

Bulletin

July 19, 2006

Minnesota Department of Human Services □ P.O. Box 64973 □ St. Paul, MN 55164-0973

OF INTEREST TO

- County Directors
- Social Services Supervisors and Staff
- Nursing Facility Owners
- Nursing Facility Employee Unions

ACTION/DUE DATE

Please read.

Some provisions are time sensitive.

EXPIRATION DATE

The policies in this bulletin are ineffective as of July 19, 2008.

Nursing Facility Policy Changes in 2006 Legislation

TOPIC

Policy and rate changes enacted during the 2006 legislative session.

PURPOSE

To inform interested parties of changes made to policy and rates for nursing facilities.

CONTACTNursing Facility Policy Center at (651) 431-2282, or by email at: DHS.LTCpolicycenter@state.mn.us.**SIGNED**

LOREN COLMAN
Assistant Commissioner
Continuing Care

1.0 INTRODUCTION

The purpose of this bulletin is to describe implementation of provisions of law enacted in 2005 and 2006 and that take effect in 2006 and apply to nursing facilities.

2.0 RATE ADJUSTMENTS MADE AVAILABLE TO ALL NURSING FACILITIES

Laws of Minnesota 2005, First Special Session, Chapter 4, Article 7, Section 33

M.S. 256B.431, Subd. 41

As enacted in 2005, and effective October 1, 2006, a rate adjustment of 1.2553% of the operating payment rate in effect on September 30, 2006, will be made available to qualifying facilities reimbursed under the contractual Alternative Payment System (APS) (as will a quality add-on of between 0% and 2.4%, with an expected average of 1% - see section 4.0 of Bulletin #05-62-03).

2.1 REQUIREMENTS

2.11 75% Must be Used for Compensation-Related Costs

The law requires that 75% of the funds made available by the 1.2553% rate adjustment must be used for compensation-related costs, which are limited to:

- Costs related to wage increases, where all eligible employees receive a wage increase (eligible employees include all individuals directly employed by the facility on or after the effective date of the rate increase [for example, contract employees are not included] except the administrator, central office staff, and those paid through management fees),
- Increased costs of existing benefits,
- Costs related to newly offered benefits,
- Costs for wages, benefits and payroll taxes resulting from increases in staffing, and
- Other costs directly associated with any of the above costs, such as increased costs for FICA, Medicare taxes, worker's compensation premiums, and federal and state unemployment insurance.

If the compensation-related costs are less than the amount of money available, the amount of the rate adjustment will be reduced accordingly.

2.12 Application

To receive the portion of the rate adjustment that must be used for compensation-related costs, a nursing facility must submit an application to the commissioner by March 31, 2007. While most applications will be approved within 30 days, the department has until June 30, 2007, to approve plans that were submitted on a timely basis. This will allow three months for the facility to remove any impediments to the approval of plans. Attachment A contains a sample application which facilities should use as a model for their application. Upon approval of the application by the commissioner, the rate adjustment will be added to the total payment rate effective October 1, 2006, or on the same date as the wage increases in the application, if that is a later date. The portion of the rate adjustment that is not required to be compensation-related will be added to the total payment rate effective October 1, 2006.

2.13 No Eligible Employees May Be Excluded

The law specifies that the money resulting from the compensation-related portion of the rate adjustment is for all eligible employees. All eligible employees must receive increases in wages and benefits; however, the increases do not have to be in equal amounts. Eligible individuals who were employed by the facility on or after October 1, 2006, (or on a later date if that later date is the effective date for the wage increase) and who are no longer employed by the facility at the time of the wage increase distribution may not be excluded and must receive a retroactive adjustment for the hours actually worked on and after October 1, 2006. Eligible employees also includes individuals hired on or after October 1, 2006, and prior to the implementation of the wage increases. These employees may not be excluded and must receive the wage increase and the retroactive adjustment. No exceptions will be allowed. The facility is expected to use the same process to distribute wage increases to former employees as is used to distribute W-2 tax forms to former employees.

