



December 14, 2016

Dear LeadingAge Washington Members:

Yesterday, the Governor released his Revenue proposal and his education budget to fund K-12. In his revenue proposal, the Governor would raise nearly \$4.4 billion in new revenue by imposing new taxes on carbon emissions and capital gains. The new capital gains tax rate of 7.9% would be applied to gains above \$25,000 for individuals and above \$50,000 per couple, excluding home sales and income from retirement accounts. The Governor also proposes to increase the B&O tax from 1.5% to 2.5% on services including attorneys, accountants, consultants and real estate agents. A significant portion of these new monies is invested into K-12, adding nearly \$3.9 billion in funding to enable school districts to hire more teachers and to comply with *McCleary*.

Today, Governor Inslee released his proposed 2017 *Supplemental* State Operating Budget for the funding-cycle which began July 1, 2016 and will end June 30, 2017. He also, importantly, released his proposed 2017-2019 *Biennial Operating and Capital Budgets* for the funding cycle beginning July 1, 2017 and ending June 30, 2019. Please see below for LTSS details. The Operating and Capital budgets proposed by the Governor both rely on new revenue and avoid the shock and awe that would otherwise result in budgets dependent solely on existing revenue. That said, the Governor's proposed budgets are already not being received well by Republicans. The Governor makes significant investments in mental health and combating homelessness (funding 1,700 affordable housing units) spending nearly \$300 million and \$120 million, respectively, in his Capital and Operating budgets.

#### **Supplemental & Biennial Operating Budget – Minimum Wage Mandate**

The Governor's 2017 Supplemental Operating Budget funds the statewide minimum wage initiative effective January 1, 2017. Minimum wage funding is provided for nursing facilities, adult family homes, assisted living, enhanced adult residential care (EARC) and adult residential care (ARC) providers, among others. We are unclear as to whether adult day program funding has been similarly addressed and are awaiting confirmation.

**If** the Governor's Supplemental Operating Budget is adopted by the Legislature unchanged, Medicaid rates would be increased by an amount retroactive to January 1<sup>st</sup> and continue to be adjusted through June 30, 2017. **If** the Governor's 2017-2019 Operating Budget is adopted by the Legislature unchanged, the affected rates would continue to be adjusted upward by an amount effective July 1, 2017 and through June 30, 2019.

- The six months of total funding for **nursing facilities** during the balance of this fiscal year is \$303,031. For the first full (fiscal) year of funding, and included in the Biennial Operating Budget, the total funding amount beginning July 1, 2017 is \$933,264 which grows to \$1,747,344 on July 1, 2018 through June 30, 2019. It is believed that the minimum wage funding will be an add-on to the direct care component and outside of the current statewide weighted average budget dial of \$197.33. In future rate setting periods, including fiscal years 2018 (July 1, 2017 – June 30, 2018) and 2019 (July 1, 2018 – June 30, 2019) the minimum wage funding will continue to be paid as an add-on and outside the budget rate dial, however, the rate dial reflected in the

2017-2019 Operating Budget will have to be adjusted upwards to account for this increase. The Operating Budget does not assume this funding authority as it awaits Legislative approval.

- The six months of total funding for **assisted living, EARC and ARC** communities during the balance of this year is \$1,611,602 million. (Detailed allocation of dollars between the programs is unavailable but AL receives the greatest portion of funding.) For the first full (fiscal) year of funding, and included in the Biennial Operating Budget, the total (federal and state) funding amount beginning July 1, 2017 is \$4,450,160 million which grows to \$7,256,383 on July 1, 2018 through June 30, 2019. The daily AL, EARC, ARC rates will be increased by a percentage factor and weighted by CARES levels so the greatest number of clients served in a particular CARES category receives the greater share of minimum wage funding.

For 2017, the calculation used to determine the total funding amounts assumes a certain number of paid staff hours working below \$11 per hour and then adjusts those wages to \$11 per hour. The calculation continues in each of the subsequent years adjusting wages to \$11.50 beginning January 1, 2018, \$12.00 during 2019, \$13.50 during 2020, \$13.86 during 2021 and \$14.23 during 2022.

### **2017-2019 Proposed Operating Budget**

- 1) License fees remain unchanged for Assisted Living and Nursing Facilities and are \$106 and \$359 per bed, respectively.
- 2) No additional vendor rate increase is provided to Assisted Living.
- 3) The Nursing Facility rates are funded at the statewide weighted rate of \$197.08 beginning July 1, 2017 through June 30, 2018, and \$204.94 beginning July 1, 2018 through June 30, 2019. This is a year over year increase of \$7.61 to *rebase* the rates on July 1, 2018 using 2016 cost data. As noted, the budget rate dials will need to be adjusted if the Legislature adopts the minimum wage proposal for the 17/19 biennium.
- 4) Nursing Facility direct care rates are held so they do not exceed 118% of its 2014 base year costs, unless below minimum staffing levels. This cap on direct care rate growth provides approximately \$4 million in GF-S funding for the two years. This funding buys back the low acuity penalty on all behaviors in the impacted groups, PA-PE2. However, all other clients in these groups remain at risk for the 13% reduction in rate. If there is funding that remains from the \$4 million, after all behaviors are eliminated from the penalty, the department will then begin to buy back the highest of the non-behaviors remaining in the highest of the ten lowest groups, PE2, PE1, PD2, and so on and so forth. In all likelihood, the penalty will be applied to non-behaviors in PDs, PCs, PBs and PAs as little funding will remain.
- 5) No rate reductions for adult day programs.

### **2017-2019 Proposed Capital Budget**

- 1) \$91 million in Capital funds is proposed for the Housing Trust Fund for loans and competitive grants for affordable housing and mental health treatment beds. Related to housing and from his Operating Budget, he would invest \$20 million to deliver services to chronically homeless adults and families.
- 2) \$10 million in funding is provided in his Capital Budget for major building improvements, preservation work and system replacement, i.e., heating and ventilation.

Governor Inslee's proposed budgets are just the first Supplemental and Biennial Operating budgets in the process. The Governor's plan now goes to the Legislature. The 2017 Legislative Session is scheduled to begin January 9, 2017 and is scheduled to adjourn 105 calendar days thereafter on April 24, 2017.

We will ask you to send out key advocacy messages in response to the Governor's budget proposals to not only Governor Inslee but also to your district legislators. Please stay tuned and watch for this alert next week.

If you have any questions, please contact Deb Murphy, CEO or LeighBeth Merrick, Director Senior Living & Community Services, via email or by phone at (253) 964-8870.