

Nursing Home Funding Informational Forum - May 18, 2009

**Presentation to the Appropriations, Human Services, Public Health, and
Select Committee on Aging.**

Good morning, Senators Harp, Harris, Doyle and Prague and Representatives Geragosian, Ritter, Walker, and Serra and to the members of the Appropriations, Human Services, Public Health, and Select Committee on Aging. My name is Matthew Barrett and I am the Executive Vice President of the Connecticut Association of Healthcare Facilities (CAHCF), a 110 member trade association representing for profit and not for profit healthcare facilities providing long-term, sub acute, and rehabilitative services to 13,000 individuals in Connecticut.

I am pleased to be joined in this panel presentation with our association's President, Chris Wright, and Paul Liistro, our Treasurer. Our panel represents both ends of the provider spectrum. Paul's facilities in Manchester and Vernon are second generation family owned and operated. Chris, as President and CEO of iCare, is responsible for the care of some 1300 nursing home residents in 9 facilities that employ over 1800 employees

To begin with, we applaud the leadership of the committees for scheduling this important informational forum on Nursing Homes---and for inviting our participation and that of other stakeholders who are responsible for the care and services provided to 29,000 residents in Connecticut's nursing homes.

This is an urgent conversation to be having at this time. Connecticut nursing homes are moving from financially distressed into to crisis. Today there are five homes in bankruptcy. Ten more are in state receivership. Dozens more are receiving hardship rate relief. Almost eighty homes---a staggering one third of Connecticut's 240 homes are receiving or requesting interim rates from the state. Twenty-four have closed within the last ten years, four within the past year alone. Other signs of stress can be seen in the system---strike notices were issued last week in eight homes with the potential for additional notices in the weeks ahead. At the federal level, the Center for Medicaid and Medicare Services (CMS) last week announced dramatic Medicare cuts under federal rule-making authority that will mean millions of dollars less for Connecticut nursing homes when implemented at this very same time. These are clear signals of a system in crisis.

Many more homes will continue to struggle if proposals now under consideration in this state legislature and in Congress are adopted. A full range of nursing homes will move to receivership and business meltdown---and closure---should state budget proposals be adopted. It is not poor quality that is driving this trend. Financial instability is the driver---more specifically, the lack of adequate state reimbursement.

As background, Connecticut nursing homes received a zero percent increase in this second year (SFY 09) of Connecticut's biennial budget.

Nursing Homes have received less than half of the \$128 million in federal revenue produced by the nursing home user fee.

In addition, of the \$87 billion available across our Nation under the economic stimulus---specifically enhanced federal FMAP (from 50% to 56%)---while Connecticut's share of these dollars is \$1.2 billion, not a cent is appropriated to adequately fund nursing homes in any of the proposed state budgets.

Moreover, the increased federal revenue associated with nursing home spending in Connecticut, is whole-scale accounted for elsewhere in the Connecticut State Budget, even though it is nursing home spending that is largely responsible for the federal revenue. Instead, nursing homes are cut significantly.

In the proposed budgets, nursing home rate rebasing, guaranteed under state law, is eliminated. This amounts to a \$290 million cut to nursing homes. It is important to characterize this correctly. The current services budget, reduced in all three proposed budgets, would have addressed nursing home rate shortfalls with an increase of 9.64 percent in the rate formula. In our cost based reimbursement system, Medicaid does not reimburse for actual costs. Costs are artificially capped in various categories in the rate formula. In recognition of this build-in and ongoing under funding, by state law, rates must be rebased (recalculated with updated costs) at least every four years, but no more than every two years. In this sense, the rebasing of the rates more fairly reflects a required loss adjustment than a cost of living adjustment as some have expressed. Nevertheless, the proposed budgets, in one fell swoop, eliminate the rebasing funding.

Fair Rent is frozen in the proposed two-year budget. This also requires characterization. The term "fair rent" hardly captures its meaning. This is the means by which the rate system encourages and acknowledges the costs of facility physical plant improvements.

The Administrative and General component of the rate formula is cut by \$40 million. Far more than administration is included in this component of the rates. Utilities, maintenance, security costs, routine repairs, among other things, are included here. These have a direct bearing on patient care and are wrongly characterized as an "administrative cut."

The two-year budget would bring the uncertainties of a managed care model of health care payment for dual eligibles for savings of another \$100 million in the two year period.

Dozens of non-citizens residing in nursing homes will lose their state funded medical assistance. One CAHCF member home where 9 such residents now reside will lose their payor source and be in significant jeopardy should this be adopted. The proposed budget

provides no explanation as to what will happen to these residents and who will pay for their care.

Sales tax exemptions on such essential items as diapers and disposable pads are repealed in the proposed revenue package and will increase costs by almost \$1 million for nursing homes.

As well, furloughs and early retirements in the state workforce will further delay the long term care Medicaid eligibility determination process, worsening the cash flow for nursing home operations.

Finally, the proposed budgets defer one half of the anticipated June Medicaid payments to nursing homes to next fiscal as an artificial savings for first year of the biennium. This will create significant cash flow problems for nursing homes to cover weekly payrolls.

All told, these proposals amount to almost one half a billion dollars in cuts over the biennium. It should be noted that overall spending on long term care over the two year period would be \$2.8 billion so that these cuts really amount to a twenty percent reduction.

Our association does not believe these cuts make policy sense for the state, the residents, the nursing home providers, or the workers. It will be harmful to nursing home residents and our struggling state economy to curtail health care spending so dramatically during this recession. Most observers recognize the importance and value of nursing home jobs in terms of Connecticut's economic outlook. Moreover, such a policy of closing homes and losing health care jobs is completely counter to our state's long term care plan.

Connecticut will miss a great opportunity to put our federal Medicaid funds to maximum use if they are not used as they were intended by Congress----to protect health care jobs and support a health care programs for the low income. From the perspective of economic stimulus, there is perhaps no better example of achieving the Congressional intent than Medicaid funding for nursing homes.

Paul is going to walk you through a number of points about the full extent of nursing home expenditures in our state economy, as well as making some finer points about the systemic lack of funding in the Medicaid system and its consequences.

cahcf

- Connecticut Association of Health Care Facilities
- Provider organization of 110 For Profit and Not-for-Profit facilities (13,000 beds)

