VI. Financial Challenges and Implications

As indicated in the previous chapter, county nursing homes outside NYC collectively make up an $800 million-plus business in the 33 counties in which they were operating at the beginning of 2013 (not counting six county-owned hospital-nursing home complexes which would bring the total to more than $1.8 billion in annual expenditures). They generate jobs employing some 10,000 individuals, the vast majority on a full-time basis. Annual admissions to these facilities are increasing. Yet the bottom line is that *nearly all of these nursing homes are losing a significant amount of money each year, and the financial condition of virtually all of the homes has worsened during the past decade*. This chapter uses survey data and historical comparison data made available by LeadingAge New York to focus on financial profiles of county nursing homes and how they compare with their for-profit and non-profit counterparts.

County Homes Increasingly Lose Money on Operations

As county nursing home expenditures have increased over the years, revenues have not kept pace. For example, cumulative data from audited financial reports for all non-NYC county nursing homes in 2010 indicated expenditures of $1.834 billion (including six county-owned hospital-nursing home operations), which were only partially offset by $1.633 billion in operating revenues. The operating revenues include primarily revenues generated by resident services, and do not include such additional non-operational revenues as intergovernmental transfers and local taxpayer subsidies (discussed further below). But the most fundamental measure of an organization's day-to-day financial health is its ability to take in enough operating revenues to cover or exceed its expenses in a given year, without the need for non-operating revenues which cannot necessarily be counted on from year to year.

County nursing homes reported a cumulative net loss of $201 million in 2010, an average of $5.9 million per home ($6.2 million if hospital-affiliated homes are excluded). This is more than double the median county home loss of $2.6 million in 2005 (unadjusted for inflation).

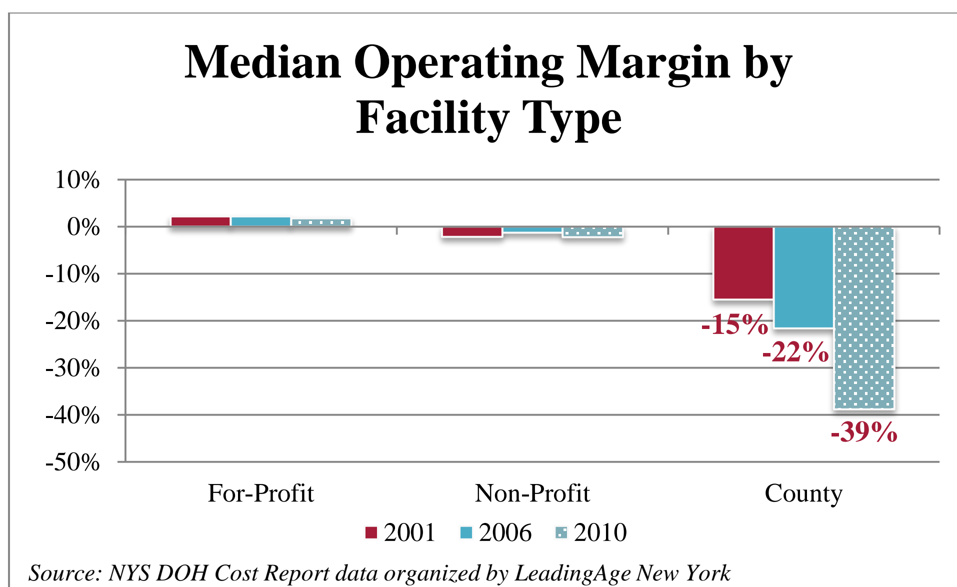
Using this fundamental yardstick of financial viability, the county nursing homes in 2010 reported cumulative net losses of about $201 million. Thus total expenditures exceeded operating revenues by 12.3%. *The average county nursing home reported a net operating loss of about $5.9 million in 2010*. (Available 2011 audited financial reports, with three missing, reflected similar results.) If the six hospital-nursing home complexes are excluded from these calculations, the remaining nursing homes suffered an

average net loss of about $6.2 million in 2010. By contrast, the comparable reported median operating loss for county homes in 2005 was $2.6 million.[30]

Perhaps a better indication of the relative financial health of each facility is its operating margin, the ratio of net operating gain or loss to operating revenues. As shown in Figure 34, the operating margin has been relatively stable for non-county homes (a slight positive margin for for-profit facilities and a slight net loss for non-profits), but by contrast, the percentage amounts lost on operations in the median county home have gotten substantially worse over the past decade, especially since 2006. *In 2010, operating losses in the typical county home were nearly 40% of the incoming operating revenues.* Sixty-two percent of all county homes in 2010 had operating margins of -30% or worse, including seven homes with operating margins of -50% or worse. By contrast, only three of the homes had positive operating margins for the year (all three were hospital-affiliated).

