

MINUTES OF THE SENATE COMMITTEE ON PUBLIC HEALTH AND WELFARE

The meeting was called to order by Senator Jan Meyers at
Chairperson

10 a.m. ~~on~~ on January 16, 1984 in room 526-S of the Capitol.

All members were present except:

Senator Hayden, excused, and Senator Chaney

Committee staff present:

Emalene Correll, Legislative Research Department
Norman Furse, Revisor of Statutes Office

Conferees appearing before the committee:

Trudy Racine, Senior Auditor, Legislative Division of Post Audit

Others present: see attached list

Trudy Racine, Senior Auditor, Legislative Division of Post Audit, stated that her report was the result of an interim committee study and was requested by the Committee on Special Care Services.

She distributed to the committee members a report entitled "Adult Care Home Costs in Kansas - Property Costs and Practices", which contained Comparisons of Average Daily Costs for Homes with Rate Effective Dates; a sample of an Expense Statement submitted by each Adult Care Home dealing with property related costs; examples of a Cost and Reimbursement Rate Report for a for-profit home; a chart showing classification of Intermediate Care Facilities; a report on Property Costs and Differences in Asset Costs, and Changes in Ownership and Lease Patterns. (Attachment #1).

Ms. Racine explained that when homes change providers, Reimbursement Rates increase, and referred to a graph showing that decreases in Asset Reimbursement can make selling an Adult Care Home desirable, and these sales cause abrupt increases in the Asset Reimbursement Rate. She cited three examples of Adult Care Home finances.

Due to lack of time, Senator Meyers asked Ms. Racine to return tomorrow and finish her report, and announced that Sylvia Hougland, Secretary, Department on Aging, who was scheduled for tomorrow, would give her report next week.

The meeting was adjourned.

SENATE
PUBLIC HEALTH AND WELFARE COMMITTEE

DATE 1-16-84

(PLEASE PRINT)

NAME AND ADDRESS

ORGANIZATION

Dick Kuerth

Dept of Administration
SRS -

Jacky Gump

Director

Sam Smith

Post Audit

Tom Withers

KINH

Marilyn Bratt

||

Harriet Nehring

Cynthia Losh

Legis. Post Audit

Jim McBride

United Way

Deek Hummel

Ks Healthcare Assoc

Sharon O'Brien

KAOM

Jan Jensen

Legis. Post Audit

Peter Cenf

KINH

Lynelle Guf

KSNA

M. Hawver

Toyota Car Wash

Mark Ritter

Intern - Sen. Vidrickson

Marian Harmon

LWK

Barry Massey

Associated Press

John P. Allen

HNS

Wayne Probasco

Ks Radiology Assoc.

Gary Robbins

KS Optometric Assn

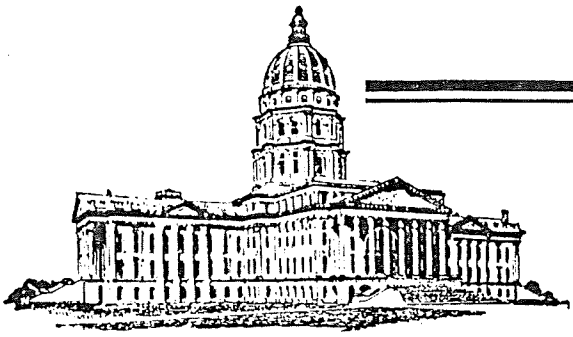
Joe Hollowell

KDHE

Dick Morrissey

KDHE

#1 - 1-16-84



**ADULT CARE HOME COSTS IN KANSAS—
PROPERTY COSTS AND PRACTICES**

**A Presentation to the
Senate Public Health and Welfare Committee**

January 16, 1984

**Legislative Division of Post Audit
Trudy Racine, Senior Auditor
296-3792**

Atch. 1

**Comparisons of Average Daily Costs
For Homes With Rate Effective Dates
on or Before June 1, 1983**

	<u>Profit</u>	<u>Non-Profit</u>	<u>In-State</u>	<u>Out-of-State</u>
Skilled Nursing				
Number of Homes	22	8	25	5
Total Cost	\$29.80	\$38.73	\$31.83	\$33.92
Administration	3.65	4.07	3.63	4.41
Property	6.08	7.65	6.12	8.39
Room and Board	7.17	9.09	7.85	6.87
Health Care	12.90	17.92	14.24	14.25
Intermediate Care				
Number of Homes	152	108	218	42
Total Cost	\$25.22 *	\$27.86	\$26.11 *	\$27.36
Administration	2.81 *	3.15	2.85 *	3.47
Property	5.10 *	4.58	4.79	5.41
Room and Board	7.11 *	7.98	7.49	7.41
Health Care	10.19 *	12.15	10.99	11.07

NOTE: An asterisk between columns of numbers indicates that statistical tests show that the differences in average costs being compared are statistically significant. This means that there is little likelihood that the differences would have occurred as a result of chance.

