HOUSE BILL REPORT
HB 2515

As Reported by House Committee On:
Appropriations

Title: An act relating to updating the medicaid payment methodology for contracted assisted living, adult residential care, and enhanced adult residential care.

Brief Description: Updating the medicaid payment methodology for contracted assisted living, adult residential care, and enhanced adult residential care.

Sponsors: Representatives Tharinger, Schmick, Cody, Johnson, Jinkins, Harris, Robinson, Wylie, Pollet and Ormsby.

Brief History:
Committee Activity:
Appropriations: 1/22/18, 2/6/18 [DPS].

Brief Summary of Substitute Bill

- Directs the Department of Social and Health Services (DSHS) to establish a new Medicaid rate payment methodology in rule for Assisted Living Facilities (ALFs).
- Defines a framework for the new methodology, including cost components and a rebasing schedule, consistent with the consensus recommendations of the ALF rate work group.
- Beginning July 1, 2019, requires the DSHS to make payments to ALFs based on the new methodology. Requires that payments based on the new methodology be phased in to full implementation according to funding made available by the Legislature.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 33 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Bergquist, Buys, Caldier, Cody, Condotta, Fitzgibbon, Graves, Haler, Hansen, Harris, Hudgins, Jinkins, Kagi, Lytton, Manweller, Pettigrew, Pollet,

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This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Sawyer, Schmick, Senn, Springer, Stanford, Sullivan, Taylor, Tharinger, Vick, Volz and Wilcox.

Staff: Mary Mulholland (786-7391).

Background:

General.
The Washington Medicaid program includes long-term care assistance and services provided to individuals who meet functional and financial eligibility criteria. The Department of Social and Health Services (DSHS) administers Washington's Medicaid long-term care program in compliance with federal laws and regulations and is jointly financed by the federal and state government. Clients may be served in their own homes, in community residential settings, or in skilled nursing facilities (nursing homes).

Assisted Living Facilities.
Assisted Living Facilities (ALFs) are one community setting in which individuals who are Medicaid-eligible for nursing homes may choose to be served. The ALFs are licensed by the DSHS to provide housing and basic services to seven or more residents and may provide assistance with activities of daily living or intermittent nursing services. Some ALFs contract with the DSHS to provide specific packages of services and are known as Adult Residential Care (ARC) or Enhanced Adult Residential Care (EARC). Medicaid rates paid to ALFs are not set through the collective bargaining process.

In the enacted 2017-19 Operating Budget, $198 million total funds ($93 million from the State General Fund) is budgeted for licensed ALFs, including ARC and EARC, to serve approximately 6,600 Medicaid clients on average per month.

History and Current Assisted Living Facility Medicaid Rate Methodology.
Current ALF rates originated with work done in the early 2000s to establish an acuity-based payment system that would incentivize serving lower-acuity clients in less-costly community settings rather than in nursing homes. In 2001 the DSHS conducted a time study to determine the average amount of staff time to serve clients of varying acuity levels. Using the results of the time study, the DSHS developed an acuity-based assessment system known as the Comprehensive Assessment Reporting and Evaluation (CARE) classification system and a corresponding payment methodology that weighted rates against estimated client care needs. Since inception of the CARE system and corresponding rate levels, the number of rate levels have remained lower than the number of CARE levels (currently there are 17 CARE levels and 13 payment levels). Rates vary based on three geographic service areas for King County, Metropolitan Statistical Area (MSA) counties, and non-MSA counties. The current ALF rate methodology is not prescribed in statute or rule, and there is no schedule for rebasing or updating it with current data.

The enacted 2017-19 Operating Budget directed the DSHS to convene a group of stakeholders in a collaborative effort to redesign the Medicaid payment methodology for ALFs, including ARC and EARC. The work group submitted its recommendations to the Legislature in December 2017.

Summary of Substitute Bill:

The DSHS must establish, in rule, a Medicaid payment methodology for ALFs, including ARC and EARC. The DSHS must make payments based on the new methodology beginning July 1, 2019, based on funding made available by the Legislature, which must be phased in to full implementation.

The new payment system must have three core components: client care, operations, and room and board.

Client Care.
Client care represents the labor component of the payment system, and must include variables to represent staff time, wages, and fringe benefits.

- The time variable is used to weight staff time against client acuity as represented in the DSHS' client classification system (CARE). The time variable must initially be established using the 2001 time study and the DSHS' estimates of average staff hours per client by job position.
- The wage variable recognizes the staff positions needed to perform the functions required by the AL, ARC, and EARC contracts. The wage variable must be adjusted according to service areas based on actual labor costs, and so that no baseline wage is below the state minimum wage at the time of implementation. There must be no less than two service areas, including a high labor cost service area.
- The fringe benefit variable represents employee benefits and payroll taxes. The percentage of fringe benefits must be established using the statewide nursing facility cost ratio of benefits and payroll taxes to in-house wages.

Operations.
The operations component represents costs that are reimbursable under federal Medicaid rules and must be calculated at 90 percent or greater of the statewide median nursing facility cost for supplies, nonlabor administrative expenses, staff education and training, and occupational overhead.

Room and Board.
The room and board component reimburses providers for costs, primarily raw food and shelter costs, that are not reimbursable under federal Medicaid rules. Beginning July 1, 2020, the room and board component must be updated annually subject to the DSHS and Health Care Authority rules related to client financial responsibility.

Rebase Schedule.
Rates paid on July 1, 2019, will be based on data from 2016. The client care and operations components will be rebased in even-numbered calendar years using data from two years prior, beginning July 1, 2020.

Review of Physical Plant Contract Requirements.
By October 30, 2018, the DSHS shall review physical plant contract requirements for each ALF residential care setting (regular AL, ARC, and EARC) to determine if adjustments to the

room and board component are necessary in order to reflect relative differences in costs between settings.

Substitute Bill Compared to Original Bill:

Payments made under the new methodology beginning July 1, 2019, must be based on funding made available by the Legislature, which must be phased in to full implementation.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) A new rate methodology for ALFs is much-needed. The ALFs serve clients who might otherwise be homeless or do not have resources to live on their own, and who can avoid more expensive nursing home placements or hospitalizations.

The 2017 work group, as directed by the Legislature, included an array of stakeholders to design the proposed methodology. The collaboration was thoughtful, and the result would replace an outdated system with a data-driven one based on client acuity.

The new methodology would: accomplish goals of being transparent and understandable for providers and the public; align payment with client acuity; and be supported by relevant and verifiable data. The ALFs would be preserved as a cost-effective choice for Medicaid clients in the continuum of long-term care.

The only issue that the work group did not come to consensus on was a set of quality metrics for ALFs because they ran out of time. The work group agreed to review possible quality metrics over the 2018 interim and to report back to the Legislature in 2019.

The Legislature would retain ability to determine the funding level for ALF Medicaid rates. The state covers about 44 percent of the ALF rate for Medicaid clients, and the rest is paid by client contributions and federal matching funds.

(Opposed) None.

Persons Testifying: Representative Tharinger, prime sponsor; Emily Murphy, LeadingAge Washington; and Robin Dale, Washington Health Care Association.

Persons Signed In To Testify But Not Testifying: None.