More than 60% of all county nursing homes had a net operating loss in 2010 of -30% or worse. The typical county home's net operating loss has increased substantially since 2001, while net margins for non-county homes have remained relatively stable (slight median gains for for-profit homes and slight net median losses for non-profits).

Figure 34



Source: NYS DOH Cost Report data organized by LeadingAge New York

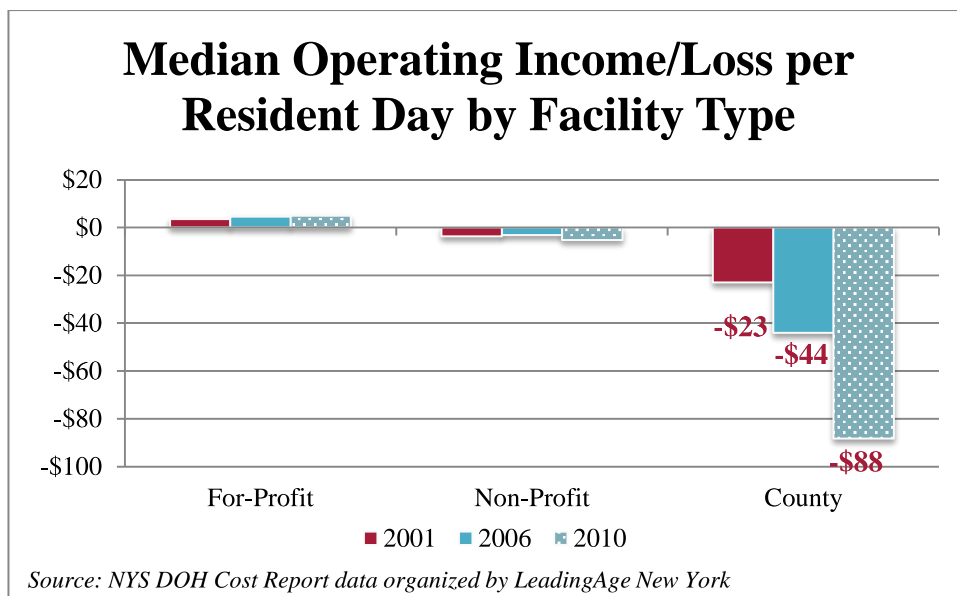
In order to account for differential sizes of nursing home facilities, we normalized the data in Figure 34 by calculating the operating "gain or loss" per resident day.[31] As shown in Figure 35, this provides a different way of emphasizing the dramatic downturn in the amount of operating losses in the typical county nursing home between 2006 and 2010, as the

[30] CGR, *County Nursing Facilities in New York State*, op cit., p. 51.
[31] Gains are reflected as operating profits for for-profit homes and net gains for non-profit and county facilities.

amount of loss per resident day doubled in just those four years, while almost quadrupling since 2001. For each resident day spent in a county nursing home in 2010, the typical home lost $88. By contrast, the typical for-profit home had a net gain of about $5 per resident day, and the median non-profit facility had a net operating loss of about $5 per resident day.

The typical county home lost $88 for each resident day spent in its facility in 2010, compared to a net gain of $5 per day in the typical for-profit home.