From Distress to Crisis

Signs of Distress

SYF '09 Zero % increase

Bankruptcies, Receiverships,
hardship rate relief, closures

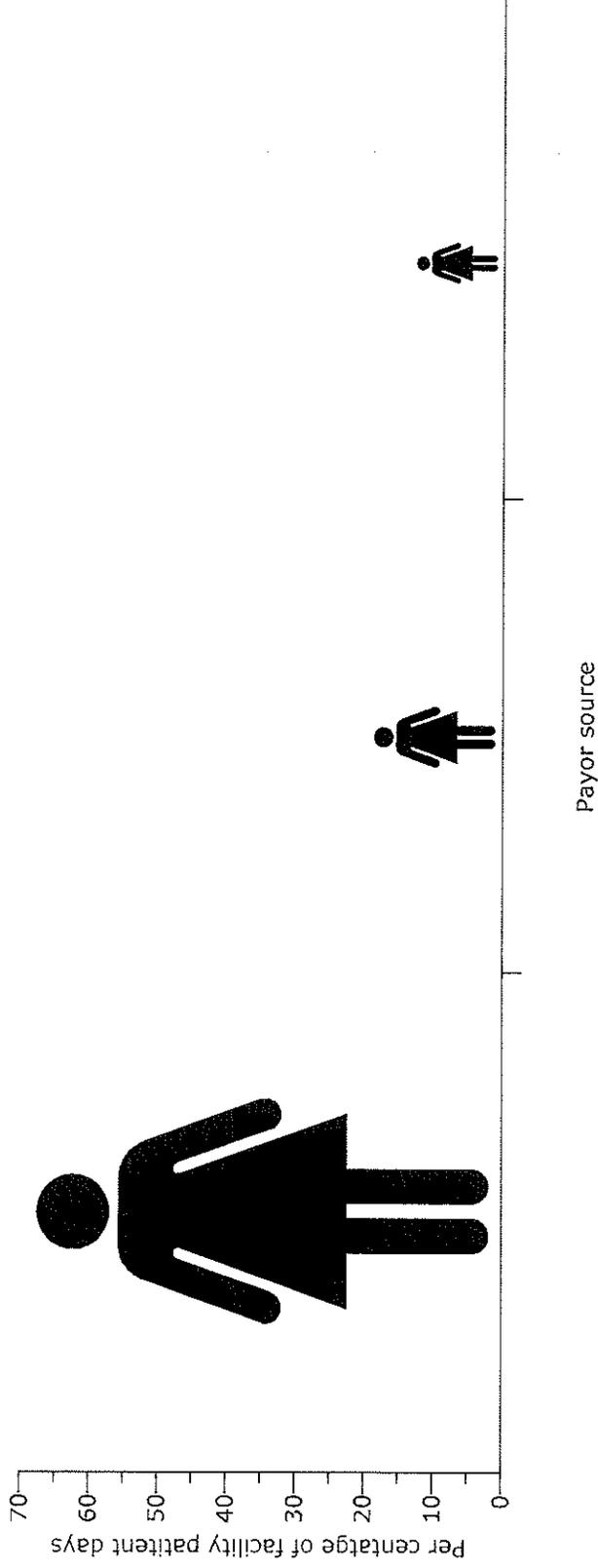
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Harmful Cuts

Proposed 2 year budget cuts:

- Nearly one-half Billion dollars
- Received less than 1/2 of User Fee Revenue
- Not sharing in increased FMAP
- Rebasing eliminated
- Fair Rent suspended
- Admin and General reduction
- Uncertainties of Managed Care approach
- Non citizens payment repealed
- Expansion for sales tax
- Reduction in State work force
- June Payment deferrals

