

SENATE BILL REPORT

SB 6430

As of February 07, 2006

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

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

Sponsors: Senators Keiser, Benton, Deccio, Roach, Thibaudeau, Zarelli, Pridemore, Franklin and Kohl-Welles.

Brief History:

Committee Activity: Ways & Means: 2/7/06.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Tim Yowell (786-7435)

Background: Through Medicaid, the state and federal governments will pay for nursing home care for an average of 11,500 people per month this biennium, at a cost of just over \$1 billion. Nursing home payment rates are established on a per-facility basis according to detailed standards, procedures, and formulas set forth in state law and regulation.

Nursing home payment rates are periodically "rebased" to account for actual operating costs, subject to standards of reasonableness, necessity, and allowability. Property and financing costs are rebased every year, while all other operating costs are rebased only when directed in statute. In years when rates are not rebased, they are adjusted quarterly to account for changes in patient acuity ("case-mix"), and annually to include any inflationary increases authorized in the appropriations act. The last full rebasing was in Fiscal Year 2002, using 1999 costs adjusted for inflation. Since then, the average nursing home payment rate has increased by about 12 percent, or three percent per year. The average patient acuity level has increased by 7 percent during that same period, and inflation as measured by the implicit price deflator (IPD) by 10 percent.

When rates are rebased, a minimum occupancy standard is applied to adjust reported costs for reasonableness and necessity. Under this standard, if less than 85 percent of a facility's available beds have been utilized during the year, the facility's allowable cost per patient day is calculated by dividing reported costs by the number of days of care that would have been delivered if 85 percent of the facility's beds had been utilized. This results in a lower rate per patient day than the facility would receive if at least 85 percent of its licensed capacity were utilized.

If a facility's actual allowable direct care costs per patient day, adjusted for case-mix, are less than 90 percent of the industry-wide median, its direct care rate is set at 90 percent of the median. This is often referred to as the "direct care corridor floor".

For-profit nursing homes are subject to state and local property, real estate, and business and occupations taxes. Non-profit nursing homes generally are not. Taxes are included in the

operations cost-center of the nursing home payment system, which also includes costs such as utilities, administration, and minor repairs. Operations cost center rates are limited to the industry median.

If actual average payment rates are projected to exceed the rate established in the appropriations act, all facilities' rates are to be reduced proportionally so as to not exceed the budgeted level. This is often referred to as the "budget dial".

Summary of Bill: Nursing home payment rates are rebased effective July 1, 2006, based upon calendar year 2004 costs, adjusted for legislatively-authorized inflationary increases.

No minimum occupancy standard applies to costs in the direct care component of the rate.

The direct care corridor floor is eliminated.

Facility rates include a property and business tax add-on calculated by dividing each facility's actual state and local taxes by the total number of patient days of care the facility actually provided during 2004. Such taxes are excluded from the operations cost center when industry-wide maximum allowable costs are established for that cost center.

The Department of Social and Health Services is to calculate two rates for each facility – one that reflects the facility's rate under the provisions of this bill, and a second that reflects what the facility would have been paid if this bill had not been enacted. Each facility is to be paid the higher of the two rates. If actual average payment rates are likely to exceed the average payment rate established in the appropriations act, rates are reduced so as to not exceed the budgeted level. The rate reduction applies proportionally to the increase received by each facility whose rate under the provisions of this bill exceeds the rate it would have received under the previous rate-setting system.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Testimony For: This bill would reduce, although not eliminate, the under-funding that exists in the nursing home rate. A compromise bill is being developed that would rebase direct care and operations costs based on 2003 cost reports. The proposed compromise bill would also eliminate the direct care minimum occupancy standard, and raise the direct care ceiling to 112 percent of the industry median.

Testimony Against: None.

Who Testified: PRO: Jonathan Eames, Washington Health Care Association.

CON: Deb Murphy, Washington Association of Homes and Services for the Aging (against underlying bill, for compromise being developed).