Figure 35



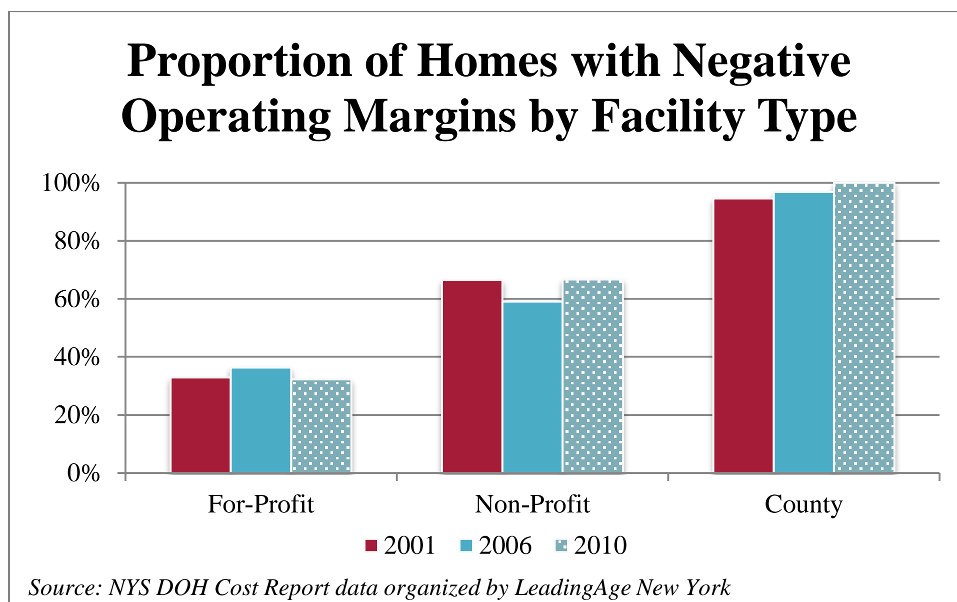
Nearly All County Homes Lose Money Each Year

Perhaps the most revealing statistic describing the declining financial conditions of county nursing facilities is the almost-universal number of individual homes losing money on operations. As shown in Figure 36, losing money is not unique to county homes, as *many nursing homes of all three types of facilities lose at least some money on an operating basis each year.* But *the proportions are dramatically different by ownership type. About a third of all for-profit homes in a given year lose money, as do roughly two-thirds of all non-profit facilities. However, consistently in nearly all county homes, expenditures exceed revenues.*

Nearly all county nursing homes consistently report net operating losses on an annual basis. In 2010, 15 of those losses exceeded $5 million, including seven in excess of $10 million. By contrast, a third of all for-profits and two-thirds of non-profits suffer operating losses each year, most involving much smaller loss amounts.

Indeed 100% of all stand-alone county nursing homes in 2010 suffered operating losses. However, it should be noted that three hospital-affiliated homes noted above did report net gains for 2010, but did not file cost reports and thus were not included in the LeadingAge New York data compilation reflected in Figure 36. With those homes included, the 2010 proportion for county homes would be 92%.

Figure 36



Source: NYS DOH Cost Report data organized by LeadingAge New York

What is perhaps even more revealing than just the proportion of homes with operating losses is the magnitude of those losses. All but two of the operating losses in county facilities exceeded $1 million in 2010. Moreover, 15 of the county facilities had operating losses exceeding $5 million, including seven in excess of $10 million. And these totals do not reflect additional costs to their counties (not reflected in nursing home enterprise fund accounting) of matching funds for IGT payments.

Signs of Revival?

On a more encouraging note, 2011 audited financial reports submitted as part of the county nursing home survey revealed that more than 60% of all county homes reflected improvements in the bottom line from 2010 to 2011, though most were of a modest nature. On the other hand, eight of these improved the operating bottom line by $3 million or more, including three with improvements in excess of $5 million from year to year. The number of homes with operating losses of $5 million or more fell from 15 county homes to 11, though the number of homes with losses exceeding $10 million increased by one to eight. Homes with positive changes in net assets increased from four in 2010 to 14 in 2011.

Overall, this reflects a more positive profile than has occurred in recent years. Although one should not put too much stock in comparisons from one year to the next (they may indicate only a one-year "blip" rather than an emerging trend), there may be reason for some level of restrained optimism in an otherwise bleak analysis of recent trends, and a similar

year-to-year comparison should be undertaken when 2012 financial reports are consistently available to see if these 2011 gains are sustained.

However, it has been suggested that a significant portion of this apparent upward movement may indeed be a one-shot fluctuation based on the retroactive rebasing payments and mitigation payments that occurred in 2011, which may account for significant Medicaid increases from 2010 to 2011.

There are some potentially encouraging signs in 2011 audited financial reports suggesting possible improvements in the bottom line of many county homes. However, this may be in large part a function of one-time retroactive rebasing and mitigation payments made in 2011. Whatever the reasons, whether this represents a one-year aberration or the beginning of a trend cannot yet be determined and needs to continue to be monitored.

Thus there is no guarantee that these data represent anything other than a one-time aberration. After all, our 2007 study reported a similar set of one-year improvements from 2005 to 2006, but data from subsequent years indicate that that one-year shift did not prevent the longer-term negative trend from resuming, as reflected in the graphs above. And even with this more encouraging sign, it is still the reality that the county homes continued to have an average operating deficit of about $6 million dollars per facility in 2011, even with the year-to-year improvements from 2010.

