



Options for the Future of Cattaraugus County Nursing Homes

Presentation to Cattaraugus County Legislature
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Center for Governmental Research (CGR)

- ▶ Nonprofit organization
- ▶ Research and management consulting
- ▶ Founded in 1915 by George Eastman
- ▶ Serves in the public interest
- ▶ Inform and empower communities
- ▶ Raise community questions and inform discussion through fact-based research and pragmatic recommendations

CGR's Recent Work with County Nursing Homes

- ▶ **Two statewide studies** of County Nursing Homes have helped frame debates about the future of public homes at state and county levels
- ▶ **8 counties** have sought our advice on future of county nursing homes in past two years
- ▶ New **NYS Health Foundation grant** to CGR to assess impact of county decisions about the future of their nursing homes (project began this summer)

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Why this study?

- ▶ Study is NOT in response to quality of care nor overall management concerns
- ▶ Rather it is the fact that both Pines facilities have required increasing County support to operate
- ▶ Public Nursing homes are all facing:
 - ▶ Increasing costs
 - ▶ Reimbursement system not keeping pace
 - ▶ Increasing uncertainty of funding streams (IGT)
- ▶ County policymakers want to review options and have a better understanding of what the issues are now, and likely to be in the near future
- ▶ **How to balance fiscal realities and the County's historic mission of The Pines and its residents?**

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Key points on study methodology

- ▶ Conducted over 75 confidential interviews with about 100 different stakeholders
- ▶ Focus groups with residents and family members
- ▶ Focus groups with employees
- ▶ Extensive data collection and analysis

Recommendations and observations made in the report reflect themes which emerged through this process – no isolated comments from individuals are included.

The Goal of the Study

- ▶ Provide consistent facts to inform community discussion
- ▶ Present a range of options for consideration

- ▶ This is not intended to be a detailed management study of The Pines; rather a **tool for discussion** and to explore a **range of options** for the future of the two County nursing homes.

Background

The Pines: A \$25 Million, 400+ employees, 24 hours/7 days a week operation

▶ Olean

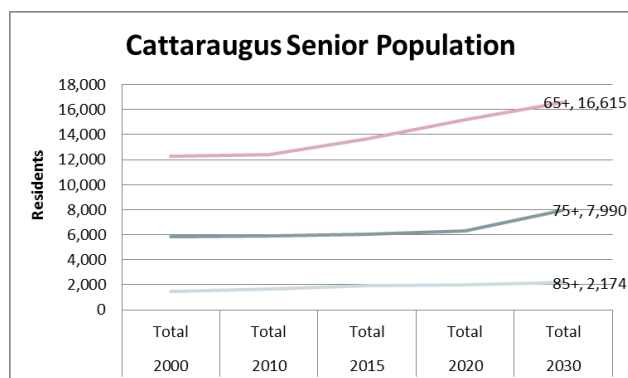
- ▶ 120 beds
- ▶ \$11.3M budget
- ▶ Over 200 employees
- ▶ 10 acres
- ▶ Built in 1972

▶ Machias

- ▶ 115 beds
- ▶ \$13.5M budget
- ▶ 240 employees
- ▶ 35 acres
- ▶ Part of original Stone House built in 1868
- ▶ Separate facility in 1961, new building completed in 2003

Growing Demand: Cattaraugus Senior population expected to grow by 34% by 2030

- ▶ Grow to more than 16,000 residents by 2030
- ▶ Will represent nearly a quarter (24%) of total county population



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Two Core Questions at the heart of the study:

- 1) What is and should be the **County's role** in providing elder care for its residents?
- 2) Is there a **tipping point in terms of costs** where the County should discontinue providing direct nursing care to area residents, and if so, what other options should be considered?

