

**LD2217, An Act to Strengthen the Maine Veterans' Homes with Increased and Ongoing Funding.**

**February 27, 2024**

Senator Hickman, Representative Supica, and other distinguished members of the Veterans and Legal Affairs Committee; my name is Sharon Fusco and I am the Chief Executive Officer of the Maine Veterans' Homes. It is a pleasure to be with you again today to testify on behalf of LD 2217, An Act to Strengthen the Maine Veterans' Homes with Increased and Ongoing Funding. On behalf of the Maine Veterans' Homes Board of Trustees, our employees and the veterans and families we serve, I want to thank Senator Jackson for sponsoring this bill and the co-sponsors who graciously support it.

The bottom line is this: This bill is critical to the future of Maine Veterans' Homes because current MaineCare reimbursement rates are insufficient to cover the cost of care. Without this funding, our board of trustees will face the very real threat of closure within 36 months.

I believe the state veteran home program is a unique partnership between the State and Maine Veterans' Homes. And for most of MVH's history, this partnership worked even without state funding. Reimbursement rates were adequate, MVH's payor mix was diverse, and MVH provided solid fiscal stewardship. But as this committee knows well, expenses have dramatically outpaced revenues over the last few years, driven primarily through inadequate MaineCare reimbursement.

LD 2217 offers the opportunity to rectify that situation.

The document attached to my testimony provides specifics. Allow me to highlight a few points. The problem we face started several years ago. In 2017, our MaineCare short fall was approximately \$5.3MM. Today it is \$11.7MM. Since the start of the pandemic, we have had to dip into our capital reserves and draw over \$18MM to cover operating losses. This is unsustainable. At our current spend rate, we will be out of reserves in 36 months.

MVH has slowed the bleeding. In the past year we have:

- Increased our census (the number of patients we care for) to near pre-pandemic levels.
- Increased our revenues, not only in the nursing homes but also in the pharmacy.
- Decreased our costs in several areas.

But, we cannot do it alone. We need the State to pass legislation that will provide an additional \$3.1MM in State funds so that when combined and matched with federal funds, our yearly—and growing MaineCare gap of \$11.7MM is closed.

MVH is very grateful for this committee's efforts last year to pass LD 985 which provided one year of funding. We are asking that this funding become sustainable. LD 2217 is the means to achieve that goal.

Today, you will hear personal stories from individuals whose parents, spouses and loved ones have experienced the high quality care of the Maine Veterans' Homes. It is to these individuals that the Legislature owes a debt of gratitude for the sacrifice they made when they joined the military. If the Legislature wishes to provide homes dedicated to serving Veterans, spouses and gold star families, then we need the legislature to pass and fund LD 2217. Thank you.



# MAINE VETERANS' HOMES

*caring for those who served*

## MVH's Operational Shortfall: Why State Funding is Necessary

In FY2023, MVH lost \$14MM. Without one-time money, this short fall would have been \$17MM. This shortfall is the direct result of reimbursement rates failing to cover the full cost of care. This problem is not new. The gap existed before the pandemic and the pandemic exponentially increased the size of the gap.

MVH has been actively engaged with state and federal advocates to obtain a long-term funding solution that will preserve our ability to continue caring for Maine's veterans in spite of operational challenges that affect not only our facilities, but the entire nursing care industry in our state.

MVH is grateful to Governor Mills for recognizing these challenges in 2023 and including \$765K in the supplemental budget for MVH. Combined with one-time funding from LD 985 of \$2.6MM, and the ability to match both appropriations with federal funds, MVH expects to close its \$10.3MM gap funding gap in FY2024. Our goal now is to make this level of funding sustainable and passage of LD 2217 will accomplish this.



The data below provides clarity on operational shortfalls that MVH has been experiencing for years. We are taking every measure possible to increase revenues and lower costs. The reality is that without action by the Legislature, we cannot continue to provide the high quality of care our veterans deserve.

### *MaineCare Reimbursement vs. Cost of Care by Home*

The data in Figures 1 and 2, below and on the next page, show the operational shortfalls that MVH has been experiencing for years, and which have been recently exacerbated by inflation and the recovery from the pandemic. As these charts show, the reimbursement rates vary by home and none of the MaineCare rates sufficiently cover the cost of care.

