



## Impact of Medicaid cost reductions on long-term care facilities

This is an estimate of the impact of a 5% nursing home/SNF rate cut and withholding inflationary adjustment during SFY20.

### Key points

- Long-term care facilities (nursing homes) cannot sustain rate cuts or to have inflation withheld. In most facilities, at least 85% of the residents are on Medicaid. Since Medicaid pays a cost-based rate that doesn't truly cover all costs, nursing facilities operate on very thin margins.
- In past periods of budget reductions, long-term care (LTC) facility rates were not cut, but inflationary adjustments were suspended. Even the suspension of inflation adjustments pushed many facilities to the edge of financial viability.
- Nursing homes do not have a significant volume of other payers to help absorb cuts. They operate with high fixed costs related to meeting patient care needs and regulatory requirements.
- Most Alaska Critical Access Hospitals (CAH) have co-located nursing home beds. Combining services under one roof achieves efficiencies and maximizes staff resources, spreading costs over more patients and helping to create a sustainable rural health system. A cut to the long-term care (nursing home) rate impacts CAH sustainability due to shared administrative and patient services. 90-100% of care for residents in CAH long-term care facilities is paid by Medicaid.
- Alaska already has one of the lowest rates of nursing home beds per capita in the country, and with a growing elderly population we can't afford to lose any existing capacity.

### Impacts

- Labor represents around 75% of expenses and the remaining 25% are largely fixed costs (utilities, building maintenance, food, etc.).
- Without inflationary adjustments facilities cannot absorb rising costs and wages. Inflationary adjustments are approximately 2-3% per year, resulting in an additional reduction of another 5% every two years.
- LTC is highly regulated and facilities must maintain certain staffing ratios to meet regulatory requirements. These ratios cannot easily be adjusted. A rate cut could result in fewer front-line caregivers (certified nursing assistants) and result in a reduction in the quality of care.
- Services across the facility (acute and LTC) will need to be reviewed and likely reduced. Cuts to LTC will impact the acute hospital care as well.
- Rate reductions could lead to a higher rate of deficiencies on surveys which could result in staff diverted from care of residents to respond to regulatory issues.
- Facilities may have to contemplate closure, especially those facilities without a larger organization to offset losses (Wildflower Court, Petersburg Medical Center, Cordova Community Medical Center).

## Summary of financial impact by facility

The following is an estimate of the dollar amount impact of a 5% rate reduction and no inflationary adjustment on long-term care/skilled nursing facility Medicaid payments. This is based on the facility's latest fiscal year end and is to illustrate potential impact. Actual amounts would vary depending on patient mix and volume for SFY20.

The operating margins presented do not isolate long-term care for the co-located facilities. This is a combined facility margin.

**Petersburg Medical Center:** 100% covered by Medicaid

5% rate cut	\$162,500
No inflationary adjustment	\$65,000
<b>Total \$ impact</b>	<b>\$227,500</b>

2018 operating margin (2%)

Potential impact – Petersburg is at high risk for cutting service lines and staff at a minimum. As a community critical access hospital, we achieve efficiencies through the co-location of collective services under one roof. Any rate reduction will significantly affect all services including long-term care, primary care, emergency room, and home health. PMC is already at an extremely tight margin (<2%). The reduction represents 80% of that margin. We would be an extremely at-risk facility.

**PeaceHealth Ketchikan:** 83% covered by Medicaid in 2018 86% in 2017

5% rate cut	\$323,000
No inflationary adjustment	\$125,000
<b>Total \$ impact</b>	<b>\$448,000</b>

2017 operating margin 6%

We estimate we are still owed about \$300,000 - \$350,000 on FY 18 unpaid claims.

Potential impact – The LTC program has been losing money the last two fiscal years. We will evaluate the impact of the proposed cuts and respond in a manner in keeping with our mission and values. The additional cuts will make it very difficult to provide the service as further cuts will increase the losses associated with our LTC program.

We will have to continue to cross subsidize the program through other means. This will result in some burden being placed on other health care programs and private insurers. We have continued to look for ways to deliver service more cost effectively through centralization, improving productivity, maximizing the benefits from our supply chain and revenue cycle improvement. We will continue to look for ways to reduce and align services with the needs of the community.

