

Internal Memo

Date: November 1, 2024, updated November 13, 2024, updated November 15, 2024

To: Waivers and Variance Workgroup

From: Leah Solo

RE: Possible Waiver and Variance Application elements, evaluation criteria, Board process

The Waiver and Variance Workgroup has so far identified three issues to address:

1. Determining elements of an applications that nursing homes would submit to the Board.
 - a. We have determined some elements with consensus and some without. Listed below.
2. Creating criteria for evaluating the applications and/or identifying other data that would help determine if a nursing home is at risk of closure or receivership.
 - a. We have determined some of this, but have a ways to go.
 - b. One option we are exploring is if a CPA firm could help give us benchmarks.
3. Deciding on a logistical process, including timeline, for determining if a waiver/variance should be granted.
 - a. We have yet to begin this conversation.

If the Board is going to have a process laid out for a January 1, 2025 implementation of Holiday Pay, the workgroup needs to make significant progress on these items at the November 14 meeting.

Elements with consensus

Grouping	Details	Evaluation
Statement of need	<p>The nursing home must describe:</p> <ul style="list-style-type: none"> • kind of variance/waiver is needed, • why it is needed, and • how long the NHWSB standards need to be waived. <p>Also, should include an attestation that the NHWSB standards puts them at risk of closure or receivership. This could include an optional audit report.</p>	<p>Attestation should be signed by two representatives of the organization and could be specifically noted that one should be the nursing administrator and one from the Board/executive leaders/elected leaders.</p> <p>If the nursing home does not have a Board, the owner/operator could sign.</p> <p>If this is the same as the nursing administrator, only one signature will suffice.</p>

<p>The nursing home's plan to come into compliance as this must be a temporary waiver or variance. This should come at the end of the application.</p>	<p>What will the nursing home do to be able to follow the NHWSB minimum wages? Do not provide examples.</p>	<p>Are the strategies ones that will help them increase revenue and/or decrease cost? How does the amount that they are asking to be waived compare with the amount they think they can save or grow in revenue with the timeline that they have laid out to come into compliance? This should be reasonable, but we will not go into details in evaluating it.</p>
<p>Operating Budget – 2025 and 2026 January 1, 2025- December 31, 2026.</p>	<p>Current year and projection for next year could be required. Would include planned capital improvements.</p>	<p>A 3-5% operating margin is considered healthy.</p>
<p>Cost of implementation of NHWSB standards</p>	<p>This could be included in one of the other statements, such as the statement of need. The Board should provide a spreadsheet tool for operators to fill out. The Tool will be for direct costs of standards, but the operator may include separately other costs like wage compression if they wish. This should be a one year cost, as going beyond that would not be feasible without knowing the facilities rates.</p>	<p>With a Board provided template spreadsheet, it could easily determine if the entered data seems reasonable.</p>
<p>Other documentation judged relevant by the nursing home</p>	<p>Could include notice of foreclosure, default on loans, collection notices from vendors.</p>	
<p>Financial Statements</p>	<p>This could include:</p> <ul style="list-style-type: none"> • working trial balance (current year-to-date), • cash flow statement (current, last two years) 	<p>Potentially use information from CPA to evaluate how far from what is considered good practice the particular nursing facility is.</p>
<p>Current Ratios along with supporting documentation</p>	<p>This could include:</p> <ul style="list-style-type: none"> • Days in accounts receivable • Days outstanding in accounts payable (365 days) • Days Cash on Hand • Debt to Equity • Working Capital ratio- a financial metric that measures a company's liquidity, or its ability to pay its short-term debts – assets/liabilities. 	<p>Potentially use information from CPA to evaluate how far from what is considered good practice the particular nursing facility is. Cash on Hand should be 1.5-2 months</p>

	<ul style="list-style-type: none"> • Net Profit margin(operating margin) • This could be a simple report: “aging of payables report” <p>For chain organizations or organizations with a parent company, the ratios and documentation should be provided for both the individual nursing homes applying for a waiver and the parent organization.</p> <p>The Board should discuss and determine how current and recent this data should be, giving direction to the nursing home in the application form/directions?</p>	
Changes in depreciation rates	In the last year, have you changed your facility’s depreciation schedule? If so, please explain.	
Question on related parties	For any of your obligations in your budget, are any transactions with a related parties as defined by CMS provider reimbursement manual? ¹	

Next steps on developing the applications

As the workgroup moves forward on developing the waiver and variance process, some questions on the elements of the application to consider are:

¹ 1002. DEFINITIONS

1002.1 Related to the provider means that the provider to a significant extent is associated or affiliated with, or has control of, or is controlled by, the organization furnishing the services, facilities, or supplies.

1002.2 Common ownership exists when an individual or individuals possess significant ownership or equity in the provider and the institution or organization serving the provider.

1002.3 Control exists where an individual or an organization has the power, directly or indirectly, significantly to influence or direct the actions or policies of an organization or institution.

- What elements will be most useful for the Board to evaluate if the nursing home is at risk of closure or receivership?
- What will the Board have capacity to evaluate?
- Can we minimize the difficulty in submitting an application while also ensuring that the Board has the most accurate picture of the nursing home's risk of closure or receivership?