2.14 What Counts as a Wage Increase?

A wage increase may be recognized toward meeting the compensation-related requirement if it is a permanent pay rate increase granted to an eligible employee. Employee bonuses (one-time, lump sum payments that are not permanent wage rate changes) do not qualify. Step increases are generally not allowable, because the costs of step increases are mitigated by ongoing patterns of employee turnover. However, if a facility can demonstrate a low historical pattern of employee turnover, a portion of the costs related to step increases may be considered as part of the distribution plan. Costs related to merit pay increases may be included in the distribution plan.

2.15 Timing of Rate Adjustments

For a nursing facility that proposes a distribution plan with increases in employees' wages beginning with the pay period that includes October 1, 2006, the rate adjustment will be effective October 1, 2006. If the only wage increases in a nursing facility's distribution plan are effective after October 1, 2006, the rate adjustment will be effective the date specified for the wage increases in the distribution plan.

2.2 APPLICATION PROCESS

The application for the compensation-related portion of the rate adjustment consists of four parts:

2.21 Estimate of Funds Available

Part A: Estimated amount of funds available that are required to be used for compensation-related costs:

Part A of the application is an estimate of the total amount of new funding available that must be used for compensation-related costs. Calculate the amount available by using the Medicaid and private pay days for each RUGS class (for the year ending September 30, 2006, if available, or, if not available, September 30, 2005, after the case-mix conversion process), multiplied by the values shown on the rate notice that reflect the actual amount, for each RUGS class, that must be used for compensation related costs. The department will consider the use of a different time frame based on the justification provided in the application. The sum of these amounts is the

estimated total amount of funding available which must be distributed as prescribed in order for the department to provide the full compensation-related portion of the allowable rate adjustments.

The number of days used should be adjusted if the facility changed the number of beds it had in active service during the period October 1, 2005, to September 30, 2006. The adjustment should be done by multiplying the dollars available, as determined above, times the ratio of capacity days based on the number of beds in active service on October 1, 2006, divided by the actual capacity days of the year October 1, 2005, to September 30, 2006.

2.22 Distribution Plan

Part B: The distribution plan

Part B of the application should describe how the amount determined in Part A will be used for compensation-related costs for eligible employees of the nursing facility.

For nursing facilities in which employees are represented by one or more exclusive bargaining representatives, agreements negotiated and agreed to by the employer and the exclusive bargaining representatives constitute Part B of the application for employees who are part of those bargaining units. The nursing facility and the bargaining units may agree to renegotiate agreements currently in place. Agreements must be finalized after the date of enactment of the legislation, July 14, 2005, as evidenced by signatures of representatives of both the facility and the exclusive bargaining representative. All requirements for distribution plan described in this bulletin apply to these applications. If the facility has additional eligible employees who are not represented by an exclusive bargaining representative, a description of the distribution method for those employees should also be provided in Part B.

Part B of the application for the compensation-related rate adjustment should specify the details of all allowable cost increases that will to be used toward meeting the compensation-related requirement and should include detailed calculations showing exactly how the total cost of the increase is determined.

Costs related to wage increases that were effective prior to the payroll period that includes October 1, 2006 may not be included in the distribution plan. The application also cannot count as a distribution to employees any amounts related to increases provided in 2003, 2004, and 2005. A "look-back" period was allowed for the 2005 distribution plan, but is not allowed for the 2006 plan.

2.23 Employee Concerns

Part C: Dispute Resolution Notice

Part C of the application must include information on how employees may resolve disagreements regarding the implementation of the wage and benefit increases described in the approved application. If the concern cannot be resolved directly with the facility's management or through the employee's union representative, the employee may contact the Department of Human

Services at:

By email: DHS.ltcpolicycenter@state.mn.us

By regular mail: Nursing Facility Rates and Policy Division
Department of Human Services
PO Box 64973
St. Paul, Minnesota 55164-0973

By telephone: (651) 431-2282

2.24 Dissemination

Part D: The method of dissemination of the approved application to employees.

A copy of the approved application must be made available to all employees. Part D should note if the facility will distribute a copy of the approved application to each employee or will post it in an area of the nursing facility accessible to all employees.