Provider No.

EXPENSE STATEMENT (Continued)

	Line No.	Per Books or Fed. Tax Return (1)	Provider Adjust- ments (2)	Patient Related Expenses (3)	SRS Adjust- ments (4)	Adjusted Pat. Rel. Expenses (5)
Property Cost Center						
Real Est. & Personal Prop. Taxes	121					
Interest - Real Estate Mtg.	122					
Rent or Lease Expense	123					
Amort. Leasehold Improv.	124					
Depreciation Expense	125					
Salaries	126					
Employee Benefits	127					
Owner's Compensation - Sch. B	128					
Utilities except telephone	129					
Maintenance & Repairs	130					
Supplies	131					
Other (Specify)	137					
Other (Specify)	138					
Total - Property Cost Center	139					

This expense statement is part of the Financial and Statistical Report submitted to the Department of Social and Rehabilitation Services by each adult care home. This portion of the statement deals with property-related costs.

STATE OF KANSAS DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
 DIVISION OF MEDICAL PROGRAMS MEDICAID ADULT CARE HOME COST ANALYSIS

SCHEDULE A PAGE 1
 PROV NO.

PROVIDER INFORMATION RECAP OF PATIENT RELATED EXPENSES AND RATE CALCULATION

FACILITY NAME		ADMIN		PROPERTY	ROOM & BOARD	HEALTH CARE	TOTAL
ADDRESS		47,085		45,241	116,542	182,279	391,147
CITY/STATE/ZIP		2.67		2.57	6.62	10.35	22.21
ADMINISTRATOR		.07		.05	.24	.34	.70
REPORT YEAR END	12/31/82	2.74		2.62	6.86	10.69	22.91
FISCAL YEAR END	12/31/82	3.25		6.00	9.75	13.47	28.16
BEDS AVAILABLE	CURRENT	2.74		2.62	6.86	10.69	22.91
SKILLED	0	ALLOWED COST			ICF-MR	ICF	SM
INTERMEDIATE	50				.00	22.91	.00
MENTALLY RETARDED	0	MINIMUM WAGE ADJUSTMENT			.00	.00	.00
OTHER	0	SUBTOTAL			.00	22.91	.00
TOTAL	50	EFFICIENCY FACTOR			.00	.50	.00
BED DAYS AVAILABLE	18250	PER PATIENT DAY RATE EFFECTIVE		3/01/83	.00	23.41	.00
INPATIENT DAYS	17613	50 PRIVATE PAY RATE				26.30	
OCCUPANCY RATE	96.5						
CAL DAYS IF APPL	0						
PAT DAYS USED IN DIV	17613						

EXPENSE STATEMENT

DESCRIPTION	LINE NO.	REPORTED EXPENSE	PROVIDER ADJUSTMT	SRS ADJUSTMT	PATIENT EXPENSE	PER DAY
PROPERTY						
REAL EST & PER PROP TAX	121	3,468	0	0	3,468	.20
INTEREST-R E MORTGAGE	122	3,794	1,668-	0	2,126	.12
RENT OR LEASE EXPENSE	123	0	0	0	0	.00
AMORT LEASEHOLD IMPROV	124	0	0	0	0	.00
DEPRECIATION EXPENSE	125	21,050	6,436-	0	14,614	.83
SALARIES	126	2,230	0	0	2,230	.13
EMPLOYEE BENEFITS	127	207	0	0	207	.01
OWNERS COMPENSATION	128	0	0	0	0	.00
UTILITIES-EXCPT TELEPHONE	129	18,625	0	0	18,625	1.06
MAINTENANCE & REPAIRS	130	4,037	66-	0	3,971	.23
SUPPLIES	131	0	0	0	0	.00
OTHER	137	0	0	0	0	.00
OTHER	139	0	0	0	0	.00
TOTAL PROPERTY **	139	53,411	8,170-	0	45,241	2.57

This is part of a cost and reimbursement rate report for a for-profit home with 50 beds. This is an example of a home with costs that are well below the reimbursement limit in property and the three other cost centers.

