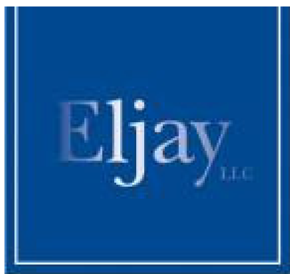

A Report on Shortfalls in Medicaid Funding for Nursing Home Care

ELJAY, LLC

**FOR THE
AMERICAN HEALTH CARE ASSOCIATION**

October 2008

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REPORT HIGHLIGHTS

- The average shortfall in Medicaid nursing home reimbursement was projected to be $12.48 per Medicaid patient day in 2008. The actual shortfall in 2008 will likely be somewhat higher due to greater then projected inflationary pressures on nursing home costs.

- Un-reimbursed nursing home Medicaid allowable costs were estimated at $4.2 billion in 2008.

- The Medicaid reimbursement outlook for 2009 and 2010 looks bleak as state economies weaken due to decreasing tax revenues and greater demand for state funded services induced by the current economic downturn.

- The actual daily reimbursement shortfall for 2006 was estimated at $13.81 per Medicaid patient day. The 2006 shortfall is greater than the 2005 actual shortfall of $13.43 (per last year's report) and has increased by 52.6% between 1999 and 2006.

- In 2008, for every dollar of allowable cost incurred for a Medicaid patient, the Medicaid program reimbursed approximately 93 cents.

- States continue to rely heavily upon provider taxes to fund nursing home reimbursement.

- States continue to redirect more of their long term care budgets to non-institutional services. This heightened competition among long term care programs for limited state resources combined with sagging state economies will likely dampen future Medicaid rate increases and reverse the trend achieved in nursing home funding in the past few years of rate increases, on average, keeping pace with cost increases.

- Medicare cross-subsidization of Medicaid continues to play an important role in sustaining nursing home care, even in better economic times. Even with positive Medicaid rate trends, on average, the combined margin from the two payer sources is still negative.

MEDICAID 2006 AND PROJECTED 2008 NURSING HOME SHORTFALL STUDY SUMMARY

Eljay, LLC (Eljay), 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.[1] This year's compilation, like the previous six, identifies the shortfall for the latest year in which audited or desk-reviewed cost reports were available, which in most states was 2006. In a few states, cost reports for providers with fiscal year ends of June 30, 2007 were available and used. In addition, similar to last year's study, a shortfall for the current year (2008) is projected by trending the 2006 costs (or 2007 if available) to the current year and comparing them to current Medicaid rates.

Methodology

Overall, data were obtained from 41 states for 2006[2] and represented over 87.6% of the Medicaid patient days in the country. The data from almost two-thirds of the states reporting in 2006 were based upon audited or desk-reviewed cost reports, or some blend of both. As-filed Medicaid cost reports or Medicare cost reports were used for the remaining states.[3]

As previously indicated, in addition to determining the shortfall in Medicaid funding in 2006, Eljay projected the shortfall in Medicaid reimbursement for the current year by comparing current year rates to 2006 allowable costs (or 2007 if available) trended to the current year. The trending factor used in projecting 2006 costs to the current rate year was the Medicare Skilled Nursing Facility Market Basket Index (Market Basket), the same inflation index used by most states to inflate costs for rate setting purposes and also used by the Medicare program in setting Medicare rate increases. The trended costs were also increased by the cost of any new or

[1] The President of Eljay, LLC is a retired partner of BDO Seidman, LLP (BDO) and formerly their National Director of Long Term Care Services. Both this year's study and the six conducted in prior years were compiled under his management and review. BDO performed the compilation for the first five years with both BDO and Eljay collaborating on the Report in year six.
[2] In Indiana and New Hampshire, the state Medicaid contractor provided shortfall data only for the current year. Thus, a projected 2008 shortfall was determined for both of these states but a 2006 shortfall could not be determined for either due to unavailable data.
[3] As-filed Medicaid cost reports or Medicare cost reports were the only available reports in a few states where rates were not based upon the most current cost report. In this situation, the state may not have audited the cost reports since it was not used in the rate setting process. These cost reports, however, already exclude non-allowable costs per cost report instructions although additional adjustments would typically be made if audited by the state agency or its contractor.

expanded provider tax programs if that cost was not already included in the base year's cost reports.[4] Historically, allowable Medicaid costs have increased annually by a greater percentage than the Market Basket meaning once actual 2008 cost data become available, the actual shortfall for 2008 will likely be higher than what is projected in this report. For example, the June 2006 Shortfall Report projected a per diem shortfall of $13.10 for 2006. Now, based upon actual allowable cost data for that year, the actual per diem shortfall was $13.81, about 5.4% higher than originally projected.

Estimated Medicaid Shortfall: 2006

The estimated average shortfall in Medicaid reimbursement increased per Medicaid patient day from $13.43 in 2005 to $13.81 in 2006; a 2.8% increase. For every dollar of allowable cost incurred for a Medicaid patient in 2006, Medicaid programs reimbursed, on average, approximately 92 cents; which is comparable to the percentage of allowable cost covered by the Medicaid rates in 2005. The 2006 shortfall compilation incorporates data from 41 states. When extrapolated to all 50 states, the shortfall in Medicaid reimbursement to nursing facilities was estimated to be almost $4.7 billion.

Projected Medicaid Shortfall: 2008[5]

Between 2006 and 2008, overall Medicaid rate increases have kept pace with market basket projected cost increases, resulting in the projected shortfall decreasing to an estimated $12.48 per Medicaid patient day in 2008.[6] As such, we estimate that, on average, state Medicaid programs are currently reimbursing approximately 93% of projected allowable costs incurred on behalf of Medicaid patients. Since 1999, the percentage of provider's allowable cost covered by the Medicaid rate ranged from a low of 89.8% in 2003 to a high of 92.8% projected for 2008.

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[4] In Tennessee, 2006 costs were projected to the current year by the skilled market basket plus an estimate of the impact of the federal minimum wage increase effective July 1, 2007. The cost estimate was commensurate with the add-on provided in their 2008 rates for this additional cost.

[5] No determination of the Medicaid shortfall could be made for 2007, since 2007 cost reports were unavailable except in a few states where cost reports with year ends of June 30, 2007 were available. The 2008 Medicaid shortfall is a projection based upon trending the most recently available cost reports to 2008 and comparing these trended costs to current rates.

[6] This shortfall projection, based upon trending 2006 (or 2007 if available) allowable costs to 2008 by the SNF Market Basket for comparison to 2008 rates is conservative. The actual 2008 shortfall will likely be greater once actual 2008 allowable cost data becomes available in that historically, allowable costs have increased annually by a greater percentage than the Market Basket.

The 2008 shortfall compilation incorporates data from 43 states.[7] When extrapolated to all 50 states, the shortfall in Medicaid reimbursement to nursing facilities was projected at just under $4.2 billion. Taken together, in the years that we have compiled this study, the shortfall in Medicaid nursing home funding has increased 37.9%, from $9.05 per patient day in 1999 to a projected $12.48 in 2008.

The charts on pages 16-19 reflect the per diem shortfall and the fiscal impact of the shortfall in each state by year. Figures I and II on page 4 reflect the shortfall per Medicaid day and the percentage of costs covered by the rates in each year since inception of the study.