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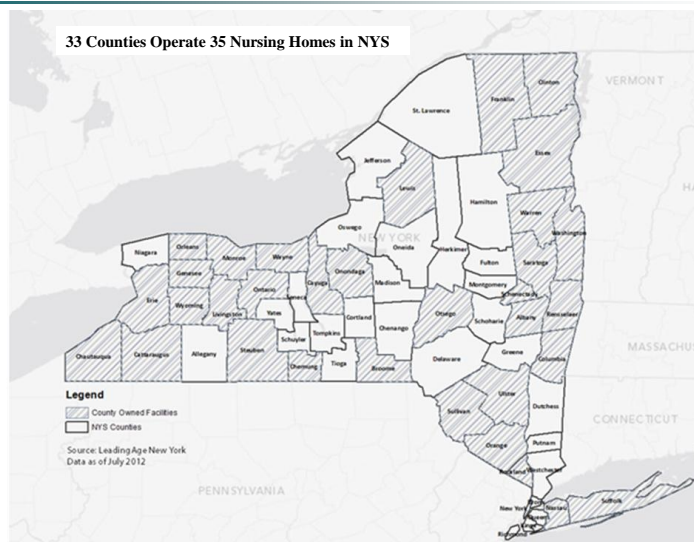


Key Concepts

Growing pressures from various sources place increasing pressure on public nursing homes

- ▶ Increasing employee benefit costs
- ▶ NYS Property Tax Cap
- ▶ Uncertainty of state and federal funding
- ▶ New statewide pricing methodology
- ▶ Managed Care
- ▶ Implications of the Affordable Care Act
 - ▶ All these factors make future planning of public nursing homes a murky picture at best
 - ▶ However, leading experts project major changes will not be likely for 3 to 4 years

Cattaraugus County is one of only 2 counties in NYS operating more than 1 public nursing home

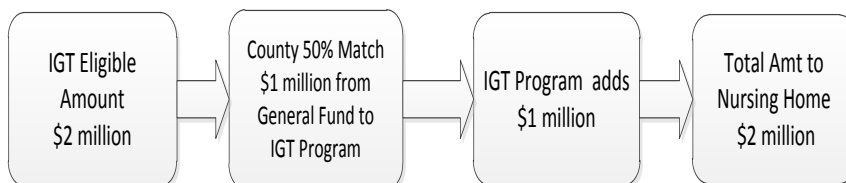


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IGT is Essential for Public Nursing Homes to Survive

- ▶ Intergovernmental Transfer program (IGT) is a Federal program designed to help public nursing homes who are particularly strapped by higher costs compared to the private sector counterparts
- ▶ IGT has been in place for decades, but in recent years began requiring a 50% County match



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Like most public nursing homes, there is no scenario where The Pines could survive without IGT payments/County subsidy

- ▶ Cattaraugus County, like most counties surveyed, have chosen to nearly maximize IGT over the years

The Pines, IGT Payments & County Match				
Year	Olean	Machias	Total	County Match
2008	\$ 4,269,244	\$ 3,850,910	\$ 8,120,154	\$ 4,060,077
2009	\$ 1,291,099	\$ 1,216,219	\$ 2,507,318	\$ 1,253,659
2010	\$ 1,500,000	\$ 1,500,000	\$ 3,000,000	\$ 1,500,000
2011	\$ 3,371,831	\$ 3,828,835	\$ 7,200,666	\$ 3,600,333
2012	\$ 1,250,000	\$ 1,250,000	\$ 2,500,000	\$ 1,250,000
Total	\$ 11,682,174	\$ 11,645,964	\$ 23,328,138	\$ 11,664,069

Source: Provided by Cattaraugus County, IGT Receipts and County Match

Notes: County Match for years 2008, 2009, and 2010 reported at 50% match, though pending review may require only 38.4% County contribution making the match for these years slightly overstated above. IGT total payments will remain unchanged. Figures have not been adjusted for inflation.

Fiscal Analysis of The Pines

Three Key Components to flesh out the Fiscal Picture

- ▶ **Enterprise Fund Only:** the separate budgets of each facility
- ▶ **County General Fund impact:** in the form of the required IGT match funds
- ▶ **Nursing Home revenue to the County:** in the form of indirect cost allocations, which in concept offsets the total hit from the General Fund for IGT match (nearly \$1M combined annually)
- ▶ **Ultimately the fiscal bottom line is the net cost to taxpayers**

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Enterprise Fund: IGT Key Factor for Both Facilities

- Machias and Olean routinely face annual deficits, though IGT greatly minimizes the impact

