

**Distribution:** Nursing Facilities 02-03  
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:** July 15, 2002

**Subject:** Quality Assurance Adjustment

**Effective:** July 1, 2002

**Programs Affected:** Medicaid

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 Program (MMQAA) 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 will be 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 assessments will now be an allowable cost, though it will be adjusted through the cost reporting process to be segregated from future cost bases.

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

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

Due to the implementation of the Governor's Executive Order 2001-9 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 will remain in place as currently calculated in the facility's reimbursement rate. The Governor's Executive Order reduction is scheduled to terminate with services starting October 1, 2002.

The Variable Cost Component 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) ratios by bed size for Class I Nursing Homes and Class III CMCF/HLTCU's will not be recalculated for rates currently scheduled through fiscal years ending subsequent to July 1, 2002.

Providers with annual rate determinations scheduled to begin July through September (June through August rate year end) 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 their 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 Michigan Medicaid Quality Assurance Assessment (MMQAA) Program will be increased effective for service dates July 1, 2002 to include a reimbursement allowance resulting from the MMQAA Program bed fee. Participating in the MMQAA Program means that the facility's licensed beds are subject to the MMQAA bed fee. The increase amount will be 10.1% applied to the provider's Variable Cost Component (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. Qualifying Class V nursing facilities will be paid a rate add-on equal to the MMQAAP inflation adjustor times the Class I Variable Cost Limit. Qualifying Class II facilities will have the contract upper limit increased to reflect the MMQAAP.

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 MMQAA Program allowance
- Plus Plant Cost Component

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

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 2001.

The VCL will be computed utilizing the fiscal year 2001 cost reports indexed to a common date September 30, 2001 (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 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 "September 30, 2001" cost base or VCL will be the economic inflation provided by the legislature in the fiscal 2002 and 2003 Department of Community Health budget. The FY 2002 is 0% and the proposed for FY 2003 is 0%.

Michigan Medicaid Quality Assurance Assessment Program - Medicaid rates for providers participating in the Michigan Medicaid Quality Assurance Assessment (MMQAA) Program will include a reimbursement allowance resulting from the MMQAA Program bed fee effective for service dates October 1, 2002. Participating in the MMQAA Program means that the facility's licensed beds are subject to the MMQAA bed fee. The MMQAA amount will be 10.1% applied to the provider's Variable Cost Component (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. **(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 ratios will be calculated per Class for the cost base year ending September 30, 2001. All facility rates will be set from October 1 through September 30 to correspond to the State fiscal year. Qualifying Class V nursing facilities will be paid a rate add-on equal to the MMQAAP inflation adjustor times the Class I Variable Cost Limit. Qualifying Class II facilities will have the contract upper limit increased to reflect the MMQAAP.

#### **Rates for the Second Full 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 Program fee will not be included in the cost base on which the Medicaid rates will be determined. The MMQAA Program fee must be reported in the individual facility cost report as assessed and accounted for on the accrual basis, and will be removed as a Worksheet 1-B automatic adjustment in the annual cost report.

The 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 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 "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 proposed for 0% and the proposed for FY 2004 is unknown.

Michigan Medicaid Quality Assurance Assessment Program – Effective October 1, 2003, Medicaid rates for providers participating in the Michigan Medicaid Quality Assurance Assessment (MMQAA) Program will be increased to include a reimbursement allowance resulting from the MMQAA Program bed fee. Participating in the MMQAA Program means that the facility's licensed beds are subject to the MMQAA bed fee. The MMQAA amount will be 10.1% applied to the provider's Variable Cost Component (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. **(NOTE: 10.1% is being used as an approximation until final determination based on the cost base rebasing.)** Qualifying Class V nursing facilities will be paid a rate add-on equal to the MMQAAP inflation adjustor times the Class I Variable Cost Limit. Qualifying Class II facilities will have the contract upper limit increased to reflect the MMQAAP.

Only one VCL and set of S/B ratios 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 above-prescribed format. The MMQAA Program percentage will be dependent on 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 seven percent quality assurance adjustment representing about \$100 million in MMQAAP inflationary adjustments to the Medicaid rates.

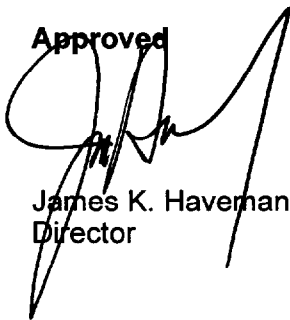
### **Manual Maintenance**

Retain this bulletin for future reference.

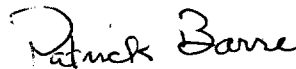
### **Questions**

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**



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