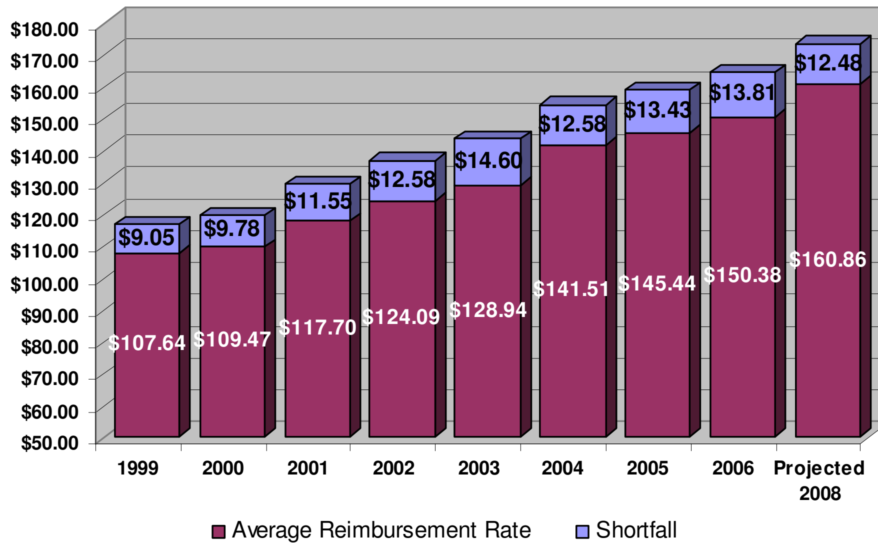
Medicaid Allowable Costs in Comparison to Total Costs

If all costs of operations were considered—not just Medicaid allowable costs—the shortfall would be significantly greater. Allowable costs include only those costs recognized by the Medicaid 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. These legitimate business costs constitute 2% to 3% of total costs based upon analysis of cost disallowances in five states where the cost disallowance detail was sufficient to make that determination.[8] A 2% disallowance of legitimate business costs is equivalent to additional unreimbursed cost of approximately $3.47 per day based upon total projected 2008 Medicaid allowable costs of $173.34 per day, which would increase the projected 2008 Medicaid shortfall to over $15 per patient day.

[7] In Indiana and New Hampshire, the state Medicaid contractor provided shortfall data only for the current year. Thus, a projected 2008 shortfall was determined for both of these states but a 2006 shortfall could not be determined for either due to missing data.

[8] Data bases in almost all the states reflect total disallowances but do not provide sufficient detail to identify particular cost disallowance amounts. However, a 2% to 3% disallowance as identified in the few states where the detail was available is consistent with Eljay's experience with disallowances of these types based upon 34 years of preparing, reviewing and analyzing cost reports.

FIGURE I
Shortfall per Medicaid Patient Day
All States in Each Year[1]



[1] No determination of the Medicaid shortfall could be made for 2007, since 2007 cost reports were unavailable in all but six states. The 2008 Medicaid shortfall is a projection based upon trending the most recently available (2006) cost reports to 2008 and comparing these trended costs to current rates.

Figure II
Percentage of Costs Covered by the Rates
All States in each Year

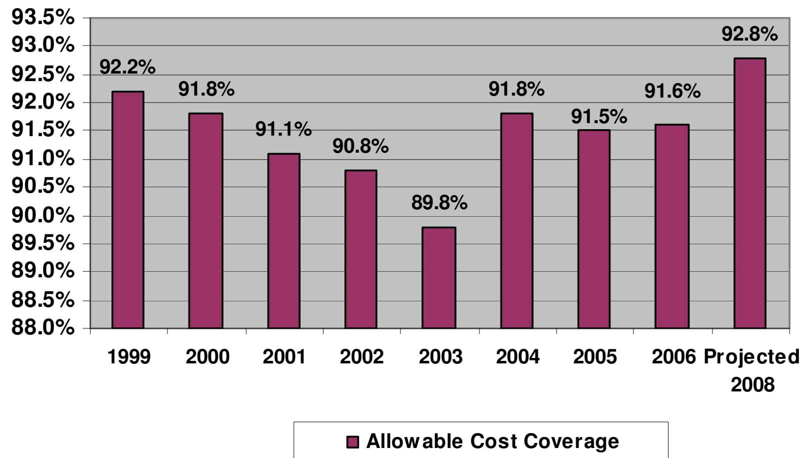


TABLE I
STATE-BY-STATE COMPARISON OF RATES AND COSTS

State	Rate 06	Cost 06	Difference 06
Arizona	$ 139.98	$ 158.40	$ (18.42)
Arkansas	$ 130.40	$ 129.16	$ 1.24
California	$ 144.53	$ 152.61	$ (8.08)
Colorado	$ 159.27	$ 167.42	$ (8.15)
Connecticut	$ 204.50	$ 215.90	$ (11.40)
Delaware	$ 212.35	$ 237.35	$ (25.00)
Florida	$ 165.69	$ 179.43	$ (13.74)
Georgia	$ 117.51	$ 128.78	$ (11.27)
Hawaii	$ 196.25	$ 203.88	$ (7.63)
Idaho	$ 153.89	$ 159.44	$ (5.55)
Illinois	$ 96.94	$ 125.10	$ (28.16)
Iowa	$ 111.29	$ 122.47	$ (11.18)
Kansas	$ 116.78	$ 130.32	$ (13.54)
Maine	$ 164.78	$ 177.57	$ (12.79)
Maryland	$ 186.41	$ 192.28	$ (5.87)
Massachusetts	$ 180.40	$ 199.04	$ (18.64)
Michigan	$ 171.61	$ 173.92	$ (2.31)
Minnesota	$ 143.33	$ 165.69	$ (22.36)
Missouri	$ 109.45	$ 128.23	$ (18.78)
Montana	$ 150.31	$ 151.02	$ (0.71)
Nebraska	$ 136.41	$ 143.99	$ (7.58)
Nevada	$ 164.80	$ 171.27	$ (6.47)
New Jersey	$ 189.40	$ 212.43	$ (23.03)
New Mexico	$ 135.60	$ 157.46	$ (21.86)
New York[1]	$ 195.72	$ 219.59	$ (23.87)
North Carolina	$ 133.99	$ 144.62	$ (10.63)
North Dakota	$ 148.72	$ 151.23	$ (2.51)
Ohio	$ 162.88	$ 170.09	$ (7.21)
Oklahoma	$ 117.15	$ 123.27	$ (6.12)
Oregon	$ 179.59	$ 184.15	$ (4.56)
Pennsylvania	$ 180.08	$ 197.56	$ (17.48)
Rhode Island	$ 169.53	$ 184.67	$ (15.14)
South Dakota	$ 113.10	$ 127.31	$ (14.21)
Tennessee	$ 131.05	$ 132.38	$ (1.33)
Texas	$ 105.46	$ 112.57	$ (7.11)
Utah	$ 142.85	$ 156.22	$ (13.37)
Vermont	$ 160.70	$ 189.82	$ (29.12)
Virginia	$ 132.52	$ 137.74	$ (5.22)
Washington[2]	$ 138.74	$ 160.30	$ (21.56)
Wisconsin	$ 130.73	$ 152.94	$ (22.21)
Wyoming	$ 139.54	$ 163.96	$ (24.42)

[1] Prior to 2006 in New York State, pharmaceuticals were reimbursed through the Medicaid daily rate. Beginning in 2006, under the Medicare Modernization Act, the state is no longer responsible for the majority of drug costs for dual-eligible's and as such, the Medicaid rates and costs were adjusted to reflect this change.

[2] The shortfall for the state of Washington only represents a comparison of the operating cost to operating rate. Accurate allowable property cost data were not available so the comparison excludes property costs and the property component of the rate.

TABLE I
STATE-BY-STATE COMPARISON OF RATES AND COSTS
(Continued)

