

APPENDIX D

Report No. 01-89-01

Reimbursement Study:

Skilled Nursing and Intermediate Care Services

Rate Development Branch  
Medi-Cal Policy Division  
Department of Health Services

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## DEPARTMENT OF HEALTH SERVICES REPORT

This study establishes Medi-Cal (Medicaid) reimbursement for skilled nursing facilities (SNFs) including subacute services, intermediate care facilities (ICFs), intermediate care facilities for the developmentally disabled (ICF/DDs), and SNFs with special treatment program (STP) services as required by Section 249 of Public Law 92-603, and complies with state legislation and the requirements of the Medi-Cal program. Reimbursement rates for intermediate care facilities for the developmentally disabled-habilitative (ICF/DD-H) and intermediate care facilities for the developmentally disabled-nursing (ICF/DD-N) facilities are established in separate studies, under Section V page 7 of the State Plan Attachment 4.19-D.

### SUMMARY OF METHODOLOGY

1. Collected data from cost reports submitted to the Office of Statewide Health Planning and Development (OSHPD) and to the Department's Audits and Investigation Division (A&I) and distributed it to the appropriate reimbursement category by level of care, bed size class, and geographic area where applicable.
2. Applied an adjustment when SNFs reported ICF days, but did not separate ICF and SNF costs. This converted ICF days to SNF days in order to standardize the calculations.
3. Applied an adjustment to all facilities in the universe, reflecting the difference between reported and audited costs and patient days for field audited facilities. The adjustment included an allowance for settled appeals.
4. Updated each facility's adjusted costs from the midpoint of its fiscal year through January 31, 1990, the midpoint of the State's 1989-90 Rate Year, to bring all costs to a common base period. For this purpose, the reported costs were separated into the categories of (1) fixed or capital related costs; (2) property taxes; (3) labor costs; and (4) all other costs.
5. Determined prospective class median rates for each category of reimbursement based on projected costs for each facility.

### METHODOLOGY

#### Data Collection

The Department received cost reports from 1,191 long term care facilities. Data from these cost reports were used for this study. Some cost data may have been excluded from the study because facilities either failed to submit a report on a timely basis or received permission from OSHPD to file a late report.

All cost reports in the universe had fiscal year endings in the State's 37-88 Fiscal Year. After checks for accuracy and completeness of data, the data sheets were keypunched for entry into the computer system. Each data record contained the following elements:

1. Provider number
2. Facility number and address
3. An assigned identification number
4. State facility number (county code)
5. Licensed bedsize
6. Type of ownership (profit, non-profit)
7. Fiscal period
8. Total patient days by level of care
9. Total Medi-Cal patient days by level of care
10. Total reported costs by level of care
11. Total plant operations
12. Plant operations by level of care
13. Fixed or capital related costs
14. Property tax where identified
15. Facility type: freestanding or distinct part of an acute care facility

#### Audit Adjustment

This adjustment accounts for the difference between reported and audited costs and patient days. Because of the time lag in performing field audits, it was necessary to use the 1987 calendar year field audit findings for this computation.

The randomly selected field audits were performed in accordance with regulations dealing with reasonable and patient related costs as published in Title XVIII of the Social Security Act (Medicare) and Title 22, Division 3, California Code of Regulations. Primary audit guidelines came from the federal Department of Health and Human Services Manual (HCFA 15-1).

In accordance with the field audit requirements, there could be no less than 15 percent of facilities in each of the 1-59 and 60+ bedsize groups selected to develop the audit percentage adjustments. This produced samples of SNFs sufficiently large to produce an audit ratio with 90 percent confidence that did not deviate from the estimated class population by more than 2 percent.

For ICFs and ICF/DDs, there are relatively few facilities in their groups, so the entire universe was audited. Then, where available, facility specific audit adjustments were applied. For facilities who, for some reason, had no audit, the average for their group was computed and applied.

The adjustments were calculated as the simple average of the ratio of audited costs and days to reported costs and days. A computation from settled appeals of cost report audits used in prior rate studies was used to obtain final ratios. The SNF 60-299 bedsize has been combined with the 300+ bedsize and the audit adjustment for this group was applied to the DP/SNF category. The audit average adjustments were:

<u>Bedsizes</u>	<u>Ratios</u>
SNF 1-59	.95288
SNF 60 + and DP/SNFs	.95655

### ICF Adjustment

An adjustment was made for the differential between SNF costs and ICF costs that were not segregated by the facilities reporting ICF days. The reported ICF days were multiplied by .6871 (the historical ratio of ICF to SNF costs) to equate ICF days to SNF days. The total cost was then divided by the adjusted total patient days to determine SNF cost per patient day.

### Cost-of-Living Update

Adjusted costs for each facility were updated from the midpoint of the facility's fiscal year through January 31, 1990.

Adjusted costs were divided into categories and treated as follows:

1. Fixed or Capital Related Costs - These costs represent depreciation, leases and rental, interest, leasehold improvements, and other amortization. As these costs remain relatively constant over a number of years, there was no logical basis to update costs in this category.
2. Property Taxes - These costs, where identified, were updated at a rate of two percent annually converted to a monthly basis of .1667 percent per month. The basis for this adjustment was that Proposition 13 limits property tax increases to two percent a year, except where property is reassessed upon sale.

Some facilities did not report property taxes, either because they were nonprofit and exempt from such tax, or because they had a lease or rental agreement that included those costs.

