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JOHN W. RODAT
COMMISSIONER

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

From: John W. Rodat

Date: April 29, 2009

Re: Update on Nursing Home Costs and Revenues – Post State Budget Changes

In February we provided some financial projections related to the Albany County Nursing Home based on the Medicaid reimbursement changes proposed in the Governor's Budget. The adopted revenue reductions were not as large as proposed by the Governor, but they were significant. The cuts originally proposed would have reduced our revenues by approximately \$5.9 million. The cuts adopted by the State will reduce Medicaid revenues during 2009 by approximately \$3.7 million. This puts the current County budget out of balance and it becomes a newly reduced base for future years' revenues. Additional changes were adopted that are likely to further reduce Medicaid reimbursement, but they do not take effect until next year.

For the updated projections in the table below, we have also updated the costs based on the collective bargaining agreements recently completed. These updates include both salaries and related costs such as overtime and Social Security taxes. However as before, the projections assume no wage or salary increases in either 2010 or 2011. Wages and salaries are assumed to increase three percent per year 2012 and afterwards. Also as before, these projections do not take into account the building of a new facility.

A third change was also not implemented in 2009, but beginning in 2010 will fundamentally change the manner in which Medicaid payments are determined. The State Legislature provided authority to the State Health Department to proceed with "regional pricing" on April 1, 2010. Formerly although the cost base used for calculating each facility's payment rate was out-of-date, it was specific to each facility. This provided some measure of protection to high cost facilities such as those sponsored by counties. In the future, the cost base will be more up-to-date, but it will be based on a regional average. This means that facilities with below average costs will benefit and those with above average costs will be disadvantaged. Updating will benefit all facilities. Additionally, the new rate methodology may increase payment rates for patients with dementia, Alzheimer's or other conditions which make some facilities reluctant to admit them. However, although the specifics of price regionalization and other adjustments have not yet been worked out, given ACNH's current cost base, it will likely be disadvantaged and may be significantly so. While the specifics are still uncertain, some movement toward regional pricing is quite likely and is thus factored into the following estimates.

**Table 1: Current and Near-Future Financial Picture for ACNH
Summary Projected Nursing Home Budgets (\$ Millions)
With Property Tax Levy Changes Required to Cover Nursing Home Deficits**

	2009/1	2009/2	2010	2011	2012	2013
Costs	\$34.6	\$35.1	\$37.4	\$38.4	\$39.8	\$41.3
Revenues	\$30.1	\$26.4	\$26.2	\$17.0	\$17.3	\$17.6
Deficit	\$4.5	\$8.7	\$11.2	\$21.3	\$22.5	\$23.7
Change in Budget Deficit			\$6.7	\$10.1	\$1.2	\$1.2
Tax Levy Resulting	\$67.9	\$67.9	\$74.6	\$84.07	\$85.9	\$87.1
Tax Levy Percent Change			9.9%	13.6%	1.8%	1.4%
NH Percent	6.6%		15.0%	25.2%	26.2%	27.2%

2009/1 = 2009 ACNH Adopted Budget

2009/2 = 2009 ACNH incorporating adopted State Budget changes, collective bargaining agreements for 2009, and likely future changes in Medicaid reimbursement.

Tax Levy assumes no changes in County Budget other than at the Nursing Home

Totals may not add due to rounding

Key assumptions detailed below.

Assuming an average census of 240 patients and taking into account the liability for retiree health benefits, the true average annual cost per patient and County share for the next four years are shown in Table 2.

**Table 2: Estimated Costs and County Share per Year per Patient,
Including Retiree Health Benefit Liability
Summary Projected Nursing Home Budgets (\$ Thousands)**

Year	2010	2011	2012	2013
	Thousands (000)			
Total True Cost per Year per Patient	\$168.4	\$173.6	\$180.9	\$188.3
County Share per Year per Patient	\$59.3	\$102.6	\$108.8	\$115.0

Given the uncertainties regarding regional pricing and other prospective changes, we will update these estimates as more information becomes available.

Key Assumptions in Tables 1 and 2:

- Temporary IGT revenue ends in 2011
- No further Medicaid payment reductions
- 0% salary increase in 2010 & 2011. Assumes 3% per year thereafter
- 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. It is reflected in Table 2, but not in Table 1.
- Assumes staffing levels remain constant after 4/1/2009
- Part-year 2009 Layoff savings annualized in 2010
- 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
- Nine percent annual increases in health benefits costs
- State retirement contribution increases of 20% in 2010, 10% in 2011, 5% in 2011 and 0 in 2013
- No increases in Workers' Compensation
- One time adjustment of overtime costs in 2010 to reflect that these have been typically provided for by transfer from individual salary lines that are no longer available and to reflect current overtime patterns.
- Medicaid revenues increase 1% in 2011 and 2% in 2012 and 2013.

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