



WILDFLOWER
C O U R T

2000 SALMON CREEK LANE • JUNE AU, AK 99801
(907) 463-8700 • FAX 463-8743

Dedicated to Excellence

March 8, 2016
Senator Pete Kelly
State Capitol Room 518
Juneau, AK 99801

Dear Senator Kelly,

I am writing to express concern about the intent language included in the Senate Finance budget on Medicaid inflation adjustments to provider rates.

Wildflower Court is a non-profit, certified long-term care facility located in Juneau. We are one of only four standalone nursing homes in Alaska. Wildflower Court provides a safe and secure place for chronically disabled individuals. Our model of care creates the conditions of a home rather than an institution. The most important thing to us is the physical well-being of the people who are within our care.

Medicaid represents 90% of our revenue, so any changes in the Medicaid rates have a direct impact on our ability to care for the individuals in our facility. Without an inflationary adjustment in FY17 we will be unable to meet rising variable costs and have significant challenges in meeting our debt service obligation.

In the State of Alaska nursing home Medicaid rates are reset every four years based on operating costs reported in our annual Medicare/Medicaid cost report. In between "base years" the State calculates annual inflation based increases.

We face a number of challenges with the "cost based" system:

- Rate calculation does not include all costs of operating the business. Some overhead, even janitorial services not directly related to patient care, are not included.
- Nursing homes have a fixed number of beds and capitated rates which gives us very little control over the revenue side of our business other than keeping beds full.
- Medicaid represents 90% of our revenue. Medicare is the second largest payer with reimbursement rates significantly less than Medicaid.

The rate freeze will have negative effect in the following ways:

- Without inflation adjustments we are unable to meet rising variable costs like wages & employee health insurance.
- Wildflower Court restructured debt in 2012 based on predictable rate methodology used by the State of Alaska. Interest expense is included in the cost calculation and our refinance will save the State of Alaska \$5M over the remaining life of our loan. The tricky part was structuring the debt repayment to account for the reduced Medicaid rate resulting from this savings. Our debt

payments increase every year for the next four years then fall off significantly as interest and depreciation expense diminish; without inflation adjustments we will be challenged to meet our debt service obligation.

- Unpredictable rate methodology make conventional financing for this industry very hard to come by. We need more beds not less. In order to accommodate growth we need predictability.

Please consider the unique needs of long term care facilities and maintain Medicaid inflationary increases for nursing homes in the FY17 budget. We need a predictable rate methodology in order to stay in business.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ruth Johnson', with a stylized, flowing script.

Ruth Johnson