STATE OF KANSAS DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
 DIVISION OF MEDICAL PROGRAMS MEDICAID ADULT CARE HOME COST ANALYSIS

SCHEDULE A PAGE 1
 PROV NO.

PROVIDER INFORMATION * * * * * RECAP OF PATIENT RELATED EXPENSES AND RATE CALCULATION * * * * *

FACILITY NAME				ADMIN	PROPERTY	ROOM & BOARD	HEALTH CARE	TOTAL
ADDRESS								
CITY/STATE/ZIP								
ADMINISTRATOR								
REPORT YEAR END	9/30/82	PAT RELATED EXP		93,253	130,567	167,935	210,763	602,518
FISCAL YEAR END	9/30/82	COST PER PATIENT DAY		4.33	6.06	7.79	9.78	27.96
		INFLATION		.17	.10	.39	.40	1.06
		PPD COST BEFORE LIMITS		4.50	6.16	6.13	10.18	29.02
		PPD COST LIMITS ICF		3.35	6.00	9.75	13.47	28.16
BEDS AVAILABLE	CURRENT	ALLOWED COST		3.35	6.00	8.18	10.18	27.71
SKILLED	0							
INTERMEDIATE	65					ICF-MR	ICF	SNF
MENTALLY RETARDED	0	ALLOWED COST				.00	27.71	.00
OTHER	0	MINIMUM WAGE ADJUSTMENT				.00	.00	.00
TOTAL	65	SUBTOTAL				.00	27.71	.00
BED DAYS AVAILABLE	23725	EFFICIENCY FACTOR				.00	.10	.00
INPATIENT DAYS	21558	PER PATIENT DAY RATE EFFECTIVE	10/01/82			.00	27.81	.00
OCCUPANCY RATE	90.9							
CAL DAYS IF APPL	0	50 PRIVATE PAY RATE					31.50	
PAT DAYS USED IN DIV	21558							

EXPENSE STATEMENT

DESCRIPTION	LINE NO.	REPORTED EXPENSE	PROVIDER ADJUSTMT	SRS ADJUSTMT	PATIENT EXPENSE	PER DAY
PROPERTY						
REAL EST & PER PROP TAX	121	5,313	0	0	5,313	.25
INTEREST-R E MORTGAGE	122	61,074	0	0	61,074	2.43
RENT OR LEASE EXPENSE	123	2,525	0	0	2,525	.12
AMORT LEASEHOLD IMPROV	124	0	0	0	0	.00
DEPRECIATION EXPENSE	125	29,109	0	0	29,109	1.35
SALARIES	126	4,679	0	0	4,679	.22
EMPLOYEE BENEFITS	127	654	0	0	654	.03
OWNERS COMPENSATION	128	0	0	0	0	.00
UTILITIES-EXCEPT TELEPHONE	129	22,754	167-	0	22,587	1.05
MAINTENANCE & REPAIRS	130	3,681	60-	0	3,621	.17
SUPPLIES	131	0	0	0	0	.00
OTHER	137	621	0	0	621	.03
OTHER	138	384	0	0	384	.02
TOTAL PROPERTY **	139	130,794	227-	0	130,567	6.06

This is part of a cost reimbursement rate report for a for-profit home with 65 beds. This is an example of a home with costs that exceed the reimbursement limit in property and administration cost centers.

Classification of Intermediate Care Facilities

	<u>Total</u>	<u>Mortgage</u>	<u>Lease</u>	<u>Combination</u>	<u>Neither</u>
For-Profit Homes:	156	92	30	14	20
1 - Non-chain	77	46	15	5	11
(2-5) Small chain	45	25	15	3	2
6 or more - Large chain	34	21	0	6	7
Non-Profit Homes:	102	57	7	0	38
Government	25	8	0	0	17
Church	27	15	2	0	10
Other	50	34	5	0	11

Property Costs

The average property cost for the 258 intermediate care facilities was \$4.87 per patient day. This average cost was broken down as follows:

Asset Costs: includes taxes, interest on mortgage, rent or lease expense, amortization of improvements, and depreciation.	\$2.52
Operating Costs: includes utilities (except telephone), maintenance and repairs, and supplies for maintenance and repairs.	1.88
Property-related Personnel Costs: includes salaries and benefits for maintenance personnel, and owner compensation for maintenance related work.	.39
Other Costs: miscellaneous property-related items	<u>.08</u>
Total	\$4.87