State	Rate 08	Projected Cost 08	Projected Difference 08
Arizona	$ 149.42	$ 161.94	$ (12.52)
Arkansas	$ 137.96	$ 133.14	$ 4.82
California	$ 153.19	$ 161.26	$ (8.07)
Colorado	$ 167.33	$ 176.56	$ (9.23)
Connecticut	$ 214.99	$ 228.41	$ (13.42)
Delaware	$ 225.53	$ 249.22	$ (23.69)
Florida	$ 174.26	$ 186.45	$ (12.19)
Georgia	$ 133.27	$ 139.84	$ (6.57)
Hawaii	$ 214.47	$ 212.13	$ 2.34
Idaho	$ 172.67	$ 173.65	$ (0.98)
Illinois	$ 112.07	$ 133.85	$ (21.78)
Indiana	$ 145.53	$ 151.68	$ (6.15)
Iowa	$ 120.13	$ 129.19	$ (9.06)
Kansas	$ 127.09	$ 136.86	$ (9.77)
Maine	$ 170.07	$ 187.67	$ (17.60)
Maryland	$ 202.92	$ 207.37	$ (4.45)
Massachusetts	$ 189.23	$ 207.92	$ (18.69)
Michigan	$ 184.49	$ 185.73	$ (1.24)
Minnesota	$ 153.61	$ 176.87	$ (23.26)
Missouri	$ 120.38	$ 135.26	$ (14.88)
Montana	$ 153.73	$ 157.27	$ (3.54)
Nebraska	$ 139.75	$ 148.74	$ (8.99)
Nevada	$ 170.02	$ 184.01	$ (13.99)
New Hampshire	$ 186.97	$ 211.13	$ (24.16)
New Jersey	$ 200.21	$ 222.91	$ (22.70)
New Mexico	$ 154.78	$ 165.98	$ (11.20)
New York[1]	$ 215.62	$ 234.39	$ (18.77)
North Carolina	$ 150.33	$ 154.09	$ (3.76)
North Dakota	$ 165.45	$ 164.17	$ 1.28
Ohio	$ 164.89	$ 179.75	$ (14.86)
Oklahoma	$ 124.24	$ 127.34	$ (3.10)
Oregon	$ 194.39	$ 196.16	$ (1.77)
Pennsylvania	$ 194.94	$ 208.86	$ (13.92)
Rhode Island	$ 181.74	$ 193.93	$ (12.19)
South Dakota	$ 122.09	$ 134.63	$ (12.54)
Tennessee	$ 139.59	$ 141.79	$ (2.20)
Texas	$ 108.63	$ 119.45	$ (10.82)
Utah	$ 154.62	$ 164.07	$ (9.45)
Vermont	$ 179.14	$ 200.61	$ (21.47)
Virginia	$ 141.91	$ 148.73	$ (6.82)
Washington[2]	$ 147.30	$ 165.06	$ (17.76)
Wisconsin	$ 134.70	$ 161.13	$ (26.43)
Wyoming	$ 151.81	$ 170.70	$ (18.89)

[1] Prior to 2006 in New York State, pharmaceuticals were reimbursed through the Medicaid daily rate. Beginning in 2006, under the Medicare Modernization Act, the state is no longer responsible for the majority of drug costs for dual-eligible's and as such, the Medicaid rates and costs were adjusted to reflect this change.

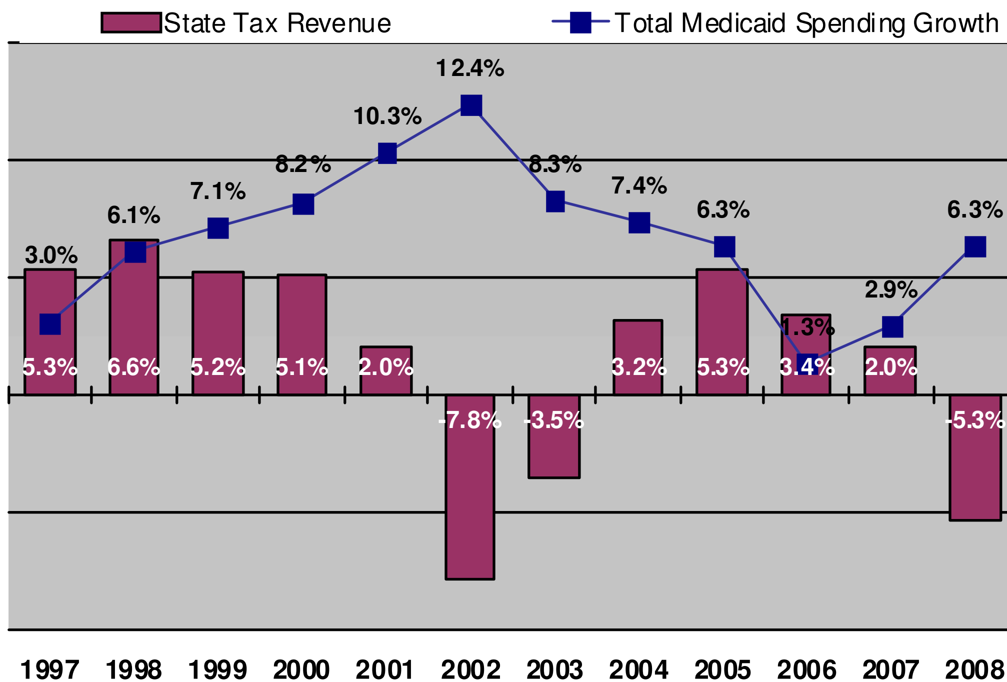
[2] The shortfall for the state of Washington only represents a comparison of the operating cost to operating rate. Accurate allowable property cost data were not available so the comparison excludes property costs and the property component of the rate.

NURSING HOME REIMBURSEMENT TRENDS

Overall, the economic performance of states improved from 2004 to 2007, although tax revenues peaked in 2005 and have shown a steady decline since. As reflected in Figure III, from 2005 to 2007, state tax revenue growth kept pace with, and in 2006, actually exceeded Medicaid spending growth.

FIGURE III

State Tax Revenue and Total Medicaid Spending Growth, 1997 – 2008



NOTE: State Tax Revenue data are adjusted for inflation and legislative changes. Figures reflect preliminary estimates for revenues and Medicaid spending for 2008.

SOURCE: KCMU Analysis of CMS Form 64 Data for Historic Medicaid Growth Rates. FY 2007 and 2008 spending based upon KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2007.

The improved budget stability among states in the last three to four years, along with enhanced federal matching programs (see next section) have combined to lower the nursing home Medicaid shortfall from $14.60 in 2003 to a projected $12.48 in 2008. During that timeframe, Medicaid allowable cost coverage (the percentage of allowable costs covered by the rates) has improved from 89.8% to 92.8%.

However, this successful trend appears to be coming to an end. State tax revenues for the first quarter of 2008 are down 5.3% over the same time period in 2007. At the same time, spending in 2008 is expected to increase 6.3%, as unemployment and poverty rates rise, which increases Medicaid spending and enrollment growth. The impact that this will have on future Medicaid rate increases is addressed in the discussion on the reimbursement outlook for FY 2009 on pages 12-13 of this Report.

THE ROLE OF PROVIDER TAXES, INTERGOVERNMENTAL TRANSFERS AND CERTIFIED PUBLIC EXPENDITURES IN FINANCIAL STABILITY

Provider taxes continue to be a major funding source for rate increases in many states. Between FY 2004 and FY 2008, many states implemented or expanded provider tax programs and used these proceeds and corresponding federal matching funds to increase Medicaid rates to nursing homes. Prior to FY 2004, 20 states assessed provider taxes on nursing homes. In FY 2008, 32 states and the District of Columbia have implemented nursing home tax programs. Overall, provider taxes on nursing homes generate over $4.0 billion in matching federal funds, and in the states affected, are used to reimburse an average of $15 per patient day in allowable Medicaid nursing home costs.

In 2008, only one state (Maryland) implemented a new provider tax program while another (Washington) repealed their tax. One other state (Colorado) has passed legislation to implement a provider assessment program in 2009. However, eight states increased provider tax rates in FY 2008.

States are limited in the amount of provider taxes that can be assessed and matched by federal funds. The current limitation is 5.5% of nursing facility revenues, down from 6% prior to January 1, 2008. We estimate that in FY 2009, 19 of the 32 states and the District of Columbia are at, or very close to, the 5.5% limit. Some states, with tax assessments calculated as a percentage of provider revenues, rather than an amount per patient day (Maine, New Hampshire, and Rhode Island), have already reduced their tax rates from 6% to 5.5% of revenues. However, only one state (Nevada) actually reduced payment rates to nursing facilities on January 1, 2008 as a result of reducing their provider tax rate to comply with the lower limit.

In addition to provider taxes, a number of states also use Intergovernmental Transfers and Certified Public Expenditures to generate additional federal funds to support state services, including long term care services. Recently CMS issued a proposed rule, which in effect, required the federal dollars generated from these programs to remain with the public facilities that are incurring Medicaid shortfalls. The federal dollars could no longer be used to help subsidize state budgets or to increase rates to non-public providers. New limits also reduced the federal dollars that could be generated from these programs. In 2008, Congress placed a moratorium on this rule, which will delay implementation until April 2009. If, and when implemented, the rule will certainly increase the pressure on state budgets as more Medicaid expenditures would be financed with state funds, which in turn could impact nursing home reimbursement rates.

