LEGISLATIVE FISCAL OFFICE
Streamlining Commission Analysis

Recommendation No. **RECOMMENDATION 216**
Streamlining Draft **AGEDNES 30**

Date: March 4, 2010 4:30 PM
Dept./Agy.: Health and Hospitals
Subject: Sale or Lease of Hainkel Home

Author:
Analyst: Charley Rome

This recommendation directs the Department of Health and Hospitals (DHH) to continue the implementation plan to sell and/or lease the John J. Hainkel Home and Rehabilitation Center.

EXPENDITURES	2010-11	2011-12	2012-13	2013-14	2014-15	5 -YEAR TOTAL
State Gen. Fd.	$0	$355,635	($320,229)	($320,229)	($320,229)	**($605,052)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$355,635**	**($320,229)**	**($320,229)**	**($320,229)**	**($605,052)**

REVENUES	2010-11	2011-12	2012-13	2013-14	2014-15	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

The recommendation to lease the Hainkel Home can result in a net increase of $355,635 in State General Fund expenditures assuming an implementation date of July 1, 2011. Based on information provided in a fiscal note prepared by the Legislative Fiscal Office (LFO) for the 2009 Regular Legislative Session for HB 783, leasing the facility to a private provider will result in a layoff of approximately 137 state employees of which 11 may be eligible for retirement. This will increase State General Fund expenditures by a total of $1,101,703 for Retiree Group Insurance ($250,839), Termination Pay ($285,864), Unemployment Compensation ($390,000); and Risk Management Insurance premiums ($175,000). This increase in expenditures will be offset by a Medicaid reimbursement rate savings of $746,068 resulting from differences in the public and private rates. The public Medicaid rate of $205 per day for Hainkel would be reduced to $138 per day for a private provider. This savings was calculated using an average census of 100 patients (of which 85% are considered Medicaid eligible) and a State General Fund match rate of 36.39%.

In FY 13 and thereafter a net decrease of $320,229 in State General Fund expenditures is anticipated to be realized based on a recurring SGF expense of $425,839 for Retiree Group Insurance ($250,839) and Risk Management Insurance premiums ($175,000) and a recurring Medicaid reimbursement rate savings of $746,068. **(Continued on Page 2)**

REVENUE EXPLANATION

If the Hainkel Home is leased, the LFO presumes that some state Self-generated revenues could be realized; however, the amount cannot be determined until lease negotiations between DHH and the private provider occurs. If the Hainkel Home is sold, then state revenues could be generated from the proceeds of the sale; however, the amount cannot be determined until the building is appraised. According to the Office of Facility and Planning, there are two buildings at the facility: The "Rehabilitation Hospital" has two stories totaling 71,384 sq. feet and an Office of Risk Management (ORM) insurable replacement value of $8,722,542. The "Maintenance Building" has one story totaling 7,206 sq. feet and an ORM insurable replacement value of $365,487.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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CONTINUED EXPLANATION from page one:

If the Hainkel Home is sold, then the state would not be responsible for paying Risk Management Insurance premiums to insure the building and contents, which would decrease the State General Fund expenditure amount by $175,000 annually.

Note: For the past six years, Hainkel's actual revenues have been in excess of actual expenditures resulting in the following overcollections: (FY 2004 $198,573; FY 2005 $887,237; FY 2006 $152,704; FY 2007 $768,849; FY 2008 $826,805; FY 2009 $2,026,018). According to DHH, FY 10 overcollections are anticipated to be approximately $200,000. FY 10 anticipated overcollections declined significantly because the agency's $1.3 million appropriation was eliminated. Overcollections are also declining due to reduced IAT Medicaid funds due to reduced per diem payments. DHH anticipates that overcollections in FY 11 and thereafter will decline to approximately $100,000 per year due to a means of financing swap eliminating excess budget authority from Federal Medicare funds. DHH has indicated using excess revenues to fund shortages in OAAS agencies. To the extent that these excess revenues would no longer be available for recurring expenditures, additional state general fund would be needed to offset this loss. This loss of revenues would also have to be netted against any potential savings shown in the expenditure table above.

Calculation of Medicaid Savings:

Medical Vendor Payments to Hainkel at current rate of $205 per day X 360 days X 100 X 85%
$205 X 360 X 100 = $7,380,000; $7,380,000 X .85 = $6,273,000; $6,273,000 X SGF Match at 36.39% = $2,282,745

Medical Vendor Payments to Nonprofit Entity at rate of $133 per day X 360 days X 100 X 85%
$138 X 360 X 100 = $4,968,000; $4,968,000 X .85 = $4,222,800 ; $4,222,800 X SGF match at 36.39% = $1,536,677

Total SGF Match Savings = $2,282,745 - $1,536,677 = $746,068

Note: The current federal Medicaid rate under ARRA is 81.48%. This rate will remain in place until December 31, 2010, when ARRA is scheduled to expire. Beginning in January 2011, the rate will drop to 63.61%.

Senate — Dual Referral Rules — House

☐ 13.5.1 >= $500,000 Annual Fiscal Cost

☐ 13.5.2 >= $500,000 Annual Tax or Fee Change

☐ 6.8(F) >= $500,000 Annual Fiscal Cost

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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