



## Legislative Fiscal Bureau

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May 23, 2023

Joint Committee on Finance

Paper #831

### **General Fund Transfer to the State Veterans Homes and Master Plan for King (Veterans Affairs)**

[LFB 2023-25 Budget Summary: Page 676, #3 and Page 677, #7]

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#### **CURRENT LAW**

The Department of Veterans Affairs operates three state veterans homes to provide skilled nursing care for eligible veterans and their spouses or surviving spouses. The Wisconsin Veterans Home at King, in Waupaca County, has 397 licensed beds, the Wisconsin Veterans Home at Union Grove, in Racine County, has 158 licensed beds, and the Wisconsin Veterans Home at Chippewa Falls, has 72 licensed beds.

The operations of the state veterans homes are supported from five primary sources: (a) Medical Assistance program payments; (b) USDVA per diem payments; (c) USDVA service-connected disability payments; (d) member payments; and (e) Medicare payments.

The base budget and authorized position count for the principal operations for each of the homes is, as follows: (a) \$8,215,600 PR and 2.0 PR positions for Chippewa Falls; (b) \$79,569,900 PR and 895.8 PR positions for King; and (c) \$19,891,400 PR and 216.0 PR positions for Union Grove. The Department contracts for the operations of the Chippewa Falls home, so the staff, other than the home administrator and an accountant, are not state positions.

#### **DISCUSSION POINTS**

1. AB 43/SB 70 would transfer \$10,000,000 in 2023-24 from the general fund to the PR appropriation account for the state veterans homes, which the Administration indicates is intended to avoid revenue shortfalls caused by declining census at the homes. To determine the amount of this transfer, the Administration developed projections of revenues and expenditures in 2022-23 through 2024-25, which show a \$10.0 million revenue shortfall by the end of the biennium without a transfer

or other adjustments. Table 1 shows the Administration's projections, as well as the 2021-22 actuals. The final row shows the difference between projected revenues and expenditures on an annual basis.

**TABLE 1**

**Administration's Projection of State Veterans Homes Program Revenue Balances  
(\$ in Millions)**

	Actual	Estimates		
	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
Opening Balance	\$41.5	\$29.1	\$16.0	\$4.0
Projected Annual Revenue	<u>87.7*</u>	<u>80.9</u>	<u>80.0</u>	<u>78.0</u>
Total Available	\$129.2	\$110.0	\$96.0	\$82.0
Projected Annual Expenditures	\$100.3*	<u>\$94.0</u>	<u>\$92.0</u>	<u>\$92.0</u>
Ending Balance	\$28.9	\$16.0	\$4.0	-\$10.0
Annual Revenue Minus Expenditure	-\$12.6*	-\$13.1	-\$12.0	-\$14.0

\* Because of the impact of federal COVID-19 relief funding, expenditures for "surge staffing" and other pandemic-related expenses, and a higher than normal transfer to the capital improvement fund for capital maintenance projects, the amounts shown for 2021-22 for annual revenues, annual expenditures, and the difference are not strictly comparable to the projected figures for the other years.

2. The revenues and expenditures for each of the three state veterans homes are maintained separately, but since all three are funded from a single PR appropriation, a revenue surplus in one of the home's accounts can be used to offset a shortfall at another home. Table 1 combines revenues and expenditures for all three homes, but the imbalance between annual revenues and expenditures is largely the result of revenue shortfalls at the King home, the largest of the three. The Union Grove home revenues have declined in the last two years, but still had a positive balance in 2021-22. The Chippewa Falls home revenues have been stable or growing.

3. Table 2 shows revenues and expenditures for each of the three veterans homes separately since 2017-18, as well as the annual surplus or deficit for each. The table excludes certain expenses that are unrelated to daily operations, such as debt service and transfers to the capital improvement fund for maintenance project expenses. Also excluded are pandemic-related expenses, such as for "surge staffing" that was used to address critical staffing shortages during the past three fiscal years. These expenses that were largely funded with federal grants that the state received under COVID-19 relief legislation.

