EXHIBIT 25
DATE Jan 27, 09
HB 2

Montana HealthCare ASSOCIATION

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JOINT APPROPRIATIONS SUBCOMMITTEE ON HEALTH AND HUMAN SERVICES

January 27, 2009

HB 2
NURSING HOMES
MEDICAID REIMBURSEMENT ISSUES

1. ***PROVIDER RATE INCREASE.***

We seek an increase in reimbursement that will provide a reimbursement rate that is equal to the actual cost of providing a day of nursing home care. The skilled nursing facility (SNF) market basket projections indicate that skilled nursing facility costs will increase about 3% in FY 2010 and 3% in FY 2011.

Applying inflation to current costs, we project costs for the 2011 biennium to be:

FY2010	$173.93
FY2011	$179.15

State Fiscal Year	Medicaid Rate	Cost of Care Per Patient Day (Projected)	Rate vs. Cost Comparison (before IGT)
2009 (current)	$158.84	$168.86	($10.02)

State Fiscal Year	Medicaid Rate Governor's Budget (does not include IGT which is uncertain)	Cost of Care Per Patient Day (Projected)	Rate vs. Cost Comparison (no IGT)
2010	$158.84	$173.93	($15.09)
2011	$158.84	$179.15	($20.31)

It would take about a 9% rate increase the first year of the biennium to cover the projected costs of $173.93 and an additional 3% rate increase the second year of the biennium to cover the projected costs of $179.15.

Nursing homes pay a provider tax to help fund Medicaid rates. Total provider tax paid by nursing homes amounts to about $15.5 Million annually. This money is used - instead of state general funds - to match federal funds used to reimburse nursing homes. Nursing homes have paid this tax since 1992 to help assure the adequacy of Medicaid reimbursement rates.

Counties with nursing homes have also helped fund Medicaid rates for nursing homes. In FY 08 counties paid about $2.5 Million to the state as part of an intergovernmental transfer program (IGT). These funds are used in a similar manner to the provider tax, i.e., to match with federal funds to enhance Medicaid payments to nursing homes. Funds from the IGT program continue to be diverted from the lump sum payments to nursing homes and are used instead to support the base rates in the nursing home and community services programs. Changes at the federal level have reduced this program to a point where it may be difficult to continue, particularly if funds continue to be diverted.

The provider tax and the IGT program were both implemented to help assure that rates paid to nursing homes cover the actual cost of providing care to nursing home beneficiaries.

If the legislature provides only the funding contained in the Governor's budget, in FY 2010 we project that nursing homes will lose $15.09 for each day of care provided to Medicaid beneficiaries, and in FY 2011 the projected loss increases to $20.31 per patient day.

MHCA is proposing to reach the target rates through a combination of a provider rate increase, combined with a direct care wage initiative similar to what was provided during the current biennium and a return of IGT funds to the nursing home program.

The cost of the **state's share** of a 3% rate increase each year of the biennium is as follows:

FY 2010	$1,457,404 GF
FY 2011	$3,474,592 GF

Medicaid patient days are projected to decline .75% each year of the biennium, so the days being used in these projections are:

FY 2010	1,138,474
FY 2011	1,129,935

The state's match rate is projected as:

FY 2010	.3251
FY 2011	.3297

2. *DIRECT CARE WAGE INCREASES*

Nursing homes have worked hard with help from the legislature in the form of funds directed to wages, to improve wages to our direct care workers and to distance their wage rates from the minimum wage. This is necessary to attract needed staff, particularly CNA's. Our workers provide the most basic and intimate types of care to residents no longer able to do them for themselves. They tend to their personal hygiene needs as well as other physical, emotional and spiritual needs - often taking the place of absent family. This work can be back-breaking and physically and emotionally draining. To attract well-qualified people to this work we must place value on it through the wages we pay.

In previous sessions (including 2007), the legislature provided money for certain Medicaid providers to raise wages of direct care workers. Nursing homes were included in this proposal. We seek funding for a $1 per hour direct care wage increase similar to what was enacted in the 2007 session, as part of an over-all funding package for nursing homes. The previous language allowed the funding to be used for wages or benefits for CNA's, LPN's and RN's. We ask that the language be changed to include dietary, housekeeping and other lower paid workers in our facilities who also perform important services for our residents with inadequate compensation.

