

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE  
Revised

House Bill 809

(Delegate James, *et al.*)

Health and Government Operations

Budget and Taxation and Finance

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Nursing Facilities - Accountability Measures - Pay-for-Performance

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This bill repeals the requirement that the Department of Health and Mental Hygiene develop accountability measures relating to the nursing home quality assessment and instead requires DHMH to develop a plan for accountability measures to use in a pay-for-performance program. Implementation of the program is delayed from July 1, 2008 to July 1, 2009.

The bill takes effect July 1, 2008.

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Fiscal Summary

**State Effect:** None. The change would not directly affect governmental finances.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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Analysis

**Bill Summary:** The plan must include • program goals; • recommended options; • funding sources; • implementation timelines and benchmarking periods; and • the administrative cost of implementation of a pay-for-performance system. The plan must be developed in consultation with representatives of nursing homes and other stakeholders and submitted to the General Assembly by December 1, 2008. Up to 25% of the revenues generated by the nursing home quality assessment must be distributed in an incentive program.

**Current Law:** Chapter 503 of the 2007 regular session imposed a quality assessment equal to the lesser of 2% of the revenues for nursing facilities in the State or the amount necessary to fully fund the nursing facility payment system. Revenues generated by the assessment and federal matching funds must be used to increase Medicaid nursing home reimbursement rates. Continuing care retirement communities and facilities with less than 45 beds are exempt from the assessment.

Beginning July 1, 2008, a portion of the revenues from the assessment must be distributed to nursing facilities based on accountability measures that indicate quality of care or a commitment to quality of care. The accountability measures must be objective, measurable, and when considered in combination with each other, deemed to have a certain correlation to residents' quality of life and care. DHMH has to develop accountability measures relating to the assessment.

**Background:** DHMH began assessing nursing homes on October 1, 2007. In fiscal 2009, the assessment will be set at the statutory maximum of 2.0% of nursing home revenues and is expected to bring in \$42 million in general fund revenues. These funds will be matched with federal funds, resulting in a net impact on the nursing home industry of a \$42 million increase in Medicaid reimbursement. Actual impact varies by nursing home. Facilities that serve a disproportionate share of Medicaid patients will benefit as the additional reimbursement will exceed the cost of the assessment, while homes that serve only a few Medicaid patients will experience higher costs as the assessment will exceed additional revenue.

A work group has been meeting to develop a possible methodology for the nursing home quality incentive payments. This work group includes representatives of Medicaid, the Office of Health Care Quality, the Maryland Health Care Commission, the Health Facilities Association of Maryland, LifeSpan Network, Voices for Quality Care, and the Service Employees International Union. A scoring system is yet to be finalized, but components to be measured will include staffing levels, health outcomes, and responses to MHCC's Family Satisfaction Survey.

The Health Services Cost Review Commission established a Quality Initiative in 2003 to devise a pay-for-performance system for hospitals. An Initiation Work Group is advising HSCRC on the initial set of quality measures and an associated methodology. HSCRC will consider how rewards and incentives can be implemented to encourage Maryland hospitals to achieve an appropriate level of efficiency and quality of care. HSCRC has been testing methodologies using data from calendar 2005 and 2006 for all acute care hospitals in Maryland. Fiscal 2007 data will be available shortly. It is expected that hospital rates will be adjusted based on performance on the initial set of quality measures, for both attainment and improvement using the most recent data available, beginning in fiscal 2010.

**State Fiscal Effect:** The bill does not alter the amount of the assessment but rather requires that a plan be developed to use accountability measures in a pay-for-performance system. As the total amount of the assessment is unchanged whether a portion is returned to nursing homes through a quality incentive payment or a pay-for-performance system, the bill is not expected to have a fiscal impact.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** Although SB 677 is designated as a cross file, it is not identical.

**Information Source(s):** Department of Health and Mental Hygiene, Department of Legislative Services

**Fiscal Note History:** First Reader - February 29, 2008  
mcp/ljm Revised - House Third Reader - March 25, 2008

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