3. Labor Costs - A ratio of salary, wage and benefit costs to the total costs of each facility was used to determine the amount of the labor cost component to be updated. This ratio was determined by using the overall ratio of salaries and wages to total costs from data extracted by OSHPD from the labor report. Benefits were added that represent all wage related benefits including vacation and sick leave. The final ratios were: .6550 for SNF's, .5774 for ICFs, and .6645 for ICF/DD's.

A table of factors was developed to update labor costs for each facility from the midpoint of its cost reporting period to the midpoint of the state's rate year (January 31, 1990). This table used industry specific wage data reported by the facilities through December 31, 1988 to the state's Employment Development Department. The data were then projected to the midpoint of the State's rate year, January 31, 1990.

4. All Other Costs - These costs are the total costs less fixed or capital related costs, property taxes, and labor costs. The update for "All Other Costs" utilized the California Consumers Price Index (CCPI) for "All-Urban Consumers", and figures projected by the Department of Finance through January 31, 1990.

#### Subacute Services of Skilled Nursing Care

Payment for subacute services in SNFs continues to be based largely on the original reimbursement model due to lack of sufficient cost data from participating facilities.

#### Increments for Increase in Licensure Fees

An amount was added to the updated cost of each facility for increases in licensure fees which were effective July 1, 1988 and 1989.

#### Increment for the State's New Minimum Wage Program

Salaries, wages and benefits were updated to reflect the July 1, 1988 increase in the state minimum wage requirements. Added to the updated facility costs was a per diem adjustment which varied by facility level of care, geographical location and bedsize category as determined by the department's study entitled "Long-Term Care Minimum Wage Study" - - Report No. 01-88-02.

#### Adjustment for OERA Personal Hygiene Items

The updated cost of each facility was adjusted to include the costs of certain personal hygiene items, as required by the Omnibus Budget Reconciliation Act (OERA) of 1987. Added to the updated facility costs was a per diem adjustment which varied by facility level of care as determined by the department's study entitled "Study to Determine the Cost of Providing OERA Personal Hygiene Items" - Report No. 01-89-02.

#### Class and Median Determination

For SNF's, ICF's and SNF-STP's, classes were grouped by bedsize and three geographical locations: (1) Los Angeles, (2) the six Bay Area counties; Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara, and (3) all other counties. Classes for ICF/DD's were established by bedsize and level of care on a statewide basis, as there was an insufficient number of facilities for geographical groupings. The DP/SNF and ICF/DD 300+ bedsize classes were also determined on a statewide basis by level of care.

#### RECOMMENDED RATES (August 1989)

Payment to facilities providing skilled nursing and/or intermediate care are recommended as follows:

Rates for SNF Services

<u>Bedsizes</u>	<u>Los Angeles County</u>	<u>Alameda, Contra Costa, Marin, San Francisco, San Mateo &amp; Santa Clara Counties</u>	<u>All Other Counties</u>
1-59	\$61.18	\$66.96	\$62.23
60 +	\$56.66	\$66.56	\$60.41

For SNFs that are distinct parts of acute hospitals, regardless of geographical location, the lesser of costs as projected by the Department or the prospective class median rate of \$183.97.

Rates for Subacute Services of Skilled Nursing Care

	<u>Freestanding Facility</u>	<u>Hospital-Based Facility</u>
Ventilator Dependent Patient	\$220.38	\$332.35
Other Subacute Patients	\$201.99	\$313.94

Rates for ICF Services

<u>Bedsizes</u>	<u>Los Angeles County</u>	<u>Alameda, Contra Costa, Marin, San Francisco, San Mateo &amp; Santa Clara Counties</u>	<u>All Other Counties</u>
1-99	\$47.40	\$47.40	\$44.13
100+	\$43.17	\$43.17	\$43.17

Rates for ICF/DD Services

	<u>1-59</u>	<u>Bedsizes 60-99</u>	<u>100-299</u>
Range A	\$74.53	\$58.66	\$57.36
Range B	\$78.28	\$62.01	\$62.01
	<u>60-99 With 1-59 Distinct Part</u>	<u>100+ With 1-59 Distinct Part</u>	<u>100+ With 60-99 Distinct Part</u>
Range A	\$59.90	\$58.65	\$58.55
Range B	\$62.01	\$62.01	\$62.01

ICF/DDs with the licensed bed capacity of 300 or more beds shall be entitled to payment for services at the lesser of costs as projected by the Department or the prospective class median rate of \$181.33.

Special Treatment Program Services for the Chronic Mentally Disordered

The rate for a supplemental payment to SNF and ICF providers for services to the chronic mentally disordered, as defined in Section 51511.1, Title 22, CCR, will remain at \$5.72 per patient day.

Rural Hospital Swing Bed Rates

Reimbursement is established at the prospective class median rate of all SNF nonsubacute distinct parts of rural acute care hospitals which participate in the Medi-Cal program. This rate is \$133.71.

Leave of Absence and Bed Hold Rates

Payment is reduced when the patient is on leave of absence or for bed hold as authorized by Sections 51535 and 51535.1, Title 22, CCR. The lesser payment is accounted for by savings in the raw food and dietary costs. The reduction in rates will be \$3.28 per patient day, based on the average of the Los Angeles and San Francisco area increases listed in the CPT Selected Areas "Food at Home Costs".