News Currents

In Brief

AHCA Board Elects New Vice Chair

The American Health Care Association's (AHCA's) Board of Governors recently announced the election of Rick Miller, chief executive officer (CEO) of Avamere Health Services, as vice chair. Miller fills the seat vacated by Tuscaloosa, Ala.-based Northport Health Services CEO Norm Estes, who stepped down in May 2006.

Prior to founding Wilsonville, Ore.-based Avamere in 1995, Miller held a variety of operating and management positions in both acute and long term care, including licensed nursing home administrator and chairman of the governor-appointed Oregon Board of Examiners for Nursing Home Administrators. He also serves on the board of the Oregon Health Care Association.

—Meg LaPorte

Disasters Pose Unique Test For Facilities

GAO Examines Myriad Hurdles In Evacuation

The Government Accountability Office (GAO) recently warned that nursing facilities face unique challenges in planning and preparing for disasters such as last year's devastating Gulf Coast hurricanes.

An evacuee gets assistance during the 2005 hurricanes.

Released just before the start of the 2006 hurricane season, a GAO report entitled "Disaster Preparedness: Preliminary Observations on the Evacuation of Vulnerable Populations Due to Hurricanes and Other Disasters" presents a comparative look at disaster planning for both hospitals and nursing facilities and illustrates the multiple similarities and differences between the two.

While administrators of both hospitals and nursing facilities must decide whether to evacuate their facilities or shelter in place, GAO acknowledges that nursing facilities will not be able to substantially reduce the number of patients under their care, because these patients may have no other home and will not be able to care for themselves.

"When nursing facilities evacuate, the administrators must locate receiving facilities that can accommodate patients for a potentially long period of time," the report says. "In contrast, hospital administrators told us that it is common to discharge as many patients as possible before a hurricane in order to reduce the number of patients who need to be sheltered or evacuated."

The report draws from interviews with federal, state, and local officials; local and national hospital and nursing facility associations, including the American Health Care Association (AHCA); and previously issued reports on the Hurricane Katrina response from Congress, the White House, and the Department of Defense. Among the observations made by GAO was that state and local governments are primarily responsible for responding to disasters that may result in evacuations, but when they are overwhelmed in that response, the federal government must assume a greater role.

Also significant was GAO's findings concerning the National Disaster Medical System (NDMS), the primary federal program charged with evacuating patients needing hospital care during hurricanes and other disasters. Although NDMS was formed in 1984 and deployed for the first time during the hurricanes of 2005, "the program was not designed, nor is currently configured, to move nursing facility residents," the report said.

Furthermore, GAO noted, NDMS does not have agreements with nursing facilities outside the disaster area to receive evacuated patients, while it does have agreements with participating hospitals to receive patients needing hospital care.

In an effort to remedy this shortfall in the program, Texas Health Care Association President Tim Graves and AHCA Senior Director of Special Programs Janice Zalen met with NDMS officials in May 2006 to provide their insights regarding the program's patient-transport component.

The two also highlighted deficits in the program with respect to long term care and special needs populations that other meeting participants—including the Federal Emergency Management Agency and the state of Florida—recognized as serious problems to be rectified in the NDMS program. In response NDMS officials assured AHCA that, if needed, they would step up to the plate to assist long term care patients. AHCA offered to assist NDMS and its federal partners should those efforts become necessary.

The report also addressed the provision of transportation during an evacuation. "According to hospital and nursing home [testimony], contractors providing transportation would be unlikely to provide them with vehicles during a major disaster because local demand for transportation would exceed supply," the report said.

In conclusion, GAO reported that it will be monitoring federal efforts to improve evacuation options for hospital and nursing facility patients. "Our ongoing work will continue to examine the vulnerabilities posed by disasters for hospital patients, nursing facility patients, and transportation-disadvantaged populations living in their communities," the report said.

—**Meg LaPorte**

Advocates Pursue Long Term Care Issues

Top: Members of the American Health Care Association (AHCA) have worked tirelessly to overcome the initial challenges of the Medicare Part D prescription drug program, AHCA President and Chief Executive Officer Bruce Yarwood, left, tells Department of Health and Human Services Secretary Michael Leavitt during a recent event to mark the wrap-up of the Part D enrollment period. The result was that far fewer residents went without their proper medications while the Centers for Medicare & Medicaid Services worked out the glitches in the program.

