

Wisconsin Association of Homes and Services for the Aging, Inc.

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August 7, 2008

To: Karen Timberlake, Secretary
Department of Health Services

From: John Sauer, Executive Director
Wisconsin Association of Homes and Services for the Aging (WAHSA)

Subject: WAHSA 2009-11 Nursing Home Funding Budget Requests

In its February 25, 2008 PowerPoint presentation *Nursing Home Overview*, the Department of Health Services (DHS) identified the following as some of the “Key Issues for Nursing Homes:”

- “Medicaid rates are insufficient to cover costs.”
- “A significant and growing proportion of homes are financially fragile.”
- “Buildings are old and poorly designed for cost efficiency and consumer preferences.”
- “The acuity level of nursing home residents is increasing.”
- “Nursing homes face difficulties recruiting and retaining capable and high-quality direct care and leadership staff.”

The Department’s statements are further borne out by the following:

- ◆ According to a September 2007 study released by BDO Seidman, LLP, Accountants and Consultants (“A Report on Shortfalls in Medicaid Funding for Nursing Home Care”), a national accounting and consulting firm, Wisconsin’s Medicaid nursing home payment system is the 3rd worst in the nation.
- ◆ A WAHSA analysis of July 2006 Medicaid nursing home rates found that 95.7% of the state’s 373 nursing homes were not fully reimbursed for the costs they incurred serving the state’s Medicaid nursing home population (www.wahsa.org/07meddef.pdf).
- ◆ In that 2006-07 payment year, the difference between the total cost of the care these 373 facilities provided their Medicaid residents and the Medicaid reimbursement they received for providing that care (i.e., the “Medicaid deficit”) was \$265.7 million. Direct care costs, the costs to provide direct, hands-on care to nursing home residents, were \$155.6 million of that deficit total, or 58.6%. The average Wisconsin nursing home lost \$34.47 per day for each Medicaid resident served, for an average annual Medicaid loss of just over \$758,000 per facility.



- ◆ In its *Nursing Home Overview* analysis, the DHS stated that “nursing home rate increases have not kept pace with inflation.” The DHS study found that while the cumulative change in Medicaid rate increases was 33.1% since FY 2000, the cumulative change in the skilled nursing facility inflation index was 39.2% over that same timeframe.
- ◆ In its recent analysis of the financial conditions facing nursing homes, the DHS found that in 2006, 43.2% of the 377 facilities in their study experienced a net loss. Of the 137 not-for-profit nursing homes in that study, 61 facilities, or 44.5%, experienced a net loss; for the 56 county/municipal nursing homes, 48 facilities, or 85.7%, suffered a net loss.
- ◆ Since 1999, 39 nursing homes have closed, with a loss of 4,438 beds. For some parts of the state, particularly the Milwaukee area, this has resulted in an access problem.
- ◆ According to the DHS, the average age of a Wisconsin nursing home is 31.3 years. The range is from 10 years in Green County to 48 years in Buffalo County. The Department states that the age of these buildings does not permit them “to incorporate modern design elements that are cost efficient and person centered.”

With this background, WAHSA members met recently to develop an association position on nursing home funding in the 2009-11 biennium. That position is attached, as are the calculations used to cost out our recommendations. **WAHSA members are asking the Department, the Doyle Administration, and the Legislature to appropriate sufficient MA funding to cover the following nursing home costs:**

- 1) **Direct care nursing staffing levels of 3.25 hours per resident day and direct care inflationary adjustments;**
- 2) **Median facility fuel and utilities costs of \$4.67 per resident day;**
- 3) **A 3% annual increase in the support services cost center target; and**
- 4) **A \$5 million property incentive allowance in each year of the biennium to permit facilities to renovate and/or replace existing buildings.**

You and your Department are currently putting together your requests for the 2009-11 biennial budget bill. The DHS has done a tremendous job of identifying the funding needs of Wisconsin’s nursing homes and the justification for addressing those needs. Please keep in mind the Department’s own analyses when you begin to formulate your nursing home funding proposals for 2009-11. More importantly, please keep in mind that for the nearly 33,000 frail elderly and disabled residents of our nursing homes and the over 50,000 individuals who serve them, this is not a budget exercise: this is their lives.

