

# HOUSE BILL REPORT

## E2SHB 1484

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### As Passed Legislature

**Title:** An act relating to the medicaid related payment of property costs in licensed nursing facilities.

**Brief Description:** Modifying property valuation methods for reimbursing nursing facilities.

**Sponsors:** By House Committee on Health Care (Originally sponsored by Representatives Parlette, Cody, Alexander, Conway and Edwards).

**Brief History:**

**Committee Activity:**

Health Care: 2/4/99, 3/2/99 [DPS];

Appropriations: 3/5/99, 3/6/99 [DP2S(w/o sub HC)].

**Floor Activity:**

Passed House: 3/12/99, 95-0.

Senate Amended.

Passed Senate: 4/21/99, 45-0.

House Concurred.

Passed Legislature.

### **Brief Summary of Engrossed Second Substitute Bill**

- The current financing allowance for existing facilities and projects (set at 10 percent for all existing facilities) is retained and the financing allowance for all new assets acquired after the effective date of this act is set at 8.5 percent.
- For new construction or major renovation projects acquired after the effective date of the act, fixed equipment (wiring, plumbing, heating and air conditioning systems, etc.) will be depreciated using the same life as the building to which it is affixed.
- Major assets acquired after the effective date of this act must be depreciated over at least 40 years.
- Property tax increases resulting from new construction or major renovation projects are paid to the nursing facility in a rate increase up to the operations median.
- Working capital is removed from the nursing home rate.

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### **HOUSE COMMITTEE ON HEALTH CARE**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Cody, Democratic Co-Chair; Parlette, Republican Co-Chair; Pflug, Republican Vice Chair; Alexander; Boldt; Campbell; Conway; Edmonds; Edwards; Mulliken and Ruderman.

**Staff:** Antonio Sanchez (786-7383).

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### **HOUSE COMMITTEE ON APPROPRIATIONS**

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Health Care. Signed by 31 members: Representatives Huff, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Alexander, Republican Vice Chair; Doumit, Democratic Vice Chair; D. Schmidt, Republican Vice Chair; Barlean; Benson; Boldt; Carlson; Clements; Cody; Crouse; Gombosky; Grant; Kagi; Keiser; Kenney; Lambert; Linville; Lisk; Mastin; McIntire; McMorris; Mulliken; Parlette; Regala; Rockefeller; Ruderman; Sullivan; Tokuda and Wensman.

**Staff:** Dave Johnson (786-7154).

**Background:**

Nursing facilities receive a payment rate from the state which factors in the costs of capital, buildings, and equipment. Such costs are recognized in three components of the total rate: property, financing allowance, and variable return. These three components comprise about 11 percent of the overall nursing home payment rate, and will result in about \$65 million of Medicaid expenditures in the 1999 state fiscal year.

The property rate covers the allowable cost of depreciation on nursing facility assets. Payment of property is calculated as depreciation from the prior year divided by total resident days, or resident days at 85 percent occupancy, whichever is greater.

The financing allowance provides for interest expense on debt used to finance facility construction, improvements, and equipment purchases. It also factors in interest on working capital, which is calculated as 5 percent of the rest of the rate. Payment for interest and other financing expenses is calculated at a 10 percent rate specified in statute, rather than based on actual interest expense. The property and financing portions of the rate have grown an average of 9.6 percent per year during the 1990's.

The variable return portion of the capital payment system provides a 1 percent to 4 percent supplement to the rest of the rate to provide an opportunity for profit, and to cover operating costs not recognized within other components of the Medicaid payment system. The variable return is also intended to provide an efficiency incentive, since nursing facilities with the lowest cost per resident day receive the 4 percent add-on, while those with the highest costs receive 1 percent.

If the statewide average nursing facility payment rate begins to exceed the rate budgeted in the biennial budget act, all rates are to be reduced by the percentage by which expenditures would otherwise exceed the budgeted level.

Legislation in 1995 and again in 1998 sunset the provisions of the nursing home payment system governing variable return, property, and financing allowance payments. The 1999 Legislature needs to make some statutory provision for such payments if it wants them to continue after June 30, 1999.

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**Summary of Bill:**

The current method for determining the variable return rate is retained.

For new construction or major renovation projects, fixed equipment (wiring, plumbing, heating and air conditioning systems, etc.) is depreciated using the same

life as the building to which it is affixed. Major assets acquired after the effective date of the act are depreciated over at least 40 years.

The financing rate is no longer applied to working capital. The 10 percent financing rate is retained for all existing facility assets, and also for those which have received a certificate of need approval or exemption, or which have submitted working drawings to the Department of Health, prior to the date of enactment. The financing allowance for other new assets is set at 8.5 percent.

A "capital portion" of the rate and a "non-capital portion" of the rate are defined. If expenditures for either of these portions begin to exceed the level established for that portion in the biennial budget act, all facilities have that portion of their rate reduced by the percentage by which expenditures would otherwise exceed the budgeted level.

Beginning July 1, if a contractor experiences an increase in property taxes as a result of new or replacement construction or a substantial addition which requires land acquisition, the department adjusts rates to cover state and county increases in real estate taxes, effective the first day on which the increased tax is due.

Provisions related to variable return, property, and financing rate-setting are repealed June 30, 2001.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** (Health Care) (Original bill) This measure will be fair to patients who need and deserve a good place to live and to receive good quality of care. It is also fair to existing facilities that have renovated or rebuilt under terms of the current system. Older facilities will benefit.

(Appropriations) (Substitute bill) This is a good bill that honors past commitments made when providers invested in new or remodeled facilities. The capital payment system is important if we want quality facilities. The variable rate of return punishes those who are less efficient. While the bill would be improved by setting a depreciation floor and by the current funding of property taxes, this is an important and good bill.

**Testimony Against:** (Health Care) (Original bill) This measure will cost additional tax dollars and is not in the Governor's budget.

(Appropriations) (Substitute bill) This bill does not generate the level of savings assumed in the Governor's budget. All providers receive some variable rate of return, even the least efficient ones. This does not appear to be a prudent way to spend money. The money should be provided to home care workers instead.

**Testified:** (Health Care) (Original bill) (Support) Karen Tynes, Washington Association of Housing Services Assistance; Chuck Hawley, Sisters of Providence; Jerry Reilly, Washington Health Care Association; Robert Ogden, Providence Mount St. Vincent; and Sam Wan, Kin On Health Care.

(Health Care) (Oppose) Denise Gaither, Department of Social & Health Services; and Bruce Reeves, Senior Citizen Lobby.

(Appropriations) (In support) Jerry Reilly, Washington Health Care Association; Karen Tynes, Washington Association of Housing and Services for the Aged; and Linda Hull, Sisters of Providence.

(Appropriations) (Opposed) Nancy Holderman, Department of Social and Health Services.

(Appropriations) (Concerns) Bruce Reeves, Senior Citizens Lobby.