

## **Skilled Nursing Facility Fair Rental Value Amendment SC1019**

This amendment would reform the capital cost component of the Medicaid rate formula for skilled nursing facilities (SNFs). This component is supposed to reimburse providers for the costs of building construction, renovation, and equipment. Currently, the capital component is frozen and has been since 2016. It reflects costs as they were more than a decade ago (2014). Moreover, the existing rate structure for capital is not rational. Every SNF in each of the 6 peer groups around the state is paid the same rate for capital regardless of the age, size, or condition of the facility. The system does not incentivize putting money into a building to improve residents' living environment.

In December 2022, the General Assembly passed legislation recognizing that the capital reimbursement methodology needed to be reformed. House Bill 45 contained language directing ODM to prepare a proposal to shift to a fair rental value system for capital reimbursement and present it to the legislature by October 1, 2023. Fair rental value is a well-known methodology used in many other states that varies rates based on the depreciated replacement cost of each facility. ODM did not comply with the legislative directive in HB 45.

The amendment would remedy that failure by replacing the current, broken capital methodology with an environmental quality incentive payment using fair rental value, which would be implemented July 1, 2027. The quality payment would provide an incentive for investing in new buildings and improving existing buildings. It would be based on appraisals of all SNFs (at provider expense) as well as other factors that add value for residents but are not captured by an appraisal. Those factors would be based on recommendations of a stakeholder workgroup.

The amendment is budget neutral for the coming biennium. Over the next two years, ODM would prepare for implementation, including collecting appraisals of all Ohio SNFs that would form the basis of the fair rental value rate calculations. The calculations would take the result of the appraisals and convert them into per diem rates.

The delayed implementation date allows ODM and the General Assembly the opportunity to review the new system and the resulting rates and make any changes deemed necessary in the next budget bill, before the rates are put in place.

The amendment has no impact on appropriations.