SENATE BILL REPORT
SB 5342

As Reported By Senate Committee On:
Health & Long-Term Care, February 20, 2003

Title: An act relating to nursing facility medicaid payment method improvements.

Brief Description: Concerning nursing facility payment method improvements.

Sponsors: Senators Winsley, Kline, Thibaudeau, Carlson, Parlette and Kohl-Welles.

Brief History:
Committee Activity: Health & Long-Term Care: 2/4/03, 2/20/03 [DP-WM].

SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Deccio, Chair; Winsley, Vice Chair; Brandland, Franklin, Keiser and Parlette.

Staff: Rhoda Donkin (786-7198)

Background: There are 253 Medicaid-certified nursing home facilities in Washington providing long-term care services to approximately 13,000 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:

- Direct care is 55 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 (18 percent) includes the cost of general administration, office costs, taxes, maintenance and utilities.

- Support services (15 percent) includes meals, laundry, housekeeping.

- Therapy care (1 percent) includes therapists' costs, separated by types of therapy and payer source.

- Property (4 percent) 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 (5 percent) 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.

All but two of these rate components (property and financing allowance) are recalculated ("rebased") every three years using costs incurred in the previous calendar year.

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.

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

When census drops, facilities are allowed to temporarily "bank beds" for up to eight years, without losing their licensed capacity for those beds.

Summary of Bill: Direct care, therapy, support, and operations cost calculations are rebased annually using adjusted cost report data from the immediately preceding calendar year.

Minimum occupancy rates are dropped to 85 percent in all rate components, except direct care, and tax and insurance for all nursing facilities.

Nursing agency costs are fully recognized in determining the direct care rate component.

Taxes and liability insurance costs are removed from the operational rate component and the lid is increased. A new rate component for taxes and liability insurance is created.

Lease and rental expenses on equipment can be included in cost calculations.

Provisions for calculating financing allowance are changed to include working capital.

The full financial benefits of bed banking are extended to all components of the rates instead of just the capital component. Provisions are included that allow for a phasing in of occupancy rates for beds that are brought back into service.

Rates are calculated using the "market basket" for inflation, instead of the current vendor rate increases.

The budget dial, which sets a limit on the maximum rate allowed, is removed.

Appropriation: None.

Fiscal Note: Requested on January 30, 2003.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2003.

Testimony For: These rate improvements are essential if we want to keep the nursing home business viable in this state. They more closely reflect our costs today, instead of what they were three years ago.

Testimony Against: All references to essential community providers should be included.

Testified: Brendan Williams, WHCA (pro); Kathy Marshall, DSHS (con); Robert Hellrigel, Providence Health System (con); Harry Steinmetz, WAHSA (pro w/concerns); David Rogge, Hilltop Health Care (pro).