**TABLE 2**

**Revenues and Expenditures by Veterans Home  
(\$ in Millions)**

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
<b>King</b>					
Revenue	\$79.9	\$75.5	\$69.3	\$64.1	\$56.5
Expenditures	<u>75.0</u>	<u>74.3</u>	<u>68.8</u>	<u>66.1</u>	<u>62.4</u>
Annual Surplus/Deficit	\$4.9	\$1.2	\$0.5	-\$2.0	-\$5.9
<b>Union Grove</b>					
Revenue	\$22.7	\$24.3	\$24.0	\$22.6	\$18.3
Expenditures	<u>21.8</u>	<u>22.0</u>	<u>20.3</u>	<u>19.6</u>	<u>16.6</u>
Annual Surplus/Deficit	\$0.9	\$2.3	\$3.7	\$3.0	\$1.7
<b>Chippewa Falls</b>					
Revenue	\$9.7	\$10.0	\$10.6	\$11.1	\$12.1
Expenditures	<u>7.7</u>	<u>7.9</u>	<u>8.0</u>	<u>8.6</u>	<u>9.0</u>
Annual Surplus/Deficit	\$2.0	\$2.1	\$2.6	\$2.5	\$3.1
<b>Total</b>					
Revenue	\$112.3	\$109.7	\$103.9	\$97.8	\$86.9
Expenditures	<u>104.4</u>	<u>104.1</u>	<u>97.1</u>	<u>94.3</u>	<u>88.1</u>
Annual Surplus/Deficit	\$7.9	\$5.6	\$6.8	\$3.5	-\$1.2

4. Revenues have declined at the King and Union Grove homes due to a decreasing resident census in recent years. The Chippewa Falls home census has been stable, and thus revenues have also been growing in line with costs. Table 3 shows average annual census at each of the homes since 2018, including for 2023 through mid-April.

**TABLE 3**

**State Veterans Home Average Annual Census by Calendar Year**

<u>Year</u>	<u>King</u>	<u>Union Grove</u>	<u>Chippewa Falls</u>
2018	598.7	155.9	71.5
2019	541.7	152.8	71.3
2020	460.9	146.0	71.4
2021	375.9	130.4	70.4
2022	312.2	83.9	71.3
2023*	294.0	71.5	68.4

\* Averages through April 16, 2023.

5. The King home census has been declining for several years, whereas the decrease in resident population at the Union Grove home is more recent. The King census had fallen to around

290 to 300 by the summer of 2022, but has remained relatively stable since that time. The Union Grove census fell to approximately 70 around the beginning of 2023, but has remained at or near that level since then. The Chippewa Falls census has been relatively stable throughout the period, although has declined slightly in recent months.

6. There are likely many factors contributing to the declining census at King and Union Grove, some of which are common to all skilled nursing facilities in the state, and some of which are unique to the veterans homes.

7. One factor affecting all nursing homes, including the veterans homes, is a decrease in demand for care provided by nursing homes, as options to access home- and community-based long-term care services has increased. Although this has been a long-standing trend, the decrease in nursing home bed use was particularly rapid during the COVID-19 pandemic. The total number of filled nursing home beds in the state decreased from 19,900 in July of 2020 to 17,600 in April of 2023, a 12% decrease.

8. The falling demand for beds at the state veterans homes is likely made more acute by a decrease in the population of elderly veterans. The 12% decrease in total nursing home utilization over the past three years has occurred despite the fact that the population of elderly Wisconsin residents is increasing by 1.0% to 2.0% per year. By contrast, according to the U.S. Department of Veterans Affairs' estimates of the veteran population, the number of Wisconsin veterans over the age of 65 is decreasing by 2.0% to 2.5% each year.

9. In addition to the growth of community-based long term care alternatives, more veterans may be choosing to live in privately operated nursing homes instead of the state veterans homes. The U.S. Department of Veterans Affairs contracts with private nursing homes to provide skilled nursing services for certain eligible veterans. USDVA currently has contracts with over 70 of these nursing homes in Wisconsin, which is an increase from 16 a decade earlier. The growth in these alternative opportunities may have also contributed to the declining census at King and Union Grove, particularly among the veterans whose families live a greater distance from one of the state homes.

10. As the census at King and Union Grove has declined, expenditures have declined as well, as would be expected with fewer residents to care for. In particular, salary and fringe benefit costs have declined as more positions have gone unfilled. The overall vacancy rate for permanent positions is 52% at King and 55% at Union Grove, reflecting each facility's high bed vacancy rate.

11. In addition to a decrease in filled positions, the King home has looked to reduce expenditures in other areas. For instance, some specialized services that could be economically provided by in-house staff at a home with over 600 residents, can no longer be provided efficiently at a home with fewer than 300 residents. This includes, for instance, laboratory and radiology services, which are now outsourced. In addition, the King home phased out its own fire and law enforcement services, which are now provided instead by the City of Waupaca. The Department indicates that both the King and Union Grove homes are continuing to evaluate services to determine whether additional expenditure reductions are warranted.