**Wrangell Medical Center:** 99% covered by Medicaid

5% rate cut	\$187,455
No inflationary adjustment	\$74,982
<b>Total \$ impact</b>	<b>\$262,437</b>

2017 operating margin (-5%). Ended FY18 with a loss from operations of \$751,675.

Potential impact – At the very least would have to cut services and/or staff.

**South Peninsula Hospital:** 93% covered by Medicaid

5% rate cut	\$423,000
No inflationary adjustment	\$169,000
<b>Total \$ impact</b>	<b>\$592,000</b>

2017 operating margin (-2%)

Potential impact – In order to maintain the same margin within our LTC unit given a reduction in payment of \$592K annually, we would need to examine the level and types of services including staffing. An annual reduction of this magnitude would cause us to question the sustainability of the long-term care unit. Our ability to provide services to long-term care residents that are not covered by Medicaid would be diminished if not eliminated. Services offered that are not covered by Medicaid include nutrition, provision of sundries, physical therapy, mental health, and social work. We consider such services vital to the quality of care for our long-term care residents.

**Cordova Community Medical Center:** 100% covered by Medicaid

5% rate cut	\$172,718
No inflationary adjustment	\$69,095
<b>Total \$ impact</b>	<b>\$241,813</b>

2017 operating margin (-13%)

Potential impact – Huge impact on the financial viability our small hospital, we would have to cut services and potentially close the facility.

**Providence Valdez:** 100% covered by Medicaid

5% rate cut	\$173,927
No inflationary adjustment	\$69,571
<b>Total \$ impact</b>	<b>\$243,498</b>

2017 operating margin 9%

Potential impact – Long-term care revenues are the stabilizing force behind a critical access hospital’s health care delivery model. Most Alaskan CAH’s lack the basic economies of scale to offer the broad scope of acute, outpatient and trauma services that their communities so desperately rely on. It is because of a CAH’s connection with the reliable revenue stream of the LTC that the other unpredictable (by volume) yet essential services can be offered. Take away the last reliable revenue source for rural CAH’s (LTC) and you pull the rug out from underneath the whole system.

**Providence Kodiak:** 94% covered by Medicaid

5% rate cut	\$353,509
No inflationary adjustment	\$141,404
<b>Total \$ impact</b>	<b>\$494,913</b>

2017 operating margin 7%

Potential impact – Combined facility would need to consider review and potential limitation of services to the community. Kodiak Island Borough relies on lease payments for the facility to cover bond debt used to construct the facility.

**Providence Seward:** 81% covered by Medicaid

5% rate cut	\$451,774
No inflationary adjustment	\$180,709
<b>Total \$ impact</b>	<b>\$632,484</b>

2017 operating margin<sup>1</sup> 4% \$702,000

Potential impact – The City of Seward still carries bond debt related to the construction of the facility. Rate cuts could require City to further subsidize facility operations.

**Wildflower Court:** 91% covered by Medicaid  
5% rate cut \$505,654  
No inflationary adjustment \$202,262  
**Total \$ impact** \$707,916

Lowest days of cash on hand 2018 – 38 days

Potential impact – Difficulty making bond payments, fewer front-line caregivers, no pay raises for staff. If this rate cut continued to pay below the cost of providing care, we would have to consider closure.

**Heritage Place- Central Peninsula Hospital:** 85% covered by Medicaid

5% rate cut \$401,302  
No inflationary adjustment \$140,885  
Total \$ impact \$542,157

Potential impact –Cuts would decrease margins significantly. Potential to decrease front line staffing reducing quality and increasing regulatory burden from increased survey deficiencies.

**Prestige Care and Rehab Center:** 70% covered by Medicaid

5% rate cut \$527,342  
No inflationary adjustment \$210,936  
Total \$ impact \$738,278

Potential impact –Direct impact on our operational budget and management, potentially resulting in staffing cuts to maintain financial stability and longevity. We offer a robust activities program in which our residents actively participate. These kinds of programs could be affected if operational cuts must be made. We are one of the few facilities that have part-time dental services through Christian Dental Group. Their services are funded by Medicaid and grants they receive. This service has helped our residents stay in our building to receive much needed dental care. Dental care services are vital to our residents’ overall health.

