

Testimony of Elaine Cole, President
Connecticut Association of Residential Care Homes
S.B. No. 108 (RAISED) AN ACT CONCERNING RESIDENTIAL CARE HOMES.
February 23, 2016 Human Services Public Hearing

Senator Moore, Representative Abercrombie and Members of the Human Services Committee, my name is Elaine Cole and I am President of the Connecticut Association of Residential Care Homes (CARCH) and the owner of Mystic River Residential Care Home in Mystic. On behalf of CARCH I want to thank you for raising **Senate Bill 108- An Act Concerning Residential Care Homes.**

CARCH **supports Senate Bill 108** as it would restore necessary fair rent language. This language that passed last year would end up cutting the rates of about half or 50 of the state's approximately 100 residential care homes (RCH) once residential care home rates are unfrozen. A typical 25-bed facility could expect to lose up to \$21,000 in state payments if this language is not removed.

Note that last year the Human Services Committee heard testimony on SB897 and ultimately decided not to move forward on the bill that removed this language. Nevertheless, language was passed in a budget implementation bill.

We fundamentally disagree with the removal of the \$3.10 per day per resident that the statute had previously provided for many years. CARCH strongly believes that the rate system should include a minimum base property allowance to compensate operators for facility use as a home for elderly and disabled individuals. Having a property base enhances the viability of homes and increases the likelihood that they can meet unforeseen expense increases as well as fund or finance capital improvements when needed.

The legislation before you modifies one of the more complex areas of state payment policy and does not lend itself to a short explanation. This testimony outlines our concerns with the recent removal of the language and why we are seeking to have the language restored through this bill.

The current rate-setting method applicable to residential care homes provides a base property allowance amount of \$3.10 per resident per day. The minimum property use allowance of \$3.10 equates to \$94.29 per month per resident- far below market rates for apartment or room rentals in Connecticut. The minimum was set for 1995 fixed assets and has not been updated to account for real estate value increases since it was established.

Residential care homes generally qualify for the \$3.10 minimum when the original building cost is fully depreciated (usually after 30 years). It is our understanding that the majority of residential care homes presently qualify for the \$3.10 minimum having been opened in the 1970's and early 1980's. Importantly, under the current method, when a RCH makes a capital improvement such as roof or window replacement or heating/air conditioning upgrade, an adjustment to the facility's rate in a subsequent year can be anticipated (unless rates are frozen or capped) that represents the "fair rent" allowance associated with the project cost. The fair rent allowance provides rate adjustment over the useful life of the asset and is unrelated to the facility's actual interest expenses or the debt terms associated with the project, if any.

For example, a \$25,000 building improvement with a fifteen year useful life made in 2014 by a 20-bed RCH would result in an annual fair rent allowance of approximately \$1,991 – adding \$0.29 per day to the facility's rate for the July 1, 2016 through June 30, 2017 (SFY 2017) rate period.

Under current law, if our rates are unfrozen, most RCHs would not receive a rate adjustment related to 2015 property improvements since the \$3.10 minimum base has been eliminated. More importantly, most RCHs

would face a reduction to the property component of their residential care home rate for future fiscal years due to the change, regardless of recent capital improvements.

When evaluating this bill, it is important to consider that residential care homes have not been issued cost-based rates every year. **In fact, rates have been frozen most years since 2009 and have frequently been subject to annual rate increase limits. Therefore, state payment rates have not provided residential care homes with full fair rent for fixed assets (or other allowable costs).**

CARCH asks that you remove the language from last year and pass SB 108. Thank you for your consideration.