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To: Mr. Domalewicz, Chair, Committee on Nursing Home Facilities
Ms. McKnight, Chair, Committee on Social Services

Copies: Mr. Houghtaling
Mr. Commisso
Ms. Benedict
Mr. Conboy
Mr. Marcelle

From: John W. Rodat

Date: February 25, 2009

Re: Nursing Home Costs

At the January 29, meeting of the Legislature's Nursing Home Facility Committee chaired by Mr. Domalewicz, I presented several financial issues regarding the Nursing Home. Several people have asked for more detail.

Since the last Nursing Home Committee meeting, there's also been some discussion regarding capital costs of building a new facility and capital cost reimbursement and some confusion about reimbursement rates. Although capital costs were not central to the January 29 discussion, we'll provide some additional information on that topic as well. *As was the case on the 29th, most of this material is on the cost of continuing in the nursing home business regardless of whether we build a new facility or continue at the existing one.*

Summary

- The current year's Nursing Home budgeted deficit is unusually low due to approximately \$8.3 million in retroactive IGT funds. This program expires at the end of 2010.
- While many of the Governor's proposed cuts in Medicaid reimbursement may be restored by the State Legislature, some of the cuts have already gone into effect and others are likely to be accepted. The cuts may cost up to \$5.9 million in lost revenue in 2009.
- The combination of reduced Medicaid reimbursement and loss of IGT combined with very modest increases in operational costs would increase the budgeted County Share to \$21.7 million in 2011 from \$4.5 million budgeted in 2009. That would represent two consecutive 12 percent increases in the property tax levy. That \$21.7 million in County share would be the new base for subsequent budgets. For the long term, even that amount is understated because it does not include the rapidly increasing unfunded

liability for retiree health benefits. That liability for Nursing Home employees is projected to be about \$3.3 million in 2011 and 3.9 million in 2013.

- Building a new facility will have little to no effect on these losses. Regarding capital costs, that is the best case. While Medicaid reimbursement would be increased for capital costs, there would be no changes to cover the ongoing losses from operations. Over 33 years, there is risk of census decline which would further increase the deficit.
- Daily personnel costs alone, excluding fringe benefits currently exceed the current Medicaid daily reimbursement rate.
- The County share that covers the Nursing Home deficit is more than double the County share Albany pays through Medicaid for all other nursing home care. In 2007, combined with the County's contribution to Medicaid for its own nursing home, Albany County spent over \$15.3 million serving a few over 600 patients at its own facilities while spending \$6.9 million serving 3,400 patients in others.

Operating and Overall Costs and Revenues

The following tables, using conservative assumptions, outline the net County share under two scenarios this year and then projections through 2013. The key assumptions are detailed below in the notes. However, the basics include the following: The column 2009/1 represents the County Budget just adopted. The column 2009/2 represents the current year taking into account the Governor's proposed Medicaid payment reductions. While some of the Governor's proposed cuts may be restored, in the current economic climate, it is hard to imagine that they all will be and harder still to imagine that there will be no reductions in the future. We use the Governor's Budget as a base. Other pending changes may further disadvantage all county facilities. We also assume that the IGT funds for this year and next remain intact. Additionally, while we assume that staffing will remain stable after completion of the budgeted layoffs (or staff moves to other County agencies) this quarter, we also assume zero wage or salary increases in 2010 and 2011.

Despite these conservative assumptions, the Nursing Home alone would by itself account for two consecutive 12 percent increases in the property tax levy.

Table 1: Summary Projected Nursing Home Budgets (\$ Millions)

	2009/1	2009/2	2010	2011	2012	2013
Costs	\$34.6	\$34.6	\$36.8	\$37.8	\$39.2	\$40.6
Revenues	\$30.1	\$24.3	\$24.2	\$16.1	\$16.4	\$16.6
Co. Share	\$4.5	\$10.3	\$12.7	\$21.7	\$22.9	\$24.0
	2009/1	2009/2	2010	2011	2012	2013
Tax Levy	\$67.9	\$67.9	\$76.1	\$85.1	\$86.3	\$87.4
Pct Chg.			12.0%	11.9%	1.7%	1.3%
NH Pct	6.6%		16.6%	25.5%	26.5%	27.4%

Note that the estimated effects on the property tax levy assume there are no other changes in the County Budget. This is merely to isolate the potential effect of operating the nursing home on future property taxes.

If there are no Medicaid payment cuts in 2009, then the property tax levy increase in 2010 that is attributable to the Nursing Home will be 3.4 percent, but the increase in 2011 will be 12.8 percent.

The costs above do not include the increasing liability accruing for current employees' retirement health benefits. They are currently unbudgeted but real nevertheless. Because the decision to build a new nursing home commits the County to 30-40 years worth of costs, the true long term costs should be considered and an estimate reflecting the true liabilities is included here.

