Report to the Legislature

Report on the Capital Add-On Rate and the Effectiveness in Incentivizing Assisted Living Facilities to Serve Medicaid Eligible Clients

c. 4, 2013 Laws, 2d sp. s. Sec. 206(13)

RCW 74.39A.320

December 1, 2013

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Summary

c. 4, 2013 Laws, 2d sp. s. Sec. 206 (13) states:

> *The Department shall review the Capital Add-on rate established by RCW 74.39A.320 for effectiveness in incentivizing assisted living facilities to serve Medicaid eligible clients. Upon completing its review, the Department shall submit its findings along with recommendations for alternatives to the office of financial management and the fiscal committees of the legislature by December 1, 2013. The Department is encouraged to engage stakeholders in developing alternatives.*

Assisted Living Facilities (ALF) are a type of residential care setting for seven or more residents. ALFs contract with the state to provide Assisted Living (AL) and receive a daily rate for each client, based on the Comprehensive Assessment Reporting Evaluation (CARE) tool. The table used to calculate payment rates is based upon the acuity of the client served. Daily rates range from $59.13 to $165.31. The average Medicaid AL daily rate is approximately $68 per resident day. Supplemental to this rate is the Capital Add-on. ALFs serve approximately 4,700 Medicaid residents each day.

In 1995, the State Legislature created chapter 74.39A RCW. The Department of Social and Health Services (the Department) was directed to pay a rate add-on for capital costs to all qualifying ALFs. Facilities qualified if they met the definition of "new" in the AL construction regulations found in WAC 388-110-140 and would accept Medicaid recipients. This add-on is paid with state funds and matching federal funds.

In 2002, the Legislature required that a minimum Medicaid occupancy rate become the eligibility factor for receipt of the Capital Add-on rate and adjusted the appropriation accordingly.

In 2006, the Legislature added a new section to chapter 74.39A RCW. Under this new section and the accompanying amendments to WAC 388-105-0035, the Department determines which ALFs are eligible to receive the Capital Add-on rate as follows:

- The Capital Add-on rate is paid to any facility that has a Medicaid occupancy percentage of sixty percent or greater. The formula used to determine occupancy is the last six months' Medicaid resident days from the preceding calendar year divided by the facility's licensed Assisted Living beds irrespective of use, multiplied by calendar days for the six-month period;

- Medicaid resident days include clients who are enrolled in a Medicaid managed long-term care program including but not limited to the Program for All-inclusive Care for the Elderly and the Medicaid Integration Project;
- Capital Add-on payments are made to qualifying facilities for the fiscal year e.g. July 1, 2013 through June 30, 2014; and,
- On July 1 each year, DSHS recalculates all ALF Medicaid occupancy percentages and updates which facilities receive the add-on accordingly.

ALFs can also be contracted as Adult Residential Care (ARC) and Enhanced Adult Residential Care (EARC) facilities. ALFs contracted as ARC or EARC are not eligible for the Capital Add-on rate.

The Capital Add-on is currently paid to 45 facilities as a supplement to the daily rate of approximately 1,800 clients annually. Currently the average daily Capital Add-on rate is $5.11 per resident day. Total combined federal and state expenditures for the Capital Add-on are approximately $3.4 million annually.

Between 2007 and 2013, both the number of Capital Add-on facilities and the total resident populations fluctuated but trended towards an overall increase. The caseload during those years started at 1,371 and had a high of 1,809 and a low of 1,248. The number of facilities started at 38 and had a high of 45 and a low of 29. There was a significant increase in fiscal year 2014 with caseload rising to 1,809 and facilities increasing to 45.

Between 2007 and 2013 the data suggest that the incentive did not significantly motivate more providers to serve a high proportion of Medicaid clients. It will take more time to determine if the increase for fiscal year 2014 is the start of a new trend or an anomaly. However, providers who do qualify report that the add-on rate is an important part of what allows them to continue to provide service to Medicaid clients. There is concern that capacity may be lost at qualifying facilities if the add-on is eliminated.

