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**Written Testimony of Dr. Robert Kraig,
Political Director, SEIU Wisconsin State Council,
SB 446**

**(Wage Pass Through for Nursing Home Support Staff)
Senate Committee on Health, Utilities, Veterans, and
Military Affairs
March 15, 2000**

I want to thank the members of the committee for this hearing. I especially want to thank the lead sponsor of SB446, for his long record of leadership on nursing home issues, and for his willingness as Chair of this committee to schedule this bill for hearing on very short notice.

Both nationally and in Wisconsin, SEIU represents more nursing home workers than any other labor union.

We believe that this measure is a welcome effort to respond to the ongoing labor crisis in the nursing home industry. In itself, it will not remedy that crisis, but it is a good step in the right direction.

Even under ideal conditions, the skyrocketing acuity levels of nursing home residents has made nursing home work one of the most stressful and difficult of all occupations. When short staffing, exceedingly high turnover, and McDonald's level wage scales are added to this, the working conditions in many nursing homes are almost unbearable.

As part of my job, I occasionally meet with groups of nursing home workers around the state who are represented by SEIU. I have to confess that, despite the best of intentions, I sometimes dread these meetings. I know that I will hear the same wrenching horror stories that I have heard time and again from other workers across the state. I know that I will have to tell them that there is nothing in play at the State Capitol that will substantially change their situation. I wish more of them could be here today to share their stories, but quite frankly because of the staffing shortage it is nearly impossible to get them off work, especially on short notice.

This bill, as I have said, is a step in the right direction. Anything we can do to raise the wages of these workers will help the situation because it will improve recruitment and retention. Honestly, given the strength of the labor market, we should be doing a great deal more. I would be remiss if I did not add that this bill is an

Local 150 (Statewide)

Local 21, School District
of La Crosse

Local 180, La Crosse
City Employees Union

Local 152, Racine
Unified School District

Local 168, Kenosha
Unified School District

Local 1199WI, United
Professionals (Statewide)

improvement over the wage pass through for Certified Nursing Assistants (CNAs) in the 1999-2001 State Budget. It closes the major loopholes that were used by some nursing homes to avoid paying CNAs the full 5% they had coming to them. Given the proclivity of some nursing homes not to pass on all of the money--indeed, it should be remembered, it is their labor policies that have gotten us into this situation--I think it makes good public policy sense to tie the money up as tightly as possible.

In his veto message on the wage pass through for support staff the Governor drew a distinction between the situation of CNAs and support staff. While it is true that support staff workers are in general not as short staffed as CNAs, the situation is still very bad, and has a detrimental effect on the quality of care. In addition, in some homes support staff is being pressed into doing work that is the traditional province of CNAs.

The most important consideration in all of this, of course, should be the quality of care. The quality of care is getting worse every year in the vast majority of nursing homes, and it will continue to do so until we have much higher staffing levels, and pay scales that are commensurate with the difficulty and importance of the work. Until that happens, turnover will be high and the quality of care will suffer.

Again, thank you for the opportunity to testify on this important bill.

FISCAL ESTIMATE FORM

1999-2000 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 4224/4
BILL # SB0446
 Admin. Rule #

Subject
 Nursing Home Wage Pass-Through

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

Increase Costs - May be possible to Absorb Within Agency's Budget Yes No

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

Decrease Costs

Local: No local government costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
 Towns Villages Cities
 Counties Others _____
 School Districts WTCS Districts

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

20.435 (4) (b), (4) (o)

Assumptions Used in Arriving at Fiscal Estimate:

Under current Law, the Department of Health and Family Services (DHFS) pays a combination of general purpose revenues and federal medicaid moneys to nursing homes for care provided to recipients of medical assistance (MA). DHFS must calculate a payment rate for a nursing home by applying, to information from cost reports for the nursing home's previous fiscal year, a statutory formula that includes specified standards and considers specified cost centers and allowable costs. Among the cost centers that DHFS must consider is allowable support service costs, including dietary service and environmental service (providing maintenance, housekeeping, laundry and security services).

