SENATE BILL REPORT
SB 5569

As of February 10, 2005

Title: An act relating to revising the nursing facility payment system.

Brief Description: Revising the nursing facility payment system.

Sponsors: Senators Keiser, Benson and McAuliffe.

Brief History:
Committee Activity: Health & Long-Term Care: 2/9/05.

SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

Staff: Sharon Swanson (786-7447)

Background: There are approximately 220 Medicaid certified nursing home facilities in Washington providing long-term care services to approximately 12, 000 Medicaid clients. The payment system for these nursing homes is established in statute and is administered by the Department of Social and Health Services.

The rates paid to nursing home facilities are based on a complex formula using seven different components as follows:

- Direct care is 53 percent of the rate and includes the daily cost of nursing services and related
  care. Some of the cost of non-staff nursing services paid to agencies is also covered in this rate component.
- Operations is 21 percent of the rate and includes the cost of general administration, office costs, taxes, maintenance, and utilities.
- Support services is 14 percent of the rate and includes meals, laundry, and housekeeping.
- Therapy care is 1 percent of the rate and includes therapists' costs, separated by types of therapy and payer source.
- Property is 4 percent of the rate and reflects the cost of depreciation of the property and other capital assets. Property depreciation periods vary, with most new facilities depreciating over 40 years.
- Financing allowance is 5 percent of the rate and provides interest expense on debt used to finance capital purchases such as equipment purchases on facility improvements. It is calculated by multiplying the interest rate by the value of the assets.
- Variable return is the only rate component that does not reimburse for a specific nursing home facility cost. Instead, each facility receives an additional 1 to 4 percent based on the facility's relative efficiency.

Two of these rate components, property and financing allowance, are recalculated or "rebased" every year using costs incurred in the previous calendar year. The other components are based on 1999 costs, adjusted for regularly authorized vendor rate increases.

One cost component "direct care" is calculated using a "case mix index." In 1998, the Legislature adopted a case mix payment system, which calculates direct care costs by accounting for differences in client care needs. The higher the needs of the client, the higher the direct care rate. The calculation did not include all nursing homes until July, 2002.

The direct care component floor was established when the case mix payment system was implemented to encourage those facilities that were spending below the floor to increase their expenditures in nursing salaries, benefits, and nursing hours. Some facilities continue to spend below the floor.

Most rate components are determined by a formula that takes reported costs and divides them by the number of patient days, to minimum occupancy levels of 85 percent, which is set in statute. Operations, property, and financing allowances are subject to a 90 percent minimum occupancy level.

Summary of Bill: Effective July 1, 2005:

- an insurance rate component is created, expiring June 30, 2007;
- the minimum occupancy rates are no longer applied to the direct care rate component;
- direct care payment rate is adjusted, based on 2003 costs and increased by a two year vendor rate increase of 3 percent per year;
- the direct care component floor is eliminated; and
- the direct care rate ceiling is increased from 110 percent to 125 percent of the median.

Effective July 1, 2007:

- direct care, therapy, support, and operation's cost calculations are rebased every two years, using cost data from subsequent odd year periods and adjusted for inflation.

Appropriation: None.

Fiscal Note: Requested February 3, 2005

Committee/Commission/Task Force Created: No.

Effective Date: July 1, 2005.

Testimony For: This bill does not go far enough to address the situation currently faced by nursing homes in Washington State. The world has changed since 1999. Costs have gone up, requirements of homes towards patients has gone up, wages have gone up. The amount the federal government and state will pay to reimburse nursing homes has not matched the increase costs. Many providers are being forced out of business. This creates de facto unfunded mandates. We cannot expect 30 percent of private pay patients to foot 70 percent of the bill. Something must be done. The situation faced by providers is nothing short of a "perfect storm" of need.

Testimony Against: Certain aspects of the bill are bad. The minimum occupancy rate is a built in incentive for efficiencies. To remove this language would create bad public policy.
There needs to be incentives for providers to keep their nursing homes full. To allow the insurance rate to be included will create an environment that encourages employers not to

reduce risks as they bare no financial impact for losses. Nursing homes face tough times but this bill is not the way to fix that.

Who Testified: PRO: Deb Murphy, Washington Association of Housing Services for the Aging; Monica Mattson, Josephine Sunset Home; Bob Howell, CRISTA Ministries; Chad Solvie, Martha & Mary; Paul Upgrande, Tacoma Lutheran Home; Tom Gray, Bethany Homes; Johathan Eames, Washington Health Care.

CON: David Rolf, Service Employees International Union 775; Linda Hull, Providence.

Signed in, Unable to Testify & Submitted Written Testimony: Kathy Marshall, Department of Social and Health Services.