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The Future of County Nursing Homes in New York State

Summary: Key Findings & Conclusions

August, 2013

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New York State Health Foundation

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SUMMARY: KEY FINDINGS & CONCLUSIONS

Virtually all nursing homes across New York State – whether operated by a county, for-profit company or non-profit operator – face wide-ranging, significant challenges. For county-owned homes, however, the future is especially troubled.

The Center for Governmental Research (CGR) of Rochester conducted a year-long, statewide study that focused on nursing homes owned by 33 counties; four homes sold by other counties since 2005; and two homes closed by counties in recent years. The study did not include nursing homes in New York City.

The New York State Health Foundation funded the study to identify key consequences of previous decisions to shift nursing home beds from the public sector to the private sector. The foundation also supported CGR's goal to provide data-driven policy guidance to the state and to counties that own nursing homes.

CGR's analysis of relevant statewide datasets, case studies of county homes previously sold or closed, surveys of county officials and nursing home administrators, and interviews with stakeholders and industry experts, lead us to the following major conclusions:

1. The financial stability of county homes has eroded substantially in recent years, as has the commitment of county officials to continue operating the facilities. In 2010, 92% of the county homes in the state outside New York City lost money, with median losses per resident day doubling since 2006 and quadrupling since 2001.

2. County homes are rapidly losing market share to non-public homes, particularly to for-profit providers.

3. A relatively recent, yet steady decline in New York counties operating nursing homes could become a notable exodus in the near-term future. At least eight counties are currently in various stages of selling their

homes, and at least five more have indicated that they are actively considering selling.

4. Many counties are currently planning to stay in the nursing home business. For them, continuing to conduct business in the future as they have in the past is unsustainable. County homes, county governments and the state must think strategically about their future.

5. Much of the annual operating deficit faced by the 33 counties that own and operate nursing homes is attributable to high costs of employee benefits, especially for employee health insurance and pension costs. Median employee benefit costs per resident day in county-owned homes rose 181% in the 10 years ended in 2010. This is due, in large part, to long-ago negotiations by state and county-elected officials, and union leaders. Without intentional, collaborative efforts by key stakeholders to address these issues and implement needed changes, most county homes have little chance to survive.

6. The results of recent sales and closings of homes are, to date, mixed. On the positive side, they have reduced costs to counties and, in some cases, facilities and care have improved. However, one of the homes sold was later closed by the state due to poor performance, displacing more than 100 residents; and in some facilities staffing and quality of care have declined. For the most part, the oft-cited fear that "hard-to-place" residents would not be served if homes were sold has not been realized.

7. Outright closure of existing county homes appears to have few, if any, real advocates among county leaders.

8. Decisions about the future of county-owned nursing homes are typically being made without sufficient context. Few of NY's counties have comprehensive long-term-care plans in place, despite projections the state's population is getting older and living longer.

9. In exploring the future of county nursing homes, county leaders must do due diligence, ranging from exploring ways of reducing internal costs and enhancing revenues to weighing the potential for selling the home, and if so, carefully considering to whom and under what conditions. The unique circumstances that exist in any county, and the variation in outcomes of previous sales, point to the need for counties operating homes to carefully consider their own situation and options. Key variables to consider include: a) the number of other nursing homes in the county and whether the county has an overall surplus or shortage of nursing home beds; b) projections of 75+ and 85+ populations; c) incidence of indigent elderly county residents; d)

history of serving high proportions of Medicaid and other "hard-to-place" residents; and e) availability of long-term-care services other than nursing homes.

Recommendations for the state and guidelines for counties weighing the future of their homes are outlined in detail in the final chapter of CGR's full report. For summaries, click on "State Recommendations" and/or "County Guidelines" on the study website; or access CGR's full report by clicking on "Report." See www.cgr.org/NY-county-nursing-homes.

