

MAINE STATE LEGISLATURE

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STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE

SUMMARY REPORT
TO THE
ONE HUNDRED AND SIXTH LEGISLATURE

VOLUME ONE

JANUARY, 1973

STATE OF MAINE

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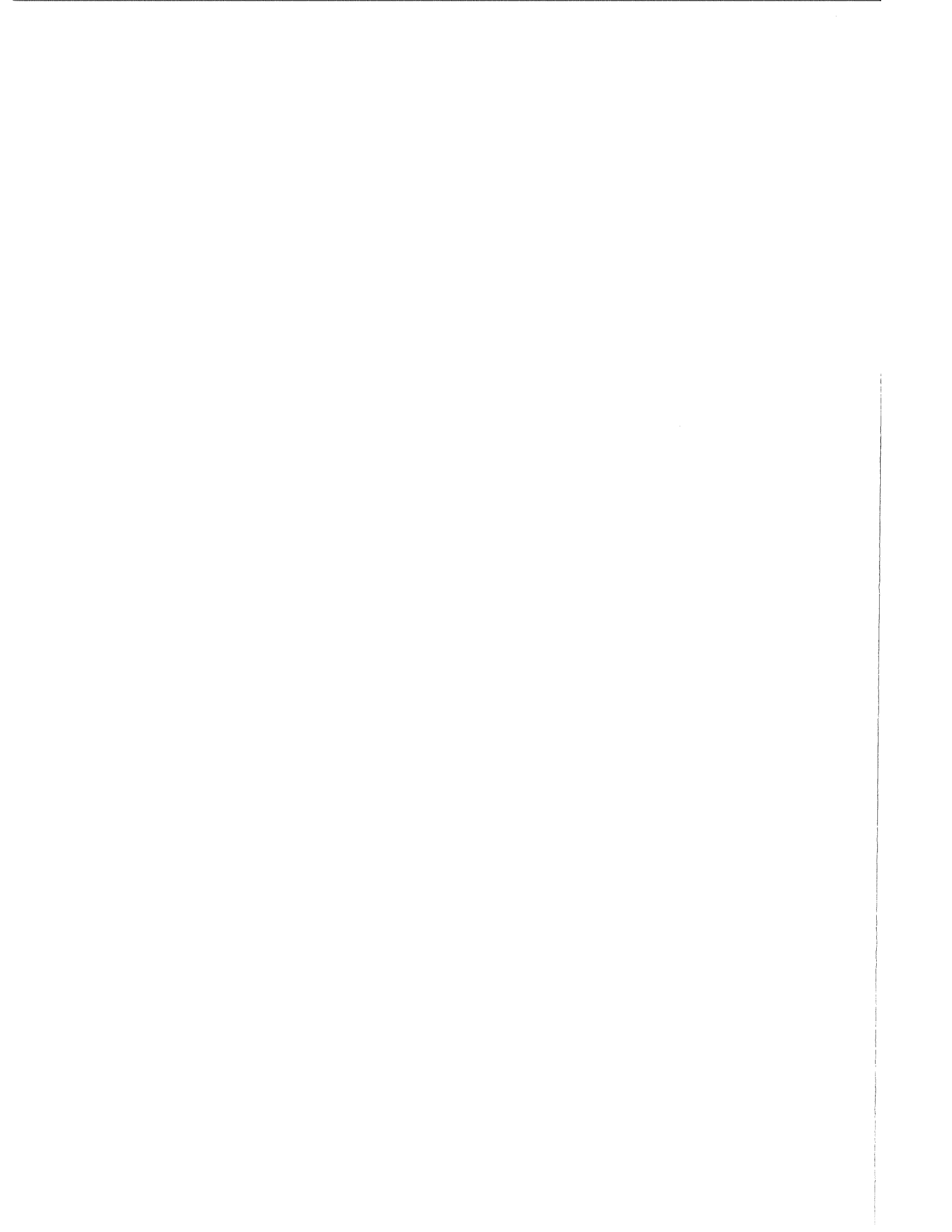
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STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE
STATE HOUSE
AUGUSTA, MAINE 04330

January 3, 1973

To the Members of the 106th Legislature:

The Legislative Research Committee hereby has the pleasure of submitting to you its report on activities for the past two years. This summary, designated as Volume I, deals with both assigned and unassigned studies and contains the findings and recommendations pursuant thereto.

The Committee was unfortunate in the loss of its original vice-chairman, the late Representative John E. Gill of South Portland. In his death on July 23, 1972, the State of Maine lost an able public servant. We of the Committee gratefully acknowledge our indebtedness to his ability and his contribution to the work of the Committee.

The Committee also wishes to acknowledge with appreciation the countless public and private individuals, organizations and agencies without whose assistance and cooperation the Committee would not have reached its conclusions.

The members of the Committee appreciate having been chosen to participate in this work and sincerely hope the results of many hours of work and devoted study transmitted here will prove beneficial to the members of the Legislature and ultimately to the citizens of the State of Maine.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "J. Sewall".

JOSEPH SEWALL, Chairman
Legislative Research Committee



STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE

REPORT ON
STATE REIMBURSEMENT PROCEDURES
to the
ONE HUNDRED AND SIXTH LEGISLATURE

JANUARY, 1973
Legislative Research Committee

Publication 106-14



STATE REIMBURSEMENT PROCEDURES

ORDERED, the House concurring, that the Legislative Research Committee be directed to study the feasibility of using a cost plus formula in place of the existing flat rate for computing reimbursement to boarding and nursing homes which provide services to the State; and be it further

ORDERED, that the State Department of Health and Welfare be respectfully directed to provide such technical advice and other assistance as the committee deems necessary to carry out the purposes of this Order; and be it further

ORDERED, that the Committee report the results of its findings to the next regular session of the Legislature; and be it further

ORDERED, upon passage in concurrence, that a copy of this Order be transmitted to said department as notice of the pending study.