Below: AHCA Director of Government Affairs Ken Preede, right, talks with Secretary of Commerce Carlos Gutierrez, left, at a recent White House meeting on immigration policy. They are joined by a member of the Essential Workers Immigration Coalition. While both the House and Senate have passed immigration bills, with the president favoring the Senate version, strong differences between the two chambers have left little room for an acceptable compromise, thus dimming hopes that a bill will be passed in the near term.

Brookdale To Acquire ARC For $1.2 Billion

Continuing its buying spree, Chicago-based Brookdale Senior Living said it will acquire American Retirement Corp. (ARC) for $1.2 billion, or $33 a share, establishing one of the nation's largest seniors housing and care operators.

Once completed, the new company will have 535 properties in 34 states, capable of serving 50,000 residents. The combined company will operate 73 independent living facilities with more than 13,750 units, 413 assisted living facilities with more than 21,640 beds, and 49 continuing care retirement communities with a combined total of more than 14,680 units.

"This is an extraordinarily powerful combination of complementary businesses that creates the nation's largest operator of senior living facilities," Brookdale Vice Chairman William Doniger said in a statement issued by the company. "American Retirement Corp. is a great strategic fit for us, and this combination creates, in our opinion, the highest-quality portfolio of senior housing assets in the United States."

Brookdale's Chief Executive Officer (CEO) Mark Schulte and ARC's CEO, Chairman, and President W. E. Sheriff will become co-CEOs of the combined company.

An affiliate of Fortress Investment Group, Brookdale's largest shareholder, provided $1.3 billion in equity for the merger, leaving Brookdale the option to reduce the amount of the equity commitment up to $650 million. The deal is expected to close in third quarter 2006.

Since Brookdale's initial public offering in November 2005, the company has purchased or committed to purchase $750.8 million in seniors housing assets. It recently completed the acquisition of Southern Assisted Living, Chapel Hill, N.C.

The company reported a net loss of $19.3 million, or $0.30 per diluted common share, in first quarter 2006, with same-store revenue, excluding developments, up 6.4 percent compared with fourth quarter 2005.

—**Lisa Gelhaus**

Medicaid Shortfalls On The Rise

Deficit Increased By 45 Percent Since 1999, Data Show

Results from BDO Seidman's fifth annual analysis of Medicaid reimbursement and allowable Medicaid costs reveal shortfalls in both 2003 and 2004, in addition to a projected deficit of $13.10 per patient day in 2006.

If the 2006 prediction holds true, it will represent a Medicaid shortfall increase of 45 percent from 1999 to 2006. What's more, when the estimated shortfall is extrapolated to all 50 states, it amounts to a projected deficit in Medicaid reimbursement to nursing facilities of $4.5 billion.

"Our findings demonstrate nursing home providers in most states will have to continue to rely on Medicare prospective payment, other payers, and other revenue sources to compensate for increasing Medicaid deficits," the report said. "It is highly unlikely that the Medicaid shortfall in nursing homes will decline in future years."

The report points to several factors underscoring this forecast: greater constraints on states' ability to generate federal matching funds, such as through intergovernmental transfers and provider taxes; Medicaid expenditure growth continuing to outpace state revenue growth; and states rebalancing their limited Medicaid resources with greater emphasis on home- and community-based services.

As for the previous two years, the BDO Seidman report noted that the average Medicaid reimbursement deficit in 2003 was $14.60 per patient day, 16 percent higher than the 2002 average. Extrapolated to all 50 states, the funding shortfall amounted to more than $5.1 billion in 2003, an increase of 14.7 percent over the estimated 2002 shortfall of $4.4 billion.

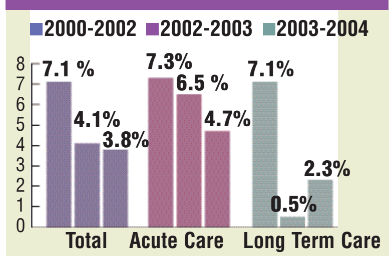
In 2004, the report says, there was an improvement over the prior year with the average shortfall decreasing to $12.58 per Medicaid patient day. Extrapolating this figure to all 50 states equals an estimated shortfall in Medicaid funding of nearly $4.4 billion.

A look at reimbursement trends among the data reveals that since 2002 rates have risen considerably in a number of states, while in other states rates have remained flat or improved only somewhat. In California, Connecticut, and Oregon, for example, the implementation or expansion of provider taxes contributed to higher reimbursement rates, the report said. In Texas, rates increased almost 12 percent in 2006 after three years of little or no increases, while rates in Ohio and Utah went up less than 1 percent.