Overview of County-Owned Nursing Homes

As of early 2013, 33 counties outside New York City owned and operated 35 nursing homes, six of which are affiliated with county-owned hospitals. County homes outside NYC:

- ❖ Collectively are a $1.8 billion business (if the six county homes associated with hospitals are excluded, annual expenditures equal $800 million plus).
- ❖ Together account for 10,000 jobs, most of them fulltime.
- ❖ In recent years, have been losing market share, particularly to for-profit facilities.
- ❖ Are typically 45% to 50% larger than the average for-profit or non-profit facility, but now comprise only 8% of all nursing home facilities outside NYC. Given the recent, steady decline in their number, county homes also have been serving steadily declining proportions of all nursing home residents outside NYC. In 2010, for-profits served 32,000 residents at a time; nonprofits 28,000, and county homes about 7,700.
- ❖ Have not been as successful as their for-profit and non-profit competitors in garnering higher market shares of the financially lucrative short-term, sub-acute and rehabilitation business.
- ❖ Admit an estimated 25% of residents on Medicaid versus 10% for other types of homes. Such admissions are "money losing" residents for counties for the entire length of their stays.
- ❖ Have employee benefit levels that are driving huge differences between the costs of operating county homes versus costs to operate for-profit and non-profit homes. (Wages are not as significant a contributor to this differential.)

- Are nearly all reporting annual net operating losses. The $201 million total net loss for 2010 equates to an average net loss per home of $5.9 million (or $6.2 million if hospital-affiliated homes are excluded).

- Are in poor health if measured on the basis of another financial yardstick, operating margin – the ratio of net operating gain or loss to operating revenues.

    - In 2010, 92% of county homes sustained operating losses. More than 60% of all county nursing homes had a net operating loss in 2010 of minus 30% or worse. Operating losses in the typical county home were nearly 40% of incoming operating revenues.

    - By comparison, a third of all for-profit homes and two-thirds of non-profits outside NYC suffer operating losses each year, but most involve much smaller amounts.

- Have, for about two-thirds of the 33 counties, shortages of nursing home beds within county borders, based on 2010 state Department of Health data. The shortfall is especially significant in Nassau and Suffolk counties.

- Have, for the remaining one-third, an excess of beds within county borders, with 68% of the excess beds in three counties – Erie, Monroe, and Onondaga.

County Commitment to Homes Is Eroding

Historically counties have considered public nursing homes to be an important part of their mission, and have repeatedly cited their role in providing a “safety net” for vulnerable populations, including serving disproportionate numbers of low-income and “hard to place” residents. In 1997 there were 40 counties outside NYC operating nursing homes. By early 2013 that number had dropped to 33.

Based on surveys and focus groups for the study, at least eight of these 33 counties have decided to sell their homes, including some with sales in process. At least five other counties are actively considering sale. Of the remaining counties, nearly half are uncertain about the future of their homes and more than half appear to be content with the status quo at this time.

A "perfect storm" has made county homes vulnerable, and has led to dwindling support for nursing homes from many county decision-makers. What's driving the storm are increasing costs; declining reimbursement rates and levels; patterns of increasing county home deficits; growing need for taxpayer subsidies; uncertainties related to future revenue sources; health care reform; emerging trends toward managed care coverage; and implications of the state property tax cap for counties.

Many of these same challenges also impact for-profit and non-profit facilities in the industry, but typically to a lesser degree.

Environmental Factors Impact County Homes

CGR identified seven environmental factors that particularly impact county homes.

1. **NY's population is getting older and living longer.** Population growth in NYS is expected to be relatively flat in 2030, compared with 2010. However, according to the Cornell Program for Applied Demographics, the age 75 and older component in the 33 counties with their own nursing homes is expected to grow in the same period by 30%. Based on this projection, there will be about 180,000 more residents 75 and older by 2030 in these counties.

2. **Most counties in NYS have no (or incomplete) comprehensive long-term-care plans.** While all have some combination of home health care programs, personal care services, and other long-term-care services within their borders, few if any counties have done a formal, comprehensive assessment of their aging populations to determine gaps and unmet needs, or what's required to support growing senior preferences for services that will help them avoid or delay institutionalized care.

