Wipfli LLP / Leading Age Minnesota
Value Based Reimbursement Workbook

Instruction Manual
9.01.2015
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The value-based reimbursement (VBR) payment system for nursing facilities has been signed into law as part of the 2015 biennium budget for the State of Minnesota. With it comes $139 million of new funding for nursing facility payment rates and $1.5 million of new money for scholarship funding.

Under this law, the Minnesota Department of Human Services (DHS) is required to report back to the legislature by January 1, 2017, on the effectiveness of this legislation. This follow-up evaluation will assess whether the additional funding had a meaningful impact on staffing, wage rates, staff retention, quality of care, improved outcomes, and innovation in providing quality care.

Under the new law, a nursing facility's VBR rate will be calculated based on four rate categories:

- Care-related costs
- Other operating costs
- External fixed (pass through) costs
- Property-related costs

Beginning January 1, 2016, each facility will have its own care-related cost limit. Care-related costs include nursing, activities, social services, raw food, therapy, and other direct care costs such as religious services.

A median, which will serve as a basis for all facilities statewide, will be determined based on facilities in the seven-county Minneapolis metropolitan area. A facility with a quality score of 0 will have a care-related limit base of 89.375% of the median, and a quality score of 100 will provide a care-related limit base of 146% of the median. Each facility’s cost limit base will be increased by the facility’s quality score times 0.5625. A facility’s payment, however, will be the lower of actual costs or the limit.

Another significant change relates to other operating costs. The other operating costs category includes dietary (except raw food), housekeeping, laundry, maintenance, administration, fringe benefits except health insurance, and property insurance. Other operating costs will be paid on a price system and that payment will be the same for all nursing facilities. The price is based on 105% of the median of the seven-county metro area facilities.

Health insurance costs, for employers currently paying for such expense for employees and their qualified dependents, will become a “pass through cost” reimbursed as an external fixed cost. Costs include premiums, self-insured costs, and employer contributions to employee health reimbursement and HSA accounts for employees, their spouses, and dependents. Those facilities that did not provide employee health insurance coverage as of May 1, 2015, may qualify for reimbursement if they have a signed contract by January 1, 2016, and provided there are funds available under the VBR program.
The last piece of legislation that could affect all providers is the scholarship funding. Currently scholarships are funded as an external fixed cost and are reported on the cost report and reimbursed through rates. That process will continue. Those not currently participating in the scholarship program are eligible for a $.25 per resident day increase in their rates beginning October 1, 2015, to cover the cost of scholarship expenses.

This is an extraordinary opportunity for Minnesota nursing facilities. Most facilities will benefit from significant increases in Medicaid and private pay rates, effective January 1, 2016. Because the rate increases are not encumbered, providers have significant flexibility in determining the most appropriate way to use this additional funding. The legislature, however, will expect a portion of the increased funding to go toward investments in compensation and benefits.

This Value Based Reimbursement Workbook was developed as a collaborative effort between Wipfli LLP and LeadingAge Minnesota to help Minnesota skilled nursing facilities evaluate the impact of the new reimbursement methodology which will impact Medicaid and private pay rates effective January 1, 2016.

The workbook helps providers evaluate the following three important periods:

**Period 1**
Cost Reporting Year Ending 9/30/2014
Determines Medicaid and Private Pay Rates Effective 1/1/2016

The cost report for the year ended 9/30/2014, as well as supplemental information related to health insurance and other areas that has been requested by Minnesota Department of Health Services (DHS), will determine a provider’s rates effective 1/1/2016.

Because the cost report will significantly impact reimbursement rates, DHS will continue to audit and adjust reported amounts as deemed necessary. In addition, providers should review their 2014 cost report to ensure costs are appropriately reported and classified in accordance with cost report instructions.

The workbook is populated with cost report data provided by DHS for the year ended 9/30/2014. This cost report data may vary from submitted cost report information due to adjustments made by DHS through the date the information was provided. This information may also vary from information used by DHS in establishing final rates since further adjustments will be made which are not reflected in the file at this time.

