

Letter Report

**Rate Setting at the  
Wisconsin Veterans Homes**

*August 2010*



**Legislative Audit Bureau**

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STATE OF WISCONSIN  
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Janice Mueller  
State Auditor

August 17, 2010

Senator Kathleen Vinehout and  
Representative Peter Barca, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

We have completed a review of the methodology the Department of Veterans Affairs (DVA) has used to establish rates for nursing home and assisted living care provided to residents of the Wisconsin Veterans Homes at King and Union Grove. This review is the first phase of our comprehensive evaluation of veterans home operations.

From January 2008 to January 2010, daily "private pay" rates for veterans in Union Grove's skilled nursing facility who do not qualify for Medical Assistance or Medicare funding have increased by 45.8 percent, which resulted in an annual cost increase of \$29,500. Private pay rates in Union Grove's assisted living facilities increased by as much as 58.6 percent for veterans and 284.6 percent for spouses living with veterans, which resulted in annual cost increases of as much as \$15,400 and \$40,500, respectively.

The unusually large rate increases in private pay rates, which contributed to the departure of at least 12 Union Grove assisted living residents since January 2010, resulted from DVA's efforts to comply with ch. VA 6, Wis. Adm. Code, which requires rates to be based on the cost of care. Current rates, which were put in place in 2010, are consistent with agency officials' current interpretation of that rule, which was promulgated by the Board of Veterans Affairs in 1992. However, we note that neither administrative rules nor DVA policies specify exactly how rates should be calculated. Our report includes a recommendation for the Board to establish more specific rate-setting rules and to formally review and approve all rate-setting proposals developed by DVA staff.

From fiscal year (FY) 2004-05 through FY 2008-09, Union Grove had deficits in both its nursing and assisted living operations, while King's revenues have exceeded its expenditures. During that period, DVA transferred a total of \$21.2 million from King's operating surplus to help support Union Grove's operations. However, DVA projects net losses at both homes in FY 2010-11, which could lead to the eventual depletion of the remaining surplus funds. If the homes are to achieve financial solvency while continuing to ensure they effectively serve Wisconsin veterans, additional action by DVA will be required. In addition, we believe legislative oversight will help to ensure that DVA's actions are realistic, timely, and appropriate.

We appreciate the courtesy and cooperation extended to us by DVA in completing this review.

Sincerely,

Janice Mueller  
State Auditor

JM/PS/ss



## **RATE SETTING AT THE WISCONSIN VETERANS HOMES**

The Department of Veterans Affairs (DVA) operates the Wisconsin Veterans Home at King, located in Waupaca County, and the Wisconsin Veterans Home at Union Grove, located in Racine County. Significant increases in the daily “private pay” charges for long-term care at Union Grove have raised concerns about DVA’s rate-setting practices for the Board of Veterans Affairs, which oversees agency operations and promulgates the administrative rules that govern rate setting, as well as for residents and others who wish to maintain affordable long-term care for eligible veterans and their families. We therefore examined occupancy trends, revenue and expenditures, and rate-setting practices from January 2005 through January 2010 as the first phase of our evaluation of the Wisconsin Veterans Homes authorized by the Joint Legislative Audit Committee.

### **Occupancy Trends**

The Veterans Home at King opened in 1887 and currently provides multiple levels of nursing home care in four facilities with a combined capacity of 721 beds. The Veterans Home at Union Grove opened in 2001 as a residential assisted living facility for veterans and family members who do not require skilled nursing care; however, it currently includes 120 nursing home beds as well as 123 beds in three assisted living facilities. Both homes are licensed by the Department of Health Services, and in December 2009 they had 887 residents: 83.0 percent were veterans, and 17.0 percent were either spouses living with veterans or surviving spouses.

Nursing home beds at Union Grove became available in phases beginning in September 2006, and by June 2009 that facility had reached 100 percent occupancy, as shown in Table 1. Nearly all nursing home beds at King are also filled, although the occupancy rate declined from 99.7 percent in June 2005 to 94.3 percent in December 2009. In contrast, the year-end occupancy rate for assisted living facilities at Union Grove did not exceed 88.5 percent during the period we reviewed, and it declined to 74.0 percent in December 2009.

