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**STUDY  
TO DETERMINE  
SUBACUTE  
COST-BASED  
REIMBURSEMENT**

**REPORT NO. 01-95-05**

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Long Term Care Reimbursement Section  
Rate Development Branch  
Medi-Cal Policy Division  
Department of Health Services  
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TO DETERMINE  
SUBACUTE  
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**INTRODUCTION**

The California Department of Health Services (DHS) is changing the rate setting methodology for Medi-Cal subacute program services provided in long term care (LTC) nursing facilities - level B (NF-B), and hospital-based nursing facilities that are a distinct part of the hospital (DP/NF) from a model to a cost-based methodology.

The State's approved reimbursement methodology for LTC services calls for a cost-based system.

The cost-based subacute rate setting methodology will not affect the pediatric subacute program rate setting methodology.

**BACKGROUND**

The Medi-Cal subacute program has been in existence since 1985. The subacute all-inclusive reimbursement rate methodology in effect since 1988 has been based on a model as provided for in the State Plan, as adequate historical cost information was not available until this past year.

Starting with the 1993 calendar year, there are cost data available to establish a cost-based subacute reimbursement rate. The costs of the subacute facilities that rendered subacute services in the 1993 calendar year have been audited by DHS during the State's 1994-95 fiscal year.

The subacute modeled rates were broken down into three categories: labor, skilled nursing facility costs and other costs. The new methodology, using audited data, is consistent with other LTC rate setting methodologies of applying economic indicators to actual costs to develop a prospective rate.

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**DETAIL OF RECOMMENDED MEDI-CAL SUBACUTE RATES**

The following represent the recommended Medi-Cal maximum per diem rates for the subacute program. Facilities with projected subacute costs lower than these maximum rates will receive their projected costs as determined by DHS.

| FACILITY TYPE | PATIENT TYPE | DAILY RATE |
|---------------|--------------|------------|
| DP/NF         | VENT         | \$423.67   |
|               | NON-VENT     | \$401.08   |
| FS/NF         | VENT         | \$267.84   |
|               | NON-VENT     | \$245.26   |

**GENERAL ASSUMPTIONS**

1. The subacute reimbursement rates are peer grouped by licensure category and ventilator dependency.
2. There are distinct rates for subacute units within freestanding (FS) NF-Bs and DP/NF-Bs.
3. There are distinct rates for subacute units based on the ventilator dependency of the subacute patient: one rate for ventilator dependency and a different rate for non-ventilator dependency.
4. Included within the subacute per diem rate are all services, equipment and supplies necessary for patient care pursuant to Title 22, California Code of Regulations (CCR), Section 51511, except 51511 (a).
5. The subacute program's all-inclusive per diem reimbursement rates are the lesser of the facility's costs as projected by the Department or the prospective class median rate.
6. The audited data are from fiscal periods ended January 1, 1993 through December 31, 1993. The data will be updated to the midpoint of the State's rate year in the same manner as other LTC reimbursement methodologies.
7. Only audit reports for facilities that provided subacute care to Medi-Cal patients for 12 months will be used to establish the prospective class median rate.
8. Only facilities that provide subacute care services to Medi-Cal patients during the rate year will be used to establish the prospective class median rate.

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9. For facilities whose applicable cost report audits were not issued by July 1, 1995, the Department will establish an interim projected rate based on the facility's cost report with a fiscal period ending January 1, 1993 through December 31, 1993 adjusted by the audit disallowance that is derived from the class audit adjustment for the category of freestanding nursing facilities with 60 plus beds.
10. The all-inclusive rate includes ancillary costs. These costs will continue to be modeled due to lack of adequate historical data in this area.
11. Ventilator dependent days were determined by audit to be 40 percent of total patient days. There were 29,121 ventilator dependent patient days out of 73,624 total patient days in subacute units with this information available. Note: the table below reflects total audited subacute patient days.
12. The subacute modeled rates, weighted for ventilator/non-ventilator are:

| 1993/1994 WEIGHTED DAILY SUBACUTE RATES |   |                  |  |                 |
|---|---|------------------|--|-----------------|
|   | DP/NF                                       |                  | FS/NF                                      |                 |
|   | VENT  | NON-VENT         | VENT                                       | NON-VENT        |
| TOTAL AUDITED SUBACUTE DAYS             | 181,770                                     |                  | 58,621                                     |                 |
| SUBACUTE PATIENT DAYS                   | 72,708<br>(40%)                             | 109,062<br>(60%) | 23,448<br>(40%)                            | 35,173<br>(60%) |
| 1993/94 RATES                           | \$392.22                                    | \$370.50         | \$270.49                                   | \$248.80        |
| PROJECTED PAYMENT<br>(days X rates)     | \$28,517,532                                | \$40,407,471     | \$6,342,558                                | \$8,750,943     |
| PROJECTED PAYMENT                       | \$68,925,003                                |                  | \$15,093,501                               |                 |
| WEIGHTED RATE                           | \$379.19<br>( $\$68,925,003 \div 181,770$ ) |                  | \$257.48<br>( $\$15,093,501 \div 58,621$ ) |                 |

13. As provided in the State Plan, cost reports that were inaccurate, incomplete, or unrepresentative were excluded from this study.

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**LABOR**

Labor costs are updated by a labor index developed by the Department as specified in Rate Study 01-95-01.

The direct patient care labor cost is available from the cost report. The indirect labor costs are not available from the cost report or the audit report. The total labor percentage was calculated using the subacute rate setting model. The Department's historical labor percentage in nursing facilities is 67 percent. The total of 67 percent of the NF-B costs from the model combined with the direct labor portion of the model will be compared to the weighted modeled rate to calculate a labor percentage. This percentage will be used to determine the labor portion of the actual audited costs. The labor percentage for DP/NF subacute units is 54.79 percent and the labor percentage for freestanding subacute units is 47.84 percent as per the following table.

| DETERMINATION OF SUBACUTE LABOR PERCENTAGE |          |          |
|--|----------|----------|
|  | DP/NF    | FS/NF    |
| MODELED INDIRECT SNF COST                  | \$143.63 | \$41.89  |
| INDIRECT LABOR @ 67%                       | \$96.23  | \$28.07  |
| MODELED DIRECT LABOR                       | \$111.51 | \$95.11  |
| MODELED TOTAL LABOR                        | \$207.74 | \$123.18 |
| WEIGHTED RATE                              | \$379.19 | \$257.48 |
| LABOR PERCENTAGE OF WEIGHTED RATE          | 54.79%   | 47.84%   |

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## FIXED COSTS

Fixed costs are not updated. Direct fixed costs used in this rate study are obtained from the audit report and are identified as capital related costs in the audit report.

Indirect fixed costs are not available for the DP/NF-B facilities. The audit reports do not contain details of these amounts. It is anticipated that this information will be included in future audit reports and the information will be available for future rate studies.

Indirect fixed costs are available for the FS/NF-B facilities. The information is available and will be used in determining the FS/NF-B subacute reimbursement rates. The fixed cost amount will be calculated using the same methodology as for the freestanding nursing homes. The subacute percentage of total plant operations cost is used to determine the subacute portion of the fixed costs.

## ALL OTHER COSTS

All costs other than the fixed and the labor costs make up this cost category. All other costs are updated by the California Consumer Price Index (CCPI).

## ADD-ONS

### Valdivia

There is no add-on related to the Valdivia settlement included in this subacute rate study. The terms of the Valdivia settlement did not include the subacute program. The Valdivia settlement provided nursing facilities more money for additional staffing. However, the subacute program already requires staffing at a higher level than nursing care.

