
Appropriations Committee

HB 1041

Brief Description: Revising the nursing facility medicaid payment system.

Sponsors: Representative Sommers; by request of Office of Financial Management.

Brief Summary of Bill

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| <ul style="list-style-type: none">• Modifies nursing home Medicaid payments by eliminating the case-mix corridor floor for direct care payments; eliminating the variable return rate component; changing the method of calculating financing allowance component rates for select facilities; and implementing an 8.5 percent across-the-board reduction to payments for operations, property, and financing allowance rate components. |
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Hearing Date: 1/24/05

Staff: Bernard Dean (786-7130).

Background:

There are about 240 Medicaid-certified nursing home facilities in Washington providing long-term care services to approximately 12,000 Medicaid clients. The payment system for these nursing homes is established in statute and is administered by the Department of Social and Health Services (DSHS).

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 54 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. The higher the care needs of the clients, the higher the direct care rate. Facilities whose direct care costs are below 90 percent of median costs are raised to 90 percent of the median (corridor floor), and those facilities whose costs are above 110 percent of the median are paid at the 110 percent corridor (corridor ceiling).

Two other components relate to patient care. The therapy care rate component includes payments for physical therapy, occupational therapy, and speech therapy. 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.

For certain nursing facilities, leased in arm's-length agreements as of January 1, 1980, the financing allowance rate is recomputed under a separate methodology, resulting in a rate benefit that equals the greater of the financing allowance and variable return rate or an alternate return on investment rate.

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 of 1 to 4 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.

Summary of Bill:

Nursing facilities whose allowable direct care costs are below 90 percent of median will receive rate allocations equal to their allowable costs.

Effective July 1, 2005, nursing facility component rates for operations, property, and financing allowance will be reduced by 8.5 percent.

The variable return rate component and enhanced financing allowance payments for three nursing facilities that were leased in arm's-length agreements as of January 1, 1980 are repealed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 2005.