Providers can use the workbook to evaluate the impact DHS or provider-based adjustments will have on reimbursement.
Period 2
Cost Reporting Year Ending 9/30/2015
Determines Medicaid and Private Pay Rates Effective 1/1/2017

The cost report for the year ended 9/30/2015 will determine Medicaid and private pay rates effective 1/1/2017. Providers have a limited window remaining to make strategic investments into compensation, benefits, and other areas, and have those investments be part of their reimbursement rates beginning 1/1/2017.

Providers can use the workbook to evaluate estimated Medicaid and Private pay rates effective 1/1/2017 based on amounts they expect to report on their cost report for the year ended 9/30/2015 and potential one-time or ongoing costs they will incur as a result of the new legislation.

Period 3
Cost Reporting Year Ending 9/30/2016
Determines Medicaid and Private Pay Rates Effective 1/1/2018

The cost report for the year ended 9/30/2016 will determine a provider’s Medicaid and Private pay rates effective 1/1/2018. Most decisions providers make, as a result of the VBR reimbursement legislation, for compensation, benefits, and other areas will occur during this cost reporting year.

Providers can use the workbook to evaluate estimated Medicaid and Private pay rates effective 1/1/2018 based on amounts they expect to report on their cost report for the year ended 9/30/2016 including one-time or ongoing costs they will incur as a result of the new legislation.

The workbook can also help providers understand the additional cost incurred which is not reimbursed because it falls outside the direct care, scholarship, or health insurance pass-through areas.

The workbook includes a series of data input tabs as well as executive level summary tabs which providers can use to estimate their VBR rates for the above periods. The remainder of this instruction manual provides detailed information on the use of the workbook.

We hope you find the workbook to be a helpful and important tool as your organization evaluates and implements strategies related to the new reimbursement environment.
1. This workbook was developed for Excel 2010 and will not work with earlier versions of Excel.

2. Have a copy of your 9/30/2014 Nursing Facility Statistical and Cost Report available as you work on this workbook.

3. In many cases, the workbook pre-populates estimated costs for the years ended 9/30/2015 and 9/30/2016. This is done for convenience only. Providers may correct the pre-populated amounts with more accurate estimates if they choose.

4. Open the workbook and save a copy for working use.

5. Begin entering data using the “Input-Start Here” tab.
   a) Select your facility using the drop-down button in Cell A4.
      
      Tip: The list is in numerical order. In addition, a list is provided in both numeric and alphabetical order for your convenience in locating your facility.
   
   b) Answer each of the following questions related to inflation rates using the drop-down menus:
      
      Choose the % rate of increase (0%, 1%, 2%, 3%, 4%, or 5%) for wages for the year ended 9/30/2015. This percentage will be used to calculate “Base Wages” for the year ended 9/30/2015 on the “Wages” tab by multiplying adjusted wages for the year ended September 30, 2014 by the selected rate of increase. Providers will be able to enter additional changes to wages on the “Wages” tab.

      Choose the % rate of increase (0%, 1%, 2%, 3%, 4%, or 5%) for nonwages for the year ended 9/30/2015. The same percentage will be applied to all nonwage expenses excluding fringe benefits, nursing facility surcharge and scholarship costs. Providers will be able to enter additional changes to non-wage costs on the “Other Costs” tab.

      Choose the % rate of increase (0%, 1%, 2%, 3%, 4%, or 5%) for wages for the year ended 9/30/2016. This percentage will be used to calculate increases in wages by multiplying the “Adjusted Base Wages” for the year ended 9/30/2016 by the selected rate of increase. Providers will be able to enter additional changes to wages on the “Wages” tab.

      Choose the rate of increase (0%, 1%, 2%, 3%, 4%, or 5%) for nonwages for the year ended 9/30/2016. The same percentage will be applied to all nonwage expenses excluding fringe benefits, nursing facility surcharge, and scholarship costs. Providers will be able to enter additional changes to nonwage costs on the “Other Costs” tab.
c) Answer the following question related to the quality score which determines the care-related limit using the drop-down menu:

**Do you want to use the quality score provided by DHS?**

If you have a more current quality score than the one provided by DHS and wish to use that score, please select “No” from the drop-down box. If you select “No,” enter the quality score to be used for rate calculation purposes in Cell D9.

