



March 11, 2024

To: Chair Fischer and Members of the Human Services Policy Committee

From: Alzheimer’s Association, MN/ND Chapter, AARP Minnesota, Mid-MN Legal Aid, Minnesota Elder Justice Center, Office of Ombudsman for Long-Term Care, Office of Ombudsman for Mental Health and Developmental Disabilities

Re: Support for Chair Noor’s bill HF 4480 (Increased Transparency in Related Party Transactions for Nursing Homes)

Dear Chair Fischer and Members of the Committee:

Our organizations are writing in strong support of Representative Noor’s bill (**HF4480**) which protects vulnerable residents living in nursing homes by requiring transparency for nursing home ownership and related party transactions.

As nationwide and Minnesota specific reports of related party transactions increase in nursing homes, residents report experiencing lower quality of care. To ensure all the funds taxpayers and the lifetime savings residents are investing in their care are going to direct care worker wages and not to unnecessary expenditures, we strongly support the transparency measures created by this bill.

On-going care concerns from nursing home residents highlight the need to ensure these dollars are being spent appropriately:

- Residents report waiting for long periods of time (30 – 40 minutes to 2 hours or more) for responses to requests for help. Administrators in many nursing homes tell residents they are “fully staffed” when residents raise these concerns.
- Residents report receiving cold meals on a routine basis with low quality ingredients.
- Residents report a lack of activities or engagement. Outings, which occurred more frequently pre-pandemic, are still rare.
- Residents frequently wonder where their money goes when they pay their monthly bill to their nursing home.

Due to the prevalence and concerns raised by related party transactions, CMS (Centers for Medicare and Medicaid Services) has started instituting some transparency measures. While this is a good start, we recognize the need for more vigorous and state-specific information to ensure all owners of nursing homes are known and any related party transactions are reported. This is the first step to ensuring the significant investment in long-term care is being used appropriately.

Therefore, we urge lawmakers to support basic transparency for nursing home owners and related party transactions by supporting HF 4480.

A February 2024 article in McKnight's, a trade publication, indicated that just the added scrutiny on private equity investments in nursing homes reduced the number of private equity deals in 2023 by 16% ([Skilled nursing private equity deals declined significantly in 2023, but some signs point up - McKnight's Long-Term Care News \(mcknights.com\)](https://www.mcknights.com/news/skilled-nursing-private-equity-deals-declined-significantly-in-2023-but-some-signs-point-up)). The transparency requirements in HF 4480 will allow Minnesotans to know if owners with concerning track records or high numbers of related party transactions are occurring in our nursing homes. This awareness itself can reduce the presence of concerning owners and related party transactions. This transparency will also alert the state if any next steps are needed to ensure taxpayers dollars are well-stewarded and residents paying privately for care are getting their money's worth. Ultimately, this proposal will help ensure the money going to nursing homes is being used to provide quality care, quality nutrition, and a high quality of life to residents.

Thank you in advance for your support of this important legislation.

Alzheimer's Association, MN/ND Chapter

AARP Minnesota

Mid-MN Legal Aid

Minnesota Elder Justice Center

Office of Ombudsman for Long-Term Care

Office of Ombudsman for Mental Health and Developmental Disabilities



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The Honorable Peter Fischer
Chair, Human Services Policy Committee Minnesota House of Representatives
551 State Office Building
St. Paul, MN 55155

The Honorable Deb Kiel
Republican Lead, Human Services Policy Committee Minnesota House of Representatives
203 State Office Building
St. Paul, MN 55155

Re: Support for HF 4480/SF 4580 – Related-Party Disclosure

Dear Chair Fischer, Lead Kiel, and Members of Human Services Policy Committee:

Elder Voice Advocates (EVA) strongly supports HF 4480/SF 4580, a vital legislative measure mandating disclosure of related-party transactions. We are alarmed by a concerning trend: nursing homes masking their true profitability by diverting funds to related businesses, all while the quality of care deteriorates. It's imperative to expose this deception and demand transparency and accountability in finances, operations, and ownership.

Currently, many Minnesota nursing home businesses claim that existing funding and reimbursements fall short of covering their actual costs. They assert a need for additional government funding to hire more direct care staff, pay competitive wages, and maintain profitability. However, the destination of these funds remains uncertain. What we do know is that the quality of care consistently falls below acceptable standards.

Transparency is crucial to ensuring that Medicaid funding is used effectively to provide quality, safe care. Additionally, consumer awareness will incentivize nursing homes to enhance their services and quality of care.

