

**2010-11 Nursing Home Medicaid Rate Increase and
Projected Funding Increase Related to Higher Resident Acuity**

Amounts in Thousands

	DHS	Increase/(Decrease) WAHSA Calculation	WAHSA Rate increase Analysis	
Scen 3: Inflate CRs to 2009; set rate year to SFY11	1,996.99	1,996.99	A. Rate Increase Funding	
Scen 4: Increase MAI {The Return of the Bed Tax-- Not an Increase}	6,379.69	-	Scen 3, 5, and 6	
Scen 5: New labor factors	(679.72)	(679.72)		%
Scen 6: Proportional increase in DC/SS bases to hit expenditure target	11,479.33	11,479.33	12,796.60	1.52
Scen 7: Acuity change for SFY11 (old RUG treatment) {Projected Acuity}*	9,117.06	-	B. Net Impact of RUGS Quarterly Cuts	
Scen 8: Acuity change for SFY11 (with RUGable quarterlies - T18 only)	(17,357.72)	(17,357.72)	Scen 8, 9 and 10	
Scen 9: Acuity change for SFY11 (with RUGable quarterlies - all)	(10,153.89)	(10,153.89)		
Scen 10: Increase DC base	10,179.87	10,179.87	(17,331.75)	(2.06)
Scen 11: New Bedhold Criteria	(539.47)	(539.47)	C. Other Rate Reform Cuts	
Scen 12: Wound Care Change	(500.00)	(500.00)	Scen 11 and 12	
Scen 13: Without MAI Increase {Subtract Bed Tax Amount Under Scen 4}	(6,372.62)	-	(1,039.47)	(0.12)
Total:	3,549.51	(5,574.62)	Net Rate Increase (A+B+C) =	
			(5,574.62)	(0.66)

*DHS projected nursing home resident acuity increase in 2010-11 {Scen 7}:	9,117.06	1.08
Net Rate Increase (A+B+C):	(5,574.62)	(0.66)
DHS Net Projected Nursing Home Funding Increase (Rate "Increase" Plus Projected Acuity Increase):	3,542.44	0.42

**WAHSA
30-Sep-10**

NOTE: The Governor and the Legislature provided nursing homes with a 2% Medicaid rate increase in 2010-11, funded entirely by more than doubling the nursing home bed tax. When the Medicaid savings generated by the DHS *Rate Reform 1.0 and 2.0* exercises are factored in, the 2% Medicaid nursing home rate increase in reality will result in a 0.66 % rate cut in 2010-11. DHS has been unwilling to acknowledge this fact; Instead, DHS officials have argued that nursing home Medicaid *funding* will increase by 0.42%, assuming that nursing home resident acuity as projected by the DHS will increase over the next several months. WAHSA Response: For at least the past 20+ years, the state budget process has separated the nursing home rate increase (i.e., the increase required to pay for staff wages/benefits/hours, medical supplies, utilities, etc.,) from any *projected* funding adjustments related to nursing home resident utilization or acuity. It is inaccurate and misleading to roll ongoing annual acuity adjustments into a rate increase calculation. Further, increases in resident acuity will result in higher operating expenses and further drive facilities' Medicaid operating deficits, which DHS fails to acknowledge in its calculation.



State of Wisconsin
Department of Health Services

Jim Doyle, Governor
Karen E. Timberlake, Secretary

September 24, 2010

✓ Mr. John Sauer, Executive Director
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204 South Hamilton Street
Madison, WI 53703 USA

Mr. Thomas P. Moore, Executive Director
WHCA
121 E Wilson Street, Suite L200
Madison, WI 53703-3586

Dear Mr. Sauer and Mr. Moore:

Thank you for meeting with me this week to discuss your letter to Governor Jim Doyle regarding funding for nursing homes. Governor Doyle has asked that I respond on his behalf, and I welcome the opportunity to do so. We appreciate the role the nursing homes in your associations play in providing important services to vulnerable individuals with long-term care needs in our state.

As you know, Wisconsin's Medicaid budget is under severe pressure. Like every other state, enrollment in the state's Medicaid program is at an all time high, driven by the weak economy and high unemployment. Enrollment in these programs rose by 12% in state fiscal year 2009 and 13.7% in state fiscal year 2010.

In response to the severe fiscal constraints facing the state, as part of the 09-11 biennial budget, the Legislature directed the Department to identify \$633 million (all funds) in savings in the Medicaid budget over the 2009-11 biennium. As a result of this provision, the resources available to support the state's Medicaid program in aggregate contracted. Medicaid funding decisions that the Legislature approved in other parts of the biennial budget became subject to change in order to meet the overriding requirement to decrease Medicaid funding by \$633 million.

To achieve the required \$633 million savings, the Department initiated the Medicaid Rate Reform Project. Under this project, the Department collaborated with you and other Medicaid provider representatives, as well as consumer advocates, to identify a package of 71 items across the full range of Medicaid services that generated the targeted savings. Within the Medicaid Rate Reform package, a total of nine savings items directly affect nursing home reimbursement, for a projected savings of \$29.4 million over two years. This means that roughly 5% of the savings target of \$633 million is directly attributable to nursing homes. Nursing home reimbursement accounts for 14% of total expenditures in the Medicaid program.

Mr. John Sauer
Mr. Thomas P. Moore
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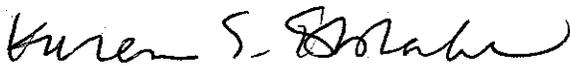
The most significant nursing home-related Medicaid Rate Reform item is the implementation of quarterly, rather than annual, updates of the acuity of nursing home residents. Updating acuity on a more timely basis results in more accurate rates. The Department is reinvesting into the nursing home program a portion of the savings from the change to quarterly updates; specifically, the savings related to acuity changes who are continuing Medicaid residents. The Department is proceeding with the main savings component of this item, related to nursing home residents who transition from Medicare to Medicaid, which was the focus of this Medicaid Rate Reform item from the outset. Based on the Department's updated analysis, this component is expected to generate \$5 million more in savings in FY11 than the initial preliminary estimate developed last summer.

For all Medicaid Rate Reform items, the actual fiscal effect may differ in either direction from the preliminary estimate. For the quarterly acuity-related nursing home item, actual savings exceed the projected savings by \$5 million; however, for other nursing home-related Medicaid Rate Reform items, the actual savings is less than the projected savings. For the total of all nursing home-related Medicaid Rate Reform items, the \$29.4 million actual savings differs only slightly from the preliminary projected savings level of \$28 million. Even after the implementation of the Rate Reform items, nursing homes will receive a modest 0.4% increase in nursing home funding in FY11. In contrast, most other Medicaid providers are receiving no funding increases in FY11.

For each Medicaid Rate Reform item, the Department is proceeding with implementation to generate the actual savings level. Nursing homes are being treated in the same manner as other Medicaid providers: Medicaid providers are subject to cost savings measures under the Medicaid Rate Reform and providers experience the actual, rather than projected, fiscal effect.

I appreciated the opportunity to discuss these issues with you earlier this week.

Sincerely,



Karen E. Timberlake
Secretary

cc: Assembly Speaker Mike Sheridan
Senate Majority Leader Russ Decker
Senate Minority Leader Scott Fitzgerald
Assembly Minority Leader Jeff Fitzgerald
Senator Mark Miller, Co-Chair, Joint Committee on Finance
Representative Mark Pocan, Co-Chair, Joint Committee on Finance
DOA Secretary Daniel J. Schooff