
Appropriations Committee

HB 2457

Brief Description: Changing rates in the nursing facility medicaid payment system.

Sponsors: Representatives Sommers and Lovick; by request of Department of Social and Health Services.

Brief Summary of Bill

- Modifies nursing home rate setting by reducing support services and operations lids to 80 percent of the current medians; eliminating the variable return rate component; and increasing minimum occupancy requirements from 85 percent to 90 percent for the direct care, therapy care, and support services rate components.
- Makes numerous capital rate component changes.
- Authorizes the Department of Social and Health Services to adopt rules to equalize therapy care rates between facilities.
- Increases the retention of settlement cost savings.

Hearing Date: 1/29/02

Staff: Bernard Dean (786-7130).

Background:

There are 255 Medicaid-certified nursing home facilities in Washington providing long-term care services to approximately 13,000 Medicaid clients. The payment system for these nursing homes is established in statute and is administered by the Aging and Adult Services Administration within the Department of Social and Health Services.

The rates paid to nursing facilities are based on seven different components. These components include rates paid for direct care, therapy care, support services, operations, property, financing allowance, and variable return.

The direct care rate component includes payments for the wages and benefits of nursing staff, non-prescription medications, and medical supplies. This rate component is most directly related to patient care and comprises roughly 55 percent of the total nursing facility

rate. The direct care rate component is based upon "case mix," or the relative care needs of the residents that it serves. In other words, direct care payments are calculated in such a way as to account for differences in client acuity. The higher the care needs of the clients, the higher the direct care rate. Case mix affects only the direct care rate component.

Two other components relate to patient care. The therapy care rate component includes payments for physical therapy, occupational therapy, and speech therapy and the support services rate component includes payments for food, food preparation, laundry, and other housekeeping needs.

The operations rate component pays for administrative costs, office supplies, utilities, accounting costs, minor building maintenance, and equipment repairs.

The property and financing allowance rate components relate to the capital cost of a nursing facility. The property rate is a payment made to reflect the depreciation of a facility and other capital assets. Property depreciation periods vary, with most new facilities depreciating over 40 years.

The financing allowance is paid and calculated by multiplying an interest rate by the value of the assets. The applicable interest rate is 10 percent for construction proposed prior to May 17, 1999, and 8.5 percent for construction proposed after that date.

The variable return rate component does not reimburse nursing facilities for a specific cost. Rather, nursing facilities that serve residents at the lowest cost per resident day receive an efficiency incentive and an opportunity to make a profit or to pay for unreimbursed costs in other areas. Variable return is paid at one to four percent of the total direct care, therapy care, support services, and operations rate components based on the facilities relative efficiency when measured in comparison with the same costs in other facilities throughout the state.

Facilities are obligated to return any difference between actual costs and the rates paid for the direct care, therapy care, and support services components following an audit and settlement process. Currently, providers may retain any overpayment that does not exceed 1.0 percent of the facility's direct care, therapy care, and support services rate.

Summary of Bill:

The support services and operations lids are reduced to 80 percent of the current medians. The support services and operations rates are set to the lower of a facilities' per resident day adjusted costs from cost reports, or to 88 percent of the adjusted median per resident day support services cost and 80 eighty percent of the adjusted median per resident day operations costs for that facility's peer group.

The Department of Social and Health Services must adopt rules to equalize therapy care rates between nursing facilities based on the ratio of Medicaid residents receiving therapy care to private residents receiving such care.

Statutes and references pertaining to the variable return rate component are repealed.

With the exception of essential community providers, those facilities that are the only nursing facility within a commuting distance of 40 minutes, minimum occupancy requirements are raised from 85 percent to 90 percent for the direct care, therapy care, and support services rate components.

Numerous capital rate component changes are made, including: eliminating payments for the financing of land and land improvements and for the depreciation of land improvements; reducing capital rates for buildings to 80 percent of their actual net book value; increasing the equipment capitalization threshold from \$750 to \$2,500; and reducing the allowable financing allowance on existing assets to six percent.

In addition, settlement cost savings are increased by prohibiting providers from retaining any rate overpayments in the direct care, therapy care, and support services components.

Numerous technical changes are specified.

Appropriation: None.

Fiscal Note: Requested on January 17, 2002.

Effective Date: Ninety days after adjournment of session in which bill is passed.