Table 1

**Capacity and Occupancy at Wisconsin Veterans Homes**

	June 2005		June 2006		June 2007		June 2008		June 2009		December 2009	
	Residents/ Available Beds	Occupancy Rate	Residents/ Available Beds	Occupancy Rate	Residents/ Available Beds	Occupancy Rate	Residents/ Available Beds	Occupancy Rate	Residents/ Available Beds	Occupancy Rate	Residents/ Available Beds	Occupancy Rate
<b>King<sup>1</sup></b>												
Nursing	719/ 721	99.7%	688/ 721	95.4%	695/ 721	96.4%	688/ 721	95.4%	684/ 721	94.9%	680/ 721	94.3%
<b>Union Grove</b>												
Nursing	N/A <sup>2</sup>		N/A <sup>2</sup>		48/ 80	60.0%	108/ 120	90.0%	120/ 120	100.0%	116 120	96.7%
Assisted Living	86/ 128	67.2%	110/ 128	85.9%	108/ 128	84.4%	92/ 104 <sup>3</sup>	88.5%	104/ 123 <sup>4</sup>	84.6%	91 123	74.0%

<sup>1</sup> Does not include residents of cottages that are not licensed by the Department of Health Services and are being phased out by King. In December 2009, there were two cottage residents.

<sup>2</sup> Union Grove's skilled nursing facility opened in September 2006, with 40 beds. Additional beds were added in phases: there were 80 available nursing home beds in February 2007, and 120 in May 2008.

<sup>3</sup> Capacity was temporarily reduced by 24 beds because of building renovations.

<sup>4</sup> The renovations that temporarily reduced capacity in 2008 permanently reduced capacity by five beds when completed.

**Revenues, Expenditures, and Funding for Resident Care**

The homes' operations are funded primarily with:

- state and federal Medical Assistance payments, including a one-time federal rate adjustment reimbursement of \$20.1 million that was made in fiscal year (FY) 2005-06 for care provided at King from 2001 through 2005;
- payments by some residents at daily private pay rates, which s. VA 6.01(16), Wis. Adm. Code, requires DVA to calculate each January and which may be adjusted each July;
- federal per diem payments for all residents who are veterans (but not their spouses);
- federal Medicare payments; and
- payments by the federal Department of Veterans Affairs to fund skilled nursing care for veterans with service-connected disabilities.

Payments from these sources reflect either daily charges or reimbursements for care provided to residents, which are paid at rates that vary based on each home's costs and its residents' medical needs, as well as on whether care is provided to veterans or spouses and whether or not it is paid for privately or by Medical Assistance, Medicare, or the Service-Connected Disability Program operated by the federal Department of Veterans Affairs. For example, in January 2010:

- King received Medical Assistance payments of \$199.86 per nursing home resident per day, while Union Grove received \$252.00 per day in Medical Assistance payments for eligible nursing home residents and an average of \$407.10 per day in Medicare payments for eligible nursing home residents.
- Private pay rates for nursing home care were as low as \$59.47 per day for veterans receiving intermediate nursing care at King, and as high as \$403.00 per day for spouses receiving intensive skilled nursing care at Union Grove.
- The federal Department of Veterans Affairs paid the homes \$77.53 per day per nursing home resident who was a veteran. These federal per diem payments are in addition to any Medical Assistance or Medicare payments the veteran may be eligible to receive, and they reduce private pay costs for veterans who fund their own care.
- The federal Department of Veterans Affairs paid the homes \$35.84 per day per assisted living resident who was a veteran; however, neither Medical Assistance nor Medicare funds assisted living care, and spouses do not qualify for federal per diem payments.

Each home's expenditures include staffing costs, which increased with the phased opening of the skilled nursing facility at Union Grove, as well as the costs of supplies and services, utilities, and administration. DVA was also statutorily required to lapse a total of \$810,000 from the homes to the State's General Fund in FY 2004-05 and \$81,000 in FY 2005-06. In addition, DVA was statutorily authorized to make transfers to the Veterans Trust Fund of up to \$16.0 million in FY 2006-07 and up to \$7.0 million in FY 2008-09. DVA transferred a total of \$8.1 million to the Veterans Trust Fund: \$1.1 million in June 2007 and \$7.0 million, the maximum amount authorized, in January 2009.

As shown in Table 2, combined expenditures increased from \$54.6 million in FY 2004-05 to \$89.7 million in FY 2008-09 and have exceeded revenues in four of the past five fiscal years. The homes remain solvent largely because of \$20.1 million received in FY 2005-06 as a Medical Assistance reimbursement rate adjustment for care provided at King from 2001 through 2005. Carry-over funds from that one-time payment have allowed DVA to fully fund the homes' operations in subsequent years and to maintain a \$9.5 million operating account balance at the end of FY 2008-09.