12. Despite these measures, expenditures have not decreased as rapidly as revenues. There

may be several reasons for this. First, the state veterans homes, like any facility operation, have some fixed costs or costs that are not directly proportionate to the number of residents they serve. As the number of filled beds decreases, these costs remain the same or decrease more slowly. Second, with the relatively rapid decrease in filled beds, there may be a lag in the corresponding decrease in expenditures as the homes take some time to adjust their operations accordingly. Third, the homes, like all skilled nursing facilities, have had difficulty recruiting for and retaining staff and, in response, have faced increased costs to provide wage increases, sign-on bonuses, and to bring in contract staff to fill critical vacancies.

13. The payment methodologies used for the state veterans homes differ from the payments used under Medicaid for private nursing homes, and are more favorable. The Medicaid reimbursement rate applicable to the state veterans homes is set equal to the amount that would be paid by Medicare for rehabilitative services in a skilled nursing facility. In addition to the Medicare-based reimbursement provided under MA, USDVA makes a per diem payment, currently \$127, on behalf of each veteran in skilled nursing care at the state veterans homes (with the exception of veterans who have a service-connected disability rating of 70% or more, which are paid on a different basis). Since this "basic" per diem payment is in addition to the Medicaid payment, the state veterans homes are receiving a combined payment for Medicaid-eligible veterans that is in excess of what either Medicare or Medicaid would pay for a non-veteran resident in another nursing home. Together the Medicaid and per diem payments account for about 45% to 50% of total revenues.

14. For veterans who have a qualifying service-connected disability, USDVA pays a daily rate that is generally based on the prevailing Medicare payment rate for the location and case mix. Currently this "prevailing" daily rate for these veterans is \$458.22 for King, \$467.89 for Union Grove, and \$495.18 for Chippewa Falls. This payment constitutes the sole payment for these residents' care, and so the home may not also receive the basic per diem payment or a Medicaid reimbursement. The service-connected disability payment is the largest revenue category for the state veterans homes, accounting for about one-third of the total.

15. Some costs for the state veterans homes are higher than many private nursing homes. In particular, fringe benefits received by state employees are typically more costly. However, since the bulk of payments received by the state veterans homes are based on relatively favorable terms in comparison to other nursing homes, the state homes have historically been able to maintain a favorable balance between revenues and expenditures. Nevertheless, when facing unusually high costs, they may experience a revenue shortfall. Over the past two to three years, the King and Union Grove homes experienced challenging conditions, including a rapidly falling census and unusually high costs for staffing, which have contributed to their current imbalance.

16. The Administration's projections of the PR appropriation balance for the 2023-25 biennium are generally based on the assumption that both revenues and expenditures will remain at or near their current levels during the biennium. Under this assumption, therefore, the imbalance experienced in 2021-22 would be compounded over the following three years (including the current fiscal year), leading to the projected \$10 million shortfall.

17. The need for outside revenues to maintain a positive balance in the state veterans homes PR appropriation is premised on the assumption that the conditions affecting revenues and

expenditures will not change appreciably over the next two to three years, and that the homes will not be able to keep expenditures in line with revenues. Certainly some of the challenging conditions facing all nursing homes are likely to be ongoing, but there are some changes that are occurring or have occurred already that could improve the balance. As noted earlier, both King and Union Grove have recently been able to phase out the use of surge staffing procured from nationwide staffing agencies, and the Department projects that total expenditures for agency staffing will be lower in 2022-23 than in 2021-22. In addition, the census at both homes has been relatively stable for the past several months, although it may be too soon to know if this will continue.

18. In addition to these factors, the facilities costs at the King home could improve with the opening of a newly-constructed facility, the John R. Moses Hall, in October of 2022. This new facility has allowed that home to close the older MacArthur Hall, and since late January, all King residents have been consolidated into two newer buildings--the Moses Hall and the Ainsworth Hall, built in 1993.

19. Most revenues received by the state veterans homes are based, directly or indirectly, on Medicare rate methodologies. Since Medicare nursing home rates are increased annually using a national nursing home cost index, and that index is reflective of the higher staffing costs prevalent across the industry, the payment rates for the state veterans homes should increase in line with those higher costs. That actual rates paid to a particular facility are dependent upon other factors, including the resident case mix, but the revenues received by the homes will increase to at least partially offset the higher costs that they are experiencing.

