

SENATE BILL REPORT

SB 5724

AS REPORTED BY COMMITTEE ON WAYS & MEANS, APRIL 14, 1993

**Brief Description:** Changing nursing home auditing and cost reimbursement provisions.

**SPONSORS:** Senator Rinehart; by request of Department of Social and Health Services

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** That Substitute Senate Bill No. 5724 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rinehart, Chairman; Spanel, Vice Chairman; Bauer, Gaspard, Hargrove, Jesernig, Owen, Pelz, Quigley, Snyder, Sutherland, Williams, and Wojahn.

**Staff:** Tim Yowell (786-7715)

**Hearing Dates:** April 13, 1993; April 14, 1993

**BACKGROUND:**

There are approximately 300 nursing homes in Washington, with a total of about 30,000 beds, of which about 90 percent are occupied on any given day. Of the occupied beds, about 5 percent are reimbursed by Medicare, about 28 percent are reimbursed on a private-pay basis, and the remaining two-thirds are paid through the state/federal Medicaid program. At the current services level, Medicaid nursing home expenditures will total \$1 billion in 1993-95, which is a \$180 million increase from the 1991-93 biennium. Of this total increase, about \$30 million is due to increased nursing home caseloads, and the remaining \$150 million is due to increased payment rates.

Nursing home payment rates are re-set at the beginning of each state fiscal year, according to a complex set of rules defined in state law. A nursing home's Medicaid rate is its actual allowable costs for the previous calendar year, adjusted for inflation. A facility's actual costs are subject to a number of lids and limitations regarding the types and amount of costs eligible for reimbursement, and allowable growth from one year to the next.

The growth in Washington's nursing home rates has consistently outpaced inflation. Over the past five years, Medicaid payment rates increased an average of 11 percent per year, a real increase of about 6.5 percent per year after adjusting for inflation. Washington's nursing home payment rate compares favorably with those of other states. In 1992, Washington's Medicaid rate ranked 15th highest among the 39 states for which data are available. Washington's rate is the

highest of the ten western states, and 9.5 percent higher than the second highest state, California.

Governor Lowry's budget and the Senate budget both propose changes in the method used to calculate nursing home rates. Under these changes, nursing home payment rates would increase by about \$115 million in 1993-95, rather than by \$150 million as under current law. During 1993-95, nursing home rates would increase an estimated 6.8 percent each year, rather than the 8.5 percent per year projected in the Senate ERL budget, and the 9.6 percent per year projected in Governor Lowry's ERL.

**SUMMARY:**

The original bill was not considered.

**EFFECT OF THE PROPOSED SUBSTITUTE:**

The proposed bill would make eight primary changes in the current reimbursement system:

- 1) There is a full-scale rate recalculation every two years, rather than every year as under the current system. In the second year of the biennium, a facility's rate is its first year rate, inflated by a national measure of nursing home inflation.
- 2) Urban and rural facilities are separated into two "peer groups" for purposes of establishing cost lids. The current system includes all facilities in a single group.
- 3) Nursing services costs are lidded at the median for each peer group, plus 25 percent. That is, the state no longer reimburses a facility for nursing costs which are more than 25 percent higher than the middle facility in its peer group, when all facilities are ranked according to costs.
- 4) Food costs are lidded at the median for each peer group, plus 25 percent. Currently, providers receive a flat rate for food, regardless of their actual spending.
- 5) Administrative costs are lidded at the median for each peer group, plus 10 percent. Currently, administrative and operating costs are lidded at the 85th percentile, and administrator salaries are subject to specific upper limits.
- 6) Other operating costs are separated from administrative costs for lidding purposes, and lidded at the peer group median plus 25 percent. Currently, such costs are combined with administration, and lidded at the 85th percentile.
- 7) There continues to be a 1-4 percent variable "efficiency incentive" to reward lower costs homes. However, nursing

services costs no longer are excluded from the efficiency calculation.

- 8) The state may no longer recapture the depreciation it has paid on a facility when the facility is sold at a profit.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** requested April 8, 1993

**Effective Date:** July 1, 1993

**TESTIMONY FOR:**

Washington's payment rate is higher than other western states and has been growing more rapidly. The question before the Legislature is whether the state can afford to continue to grow so rapidly in tough economic times like these. The Department of Social and Health Services believes that the proposal is a fair and defensible way to control costs. Rates would still increase under the bill, but at a slower rate.

**TESTIMONY AGAINST:**

The bill is an implicit "sick tax" on private patients because costs will have to be covered somehow and providers will just have to shift costs onto private-pay residents. Operators are doing everything they can to control costs, but costs are being driven by economic and regulatory factors beyond their control. The purported savings in the bill are well within the under-expenditures which have occurred in the nursing home budget each of the last two years, so the Legislature should hold action on this until next year. The legislation will compromise access to nursing home care for the heavy-care patients who need it most. Nursing home rates are higher in Washington because wages and care standards are also.

**TESTIFIED:** Charles Reed, Department of Social and Health Services (pro); Jerry Reilly, Washington Health Care Association (con); Charles Hawley, Sisters of Providence (con); Karen Tynes, Washington Association of Homes for the Aging (con)