Under this bill, DHFS would be provided a supplement of \$4,550,000 of general purpose revenues and federal medicaid moneys to the MA payment rates for nursing homes, beginning on July 1, 2000, for the payment of wages or salaries or an increase in the staff hours of housekeeping, laundry and food workers. Each nursing home may apply to DHFS to receive the maximum amount of the supplement which is calculated to be 3.5% of wages and salaries for the specified workers per patient day as shown on the nursing home's 1998 cost report. This bill also requires DHFS to ensure that the supplement was used by nursing homes to increase wages for the specified workers per patient day by at least 3.5% in addition to any increases due to a collective bargaining agreement in effect on January 1, 2000. If DHFS determines that the supplement was not expended as required, then DHFS may recoup that part of the supplement not expended as required.

The cost of increasing wages and salaries for housekeeping, laundry and food workers is estimated to be approximately equal to the amount appropriated under this bill. Based on 1998 cost reports from private and county run nursing homes, a 3.5% increase in wages and salaries for the specified workers would cost \$3,730,000 all funds. Additionally, this bill allows wage and salary increases for the State Centers for the developmentally disabled and the Wisconsin Veterans' Home at King. Although the Centers and King are paid at actual cost, DHFS would be required to use the funds appropriated under this bill to pay an increase in wages and salaries for the specified workers at the Centers and King. Including the additional costs from the Centers and King, DHFS expects the total cost of the supplement to reach the amount appropriated under the bill.

Continued on page two.

Long-Range Fiscal Implications:

The funding appropriated under this bill expires June 30, 2001, and after that date, nursing homes may not be fully reimbursed for the ongoing costs of increased wages and salaries.

Prepared By: / Phone # / Agency Name

DHFS/OSF Anne Miller, 266-5422

Authorized Signature / Telephone No.

John Kiesow, 266-9622

Date

3-13-00

Nursing Home Wage Pass-Through

DHFS also anticipates costs at the local and state level, which are not included in the amount appropriated for this bill. At the local level this bill will increase costs for counties choosing to participate. Because this bill reimburses nursing homes for wages of workers providing services to MA recipients only, county nursing homes will be responsible for the wage increase for workers providing services to non-MA recipients. DHFS estimates that a 3.5% increase in wages will result in \$242,000 in non-reimbursable costs to counties. Additionally, fringe benefit costs are not reimbursable costs under the supplement, and participating counties' nursing homes will be responsible for approximately 21% of their wage and salary increases in pension fund payments and employers' share of social security payments. DHFS estimates that if all counties participate in the supplement, their wage and salary increase would cost \$960,000, which would be reimbursable under the supplement, plus \$201,000(21%) in fringe benefits which would not be reimbursable under the supplement.

At the state level, this bill is estimated to result in a loss to the state of approximately \$1.1 million dollars in federal Intergovernmental Transfer Program (IGT) payments because county nursing homes are estimated to decrease losses by \$760,000. Additionally, in order to complete the bill's required review to assure compliance with the intent of the supplement, the Department will require additional resources. It is assumed that reviewing each of the 411 nursing homes serving MA recipients will require approximately 6 hours of auditor time for one year. This equals 2,466 hours of work time, and using 1,850 hours of available work time per FTE, the Department will require an additional 1.3 FTE at the Auditor-Senior classification. This is equivalent to an annual cost of \$77,200 ($\$21/\text{hour} \times 1.36 \text{ fringe} \times 2080 \text{ hours} \times 1.3 \text{ FTE} = \$77,200$). This cost split is \$38,600 GPR and \$38,600 FED. It is also assumed that reviewing collective bargaining agreements to ensure compliance with the bill will require the expertise of legal counsel and DER. However, the cost of legal counsel and DER expertise cannot be estimated at this time.

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

1999 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 4224/4

Admin. Rule #

BILL # SB0446

Subject

Nursing Home Wage Pass-Through

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$ 77,200	\$ -
(FTE Position Changes)	(1.3 FTE)	(- FTE)
State Operations - Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations	5,650,000	-
TOTAL State Costs by Category	\$ 5,727,200	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 2,996,700	\$ -
FED	2,730,500	-
PRO/PRS		-
SEG/SEG-S		-
State Revenues Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-1,100,000
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ -

NET ANNUALIZED FISCAL IMPACT

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$5,727,200	\$1,403,000
NET CHANGE IN REVENUES	\$	\$960,000

Prepared By: / Phone # / Agency Name
 DHFS/OSF Anne Miller 266-5422

Authorized Signature/Telephone No
 John Kiesow, 266-9622

Date
 3-13-00



TO: Senator Rod Moen, Chair, and Members of the Senate Health Committee

FROM: Jim McGinn, Wisconsin Health Care Association (WHCA)

DATE: March 15, 2000

RE: Support for Senate Bill 446

The Wisconsin Health Care Association (WHCA) is a statewide organization which represents the interests of 250 proprietary, non-profit, and municipal nursing homes. Its members employ over 27,000 dedicated individuals who provide care to approximately 26,000 frail elderly and disabled residents.

