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

SPONSOR: Heaton   DATE TYPED: 03/12/03   HB 479/aHAFC

SHORT TITLE: Medicaid Payments to Rise with Inflation   SB

ANALYST: Weber

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	**FY04**	**FY03**	**FY04**		
			$1,250.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	$3,750.0		Recurring	Federal Funds

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

<u>Responses Received From</u>
Human Services Department
Department of Health
Agency on Aging

SUMMARY

<u>Synopsis of HAFC Amendment</u>

The House Appropriations Finance Committee amendments make the following changes:

1. On page 1, line 12 strike “MAKING AN” and strike line 13 up to the period.
2. On page 1, lines 19 and 20 strike “—APPROPRIATION”. 1. and 2. eliminate the appropriation language
3. On page 1, line 21, strike “On” and insert in lieu thereof “Except in years when the department re-bases rates, on”.

4. On page 1, line 23, after “and” insert “on September 1, 2004 and on September 1 of each subsequent year, the department shall re-base the Medicaid reimbursement rate used to reimburse licensed”.
5. On page 2, strike Subsection B in its entirety an insert in lieu thereof: “B. In years when the department re-bases rates pursuant to regulations, the department shall use the medical care component of the consumer price index as the inflationary adjustment measure.”. It is presumed this means the “nursing home and day care component” of the consumer price index.

Significant Issues

The original appropriation of $2.5 million has been eliminated. As noted in the original analysis below there is already a mechanism to increase the Medicaid reimbursements to licensed nursing homes and intermediate care facilities for the mentally retarded. However, **regulations do not require** an annual increase be provided. In the current fiscal year, no increase was included in the Medicaid appropriation for these providers. The increase was omitted in an effort to alleviate the overall Medicaid cost to the state. By making an annual increase mandatory, considerable flexibility is lost by both the legislature and executive in effectively managing the Medicaid program. Such requirements are the expenditure side equivalent of earmarking revenues. This will guarantee additional upward pressure on Medicaid total cost.

Fiscal Implications

The impact shown above in the Additional Impact and Revenue sections are consistent with the projected increases totaling $5 million based on the Centers for Medicaid and Medicare market basket index of 2.7%. This is included in the current House Bill 2.

Synopsis of Original Bill

House Bill 479 appropriates $2.5 million from the General Fund to the Human Services Department for the purpose of increasing the Medicaid reimbursement rate to licensed nursing homes and intermediate care facilities for the mentally retarded.

Significant Issues

House Bill 479 makes a change to the Medicaid reimbursement rates and ties reimbursement rates to the growth of the medical price index for nursing homes and intermediate care facilities. HB 479 would require the Human Services Department (HSD) to develop an alternative appropriate index if the Department of Labor stops producing the medical care price index component.

Currently, nursing home per-diem rates are adjusted using two methods that revolve around a three-year cycle. Re-basing of the prospective per diem rate takes place every three years. The re-basing year is considered year one. The next re-basing will be effective July 1, 2004. The re-basing adjustment is determined by the actual costs of a nursing facility. Data used for the re-basing includes costs incurred, reported, audited and/or desk reviewed for the provider’s previous fiscal year. Each facility has two rates based on acuity – a low and a high rate. The full description of the calculation is contained in Medical Assistance Division (MAD) Program Policy 8.311.3 NMAC. The advantage of this method is that the re-basing year makes an adjustment unique to the specific facility. In the off years two and three, the per-diem rate adjustment utilizes the Market Basket Index (MBI). In recent years the MBI has been in the range of 2.5 percent to 3.5 percent. The MBI for FY04 is 3.0 percent.

Rates for ICF/MRs run on a three-year cycle similar to nursing facilities. Again, year one is a re-basing year. The next re-basing for these facilities will be effective September 1, 2005. The calculation to re-base ICF/MR rates is the same as the one used for nursing facilities. For the off years two and three, the MBI is used to establish the inflation factor. The MBI for FY04 is 3.0 percent

HB 479 would require HSD to amend its regulations and State Medicaid Plan to comply with the new reimbursement scheme. In addition, HSD will be required to make assurances to the Centers for Medicare and Medicaid Services (CMS) that the new reimbursement scheme complies with, 42 CFR 447, Subpart A – *Payment for Inpatient Hospital and Long-Term Care Facility Services* in order for the State Medicaid Plan amendment to be approved and to continue to receive federal financial participation (FFP).

FISCAL IMPLICATIONS

The appropriation of $2,500.0 contained in this bill is a recurring expense to the General Fund. Any unexpended or unencumbered balance remaining at the end of Fiscal Year 2004 shall revert to the General Fund. When combined with the federal match of $7,500.0, the total fiscal impact is $10.0 million. This appropriation may not be necessary since an increase for these facilities is already included in the General Appropriation Act.

ADMINISTRATIVE IMPLICATIONS

Changes to the State Medicaid Plan and Medical Assistance Division (MAD) regulations is a time consuming and costly process that may require an additional appropriation.

OTHER SUBSTANTIVE ISSUES

As described above, there is already a mechanism in place to allow an inflation factor for these providers. The re-basing years allows for a facility specific inflation factor that should produce a fairer result for both the state and facility. This offers a higher adjustment for those providers offering a quality product with costs greater than an average inflation rate and alternately saves the state on those providers not keeping pace. The current regulations do not require the inflation factor be used every year thereby allowing the state flexibility in controlling Medicaid costs. HB 479 will eliminate this flexibility by making the annual increase mandatory.

MW/yr:njw