Figure 1: Cost versus Reimbursement - Residential Care

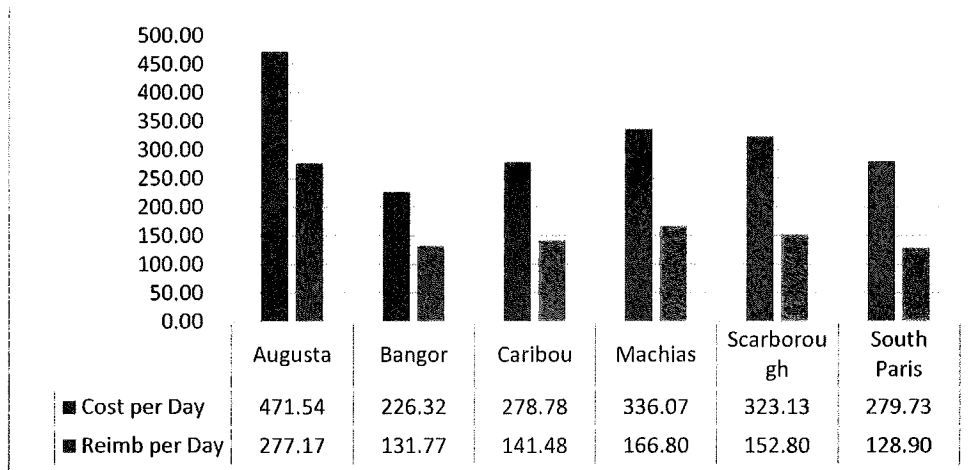
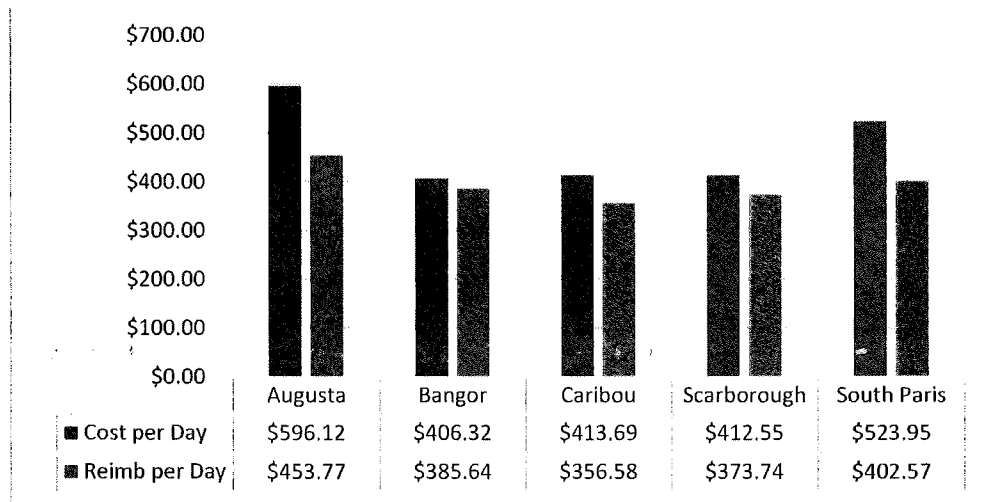


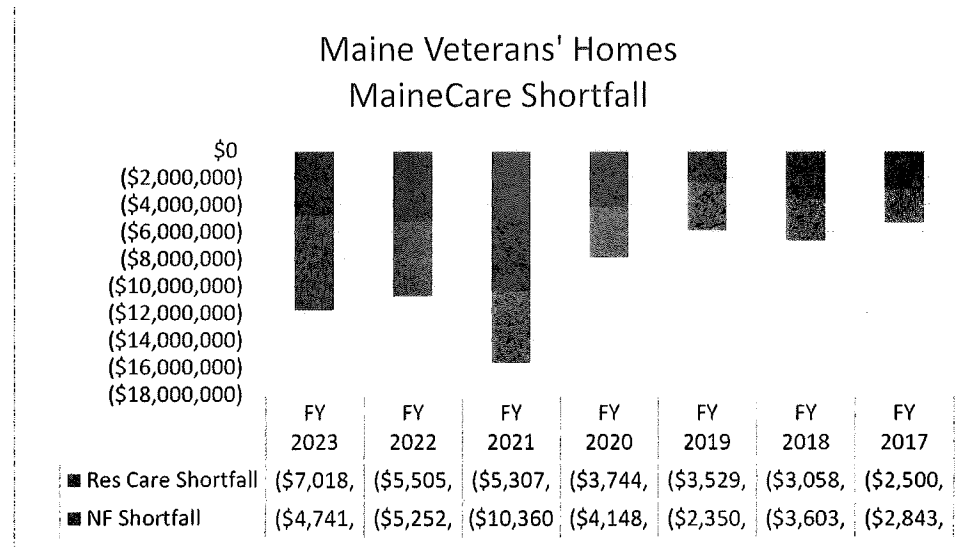
Figure 2: Cost Versus Reimbursement - Nursing Facility



*MaineCare Shortfall – 2017-2022*

Figure 3, below, shows that the gap between reimbursements and cost of care has been an issue for many years and is growing. The gap increased significantly during the pandemic – in part due to the significant drop in census. Reimbursement rates have not kept pace.