*Tip: If you select “Yes” from the drop-down box and also enter a score in Cell D9, the workbook will NOT use the score entered into Cell D9 for rate calculation purposes.*

*Tip: If your facility is identified as a “Held Harmless” facility in cell A12, do not use this workbook for rate calculation purposes.*

6. **Continue entering data using the “Days” tab.**

a) In Column C, enter actual Medicaid days by RUG level for the year ended 9/30/2014.

b) In Column D, enter actual private pay days by RUG level for the year ended 9/30/2014.

*Tip: Medicaid, Private pay, and Total days by RUG for the year ended 9/30/2015 will be prepopulated with the days reported for the year ended 9/30/2014. The days for 9/30/2015 can be corrected if better information is available as follows:*

c) In Column I, enter estimated Medicaid days by RUG level for the year ended 9/30/2015.

d) In Column J, enter estimated private pay days by RUG level for the year ended 9/30/2015.

e) In Column L, enter estimated total days by RUG level for the year ended 9/30/2015.

*Tip: Medicaid, Private pay, and Total days by RUG for the year ended 9/30/2016 will be prepopulated with the days reported for the year ended 9/30/2015. The days for 9/30/2016 can be corrected if better information is available as follows:*

f) In Column O, enter estimated Medicaid days by RUG level for the year ended 9/30/2016.

g) In Column P, enter estimated private pay days by RUG level for the year ended 9/30/2016.

h) In Column R, enter estimated total days by RUG level for the year ended 9/30/2016.

*Tip: One way to estimate Medicaid days by RUG for the year ended 9/30/2015 is to use year-to-date days plus an estimate for the remainder of the year. Another method is to annualize the year-to-date days by RUG level.*

*Tip: One way to estimate days by RUG level, by payor and/or in total for the year ended September 30, 2016 is to use budgeted 9/30/2016 days allocated to each RUG level based on historical data.*
7. Continue entering data using the “Wages” tab.

   a) Refer to your facility’s 9/30/2014 Nursing Facility Statistical and Cost Report.

      Verify that amounts reported in Column D “Actual/Adjusted Wages” agree with the 9/30/2014
      Nursing Facility Statistical and Cost Report plus or minus any cost report adjustments.

   b) Enter any expected additional adjustments to the 9/30/2014 Nursing Facility Statistical and

      Tip: The amounts in Column F are the sum of Columns D & E. Column F “Adjusted Wages”
      multiplied by the selected inflation rate are populated to Column H “9/30/2015 Base Wages.”

   c) To report wages for the year ended 9/30/2015:

      If you want to make adjustments to prepopulated base wages, estimate total wages for the
      year ended 9/30/2015 using your most current financial statement, payroll report, or other
      information. Enter the estimated total wages for the year ended 9/30/2015 into Column H,
      9/30/2015 Base Wages.

      Use Column I to enter any additional wages or adjustments to wages that are expected for
      the year ended 9/30/2015. This Column can be used to record any bonuses that are
      expected to be paid or accrued for this cost reporting period, or any mid-year compensation
      adjustments that will be included in the cost report for this year.

      Tip: Once this step is completed, the amounts in Column J “Adjusted Wages” should equal
      the estimated total wages that will be reported for the year ended 9/30/2015.

      Tip: Base wages for 9/30/2016 are prepopulated with amounts from Column J “9/30/2015
      Adjusted Wages”. Providers can correct 9/30/2016 base wages if they desire to use a
      different baseline or budget number.

   d) To report wages for the year ended 9/30/2016:

      Ensure the base wages are as accurate as possible. Column L “9/30/2016 Base Wages” is
      prepopulated with Column J “9/30/2015 Base Wages”. This may include one-time payments
      or partial-year payments which need to be adjusted out of the base. Providers can either
      enter revised base wages into Column L or enter adjustments into Column M "Adjustments to
      Base Wages.”