WHCA recognizes the Legislature's concerns with providing our state's frail elderly and disabled with the highest quality of life and care in nursing homes. Our members share your concerns with adequate staffing, and the training required of our staff to deliver appropriate care and services. Accordingly, our members are requesting your support for SB 446, which provides a 3.5% wage pass-through for nursing home housekeeping, laundry, and food service staff.

Wisconsin's low unemployment rates, combined with Medicaid's impact on nursing homes, have made it nearly impossible for nursing homes to recruit and retain staff. SB 446 will assist nursing homes in attempting to be competitive with other employers for employees in a scarce labor pool.

While a similar 3.5% wage pass-through was approved by the Legislature as part of Act 9, the biennial budget bill, it was vetoed by the Governor due to his concerns with facilities contracting for these services. However, a review of 1998 Medicaid cost reports indicated that: 8 facilities (2.4%) contracted for dietary, 33 facilities (9.8%) for laundry, and 13 facilities (3.8%) for housekeeping. Thus, very few facilities contract for the employees eligible for the proposed wage pass-through.

Briefly, WHCA requests your support of SB 446 because:

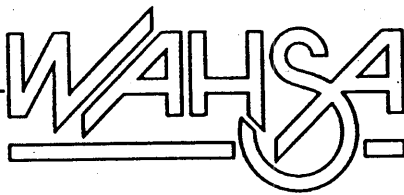
* The 3.5% wage pass-through is for dietary, housekeeping, and laundry workers, who now earn an average of \$7.98 an hour, or \$16,500 a year.

* The wage pass-through will provide a 28-cent-an-hour raise-directly into the pockets of workers who do the laundry, prepare the meals, and do the housekeeping in Wisconsin's nursing homes.

* With today's low unemployment rates and tight labor market, wages in the \$7.75 to \$8.50 per hour are barely competitive. Since support staff clean the linens, bed sheets, clothes and rooms, and prepare the meals, WHCA is requesting your support for a modest wage increase that at least recognizes the service staff that assists in maintaining and enhancing the quality of life of all nursing home residents.

Finally, it should be noted that SB 446 provides approximately \$2.2 million (GPR) \$4.5 million all funds for the wage pass-through.

It is WHCA's hope that you will support SB 446.



Issue Paper

ISSUE: A 3.5% wage pass-through for nursing home housekeepers, food workers and laundry workers ("support service staff")

Proposal:

The 1999-2001 state budget adopted by the Legislature last year contained a 3.5% wage pass-through for nursing home dietitians and food workers, laundry workers and housekeepers, as well as 5% wage pass-through for certified nursing assistants (CNA). While signing the CNA wage pass-through into law, Governor Thompson vetoed the 3.5% wage pass-through for the support service staff. A bill currently is in drafting which once again would offer a 3.5% wage pass-through supplement for housekeepers, laundry workers, and food workers, but would exclude dietitians. The original proposal would have applied the wage-pass through supplement to increased wages, benefits or staffing hours; the new proposal would apply the supplement only to wages and/or increased staffing. The fiscal note for the original proposal was \$4 million GPR and \$8.9 million all funds over the biennium; *the soon-to-be-introduced wage pass-through proposal, which was crafted and is supported by both labor (AFSCME and Service Employees International Union) and management (Wisconsin Association of Homes and Services for the Aging [WAHSA] and Wisconsin Health Care Association [WHCA]), carries a price tag of \$2.2 million GPR and \$4.6 million all funds.*

Supporting Arguments:

- The Legislature approved a 3.5% wage pass-through for housekeepers, laundry workers, dietitians and food workers in the 1999-2001-state budget. We would hope that similar support could be found for this less-expensive alternative.
- In his veto message, Governor Thompson explained his rationale for vetoing the 3.5% wage pass-through by stating: "Many nursing homes contract for dietary consulting services, and to a lesser extent, laundry and food service workers. Therefore,

the wage pass-through may not apply to workers in those areas because the nursing home does not pay their wages directly."

