



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #775

Veterans Home at Chippewa Falls (DVA - Veterans Homes)

[LFB 2011-13 Budget Summary: Page 521, #1]

CURRENT LAW

2003 Act 102 authorized the Department of Veterans Affairs (DVA) to develop, construct or renovate and operate residential, treatment, and nursing care facilities and programs for veterans in northwestern Wisconsin on the property of the Northern Wisconsin Center for the Developmentally Disabled in Chippewa Falls. As part of the states' building program, 2005 Wisconsin Act 25 authorized \$24.5 million (\$8,575,000 in program revenue supported borrowing authority and \$15,925,000 in federal funds) for the design and construction of a skilled nursing facility at the Chippewa Falls site. In August 2005, DVA applied for federal funding for the project, which is available under the state home construction grant program administered by the U.S. Department of Veterans Affairs (USDVA). For several years, the agency's grant application was denied, due to limitations on federal funds budgeted for the program. However, DVA received approval for the grant in September, 2010.

Construction of the 72-bed nursing facility at the Veterans Home in Chippewa Falls will begin in May of 2011, and the facility is expected to open in November, 2012. Under current law, the Veterans Home at Chippewa Falls must be staffed with state employees and managed by DVA.

GOVERNOR

Provide \$414,900 PR in 2011-12 and \$6,580,400 PR in 2012-13 to fund staffing, overtime, night and weekend differentials, energy, supplies, and start-up costs for the new 72-bed nursing facility at the Veterans Home at Chippewa Falls.

Staffing. Provide \$284,200 in 2011-12 and \$4,880,900 in 2012-13 to fund the equivalent of 35.0 positions in 2011-12 and 91.5 positions in 2012-13 to operate the Veterans Home at Chippewa Falls. DVA would use this funding to contract for the operation of this facility.

Supplies and Start-up Costs. Provide \$114,900 in 2011-12 and \$1,310,500 in 2012-13 to fund supplies and one-time start-up costs. DVA estimates that start-up costs for supplies and services, such as textiles, small wares, flatware, and dishes, will equal one-twelfth of the projected annual cost of these items.

Overtime, Night, and Weekend Differential Personnel Costs. Provide \$188,300 in 2012-13 to fund the overtime costs for contracted staff overtime (\$45,700 in 2012-13) and higher wages that would be paid to staff working night and weekend shifts (\$142,600 in 2012-13).

Energy Costs. Provide \$15,800 in 2011-12 and \$200,700 in 2012-13 to fund projected energy costs for the new Veterans Home at Chippewa Falls.

Statutory Changes. Create a gifts and bequests appropriation for the Veterans Home at Chippewa Falls, which would enable DVA to expend all moneys it receives from gifts and bequests for the purposes for which the money was given.

Authorize DVA to enter into an agreement with a private entity to operate the veterans Home at Chippewa Falls and perform such management and care using personnel employed by the private entity. Exempt this agreement from a provision requiring state departments to contract for services which can be performed more economically or efficiently through the contract and that requires state departments to prescribe, in rule, uniform procedures for determining whether services are appropriate for contracting.

Authorize the Legislative Audit Bureau to perform, in addition to any other Veterans Home audits required by statute, one or more financial audits of the operation of the Veterans Home at Chippewa Falls by any private entity with which DVA enters into an agreement for management and operation of the home. Specify that the audits would be performed at such time as directed by the Governor or Legislature.

DISCUSSION POINTS

1. The Veterans Home at Chippewa Falls will be a 72- bed skilled nursing facility with two neighborhoods. Each neighborhood will consist of two 18-member households. DVA intends to phase in residents at the facility by adding approximately four residents per week for the first six weeks after the facility opens. For every week thereafter, the number of residents would increase by approximately two residents, until 95 percent of the beds are filled (approximately 68 residents).

2. The Department contracted with Pathway Health Services, Inc. (Pathways) to develop a staffing model based on the facility design, federal and state staffing requirements, and position responsibilities. In addition, Pathways consulted with employees at the Veterans Home at King and the Veterans Home at Union Grove in creating the staffing model. Using the projected growth in the facility population and the staffing model developed by Pathways, DVA created a

staffing plan and a hiring timeline that provides staff with time for planning, training, and orientation. The plan relies on assistance from the existing veterans homes and assumes that the Veterans Home at Chippewa Falls will be able to adopt policies, procedures, and protocols previously developed by the other DVA nursing homes.

3. As a result of the staffing plan the agency developed, DVA requested, as part of its 2011-13 biennial budget submission, \$284,200 PR in 2011-12 and \$4,880,900 PR in 2012-13 to fund salaries and fringe benefits for 35.0 positions in 2011-12 and 91.5 positions in 2012-13, to operate the Veterans Home at Chippewa Falls. These funding amounts assumed that all staff would be hired at the minimum hourly rate allowed for each state position. The Department's request for night and weekend differential funding was based on current employee contracts.

