



August 30, 2010

Governor Jim Doyle
State Capitol, 115 East
P.O. Box 7863
Madison, WI 53707

Subject: Request for Support of an Additional \$5 Million in MA Nursing Home Payments

Dear Governor Doyle:

Nursing Home Request

We are writing to you as representatives of virtually every nursing home in the State of Wisconsin in a direct appeal for financial relief from the pending Medicaid budget cuts. Despite passage of 2009-11 budget provisions authorizing an annual 2% Medicaid rate increase for nursing homes (funded entirely by increases in the bed tax), the soon-to-be implemented 2010-11 nursing home payment formula currently proposed by the Department of Health Services (DHS) would result in an average rate cut of 0.7%. Our facilities are scheduled to receive a net rate reduction due to the imposition of the DHS' ForwardHealth "rate reform" provisions.

As discussed below, *we respectfully request that your Administration reconsider the depth of the pending nursing home budget cuts and restore \$5.0 million of the \$17.4 million cut in resident acuity payments proposed under DHS' rate reform exercise.* Our nursing facilities desperately need these dollars to address mounting fiscal pressures related to caregiver wages, benefits and staffing.

Background-- Nursing Home Funding/Bed Tax and Rate Reform Collision

Our associations currently are negotiating the July 1, 2010 – June 30, 2011 nursing home payment formula with the DHS. This annual exercise determines how the Medicaid funds appropriated for nursing home care by the Governor and the Legislature are to be distributed to the State's 373 Medicaid-certified nursing homes.

For FY 2010-11, the Legislature and the Governor approved a 2% MA rate increase for nursing homes which was funded entirely by a \$20 per bed per month increase in the nursing home bed tax. The 2009-11 state budget also approved a 2% MA rate increase for nursing homes in FY 2009-10; this increase

was funded solely by a doubling of the bed tax, from \$75 per bed per month to \$150 per bed per month. Over the 2009-11 biennium, therefore, the nursing home bed tax, which is a literal tax on most private pay residents of nursing homes, was increased from \$75 per bed per month to \$170 per bed per month to generate a 2% MA rate increase for nursing homes in each year of the biennium.

In 2009-10, the bed tax increase generated nearly \$50 million in additional federal MA matching funds: \$34.1 million of that total, or 68%, went to fund the Medicaid base; \$15.9 million, or 32%, went to fund a 2% MA rate increase for nursing homes. In FY 2010-11, the bed assessment increase generated \$63.3 million in additional federal MA matching funds: \$32.2 million, or 51%, went to fund the Medicaid base; \$31 million (over the base), or 49%, went to fund a 2% MA rate increase for nursing homes. Private pay nursing home residents obviously played a key role in helping balance the 2009-11 state budget.

Following passage of the 2009-11 state budget, the DHS responded to the directive to reduce Medicaid expenditures by approximately \$630 million by specifying the “unspecified” Medicaid cuts that were called for in 2009 Act 28. As part of the ForwardHealth Rate Reform Project, DHS initially reduced MA funding to nursing homes by \$25.2 million and later revised that reduction to \$30.1 million over the biennium. *As a result of these Medicaid cuts, the 2% rate increase approved for nursing homes in FY 2009-10 was reduced to 1.2%; the 2% MA rate increase approved for nursing homes in FY 2010-11 is now projected to result in a rate reduction of 0.7%.*

During the 2009-11 biennial budget discussions and shortly after its passage, private pay nursing home residents and their families were told the bed tax was necessary to address the state budget deficit. In addition, many of these individuals were told the 2% nursing home Medicaid rate increase funded by the higher bed tax would result in lower overall increases in private pay rates (i.e., Medicaid rate increases provided to nursing homes would moderate cost-shifting to private payers). In fact, many nursing homes were consistently told by elected and Administration officials they’d be “net winners” under the budget’s bed tax/rate increase scenario.

However, nursing home providers now understand that the DHS rate reform reductions will obliterate the scheduled 2% increase. One of the provisions in the DHS Medicaid rate reform initiative required nursing homes to update the Resource Utilization Group (RUGs) acuity status of certain residents on a quarterly basis. This provision was estimated by the DHS to save **\$12.5 million** in FY 2010-11; that savings is part of the \$630 million in MA savings the DHS has implemented. However, a revised estimate of the funding reductions generated by a quarterly RUGs update projects a net reduction in FY 2010-11 of **\$17.4 million**, instead of \$12.5 million. At this point, DHS Division of Long Term Care officials have indicated the DHS intends to implement the full \$17.4 million cut, meaning the \$12.8 million authorized in 2009 Act 28 to fund the 2% Medicaid nursing home rate increase in 2010-11 will be completely erased and Medicaid funding for nursing home providers will be reduced by an additional nearly \$5.0 million on top of the initial \$25.2 million rate reform reduction.

Summary

Please direct the DHS to restore the \$5.0 million to the 2010-11 nursing home payment formula, the approximate difference between the initial RUGs quarterly Medicaid savings estimate and the updated net savings estimate. Restoration of the \$5.0 million would reduce the nursing home rate cut from 0.7% to 0.1%. Although this adjustment is a far cry from the 2% Medicaid rate increase nursing homes thought a more than doubling of the bed tax would provide, it is truly needed. We are scheduled to meet with DHS Secretary Karen Timberlake on September 10, 2010 to discuss this request. The nursing home payment formula negotiations will conclude shortly thereafter, so we respectfully request that you convey your support for restoring the \$5.0 million in formula funding as soon as possible.

Thank you for your attention to this matter and to the needs of our 31,000+ nursing home residents and those who provide their care.

Respectfully,



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DHS Secretary Karen Timberlake
DOA Secretary Dan Schooff