But these changes from year to year could at least in part reflect an early indication of concerted efforts on the part of many counties to reduce costs and strengthen revenues in order to improve their homes' bottom line as they make decisions about their futures. *It would be worth finding a way to continue to track such data across county homes in the future to see if this one-year finding may be sustained and, if so, to explore the reasons behind any ongoing improvements in the financial operations of those county facilities—and their potential implications for the future*.

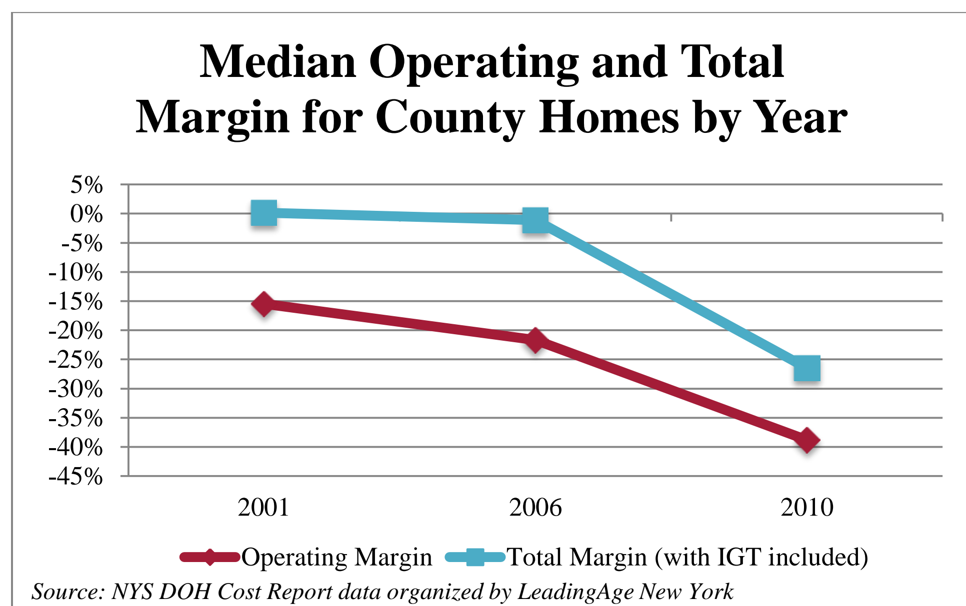
Dwindling Impact of IGT Payments?

Historically the existence of Intergovernmental Transfer (IGT) payments has made a significant difference in the ultimate year-end financial status of county nursing homes. But, as discussed in Chapter II, the timing and amounts of the payments are somewhat irregular, and payments do not always flow evenly from year to year, sometimes leading to no flow of IGT cash in some years and relative "windfalls" in others. Moreover, counties must provide a 50% match up front from the county general fund before any IGT funds can be accessed in any given year in which they are available. Some counties have begun to question paying at least some of the matching funds, thereby potentially reducing the full value of the IGT payment to their nursing homes. (IGT payments are not available to either for-profit or non-profit nursing homes.)

In this context, it is instructive to review the practical impact the IGT payments have had over the past decade, as summarized in Figure 37. At various points in the past, IGT payments have played the role of being the financial "savior" of county nursing facilities, making the difference in

many cases between an operating loss and a bottom line "surplus," with the IGT factored in (*exclusive of any county matching subsidies*). For example, in 2001, IGT payments essentially made the difference between a median county home facility with a minus 15% operating margin (15% shortfall or loss) and a total margin median "virtual breakeven surplus" of +0.17% with IGT included. In nearly every county home, IGT payments improved the bottom line, at least reducing the amount of the facility's net loss. And, for just over half of the facilities, the IGT payment pushed the home from an operating loss to a total net gain situation (see subsequent Figure 38 showing the homes remaining with a negative total margin, even after the IGT payments were factored in).

