Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

February 10, 1998

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 166: Medical Assistance -- Treatment of Interest Income from Affiliated Entities Under Continuing Care Contracts

CURRENT LAW

MA Treatment of Interest Expenses. Under the state's medical assistance (MA) program, the Department of Health and Family Services (DHFS) pays nursing homes for services to MA recipients based on a prospective payment system that is updated annually. DHFS uses recent cost reports submitted by nursing homes to develop a daily payment rate for each nursing home. The rates must take into consideration different patient levels of care and several categories of expenditures incurred by nursing homes, which are referred to as "cost centers."

In developing MA nursing home rates, DHFS is required to consider allowable interest expenses of a facility, less interest income of the facility and less a portion of the interest income of affiliated entities. The proportion of interest income of affiliated entities used as an offset is equal to the ratio of debt of the nursing home to all debt of the affiliated entities. By subtracting a portion of the interest income of affiliated entities, the calculated MA payment rate is less than the rate would be if this interest income were not considered.

The offset to the interest expenses of the nursing home is only applied to interest expenses and other capital expenses that exceed the median capital expenses of nursing homes in Wisconsin. For 1997-98 payments, the median capital expenses represented 6.0% of the equalized value of each nursing home. If a nursing home has interest expenses that are less than the median level, those interest expenses are not currently offset by the interest income of affiliated entities. Further, once interest and other capital expenses exceed 7.5% of the value of the nursing home, only 20% of those excess expenses are reimbursed under the current MA formula.

Continuing Care Contracts. Nursing homes may enter into continuing care contracts with patients. These contracts are contracts to provide nursing services, medical services or personal care services, in addition to maintenance services, for the duration of a person's life or for a term in excess of one year, conditioned upon: (a) an entrance fee in excess of $10,000; or (b) providing for the transfer of at least $10,000 or 50% of the person's estate if the amount is expressed as a percentage of the person's estate to the service provider upon the person's death.

SUMMARY OF BILL

Senate Bill 166 would modify the treatment of interest income for the purpose of determining MA nursing home payment rates by specifying that interest income of an affiliated entity that is a provider of services under a continuing care contract may not be subtracted from allowable interest expenses of the facility if all of the following conditions are met:

1. The interest income is earned on entrance fees of persons entering into continuing care contracts;

2. The provider of services under the continuing care contract accounts separately from other funds of the provider for assets related to, and interest earned on, the entrance fees, although providers could commingle assets related to the continuing care contract for investment purposes;

3. The continuing care contract includes nursing home services;

4. The facility annually provides to DHFS a list of individuals who have been admitted to the facility and who have entered into a continuing care contract with the affiliated entity; and

5. No individual who has been admitted to the facility and who has entered into a continuing care contract with the affiliated entity has had his or her care in the facility reimbursed by MA in the most recent year for which the list under (4) was prepared or in the three proceeding years.

This change in the treatment of interest income would take effect on the day following the bill's publication.

On November 4, 1997, Senate Bill 166 was recommended for passage by the Senate Committee on Health, Human Services, Aging, Corrections, Veterans and Military Affairs by a vote of 7 to 0.

FISCAL EFFECT

This bill would increase MA payment rates to two nursing homes in the City of Milwaukee, St. John's Home of Milwaukee and Sunrise Care Center, both of which are operated by the same parent organization. These two nursing homes are currently the only nursing homes that meet the five conditions established in the bill. In calculating the MA payment for these facilities, DHFS currently subtracts interest income derived from entrance fees for continuing care contracts offered by St. John's Home of Milwaukee, which owns and operates both nursing homes. Under the bill, DHFS would no longer subtract this interest income from these homes' interest expenses, resulting in a larger MA payment.

Based on an analysis of information contained in the 1996 cost reports for St. John's Home of Milwaukee and the Sunrise Care Center, it is estimated that enactment of SB 166 would increase MA payments to these two facilities by a total of \$76,500 (\$31,500 GPR and \$45,000 FED) annually. This estimate differs from the estimate in the DHFS fiscal note (\$300,000, all funds) because the DHFS estimate was based on an analysis of costs using the previous year's (1995) cost reports. This difference illustrates that the effect of the bill on MA payments to nursing homes would vary from year to year, based on changes in the interest earnings of nursing homes that would be affected by the provision.

Because the bill would not increase funding for medical assistance benefits, any additional costs to the program resulting from the enactment of the bill would be funded from the existing MA benefits appropriations (approximately \$1.8 billion GPR and \$3.2 billion FED in the 1997-99 biennium). Based on current estimates of MA expenditures in the 1997-99 biennium, it is likely that DHFS would be able to absorb the projected cost increases in the 1997-99 biennium. However, to the extent that the bill increases MA payment for nursing home services, funding available to transfer to the community options program, pursuant to provisions of 1997 Wisconsin Act 27, may be reduced.

The annual costs of enacting SB 166 would increase in the future if additional nursing homes qualify for this new treatment of interest income. Based on 1995 cost reports, there were 82 nursing homes which were affected by the interest income offset to interest expenses, seven of which, including St. John's and Sunrise, currently have continuing care contracts. The total MA savings due to the interest offset for these 82 nursing homes was \$1.3 million (all funds), while the savings associated with the seven homes with continuing care contracts (including St. John's and Sunrise) based on 1995 costs was \$334,000 (all funds).

The DHFS estimate that long-term costs could potentially total \$1.7 million (all funds) annually could be realized if every nursing home with an investment income offset would establish a continuing care contract program to prevent its investment income from being used to offset interest expenses. This would require that: (a) 75 nursing homes that do not currently have continuing care contracts establish such programs; and (b) each of these nursing homes would not utilize the option of utilizing MA funds to support individuals under continuing care contracts for individuals' whose resources become depleted. It is not clear that this would be a desirable option for each of these 75 nursing homes. The type of home that could best utilize this method would be those homes that serve predominantly wealthy individuals. Further, the increase in nursing home payments due to the change in the treatment of interest income may not be attractive enough to these nursing home operators, since these homes would be unable to utilize MA for any individuals under these contracts whose resources become depleted.

Prepared by: Richard Megna

MO# passage

1 BURKE	Y	N	A
2 DECKER	Y	N	A
JAUCH	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
SCHULTZ	Y	N	A
ROSENZWEIG	Y	N	A
GARD	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 9 NO 6 ABS ____