Research consistently demonstrates a link between ownership structures and poor care quality. In Minnesota, despite receiving \$1.2 billion in 2022, the nursing home industry continued their decades long understaffing and delivering substandard care. This is evident in various indicators:

- Reports of maltreatment increased from 70,400 in 2021 to over 77,500 in 2022, coinciding with the substantial Medicaid funding.
- Many direct care staff members are not paid livable wages, with median rates for various roles remaining below sustainable levels. The median wage rates of \$15.47 for home

health aides, \$14.98 for personal care assistants and \$16.83 for nursing assistants is not attracting enough workers.

- Despite high costs for nursing home care in Minnesota (\$90,000/year average cost), instances of abuse, neglect, medication errors, and many other violations persist, revealing systemic flaws.

A March 4, 2024 research report titled “Tunneling and Hidden Profits in Health Care” [Ashvin Gandhi UCLA & NBER and Andrew Olenski Lehigh University] found ***that 63% of nursing home profits were concealed through inflated transfer prices to related parties***. This practice artificially inflates expenses, masking true profitability and evading regulatory scrutiny.

Key finding from the report include:

- Real estate and management expenses account for 77% of related-party spending, leading to a notable increase in overall costs when facilities engage with related parties. Once a facility adopts a related party for one of these services, ***total spending increases by 20.4% for real estate and by 24.6% for management***.
- If hidden profits were redirected towards hiring registered nurses (RNs), staffing ratios could increase substantially, improving care quality.
- Limited consumer ability to assess quality before admission reduces firms' incentives to compete on quality.
- The prevalence of opaque ownership structures allows nursing homes to prioritize profits over care, despite heavy reliance on public funds.

Nearly three-quarters of US nursing homes engage in related-party transactions, diverting \$11 billion from essential resources. These facilities, intertwined with related businesses, consistently demonstrate deficiencies in care, staff shortages, and regulatory violations.

To address these issues, concrete policy changes are necessary to ensure transparency and accountability in ownership, management, and financing. Failure to act perpetuates a cycle of substandard care and financial exploitation. It is evident that decisive action is required to uphold the dignity and well-being of nursing home residents.

Increased Transparency in Related Party Transactions for Nursing Homes (HF4480)

This is a policy bill related to increasing nursing facility transparency in related-organization transactions. This proposal brings greater clarity to the state's understanding of how nursing homes use Medicaid reimbursement dollars by requiring nursing facility owners and operators to report related-party transactions on annual cost reports submitted to DHS.

This bill also repeals a duplicative nursing facility rate setting legislative report.

What this bill does?

Section 1: Expands the authority for DHS to require both audited financial statements and a working trial balance rather than one or the other. It also requires the disclosure of related organizations that provides any services, facilities, or supplies to the nursing facility and provides authority for DHS to obtain financial information for the related organization.

- Most common related organization arrangements provide management services and lease real property to the operating entity of the nursing home.
- This section would be effective August 1, 2024 and require disclosure of transactions with related organizations on the annual cost report for the year ending September 30, 2024.

Section 2: Requires nursing homes to disclose costs associated with leases, rent and use of land or other real property by nursing homes.

- This is new authority that doesn't currently exist under Value Based Reimbursement (VBR). DHS does not collect information on a facility's rental obligations because rent is not reimbursed under VBR. Current law provides statutory provisions that are applicable to related party transactions only to the extent that they involve costs that have a rate impact under VBR.

Section 3: Repeals a biennial report to the legislature related to evaluating VBR as this is duplicative of the rate study authorized during the 2023 legislative session. The rate study was expanded to include a review of rates for bordering states and evaluation to determine whether a nursing facility can generate sufficient revenue to cover its operating expenses.

What is doesn't do:

- This bill does not change how reimbursement rates for nursing facilities are determined under existing statutes (i.e. does not change anything about the rates or VBR).
- Existing law already has provisions on treating related party transactions as “cost-based” and not reported “purchase price”; however, DHS does not currently have access to sufficient knowledge of related organization transactions.

Why do we need this bill?

- This bill aligns with federal efforts for increased transparency and accountability for nursing facility’s finances, operations, and ownership.
 - The federal initiative is focused on nursing facility ownership and licensing of facilities. This bill provides authority for DHS to better understand the profitability status of nursing facilities operating in MN.
- Numerous studies and published papers allege nursing homes are hiding their profits by funneling them to “related parties”. This practice may indicate nursing homes are more financially challenged than they really are.
- In the current debate about staffing challenges and the need for greater investment in nursing facilities, industry leaders suggest large numbers of facility closures will occur without additional investment by Medicaid.
 - *Without better financial data and understanding of related organization activities, DHS cannot analyze if additional investment for ongoing sustainability of high-quality nursing facility services is necessary or the best strategy for achieving those goals.*