HOUSE BILL REPORT
HB 2398

As Reported by House Committee On:
Appropriations

Title: An act relating to rebasing direct care, therapy care, support services, and operations component rate allocations under the nursing facility medicaid payment system based upon calendar year 2005 cost report data, excluding costs related to the quality maintenance fee repealed by chapter 241, Laws of 2006.

Brief Description: Rebasing direct care, therapy care, support services, and operations component rate allocations under the nursing facility medicaid payment system based upon calendar year 2005 cost report data, excluding costs related to the quality maintenance fee repealed by chapter 241, Laws of 2006.

Sponsors: Representatives Cody, Sommers, Moeller and Kenney.

Brief History:
Committee Activity:
Appropriations: 4/16/07 [DPS].

Brief Summary of Substitute Bill

- Modifies the nursing facility Medicaid payment system by rebasing direct care, therapy care, support services, and operations component rate allocations based upon calendar year 2005 cost reports.
- Makes costs associated with the repealed quality maintenance fee unallowable under the Medicaid nursing facility payment system.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 30 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Anderson, Buri, Chandler, Cody, Darneille, Dunn, Ericks, Fromhold, Grant, Haigh, Hunt, Hunter, Kagi, Kenney, Kessler, Kretz, Linville, McDermott, McDonald, McIntire, Morrell, Pettigrew, Schual-Berke, Seaquist and Walsh.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Do not pass. Signed by 3 members: Representatives Conway, Priest and P. Sullivan.

Staff: Bernard Dean (786-7130).

Background:

There are about 234 Medicaid-certified nursing home facilities in Washington providing long-term care services to approximately 11,500 Medicaid clients. The payment system for these nursing homes is established in statute and is administered by the Department of Social and Health Services (DSHS).

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

The direct care rate component includes payments for the wages and benefits of nursing staff, non-prescription medications, and medical supplies. This rate component is most directly related to patient care and comprises roughly 55 percent of the total nursing facility rate. The direct care rate component is based upon "case mix," or the relative care needs of the residents that it serves. The higher the care needs of the clients, the higher the direct care rate. Facilities whose direct care costs are above 112 percent of median costs are paid at 112 percent of the median.

Two other components relate to patient care. The therapy care rate component includes payments for physical therapy, occupational therapy, and speech therapy. The support services rate component includes payments for food, food preparation, laundry, and other housekeeping needs. Support services component rates are lidded at 110 percent of the industry median.

The operations rate component pays for administrative costs, office supplies, utilities, accounting costs, minor building maintenance, and equipment repairs. Operations component rates are lidded at 100 percent of the industry median.

The property and financing allowance rate components relate to the capital cost of a nursing facility. The property rate is a payment made to reflect the depreciation of a facility and other capital assets. Property depreciation periods vary, with most new facilities depreciating over 40 years.

The financing allowance is 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.

The variable return rate component does not reimburse nursing facilities for a specific cost. Rather, nursing facilities that serve residents at the lowest cost per resident day receive an efficiency incentive of 1 to 4 percent of the total direct care, therapy care, support services, and operations rate components based on the facilities' relative efficiency when measured in comparison with the same costs in other facilities throughout the state. Variable return component rates are currently frozen at the June 30, 2006 level.

The property and financing allowance components of nursing facility rates are rebased annually to reflect actual costs. All other rate components have been rebased at periodic intervals specified in statute. The last full rebasing of nursing facility payment rates occurred on July 1, 2001, when all component rates were recalculated to reflect calendar year 1999 costs. Component rate allocations for direct care and operations are based upon 2003 cost reports and component rate allocations for therapy care and support services rate allocations are based upon 1999 cost reports. During the years between rebasings, rates have been adjusted for economic trends and conditions (i.e., vendor rate increases) as specified in the Biennial Appropriations Act.

Summary of Substitute Bill:

Nursing facility component rate allocations for direct care, therapy care, support services, and operations are rebased to calendar year 2005 cost report data.

Effective July 1, 2007, costs associated with the repealed quality maintenance fee are unallowable under the Medicaid nursing facility payment system.

Substitute Bill Compared to Original Bill:

The substitute bill clarified that nursing facilities that receive direct care and operations component rate allocations set equal to their June 30, 2006 component rate allocations, will not be reimbursed for costs associated with the quality maintenance fee that was repealed in 2006.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2007.

Staff Summary of Public Testimony:

(In support) This bill is good policy. Under HB 2398, we will stop paying more to those facilities that are not spending the money and provide more to facilities that are spending more for higher wages and benefits. There is no facility that will actually receive a rate of payment that is lower than their 2005 allowable cost. What is being called a loss is the taking away of additional moneys in the payment system that they were not spending. Those dollars are being removed from those facilities and they are being redistributed to those facilities that are actually incurring higher expenses. When the system was first implemented in 1998 there were a number of facilities that were not spending money for improving wages and benefits.

For eight years, additional moneys were provided to these facilities to improve wages and benefits and to improve care. Last session you decided that we would eliminate this provision in the payment system. If these moneys were not spent for the purpose for which they were given, then these facilities' payments will simply reflect their allowable costs. Variable return is another feature in the payment system that tends to reward lower cost facilities. Facilities that spend less on wages and benefits receive higher variable return rate components. To the extent that high Medicaid facilities or low-cost facilities need additional support in the payment system, the current system addresses that through the variable return rate. Those facilities that spend less get paid less and those that spend more get paid more. We need to move toward a system that rewards high staff retention and quality outcomes and actually pays for performance.

(Opposed) This bill does not provide for regular rebasing. Rebasing is not a sound policy unless it is ongoing. Regular rebasing provides needed predictability to nursing homes. Without regular rebasing, nursing homes are unable to plan for the year and make critical investments for staffing within the spending caps. We're supporting proposed SB 6157, which provides for regular biennial rebasing for nursing homes.

The current allocation method in the budget only schedules a quarter of the $30 million in the first year of the biennium. The funding should be allocated roughly 50-50 between year one and two in the biennium. The sooner that we can get funds allocated to nursing homes, the sooner we can improve wages, benefits, and staffing levels in nursing homes.

Because rebasing has been infrequent, it is difficult for nursing homes to do business planning. Rebasing can have unanticipated consequences. We're not advocating providing rate increases to those facilities that don't spend their money, but there are some legitimate concerns given the infrequency of rebasing that might warrant a hold harmless. For instance, when facilities sell you have real changes in expenses. Also, three facilities closed to remodel and renovate. Rebasing will penalize these facilities.

Persons Testifying: (In support) Deb Murphy, Washington Association of Housing Services for the Aging.

(Opposed) Nora Kelley, SEIU 775; Nick Federici, Washington United for Quality Nursing Home Care; and Gary Weeks, Washington Health Care Association.

Persons Signed In To Testify But Not Testifying: None.