

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6747**

**BILL NUMBER: SB 485**

**DATE PREPARED:** Jan 18, 2002

**BILL AMENDED:**

**SUBJECT:** Nursing Home Case Mix Reimbursement System.

**FISCAL ANALYST:** Alan Gossard

**PHONE NUMBER:** 233-3546

**FUNDS AFFECTED: X**

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**X**

**Summary of Legislation:** This bill requires the state's Medicaid nursing home rate setting contractor to consider certain information when setting payment rates. (The introduced version of this bill was prepared by the Joint Commission on Medicaid Oversight.)

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The bill requires the state's rate-setting contractor for nursing home case-mix reimbursement to calculate the median for each case-mix component each quarter using all cost reports received by the state or the state's rate-setting contractor within 150 days after each provider's fiscal year end. This provision will, at a minimum, require faster action by the state's rate-setting contractor, and it will likely affect state costs for nursing home reimbursement (See below).

*Background:* The provision effectively alters the methodology for calculating reimbursement rates by basing the new rates on the most recently completed cost reports provided by nursing facilities, rather than on the prior year's cost reports. In either case, in the calculation of the new rates, the nursing facility cost data would be projected forward by the HCFA/SNF index, an index computed by the Centers for Medicare and Medicaid Services (CMS, formerly HCFA). This is an index much like the Consumer Price Index, except that it measures the historical change in nursing facility costs instead of the costs of consumer items.

Generally, to the extent that the HCFA/SNF index is a good predictor of the allowable costs reported by Indiana nursing facilities, the impact of the change caused by this provision would be minimal. However, if actual Indiana costs rise faster than the nation's costs, as measured by HCFA/SNF, the calculated reimbursement rates to nursing facilities will be higher than they would otherwise be. The impact *for each percentage point* of actual Indiana cost increases over the HCFA/SNF index is estimated by industry sources to range from \$8.3 M to \$12.5 M in total Medicaid expenditures *on an annual basis* (or *\$3.15 M to \$4.75 M in state costs*). Conversely, if the actual Indiana costs rise slower than the HCFA/SNF index, the change in the methodology resulting from this bill would result in reduced Medicaid expenditures.

Based on an analysis by one industry source of the change in allowable nursing facility costs using 1998 and 2000 cost data, if these conditions were to continue, total Medicaid expenditures would be projected to increase by \$12.9 M (or \$4.9 M in state costs). Again, the amount and direction of the impact will depend on the relationship between changes in actual Indiana nursing facility costs and changes in projected costs.

The bill also may effectively require the rate-setting contractor to use cost reports “as submitted” before an audit can be completed on those reports. According to Myers and Stauffer, the state’s rate-setting contractor, this could also have an indeterminable impact on Medicaid expenditures.

**Explanation of State Revenues:** See *Explanation of State Expenditures*, above, regarding federal reimbursements in the Medicaid program. The federal share is currently about 62% with the state share being about 38% of expenditures.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** There are currently six county-owned nursing facilities participating in the Medicaid program that may have their reimbursement rates affected by this bill.

**State Agencies Affected:** OMPP.

**Local Agencies Affected:** County-owned nursing facilities.

**Information Sources:** Kris Knerr, Myers and Stauffer, 846-9521; Steve Albrecht, Indiana Health Care Association, 636-6406.