Our response:

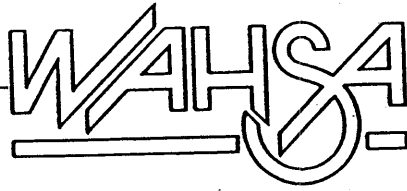
- 1) To address one of the concerns raised by the Governor, we have eliminated dietitians from eligibility for a wage pass-through supplement in our modified proposal;
- 2) A review of the combined WAHSA/WHCA database calls into question the Governor's assertion that "many" nursing homes contract for dietary consulting services, and to a lesser extent, laundry and food service workers. According to our combined database, of the 338 facilities whose 1998 Medicaid cost reports were reviewed, only 8 facilities (2.4%) contracted with outside providers for dietary services; 33 facilities (9.8%) contracted for laundry services and 13 facilities (3.87%) contracted for housekeeping services; and
- 3) Neither the wage pass-through adopted in the budget bill nor the modified wage pass-through we are proposing would, or is intended to, supplement costs incurred by nursing facilities for the purchase of contracted services from outside service providers. The intent of the wage pass-through is to reward underpaid but invaluable facility staff while at the same time reduce facility reliance on outside service providers. The reason for the latter: It is a common belief that an over-reliance on outside service providers can diminish the continuity of care and services that is so necessary to maintain the quality of care and the quality of life of a nursing home resident.

Wisconsin Association of Homes and Services for the Aging

204 South Hamilton Street • Madison, WI 53703 • Phone: (608) 255-7060 • Fax: (608) 255-7064 • www.wahsa.org

- The purpose of this proposal is to provide additional funding to some of the lowest paid workers in a nursing home. According to the Legislative Fiscal Bureau (Please see page 12 of Legislative Fiscal Bureau Budget Paper #478 Nursing Home Reimbursement, dated 6/1/99), the average wage of nursing home dietitians and food workers in 1997 was \$8.46/hour; for both housekeepers and laundry workers, it was \$7.95/hour. The joint WAHSA/WHCA database of 338 nursing facilities, which includes for-profit, not-for-profit, county and municipal facilities, found that the average wage in 1998 for dietary staff was \$8.44/hour; for housekeeping staff, it was \$7.79/hour; and for laundry workers, it was \$7.70/hour. (It should be noted that both the LFB figures and those from our database are overstated slightly for dietary staff because both include wages of dietitians, who are excluded from our proposal and who generally earn more than food workers). While the proposed wage pass-through will generate a wage hike of only approximately \$.25/hour, for these three categories of workers, every little bit helps.
- Nearly 70% of the residents of Wisconsin nursing homes have their care paid for by Medicaid. These governmental funds are distributed to nursing homes through the nursing home payment formula, which sets facility-specific rates based on projections of each facility's allowable costs for the coming year. Based on the payment caps established under the nursing home formula, 87%, or 134 of the 154 WAHSA facilities whose 1998 Medicaid costs were reviewed, will not be fully reimbursed for the dietary, housekeeping and laundry costs they have incurred. The average loss for these 134 facilities was \$141,537, or nearly \$4 per resident day. Obviously, it is difficult for facilities to increase future wages for their staff when they are not reimbursed for their past costs.
- With today's low unemployment rates and tight labor market, wages in the \$7.70-\$8.50/hour range are barely competitive. According to figures compiled by the Department of Workforce Development, door-to-door salespeople, telemarketers, hand packagers, tire changers, dry cleaning spotters and many fast food restaurant employees are on average paid more than support service staff that serve elderly and disabled persons.
- Not only are nursing facilities having a difficult time competing with other private sector employees for staff; the State itself is a fierce competitor. According to a 2/17/00 State Department of Employment Relations job announcement, the starting pay (not the average wage as was listed for nursing home employees above) for food workers at state medical institutions, universities (other than UW-Madison) with state-operated food programs and the Veteran's Home at King ranges from \$8.07/hour to \$8.42/hour, not including the generous benefits and retirement package available to state employees. Nursing facilities, which rely so heavily on Medicaid, simply can't compete with that kind of a wage/benefits package.
- The Governor's veto message referred to high turnover rates for certified nursing assistants, but the tight labor market has impacted facility support service staffing as well. A joint WAHSA/WHCA survey last year found that 59.8% of the facility respondents had vacant dietary staff positions, with on average 12.4% of their budgeted positions unfilled. Of the responding facilities, 52.6% had vacant housekeeping positions, with on average 17.4% of their budgeted positions unfilled. While only 27.8% of the responding facilities reported vacant laundry positions, on average 23.1% of the budgeted positions at those facilities were unfilled.
- In his veto message, the Governor justified his support for a 5% wage pass-through for CNAs by pointing to the high turnover rates of CNAs and the threat of declining patient care as a result of low CNA wages. But as warranted as the CNA wage pass-through was, the proposed wage pass-through for housekeepers, food workers and laundry workers is equally justified. Those workers are paid even less than CNAs and, while CNAs provide most of the hands-on care in a nursing facility, the support service staff plays an equally essential role in enhancing the nursing home resident's quality of life. Simply ask a nursing home resident how important it is to him or her to have clean linens, clean bed sheets, clean clothes, a clean room and appetizing meals. Quality of life is every bit as important as quality care to a nursing home resident and it is the support service staff which is primarily responsible for maintaining and enhancing the quality of life of the nursing home resident.