Evaluation Criteria for granting a waiver or variance.

As the Board examines applications, it will need to have criteria for whether the facility is granted a waiver or variance. A possible means of evaluating applications would be to develop a point or rating system, assigning value to each element and then coordinating what sum total of points would qualify for a waiver or variance. Here are some possible elements to be rated:

1. Evaluating the Application
 - Have all parts of the application been submitted?
 - Do their financials put them in a situation that is at risk for closure or receivership with the added cost of the NHWSB standards?
 - At what point is an applicant considered "at risk of closure or receivership?"
 - How did the applicant prove their financial distress? What documents show that the applicant is at risk of closure and receivership, and how close to closure or receivership are they?
 - Are there other alternatives to bridge the gap besides a waiver or variance, such as a financially stable parent organization?
 - Are there other options, such as renegotiation with related parties, that could change their financial situation?
 - Is there a rate increase or other solution on the horizon?
2. Evaluating the requested variance/waiver
 - Does the request meet the need? Is it too much waived/varied or too little?
3. Evaluating the timeline
 - Is there a plan to come into compliance with the NHWSB standards reasonable?
 - What do we expect their rates to do in the near future?
4. Potentially relevant information to which the Board already has access
 - Have they applied for/been granted status as a critical access nursing facility?
 - Have they applied for/been granted a Distressed Nursing Home Loan?
 - If they received that loan, was part of the loan to be able to pay for the NHWSB standards?
 - If they received that loan, what was the amount and timeline for the loan?
 - Are they operating under any financial penalties based on their inability to comply with regulations?
 - Do they receive any rate add-ons in excess of their cost-based value-based reimbursement rates?
5. Determining the type of waiver or variance
 - The Board will be able to waive/vary in a number of ways
 - The minimum wage could be made less for one or more wages.
 - The timeline could be extended so that the minimum wages do not go into effect until later.

- The standards could be completely waived.

Board Process for Evaluating Applications

Below are some options for the Board to consider in how it structures its process and timeline for making its determinations on granting waivers and variances.

1. Some options for the Board to structure the process
 - The Board could look through applications all together in an open meeting.
 - The Board could assign staff to evaluate the applications.
 - The Board could appoint a subgroup of the Board to examine applications and make a recommendation to the full Board.
 - There could be a combination of any of the above.
2. Potential Timeline options for the process
 - Initial opportunity to apply: As the implementation for the first two sets of standards approach, the Board may want to consider a more structured timeline for evaluating requests for waivers and variances. It could look like this:
 - June 1, 2025- Initial call out to nursing homes: “If you would like to be considered for a waiver/variance from minimum wage standards that are set to be implemented January 1, 2026, please submit your application by July 1, 2025.”
 - July 1-August 1, 2025- Initial evaluation
 - August 1-Sept 1, 2025- appeal opportunity
 - Sept 1-October 1, 2025- Final determinations
 - January 1, 2026- Waivers in place
 - Ongoing process: similar to the process for applying to be certified as a worker organization, applications will be accepted on a rolling basis and reviewed at least quarterly. This means typically, an organizations application should be reviewed and granted or rejected within set number of days of receipt of all required application materials in a form or manner as required by the Board.
3. Questions identified regarding the creation of a process for a change in status of a waiver/variance
 - What would be grounds for extending a waiver/variance?
 - What would be grounds for revoking a waiver/variance?
 - What would be the process for ensuring order in letting a waiver/variance expire? Would there need to be notification to workers of the new expected minimum wages?

Data issues to explore

A couple of issues with data have been named in discussion. The Board may want to understand these as it moves forward on waivers and variances.

- Can DHS/MDH share any of the data that they already have on nursing homes that might be at risk of closure or receivership? This could include applications for waivers or applications for the loan program for example. If the Board were to pursue these types of items, the Board would need to be specific in order for staff to work out what could or could not be shared.

- With industry employers and employees at the table, do we need to do anything with protecting financial statements and such from any risk of violation of anti-trust law? Should employers not be able to see the financial data of other nursing homes?
- What data can/should be kept private? How is that handled in open meetings?

Focus on Financials

The workgroup has discussed whether or not the Board should consider factors outside of financials, as that has been the focus so far.

Looking at the statute directing the Board to establish a process for waivers and variances, it becomes clear why the workgroup has focused on financials. The statute reads:

181.213 Subd. 4. **Variance and waiver.** The board shall adopt procedures for considering temporary variances and waivers of the established standards for individual nursing homes based on the board's evaluation of the risk of closure or receivership under section [144A.15](#), due to compliance with all or part of an applicable standard.

Of the factors listed in Minn. Stat. 144A.15, subd (1) as grounds for a petition of receivership, the most likely factor a nursing home would cite as the reason it is at risk of receivership as a result of the standards is “a pattern of failure to meet ongoing financial obligations such as failing to pay for food, pharmaceuticals, personnel, or required insurance.” Minn. Stat. 144A.15, subd. 1(4). It is currently unclear how the standards adopted by the Board would affect any other risk factors for receivership or closure, hence the focus on financials.