### Assembly Bill 3477

This add-on is for CNA background checks. The subacute program utilizes CNAs, and therefore this item affects the subacute program. There will be an add-on for Assembly Bill 3477, Chapter 1246, Statutes of 1994, in the amount of \$0.014 per patient day (PPD).

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**SUBACUTE PROGRAM ANCILLARY COSTS**

Subacute ancillary costs are determined to be \$30.49 PPD.

**Assumptions:**

1. Intensive acute rehabilitation therapy, which contains occupational therapy, speech therapy, physical therapy, etc., in an acute facility is 3 hours per day for 6-7 days per week.
2. Rehabilitation therapy is less intense in nursing facilities and is rarely more than 5 days per week. Therapy in nursing facilities is usually ¾ hour time duration per session. This rate study will use a 5 day per week therapy schedule for subacute patients.
3. Subacute patients receive ¾ hour per day of some type of therapy for 5 days per week. This calculates to 3¾ hour of therapy per week.
4. Medi-Cal subacute reimbursement is a 7 days per week per diem. The seven day per week reimbursement calculates to be .5357 therapy hour/day.

| SUBACUTE CARE ANCILLARY COST |                  |                      |               |             |
|------------------------------|------------------|----------------------|---------------|-------------|
|                              | PHYSICAL THERAPY | OCCUPATIONAL THERAPY | OTHER THERAPY | TOTAL       |
| 1992 SALARY PER HR           | \$18.74 *        | \$18.62 *            | \$15.08 **    | \$52.44     |
| LABOR UPDATE @ 1.085408      | \$20.34          | \$20.21              | \$16.37       | \$56.92     |
| WEEKLY COST 3¾ HR PER WEEK   | \$76.28          | \$75.79              | \$61.39       | \$213.45    |
| DAILY THERAPY REIMBURSEMENT  | \$10.90 ***      | \$10.82 ***          | \$8.77 ***    | \$30.49 *** |

\* From California Occupational Guide Wage Supplement, Wages by County for Selected Occupations, August 1993.

\*\* From OSHPD Aggregate Long-Term Care Facility Financial Data with Report Periods Ending December 31, 1991 - December 30, 1992.

\*\*\* Daily reimbursement based on payment for seven days per week.

**RATE SETTING METHODOLOGY**

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The audited costs for all of the applicable facilities are accumulated and the routine portion of the subacute costs of the facility is used in this rate study.

The applicable audited routine costs for subacute services are updated by the various factors (labor & CCPI) to determine the projected weighted daily routine cost. The costs are updated from the midpoint of the audited year to the midpoint of the State's rate year.

The projected weighted daily routine cost is then broken down into ventilator and non-ventilator dependent projected routine subacute costs using the facility's total patient days. Ventilator dependent days are estimated to be 40 percent of total days.

The only differential in the routine subacute cost PPD is the equipment cost of the ventilator. The equipment cost of the ventilator, updated from the model, is \$22.58 PPD. When the cost of the ventilator is removed from the projected weighted daily routine cost, the remainder is the non-ventilator cost PPD. The ventilator cost PPD is the non-ventilator cost PPD plus the equipment cost of the ventilator.

Ancillary costs and all applicable add-ons are added to the ventilator and non-ventilator routine subacute costs for the all-inclusive subacute rates.

The all-inclusive subacute rates are arrayed, and the median rate is determined. Facilities whose projected costs are lower than the median rate are reimbursed at their projected costs. Facilities whose projected costs are at or above the median are reimbursed at the median rate.