Importance of Medicaid

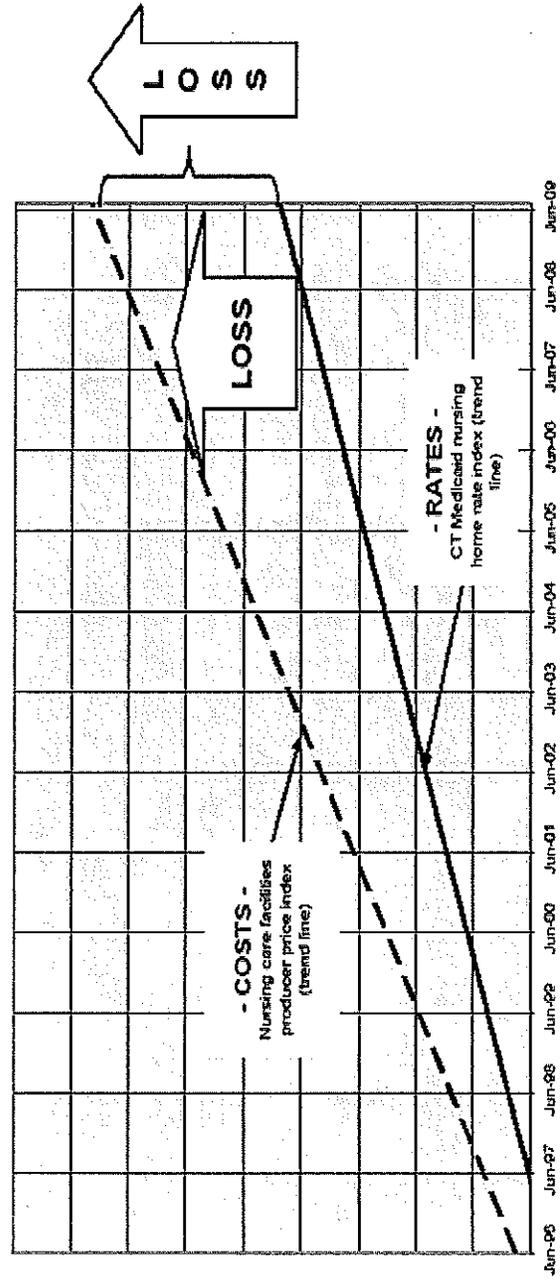


Source: LTCDE.com, 2007 cost report summary

Medicaid Rates vs. Inflation

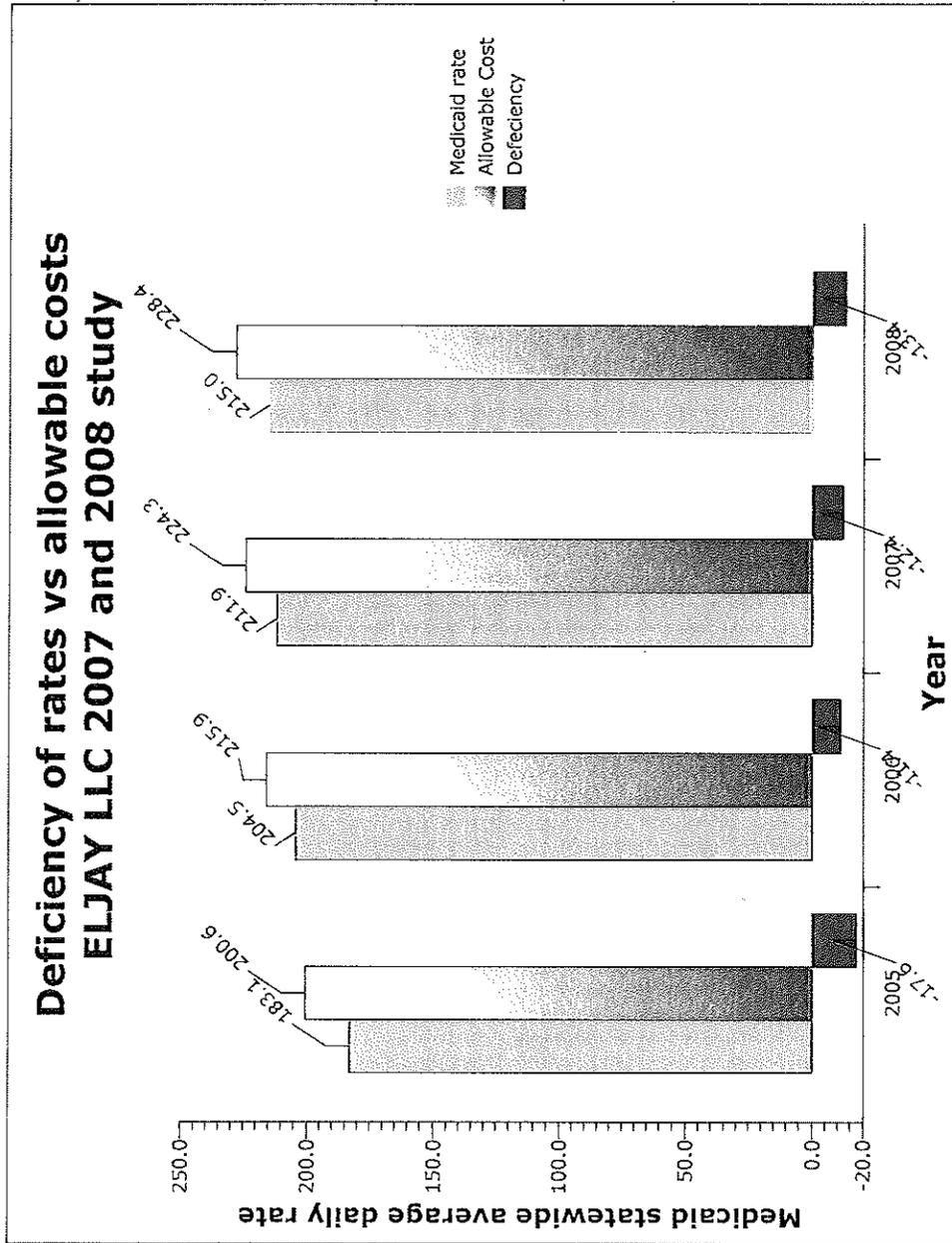
1996 through 2009

CT Medicaid Nursing Home Rate Index vs. Nursing Care Facilities Producer Price Index
 (June 96 = 100)
 Producer Price Index per U.S. Department of Labor Bureau of Labor Statistics



Deficiency of Medicaid rates

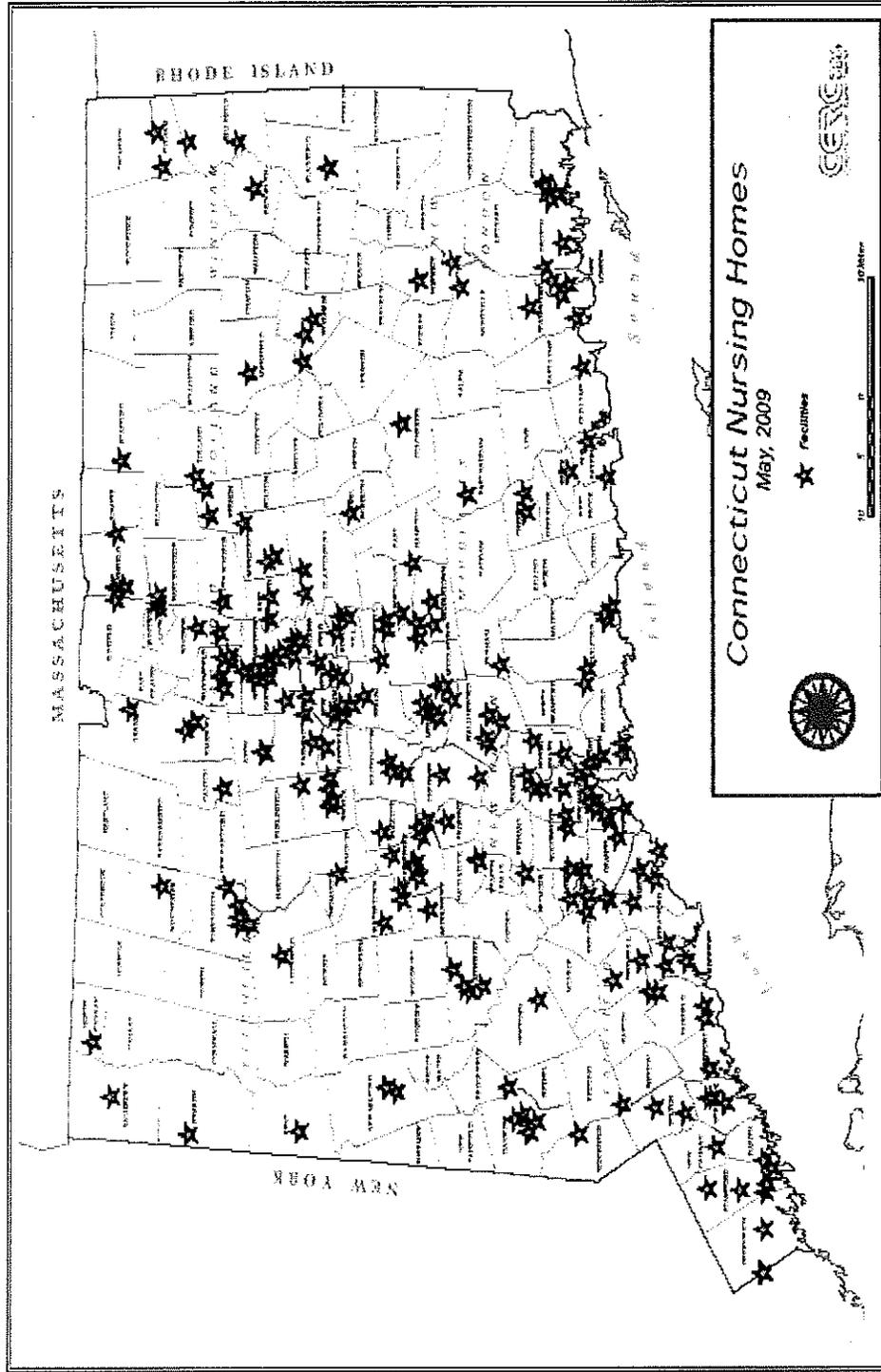
(source: Eljay LLC study 2005- 2008)
 (note 2008 rate projected)



Source: ELJAY, LLC Study of State Medicaid Rates, 2007 and 2008, NOTE 2008 rates projected.