Table 2

**Combined Operating Revenues and Expenditures**

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
<b>Revenues</b>					
Medical Assistance	\$23,142,900	\$46,359,300	\$28,544,000	\$33,483,300	\$34,729,100
Payments by Residents	18,941,000	20,229,500	21,420,500	23,318,800	24,412,800
Federal per Diem Payments for Veterans	12,087,200	14,240,100	15,711,800	17,624,600	18,604,200
Medicare	–	127,300	1,716,600	2,207,900	2,893,600
Federal Service-Connected Disability Program	–	–	–	–	354,300
Aid to Indigent Veterans	1,300	89,100	174,900	191,900	303,600
Other	125,500	157,400	159,100	184,300	188,100
Revenue Transfers <sup>1</sup>	(744,400)	(936,400)	(1,164,500)	(1,388,100)	(1,407,800)
<b>Total</b>	<b>53,553,500</b>	<b>80,266,300</b>	<b>66,562,400</b>	<b>75,622,700</b>	<b>80,077,900</b>
<b>Expenditures</b>					
Salaries	29,170,000	31,859,300	37,495,000	40,885,300	42,973,500
Fringe Benefits	13,715,300	14,655,700	17,006,200	19,957,900	22,686,900
Supplies and Services	6,068,900	6,753,900	7,722,200	8,168,500	9,394,400
Transfers <sup>2</sup>	973,800	153,000	1,462,300	422,100	7,050,800
Utilities	1,954,200	2,530,800	2,386,800	2,782,600	2,809,100
Administration	1,906,500	1,460,700	1,677,900	1,858,900	1,761,700
Other <sup>3</sup>	849,700	1,520,900	2,041,600	2,400,400	3,033,300
<b>Total</b>	<b>54,638,400</b>	<b>58,934,300</b>	<b>69,792,000</b>	<b>76,475,700</b>	<b>89,709,700</b>
<b>Surplus (Deficit)</b>	<b>\$ (1,084,900)</b>	<b>\$21,332,000</b>	<b>\$ (3,229,600)</b>	<b>\$ (853,000)</b>	<b>\$(9,631,800)</b>

<sup>1</sup> DVA records these transfers to the General Fund for debt service and capital project costs as revenues on the State's official accounting records.

<sup>2</sup> Includes statutorily required lapses to the General Fund in FY 2004-05 and FY 2005-06, statutorily authorized transfers to the Veterans Trust Fund in FY 2006-07 and FY 2008-09, and transfers between DVA accounts.

<sup>3</sup> Includes things such as maintenance, insurance, and staff training.

Although nursing home care at both facilities is funded primarily by Medical Assistance, 9.7 percent of King residents and 25.0 percent of Union Grove nursing home residents paid for care with their own funds in December 2009, as shown in Table 3.



Table 3

**Primary Funding Sources for Nursing Home Care<sup>1</sup>**  
December 2009

	King		Union Grove	
	Residents	Percentage	Residents	Percentage
Medical Assistance	587	86.3%	71	61.2%
Payments by Residents at Private Pay Rates	66	9.7	29	25.0
Federal Service-Connected Disability Program	27	4.0	7	6.0
Medicare	0 <sup>2</sup>	0.0	9	7.8
<b>Total</b>	<b>680</b>	<b>100.0%</b>	<b>116</b>	<b>100.0%</b>

<sup>1</sup> Excludes federal per diem payments, which are provided for all eligible veterans but not their spouses.

<sup>2</sup> King is not currently certified to receive Medicare payments. Preliminary analysis by DVA showed that Medicare administration costs would exceed projected reimbursements; staff expect to complete a more detailed cost-benefit analysis in late 2010.

Because neither Medical Assistance, Medicare, nor the federal Service-Connected Disability Program funds assisted living care, 80.2 percent of residents in the assisted living facilities at Union Grove, or 73 residents including all spouses, used their own funds to pay for care at the daily private pay rates in December 2009. Assisted living care for 18 of the veterans at Union Grove was either fully or partially funded by the State's Aid to Indigent Veterans program in December 2009. That program was established by the Board of Veterans Affairs in 2005, and is currently funded with \$198,000 per year in general purpose revenue (GPR) and with additional program revenue.

