STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
MED-QUEST DIVISION

PUBLIC NOTICE

Pursuant to 42 C.F.R. §447.205, the Department of Human Services (DHS), Med-QUEST Division (MQD) hereby notifies the public that MQD intends to submit a State Plan Amendment (SPA) to the Centers for Medicare and Medicaid Services (CMS).

Hawaii's current Medicaid Nursing Facility Reimbursement rates is an Acuity based per diem rate that covers routine services. Ancillary services are billed and reimbursed separately. The per diem rate has three components: Direct Care, Administrative and General, and Capital. The Direct Care component for each provider is adjusted for case-mix. Currently, Hawaii uses the Resource Utilization Groups, Version III (RUGs-III) classification system to determine the case-mix for each provider.

In 07/2018, CMS finalized a new case-mix classification model, Patient Driven Payment Model (PDPM). PDPM replaces the RUGs-IV case-mix classification system. In the PDPM Frequently Asked Questions (FAQs) revision document dated 08/27/2019, CMS described why changing from RUGs to PDPM is beneficial. RUGs reduces everything about a patient to a single, typically volume-driven, case-mix group. PDPM also focuses on the unique, individualized needs, characteristics, and goals of each patient.

Effective 10/01/2019, Medicare began using a new case-mix classification model for Medicare Skilled Nursing Facility (SNF) Prospective Payment System (PPS) payments, the PDPM. CMS has changed to the PDPM case-mix classification system and will no longer be supporting the RUGs case-mix classification system. Hawaii is submitting SPA 23-0014, "Nursing Facility Payment Methodology", to rebase the Nursing Facility rates in alignment with CMS change. With this change, CMS is ending support of the RUGs III and RUGs IV classification systems effective 10/01/2023.

The pages in the Hawaii Medicaid State Plan to be amended are:

1. Attachment 4.19-D pg. 1 (removes Supplement to Attachment 4.19-D pg. 1-3)
2. Attachment 4.19-D pg. 38 (describes the new payment methodology)
3. Supplement to Attachment 4.10-D pg. 1-3 (removed)

Under Provisions of federal law, the state is required to issue public notice of proposed changes in statewide methods and standards for setting Medicaid payment rates.

This SPA is expected to have minimal effect on the annual aggregate expenditures in Hawaii to Fee For Service (FFS) but will have a significant federal impact for Managed Care plans. Hawaii is estimating the federal impact to Managed Care for the following Fiscal Years (FY) 2024 and 2025:

FFY 2024 28,600,000
FFY 2025 28,800,000

This proposed change will be submitted for review to CMS as Medicaid SPA 23-0014.

A printed copy of the proposed changes and special accommodations (i.e., interpreter, large print or taped materials) can be arranged if requested by contacting the Policy and Program Development Office at (808) 692-8058 no later than seven (7) working days before the comment period ends.

Comments should be received **within 30 days** from the time this notice is posted. Individuals may submit written comments using the following methods:

By email: PPDO@dhs.hawaii.gov (Please identify in the subject line: State Plan Amendment 23-0014)

By mail:
Department of Human Services
Med-QUEST Division
Attention: Policy and Program Development Office
P.O Box 700190
Kapolei, Hawaii 96709

DEPARTMENT OF HUMAN SERVICES, MED-QUEST DIVISION
JUDY MOHR PETERSON, PhD
MED-QUEST DIVISION ADMINISTRATOR

STATE OF HAWAII

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR LONG-TERM CARE FACILITIES

I. DEFINITIONS:

When used in this Plan, the following terms shall have the indicated meanings:

A. “Acuity based reimbursement system” means the Medicaid reimbursement system for nursing facility (NF) level of care. The acuity based reimbursement system applies to Acuity A and Acuity Level C services, excluding services in critical access hospital.

B. “Acuity Level A” means that the Department has applied its standards of medical necessity and determined that the Resident requires a level of medical care from a Nursing Facility relatively lower than Acuity Level C. Prior to October 1, 1990, that level of care was appropriately obtained from an ICF.