Figure 37



Source: NYS DOH Cost Report data organized by LeadingAge New York

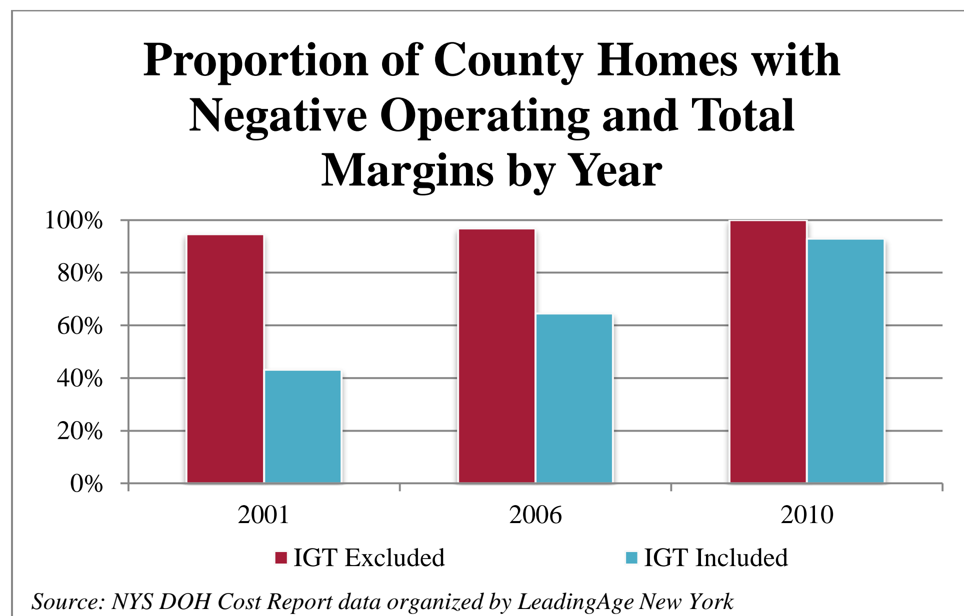
In 2006, the IGT payments continued to have an impact, virtually wiping out the gap between the -22% median negative operating margin and the total overall margin with IGT included. However, even though the IGT payments continued to improve the bottom line in virtually every county home, they were less of a force in pushing the bottom line from a net loss to a total net gain situation. Instead of making that difference for more than half the county homes in 2001, the IGT payments helped create a positive bottom line in the nursing home enterprise fund in about a third of the county homes in 2006 (see Figure 38).

By 2010, IGT payments had much less of an impact on the bottom line for most county facilities. With the larger operating losses in most facilities, they were simply too large for most IGT payments to overcome. Even though the IGT payments continued to reduce the median net margin—in this case from a minus 39% operating margin to a total margin or net loss of minus 26%—it was able to close less of the overall gap in the typical

county home. In many county homes in 2010, the IGT had no practical effect on reducing the operating margin. More to the point, in only two of all the county homes did the addition of IGT payments push the facility from an operating loss into a total net gain situation (see Figure 38).

Figure 38 summarizes the dwindling impact IGT has had over the past decade in moving county homes from a net loss to net financial gain situation.

Figure 38



IGT payments, once instrumental in reducing and even eliminating operating deficits in county homes, are increasingly less able to move the bottom line from a net loss to net gain position in most homes. While the IGT program is likely to continue to have a positive impact, its impact is likely to be reduced in scope if operating deficits continue to grow, as counties raise questions about the matching funds, and with the future of the IGT program itself uncertain in future years.

Furthermore, 20% of the county nursing home administrators said that in the most recent year for which their home received an IGT payment, their homes had not received the full IGT amounts for which they were eligible, because their county had not agreed to pay the full match from the county general fund. And, to that point, *any value the IGT payment has in reducing the county home's net deficit should realistically be discounted by the amount of the county matching contribution that must be covered by taxpayers from either the county tax levy or the general fund*.

Thus, as valuable and even essential as the IGT program is and will be to the future of county homes, to the extent operating margins continue to increase, and counties raise hard questions about providing the matching funds to access the IGT payments, especially when it may have an impact on pushing the county toward its property tax cap—and the existence of the IGT program itself remains somewhat uncertain in the future—*it becomes less and less certain that IGT payments will ever again be able to have the same level of impact on reducing or eliminating operating deficits in county homes as they had in previous years*. Furthermore, any

measure of the county-funded deficit should include the county's IGT match. Nevertheless, with these understandings, IGT can continue to be a strong economic factor supporting county homes, and homes are likely to continue to benefit from it as long as it remains in place.

Net Impact on Taxpayers

As county homes have increasingly suffered growing operating losses, the degree to which their county governments have needed to provide taxpayer subsidies to offset some or all of the losses has depended to a great extent on the availability of IGT payments and the extent and robustness of the county home's fund balance.