2.3 REVIEW AND APPROVAL

The review of the application will consist of assessing whether the amount estimated to be available for distribution is reasonable, ensuring that it is used in accordance with the law and ensuring that all other requirements are met. The department estimates the review and approval of applications will take 30 days. Facilities with approved applications will be notified via a rate notice. Facilities that wish to receive an approval letter may request it in the cover letter of their application and should provide their fax number or email address. Applications will only be considered for approval if submitted to the commissioner by March 31, 2007. If an application is not approved, the nursing facility will be notified by the department and will be permitted until June 26, 2007, to submit modifications to the application. For applications approved after October 1, 2006, with allowable cost increases effective with the payroll period that includes October 1, 2006, the rate adjustments will be made effective retroactive to October 1, 2006.

2.4 NOTICE TO PRIVATE PAY RESIDENTS

All nursing facilities must comply with the notice of rate increase requirements for private pay residents as provided in Minnesota Statutes, section 256B.47, subdivision 2. This section requires that nursing facilities provide advance notice, in writing, of rate increases, to private pay residents. DHS is required to notify facilities of rate adjustments by August 15 and facilities must notify private pay residents by September 1, a thirty (30) day advance notice. If DHS fails to meet the August 15 deadline, facilities may give private pay residents less than 30 days advance notice by reducing the notice period by the number of days DHS was late, as long as the notice is given in advance of the rate increase.

Nursing facilities may raise the per diem rates for private-pay residents on October 1, 2006, to the amount anticipated to be the final total payment rate upon approval of the application. If the

amount billed is in excess of the actual final total payment rate, the difference must be repaid to private-pay residents, with interest. The rate of interest is the rate used by the commissioner of revenue for the late payment of taxes which is in effect on the date the application is approved. For 2006 this rate is 6%.

2.5 ACTION

A nursing facility that decides to take advantage of the available compensation-related rate adjustment must submit an application in accordance with this bulletin. Applications should be sent to:

Compensation Plan Coordinator
Nursing Facility Rates and Policy Division
Department of Human Services
PO Box 64973
St. Paul, Minnesota 55164-0973

3.0 CHANGES TO PROPERTY PAYMENT RATES -- THRESHOLD PROJECTS

Laws of Minnesota 2006, chapter 282, article 20, sections 3 and 22

M.S. 144A.071, Subd. 1a, and 256B.434, Subd. 4f.

The rules governing threshold projects and the procedures for rate setting were clarified in 2006 legislation. Some of the items discussed in this bulletin differ from what was said in DHS Bulletin 05-62-03. These differences are caused by the law changes made in 2006. As noted in last year's bulletin, effective October 1, 2006, APS facilities will be allowed to receive property rate adjustments for building projects. The allowable non-equipment and technology costs of a construction project must be greater than the minimum threshold or ten percent of appraised value, whichever is less. For projects that meet this test, allowable costs up to the maximum threshold will be recognized in determining the facility's property payment rate, subject to the replacement-cost-new limit. The threshold values are adjusted annually, as described in DHS Bulletin #06-62-02 (to be released soon), and will be increased by 6.95% on October 1, 2006, when they will be:

<u>Minimum</u>	<u>Maximum</u>
<u>Threshold</u>	<u>Threshold</u>
\$247,197	\$1,264,751

The rules governing threshold projects and the procedures for rate setting require facilities to consider many variables if they plan to undertake a threshold project.

The completion date of a construction project is the date on which MDH issues a "clearance," meaning that the space may be occupied and used as intended. For a "replacement in kind" project, where a clearance is not required, the completion date is the date on which the work is

finished and accepted by the facility. A rate adjustment will be effective the first day of the month following project completion (if project completion is on the first day of the month, the rate adjustment will be effective on the same day). Beginning October 1, 2006, rate adjustments will not be given to facilities that do not have an APS contract.

Property rate adjustments related to threshold projects for APS facilities may begin on or after October 1, 2006. APS facilities with construction project completion dates between October 1, 2005 and October 1, 2006, are eligible to have a property rate adjustment effective October 1, 2006. The effective date for projects completed after October 1, 2006, will be the first of the month following completion.

Facilities that do not have an APS contract and commenced construction on or after October 1, 2004, are eligible to request a rate adjustment through September 30, 2006. After that date, facilities must have an APS contract in order to receive a construction project rate adjustment. These facilities are allowed to accumulate construction project costs for the period October 1, 2004 to September 30, 2006.

