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A Report on Shortfalls in Medicaid Funding for Nursing Home Care

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FOR THE
AMERICAN HEALTH CARE ASSOCIATION

December 2003

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SUMMARY OF FINDINGS

For the third consecutive year, BDO Seidman, LLP (BDO) was engaged by the American Health Care Association (AHCA) to work with its state affiliates and other sources to compile information on the shortfall between Medicaid reimbursement and allowable Medicaid costs in as many states as feasibly possible. The compilation was derived from 2001 rate and cost data, the latest year in which audited or desk-reviewed cost report information was available for most states. The data from almost 60% of the states reporting was based upon audited or desk-reviewed cost reports. As-filed cost reports were used for the remaining states.[1]

The results, based upon data from 37 states, representing almost 88% of the Medicaid patient days in the country, indicate that nationwide, the average shortfall in Medicaid reimbursement was $11.55 per Medicaid patient day.[2] This average shortfall is 18% higher than last year's average shortfall of just under $10 per Medicaid patient day, and has increased almost 28% since 1999.

However, not all the states in the previous years' analyses were able to provide comparable data this year and some states provided data this year for the first time. When comparing the shortfall in those states providing data for all three years, the average shortfall climbed 16% from 2000 to 2001, and almost 31% from 1999. Figures I and II on the next page illustrate this comparison and Table I reflects the rates, costs and shortfalls in Medicaid reimbursement by state.

In total for 2001, unreimbursed Medicaid allowable costs exceeded $3.6 billion for these 37 states and exceeded $4.1 billion when the results are extrapolated for all 50 states. If all costs of operations were considered, not just Medicaid allowable costs, the $4.1 billion

[1] As-filed cost reports were the only available reports in many states where rates were not based upon the most current cost report. In this situation, the state may not have audited the report since it was not used in the rate setting process. These cost reports, however, already excluded non-allowable costs per cost report instructions although additional adjustments would typically be made if audited by the state agency or their contractor.

[2] Applying an estimated audit adjustment factor of 2.5% to the costs in those states where as-filed reports were utilized still resulted in a shortfall of almost $9.50 per Medicaid patient day. The 2.5% factor was a weighted average of the historical difference between audited or desk-reviewed cost reports and as-filed reports in these states. The information was obtained from the AHCA state affiliate in each of these states.

shortfall would be significantly greater. The charts on pages 7 and 8 reflect the per diem shortfall and the fiscal impact of the shortfall in each state, respectively.