Differences in Asset Costs

Average asset costs for all homes:	\$2.52
Average asset cost for-profit homes:	\$2.82
Average asset cost for non-profit homes:	\$2.07

The differences between for-profit and non-profit homes lie mainly in three areas of asset costs:

1. **Taxes.** On the average, the for-profit asset cost for real estate and property taxes is \$.24 per patient day higher.
2. **Costs for mortgages, leases, or rental agreements.** Taken together, the for-profit asset costs for these items are \$.70 per patient day higher.
3. **Depreciation.** The average depreciation cost is \$.13 per patient day higher in non-profit homes than in for-profit homes, and this difference offsets somewhat the higher for-profit costs noted above.

Changes In Ownership and Lease Patterns

For 58 intermediate care facilities that reported a change in provider between March 1982 and November 1983:

1. There is a clear trend from in-State to out-of-State ownership.

Before the change, here is how the providers were classified...		After the change, here is how the providers were classified...	
In-State, for-profit:	44	In-State, for-profit:	19
In-State, non-profit	3	In-State, non-profit:	1
Out-of-State, for-profit:	8	Out-of-State, for-profit:	36
Out-of-State, non-profit:	3	Out-of-State, non-profit	2

2. Chain ownership is growing.

Before the change, here is how the for-profit providers were classified...		After the change, here is how the for-profit providers were classified...	
Non-chain:	24	Non-chain:	7
Small chain:	14	Small chain:	27
Large chain:	14	Large chain:	21

3. Lease arrangements are increasing.

Before the change, here is how for-profit and non-profit providers were classified...		After the change, here is how for-profit and non-profit providers were classified...	
Mortgage:	34	Mortgage:	33
Lease:	13	Lease:	25
Combination:	9	Combination:	0
Neither:	2	Neither:	0

When Homes Change Providers, Reimbursement Rates Increase

1. Some Homes Can Raise Their Rates Immediately

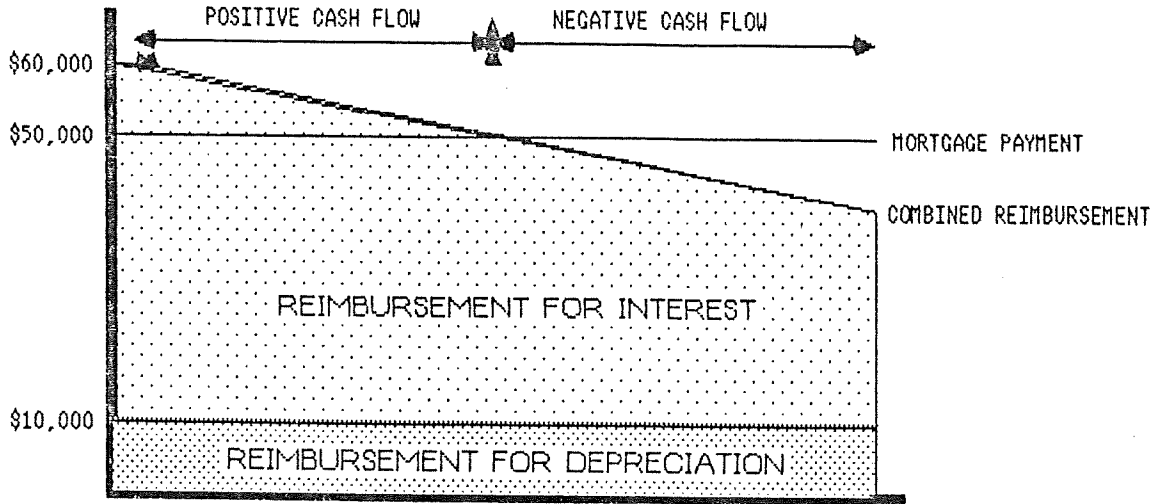
Property Costs:

	<u>Before Sale:</u>	<u>Projected After Sale:</u>
Real Estate & Personal Prop. Taxes	\$ 25,949	\$ 25,949
Interest -- Real Estate Mtg.	29,470	128,237
Rent or Lease Expense	3,973	-0-
Amort. Leasehold Improv.	-0-	-0-
Depreciation Expense	35,704	62,657
Salaries	10,846	-0-
Employee Benefits	1,240	11,388
Owner's Compensation	-0-	-0-
Utilities except telephone	41,125	53,462
Maintenance & Repairs	26,532	30,777
Supplies	12,579	14,340
Other	2,057	2,344
Other	<u>3,335</u>	<u>-0-</u>
TOTAL	<u>\$192,810</u>	<u>\$329,154</u>
	\$5.36	\$9.25
	Per Patient Day	Per Patient Day