      Tip: An example of an adjustment that should be made to the 9/30/2016 base wages is a
      bonus payment paid or accrued for the year ending 9/30/2015 and which is not expected to
      be repeated in the year ended 9/30/2016.
Tip: Another example of a potential adjustment to the 9/30/2016 base wages would be for a wage increase given during the year ended 9/30/2015 that needs to be annualized to be accurately reflected in the 9/30/2016 Base Wages.

For the year ended 9/30/2016, you have three different options to estimate additional adjustments to wages. You can use any combination of these methods:

− Average hourly rate method (Columns O-R)
− Percentage increase method (Columns T and U)
− Other method (Column W)

If you are planning to do an hourly rate increase, such as $0.25 per hour, use the Average Hourly Rate Method, as follows:

− Enter the base average hourly rate by position in Column O "Base Hourly Rate of Pay"
− Enter the average hourly rate adjustment for each line (i.e., .25 / .50 / 1.00) in Column P "Adjustments to Hourly Rate of Pay"
− Select the effective date of the hourly rate increase in Cell P8 using the drop-down menu.

Tip: The workbook will calculate a percentage increase for each line based on the information entered in Columns O and P. This percentage increase will be multiplied by Column N "9/30/2016 Adjusted Base Wages" to calculate the cost of these increases. Column R "$ Increase" reflects the cost of these increases.

If you are planning to increase compensation levels by a fixed percentage either for all employees or for certain positions, use the Percentage Increase Method.

− Column T "% Increase" will be prepopulated with the inflation rate selected on the "Start Here" tab.
− You may override the percentages for any cost report line by entering the corrected percentage to use in Column T.
− Select the effective date of the wage increase in Cell T8 using the drop-down menu.

If neither the Average Hourly Rate Method nor the Percentage Increase Method work for your situation, you may calculate the cost of the planned wage changes outside the workbook and enter them on the appropriate line in Column W "Other Method."

Tip: If you have multiple effective dates for the wage increases, you will need to calculate those amounts outside the workbook and enter them in the "Other Method" Column (Column W).

Tip: Use the "Other Method" Column if you are planning to give a one-time or multiple bonus payments. Enter the planned amounts in the "Other Method" Column (Column W).

Verify that wages in Column Y "Adjusted Wages" are a reasonable estimate of your wages for the year ended 9/30/2016.
Tip: To evaluate the reimbursement and cost of workforce compensation changes, which are a direct result of the new legislation, the “Base” column for all cost input fields for the years ended 9/30/2015 and 9/30/2016 should reflect amounts had this legislation not passed. The cost of workforce compensation changes which are the direct result of the new legislation should be entered into the “adjustments” columns.

8. Continue entering data using the “Health Ins” tab.
   a) If you funded a Health Savings Account Spending Account for the year ended 9/30/2014, enter any adjustments or reclassifications into Column C “Adjustments” so adjusted amounts for the year ended 9/30/2014 are reported for each of the following lines:
      − Line 9 Employer portion of full-time employee, spouse, and their dependent costs
      − Line 10 Employer portion of part-time employee only costs
      − Line 11 Employer portion of part-time employee, spouse, and dependents costs

      Tip: Amounts reported on lines 9 and 10 are part of external fixed costs. Amounts reported on line 11 are normal fringe benefits.

   b) If you paid for a portion of your employees’ health insurance premiums for the year ended 9/30/2014, enter any adjustments or reclassifications into Column C “Expected Adjustments” so adjusted amounts for the year ended 9/30/2014 are reported for each of the following lines:
      − Line 13 Employer portion of full-time employee, spouse and their dependents
      − Line 14 Employer portion of part-time employee
      − Line 15 Employer portion of part-time employee, spouse and their dependents

      Tip: Amounts reported on lines 13 and 14 are part of external fixed costs. Amounts reported on lines 15 and 17 are normal fringe benefits.