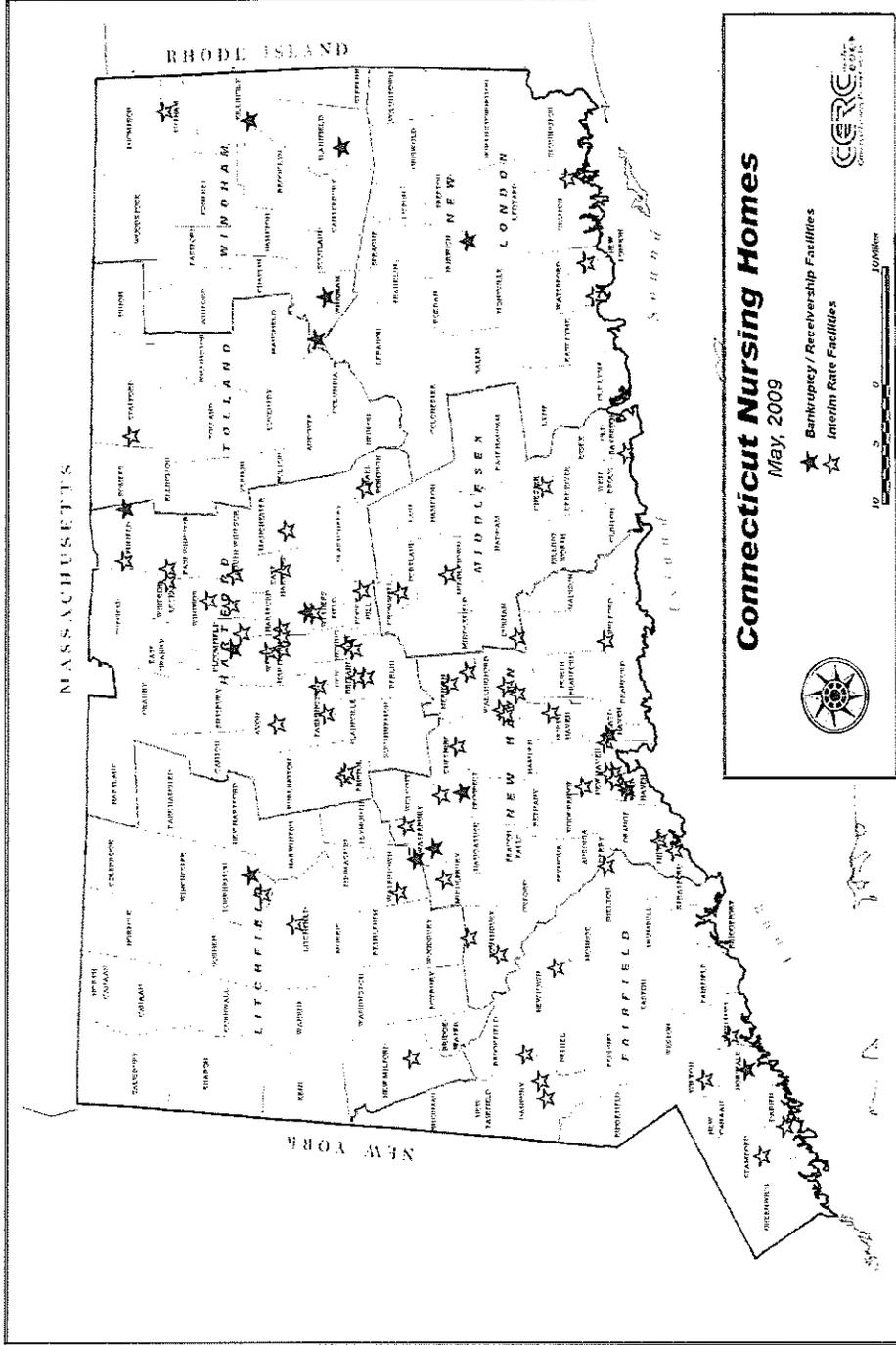


LTC Industry



Bankruptcies, Receiverships and Interim rates

(per DSS; May 2009)



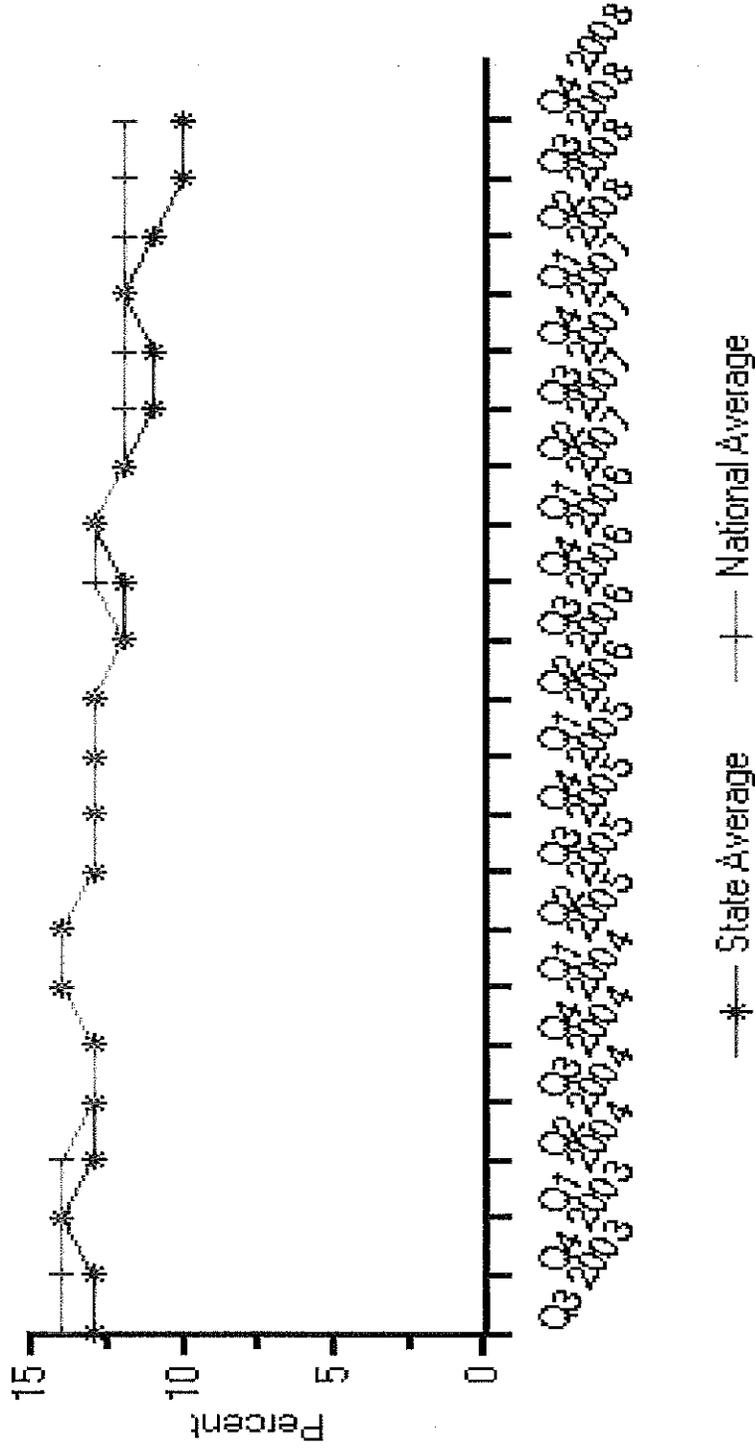
Rates and impact of Quality

- Quality measure data is publicly reported by the Centers for Medicare & Medicaid Services (CMS) on Nursing Home Compare. COM .
- Pressure Sores, Pain, Depression, Physical restraints

% High Risk Residents with Pressure Sores

(source: CMS NHQI web site 12-2008; lower is better)

