

**Department of Social Services
Office of Certificate of Need and Rate Setting**

Overview of Nursing Facility Rate Setting
(July 2011)

Background

There are 237 nursing homes and 28,231 licensed beds in Connecticut. Of the 237 facilities, 228 participate in the Medicaid program (27,550 beds). Medicaid paid for an average of 17,700 individuals each month in SFY 2011. Nursing facilities had total revenues of approximately \$2.1 billion in 2010 and employed over 30,000 people. The care for about 87% of nursing home residents is paid for by government programs including Medicaid, Medicare and Veterans Administration.

Connecticut Nursing Facility Payer Mix- 2010

Medicaid	69.7%
Private Pay	12.6%
Medicare	13.7%
Other (Veterans/N.Y. Medicaid)	4.0%

Under the Connecticut Medicaid program, payment rates for nursing facilities are set on a cost-based prospective basis in accordance with Section 17b-340 of the Connecticut General Statutes and Section 17-311-52 of the Regulations of Connecticut State Agencies. The federal government provides states discretion in determining the method used to pay for nursing facility services. The state method, however, must be approved by the Centers for Medicare and Medicaid Services (CMS) within the federal Department of Health and Human Services.

The annual rate period is July 1 through June 30, unless modified by the legislature and, the cost report period is October 1 through September 30. Cost reports are due from facilities by December 31 of each year. The annual cost report is a thirty-nine page document and includes detailed cost, statistical (e.g. residents days, therapy service volume, nursing hours) and ownership/related party transaction information.

In the current rate period, July 1, 2011 through June 30, 2012, the average Medicaid rate is \$227.21 per day and rates range from \$126.42 to \$280.40 per day. In SFY 2011, Medicaid expenditures for nursing facility services were approximately \$1.2 billion.

Cost Basis of Rates

Prior to the adoption of PA 91-8 (June Session), rates were "rebased" each year. That is, the most recently completed annual cost report was used to set rates each July 1 (1989 report used for 7/1/90 rates).

PA 91-8 (June Session) revised the prior method by prescribing those cost years that would be used for the rate years beginning July 1, 1991 through July 1, 1993. Beginning with rate year July 1, 1994, the Commissioner was required to rebase no more than once every two years and no less than once every four years.

Computed rates for the period beginning July 1, 2010, prior to application of a rate freeze per PA 09-5, September Special Session, were based on 2007 and 2009 cost report filings. The 2007 cost report was used for all costs except property/fixed assets, for which the 2009 cost report was utilized to determine amounts allowed for under Medicaid. Under 17b-340 CGS, the Commissioner is permitted to use the most recent cost reports for determining the property component of each facility rate to reflect capital improvements. In this way, facilities receive additional revenue through their rates to account for debt service and related costs associated with major property improvements. However, PA 09-5, September Special Session, limited adjustments related to recent property improvements to those improvements for which the facility received approval through the certificate of need (CON) process.

For the period beginning July 1, 2011 no changes were made to the computed rates, however, per PA 11-44 a 3.7% increase to the prior year's rate was appropriated.

Categorization of Costs

Reported expenditures are categorized into five cost groups as follows:

1. Direct - Nursing and nurse aide personnel salaries, related fringe benefits and nursing pool costs.
2. Indirect - Professional fees, dietary, housekeeping, laundry personnel costs and expenses and supplies related to patient care.
3. Administrative and General - Maintenance and plant operation expenses, and salaries and related fringe benefits for administrative and maintenance personnel.
4. Property (Fair Rent) - A fair rental value allowance is calculated to yield a constant amount each year in lieu of interest and depreciation costs. The allowance for the use of real property other than land is determined by amortizing the base value of property over its remaining useful life, using the Hospital Fixed Asset Guide Book, and applying a rate of return (ROR) on the base value. The ROR is linked to the Medicare borrowing rate and was 4.4370% for assets placed in service in 2010. Under state statute the maximum ROR is 11%. Non-profit facilities receive the lower of the fair rental value allowance or actual interest and depreciation plus certain other disallowed costs.
5. Capital Related - Property taxes, insurance expenses, equipment leases and equipment depreciation.

Allowable Cost Maximums

Facility costs, calculated on a per diem basis by category, are limited to maximums established as percentages of median costs in the Direct, Indirect and Administrative/General categories. The allowable cost maximums are specified by year under the statute as reflected in the following table.

Allowable Cost Maximum Percentages By Category (% of median)

	<u>Direct</u>	<u>Indirect</u>	<u>Admin./Gen.</u>
7/1/91	140%	130%	125%
7/1/92	140%	125%	115%
7/1/93	135%	120%	110%
7/1/94	135%	120%	105%
7/1/95 to 7/1/98	135%	115%	100%
7/1/99 to 7/1/00	135%	125%	100%
7/1/01 Forward	135%	115%	100%

Under the statute, there are separate "peer groupings" by licensure type within the Direct category and for facilities in Fairfield County in recognition of higher wages in that area.

Cost Component Limit Amounts (July 1, 2011- June 30, 2012)

	<u>Direct</u>	<u>Indirect</u>	<u>Admin./General</u>
Fairfield County			
CCNH Licensure	\$186.77	\$60.10	\$32.08
RHNS Licensure	\$168.84	\$60.10	\$32.08
Non-Fairfield County			
CCNH Licensure	\$165.66	\$60.10	\$32.08
RHNS Licensure	\$113.30	\$60.10	\$32.08

Inflation Update

The Regional Consumer Price Index and the projected value of that index (by Data Resources Inc.) are employed to inflate costs from the cost year to the rate year. Reductions to the inflation update have been included in statute for certain rate periods to promote efficiency and to limit the update to meet necessary cost increases. Allowable cost year 2007 costs have been inflated by 10.97% for the July 1, 2011 rate period representing actual and estimated inflation between the cost period and rate period.

