HOUSE BILL REPORT
SHB 2242

As Amended by the Senate

Title: An act relating to medicaid nursing home rates.

Brief Description: Revising provisions for medicaid nursing home rates.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Cody, Lisk, Ruderman, Alexander and Eickmeyer).

Brief History:
Committee Activity:
Appropriations: 4/18/01, 5/3/01 [DPS].
First Special Session
Floor Activity:
Passed House: 5/8/01, 83-0.
Senate Amended.
Passed Senate: 5/24/01, 33-11.

Brief Summary of Substitute Bill

- Makes permanent the current capital payment system, with some modifications, and establishes a process of capital authorization.
- Modifies nursing home rate setting by establishing three geographic peer groups, modifying the application of "hold harmless" rates, raising minimum occupancy standards for nursing homes, and permanently establishing the "case-mix" corridor at 90-110 percent of the median.
- Establishes an eight-member joint legislative task force on nursing home rates that will develop recommendations on the nursing home reimbursement system and submit a report to the Legislature by December 1, 2003.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 members: Representatives Sehlin, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Doumit, Democratic Vice Chair; Lisk, Republican Vice Chair; Alexander, Buck, Clements, Cody, Cox, Dunshee, Fromhold, Gombosky, Kagi, Kenney,

Kessler, Lambert, Linville, Mastin, McIntire, Mulliken, Pearson, Pflug, Ruderman, D. Schmidt, Schual-Berke and Talcott.

Minority Report: Do not pass. Signed by 1 member: Representative Tokuda.

Staff: Bernard Dean (786-7130).

Background:

There are 260 Medicaid-certified nursing home facilities in Washington providing long-term care services to approximately 13,500 Medicaid clients. The payment system for these nursing homes is established in statute and is administered by the Department of Social and Health Services Aging and Adult Services Administration.

The rates paid to nursing facilities are based on seven different components. These rate components include: direct care, support services, operations, therapy care, property, financing allowance, and variable return.

In 1998 the Legislature adopted a case mix payment system. Under this system, direct care payments are calculated in such a way as to account for differences in client care needs. The higher the care needs of the client, the higher the direct care rate. Case mix affects only the direct care rate component.

Rather than implementing these changes all at once, the Legislature elected to phase in the changes over time. The Legislature accomplished this through the establishment of a hold harmless provision, and rate corridors. Under the hold harmless provision, facilities are paid the greater of their case-mix rate, or their June 30, 2000, rate plus vendor rate increases. This hold harmless provision is set to expire June 30, 2002. Under the corridor, facilities whose direct care costs are below 90 percent of the median are raised to the 90 percent corridor floor, and those whose case-mix costs are above 110 percent of the median are paid at the 110 percent corridor ceiling. The corridor narrows to 95-105 percent July 1, 2002.

Two rate components relate to the capital cost of a nursing facility. The first component is property, which is a payment made to reflect the depreciation of the facility and other capital assets. Property depreciation periods vary, with most new facilities depreciating over 40 years. A financing allowance is also 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. These two rate components sunset June 30, 2001.

Summary of Bill:

The current property payment system is made permanent, with some revisions. Facilities seeking new or replacement beds will go through a process of capital authorization. This process requires that after July 1, 2001, any nursing facility that requests to have a renovation building project funded in whole or in part by Medicaid will need to have a certificate of capital authorization issued by the department. The total capital authorization will be specified in the biennial appropriations act.

Nursing homes may shift savings within the direct care and therapy costs centers to cover a deficit in these two cost centers.

The method of calculating the direct care rate component is modified. Once a facility's direct care rate is reimbursed under case mix, the facility will continue to be paid under case mix from then forward.

The substitute bill establishes an eight-member joint legislative task force to develop recommendations on modifying the nursing home reimbursement system and requires the task force to submit a report to the Legislature by December 1, 2001. The new rate system must:
1) Continue to link client acuity to the direct care rate using case mix;
2) consider an approach linking client acuity, as measured by case mix, to the number of hours of services assumed to be provided for each client, and then link the hours of service assumed to be provided to the direct care rate;
3) account for differences in wage and benefit rates in various areas of the state;
4) provide cost controls and incentives at least equal to the rate system currently in place and not contain automatic cost increases;
5) cost no more than the rate system in place as assumed in the 2001-2003 omnibus appropriations act adopted during the 2001 legislative session;
6) consider increasing minimum occupancy standards as well as not modifying property, financing allowance, or operations rate components for prospective reductions in licensed bed capacity through bed banking; and
7) assume that any savings generated by these actions be applied towards increasing the direct care rate.

The current direct care reimbursement system sunsets on June 30, 2002.

The bill also makes numerous technical changes to the nursing facility Medicaid payment system.

EFFECT OF SENATE AMENDMENT(S):

The Senate striking amendment establishes three geographic peer groups for setting direct care rates; permanently establishes the case-mix corridor at 90-110 percent; raises minimum facility occupancy on the property, financing, and operations rate components

to 90 percent; limits the extent to which rates will be increased for beds banked after May 2001; defines and provides an exemption for "essential community providers;" allows for building owners to complete replacement projects if a licensee bankrupts; continues the work of the joint legislative task force through 2003 rather than through 2001; and does not repeal the current case-mix payment system effective June 30, 2002.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed, except sections 1 through 10 and 12 through 16, which take effect on July 1, 2001, and sections 17 and 19 which take effect on June 29, 2001, and section 18 which takes effect on June 30, 2002.

Testimony For: There are many commendable changes to the nursing home reimbursement system contained in this bill. The bill moves in a positive direction towards helping nursing homes and establishes a more equitable system. However, there are a number of issues that should be addressed in the bill.

The state is currently paying for empty beds through bed banking. The bill should address this practice. Facilities should not be rewarded for underspending their direct care rate by receiving increases in the variable return rate. While the bill acknowledges that wages are the driver of the system, it does not provide long-term care workers with wage increases.

Repealing the current direct care reimbursement system will have an adverse impact on the industry because nursing homes will not be able to develop business plans without knowing what the new system will look like. This will make it difficult to receive financing from banks.

The study language in the bill is very limited in focus. We need to look at the financial health of the system. The system is grossly underfunded. While costs in nursing homes have been held down, the quality of care has been diminishing. There is a crisis in health care. The study must have significant legislative involvement and should also examine the operations and support services rate components. There should be an outside review of the system by a nursing home reimbursement expert. The bill limits options by requiring that the new system cost no more than the rate system in place as assumed in the 2001-03 biennial budget adopted during the 2001 legislative session.

Testimony Against: This bill contains some minor technical adjustments that were also contained in agency request legislation. The Department of Social and Health Services would be happy to work with legislators and other stakeholders to develop a new reimbursement system as provided under the bill. The department is in agreement with

the provision of the bill that provides that once a facility's direct care rate is reimbursed under case mix, the facility will continue to be reimbursed under case mix. However, because this bill was not included in the Governor's budget, the department cannot support this legislation. This bill does not enhance direct care, address low worker wages, or the inefficiencies that result from low occupancy of nursing facilities.

Testified: Chuck Hawley, Providence Health System; Remy Trupin, Jewish Federation of Greater Seattle; Karen Tynes, Washington Association of Housing and Services for the Aging; David Fairchild, Warm Beach Senior Community; Kevin Anderson, Wesley Homes; Jerry Reilly, Washington Health Care Association; and Tom Kearns, Department of Social and Health Services.