Overall, most of the 32 states providing current rate data show increases since 2004 that were less than the projected increases in nursing facility costs. Florida's rates, for example, increased nearly 8 percent since 2004, while rates in 10 states increased significantly less than the general rate of inflation, the report said.

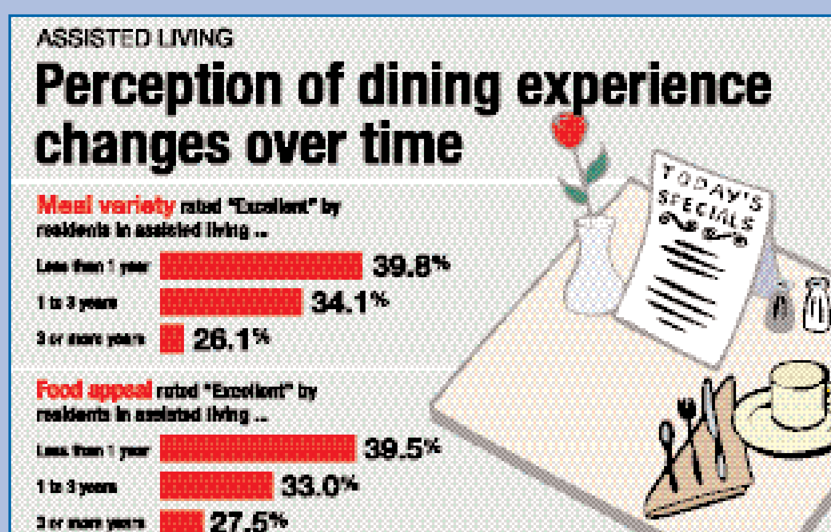
—Meg LaPorte

GROWTH IN MEDICAID SPENDING PER ENROLLE 2000-2004



Source: Urban Institute, 2005; estimates based on data from the Medicaid Statistical Information System; CMS Financial Management Reports; and Kaiser Commission on Medicaid and the Uninsured/HMA enrollment data

By The Numbers



Scores represent percent of assisted living residents—categorized by length of stay—who rated these survey items as "Excellent." Source: Assisted Living Resident Satifaction Survey data collected in 2005 by My InnerView Inc.

Extendicare Converts To REIT

Company Spins Off Assisted Living Unit

Extendicare Health Services, Milwaukee, will convert to a Canadian real estate investment trust (REIT) and spin off its Assisted Living Concepts (ALC) into a publicly traded company on the New York Stock Exchange, the company announced recently, following six weeks on the auction block.

"I am pleased that this strategic reorganization is proceeding in such a positive direction for our shareholders," said Extendicare's Chief Executive Officer Mel Rhinelander.

While the company had received bids for its purchase in the previous weeks, when compared with the reorganization, "we believe the REIT will provide better value for our shareholders," he said during an investor conference call.

When pressed for further explanation of the conversion, Rhinelander said that the U.S. market is more conducive to the company's growth and strategic plans. "With more positive funding models now in the U.S., and the resource utilization group issues resolved, we are now moving in that direction," he said, adding that "the new REIT will enable growth both organically and with acquisitions. You will see movement in that area soon."

Extendicare, which ranked No. 7 on *Provider* magazine's Top 50 Nursing Facility Chains for 2005, and No. 6 among assisted living companies, will continue to operate its U.S. and Canadian skilled nursing facilities and related businesses through wholly owned operating entities. The company also will apply for a Toronto Stock Exchange listing.

Extendicare will transfer 29 assisted living facilities currently owned by the company to ALC. Upon completion of the reorganization, ALC will be comprised of a total of 206 assisted living properties with 8,251 units and will be ranked among the five largest assisted living companies in the United States, with annual revenue of $220 million, according to the company.

"It became clear to us that investors were not willing to recognize ALC at its true value," said Rhinelander of the ALC spinoff.

"If you look at the assisted living peer groups in the United States, multiples are trading better. We believe that ALC will be compared to other assisted living companies and be given enhanced value; there is a demand for solid, well-managed assisted living services in the U.S."

Completion of the reorganization is expected by Extendicare's 2006 third quarter. All directors of the company's board have advised that they will vote for the reorganization and have recommended that shareholders follow suit.

—Meg LaPorte

RehabCare To Acquire Symphony

In a deal that will make it one of the largest providers of rehabilitation program management services in the United States, St. Louis-based RehabCare announced recently that it will purchase Symphony Health Services, Hunt Valley, Md., for more than $101 million in cash.