SP.784	In Senate Chamber	House of Representatives
Sewall	Read and Passed	Read and Passed
Penobscot	March 6, 1972	March 7, 1972
	Sent down for concurrence	In concurrence

SUBCOMMITTEE ON STATE REIMBURSEMENT PROCEDURES

CHAIRMAN - Roland A. Gauthier

Ethel B. Baker

Armand J. Fortier

John L. Martin

STATE REIMBURSEMENT PROCEDURES

The Legislative Research Committee was directed to study the feasibility of using a cost plus formula in place of the existing flat rate for computing reimbursement to boarding and nursing homes which provide services to the State pursuant to Joint Order S.P. 784 of the 105th Legislature.

The Department of Health and Welfare being the State agency which administers reimbursement procedures was also named under the terms of the Order to technically advise and assist the Committee in this effort.

In discussing methods of payment it should also be realized that the Department of Health and Welfare is concerned only with the rates of payment for public assistance recipients and this leaves the owner free to establish his own rates for his private patients. The actual amount that the operator receives through the Department's payments from allowances for compensation, return on equity, etc. are prorated on the basis of the ratio that the number of the Department's patients he cares for bears to his total number of patients.

It is unfortunate that the phrase "cost plus formula" has been commonly used in discussing a departmental proposal, for that term has some unfavorable connotations. The formula which the Department proposes to use as a means of defining costs recognizes that the operator of a facility has a right to some reasonable rate on his equity, he has a right to some reasonable compensation for his services and in effect these two items represent what might be considered "profit."

The Department of Health and Welfare has been criticized by federal auditors for paying a flat rate which does not necessarily bear any particular relationship to operating costs in any one institution and obviously does not bear the same cost relationship in all similar institutions. For all practical purposes the Department's present flat rate is a purely arbitrary figure unrelated to the quality of care that is provided or the costs of operation. This means that the high quality operator or high cost operator may be underpaid and the low cost operator may be overpaid. With a flat rate it is difficult or probably inequitable to try to get nursing homes to improve their standards because such improvements in standards nearly always result in increased costs of undetermined amounts and thus reduced profit for the operator. A flat rate does not provide for financing improvements in physical plants and, therefore, does not encourage the creation of additional beds.

Presently, it is becoming increasingly difficult to find bed placements for public assistance patients. During the month of September a statewide review by the Department of Health and Welfare revealed that on a statewide basis on a certain day there were only ten beds available for public assistance recipients.

It is true that a flat rate may encourage operators to more vigorously seek economies of operation but there is little assurance that such economies will not be detrimental to patient care.

In comparison to the above circumstances a cost based rate determined uniformly and equitably offers many advantages. It encourages improved standards of care because changes in standards

can be incorporated into periodic recalculations of cost figures and in this way the owner is reimbursed for such changes. As standards or requirements may change operators can meet such changes in requirements without major financing difficulties.

It is inevitable that some institutions due to their size, location, or kinds of services will have higher costs than others and such differences are reflected in the rates calculated by means of a uniform cost formula. If it is desired to have certain institutions provide special services, such as those for the mentally retarded, then these services can be provided, the costs determined, and the rates adjusted accordingly. Either new physical plant construction or improvement in existing physical plants can be financed through ordinary banking or other channels because an appropriate change in rates is easily available. As a very practical example of this, there are new federal requirements for fire and safety coming from the so-called Life Safety Code of 1970 which will have to be put into effect very shortly and will undoubtedly require considerable modifications in many existing physical plants. These modifications would be very difficult to finance if not impossible under a flat rate system of payment.

The total expenditures for care under a cost based payment system do not necessarily have to exceed the total expenditures under a flat rate system unless the flat rate is obviously too low to meet operating costs. If this situation exists then either private patients are subsidizing the public assistance patients or the nursing home operator is forced to find economies that may

be detrimental to care.

Along with the adoption of a cost formula basis for payment the department is proposing to enter into individual contracts with individual homes and on this basis there is no requirement that the department contract with the abnormally high cost operators.

To some extent the department's whole process of rate adjustment has been complicated by the Wage-Price Stabilization Program from Washington. Within the last three weeks the Department of Health and Welfare has sent out to all Intensive Care Facilities the necessary forms by which they may apply to the Internal Revenue Service for approval for a flat rate increase, as well as a cost formula by which they may calculate individually cost based rates which they may also submit to the Internal Revenue Service for its approval. In seeking these approvals the information currently available to the department indicates that nursing homes will have to develop cost figures anyway and, therefore, developing a cost figure as a basis for the department's payments does not require any unusual added effort on their part.

At the present time the Department of Health and Welfare plans to offer to Intensive Care Facilities a choice of an increased flat rate or a cost based rate with the requirement that those homes choosing a flat rate increase complete and submit to the department the same standardized cost data that will be submitted by those choosing that type of rate. In this way, the department will be able to complete needed uniform cost data for further reference.

Under these circumstances, the Committee favors the Department of Health and Welfare's plans to offer a choice between an increased flat rate and a cost based rate temporarily, but urges and recommends that a cost formula basis be permanently instituted at the earliest possible time.