

**Distribution:** Nursing Facilities 02-05  
Nursing Home Facilities (Provider Type 60)  
County Medical Care Facilities (Provider Type 61)  
Hospital Long Term Care Units (Provider Type 62)  
Ventilator Dependent Units (Provider Type 63)  
Nursing Facilities for the Mentally Ill (Provider Type 72)

**Issued:** December 16, 2002

**Subject:** Quality Assurance Adjustment

**Effective:** As Indicated

**Programs Affected:** Medicaid

The policy changes being implemented by this bulletin are in response to public comments submitted for Project #0215-NF. This bulletin supersedes bulletin Nursing Facilities 02-03 issued July 15, 2002.

To comply with Public Act 303 of 2002, the Department of Community Health is making changes to nursing facility reimbursement. Public Act 303 establishes a Michigan Medicaid Quality Assurance Assessment (MMQAA) program and instructs the Department of Community Health to create a special inflation adjustor to restructure nursing facility rates to incorporate funds resulting from the assessment. The Department of Community Health is changing long term care reimbursement policy as it pertains to allowable costs, variable costs, and inflation update structures effective July 1, 2002. Changes are being made to the structure of rate setting, including how the cost base is determined and used in rate setting, and in how inflationary adjustments are made against that base to create a prospective rate. Inflationary adjustments will now be split into two components: a quality assurance update and an economic update. Provider quality assurance assessment bed fees will now be an allowable cost, although it will be adjusted through the cost reporting process to be segregated from the nursing facility cost base for reimbursement rate determination.

The quality assurance update to variable costs for the period July 1, 2002 through September 30, 2002 is 10.1%. It will be recalculated annually prior to each State fiscal year to provide an aggregate 7% increase in facility rates. In the current period, the prospective economic inflation update is 0%. The rates will be recalculated and paid quarterly.

### **Rates July 1, 2002 – September 30, 2002**

Due to the implementation of the Governor's Executive Order affecting Medicaid reimbursement rates through September 30, 2002, it is necessary to maintain rate determination consistency through September 30, 2002. The Governor's Executive Order reimbursement reduction calculation remains in place through September 30, 2002 in the facility's reimbursement rate.

The Variable Cost Component (VCC) amount for rate calculations for current year rates will remain in effect as calculated. The Medicaid Variable Cost Limit (VCL) and the Support-to-Base (S/B) Cost Ratio limits by bed size for Class I Nursing Homes and Class III CMCF/HLTCU's will not be recalculated for rate periods for fiscal years ending subsequent to July 1, 2002.

Providers with annual rate determinations beginning July through September (June through August 2003 rate year ending) will have an annual rate rebasing completed in accordance with the existing policy. Updated VCL and S/B Cost Ratio limits will be applicable to these rate determinations. These providers will have the nursing facility 2001 cost report data utilized to establish the rate for that facility's respective rate year begin date.

Medicaid rates for providers participating in the MMQAA program were increased effective for service dates July 1, 2002 to include a reimbursement allowance resulting from the MMQAA bed fee. Participating in the MMQAA program means that the facility licensed beds are subject to the MMQAA bed fee. The MMQAA program reimbursement amount will be 10.1% applied to the provider's VCC in effect for the rate referenced above. The individual facility's VCC will already reflect the lesser of the facility Variable Rate or the VCL.

The facility routine nursing care total reimbursement per diem rate will be the sum of the following (exclusive of separate add-on amounts):

- Variable Cost Component
- Less 1% Variable Rate Reduction in the current Governor's Executive Order
- Plus QAA Program allowance
- Plus Plant Cost Component

### **Rates for the Period October 1, 2002 through September 30, 2003**

#### Rate Years Beginning Prior to October 1, 2002

The rates for this time period are determined in the same process as identified for the July through September 2002 time period. The individual nursing facility VCC will remain in effect through the nursing facility's normal effective rate period end date.

The Governor's Executive Order reduction terminates with services starting October 1, 2002.

The facility routine nursing care total reimbursement per diem rate will be the sum of the following (exclusive of separate add-on amounts):

- Variable Cost Component
- Plus QAA Program allowance
- Plus Plant Cost Component

### Rates Years Beginning During the Period October 1, 2002 through September 1, 2003

Providers with annual rate determinations scheduled to begin during this time period will have a VCC annual rate rebasing completed in accordance with the existing policy. The cost base year for the facility rate will be the facility cost report for the cost reporting year ended during the time period September 2001 to August 2002. The rate will be effective through September 30, 2003 and will reflect a 0% inflation allowance for the entire update time period.