The new conglomerate will service some 24,000 patient visits per day in more than 1,400 facilities in 42 states, Washington D.C., and Puerto Rico, said a recent RehabCare statement, which described the transaction as creating a stronger, more vital company with the scale, reach, and vision to service the full post-acute continuum.

"Our acquisition of Symphony Health Services is a unique opportunity to combine the services and best practices of the two largest providers of contract therapy in the United States," said RehabCare President and Chief Executive Officer (CEO) John Short. "The combination will create a scalable, responsive, single-source provider of rehabilitation program management services necessary to compete in today's fast-growing health care marketplace."

According to Symphony President and CEO R. Scott Jones, there is a "strong alignment in culture, values, and service delivery methods" between the two companies, and Symphony "looks forward to completing the transaction," which was expected, at press time, to close on or about June 30.

The three companies that comprise Symphony—RehabWorks, VTA Management Services, and Polaris Group—collectively provide contract therapy, nursing, and health care consulting services for the post-acute industry.

RehabCare provides physical rehabilitation management services for hospital inpatient rehabilitation and skilled nursing units, outpatient programs, and contract therapy services in conjunction with hospitals and skilled nursing facilities in 39 states, Washington, D.C., and Puerto Rico. The company also operates three freestanding rehabilitation hospitals and two long term acute care hospitals.

—Meg LaPorte

AHCA Stakes Out Medicaid Stance

Yarwood Testifies Before Commission

Testifying before the federal Medicaid Commission recently, the American Health Care Association (AHCA) outlined the association's new Medicaid reform policies and advised the panel that long term care stakeholders must come together to address the program's chronic structural problems that threaten the welfare of America's seniors. "Broad-based Medicaid reforms must effectively and efficiently address the distinctive needs of different populations, including acute medical care for the poor; long term care for the elderly; continuing care for people with disabilities, including developmental disabilities; and care for people with mental illness," AHCA President and Chief Executive Officer Bruce Yarwood told the panel.

In presenting the reform recommendations to the commission, Yarwood outlined five fundamental principles: the need for publicly and privately financed long term care and related supports and services that meet consumer needs and preferences; the promotion and integration of a comprehensive array of public and private long term care financing options; a sufficient investment in federal and state governmental infrastructure to ensure the delivery of an adequate array of services; recognition that a nursing facility or intermediate care facility for people with mental retardation and developmental disabilities may be the most appropriate setting to meet complex needs; and the acknowledgement that long term care and acute care providers deliver services are distinctly different from one another.

Meanwhile, the Centers for Medicare & Medicaid Services received word from the president's office in early June to go ahead with reductions to the current provider tax of 6 percent down to 3 percent. At press time, CMS was expected to initiate the process through a notice of proposed rule making to be issued some time this summer.

"The reality is that we are experiencing an incremental, steady squeeze on state and federal Medicaid budgets, and the growing disparity between the rising cost of providing care and actual government reimbursement levels threaten our ability to sustain the care quality gains achieved through the Nursing Home Quality Initiative and our profession's Quality First program," Yarwood told the commission.

—Meg LaPorte

Stock Check

PROVIDERS	Symbol	Where Traded	Current Price 5/31/06	Adjusted P/E Ratio	% Change From 1/1/06	52-Week Range High	Low
Skilled Nursing							
Advocat	AVCA	OTC	$16.25	6.3	208%	$16.45	$3.76
Extendicare	EXE	NYSE	$22.63	10.9	45%	$25.35	$14.05
Genesis Healthcare Corp.	GHCI	NASDAQ	$47.07	9.2	29%	$48.22	$34.64
Kindred Healthcare	KND	NYSE	$25.36	7.3	-2%	$42.11	$19.70
Manor Care	HCR	NYSE	$46.44	11.6	17%	$47.52	$34.70
National HealthCare	NHC	AMEX	$44.35	8.5	19%	$45.49	$32.76
Sun Healthcare Group	SUNH	NASDAQ	$8.21	10.9	24%	$9.09	$6.00
Developmental Disability Service Companies							
ResCare	RSCR	NASDAQ	$19.85	N/A	15.9%	$21.89	$13.13
Assisted/Independent Living							
American Retirement	ACR	NYSE	$32.21	13.8	28%	$32.34	$13.30
Brookdale Senior Living	BKD	NYSE	$49.45	23.2	66%	$49.90	$19.00
Capital Senior Living	CSU	NYSE	$11.00	16.7	6%	$11.44	$5.98
Emeritus Assisted Living	ESC	AMEX	$21.49	14.4	3%	$25.24	$12.00
Five Star Quality Care	FVE	AMEX	$11.00	11.0	40%	$12.10	$6.02
Sunrise Senior Living	SRZ	NYSE	$33.49	14.5	-1%	$39.68	$25.59
REITs				**Yield**			
Health Care Property Investors	HCP	NYSE	$26.15	6.5%	2%	$28.92	$24.25
Health Care REIT	HCN	NYSE	$33.89	7.6%	0%	$39.20	$32.80
Healthcare Realty	HR	NYSE	$32.66	8.1%	-2%	$41.36	$31.01
LTC Properties	LTC	NYSE	$21.96	6.6%	4%	$23.92	$19.26
National Health Investors	NHI	NYSE	$26.76	7.2%	3%	$30.95	$23.03
Nationwide Health Properties	NHP	NYSE	$20.99	7.2%	-2%	$26.15	$19.67
National Health Realty	NHR	AMEX	$17.54	7.6%	-6%	$20.98	$16.80
Omega Healthcare	OHI	NYSE	$12.33	7.8%	-2%	$14.28	$11.15
Senior Housing Properties Trust	SNH	NYSE	$17.21	7.4%	2%	$20.00	$16.56
Universal Health Realty	UHT	NYSE	$31.17	7.3%	-1%	$40.80	$29.96
Ventas	VTR	NYSE	$32.44	4.9%	1%	$34.66	$27.91

