

**Date of State Budget Office Approval:**

**Date Requested:** Wednesday, February 5, 2020

**Date Due:** Saturday, February 15, 2020

**Impact on Expenditures**

FY 2020 N/A  
 FY 2021 See Below  
 FY 2022 See Below

**Impact on Revenues**

FY 2020 \$0  
 FY 2021 \$0  
 FY 2022 \$0

**Explanation by State Budget Office:**

This act would increase the state medical assistance payments made to nursing homes to cover any increased costs resulting from a mandatory increase in the minimum hourly wage for employees. The act would take effect upon passage.

**Comments on Sources of Funds:**

Medicaid expenditures are jointly financed by general revenues and federal funds according to the prevailing (blended) Federal Medical Assistance Percentage (FMAP), which is 52.86 percent and 53.81 percent in FY 2020 and FY 2021, respectively. The FY 2022 (blended) FMAP is assumed as equivalent to the final FFY 2021 rate, or 53.81 percent.

**Summary of Facts and Assumptions:**

It is assumed that this bill will take effect as of July 1, 2020. Therefore, no fiscal impact in FY 2020 is reported.

The proposed legislation amends Section 40-8-19 of the Rhode Island General Laws for Rates of payment to nursing facilities. Currently, the State Medicaid program reimburses facilities and other long-term care providers through "principles of reimbursement" based on a price-based methodology that recognizes the acuity of patients and the relative Medicaid occupancy. Elements included in this methodology are a direct-care rate adjusted for resident acuity, an indirect care rate comprised of a base per diem for all facilities, a rearray of costs for all facilities every three years beginning October 2015 that may or may not result in automatic per diem revisions, application of fair-rental-value system, application of pass-through system, and adjustment of rates by the change in a recognized national nursing home index applied on October 1st of each year.

Direct-care workers include registered nurses, licensed practical nurses, certified nursing assistants, certified medical technicians, housekeeping staff, laundry staff, dietary staff, or other similar type employees providing direct-care services. It does not include RNs and LPNs who are classified as "exempt employees" under the Federal Fair Labor Standards Act or CNAs, certified medical technicians, RNs or LPNs who are contracted or subcontracted through a third-party vendor or staffing agency.

Minimum wage in Rhode Island is currently \$10.50 and is governed by Section 28-12-3 of the Rhode Island General Laws. Average annual increases in the Rhode Island minimum wage has been 6% since January 2013. The last increase occurred on January 1, 2019 where the minimum wage was increased by \$0.40 cents or a 4.0% increase. As of January 1, 2020, Rhode Island has the 14th highest minimum wage in

Prepared by:

Ryan Gardiner / 4012226421 / Ryan.Gardiner@omb.ri.gov



the country.

There is no scheduled increase to the minimum wage in current law. The Governor's FY 2021 recommended budget proposes increasing the minimum wage from \$10.50 per hour to \$11.50 per hour effective October 1, 2020.

Based on publicly available information, there are 81 nursing facilities in Rhode Island. According to the Rhode Island Department of Labor and Training (DLT), as of 2016, 18,352 people were employed within nursing and residential care facilities in Rhode Island making an average annual salary of \$31,664. Assuming a 40-hour work week, this translates to a rate of \$15.22 an hour.

DLT estimates a range of 25,000 to 30,000 labor force participants are currently earning minimum wage and calculates that as of December 2019, there are 506,300 non-farm employment positions in Rhode Island. This would equate to 5.9% of these positions make minimum wage ( $30,000/506,300=5.9\%$ ). It is likely that a higher percent of total nursing and residential home care workers make minimum wage than 5.9% as the average entry wage for these positions is \$11.01. For purposes of illustrating the fiscal impact of the bill if passed, the Budget Office uses the 5.9% overall estimate when calculating the number of nursing and residential home care facility workers making minimum wage. Using that same assumption, 5.9% of those employed in nursing and residential home care facilities equals 1,087 workers making minimum wage ( $18,352*5.9\%=1,087$ ) within this field. Minimum wage of \$10.50 equates to an annual salary of \$21,840 assuming a 40-hour work week. Using the Governor's FY 2021 budget proposal to increase the minimum wage to \$11.50 per hour (\$23,920 annually assuming a 40-hour work week) as the assumed next increase, this would increase wages by \$2,080 annually per nursing and residential home care facility worker making minimum wage. Assuming this increase affects 1,087 workers, the total estimated increase in pay that these facilities would be responsible for would be \$2,261,831 ( $1,087*2,080=\$2,261,831$ ) at a minimum. Under this bill and using the FY 2021 FMAP, general revenue would cover \$1,044,740 of the total while federal Medicaid would cover \$1,217,091.

This estimate does not take into account how an increase in the minimum wage would affect how facilities may also need to increase the hourly wages of other workers who are paid above minimum wage in order to maintain certain pay differentials. The State is not provided actual or real-time data on the compensation of direct-care workers by nursing facilities and thus the fiscal impact from additional pay increases cannot be determined.

The bill makes no mention of how the State would track the number of direct-care workers making minimum wage nor how the effect of the increase would be reported to the State in order to be reimbursed.

Lastly, note that amending the language in 40-8-19(c) conflicts with the existing language under subsection (a) related to "Rate reform" since the former cost-based reimbursement methodology was replaced with the currently used price-based acuity adjusted method in FY 2012. The new language would require a cost-based reimbursement mechanism to be in place to calculate the effect of minimum wage on

*Summary of Fiscal  
Impact:*

employee wages working at nursing facilities.

The State Budget Office estimates that a \$1.00 increase in the minimum wage would, at a minimum, increase the pay that nursing and residential care facilities would be responsible by \$2,261,831. Using the FY 2021 FMAP, general revenue would finance \$1,044,740 of the total, while federal Medicaid would finance \$1,217,091.

The State is currently required to adjust direct care rates paid to nursing facilities for Medicaid eligible residents by a recognized national nursing home inflation index applied on October 1 of each year. It is unclear in the bill whether or not this increase would incorporate the minimum wage increase or if the minimum wage increase would be provided in addition.

The State is not provided actual or real-time data on the compensation of direct-care workers by nursing facilities and thus the fiscal impact of offsetting any mandated minimum wage increase cannot be fully determined. This would also prevent any determination on the number of direct-care workers making minimum wage who would be directly affected by this bill or how this may also affect workers at higher pay levels of the organization and their hourly rates.

*Budget Office Signature:*

*Fiscal Advisor Signature:*