APS facilities may receive a construction project adjustment annually. Capital assets purchased after the completion date of a construction project will be counted as project costs for any future rate adjustment request if they are purchased within 24 months of the completion of a future construction project completion date.

Equity incentives will continue to be computed for construction projects. The incentive will be based on the project's costs and debt only and will not use debt and assets that existed prior to the construction project. If a construction project is a total replacement, existing equity incentives, capital repairs and replacements rate, and refinancing incentives will not be included in the rate as of the date the project rate becomes effective.

The rate determination methodology used by DHS to compute construction project rate adjustments for APS facilities was put in the statute. These provisions are too detailed to describe in this bulletin. A general provision was enacted stating that the definitions, rate calculation methods, and principles in sections 144A.071 and 256B.431 and Minnesota Rules, parts 9549.0010 to 9549.0080, shall be used to calculate rate adjustments for allowable construction projects. There were specific provisions passed regarding capacity days for the rate divisor, how the assets purchased and debt incurred will be compared to limits, how previous assets and debt are used in the calculations, and equipment allowances. Differences have been recognized between total replacement and non-total replacement projects and between projects approved under the moratorium exception process and those not going through that process.

4.0 PLANNED CLOSURES

Laws of Minnesota 2006, chapter 282, article 20, section 25

M.S. 256B.437, Subd. 3

The Planned Closure Program provides nursing facilities an opportunity to receive several incentives for delicensing nursing homes beds, contingent upon meeting certain requirements. These incentives may include:

- Reduced surcharge obligation
- Eligibility for bed hold payments
- Increased property payment rate
- A payment rate increase called a planned closure rate adjustment (PCRA)
- An operating payment rate increase if new single beds are created

The history and detail on these incentives may be found in earlier DHS Bulletins:

- 00-62-02 on bed layaway,
- 01-62-04 on planned closures,
- 04-62-01, page 4, on negotiated planned closures, and
- 05-62-03, section 5.0, on incentive to create single bed rooms and delicense beds.

These bulletins may be found at website link:

www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs_id_005964.hcsp#P112_6894

(Note: The two spaces that appear to be blank are underscore characters.)

The computation of the PCRA uses the number of beds closed, the number of beds receiving the PCRA, and a PCRA Factor, a dollar value per bed closed (initially limited to \$2,080), which has been subject to negotiation between the facility and DHS. The PCRA Factor was subject to a requirement that the planned closure proposed by the facility has no cost to the state, meaning that any costs the state may incur related to the proposal are offset by savings to the state that result from the proposal. To ensure this requirement was met, the department developed a formula (the cost neutral formula) that considered such factors as case load savings, costs of diversion to AC and EW, lost surcharge revenues and cost of incentive payments.

Legislation enacted in 2006, amends the planned closure program for proposals negotiated after March 1, 2006, by eliminating the \$2,080 limit. Under the new legislation there is no cap on the per bed amount available, except that the proposal, cumulatively, with other proposals that have been approved, has no cost to the state. Additionally, the new legislation states that the removal of the \$2,080 limit does not constitute an increase in the PCRA Factor that would apply to all previously approved planned closures. What this means is that:

- The PCRA Factor may now be greater than \$2,080.
- The PCRA Factor approved for a negotiated proposal need not be directly related to the savings from that proposal.
- Any value resulting from an approved proposal that is not included in the PCRA Factor may be placed in a pool, to be called the "PCRA Pool," and
- The cumulative value of the PCRA Pool will be tracked.

The department will continue to accept applications for planned closure, approve them as appropriate, and provide PCRA's in the amount determined under the cost neutral formula, up to \$2,080 per bed. Facilities desiring to negotiate larger amounts should request to open such negotiations in their application cover letter. The letter should also specify the rationale and evidence supporting the case that the closure has a greater value to the state. In such cases, the department will consider several criteria, before approving larger amounts. These criteria may include:

- Demographic trends (i.e., beds in county or region, as measured on a beds per 1000 basis for residents age 65+ and 85+).
- Availability of other long-term care services in the area.
- Other long-term care services sponsored by the provider making the proposal.
- Whether the rate assignment will go to a historically low-rate facility.
- Uses of the space made available by the closure of beds.
- Whether the uses of the PCRA contribute to long-term care rebalancing efforts.
- Whether the uses of the PCRA contribute to quality improvement.
- Whether the PCRA will facilitate the proposed bed closure, or future bed closures.
- In complete closures, whether residents will relocate to neighboring facilities with lower rates.
- Present value of payments.
- Other considerations, as proposed by the facility, that serve the interests of the State.
- The best interests of the State.