FIGURE I
Shortfall Per Medicaid Patient Day
All States In Each Year

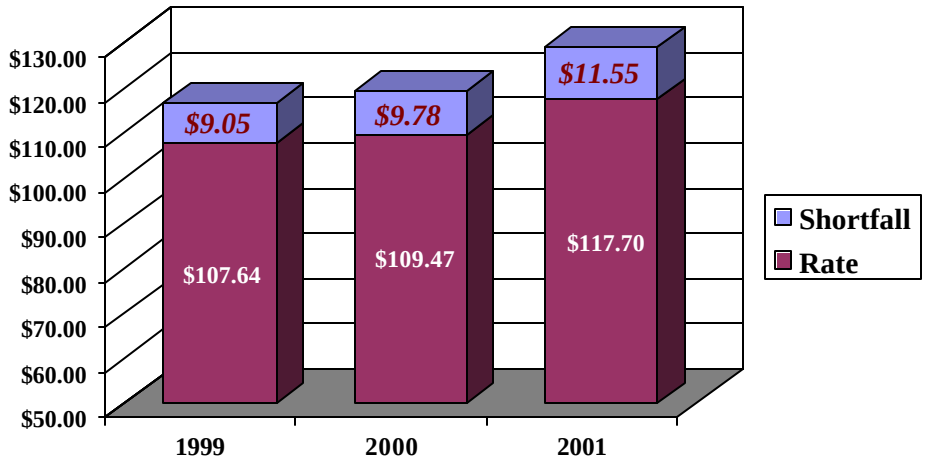


FIGURE II
Shortfall Per Medicaid Patient Day
Comparable States In Each Year

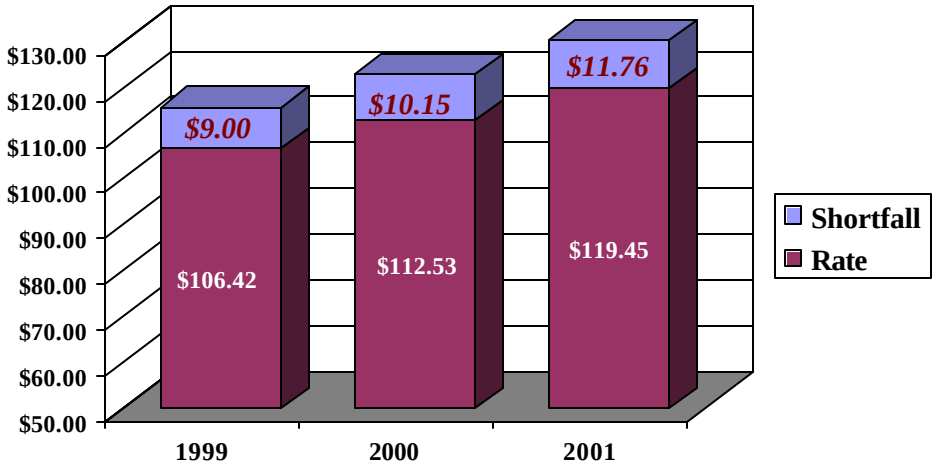


TABLE I
STATE-BY-STATE COMPARISON OF RATES AND COSTS

State	Rate	Cost	Difference
Alabama	$ 115.56	$ 113.91	$ 1.65
Arkansas	$ 75.48	$ 82.77	$ (7.29)
California	$ 109.53	$ 116.19	$ (6.66)
Colorado	$ 118.86	$ 133.74	$ (14.88)
Connecticut	$ 158.64	$ 167.06	$ (8.42)
Florida	$ 119.60	$ 130.22	$ (10.62)
Georgia	$ 92.22	$ 94.39	$ (2.17)
Hawaii	$ 179.07	$ 183.62	$ (4.55)
Illinois	$ 89.59	$ 105.93	$ (16.34)
Indiana	$ 107.21	$ 114.98	$ (7.77)
Iowa	$ 89.73	$ 95.14	$ (5.41)
Kansas	$ 95.82	$ 105.92	$ (10.10)
Maine	$ 127.78	$ 138.33	$ (10.55)
Maryland	$ 137.90	$ 149.51	$ (11.61)
Massachusetts	$ 133.33	$ 151.74	$ (18.41)
Michigan	$ 121.13	$ 128.77	$ (7.64)
Missouri	$ 96.55	$ 115.15	$ (18.60)
Nebraska	$ 111.55	$ 121.01	$ (9.46)
New Hampshire	$ 121.34	$ 149.52	$ (28.18)
New Jersey	$ 138.79	$ 165.34	$ (26.55)
New Mexico	$ 104.27	$ 113.06	$ (8.79)
New York	$ 167.97	$ 186.32	$ (18.35)
North Carolina	$ 101.64	$ 114.45	$ (12.81)
North Dakota	$ 108.26	$ 112.39	$ (4.13)
Ohio	$ 133.48	$ 141.13	$ (7.65)
Oregon	$ 100.84	$ 118.81	$ (17.97)
Pennsylvania	$ 136.99	$ 148.30	$ (11.31)
Rhode Island	$ 124.65	$ 140.43	$ (15.78)
South Carolina	$ 97.57	$ 105.32	$ (7.75)
South Dakota	$ 86.75	$ 103.38	$ (16.63)
Tennessee	$ 99.51	$ 107.66	$ (8.15)
Texas	$ 87.78	$ 93.44	$ (5.66)
Utah	$ 92.85	$ 113.84	$ (20.99)
Virginia	$ 96.92	$ 107.62	$ (10.70)
Washington	$ 110.65	$ 128.09	$ (17.44)
West Virginia	$ 119.09	$ 129.46	$ (10.37)
Wisconsin	$ 107.51	$ 124.09	$ (16.58)

