

# SENATE BILL REPORT

## EHB 2716

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As of March 07, 2006

**Title:** An act relating to nursing facility medicaid payment systems.

**Brief Description:** Modifying provisions relating to nursing facility medicaid payment systems.

**Sponsors:** Representatives Fromhold, Kessler, Skinner, Haigh, Strow, Moeller, Armstrong, Conway, Curtis, Murray, Buri, Green, Ericksen, Serben, McDermott, Morrell, McIntire, Appleton, Kenney, P. Sullivan, Ormsby and Linville.

**Brief History:** Passed House: 3/07/06, 97-0.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Tim Yowell (786-7435)

**Background:** Through Medicaid, the state and federal governments will pay for nursing home care for an average of 11,500 people per month this biennium, at a cost of just over \$1 billion.

Nursing home payment rates are established on a per-facility basis according to detailed standards, procedures, and formulas set forth in state law and regulation. Under this rate-setting, a nursing home's total rate is composed of seven separate components: direct care, therapy care, support services, operations, variable return, property, and financing allowance. The direct care component pays for nursing staff and supplies. The operations component pays for such things as utilities, insurance, and administration.

Nursing home payment rates are periodically "rebased" to account for actual operating costs, subject to standards of reasonableness, necessity, and allowability. Property and financing costs are rebased every year, while all other operating costs are rebased only when directed in statute. In years when rates are not rebased, they are adjusted quarterly to account for changes in patient acuity ("case-mix"), and annually to include any inflationary increases authorized in the appropriations act. The last full rebasing was in Fiscal Year 2002, using 1999 costs adjusted for inflation. Since then, the average nursing home payment rate has increased by about 12 percent, or three percent per year. The average patient acuity level has increased by 7 percent during that same period, and inflation as measured by the implicit price deflator (IPD) by 10 percent.

When rates are rebased, a minimum occupancy standard is applied to adjust reported costs for reasonableness and necessity. Under this standard, if less than 85 percent of a facility's available beds have been utilized during the year, the facility's allowable cost per patient day is calculated by dividing reported costs by the number of days of care that would have been delivered if 85 percent of the facility's beds had been utilized. This results in a lower rate per patient day than the facility would receive if at least 85 percent of its licensed capacity were utilized.

If a facility's actual allowable direct care costs per patient day, adjusted for case-mix, are less than 90 percent of the industry-wide median, its direct care rate is set at 90 percent of the median. This is often referred to as the "direct care corridor floor". If a facility's actual allowable direct care costs per patient day, adjusted for case-mix, are greater than 110 percent of the industry-wide median, its direct care rate is set at 110 percent of the median.

**Summary of Bill:** Payment rates for the direct care and operations rate components are rebased on calendar year 2003 costs effective July 1, 2006. No minimum occupancy standard applies to costs in the direct care component of the rate. The direct care corridor floor is eliminated. The direct care corridor ceiling is increased to 112 percent. Variable return component rates are set at their June 30, 2006 levels.

Nursing home chains that have a home office in Washington and that served an average of at least 589 Medicaid patients per day in calendar year 2003 are defined as "vital local providers." After June 30, 2006, vital local providers are paid the greater of either the sum of their June 30, 2006 direct care and operations component rate, or the rate for which they qualify under other statutory rate-setting provisions.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill takes effect on July 1, 2006.