HOUSE RESEARCH

Bill Summary

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Overview

This bill reforms the MA nursing facility payment system and modifies adjustments to Elderly Waiver cost limits.

MA reimburses nursing facilities for operating costs, external fixed costs, and property costs.

Operating costs include costs for nursing, social services activities, dietary, housekeeping, laundry, building maintenance, and administration; salaries and wages of persons performing these services; fringe benefits and payroll taxes; and other related costs such as costs for supplies, food, utilities, and consultants.

External fixed costs includes surcharges and fees; scholarships; planned closure rate adjustments; single-bed room incentives; property taxes and property insurance; and Public Employee Retirement Act costs.

Property costs include interest expense and return on equity.

Prior to October 1, 2006, nursing facilities were reimbursed under a cost-based system sometimes referred to as "rule 50," where reimbursement to facilities was based on their reported costs, subject to various limits. From October 1, 2006, through September 30, 2008, all nursing facilities participating in MA were reimbursed under the Alternative Payment System (APS), a contract-based system where facilities were exempt from certain statutory requirements of the cost-based system and reimbursed at the level of their payment rate in effect just prior to

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entering into an APS contract with the commissioner. Since October 1, 2008, facilities have been reimbursed under a blend of APS and a "rebased" reimbursement rate.

The 2007 Legislature required DHS to rebase nursing facility rates, meaning that operating payment rates for nursing facilities would be calculated using the statistical and cost report filed by each nursing facility for the report period ending one year prior to the rate year. Similar to the APS, these reimbursement rates would vary with resident case-mix and incorporate reimbursement for care-related, other operating, external fixed, and property costs. Rebasing would allow nursing facilities to have new or currently unreimbursed expenditures recognized in the facility payment rate, subject to certain statutory limits.

Rebasing for operating cost payment rates began October 1, 2008, and was designed to be phased in over eight years. During the phase-in period, nursing facilities were to (1) receive a blended rate—based partially on the APS reimbursement system and partially on the new value-based (rebased) reimbursement system; and (2) be held harmless—a facility could not receive an operating cost payment rate that was less than what the facility would have received without rebasing.

The 2011 Legislature prohibited all further steps phasing in rebased operating payment rates—leaving nursing facilities with blended operating payment rates. This was projected to save the state in excess of $100 million per year in fiscal years 2014 and 2015. The savings result from cancelling scheduled rate increases.

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1 **Elderly waiver cost limits.** Amends § 256B.0915, subd. 3a. Modifies adjustments to the elderly waiver cost limits.

2 **Calculation of nursing facility operating payment rates.** Amends § 256B.441, subd. 1. Specifies how the commissioner of human services must calculate nursing facility operating payment rates beginning October 1, 2015. Removes obsolete language related to the phase-in of rebased operating payment rates and language related to rebasing of property rates. Requires property rates to be recalculated effective October 1, 2016, based on a new system to be developed by the commissioner in consultation with facilities and other stakeholders. Requires the new property system to be designed to provide payment rates that allow providers to efficiently meet consumer needs and preferences throughout the state.

3 **Administrative costs.** Amends § 256B.441, subd. 5. Modifies the definition of "administrative costs" by including property insurance.

4 **Employer health insurance costs.** Amends § 256B.441, by adding subd. 11a. Defines "employer health insurance costs."

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5 **External fixed costs.** Amends § 256B.441, subd. 13. Modifies the definition of "external fixed costs" by removing obsolete language and adding property assessments, payments in lieu of taxes, and employer health insurance costs.

6 **Facility average case mix index.** Amends § 256B.441, subd. 14. Modifies the definition of "facility average case mix index" by removing obsolete language and specifying that resource utilization group (RUG) weights used shall be based on the case mix system prescribed in statute.

7 **Fringe benefit costs.** Amends § 256B.441, subd. 17. Modifies the definition of "fringe benefit costs" by removing health insurance and excluding the Public Employees Retirement Association (PERA).

8 **Peer groups.** Amends § 256B.441, subd. 30. Modifies the peer groups into which nursing facilities are classified by reducing the number of peer groups from three groups to two groups. Requires the commissioner to regularly review the appropriations of the peer groups and specified wage information and report to the legislature on the review of the wage data every two years beginning on January 15, 2017. Allows the commissioner to include in the report recommendations to change the assignment of counties between the two peer groups.

9 **Prior system operating cost payment rate.** Amends § 256B.441, subd. 31. Updates the date of the prior cost operating payment rate to be the rate in effect on September 30, 2015.

10 **Reporting period.** Amends § 256B.441, subd. 35. Modifies the definition of "reporting period" to include parameters for interim and settle-up periods.

11 **Calculation of care-related per diems.** Amends § 256B.441, subd. 48. Removes language listing the items included in the other operating per diem (this language is moved to section 13).

12 **Determination of total care-related limit.** Amends § 256B.441, subd. 50. Modifies the existing limit on care-related expenses for which facilities can be reimbursed. A facility's care-related limit under the new formula will depend upon its quality score and peer group. A facility's care-related limit under the new formula will be as follows:

- **Facilities with a quality score of 10 or less:** The care-related limit will be 95% of the median care-related expenses in the peer group.
- **Facilities with a quality score of between 10 and 90:** The care-related limit will be between 95% and 140% of the median care-related expenses in the peer group. A facility's limit will scale proportionally with its quality score.
- **Facilities with a quality score of 90 or more:** The care-related limit will be 140% of the median care-related expenses in the peer group.

13 **Determination of other operating price.** Amends § 256B.441, subd. 51. Modifies the existing limit on operating costs. This section defines the following types of costs as "other operating costs":

- Administrative costs

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- Dietary costs
- Housekeeping costs
- Laundry costs
- Maintenance and plant operations costs.

Under this section, DHS will calculate a facility's "other operating per diem" by dividing the sum of the facility's other operating costs by the total number of resident days. Current law limits reimbursement of other operating costs to 105% of the median operating per diem within that facility's peer group.

14 **Exception for specialized care facilities.** Amends § 256B.441, subd. 51a. Removes the commissioner's authority to negotiate certain increases for nursing facilities that provide specialized care. Beginning October 1, 2015, increases the care-related limit for specialized care facilities by 50 percent. Defines "specialized care facilities."

15 **Calculation of payment rate for external fixed costs.** Amends § 256B.441, subd. 53. Modifies the calculation of external fixed costs by removing obsolete language and reordering some of the paragraphs, removing property insurance from external fixed costs, and adding a calculation for employer health insurance costs.

16 **Determination of total payment rates.** Amends § 256B.441, subd. 54. Removes obsolete language and makes conforming changes. Provides for an annual inflationary increase in the total payment rate.

17 **Hold harmless.** Amends § 256B.441, subd. 56. Removes obsolete language related to the phase-in of the rebased operating payment rates and updates hold harmless language, effective for the rate year beginning October 1, 2015, to specify that no nursing facility will receive an operating payment rate less than its operating payment rate as of September 30, 2015.

18 **Nursing facility in Golden Valley.** Amends § 256B.441, by adding subd. 65. Requires the operating payment rate for a specified facility located in Golden Valley to be calculated without the application of the total care-related limit and the determination of the other operating price, effective for the rate year beginning on October 1, 2015.

19 **Repealer.** Repeals Minnesota Statutes, § 256B.441, subds. 14a (facility group types), 19 (hospital-attached nursing facility status), 50a (determination of proximity adjustments), 52 (determination of efficiency incentive), 55 (phase-in of rebased operating payment rates), 58 (implementation delay), and 62 (repeal of rebased operating payment rates).