HOUSE BILL REPORT
HB 1041

As Reported by House Committee On:
Appropriations

Title: An act relating to the nursing facility medicaid payment system.

Brief Description: Revising the nursing facility medicaid payment system.

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

Brief History:
Committee Activity:
Appropriations: 1/24/05, 4/18/05 [DPS].

Brief Summary of Substitute Bill

- Modifies nursing home Medicaid payments by eliminating the direct care case-mix corridor floor and by removing minimum nursing facility occupancy factors for calculating direct care payments.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hunter, Kenney, Kessler, Linville, McDermott, McIntire, Miloscia and Schual-Berke.

Minority Report: Do not pass. Signed by 12 members: Representatives Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Clements, Kagi, Pearson, Priest, Talcott and Walsh.

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 Substitute Bill:

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

Minimum nursing facility occupancy factors for calculating direct care payments will not be applied to nursing facility rates.

Substitute Bill Compared to Original Bill:

The substitute bill eliminates the 8.5 percent across-the-board reduction in operations, property, and financing allowance rate components. Additionally, changes that repealed the variable return rate component and enhanced financing allowance payments for facilities that were leased in arm's-length agreements as of January 1, 1980 are removed.

The substitute bill also specifies that minimum nursing facility occupancy factors for calculating direct care payments will not be applied to nursing facility rates.

Appropriation: None.

Fiscal Note: Available on original bill. New fiscal note requested on April 11, 2005.

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

Testimony For: (Original bill) None.

(Comments on original bill) This bill is necessary to implement former Governor Locke's proposed budget. Governor Gregoire has yet to take a position on the bill; however, the "Priorities of Government" process suggested a 5 percent reduction in nursing home rates. These reductions were targeted to non-direct care payments.

Testimony Against: (Original bill) The rate of pay for nurse aides does not reflect the professional capacity in which they serve. The pay rates are substandard and result in staff turnover. Professional work requires professional pay. Cutting funding means cutting care. Cutting care means the most vulnerable people in our society will suffer. The proposed cuts endanger nursing facility residents and have a devastating effect on quality of care. The gap between nursing home costs and Medicaid payments is widening. These cuts come on top of the shortfall between costs and payments.

Persons Testifying: (Opposed to original bill) Michelle Huntley, Marysville Care Center; Charlene Boyd, Providence Mount St. Vincent; Lenell Washington, Roo-Lan Health Care Center; Jonathan Eames, Washington Health Care; Paul Opgrande, Tacoma Lutheran Home; Chad Solvie, Martha & Mary Health Services; Sam Wan, Kenon Health Care Center; and Deb Murphy, Washington Association of Housing and Services for the Aging.

(Comments on original bill) Kathy Marshall, DSHS.

Persons Signed In To Testify But Not Testifying: None.