Private pay rates are set lower for veterans than for spouses because of the federal per diem payments made directly to the homes on veterans' behalf by the federal Department of Veterans Affairs. The homes received federal per diem payments on behalf of 546 veterans at King and 183 veterans at Union Grove in December 2009. Because those payments are made on behalf of all veterans, including those whose care is funded by Medical Assistance, the homes earn more for providing nursing home care to Medical Assistance-eligible veterans than they do for private pay veterans, even though private pay rates have been significantly higher than Medical Assistance reimbursement rates. Appendix 1 shows Medical Assistance reimbursement rates for the period we reviewed.

### **Trends in Private Pay Rates**

Private pay rates for both skilled nursing and assisted living care varied widely during the period we reviewed, primarily because of significant rate increases at Union Grove since January 2008, particularly for spouses who live with veterans and for surviving spouses.

At least 67.3 percent of King residents and 85.4 percent of Union Grove nursing home residents received skilled nursing care during the period we reviewed. Each home’s daily private pay rates for veterans receiving skilled nursing care are shown in Table 4. Spouses are currently charged higher rates to reflect the full cost of care, which equal the rate for veterans plus the federal per diem payment from the federal Department of Veterans Affairs. Appendix 2 shows the private pay rates in effect for all levels of nursing home care from January 2005 through January 2010.

Table 4

**Daily Private Pay Rates for Skilled Nursing Care Provided to Veterans<sup>1</sup>**

Date	King	Union Grove
January 2005	\$148.24	N/A
January 2006	165.60	N/A
January 2007	163.29	\$225.00
March 2007 <sup>2</sup>	163.29	163.29
January 2008	176.58	176.58
January 2009	185.58	217.00
January 2010	207.47	257.47

<sup>1</sup> Rate increases for selected months.

<sup>2</sup> DVA took special action in March 2007 to adjust private pay rates for skilled nursing services at Union Grove to the same rates charged at King.

Daily skilled nursing rates have been higher at Union Grove than at King for three of the five years that both facilities provided nursing home care. In March 2007, DVA took special action to set the same service rates at both facilities, which resulted in a 27.4 percent reduction in the private pay rate for skilled nursing services at Union Grove. Private pay rates remained identical at both facilities until January 2009, when they increased 5.1 percent at King and 22.9 percent at Union Grove.

Table 5 shows private pay rates for assisted living care, which is available only at Union Grove, from January 2005 through the present. Until January 2010:

- rates for veterans varied by level of care, and the majority of residents were charged Level A rates because they required minimal assistance from facility staff;
- spouses living with veterans generally paid lower daily rates than any other residents; and

- surviving spouses who remained at the facility were charged the same rate as veterans.

Surviving spouses now pay the same rate as spouses living with veterans, but the private pay rate is higher for spouses than for veterans, and veterans pay a uniform rate, which is set higher if memory care is also provided.

Table 5

**Private Pay Daily Rates for Assisted Living Care Provided at Union Grove**

Date	Level A		Level B		Level C		Spouse Living with Veteran	
	Regular Rate	Memory Care <sup>1</sup>	Regular Rate	Memory Care <sup>1</sup>	Regular Rate	Memory Care <sup>1</sup>	Regular Rate	Memory Care <sup>1</sup>
January 2005	\$ 60.07	\$ 92.05	\$ 66.40	\$ 98.63	\$ 72.72	\$105.21	\$ 32.88	\$ 32.88
January 2006	65.00	92.00	71.00	99.00	78.00	105.00	32.88	32.88
January 2007	70.00	99.00	76.00	106.00	84.00	113.00	37.00	37.00
January 2008	72.00	101.00	78.00	108.00	86.00	115.00	39.00	39.00
January 2009	83.00	116.00	90.00	124.00	99.00	132.00	83.00	116.00
January 2010	114.16	128.16	114.16	128.16	114.16	128.16	150.00	164.00

<sup>1</sup> Approximately 30 percent of residents receive memory care services.

