HOUSE BILL REPORT
EHB 2716

As Passed Legislature

Title: An act relating to nursing facility medicaid payment systems.

Brief Description: Modifying provisions relating to nursing facility medicaid payment systems.

Sponsors: Representatives Fromhold, Kessler, Skinner, Haigh, Strow, Moeller, Armstrong, Conway, Curtis, Murray, Buri, Green, Ericksen, Serben, McDermott, Morrell, McIntire, Appleton, Kenney, P. Sullivan, Ormsby and Linville.

Brief History:
Committee Activity: None.
Floor Activity:
Passed House: 3/7/06, 97-0.
Passed Senate: 3/8/06, 47-0.
Passed Legislature.

Brief Summary of Engrossed Bill

- The nursing facility Medicaid payment system is modified by rebasing direct care and operations component rate allocations based upon calendar year 2003 cost reports.
- Removes minimum occupancy standards for direct care component rate allocations and modifies the direct care case-mix corridor.
- "Vital local providers" will receive the greater of either their June 30, 2006, direct care and operations component rate allocations or the rate allocations for which they would qualify for under the standard payment system.

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 cost 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. 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, 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 of 1 to 4 percent of the total direct care, therapy care, support services, and operations rate components based on that facility's relative efficiency when measured in comparison with the same costs in other facilities throughout the state.

The property and financing allowance components of nursing facility rates are "rebased" annually to reflect actual costs. All other rate components have been rebased at periodic intervals specified in statute. The last full rebasing of nursing facility payment rates occurred on July 1, 2001, when rates were recalculated to reflect calendar year 1999 costs. During the years between rebasings, rates have been adjusted for economic trends and conditions (i.e., vendor rate increases) as specified in the biennial appropriations act.

Summary of Bill:

The nursing facility Medicaid payment system is modified by rebasing direct care and operations component rate allocations based upon calendar year 2003 cost reports.

The method of calculating the direct care rate component is modified. Minimum occupancy standards for direct care component rate allocations are removed. In addition, the direct care

case-mix corridor is modified by eliminating the corridor floor and increasing the corridor ceiling to 112 percent of the peer group median.

Effective July 1, 2006, variable return component rate allocations will be set to each facility's June 30, 2006 variable return component allocation.

"Vital local providers" are defined as those nursing facilities that have a home office in the state and have a sum of Medicaid days for all Washington facilities that was greater than 250,000 in 2003. Vital local providers will receive the greater of either their June 30, 2006, direct care and operations component rate allocations or the rate allocations for which they would qualify for under the standard payment system.

A number of clarifying technical changes are specified.

Appropriation: None.

Fiscal Note: Available on original bill.

Effective Date: This act takes effect July 1, 2006.

Testimony For: None.

Testimony Against: None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.