Table 2: Summary True Costs, Including Unbudgeted Retiree Health Benefit Liability (\$ Millions)

	2009/1	2009/2	2010	2011	2012	2013
Costs	\$37.4	\$37.4	\$39.9	\$41.1	\$42.8	\$44.5
Revenues	\$30.1	\$24.3	\$24.2	\$16.1	\$16.4	\$16.6
Co. Share	\$7.3	\$13.1	\$15.7	\$25.0	\$26.4	\$27.9

Currently our true costs per patient at ACNH are nearly \$156,000 per patient per year.

Taking revenues into account, the aggregate net cost to the County are even more striking. As described above, the County share for the Nursing Home will exceed \$21 million in 2011 and thereafter. (It was probably close to that last year, but the books are not yet closed.)

County costs for covering the Nursing Home deficit are about double the County costs Albany pays through Medicaid for all other nursing home care. In 2007, Medicaid paid \$69 million for nursing home care for Albany County residents in all nursing homes other than those operated by the County. This was used to serve 3,400 people and the County was responsible for ten percent of the costs. During the same year, the County spent over \$14.1 million to cover its operating deficits at its own facilities over and above Medicaid payments. Thus, combined with the County's contribution to Medicaid for its own nursing homes, it spent over \$15.3 million serving a few over 600 patients while spending \$6.9 million through Medicaid for serving 3,400 patients in others.

Capital Costs and Medicaid Reimbursement

With respect to capital costs, during the Nursing Home Committee meeting, a member asked what we estimated the cost of a new facility to be. We referenced the figures that are in the Capital Plan already adopted by the Legislature, namely around \$67 to \$68.25 million. That is the approximation that we have previously used and is based on the State Health Department's maximum allowable capital cost for 250 beds in this region that was in use at the time the plan was prepared. For Medicaid purposes, construction costs in excess of what the State allows are not reimbursable at all and would be entirely a County cost. In contrast to Medicaid, Medicare does not change its reimbursement after construction. Thus, while Medicare pays more than Medicaid, there would be no increase as a result of building a new facility or improving the existing one.

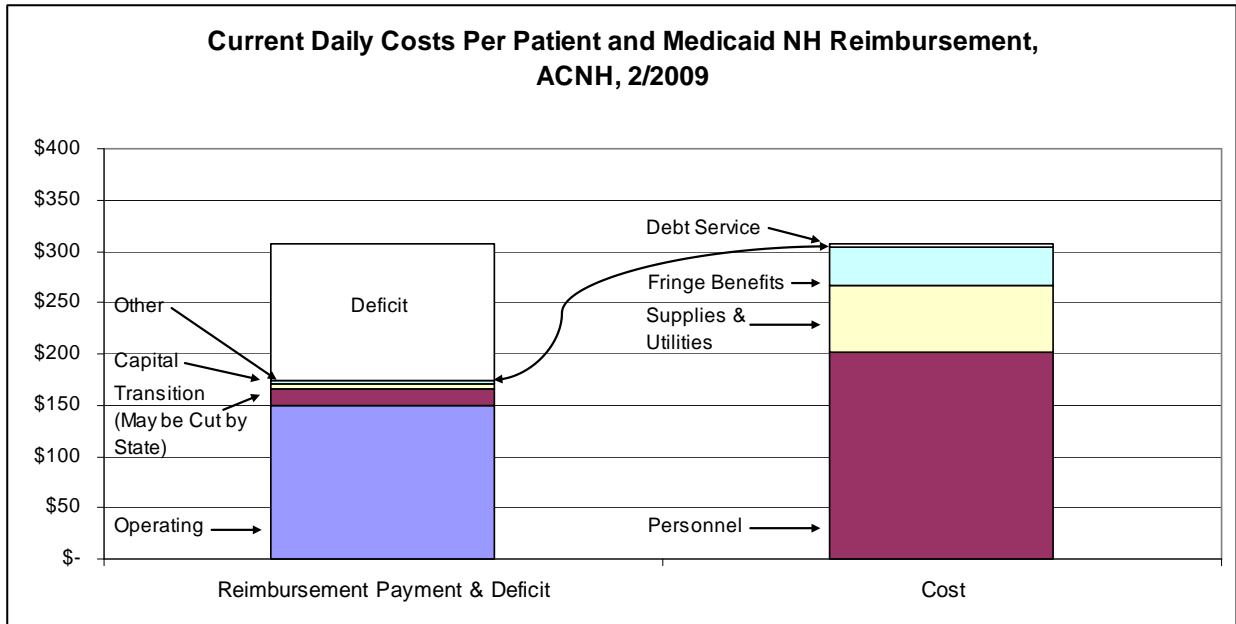
There's been some suggestion that the above answer was misleading and that "the reimbursement rate for building a new nursing home is 50% federal, 40% state, and only 10% Albany County (or \$6.8 million)." Those percentages quoted reflect the basic shares of total liabilities for the Medicaid program for nursing home care and *not* nursing home reimbursement (payment) rates, much less the capital component of nursing home reimbursement rates. Moreover, it does not take the Medicaid cap into account. The rate calculation and payment process includes the following steps:

