



May 22, 2007

To: Senator Russ Decker, Senate Chair
Representative Kitty Rhoades, Assembly Chair
Members, Joint Committee on Finance

From: John Sauer, Wisconsin Association of Homes and Services for the Aging (WAHSA)
Tom Moore, Wisconsin Health Care Association (WHCA)
Royce Austin, Local 150, Service Employees International Union, (SEIU)
Susan McMurray, Council 11, American Federation of State, County and Municipal Employees (AFSCME)
Sarah Diedrick-Kasdorf, Wisconsin Counties Association (WCA)

Subject: Legislative Fiscal Bureau Issue Paper #396 *Nursing Home Rates and Bed Assessment Increase:*
Support for Alternative A4, with a 5% Rate Increase Under Attachment 2, and Alternative B1

WAHSA, WHCA and WCA represent virtually every nursing home in the State of Wisconsin. AFSCME and SEIU represent over 12,000 long-term care employees throughout our State. Collectively, our members strongly urge the members of the Joint Committee on Finance to support the following position: **Provide nursing homes with a GPR-funded 5% MA rate increase in each year of the biennium; and, beginning in 2007-08, deposit into the MA Trust Fund the \$13.8 million in bed tax revenues currently being diverted to the general fund and utilize those funds to help pay for the 5% rate increase.** Our rationale for this position is as follows:

- According to a June 2006 analysis of the nation's nursing home payment systems by BDO Seidman, LLP, Accountants and Consultants (*A Report on Shortfalls in Medicaid Funding for Nursing Home Care*), **Wisconsin's nursing home payment system is ranked 44th in the nation.** The study revealed Medicaid payment deficits sustained by Wisconsin nursing facilities were 64% higher than the national average.
- **Wisconsin nursing homes currently are incurring Medicaid deficits totaling just over \$232 million.** To the average nursing home, that translates to a Medicaid loss of over \$620,000 per year, or \$29.06 per Medicaid resident per day. Of that \$232 million MA deficit, 78.3% of that loss, or \$181.7 million, is attributable to direct, hands-on resident care.
- As noted in Discussion Point #13 of LFB Issue Paper #396, **“the costs of providing care in nursing facilities continues to increase, and will likely increase at a greater rate than the Governor's proposed 2.0% annual rate increase.”** Nursing homes start out this budget debate facing a \$232 million MA deficit. Fuel and utility costs have risen 18.6% since January 2005; in the meantime, We Energies, the state's largest electric utility, has filed a request with the Public Service Commission to raise the electric rates by 7.5% in each of the next two years and Madison Gas & Electric has requested a 5.7% electric rate increase in 2008. Health insurance premiums for nursing home employees on average have risen in the 15-20% range in each of the last 3 years; similar jumps in liability insurance premiums are being experienced. **A 5% MA increase will help facilities stay afloat; a 2% increase virtually assures more facilities will close, as 13 have done (7 in Milwaukee County) in the past 3 years,** according to Discussion Point #11 of LFB Issue Paper #396.

- Many more nursing homes would be facing closure were it not for the fact that **private pay residents are subsidizing these nursing home Medicaid deficits**. As noted in Discussion Point #7 of LFB Issue Paper #396, “the DHFS Bureau of Health Information indicates that, as of December 31, 2005, the average MA payment for skilled nursing care was \$127 per day, compared to the average private-pay rate of \$183 per day.” That \$56/day private pay differential is subsidizing the \$232 million MA underfunding nursing homes are experiencing.
- **Since 2003, the State has forfeited approximately \$75.8 million in federal MA matching funds by annually diverting \$13.8 million in nursing home bed tax revenues to the general fund.** How can the Governor or the Legislature in good conscience ask frail elderly nursing home residents who pay privately to incur a bed tax increase when the state is skimming \$13.8 million of bed tax revenues annually for non-nursing home purposes? Where is the concern of those who argue forcefully that Wisconsin does not receive its fair share of federal funding when those same people have left \$75.8 million in federal funds on the table? As noted in Discussion Point #19 of LFB Issue Paper #396, **“there is no policy argument for continuing to deposit a portion of the nursing home bed assessment to the general fund.” We urge the JFC to “put the \$13.8 million back” and directly utilize these bed tax revenues, and the federal matching funds they generate, to help pay for a 5% nursing facility annual rate increase.**
- According to *The Burden of Tobacco in Wisconsin*, a 2006 collaborative report produced by the DHFS, the UW-Madison, and the American Cancer Society, smoking was attributable for \$2.16 billion in health care costs in Wisconsin in 2003; of that total, \$573 million, or 26.5%, were nursing home costs, surpassed only by smoking-related costs incurred by ambulatory care centers. However, **not one cent of the funds generated by the proposed cigarette tax increase under SB 40 was earmarked for nursing home care. If a cigarette tax increase is adopted, some of those additional revenues should be used to help fund a 5% MA rate increase for nursing homes.**
- **What are the potential consequences of failing to provide an adequate MA rate increase for nursing homes?** 1) Additional facility closures; 2) Lower than acceptable facility staffing levels; 3) Increased difficulties in recruitment and retention because of below-market wage and benefit scales; 4) An increase in the Medicaid rolls as more private pay nursing home residents run out of their own funds sooner than they would otherwise; 5) An increase in the BadgerCare rolls as more facilities either drop their health insurance coverage or provide coverage that is cost-prohibitive to many of their staff; and 6) Prospective MA nursing home residents will face ever-increasing access problems similar to those being experienced in Milwaukee today as more facilities focus their admissions on private pay and Medicare residents, whose costs are fully paid, as a means of economic survival. Since 83% of nursing home admissions are discharges from hospitals, the ensuing “back-up” of hospital patients seeking a Medicaid nursing home bed could wreak havoc with the financial stability of some hospitals.

Please support Alternative A4 of LFB Issue Paper #396, with the 5% MA rate increase described in Attachment 2 of the paper, and Alternative B1.

Thank you for this opportunity to share our thoughts and concerns on an issue of tremendous importance to our nursing home residents and the staff that serve them.