N.C. GENERAL ASSEMBLY LEGISLATIVE FISCAL NOTE

Fiscal Research
733-4910

Prepared By: Nina Yeager Approved By: Tom Covington TOMC	Date Prepared 6/13/89 JUNE 19, 1989	Bill No. H 1195	Edition: Sponsor: Rep. Pope
Short Title: CON Repeal			

FUNDS AFFECTED: (x) General ( ) Highway (x) Local ( ) Other:

TYPE OF FISCAL IMPACT	State Gov't	County/ Local Gov't
No Fiscal Impact	( )	( )
Increase Expenditure for Long Term Care	(x)	(x)
Decrease Expenditure	( )	( )
Increase Revenue	( )	( )
Decrease Revenue	( )	( )
No Total Est. Avail.	(x)	(x)

State Fiscal Impact	For Long-Term Care Only
State Total Req'ments	$289,750,000
Receipts/Revenues	197,030,000
Net State Expend./Rev.	78,232,500
No. of Positions	(0)

Local Fiscal Impact	For Long-Term Care Only
Local Total Req'ments	$289,750,000
Receipts/Revenues	197,030,000
Net Local Expend./Rev.	14,487,500
No. of Positions	(0)

Description of Legislation

1. Summary of Legislation - Legislation repeals Certificate of Need requirements on all Health Care Services covered in G.S. 131E.

2. Effective Date - 7/1/89

3. Fund or Tax Affected - General Fund

4. Principal Department/Program Affected - Department of Human Resources, Division of Medical Assistance

Cost or Revenue Impact on State

1. Non-Recurring Costs/Revenues

2. Recurring Costs/Revenues — $78,232,500 for long-term care services only

3. Fiscal/Revenue Assumptions

Cost/Revenue Impact on County or Local Government

	FY	FY	FY
1. Non-Recurring Costs/Revenues			
2. Recurring Costs/Revenues	$14,487,500 for long-term care services only		
3. Fiscal/Revenue Assumptions			

TOTAL IMPACT ON THE MEDICAID BUDGET

It is not possible to estimate the total impact of repealing the Certificate of Need Program on the Medicaid Program budget for the following reasons:

1. There is no data available with which to estimate facility and service growth across all health care services covered by the Certificate of Need Program.

2. There is no data currently available on which to predict patient utilization across all services under the Medicaid Program.

3. With the exception of residential long-term care services, there are no direct fiscal relationships between a health service and the Medicaid budget.

IMPACT ON THE COST OF LONG TERM CARE SERVICES COVERED BY THE MEDICAID PROGRAM

The fiscal relationship between a health care service and the Medicaid budget is best documented for residential long term care services, i.e., intermediate and skilled nursing care (ICF and SNF) and intermediate care for the mentally retarded (ICF/MR). Per bed costs for these services can be estimated based on historical program experience.

The Medicaid Program budget totals $1.4 billion for FY 89-90 and $1.6 billion for FY 90-91. Of this sum, $538.9 million and $607.8 million has been budgeted for long

term care in FY 89-90 and FY 90-91. These figures represent about 40% of the Medicaid budget. The state's share of these costs is $145.5 million in FY 89-90 and $164.1 in FY 90-91. Counties will pay $27 million in FY 89-90 and $30.3 million in FY 90-91.

Every new nursing home bed that is constructed will require an additional $2,855 per year in state funds, and $504 per year in county funds. For every ICF/MR bed that is constructed will require an additional $14,850 annually in state funds and an additional cost of $2,750 in county funds. These estimates are based on current costs. They do not account for future medical care inflation, or for the cost of federally mandated improvements in the standards for nursing home care.

If nursing home beds increase by 14,000 beds and ICF/MR beds increase by 2500, repeal of the Certificate of Need Program for residential long term care services will cost the state a total of $289,750,000. Of this sum, the federal government will pay $197,030,000, the state will pay $78,232,500 and the counties would pay $14,487,500. The phase-in of these additional costs to the programs budget is impossible to predict because it is the product of a variety of uncontrollable factors including the general economic and business climate, staffing time, and the speed with which a patient qualifies for Medicaid assistance.

Nursing Home Cost Assumptions:

1. Future utilization patterns will conform to those in the recent past, i.e., 70% of all beds will be Medicaid program supported beds. 55.7% of these beds will be Intermediate Care Level beds; 44.3% will be Skilled Nursing Beds.

