

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2306-02
Bill No.: HB 952
Subject: Fire Protection; Health, Public; Nursing and Boarding Homes
Type: Original
Date: March 12, 2007

Bill Summary: This proposal modifies the requirements for electrical systems, fire alarms, and sprinkler systems in long-term care facilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$263,277)	(\$274,138)	(\$279,364)
Total Estimated Net Effect on General Revenue Fund	(\$263,277)	(\$274,138)	(\$279,364)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety, Office of Administration** and the **Missouri Health Facilities Review Committee** each assume the proposal would have no fiscal impact on their respective agencies.

Officials from the **Department of Mental Health (DMH)** states the Department has no facilities covered under Section 198 RSMo, but there are many contracted private providers covered under Section 198 RSMo. Based on information included in the Federal Register, Vol. 71, No. 208/Friday, October 27, 2006/Proposed Rules, the following is offered:

Renovation costs to install a fire sprinkler are two to three times higher than while the building is under construction. The cost of renovation is higher, because installation must be performed in a piece-meal fashion while the building is occupied.

The average cost per square foot for installation as part of the building's construction is \$2.05, while the average cost of installation in an existing occupied building is \$4.10 to \$6.15 per square foot. An additional \$1,000 is required annually to test and maintain the fire sprinkler system.

<u>No. of Beds</u>	<u>\$4.10/Square Foot</u>	<u>\$6.15/Square Foot</u>
<50 beds	\$100,450	\$150,675
50-99 beds	\$151,700	\$227,550
100-199 beds	\$305,450	\$458,175

It should also be noted that there may be cases where an existing facility is constructed that will not be conducive to the installation of a fire sprinkler system that will comply with NFPA 13. Also, when renovating existing construction built before the 1980's, additional costs may develop due to the required abatement of hazardous materials to complete the project.

Officials from the **Department of Health and Senior Services (DHSS)** based the fiscal note on a three-year period, which is what is allowed for facilities to achieve compliance. The fiscal note calculations were determined by taking the total hours needed to perform the work divided equally across three years. Depending on how many facilities begin installation in each of the three years, DHSS may need a higher FTE allotment in the first year versus the second and third year.

ASSUMPTION (continued)

Plan Review:

Intermediate Care and Skilled Nursing Facilities (ICF/SNF) - There are 102 facilities that will require a plan review and an onsite inspection. DHSS estimates 5 hours per facility for plan review for a total of 510 hours (102 facilities X 5 hrs).

Residential Care and Assisted Living Facilities (RCF/ALF) - There are 572 facilities that will require a plan review and onsite inspection (372 with no sprinkler system and 200 needing upgrades to the existing sprinkler system). DHSS estimates 4 hours per facility for plan review for a total of 2,288 hours (572 facilities X 4 hrs). In addition, 194 facilities will need to install and/or upgrade the fire alarm system. DHSS estimates 3 hours per facility for plan review for a total of 582 hours (194 facilities X 3 hrs).

Plan review total hours over 3 years: 3,380 hours (510 hrs + 2,288 hrs + 582 hrs)

Plan review FTE per year: .54 (3,380 hrs/3 yrs/2,080 standard hrs per yr)

Onsite Inspection:

ICF/SNF - DHSS estimates each facility will require a six-hour onsite inspection. DHSS estimates an additional five hours for travel time. Total hours for onsite inspection equals 1,122 hours (102 facilities X 11 hrs).

RCF/ALF - Sprinkler system - DHSS estimates each facility will require a five-hour onsite inspection. DHSS estimates an additional five hours for travel time. Total hours for onsite inspection equals 5,720 hours (572 facilities X 10 hrs).

Fire alarm system - DHSS estimates each facility will require a three-hour onsite inspection. DHSS estimates an additional five hours for travel time. Total hours for onsite inspection equals 1,552 hours (194 facilities X 8 hrs).

Onsite inspection total hours over three years: 8,394 hours (1,122 hrs + 5,720 hrs + 1,552 hrs)

Onsite inspection FTE per year: 1.35 (8,394 hrs/3 yrs/2,080 standard hrs per yr)

Total FTE per year: .54 FTE for plan review + 1.35 FTE for onsite inspections = 1.89 FTE, rounded to 2 FTE. Standard costs are included for the 2 FTE.

ASSUMPTION (continued)

Costs Related to the Electrician/Sprinkler System Installer Statewide Qualification Commission:
9 commission members X 7 meetings X \$160 per member per meeting for expenses = \$10,080.

The assumption used for determining the number of meetings is that a meeting would be held approximately every 6 weeks during the time period of September 2007 through June 2008. The \$160 per member per meeting includes lodging, mileage, and meal expenses. The Commission is terminated on July 1, 2008; therefore, costs are included only for FY 2008.

Officials from the **Department of Social Services - Division of Legal Services (DLS)** assume the Department of Health and Senior Services (DHSS) is responsible for implementation of this proposal as the DHSS is responsible for licensing. DLS would be bound by their licensing decisions as to who can receive Medicaid payment. DLS does not believe that this proposal would affect the Department.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** assume the proposed legislation will not have an impact for the next three years. Long-term Care (LTC) facilities that enter the Medicaid program after August 28, 2007 will be required to have an approved sprinkler system. Since 2001, all newly constructed facilities are required to have a sprinkler system. It is assumed that any facility entering the Medicaid program will be newly constructed or built after 2001.