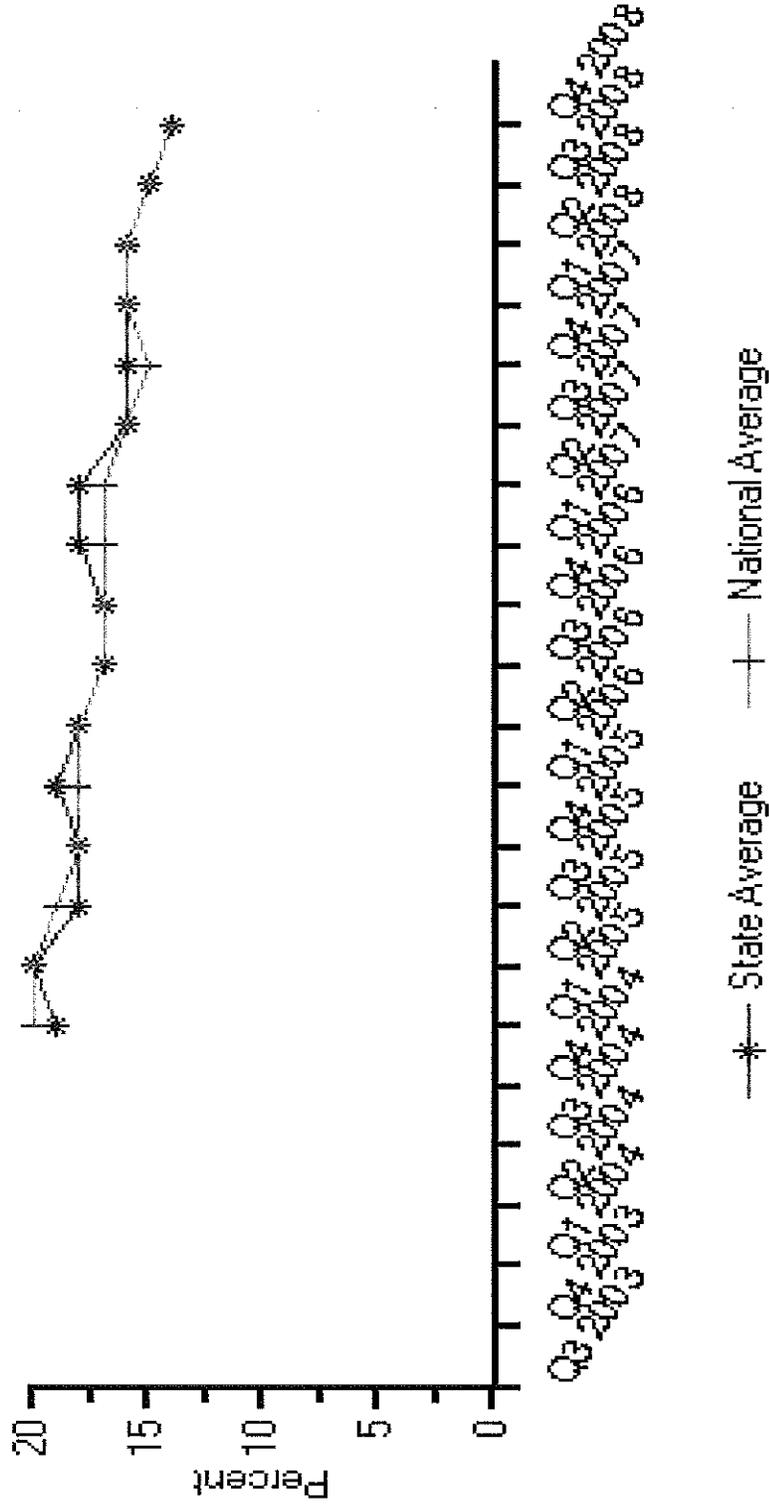
Percent of High-Risk Residents Who Have Pressure Sores Connecticut



% Short Stay Residents with Pressure Sores

(source: CMS NHQI web site 12-2008; lower is better)

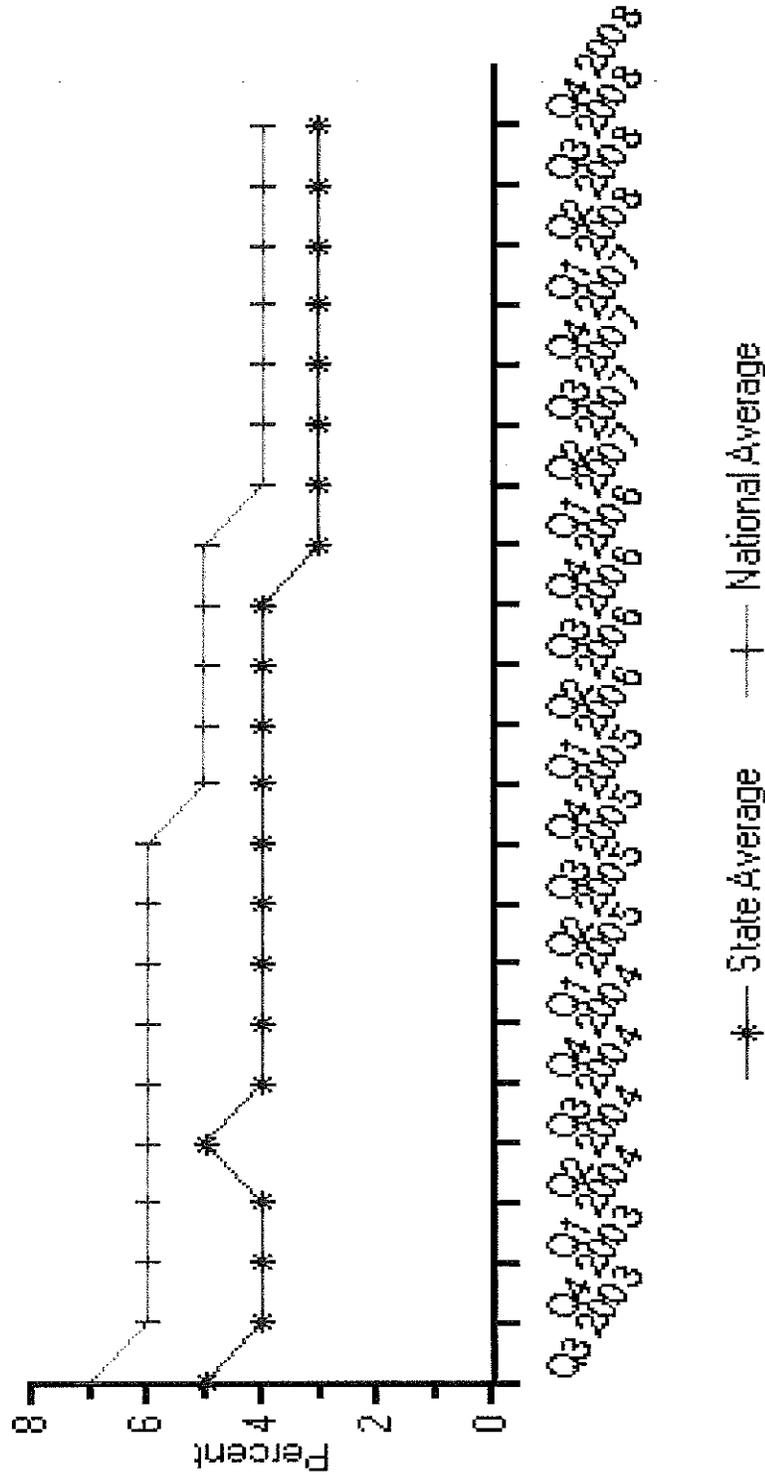
Percent of Short-Stay Residents With Pressure Sores Connecticut