Figure 3: MaineCare Shortfall



*Why Focus on MaineCare*

While both federal, VA and state rates fail to cover the cost of care, about 55% of our population receives care through MaineCare. If we do not address this shortfall, we will not achieve sustainable funding. Simply put, the majority of our residents on our MaineCare and that is why we need additional state funding.

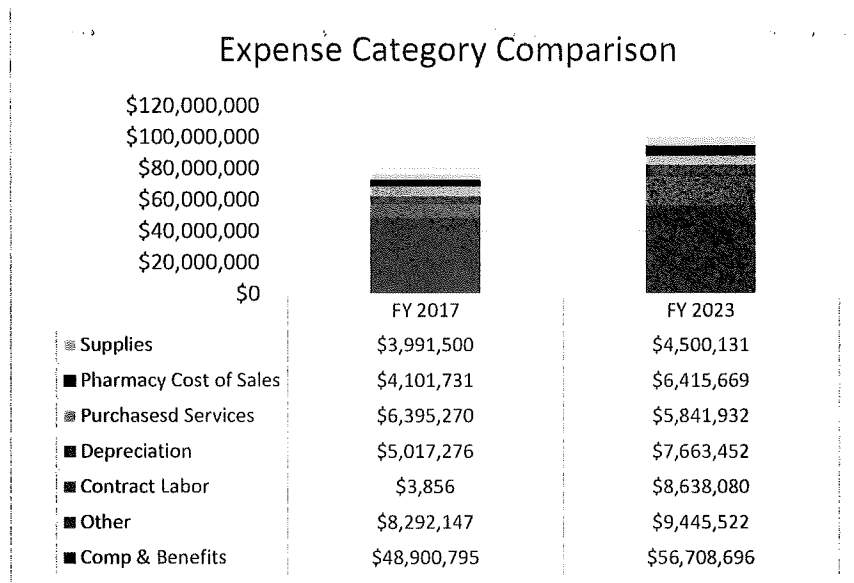
Additionally, MVH is working closely with the federal delegation to address shortfalls through other payer sources.

*Increases in Cost, by Category – FY 2017 through FY 2023*

Figure 4 below, provides a more detailed examination of the costs contributing to inflation. Overall, since 2017, MVH has experienced a 30% increase in cost. Most categories average a 13% increase in cost, with Employee Compensation and Benefits only increasing by 16%. However, as this table shows, one of the biggest cost drivers today is contract labor, a negligible cost in 2017, but which contributed \$8.6MM to MVH expenses in FY2023. Although contract labor costs have been somewhat reduced by aggressive containment strategies, the economic impact of this factor alone is extreme.

Regarding the overall expense increases from 2017 to 2023, the increase in depreciation is

Figure 4: Expenses FY2017 compared to FY2023



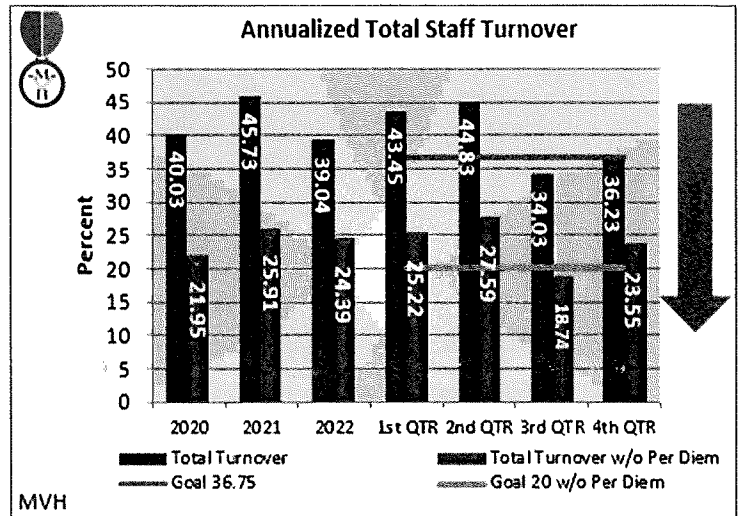
attributable to the new Augusta facility while inflationary pressures and additional costs brought on by workforce shortages drove the other categories.

Over the past year, MVH has focused on addressing both revenue and expenses in an effort to solve the sustainability issue. We've made incredible strides including:

- Census:** In FY2023, we increased census (occupancy) from 77.7% to 83.5%. This added approximately \$4.7MM in revenue. We have further increased our census to 89.8% as of December 31, 2023. We are confident that by the end of the fiscal year, we will be able to maintain a daily census at pre-pandemic levels.
- Private Room Rates:** Annually, MVH adjusts private room rates. In FY2023, room rates increased in every facility. At the beginning of our current fiscal year, we performed a market analysis and made more significant rate increases to align our rates with the market.
- Renegotiated Food Service Contract:** Renegotiated contracts with Downeast Community Hospital to increase rates to reflect increase cost of food and supplies.