The Impact of State Budget Deficits in FY03 and FY04

The Medicaid shortfall continues to increase every year because rate increases have not kept pace with nursing home cost inflation. In the 32 states providing comparable data for all three years, rates on average increased just over 6% between 2001 and 2000, while costs increased 7% for the same time period. The economic downturn in fiscal years 2002 and 2003 has not helped the situation. In fiscal 2003, 37 states were forced to reduce already enacted budgets by nearly $14.5 billion. State reserve funds (rainy day funds) have dropped from almost $49 billion in fiscal 2000 to just $6 billion in fiscal 2004.[3] Medicaid rates in fiscal 2003 were either frozen or were increased far less than the rate of inflation in the states of California, Connecticut, Missouri, Nevada, New Hampshire, North Carolina, Vermont, and West Virginia. Two other states, Illinois and Indiana, actually implemented rate cuts.[4] The Kaiser Commission Report on "Medicaid and The Uninsured" indicates that nursing home rates were cut or frozen in 19 states in FY 2003.[5]

In fiscal year 2004, the picture does not look much better. Connecticut, Illinois, Maine, Minnesota, Texas, Utah, and West Virginia will not experience any rate increases in fiscal year 2004. Rate increases in most other states are averaging less than 3% with the exception being those states that have implemented provider tax programs or raised additional revenues through existing tax programs.[6] To date, few if any states have utilized increased federal matching funds to enhance nursing facility rates or close the gap between rates and allowable costs.[4] Since the repeal of the Boren Amendment, and with major state economic problems, rate increases have been solely driven by budget constraints, and the widening deficits between Medicaid rates and allowable costs reflect that.

[3] National Governor's Association Fiscal Survey of States; June 26, 2003.
[4] Based upon a survey of state affiliates by AHCA.
[5] Kaiser Commission on "Medicaid and The Uninsured"; September 2003.
[6] Based upon a survey of state affiliates and BDO involvement in rate projects in some of these states.

On the positive side, however, an economy still in recovery should result in slower growth in nursing home expenditures. A combination of this, recent Medicare rate increases, and CMS approval of new and expanded provider tax programs, will be crucial elements in the profession's ability to overcome increasing Medicaid shortfalls in fiscal year 2004.

