

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, MD 21244-1850



Financial Management Group

RECEIVED

NOV 09 2018

Department of Health & Human Services
OFFICE OF THE DIRECTOR

Mr. Joshua D. Baker
Director
Department of Health and Human Services
P.O. Box 8206
Columbia, South Carolina 29202-8206

RE: State Plan Amendment SC 18-0005

November 5, 2018

Dear Mr. Baker:

We have reviewed the proposed amendment to Attachment 4.19-D of your Medicaid state plan submitted under transmittal number (TN) 18-0005. Effective October 1, 2018, this plan amendment proposes to increase Nursing Facility rates in effect on January 1, 2018. Individual provider rates will be adjusted for the increase or decrease in actual cost excluding capital when comparing the 2017 cost to the 2016 cost reported on their annual Medicare cost reports. The state will also increase the rates by two point eight percent (2.8%) to the mid-point of the rate year ending in 2019.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a), 1902(a)(13), 1902(a)(30), and 1903(a) of the Social Security Act and the implementing Federal regulations at 42 CFR Part 447. We have found that the proposed changes in payment methodology comply with applicable requirements and therefore have approved them with an effective date of October 1, 2018. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Stanley Fields at (502) 220-5306.

Sincerely,

A handwritten signature in blue ink that reads 'Kristin Fan'.

Kristin Fan
Director

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

1. TRANSMITTAL NUMBER:
SC 18-0005

2. STATE
South Carolina

FOR: HEALTH CARE FINANCING ADMINISTRATION

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE
SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
October 1, 2018

5. TYPE OF PLAN MATERIAL (Check One):

NEW STATE PLAN AMENDMENT TO BE CONSIDERED AS NEW PLAN AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:
42 CFR, Subpart C

7. FEDERAL BUDGET IMPACT: (\$15.5 Million * 71.22%)
a. FFY 2019 \$11,039,100
b. FFY 2020 \$ Rates will be subject to rebasing

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Attachment 4.19-D, pages 14, 16, 16a, 16b, 17, 17a, 18, 18a,
(New pages are: 16a, 16b, 17a, & 18a)

Attachment 4.19-D, pages 14, 16, 17, 18

10. SUBJECT OF AMENDMENT:

Nursing Facility Rate Updates Effective October 1, 2018

11. GOVERNOR'S REVIEW (Check One):

GOVERNOR'S OFFICE REPORTED NO COMMENT
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

OTHER, AS SPECIFIED:
Mr. Baker was designated by the Governor to
review and approval all state plans.

12. SIGNATURE OF STATE AGENCY OFFICIAL:

16. RETURN TO:

13. TYPED NAME:
Joshua D. Baker

South Carolina Department of Health and Human Services
P.O. Box 8206
Columbia, South Carolina 29202-8206

14. TITLE:
Director

15. DATE SUBMITTED:
August 15, 2018

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

18. DATE APPROVED: **NOV 05 2018**

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

20. SIGNATURE OF REGIONAL OFFICIAL:

21. TYPED NAME: **Kristin Fan**

OCT 01 2018

22. TITLE: **Director, FMG**

23. REMARKS:

PROVIDER NAME: 0
 PROVIDER NUMBER: 0
 REPORTING PERIOD: 10/01/15 through 09/30/16 DATE EFF. 10/01/18

PATIENT DAYS USED: 0 MAXIMUM BED DAYS: 0
 0 PATIENT DAYS INCURRED: 0
 TOTAL PROVIDER BEDS: 0 ACTUAL OCCUPANCY %: 0.00
 % Level A (SFY 2016) 0.000 PATIENT DAYS @ 0.90 0

COMPUTATION OF REIMBURSEMENT RATE - PERCENT SKILLED METHODOLOGY

	PROFIT INCENTIVE	TOTAL ALLOW COST	COST STANDARD	COMPUTED RATE
COSTS SUBJECT TO STANDARDS:				
GENERAL SERVICE		0.00	0.00	
DIETARY		0.00	0.00	
LAUNDRY/HOUSEKEEPING/MAINT.		0.00	0.00	
SUBTOTAL	0.00	0.00	0.00	0.00
ADMIN & MED REC	0.00	0.00	0.00	0.00
SUBTOTAL	0.00	0.00	0.00	0.00
COSTS NOT SUBJECT TO STANDARDS:				
UTILITIES		0.00		0.00
SPECIAL SERVICES		0.00		0.00
MEDICAL SUPPLIES AND OXYGEN		0.00		0.00
TAXES AND INSURANCE		0.00		0.00
LEGAL COST		0.00		0.00
SUBTOTAL		0.00		0.00
GRAND TOTAL		0.00		0.00
COST ADJUSTMENT FACTOR (2017 vs 2016)	0.00%			0.00
9/30/17 ANCILLARY MAXIMUM REIMB COST		0.00		0.00
ADJUSTED GRAND TOTAL				0.00
INFLATION FACTOR	2.80%			0.00
COST OF CAPITAL				0.00
PROFIT INCENTIVE (MAX 3.5% OF ALLOWABLE COST)			3.50%	0.00
COST INCENTIVE - FOR GENERAL SERVICE, DIETARY, LHM				0.00
EFFECT OF \$1.75 CAP ON COST/PROFIT INCENTIVES			\$1.75	0.00
SUBTOTAL				0.00
NON EMERGENCY MEDICAL TRANSPORTATION (NEMT) ADD-ON				0.00
BUDGET NEUTRALITY ADJUSTMENT		0.0000%		0.00
REIMBURSEMENT RATE				0.00