3. **Escalating employee costs are fueled by health insurance / pension costs that are largely the cumulative result of bargaining agreements made over many years.** Median employee benefit costs per resident day in county-owned nursing homes rose 181% for the 10 years that ended in 2010. By comparison, such costs were up 74% across for-profit homes and 87% for non-profit homes.

4. **Uncertainty about the future of state / federal revenues is a huge concern for many counties.** Revenues and reimbursement factors likely to affect funding for county homes in the next few years include changes in Medicaid and Medicare reimbursement levels; a new statewide Medicaid pricing methodology; the anticipated expansion of managed care; and the uncertain future of the Intergovernmental

Transfer (IGT) Program. IGT, a federal initiative carried out in partnership with the state (requiring a 50% match from a participating county's general fund) is available as a source of revenue to county nursing homes. Traditionally the funds have been used to offset some of the shortfall in Medicaid reimbursement rates but recently such funds have been insufficient in putting county homes in the black.

5. **The NYS property tax cap pressures counties to cut costs.** This is especially true for non-mandated services, such as county homes.

6. **County governments have built-in barriers that hamper operating homes more efficiently.** The complex decision-making process inherent in most county governments, for example, can lead to delays of a month or longer in routine staffing requests, potentially impacting efficiency of operations.

7. **Projected bed shortages and opportunities for hard-to-place residents vary for counties exploring options for the future, depending on a county's competitor landscape.** CGR's study found the range is zero competitors in one county to more than 30 other nursing home competitors within the borders of several large counties.

CGR Case Studies: Counties that Sold Their Nursing Homes

No counties sold their homes in the years 2000 to 2005. Since then four counties – Delaware, Montgomery, Oswego and Fulton – have sold their nursing homes. Relatively small prices were received, ranging from about $7,200 to nearly $20,000 per bed; thus the counties' primary benefit was to avoid future subsidy costs. In general, CGR found new owners maintained salaries for existing employees who were "re-hired" but reduced wages for new hires. Employee benefit levels declined significantly in each sold facility.

Existing evidence suggests that for the most part, low-income and other "safety net" individuals have not "fallen through the cracks" or been forced to go outside the community for nursing home services. However, going forward this is dependent on new owner selections and steps to ensure persons considered "hard to place" won't be neglected.

Highlights

Delaware County – Sold its home to a startup for-profit, its only viable bidder. The state closed the home for poor performance six years later (2012). The owners have signed a contract to sell the home to a new operator, and the state is reviewing the deal. The Delaware sale is a cautionary tale of what can happen without a careful sale process.

Montgomery County – Sold its home, which was requiring substantial taxpayer subsidies, to a small new for-profit. Data show the quality of care and the finances of the home have improved. A thornier issue is whether hard-to-place residents still have a place at the home.

Oswego County –The county rejected higher offers for the home in favor of a local non-profit operator with a good track record. Quality of care rankings have improved from previous low levels. The sale occurred before the financial burden on the county was significant.

Fulton County – The county sold its home to a for-profit company in 2012. The outcome of the sale is a work in progress.

CGR Case Studies: County Homes that Closed

Niagara and Westchester counties are the only counties that have closed their homes in recent years. Both were located in metropolitan areas that the state found in a 2006 study to have excess nursing home beds. CGR concluded that closure makes sense only when special circumstances exist, for example in areas with low occupancy rates and excess nursing home beds, and cases in which it may not only be possible to save money for counties but also help streamline the health care system. Few of the remaining counties that own nursing homes seem to be in such situations, and few, if any, seem to be seriously contemplating closure of their facilities.

Next Steps: What Is Needed?

Based on the study, CGR has made recommendations for the state and identified guidelines for counties exploring options for their homes. See www.cgr.org/NY-county-nursing-homes.