1. The State Health Department calculates a daily Medicaid payment rate. The calculation includes capital as well as operational components. However, the Department uses standardized formulas and it does not guarantee that the total payment rate is equal to the daily costs of providing care. (A new system in the works may further disadvantage most or all county facilities because it will set one fixed price for all facilities in a region. Most likely, higher cost facilities will suffer financially even more than they do today.)
2. Medicaid, also administered by the State Health Department pays that calculated daily payment rate for each day of nursing home care for a Medicaid client in a skilled nursing facility.
3. The County Department of Social Services pays the State 10 percent of the Medicaid costs for all nursing home care. However, growth in the County's share of Medicaid costs is capped at three percent per year so that, except in the unlikely event that Medicaid costs decline, growth in Medicaid costs is irrelevant to the County's financial concerns.

Below are two charts that show how the Medicaid payment rate would be modified. The first chart shows the current daily per patient costs compared to the current Medicaid reimbursement rate (i.e., what Medicaid pays Albany County Nursing Home for one day of patient care). Both our cost and the reimbursement rate are broken into their component parts. Note that the reimbursement payment column includes a component that may be eliminated based on the State's current Budget deliberations. Note also that these data do not include the liability currently being accrued for retiree health benefits.

The curved line connects the current debt service costs to the current capital component of the Medicaid reimbursement rate. Both are currently quite small.

Chart 1

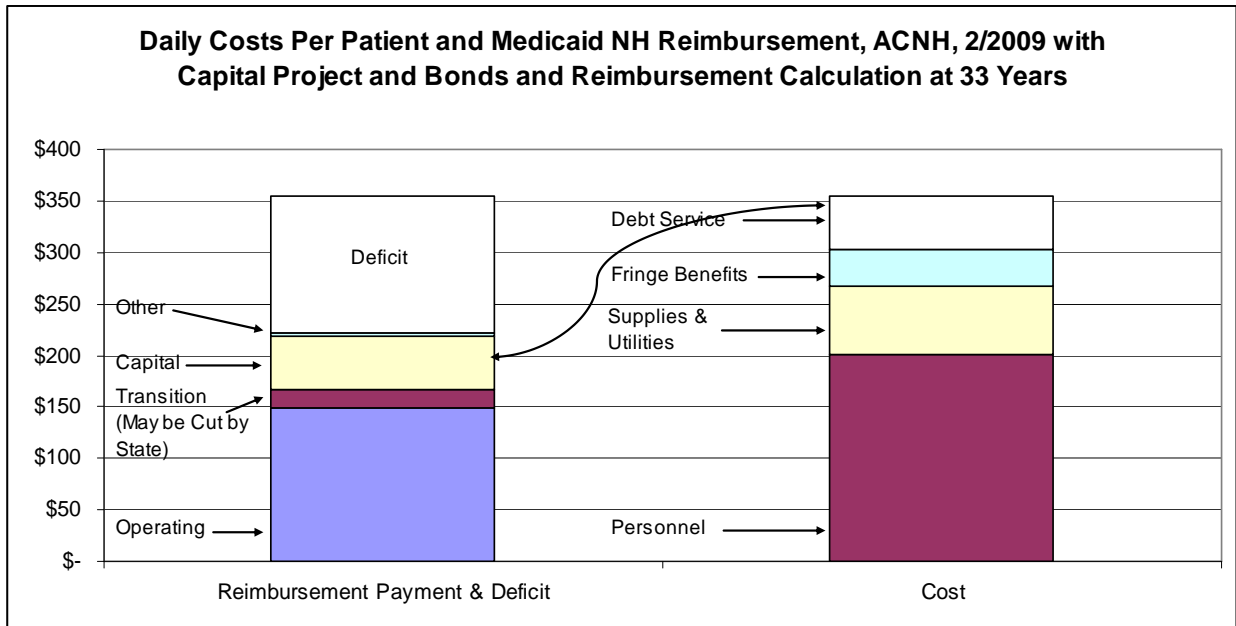


The second chart assumes no changes in operations, but includes both the additional debt service costs and the additional capital reimbursement that would be added to the Medicaid reimbursement rate following construction of a new \$68 million facility. To oversimplify, the capital component of Medicaid nursing home payment rates is calculated as a function of total allowable capital costs, including interest and spread day-by-day over the useful life of the facility, typically 33 years. The capital component is added to the operating component of the daily rate to generate a daily payment rate, or per diem.