C. “Acuity Level B” Means that the Department has applied its standards of medical necessity and determined that the Resident requires the level of medical care and special services that are appropriately obtained from an ICF/MR.

D. “Acuity Level C” means that the Department has applied its standards of medical necessity and determined that the Resident requires a level of medical care from a Nursing Facility relatively higher than Acuity Level A. Prior to October 1, 1990, that level of care was appropriately obtained from an SNF.

E. “Acuity Level D” means that the Department has applied its standards of medical necessity and determined that the Resident requires a level of medical care that is relatively higher than Acuity Level C but less than acute.

F. “Acuity Ratio” means the estimated average Level A direct nursing costs divided by the estimated average Acuity Level C direct nursing costs, as determined by the Department. For the FY 98 Rebasing, the Department has determined the ratio to be 1.00=0.8012.

G. “Adjusted PPS Rate” means the Basic PPS Rate and any adjustments to that rate that are applicable to a particular Provider. A

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A. "Acuity based reimbursement system" means the Medicaid reimbursement system for nursing facility (NF) level of care. [~~described in Supplement to Attachment 4.19-D.~~] The acuity based reimbursement system applies to Acuity A and Acuity Level C services, excluding services in critical access hospital.

B. "Acuity Level A" means that the Department has applied its standards of medical necessity and determined that the Resident requires a level of medical care from a Nursing Facility relatively lower than Acuity Level C. Prior to October 1, 1990, that level of care was appropriately obtained from an ICF.

C. "Acuity Level B" Means that the Department has applied its standards of medical necessity and determined that the Resident requires the level of medical care and special services that are appropriately obtained from an ICF/MR.

D. "Acuity Level C" means that the Department has applied its standards of medical necessity and determined that the Resident requires a level of medical care from a Nursing Facility relatively higher than Acuity Level A. Prior to October 1, 1990, that level of care was appropriately obtained from an SNF.

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G. "Adjusted PPS Rate" means the Basic PPS Rate and any adjustments to that rate that are applicable to a particular Provider. A

E. Each Provider shall keep financial and statistical records of the cost reporting year for at least six years after submitting the cost report form to the Department and shall make such records available upon request to authorized state or federal representatives.

XI. ACUITY BASED REIMBURSEMENT SYSTEM

A. Beginning with the effective date of these rules, the Department will implement a transition from PPS to an acuity-based reimbursement system. The phased approach was implemented on July 1, 2008.

B. The rate methodology uses a price-based system with the following parameters:

1. For the direct care rate component, the component price is set at one hundred ten per cent of the day-weighted median. The rate that is calculated is subject to a case mix adjustment based upon the change on each facility's overall case mix.

2. For the administrative and general rate component, the component price is set at one hundred three per cent of the day-weighted median. The rate is not subject to a case mix adjustment.

3. For the capital rate component, the component price is at the day-weighted median. The rate is not subject to a case mix adjustment.

4. The gross excise taxes paid to the State of Hawaii (Hawaii general excise tax) is treated as a pass-through.

5. The Medicaid share of the NF Sustainability Fee is treated as a pass-through.

6. Effective January 13, 2021 the direct care, administrative and general, and capital component prices included an adjustment of 12% for private nursing facilities. The adjustment percent is in addition to the inflation adjustment discussed below and on page 3 of the "Acuity Based Long Term Care Reimbursement Rates" Supplement to Attachment 4.19-D. Effective January 1, 2024 the adjustment of 12% for private nursing facilities will no longer be applied to component prices.

The rate setting parameters will remain constant for all future rate setting periods. The prices calculated for direct care, administrative and general, and capital will reflect prices that relate to the rate period beginning July 1, 2002 and ending June 30, 2003. The component prices will be updated for each subsequent rate period by the inflation adjustment for each period, provided that no inflation adjustment shall be applied in determining component prices for the 4th quarter of FFY 2015 and the 1st, 2nd and 3rd quarters of FFY 2016.

