

TESTIMONY OF Elaine Cole, Connecticut Association of Residential Care Homes

**IN SUPPORT OF SB323- AN ACT CONCERNING CAPITAL EXPENDITURES AT
RESIDENTIAL CARE HOMES.**

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**CONCERNING HB5441- AN ACT CONCERNING DIRECT PAYMENT OF
RESIDENTIAL CARE FACILITIES.**

Human Services Committee Public Hearing, March 6, 2014

Senator Slossberg, Representative Abercrombie and members of the Human Services Committee, my name is Elaine Cole. I am a board member of the CT Association of Residential Care Home (CARCH) and the owner of Mystic River Residential Care. I am here to testify in favor of **SB323- An Act Concerning Capital Expenditures at Residential Care Facilities** and offer testimony concerning **House Bill 5441- An Act Concerning Direct Payment Of Residential Care Facilities.**

Support of SB323- Capital Expenditures at Residential Care Homes

The Connecticut Association of Residential Care Homes (CARCH) supports Senate Bill 323 which would allow homes to receive reimbursement adjustments for capital expenditures, such as roof replacements and heating/air conditioning upgrades, over five or fewer years. We strongly believe that adoption of the minor reimbursement change proposed under this bill will greatly assist many homes that provide needed and cost-effective services to elderly and disabled individuals. The support services provided by Residential Care Homes (RCHs) often helps avoid the need for costly medical services including hospital inpatient and outpatient utilization.

Currently, the RCH rate-setting method depreciates the cost of each asset based upon its estimated useful life as published in the American Hospital Association Guide for Estimated Useful Lives. The established useful life of many assets exceeds ten years.

As small businesses that rely on state payments for residential and support services provided to individuals eligible for the Aid to the Aged, Blind and Disabled (AABD)/State Supplement program, most RCHs are not financially strong enough to self-fund significant capital outlays. RCHs generally fund necessary repairs and improvements with short-term credit lines, when available, or seek bank loans. Banks are often unwilling to amortize small fixed payment loans for more than five years. As a result, RCHs that make needed capital improvements to maintain physical plant and assure the health and safety of their residents, can face cash shortfalls when the useful life used for rate-setting is longer than the pay-back term associated the renovation/improvement financing.

While SB 323 would not solve the capital funding challenges of all RCHs, it would be of great assistance to many homes. CARCH expects that adoption of SB 323 has the potential for state savings over the long term.

The availability of rate reimbursement over a shorter period should enable more homes to obtain loan approvals and make needed repairs and renovations in a timely fashion and avoid higher costs associated with delays. The change would also improve the financial viability of many homes which could avoid the need for costly state receiverships.

Further, the state can save rate of return (ROR) and interest expense allowance costs related to RCH assets under \$10,000 with lives of six or more years that would now be limited to five year allowance periods. For example, under the state's capital reimbursement system (fair rental allowance), a \$9,000 capital cost having a ten year useful life with a 3% ROR results in a rate-setting allowance of \$1,055 per year for a total of \$10,550 over ten years. If the \$9,000 capital cost is reimbursed over five years with a 3% ROR, the total allowance over the shorter period is \$9,825 (\$1,965/year) resulting in a state savings of \$725.

CARCH requests your support for this bill and would add that SB 323 would complement a recently adopted IRS regulation that allows small businesses with buildings having an unadjusted basis of under \$1.0 million to expense capital repair and maintenance costs of up to \$10,000 in certain circumstances.

Concerning HB5441- Direct Payment of Residential Care Facilities

The Connecticut Association of Residential Care Homes (CARCH) supports legislation that would enable the Department of Social Services (DSS) to make direct payments, under the Aid to the Aged, Blind and Disabled (AABD) / State Supplement program to the residential care home (RCH).

Presently, AABD payments for RCH services are issued to recipients and homes regularly experience instances, particularly in the first month of stay, when residents do not apply their benefits to the cost of care. The proposed change by DSS assures that state funds are directed as intended under the AABD program. It is unfair for RCH operators to provide services without payment. The majority of residents use the funds appropriately but because RCHs serve some of the most vulnerable in the state, including individuals with mental health and substance abuse issues, there are occasions when residents refuse to pay. This puts homes in a difficult and unnecessary position of having to try to recoup the funds with little recourse.

However, we cannot support Section 4 of HB 5441 which would unfairly penalize homes for any delay no matter what the reason. The proposed section leaves no room for flexibility even in cases of hardship on the part of the home. RCHs are for the most part small family run facilities that often face legitimate issues such as a family illness, issue with the accountant's office or a host of other reasons. The proposed language does not provide the Commissioner latitude and could punitively impact homes who made best efforts to complete their cost reports.

We would ask that you remove Section 4 from the bill or at the very least ask that the language be permissive by changing "shall" to "may" so that the department would have the discretion to consider extraordinary circumstances such as the death of an owner or cost report preparer. As small businesses, RCHs do not have a depth of management and accounting resources.

In total, we would ask you to support Sections 1-3 of the bill which would increase efficiency and remove section 4 or at the very least provide flexibility with the language.

I thank you for the opportunity to speak today and would be happy to answer any questions.