The Wisconsin Association of Homes and Services for the Aging (WAHSA) is a statewide membership organization of not-for-profit corporations principally serving elderly and disabled persons. Membership is comprised of 190 religious, fraternal, private and governmental organizations which own, operate and/or sponsor 194 not-for-profit nursing homes, 71 community-based residential facilities, 39 residential care apartment complexes, 100 independent living facilities, and 446 community service programs which provide services ranging from Alzheimer's support, child day care, hospice and home care to Meals on Wheels. For more information, please contact the WAHSA staff at (608) 255-7060: John Sauer, Executive Director; Tom Ramsey, Director of Government Relations; or Brian Schoeneck, Financial Services Director.



Issue Paper:

Future Nursing Facility Funding Concerns

Background:

Wisconsin nursing facilities are facing a funding and staffing crisis that must be addressed. Every day facilities confront multiple issues that effect the lives of tens of thousands of residents, families and staff. These facilities are struggling under increasingly difficult circumstances to deliver the highest quality of care and services expected and demanded of them. WAHSA member facilities are greatly appreciative of the Legislature's efforts to fund the wage pass-through for certified nursing assistants (CNAs) under 1999 Wisconsin Act 9, the 1999-01 biennial budget. Indeed, we are seeking additional legislation to provide a 3.5% wage pass-through for nursing home housekeepers, food workers and laundry workers. That appreciation, however, cannot mask the fact that a wage pass-through is only a short-term solution to a long-term problem. As detailed below, we believe future substantial Medicaid nursing facility payment increases are necessary to ensure quality nursing facility care.

This paper discusses some of the challenges of providing nursing home care, explains many of the factors that drive long term care facility costs, and asks the Legislature to support a permanent and stable funding solution as part of the 2001-03 biennial budget bill.

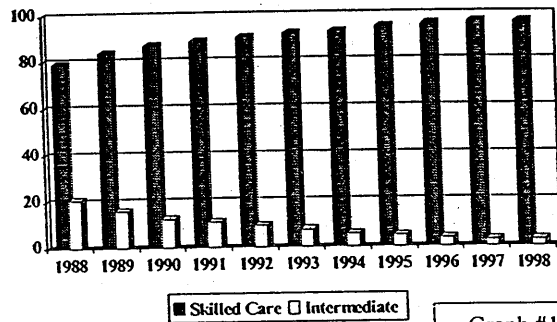
Why Are Nursing Facility Costs Increasing?

Resident Needs Are More Complex

Nursing home costs continue to escalate due to a rapid rise in the medical and behavioral needs of their residents. As shown in Graph #1, the number of nursing home residents in need of higher and more costly skilled nursing or

intensive skilled nursing levels of care (SNF/ISN) at the time of admission has increased from 79.4% in 1988 to 97% in 1998. Today, fewer than three percent of nursing home residents require the lower intermediate level of care (ICF) at the time of admission.