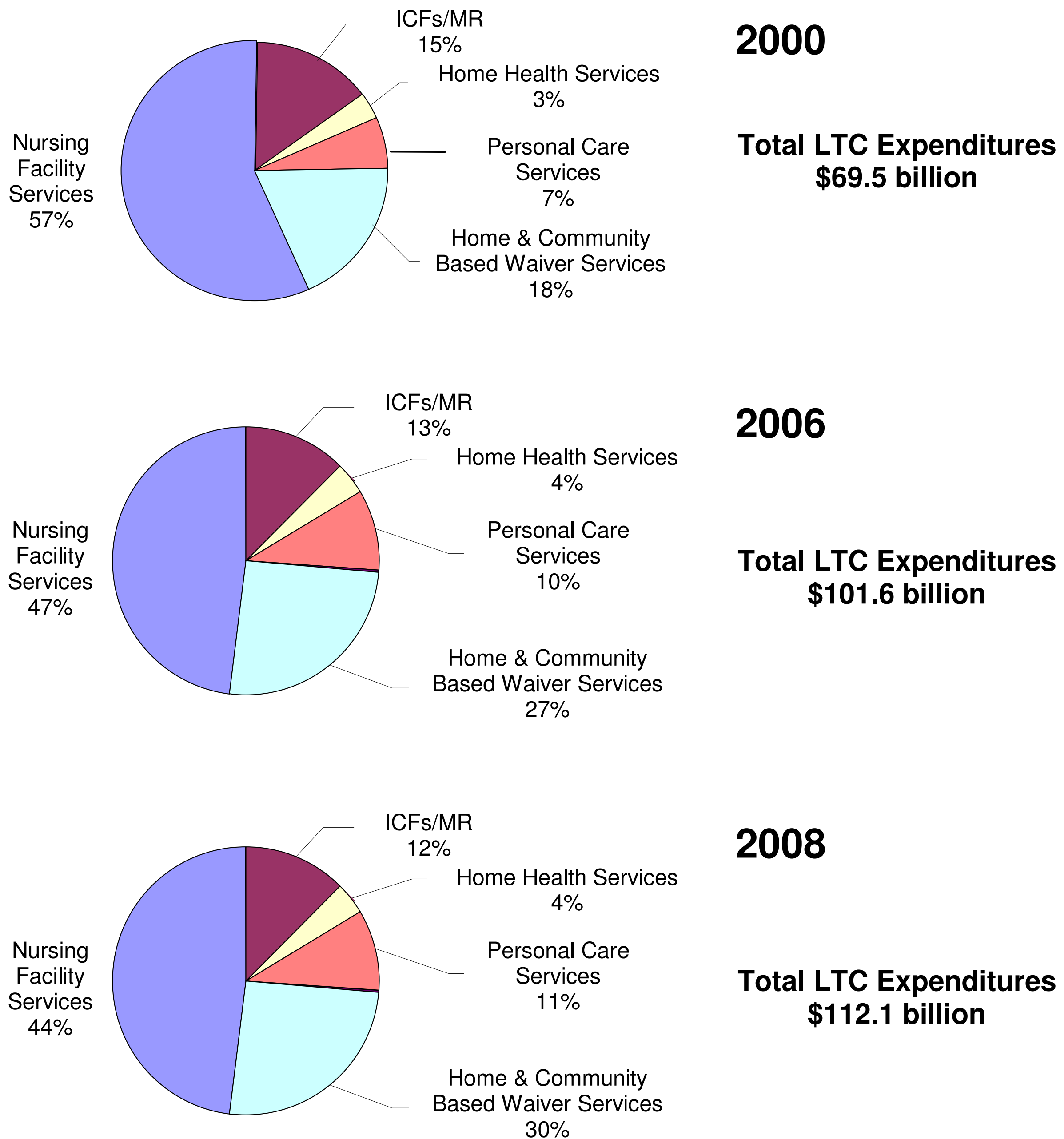
REDIRECTION IN MEDICAID LONG TERM CARE EXPENDITURES

Regardless of economic conditions, states continue to rebalance their limited resources, redirecting more of them to home and community-based services (HCBS) programs. The charts in Figure IV reflect this rebalancing trend with the percentage of Medicaid long term care expenditures spent on nursing facility services declining from 57% to 44% in the last eight years, a reduction of 22.8%. At the same time, the percentage spent on HCBS has climbed 67%. In fact, 25 states have experienced HCBS spending increases exceeding 100% from 2000 to 2006, with 8 of those experiencing HCBS spending increases exceeding 200%. HCBS now constitute about 45% of long term care Medicaid expenditures.

In terms of dollars, expenditures for nursing facility services have only increased $9.7 billion between 2000 and 2008—a compounded annual growth rate of only 2.8%. During the same period, expenditures for HCBS have climbed $21 billion, an increase of 169%.

FIGURE IV

Share of Long Term Care Medicaid Expenditure By Service Category Over Time



CMS Medicaid Statement of Expenditures (CMS-64) 2000, 2006; CMS Medicaid Program Budget Report (CMS-37), May 2008, annual estimate, 2008.

Expanding HCBS heightens competition among long term care programs for limited state resources. This is especially true now as states grapple with struggling economies and major budget deficits (as addressed on page 12 of this Report), The likely outcome will be downward pressure on future nursing home rate increases at a time when the functional, medical and psycho-social needs of new admissions are higher as increasing percentages of less disabled recipients are cared for in non-institutional settings.

THE ROLE OF MEDICARE IN SUBSIDIZING MEDICAID SHORTFALLS

Medicare continues to play an important role in the cross-subsidization of Medicaid deficits. According to the Medicare Payment Advisory Commission or MedPAC, the average margin on Medicare payment to nursing homes in 2006 is 13.1%,[9] while our analysis indicates a 9.2% shortfall on Medicaid payment for that year (weighted average 2006 shortfall of $13.81 divided by weighted average Medicaid rate of $150.38). The weighted average 2006 margin from the two government funded programs combined is a negative 1.8% (see Figure V).[10]

Figure V
Combined Medicare/Medicaid Shortfall for 2006

Payer	2006 Average Rates	Days in Millions	Revenues In Billions	Margin (Shortfall) as a % of Revenue	Net Margin (Shortfall) in Billions
Medicare	$ 362.49	69.6	$ 25.23	13.1%	$ 3.31
Medicaid	$ 150.38	339.0	$ 50.98	(9.2%)	$ (4.68)
					$ (1.37)
				Net Medicare/Medicaid Shortfall as a Percentage of Revenue	(1.8%)

Sources: Medicare Rates and Days based upon AHCA Reimbursement and Research Department SNF PPS Simulation Model using 2006 SNF claims data. Medicare margin percentage derived from March 2008 Medicare Payment Advisory Commission Report to Congress. Medicaid rates, days and margins derived from this Shortfall Report.

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[9] March 2008 Medicare Payment Advisory Commission Report to Congress.

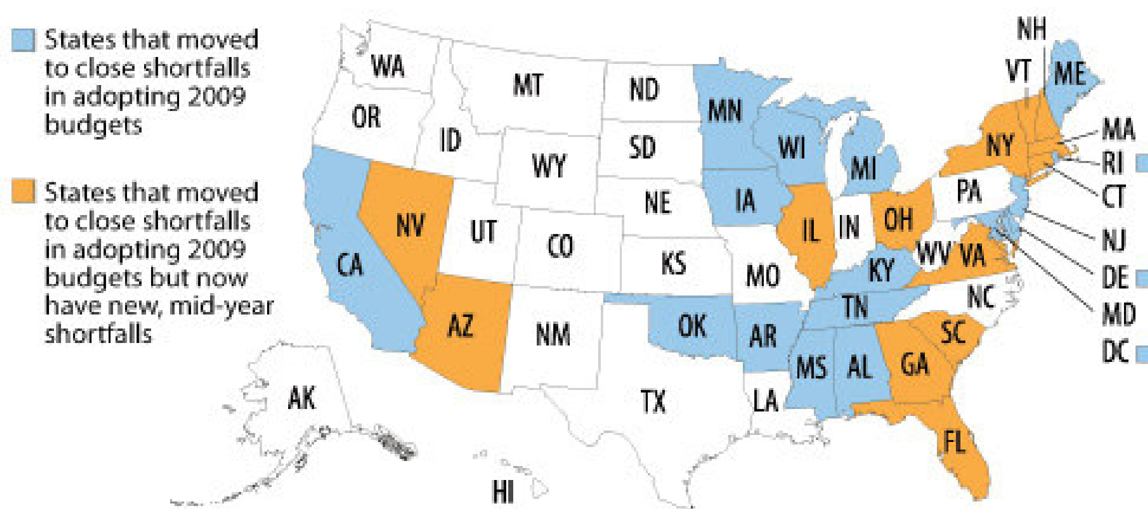
[10] Together Medicare and Medicaid represent approximately 80 percent of nursing facility residents. If other payer sources were included (e.g., private pay, private insurance, managed care, etc.), overall margins in 2006 would likely have been close to zero or slightly positive.