The value in the PCRA Pool will be adjusted any time a planned closure proposal is approved. If the PCRA Factor approved is lower than the amount that would have had no cost to the state, then the amount to be added to the PCRA Pool will be equal to the number of beds approved for closure multiplied by the difference between the amount that would have had no cost to the state and the amount that was actually approved. If the PCRA Factor approved is higher than the amount that would have had no cost to the state, then the amount to be subtracted from the PCRA Pool will be equal to the number of beds approved for closure multiplied by the difference between the amount that was actually approved and the amount that would have had no cost to the state. The amount in the PCRA Pool will be adjusted any time an approved proposal is either amended before it is acted on or expires without being acted on.

Facilities may inquire about the amount of the PCRA Factor that would have no added cost to the state, as calculated under the formula for a particular proposal. Facilities that are considering negotiating a PCRA may also inquire about the balance in the PCRA Pool.

Once PCRA negotiations are finalized, there will be no re-negotiation of PCRA Factors, except for those negotiated between March 1, 2006 and the publication date of this bulletin.

A staff committee in the Nursing Facility Rates and Policy (NFRP) Division will negotiate with providers regarding these proposals and will make recommendations to the commissioner, who will make final decisions. The department does not intend to establish a specific limit for the

PCRA Factor. Instead, each proposal will be negotiated on the basis of the criteria noted above, and in deciding on the amount of the PCRA Factor, the department will consider the value to the state of the proposal being carried out.

5.0 NURSING FACILITY PERFORMANCE-BASED INCENTIVE PAYMENTS

Laws of Minnesota 2006, Chapter 282, Article 20, Section 21

M.S. 256B.434, subd. 4, paragraph d.

Effective July 1, 2006, nursing facilities may contract with the department to earn performance-incentive Medical Assistance payments of up to five percent of their operating payment rate. The incentive payments may be either time-limited rate adjustments or one-time supplemental payments. The department will implement the performance-based incentive payments on or after October 1, 2007. For the fiscal year ending June 30, 2008, \$1.2 million (state share) is available to implement this provision.

Under this provision, the department has authority to negotiate amendments to Alternative Payment System (APS) contracts. This section of the bulletin constitutes the department's request for proposals to amend an APS contract (RFP). This will be a competitive process; all proposals will not necessarily be accepted.

All nursing facilities with contracts under APS are invited to submit proposals for contract amendments. The intent of this RFP is to encourage nursing facility efforts to improve quality, improve efficiency, and contribute to the re-balancing of Minnesota's long-term care system. The department anticipates implementing up to 40 contract amendments in this round, and conducting additional rounds in subsequent years for up to 140 contract amendments. In fiscal years 2009 and after, \$6.7 million (state share) will be available.

Goals

The department hopes that this RFP will draw upon the knowledge and creativity of providers to develop specific strategies to achieve three broad goals:

- Improve quality – This could include quality improvement as currently measured in the Minnesota Nursing Home Report Card, development of new measures of quality (such as measures that focus specifically on short stays) and other innovative ideas.
- Improve efficiency – This could include the use of new technologies, new management techniques and other ideas.
- Rebalance Long-Term Care – This could include successful diversion or discharge of residents from the nursing facility and other strategies.

Requirements for Submission of Proposals

Proposals should include:

1. Names, locations, and contact information of the facility or facilities submitting the proposal.
2. A general description of the proposal. Facilities may submit multiple proposals, however, the total rate adjustment may not exceed 5%.
3. An explanation of how the proposal relates to the goals and why this proposal is important.
4. Detailed outcomes to be achieved.
5. How outcomes will be measured, reported, and evaluated, including assurance that performance measurement data will be available upon request of the Department.
6. Amount of the proposed incentive payment.
7. Mechanism and timing for making incentive payments.
8. Proposed consequence of failure to achieve outcomes.
9. Proposed APS contract amendment language.