Quotes courtesy of Irving Levin Associates, New Canaan, Conn. Phone: (203) 966-4343.

(1) Adjusted P/E=(market cap + total debt + capitalized leases = cash)/annualized EBITDAR based on the most recent quarter. The rate used to capitalize the leases has been changed from 12.5% to 10.0% effective 1/31/06 to better reflect market conditions.

Dual Eligibles In Assisted Living Would Benefit From Bill

A gap in the Medicare prescription drug law poses financial hardships on low-income residents of assisted living facilities, say organizations who recently coalesced behind a Senate bill that seeks to eliminate co-pays for this population.

More than 30 groups—representing consumers, health care and long term care providers, pharmacists, and state ombudsmen—are supporting passage of the Home and Community Services Co-payment Equity Act of 2006 (S 2409), introduced by Sen. Gordon Smith (R-Ore.). The bill seeks to eliminate Part D co-payments for dual eligibles residing in assisted living, residential care facilities, and other licensed facilities deemed appropriate by the secretary of Health and Human Services. These facilities include group homes for people with mental retardation and developmental disabilities, psychiatric health facilities, and mental health rehabilitation centers. Dual-eligible beneficiaries receiving services under Medicaid's home- and community-based services (HCBS) waivers in home settings would also be relieved of Part D co-payments under the bill.

Studies estimate that 121,000 people in assisted living and residential care facilities would be affected by S 2409, while another 500,000 dual eligibles living at home are receiving HCBS, according to American Health Care Association estimates.

Individuals are required to use their personal needs allotment—a small monthly stipend taken from their monthly Social Security check—to pay for personal items such as shampoo, clothing, over-the-counter medication, and their Part D plan prescription drugs. For example, assisted living residents in Arkansas who are receiving benefits under the state's HCBS waiver are allotted $55 per month. While drug co-pays range between $1 and $5 per medication on Medicare's plans, a 2002 study revealed the average assisted living resident uses an average of eight to 10 prescriptions per month, with some using as many as 25. It is easy to see how the co-pays can add up quickly, say backers of the Smith bill.

"These co-pays may not seem like a lot of money, but if you need eight medicines a month the expense adds up quickly for people with extremely limited means," says David Kyllo, executive director of the National Center for Assisted Living (NCAL).

"For some dual-eligible residents these prescription co-payments will exceed their monthly personal allowances under Medicaid. Providers are concerned that the quality of life for these residents may be compromised."

NCAL organized a coalition of more than 30 groups that signed onto a letter of support for S 2409. In the letter to Sen. Smith the groups stated, "Even Part D co-payments of $1 to $5 per prescription can present financial hardships for dually eligible assisted living residents, and as we have heard from facilities across the country, could impede people from receiving needed medications."

Other sponsors of the bill include Sens. Jeff Bingaman (D-N.M.), Hillary Clinton (D-N.Y.), Blanche Lincoln (D-Ark.), and Bill Nelson (D-Fla.).

