

	(1) Cost	(2) Limit Per square foot	(3) Total (1) × (2)
Vent	A	C	E
Other	B	D	F
Total	G		H

Weighted limit per square foot = H/G.  
 Total reasonable limit = Weighted limit × Square feet.

7. Base period expenditures in excess of this minimum allowance may be carried forward and applied in future years in which expenditures are below their respective maximum allowance.

i. Actual expenditures that are below the limits for the base period, may be carried and applied to excess expenditures in subsequent years. The following example illustrates how two typical NFs would be affected. Savings are indicated in parentheses, for example, (20.00) means a savings of \$20.00.

Year No. 1	NF A	NF B
Actual expenditures	\$130.00	\$ 80.00
Limit	100.00	100.00
Excess (savings) carried forward	30.00	(20.00)

  

Year No. 2	NF A	Example 1	Example 2
Actual expenditures		\$ 60.00	\$ 85.00
Carried forward		+30.00	+30.00
Total eligible		90.00*	\$115.00
Limit		105.00	\$105.00
Carried forward to Year No. 3		\$(15.00)	\$ 10.00

  

Year No. 2	NF B	Example 1	Example 2
Actual expenditures		\$120.00	\$130.00
Limit		\$105.00	\$105.00

  

	NF A	NF B
Plus carried forward	+20.00	+20.00
Revised limit	\$125.00	\$125.00
Carried forward to Year No. 3	\$ (5.00)	\$ 5.00

\* Included in rates

8. Expenditures for replacements, capitalized maintenance and leases will be prorated to nursing patients, based upon the ratio of nursing square feet (including a prorated share of common areas) to total plant square feet.

As amended, R.1984 d.573, effective December 16, 1984.  
 See: 16 N.J.R. 2484(a), 16 N.J.R. 3437(a).  
 (a)1: Deleted old text and substituted new text.  
 Amended by R.1987 d.6, effective January 5, 1987.  
 See: 18 N.J.R. 257(a), 19 N.J.R. 126(a).  
 Recodified from 10:63-3.13 and amended by R.1994 d.624, effective January 3, 1995.  
 See: 26 N.J.R. 3614(a), 27 N.J.R. 156(a).  
 Amended by R.1996 d.147, effective March 18, 1996.  
 See: 27 N.J.R. 3314(a), 28 N.J.R. 1535(a).

**10:63-3.15 Property insurance**

(a) An allowance for property insurance will be developed for each home as follows:

1. Base period property insurance costs per dollar of appraised value and per dollar of 1977 replacement costs will be calculated for all Class I NFs. Separate calculations

will be made for Class II facilities and each type of Class III facility.

2. Mathematical techniques will be applied to this data to develop formulas describing the normal relationships between property insurance costs and appraised values and estimated replacement costs. Separate formulas will be developed for urban and non urban NFs.

3. The procedures described in N.J.A.C. 10:63-3.14 will be used to eliminate extremes and to develop the formula to be used to calculate the reasonableness limit for property insurance, except for the calculation of Class III limits.

4. Each NF's reasonableness limit per reasonable plant square foot will be developed by applying this formula to its particular factors and incrementing the result by 10 percent. No allowance will be provided for plant square feet considered unreasonable per N.J.A.C. 10:63-3.7(a)1 and 2.

Amended by R.1987 d.6, effective January 5, 1987.  
 See: 18 N.J.R. 257(a), 19 N.J.R. 126(a).  
 Added text in (a)1 "A separate calculation will be made for governmental facilities."  
 Recodified from 10:63-3.14 and amended by R.1994 d.624, effective January 3, 1995.  
 See: 26 N.J.R. 3614(a), 27 N.J.R. 156(a).

**10:63-3.16 Target occupancy levels**

(a) A target occupancy level of 95 percent of licensed bed-days (excluding quiet beds) will be used to develop the reasonable per diem amounts of the following rate components:

1. Property taxes;
2. Utilities;
3. Special amortization;
4. CFA for:
  - i. Buildings and building equipment;
  - ii. Land and land improvements;
  - iii. Moveable equipment;
  - iv. Maintenance and replacements;
  - v. Property insurance; and

5. Actual NF expenses for depreciation, rental, interest, and amortization in accordance with N.J.A.C. 10:63-3.10(c).

(b) For Class III NFs, if the base period Medicaid occupancy is 80 percent or greater, the target occupancy for the rate components in (a) above will be 90 percent.

(c) For rates implemented on or after July 1, 2000, target occupancy shall be calculated as follows:

1. For those nursing facilities that are at or above 90 percent occupancy, the reasonable base period costs shall be divided by actual base period patient days.

2. For those nursing facilities that are above 85 percent but below 90 percent as documented in the NF cost report, a review of the previous year's occupancy shall determine which of the two following options shall be used:

i. If the previous year's occupancy is at or above 90 percent, the reasonable base period costs shall be divided by actual base period patient days.

ii. If the previous year's occupancy is also less than 90 percent, the reasonable base period costs shall be divided by 90 percent of licensed bed days.

3. For those nursing facilities that are below 85 percent occupancy, the reasonable base period costs shall be divided by 90 percent of licensed bed days.

4. Actual base period patient days shall include paid bed hold days.

(d) For new Class I and Class II facilities an occupancy rate of 80 percent will be used for provisional rates during the first year of operation subject to retroactive adjustments to actual occupancy should it exceed 80 percent (but no higher than 95 percent will be used).