Charts

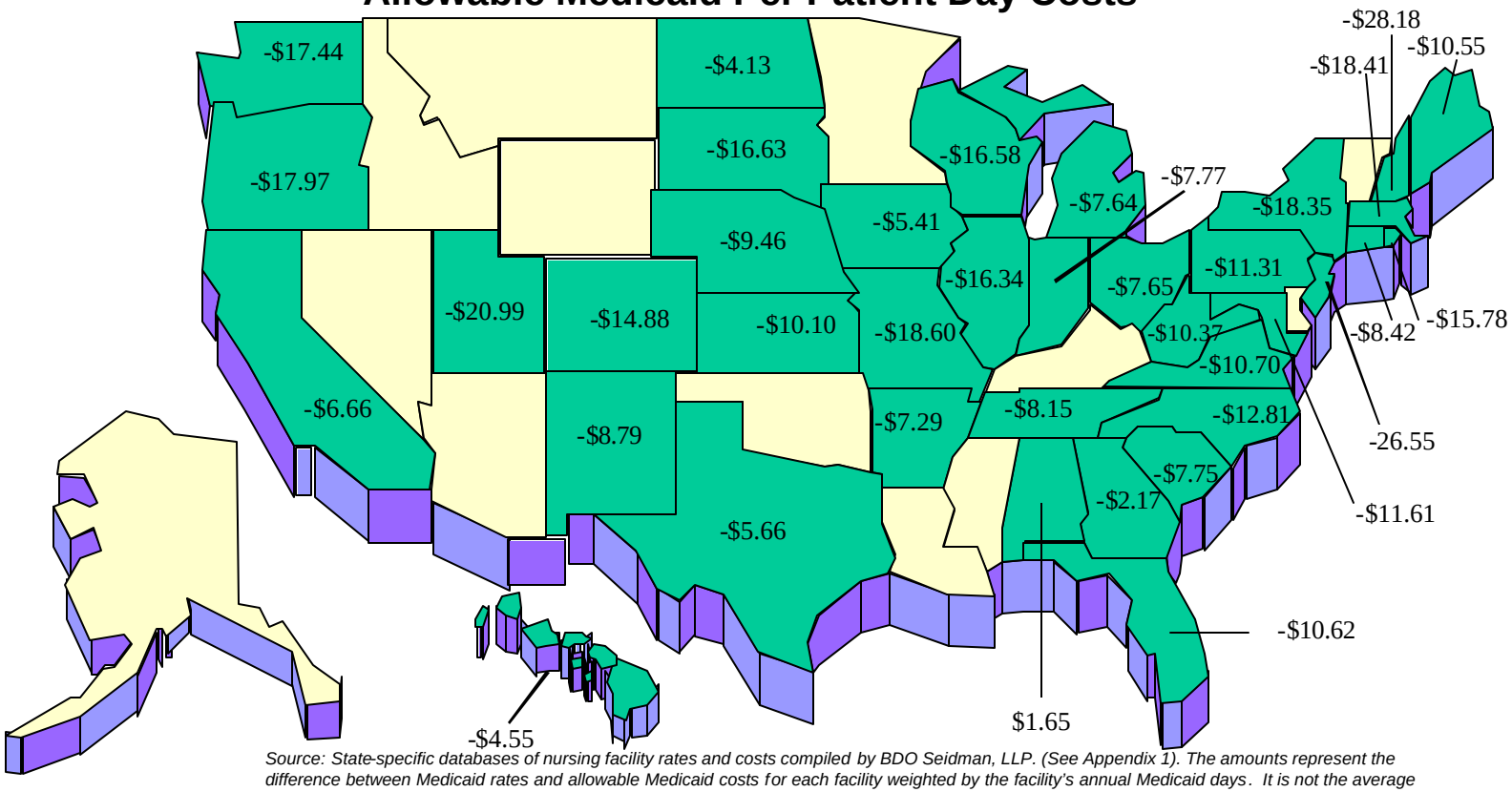
Chart 1 Average Medicaid Shortfall Per Patient Day and Average Disparity by State Between Medicaid Rates and Allowable Medicaid Per Patient Day Costs

Chart 2 Disparity By State Between Total Medicaid Revenue and Total Medicaid Allowable Costs

CHART 1

In 2001, on Average, the Shortfall in Medicaid Reimbursement Was $11.55 Per Medicaid Patient Day

Average Disparity By State Between Medicaid Rates and Allowable Medicaid Per Patient Day Costs



Source: State-specific databases of nursing facility rates and costs compiled by BDO Seidman, LLP. (See Appendix 1). The amounts represent the difference between Medicaid rates and allowable Medicaid costs for each facility weighted by the facility's annual Medicaid days. It is not the average disparity between Medicaid rates and costs for only those facilities experiencing shortfalls in Medicaid reimbursement. If this were the case, the shortfalls would be much higher.