If a direct care worker wage increase similar to what was adopted by the 2007 legislature is included for the next biennium, i.e., $1 per hour (salary and benefits) the first year of the biennium, and sustained in the second year, the GF impact would be about:

FY 08	$1,862,605 (GF)
FY 09	$1,888,960 (GF)

Or, a 50-cent increase each year of the biennium would be:

FY08	$ 932,302 (GF)
FY09	$1,906,247 (GF)

3. *MINIMUM WAGE INCREASE*

The state minimum wage increased from $5.15 to $6.15 per hour in January of 2007 and has been increased for inflation each year. The 2008 adjustment took it to $6.55 and the 2009 adjustment takes it to $6.90 per hour. It will continue to increase for inflation each year of the upcoming biennium. So far, the increases have been 35 to 40 cents per hour each year. It will not be long before the state minimum wage will exceed the federal minimum wage.

The federal minimum wage has increased to $7.05 per hour and is slated to increase again in July to $7.25 per hour.

Nursing homes have few if any employees being paid at the state minimum wage, so the effect of the relatively new state law is indirect. However, as the state minimum wage continues to rise with inflation, if nursing homes are unable to raise wages by at least inflation, the state minimum wage will impact us.

The changes to the federal minimum wage have a direct impact on us because there are some positions in nursing homes that pay the federal minimum wage. These are typically those working in dietary, housekeeping and laundry.

Our CNA's - with the help of wage increases provided by the legislature - are paid significantly above the minimum wage. However, it is very important for their wages to continue to be significantly higher than the minimum wage. It is not only right to place a high value on this important work, but it is necessary if we are to be able to staff our facilities and provide good care. If we are offering only a little more than minimum wage, why would potential employees choose to take the difficult jobs we offer? To maintain our relationship to the state minimum wage we will need to provide a wage increase each year at least equal to the inflation amount required by the state minimum wage law. If we are unable to do that, we will lose ground against the minimum wage.

This makes it important for Medicaid rates to pay costs and keep up with inflation and to provide funding for direct care workers.

4. *HEALTH CARE FOR HEALTH CARE WORKERS*

The 2007 legislature approved a pilot program to provide health care insurance funding for Medicaid providers who provide home care services, such as personal care attendants. This pilot program has been implemented and the executive budget includes funding to continue this program. This is an excellent program and it has our support. Our only concern is that nursing homes receive funding for a wage increase to allow us to compete for this level of worker. Providing a substantial benefit to workers in one arena, while not providing something for similar workers in other arenas will create inequity among providers competing for similar workers. These workers are in short supply and all provider groups need an opportunity to recruit and retain them.

5. *IGT FUNDING (INTERGOVERNMENTAL TRANSFERS)*

We seek to have all IGT funding distributed to nursing homes through the separate "add-on" that was established when the IGT program was developed. Currently a portion of IGT funding goes outside the nursing home reimbursement system to fund community services programs and the nursing home base. We believe that state general fund should be used to fund these base programs. IGT is an "unstable" source of funding - the federal government has been changing the rules and the IGT program is getting smaller and smaller. There have been proposals at the federal level that would mean the end of IGT. Both the nursing home base and the community services base should have a more stable funding source. To the extent IGT continues to be an allowable funding mechanism, the funds should be used only to supplement Medicaid payments to county and non-county nursing homes. If the program is sustained, it could provide a non general fund source of funding small rate increases into the future. Any increases in these payments could be used as part of the solution to get nursing home payments closer to the actual cost of care.

6. ***PROVIDER TAX.***

Nursing homes pay a "bed tax" of $8.30 per patient day - on all days of care including private pay and Medicare. This amounts to about $15.5M paid by nursing homes annually. A portion goes into a special revenue account and a portion goes into the general fund. The purpose of this tax was to improve the Medicaid reimbursement rates paid to nursing homes by generating federal match. This tax generates an additional $32.2M in federal match, so $47.7M of the total funding going to nursing homes is generated by the nursing homes themselves through this tax.

Unfortunately, nursing homes were led to believe that if we agreed to such a program in order to "catch up" rates which had fallen way behind, that the state would include regular inflationary adjustments in the future to keep the rates up to date. A rate freeze will create a situation where we will lose substantial ground in terms of keeping rates close to the cost of care.