In reviewing data supplied as part of the survey process, including audited financial reports, it became clear that there were significant inconsistencies in terms of how county contributions to their homes were recorded, and the extent to which any contributions were made from a given year's tax levy, as opposed to contributions from the county's general fund. Furthermore, county matches for IGT funds were not recorded in any of the financial statements about nursing homes, since they came from county general funds and not the nursing home enterprise funds. Thus the combination of incomplete but mostly inconsistent data concerning direct county financial contributions to nursing homes makes it impossible for us to provide a definitive audited statement about the annual county contributions to, or subsidies of, their nursing homes.

One-fourth of responding county officials said their counties had provided no direct subsidy to their nursing homes in the past year; 29% reported subsidies of $1 million or less; 29% between $1 and $4 million; and 17% up to $7 million. Just over a quarter of the counties did not respond to this question.

However, we did ask county leaders to provide their best estimate of their county's 2012 subsidy to their nursing home, not including any IGT matching funds. Of the 24 counties responding to the question (73% of all counties owning homes), six (25%) said there was no direct subsidy. Seven (29%) reported subsidy amounts between $500,000 and $1 million; another seven said the amount was more than $1 million and less than $4 million; and four (17%) said the amount was between $4 and $7 million.

We also have nearly complete data from the audited financial reports on a useful proxy for annual total net costs of subsidizing the nursing homes: the annual net gain or loss in assets, and the impact that has on the nursing home fund balance. In most county nursing homes, even after IGT payments are factored in, and even if county subsidies are made in a given year, there remains a loss in net assets that is recorded against the nursing home's enterprise fund balance (in some cases homes are able to report net gains in net assets in some years after all other contributions are included). At some point, the taxpayers become responsible for payment of that fund balance. So even though county officials may choose in a given year to "charge" a nursing home shortfall in revenues against the nursing home fund balance, rather than against the county general fund or tax levy, at

some point the bill comes due to the taxpayers, as the fund balance becomes depleted.

Thus, it is important to note that, even after any often-substantial subsidies have been made by counties to their nursing homes in a given year to help offset operating losses, and after any IGT payments have been recorded, those were frequently not enough to move the bottom line of most county homes into a net asset gain for the year. Thus the resulting remaining deficits, or net losses of assets, wind up being reflected in changes from year to year in the net assets or nursing home fund balances available at the end of the year. In 2010, even with various subsidies already factored in, 27 of the 31 counties for which we had audited data reported an overall deficit or loss in net assets/fund equity for that year. In 2011, that number was reduced to 17, but still a majority of all county homes. In each of these two years, the county homes cumulatively accounted for more than $178 million in net nursing home subsidies from their respective nursing home fund balances, over and above other county contributions and IGT matching funds that may have been provided.

Most county nursing homes reflect an annual deficit, or excess of all expenditures over all revenues, even after direct county subsidies and IGT payments have been applied. These are applied to the nursing home fund balance. Over half of these are currently negative fund balances, with eight having a cumulative negative fund balance of more than $15 million. Obligations of taxpayers for county-owned nursing homes appear to be increasing.

Sixteen of the 31 county homes for which we had audited financial data reported negative *cumulative* nursing home enterprise fund balances at the end of 2011, with an average negative fund balance at that time across all homes of about $13.1 million. Eight homes had a negative fund balance of more than $15 million each. Of those with positive fund balances, most were relatively small: 11 of 15 had less than $4 million in remaining fund balance assets against which to draw at the end of 2011.

Thus between specific-but-inconsistently-recorded county subsidies directly to nursing homes, the considerable matches from county resources that are necessary to access IGT payments, and the nursing home fund balances, which are ultimately county responsibilities as long as they own the homes, counties play a significant and increasing role in subsidizing the operations of their nursing homes.

County Costs Allocated Against Nursing Homes

Another way in which county taxpayers are affected by their nursing homes is through the concept of indirect costs allocated against the nursing home budget.