**Denali Center/Fairbanks:** 86% covered by Medicaid

5% rate cut \$876,072  
No inflationary adjustment \$350,429  
**Total \$ impact** \$1,226,501

Potential impact – Foundation Health Partners (FHP) is a comprehensive health care network providing a continuum of care for Interior and Northern Alaska. Fairbanks Memorial Hospital, Denali Center (LTC), Tanana Valley Clinic and numerous other lines of service complete this system of care. FHP will consider budget reduction impacts across the entire organization. We apply the public health approach of doing the most good for the most people. We value Denali Center and the residents served and we will protect it financially as much as possible.

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<sup>1</sup> For Providence Seward, the financial statements we produce do not include the depreciation on the building. This means the operating margin we have provided you is overstated by the amount of depreciation.

## Hospitals and Nursing Homes in Alaska 2019

Community	Facility Name	Acute Beds	Long-term Care Beds	Swing Beds	Tribally Operated
<b>Critical Access Hospitals</b>					
<b>Cordova</b>	Cordova Community Medical Center	13	10	13	No
<b>Dillingham</b>	Kanakanak Hospital	16	0	2	Yes
<b>Homer</b>	South Peninsula Hospital	21	28	21	No
<b>Ketchikan</b>	PeaceHealth Ketchikan Medical Center	25	29	0	No
<b>Kodiak</b>	Providence Kodiak Island Medical Center	25	22	25	No
<b>Kotzebue</b>	Maniilaq Health Center	17	18	0	Yes
<b>Nome</b>	Norton Sound Regional Hospital	18	18	18	Yes
<b>Petersburg</b>	Petersburg Medical Center	12	15	12	No
<b>Seward</b>	Providence Seward Medical & Care Center	6	40	6	No
<b>Sitka</b>	SEARHC/Mt Edgecumbe Hospital	25	0	15	Yes
<b>Sitka</b>	Sitka Community Hospital	12	15	12	No
<b>Utqiagvik</b>	Samuel Simmonds Memorial Hospital	10	0	10	Yes
<b>Valdez</b>	Providence Valdez Medical Center	11	10	10	No
<b>Wrangell</b>	Wrangell Medical Center	8	14	8	No

<b>Rural/Sole Community Hospitals</b>					
<b>Bethel</b>	Yukon-Kuskokwim Delta Regional Hospital	50	18	0	Yes
<b>Juneau</b>	Bartlett Regional Hospital	73	0	0	No
<b>Palmer</b>	Mat Su Regional Medical Center	74	0	4	No
<b>Soldotna</b>	Central Peninsula Hospital/Heritage Place	49	60	34	No
<b>Fairbanks</b>	Fairbanks Memorial Hospital/Denali Center	152	90	0	No

<b>Acute Care Hospitals</b>					
<b>Anchorage</b>	Alaska Native Medical Center	167	0	0	Yes
<b>Anchorage</b>	Alaska Regional Hospital	250	0	0	No
<b>Anchorage</b>	Providence Alaska Medical Center	401	0	0	No

<b>Other/Specialized Hospitals</b>					
<b>Anchorage</b>	Alaska Psychiatric Institute	80			
<b>Anchorage</b>	North Star Behavioral Health	140	60 residential beds		
<b>Anchorage</b>	St. Elias Specialty Hospital	59			
<b>Elmendorf</b>	Elmendorf – USAF 673 <sup>rd</sup> Medical Group	59			
<b>Fort Wainwright</b>	Bassett Army Community Hospital	43			

<b>Standalone Nursing Homes</b>		
<b>Anchorage</b>	Prestige Care and Rehabilitation Center	102
<b>Anchorage</b>	Providence Extended Care	96
<b>Anchorage</b>	Providence Horizon House	90
<b>Anchorage</b>	Providence Transitional Care Center	50
<b>Juneau</b>	Wildflower Court	61