

BRIEFING NOTES

Medicaid Funding Impact on Virginia's Nursing Facilities

- **Virginia's 286 nursing facilities employ over 36,000 people and care for over 28,000 residents every day.** Nursing facilities often are among the largest employers in many Virginia towns and communities and have an **annual statewide payroll of approximately \$1.5 billion.** Overall, all long term care facilities, of which nursing facilities represent a vital component, along with their suppliers represent about 2% of Virginia's economy. Long term care providers provide additional economic support through their significant role as taxpayers at the local, state and federal levels.
- **Medicaid residents in nursing facilities come from all walks of life – among them former teachers, farmers, first responders and factory workers.** Throughout their working lives, these individuals contributed to society, paid their taxes and now have only Medicaid to turn to as they have simply outlived their life savings.
- Across the board Medicaid cuts have negatively impacted nursing facilities more than other Medicaid providers. On average, **the care for 61% of Virginia nursing facility residents is paid for by Medicaid – a significantly higher Medicaid utilization rate than any other provider.** Some nursing facilities have substantially higher Medicaid utilization rates making them extremely vulnerable to continued payment cuts.
- **Due to budget cuts,** Medicaid rates paid to Virginia nursing facilities, and related cost ceilings, have not been adjusted to reflect anticipated increases in Medicaid allowable operating costs since state fiscal year 2008. These **cuts total \$126.1 million over the four-year period.**
- **In SFY 2012, Virginia's nursing facilities are projected to lose approximately \$13.22 per Medicaid patient day or a total of about \$85.5 million caring for Medicaid residents.**
- Modeling by the Department of Medical Assistance Services (DMAS) indicates that **to restore inflation and rebasing adjustments as of July 1st 2012 (state fiscal year 2013), \$62.0 million (Total Funds) would be needed** – \$10.12 per day per Medicaid resident.
- Medicare payment for skilled nursing facility (SNF) care has provided the margin for nursing facilities over those four years to help providers offset much of the Medicaid

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cuts and the resulting growing shortfall. However, **as of October 1, 2011 Medicare payment has been cut by 10.7% (\$88.1 million) for Virginia nursing facilities.**

- Using provider fiscal year 2010 information provided by Virginia Health Information (VHI), nursing facilities reported fairly strong performance. Due primarily to higher than anticipated Medicare SNF revenues, facilities reported a 4.6% operating margin. On a pro forma basis, **the operating margin for Virginia's nursing facilities falls to 0.5% when the October 1, 2011 10.7% Medicare SNF payment reduction is factored in. Operating margin performance would slip further to a negative 2.6% should Medicaid rates fail to reflect the \$62.0 million inflation and rebasing adjustments in SFY 2013.**
- **Between 2004 and 2008, Medicaid expenditure growth for nursing facility care averaged a modest 3.9% annually despite caring for sicker and sicker residents as documented by increases in resident case mix scores.** Medicaid home and community service payments have grown at an annual rate in excess of three times that of nursing home expenditures while the overall growth rate for the Medicaid program has been nearly 11% annually. **The Administration and the General Assembly should not target additional reductions on nursing facilities – one of the most cost effective provider segments that make up Virginia's core Medicaid safety net.**
- The Commonwealth erroneously believes that it is overpaying nursing facilities for their capital needs when comparing Fair Rental Value (FRV) payment to capital costs. The reality is that **providers are shifting expenditures from capital to operations to cover growing Medicaid shortfalls. By not fully funding FRV and allowing the rental rate floor to remain at 8.0%, the state is permitting the continued decline of nursing facility physical plants.**

We ask that the General Assembly act to avoid serious financial, quality and access problems in providing long term care services to Medicaid recipients by including no less than one-half of the increase, or \$31 million Total Funds (\$15.5 million General Funds), identified by DMAS for Medicaid reimbursement to nursing facilities in the SFY 2013 budget. Additionally, we request the restoration of the capital payment component of the nursing facility Medicaid funding formula that was cut in the SFY 2012 budget (\$10.9 million).