Note that both the total cost and the reimbursement go up just under \$50 per patient day, but since they go up the same amount, the deficit does not change. Note also that if the construction bonds were issued for the more typical 25 rather than 33 years, then the debt service costs will exceed the capital reimbursement for the first 25 years, and create an additional deficit of \$6.29 per patient day or about \$560,000 per year during that period.

Although it does not relate to the issue of capital cost, note also that excluding fringe benefits personnel costs by themselves exceed the current total reimbursement rate.

Chart 2



The Medicaid per diem is paid, if and only if, a Medicaid patient is provided care. Thus, the County would be guaranteed the revenues against the capital cost, if and only if, the facility remained *full* for at least its useful life, 33 years. If, for example, 80 percent of our beds were filled by Medicaid patients over 33 years, then Medicaid would pay us back 80 percent of the *capital* costs - over 33 years though we would continue to absorb the operating deficits described above. However, if on average 10 percent of the beds were empty, the County would bear entirely the cost of those vacant beds. Albany County taxpayers will continue to bear the excess operational costs as they do today.

In short, except on the margin for such factors as reduced utility costs and possibly a short-term surge in higher paying private patients who are not central to the County's mission, building a new facility will have no positive effect on Nursing Home losses. At the same time, there are risks of further losses. If the State changes the method by which it calculates Medicaid payment rates, it will likely be to the County's detriment. Moreover, a stable census for 33 years is far from sure.

The risks of falling census are not negligible. This would be a continuation of what has occurred during the past decade. From January of 1999 to January of 2007, total census in Albany County's two nursing homes fell by over 35 percent (573 to 271) and that was *prior* to the Berger Commission mandate. Moreover this decline occurred during a period when both Eden Park and Childs Nursing Home also closed. Indeed, among all nursing homes, the number of Albany County residents whose care was paid for by Medicaid fell from about 1,600 in 2002 to about 1,375 in 2008. Were similar patterns to recur, the losses at ACNH would be dramatically greater than described above.

More importantly, even if all of the capital costs were fully reimbursed, that ignores the operating costs, which comprise a much larger percentage of total costs, and which is where we and virtually all other county nursing homes lose money. Because of IGT, we are enjoying a short-term financial respite (relatively speaking since if the Governor's proposals are enacted we will lose *only* \$10 million or so this year).

While the State may not impose the cuts in Medicaid reimbursement rates currently under consideration, there are no prospects at all, especially over the long term, for significant increases

in what Medicaid will pay. Given the direction of State policy even before the current economic and budgetary crises, there is little reason to believe that the State would fundamentally change the method and levels of Medicaid reimbursement enabling any county nursing facilities to break even.

Today without building a new facility, the true average cost of serving a single patient at the Albany County Nursing Home is nearly \$156,000 per year. Approximately one-third of that is borne by the County over and above what Medicaid and other programs pay. By 2011, the per patient County share could well exceed 100,000 after Medicaid reimbursement.

So the issue is not capital reimbursement per se, or the County's share of Medicaid costs. Rather it is whether starting in 2011, Albany County is willing to begin three to four decades of multi-million dollar losses and tax increases (starting at \$22 million per year and growing thereafter) to provide service to no more than 250 people when alternatives are both preferable to the public and future patients and so much less costly to patients and the taxpayers.

Notes to Charts and Tables

The capital estimated costs used in the second chart for a new construction project are \$67 million, bonded for 33 years at a five percent interest rate

Year 2009/1 is the 2009 Budget as Enacted

Year 2009/2 is the 2009 Budget as Enacted Adjusted for the Governor's Proposed Medicaid Reductions

Those carry forward through the remaining years

Year 2011 also reflects the end of retroactive IGT funds in 2010

GASB 45 Liability is for future costs of retiree health benefits. It is accruing, but is not currently budgeted or reserved to any significant degree

Key Assumptions:

Operating Costs

Assumes staffing levels remain constant after 4/1/2009

Assumes zero wage and salary increases in 2010 and 2011. Assumes 3% per year thereafter

Nine percent annual increases in health benefits costs

Part-year 2009 Layoff savings annualized in 2010

State retirement contribution increases of 20% in 2010, 10% in 2011, 5% in 2012 and 0 in 2013

No increases in Workers' Compensation

One time adjustment of OT costs in 2010 to reflect that these have been typically provided for by transfer from individual salary lines that are no longer

Capital Costs

Assumes no major capital costs in existing facility (sprinklers, etc.)

Includes no new debt service or transition costs, i.e., these estimates do NOT include building a new facility

Revenue Assumptions

Governor's proposed cuts substantially adopted in 2009

No further Medicaid change in 2010, 1% increase in 2011, 2% increases in 2012 and 2013.

Medicare revenues 2 percent per year increase