

Nursing Home Payment Reform

October 2020

NORTH
Dakota | Human Services
Be Legendary.™

Background: During the 2019 legislative session, the Department of Human Services was asked to conduct a study that would investigate alternative ways to pay nursing homes in North Dakota Medicaid. North Dakota has rate equalization so private pay and Medicaid have the same rate. There are 79 nursing facilities in the State where approximately 2,600 Medicaid enrollees reside. Nursing facility residents constitute about 3.4% of the Medicaid population and account for about 21% of the overall expenditures.

What are the benefits and costs of the new model?

CARE COSTS

- **What:** Each fall, nursing facilities submit their direct (e.g., nursing), other direct (e.g., laundry, food), and indirect costs for the prior state fiscal year. In rebasing years, a rate is set for each facility, adjusting for resident acuity.
- **Benefits:** There are maximum allowable prices set by the State for each cost category. Facilities with costs less than the price can retain 100% of the difference, not to exceed a margin of 3.46% of the price. Facilities will be rebased every 2 years (until year 4) and in the non-rebasing years will receive inflation.
- **Costs:** All aspects of the price-based model are budget neutral. However, funds to assist high cost facilities who likely will be above the set prices are available for 2 years.

Greater efficiency= Greater operating margin

PROPERTY COSTS

- **What:** Property rates are based on several factors; the main factors being effective age, rental rate, location, and square footage.
- **Benefits:** The new model incentivizes renovation, as opposed to new construction, which will extend the life of buildings and reduce the State's financial liability. Property rates are based on facility value not an accounting value which does not reward improvements and long-term ownership
- **Costs:** Property rates will increase for those facilities whose current rate is less than the fair market value. Also, high cost facilities will receive time limited funds to assist them in the transition to the new model as it is likely their property costs will be above the limit.

Improves resident quality of life

The new nursing home payment reform models: 1) incentivize operating efficiency, 2) promote building improvements, 3) reduce variation in rates, and 4) decrease the State's financial liability in the future.

Recommendation

The Department of Human Services and the Long Term Care association recommend the Legislature enact these new payment models in the 2021 session. The new care payment will start in 2022 and the new property payment will start in 2023.

Nursing Home Payment Reform

October 2020

What are the parameters and new dollars requested for the recommended models?

NEW CARE MODEL

Parameter	Recommendation
Start date	January 1, 2022 (facility option to choose old rate). If facilities choose old rate in 2022, they get inflation of 1.8% in 2023 and facilities choose new rate they get 2.3%.
Rebase in starting year (2022) using June 30, 2021 cost reports	Agree
Rebasing frequency	2, 2 year rebasing periods (for a total of 4 years). Reassess in 2025
Inflation between rebasing years	Yes
Inflation index	Skilled market basket (2019 was estimated at 2.6%)
Margin Cap	3.46%
Hold Harmless for pricing model	Yes, until the first rebasing
Length of hold harmless	Should end after 2023 rate year
Different Price for Indirect Cost Category for small and large facilities	Agree
Total new Medicaid dollars	\$2.5 million in year 1; \$1.6 million in year 2. = ~\$4.1 million for biennium

NEW PROPERTY MODEL

Parameter	Recommendation
Start Date	January 1, 2023 but all projects considered for hold harmless must have been approved for financing by 12/31/2021
Occupancy Limitation	Yes
RS Means	Yes
Location Factor	Minneapolis
Land	10%
Equipment	\$15,000 per bed
Maximum square foot	950 sq. ft.
Depreciation	2% annually
Replacement Cost Inflation Factor	2% annually
Rental Rate	8%
FRV average rate per day with phase-in for hold harmless	\$24.77
Total new Medicaid dollars	\$0 in year 1; \$3.1 million in year 2= ~\$3.1 million for biennium

Total new Medicaid dollars requested for the biennium \$7.2 million