Industry and Stakeholder Concerns

Washington Health Care Association (WHCA) and Leading Age Washington (LAW) representatives met with Aging and Disability Services/Department of Social and Health Services offices on August 27, 2013. WHCA is an organization representing for-profit ALFs and Skilled Nursing Facilities. LAW is an organization representing non-profit ALFs and Skilled Nursing Facilities. No other stakeholder representatives joined the meeting.

Representatives pointed out that changes made to the Capital Add-on methodology will impact the provider group that currently receives it both operationally and financially. Representatives asked that decision makers be sensitive to potential impacts to the provider group if changes are made to the Capital Add-on methodology.

Representative comments and suggestions

- Continue with the current Capital Add-on methodology

- Possibly change name to reflect the methodology as it is no longer an incentive payment to convert one's physical plant. Names that were suggested included Disproportionate Share or Medicaid Recognition Component. The latter suggestion includes changing the incentive payment from an add-on to a rate component.

- Change the add-on to a tiered system – e.g., 60-70% get $X.XX for Medicaid occupancy percentage, 70-80% get $Y.YY for Medicaid occupancy percentage, etc. Industry representatives commented that additional funding could be added to Capital add-on component or the ALF contracted as AL payment system in general.

Recommendations

The Capital Add-on appears to have increased the number of facilities that accept high numbers of Medicaid clients, thus increasing access to this lower cost community setting. Additionally, DSHS believes that it is a significant factor in sustaining the level of Medicaid service in the facilities that do qualify. Currently, there are fifteen facilities that are within ten percent of qualifying for the add-on. DSHS recommends continuing the Capital Add-on so as to avoid destabilization of the systems Medicaid capacity.

DSHS concurs with stakeholder input and proposes that the Capital Add-on name be changed to reflect the current methodology as it is no longer an incentive payment to convert one's physical plant but instead a high Medicaid admittance motivation. Because the Capital Add-on caseload has, with a few exceptions, generally risen with time, the Add-on seems to be encouraging at least some facilities to take on more Medicaid clients. Suggested new names for the Capital Add-on are Medicaid Occupancy Add-on, Disproportionate Medicaid Share Add-on, or Medicaid Recognition Component. Changing the name would be relatively easy but still require legislative directive.

A tiered incentive system would require additional resources and its potential effectiveness beyond the current approach is not clear.

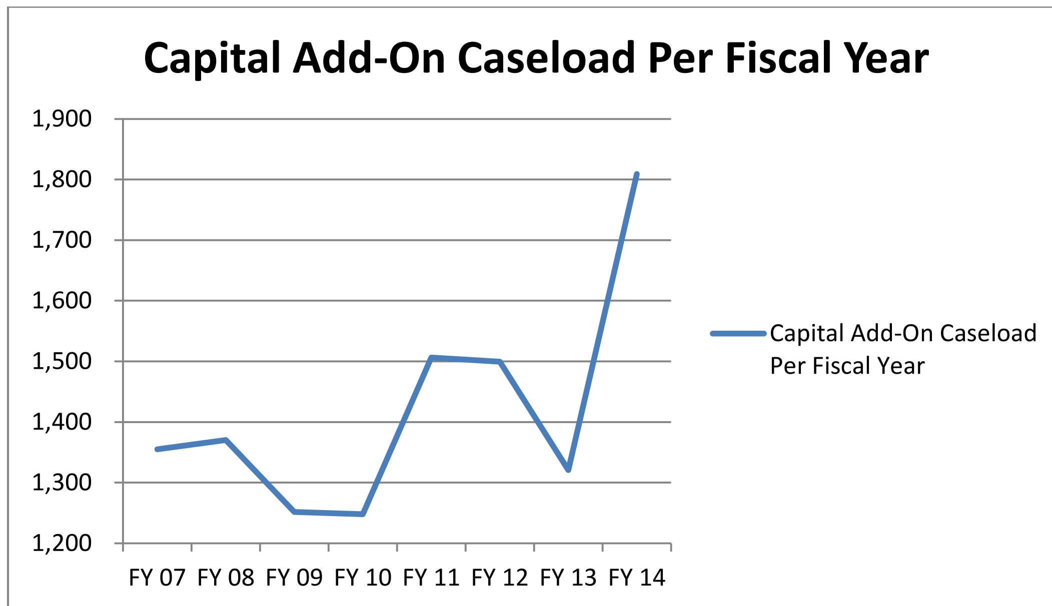
Data

Figure 1 is a comprehensive look at the payment rates for ALFs contracted to provide Assisted Living as well as the Capital Add-on. There is an increase in the number of facilities qualifying for the Capital Add-on for fiscal year 2014. It remains to be seen if this is a new trend or an anomaly.