- Temporary Labor:** In FY2023, our temporary labor costs were \$9.5MM, which was \$3.0MM more than FY2022. In FY2024, we are projecting \$7.7MM in temporary labor costs. In FY2023, MVH struggled to fill open positions, primarily due to workforce shortages and competition for labor. To combat this, in July 2023, we made a significant investment in wage increases for licensed staff. The impact of this investment is shown in Figure 5: Annualized Turnover. In our current fiscal year, we have reduced vacancies from a high of 190 positions in May, 2023 to 100 open positions in January, 2024. Turnover rates have dropped from 44% in second quarter of CY2023 to 36% in fourth quarter CY2023. We now have the capacity needed to end temporary labor contracts. Our goal is to be out of temporary labor by the end of this current fiscal year.

Figure 5: Annualized Turnover



- Efficiencies:** Our MVH Team is working to identify and implement solutions that reduce cost.
  - As you will learn in other sections of this report, the operating costs of the small house model in Augusta are extremely high. In October, 2023, MVH implemented a plan to consolidate dietary operations and restructure a few administrative positions. Net impact of this change was a net savings of just over \$291K with no impact to resident care. We are continuing the process of evaluation to find additional operational efficiencies.
  - As key positions have experienced turnover, the Senior Executive Team has evaluated whether to fill these positions or consider restructuring duties. Since January, 23, MVH has eliminated the following positions, restructuring duties:
    - Chief Pharmacy Officer
    - Chief Administrative Officer
    - Pharmacist
    - Accounting Specialist
- Loan Refinancing:** MVH accelerated plans to refinance the interest only loan for the construction of the Augusta home. This refinancing was done through Maine Health & Higher Educational Facilities Authority (MHHEFA) and saved MVH \$385,000 annually in interest expense.
- Other Expenses:** As contracts have come for renewal, MVH is examining them to identify possible cost savings. Examples include:
  - Updating our website – annual savings is currently \$15K. We anticipate an addition \$35K annual from additional changes currently in progress.
  - Eliminated contracts that were no longer adding value, such as electronic tracking for assistive devices.
  - Workers Compensation claims dropped significantly through efforts to reduce injury.

- Revamped employee benefits package to avert significant increases and meet employee requests for lower cost plans and more control over their spending for medical care.

*MVH is Unique!*

MVH is not like other nursing homes in the state. MVH is the only nursing care operator created by the Legislature. We operate under three sets of regulations established by the Veterans Administration, the Centers for Medicaid and Medicare, and the State of Maine. MVH serves a very specific, defined population – 75% of our residents must be Veterans. MVH incurs costs that other nursing facilities do not. Annually, we have an estimated \$2.7MM in quantifiable costs not covered by other sources of funding, and a number of additional operating costs which are not quantifiable on an annual basis, as outlined in Table 1. Among these costs are mandatory participation in the MainePERS, larger room requirements, higher staff ratios, occupancy requirements, and mandated eligibility requirements.

*Table 1: Costs Unique to State Veterans' Homes*

<b>Cost</b>	<b>Annual Estimate</b>
Higher staff ratio requirements (assuming no temporary staffing)	\$440K
Lower reimbursements for residents admitted under the required VA 70% Program	\$214K
Lost revenue due to VA occupancy requirements for holding beds (FY2019)	\$50K
Lost revenue due to VA mandated eligibility requirements	Not Quantifiable
Larger physical plant requirements, including VA small home concept which is significantly more expensive to build and operate (annual operating costs only are shown here)	\$342K
More medically complex residents requiring more expensive care	Not Quantifiable
Additional auditing and procedural expenses.	Not Quantifiable
<b>Total annual quantifiable unfunded due to VA mandates (minimum)</b>	<b>\$1MM</b>
<b>Cost differential of contributing to MainePERS vs. Social Security</b>	<b>\$1.7MM</b>
<b>Total annual quantifiable costs specific to MVH</b>	<b>\$2.7MM</b>

*Summary*

The Veterans Administration designed the State Veteran Home Program to create a unique partnership between the state and the homes. In 48 states, this partnership is recognized and the states provide additional funding to support their state veterans' homes. It is time for Maine to recognize this unique partnership and provide sustainable funding to ensure we are able to provide care for veterans for many years to come.

*We must save this system of care so Maine can continue to proudly say,  
 “We serve those who served.”*



*Maine Veterans Homes was established in 1977 as a 501(c)3 nonprofit, and has six facilities across the state of Maine. We provide skilled, long-term, and residential care services for veterans, their spouses and Gold Star Parents. Learn more at: [www.mainevets.org](http://www.mainevets.org).*