SENATE BILL REPORT

E2SHB 1484

As Reported By Senate Committee On:
Health & Long-Term Care, March 25, 1999
Ways & Means, April 20, 1999

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: House Committee on Appropriations (originally sponsored by Representatives Parlette, Cody, Alexander, Conway and Edwards).

Brief History:
Committee Activity: Health & Long-Term Care: 3/24/99, 3/25/99 [DPA-WM].
Ways & Means: 4/19/99, 4/20/99 [DPA].

SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Thibaudeau, Chair; Wojahn, Vice Chair; Costa, Deccio, Johnson and Winsley.

Staff: Rhoda Jones (786-7198)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.
Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Rasmussen, Rossi, B. Sheldon, Snyder, Spanel, Thibaudeau, Winsley, Wojahn and Zarelli.

Staff: Tim Yowell (786-7435)

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.

Summary of Amended 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.

Ways & Means Amended Bill Compared to Substitute Bill: 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. A capital portion– of the rate and a non-capital portion– of the rate are defined. Language is removed setting a certificate of need bed-to-population ratio for nursing facility beds in statute. Provisions related to variable return, property, and financing rate-setting are repealed June 30, 2001.

Health & Long-Term Care Amended Bill Compared to Substitute Bill: Language is removed setting a certificate of need bed-to-population ratio for nursing facility beds in statute.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause. All sections take effect July 1, 1999, except Section 11, which takes effect immediately.

Testimony For (Health & Long-Term Care): This bill helps to assure that the capital investments made in the past are honored, and that future nursing facility stock will satisfy demand.

Testimony Against (Health & Long-Term Care): There is not enough money in the proposed budget to pay for the provisions in this bill.

Testified (Health & Long-Term Care): PRO: Representative Gary Alexander; Representative Linda Parlette; Chuck Hawley, Sisters of Providence; Karen Tynes, WAHSA; Gerry Reilly, WHCA; Bruce Reeves, Senior Citizens' Lobby (concerns); CON: Nancy Holderman, DSHS.

Testimony For (Ways & Means): The proposed bill is superior to the alternative of leaving the department to decide how rates are to be set. Two budget dials– will help protect direct care from being reduced in order to accommodate increased property costs.

Testimony Against (Ways & Means): DSHS does not support the bill because it could result in higher expenditures than proposed in the Governor's budget. The bill continues the variable return system, which in DSHS's view rewards even inefficient facilities. The two percent annual growth allowed in the proposed Senate budget for the capital portion of the rate is lower than prior trends, and could trigger immediate across-the-board reductions to all facilities' property payment rates. This could make it difficult for facilities to meet their mortgage commitments.

Testified (Ways & Means): CON: Nancy Holderman, DSHS Aging and Adult Services. CONCERNS: Jerry Reilly, Washington Health Care Association; Nick Federici, Washington Association of Homes and Services for the Aging; Chuck Hawley, Sisters of Providence Health Systems.