



OFFICE OF THE  
COUNTY ADMINISTRATOR

08 December 2016

**MEMORANDUM**

TO: Mr. C. Pius Weibel, County Board Chair; and  
Honorable Members of the Champaign County Board

FR: Rick Snider, County Administrator

RE: CHAMPAIGN COUNTY NURSING HOME REPORT

The Board of Directors of the Champaign County Nursing Home (CCNH) recently advanced to the County Board recommendations regarding the future of the home. The topic of the nursing home has occasioned considerable reflection and debate that touch upon the home's mission, its financial sustainability and the quality of services delivered, as well as its place in the community and the people it serves.

**Background**

CCNH has had a troubled history over the past fifteen years or so. In 2002, voters approved construction of a new nursing home to replace the aging, original structure. The \$20 million project was plagued by a series of bad decisions in the design and construction of the building. Over the same period, CCNH also experienced significant turmoil in its finances that required the county to provide financial assistance from the General Fund. In 2008, Champaign County transferred management of the home to Management Performance Associates (MPA) of Chesterfield, MO. MPA successfully executed a turnaround that rescued the home from an impending shutdown; however, despite the initial improvements, the finances have remained under strain as indicated by a negligible fund balance and an excessive number of aged invoices in the CCNH accounts payable list. Furthermore, quality ratings published through the Centers for Medicare & Medicaid Services (CMS) indicate a declining trend for CCNH as a result of poor performance on health inspections performed by auditors from the Illinois Department of Public Health (IDPH). These ongoing problems represent clear challenges to the sustainability of the nursing home.

As a result of justifiable concerns about the future of CCNH, the County Board and the Nursing Home Board of Directors have been examining the operations and business model to seek answers for these difficulties. Several initiatives have been launched in this regard:

- Cathy Emanuel, the chair of the Nursing Home Board, has engaged in a series of focused interviews with staff to develop a SWOT analysis of the current situation. She has also conducted research to assess the competitive position of CCNH within the local market;
- She has also engaged a consultant with the University of Illinois Labor and Industrial Relations Institute to conduct an examination of the organizational dynamics in existence at CCNH. The consultant has provided a report on his findings;
- MPA has provided both historic data and projections on the financial and operational performance of CCNH for the consideration of the Board of Directors and the County Board;
- The County Board Chair and the Nursing Home Board Chair have met with the operators of other Illinois nursing homes and have collected comparative data for use in evaluating CCNH operations;
- The Board of Directors has studied the performance of the home and the data gathered for the SWOT analysis, and has developed a series of recommendations; and
- In parallel, the County Administrator's Office has been analyzing financial and operational data, including quality measures used to generate the CMS rating for CCNH. Furthermore, a private firm has been retained to conduct an independent review of financial performance and a market analysis.

The remainder of this report discusses the findings and results of these inquiries. This information may prove useful in formulating plans for the future of CCNH.

#### Major Issues

There are three key areas of concern for CCNH: financial performance, quality and management, and market position. These areas each have their own peculiar characteristics but they are also interrelated as difficulties in one area can impact the results of others.

#### *Finances*

There are two key issues with respect to the nursing home finances: 1) cash flow; and 2) long-term capital expenditure requirements.

The finances of CCNH are highly dependent upon government reimbursements such as Medicaid and Medicare. As previously discussed with the Board, the State of Illinois has been unable to resolve processing delays at the Macon (Decatur) center. This has resulted from high turnover and inability to recruit sufficient caseworker staff. Delays in state reimbursements can be seen in two areas:

- Medicaid application approval. The state has not been approving new applications for Medicaid in a timely manner. In most cases, CCNH will receive payment for services rendered to applicants during the approval period, but it creates cash flow problems to cover expenses in the interim. Furthermore, there can be delays even when patients have been approved if DHS is not notified that the payments may be initiated. Application approval delays are typically a few months long but can be far longer, particularly if an application is denied initially due to incomplete data submitted. The impact to the home is about \$140/day per patient in lost revenue. Most recently, with approximately 68 Medicaid applications pending, the revenue loss due to delays is approaching \$200,000 per month.
- Intergovernmental Transfer (IGT) payments. This revenue is part of a Medicaid supplement program. Delays in reconciling the accounts means CCNH does not receive its full IGT revenue. The current backlog in IGT reconciliation stretches back to 2011, with over \$1.3 million owed to CCNH as of June 2016.