C. Effective for rate periods beginning January 1, 2024.

1. the Acuity Based Nursing Facility Rate Parameters have been updated. The rate component prices listed in the table on pg. 38a relate to the period 1/1/2023 – 12/31/2023. Prices will remain constant for all future rate periods, except that the component prices will be updated for each subsequent rate period by the inflation adjustment factor.

Rate Component	**Component Price %**	**Component Price**	**Case Mix Adjusted**
Direct Care (nursing hours per resident day less than 3.5)	100% of Median	$114.89	Yes
Direct Care (nursing hours per resident day greater than or equal to 3.5)	112% of Median	$173.48	Yes
Administrative & General	100% of Median	$140.64	No
Capital	120% of Median	$22.50	No

1. For facilities with nursing hours per day less than 3.5 hours, the direct care rate component price is set at 100% of their day-weighted median cost. For facilities with nursing hours per day greater than or equal to 3.5 hours, the direct care rate component price is set at 112% of their day-weighted median cost.

   Facilities are assigned their applicable direct care rate component price based on nursing hours reported in the Quarter Ended 3/31/2023 CMS Payroll Based Journal. Facilities will continue to receive their assigned direct care rate component price for all future rate periods, except a facility may change to the higher direct care rate component price if nursing hours per resident day are greater than or equal to 3.5 hours for 4 consecutive quarters as reported in the CMS Quarterly Payroll Based Journals. The change will become effective at the beginning of the next rate period.

   The average case mix of all the residents in the facility at various points in time are applied to the direct care component for each facility. Case mix is determined using the Patient Driven Payment Model (PDPM).

a) The administrative and general rate component price is set at 100% of the day-weighted median. The administrative and general rate component price is not subject to a case mix adjustment.

b) The capital rate component price is set at 120% of the day-weighted median. The capital rate component price is not subject to a case mix adjustment.

c) Gross excise tax paid to the State of Hawaii (Hawaii General Excise Tax)and county surcharge tax is added to the rate component prices.

d) The Medicaid share of the NF Sustainability Fee is added to the rate component prices.

E. Each Provider shall keep financial and statistical records of the cost reporting year for at least six years after submitting the cost report form to the Department and shall make such records available upon request to authorized state or federal representatives.

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1. For the direct care rate component, the component price is set at one hundred ten per cent of the day-weighted median. The rate that is calculated is subject to a case mix adjustment based upon the change on each facility's overall case mix.

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4. The gross excise taxes paid to the State of Hawaii (Hawaii general excise tax) is treated as a pass-through.

5. The Medicaid share of the NF Sustainability Fee is treated as a pass-through.

6. Effective January 13, 2021 the direct care, administrative and general, and capital component prices [~~will~~]included an adjustment of 12% for private nursing facilities. The adjustment percent is in addition to the inflation adjustment discussed below and on page 3 of the "Acuity Based Long Term Care Reimbursement Rates" Supplement to Attachment 4.19-D. Effective January 1, 2024 the adjustment of 12% for private nursing facilities will no longer be applied to component prices.

The rate setting parameters will remain constant for all future rate setting periods. The prices calculated for direct care, administrative and general, and capital will reflect prices that relate to the rate period beginning July 1, 2002 and ending June 30, 2003. The component prices will be updated for each subsequent rate period by the inflation adjustment for each period, provided that no inflation adjustment shall be applied in determining component prices for the 4th quarter of FFY 2015 and the 1st, 2nd and 3rd quarters of FFY 2016.

C. Effective for rate periods [~~starting~~] beginning [~~September 1, 2003~~] January 1, 2024. [~~and July 1, 2004, the annual cost increases shall be determined as follows:~~

~~1. Calculate the blended Acuity A and Acuity C rates for all eligible NF facilities using the inflation adjustment.~~]

The Acuity Based Nursing Facility Rate Parameters have been updated. The rate component prices listed in the table on pg. 38a relate to the period 1/1/2023 – 12/31/2023. Prices will remain constant for all future rate periods, except that the component prices will be updated for each subsequent rate period by the inflation adjustment factor.