The original proposal must be signed in ink by an authorized representative of the nursing facility. Please, no three-ring binders or spiral bound report covers or any other fastening device that makes copying the proposal difficult. Submissions should include an original and 3 copies of the proposal.

Proposal Review Process

An advisory committee will be convened by the department to review all proposals received and to make recommendations to the commissioner. The selection committee will include staff from DHS and MDH and stakeholder representatives. The department will consider the recommendations of the advisory committee in selecting providers with whom to enter negotiations. Criteria that will be used by the selection committee in reviewing the proposals include:

- How well the proposal addresses the goals of the performance based incentive payment program.
- Importance – is it clear that the proposal addresses a priority issue?
- The outcomes to be achieved are objective, and can be measured reliably - will it be clear that the goals were attained or not?
- Innovative – new concepts, strategies, partnership arrangements and other optional features will be considered.
- Broad based applicability – can the strategy be shared with other facilities, does the strategy address a common problem?
- Prospective – goals must be prospective but the strategy can build on historical accomplishments.
- Feasibility – likelihood that the strategy will be successful.

- Implications and incentives created by the strategy are clearly defined - includes discussion on how the strategy may support or conflict with other goals.

Tentative Implementation Schedule

July 2006	RFP provided to facilities, in this bulletin
August 21 to August 24, 2006	Informational Meeting
October 31, 2006	Proposals due by 4 p.m.
November 2006	Review and Selection of Proposals
December 2006 to February 2007	Negotiate contracts
Beginning with signing of contract amendment	Performance period, data reporting, evaluation, as agreed in amendment.
October 1, 2007 to September 30, 2008	Incentive payment period
September 30, 2008	Payments end

Round 2 will occur on approximately the same annual schedule starting with the issuance of a bulletin in June or July 2007. It is anticipated the Department will negotiate up to 140 contract amendments the second year. Incentive payments for the second year will occur between October 1, 2008 through September 30, 2009.

Informational meetings

The Department will host informational meetings at four locations. The purpose of these meetings is to describe the program and answers questions from interested providers. The agenda will be:

- Description of the Pay for Performance-Based Incentive Payment Program
- Proposal submission requirements
- Selection process and criteria
- Negotiation process
- Program evaluation
- Questions and Answer session

Information meetings will be held at the following locations:

<u>Monday, August 21, 2006</u>	Department of Human Services Elmer L. Andersen Building, Rooms 2370 and 2380 540 Cedar Street St. Paul, MN 55164 1:00 – 3:00 PM
<u>Tuesday, August 22, 2006</u>	Windom Community Center 1750 Cottonwood Lake Drive Windom, MN 56101 1:00-3:00 PM
<u>Wednesday, August 23, 2006</u>	Northern Inn 3600 Moberg Drive NW Bemidji, MN 56601 1:00 – 3:00 PM
<u>Thursday, August 24, 2006</u>	Best Western Edgewater 2400 London Road Duluth, MN 55812 9:30 – 11:30 AM

Questions and answers from the informational meetings will be posted on the Department's website at:

http://www.dhs.state.mn.us/main/groups/aging/documents/pub/DHS_id_005397.hcsp

Questions and comments about the Pay for Performance-Based Incentive Payment program should be directed to Valerie Cooke at (651) 431-2263 or valerie.cooke@state.mn.us.

6.0 RESIDENT RELOCATION

Laws of Minnesota 2006, chapter 282, article 20, sections 7-16.

M.S. 144A.161

Legislation enacted in 2006 amended the Minnesota Resident Relocation Law. The Minnesota Resident Relocation Law provides a process that facilities, counties, ombudsman and state agencies must follow anytime a nursing facility undertakes a closure (partial or complete) or curtailment, reduction, or change operations which would result in or encourage the relocation of residents.

The 2006 amendments require facilities to:

- Inform prospective residents and families of their intent to close or change operations, and of the resident relocation plan,
- Expand the contents of the closure plan to include steps that must be taken to address relocation needs of those residents with special care needs,

- Expand the information provided in the summary document to the county social services agency, to include information on payor source, county of financial responsibility, admit date, physician contact, case manager contacts, and commitment and probation information,

The county social service agencies' responsibilities were also amended. They are no longer required to perform a 30-day follow-up visit to relocated residents when the facility has moved to a new location and the resident chose to move with the facility, or when the resident was admitted after the date of the closure notice.