County nursing homes incur “charges” for services from other units of county government which are “allocated” as expenditures charged against the budget. In some cases these represent actual services provided, such as human resources/personnel, data processing and legal services—all of which any home (county, for-profit or non-profit) would need to provide directly or contract for. Often the chargeback allocations for such services

are accurate reflections of actual services and costs. However, even some legitimate services rendered to the nursing home by other governmental units can be charged against the home's budget at amounts in excess of the actual market value of the services provided. County homes can also be charged for portions of the salaries of legislators and county executive or county administrator where there is no equivalent in the private sector. Similarly, some of the costs of some services broadly provided by county government are in some counties allocated against the nursing home, whether the services are actually provided to the home or not. County nursing home administrators typically have no say in the inclusion or actual amount of the allocated charges.

Part of the rationale for this chargeback/allocations system is that at least a portion of these charges can be recovered through Medicaid and other sources of revenues that would otherwise have to be passed on to county taxpayers. However, because of upper payment limits and other administrative caps, in most counties many of these allocations are not currently reimbursable. In such cases, the portion of these allocated costs that do not represent real services actually provided to the home at fair market value artificially and inaccurately inflate the true costs of operating the home—and wind up being paid for by county taxpayers anyway.

As currently reflected in most nursing home budgets, it is not possible to determine which allocated costs represent actual services to the facility and which are simply overall county administrative costs spread across multiple county units including the nursing home. But with that caveat noted, it is nonetheless instructive to realize that the allocated amounts tend to be fairly consistent from year to year within each county home. In our nursing administrator survey, we asked for "the annual amount of general county indirect costs for such things as audit costs, personnel/HR support, legal service support, etc. which were allocated against your nursing home budget in the past three years." We received reliable and consistent information for two of those years, 2010 and 2011.

The median for the 23 homes who responded to this question was about $500,000 in each year. The maximum amount was $1.46 million in 2010 and $1.64 million in 2011.

To the extent that any of these costs represent services not actually performed for the home's benefit (or exceeded the real value of such services), and to the extent that the allocated costs are not able to generate reimbursement, allocated costs can have the effect of making the home's operating costs look higher than they actually are, without the offsetting benefit of claiming revenues against them.

We also asked about the practice in some counties of requiring their nursing homes to actually transfer funds from their enterprise fund to the

county general fund to cover some or all of these indirect charges. The responses were split, with 52% of the county homes saying that was the practice in their counties, and 48% saying it was not. Where that is the practice, the responses indicated that the entire allocated cost amount is typically included in the transfer of funds.

Outstanding Capital Debt

No comparative data were available on amounts of capital debt across different types of nursing home facilities. However, the survey of county homes asked what the amount of their outstanding capital debt was as of the end of 2012. Of the 24 facilities which responded to the question, five reported they had no outstanding debt. The total reported outstanding debt among the remaining 19 facilities was about $191 million, an average of about $10 million per facility, or about $8 million across all reporting facilities (including those reporting no debt).

Three of the homes reported outstanding debt levels of $1 million or less. Another six were between $1 and $5 million, with most of the rest reporting outstanding debt in excess of $10 million, with a high of about $34 million. It is not known how representative these totals are of the homes not responding to this question.

Likely Future Level of County Subsidies

Government leaders in counties owning nursing homes were asked their reaction to the level of financial support their county government is currently providing to their home. Leaders in just over a third of the counties indicated their current level of support was "about right." Only one county said the current support level was "too low," and just over half said the current level was "too high." In three counties, responding leaders varied in their responses: in one county, responses ranged from too low to too high, and in two counties, the range was from about right to too high.

Both nursing home administrators and county governmental leaders were separately asked about the "tipping point" of county financial support (exclusive of IGT matching funds) at which the county would be likely to consider ceasing future ownership of its nursing facility. Administrators varied widely in their responses. About a quarter thought any county subsidy would be perceived as too much and would trigger a process to disengage from ownership; another 20% said the county might be willing to subsidize up to a half million dollars a year in the future; 29% suggested various subsidy levels between $1 and $3 million would trigger disengagement; and a similar number indicated that they thought the county would tolerate between $5 and $10 million annual subsidies before considering transfer of ownership.

County government leaders appear to have a relatively low level of tolerance for future levels of county subsidies they are willing to accept to maintain their county nursing homes.

County leaders who will actually make the decisions were less tolerant of future subsidies. Almost two-thirds said some combination of the following: the process to sell is already underway, or no subsidy is acceptable, or the current support level is already the point at which the county should consider selling. Another 20% indicated that some subsidies could be acceptable, with most of those suggesting a tipping point of around half a million to one million dollars a year and two going as high as $4 or $5 million. Thirteen percent were uncertain and unwilling to venture a specific estimate without further consideration.