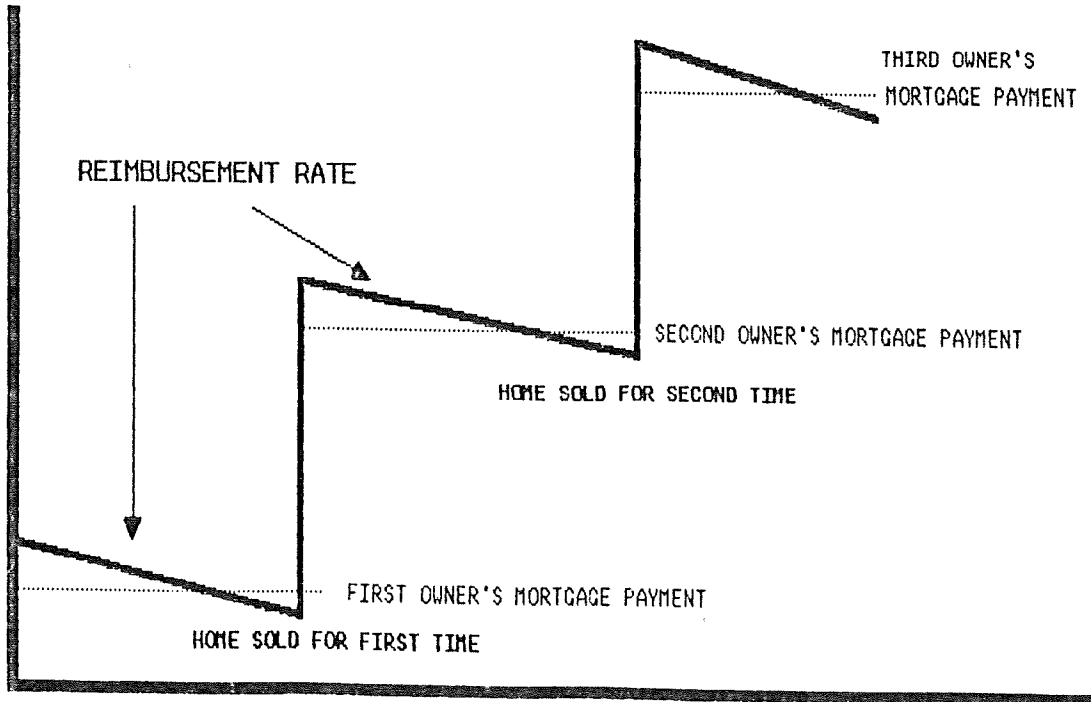
2. Higher Property Costs Will Cause the Maximum Reimbursement Rate to Rise in Future Years.

3. Other Rates Besides Property Are Also Affected

Decreases in Asset Reimbursement Can Make Selling an Adult Care Home Desirable



These Sales Cause Abrupt Increases in the Asset Reimbursement Rate



ADULT CARE HOME FINANCES—SOME EXAMPLES

- Example 1:** This home was financed with \$700,000 in industrial revenue bonds in 1975. In 1977, when the auditors picked up the financial history, the two owners had an equity of about \$40,000. Between January 1977 and June 1982, the two owners reported a net loss for the facility of nearly \$70,000. In that five-year period, the two worked full-time and received compensation and dividends totaling about \$283,000. When they sold the home in June 1982, they received an apparent capital gain of nearly \$320,000.
- Example 2.** This home was purchased in August 1978 for \$800,000, with an apparent initial investment by the owners of \$5,000. Between 1978 and April 1982, the owners reported a net income for the facility of \$60,000. One owner worked full time, the other three-fourths time, and they received a total of nearly \$180,000 in compensation and loans during the period. They sold the home for \$1.2 million, realizing nearly \$500,000 in capital gains.
- Example 3.** This facility had a net loss of nearly \$100,000 in 1982. In addition, an increase in outstanding debts and current liabilities resulted in a negative operations cash flow of \$121,000. The owner invested an additional \$116,500 which decreased the cash flow deficit to less than \$5,000 and finished the year with a negative equity of about \$142,000. This facility had an unusually low occupancy rate of 67 percent and a high percentage of Medicaid patients (69 percent), combined with costs which were above the maximum reimbursement rate in two cost centers and overall.