(e) For new Class III NFs, an occupancy rate of 80 percent will be used for provisional rates during the first year of operation. The retroactive adjustment from an interim to an actual rate for the first year of operation shall use actual occupancy should it exceed 80 percent (but no higher than 95 or 90 percent will be used, as determined by (a) or (b) above).

(f) If base period patient days exceed licensed bed days calculated per (a) above, then the target occupancy will be entered at 95 percent of actual base period patient days.

Amended by R.1987 d.6, effective January 5, 1987.

See: 18 N.J.R. 257(a), 19 N.J.R. 126(a).

"Target" substituted for "largest".

Recodified from 10:63-3.15 and amended by R.1994 d.624, effective January 3, 1995.

See: 26 N.J.R. 3614(a), 27 N.J.R. 156(a).

Amended by R.1995 d.174, effective March 20, 1995 (operative April 1, 1995).

See: 27 N.J.R. 281(a), 27 N.J.R. 1307(a).

Amended by R.1999 d.74, effective March 1, 1999.

See: 30 N.J.R. 3191(a), 31 N.J.R. 678(b).

Rewrote (c).

### 10:63-3.17 Restricted funds

(a) Where donor restricted funds have been expended for operating purposes and, accordingly have been reported as an expense recovery/elimination, the availability and use of such funds will not be taken into account in establishing rates to the extent that they produce actual unit costs below the median unit costs and NF's developed for determining reasonableness. (It should be noted that the availability or use of such funds will not be taken into account at all with respect to CFA calculations.)

(b) The intent of this provision is to exclude, in screening, expenditures made from donor-restricted funds, but not to "appropriate" such funds where they result in net costs below the median.

Recodified from 10:63-3.16 and amended by R.1994 d.624, effective January 3, 1995.

See: 26 N.J.R. 3614(a), 27 N.J.R. 156(a).

### Case Notes

Hiring of contract nurses not mandated; adjustment for costs not required. *Morristown Rehabilitation Center Inc. v. Division of Medical Assistance and Health Services*, 93 N.J.A.R.2d (DMA) 10.

### 10:63-3.18 Adjustments to base period data

(a) As described elsewhere in this subchapter, with the exception of capital items, rates will be based upon reasonable actual base period costs. This section provides for adjustments to reasonable base period costs in establishing prospective rates.

1. Appropriate adjustments will be made to reasonable base period costs for the effect of changes between the base period and the prospective rate period in:

i. State or Federal standards of care;

ii. Definitions of "routine patient care services" reimbursable in Medicaid per diems;

iii. Limitations on total or per diem amounts of special patient care services reimbursable in Medicaid per diems.

2. NFs may also request that cost in addition to base period expenditures be included in the prospective rates owing to:

i. Actions mandated by governmental authorities and/or approved by same in the certificate of need process ("legal" changes):

ii. Desires to increase the quality of care above that attainable at base period cost levels ("management" changes).

iii. Appointment of a special medical guardian required to authorize emergency medical treatment for a patient.

iv. Emergency evacuation of a facility which was conducted consistent with an Emergency Management Evacuation Procedure which has been duly adopted and fully implemented by the facility. Costs in additions to base period expenditures for emergency evacuation shall be only those extraordinary costs which are directly related to evacuation, and routine costs which exceed base period levels as a direct result of the emergency evacuation.

3. With respect to requests for management changes, the departments will take the position that it is not a prerogative of a rate setting body to unilaterally make or amend social policies, especially with respect to the appropriateness of current allocations of State resources to the care of indigent NF patients. Accordingly, in the absence of other compelling reasons, management changes will be approved only in areas where quality has been found to be marginal by health facility inspection and actual costs are commensurately low.

4. Where legal and management changes have been approved and the approved costs are not expended in the prospective rate period, the unspent amount will be recovered from the NF.

5. In the case of significant items, the departments may exclude the effects of legal and management changes from rates until the change is effected, and if necessary, new appraisals made.

As amended, R.1984 d.573, effective December 16, 1984.

See: 16 N.J.R. 2484(a), 16 N.J.R. 3437(a).

Deleted (a)4 and recodified (a)5 to (a)4.

Amended by R.1986 d.69, effective March 17, 1986.

See: 17 N.J.R. 1736(a), 18 N.J.R. 561(a).

(a)4 added; old (a)4 renumbered to (a)5.  
Amended by R.1987 d.6, effective January 5, 1987.  
See: 18 N.J.R. 257(a), 19 N.J.R. 126(a).

(a)4 added.

Recodified from 10:63-3.17 and amended by R.1994 d.624, effective January 3, 1995.

See: 26 N.J.R. 3614(a), 27 N.J.R. 156(a).

Amended by R.1995 d.174, effective March 20, 1995 (operative April 1, 1995).

See: 27 N.J.R. 281(a), 27 N.J.R. 1307(a).

#### Case Notes

Inflation factor calculation valid and reasonable (Director's Final Decision). In re: Waterview Nursing Home, 8 N.J.A.R. 231 (1981), affirmed per curiam Dkt. No. A-3363-80 (App.Div.1982).

#### 10:63-3.19 Inflation

(a) A provision will be added to reasonable base period costs to provide for inflation/deflation between the base period and the prospective rate period. Changes in two factors will be used to develop this provision.

1. Average hourly earnings of manufacturing employees in New Jersey as published by the Bureau of Labor Statistics (weighted 60 percent);