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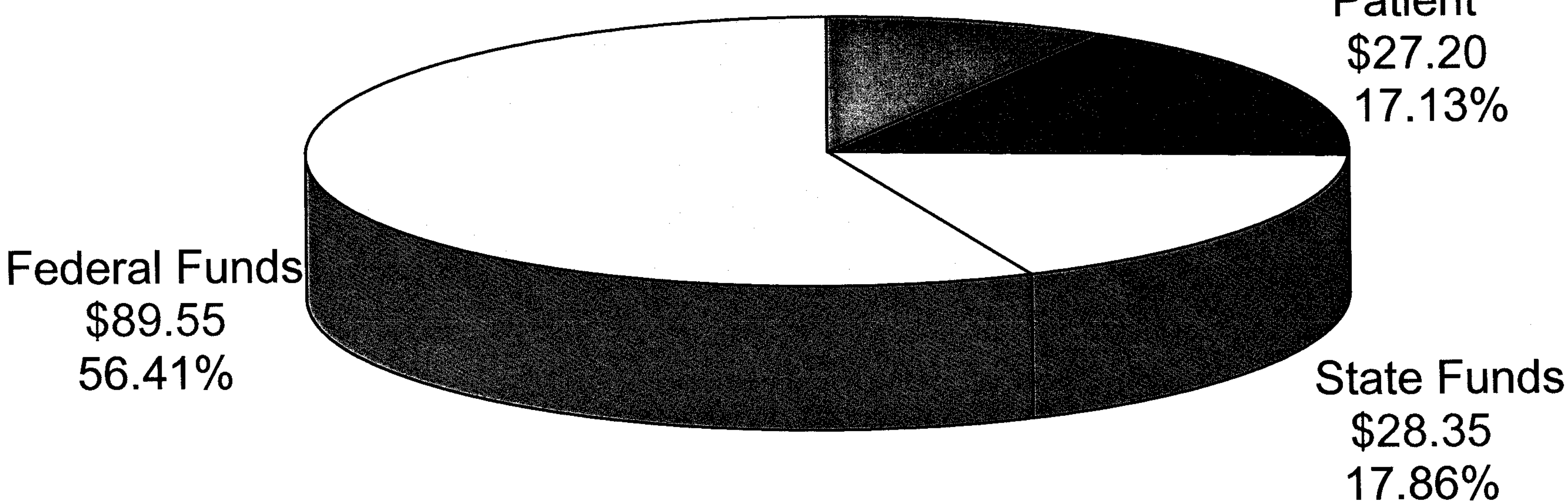
Montana's Nursing Homes
FY09 Contribution From Each Funding Source
Average Medicaid Rate = $158.73



Note 1: Total rate does not include IGT payments which have not yet been made (FY09 payments are projected to be about $2 ppd for non-county facilities and $5 ppd for county facilities)

Assumptions:

Medicaid days: 1,147,076 **Bed tax: $8.30 ppd**
Total days: 1,911,793 **FMAP: .3192**

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NURSING HOMES

MEDICAID REIMBURSEMENT RATE - FY09

TOTAL AVERAGE RATE*	**$158.73**	
Paid by patient	**27.20**	**(17.1%)**
Paid by bed tax on nursing homes	**13.63**	**(8.6%)**
Paid by State	**28.35**	**(17.9%)**
Paid by Federal government	**89.55**	**(56.4%)**

does not include IGT payments which have not yet been made (FY09 payments are projected to be about $2 ppd for non-county facilities and $5 ppd for county facilities.)

Assumptions:

Medicaid days	**1,147,076**
Total days	**1,911,793**
Bed tax	**$8.30 ppd**
FMAP	**.3192**

MONTANA VETERANS HOME - what does it tell us about the problems affecting nursing homes?

The cost per patient day at MVH for FY09	$246.00
Average nursing home rate from Medicaid FY09	$158.73
Case mix index (acuity) at MVH for FY09	.8820
Case mix index (acuity) statewide average FY09	.9905

MVH, through its budget requests, has brought many issues to the committee - difficulty recruiting and retaining licensed nurses and CNAs, need for more staff because patient acuity is increasing, the need for upkeep and renovations of the physical plant, and the need for resources to provide for adjustments in operating costs for overtime, holiday pay, differential pay, increased food costs, utilities and other supplies. MVH's recruitment and retention problems persist despite the fact that MVH pays wages that are very similar to other nursing homes, and in addition MVH offers full state benefits - health insurance, retirement, vacation, sick leave, etc.

Through various funding sources, the state and federal government pay the full costs of running and staffing this facility - costs that are about $246.00 per day of care for FY 09 (according to the LFA analysis)..

