accounts mandated by the Agency. Finally, cost reports filed for periods ending on or after December 31, 2003 will have to be submitted electronically.

In a related item, the Legislature enacted a certificate of need moratorium on new community beds. While we were not supportive of this measure, this should help a little with the current low occupancies and labor shortage.

Other Services

The Legislature reaffirmed its intention to convert Optional State Supplementation (OSS) into Medicaid Assistive Services. This will bring in an extra \$8 million annually through matching Federal dollars. The new OSS rate will be slightly over \$800 per month, a significant increase over the current

The Health Care Financing Administration has already approved the waiver for this service, so now only implementation remains. The budget also specifies that the Department of Children and Families is authorized to increase the monthly personal allowance for OSS eligibles to \$54.

The Legislature also appropriated almost \$18 million for community alternatives. Also, the reduction in the nursing home line for the ICF II diversion actually includes an increase of \$4 million for the ALF waiver, since it is anticipated that most of the diverted residents will end up in an ALF waiver slot.

If you have any questions, please e-mail me at ebodo@faha.org or call me at (850) 671-3700.