HOUSE BILL REPORT
SHB 1274

As Passed House:
June 24, 2015

Title: An act relating to implementing a value-based system for nursing home rates.

Brief Description: Implementing a value-based system for nursing home rates.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Cody, Jinkins, Johnson, Harris and Tharinger).

Brief History:
Committee Activity:
Appropriations: 1/28/15, 6/23/15 [DPS].
Second Special Session
Floor Activity:
Passed House: 6/24/15, 95-2.

Brief Summary of Substitute Bill

- Repeals current nursing facility payment statute, effective June 30, 2016.
- Inserts into statute a new nursing facility payment system, effective July 1, 2016.
- Delays the rebase of non-capital rate components from July 1, 2015, to July 1, 2016.
- Directs the Department of Social and Health Services to facilitate a workgroup that will recommend modifications to the new nursing facility payment system.
- Creates a new account for funds received through the reconciliation and settlement process, and also from penalties when facilities are out of compliance with minimum staffing standards.
- Authorizes the use of funds from the new account for technical assistance for nursing facilities, specialized training for nursing facilities, or to increase quality enhancement payments.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 33 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Chandler, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Carlyle, Cody, Condotta, Dent, Dunshee, Haler, Hansen, Harris, Hudgins, G. Hunt, S. Hunt, Jinkins, Kagi, Lytton, MacEwen, Magendanz, Pettigrew, Sawyer, Schmick, Senn, Springer, Stokesbary, Sullivan, Taylor, Tharinger, Van Werven and Walkinshaw.

Staff: James Kettel (786-7123).

Background:

The Washington State Medicaid (Medicaid) program includes long-term care assistance and services provided to low-income individuals. It is administered by the state in compliance with federal laws and regulations and is jointly financed by the federal and state government. The federal funds are matching funds, and are referred to as the Federal Financial Participation (FFP), or the Federal Medical Assistance Percentage (FMAP). The FMAP is calculated based on average per capita income and is usually between 50 and 51 percent for Washington. Typically, the state pays the remainder using the State General Fund. Clients may be served in their own homes, in community residential settings, and in skilled nursing facilities.

There are approximately 240 skilled nursing facilities licensed in Washington to serve about 10,000 Medicaid-eligible clients. Skilled nursing facilities are licensed by the Department of Social and Health Services (DSHS) and provide 24-hour supervised nursing care, personal care, therapies, nutrition management, organized activities, social services, laundry services, and room and board to three or more residents. The Medicaid nursing home payment system is administered by the DSHS. The Medicaid rates in Washington are unique to each facility and are generally based on the facility's allowable costs, occupancy rate, and client acuity (sometimes called the "case mix"). In the biennial appropriations act, the Legislature sets a statewide weighted average Medicaid payment rate, sometimes referred to as the "budget dial." If the actual statewide nursing facility payments exceed the budget dial, the DSHS is required to proportionally adjust downward all nursing facility payment rates to meet the budget dial.

The nursing home rate methodology, including formula variables, allowable costs, and accounting/auditing procedures, is specified in statute (RCW 74.46). The rates are based on calculations for six different components: direct care, therapy care, support services, operations, property, and a financing allowance. Rate calculation for the noncapital components (direct care, therapy care, support services, and operations) are based on actual facility cost reports and are typically updated biennially in a process known as rebasing. The capital components (property and financing allowance) are also based on actual facility cost reports but are rebased annually. All rate components, with the exception of direct care, are subject to minimum occupancy adjustments. If a facility does not meet the minimum occupancy requirements, the rates are adjusted downward. Also, the nursing facility payment system periodically includes add-on rate adjustments.

Under federal law and regulations, states have the ability to use provider-specific revenue to fund a portion of their state share of Medicaid program costs. This is sometimes referred to as a Medicaid provider assessment or sometimes as a provider tax or provider fee. States can use the proceeds from the assessment to make Medicaid provider payments and claim the federal matching share of those payments. Essentially, states use the proceeds from the provider tax to offset a portion of the state funds that would have been required to fund the Medicaid program. Federal regulations define the rules for the Medicaid provider assessment.

