



January 15, 2025

The Honorable Josh Shapiro
Governor of Pennsylvania
508 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Shapiro,

On behalf of LeadingAge PA, the Pennsylvania Health Care Association (PHCA), the Pennsylvania Coalition of Affiliated Healthcare & Living Communities (PACAH), and our respective members – which account for 445 nursing home providers throughout the Commonwealth – we write to **request your support for a change to the methodology used to establish the Budget Adjustment Factor (BAF) applied to a nursing facility's Medicaid case-mix rate by setting a BAF floor of 0.90, which would equate to an approximate investment of \$139 million in the Fiscal Year (FY) 2025-26 state budget.**

The rapid and repeated decline of the BAF each quarter for the last several years is a direct manifestation of the concerns we have raised in recent budget cycles: Medicaid-participating nursing home providers are underfunded and face immense pressure to keep their doors open and ensure access to care in the face of an ongoing workforce crisis and rising costs.

Your support for this initiative would not only help diminish the existing Medicaid shortfall, but would provide much-needed predictability for hundreds of long-term care providers who have operated in an increasingly volatile environment.

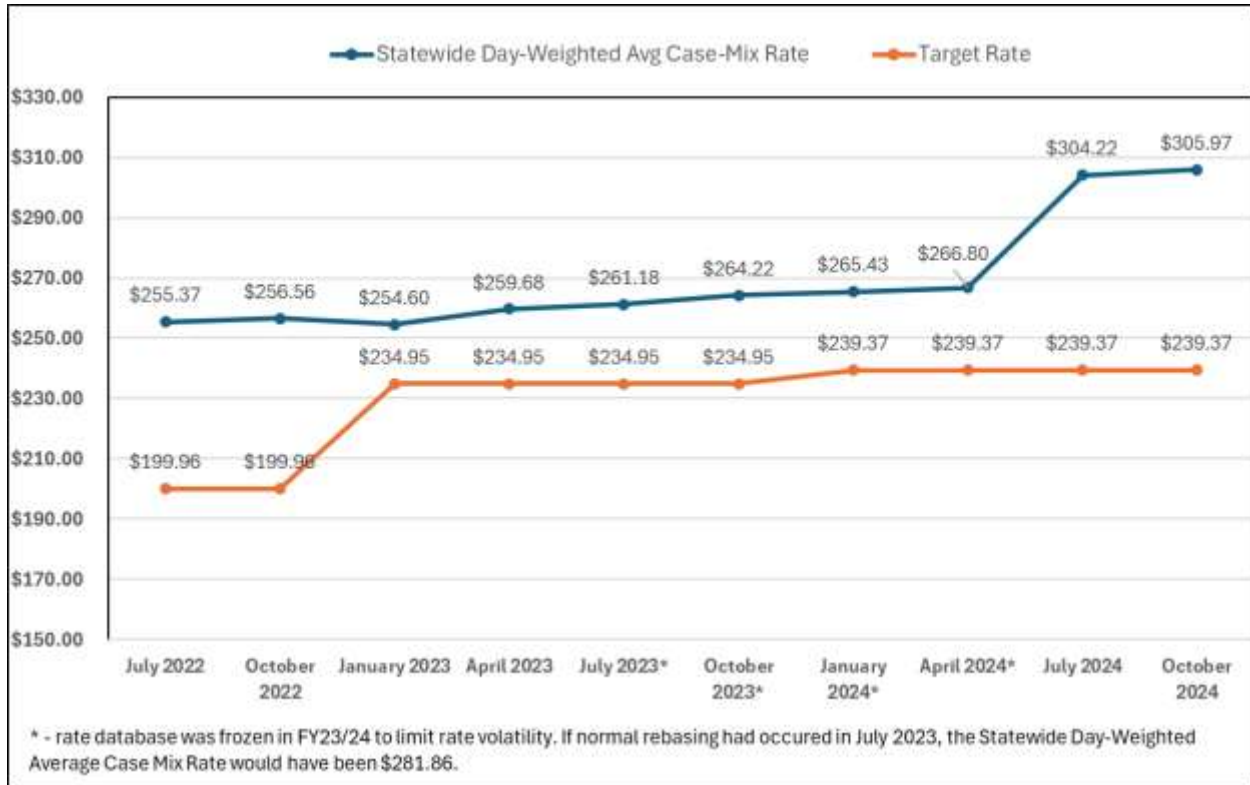
History of Eroding BAF

By way of background, the BAF was implemented in FY 2005-06, with the intent to encourage nursing facility efficiency and control the rate of growth in nursing facility costs.

Over the years, however, the role of the BAF has changed. It has transformed from a method to control the rate of cost growth to a pure budget tool. The BAF has become the tool used by the PA Department of Human Services (Department) to ensure the Department does not spend more than the funding allocated in the final budget each year with no consideration for the reasonableness and adequacy of the resulting nursing facility rate.

In FY 2005-06 the BAF was set at 0.95122. It has since varied over the years based on the investment made by the General Assembly in each year's budget.

The decrease in the BAF is the product of ongoing cost increases year over year, whereas the targeted allocation has not kept pace with these increased costs as illustrated in the chart below:



The table below provides the BAF applied to a nursing facility’s case-mix rate from July 2022 through October 2024. Note: The increase in the BAF in January 2023 was the result of a 17.5% increase in funding for nursing facility services; the increase in January 2024 was the result of a 1.88% increase in funding for nursing facility services. In July 2023, as a result of our advocacy related to extreme rate volatility caused by COVID-era data in nursing facility cost reports, the Department froze the database used in rate setting for FY 2023-2024; otherwise the BAF would have been lower at 0.83357.