The cost of annual inspections and certification of electrical systems to National Electric Code standards would be reflected in the fiscal year 2008 Medicaid cost reports. The cost would not be reflected in nursing facility rates until they were rebased using a cost report ending in 2008 or later. The last nursing facility rebase used the 3rd prior year cost report to calculate rates for the current fiscal year. Using this same guideline the inspections would not impact rates until state fiscal year 2011, which is after the time frame asked for in the fiscal note.

Nursing Facilities are already required to have a fire alarm system so there will not be an impact relating to the requirement that all LTC facilities must be equipped with a complete fire alarm system.

Long Range Implications:

The date (August 23, 2010) when current LTC facilities are required to have a complete sprinkler system is outside the time frame of this fiscal note. Of the facilities without a sprinkler system or an incomplete sprinkler system, some may experience an increase in their per diem but it would be limited to less than \$.05 per day.

ASSUMPTION (continued)

There are 500 nursing facilities in the Medicaid program. Approximately 89% of the Medicaid certified facilities in Missouri have a complete sprinkler system. There are 11% that do not have any type of sprinkler system or the system is not complete, is out of date, etc. Of the 11%, 34 facilities do not have any type of sprinkler system.

The Medicaid reimbursement regulation for nursing facilities reimburses skilled nursing facilities for capital costs based on a fair rental value system (FRV) and is included in the capital component of the reimbursement rate. The reimbursement determines a fair value for a facility based on specific characteristics of a facility such as age of the facility or beds, number of beds, major improvements made after initial construction and bed additions. The addition of a sprinkler system would be considered a major improvement. Costs for major improvements are converted to what is called a bed equivalent in the FRV calculation. The 2005 bed equivalent cost is \$43,107. This means an improvement must cost over \$43,107 to add one bed to the FRV calculation. The other part of the equation is the age of a facility which has impact on the rate that computes in the FRV. The addition of bed equivalents at a later date may change the average age of a facility. The average age of a facility needs to be lowered in order to increase the final per diem rate that is computed through the FRV.

A typical complete sprinkler system would cost \$5.00 per square foot to install. For a typical facility with 300 square feet per bed, a 100 bed facility would have 30,000 square feet. The cost of a complete sprinkler system would be \$150,000. This cost divided by the bed equivalency of \$43,107 would result in 3 bed equivalents. In most cases, the addition of 3 beds would not change the average age of a facility or change the average age less than one year, which in turn does not produce a higher per diem rate.

Also, the capital rate would not be changed unless there is a rebasing of the Medicaid per diem rates. Currently there are no plans to do so.

If nursing facility rates were rebased using a cost report that included the cost of inspections the impact would be difficult to distinguish because there are multiple other changes which would affect the rate. For example, a facility's reimbursement rate may not reflect all of its costs due to cost component ceilings or only a portion of a rebase being granted.

The anticipated long-range impact would be unknown but less than \$180,000.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
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GENERAL REVENUE FUND

<u>Costs - Department of Mental Health</u>			
Contractor Costs	(Greater than \$100,000)	(Greater than \$100,000)	(Greater than \$100,000)

<u>Costs - Department of Health and Senior Services</u>			
Personal Service	(\$87,962)	(\$108,721)	(\$111,983)
Fringe Benefits	(\$39,812)	(\$49,207)	(\$50,684)
Equipment and Expense	(\$25,423)	(\$16,210)	(\$16,697)
Commission Expense	<u>(\$10,080)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DHSS</u>	<u>(\$163,277)</u>	<u>(\$174,138)</u>	<u>(\$179,364)</u>
FTE Change - DHSS	2 FTE	2 FTE	2 FTE

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$263,277)</u>	<u>(\$274,138)</u>	<u>(\$279,364)</u>
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Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE
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<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Private residential facilities licensed under Section 198 RSMo will be affected by the added cost to install and maintain electrical systems, fire alarms and sprinkler systems.

FISCAL DESCRIPTION

This legislation requires all long-term care facilities licensed by the Department of Health and Senior Services to install and maintain approved sprinkler systems in accordance with the National Fire Protection Association (NFPA) by August 28, 2007, and be equipped with a complete fire alarm system by August 28, 2010. In addition, all long-term care facilities licensed by the Department after August 28, 2007, must have electrical systems installed and maintained in accordance with NFPA 70, National Electric Code, by a qualified electrician. The Department may require employees and contract personnel of any long-term care facility to be awake, dressed, and prepared to assist residents in case of an emergency and the facility to have an emergency preparedness plan.

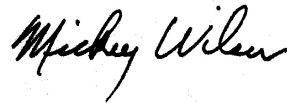
The Electrician/Sprinkler System Installer Statewide Qualification Commission, which expires July 1, 2008, is established to study and review the development of a statewide standard for persons practicing as electricians or persons installing and inspecting sprinkler systems. Members of the commission will include the directors of the Departments of Health and Senior Services, Economic Development, and Public Safety and persons appointed by the Governor including one individual who has been practicing as an electrician for the preceding five years, one individual who has been practicing as a sprinkler system installer or inspector for the preceding five years, a member of a local jurisdiction for electricians or sprinkler system installers, two representatives from the relevant skill trade organizations, and one public citizen.

The commission must submit a report to the Governor and General Assembly containing recommendations in support of or opposition to statewide standards by July 1, 2008.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Department of Mental Health
Department of Health and Senior Services
Department of Social Services
Department of Public Safety
Missouri Health Facilities Review Committee

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 12, 2007