2. Patient liability for care will pay for 20% of total expenditures for Medicaid eligibles.

3. Cost projects based upon estimated costs for FY 1988-89. Costs do not include the anticipated increases for federal Nursing Home Reform legislation, Catastrophic Health Care Act of 1988, or inflation. Cost projects do not include factors for reduced federal participation in Medicaid Program due to federal revisions in annual FFP rate.

4. Projected costs are calculated on current participation rates: Federal 68.01%; State: 85% of non-federal share; County: 15% of non-federal share.

5. Total Annual Cost Per Bed: $10,500
   Federal share $ 7,141

County Share	$ 504
STATE SHARE	$ 2,855

6. Assume North Carolina's bed inventory will rise from 33 beds per 1,000 elderly to the national average of 52 beds per 1,000 elderly persons, or 14,000 additional nursing home beds.

7. In the absence of data with which to estimate the time frame over which these costs will be absorbed by the Medicaid budget, no estimate of costs by fiscal year is possible.

Intermediate Care for the Mentally Retarded Cost Assumptions

1. Annual Cost:	$55,000 per bed
Federal share:	37,400
State share:	14,850
County share:	2,750

2. State Health Coordinating Council estimates 5000 ICF/MR eligibles are in need of services. Assume 50% of 5000 = 2500 beds.

Sources of Data for Fiscal Note - Department of Human Resources, Division of Medical Assistance and Division of Facility Services

Technical Considerations/Comments

LONG TERM CARE AND THE MEDICAID PROGRAM

Cost of Nursing Home Care

Medicaid, unlike any other third party insurer, pays for nursing home care. Seven of every ten nursing home beds in North Carolina is supported in whole or in part by Medicaid funds. Medicaid is an entitlement program, that is, the state must pay for benefits to those persons determined to be eligible regardless of the state's fiscal capacity to do so. It was the need to control skyrocketing Medicaid Program costs that prompted the 1981 General Assembly to impose a moratorium on the award of nursing home certificates of need.

The construction of every new nursing home bed has a downstream impact on the Medicaid Program budget. The average annual cost of Skilled Nursing Care (SNF) is more than $22,000; Intermediate level Care costs roughly $17,000 annually. Elderly persons

with annual incomes below the cost of their nursing care generally use their assets to pay for the portion of their care that is not covered by their income. When their assets are depleted, he or she qualifies for Medicaid Program Assistance. Since very few individuals can afford the cost of nursing home care for any length of time, the very existence of a nursing home bed creates a potential Medicaid beneficiary for the Medicaid Program and a potential liability for the state budget.

For every bed in the existing nursing home inventory, the Medicaid Program currently budgets $10,500. Of that budgeted amount, the federal government pays $7,141, the state pays $2,855 and counties pay $504. These are current annual costs and take into account the portion of nursing care costs paid for by patients themselves. Costs per bed are likely to undergo a disproportionately large increase in the near future due to increased staffing, training, and personnel costs associated with federal Nursing Home Reform laws.

The Division of Facility Services estimates 14,000 new nursing home beds will be created if Certificate of Need is abolished for nursing home care. At current costs to the program, 14,000 beds will require an increase of $152,250,000 million in total requirements for the Medicaid Program, requiring an additional $39,970,000 in state funds and $7,056,000 in county funds. The phase-in of these additional costs to the program is impossible to predict because they are the product of a variety of uncontrollable factors including the general economic and business climate, facility construction time, licensing, certification and staffing time, and the speed with which a patient qualifies for Medicaid assistance.

Cost of Intermediate Level Care for the Mentally Retarded

Medicaid is the sole payor of this service for the Mentally Retarded. There are no lifetime maximum benefits for this service. Data presented to the State Health Coordinating Council suggested that there may be as many as 5000 potential beneficiaries of the service who are not being served at this time. The total cost per bed is roughly $55,000 annually, of which $14,850 are state funds and $2,750 are county funds. If 2500 additional beds were built, the total cost to the Medicaid Program would be $137,500,000. Of that amount the state would be liable for $37,125,000 and county government will be liable for $6,875,000. The phase-in of these costs into the budget is impossible to predict because they are the project of the same uncontrollable factors mentioned above for nursing home costs.

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