SENATE BILL REPORT
SHB 2242

As of May 24, 2001

Title: An act relating to medicaid nursing home rates.

Brief Description: Revising provisions for medicaid nursing home rates.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Cody, Lisk, Ruderman, Alexander and Eickmeyer).

Brief History:
Committee Activity: Ways & Means: 5/22/01.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Tim Yowell (786-7435)

Background: There are 260 Medicaid-certified nursing home facilities in Washington providing long-term care services to approximately 13,500 Medicaid clients. The payment system for these nursing homes is established in statute and is administered by the Department of Social and Health Services.

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

In 1998 the Legislature adopted a case mix payment system. Under this system, direct care payments are calculated in such a way as to account for differences in client care needs. The higher the care needs of the client, the higher the direct care rate. Case mix affects only the direct care rate component.

Rather than implementing these changes all at once, the Legislature elected to phase in the changes over time. The Legislature accomplished this through the establishment of a hold harmless provision, and rate corridors. Under hold harmless, facilities are paid the greater of their case-mix rate, or their June 30, 2000, rate plus vendor rate increases. This hold harmless provision is set to expire June 30, 2002. Under the corridor, facilities whose direct care costs are below 90 percent of the median are raised to the 90 percent corridor floor, and those whose case-mix costs are above 110 percent of the median are paid at the 110 percent ceiling. The corridor narrows to 95-105 percent July 1, 2002.

Two rate components relate to the capital cost of a nursing facility. The first component is property, which is a payment made to reflect the depreciation of the facility and other capital assets. Property depreciation periods vary, with most new facilities depreciating over 40 years. A financing allowance is also 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. These two rate components sunset June 30, 2001.

Summary of Proposed Striking Amendment: The current property and financing payment systems are made permanent, with some revisions. Facilities seeking to have major construction funded in whole or in part by Medicaid after July 1, 2001 must obtain a certificate of capital authorization issued by the department. The total dollar value of the capital authorizations which may be issued during a biennium is specified in the biennial appropriations act.

Nursing homes may shift savings between the direct care and therapy costs centers to cover a deficit in these two cost centers.

The method of calculating the direct care rate component is modified. Once a facility's direct care rate is reimbursed under case mix, the facility continues to be paid under case mix from then forward. Direct care rates are based upon three rather than two peer groups: rural counties; urban counties in which the median direct care cost is at least 10 percent greater than in other urban counties; and other urban counties. The case-mix corridor is permanently established with a floor of 90 percent of the peer group median, and a ceiling of 110 percent.

The method of calculating the property, financing, and operations rate components is modified. Minimum facility occupancy for calculating these rate components is set at 90 percent. Rates are not adjusted upward for beds banked after April 1, 2001. These new provisions do not apply to "essential community providers," which are defined as the only nursing facility within a 40-minute commute.

Building owners with a secured interest in the beds may complete a bed replacement project if the facility licensee files for bankruptcy.

An eight-member joint legislative task force is established to monitor and evaluate various aspects of the nursing home reimbursement system. The task force is to submit any recommendations to the Legislature by December 1, 2003.

A number of technical changes to the nursing facility Medicaid payment system are specified.

Proposed Amended Bill Compared to Substitute Bill: The proposed striking amendment establishes three geographic peer groups for setting direct care rates; permanently establishes the case-mix corridor at 90-110 percent; raises minimum facility occupancy on the property, financing, and operations rate components to 90 percent; limits the extent to which rates will be increased for beds banked after April 2001; defines and provides an exemption for "essential community providers;" allows for building owners to complete replacement projects if a licensee bankrupts; continues the work of the joint legislative task force through 2003 rather than through 2001; and does not repeal the current case-mix payment system effective June 30, 2002.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed, except sections 1 through 10 and 12 through 16, which take effect on July 1, 2001, and sections 17

and 19 which take effect on June 29, 2001, and section 18 which takes effect on June 30, 2002.

Testimony For: The proposals in the striking amendment to establish a third peer group for high labor-cost counties, and to permanently set the case-mix corridor at 90 - 110 percent of median, would improve the current direct care payment system. These changes would reduce the negative impact which many facilities will otherwise experience when hold-harmless protections expire in July 2002. The proposal in the striking amendment to redirect funding from property to direct care by raising the minimum occupancy level and closing the bed-banking loophole is good public policy. The state should not pay for empty beds, and state reimbursement policy should not shield facilities from normal market forces. The long-term care market has changed. Limited state funds should be used to assure adequate staffing levels, not to prop up facilities which haven't changed with the market.

Testimony Against: The nursing home payment system is extremely complicated. There needs to be more consideration and input before changes are made. The criteria for the legislative task force study in the underlying bill are too restrictive " the study needs to look at many more issues. The current system should not be repealed, as proposed in the underlying bill, until a new system has been designed to replace it. There are a number of interesting proposals in the striking amendment, but there hasn't been adequate time for the industry to review them. Increasing the minimum occupancy level would lower the median allowable cost on the operations rate, which would harm all facilities, not just those with higher vacancy rates. There needs to be additional state funding for nursing homes, not a redistribution of existing funds.

Testified: PRO: Tom Kearns and Jim Lochner, DSHS Aging and Adult Services; Charles Hawley, Sisters of Providence Health Systems; Remy Trupin, Jewish Federation of Greater Seattle. CON: Harry Steinmetz, Washington Association of Homes and Services for the Aging; Jerry Reilly, Washington Health Care Association.