This simple analysis demonstrates that nursing homes maintain their ability to operate by subsidizing their Medicaid deficits with the margins attained from the Medicare program. With such an equilibrium created by the combination of these two payers, any increase in Medicaid deficits or decrease in Medicare margins could have serious adverse financial implications for the industry.

NURSING HOME REIMBURSEMENT OUTLOOK FOR 2009

According to the Center on Budget and Policy Priorities (CBPP), 29 states and the District of Columbia, including several of the nation's largest states, faced an estimated $48 billion in combined shortfalls in their budgets for FY 2009. This deficit approximated 9.3% to 9.7% of total FY 2008 General Funds in the states affected. The states with the largest deficits (as a percentage of FY 2008 revenue) included Alabama, Arizona, California, Florida, Illinois, Nevada, New Jersey, New York, Rhode Island and Virginia. Now, according to CBPP, new gaps have opened up in the budgets of at least 13 states just two months after they struggled to close the largest budget shortfalls seen since the recession of 2001. Figure VI reflects those states that experienced shortfalls that had to be closed in FY 2009 budgets and those now facing new mid-year shortfalls.

FIGURE VI



Source: Center on Budget and Policy Priorities Report: 09/08/08

While many states have provided inflationary increases to nursing facilities in FY 2009, the sagging economy is beginning to take its toll. In Florida, January 1, 2008 rates were reduced $1.75 per patient day in lieu of an expected inflationary increase that would have exceeded $3.00 per patient day. Then, in July 2008, rates were increased, on average, only $1.00 per patient day. Moreover, no further increases are budgeted for the next two fiscal years.

Connecticut, Massachusetts and New Mexico have provided for no nursing home rate increases for FY 2009, while Ohio and Pennsylvania have only provided for a 1% rate increase. Virginia reduced their FY 2009 inflationary rate increases by 1.3%, while Rhode Island postponed their FY 2009 increases for six months. In Mississippi, providers avoided a significant rate reduction in FY 2009 only through an increase in their provider tax.

With many states experiencing economic woes worse than initially anticipated, some states are also already re-examining the increases approved in state budgets or delaying previously approved increases. Georgia, for example, is considering a 5% rate reduction to nursing facilities even though the legislatively-approved budget calls for a 4% increase, while the failure to pass a FY 2009 budget in California resulted in institutional providers receiving no payments until the budget was enacted in late September 2008. In New York, nursing home providers are just now receiving rate increases retroactive to 2007 amounting to hundreds of millions of dollars under a plan approved by the state legislature and the Centers for Medicare and Medicaid Services.

This trend of rescinding rate increases or delaying payments will likely continue if state deficits continue to be greater than predicted. As such, the Medicaid reimbursement outlook for FY 2009 and beyond is not very promising and the modest gains in cost coverage and shortfall reductions of the past few years could quickly dissipate.

SUMMARY

Due to healthier state economies in the past few years and other revenue sources such as provider taxes, the average Medicaid payment shortfall for nursing home providers is projected to decline in 2008 to about $12.48 per Medicaid patient day. Nevertheless, un-reimbursed Medicaid allowable costs are projected at just under $4.2 billion and providers must continue to

substantially rely on Medicare prospective payment in an attempt to break even from government funded programs. As a result of the current sluggish economic situation and declining state tax revenues, there is downward pressure on nursing home Medicaid rate increases. It is likely that the positive trends in Medicaid cost coverage achieved in the past few years will reverse in the coming years. This instability and unpredictability in Medicaid funding will make it more difficult for providers, especially those with high Medicaid volume, to meet consumer and regulatory expectations.

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 2006, on Average, the Shortfall in Medicaid Reimbursement Was $13.81 Per Medicaid Patient Day

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

-$21.56
-$0.71
-$2.51
-$22.36
-$29.12
-$18.64
-$12.79
-$14.21
-$22.21
-$4.56
-$5.55
-$24.42
-$2.31
-$23.87
-$11.18
-$7.58
-$17.48
-$28.16
-$7.21
-$6.47
-$13.37
-8.15
-$13.54
-$18.78
-$15.14
-$11.40
-$5.22
-$23.03
-$8.08
-$6.12
-$1.33
-$10.63
-$18.42
-$21.86
$1.24
-$25.00
-$5.87
-$11.27
-$7.11
-$13.74
-$7.63

Source: State-specific databases of nursing facility rates and costs compiled by Eljay, LLC. (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.

CHART 1

The Projected Average 2008 Shortfall in Medicaid Reimbursement Is $12.48 Per Medicaid Patient Day

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

-$17.76
-$3.54
$1.28
-$23.26
-$21.47
-$18.69
-$24.16
-$17.60
-$1.77
-$0.98
-$18.89
-$12.54
-$26.43
-$1.24
-$18.77
-$8.99
-$9.06
-$6.15
-$14.86
-$13.92
-$12.19
-$13.42
-$13.99
-$9.45
-$9.23
-$9.77
-$14.88
-$21.78
-$6.82
-$22.70
-$8.07
-$12.52
-$11.20
-$3.10
$4.82
-$2.20
-$3.76
-$23.69
-$6.57
-$4.45
-$10.82
-$12.19
$2.34

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

CHART 2

2006 Disparity By State Between Total Medicaid Revenue and Total Allowable Medicaid Costs (In Millions)

$4.68 Billion Medicaid Funding Shortfall Nationwide

-$95.3
-$.82
-$3.0
-$20.6
-$202.5
-$20.8
-$156.3
-$174.2
-$8.2
-$5.7
-$13.3
-$19.3
-$22.6
-$707.0
-$54.1
-$19.3
-$496.0
-$330.4
-$136.6
-$6.6
-$14.6
-$28.9
-$52.0
-$163.4
-$29.6
-$75.0
-$33.7
-$244.3
-$204.2
-$10.5
-$102.6
-$52.0
-$32.2
-$30.0
$5.7
-$20.5
-$109.9
-$33.1
-$155.2
-$214.0
-$7.7

Source: State-specific databases of nursing facility rates and costs compiled by Eljay, LLC. (See Appendix 1). The Medicaid days used in deriving state-specific shortfalls were derived from CMS-OSCAR Form 672: F75-78, current surveys as of December 2006. The weighted average shortfall for the 41 states reporting exceeded $4.1 billion dollars, based upon 297 million Medicaid days. Extrapolating this shortfall to 339 million Medicaid days nationwide (per CMS-OSCAR Data) results in a $4.68 billion national shortfall.