SC 18-0005

EFFECTIVE DATE: 10/01/18

RO APPROVED: NOV 05 2018

SUPERSEDES: SC 18-0001

2. Dietary; Laundry, Maintenance and Housekeeping; Administration and Medical Records & Services: The standard for each of these three cost categories is calculated as follows:
- Accumulate all allowable cost for each cost center for all facilities in each bed size.
 - Total patient days are determined by taking maximum bed days available from each bed group, subtracting complex care days associated with each bed group, and multiplying the net amount by 90%.
 - Calculate the mean cost per patient day by dividing total cost in (a) by total patient days in (b).
 - Calculate the standard by multiplying the mean by 105%.

C. **RATE COMPUTATION:**

Effective for services provided on or after October 1, 2018, the Medicaid Agency will update the current Medicaid nursing facility rates for all private and non-state owned governmental facilities by using each provider's January 1, 2018 Medicaid reimbursement rate as the starting point, applying an agency approved cost adjustment factor to the January 1, 2018 "Grand Total Computed Per Diem" amount based upon an analysis of each facility's fiscal year ending 2016 and 2017 Medicare financial and statistical cost report data, updating Medicaid covered ancillary service costs using fiscal year ending September 30, 2017 cost and charge data, and applying an updated inflation factor to the January 1, 2018 "Adjusted Grand Total Computed Rate". A description of the agency approved cost adjustment factor is described as follows:

- First, the Medicaid Agency employed the use of worksheet A column #7, lines 3 through 30, of each provider's fiscal year end 2016 and fiscal year end 2017 Medicare cost reports (i.e. CMS-2540-10) to determine the annual percentage increase/(decrease) in occupancy adjusted per patient day costs of each nursing facility as it relates to their General Service Cost Centers and the Skilled Nursing Facility Routine Cost Center. Capital related costs reported via lines 1 and 2 of worksheet A column #7 are excluded in this computation. This step applied to all non-hospital based nursing facilities.
- For hospital based nursing facilities, the Medicaid Agency employed the use of worksheet B Part I column #24, line 30, of each provider's fiscal year end 2016 and fiscal year end 2017 Medicare cost reports (i.e. CMS-2552-10) to determine the annual percentage increase/(decrease) in occupancy adjusted per patient day costs of each nursing facility as it relates to their Skilled Nursing Facility Routine Cost Center. The capital related costs that have been allocated throughout the stepdown process have been removed in this computation.
- For all nursing facilities, the Medicaid Agency removed the costs that are reimbursed outside of the Medicaid per diem rate prior to determining the annual percentage increase/(decrease) in occupancy adjusted per patient day costs addressed above (i.e. Hurricane Matthew costs, professional liability claim cost in excess

of \$50,000 on an individual claim basis, and Certified Nursing Assistant training and testing costs) from the fiscal year end 2016 and 2017 Medicare cost reports.