In looking at both the GAAP and modified accrual financial reports, it appears that CCNH is slowly losing money; the overall loss is estimated at about \$200,000 annually in the period from 2010 to 2014. In the period since January 2014 to present, accounts receivable has varied within a band between \$4 million to just under \$6 million, which is not out of line with historic trends. A/R as of the end of May was at \$5.3 million. Accounts payable since January 2014 has typically varied between \$1 million and \$2 million; however, the A/P has grown by approximately 75% since the January 2016 period, and stands at \$3.66 million as of the end of September 2016 with about \$1.5 million representing invoices outstanding over 90 days.

One factor that could be negatively impacting financial performance is cost control. The analysis provided by our private consultant ESI shows that, in several areas, CCNH costs are well above national and local averages compared to other nursing homes in their peer group. Two that stand out include staffing costs and dietary. MPA has made progress in reducing agency staffing that should help improve financial and quality results. Cost control performance shows up in the market valuation of CCNH as lower profitability results in a lower value range.

Cash flow is a much more critical concern at this time than any other financial indicator. Overall, CCNH receivables far exceed payables. The growth in receivables is likely a result of increasing delays in government reimbursements. Unfortunately, with cash reserves scraping the bottom of the enterprise fund, CCNH has been unable to pay its obligations as agreed and survives through the forbearance of its creditors against pressing claims. Furthermore, as bills age, CCNH will be paying late charges that further compound debt levels.

The cash flow problem also highlights a related issue in terms of nursing home governance. In December 2015, the Board of Directors approved a project award to a local contractor to remediate the lint filtration problem, and also released a bid advertisement for a project to correct deficiencies in the fire damper system as required by IDPH. The combined cost of these projects was approximately \$250,000. However, it is clear from evidence that nursing home management either knew or should have known that there was insufficient funding to pay for these projects due to the required return to the state of government benefits overpayments and an advance on revenues for pending Medicaid applications. The Board of Directors and County Board both should have been informed of the funding issue so that it could have been properly addressed, instead of having to negotiate terms at the back-end of the procurement process with angry vendors.

The cash flow situation is becoming increasingly problematic and is not sustainable on an ongoing basis. As recently as September 2016, there was considerable concern that CCNH would lack sufficient cash to meet payroll due to the occurrence of a three-payroll month. The same concern will present itself again in March 2017 as that month also contains three payroll dates. Unlike private entities, CCNH cannot access credit lines to provide short-term financing. It has taken advantage of the sole tool available to it, which is the tax anticipation warrant. In essence, CCNH is living paycheck to paycheck and, without significant improvement in accounts receivable, will be in a precarious financial situation for the foreseeable future.

Beyond the obvious implications for the nursing home and its residents, this situation also holds potential for serious consequences for county finances. In the event of a default by CCNH, the county will undoubtedly be responsible for making good on any and all financial commitments of CCNH. The "slow" payment of accounts payable also effects relations with county vendors as many of the nursing home providers of non-medical services also serve county needs. In short, the failure of the nursing home could jeopardize the finances of Champaign County.

Capital requirements to maintain the physical plant of the home and the internal furnishings and equipment are both substantial. As indicated by the Bailey Edward consulting report for the County, the approximate costs of deferred maintenance projects is approximately \$2 million. In addition, the Nursing Home Board of Directors and MPA have both recommended planning for strategic capital for equipment, furnishings, and interior improvements that are expected to cost \$6 million over the next ten years.

The failure to provide for timely maintenance is already impacting County finances. In August 2016, the County Board was forced to appropriate \$282,000 for a loan to the nursing home to implement emergency replacements of the boiler system to ensure adequate heat for the winter season. The early replacement of these systems is an artifact of the original improper design of the HVAC system, placing the boiler air intakes adjacent to the exhausts for the laundry's dryers. The dryers expel lint and lacking a filtration system, the lint was ingested into the boilers, resulting in premature system failures. While these repairs have been made properly, it can be surmised that there will be ongoing needs for building maintenance that exceed the financial capacity of CCNH to fulfill with the current financial model. Even if the State of Illinois is able to accelerate the Medicaid application approval process and improve the cash flow situation, this does not address the long-term capital requirements for CCNH. Without additional revenue streams, the responsibility for these costs will fall upon Champaign County.

#### *Quality and Management*

CCNH has had an uneven track record with respect to quality measures and operations management. The interviews conducted with staff, patients and families indicate that there is a fairly high level of satisfaction with patient care. CCNH provides in-house services not available at other local skilled nursing facilities such as dental care. Objective measures show that CCNH has the highest staffing levels among facilities in Champaign County; the home holds a four-star rating out of five stars because of this. Patient outcome results have been such that CCNH has had a five-star rating in this important area. The most recent survey resulted in a four-star rating, with results just missing the cut for a five-star performance.

