

## **WAHSA Nursing Facility Advocacy Agenda: 2007- 2009 Biennial Budget**

Over the past several months, WAHSA's Committees and Board of Directors met on numerous occasions to discuss Medicaid nursing facility reimbursement. Through these meetings and discussions with the Wisconsin Health Care Association, consensus was reached on the need to seek gubernatorial and legislative support for substantial increases in Medicaid payments to nursing facilities based on specific concerns and challenges facing our long term care providers. Recently, WAHSA and WHCA completed detailed analyses of the facilities' Medicaid overall deficits, direct care staffing losses, unreimbursed fuel and utility expenses, and the need to increase capital payments.

Attached are materials and documentation related to these issues, including a *Fact Sheet: Medicaid Underpayment for Resident Care*. As discussed in this document, WAHSA and WHCA are asking state elected officials to:

- 1. Increase Medicaid Payments for Nursing Staff – Total Cost in 2007-08: \$46.6 million GPR and \$110.6 million AF**
- 2. Increase Funding to Cover Past Utility Cost Increases – Total Cost in 2007-08: \$4.4 million GPR and \$10.9 million AF**
- 3. Modernize Nursing Facilities -- Capital Improvements – Total Cost in 2007-08: \$16.2 million GPR and \$39 million AF**

**Total 2007-08 Request: \$67.2 million GPR and \$160.5 million AF\***

**WAHSA and WHCA propose that nursing home utilization “savings” be reinvested to help finance the cost of these initiatives. {See: Reinvest In Our Nursing Homes: Freeze the Nursing Home Budget – Projected Savings in 2007-08 (to reinvest nursing home utilization “savings”): \$12.2 million GPR and \$29.3 million AF}**

**\*GPR is general purpose revenues, or state tax dollars; AF is all funds, or the combination of state tax dollars and federal Medicaid matching funds.**

Member nursing facilities are asked to use this document and supporting materials when contacting their state elected officials and their challengers prior to the November elections and beyond. Advocacy is a never-ending endeavor; thank you for your assistance and willingness to participate in this important public policy discussion on the need to adequately fund Wisconsin's community nursing facilities.



## Fact Sheet: Medicaid Underpayment for Resident Care

A comprehensive analysis of the nation's Medicaid nursing home payment systems ranked the Wisconsin system 6<sup>th</sup> worst in the country. The study, "A Report on Shortfalls in Medicaid Funding for Nursing Home Care" released in June 2006 by BDO Seidman, LLP, Accountants and Consultants, revealed that Medicaid payment deficits sustained by Wisconsin's nursing facilities are 64% higher than the national average.

The national report and ranking came as no surprise to the Wisconsin nursing home community. Indeed, the Wisconsin Medicaid program's own database of facility-specific cost and reimbursement information vividly illustrates the system's inadequacies. It reveals the following:

- Medicaid recipients (21,498 MA nursing home residents) currently comprise nearly two-thirds (65.2%) of all residents served in Wisconsin nursing facilities (32,972 residents).
- Labor costs represent approximately 73% of the total cost of providing care and treatment to nursing home residents.
- In the 2005-2006 payment year, the difference between the total cost of the care facilities provided their Medicaid residents and the Medicaid reimbursement they received for providing that care (i.e., the "Medicaid deficit") was \$232,017,314. A summary of the facility-specific Medicaid losses is available at: <http://www.wahsa.org/madef06.xls>.)
- Direct care costs, the costs to provide hands-on care to residents, represented \$181,744,863, or 78.3%, of the total costs Medicaid failed to reimburse in 2005-2006.
- Approximately 91% of the 377 nursing facilities in the state's database received a Medicaid payment in 2005-06 which failed to meet the cost of care they provided their Medicaid residents.
- Wisconsin nursing facilities on average lose \$29.06 per day for each Medicaid resident they serve. For the average Wisconsin nursing home\*, that results in an annual loss of \$620,023 to provide care to its Medicaid residents (\* 100 bed facility, 89.7% occupancy, 21,336 Medicaid patient days per year).
- As a result of the failure of the Medicaid program to pay the resident care costs for which it is responsible, private paying residents are compelled to pay rates that are as much as \$50 per day higher than a facility's Medicaid payment rate (Average 2005-2006 Medicaid payment rate: \$126 per day). It is these private pay residents, who also are required to pay a \$75 per month nursing home bed tax, who unfairly are being asked to subsidize this Medicaid underfunding.

## **Increased Medicaid Payments for Nursing Staff**

State law requires Wisconsin nursing facilities to provide each resident in need of skilled nursing care with a minimum of 2.5 hours of nursing care per day. In 2005, Wisconsin nursing facilities on average provided each resident in need of skilled nursing care with 3.53 hours per day of nursing care or, on average, 1.03 hours per resident per day more than the statutory requirement for skilled nursing care. At the same time, the estimated July 2006 maximum MA payment that facilities will receive for the care of their skilled care residents only will support 2.83 hours of nursing care per resident per day. In other words, while facilities on average are providing 3.53 hours of nurse staffing per skilled care resident per day, they on average are only being paid for 2.83 of those hours. *To elevate Medicaid payments to a level which would support the cost of the median level of nurse staffing presently being provided to residents of Wisconsin nursing facilities, funding for Medicaid would have to be increased by \$110.6 million (\$46.6 million GPR) annually. WAHSA and WHCA seek legislative support for this additional funding.*

## **Increased Funding to Cover Past Utility Cost Increases**

All Wisconsin residents have been hit with devastating utility cost increases since January 2005. According to the Wisconsin Department of Administration, the cost of both fuel oil and natural gas has increased 26.8% in that time; the cost of LP gas is up 14.1% while electricity costs have risen 9.9%.