Thank you for considering our budget request. WAHSA members and staff stand ready to meet with you at your convenience to discuss these issues.

WAHSA

2009-11 Biennial Budget Bill Request: Nursing Home Funding

1. Direct Care Nursing Staff: Increase funding to a level sufficient to reimburse nursing homes at 3.25 hours per resident day.

Wisconsin's nursing homes, on average, staff at approximately 3.50 productive nursing hours (RN, LPN and CNA) per day. The federal Department of Health and Human Services released a study in 2000 that it conducted at the Congress' direction which concluded the optimal nursing staffing level is 4.10 hours per resident day. Yet the Wisconsin Medicaid program reimburses nursing homes, on average, at a rate sufficient to staff at 2.78 hours per resident day. **WAHSA urges the Department of Health Services (DHS) to submit a 2009-11 budget proposal which provides an increase in nursing home Medicaid funding sufficient to support a nursing staffing level of at least 3.25 hours per resident day.**

Estimated Cost: (2009-10) \$29.6 million GPR; \$70.5 million all funds (AF); (2010-11) \$37.3 million GPR; \$88.9 million AF; (2009-11) \$66.9 million GPR; \$159.4 million AF; (see the attached calculations; includes second year inflationary adjustments for all direct care costs)

2. Fuel and Utilities: Increase MA nursing home funding to reimburse facilities their average cost per day for fuel and utilities.

The median cost of fuel and utilities for nursing homes increased from \$3.17 per day in 2003 to \$3.97 per day in 2006, an annual increase of 8.41%. The median cost of fuel and utilities is estimated to be \$4.67/day in 2008 based on an increase of 8.41% in 2007 and 2008. However, the 2008-09 Medicaid payment to nursing homes for their fuel and utilities costs is \$3.20 per Medicaid day, or \$1.47/day less than the fuel and utilities costs they are projected to incur. **WAHSA urges the DHS to recommend a 2009-11 budget provision which would increase payments for nursing home fuel and utilities costs by \$1.47 per resident day in 2009-10 in order to reimburse the projected, median facility fuel and utilities cost of \$4.67 per resident day and by \$1.86 per resident day in 2010-11.**

Estimated Cost: (2009-10) \$4.2 million GPR; \$10.1 million AF; (2010-11) \$5.4 million GPR; \$12.8 million AF; (2009-11) \$9.6 million GPR; \$22.9 million AF

3. Support Services: Provide sufficient MA funding to increase the support services cost center target by 3% per year.

The nursing home support services cost center includes dietary, food, maintenance, housekeeping, laundry, security, fuel and other utilities, administration, supplies and purchased services. These costs include the labor-related expenses of those employees who provide the services listed above. While these costs on average have increased annually by 3% over the past four years, the MA payment nursing homes have received for these incurred costs have increased on average by only 1.37% over the same time period. Despite the fact that food and fuel & utilities costs are expected to increase significantly more than 3% in 2009-10, **WAHSA urges the DHS to include a provision in its 2009-11 budget request to increase the nursing home support services cost center target by 3% in each year of the biennium.**

Estimated Cost: (2009-10) \$3.4 million GPR; \$8.2 million AF; (2010-11) \$7.0 million GPR; \$16.7 million AF; (2009-11) \$10.4 million GPR; \$24.9 million AF

4. Property Allowance Incentives

The DHS has indicated it is committed to improving the quality of life for residents of Wisconsin's nursing homes. According to the Department, “nursing home buildings are old, with an average age of 31.3 years, and therefore do not incorporate modern design elements that are cost-efficient and person centered. Replacing old buildings with new building environments that embrace and support resident-centered care through culture change is one of the most significant ways to improve resident's quality of life.” **WAHSA urges the DHS to pursue a 2009-11 budget request of \$5,000,000 per year for property allowance incentives to help nursing homes renovate and/or replace existing facilities.**