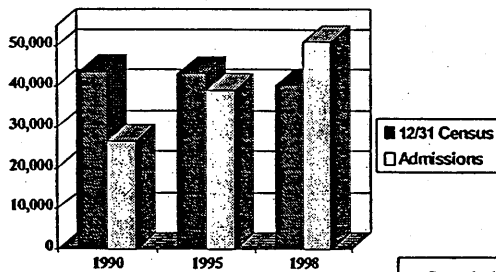
Resident Acuity Increases 1988-1998



Source: DHFS, WI Nursing Homes and Residents 1998, 01-00

Also, nursing home residents of today exhibit many more medical and behavioral symptoms than a decade ago. This stands to reason since nearly eighty percent of all skilled nursing facility admissions come directly from an acute care hospital. While today's nursing facility resident has significant and costly care and service needs, facilities are doing an excellent job of providing restorative and rehabilitative care, enabling over forty-percent of nursing home residents discharged to return to a private residence. For most facilities, the average length of stay for a nursing facility admission is measured in days or weeks. As shown in Graph #2, although the annual census of Wisconsin nursing facilities has decreased since 1990 by some 3,300 residents, the number of annual admissions since 1990 has increased by over 24,500, or a 93% increase.

Wisconsin Skilled Nursing Facility Census and Admissions



Graph #2

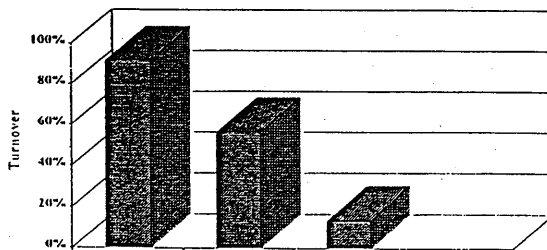
Source: DHFS Nursing Homes 1998

Increasing admissions also increase costs. Each nursing facility admission triggers a very staff-intensive process. Federal regulations mandate facilities to expeditiously complete for every resident a detailed and comprehensive assessment and produce a written resident-specific plan of care. This plan of care must be constantly updated and documented and the resident data must be entered into a computer database that is sent to the state and federal survey agencies. Thus, while it is the goal of nursing facilities to return residents to their traditional home, when possible, the significant increase in admissions concomitantly has increased nursing facility costs as facilities have been forced to add nursing assessment, data entry and documentation staff.

Nursing Facilities Face a Staffing Crisis

Without question, Wisconsin's nursing facilities face a mounting staffing crisis. Within the past twelve months, seventeen facilities reported having to deny admissions because of the lack of staff. According to a 1999 survey jointly conducted by the nursing facility provider associations: 75% of the homes reported a "significantly more difficult" time attracting workers than two years ago (38.5% responded "significantly worse"); on aver-

Nurse Aide Wages and Turnover



Fringes	18.3%	20.8%	39.0%
Nsg. Hrs/Res/Day	3.10	3.44	3.51
	Low Cost Homes	Moderate Cost Homes	High Cost Homes

Graph #3

Sources: DHFS, 1998 WI Nursing Homes & Residents and 1998 Medicaid Cost Reports

age 13.8% of budgeted CNA positions were vacant; and staff turnover rates continue to rise. Working in a long-term care setting is rewarding and inspirational work; it is also very demanding and often times stressful. Because Medicaid is the primary payment source for nearly 70% of all nursing home residents, the ability of facilities to adequately compensate staff is frequently hamstrung by inadequate Medicaid reimbursement rates. There is a direct correlation between wages, benefits and staffing hours (i.e., employees assigned to resident cares) and a facility's staff turnover rate. As shown by Graph #3, facilities that offer relatively higher employee compensation packages and staffing hours generally have greater success in reducing their CNA turnover.

The significance of the correlation between turnover rates and quality of care was noted in a report published in 1994 by the Department of Health and Family Services (DHFS) Center for Health Statistics: "One important aspect of quality of care in nursing homes is the continuity of employment among the nursing staff. Low continuity can lead to staff shortages, which in turn allows less time for resident care. A time lag usually occurs between the date an employee leaves a facility and the date a replacement begins work. Training of new employees also absorbs time. Therefore, it can generally be assumed that the lower the nursing home turnover rate, the better the quality of care will be."