The 2009 and 2010 rate increases for all levels of care at Union Grove were significantly greater than earlier increases at either home. As shown in Table 6, daily rates for the majority of veterans in the assisted living facilities at Union Grove, who receive Level A care, increased 58.6 percent since January 2008, or \$15,400 annually. Rate increases were even more significant for spouses in the Union Grove assisted living facilities. They ranged from 74.4 to 284.6 percent, or from \$23,400 to \$40,500 annually. Nursing home rates at Union Grove for veterans receiving skilled nursing care increased 45.8 percent, or \$29,500 annually; for the same care provided at King, the increase was 17.5 percent, or \$11,300 annually.

Table 6

**Selected Rate Increases**

	Private Pay Rate— January 2008	Private Pay Rate— January 2010	Percentage Increase	Increase in Annual Charges
<b>King—Skilled Nursing</b>				
Veteran	\$176.58/day	\$207.47/day	17.5%	\$11,300
Spouse	\$248.00/day	\$285.00/day	14.9%	\$13,500
<b>Union Grove—Skilled Nursing</b>				
Veteran	\$176.58/day	\$257.47/day	45.8%	\$29,500
Spouse	\$248.00/day	\$335.00/day	35.1%	\$31,800
<b>Union Grove—Assisted Living</b>				
Veteran—Level A	\$72.00/day	\$114.16/day	58.6%	\$15,400
Veteran—Level A with Memory Care	\$101.00/day	\$128.16/day	26.9%	\$9,900
Surviving Spouse	\$72.00/day to \$86.00/day	\$150.00/day	74.4% to 108.3%	\$23,400 to \$28,500
Spouse Living with Veteran	\$39.00/day	\$150.00/day	284.6%	\$40,500

**Private Pay Rate Calculation Methods**

Private pay rate setting at the veterans homes is governed exclusively by s. VA 6.01(16), Wis. Adm. Code, which:

- requires the homes to calculate private pay rates each January “based upon the estimated costs of care to be incurred by the home” during the following year;
- provides for rate changes in July to reflect updated cost estimates; and
- specifies that “charges shall be made for actual care and maintenance” provided to a resident.

**Nursing Home Rate Calculations**

During the entire period we reviewed, private pay rates for nursing care at King have been calculated based on the average cost per resident, which staff estimate by dividing projected operating expenditures for the coming year by the projected number of residents. This average

is then weighted to reflect the estimated amount of care residents will require, using Department of Health Services data on cost differences for differing levels of nursing care.

In contrast, since its opening in September 2006, Union Grove's nursing home rates have been set using three different methods:

- Until March 2007, a single private pay rate for all nursing home residents was calculated to cover the difference between Union Grove's projected operating expenditures and its projected revenue from Medical Assistance, Medicare, and federal per diem payments; this method sets rates to cover overall expenditures at the home rather than the average cost of care for an individual resident.
- From March 2007 through December 2008, Union Grove's private pay rates for nursing home residents varied by level of care and were identical to rates at King, because they were based on the same methodology used for King and on King's projected expenditures.
- Beginning in January 2009, Union Grove's private pay rates for nursing home residents were based on the same methodology used for King, but on Union Grove's own projected expenditures. For the first six months of 2009, rates were set somewhat lower than projected expenditures to avoid a rate spike; since July 2009, they have been set to fully recover projected expenditures.

Some DVA staff have asserted that the initial approach to rate setting for nursing home care at Union Grove did not comply with s. VA 6.01(16), Wis. Adm. Code, because private pay rates set according to that method did not ensure that residents were charged the actual cost of their care and maintenance. However, staff involved in the calculation at that time believed that administrative code requirements to set rates based on projected costs of care should be satisfied by a rate-setting approach designed to ensure that Union Grove's revenues would cover its expenditures.

DVA staff who objected to Union Grove's initial approach believe the methodology adopted in March 2007, which bases rates on average cost per resident and is also used at King, better complies with administrative code; however, until January 2009, the rates established using this methodology reflected only King's costs of care. At first, rate-setting staff did not believe Union Grove's own costs could be projected accurately using available historical data. However, even when those data were available, DVA officials chose to avoid a rate spike by continuing to set nursing rates at both homes based on expenditure projections for King.

The rates established for Union Grove in January 2009 were higher than those at King and were derived using expenditure projections for Union Grove, but they were deliberately set lower than was necessary to cover projected expenditures in order to limit the size of the rate increase. Since July 2009, Union Grove's private pay rates for nursing home care have been set to fully recover the home's projected expenditures, but they have raised affordability concerns for veterans and their advocates.

