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APPENDIX # 7

Colorado Association of Homes and Services for the Aging (CAHSA) Statement

CAHSA has participated as a member of the nursing home reimbursement committee, having dedicated the time of the executive director as well as one of the association members. CAHSA has attended committee meetings since the inception of SB 06-131 and has participated throughout the process. In addition, one of CAHSA's representatives chaired the Pay for Performance sub-committee.

During the course of the committee's work, there have been notable areas of agreement: (1) retention of the cost-based acuity adjusted methodology for direct health and other, (2) removal of the 8% cap in direct health and other, (3) development of a pay for performance incentive, (4) identifying ways to reimburse nursing homes for residents with certain behaviors, (5) administrative and general cost reallocation, and (6) management fees.

Throughout the process, the CAHSA board has provided broad directives and parameters to consider while measuring the feasibility of changes to the nursing home reimbursement methodology. On April 9, 2007, CAHSA Executive Director Laura Landwirth directed email communication to Director Joan Henneberry of the Colorado Department of Health Care Policy and Financing (HCPF), stating that while CAHSA was not necessarily opposed to a shift to a pricing model in administrative and general, CAHSA would carefully evaluate any proposal that created winners and losers. Accordingly, CAHSA Executive Director Laura Landwirth voted in the nursing home reimbursement committee against a pricing model for the administrative and general part of the rate. Following the decision by the nursing home reimbursement committee in August to recommend a price-based model for the administrative and general (A & G) portion of the rate, the CAHSA board formally voted to oppose such a model because it creates winners at the expense of losers. The vote was taken at CAHSA's August 24th board meeting.

On August 27, 2007, CAHSA informed the department of the board's formal motion. While it was understood that the nursing home reimbursement committee had not made a final recommendation for a pricing model, CAHSA wanted to communicate their strong opposition to the A & G version under consideration, due to the proposal's establishment of winners at the expense of losers. In addition, CAHSA asked the department for serious reconsideration of a prior option previously rejected out-of-hand by the committee.

In the model then - and to some extent, currently - proposed in this document, losers will have their rate arbitrarily reduced or restricted for allowable expenses incurred in the care of residents. The CAHSA board believes that any reduction in payment is neither necessary nor warranted.

Subsequent to the CAHSA board's vote, the nursing home reimbursement committee made the decision to implement a "hold harmless" to the losers in the A & G pricing proposal and to phase in the model over a four-year period. The CAHSA board opposes a "phase-in period" with the "hold harmless" provision as this position continues to create losers while other nursing homes become immediate winners. Opposing a "hold harmless" provision was specifically included in the CAHSA board vote at their August meeting.

The CAHSA board is concerned that a "fixed price" does not provide a better system of delivering care and eliminates the accountability of reporting requirements and the transparency of how public funds are spent. There is no assurance that a pricing model in A & G which results in a higher payment for some nursing homes at the expense of others will translate into better care for residents. The strengths of our current system with respect to the A & G portion of the rate include:

- Nursing Facility specific rates – the rate is based on each individual nursing facility's actual audited costs.
- Rates are recalculated annually – new rates are calculated based on costs reported in the most recent cost report. In addition, an inflation factor is applied to adjust rates to reflect inflation between the mid-point of the cost report year and the mid-point of the year when the rate is paid. This recalculation is typically called "rebasing" or "resetting."
- Efficiency incentive – this incentive is in the administrative and general part of the rate and encourages nursing facilities to minimize spending by providing them with additional payment if they keep their spending below a certain amount.
- Ceiling – to further encourage nursing facilities to operate efficiently, a ceiling is placed on the costs that are reflected in their payment rate.

CAHSA believes the current methodology has been both reliable and predictable for providers as well as the department. Subsequent to the design of the current system, a "cap" was placed on the rate as a result of a legislative modification designed to control the rate of growth in nursing facilities' Medicaid expenditures. Proponents of a "pricing" model of reimbursement point to a Myers and Stauffer analysis of the number of nursing homes whose rates may have been artificially suppressed due to the cap as their evidence that our system is broken. Using un-audited data, Myers and Stauffer identified 120 out of 185 facilities, or 65%, that are limited by the 6% prior period cap. Rather than correcting the problem caused by the cap, the committee recommended a system that has no relation to costs, and creates winners at the expense of losers. In contrast, CAHSA advocates parity in reimbursement and we believe resetting the rate of those homes

whose rate may have been artificially suppressed under our current cost-based system will bring them to parity with all Medicaid certified nursing homes without the necessity for overhauling the system.

The proposed A & G pricing model adversely impacts 51 nursing homes and costs twice as much to implement. Moreover, the proposed per diem reimbursement rate of $50.74 produces a per diem payment higher than the calculated unimputed actual per diem costs (unadjusted) to 97 nursing homes. This represents payment in excess of actual costs to more than 52% of all nursing homes included in the array. When using actual costs based on imputed occupancy, this number rises to 107, representing 58% of all nursing homes included in the array.

We believe a reasonable approach is to reset the rate (the base) to the allowable costs for the 120 affected homes. CAHSA understands from Myers and Stauffer that the cost to perform this proposed reset is 9 million dollars – approximately half of the projected fiscal impact of the pricing model under consideration. By resetting the rate only for providers whose rate may have been artificially suppressed, this nursing home reimbursement model would ensure 120 winners and no losers.

CAHSA believes the aforementioned approach can be achieved with far less adverse fiscal impact and will continue a system with full accountability of the funds expended to care for our frail elderly. Finally, we believe this approach is a “win-win” for the state as well as providers and is the best use of public funds for the long-term care needs of Colorado’s aging citizens.