# F I S C A L   I M P A C T   R E P O R T

**SPONSOR** Arnold-Jones **DATE TYPED** 1-25-2005 **HB** 77

**SHORT TITLE** Eliminate Bed Surcharge and Income Tax Credit **SB**

**ANALYST** Taylor

## REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| **Provision** | **FY06** | | | |
| Bed Surcharge Repeal | (19,500.0) | (20,000.0) | Recurring | General Fund |
| Tax Credit Re-peal | 1,000.0 | 2,000.0 | Recurring | General Fund |
| Total Impact | (18,500.0) | (18,000.0) | Recurring | General Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 44
Relates to HB 213, HB 214,

### SOURCES OF INFORMATION

Responses Received From
Human Services Department (HSD)
Taxation and Revenue Department (TRD)

### SUMMARY

Synopsis of Bill

HB 77 eliminates the daily bed surcharge imposed on nursing homes, intermediate care facilities for the mentally retarded and residential treatment centers. Also, the bill repeals the sections of law pertaining to the distribution of the associated revenues to the general fund for purposes of funding the Medicaid program as well as the income tax credit provided for payment of the tax not made by insurers.

The bill does not specify an effective date, so provisions are assumed to become effective 90 days after the end of the session.

## FISCAL IMPLICATIONS

The general fund revenue loss simply reflects the $19.5 million included in the FY 2006 revenue estimate. The revenue estimate reflects the initial fiscal impact estimate of $22.5 million adjusted for collections to date.

Based on information provided by TRD and HSD repeal of the income tax credit is estimated to increase general fund revenues by about $1 million in FY 06 and $2 million in FY07. The fiscal impact estimate reports that there are approximately 8,400 beds in the kind of facilities eligible for the tax credit. It also assumes 10 percent of beds are private pay and a 90 percent occupancy rate, implying 756 occupied beds. Some private pay beds are financed by insurance and some by individuals. TRD assumes that about three-quarters are paid for by individuals. Multiplying 756 by three quarters by $10 dollars by 365 yields a $2.0 million full year fiscal impact. The FY 06 impact is one-half the estimated full year impact. In making this estimate TRD assumed that the credit would not apply to expenditures paid after the effective date of the repeal. However, they note that the effective date of the repeal is ambiguous.

TRD also indicates that the fiscal impact of repealing the tax credit may be understated because the private pay group does not include nursing home patients who pay for their care from social security benefits. TRD notes that they don't know how large this group is, but claim it could be significant.

## ADMINISTRATIVE IMPLICATIONS

HSD reports that bed rates for nursing homes and intermediate care facilities, which were changed effective July 1, 2005, would need to be reduced.

TRD indicates that repealing the bed tax would result in administrative savings to the department.

## SUBSTANTIVE ISSUES

Bed tax revenues are earmarked to the Medicaid program. HSD's analysis notes that the federal government's Centers for Medicare and Medicaid Services (CMS) does not have a concern with bed surcharge revenues per se; their concern relates to the income tax credit. Unless the tax credit is repealed, CMS will not allow bed surcharge revenue to be used as a state match to Medicaid program. The federal government pays for approximately 73 percent of the Medicaid program. Thus, a net loss of $18.5 million in general fund revenues implies a loss of approximately $50 million in federal funds for Medicaid unless other revenues from the general fund are used to replace bed surcharge revenues.

HSD says that revenues lost from the repeal of the bed surcharge "would result in the enforcement of additional cost containment measures".

**BT/njw**