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**INTERIM STATE MEDICAID MANUAL INSTRUCTIONS 84 1**

**IM 6007. REVALUATION OF ASSETS**

Statutory Requirements

Section 2314 of the Deficit Reduction Act (DEFRA) of 1984 amends the Federal requirements regarding reimbursement under Medicare and Medicaid for capital related costs. The Medicaid revision which adds section 1902(a)(13)(B) to the Act specifies that a State must provide assurances satisfactory to the Secretary that the payment methodology utilized by the State for payments to hospitals, skilled nursing facilities and intermediate care facilities can reasonably be expected not to increase such payments, solely as a result of a change of ownership, in excess of the increase which would result from the application of the Medicare requirements at section 1861(v)(1)(O) of the Act.

Section 1861(v)(1)(O), as revised by section 2314 of DEFRA, specifies that in establishing an appropriate allowance for depreciation, interest on capital indebtedness and (if applicable) a return on equity capital with respect to an asset of a hospital or skilled nursing facility which has undergone a change of ownership, the valuation of the asset will be the lesser of the allowable acquisition cost of the asset to the first owner of record on or after July 18, 1984, or the acquisition cost of such asset to the new owner.

Implementation

As a result of the revised statutory requirements, States will now be required to submit a specific assurance regarding the State plan methodology as it pertains to reimbursement for capital related costs resulting from a change in ownership. The State must assure HCFA and demonstrate generally, that as a result of a change in ownership, the State plan will not increase payments to providers for depreciation, interest on capital and return on equity, in the aggregate, more than the amount that would be recognized under section 1861(v)(1)(O) of the Act. The provision does not apply to changes in ownership pursuant to an enforceable agreement entered into prior to July 18, 1984.

The assurances submitted by the State must be consistent with the specific provisions of the State plan methodology as it affects reimbursement for depreciation, interest, and return on equity. In certain instances, a State plan may require an amendment to revise the State§s current methodology in order to comply with the statutory provision.

Effective Dates

1. Change of Ownership - The provisions of section 2314 of DEFRA are applicable to all changes of ownership which occur on or after July 18, 1984, except for those changes made pursuant to an enforceable agreement executed prior to that date.

2. Assurances

a. A State that provides in its State plan methodology that it follows Medicare principles of reimbursement as they apply to capital-related costs must comply with all applicable Medicare requirements

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in effect in the applicable rate period. This would also apply to those States that cite the Medicare principles (HCFA-Pub. 15) in determining asset value in conjunction with various other adjustments or limitations to that methodology (e.g., occupancy limits, per diem capital limits, etc). Accordingly, States which cite the Medicare principles, and wish to continue to follow those principles, must submit the assurance required by section 1902(a)(13)(B) as it applies to medical assistance furnished on or after July 18, 1984.

b. A State that provides in its State plan methodology for the reimbursement of capital related costs without citing the Medicare principles must apply this provision to payments to facilities for medical assistance furnished on or after October 1, 1984. The State must provide an assurance that, payments for medical assistance furnished on or after October 1, 1984, cannot reasonably be expected to increase solely as a result of a change in ownership, in excess of the increase which would result from applying section 1861(v)(1)(O) of the Act, to owners of record on July 18, 1984.

Where a change to the existing State plan methodology cannot be effectuated without a State legislative change, the State plan will not be held out of compliance solely on the basis of its failure to meet these requirements prior to the first day of the first calendar quarter beginning after the close of the first regular session of the State legislature which begins after July 18, 1984. However, although the State plan change may be delayed for this reason, the provision will ultimately be applied to the acquisition costs of new owners of record on or after July 18, 1984.

State Actions

Accordingly, States must take the following actions by December 31, 1984, or upon submittal of an amendment to its inpatient hospital or long-term care reimbursement plans, whichever is earlier, as applicable, to comply with the revised statutory requirements for reimbursement for depreciation, interest on capital indebtedness and return on equity capital under Medicaid:

1. State plan methodology cites the Medicare principles for determining allowable capital-related costs and;

a. The State will continue with the Medicare methodology

The State must submit an assurance that it will not exceed the Medicare statute at 1861(v)(1)(O).

b. The State desires to amend the State plan methodology for reimbursement of capital-related costs

The State must submit an approvable State plan amendment, and the assurances required under section 1902(a)(13)(A) and the assurances required under section 1902(a)(13)(B) of the Act, which requires that the State assure and demonstrate generally, that the payment methodology  used  by  the State for medical assistance beginning October 1, 1984, can reasonably be expected not to increase

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payments solely as a result of a change of ownership in excess of the increase which would result from applying 1861(v)(1)(O) of the Act, as applied to owners of record on July 18, 1984; or

2. The current State plan methodology reimburses for capital-related costs with no reference to Medicare principles, and;

a. State does not need to amend its plan in order to provide the assurance:

The State must submit the assurance required by section 1902(a)(13)(B) for medical assistance beginning October 1, 1984, as applied to owners of record on July 18, 1984, which requires that the State assure and demonstrate generally, that the payment methodology used by the State for medical assistance beginning July 18, 1984, can reasonably be expected not to increase payments solely as a result of a change of ownership in excess of the increase which would result from applying 1861(v)(1)(O) of the Act, as applied to owners of record on July 18, 1984; or

b. State is required to amend the plan methodology to provide assurance:

The State must submit an approvable State plan amendment, and all of the assurances required under sections 1902(a)(13)(A) and (B) of the Act, which requires that the State assure and demonstrate generally, that the payment methodology used by the State for medical assistance beginning October 1, 1984, can reasonably be expected not to increase payments solely as a result of a change of ownership in excess of the increase which would result from applying 1861(v)(1)(O) of the Act, as applied to owners of record on July 18, 1984. However, if the State requires legislation in order to amend the State plan, the State agency must submit to HCFA a written statement that pursuant to the opinion of the appropriate State legal authority, the required plan amendment may not be effectuated without a State legislative change. The statement should also advise HCFA of the date of the close of the first regular session of the State legislature after July 18, 1984. The State will be required to submit the required assurance by the end of the calendar quarter following that date.

Assessment of Compliance

State compliance with the statutory provision will be reviewed under the State assessment process. The HCFA Regional Office will review the State’s implementation of the revaluation of assets provision for consistency with the approved State reimbursement plan and for compliance with Federal requirements, and review the State’s demonstration that payments have not increased in the aggregate solely because of a change of ownership in excess of the increase that would have been permissible under the Medicare principles for revaluation of assets.

For further information or if you have any questions about this transmittal, please contact Tzvi Hefter, 1-A-1 East Low Rise Building, 6325 Security Boulevard, Baltimore, Maryland 21235, or call (301) 597-1808.

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