—**Lisa Gelhaus**

Harborside Enters Home Care Territory

Harborside Healthcare, Boston, has announced that it will acquire Physician's Health Care (PHC), a home health care company based in Quincy, Mass. PHC provides medical, rehabilitation, and behavioral services in eastern Massachusetts.

Under terms of the agreement, PHC founders John Talbot and Timothy Lowney, MD, will maintain 25 percent ownership of the company, with Harborside assuming the remaining 75 percent. PHC will continue to operate as a separate entity.

"It is an exciting opportunity," said Harborside's Chief Executive Officer Damian Dell'Anno. "Our success is based on our ability to improve the lives of the patients who rely on us and to meet the health care needs of the communities we serve. With the support of home health care, patients are able to leave the skilled setting and get back to their homes where they belong and still get the services they need. [PHC] will form the nucleus of our expansion into a range of health services to complement our core business of long term care."

Harborside plans to "grow with PHC to meet the needs of the patients in other communities served by Harborside facilities and to provide patients with access to a continuum-of-care approach to their recovery and rehabilitation," said a company statement, which noted that in a typical year, approximately 50 percent of the 16,000 discharges from Harborside facilities go home and require home health services.

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HCP Acquires CNL For $5.2 Billion

Health Care Property Investors (HCP), Long Beach, Calif., may soon become the "nation's largest portfolio of independent and assisted living communities, health care facilities, and medical office buildings," following its $5.2 billion purchase of Orlando, Fla.-based CNL Retirement Properties, according to a recent HCP announcement.

The agreement, which HCP claims is the largest transaction in health care real estate investment trust history, consists of payment to CNL of $13.50 per share of its outstanding common stock, in the form of cash and HCP stock. The deal is expected to close by the end of September, HCP said.

HCP's new portfolio will consist of nearly 800 properties in 44 states, including some operated by the seniors housing industry's foremost names, such as Sunrise Senior Living, American Retirement Corp., HCA, Horizon Bay, Erickson Retirement Communities, and Encore Senior Living.

Beverly Splits Into Two Companies

While the recent merger of Ft. Smith Ark.-based Beverly Enterprises (BEI) with Pearl Senior Care has resulted in a major restructuring of the company, much of BEI's service businesses will remain intact, according to BEI spokesperson Amy Knapp. The new entity now consists of two separate, independent operating businesses, each with its own management structure, Knapp says.

BEI owns the land and buildings for 260 of its nursing facilities through a newly formed subsidiary called Geary Property Holdings. Additional nursing facility properties are owned by other BEI subsidiaries, including Beverly Health and Rehabilitation Services. Through its own subsidiaries, Beverly Health and Rehabilitation Services continues to operate 80 nursing facilities that are leased from third-party landlords.

The second major component of BEI's new structure is GGNSC Holdings, a parent company to Golden Gate National Senior Care, which has subsidiaries operating 262 nursing facilities.

Another subsidiary of GGNSC Holdings, Golden Gate Ancillary, operates the service businesses as independent entities. The service businesses will retain their existing names: Aegis Therapies, Aegis Acute Rehab, AseraCare Hospice and Home Health, and Aedon Staffing. CERES Purchasing Solutions and Vizia Healthcare Design Group also have been reorganized as separate companies, and they will retain their existing names.

"The service businesses will continue to work with the BEI nursing facilities as they have in the past, as well as with Golden Gate National Senior Care nursing facilities," says Knapp.

A third subsidiary of GGNSC Holdings is a separate company called GGNSC Administrative Services, which has been created to provide support services on a contract basis to BEI and Golden Gate nursing facilities as well as to the service businesses.

—Meg LaPorte

Sept. 10-16 Marks National Assisted Living Week

Assisted living and residential care residences nationwide will celebrate the 12th annual National Assisted Living Week (NALW), Sept. 10 to Sept.16, 2006. The event was established by the National Center for Assisted Living (NCAL) in 1995 to acknowledge the role that more than 36,000 assisted living residences play in helping some 1 million seniors and people with disabilities enjoy a meaningful quality of life.

This year's theme, "Hearts in Harmony," honors the special bond between assisted living staff and the seniors for whom they care. For the third consecutive year, the assisted living profession, including NCAL, the American Association of Homes and Services for the Aging, and the Assisted Living Federation of America will celebrate this week together. CNL Retirement Corp., a real estate investment trust, Orlando, Fla., returns as corporate sponsor.

In preparation for this year's event, NCAL offers a planning guide that includes suggestions for special activities that promote the social and recreational interaction between residents, staff, family members, and volunteers. For more information, visit www.nalw.org.

—Lisa Gelhaus