

Increased Transparency in Related Party Transactions for Nursing Homes (SF4580)

This is a policy bill related to increasing nursing facility transparency in related-organization transactions. This proposal brings greater clarity to the state's understanding of how nursing homes use Medicaid reimbursement dollars by requiring nursing facility owners and operators to report related-party transactions on annual cost reports submitted to DHS.

This bill also repeals a duplicative nursing facility rate setting legislative report.

What this bill does?

Section 1: Expands the authority for DHS to require both audited financial statements and a working trial balance rather than one or the other. It also requires the disclosure of related organizations that provides any services, facilities, or supplies to the nursing facility and provides authority for DHS to obtain financial information for the related organization.

- Most common related organization arrangements provide management services and lease real property to the operating entity of the nursing home.
- This section would be effective August 1, 2024 and require disclosure of transactions with related organizations on the annual cost report for the year ending September 30, 2024.

Section 2: Requires nursing homes to disclose costs associated with leases, rent and use of land or other real property by nursing homes.

- This is new authority that doesn't currently exist under Value Based Reimbursement (VBR). DHS does not collect information on a facility's rental obligations because rent is not reimbursed under VBR. Current law provides statutory provisions that are applicable to related party transactions only to the extent that they involve costs that have a rate impact under VBR.

Section 3: Repeals a biennial report to the legislature related to evaluating VBR as this is duplicative of the rate study authorized during the 2023 legislative session. The rate study was expanded to include a review of rates for bordering states and evaluation to determine whether a nursing facility can generate sufficient revenue to cover its operating expenses.

What is doesn't do:

- This bill does not change how reimbursement rates for nursing facilities are determined under existing statutes (i.e. does not change anything about the rates or VBR).
- Existing law already has provisions on treating related party transactions as “cost-based” and not reported “purchase price”; however, DHS does not currently have access to sufficient knowledge of related organization transactions.

Why do we need this bill?

- This bill aligns with federal efforts for increased transparency and accountability for nursing facility’s finances, operations, and ownership.
 - The federal initiative is focused on nursing facility ownership and licensing of facilities. This bill provides authority for DHS to better understand the profitability status of nursing facilities operating in MN.
- Numerous studies and published papers allege nursing homes are hiding their profits by funneling them to “related parties”. This practice may indicate nursing homes are more financially challenged than they really are.
- In the current debate about staffing challenges and the need for greater investment in nursing facilities, industry leaders suggest large numbers of facility closures will occur without additional investment by Medicaid.
 - *Without better financial data and understanding of related organization activities, DHS cannot analyze if additional investment for ongoing sustainability of high-quality nursing facility services is necessary or the best strategy for achieving those goals.*