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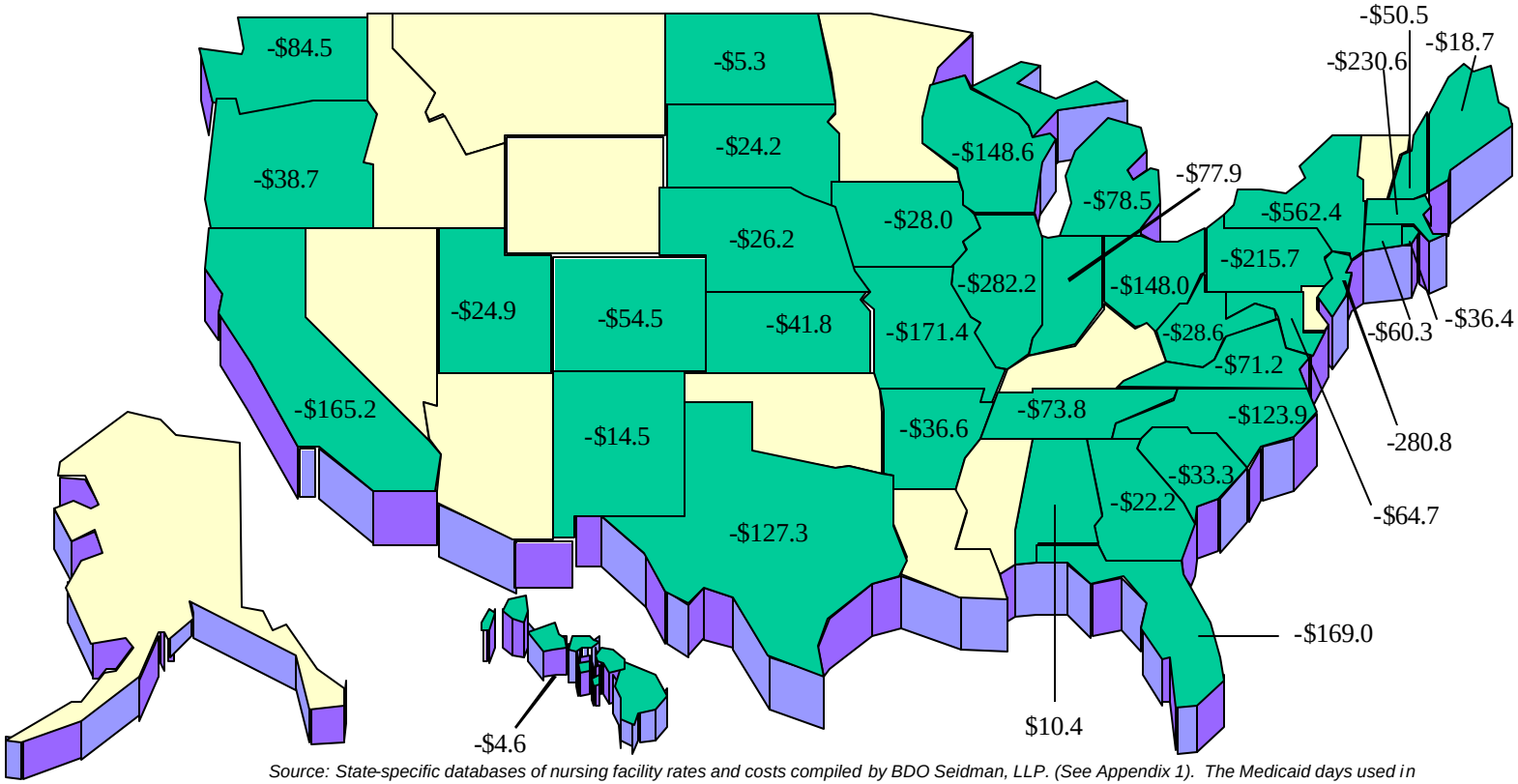
CHART 2

Disparity By State Between Total Medicaid Revenue and Total Allowable Medicaid Costs (In Millions)

$4.1 Billion Medicaid Funding Shortfall Nationwide



Source: State-specific databases of nursing facility rates and costs compiled by BDO Seidman, LLP. (See Appendix 1). The Medicaid days used in deriving state-specific shortfalls were derived from CMS-OSCAR Form 671: F 75-78, current surveys as of March 2002. The weighted average shortfall for the 37 states reporting exceeded $3.6 billion dollars, based upon 313 million Medicaid days. Extrapolating this shortfall to 357 million Medicaid days nationwide (per CMS-OSCAR Data) results in a $4.1 billion national shortfall.

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PROJECT APPROACH AND METHODOLOGY

The American Health Care Association initially surveyed its state affiliates as to the availability of a database of state-specific Medicaid rate and allowable cost information. Those that responded in the affirmative were asked to complete "data collection spreadsheets" reflecting the Medicaid rates and allowable costs for each provider based upon the provider's fiscal or calendar year ending in 2001. Sample data collection spreadsheets are included as Appendix II.