## Assisted Living Rate Calculations

Private pay rates for assisted living care, which is available only at Union Grove, were calculated using a variety of methods during the period we reviewed, but only the current rate-setting method fully complies with the requirement in s. VA 6.01(16), Wis. Adm. Code, that private pay rates be calculated each January and based on “the estimated costs of care to be incurred by the home” during the following year. For example:

- The rates that veterans paid in 2005 were not established in January, as required by administrative code, but in October 2004, and in an effort to increase occupancy they were set lower than was necessary to cover projected expenditures.
- The rates that veterans paid in January 2006 again took effect the preceding October. Although these rates reflected increases ranging from 6.9 to 8.2 percent, projected expenditures were not considered as part of the rate-setting process.
- 2007 rates for veterans took effect in January of that year, in compliance with administrative code, but projected expenditures again were not considered as part of the rate-setting process.
- Rates for veterans increased by \$2.00 per day in January 2008, but DVA staff indicated to us that the amount was selected arbitrarily by officials because Union Grove did not have a method in place to accurately project its expenditures.

Assisted living rates for spouses were also set well below projected expenditures until January 2010, both in an effort to increase occupancy and out of concern that couples could not afford higher rates. For example, spouses living with veterans paid lower rates than those set for any other residents during most of the period we reviewed. Moreover, internal DVA analyses identified Union Grove’s practice of setting its rates below projected costs as a cause of ongoing financial losses, because private pay rates were not high enough to recoup total expenditures and the facilities were unable to achieve full occupancy. Because lower rates had been set with the intent of achieving full occupancy, not achieving that goal compounded revenue shortfalls.

DVA staff began to calculate Union Grove’s assisted living rates using King’s methodology and Union Grove’s own projected expenditures for 2009 and then phased in the increased rates. The January 2009 increases in private pay rates for veterans represented one-third of the total increase required. A single rate for veterans that was consistent with projected expenditures took effect in January 2010, along with a single rate for all spouses that was likewise consistent with projected expenditures. These new rates have raised affordability concerns for veterans and their advocates and contributed to the departure of at least 12 residents from the Union Grove assisted living facilities since January 2010.

## **Improving Transparency and Accuracy in Rate Setting**

Neither statutes nor administrative code require the Board of Veterans Affairs to approve the rates set by DVA, and it did not do so during the period we reviewed. Section VA 6.01(16), Wis. Adm. Code, was promulgated by the Board in 1992, but DVA staff have indicated its intent has not been clearly or consistently understood, and no formal policies have been developed to address rate setting at the Wisconsin Veterans Homes.

Although DVA officials believe both homes are now in compliance with s. VA 6.01(16), Wis. Adm. Code, the requirement to base rates on “estimated costs of care” to be incurred by “the home” has been interpreted in various ways by DVA staff and others. For example, some have argued that administrative code requires rates to be set so that each home’s total projected revenues equal its total projected expenditures, as was done initially in calculating private pay nursing home rates at Union Grove. As noted, both homes now use the methodology that has historically been used at King, which instead reflects each home’s estimated average cost per resident. It has also been argued that for rate-setting purposes, King and Union Grove should be considered a single home with identical rates that are based on their combined revenues and expenditures.

Moreover, DVA has not established rules or policies to specify the expenditures included in estimates of costs of care or to clarify how resident populations should be projected for rate-setting purposes. Consequently:

- Debt service expenditures are treated differently in each home’s current rate calculations. All projected principal and interest expenditures from Union Grove’s FY 2009-10 program revenue appropriations are included in its rate calculations, while approximately \$170,000 in principal and interest expenditures are excluded from King’s current rate calculations.
- The projected average daily population used to set assisted living rates at Union Grove in January 2010 was significantly greater than both the current population and the population in December 2009. Current rates were set based on a projected average daily population of 117 residents; however, Union Grove’s actual assisted living population was 91 in December 2009, and 88 in May 2010. If the December population had been used for rate-setting purposes, daily rates would have increased an additional \$42 per day in January 2010 to \$156.16 per day for veterans and \$192 per day for spouses, with additional charges for memory care services. Because many costs are fixed, the actual rates, which are \$114.16 for veterans and \$150 for spouses, with additional charges for memory care services, cover fewer costs as occupancy continues to decline.

By establishing more specific rate-setting rules and policies, the Board could begin to resolve the disagreements over interpretation of the current rule, clarify appropriate calculation procedures, and support adequate oversight of future rate-setting decisions, which may help to avoid future rate increases as substantial as the 2009 and 2010 increases at Union Grove.