The Medicaid VCL and the S/B Cost Ratio by bed size for Class I Nursing Homes and Class III CMCF/HLTCU's will be recalculated for rates ending September 30, 2003 with a 0% inflation allowance. Updated VCL and S/B Cost Ratio limits will be applicable to these rate determinations. The limits will be calculated using the cost reporting years ending through the respective calendar quarter cost base year utilized in the rate determination methodology.

### Michigan Medicaid Quality Assurance Assessment (MMQAA) Program

Medicaid rates for providers participating in the MMQAA program includes a reimbursement allowance resulting from the MMQAA bed fee effective for service dates October 1, 2002. Participating in the MMQAA program means that the facility licensed beds are subject to the MMQAA bed fee. The MMQAA amount will be 10.1% applied to the provider's VCC in effect for the respective rate period.

### **Rates for the Year: October 1, 2003 – September 30, 2004**

Cost year rate rebasing will be effective for all facilities. The cost base year for all rates will be the facility cost report for the cost reporting year ended during calendar year 2002. The MMQAA bed fee will not be included in the cost base on which the Medicaid rates will be determined. The MMQAA bed fee must be reported in the individual facility cost report as assessed and accounted for on the accrual basis, in the fiscal year concurrent with the assessment time period. The reported bed fee assessment amount will be removed as a Worksheet 1-B automatic adjustment in the annual cost report.

The nursing facility Class I and Class III respective VCL will be computed utilizing the fiscal year 2002 cost reports indexed to a common date, September 30, 2002 (to correspond with the State FYE). The "DRI-WEFA Skilled Nursing Facility Market Basket without Capital" historic economic indices (without adjustment) will be utilized to index cost to the common date. The VCL and S/B Ratio Cost limits will be determined and applied to the individual facility cost base in accordance with the current program policy as of this common date. The nursing facility VCC will be the lesser of the facility Variable Rate (indexed cost to the common date) or the respective Class VCL. The VCL will be referenced as a "cost base limit" as opposed to a "rate limit".

### Economic Inflation Rate

The update factor applied to the lesser of the individual facility's "September 30, 2002" cost base or VCL will be the economic inflation provided by the legislature in the fiscal 2003 and 2004 Department of Community Health budget. The FY 2003 is 0% and the FY 2004 is unknown at this time.

Michigan Medicaid Quality Assurance Assessment (MMQAA) Program

Medicaid rates for these nursing facilities will include a reimbursement allowance resulting from the MMQAA bed fee effective for service dates October 1, 2003. The MMQAA amount will be 10.1% applied to the nursing facility's VCC determined in the September 30, 2002 index cost calculation referenced above. The individual facility's VCC will already reflect the lesser of the facility Variable Rate or the VCL. (NOTE: 10.1% is being used as an approximation until final determination based on the cost base rebasing.)

Only one VCL and set of S/B Cost Ratio limits will be calculated per Class for the cost base year ending September 30, 2002. All facility rates will be set from October 1 through September 30 to correspond to the State fiscal year.

**Reimbursement Rates in Subsequent State Fiscal Years**

Reimbursement rates in the subsequent fiscal years while the MMQAA program is in effect will follow the prescribed format indicated above. The MMQAA program percentage will be established in the annual determination of the program bed fee in accordance with Act No. 303, Public Acts of 2002.

**Financial Impact**

The financial impact of the change will be approximately a 7% quality assurance adjustment representing about \$100 million in MMQAA inflationary adjustments to the Medicaid rates.

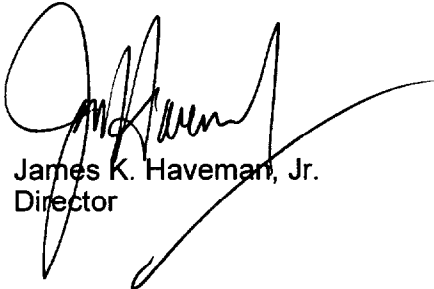
**Manual Maintenance**

Retain this bulletin for future reference. Bulletin Nursing Facilities 02-03 is now obsolete and should be discarded.

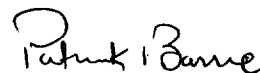
**Questions**

Any questions regarding this bulletin should be directed to: Provider Support, P.O. Box 30479, Lansing, Michigan 48909-7979, or e-mail at [ProviderSupport@michigan.gov](mailto:ProviderSupport@michigan.gov). When you submit an e-mail, be sure to include your name, affiliation, and a phone number so you may be contacted if necessary. Providers may phone toll free 1-800-292-2550.

**Approved**



James K. Haveman, Jr.  
Director



Patrick Barrie  
Deputy Director  
Health Programs Administration