CHART 2

Projected 2008 Disparity By State Between Total Medicaid Revenue and Total Allowable Medicaid Costs (In Millions)

$4.2 Billion Medicaid Funding Shortfall Nationwide

-$76.5
-$4.0
$1.5
-$156.3
-$200.0
-$14.9
-$197.0
-$40.5
-$27.6
-$3.1
-$.97
-$10.1
-$16.5
-$43.0
-$12.1
-$548.1
-$22.7
-$54.7
-$379.3
-$281.2
-$261.2
-$14.5
-$10.0
-$32.7
-$36.7
-$128.9
-$44.3
-$23.5
-$86.6
-$241.9
-$203.6
-$34.5
-$15.9
-$14.9
$21.6
-$16.9
-$36.4
-$19.1
-$25.0
-$63.3
-$235.0
-$188.5
$2.5

Source: State-specific databases of nursing facility rates and the most recent cost reports projected to the current rate period. (See Appendix 1). The Medicaid days used in deriving state-specific shortfalls were derived from CMS-OSCAR Form 672: F75-78, current surveys as of December 2007. The weighted average shortfall for the 43 states reporting was almost $3.8 billion dollars, based upon 304 million Medicaid days. Extrapolating this shortfall to 335 million Medicaid days nationwide (per CMS-OSCAR Data) results in just under a $4.2 billion national shortfall.

Appendix I

Project Approach and Methodology

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 years ending in 2006. In addition, the state affiliates were requested to provide current Medicaid rates by provider to allow comparisons, not only between allowable costs and Medicaid rates in 2006, but between current (FY 2008) rates and 2006 (or 2007 if available) costs trended to the same time period. Sample data collection spreadsheets are included as Appendix IV.

Eljay 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;
5. Developing the comparisons between current Medicaid rates and the most recent cost reports trended to the same time frame; and
6. Compiling the results into a report.

In almost all cases, the state affiliates indicated that the data were 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. The cost database reflected costs that have been audited or desk-reviewed by the Medicaid state

agency in almost two-thirds of the states in 2006. Eljay 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 2006 were derived for 41 states, representing over 87.6% of the Medicaid patient days in the country. Current Medicaid rates by provider were obtained from 43 states allowing us to determine an estimated 2008 shortfall for these states that represent 90.8% of Medicaid days nationwide.[11] The remaining states not reflected in the comparisons indicated that the data was not readily available. However, as can be seen by the charts on pages 16-19, these states reflect all regions of the country and are a fair representation of Medicaid shortfalls nationwide. The comparisons include all 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 states, it is likely that the overall results would not materially change had all states been represented.

[11] In Indiana and New Hampshire, the state Medicaid contractor provided shortfall data only for the current year. Thus, a projected 2008 shortfall was determined for both of these states but a 2006 shortfall could not be determined for either due to missing data.

Appendix II

Calculation of 2006 and Projected 2008 Weighted Average Medicaid Shortfall

State-by-State Comparison

Calculation of 2006 Weighted Average Medicaid Shortfall

State	Rate	Cost	Difference	Annual Medicaid Days	Gross Revenue	Gross Cost	Difference x Medicaid Days
Arizona	$ 139.98	$ 158.40	$ (18.42)	2,822,545	$ 395,099,849	$ 447,091,128	$ (51,991,279)
Arkansas	$ 130.40	$ 129.16	$ 1.24	4,612,870	$ 601,518,248	$ 595,798,289	$ 5,719,959
California	$ 144.53	$ 152.61	$ (8.08)	25,276,615	$ 3,653,229,166	$ 3,857,464,215	$ (204,235,049)
Colorado	$ 159.27	$ 167.42	$ (8.15)	3,549,625	$ 565,348,774	$ 594,278,218	$ (28,929,444)
Connecticut	$ 204.50	$ 215.90	$ (11.40)	6,576,205	$ 1,344,833,923	$ 1,419,802,660	$ (74,968,737)
Delaware	$ 212.35	$ 237.35	$ (25.00)	821,615	$ 174,469,945	$ 195,010,320	$ (20,540,375)
Florida	$ 165.69	$ 179.43	$ (13.74)	15,578,565	$ 2,581,212,435	$ 2,795,261,918	$ (214,049,483)
Georgia	$ 117.51	$ 128.78	$ (11.27)	9,752,435	$ 1,146,008,637	$ 1,255,918,579	$ (109,909,942)
Hawaii	$ 196.25	$ 203.88	$ (7.63)	1,010,685	$ 198,346,931	$ 206,058,458	$ (7,711,527)
Idaho	$ 153.89	$ 159.44	$ (5.55)	1,020,540	$ 157,050,901	$ 162,714,898	$ (5,663,997)
Illinois	$ 96.94	$ 125.10	$ (28.16)	17,613,805	$ 1,707,482,257	$ 2,203,487,006	$ (496,004,749)
Iowa	$ 111.29	$ 122.47	$ (11.18)	4,837,345	$ 538,348,125	$ 592,429,642	$ (54,081,517)
Kansas	$ 116.78	$ 130.32	$ (13.54)	3,837,975	$ 448,198,721	$ 500,164,902	$ (51,966,182)
Maine	$ 164.78	$ 177.57	$ (12.79)	1,622,790	$ 267,403,336	$ 288,158,820	$ (20,755,484)
Maryland	$ 186.41	$ 192.28	$ (5.87)	5,641,805	$ 1,051,688,870	$ 1,084,806,265	$ (33,117,395)
Massachusetts	$ 180.40	$ 199.04	$ (18.64)	10,864,225	$ 1,959,906,190	$ 2,162,415,344	$ (202,509,154)
Michigan	$ 171.61	$ 173.92	$ (2.31)	9,800,250	$ 1,681,820,903	$ 1,704,459,480	$ (22,638,577)
Minnesota	$ 143.33	$ 165.69	$ (22.36)	6,988,655	$ 1,001,683,921	$ 1,157,950,247	$ (156,266,326)
Missouri	$ 109.45	$ 128.23	$ (18.78)	8,702,330	$ 952,470,019	$ 1,115,899,776	$ (163,429,757)
Montana	$ 150.31	$ 151.02	$ (0.71)	1,158,510	$ 174,135,638	$ 174,958,180	$ (822,542)
Nebraska	$ 136.41	$ 143.99	$ (7.58)	2,552,080	$ 348,129,233	$ 367,473,999	$ (19,344,766)
Nevada	$ 164.80	$ 171.27	$ (6.47)	1,019,445	$ 168,004,536	$ 174,600,345	$ (6,595,809)
New Jersey	$ 189.40	$ 212.43	$ (23.03)	10,608,360	$ 2,009,223,384	$ 2,253,533,915	$ (244,310,531)
New Mexico	$ 135.60	$ 157.46	$ (21.86)	1,473,140	$ 199,757,784	$ 231,960,624	$ (32,202,840)
New York	$ 195.72	$ 219.59	$ (23.87)	29,616,830	$ 5,796,605,968	$ 6,503,559,700	$ (706,953,732)
North Carolina	$ 133.99	$ 144.62	$ (10.63)	9,647,315	$ 1,292,643,737	$ 1,395,194,695	$ (102,550,958)
North Dakota	$ 148.72	$ 151.23	$ (2.51)	1,206,690	$ 179,458,937	$ 182,487,729	$ (3,028,792)
Ohio	$ 162.88	$ 170.09	$ (7.21)	18,945,325	$ 3,085,814,536	$ 3,222,410,329	$ (136,595,793)
Oklahoma	$ 117.15	$ 123.27	$ (6.12)	4,894,285	$ 573,365,488	$ 603,318,512	$ (29,953,024)
Oregon	$ 179.59	$ 184.15	$ (4.56)	1,792,150	$ 321,852,219	$ 330,024,423	$ (8,172,204)
Pennsylvania	$ 180.08	$ 197.56	$ (17.48)	18,897,875	$ 3,403,102,487	$ 3,733,459,072	$ (330,356,585)
Rhode Island	$ 169.53	$ 184.67	$ (15.14)	1,958,225	$ 331,977,884	$ 361,625,411	$ (29,647,527)
South Dakota	$ 113.10	$ 127.31	$ (14.21)	1,360,355	$ 153,856,151	$ 173,186,795	$ (19,330,645)
Tennessee	$ 131.05	$ 132.38	$ (1.33)	7,919,405	$ 1,037,838,025	$ 1,048,370,834	$ (10,532,809)
Texas	$ 105.46	$ 112.57	$ (7.11)	21,822,255	$ 2,301,375,012	$ 2,456,531,245	$ (155,156,233)
Utah	$ 142.85	$ 156.22	$ (13.37)	1,089,890	$ 155,690,787	$ 170,262,616	$ (14,571,829)
Vermont	$ 160.70	$ 189.82	$ (29.12)	708,465	$ 113,850,326	$ 134,480,826	$ (20,630,501)
Virginia	$ 132.52	$ 137.74	$ (5.22)	6,457,215	$ 855,710,132	$ 889,416,794	$ (33,706,662)
Washington	$ 138.74	$ 160.30	$ (21.56)	4,420,515	$ 613,302,251	$ 708,608,555	$ (95,306,303)
Wisconsin	$ 130.73	$ 152.94	$ (22.21)	7,843,120	$ 1,025,331,078	$ 1,199,526,773	$ (174,195,695)
Wyoming	$ 139.54	$ 163.96	$ (24.42)	544,580	$ 75,990,693	$ 89,289,337	$ (13,298,644)
		TOTALS		296,866,910	$ 44,643,137,432	$ 48,743,450,873	$ (4,100,313,441)
		Weighted Averages			$ 150.38	$ 164.19	$ (13.81)
		Shortfall extrapolated to all 50 states					$ (4,682,802,819)
		Total States			41		
		Percentage of Days			87.6%		