- For all nursing facilities, the Medicaid Agency applied the agency approved cost adjustment factor (i.e. approved annual percentage increase/(decrease) in occupancy adjusted per patient day costs) against each provider's January 1, 2018 Grand Total Computed Rate per diem amount. The approved cost adjustment factor took into account the following provider scenarios:
 - a) The amount of per patient day costs below the cost center standards as reflected in the January 1, 2018 payment rates, i.e. one of two payment scenarios. (1) - If sum of per patient day costs subject to standards is less than the sum of the per diem cost center standards, then provider received 100% of its occupancy adjusted percentage change in cost (increase/(decrease)) as the agency approved cost adjustment factor. (2) - If sum of per patient day costs subject to standards is less than the sum of the per diem cost center standards but the occupancy adjusted administrative cost percentage increase is 51% or higher, then provider's occupancy adjusted percentage change in cost will be recalculated by removing the administrative cost center and the provider will receive 100% of its modified occupancy adjusted percentage change in cost (increase/(decrease)) as the agency approved cost adjustment factor.
 - b) The amount of per patient day costs above the cost center standards as reflected in the January 1, 2018 payment rates, i.e. one of four reimbursement scenarios. (1) - If sum of per patient day costs subject to standards is greater than the sum of the per diem cost center standards and less than the average standards percentage increase for the applicable bed group, then provider received 100% of its occupancy adjusted percentage change in cost increase as the agency approved cost adjustment factor. (2) - If sum of per patient day costs subject to standards is greater than the sum of the per diem cost center standards and the occupancy adjusted percentage change in cost is negative by more than (1%), then provider received only a calculated portion of its occupancy adjusted percentage change in cost decrease as the agency approved cost adjustment factor to account for the projected change in the projected cost center standard increase at October 1, 2018 based upon the latest 3 year average of the bed group. (3) - If sum of per patient day costs subject to standards is greater than the sum of the per diem cost center standards and the occupancy adjusted percentage change in cost is negative by less than (1%), then provider received 100% of its occupancy adjusted percentage change in cost decrease as the agency approved cost adjustment factor. (4) - If sum of per patient day costs subject to standards is greater than the sum of the per diem cost center standards and greater than the aggregate standards percentage increase for the applicable bed group, then provider received the standards percentage increase for the applicable bed

group as the agency approved cost adjustment factor. The average percentage increase in the cost center standards by bed group is based upon the last three payment cycles and minimum occupancy rates reflected (October 1, 2015 @ 92%, October 1, 2016 @ 92%, and October 1, 2017 @ 90%) and;

- c) In regards to nursing facilities that incurred a percent skilled change resulting from the use of SFY 2018 Medicaid paid days as compared to the use of the SFY 2017 paid Medicaid days, the impacted providers received 100% of its occupancy adjusted percentage change in cost as the agency approved cost adjustment factor.

Rates will be computed using the attached rate computation sheet (see page 14) as follows:

1. For each facility, determine allowable cost for the following categories:

COST SUBJECT TO STANDARDS:

General Services
Dietary
Laundry, Maintenance and Housekeeping
Administration and Medical Records & Services

COST NOT SUBJECT TO STANDARDS:

Utilities
Special Services
Medical Supplies
Property Taxes and Insurance Coverage - Building and Equipment
Legal Fees

2. Calculate actual allowable cost per day based on the cost reports for each category by dividing allowable cost by actual days. If the facility has less than 90% occupancy, actual days will be adjusted to reflect 90% occupancy.
3. For cost subject to standards, the lower of cost determined in step 2 or the cost standard will be allowed in determining the facility's rates. Effective October 1, 1997, the General Services, Dietary, and Laundry, Housekeeping, and Maintenance cost centers are combined. Therefore, compare the sum of the allowable cost of these three cost centers to the sum of these three cost standards.

4. For costs not subject to standards, the cost determined in step 2 will be allowed in determining the facility's rate. However for rates effective October 1, 2018, the covered Medicaid ancillary service costs relating to the October 1, 2017/January 1, 2018 rates (i.e. fiscal year end September 30, 2016 costs) will be removed and replaced with covered Medicaid ancillary service costs based upon the fiscal year end September 30, 2017 costs) as determined by the Medicaid Agency in step 7.
 5. Accumulate per diem costs determined in steps 3 and 4.
6. Apply the Medicaid Agency approved cost adjustment factor (either positive or negative) against the sum of the amounts determined under step 5 of the January 1, 2018 SC Medicaid per diem rates that is referenced as the "Grand Total Computed Rate" amount reflected on page 14 of Attachment 4.19-D.
7. As described in step 4, covered Medicaid ancillary service costs based upon the fiscal year end September 30, 2017 cost and charge data of each provider as determined by the Medicaid Agency will be recognized here and not be subject to the application of the Medicaid Agency approved cost adjustment factor.
8. Sum the per diem amounts reflected in steps 5 thru 7 to arrive at the "Adjusted Grand Total Computed Rate" amount reflected on page 14 of Attachment 4.19-D.
9. Inflate the cost in step 8 by multiplying the cost in step 8, by the inflation factor. The maximum inflation factor that can be used will be that provided by the State of South Carolina Revenue and Fiscal Affairs Office and is determined as follows:
 - a. Proxy indices for each of the eleven major expenditure components of nursing homes, (salaries, food, medical supplies, etc.) during the third quarter of 2017 were weighted by the expenditure weights of the long term care facilities. These eleven weighted indices are summed to one total proxy index for the third quarter of 2017.
 - b. Proxy indices are estimated for each of the eleven major expenditure components of nursing homes, (salaries, food, medical supplies, etc.), during the third quarter of 2018 and then weighted by the same expenditure weights as in step a. These weighted proxy indices were summed to one total proxy index for the third quarter of 2018.
 - c. The percent change in the total proxy index during the third quarter of 2017 (as calculated in step a), to the total proxy index in the third quarter of 2018 (as

calculated in step b), was 2.80%. Effective October 1, 2018 the inflation factor used was 2.80%.