An example of the rate methodology follows:

**RATE STUDY EXAMPLE  
ASSUMPTIONS**

**FREESTANDING NURSING FACILITY**

|                                 |          |
|---------------------------------|----------|
| Fiscal Period Beginning         | 07/01/92 |
| Fiscal Period Ending            | 06/30/93 |
| Total Days in the Report Period | 365      |
| Licensed Nursing Facility Beds  | 50       |
| Contracted Subacute Beds        | 20       |

**PATIENT DAYS**

|  |        |
|--|--------|
| Total Facility Nursing Facility Patient Days | 18,000 |
| Subacute Patient Days                        | 7,000  |
| Ventilator Dependent Patient Days (est.)     | 40%    |

**COSTS**

|                            |            |
|----------------------------|------------|
| Total Capital Related Cost | \$ 120,000 |
|----------------------------|------------|

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|   |             |
|---|-------------|
| Total Subacute Unit Routine Expenses                        | \$1,500,000 |
| Reported Routine Subacute Cost PPD<br>(\$1,500,000 ÷ 7,000) | \$ 214.29   |
| Ancillary Cost PPD  | \$ 30.49    |
| Ventilator Equipment Cost PPD                               | \$ 22.58    |
| License Fee per Bed...Revised                               | \$ 66.90    |
| License Fee per Bed...Prior                                 | \$ 54.07    |

**VARIABLES**

|   |          |
|---|----------|
| Midpoint of report (1/1/93) to midpoint<br>of rate year (1/31/96) in months | 37       |
| Salaries, Wages, & Benefits as an<br>Average Percentage of Total Cost       | 0.4784   |
| Fixed Cost Update   | 1.00000  |
| Salaries, Wages, & Benefits Update  | 1.055075 |
| All Other Costs Update  | 1.049225 |
| Audit Adjustment  | 1.00000  |

**OTHER**

|                                      |       |
|--------------------------------------|-------|
| Add-on for AB3477 (Background Check) | 0.014 |
|--------------------------------------|-------|

| DETERMINATION OF SUBACUTE WEIGHTED ROUTINE COST PPD |                    |           |              |             |                          |
|---|--------------------|-----------|--------------|-------------|--------------------------|
|   | CAPITAL<br>RELATED | LABOR     | ALL<br>OTHER | TOTAL       | COST PPD<br>(7,000 DAYS) |
| REPORTED<br>ROUTINE<br>COST                         | \$120,000          | \$717,600 | \$622,878    | \$1,500,000 | \$214.29                 |
| UPDATE<br>FACTOR                                    | 1.0000             | 1.055075  | 1.049225     | N/A         | N/A                      |
| UPDATED<br>ROUTINE<br>COST                          | \$120,000          | \$757,122 | \$653,539    | \$1,530,661 | \$218.67                 |

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| DETERMINATION OF ALL-INCLUSIVE COST PPD |                           |                              |                          |
|---|---------------------------|------------------------------|--------------------------|
|   | VENT/NON-VENT<br>WEIGHTED | NON-VENT<br>DEPENDENT<br>60% | VENT<br>DEPENDENT<br>40% |
| REPORTED<br>ROUTINE<br>COST PPD         | \$214.29                  | N/A                          | N/A                      |
| UPDATED<br>ROUTINE<br>COST PPD          | \$218.67                  | N/A                          | N/A                      |
| UPDATED<br>ROUTINE<br>COST PPD          | N/A                       | \$209.63<br>*                | \$232.21<br>**           |
| AB3477<br>ADD-ON                        | N/A                       | \$0.014                      | \$0.014                  |
| ANCILLARY<br>COST ADD-ON                | N/A                       | \$30.49                      | \$30.49                  |
| ALL-INCLUSIVE<br>COST PPD               | N/A                       | \$240.13                     | \$262.71                 |

\* Non-Ventilator Routine Cost PPD Calculation:  
 Total Subacute Ventilator Equipment Cost:  
 40 percent of 7,000 subacute days = 2,800 subacute vent days  
 2,800 x \$22.58 (ventilator equipment cost) = \$63,224  
 Non-Ventilator Routine Cost PPD Calculation:  
 \$1,530,661 - \$63,224 = \$1,467,437  
 \$1,467,437 ÷ 7,000 = \$209.63

\*\* Ventilator Routine Cost PPD Calculation:  
 \$209.63 + \$22.58 = \$232.21

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