Figure 1

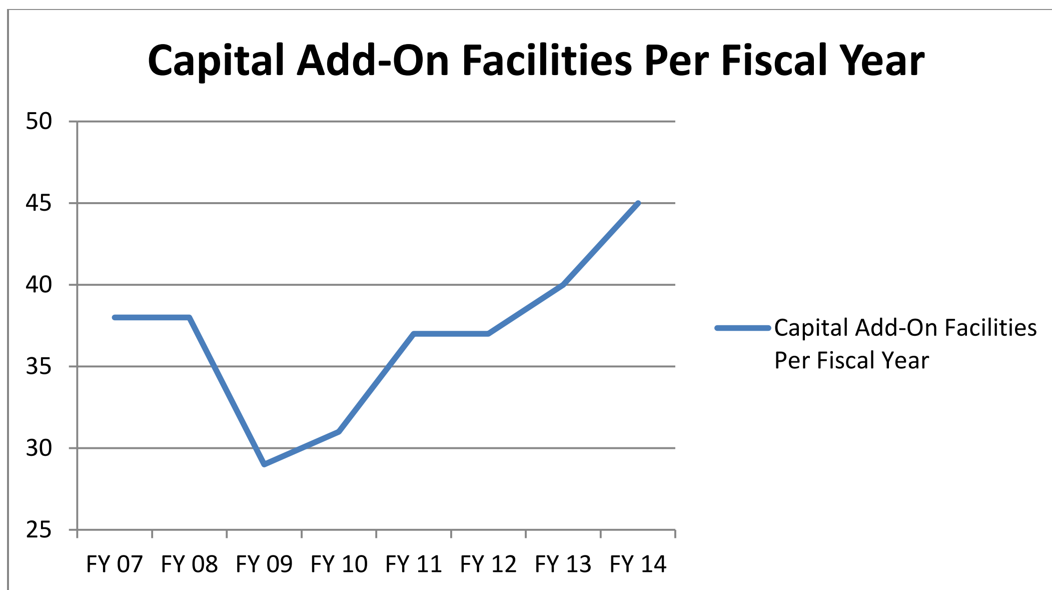
Medicaid Contracted Assisted Living Facility and Capital Add On Data FY 07 Through FY 14								
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Capital Add On Caseload	1,355	1,371	1,252	1,248	1,506	1,499	1,321	1,809
Capital Add On Facilities	38	38	29	31	37	37	40	45
Capital Add On Average Medicaid Occupancy	70%	70%	73%	72%	72%	73%	74%	76%
Non-Capital Add On Average Medicaid Occupancy	28%	30%	29%	26%	26%	26%	27%	28%
Capital Add On Cost Estimate	$2,371,000	$2,547,000	$2,336,000	$2,311,000	$2,797,000	$2,786,000	$2,468,000	$3,374,000
Capital Add On Weighted Average Rate	$4.79	$5.09	$5.11	$5.07	$5.09	$5.09	$5.12	$5.11
Medicaid Contracted Assisted Living Cost Estimate	$110,029,000	$111,460,000	$114,007,000	$113,277,000	$113,019,000	$115,957,000	$115,032,000	$117,823,000
Medicaid Contracted Assisted Living Caseload	4,582	4,384	4,446	4,586	4,562	4,632	4,659	4,750
Medicaid Contracted Assisted Living Weighted Average Rate	$65.79	$69.65	$70.26	$67.68	$67.88	$68.58	$67.65	$67.95
Capital Add On Cost Percentage of AL Cost	2.16%	2.28%	2.05%	2.04%	2.47%	2.40%	2.15%	2.86%