% Residents with Moderate to Severe Pain

(source: CMS NHQI web site 12-2008; lower is better)

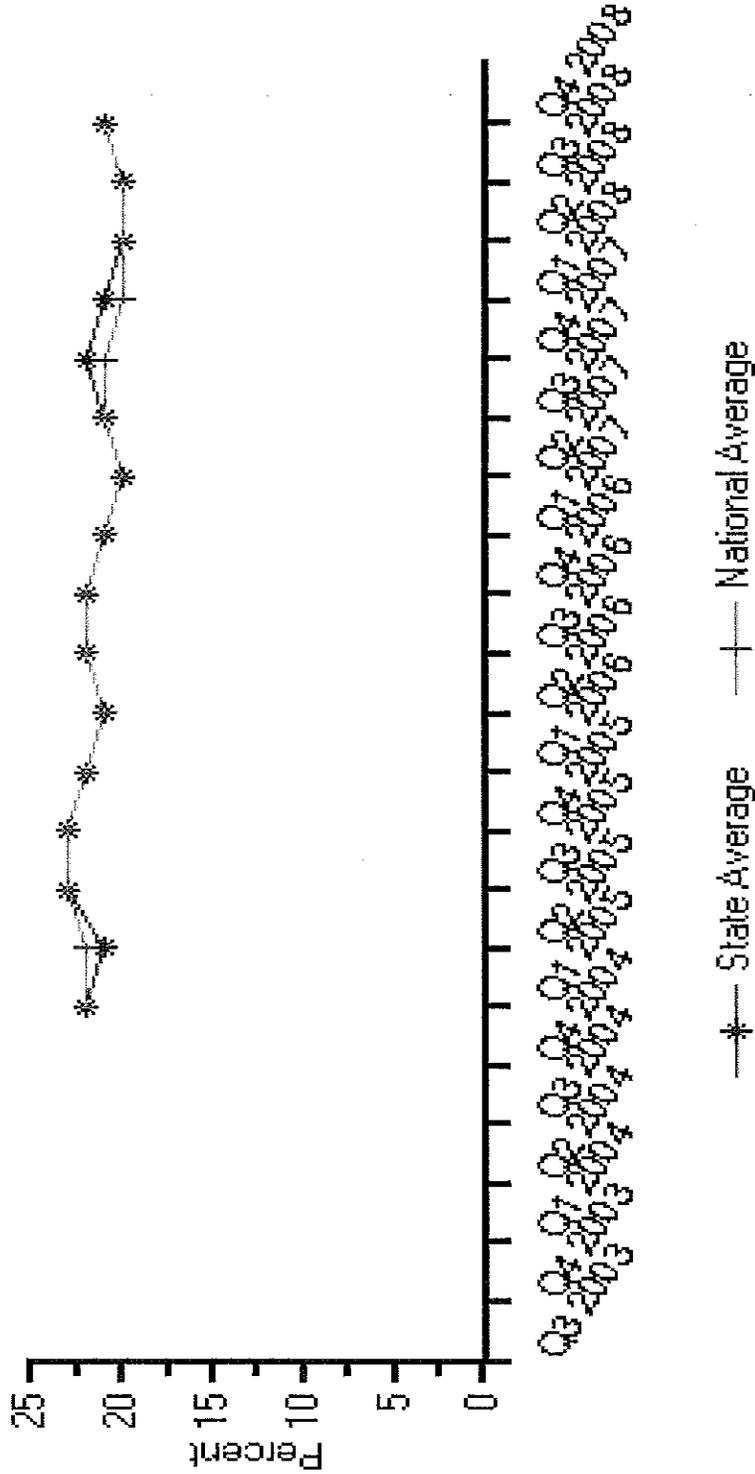
Percent of Residents Who Have Moderate to Severe Pain Connecticut



% Short Stay Residents with Mod-Severe Pain

(source: CMS NHQI web site 12-2008; lower is better)

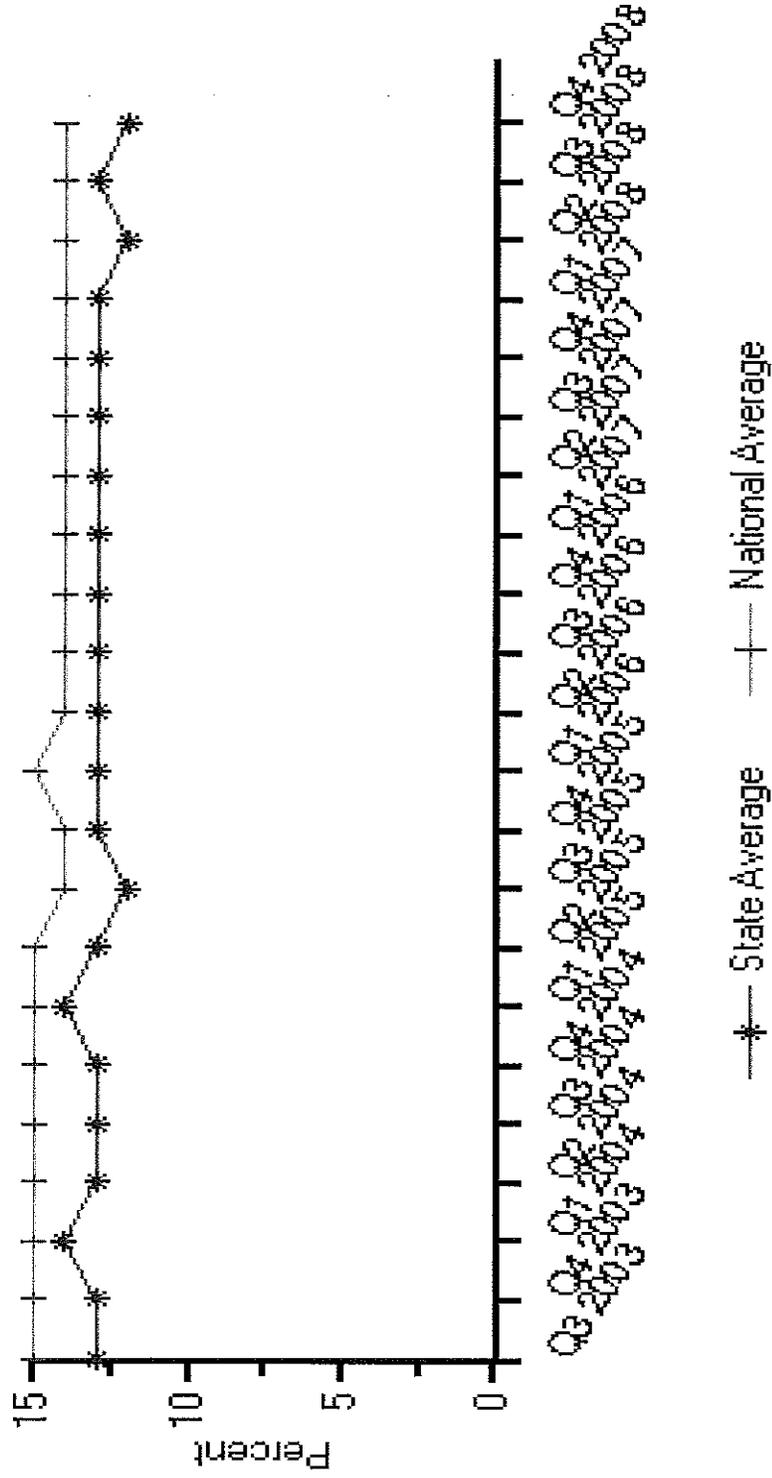
Percent of Short-Stay Residents Who Had Moderate to Severe Pain Connecticut



