SENATE BILL REPORT
SB 6451

As of February 10, 2004

Title: An act relating to preserving nursing home funding.

Brief Description: Preserving nursing home funding.

Sponsors: Senators Deccio, Prentice, Winsley, Murray, Jacobsen, Kline, Shin, Stevens, T. Sheldon, Sheahan, Rasmussen, Esser, Schmidt, Roach, Kastama, Keiser, Brandland, Fraser, Franklin, Hargrove, Spanel, Mulliken, Doumit, Swecker, Carlson, Honeyford, Parlette, Haugen, Eide, McAuliffe and Benton.

Brief History:
Committee Activity: Ways & Means: 2/9/04.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Tim Yowell (786-7435)

Background: Medicaid payment rates to nursing homes were last "rebased" in Fiscal Year 2002, based on each facility's actual allowable costs in 1999. The 1999 cost data were adjusted upward to reflect the cumulative 5.9 percent "vendor rate" inflationary increases appropriated by the Legislature in the years between 1999 and Fiscal Year 2002. In addition to appropriated vendor rate increases, nursing home payment rates change over the course of a year in response to two factors: (1) changes in patient care needs, as measured quarterly by a standardized "case mix" index; and (2) increases and decreases in each facility's building and equipment costs, as reported annually. The amount by which nursing home rates will increase each year due to those two factors is estimated in developing the $1.1 billion biennial state budget for nursing home care.

To minimize the risk for over-expenditure in the event projections are wrong, the appropriations act specifies the average Medicaid payment rate that has been budgeted for each year. If rates actually grow less than projected, the specified average payment rate is usually amended in the supplemental appropriations act to reflect the new projection, and the under-expenditures are used for other budget priorities. If rates actually grow more than projected, state law provides that there is to be a proportional reduction in each nursing home's payment rate in order to remain within the budgeted level. This statutory provision is sometimes referred to as "the budget dial." It has never been employed since its enactment in 1998.

Recent data indicate that nursing home payment rates are growing less rapidly than anticipated. Actual average payment rates are now projected to be about 1.9 percent below the budgeted level. This equates to a biennial under-expenditure of $22.8 million, of which $11.1 million would be from state general funds, and the balance from federal Medicaid match. The

Governor's supplemental budget assumes the funds available as a result of the under-expenditure are applied to other budget priorities.

Summary of Bill: Nursing home payment rates for Fiscal Years 2004 and 2005 are increased to cover the proportion of the increase in nursing homes' workers' compensation, property insurance, and liability insurance costs since 1999 that is allocable to Medicaid-funded patient days of care. After adjusting payment rates to account for those increases, the Department of Social and Health Services estimates the amount, if any, by which the average nursing home payment rate would be less than the rate specified in the biennial appropriations act. That amount is provided as a supplemental increase in each facility's payment rate.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Maintaining the budgeted level of funding for nursing homes is essential. Ten nursing homes have gone out of business in the past year. A recent national report showed that Washington is the eighth lowest state in the nation in the percentage of actual costs covered by the Medicaid payment rate. The department has acknowledged that nursing home payment rates were $13 per patient per day below reported costs back in 2001, and costs have increased substantially since then. Even facilities that have had no claims have seen their liability insurance rates increase dramatically since 1999.

Testimony Against: DSHS opposes the legislation because it would cost $22.8 million more than anticipated in the Governor's budget proposal. A key reason facilities are going out of business is that their occupancy is low. Occupancy is low because there are more alternatives to nursing home care, and people are choosing those instead.

Testified: Kathy Marshal, DSHS Aging & Disabilities Services Administration (con); PRO: Brendan Williams, Washington Health Care Association; Tom Gray, Bethany Northwest; Jeff Marshall, Eagle Healthcare; Deb Murphy, Washington Association of Housing and Services for the Aging; Sam Wan, Kin On Health Care.