

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 186

(Chair, Health and Government Operations Committee,
et al.) (By Request - Departmental - Veterans Affairs)

Health and Government Operations

Education, Health, and Environmental Affairs

**Department of Veterans Affairs - Charlotte Hall Veterans Home Fund -
 Establishment**

This departmental bill establishes the Charlotte Hall Veterans Home Fund as a special, nonlapsing fund to maintain the operation of the Charlotte Hall Veterans Home. The fund is capitalized exclusively by “bed lease payments,” and expenditures may only be made in accordance with the State budget.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Special fund revenues increase by \$1.5 million in FY 2017 and \$3.0 million annually thereafter due to the receipt of bed lease payments, assuming implementation is delayed to the second half of FY 2017. Special fund expenditures increase beginning in FY 2017 to fund the activities of the Charlotte Hall Veterans Home; the FY 2017 State budget includes \$654,700, contingent on the enactment of this bill. Federal fund revenues are not affected, as discussed below; however, all federal funds are expended under the bill. General fund revenues may increase, beginning in FY 2017, due to interest income and reversions from the special fund; general fund expenditures are not affected. The Office of Legislative Audits (OLA) can handle the required audit with existing resources.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	-	-	-	-	-
SF Revenue	\$1,491,400	\$2,982,800	\$2,982,800	\$2,982,800	\$2,982,800
SF Expenditure	\$654,700	-	-	-	-
FF Expenditure	-	-	-	-	-
Net Effect	\$836,700	\$2,982,800	\$2,982,800	\$2,982,800	\$2,982,800

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

Local Effect: None.

Small Business Effect: The Maryland Department of Veterans Affairs (MDVA) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: “Bed lease payments” means a daily rate paid by the contractor that operates the Charlotte Hall Veterans Home to the State in lease payments based on the total number of beds, regardless of whether all of the beds are filled.

Charlotte Hall Veterans Home Fund: The fund is administered by the Secretary of Veterans Affairs and may only be used to pay the salaries and benefits of the departmental staff of the home, physical improvements to the home, and any other operating expenses, as permitted by the State budget. Money spent from the fund is intended to be supplemental to, not a replacement for, funding that would otherwise be appropriated for the Charlotte Hall Veterans Home. OLA is required to audit the fund at least once every three years.

Transfers to the General Fund: Any interest earnings of the special fund are credited to the general fund. Although the fund is nonlapsing, the bill allows the new special fund to only carryover a fund balance of 10% of the prior fiscal year’s total budget for the Charlotte Hall Veterans Home. Specifically, if the remaining balance in the fund – after all approved expenses are paid in a fiscal year – is greater than 10% of the total budget for the Charlotte Hall Veterans Home in that fiscal year, any remaining balance in excess of 10% reverts to the general fund. The Charlotte Hall Veterans Home Fund retains the amount up to 10%.

Current Law/Background: The Charlotte Hall Veterans Home, located in St. Mary’s County, was established in 1985. While the facility is managed by a contractor, oversight of the facility and its programs is the responsibility of MDVA. The facility offers a continuum of care and includes a 168-bed assisted-living program as well as a 286-bed skilled-nursing program. The facility is Medicare/Medicaid certified and is inspected annually. All veterans receive a per diem subsidy from the U.S. Department of Veterans Affairs to subsidize their cost of care.

The Charlotte Hall Veterans Home’s budget includes general funds, federal funds received in the form of per diem subsidies, and special funds (currently donations or bequests). In fiscal 2015, the total budget of the Charlotte Hall Veterans Home was \$20.3 million. Although the fiscal 2016 total budget is \$17.5 million, that amount does not reflect a

subsequently acknowledged and remedied error. The fiscal 2017 State budget totals \$20.2 million.

Federal subsidies are currently provided directly to the State at a rate determined by the federal government based on a multitude of factors. These subsidies are subsequently used to subsidize the care received by residents of the Charlotte Hall Veterans Home. In some cases, the federal subsidy for an individual is equal to the cost of care. In others, the subsidy may be less than, or more than, the cost of care. MDVA may retain any federal funds not used to subsidize care. MDVA advises that, as of the end of fiscal 2015, it had accumulated \$1,635,379 in retained federal funds. The U.S. Department of Veterans Affairs also has the authority to alter, even retroactively, the level of subsidy received by an individual. A retroactive reduction in the subsidy provided requires the State to refund money to the federal government; in addition to the lost subsidy, MDVA advises that there are administrative costs associated with the refunds.

MDVA advises that the bill establishes a new financial model for the Charlotte Hall Veterans Home. Under a new contract with the facility's management, all federal funds provided to the State are remitted to the contractor. In exchange, the contractor makes bed lease payments that are paid regardless of whether all beds are filled. The bed lease payment proposed in the new contract is \$18 per bed, per day. The bed lease payments are then used to pay for costs related to the Charlotte Hall Veterans Home. MDVA advises that this revised methodology leads to a more consistent revenue stream for the Charlotte Hall Veterans Home. Moreover, it transfers the risk of reductions, including retroactive reductions in federal funds, as well as the administrative burden of processing refunds to the management contractor. The revised methodology also transfers the potential benefit of subsidies exceeding the cost of care to the management contractor. MDVA further advises that the special fund can be used to fund operations as well as other improvements to the Charlotte Hall Veterans Home, such as refurbishing kitchen and storage areas and expanding parking lot capacity.

State Fiscal Effect: Special fund revenues increase by \$1,491,390 in fiscal 2017 and \$2,982,780 annually thereafter due to the creation of bed lease payments. This estimate assumes a delayed implementation of the bed lease payments program until the second half of fiscal 2017, as advised by MDVA. Special fund expenditures also increase by an indeterminate, but potentially significant, amount to fund the activities of the Charlotte Hall Veterans Home. In fiscal 2017, special fund expenditures increase by at least \$654,731 because the fiscal 2017 State budget includes that amount as a special fund appropriation, contingent on the enactment of this bill. Federal fund revenues remain unchanged, as the contractor managing the Charlotte Hall Veterans Home is not authorized to directly receive federal funds. However, because all federal fund revenues are passed on to the contractor (rather than a portion being retained by MDVA as is current practice), federal fund expenditures increase. General fund revenues may increase, beginning in

fiscal 2017, as interest earnings of the special fund are credited to the general fund. General fund revenues may further increase, beginning in fiscal 2018, in the event that the special fund balance at the end of the prior fiscal year exceeds 10% of the total budget of the Charlotte Hall Veterans Home after deducting all approved expenses. *For illustrative purposes only*, should the total budget for the Charlotte Hall Veterans Home in a given fiscal year be \$20.0 million, the Charlotte Hall Veterans Home Fund would be allowed to retain up to \$2.0 million. Any amount in excess of \$2.0 million would be transferred to the general fund. This estimate assumes that any such transfer occurs at the beginning of the subsequent fiscal year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Veterans Affairs, Department Legislative Services
- Office of Legislative Audits, Department of Legislative Services

Fiscal Note History: First Reader - February 3, 2016
md/ljm Revised - Updated Budget Information - April 9, 2016

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TITLE OF BILL: Department of Veterans Affairs – Charlotte Hall Veterans Home Fund

BILL NUMBER: HB 186

PREPARED BY: Peter Pantzer, Director of Finance and Administration, MDVA

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed bill establishes a new special fund and so facilitates the new financial model to be incorporated into Charlotte Hall Veterans Home management contract(s) in effect in FY2017 and beyond. There is no anticipated impact on small business, as the new financial model defines the way the State compensates the contractor, which will not be a small business