

## **Background Paper**

### **AB 75: Medicaid Funding and Bed Tax Increases**

#### **The Governor's Budget Proposal:**

Governor Doyle's proposed 2009-2011 state budget (Assembly Bill 75) seeks a 2% Medicaid funding increase for nursing facilities in each year of the forthcoming biennium. The increases would be funded with a portion of the federal matching funds derived from respective increases of \$75 and \$95 in the current nursing home bed tax (\$75 per licensed bed per month.) The proposed increases would place the bed tax at \$150 in FY10 and \$170 the following year.

Just \$25, or one-third, of the \$75 bed tax increase the Governor has proposed in FY10 will be utilized to support the \$15.9 million — 2% — nursing home funding increase in FY10. Federal funds generated by the remaining \$50 of the bed tax increase would be used to fund Medicaid base expenditures. Indeed, 68% (\$34 million) of the federal funds generated by the doubling of the bed tax would be employed to close the state's budget deficit, as opposed to reducing the current \$280 million disparity between the cost of resident care facilities provide and Medicaid program payments for that care.

To provide a 2% funding increase (\$41,402,520) to nursing homes in FY11 would require a \$45 increase in the current bed tax. However, Assembly Bill 75 envisions a \$95 increase, with \$32,235,416 (51%) of the federal matching funds generated by the tax revenues again being utilized to fund Medicaid base expenditures. Chart 1 presents a summary of the increased bed tax payments and use of federal matching funds to support the Medicaid rate increases and base funding envisioned under AB75.

**Chart 1 - AB 75: Amount & Application of Bed Tax Increase\***

2009-10		2010-11	
<u>\$150/month Bed Tax</u>		<u>\$170/month Bed Tax</u>	
\$25 tax increase	\$	\$45 tax increase	\$
sub-total:	11,108,400	sub-total:	19,611,720
NF 2% Rate	\$	NF 2% Rate	\$
Increase:	<u>15,912,351</u>	Increase:	<u>31,019,584</u>
	\$		\$
	27,020,751		50,631,304
\$50 tax increase	\$	\$50 tax increase	\$
sub-total:	22,216,800	sub-total:	21,790,800
Proceeds to	\$	Proceeds to Fund	\$
Fund Base	34,075,449	Base	32,235,416
\$75 tax increase	\$	\$95 tax increase	\$
total:	33,325,200	total:	41,402,520
New Funds	\$	New Funds	\$
Generated:	49,987,800	Generated:	63,255,000
Fund Base:	\$ 34,075,449 68%	Fund Base:	\$ 32,235,416 51%
	\$		\$
Rate Increase:	<u>15,912,351</u> 32%	Rate Increase:	<u>31,019,584</u> 49%
New Funds	\$	New Funds	\$
Generated:	49,987,800 100%	Generated:	63,255,000 100%
<b><i>*Fiscal impact shown excludes enhanced federal stimulus matching rate</i></b>			

The preceding portrayal does not reflect that due to the federal economic stimulus package, the State of Wisconsin will be deriving a significantly higher level of federal matching funds from nursing home bed tax payments over the next two years. By virtue of the stimulus bill, the federal matching rate for Wisconsin will be elevated from 60% to 68.2% in FY10 and to 65% the following year. As represented in Chart 2, applying the higher matching rates, proposed bed tax increases will generate an additional \$35.1 million in federal funds over the biennium. When one considers this elevated, albeit temporary, federal match, only 22% of federal funds flowing from nursing home bed tax payments will be employed to support nursing home rate increases in FY10. In FY11 40% of bed tax derived federal funds will be used to be applied to funding a 2% increase, the remaining 60% (\$45.9 million) being used to fund Medicaid base expenditures.

**Chart 2: Enhanced Federal Match Derived From Bed Tax Increase**

2009-10				2010-11			
<u>\$150/month Bed Tax</u>				<u>\$170/month Bed Tax</u>			
Bed Tax Increased Revenues	\$	33,325,200		Bed Tax Increased Revenues	\$	41,402,520	
Federal Match (Before Stimulus)	\$	49,987,800		Federal Match (Before Stimulus)	\$	63,255,013	
	\$				\$		
<b>TOTAL</b>		<b>83,313,000</b>		<b>TOTAL</b>		<b>\$ 104,657,533</b>	
Bed Tax Increased Revenues	\$	33,325,200		Bed Tax Increased Revenues	\$	41,402,520	
Federal Match (After Stimulus)	\$	71,471,026		Federal Match (After Stimulus)	\$	76,890,394	
	\$				\$		
<b>TOTAL</b>		<b>104,796,226</b>		<b>TOTAL</b>		<b>118,292,914</b>	
Added Federal Match				Added Federal Match			
With Stimulus:	\$	21,483,226		With Stimulus:	\$	13,635,381	
Fund Base:	\$	55,558,675	78%	Fund Base:	\$	45,870,810	60%
Rate Increase:	\$	15,912,351	22%	Rate Increase:	\$	31,019,584	40%
Federal Funds Generated:	\$	71,471,026	100%	Federal Funds Generated:	\$	76,890,394	100%

Chart 3 reflects the total amount of Wisconsin's nursing homes contribution toward funding of state operations under Assembly Bill 75 - \$157,566,692. This figure includes federal matching & stimulus funds derived from nursing home and ICF-MR provider tax increases; diversion of federal Certified Public Expenditure funds away from the county nursing homes whose operating deficits triggered those funds; elimination of funding for the Nursing Home Appeals Board; and projected revenues the state would receive from imposition of nursing home inspection fees to subsidize DHS administrative costs.