      Tip: The amounts in Column D, lines 9-18 are the base amounts for 9/30/2015. These can be adjusted in the next step as needed.

   c) To report HAS or health insurance related expenses for the year ended 9/30/2015, compare the prepopulated amount in column F to your best estimate of amounts for the year ended 9/30/2015. Correct amounts using either Column F “Base” or Column G “Adjustments.”

      Tip: You can annualize current year to date insurance amounts to calculate an estimated insurance amount for the year ended 9/30/2015. Compare this amount to the amounts in Column F and enter the difference in either Column F “Base” or Column G “Adjustments.”

      Tip: The amounts in Column H, lines 9-18 are the base amounts for 9/30/2016. These can be adjusted in the next step as needed.
d) To report HAS or health insurance related expenses for the year ended 9/30/2016, compare the prepopulated amount in column J to your best estimate of amounts for the year ended 9/30/2016. Correct amounts using either Column J “Base” or Column K “Adjustments.”

Tip: Cells A24 through L38 are included to assist providers in estimating their health insurance and other insurance costs for the years ending 9/30/2015 and 9/30/2016. This is a working area only as noted on lines 24 and 25. The amounts from this working area must be entered into the appropriate Columns in lines 9-18.

Tip: To evaluate the reimbursement and cost of insurance changes that are a direct result of the new legislation, the “Base” column for all cost input fields for the years ended 9/30/2015 and 9/30/2016 should reflect amounts had this legislation not passed. The cost of insurance changes that are the direct result of the new legislation should be entered into the “adjustments” columns.

9. Continue entering data using the “Scholarship” tab.

a) Refer to your facility’s 9/30/2014 Nursing Facility Statistical and Cost Report.
b) Verify that amounts reported in Column B “Cost Report / Base” agree with the 9/30/2014 Nursing Facility Statistical and Cost Report plus or minus any cost report adjustments.
c) Enter any expected additional adjustments to the 9/30/2014 Nursing Facility Statistical and Cost Report in Column C “Expected Adjustments.”

Tip: For the year ended 9/30/2014, day care costs, transportation, nursing assistant training costs, and student loan forgiveness were not allowable as scholarship costs.

Tip: The amounts in Column D are the summation of Columns B and C. The amounts in Column D are the base amounts for 9/30/2015 (“9/30/2015 Base”).

d) To report allowable scholarship expenses for the year ended 9/30/2015, compare the prepopulated amount in column F to your best estimate of amounts for the year ended 9/30/2015. Enter corrected amounts using either Column F “Base” or Column G “Adjustments.”

e) To report allowable scholarship expenses for the year ended 9/30/2016, compare the prepopulated amount in column J to your best estimate of amounts for the year ended 9/30/2016. Enter corrected amounts using either Column J “Base” or Column K “Adjustments.”

Tip: For the years ended 9/30/2015 and 9/30/2016, day care costs, transportation, nursing assistant training costs, and student loan forgiveness are allowable as scholarship costs.
10. The “Scholarship-Work” tab is optional.

This worksheet was developed to assist in estimating the scholarship costs for the year ended 9/30/2016.

Tip: You can add additional lines for nursing home employees and non-nursing home employees. If you add additional lines, verify that the total lines are calculating correctly.

In Columns C-I, lines 7-18, enter the scholarship expenses budgeted for nursing home employees for 9/30/2016 and in Columns C-I, lines 25-34, enter the scholarship expenses budgeted for non-nursing home employees for 9/30/2016. Additional rows can be inserted.

Tip: The amounts on this worksheet do not flow to the "Scholarship" tab and must be entered in the "Scholarship" tab.

11. Continue entering data using the “Other Costs” tab.

a) Refer to your facility’s 9/30/2014 Nursing Facility Statistical and Cost Report.

b) Verify that amounts reported in Column D "Actual/Adjusted" agree with the 9/30/2014 Nursing Facility Statistical and Cost Report plus or minus any adjustments made by DHS.

Tip: Totals for line 34 and line 124 are from the "Wages" tab.