Nursing homes were not spared these hikes. Since January 2005, nursing home utility costs in the aggregate have increased 18.6%. That is not surprising since electricity costs comprise 41.5% of total nursing home utility expenditures, followed closely by natural gas costs at 40%. However, unlike the typical homeowner and most businesses, nursing homes cannot dim the lights or turn down the thermostat to control their energy costs. They are bound by state and federal regulations. Indeed, state code requires “adequate lighting” to be provided in all areas of the facility and a minimum temperature of 72 degrees F. during the day and 70 degrees F. at night must be maintained in all bedrooms and other areas used by residents. These are seen as much as quality care issues as environmental issues.

Since 65.2% of its residents are Medicaid recipients, nursing homes also are unique because of their reliance on Medicaid funding. And Medicaid funding for nursing home utility costs has been frozen at the July 1, 2004 payment level of \$3.01 per patient day. Since aggregate nursing home utility costs have risen 18.6% over the past 18 months, current nursing home utility costs now average \$4.33 per patient day. As a result of this \$1.32 per patient day disparity, a typical Wisconsin nursing home now receives an annual Medicaid payment for its utility costs that is \$33,726 less than its actual utility costs. For the state’s 377 nursing homes, that translates in the aggregate to a difference between nursing home utility costs incurred and Medicaid payments for those incurred costs of over \$10.5 million.

***WAHSA and WHCA seek legislative support for a Medicaid appropriations increase in 2006-07 of \$4.4 million GPR (“general purpose revenue,” or state tax dollars) and \$10.9 million AF (“all funds,” the combination of state and federal matching funds) to fully fund the utility cost increases incurred since January 2005 by the state’s 377 nursing facilities.***

## **Nursing Facility Modernization-- Capital Improvements**

Many Wisconsin nursing facilities have significant physical plant challenges (size, age, configuration and code compliance issues), making it difficult to provide efficient staffing to residents with ever-increasing acuity and/or behavioral symptoms while offering a more home-like setting. These facilities hope to pursue extensive renovation or replacement options. However, the costs to replace existing facilities can exceed \$100,000 per bed, particularly if the replacement facility embraces the consumer’s desire for private rooms.

In the past, facilities that met the “Major Phase-Down” criteria under section 4.56 of the Medicaid nursing home reimbursement Methods of Implementation could qualify for enhanced Medicaid rates. These facilities agreed to reduce their licensed bed capacity by the lesser of 25% or 50 beds and to reduce their resident census by at least 15%. In return for agreeing to a phase-down agreement with the DHFS, these facilities received both a temporary “freeze” in their Medicaid operating revenues and a modest increase in their Medicaid property allowance during the phase-down period.

The DHFS had allocated \$39 million all funds within the Medicaid program to finance nursing facility phase-downs. However, the DHFS’ 2005-2007 biennial budget virtually eliminated the nursing facility phase-down program and associated funding. In June 2006, the DHFS announced it would not approve any new downsizing requests during the current biennium. As a result, nursing homes seeking to modernize their facilities will receive virtually no financial assistance from the Medicaid program, despite the fact that two-thirds of all residents are MA eligible. It is unreasonable to expect facilities (i.e., private payers) to totally assume this financial burden. As the Medicaid payment system currently is structured, few organizations have the financial wherewithal to undertake such resident-centered projects as converting their rooms to single occupancy.

***WAHSA and WHCA propose that the phase-down program be restored to its previous funding level of \$16.2 million GPR and \$39 million AF and modified to assist a greater number of homes. Specifically, the associations propose that a substantially enhanced Medicaid rate be awarded to any nursing home that: (1) Enters into a downsizing agreement with the DHFS under which the facility agrees to reduce its licensed bed capacity by the lesser of 15% or 25 beds; (2) Replaces or substantially renovates the facility; or (3) Converts the majority of resident rooms to single occupancy.***

## **Reinvestment in Our Nursing Homes: Freeze the Nursing Home Budget**

The State of Wisconsin budgets approximately \$900 million in state and federal dollars for nursing home care. But over the years, the nursing home budget has been raided to help fund other programs. Whether the raid was direct (e.g., to fund the Family Care program or to help balance the state budget) or indirect (e.g., to use the savings generated by nursing home closures, downsizing, diversions or relocations to fund home- and community-based long-term care), the end result is less funding for the care and treatment of our residents and a Medicaid deficit for nursing homes which now exceeds \$232 million.

To address this situation, **WAHSA and WHCA propose the 2007-09 state budget contain a provision to freeze the nursing home appropriation at its current level, adjusted for inflation.** This would allow us to address the MA nursing home deficit and enable facilities to “reinvest” the savings generated by a decrease in nursing home utilization into quality of care/life-enhancing projects such as the conversion to single occupancy rooms. If facilities are permitted to utilize the savings that result from nursing home “rightsizing,” the quality of life for our residents and staff could be improved dramatically. If such a provision were in effect in the last biennium, nursing home utilization “savings” of \$12.2 million GPR and \$29.3 million AF could have been “reinvested” in our state’s nearly 400 Medicaid-certified nursing homes.

The associations and their members continue to explore other mechanisms to help finance our initiatives and pledge to work cooperatively with the Legislature and the Governor to address the nursing home funding crisis.