Summary of Substitute Bill:

The existing payment methodology for nursing facilities is repealed from statute, effective June 30, 2016. A new payment methodology for nursing facilities is placed into statute, effective July 1, 2016. A minimum staffing standard for nursing facilities is established, effective July 1, 2016. The rebase of non-capital rate components is delayed from July 1, 2015, to July 1, 2016. The DSHS is directed to facilitate a workgroup that will recommend modifications to the new payment methodology in a report to the Legislature, due December 1, 2015. A separate nursing facility quality enhancement account is created in the custody of the State Treasurer. Funds received through the reconciliation and settlement process will be placed into the new account, effective July 1, 2015. Funds received from penalties when facilities are out of compliance with the minimum staffing standard will be placed into the new account, effective July 1, 2016. The Secretary of the DSHS may authorize expenditures from the new account for technical assistance for nursing facilities, specialized training for nursing facilities, or to increase quality enhancement payments.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on June 23, 2015.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2015.

Staff Summary of Public Testimony:

(In support) On any given day there are approximately 10,000 Medicaid residents living in nursing homes within this state. Nursing providers depend on the Medicaid payment system to cover much of the cost of care for Medicaid residents. The existing cost reimbursement system, with six core components that were rebased every other year, used to work well for providers and residents. However, rebasing has not occurred on a regular basis, and for the last six years the Medicaid rate has been propped up by a series of rate add-ons. Only reimbursement analysts can make sense of the complexity with the current system. More providers will actually be harmed than helped if a rebase occurs this year, which is an example of the problem within the current system. A cost reimbursement system that results in drastic cuts for providers due to the long delay between rebases is by definition a broken system. Consequently, the reform of the Medicaid payment system is of the highest priority, and the new payment methodology should be placed into statute. The current system should serve as a bridge to the new system and, therefore, the rebase should be delayed until fiscal year 2017. The concept within this bill has actually worked in the past. In the late 1990s, a bill scheduled the existing nursing facility payment methodology for repeal, and directed the DSHS and stakeholders to outline a new payment methodology.

(In support with concerns) The mission of the Aging and Long-Term Support Administration (ALTSA) is to transform lives by promoting client choice and innovative services. This bill provides an opportunity to better align the nursing facility payment system with the mission of ALTSA. In 2007 the Legislature directed the DSHS to contract for a study of the nursing facility payment. That study is commonly called the Brown Study. The Brown Study outlines a number of recommendations for simplifying the rate methodology, and can serve as a resource for the DSHS and provider associations. The new system should be simpler and more transparent. There should be less time and money associated with administering the new system. Payments under the new system should recognize quality services that lead to positive outcomes for clients. A new rate methodology should reward nursing homes for taking clients with the highest care needs, and for successfully transitioning lower care clients into home- and community-based settings. Consumer involvement and caregiver involvement should be mandated during the design of the new system.

(With concerns) The incentives in the new system should produce the results that are desired for residents, families, and workers. Simply adding money into the system does not guarantee results, which has been the case for low-wage worker add-on payments. Better accountability in the system is needed. Nursing homes are difficult places to work. Turnover is high and wages are low. Staffing at the bare minimum is a danger to residents. Meal times are the worst time for accidents. If one staff member does not show up, then the facility can become critically short staffed. Safe and adequate staffing levels are needed for nursing staff and caregiving staff. The decision to sunset the current system without a vision for a new system would be a mistake. The cost reimbursement system was working, and was a good system, until the decision to delay the rebase of rates. There is no need for another report to guide a new system. The nursing facility payment methodology would be better off if the Legislature rebased rates with the 2013 cost report, and used the remaining safety net assessment revenue to make a few targeted policy changes. Rates should fairly reflect facility costs and continue to promote quality.

(Opposed) None.

Persons Testifying: (In support) Robin Dale and Dave Knutson, Washington Health Care Association.

(In support with concerns) Bill Moss, Department of Social and Health Services.

(With concerns) Nick Federici, Service Employees International Union 775; Jessica Field; and Scott Sigmun, Leading Edge.

Persons Signed In To Testify But Not Testifying: None.