Rate Component	**Component Price %**	**Component Price**	**Case Mix Adjusted**
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   The average case mix of all the residents in the facility at various points in time are applied to the direct care component for each facility. Case mix is determined using the Patient Driven Payment Model (PDPM).

a) The administrative and general rate component price is set at 100% of the day-weighted median. The administrative and general rate component price is not subject to a case mix adjustment.

b) The capital rate component price is set at 120% of the day-weighted median. The capital rate component price is not subject to a case mix adjustment.

c) Gross excise tax paid to the State of Hawaii (Hawaii General Excise Tax)and county surcharge tax is added to the rate component prices.

d) The Medicaid share of the NF Sustainability Fee is added to the rate component prices.

~~Acuity Based Long Term Care Reimbursement Rates~~

~~A new price based reimbursement system with three components (direct care, adminis rative and capital) will determine the rates paid to nursing facilities. The direct care component will be acuity based (adjusted for the average acuity of all of the patients in each facility).~~

~~The case mix system is based on the thirty-four III classification methodology similar to that which will be employed to calculate the acuity based portion of the long term care reimbursement rates. The system is price-based, with periodic evaluation of the price level of the rate components. An adjustment for case mix will be applied periodically to the direct care price component.~~

~~The acuity based portion of the reimbursement system applies the average case mix of all of the patients in each provider's facility to the direct care price to arrive at an acuity adjusted direct care component for each provider. The resulting acuity adjusted direct care component will be combined with the other price components to establish the rate for that provider.~~
~~Th s rate will be adjusted periodically when the acuity scores are compiled. The rate established will be used for all patient days billed to Medicaid for that period. After the initial phase in period there will no longer be a distinction between level A and level C acuity as the new thirty-four group RUG-III system will replace the old classification system.~~
~~The standard price components for direct care, general and administrative, and capital were derived from the most current Medicare cost reports available on June 30, 2001 and inflated using from the midpoint of the cost report period to the midpoint of the FY 03 rate year using ORI. A statewide standard price for the direct care component is calculated using the cost reports for all facilities and their respective case mix indices.~~

~~Calculation of the facility specific case mix index is based on data from the Minimum Data Set (MOS), a component of the federally mandated Resident Assessment Instrument, to classify residents into one of thirty-four mutually exclusive groups representing the residents' relative direct care resource requirements. The average case mix index of all of the residents of the facility at various points in time (•snapshots•) is then applied to the direct care component for each facility. The facility's Medicaid acuity based reimbursement rate is the direct care component adjusted by the facility's case mix index for all residents, to which is added the general and administrative component, and the capital component.~~

Parameters ~~of the New Rate Setting Methodology~~

~~The new rate setting methodology uses a price based system with the following parameters:~~

~~Rate Component~~	~~Component Price set at~~	~~Myers & Stauffer calculated amount for rate period ending 6/30/2003~~	~~Case - Mix Adjusted~~
~~Direct care~~	~~110% of Median~~	~~$102.19~~	~~Yes~~
~~Administrative & General~~	~~103% of Median~~	~~$61.83~~	~~No~~
~~Capital~~	~~Median~~	~~$13.04~~	~~No~~

~~The price parameters listed above (110% of median for direct care, 103% of the median for administrative and general and the median for capital) will remain~~

~~Constant for all future rates setting periods. The prices listed above ($102.19 for direct care, $61.83 for administrative and general and $13.04 for capital) reflect prices that relate to the rate period beginning July 1, 2002 and ending June 30, 2003. Therefore, those prices will need to be updated for each subsequent rate period before they can be used in the rate setting process for those periods. They will be updated by the full inflation factor for each period, as determined by the inflation adjustment provided that no inflation adjustment shall be applied in determining rates for the 4th quarter of FFY 2013, FFY 2014 and the 1st, 2nd and 3rd quarters of FFY 2015 except for Acuity Level B facilities. For Acuity Level B facilities, the Inflation Adjustment shall be applied to rates for the 4th quarter of FFY 2014 and 1st, 2nd, and 3rd quarters of FFY 2015.~~