

N.C. GENERAL ASSEMBLY LEGISLATIVE FISCAL NOTE

Fiscal Research
733-4910

Prepared By: Marbet/Yeager	Date Prepared: May 3, 1989	Bill No.: S 843	Edition:
Approved By: Tom Covington TOMC	MAY 4, 1989		Sponsor: Sen. Raynor
Short Title: CON/Nursing Home Repeal			

TYPE OF FISCAL IMPACT	COUNTY		FUNDS AFFECTED:			
	State Gov't	Local Gov't	(x) General	() Highway	() Other: (x) Local	
			State Fiscal Impact	FY	FY	FY
No Fiscal Impact	()	()	State Total Req'ments	\$152,250,000		
			Receipts/Revenues (Fed.)	\$105,224,000		
Increase Expenditure	(x)	(x)	Net State Expend.	\$ 39,970,000*		
			No. of Positions	0		
Decrease Expenditure	()	()				
			Local Fiscal Impact	FY	FY	FY
Increase Revenue	()	()	Local Total Req'ments			
			Receipts/Revenues			
Decrease Revenue	()	()	Net Local Expend./Rev.	\$7,056,000		
No Estimate Avail.	()	()	No. of Positions	0		

* Not possible to determine in which fiscal year funds should be budgeted.

Description of Legislation

1. Summary of Legislation

The bill eliminates the certificate of need requirement for intermediate and skilled nursing home beds.

2. Effective Date: October 1, 1989

3. Fund or Tax Affected: General Fund

4. Principal Department/Program Affected: Department of Human Resources/Division of Medical Assistance, Division of Facility Services

Cost or Revenue Impact on State

FY	FY	FY
88-89	89-90	

1. Non-Recurring Costs/Revenues

2. Recurring Costs/Revenues \$39,970,000* (See note, above)

3. Fiscal/Revenue Assumptions

Medicaid 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 88-89. Costs do not include the anticipated increases for federal Nursing Home Reform legislation, Catastrophic Health Care Act of 1988, or inflation. Cost projections 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 1000 elderly to 52 beds per 1000 elderly persons (national average) or 14,000 additional nursing home beds. See Division of Facility Services Assumptions under Technical Considerations.
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.

Medicaid estimates prepared by Nina Yeager.

Cost/Revenue Impact on County or Local Government

	FY 88-89	FY 89-90	FY
1. Non-Recurring Costs/Revenues			
2. Recurring Costs/Revenues	\$7,056,000* (See note, above)		
3. Fiscal/Revenue Assumptions:	See State fiscal assumptions above.		

Sources of Data for Fiscal Note: Department of Human Resources

Technical Considerations/Comments

The certificate of need program was established through legislation, in order to plan and control the development of health care facilities in the state. It is administered by the Department of Human Resources' Division of Facility Services in two units. One is responsible for developing and recommending to the Governor the annual State Medical Facilities Plan. The plan identifies, among other things, the projected number of new nursing home beds that are needed. The other unit is responsible for reviewing applications for new institutional health services, such as nursing home beds, against the plan and statutory criteria and approving or denying an application.

The impact of SB 843 on nursing bed growth is difficult to estimate. According to information provided by the Department of Human Resources' Division of Facility Services, if CON is eliminated for nursing home beds and the bed supply grows to the national average, an additional 14,000 beds would come on line. This figure is based on the fact that North Carolina has approximately 33 nursing home beds per thousand elderly persons, 37% below the national average of 52 beds per thousand elderly persons.

Relationship Between Nursing Home Beds and Medicaid Budget

Any person who enters a nursing home is a potential Medicaid beneficiary for the following reasons:

The average annual cost of Skilled Nursing Care (SNF) is more than \$22,000; Intermediate level care (ICF) costs roughly \$17,000 annually. Elderly persons with 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 monthly income. When the assets of the individual are depleted, he or she qualifies for assistance from the Medicaid Program. Medicaid pays for the portion of the nursing care costs that is not met by the patient's monthly income. Elderly persons who qualify for coverage in this way receive a lifetime benefit with no limitations or caps. Seven of every ten nursing home beds in North Carolina is filled with a person who is a Medicaid beneficiary.

For every bed in the existing nursing home bed inventory, the Medicaid Program currently budgets \$10,500. The General Assembly appropriates \$2,855 per bed and county government pays \$504 per bed. These are annual costs and take into account the portion of nursing care that patients pay. (See cost assumptions attached). Costs per bed in the years ahead are likely to undergo a disproportionately large increase due to increased staffing, training, and personnel costs that are the product of federal Nursing Home Reform. Nursing Home Reform also requires states to demonstrate to the federal government that the cost of these mandated improvements has been factored into nursing home reimbursements by state Medicaid programs.

Experience enables the Medicaid program to budget costs fairly accurately for the Medicaid eligible patient. The Division of Medical Assistance has been less successful in estimating when they can expect a nursing home patient to begin drawing on Medicaid benefits. A variety of uncontrollable factors affect the timing of the beds impact on the state budget. These factors include general economic and business climate, facility construction time, licensing and certification, the speed with which a facility is staffed and occupied, and the timing of a patient's eligibility. For these reasons, it is impossible to estimate how quickly a new bed will require outlays from the Medicaid budget.

The Division of Facility Services estimates that there will be an increase of 14,000 nursing home beds if Certificate of Need is abolished for nursing care. At current costs to the Medicaid program, an increase of 14,000 beds would require an increase of \$152,250,000 million in budgeted requirements in the Medical Program, requiring \$39,970,000 million in additional state appropriations, and an additional \$7,056,000 in county outlays.



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