% Residents with Depression

(source: CMS NHQI web site 12-2008; lower is better)

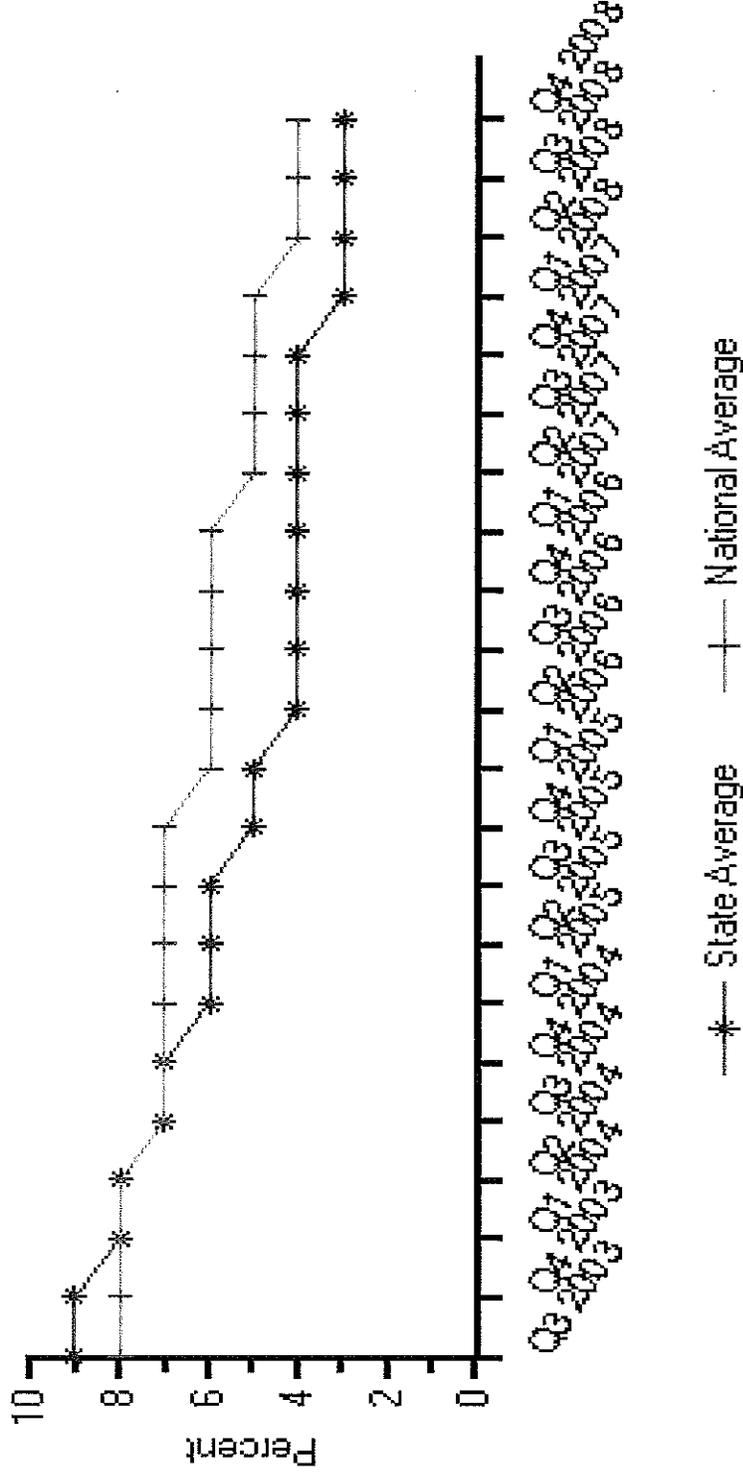
Percent of Residents Who are More Depressed or Anxious Connecticut



% Residents Physically Restrained

(source: CMS NHQI web site 12-2008; lower is better)

Percent of Residents Who Were Physically Restrained Connecticut



Economic Impact of Long Term Care

Americans Health Care Association

Economic Impact of Long Term Care Facilities

June 2008

Long Term Care (LTC) facilities* support an estimated \$7.8 billion or 3.8% of the state's economic activity

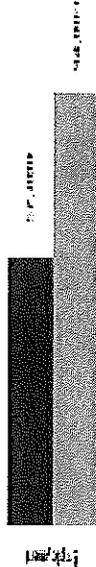
LTC facilities support \$7.8 billion in revenue...



LTC facilities support \$4.0 billion in labor income...



LTC facilities contribute to approximately 94,000 jobs...



*Long Term Care (LTC) facilities include nursing homes, assisted living, and other residential care facilities. These facilities do not include government-owned or hospital-owned facilities.

LTC facilities' direct economic impact on Connecticut represents...

- 1.6% of economic activity
- 1.7% of labor income
- 2.7% of employment

LTC facilities' total economic impact on Connecticut supports...

- 3.8% of economic activity
- 3.0% of labor income
- 4.3% of employment

LTC facilities generate \$1.4 billion in tax revenue...

- \$0.4 billion in state/local taxes
- \$1.0 billion in federal taxes

Demographics of Connecticut

Population (2008)	3.5 million
% Population 65+ years (2008)	13.4%
% Population 65+ years (2006)	12.7%
State economic activity (2006)	\$204.9 billion

