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## FISCAL IMPACT REPORT

SPONSOR: Stewart DATE TYPED: 02/13/01 HB 326  
 SHORT TITLE: Exempt Nursing Home Gross Receipts Tax SB \_\_\_\_\_  
 ANALYST: Eaton

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (5,700.0)	\$ (6,200.0)	Recurring	General Fund
	\$ (4,500.0)	\$ (4,900.0)	Recurring	Local Govt.

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to many bills affecting all segments of health care taxation

### SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

This bill proposes an immediate deduction for all receipts of nursing homes licensed by the Department of Health.

### FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) estimates that the full year impact on the general fund would be a reduction of \$6.2 million. The full year impact on local governments would be to reduce revenue by \$4.9 million. TRD reports that this is the best estimate available, subject to the known defects of the available data, and to the issues and assumptions discussed below. The tax base is estimated for FY 2002 at \$185 million.

A document entitled "Health Care Financing Administration (HCFA) Customer Information System (HCIS) 1997, 1998 & 1999 Medicare HHA National State Summary" does not cross to other Medicaid, Medicare and total expenditure data available on the HCFA website. This document reports total 1997 payments, perhaps to nursing homes, of \$82.1 million, 1998 total payments of \$49.1 million and 1999 total payments of \$32.9 million, for a 60% reduction in payments over the three-year period. HCFA data from their website for 1998 imply that of total money paid to nursing homes, 62.8% was derived from Medicaid, Medicare paid 12.6% and private pay and insurance paid

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24.6%. Total Medicaid and Medicare payments for nursing homes (1998) is listed on the website as \$247 million, \$155 million and \$31 million. None of these numbers bears any relationship to the \$49 million reported on the document. Because of this single uncertainty, no attempt is made to estimate the impact of this proposal outside the current and budget years.

Board of Health licenses a number of different categories of nursing homes. These include: skilled nursing facility (SNF), intermediate care facility (ICF) and Developmentally Disabled group homes (DDH). The data from the 1997 Economic Census are not consistent with the categories licensed by the Department of Health. For the purpose of this estimate, it is assumed that "nursing homes" includes nursing care facilities, residential mental retardation facilities, residential mental health and substance abuse facilities only. Not included are continuing care retirement communities, homes for the elderly and "other" residential care facilities.

### **ADMINISTRATIVE IMPLICATIONS**

Minimal.

### **OTHER SUBSTANTIVE ISSUES**

The Taxation and Revenue Department (TRD) provided the following background information with their analysis.

About 1.6 million elderly and disabled people receive care in approximately 16,800 nursing homes across the United States. If the occupancy rate in New Mexico is about equal to our population ratio, the nursing home population in New Mexico is about 10,000 patients in 100 facilities. (However, see below for 1997 Economic Census data).

The federal government funds a substantial portion of this care through the Medicare and Medicaid programs. For New Mexico, approximately 3/4th of nursing home care is paid by Medicaid or Medicare. However, there have been substantial revisions in the rates and terms of payments by these federal entities over the last few years. Following the passage of the Balanced Budget Act of 1997 (BBA), Medicare payment rates for skilled nursing-home care following hospitalization were changed to a prospective payment system.

Beginning in 1998, the payment rate for a nursing home has been determined by a blend of a facility specific rate and a federal rate. In the first year, the facility percentage was 75 percent and the federal rate 25 percent. As facilities entered their second year under PPS, the mix became 50-50. This began as early as July 1, 1999 for some nursing homes, depending on the individual facility's cost reporting period. In the third year, the blend was 25 percent facility and 75 percent federal, and in the fourth year beginning in 2001, all nursing facilities will be paid at the federal rate. This new scheme has apparently led to a significant reduction in nursing home revenue.

Recent testimony to Congress (August 2000) indicated that the number of bankruptcies of private nursing homes have skyrocketed.

In response to this fiscal stress, Congress passed the Balanced Budget Refinement Act of 1999 (BBRA), which provided a 4 percent increase and also temporarily boosted payments for certain patients (high medical cost patients) by 20 percent. These additional changes, scheduled to take effect Oct. 1, 2000, are expected to increase overall Medicare payments for skilled nursing care by an estimated 5.8 percent above the published rates for Fiscal Year 2000. The proposal creates new, higher payment categories for residents with multiple, serious health problems that require intensive

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care and treatment. In fiscal year 2001, Medicare payments to nursing homes are projected to increase more than 20 percent over FY 2000 projections.

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