Budget Adjustment Factor (BAF): July 2022 – October 2024			
July 2022	0.78302	October 2023	0.88922
October 2022	0.77939	January 2024	0.90182
January 2023	0.92282	April 2024	0.89719
April 2023	0.90477	July 2024	0.78683
July 2023	0.89957	October 2024	0.78233

From January 2024 to October 2024, the BAF dropped from 0.90182 to 0.78233. This means providers’ full case-mix Medicaid rates were reduced by an additional 12% in October compared to the 10%

reduction they were already facing at the start of the year. **In total, a 0.78233 BAF means 22% is being deducted from what providers should have been paid based on the case-mix rate setting system.**

To put the impact of that into perspective, the average case-mix rate (at 100%) across all non-public nursing facilities was \$312.11 for the October 2024 quarter. When applying the 78% BAF, the average rate actually paid was \$244.17. This means providers were paid nearly \$68 per day (per Medicaid resident) less than they otherwise should have been. **For a facility with a census of 100 and 70% Medicaid occupancy, this equates to an annual deficit of \$1,935,960.**

Providers simply cannot continue to sustain shortages of this magnitude. In order to restore some stability to the system and ensure older Pennsylvanians can count on having access to nursing home care when they need it, we are proposing establishing a floor to the BAF such that it may not drop below 0.90. This would ensure that a nursing facility's Medicaid case-mix rate is not reduced by more than 10% in each fiscal year, providing better predictability and the means to continue to serve those residents in need of nursing facility services who must rely on Medicaid to pay for it.

We look forward to discussing this request further at the meeting we requested with your team, as well as in ongoing discussions with your Administration and DHS leadership in order to work through any considerations needed to effectuate the implementation of a BAF floor.

Thank you for your consideration and concern for meeting the needs of seniors in Pennsylvania. Our collective associations are available as a resource at any time to discuss the needs, challenges, and contributions of those providing this critical nursing care to our Commonwealth's oldest residents.

Sincerely,



Garry Pezzano
President and CEO
LeadingAge PA



Zach Shamberg
President and CEO
Pennsylvania Health Care
Association



Chase Cannon
Executive Director
Pennsylvania Coalition of
Affiliated Healthcare & Living
Communities