BDO Seidman, LLP (BDO) was engaged to assist in this process by:

1. Developing the data collection spreadsheets;
2. Instructing and guiding state affiliates through the process;
3. Reviewing the results for reasonableness and compliance with document instructions;
4. Contacting other sources such as state agencies, their consultants and independent accounting firms to obtain the data in those states where the data was readily available, but the state affiliate did not have it; and
5. Compiling the results into a report.

In almost all cases, the state affiliates indicated that the data was derived from a database of Medicaid rates and allowable costs obtained from their state agencies. Allowable costs include only those costs recognized by the state agency as directly or indirectly related to patient care and typically exclude necessary operating costs including, but not limited to, marketing and public relations, bad debts, income taxes, stockholder servicing costs, contributions, certain legal and professional fees, property costs related to purchases of facilities, and out-of-state travel. In almost 60% of the states, the cost database reflected costs that have been audited or desk-reviewed by the Medicaid state agency. BDO did not replicate the calculations nor trace individual facility cost or rate data to Medicaid cost reports, rate worksheets, or state agency databases.

Comparisons of Medicaid rates and allowable costs for 2001 were derived for 37[7] states representing almost 88% of the Medicaid patient days in the country. The remaining states not reflected in the comparisons indicated that the data was not readily available. However, as can be seen by the chart on page 7, these 37 states reflect all regions of the country and are a fair representation of Medicaid shortfalls nationwide. The comparisons include most of the states representing the largest Medicaid populations including California, Florida, Illinois, Massachusetts, New York, Ohio, Pennsylvania and Texas. Based upon the high percentage of nationwide Medicaid patient days represented by the 37 states, it is likely that the overall results would not materially change had all states been represented.

[7] The Minnesota and Kentucky state affiliates were excluded from the computations. In Minnesota, only a minority of providers still file cost reports. The majority of providers are paid a percentage increase on their prior year rate and are not required to file cost reports. In Kentucky, cost reports exclude non-labor costs and property expenses, thereby making it impossible to provide a meaningful comparison of costs and rates.

