

- SUBJECT:** Study to review reimbursement methodology for nursing homes
- COMMITTEE:** Human Services — committee substitute recommended
- VOTE:** 7 ayes — Naishtat, Chavez, Ehrhardt, Noriega, Raymond, Villarreal, Wohlgemuth
- 0 nays
- 2 absent — J. Davis, Telford
- WITNESSES:** For — Dennie Brown; Marie Davis, Jerry Gibson, and Judith Miller, Alzheimer’s Association Coalition of Texas; Tim Graves, Texas Health Care Association; Gail Hammett, Greater Austin Area Alzheimer’s Association; David Latimer, Texas Association of Homes and Services for the Aging; Sid Rich, Texas Association of Residential Care Communities; Lue Taff, Alzheimer’s Coalition of Texas; *Registered but did not testify:* Laura Bachman; Melanie Brown; Lynda Ender, Texas Senior Advocacy Coalition; Beth Ferris, Texas Advocates for Nursing Home Residents; Catherine Gavin; Jack McGehee, Texas Trial Lawyer’s Association; Andrew Prough, Citizens Commission on Human Rights; Chris Spence, Wesleyan Homes
- Against — None
- On — Bob Kafka, ADAPT of Texas
- BACKGROUND:** Texas has about 1,250 certified nursing facilities with 125,900 beds. Although regulated by the state, the nursing-home industry is private. However, approximately 75 percent of nursing home residents receive Medicaid services. The state reimburses nursing homes for Medicaid patients on a per bed basis that reflects anticipated level of need for a patient by the Texas Index for Level of Effort (TILE) classification system. The more acute a patient’s needs are rated by TILE, the higher the cost per bed. Along with the high cost of liability insurance, the Medicaid reimbursement rate is cited as a major contributing cause to the high bankruptcy rate of nursing homes in the state.

For fiscal 2000-01, the Legislature increased nursing-facility payments by \$169.5 million in all funds (\$65.5 million in general revenue) to reflect an inflation rate of 3.7 percent per year. Under the terms of this new funding, contractors could receive a rate increase of \$0.20 per bed per day, if they agreed to spend that money on attendant wages and benefits. Because of a budget shortfall for DHS, however, the base rate increase was \$0.08 short, both for organizations that sought the increase and for those that did not. Furthermore, organizations that have sought the rate increase say they must pay administrative costs to obtain the rate increase, which can go only to attendants' wages. In March 2001, the Texas Alliance for Nursing Homes filed a lawsuit claiming that the state had not fulfilled the terms of this arrangement.

This session, the House included provisions in the Article 11 "wish list" in SB 1, the fiscal 2002-03 general appropriations bill, that would increase nursing-facility payments by an additional \$380 million in all funds to reflect an inflation rate of about 3.4 percent per year, increasing client acuity, and salary increases.

The Texas Department of Insurance (TDI) recently conducted a survey of nursing homes and the cost of liability insurance. The results of the survey will be used to evaluate the cost and coverage of liability insurance for nursing homes in the state.

**DIGEST:**

CSHB 1001 would direct the Health and Human Services Commission (HHSC) to consult with the Department of Human Services (DHS) on an evaluation of the methodology used to determine Medicaid reimbursement rates for nursing homes. The study would evaluate:

- ! costs of doing business that are not included in the reimbursement rate;
- ! ways of adjusting the rate to account for the rising costs of liability insurance;
- ! effectiveness of using the reimbursement rate to encourage direct care staffing;
- ! addition of incentives to the reimbursement rate to encourage spending on improved diet and other quality of life initiatives;
- ! development of a rewards system based on nursing home performance indicators, including indices for quality of life, customer satisfaction, and

- resolved complaints; and
- ! effectiveness of the flat-rate system in accounting for regional and facility-specific cost differences.

HHSC also would consult with concerned individuals and professionals to evaluate the TILE system to ensure that it accurately reflects the level of need for patients with dementia, including Alzheimer's disease.

This bill would take effect September 1, 2001, and HHSC would report its findings to the governor, the lieutenant governor, and the House speaker by December 1, 2002.

**SUPPORTERS  
SAY:**

CSHB 1001 would commission an overdue study to provide information the state needs on the ailing nursing home industry. The industry reports bankruptcies and insufficient reimbursement, but the state does not have sufficient data to evaluate the problem and develop a long-term solution. Increasing reimbursement rates in the past has provided only a quick fix. The structure of the reimbursement rate may be the underlying problem in that it does not target the right amount of money to the right people. The analysis provided by this study would be the basis for reforming the reimbursement rate methodology.

This bill would ensure that specific areas of concern are studied. By including the cost of liability insurance and singling out rates for people with dementia, this study would focus on at least two areas that need the most attention. Reimbursement rates do not account for the rising cost of liability insurance nor for the high needs of patients with dementia. However, providers claim that these issues are primary cost drivers. Reimbursement rates for patients with Alzheimer's disease are among the lowest, even though their needs are among the highest.

**OPPONENTS  
SAY:**

CSHB 1001 would not help the nursing home industry out of a dire situation. TDI already conducted a study of liability insurance rates, which provided the legislature with ample information on the financial difficulties facing the nursing home industry. The industry does not need another study of the problem; it needs a rate increase to stay in business.

OTHER  
OPPONENTS  
SAY:

CSHB 1001 would make a questionable assumption about the state's responsibilities. By directing HHSC to look at including certain specified costs in the reimbursement rates, this bill could lead to a change in the way the state considers reimbursement for non-medical services. If the state were going to pay for all costs of doing business for nursing homes, then nursing homes would, in effect, become state-supported entities rather than the private health care providers they are today.

NOTES:

According to the fiscal note, HHSC would incur a one-time cost of \$500,000 in fiscal 2002 to hire an outside contractor to conduct the evaluation.

The committee substitute included additional areas of study, such as the possibility of developing a rewards system based on nursing home performance indicators and the effectiveness of the flat-rate system.