Estimated Cost: (2009-10) \$2.1 million GPR; \$5.0 million AF; (2010-11) \$2.1 million GPR; \$5.0 million AF; (2009-11) \$4.2 million GPR; \$10.0 million AF

Total Funding Request:

2009-10: \$39.3 million GPR – \$93.8 million AF

2010-2011: \$51.8 million GPR -- \$123.4 million AF

2009-11 Biennial Funding Request: \$91.1 million GPR -- \$217.2 million AF

**Wisconsin Association of Homes & Services for the Aging
2009-11 Biennial Budget Bill Request**

Payment for Nurse Staffing

Data from 2006 Median Reports

Fringe Benefits		22.07%				
Fringe - Paid to		8.88%		30.95%		
	Average	Fringe		Adjusted	Average %	Cost Per
	Wage	Benefits		Wage	of Hours	Hour
R.N.	\$ 26.02	1.3095	\$	34.07	0.166	\$ 5.66
L.P.N.	\$ 18.63	1.3095	\$	24.40	0.134	\$ 3.27
Nurse Aide	\$ 11.86	1.3095	\$	15.53	0.700	\$ 10.87
Adjusted Wage						\$ 19.80
2007 Increase					3%	\$ 20.39
2008 Increase					3%	\$ 21.00
2009 Increase					3%	\$ 21.63

Direct Care Nursing Target-7/06 Rates		\$	62.28	91.12%	\$	56.61
Average Wage Rate						\$ 20.39
Average Hours Paid						2.78
Adjust Average Nursing Hours to 3.25						3.25
Increase in Hours Per Medicaid Day						0.47

Additional Cost for Nurse Staffing

Estimated Average Wage Rate	\$	21.63			
Increase in Hours		<u>0.47</u>			
Cost Per Medicaid Day	\$	10.24			
Medicaid Days - (Family Care not included)		6,881,000	2,010		
			3.5% Increase	2009-2011	
Additional Costs	\$	70,495,648	88,926,750	\$	159,422,398
State Share	42%	\$ 29,608,172	\$ 37,349,235	\$	66,957,407

Additional Costs for Fuel and Utilities

	Year	Median Costs			
	2003	\$ 3.17			
	2004	3.31			
	2005	3.79			
Three Year Average = 8.41%	2006	3.97			
Increase = 8.41%	2007	4.30	2010		
Increase = 8.41%	2008	4.67	\$ 5.06		
Medicaid Payment for July 2008 Rates		3.20	3.20		
Cost Per Medicaid Day	\$	1.47	\$ 1.86		
Medicaid Days - (Family Care not included)		6,881,000	6,881,000	2009-2011	
Additional Costs	\$	10,092,321	\$ 12,812,166	\$	22,904,487
State Share	42%	\$ 4,238,775	\$ 5,381,110	\$	9,619,884

Additional Costs for Support Services Not Including Fuel & Utilities

Support Services Target - 2008	\$	39.74	2010		
Three Percent Increase Each Year	\$	40.93	\$ 42.16		
Cost Per Medicaid Day	\$	1.19	\$ 2.42		
Medicaid Days - (Family Care not included)		6,881,000	6,881,000	2009-2011	
Additional Costs	\$	8,203,528	\$ 16,653,162	\$	24,856,690
State Share	42%	\$ 3,445,482	\$ 6,994,328	\$	10,439,810

Inflationary Increase for July 1, 2010 Rates - Direct Care

Direct Care Nursing Target	\$ 65.56	3.5 % Increase	\$ 2.29		
Direct Care Other Target	\$ 10.97	3.5 % Increase	\$ 0.38	\$	2.68
Medicaid Days - (Family Care not included)				6,881,000	
Additional Costs				18,431,103	