Prepared by
T-LEWIN GROUP
THE ECONOMICS CENTER

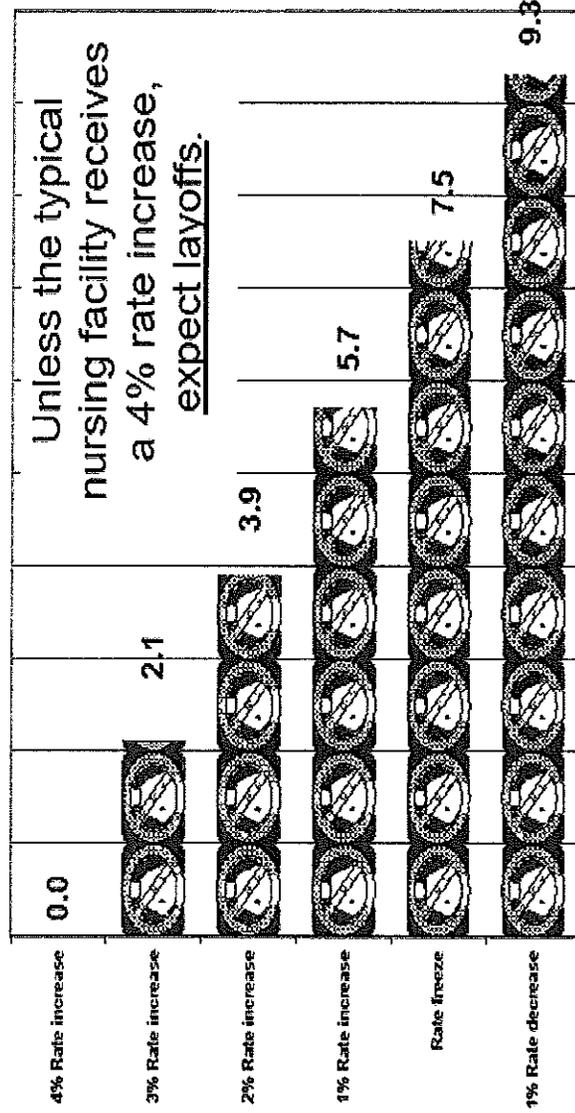


Impact of 4% increase

- **The industry needs a Medicaid rate increase of at least 4%.**

Rate effect on 1 facility

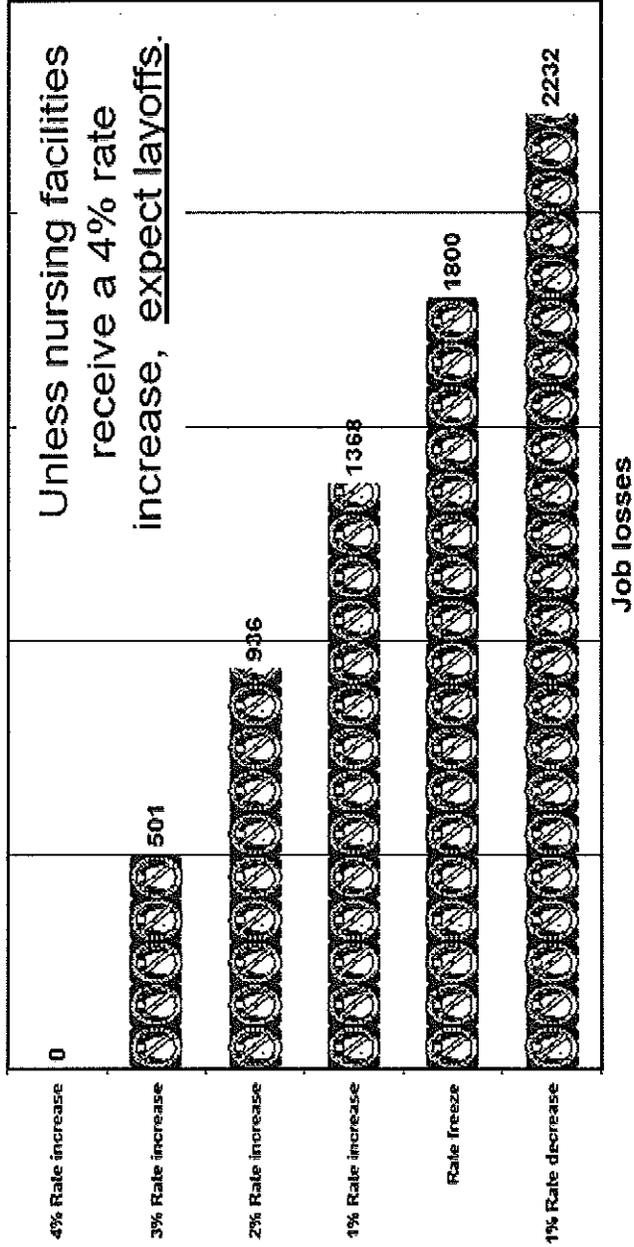
Medicaid Rate Change Effective July 1, 2009 and Impact on Jobs
For the typical 120 bed CT nursing facility based upon certain assumptions



Job losses

Rate increases saves jobs

Medicaid Rate Change Effective July 1, 2009 and Impact on Jobs
(Estimated statewide job losses based upon certain assumptions)



Avert the Crisis

- 4% increase
- Expand Provider tax
- Control Receivership costs
- Share the savings from closures
- Prevent Medicare cuts
- Task Force

Future

Nursing home care will grow Long Term
Care Needs Assessment UCONN Health
Center June 2007

Include all stakeholders in developing
solutions

cahcf

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- Connecticut Association of Health Care Facilities
- Provider organization of 110 For Profit and Not-for-Profit facilities (13,000 beds)



Given what Matt and Paul have presented, it is clear that CT nursing homes are distressed and many are in financial crisis. Dozens more homes will be moving towards either receivership, bankruptcy, or regrettably closures, unless action is taken today by the Administration and the Legislature. In order to preserve jobs, continue quality care, and mitigate nursing home failures, the cuts in the proposed 2-year budget need to be eliminated. Instead, a 4% increase to current Medicaid rates to nursing homes is warranted, given the fact that 9.64% is recognized as a loss adjustment in the rebasing as Matt presented. In requesting reasonable annual increases to our Medicaid rates, many times throughout this legislative session to date, we have been told that there simply is no money. Understanding the state's financial dilemma, this of course appears to be the immediate answer to justify the proposed cuts to nursing homes. However, we believe the better answer is-----let's identify ways to find or raise the money to continue the quality service and care to CT's frail and elderly residents in nursing homes. We believe we can offer solutions. Here are a just a few:

- Explore expanding the provider tax to other Medicaid providers or services that currently are not assessed the tax. As proven by the provider tax imposed on our industry in 2005, this generates new federal funding to the state without taxing the CT residents.
- Control the costs of receiverships and use the savings to fund annual rate increases to CT homes. First and foremost, I hope you appreciate how inefficient it is to refuse a requested rate increase to an existing quality nursing home provider and then pay millions more when that home ends up in receivership, or a change in ownership. Millions of dollars are being expended today on the 10 nursing homes in receiverships. Unlike the rest of the industry, the state Receiver is not capped or limited in the amount of reimbursement that is provided to operate the facility. Require Receivers to operate the receiverships with the same or comparable amount of funding as the rest of the nursing homes.
- Share the savings from past and future closures of nursing homes.
- On a federal level, prevent cuts in Medicare to the LTC industry
- Establish a Task Force consisting of all stakeholders to evaluate the inadequacies of the current Medicaid financing system and to develop a proposal that would reform CT's Medicaid financing system for long-term care. For example, our national association, the American Health Care Association, along with the National Center for Assisted Living and the Alliance for Quality Nursing Home Care, have recently embarked on a federal proposal for post acute and long-term care reform. Preliminary research has estimated it to save federal spending of \$35 billion in the first 10 years. The proposal bases reimbursement on individual service needs, not the location where the services occur. Similar forward thinking is needed in CT with our Medicaid finance system.

In closing, nursing home care is a needed service by the state of CT. Residents in long-term care are not necessarily there by choice, but because they need skilled care 24 hours a day, 7 days a week. And, nursing home care is on the rise. The Connecticut Long-Term Care Needs Assessment report, published in June 2007 by the University of Connecticut Health Center, estimates by the year 2030, nursing facility care will rise

between 25-43%. If the current budget cuts to nursing homes proceed, it will impact more than just dollars to CT. There are lives at stake and real people, residents and workers, behind the numbers. Our association collectively has hundreds of years of experience and knowledge in this industry. We are ready to start working together on solutions to preserve quality long-term care to our state's frail and elderly citizens.

Thank you.