4. DVA has developed a five-year business plan for the Veterans Home at Chippewa Falls, which combines cost estimates (using the Department's staffing plan for the facility), as well as assumptions regarding the projected growth in its resident populations and the revenue that will be generated by serving these residents. The revenue sources that will be available to support the Chippewa Falls facility are the same revenue sources that currently support the operations of the two other DVA nursing homes: (a) revenue contributed by private pay residents; (b) the state's medical assistance (MA) program; (c) per diem payments from the USDVA; and (d) 70 percent or Greater Service Connected Disability per diem payments from USDVA.

The following shows the estimated revenues and expenditures for the facility over the first five years that the Veterans Home at Chippewa Falls is in operation, as presented in the agency's business plan.

**Veterans Home at Chippewa Falls Five-Year Business Plan
Revenues and Expenditures**

	<u>Year 0</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Operating Revenues	\$0	\$6,094,400	\$8,424,300	\$8,633,300	\$8,967,000	\$9,189,200
Expenses	-342,200	-7,124,400	-8,171,800	-8,342,000	-8,585,300	-8,720,100
Interest Costs	0	-420,000	-404,400	-388,300	-371,700	-354,600
Balance	-\$342,200	-\$1,450,000	-\$151,900	-\$97,000	\$10,000	\$114,500

The table shows that, during the first years of operation the facility's costs are expected to exceed available revenues. During those years, the operations of the Chippewa Falls nursing home will be supported by revenues generated by the other veterans facilities. Since all of the veterans homes are funded from the same program revenue appropriations, DVA may use revenue generated by the operation of some of its facilities to support costs of others.

The required subsidy to the new Chippewa Falls facility is not without precedent. In its August, 2010 letter report, Rate Setting at the Wisconsin Veterans Homes, the Legislative Audit Bureau determined that from fiscal years 2004-05 through 2008-09, DVA's Union Grove facilities had deficits in both its nursing home and assisted living operations, while the King home's revenues

exceeded its expenditures. During that period, DVA transferred a total of \$21.1 million from King's operating surplus to help support Union Grove's operations. The transfers of surplus funds at King were possible largely because of a \$20.1 million one-time retroactive MA payment the King home received in 2005-06. However, DVA continues to subsidize the operations of the assisted living facilities at the Veterans Home at Union Grove.

5. The Governor's bill would provide the same amount of funding the agency requested in its 2011-13 budget submission, but no additional position authority would be provided. Instead, DVA would be required to contract with a private entity to staff the Veterans Home at Chippewa Falls. If the actual cost of contracting for the operation of the facility is less than the funding provided in the bill (which is based on the cost of funding state positions), DVA would have additional uncommitted funds in its appropriation to support the operations of DVA's nursing homes in the future. Under a separate item in the bill, DVA would be authorized to transfer surplus funds from several appropriations for the veterans homes, including the appropriation that funds DVA's institutional operations, to the veterans trust fund. This transfer provision is discussed in LFB Paper # 778.

6. The private pay rate at the Veterans Home at Chippewa Falls is estimated to be \$305 per person per day in 2012-13. This is considerably higher than current private pay rates at private nursing homes. In a 2010 memorandum, DHS estimated that the median cost of private pay nursing home care in Wisconsin was \$204 per day.

7. DVA staff indicates that private pay rates at the veterans homes are higher than average private nursing homes for three reasons. First, to continue receiving per diem payments from USDVA, DVA is required to provide more services to their residents than most private nursing homes, including optometry, audiology, dental, podiatry, barber, beautician, clothing and other grooming supplies, and medications. In addition, DVA facilities must comply with stricter staffing requirements than other nursing homes. Second, the veterans homes are staffed with state employees, who typically have, on average, higher salary and fringe benefit costs than employees at private nursing homes. Third, the veterans homes have less staff turnover than most private nursing homes. For example, 61% of the staff at the Veterans Home at King has worked at that facility for more than five years. DVA staff indicates that low turnover increases the quality and consistency of care for residents.

8. Since higher salary and fringe benefit rates are one reason that costs are higher at the veterans homes than at private nursing homes, it would appear that contracting with a private entity to operate the Veterans Home at Chippewa Falls should generate savings. However, the actual cost of operating the facility will only be known once DVA enters into a contract for the operation of the nursing facility.

9. Due to the uncertainty concerning the funding required for a private entity to operate the Veterans Home at Chippewa Falls, the Committee may wish to modify the bill by placing all of the funding recommended by the Governor under this item in the Joint Committee on Finance PR program supplements appropriation, which could be released to DVA under a 14-day passive review process once the bids for the contract are received, but before DVA enters into a contract with the entity it selects. This option would provide the Committee an opportunity to review the

winning bid, compare the costs of the proposed contract with the funding budgeted for the operation of the facility, and seek additional information from DVA prior to entering into a contract (Alternative 3).