The average Medicaid rate paid to other nursing homes around the state currently (FY 09) is $158.73 per day of care and the average costs in our facilities are about $168 per patient day.

Clearly, MVH is able to spend $78 per patient day more than other nursing homes. This means higher staffing ratios, more benefits, etc. And this differential is true despite a case mix index (CMI) of .8820 for MVH and .9905 (average) for other nursing homes.

So, if it is difficult for MVH to recruit and retain staff with the significant funding advantage they have, imagine the difficulty other facilities are experiencing! And imagine the difficulty these facilities will have making ends meet with NO rate increases or wage increases for the next two years.

<u>The MVH is used in this example, not to diminish the legitimacy of the issues and concerns they raise or their need for funding, but to point out the difficulty ALL nursing homes are experiencing and the inadequacy of Medicaid rates for nursing homes throughout the state.</u>

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Budget Background Information
Details on How the 2009 Biennium Budget was Developed

Personal Services – The personal services portion of the executive budget is based upon a "snapshot" of actual salaries for authorized FTE, as they existed on the Statewide Accounting, Budgeting and Human Resources System (SABHRS) on June 30, 2008, which was the end of the fiscal year. OBPP prepared the FY 2010 and FY 2011 personal services budgets to reflect HB 3 adopted by the 2007 Legislature, workers comp, unemployment insurance, FICA, retirement contribution rates, number of hours each fiscal year, longevity adjustments, and health insurance rates. These personal services schedules are included in the present law base for current level positions that are authorized for FY 2009 and thus authorized to continue into the 2011 biennium.

Inflation/Deflation - The adjusted base for FY 2010 and FY 2011 includes fully funded personal services costs in the 61000 expenditure accounts. It does not include per diem for boards and advisory committees, overtime, shift differential pay and holidays worked. In addition, the following accounts have been inflated/deflated from the FY 2008 base amounts due to the new recommended amounts/rates:

Account	Name	FY 2010	FY 2011
62205	Food	6.3%	8.3%
62225	Reference Books	15.56%	24.80%
62251-98	Meat and Misc Food Items	6.3%	8.3%
62216	Gasoline	19.76%	22.68%
62216A	Aviation Gasoline	19.76%	22.68%
62242	Diesel Fuel	19.76%	22.68%
62242A	Jet Fuel	19.76%	22.68%
62304	Postage	2.44%	2.44%
62404	In State Motor Pool	19.07%	20.76%
62414	Out of State Motor Pool	19.07%	20.76%
62434	In State Motor Pool Trng	19.07%	20.76%
62445	Out of State Mtr Pool Trng	19.07%	20.76%
62510	Motor Pool Leased Veh.	19.07%	20.76%
62601	Electricity	5.7%	6.8%
62603	Natural Gas	6.90%	6.90%
62604	Laboratory Gas	10.8%	10.8%
62607	Propane	10.8%	10.8%
63125	Library Books	15.56%	24.80%

No other inflation or deflation is included in the adjusted base budgets for FY 2010 and FY 2011. Agency requests for other changes to the adjusted base budget were submitted in decision packages (DPs), which will be listed individually in Sections A – E of the budget.

Fixed Costs - Although most agencies will be billed in the 2011 biennium consistent with the amounts budgeted for fixed costs, there may be a few exceptions, various Information Technology charges which are based upon actual usage, warrant writing fees for warrants actually issued, and that portion of lease vehicles based on number of miles driven. The total of fixed costs for the 2011 biennium is shown for each fiscal year just above. A brief summary of each fixed cost follows and the manner in which each of these objects was adjusted in the budget is summarized.

Fixed Costs for the 2011 Biennium

Fixed Cost Account	FY 2010 Amount	FY 2011 Amount
Insurance (62104)	$12,297,443	$12,297,452
Warrant Writer (62113)	$1,087,866	$1,122,620
Payroll Service (62114)	$3,302,238	$2,842,536
Legislative Audit Fees (62122)	$3,560,300	
SABHRS (62148)	$4,507,446	$4,344,459
ITSD Fees (62ITSD)	$4,470,713	$4,470,713
Messenger Services (62307)	$276,982	$276,982
Capitol Complex Rent (62527)	$10,393,842	$11,189,981
Grounds Maintenance (62770)	$496,649	$536,509
SWCAP (62888)	$4,034,066	$4,235,768