**Chart 3 – Funding of Budget Deficit**  
*Wisconsin's Nursing Facilities/ICF's-MR would fund nearly \$157.6 million in state operating costs under AB 75*

	2009-10	2010-11	Biennium
NF Bed Tax Increase Used to Fund Medicaid Base (\$50/bed)	34,075,449	32,235,416	66,310,865
ICF-MR Bed Tax Increase Used to Fund Medicaid Relocation Waiver	267,600	296,800	564,400
Additional Certified Public Expenditures (CPE) Used to Fund Medicaid Base*	18,000,000	18,000,000	36,000,000
Additional CPE Funds Used to Fund Family Care Expansion*	2,596,200	2,592,800	5,189,000
\$200 Nursing Home Survey Revisit Fee	60,200	60,200	120,400
Eliminate the Nursing Home Appeals Board	1,331,710	1,331,710	2,663,420
<b>Sub-Total</b>	<b>56,331,159</b>	<b>54,516,926</b>	<b>110,848,085</b>
Adjustment for Federal Stimulus:			
CPE	7,500,000	4,100,000	11,600,000
Fed Match Rate	21,483,226	13,635,381	35,118,607
<b>Total Contributions to Base Funding</b>	<b>85,314,385</b>	<b>72,252,307</b>	<b>157,566,692</b>

*\*These funds would otherwise be available to fund Medicaid losses incurred by local government operated nursing homes (primarily County Homes)*

**WHCA/WICAL Position: Oppose**

WHCA/WICAL opposes the level of the nursing home bed tax and Medicaid funding increases proposed within AB 75. WHCA/WICAL supports increasing the current nursing home bed assessment to generate a level of federal Medicaid matching funds, which will be sufficient and exclusively utilized, to support a 2.9% funding increase for nursing homes in each year of the next biennium.

The bed tax and funding increases envisioned in WHCA/WICAL's position would (1) provide a level of funding that keeps pace with inflation; (2) prevent further expansion of the \$282 million in Medicaid losses that nursing homes incur due to the disparity between resident care costs and Medicaid payment; and (3) reduce the unjust financial subsidy private pay residents would be compelled to shoulder in the absence of a rate increase that meets projected inflation.

The following chart illustrates the bed tax increase and level of federal matching funds required to support a 2.9% increase.

<u>Bed Tax Increase Required to Fund a 2.9% Rate Increase</u>		
	2009-10	2010-11
DHS Proposed Increase	2%	2%
WHCA Proposed Increase	2.9%	2.9%
WHCA as Percent of DHS	1.45%	1.45%
Cost of DHS 2% Rate Increase	15,912,351	31,019,584
Cost of 2.9%		
Inflation	23,072,909	44,978,397
Fed Match Rate	60%	60%
Required FFP to Fund 2.9% Rate Increase	38,454,848	74,963,995
State Match Rate	40%	40%
Tax Revenue Needed to Generate Required FFP	15,381,939	29,985,598
Licensed Beds	37,028	37,028
Annual Tax Per Bed	415.41	809.81
Monthly Tax Per Bed Required	\$ 34.62	\$ 67.48

**Rationale:**

Currently the annual differential between the cost of care Wisconsin nursing homes provide their residents and the Medicaid payment they receive for that care is \$282 million. This gross disparity between cost and payment is the largest in the nation – more than twice the national average.

Disturbingly, under AB75 the vast majority of the federal matching funds the state will derive from the proposed increases in the nursing home bed tax will be applied towards addressing the state’s budget deficit rather than supporting critically needed increases essential to addressing resident care, quality and caregiver needs.

Indeed, the total cost of the 2% increases (\$46.9 million) proposed for nursing homes in FY10/11 the budget pales in comparison to the massive level of nursing home bed tax generated federal funding that will be directed toward closing the state’s budget deficit (\$101.5 million – includes enhanced federal match). Factoring in other AB 75 budget provisions, nursing facilities and ICFs-MR are being looked to as the source for \$157.6 million in contributions toward the budget deficit in the next biennium.

The 2% level of funding AB75 embraces is unacceptable in that it falls \$21.1 million short of that required to keep pace with inflationary projections of 2.9% (Source: CMS SNF Market Basket Price Index). This inflationary shortfall will cause Wisconsin nursing homes to sustain even greater losses in serving their Medicaid resident population. Expansion of those losses will further compromise their already restricted ability to maintain quality, meet state/federal regulatory expectations, and support the fundamental needs of those who provide and receive care in Wisconsin nursing facilities.

WHCA/WICAL and its membership understand the reality and severity of the state's financial condition. But members of the legislature and public must also recognize that residents' complex medical conditions and the fundamental needs of those who provide care in our facilities cannot be adjusted or compromised to accommodate fluctuations in the state's financial climate. Indeed, a facility's professional and legal responsibility to meet resident needs and regulatory expectations is well defined, inflexible, rigorously monitored and strictly enforced.

As elected officials focus on the difficult effort of closing the budget deficit, it is imperative they not lose sight that the quality of life of over a quarter- million citizens will be directly impacted and permanently defined by the action they take with respect to funding of care provided in Wisconsin's long term care facilities. The well-documented financial fragility of these facilities, the ever-escalating care needs of the 58,000 residents they annually serve, and personal economic needs of their 51,000 dedicated employees cannot be ignored.