10. As a requirement for receipt of USDVA per diem payments, if a facility is operated by an entity contracting with the state, the state must assign a state employee to monitor the operations of the facility on a full-time, on-site basis. Under the Governor's bill, DVA would be required to reallocate 1.0 PR position within the agency's institutional operations appropriation to comply with this federal requirement.

11. DVA is currently seeking information from nine other states that contract for the operation of their state veterans homes. The agency recently sent a 32-question survey to state veterans agencies in Colorado, Georgia, Maryland, Mississippi, Montana, North Carolina, South Carolina, Texas, and Utah. The survey is intended to solicit information on a variety of issues, including costs of care, liability exposure of the state, and the quality of care these facilities provide. To date, DVA has received responses from five states: Georgia, Montana, North Carolina, Texas, and Utah.

12. Each of the five states that returned the survey indicated that the state developed a request for proposal (RFP) to select the private entity that would operate their veterans homes. The respondents indicated a range of time frames for the development of the RFP, from 30 hours to one year, but three of five states indicated that the RFP process took between three and nine months. Two states received only one proposal in response to their RFP and the other three states received between three and eight proposals.

13. The states indicated that the length of their contracts ranged from one year (with optional one year renewals up to five years) to seven years. As the Governor's bill does not specify a period of the contract, this matter would be determined by DVA.

14. Three of the states indicated that one of the benefits of contracting with a private entity for the operation of their veterans homes was that the state was not responsible for daily operations and employee issues. In addition, three of the states indicated that one problem with contracting for operations of the veterans homes was the lack of control the state had with respect to facility operations.

15. Since other states currently contract with private entities for the operation of their veterans homes, the Governor's proposal would not affect funding sources used to support the facility, including federal USDVA payments or medical assistance funds.

16. The Centers for Medicare and Medicaid (CMS) rates every nursing home certified by Medicare and Medicaid according to its "Five-Star Quality Rating System," based on health inspections, staffing, and quality measures. As of April 2011, three of the four skilled nursing halls at the Veterans Homes at King received four-star ratings and one received a five-star rating. The one skilled nursing hall at the Veterans Home at Union Grove also received a five-star rating. DVA indicates that the Veterans Homes at King and Union Grove together have a higher overall average score on the five-star rating system than for-profit, non-profit, and other state-run nursing homes in

Wisconsin.

As part of its contract, DVA could establish performance standards to ensure that the quality of the care provided at the Chippewa Falls Home meets or exceeds the performance of the other nursing homes.

17. DVA staff has indicated that contracting with a private entity may reduce volunteer participation at the Veterans Home at Chippewa Falls. In calendar year 2011, 437 volunteers contributed 41,192 hours to the Veterans Home at King and Union Grove. The Department indicates that it would expect a similar level of volunteer participation, adjusted for facility size, at the Veterans Home at Chippewa Falls, but that some individuals and organizations have indicated they would not contribute if the facility was operated by a private entity.

18. On April 15, 2011, the Board of Veterans Affairs approved a motion that "strongly urges the Governor and the Legislature not to waive the statutory requirement for cost-benefit analysis prior to deciding whether or not to privatize the operations of the Wisconsin Veterans Home at Chippewa Falls; that any cost-benefit analysis incorporate a requirement that the analysis include a comparison of the overall King and Union Grove quality of care ratings with the private sector providers; and, should the decision be subsequently made to privatize the operations of the Wisconsin Veterans Home at Chippewa Falls, that the resulting contract contain a performance guarantee requirement that during the contract period, the Wisconsin Veterans Home at Chippewa Falls shall maintain an overall star rating at least equal to the average overall star rating for the Wisconsin Veterans Homes at King and Union Grove."

With respect to this motion, the bill would permit, but not require, DVA to contract for the operation of this facility. However, no state staff would be authorized in the bill. The agency could continue to conduct further analysis of this issue prior to entering into a contract, and seek legislation to authorize state positions to staff the facility. Further, any issues regarding quality assurance and performance standards a contracted entity would need to meet would be determined by DVA in developing the contract.

ALTERNATIVES

1. Approve the Governor's recommendations.
2. Modify the Governor's recommendation by: (a) deleting all provisions relating to DVA's authority to contract with a private entity to provide services at the Veterans Home at Chippewa Falls; and (b) providing 35.0 positions in 2011-12 and 91.5 positions in 2012-13 to staff the facility with state staff, rather than a contracted entity.

ALT 2	Change to Bill Positions
PR	91.50

3. Adopt the Governor's funding and statutory changes. However, transfer all funding

for this item to the Joint Committee on Finance supplemental appropriation. Direct DVA, prior to entering into a contract for the operation of the facility, to seek the release of this funding from the Committee to DVA to operate the facility, under a 14-day passive review process.

ALT 3	Change to Bill	
	Funding Prog. Supp	Funding DVA
PR	\$6,995,300	- \$6,995,300

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