Other minor changes to the statutory language were made with the amendment. Facilities that are contemplating bed closures or other changes in operation that may lead to resident relocation are reminded to familiarize themselves with the requirements under the Resident Relocation Law in M.S. 144A.161.

7.0 ALL QUARTERLY CASE MIX ASSESSMENTS WILL BE USED FOR THE PURPOSES OF ESTABLISHING NURSING FACILITY PAYMENT RATES FOR RESIDENTS

Minnesota Laws 2006, Chapter 282, Article 20, Sections 1, 2, and 26.

M.S. 144.0724, subd. 3 and 4, and 256B.438, subd. 4.

Effective October 1, 2006, the Minnesota Departments of Health and Human Services are required to use all quarterly resident assessments when determining case mix classifications for nursing facility residents for rate setting purposes. Prior to October 1, 2006, classifications were determined using the admission, significant change, second quarterly and annual assessments. These assessments will continue to be used. The effect of the change to the RUGS classification system effective October 1, 2006 is to also include the first and third quarterly assessments for determining case mix classifications for rate setting purposes. The resident's RUGS classification in effect on October 1, 2006 will remain in effect until their next assessment.

The commissioner of Human Services is also required to rebase payment rates to account for the change in the resident assessment schedule in a facility specific budget neutral manner according to the methodology described in Minnesota Statutes, Section 256B.438, subdivision 7, paragraph (b). The intent of the methodology is to allow facilities to continue to receive the same revenues under the new classification schedule as under the prior schedule.

To transition from the current classification methodology to the new methodology, DHS will determine the case mix adjusted component of the payment rate in effect September 30, 2006. The case mix portion of the rate will be multiplied by the number of Medicaid and private pay resident days assigned to each of the RUGS groups for the reporting period ending September 30, 2005 to determine the total case mix adjusted revenue for the period. The total case mix adjusted revenue will then be divided by the total Medicaid and private pay RUGS standardized days for the same reporting period using the new classification methodology to determine the new base case mix adjusted component of the rate. This base rate will be multiplied by the case mix index assigned to each RUGS class to determine the new case mix adjusted component of the payment rate under the new system. The non-case mix components will be allocated to each

RUGS class as a constant amount to determine the new payment rate. See Attachment B for an outline of the case mix conversion methodology.

In order to calculate the new rates, each facility will be required to convert the patient days by case mix reported on the statistical cost report for year ending September 30, 2005 to the new system using all quarterly assessments. Instructions for conversion of resident days to the new assessment schedule have been mailed to all nursing facilities. The Case Mix Rate Conversion Report Form can be found on the DHS website at:

http://www.dhs.state.mn.us/main/groups/aging/documents/pub/DHS_id_005400.hcsp

8.0 RATE INCREASES FOR FACILITIES IN THE SAINT CLOUD AREA

Laws of Minnesota 2006, chapter 282, article 20, section 20

M.S. 256B.431

The legislature approved a special rate increase for all nursing facilities in Benton, Sherburne, and Stearns counties effective July 1, 2006. The rate change compares their operating rate for the RUGS categories with a weight of 1.00 to the median operating rate at a weight of 1.00 for all the facilities in Geographic Group Three. If the Geographic Group Three median is greater than the facility's 1.00 rate, the Geographic Group Three median becomes their operating rate with a weight of 1.00. The operating rates for the other 34 RUGS categories are determined using the RUGS weights.

Facilities affected by this have already been informed of July 1, 2006 rates. Geographic Group Three is the seven-county metro area plus Saint Louis county and all the counties contiguous to Saint Louis. There are two RUGS categories with a weight of 1.00: PE2 and DDF.

Special Needs

This information is available in other forms to people with disabilities by contacting us at (651) 431-2282. TDD users can call the Minnesota Relay at 711 or (800) 627-3529. For the Speech-to-Speech Relay, call (877) 627-3848.