Conversely, CCNH has not been able to achieve similar results with its health inspections. Over the past three inspection cycles, CCNH has had an increasing number of deficiencies recorded by IDPH reviewers. Using data reported for 2015, CCNH has gone from 10 deficiencies to 15 deficiencies in each of the past two surveys, earning a one-star rating in this measure. During the same period, the national average for deficiencies was 7.0; the Illinois statewide average was slightly higher at 7.7. This places CCNH in the bottom quintile with a performance worse than 80% of Illinois nursing homes. With 742 homes in the state, that implies that approximately 590 had better scores than CCNH.

We just recently received the inspection report from IDPH for the November 2016 survey. This inspection showed an improvement in the absolute number of defect tags but further review is required to understand the scope and severity of the deficiencies.

One other area of concern is the high level of turnover. As of October 2016, the 12-month rolling average staff turnover in nursing positions was 75.2% (benchmark is 51.4%) and for certified nursing assistants (CNA) it was 89.3% (benchmark is 52.4%). While high turnover in nursing has been a challenge for the entire health care in recent years and especially in the Champaign-Urbana market, these numbers suggest one possible reason for difficulties in achieving quality goals for health inspections.

The poor results from the inspections directly impact the overall CMS quality rating for CCNH. The excellence of its staffing and quality measures performances would normally entitle the home to receive a two-star increment in its overall rating. Because CCNH only achieved a one-star rating for health inspections, the scoring rules preclude an increase greater than one additional star hence the two-star rating. If it had not been in the bottom 20% of statewide results, CCNH would have achieved an overall score of four or five stars that would place it among the top homes in the county as well as the state.

Administration of CCNH staff and operations is clearly problematic. For more than a year now, concerns about food temperature, taste, and suitability have not been satisfactorily addressed. Failures in service delivery point to the possibility that leadership may be lacking in dealing with staff training, supervision, and business operations. The University of Illinois consultant report indicates the existence of communication problems, and development of factions related to both supporters and detractors of management. My personal observation is that on-site administration does not communicate well at nursing home board meetings or with the county staff.

Quality is the result of a well-designed, repeatable process. Mayo Clinic, the recognized leader in healthcare service delivery, utilizes system engineers to develop their operational processes to ensure quality outcomes and the elimination of waste in business and clinical operations. It seems that either CCNH does not have efficient, consistent processes in place or they are not being properly implemented. Regardless, this points to probable lapses in training and management.

#### *Market Position*

CCNH is the largest player in the Champaign County market for skilled nursing facilities. It also serves the largest group of Medicaid patients, currently at 53.5% of the home census (97 Medicaid patients out of 181.3 patient census in September 2016). While the home is a major provider of services, it has not captured a commensurate share of the lucrative Medicare business. The inability to secure a larger Medicare patient population has a direct impact on sustainability of the financial model. The Medicare patient reimbursement rate approaches \$500/day while Medicaid is about \$140/day. The higher profit margin is key to maintaining sufficient resources to support the overall operations of the home.

There is anecdotal evidence that CCNH may be having some difficulties in marketing the facility to prospective residents due to negative perceptions in the community. Certainly, the low star rating from CMS does not help the reputation of CCNH. Some reports from new staff members indicate that the reality of care quality in the home is far above the assessment "on the street."

CCNH is vulnerable to expected changes in senior care. Assisted living facilities are diverting a portion of the client stream that would historically have gone into skilled nursing facilities. The Affordable Care Act is also having an impact on how services are procured by CMS. In the future, value-based purchasing will determine which facilities will receive the best reimbursement rates and business volume. Medicare reimbursement rates are expected to trend downward as competition intensifies. These developments will increase pressure on skilled nursing facilities to become more efficient while delivering improved patient outcomes. This also reinforces the necessity for CCNH to improve its performance on health inspections.

MPA has made some moves to take advantage of changes in the marketplace. The remodeling project to create dedicated Medicare rehab beds has positioned the nursing home to receive more patients and utilize CCNH's larger room sizes as a competitive advantage. MPA has also worked to

become a preferred provider in Carle Hospital's network of post-acute care facilities. Partnerships such as this will become increasingly important to remain viable.

#### RECOMMENDATIONS

1. Determine the financial path forward. This concern has the highest priority for the home and the County. This may require a decision to ask for new revenue.
2. Engage a consultant to provide analysis and recommendations on the home's operations. An external voice that can offer expert advice on how to improve the operating quality and efficiencies of the home, and give guidance on appropriate means to attain goals.
3. Issue a Request for Proposals for management services, using the consultant's guidance on structuring the request.