Why Are Current Medicaid Funding Levels Inadequate?

According to figures recently released by the Legislative Audit Bureau in an audit of county nursing home funding ("An Evaluation: County Nursing Home Funding" – Department of Health and Family Services – 00-1 – January 2000), the State provided \$698.1 million in state and federal Medicaid funding in FY 1998-99 for Medical Assistance recipients requiring skilled care in 417 Wisconsin nursing facilities. Despite this seeming generosity, this paper seeks to outline the factors which WAHSA members believe render this funding level inadequate.

Elimination of the "Boren Amendment"

In 1997, Congress repealed the "Boren Amendment," which required States to reimburse nursing facilities at levels that are "reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers." Congress estimates repeal of the "Boren Amendment" will generate a savings of \$1.2 billion over five years. Since previous rate increases for

nursing homes were provided in part to ensure compliance with the "Boren Amendment," its elimination, coupled with the savings projected to be generated by that elimination, removes an important protection against inadequate nursing home funding.

Medicaid Rates Don't Meet Inflation

1999 Wisconsin Act 9 included a 2.5% Medicaid rate increase for nursing homes in FY 1999-00 and a 2% increase in FY 00-01. Those increases are less than the 3.4% increase in nursing facility costs estimated by the DHFS for that time period. The result: Despite a 2.5% rate increase for July 1, 1999 – June 30, 2000, 140 of the 154 nursing facilities in the WAHSA database, or 91%, will incur aggregate Medicaid costs that are \$66.7 million greater than their Medicaid reimbursement. That Medicaid deficit figure would have been closer to \$102 million if it were not for the \$35.3 million in intergovernmental transfer (IGT) payments to WAHSA's county nursing homes.

Maximum Payments for Direct Care Services Continue to Decline

Direct care costs include wages and benefits for nursing facility caregivers, including RNs, LPNs and CNAs. The nursing home payment formula establishes a maximum payment for direct care service costs and costs in six other cost centers. That maximum was set to cover the direct care costs of facilities at 103% of the statewide median in FY 1998-99. Despite a 2.5% rate increase under 1999 Act 9 for FY 1999-00, the direct care maximum dropped to 102.3% of the statewide median, one of the lowest levels in the country for states with cost-based reimbursement systems. According to the WAHSA database, 94 of 154 member facilities, or 61%, will not be fully reimbursed for their direct care costs despite the 2.5% rate increase provided under Act 9. The 2% rate increase provided under Act 9 for FY 2000-01 most likely will result in further reductions in those direct care maximum payments.

Medicaid Labor Region Changes Could Cut Facility Rates

The 1999-00 nursing home payment formula implemented by DHFS included a significant change in the state labor region designations used to determine facilities' direct care rates. This change is generally based on the labor region designations utilized by the federal government to establish payments under the Medicare program. During the current biennium DHFS has agreed to phase-in the fiscal impact of switching to the new labor regions; however, it intends to fully transition to the new regions effective July 1, 2001. *Without additional Medicaid funding in 2001-03, fully implementing the*

Medicare labor regions could be disastrous for some homes.

Although a number of homes stand to gain under this change, facilities in the following counties could receive a 2001-02 rate reduction under the Medicare labor regions: Adams, Columbia, Dodge, Fond du Lac, Grant, Green, Green Lake, Iowa, Jefferson, Juneau, Lafayette, Marquette, Polk, Richland, Sauk, Sheboygan and Walworth Counties. Some facilities are scheduled to drop from the current "high" labor region to Medicare's "rural" labor region. These homes could receive a direct care rate cut of \$1.59 per resident/day, or for a facility with 100 Medicaid residents, an annual cut of \$58,000, the salary and fringe equivalent for 2.5 full-time CNA positions. Facilities in Sheboygan County stand to fare even worse. Medicare has designated Sheboygan County as the lowest labor region in Wisconsin. A facility with 100 Medicaid residents in this county could receive a rate cut of \$73,000, the wage and fringe equivalent for 3.4 CNA positions.

