

# SENATE BILL REPORT

## SHB 2515

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As Reported by Senate Committee On:  
Ways & Means, February 26, 2018

**Title:** An act relating to updating the medicaid payment methodology for contracted assisted living, adult residential care, and enhanced adult residential care.

**Brief Description:** Updating the medicaid payment methodology for contracted assisted living, adult residential care, and enhanced adult residential care.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representatives Tharinger, Schmick, Cody, Johnson, Jinkins, Harris, Robinson, Wylie, Pollet and Ormsby).

**Brief History:** Passed House: 2/14/18, 97-1.

**Committee Activity:** Ways & Means: 2/24/18, 2/26/18 [DP].

### Brief Summary of Bill

- Requires the Department of Social and Health Services (DSHS) to establish a data-driven medicaid payment methodology in rule for contracted assisted living (AL), adult residential care (ARC), and enhanced adult residential care (EARC).
- Defines the components for the rate methodology and the rebasing schedule.
- Requires DSHS to review the physical plant requirements for each residential care setting and determine necessary adjustments to the room and board component.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Honeyford, Assistant Ranking Member; Bailey, Becker, Billig, Brown, Carlyle, Conway, Darneille, Fain, Hasegawa, Hunt, Keiser, Mullet, Palumbo, Pedersen, Ranker, Rivers, Schoesler, Van De Wege, Wagoner and Warnick.

**Staff:** James Kettel (786-7459)

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*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.*

**Background:** Long-term services and supports is a range of services and supports for individuals who need assistance with daily living tasks such as bathing, dressing, ambulation, transfers, toileting, medication assistance or administration, personal hygiene, transportation, and other health-related tasks. DSHS administers Medicaid funded long-term services and supports to eligible individuals in Washington state. Individuals may receive these services in their home, in an adult day center, in a community residential setting, or in nursing homes. Community residential settings include assisted living facilities and adult family homes.

Assisted living facilities are licensed by DSHS and may contract with DSHS to provide Medicaid funded AL, ARC and EARC services. Contracted AL services include a private apartment for the client, meals, personal care services, intermittent nursing services, and medication administration. Contracted EARC services include all of the same services as contracted AL services, but rather than including a private apartment for an individual, the individual may share a room with another client. Contracted ARC services include personal care services, meals, medication assistance and a room that may be shared by no more than two clients.

The current AL, EARC, and ARC Medicaid rate methodology is not established in statute or rule, and there is no rebasing schedule. The rates are based off of an acuity-based payment system that DSHS established in the early 2000s with the purpose of serving lower acuity clients in the least restrictive and most cost-effective setting. In 2001, DSHS conducted a time study to determine the average amount of staff time to serve clients of varying acuity levels. Using the results of the time study, DSHS developed an acuity-based assessment system known as the Comprehensive Assessment Reporting and Evaluation (CARE) classification system. A corresponding payment methodology was developed that weighted rates according to assessed client care needs. Since inception of the CARE system and corresponding rate levels, the number of rate levels have remained lower than the number of CARE levels (currently there are 17 CARE levels and 13 payment levels). Rates vary based on three geographic service areas for King County, Metropolitan Statistical Area (MSA) counties, and non-MSA counties.

The 2017-2019 Operating Budget included a proviso that directed DSHS to convene a stakeholder work group to redesign the Medicaid payment methodology for AL, ARC, and EARC. The work group submitted its recommendations to the Legislature in December 2017.

**Summary of Bill:** DSHS must establish, in rule, a Medicaid payment methodology for contracted AL, ARC and EARC. Beginning July 1, 2019, DSHS must make payments based on the new methodology, which must be phased in to full implementation in accordance with funding made available by the Legislature.

The new payment system must include three core components: client care, operations, and room and board.

Client Care. Client care represents the labor component of the payment system, and must include variables to represent staff time, wages, and fringe benefits. The time variable is used to weight staff time against client acuity as represented in the DSHS' client CARE classification system. The time variable must initially be established using the 2001 time

study and the DSHS' estimates of average staff hours per client by job position. The wage variable recognizes the staff positions needed to perform the functions required by the AL, ARC, and EARC contracts. The wage variable must be adjusted according to service areas based on actual labor costs, and so that no baseline wage is below the state minimum wage at the time of implementation. There must be no less than two service areas, including a high labor cost service area. The fringe benefit variable represents employee benefits and payroll taxes. The percentage of fringe benefits must be established using the statewide nursing facility cost ratio of benefits and payroll taxes to in-house wages.

Operations. The operations component represents costs that are reimbursable under federal Medicaid rules and must be calculated at 90 percent or greater of the statewide median nursing facility cost for supplies, nonlabor administrative expenses, staff education and training, and occupational overhead.

Room and Board. The room and board component reimburses providers for costs, primarily raw food and shelter costs, that are not reimbursable under federal Medicaid rules. Beginning July 1, 2020, the room and board component must be updated annually subject to the DSHS and Health Care Authority rules related to client financial responsibility.

Rebase Schedule. Rates paid on July 1, 2019, will be based on data from 2016. The client care and operations components will be rebased in even-numbered calendar years using data from two years prior, beginning July 1, 2020.

Review of Physical Plant Contract Requirements. By October 30, 2018, DSHS must review physical plant contract requirements for each community residential setting (AL, EARC, ARC and adult family homes) to determine if adjustments to the room and board component are necessary in order to reflect relative differences in costs between settings.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Over the course of the next 10 years the population over the age of 70 years old will increase substantially. This is a priority for assisted living providers. Medicaid providers are at risk and have long waiting lists. At \$70 per day that is not cost effective for those providers. Many clients could be served in assisted living, but with the current payment rates these clients are served in nursing facilities. This bill will put a rate driven model in to place. Funding for the new payment system will be phased in over several biennia based on the level of funding provided by the Legislature. Ultimately, this new payment system would be more transparent, and would provide predictability for providers.

**Persons Testifying:** PRO: Jeff Gombosky, Washington Health Care Association; Scott Sigmon, Leading Age Washington.

**Persons Signed In To Testify But Not Testifying:** No one.