Summary of Enterprise Fund Average Annual Loss, 2007-11

	<u>Olean</u>	<u>Machias</u>
W/Out IGT	-\$2.4M	-\$2.4M
With IGT	-\$10,000	-\$532,000

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Enterprise Fund alone is not the full fiscal picture: Need to Consider impact on the General Fund

- ▶ County General Fund contributed \$1 million in IGT match to each facility (\$2 million total annual average for last five years)
- ▶ For a few years, County provided additional funds to cover budget shortfalls (of about \$2.7 million total)
- ▶ The nursing homes also contribute about \$1 million each year to the County General Fund to offset administrative service costs, therefore in theory, reducing the overall cost of the IGT match (these costs would continue with or without The Pines)

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Total Net Costs of The Pines has been about \$2.6 M each year over the past five years (Table 37, page 78)

The Pines - Enterprise Fund, 2007 through 2011								
Line #		2007	2008	2009	2010	2011	TOTAL 2007-11	AVERAGE 2007-11
1	Enterprise Fund NET (w/out IGT)	-\$3,983,002	-\$3,187,193	-\$4,298,978	-\$6,679,314	-\$6,112,566	-\$24,261,053	-\$4,852,211
2	IGT Funding	\$0	\$8,120,154	\$2,507,318	\$3,000,000	\$7,200,666	\$20,828,138	\$5,207,035
3	Enterprise Fund gain/loss (including IGT) (Line 1 plus Line 2)	-\$3,983,002	\$4,932,961	-\$1,791,660	-\$3,679,314	\$1,088,100	-\$3,432,915	-\$686,583
4	ENTERPRISE FUND TOTAL NET including IGT and Non-operating revenue	-\$1,978,001	\$5,233,704	-\$2,360,134	-\$4,211,948	\$603,570	-\$2,712,810	-\$542,562
Calculating The Pines - Total Net Cost to the County, 2007 through 2011								
5	County Match for IGT	\$0	-\$4,060,077	-\$1,253,659	-\$1,500,000	-\$3,600,333	-\$10,414,069	-\$2,082,814
6	County Additional Fund Transfer for budget	-\$1,905,428	-\$813,594	\$0	\$0	\$0	-\$2,719,022	-\$543,804
7	Nursing Home Payments to County for indirect services	\$0	\$0	\$950,821	\$967,611	\$971,186	\$2,889,618	\$577,924
8	TOTAL NET COST TO THE COUNTY	-\$3,883,429	\$360,033	-\$2,662,972	-\$4,744,338	-\$2,025,577	-\$12,956,283	-\$2,591,257

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Projected Deficits Increase under Status Quo 2013-15

- ▶ Depending on IGT Match, between 2013-15:
 - ▶ Average annual losses in the combined Enterprise funds would range from \$1M to \$7M
 - ▶ Net Cost to the County would range from \$3M to \$6M per year (up from \$2.6M current)

	0 IGT	\$1.5 Million IGT per Facility (\$3M total)	\$3 Million IGT per Facility (\$6M total)
Enterprise Fund Annual Avg Costs of Status Quo	(7,087,525)	(4,087,525)	(1,087,525)
Net Annual Avg Cost to the County of Status Quo	(6,000,000)	(4,600,000)	(3,000,000)

Range of Options: Cost Reduction /
Revenue Enhancement

Key Concepts: Some Costs Don't Go Away

- ▶ \$20-\$30 million in “Legacy Costs” remain County Liability (OPEB, unemployment, active workers comp claims, debt)
- ▶ Nearly \$1 million in revenue to the County General Fund comes from the nursing homes

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Staying in the business: projected \$2.8 million in operational savings/revenue is possible

- ▶ Leveraging technology
- ▶ Reduction and redeployment of a number of positions
- ▶ Focus on changing portion of payer mix
- ▶ Identifying cost savings in Machias dietary operation
- ▶ Limits on employee benefit costs, salary increases, and number of holidays

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With these changes, net losses at The Pines will be lower in the future than in the previous five years

- ▶ Depending on IGT level, County contributions to The Pines would range from \$1.8M to \$2M to \$3.2M, per year.
- ▶ Assuming \$2M County contribution from the General Fund, impact on average taxpayer is **\$40 per year**
 - ▶ (actual impact will vary, estimate assumes average assessed home value of \$80,000)

