FINAL BILL REPORT
E2SHB 1484

C 353 L 99
Synopsis as Enacted

Brief Description: Modifying property valuation methods for reimbursing nursing facilities.

Sponsors: By House Committee on Health Care (Originally sponsored by Representatives Parlette, Cody, Alexander, Conway and Edwards).

House Committee on Health Care
House Committee on Appropriations
Senate Committee on Health & Long-Term Care
Senate Committee on Ways & Means

Background:

Nursing facilities receive payment from the state at a rate that factors in the costs of capital, buildings, and equipment. These capital costs are recognized in three components of the total rate: property, financing allowance, and variable return. These three components comprise about 11 percent of the overall nursing home payment rate, and will result in about $65 million of Medicaid expenditures in the 1999 state fiscal year.

The property rate covers the allowable cost of depreciation on nursing facility assets. Payment of the property component is calculated as depreciation from the prior year divided by total resident days, or resident days at 85 percent occupancy, whichever is greater.

The financing allowance provides for interest expense on debt used to finance facility construction, improvements, and equipment purchases. It also factors in interest on working capital, which is calculated as 5 percent of the rest of the rate. Payment for interest and other financing expenses is calculated at a 10 percent rate specified in statute, rather than based on actual interest expense. The property and financing components of the rate have grown an average of 9.6 percent per year during the 1990's.

The variable return portion of the capital payment system provides a 1 percent to 4 percent supplement to the rest of the rate to provide an opportunity for profit, and to cover operating costs not recognized within other components of the Medicaid payment system. The variable return is also intended to provide an efficiency incentive, since nursing facilities with the lowest cost per resident day receive the 4 percent add-on, while those with the highest costs receive 1 percent.

If the statewide average nursing facility payment rate begins to exceed the rate budgeted in the biennial budget act, the Department of Social and Health Services must reduce all rates by the percentage by which expenditures would otherwise exceed the budgeted level.

The nursing home payment system governing variable return, property, and financing allowance payments sunsets June 30, 1999.

Summary:

Changes are made in the capital components of the nursing facilities payment rate, without changing the method for determining the variable return.

For new construction or major renovation projects, fixed equipment (wiring, plumbing, heating and air conditioning systems, etc.) is depreciated using the same life as the building to which it is affixed. Major assets acquired after the effective date of the act are depreciated over at least 40 years.

The financing rate is no longer applied to working capital. The 10 percent financing rate is retained for all existing facility assets, and also for those that have received a certificate of need approval or exemption, or that have submitted working drawings to the Department of Health, prior to the date of enactment. The financing allowance for other new assets is set at 8.5 percent.

A "capital portion" of the rate and a "non-capital portion" of the rate are defined. If expenditures for either of these portions begin to exceed the level established for that portion in the biennial budget act, all facilities have that portion of their rate reduced by the percentage by which expenditures would otherwise exceed the budgeted level.

Beginning July 1, 1999, if a contractor experiences an increase in property taxes as a result of new or replacement construction or a substantial addition that requires land acquisition, the Department of Social and Health Services adjusts rates to cover state and county increases in real estate taxes, effective the first day on which the increased tax is due.

Provisions related to variable return, property, and financing rate-setting are repealed June 30, 2001.

Votes on Final Passage:

House 95 0

Senate	45 0	(Senate amended)
House	96 0	(House concurred)

Effective: May 17, 1999 (Section 11)
July 1, 1999