Appendix I

Calculation of 2001 Weighted Average Medicaid Shortfall

State-by-State Comparison

Calculation of 2001 Weighted Average Medicaid Shortfall

State	Rate	Cost	Difference	Annual Medicaid Days	Gross Revenue	Gross Cost	Difference x Medicaid Days
Alabama	$ 115.56	$ 113.91	$ 1.65	6,295,520	727,510,291	717,122,683	10,387,608
Arkansas	$ 75.48	$ 82.77	$ (7.29)	5,026,780	379,421,354	416,066,581	(36,645,226)
California	$ 109.53	$ 116.19	$ (6.66)	24,807,955	2,717,215,311	2,882,436,291	(165,220,980)
Colorado	$ 118.86	$ 133.74	$ (14.88)	3,660,585	435,097,133	489,566,638	(54,469,505)
Connecticut	$ 158.64	$ 167.06	$ (8.42)	7,159,110	1,135,721,210	1,196,000,917	(60,279,706)
Florida	$ 119.60	$ 130.22	$ (10.62)	15,911,080	1,902,965,168	2,071,940,838	(168,975,670)
Georgia	$ 92.22	$ 94.39	$ (2.17)	10,228,030	943,228,927	965,423,752	(22,194,825)
Hawaii	$ 179.07	$ 183.62	$ (4.55)	1,007,400	180,395,118	184,978,788	(4,583,670)
Illinois	$ 89.59	$ 105.93	$ (16.34)	17,271,486	1,547,352,431	1,829,568,512	(282,216,081)
Indiana	$ 107.21	$ 114.98	$ (7.77)	10,023,630	1,074,633,372	1,152,516,977	(77,883,605)
Iowa	$ 89.73	$ 95.14	$ (5.41)	5,177,525	464,579,318	492,589,729	(28,010,410)
Kansas	$ 95.82	$ 105.92	$ (10.10)	4,135,450	396,258,819	438,026,864	(41,768,045)
Maine	$ 127.78	$ 138.33	$ (10.55)	1,770,250	226,202,545	244,878,683	(18,676,138)
Maryland	$ 137.90	$ 149.51	$ (11.61)	5,571,725	768,340,878	833,028,605	(64,687,727)
Massachusetts	$ 133.33	$ 151.74	$ (18.41)	12,525,705	1,670,052,248	1,900,650,477	(230,598,229)
Michigan	$ 121.13	$ 128.77	$ (7.64)	10,278,400	1,245,022,592	1,323,549,568	(78,526,976)
Missouri	$ 96.55	$ 115.15	$ (18.60)	9,213,330	889,547,012	1,060,914,950	(171,367,938)
Nebraska	$ 111.55	$ 121.01	$ (9.46)	2,767,795	308,747,532	334,930,873	(26,183,341)
New Hampshire	$ 121.34	$ 149.52	$ (28.18)	1,791,055	217,326,614	267,798,544	(50,471,930)
New Jersey	$ 138.79	$ 165.34	$ (26.55)	10,575,510	1,467,775,033	1,748,554,823	(280,779,791)
New Mexico	$ 104.27	$ 113.06	$ (8.79)	1,650,895	172,138,822	186,650,189	(14,511,367)
New York	$ 167.97	$ 186.32	$ (18.35)	30,647,225	5,147,814,383	5,710,190,962	(562,376,579)
North Carolina	$ 101.64	$ 114.45	$ (12.81)	9,668,850	982,741,914	1,106,599,883	(123,857,969)
North Dakota	$ 108.26	$ 112.39	$ (4.13)	1,284,800	139,092,448	144,398,672	(5,306,224)
Ohio	$ 133.48	$ 141.13	$ (7.65)	19,347,555	2,582,511,641	2,730,520,437	(148,008,796)
Oregon	$ 100.84	$ 118.81	$ (17.97)	2,153,135	217,122,133	255,813,969	(38,691,836)
Pennsylvania	$ 136.99	$ 148.30	$ (11.31)	19,075,265	2,613,120,552	2,828,861,800	(215,741,247)
Rhode Island	$ 124.65	$ 140.43	$ (15.78)	2,308,260	287,724,609	324,148,952	(36,424,343)
South Carolina	$ 97.57	$ 105.32	$ (7.75)	4,301,160	419,664,181	452,998,171	(33,333,990)
South Dakota	$ 86.75	$ 103.38	$ (16.63)	1,453,430	126,085,053	150,255,593	(24,170,541)
Tennessee	$ 99.51	$ 107.66	$ (8.15)	9,050,175	900,582,914	974,341,841	(73,758,926)
Texas	$ 87.78	$ 93.44	$ (5.66)	22,485,825	1,973,805,719	2,101,075,488	(127,269,770)
Utah	$ 92.85	$ 113.84	$ (20.99)	1,186,615	110,177,203	135,084,252	(24,907,049)
Virginia	$ 96.92	$ 107.62	$ (10.70)	6,649,570	644,476,324	715,626,723	(71,150,399)
Washington	$ 110.65	$ 128.09	$ (17.44)	4,846,835	536,302,293	620,831,095	(84,528,802)
West Virginia	$ 119.09	$ 129.46	$ (10.37)	2,753,925	327,964,928	356,523,131	(28,558,202)
Wisconsin	$ 107.51	$ 124.09	$ (16.58)	8,960,750	963,370,233	1,111,939,468	(148,569,235)
		TOTALS		313,022,591	36,842,088,256	40,456,405,715	(3,614,317,459)
		Weighted Averages			117.70	129.24	(11.55)
		Shortfall extrapolated to all 50 states					(4,122,102,909)

Appendix II

Data Collection Document

AHCA DATA COLLECTION INSTRUCTIONS FOR 2001 DATA

General Instructions:

Please provide Excel spreadsheets similar to those attached, identifying the difference between Medicaid allowable costs and Medicaid rates for each facility based upon 2001 cost report data. The rates must match the cost report period; not vice versa. We've attached sample spreadsheets that reflect the format and documentation that is required for this project. In essence, we need the average Medicaid rate and Medicaid allowable cost for each facility for its fiscal year that ends in 2001 and the supporting documentation reflecting the computation for each facility.

