



## Restoration of the “Financing Allowance” for Nursing Facilities

HB 2685/Billig & Alexander

**Issue:** Medicaid payments for the “Financing Allowance” component of nursing facility rates embodied in Sec. 3(2) ESSB 5581, reduces this payment component from 10.0% (pre-1999 assets) and 8.5% (post-1999) down to 4.0% effective July 1, 2013. HB 2685 would restore the “Financing Allowance” rates for assets acquired on or before June 30, 2011 to pre-ESSB 5581 levels.

**Background:** This provision was driven in part due to the availability of significantly lower mortgage rates that have reached record-low levels (below 10.0%) creating the misperception that Medicaid was over-paying in this rate component category.

**The Problem(s):** The “Financing Allowance” is not calculated on a facility’s mortgage rate – it is computed using a facility’s net book value which is equal to acquisition costs minus depreciation. Essentially, it covers the costs of mortgage payments AND costs of building/service improvements.

### Practical Implications for Nursing Facilities

- There is little correlation between commercial mortgage rates (paid by businesses including nursing facilities) and residential mortgage rates. More importantly, commercial mortgage rates are sometimes impossible or very difficult and costly to re-finance (oftentimes, prohibitions, prepayment penalties, and loan application fees make it fiscally impossible to refinance);
- The financial impact for the state’s 214 nursing facilities is estimated at \$14.3 million, or \$3.74 per day, having a wildly disproportionate impact on providers in the state. Daily rate reductions (on a state-wide average rate of \$165.00 per day) range from \$18.39ppd to \$0.51ppd;
- This reduction is strictly a cash take-away; it cannot be offset in any other cost category because there are no corresponding expenses that providers can reduce to absorb their loss;
- These have a direct and proportionate impact on all facility’s “value” which will create an immediate credit crisis, driving lenders out of the state, adversely impacting quality of care and resident services.

### Policy Concerns for the State

- The policy objective of utilizing a “Financing Allowance” is to encourage a reinvestment of capital into nursing facilities. Reinvestment translates directly into updating facilities with continual improvements and investments in technology, furnishings, and patient care services. The reductions embodied in ESSB 5581 will essentially eliminate any further modernization of the state’s nursing facilities;
- The “Financing Allowance” rate is reduced every year because it is based on a value that is decreased every year because of depreciation. This serves the state by paying for an asset only one time, at continually lower levels until the asset is paid-off thereby avoiding the perpetual “fair rental value system” payments or “flat rate” capital payments which continue regardless of age or the condition of the asset;
- Because higher “Financing Allowance” payments are made to newer, more modern facilities that will bear the majority of the proposed reductions, the state will be left with older, less efficient, and less advanced physical plants in their nursing facilities.