

Bulletin Number: MSA 13-22

Distribution: Nursing Facilities

Issued: July 1, 2013

Subject: Nursing Facility Reimbursement of Interest for Working Capital Loans

Effective: As indicated

Programs Affected: Medicaid

The purpose of this bulletin is to remind providers of nursing facility services that rules on working capital borrowings found in the Medicare Principles of Reimbursement are applicable to interest expenses under the Medicaid program. Providers are advised that the Michigan Department of Community Health (MDCH) Director recently issued a final order on *Ciena Healthcare Management, et al*, Docket No 2010-37557-AAH (3/6/13) confirming the application of Provider Reimbursement Manual-15 (PRM-15) Section 202.1 to short-term working capital loans. Please contact the Michigan Administrative Hearing System at (517) 335-2484 for a copy of the decision. PRM-15 can be accessed at the following link: <http://cms.gov/Regulations-and-Guidance/Guidance/Manuals/Paper-Based-Manuals.html?DLSort=0&DLPage=1&DLSortDir=ascending>

Based on PRM-15, MDCH considers working capital borrowings to be funds borrowed for a relatively short time period of 12 months or less to meet current normal operating expenses. The rules on working capital borrowings do not apply to loans on capitalized assets. For lines of credit, the borrowing shall be compliant with the 12 month requirement if the provider repays the entire amount withdrawn within 12 months of the date of the first draw.

The loan must meet allowable cost principles. Interest on current indebtedness meeting the 12 month requirement and other program working capital criteria is allowable, whereas interest expense for long-term working capital indebtedness is not considered allowable.

The nursing facility must document the need and due date for the working capital loan. The need must be to meet normal operating expenses and be supported by an application of funds analysis demonstrating the use of loan proceeds for nursing facility expenses.

For this analysis, the provider must show that current cash receipts are not sufficient to meet the accounts payable, payroll, and other financial obligations. The provider must also demonstrate that the loan proceeds went directly into the appropriate cash account. The provider must document when each withdrawal was used, how each withdrawal was used, and how the funds are being applied to a purpose related to patient care. If the Home Office is the recipient of funds and intends to transfer funds to a provider under the Home Office, the provider must demonstrate the financial need for the funds, how the money was used, and how the use is related to patient care.

The loan must require repayment of the principal balance within a prescribed time period, including regularly scheduled repayment amounts that significantly reduce the principal borrowings amount. The provider may repay the principal balance of the loan on a monthly, quarterly, or annual basis. If the provider repays the entire principal balance before the expiration of the loan term, the interest expense on that loan is considered allowable. If the provider has a line of credit, the provider must repay the entire amount withdrawn within 12 months of the date of the first draw for the interest expense to be considered allowable.

Information in this bulletin will be applied to policy found in the Nursing Facility Cost Reporting & Reimbursement Appendix of the Medicaid Provider Manual.

Manual Maintenance

Retain this bulletin until the information has been incorporated into the Michigan Medicaid Manual.

Questions

Any questions regarding this bulletin should be directed to Provider Inquiry, Department of Community Health, P.O. Box 30731, Lansing, Michigan 48909-8231, or e-mail at ProviderSupport@michigan.gov. When you submit an e-mail, be sure to include your name, affiliation, and phone number so you may be contacted if necessary. Providers may phone toll-free 1-800-292-2550.

Approved



Stephen Fitton, Director
Medical Services Administration