Possible benefits of selling either/or both facilities

- ▶ No longer bear the responsibility for the day-to-day operation of the facility.
- ▶ Reduce payroll and benefits costs by eliminating the staff positions in the affected facility(ies),
- ▶ No more County match for IGT payments
- ▶ Avoid future costs for capital investments
- ▶ Receive cash from the purchaser to pay down remaining debts and portion of legacy costs
- ▶ Private provider would be eligible to run an Assisted Living Program on the grounds—something the County cannot do directly
- ▶ A for-profit owner would begin to pay property taxes on the facility and grounds
- ▶ Selling now would avoid and potentially get ahead of the curve related to the uncertainty of future reimbursements available to nursing homes over the next few years

Limitations/Concerns of Selling

- ▶ County would have no control over what happens at the facility, including any ability to control future mission and quality of life provided by the new owner
- ▶ Risk that a future owner could turn around and sell or close the facility in the future
- ▶ Disruptions in the continuity of care for residents of the facility
- ▶ No guarantees that the historic mission of the facility would continue, and that the “safety net” function of providing care to the “hard to place” would continue
- ▶ Considerable evidence that suggests that in general, there are disproportionately more issues with quality of care for residents in for-profit homes than in their competitors
- ▶ Potential loss of employment and change in benefits impacting nearly 400 employees
- ▶ The County General Fund would lose its cost allocation offsets of about a million dollars a year
- ▶ Nearly \$30 million in legacy costs would continue, to be only partially offset by a sale price
- ▶ Selling process realistically takes at least 12 to 18 months and requires NYSDOH approval

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Facility Market Considerations

- ▶ Olean
 - ▶ Limited debt
 - ▶ Located in major population center
 - ▶ County would lose about \$500,000 in indirect cost revenue
 - ▶ Tax rate would be reduced by an estimated \$0.27 per \$1,000 or about \$21.50 per year for a taxpayer with a home assessed at \$80,000 (assumes for-profit buyer)

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Facility Market Considerations

- ▶ Machias
 - ▶ \$11 million debt, unlikely to be covered by sale price
 - ▶ Serves a relatively underserved area of the county,
 - ▶ Economic driver in the area
 - ▶ Over 35 acres offers opportunity to develop campus of long term care options
 - ▶ County would lose about \$500,000 in indirect cost revenue
 - ▶ Tax rate would be reduced by an estimated \$0.28 per \$1,000 or about \$22 per year for a taxpayer with a home assessed at \$80,000 (assumes for-profit buyer)

Conclusions and Recommendations

The Pines will continue to need some form of subsidy in the future

- ▶ There is no current scenario whereby The Pines will operate without at least IGT support
- ▶ Level of support will range, depending on cost-saving/revenue enhancement measures put into place
- ▶ Ultimately boils down to balancing the County's historic commitment to the two facilities with the changing, and challenging, fiscal realities

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Two Stage Recommendation

- ▶ 1) County commits to own and operate both facilities for 3 to 5 years
 - ▶ Implement cost savings/revenue enhancement recommendations
 - ▶ Have a better sense of external policy and regulation changes
- ▶ 2) During this window, County aggressively implements and obtains further details of the outlined options
 - ▶ Develop County Long Term Care Plan – holistic plan for the County's role and strategy for meeting growing elder needs
 - ▶ Implement the cost savings recommendations
 - ▶ Explore viability of the sale of one or both homes, RFP specifications, etc.

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Why a 3 to 5 Year Timeframe?

- ▶ During this window, the murky fiscal picture of federal and state funding and policy changes should become clearer
- ▶ Due diligence to review tradeoffs the County is facing
- ▶ Time to come to terms with the balance of the goals of cost containment and mission
- ▶ Explore the larger long-term care issues and determine the County's role and where the nursing homes fit in a larger plan
- ▶ It is likely, that one of The Pines facilities will ultimately be sold at some time in the next five years or so, given fiscal realities within and outside of the County's control
- ▶ However, as more of the unknowns are revealed, the prospect of keeping both is still in the realm of possibility

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Discussion

- ▶ Questions and Answers

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