## ☑ Recommendation

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We recommend the Board of Veterans Affairs:

- amend ch. VA 6, Wis. Adm. Code, to include a formula for calculating private pay rates for nursing home and assisted living care at the Wisconsin Veterans Homes, with clear definitions of rate-setting terms such as “costs of care”;
- specify whether separate rates should be calculated for each home or a single rate should be established for both;
- formally review and approve all rate-setting proposals developed by DVA staff; and
- require the agency to report to the Joint Legislative Audit Committee by January 24, 2011, on its progress in implementing these rule changes.

## Future Considerations

While King maintained yearly surpluses throughout the period we reviewed, Union Grove has had a deficit in each year, as shown in Table 7.

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Table 7

### Surpluses/Deficits at King and Union Grove (in millions)<sup>1</sup>

Home	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
<b>King</b>	\$2.4	\$24.2	\$4.4	\$3.4	\$1.8
<b>Union Grove</b>					
Nursing	\$(0.1)	\$(0.5)	\$(4.8)	\$(2.3)	\$(2.2)
Assisted Living	(2.5)	(2.3)	(1.7)	(1.9)	(2.2)
Total	\$(2.6)	\$(2.8)	\$(6.5)	\$(4.2)	\$(4.4)

<sup>1</sup> Excludes statutorily required lapses to the General Fund of \$810,000 in FY 2004-05 and \$81,000 in FY 2005-06, as well as statutorily authorized transfers from King to the Veterans Trust Fund of \$1.1 million in FY 2006-07 and \$7.0 million in FY 2008-09.

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DVA officials have addressed Union Grove’s deficits by transferring a total of \$21.2 million in surplus funds from King to Union Grove since FY 2004-05, as shown in Table 8. These transfers were possible largely because of the \$20.1 million one-time retroactive Medical Assistance payment King received in FY 2005-06.



Table 8

**Transfers from King to Union Grove**

Year	Revenue Transferred
FY 2004-05	\$ 5,016,200
FY 2005-06	4,292,500
FY 2006-07	5,777,900
FY 2007-08	3,329,000
FY 2008-09	2,819,000
<b>Total</b>	<b>\$21,234,600</b>

As noted, Union Grove’s deficits were partly caused by rates that had been set below projected expenditures. Its rate increases in 2009 and 2010 were, in part, a response to those deficits. However, it appears the rate increases alone will not achieve solvency in the short term and may, in fact, present additional challenges. As anticipated by DVA’s own projections, some residents could not afford the increases: between January and June 2010, at least 12 residents left Union Grove’s assisted living facilities as a result of the rate increases. Increased rates could also potentially discourage new residents from applying to the home.

To address the affordability concern, Union Grove allowed residents to temporarily postpone a portion of their payments for the first six months of 2010 and continued enrolling eligible veterans in the Aid to Indigent Veterans program. However, four spouses who could not afford the increased rates and are not eligible for the Aid to Indigent Veterans program were required by Board action to leave Union Grove’s assisted living facilities by July 2010.

Despite the departures and some residents’ inability to pay, DVA believes that its recent rate increases will help to stabilize Union Grove’s financial condition. However, staff acknowledge they cannot demonstrate that assisted living operations can become self-sustaining. Staff have suggested that continuing losses could be covered by transferring surplus funds from Union Grove’s nursing facility, but it is not clear when or if that facility will generate the necessary funds. Budget projections prepared by DVA in March 2010 estimated that Union Grove nursing operations would incur a deficit of \$440,000 in FY 2010-11.

At present, DVA plans to continue supporting Union Grove’s deficits through continued transfers of funds from King’s \$9.5 million operating account balance. However, DVA projects that King will begin to operate at a deficit by FY 2010-11. If deficits and transfers continue at currently projected levels, its operating account balance will be fully depleted by FY 2013-14. Using King’s balance to reduce Union Grove’s rate increases, as some have proposed, would deplete the balance more rapidly.

DVA is aware of its ongoing challenges in achieving solvency and has reported to the Board of Veterans Affairs since at least 2006 that it intends to develop a comprehensive plan to guide long-term financial management of the homes. However, DVA has not yet completed such a plan, and it will need to take more immediate measures to address the solvency of Union Grove's assisted living operations. DVA officials indicate they are pursuing strategies to reduce costs, including potentially recommending the closure of one of Union Grove's three assisted living facilities if deficits continue.