20. Although there may be some basis for concluding that the current annual imbalance between revenues and expenditures at King and Union Grove could improve, there is also cause for uncertainty. Achieving a stable balance between revenues and expenditures may require the homes to reduce expenditures for life amenities that distinguish the state veterans homes from other nursing facilities and that have come to be a part of the culture that residents have come to expect. In addition, some residents, families of residents, and legislators have recently raised concerns about the quality of care at the homes. The Department maintains that issues with the care are due to staffing shortages and related challenges that are currently common to all nursing homes. However, regardless of the underlying cause of these issues, any measure that the homes may take to bring expenditures down to avoid a PR account imbalance may place additional stress on the resources available for direct care services. The proposed \$10,000,000 transfer from the general fund to the PR account could help avoid or lessen the pressures to reduce spending for life amenities or any services that might affect the quality of care. [Alternative A1]

21. Because of the uncertainty of both revenues and expenditures at the King and Union Grove home, the Committee could decide to delay the decision on whether a general fund supplement is needed to maintain a positive balance in the PR account. In this case, the Committee could place \$10,000,000 in the program supplements appropriation in 2023-24. In this case, the Committee could approve a transfer during the biennium upon request of the Department under s. 13.10 of the statutes, if it appears that a supplement is necessary to avoid a revenue shortfall. [Alternative A2]

22. Although program revenue-funded programs, like the state veterans homes, may face an imbalance between revenues and expenditures from time to time, in general they are expected to

eventually generate revenues sufficient to support expenditures over time. The Committee could determine that DVA has the responsibility to bring PR appropriation revenues and expenditures into alignment, and that, therefore, no supplement should be required. [Alternative A3]

23. In order to address some of the uncertainties facing the state veterans homes, and in particular the King home, AB 43/SB 70 would provide \$150,000 SEG to allow the Department to contract with a vendor to conduct a study of the King campus during the 2023-25 biennium. The Department indicates that part of the rationale for conducting the study would be to achieve a sustainable balance between revenues and expenditures, in light of the changing veteran population and utilization of nursing homes. If the Committee believes that having an independent evaluation of the issues facing the state veterans homes, it could approve this proposal. [Alternative B1]

24. Since the segregated veterans trust fund (VTF) is funded primarily by a GPR sum sufficient appropriation that supplements other VTF segregated revenues, any increase in SEG spending from the veterans trust fund will increase the amount expended from the GPR supplemental appropriation by a corresponding amount. Consequently, Alternative B1, which would provide additional funding for the study would increase estimates of the amount of these supplements to reflect these spending increases from the VTF. [No total is shown in the funding box for this alternative to avoid presenting the funding change as a double-counted total.]

25. As an alternative to approving a funding increase for the proposed study, the Committee could direct the Department to contract for the study, using base funding in the Department's appropriation for general administration. For each of the past five years, the Department's appropriation for general administration has exceeded actual expenditures by at least \$1.0 million, suggesting that the study could be funded with existing budget authority. [Alternative B2]

26. The Committee could also decide that a study of the issues facing the King home is not warranted and decline to approve funding or require the study to be completed. [Alternative B3]

## ALTERNATIVES

### A. State Veterans Homes Program Revenue Appropriation Account

1. Approve the proposal in AB 43/SB 70 to transfer \$10,000,000 in 2023-24 from the general fund to the program revenue appropriation account of the state veterans homes and modify the statutory authorization for the PR appropriation to reflect the receipt of this transfer.

ALT A1	Change to Base
GPR-Transfer	\$10,000,000

2. Provide \$10,000,000 GPR in 2023-24 in the Committee's program supplements appropriation and authorize the Committee to provide a supplement for the PR appropriation account for the state veterans homes during the 2023-25 biennium if needed to address any unsupported overdraft in that appropriation account. Modify the statutory authorization for the PR appropriation

to reflect the receipt of this supplement.

<b>ALT A2</b>	<b>Change to Base</b>
GPR	\$10,000,000

3. Take no action.

**B. Master Plan for King State Veterans Home**

1. Provide \$150,000 SEG in 2023-24 in DVA's appropriation for general administration and require DVA to contract with a vendor to study the King campus during the 2023-25 biennium, to be completed by June 1, 2025. Increase funding transferred from the general fund to the veterans trust fund by \$150,000 GPR in 2023-24.

<b>ALT B1</b>	<b>Change to Base</b>
GPR	\$150,000
SEG	150,000

2. Require DVA to contract with a vendor to study the King campus during the 2023-25 biennium, funded from the Department's general administration appropriation, to be completed by June 1, 2025. The cost of the study would be supported from the base funding in the appropriation.

3. Take no action.

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