Calculation of Projected 2008 Weighted Average Medicaid Shortfall

State	Rate	Cost	Difference	Annual Medicaid Days	Gross Revenue	Gross Cost	Difference x Medicaid Days
Arizona	$ 149.42	$ 161.94	$ (12.52)	2,751,941	$ 411,195,093	$ 445,649,401	$ (34,454,307)
Arkansas	$ 137.96	$ 133.14	$ 4.82	4,488,380	$ 619,216,903	$ 597,582,911	$ 21,633,992
California	$ 153.19	$ 161.26	$ (8.07)	25,233,726	$ 3,865,554,493	$ 4,069,190,662	$ (203,636,169)
Colorado	$ 167.33	$ 176.56	$ (9.23)	3,537,551	$ 591,938,373	$ 624,589,967	$ (32,651,594)
Connecticut	$ 214.99	$ 228.41	$ (13.42)	6,455,661	$ 1,387,902,465	$ 1,474,537,430	$ (86,634,965)
Delaware	$ 225.53	$ 249.22	$ (23.69)	804,278	$ 181,388,878	$ 200,442,230	$ (19,053,352)
Florida	$ 174.26	$ 186.45	$ (12.19)	15,462,697	$ 2,694,529,554	$ 2,883,019,829	$ (188,490,275)
Georgia	$ 133.27	$ 139.84	$ (6.57)	9,629,407	$ 1,283,311,103	$ 1,346,576,308	$ (63,265,206)
Hawaii	$ 214.47	$ 212.13	$ 2.34	1,062,041	$ 227,775,967	$ 225,290,790	$ 2,485,176
Idaho	$ 172.67	$ 173.65	$ (0.98)	992,853	$ 171,435,968	$ 172,408,965	$ (972,996)
Illinois	$ 112.07	$ 133.85	$ (21.78)	17,416,515	$ 1,951,868,882	$ 2,331,200,587	$ (379,331,706)
Indiana	$ 145.53	$ 151.68	$ (6.15)	8,893,098	$ 1,294,212,623	$ 1,348,905,179	$ (54,692,556)
Iowa	$ 120.13	$ 129.19	$ (9.06)	4,751,459	$ 570,792,737	$ 613,840,954	$ (43,048,216)
Kansas	$ 127.09	$ 136.86	$ (9.77)	3,760,536	$ 477,926,493	$ 514,666,927	$ (36,740,435)
Maine	$ 170.07	$ 187.67	$ (17.60)	1,568,908	$ 266,824,268	$ 294,437,058	$ (27,612,790)
Maryland	$ 202.92	$ 207.37	$ (4.45)	5,611,397	$ 1,138,664,596	$ 1,163,635,311	$ (24,970,715)
Massachusetts	$ 189.23	$ 207.92	$ (18.69)	10,541,147	$ 1,994,701,308	$ 2,191,715,352	$ (197,014,044)
Michigan	$ 184.49	$ 185.73	$ (1.24)	9,789,252	$ 1,806,019,071	$ 1,818,157,743	$ (12,138,672)
Minnesota	$ 153.61	$ 176.87	$ (23.26)	6,719,320	$ 1,032,154,741	$ 1,188,446,124	$ (156,291,383)
Missouri	$ 120.38	$ 135.26	$ (14.88)	8,663,019	$ 1,042,854,182	$ 1,171,759,899	$ (128,905,717)
Montana	$ 153.73	$ 157.27	$ (3.54)	1,139,074	$ 175,109,870	$ 179,142,193	$ (4,032,323)
Nebraska	$ 139.75	$ 148.74	$ (8.99)	2,526,459	$ 353,072,579	$ 375,785,441	$ (22,712,862)
Nevada	$ 170.02	$ 184.01	$ (13.99)	1,034,635	$ 175,908,690	$ 190,383,237	$ (14,474,548)
New Hampshire	$ 186.97	$ 211.13	$ (24.16)	1,676,613	$ 313,476,394	$ 353,983,372	$ (40,506,978)
New Jersey	$ 200.21	$ 222.91	$ (22.70)	10,655,563	$ 2,133,350,264	$ 2,375,231,544	$ (241,881,280)
New Mexico	$ 154.78	$ 165.98	$ (11.20)	1,419,614	$ 219,727,898	$ 235,627,578	$ (15,899,680)
New York	$ 215.62	$ 234.39	$ (18.77)	29,200,609	$ 6,296,235,209	$ 6,844,330,631	$ (548,095,422)
North Carolina	$ 150.33	$ 154.09	$ (3.76)	9,690,262	$ 1,456,737,045	$ 1,493,172,429	$ (36,435,384)
North Dakota	$ 165.45	$ 164.17	$ 1.28	1,203,802	$ 199,169,093	$ 197,628,226	$ 1,540,867
Ohio	$ 164.89	$ 179.75	$ (14.86)	18,921,670	$ 3,119,994,157	$ 3,401,170,173	$ (281,176,015)
Oklahoma	$ 124.24	$ 127.34	$ (3.10)	4,810,153	$ 597,613,351	$ 612,524,824	$ (14,911,473)
Oregon	$ 194.39	$ 196.16	$ (1.77)	1,747,465	$ 339,689,811	$ 342,782,825	$ (3,093,014)
Pennsylvania	$ 194.94	$ 208.86	$ (13.92)	18,771,636	$ 3,659,406,363	$ 3,920,643,795	$ (261,237,432)
Rhode Island	$ 181.74	$ 193.93	$ (12.19)	1,926,230	$ 350,073,030	$ 373,553,773	$ (23,480,743)
South Dakota	$ 122.09	$ 134.63	$ (12.54)	1,316,142	$ 160,687,740	$ 177,192,157	$ (16,504,417)
Tennessee	$ 139.59	$ 141.79	$ (2.20)	7,668,081	$ 1,070,387,389	$ 1,087,257,166	$ (16,869,778)
Texas	$ 108.63	$ 119.45	$ (10.82)	21,716,374	$ 2,359,049,658	$ 2,594,020,820	$ (234,971,162)
Utah	$ 154.62	$ 164.07	$ (9.45)	1,061,245	$ 164,089,630	$ 174,118,391	$ (10,028,761)
Vermont	$ 179.14	$ 200.61	$ (21.47)	695,872	$ 124,658,512	$ 139,598,884	$ (14,940,372)
Virginia	$ 141.91	$ 148.73	$ (6.82)	6,488,798	$ 920,825,318	$ 965,078,920	$ (44,253,602)
Washington	$ 147.30	$ 165.06	$ (17.76)	4,306,426	$ 634,336,540	$ 710,818,665	$ (76,482,125)
Wisconsin	$ 134.70	$ 161.13	$ (26.43)	7,567,665	$ 1,019,364,475	$ 1,219,377,861	$ (200,013,386)
Wyoming	$ 151.81	$ 170.70	$ (18.89)	534,715	$ 81,175,119	$ 91,275,889	$ (10,100,771)
TOTALS				304,212,288	$ 48,934,405,835	$ 52,730,752,421	$ (3,796,346,586)
Weighted Averages					$ 160.86	$ 173.34	$ (12.48)
Shortfall extrapolated to all 50 states							$ (4,183,264,468)
Total States					43		
Percentage of Days					90.8%		