Figure 2



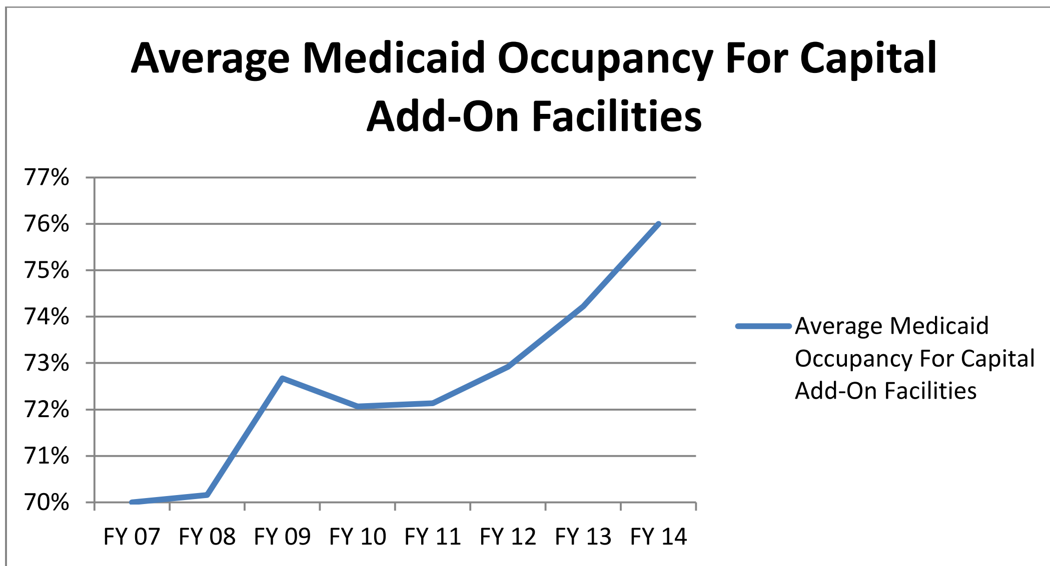
Facilities receiving the Capital Add-on declined in the first years of the current system, but have overall been increasing in more recent years. The increase seen in FY14 can be attributed largely to five new facilities qualifying for the add-on. These five facilities were close to qualifying in FY13.

Figure 3



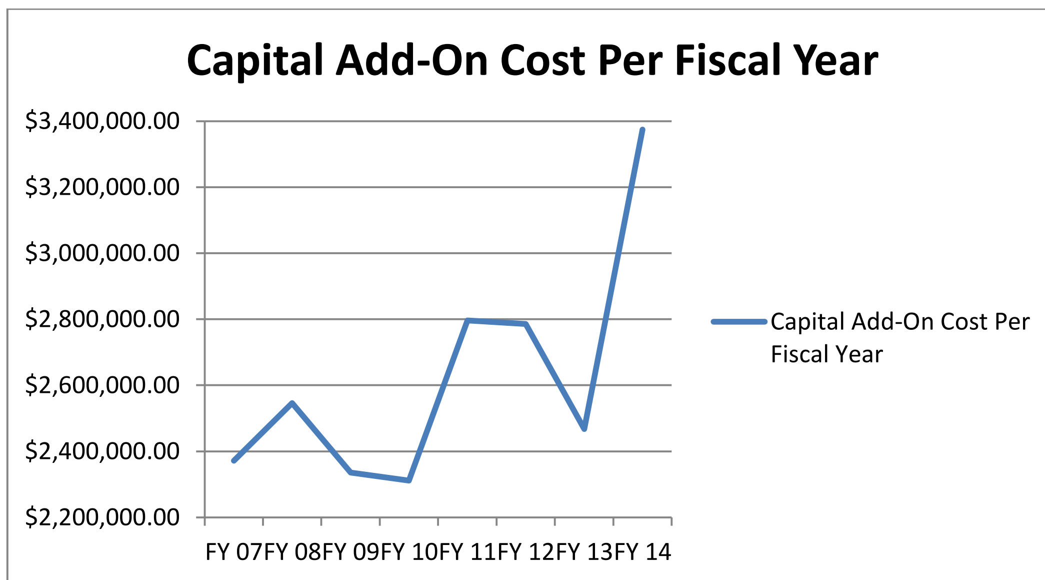
Facilities receiving the Capital Add-on declined in the first years of the current system, but have been increasing in more recent years. The five additional facilities that qualified in FY14 can be seen in this graph.