DHS BULLETINS

Official versions of DHS Bulletins can be found at:

http://www.dhs.state.mn.us/main/groups/publications/documents/pub/dhs_id_000305.hcsp

SAMPLE APPLICATION
Compensation-Related Adjustments - 2006
ABC Nursing Home
PID 0123456789

PART A: Estimated Total Dollar Amount Available

RUGS class	A. MA & Private-pay resident days*	B. Comp. portion of rate increase	Product of COL. A times COL. B = Dollars available
SE3	0		
SE2	2,300	2.49	\$5,727
SE1	0		
RAD	0		
RAC	5,000	2.10	\$10,500
RAB	0		
RAA	1,500	1.87	\$2,805
SSC	0		
SSB	0		
SSA	1,300	2.05	\$2,665
CC2	0		
CC1	0		
CB2	0		
CB1	2,500	1.87	\$4,675
CA2	0		
CA1	2,000	1.76	\$3,520
IB2	0		
IB1	2,500	1.60	\$4,000
IA2	0		
IA1	2,000	1.40	\$2,800
BB2	0		
BB1	0		
BA2	0		
BA1	500	1.46	\$730
PE2	0		
PE1	4,000	1.82	\$7,280
PD2	700	1.70	\$1,190
PD1	5,000	1.69	\$8,450
PC2	0		
PC1	0		
PB2	0		
PB1	0		
PA2	0		
PA1	4,500	1.46	\$6,570
BC1	0		
DDF	0		
TOTAL	33,800	NA	\$60,912

*actual resident days from October 1, 2005, to September 30, 2006

ABC Nursing Home
PID 0123456789

PART B: Distribution Plan

1. Wage plan and signature page from the labor contracts for RNs, LPNs, nursing assistants, dietary aides, laundry aides and housekeepers effective October 1, 2006. (Include as attachments worksheets showing the computation of total amount, and the portions of the labor contracts showing wage increases and signature page.)

AMOUNT	\$44,000
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2. Wage increase of 2.25% for social workers, activity aides and department heads, effective October 1, 2006.
($\$8,427$ total wages and taxes per pay period x 26 pay periods x 2.25%)

AMOUNT	\$ 4,930
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3. Worker's compensation insurance increase of 10% effective January 1, 2007. ($\$60,000$ annual cost x 10%)

AMOUNT	\$ 3,000
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4. Anticipated increase in employer portion of health insurance premium of \$10 per month, effective January 1, 2007. See attached letter from insurance carrier. (30 employees x \$10 increase x 12 months = \$3,600)

AMOUNT	\$3,600
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5. Increases in FICA, Medicare tax, and other associated costs = $\$48,930 \times 11\% = \$5,382$

AMOUNT	\$5,382
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TOTAL COST:	\$60,912
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ABC Nursing Home
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PART C: Dispute Resolution Notice

Employees who believe they have not received a compensation increase in accordance with this application are asked to bring this to the attention of their supervisor. If this does not resolve the concern, please speak with the Administrator. Employees represented by Local 123 or Local 456 may also ask their representative to assist in correcting any problems.

In the event an employee believes that their concerns have not been resolved, he/she may notify the State by calling or writing to:

By email DHS.ltcpolicycenter@state.mn.us

By regular mail Nursing Facility Rates and Policy Division
Department of Human Services
PO Box 64973
St. Paul, Minnesota 55164-0973

By telephone (651) 431-2282

PART D: Dissemination

Upon approval, this application will be posted by the employee time clock for a period of at least eight weeks.

Case Mix Conversion Methodology

The sequence of October 1, 2006, rate adjustments will be:

- September 30, 2006, rates in effect
- Convert to new case mix rates
- Increase converted September 30 rates by the 1.2553% COLA
- Increase converted September 30 rates for the Quality Add-On
- Increase property rate by APS inflation factor
- Sum the operating, property, and unadjusted other rate

Steps for the conversion of the operating rate

1. Identify the case-mix portion of the September 30 operating rates.
2. Multiply the case mix portion by resident days in each RUGS group (MA and Private Pay days from the September 30, 2005, cost report).
3. Sum products in #2 (MA and Private Pay case mix revenue).
4. Determine new RUGS standardized days after adopting all quarterly assessments. (MA and Private Pay days from the case mix conversion summary report form.)
5. Divide #3 by #4 (New unadjusted case mix component for RUGS rates).
6. Multiply #5 by RUGS indices to compute the new case mix portion of the operating rates.
7. Add non case-mix components to compute new operating rates.