Appendix III

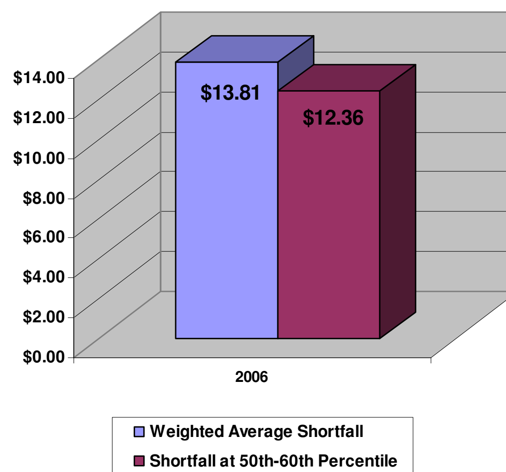
Impact of High Cost Providers on the Medicaid Average Shortfall

IMPACT OF HIGH COST PROVIDERS ON THE MEDICAID AVERAGE SHORTFALL

Some researchers and analysts reviewing this report have expressed concern that the use of averages, even weighted averages, can skew the Medicaid shortfall results. The issue raised is that the inclusion of all providers, especially outliers with shortfalls significantly above or below the norm, will distort the findings.

We did find that extremely high cost providers, such as hospital-based units, tended to skew the average shortfall upward to a greater degree than the tendency of the lowest cost providers to skew the average downward. As such, we also examined the Medicaid shortfall of those providers whose per diem costs rank at or around the mid-range of all providers in each state. We determined the weighted average Medicaid shortfall of providers with per diem costs that rank between the 50th and 60th percentile of per diem costs of all providers. In each state, we found that providers at these cost levels would be considered efficient and economical under any reasonable cost standard. A graphic comparison between the weighted average shortfall for all providers and the weighted average shortfall for providers with costs between the 50th and 60th percentile is reflected in Figure VII for 2006.

FIGURE VII
Medicaid Shortfall Comparison – All States Weighted Average Shortfall for All Providers vs. All States Weighted Average Shortfall for Providers with Per Diem Costs at 50th - 60th Percentile



Our findings reflect that even providers whose costs are very reasonable are incurring substantial Medicaid shortfalls. When examining all the states in the study, the average Medicaid shortfall for providers whose per diem costs rank in the 50th to 60th percentile of all providers in each state was $12.36 in 2006. This is only $1.45 per patient day less than the average shortfall for all providers and demonstrates that Medicaid payment is substantially inadequate in reimbursing even reasonable cost providers.

Appendix IV

Data Collection Document

(For 2006 and For Current Rates)

AHCA DATA COLLECTION INSTRUCTIONS FOR 2006 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 2006 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 2006 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 the data is unaudited, we ask you to provide, on a statewide basis (not by individual provider), the average historical audit adjustment percentage representing the percentage difference between "as reported" and "audited/desk reviewed" costs.

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:

Use this tab to provide Medicaid rates by provider that correspond to their 2006 cost report period. The Medicaid rate(s) for each facility are weighted by the days or months that they were in effect during the cost report period. The rates must include any supplemental Medicaid payments facilities receive such as add-ons for specialty services or populations if the associated cost of that service is included as an allowable cost.

AHCA DATA COLLECTION INSTRUCTIONS FOR 2006 DATA

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. For each provider, you must indicate their fiscal year end and the number of months represented by the cost report. This information will be utilized by Eljay in trending the costs to the most current rate year.

Medicaid Allowable Nursing Cost

If your state uses an acuity based system such as RUGs, the Medicaid allowable nursing cost should be determined by multiplying the total nursing cost by a ratio; the numerator being the average Medicaid Case Mix Index (CMI) and the denominator being the average overall CMI for the cost report year. For example:

Assumptions:	
Total nursing cost for cost report year	$3,000,000
Average Medicaid CMI for cost report year	0.95
Average overall CMI for cost report year	0.98

Calculation of Medicaid allowable nursing cost:

$3,000,000 * (0.95/0.98) = $2,908,163

Current Rates Tab

The current rates tab should reflect the most current weighted average Medicaid rates by provider; if possible, those in effect for state fiscal year 2008. If rates are set by care level, average the rates by weighting them by the percentage of Medicaid days at each care level.

AHCA DATA COLLECTION (SUMMARY)

Is the data "as reported" or "audited/desk-reviewed"	
Please make every effort to obtain data that is audited or desk reviewed. If the data is neither audited nor desk reviewed, please indicate on average what has been the historical percentage difference between unaudited and audited cost reports in your state.	
Data Source (please write in)	
In your calculation of average Medicaid cost, are nursing costs adjusted by the ratio of average Medicaid CMI to average overall CMI? (Yes or No)	

FACILITY	PROVIDER NUMBER	OWNERSHIP TYPE[1]	FACILITY YEAR END	# OF MONTHS COVERED BY COST REPORT	AVERAGE MEDICAID RATE	AVERAGE MEDICAID COST	DIFFERENCE	TOTAL MEDICAID DAYS	TOTAL MEDICAID REVENUE	TOTAL MEDICAID COST	TOTAL MEDICAID PROFIT/ SHORTFALL
Facility 1	*123456*	*1*	*12/31/2006*	*12*	*154.32*	*174.59*	*(18.99)*	*26,080*	*4,024,697*	*4,553,435*	*(528,738)*

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	PROVIDER NUMBER	OWNERSHIP TYPE[1]	FACILITY YEAR END	MEDICAID RATE (1)	DAYS APPLICABLE **	SUBTOTAL	MEDICAID RATE (2)	DAYS APPLICABLE **	SUBTOTAL
Facility 1	*123456*	*1*	*12/31/2006*	*150.48*	-	-	*154.12*	*15,148*	*2,334,610*

MEDICAID RATE (3)	DAYS APPLICABLE **	SUBTOTAL	TOTAL MEDICAID REVENUE	TOTAL MEDICAID DAYS	WEIGHTED AVERAGE MEDICAID RATE PER DAY
154.60	*10,932*	*1,690,087*	*4,024,697*	*26,080*	*154.32*

MEDICAID ALLOWABLE COST FOR COST REPORTING PERIOD

FACILITY	PROVIDER NUMBER	OWNERSHIP TYPE[1]	FACILITY YEAR END	NUMBER OF MONTHS REPRESENTED BY COST REPORT	RN SALARIES	LPN SALARIES	AIDE SALARIES	TOTAL NURSING SALARIES	NURSING OTHER	TOTAL NURSING EXPENSE
Facility 1	*123456*	*1*	*12/31/2006*	*12*	*750,000*	*1,500,000*	*2,000,000*	*3,500,000*	*745,000*	*4,245,000*

MEDICAID CMI	OVERALL CMI	RATIO OF MEDICAID CMI TO OVERALL CMI	CMI ADJUSTED NURSING EXPENSE	SOCIAL SERVICES SALARIES	SOCIAL SERVICES OTHER	RECREATION AND ACTIVITIES SALARIES	RECREATION AND ACTIVITIES OTHER	DIETARY SALARIES	DIETARY OTHER
0.95	*1.00*	*0.95*	*4,032,750*	*75,000*	*12,000*	*80,000*	*30,000*	*300,000*	*350,000*

LAUNDRY SALARIES	LAUNDRY OTHER	HOUSEKEEPING SALARIES	HOUSEKEEPING OTHER	A&G SALARIES	A&G OTHER	MAINTENANCE SALARIES	MAINTENANCE OTHER	UTILITIES	FRINGE BENEFITS	PROPERTY	PROPERTY TAXES
55,000	*22,000*	*150,000*	*50,000*	*300,000*	*400,000*	*50,000*	*70,000*	*85,000*	*900,000*	*600,000*	*45,000*

TOTAL NON-NURSING EXPENSE	TOTAL ADJUSTED EXPENSE	TOTAL DAYS	MEDICAID ALLOWABLE EXPENSE PPD	TOTAL MEDICAID DAYS
3,574,000	*7,606,750*	*43,568*	*174.59*	*26,080*