

Department of Legislative Services  
Maryland General Assembly  
1999 Session

**FISCAL NOTE**  
**Revised**

Senate Bill 740 (Senators Conway and Collins)

Finance

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**Nursing Facilities -Maryland Medical Assistance Program - Reserved Beds - Task  
Force on Quality of Care in Nursing Facilities - Nursing Home Comparative  
Evaluation System**

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This bill reduces the Medicaid per diem rate for reserved nursing facility beds when the patient is physically absent, establishes a 13-member Task Force on Quality of Care in Nursing Facilities, and requires development of a nursing home report card. It reduces the Medicaid per diem rate for reserved nursing facility beds by excluding the cost of nursing services in the rate calculation. General fund savings from reducing the Medicaid per diem rate must be used to increase the payments for services to Medicaid recipients under the nursing services cost center of the Medicaid nursing home reimbursement formula. The bill establishes a Task Force on Quality of Care in Nursing Facilities to study the quality of care in Maryland nursing homes, including current quality of care standards, staffing patterns, and procedures for nursing home inspections. It requires the Health Care Access and Cost Commission (HCACC), in consultation with the Department of Health and Mental Hygiene and the Department of Aging, to develop and annually publish a report card for nursing home quality of care on an objective basis. The Medicaid provision of the bill takes effect July 1, 1999 and sunsets on June 30, 2002. The task force provision takes effect June 1, 1999 and sunsets on May 31, 2000.

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**Fiscal Summary**

**State Effect:** Medicaid expenditures for reserved nursing home beds would decrease by \$5.0 million (\$2.5 million general funds, \$2.5 million federal funds) in FY 2000; and Medicaid expenditures for the nursing home reimbursement formula would increase by an equal amount. Report card general fund expenditures increase by \$39,300 in FY 2000. Future year expenditures increase with annualization and inflation. Future year expenditures could be higher depending on how the report card is structured and whether data are

available from existing sources. Revenues would not be affected.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	39,300	45,900	47,600	49,300	51,100
Net Effect	(\$39,300)	(\$45,900)	(\$47,600)	(\$49,300)	(\$51,100)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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## Fiscal Analysis

**Bill Summary:** The bill requires the task force to study State funding mechanisms and regulation of nursing homes and to compare Maryland nursing home standards and procedures to those in other states. The task force is to recommend changes to current standards and procedures necessary to ensure quality of care in nursing homes, a methodology for determining appropriate levels of staffing and standards (if necessary), and changes to funding mechanisms (if necessary). The task force must report its recommendations to the Governor and General Assembly by December 1, 1999. Staff must be provided by the Department of Aging, with assistance from the Department of Health and Mental Hygiene and the Department of Legislative Services.

The system for comparative evaluation of nursing homes must be developed and implemented by July 1, 2001. HCACC must report to the Governor and General Assembly by January 1, 2001 on the nursing home report card.

**Background:** The current Medicaid nursing home reimbursement formula pays the same per diem rate for nursing home residents regardless of whether the individual is physically present in the nursing facility, subject to certain limitations. The bill requires that the savings from Medicaid expenditures for reserved nursing home beds be used to increase the payments for services to Medicaid recipients under the nursing services cost center of the Medicaid nursing home reimbursement formula, in accordance with the study conducted pursuant to Chapter 724 of 1998. Chapter 724 directed the Department of Health and Mental Hygiene (DHMH) to study the feasibility of altering the payment parameters, structure, and target occupancy percentage used in the Medicaid reimbursement formula for nursing facilities. The cost of implementing the DHMH report's recommendations directly affecting the formula would be \$23.2 million. No funding is included in the fiscal 2000 budget to implement the report's recommendations. However, \$9 million is restored to the existing

nursing home formula to eradicate most of the continuing cost containment actions from the early 1990s.

There are approximately 265 nursing homes in Maryland.

Chapter 9 of 1993 required the Health Care Access and Cost Commission to develop an HMO report card. The fiscal 2000 allowance for the HMO report card includes \$440,000 in contractor costs for the third annual report card and \$550,000 in contractor costs for the fourth annual report card. These amounts cover auditing of HMO data, design and distribution, and an enrollee and practitioner survey.

### **State Expenditures:**

#### *Medicaid*

The current Medicaid nursing facility reimbursement formula accounts for capital, administrative and routine, nursing services, and other patient care costs in the per diem rate calculation. When a Medicaid nursing facility resident is absent from the nursing home, the Medicaid program reserves the bed for the patient and continues to reimburse the nursing facility the full per diem rate for up to a specified number of days within a 12-month period: 15 days if the resident is hospitalized for acute care and 18 days if the resident is on a leave of absence.

Under the bill, the per diem rate during the patient's absence would be reduced because the calculation would no longer account for nursing services. The Department of Health and Mental Hygiene projects savings of \$50 per day for an expected 100,000 nursing home bed-hold days in fiscal 2000. Consequently, Medicaid expenditures for reserved nursing home beds are estimated to decrease by \$5.0 million in fiscal 2000, of which \$2.5 million is general funds and \$2.5 million is federal funds. Medicaid expenditures for the nursing services cost center of the nursing home reimbursement formula would increase by an equal amount. Out-year estimates assume 4% inflation.

#### *Task Force*

Any expense reimbursements for task force members and staffing costs for the three State agencies are assumed to be absorbable within existing budgeted resources.

#### *Report Card*

General fund expenditures could increase by an estimated \$39,296 in fiscal 2000, which accounts for the October 1, 1999 effective date. This estimate reflects the cost of hiring one program administrator to develop the nursing home report card. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$33,578
Other Operating Expenses	<u>5,718</u>
<b>Total FY 2000 State Expenditures</b>	<b>\$39,296</b>

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. Further, future year expenditures could be higher (i.e., closer to the HMO report card budgeted amount), depending on how DHMH structures the nursing home report card and whether data are available from existing sources.

**Small Business Effect:** Small business nursing homes could be favorably affected by the bill's provision that results in an increase in Medicaid's nursing home reimbursement formula. However, nursing homes could be adversely affected by the bill's provision that reduces the Medicaid per diem rate for reserved nursing home beds. About 20 nursing homes are small businesses. This represents fewer than 2% of for-profit nursing homes and 20% of non-profit nursing homes.

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**Information Source(s):** Department of Health and Mental Hygiene (Medical Care Programs Administration, Licensing and Certification Administration), Department of Legislative Services

**Fiscal Note History:** First Reader - March 14, 1999  
lc/jr Revised - Senate Third Reader - April 2, 1999  
Revised - Enrolled Bill - May 7, 1999

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