10. The per patient day cost of capital will be calculated by dividing capital cost as determined under I.(F)(c) of this plan by actual patient days. However, if the facility has less than 90% occupancy, actual days will be adjusted to reflect 90% occupancy.
11. Cost Incentive - General Services, Dietary, and Laundry, Housekeeping, and Maintenance

If the facility's actual allowable costs for these three cost centers are below the sum of these three allowable cost standards, the facility will be eligible for a cost incentive of an amount equal to the difference between the sum of the standards and the sum of the facility's actual costs, up to 7% of the sum of the standards.

12. Profit will be allowed if the provider's allowable cost is lower than the standard as follows:
 - a. Administration and Medical Records & Services - 100% of difference with no limitation.

Ceiling on profit will be limited to 3 1/2% of the sum of the provider's allowable cost determined in step 2. The sum of the cost incentive and the profit cannot exceed \$1.75 per patient day.

13. The Medicaid Agency developed a facility specific Non-Emergency Medical Transportation (NEMT) Add-On based upon the use of the SC NEMT Broker (i.e. Logisticare) calendar year (CY) 2016 trip and mileage data for ambulatory transports, wheelchair transports, advanced life support transports, and stretcher/basic life support transports. Medicaid agency developed fee schedule rates for the types of transports reflected above were applied to the number of one way trips and mileage logged for each type of transport trip as reflected in the CY 2016 Logisticare data. The Medicaid NEMT transport costs of each nursing facility were summed and then divided by each nursing facility's Medicaid patient days reflected within the 2016 cost report used to establish the October 1, 2017 Medicaid rate to determine the January 1, 2018 NEMT Add-On per diem. In the event that a less than full year cost report was used to establish an October 1, 2017 nursing facility Medicaid rate then the Medicaid days were annualized for this computation. In the event that a provider can support and justify major discrepancies noted between provider data and Logisticare data for CY 2016, the Medicaid Agency shall make adjustments to the NEMT Add-On rate.
14. The Medicaid reimbursement rate will be the total of costs accumulated in step 8, inflation, cost of capital, cost incentive/profit, and NEMT Add-On per diem. For all nursing facilities, the Medicaid Agency will maintain the per diem reimbursement for cost of capital, profit and cost incentives for SC Medicaid rates effective October 1, 2018 at the January 1, 2018 per diem reimbursement levels.

Providers that did not file a SC Medicaid nursing facility cost report for September 30, 2016 due to actual/pending change in ownerships but filed a SC Medicaid nursing facility cost report for September 30, 2017 will be reimbursed in accordance with the October 1, 2017/January 1, 2018 rate setting methodology and the October 1, 2018 inflation factor.

The Medicaid agency will not accept amended Medicare cost reports for any provider's fiscal year ending 2016 or 2017 cost reporting period after the date of the state legislatively mandated filing date (i.e. plan submission date). The Medicaid Agency will also not accept amendments to the SC Medicaid Nursing Facility FYE September 30, 2016 cost reports due to any amendments resulting from audit activity or provider review of the cost report information that occurred on and after the establishment of the January 1, 2018 payment rates. The October 1, 2018 Medicaid reimbursement rates will not be subject to change as a result of audit but will be subject to the contractual lower of cost or charges compliance test during the applicable contract period.

Payment for Hospital-based and Non-profit Facilities

Hospital-based and non-profit facilities will be paid in accordance with Sections III A, B, and C.

E. Payment determination for a new facility, replacement facility, change of ownership through a purchase of fixed assets, change of ownership through a lease of fixed assets, when a facility changes its bed capacity by more than fifty percent (50%), or when temporary management is assigned by the state agency to run a facility.

1. Payment determination for a new facility or a facility that changes its bed capacity by more than fifty percent (50%):

The following methodology shall be utilized to determine the rate to be paid to a new facility or a facility that changes its bed capacity by more than fifty percent (50%):

Based on a six (6) month's projected budget of allowable costs covering the first six months of the Provider's operation under the Medicaid program, the Medicaid agency will set an interim rate to cover the first six (6) months of operation or through the last day of the sixth (6th) full calendar month of operation. The same rate setting methodology previously described will be applied to the provider's allowable costs in determining the rate