Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Appropriations Committee

HB 2242

Brief Description: *Revising provisions for medicaid nursing home rates.*

Sponsors: *Representatives Cody, Lisk, Ruderman, Alexander and Eickmeyer.*

Brief Summary of Bill

- *Makes permanent the current capital payment system, with some modifications, and a process of capital authorization is established.*
- *Modifies the "hold harmless" rate for nursing homes.*
- *Directs the Department of Social and Health Services to develop alternatives to the current rate system by October 31, 2001.*

Hearing Date: *4/18/01*

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 cost components. These components are rates paid for 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 acuity. The higher the care needs of the clients, 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 rate corridors and a hold harmless provision. Any facility that would be paid less than the floor has its rate increased to the floor. Facilities whose rate is above the ceiling of the corridor are being paid a "hold harmless" rate which is equal to their September 1998 rate plus vendor rate increases (1 percent in July 1999 and 2 percent in July 2000) or their June 30, 2000, rate, whichever is higher. This "hold harmless" provision is set to expire in June 30, 2002. At that time, facilities above the corridor would be paid at the corridor ceiling.

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 assumed interest rate (8.5 percent for new facilities) by the value of the assets. 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 bill directs the department to work with legislators and other interested parties to develop alternatives to the current rate system by October 31, 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.

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.*