Tip: Amounts on lines 40 through 44 and line 125 are from the "Health Ins" tab.

Tip: Amounts on line 82 and 126 are from the “Scholarship” tab.


Tip: The amounts in Column F are the summation of Columns D & E. The amounts in Column F become the base amounts for 9/30/2015 after adjusting for the inflation rate selected in Step 5.

d) To report other expenses for the year ended 9/30/2015, compare the prepopulated amount in column H to your best estimate of amounts for the year ended 9/30/2015. Enter corrected amounts using either Column H "Base Amounts" or Column I "Adjustments."

e) To report other expenses for the year ended 9/30/2016, compare the pre-populated amount in column L to your best estimate of amounts for the year ended 9/30/2016. Enter corrected amounts using either Column L “Base Amounts” or Column M “Adjustments."

Tip: The amounts in Column N should reflect estimated amounts for the year ended 9/30/2016.

Tip: To calculate an estimated amount for each line, you may annualize expenses from your most current financial statement. Another method would be to take the year-to-date actual and add an estimated amount for the remainder of the year. Compare this amount to the prepopulated amounts in Column H and enter adjustments as needed.
Tip: Amounts reported for fringe benefits in Column H on lines 37 through 39 and lines 45 through 48, are prepopulated based on the percentage of benefits to salaries in Column F. These amounts typically fluctuate as salaries fluctuate. To ensure consistency, these lines were set up to calculate based on salaries. Prepopulated amounts can be adjusted as needed.

Tip: For the years ended 9/30/2015 and 9/30/2016, the hospital-based fringe benefits not directly assigned and the fringe benefits directly assigned to individual cost centers should not include any external fixed health insurance. All health insurance expense should be reported on the appropriate line on the Health Ins tab.

Tip: To evaluate the reimbursement and cost of other changes that are a direct result of the new legislation, the “Base” column for all cost input fields for the years ended 9/30/2015 and 9/30/2016 should reflect amounts had this legislation not passed. The cost of changes that are the direct result of the new legislation should be entered into the "adjustments" columns.

12. Nine additional optional blank worksheets (WKST1 – WKST9) are unprotected and available for additional calculations as needed.

13. At this point, you have completed the data entry.
14. The results section of the workbook includes the following tabs:
   - Rate Calc Tab
   - RUG Rates
   - Recap

15. The Rate Calc tab shows the following information:
   - Rates for each component of the rate based on the data input completed.
   - Comparison of the rate to the limit for care related cost
   - Comparison of the reimbursement price to actual cost for other operating and capital
   - Details for the various items included in the external fixed rate.

16. The RUG Rates tab shows the rates for the various periods by RUG level.

17. The Recap Tab shows the following information based on the entered information:
   - The 10/1/2015 APS rates – for comparison purposes only
   - Total value based reimbursement rate, at a case mix weight of 1.00 for 1/1/2016, 1/1/2017, and 1/1/2018.
   - Total estimated Medicaid and private pay revenue for 2016, 2017, and 2018
   - Additional cost incurred as a result of the new value based reimbursement legislation

Tip: The recap tab will help providers understand what amount of the additional cost is not reimbursed through the methods because it falls outside the direct care, scholarship, or health insurance pass-through areas.

Tip: The additional cost information presented on the Recap tab will be accurate if the “Base” column for all cost input fields for the years ended 9/30/2015 and 9/30/2016 reflects amounts had this legislation not passed and if the cost of changes which are the direct result of the new legislation are entered into the “adjustments” columns.

Tip: The revenue amounts reported do not include any consideration of private room surcharge/differential amounts.
For questions or further information:

For questions related to the workbook or for assistance in understanding the impact on your organization, please call:

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Testing has been performed on the workbook to determine whether the related calculations are working as intended. We do not, however, warranty that every situation and calculation will be accurate and in accordance with the manner in which the Minnesota Department of Health Services rates will be computed. Furthermore, the workbook will not be automatically updated for future changes to the VBR system, DHS auditor adjustments to provider cost reports, or Minnesota DHS interpretation of the related legislation.