On the spreadsheets, please indicate whether the data is "as reported" or "audited/desk-reviewed" and the data source. (State agency database, etc.) We ask, if at all possible, that the data be "audited/desk-reviewed."

If your state utilizes a provider tax program, the tax should be included as an allowable cost, unless the Medicaid rates are net of the reimbursement for provider taxes.

Summary Tab:

This tab summarizes the weighted average Medicaid rate and allowable cost for each facility. The rate allowable cost for each facility is brought forward from the "Rates" and "Costs" tabs.

Rate Tab:

The rate tab provides an example of the supporting documentation that is needed for each facility. The Medicaid rate(s) for each facility are weighted by the days or months that they were in effect during the cost report period.

Cost Tab:

The cost tab provides an example of supporting documentation that is needed for each facility. Your worksheet will reflect the cost categories utilized in your state in determining Medicaid allowable costs.

Note:

We have included a sample calculation for one facility so you can better understand the information needed and the required format.

AHCA DATA COLLECTION

Is the data “as reported” or “audited/desk-reviewed”	
Data Source (please write in)	

FACILITY	PROVIDER NUMBER	FACILITY YEAR END	AVERAGE MEDICAID RATE	AVERAGE MEDICAID COST	DIFFERENCE	TOTAL MEDICAID DAYS	TOTAL MEDICAID PROFIT / SHORTFALL
Facility #1			*100.96*	*110.49*	*(9.54)*	*32,676*	*(311,570)*

MEDICAID RATE FOR COST REPORTING PERIOD*

* In most cases, the rate period will not correspond with the cost report period. This will require a computation averaging two or more Medicaid rates for the applicable time frame that each was in effect for the cost report period.

** In determining weighted average Medicaid rates, rates can be weighted by Medicaid days for the applicable time period or calendar days or months, depending upon the information available.

FACILITY	MEDICAID RATE (1)	DAYS APPLICABLE**	SUBTOTAL	MEDICAID RATE (2)	DAYS APPLICABLE**	SUBTOTAL
Facility #1	*100.45*	*10,849*	*1,089,782*	*101.19*	*10,939*	*1,106,917*

MEDICAID RATE (3)	DAYS APPLICABLE**	SUBTOTAL	TOTAL MEDICAID REVENUE	TOTAL DAYS	WEIGHTED AVERAGE MEDICAID RATE PER DAY
101.23	*10,888*	*1,102,192*	*3,298,892*	*32,676*	*100.96*

MEDICAID ALLOWABLE COST FOR COST REPORTING PERIOD

FACILITY	PROVIDER YEAR END	RN SALARIES	LPN SALARIES	AIDE SALARIES	TOTAL NURSING SALARIES	NURSING OTHER	DIETARY SALARIES	DIETARY OTHER
Facility #1	*12/31/2001*	*486,391*	*552,251*	*886,396*	*1,925,038*	*524,424*	*202,997*	*284,484*

LAUNDRY SALARIES	LAUNDRY OTHER	HOUSE-KEEPING SALARIES	HOUSE-KEEPING OTHER	SOCIAL SERVICES SALARIES	SOCIAL SERVICES OTHER	ACTIVITITES SALARIES	ACTIVITIES OTHER
43,742	*21,869*	*124,122*	*47,699*	*52,609*	*11,384*	*63,970*	*25,879*

A&G SALARIES	A&G OTHER	MAIN-TENANCE SALARIES	MAIN-TENANCE OTHER	UTILITIES	FRINGE BENEFITS	PROPERTY	PROPERTY TAXES
129,899	*288,154*	*25,255*	*64,931*	*73,964*	*528,437*	*346,453*	*28,639*

TOTAL EXPENSE ($)	TOTAL DAYS	TOTAL EXPENSES PPD	TOTAL MEDICAID DAYS
4,813,949	*43,568*	*110,49*	*32,676*