Transition to a Medicaid "Case-Mix" Reimbursement System

In July 2001, DHFS intends to begin transitioning to a new Medicaid nursing home reimbursement system. This new system will be similar to Medicare's nursing home Prospective Payment System which incorporates resident resource utilization groups (RUGs) to establish payment rates according to levels of care. Many other states have elected to convert their Medicaid payment systems to one based on Medicare's RUGs. Based on the experience of these states, however, it is obvious that transitioning to a RUGs-based system will require additional Medicaid funding. Numerous reports note that while the RUGs system somewhat effectively establishes levels of care reflective of nursing facility residents' medical needs, this system does not adequately assess, and therefore reimburse for, the needs of residents exhibiting challenging behaviors. In addition, transitioning to this new system will likely cause significant swings in reimbursement rates among nursing homes. In order to assure fiscal stability within Wisconsin's nursing homes during the transition to a RUGs payment system, additional Medicaid funding will be required.

Private Pay Rates Are Too High

Because Medicaid pays facilities rates that fall substantially below the actual cost of providing care and services, private pay residents are forced to subsidize the Medicaid program. According to the DHFS 1998 Annual Survey of Nursing Homes, *the average skilled care rate paid by private pay residents was thirty-five percent higher than the rate paid by Medicaid (In 1998*

the average private pay rate was \$130/day, compared to a Medicaid rate of \$96). If substantial 2001-03 Medicaid nursing home funding increases are not approved, this substantial subsidization of the Medicaid program by private pay residents will unfairly but undoubtedly continue to increase.

The State's Commitment to Funding Nursing Home Services Is Declining

Over the past decade, nursing home providers have sought and helped succeed in passing two wage pass-through proposals (and are seeking a third), a \$32 dollar per occupied bed tax on its residents and the intergovernmental transfer program (IGT), which uses county nursing home deficits as the State share to capture matching federal Medicaid funds. Between the bed tax and the IGT, Wisconsin will be able to capture an addi-

tional \$122 million in federal Medicaid funding this year. At the same time, however, State GPR funding for nursing homes has declined from \$233.7 million in FY 1994-95 to a budgeted amount of \$199.4 million in FY 2000-01, a drop of approximately 14.7% (see Table I).

We are just about out of funding gimmicks and fiscal band-aids to offset the declining State GPR commitment to its nursing home residents and those who care for them.

THE SOLUTION

WAHSA members will seek to work with the Governor, the Legislature and the DHFS to develop a permanent and stable solution to the nursing home funding problem as part of the 2001-03 state budget.

Table I
Medicaid Skilled Nursing Care Expenditures

<u>Fiscal Year</u>	<u>GPR</u>	<u>% GPR</u>	<u>Federal Funding</u>	<u>% FED</u>	<u>Total Reimbursed Expenditures</u>
1994-95	\$233,670,029	37.4%	\$391,680,161	62.6%	\$625,350,190
1995-96	\$231,264,146	34.5%	\$438,920,182	65.5%	\$670,184,327
1996-97	\$202,265,712	30.1%	\$470,390,288	69.9%	\$672,656,000
1997-98	\$222,789,935	32.8%	\$457,391,443	67.2%	\$680,181,378
1998-99	\$229,931,767	32.9%	\$468,201,659	67.1%	\$698,133,426
1999-00*	\$224,080,967	33.4%	\$446,547,142	66.6%	\$670,628,109
2000-01*	\$199,383,543	30.7%	\$449,029,730	69.3%	\$648,413,273

*estimated

Source: Legislative Audit Bureau Evaluation: County Nursing Home Funding, 00-1, January, 2000

The Wisconsin Association of Homes and Services for the Aging (WAHSA) is a statewide membership organization of not-for-profit corporations principally serving elderly and disabled persons. Membership is comprised of 190 religious, fraternal, private and governmental organizations which own, operate and/or sponsor 194 not-for-profit nursing homes, 71 community-based residential facilities, 39 residential care apartment complexes, 100 independent living facilities, and 446 community service programs which provide services ranging from Alzheimer's support, child day care, hospice and home care to Meals on Wheels. For more information, please contact the WAHSA staff at (608) 255-7060: John Sauer, Executive Director; Tom Ramsey, Director of Government Relations; or Brian Schoeneck, Financial Services Director.