DVA's plan to open a third veterans home in Chippewa Falls, as authorized by 2003 Wisconsin Act 102, also warrants close attention. Although DVA has been authorized to establish a skilled nursing facility, an assisted living facility, a medical clinic, an activities center and other operations in Chippewa Falls, its current plans are to construct a 72-bed skilled nursing facility, with facility completion anticipated in November 2012. Federal grant funds have been set aside to cover approximately \$13.2 million of that facility's estimated \$20.4 million in construction costs, leaving \$7.2 million to be funded by DVA or other state sources. In addition, DVA staff indicate they intend to request additional funding for Chippewa Falls facility's operating costs as part of the 2011-13 biennial budget process.

Legislative oversight will help to ensure that DVA develops realistic, timely, and appropriate plans for achieving long-term financial solvency at all of its veterans homes while continuing to ensure that the homes effectively serve Wisconsin veterans.

**Recommendation**

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*We recommend the Department of Veterans Affairs report to the Joint Legislative Audit Committee by January 24, 2011, on the current financial status of the Wisconsin Veterans Homes and its plans to achieve future financial solvency for them.*

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Appendix 1

**Medical Assistance Reimbursement Rates**

FY 2004-05 through FY 2009-10

Date	Reimbursement Rate— King	Reimbursement Rate— Union Grove
January 2005	\$176.82	N/A <sup>1</sup>
January 2006	180.30	N/A <sup>1</sup>
January 2007	184.64	\$209.59
January 2008	193.07	215.04
January 2009	201.64 <sup>2</sup>	264.67
January 2010	199.86 <sup>2</sup>	252.00 <sup>2</sup>

<sup>1</sup> Union Grove did not provide skilled nursing care until September 2006.

<sup>2</sup> Interim rate. The Department of Health Services has not finalized the homes' reimbursement rate for the year.



Appendix 2

**Daily Private Pay Rates for Nursing Home Care**

		Intensive Skilled Nursing		Skilled Nursing		Intermediate Care 1		Intermediate Care 2		Intermediate Care 3	Intermediate Care 4	Hospice
		King	Union Grove <sup>1</sup>	King	Union Grove <sup>1</sup>	King	Union Grove <sup>1</sup>	King	Union Grove <sup>1</sup>	King	King	King
January 2005	Veteran	\$187.42	N/A	\$148.24	N/A	\$109.06	N/A	\$ 82.96	N/A	\$ 50.31	\$30.23	\$137.86
	Spouse	246.78	N/A	207.60	N/A	168.42	N/A	142.32	N/A	109.67	89.59	197.22
January 2006	Veteran	207.60	N/A	165.60	N/A	123.60	N/A	95.60	N/A	60.60	38.60	154.60
	Spouse	271.00	N/A	229.00	N/A	187.00	N/A	159.00	N/A	124.00	102.00	218.00
January 2007	Veteran	208.29	\$225.00	163.29	\$225.00	117.29	\$225.00	87.29	\$225.00	49.29	25.29	151.29
	Spouse	276.00	225.00	231.00	225.00	185.00	225.00	155.00	225.00	117.00	93.00	219.00
March 2007	Veteran	208.29	208.29	163.29	163.29	117.29	117.29	87.29	87.29	49.29	25.29	151.29
	Spouse	276.00	276.00	231.00	231.00	185.00	185.00	155.00	155.00	117.00	93.00	219.00
January 2008	Veteran	227.58	227.58	176.58	176.58	125.58	125.58	91.58	91.58	49.58	23.58	164.58
	Spouse	299.00	299.00	248.00	248.00	197.00	197.00	163.00	163.00	121.00	95.00	236.00
January 2009	Veteran	238.58	276.00	185.58	217.00	132.58	159.00	96.58	120.00	52.58	25.58	172.58
	Spouse	313.00	350.42	260.00	291.42	207.00	233.42	171.00	194.42	127.00	100.00	247.00
January 2010	Veteran	266.47	325.47	207.47	257.47	147.47	189.47	108.47	144.47	59.47	59.47	192.47
	Spouse	344.00	403.00	285.00	335.00	225.00	267.00	186.00	222.00	137.00	137.00	270.00

<sup>1</sup> Union Grove opened its nursing facility in September 2006.