Figure 4



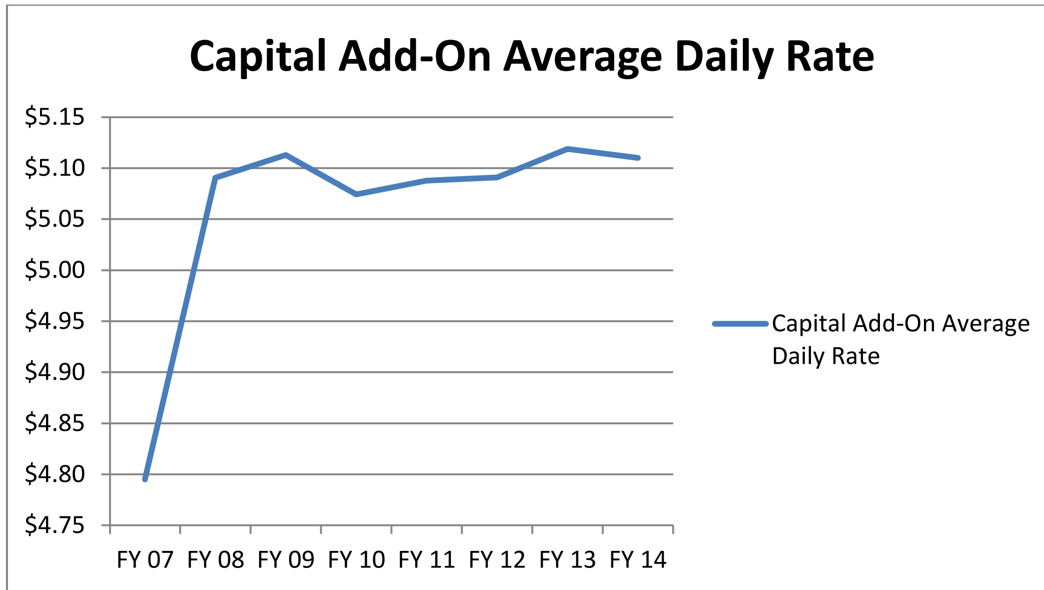
Historically, Medicaid occupancy has generally risen in facilities that receive the Capital Add-on. This could mean that AL providers that receive this add-on see it as an attractive option.

Figure 5



Capital Add-on costs declined in the first years of the current system, but have been increasing in more recent years. The Capital Add-on costs roughly track the caseload.

Figure 6



The average daily rate has remained relatively stable over time.

Figure 7

Capital Add-On Qualifying Facilities Count by County FY07 Through FY14								
County	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**
Benton	1	4	0	0	0	0	0	1
Chelan	0	0	0	0	0	0	1	1
Clallam	0	0	0	1	1	1	1	1
Clark	4	4	4	4	6	4	4	4
Cowlitz	2	1	1	1	1	1	1	2
Douglas	1	1	1	1	1	2	2	2
Franklin	0	0	0	0	0	0	0	1
Grant	1	0	0	0	0	0	0	0
Grays Harbor	2	2	0	1	1	1	1	0
King	5	7	8	6	7	8	11	12
Kitsap	3	2	1	2	2	2	2	2
Klickitat	0	0	0	0	0	1	0	0
Lewis	2	3	2	1	2	2	2	2
Pierce	4	3	3	3	4	3	3	3
Snohomish	3	2	2	2	2	2	2	2
Spokane	3	6	4	4	5	5	5	8
Stevens	1	1	1	1	1	1	1	1
Thurston	1	0	0	0	1	1	1	0
Whatcom	2	1	1	2	1	1	1	2
Yakima	3	1	1	2	2	2	2	1

Figure 8

Resident Assisted Living Occupancy by Percentage			
Medicaid Occupancy Range	Number of Clients	Percent of Total Medicaid Clients	Number of Providers
0%	32	1%	12
10%	250	6%	32
20%	461	12%	33
30%	399	10%	22
40%	539	14%	25
50%	431	11%	15
60%	519	13%	17
70%	364	9%	10
80%	667	17%	13
90%	206	5%	5