Incentives/Efficiency Allowances

The system provides a rate increase adjustment or "efficiency allowance" to facilities having lower costs in the Indirect and Administrative cost categories. The incentive is 25% of the difference between the facility's cost per day and the state-wide median cost per day in the component category.

Minimum Occupancy for Rate Setting

For rate computation purposes, allowable costs are divided by the higher of reported total resident days for the year or facility occupancy at 95% of licensed capacity.

Limits on Year-to-Year Rate Changes

The statute limits a nursing facility's rate increase from year to year. The following is a summary of the annual rate increase limits.

July 1, 1992	6.0%	Jan. 1, 2003	2.0%
July 1, 1993	6.0%	Jan. 1, 2005	1.0%
July 1, 1994	6.0%	July 1, 2005	14%/Net 4.0% See Below
July 1, 1995	3.0%	July 1, 2006	3.0%
July 1, 1996	3.0%	July 1, 2007	2.9%
July 1, 1997	2.0%	July 1, 2008	0%
July 1, 1998	3.0%	July 1, 2009	0% FR for CONs only
July 1, 1999	1.0%*	July 1, 2010	0% FR for CONs only
July 1, 2000	2.0%	July 1, 2011	0% FR for CONs only**
July 1, 2001	2.5%		

* Plus an average increase of 7.5% under Wage Program add-on.

**Appropriation of 3.7%

Effective July 1, 2005 (Public Act 05-251)- Medicaid rates effective July 1, 2005 were based upon a multi-step formula. For facilities with prospective rates in effect as of June 30, 2005, the Act provides that prospective Medicaid rates effective July 1, 2005 will be based upon 2003 cost report filings, subject to the standard rate setting formula, with the addition of an \$11.80 per day rate increase. No rates increased by more than \$32.00 per day and June 30, 2005 rates equal to or greater than \$195.00 could not increase by more than 11.5%. Any June 30, 2005 rate below \$195.00 may not exceed \$217.43 effective July 1, 2005. Rate increases were implemented in conjunction with a Nursing Facility Resident Day User Fee.

Interim Rates

Under state statute and regulations, the Commissioner may grant an interim rate when a facility changes ownership, has a significant change in licensed bed capacity or faces a financial distress. In these cases, there is a cost settlement process for the interim rate periods subject to rate setting provisions (e.g. component maximums) and any conditions related to the interim rate (e.g. management fee limit). The department enters into interim rate agreements related to major capital projects, ownership changes and hardship situations.

Resident Day User Fee

Public Acts 05-251 and 05-280 established a nursing facility resident day user fee to be imposed effective for calendar quarters commencing on or after July 1, 2005 and calculated by multiplying a nursing home's total non-Medicare resident days during the calendar quarter by the user fee. The current User Fees are \$19.26 for July through September 30th per non-Medicare resident day and \$21.02 for October through June 30 per non-Medicare resident day. For facilities with over 230 beds or owned by municipality, the User Fees are \$14.78 for July through September 30th per non-Medicare resident day and \$16.13 for October through June 30th.

The resident day user fee is paid to the Department of Revenue Services by electronic funds transfer on or before the last day of October, January, April and July for the calendar quarter ending on the last day of the preceding month.

Resident days mean each resident service day and include the day a resident is admitted and any day for which the facility is eligible for payment for reserving a resident's bed due to hospitalization or temporary leave or death. *Resident days* do not include the day a resident is discharged or days for which a resident is eligible for payment, in full or with a coinsurance requirement, under the Medicare program.

The User Fee legislation required that DSS apply to the Federal government for a waiver of tax uniformity rules to exempt nursing homes owned by entities registered as Continuing Care Retirement Communities (CCRCs) from the resident day user fee. There are 16 nursing homes associated with CCRCs and 13 are exempt from the resident day user fee under the Federal waiver.

Medicaid Allowable Cost Limitations in Regulations and Guidelines

Allowable cost limits that are in addition to allowable cost component limits established in statute (17b-340 CGS) to promote economy and efficiency (Direct Care 135% of median, Indirect 115% and Administrative 100%) are as follows:

General (17-311-52 (i) Regulations)- Costs must be reasonable and directly related to the provision of patient care.

Administrator Salary (17-311-52(b) Regulations)- Annually updated salary limits by facility size (# of beds). Limit for 120 bed nursing facility in 2011- \$84,975.

Assistant Administrator Number and Salary (17-311-52(b) Regulations)- Limit to one for each 100 beds above 99 beds. Salary limited to 70% of Administrator limit.

Director of Nurses Related to Owner (17-311-52(b) Regulations)- Annually updated salary limits by facility size (# of beds). Limit for 120 bed nursing facility in 2011- \$59,744.

Dieticians (17-311-52(b) Regulations)- Annually updated hourly rate. \$43.48 per hour in 2011.

Medical Director/Physicians (17-311-52(b) Regulations)- Annually updated hourly rate. \$148.33 per hour in 2011.

Staff Related to Owners (17-311-52(b) Regulations)- Annually updated salary. \$32,344 for 2011.

Expenses for Promotion/Enhancement of Owner's Interests (17-311-52(i)(2) Regulations)- Appraisals, advertising for self-pay residents, defense legal fees (reviewed case by case), refinancing fees, etc.

Expenses for Comfort/Convenience of Owner (17-311-52(i) Regulations)- Home offices, personal use of facility vehicles, gifts in excess of guidelines, etc.