

## CHAPTER 31C

### RESIDENTIAL ALCOHOLISM TREATMENT FACILITIES

#### Authority

N.J.S.A. 26:2H-1 et seq.

#### Source and Effective Date

R.1992 d.185, effective April 20, 1992.  
See: 23 N.J.R. 3609(a), 24 N.J.R. 1495(a).

#### Executive Order No. 66(1978) Expiration Date

Chapter 31C, Residential Alcoholism Treatment Facilities, expires on  
April 20, 1997.

#### Chapter Historical Note

Chapter 31C, Residential Alcoholism Treatment Facilities, was  
adopted as R.1987 d.75, effective January 20, 1987. See: 18 N.J.R.  
1918(a), 19 N.J.R. 203(b). Pursuant to Executive Order No. 66(1978),  
Chapter 31C expired on January 20, 1992 and was subsequently  
adopted as new rules, R.1992 d.185. See: Source and Effective Date.

See Section annotations for specific rulemaking activity.

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#### SUBCHAPTER 1. COST ACCOUNTING AND RATE EVALUATION

##### 8:31C-1.1 Scope and purpose

(a) This chapter describes the methodology to be used by  
the State Department of Health ("the Department") to

establish prospective per diem rates for the provision of  
residential alcoholism treatment services reimbursed by gov-  
ernment agencies and hospital service corporations.

(b) It is the Department's position that the strict applica-  
tion of these rules will generally produce equitable rates for  
the payment of residential alcoholism treatment facilities  
(RATFs) of the reasonable cost of providing routine patient  
care services.

(c) The Department will review the particular circum-  
stances with the RATF, if the RATF believes that, owing to  
an unusual situation, the application of these rules results in  
an inequity. Appeals on the grounds of inequity shall be  
limited to the particular circumstances of the affected  
RATF. Appeals shall not address the broader aspects of  
the rules themselves.

(d) These rules are not purported to be an exhaustive list  
of costs. The Department reserves the right to question  
and exclude any unreasonable costs, consistent with the  
provision of N.J.S.A. 26:2H-1, et seq.

(e) While the rules have been given due consideration  
and are deemed to be fair and equitable, it is the intention  
of the Department to review the dispersion of the data used  
to establish the medians and reasonableness limits for the  
reimbursement rates effective July 1, 1988. The Depart-  
ment will recommend to the Health Care Administration  
Board any modifications to the rules that may be required  
to resolve identified problems.

(f) The Department of Health may perform a detailed  
on-site review of costs and statistics to verify consistent  
reporting of data and extraordinary variations in data.

Amended by R.1989 d.272, effective May 15, 1989.  
See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

(e) amended to begin Departmental review July 1, 1988.  
On-site review process clarified in (f).

##### 8:31C-1.2 Definitions

The following words and terms, when used in this chapter  
shall have the following meanings unless the context clearly  
indicates otherwise.

"Administrative Payment Rate" means the payment rate  
developed following a review (Level I Appeal) with the rate  
analysis of the Screened Rate.

"Base Year" is the year from which historical cost data  
are utilized for the prospective reimbursement in the 'Rate  
Year' or reimbursement period. This Base Year is two  
years prior to the Rate Year.

"Commissioner" means the Commissioner of Health.

"Department" means the New Jersey Department of Health.

"Director" means the Director of Health Facilities Rate Setting.

"Effective Rate Period" represents the calendar year beginning January 1st through December 31.

"Final Administrative Rate" means the payment rate developed as a result of the rate established following a Level II Appeal to the Administrative Law Judge.

"Final Payment Rate" means the payment rate developed from the facility's latest payment rate following the certification of actual costs by Blue Cross and Blue Shield of New Jersey.

"Forms" means the data collection forms which a facility uses to report actual costs.

"Government agency" means a department, board, bureau, division office, agency, public benefit or other corporation, or any other unit, however described, of the State or political subdivision thereof.

"Level I Appeal" means the appeal held with a Department of Health Analyst. The resolution of the Level I Appeal results in the Administrative Payment Rate. (See above).

"Level II Appeal" means an appeal held before an Administrative Law Judge. The resolution of the Level II Appeal results in the Final Administrative Rate. (See above).

"Payers" means Blue Cross and Blue Shield of New Jersey, Inc. and government agencies that are contractual purchasers of health care services.

"Rate Year" is the year of reimbursement and is known as the 'Reimbursement Period' or Effective Rate Period.

"Reasonable limit" means the maximum reimbursable costs based upon statewide peer grouping and medians for the various cost centers or components set forth in these rules.

"Residential Alcoholism Treatment Facility (RATF)" means a facility or a designated unit of a facility which is licensed by the New Jersey Department of Health to provide services specified in the Manual of Standards for Licensure of Alcoholism Treatment Facilities, N.J.A.C. 8:42A.

"Schedules" means the schedules to test the reasonableness of actual expenses and to determine reasonable increases.

"Screened Rate" means the administrative rate determined by applying the rate review guidelines to the facility's most current cost base as described in N.J.A.C. 8:31C-1.3.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

"Capital Facilities Allowance" deleted. Definitions added for administrative payment rate, director, final payment rate, forms, Level I appeal, Level II appeal, payers, schedules, and screened rate.

Amended by R.1989 d.558, effective November 6, 1989.

See: 21 N.J.R. 2454(a), 21 N.J.R. 3505(a).

Definitions for "base year", "effective rate period" and "rate year" added.

Amended by R.1992 d.185, effective April 20, 1992.

See: 23 N.J.R. 3609(a), 24 N.J.R. 1495(a).

Administrative payment rate and level I appeal linked; level II appeal and final administrative rate linked.

### 8:31C-1.3 Reporting period: cost data

(a) RATFs shall submit their base year data to the Department of Health no later than April 30 of the following year. The Department of Health shall establish the Screened Rate 90 days prior to the beginning of the effective rate period. These rates will not be subject to routine retroactive adjustments except for matters specified in the rule.

(b) Residential Alcoholism Treatment Facilities that fail to submit their actual cost reports by April 30, in a condition that would render them suitable for entry into the data base, shall forfeit their right to proceed under the screened methodology for determining a reasonable reimbursement rate. Where cost studies are received beyond the 120 day filing requirement, prospective per diem rates will be established no later than 90 days after the effective date of the reimbursement rate. The revised rate will be subject to a retroactive adjustment to the beginning of the prospective rate period upon determination of the approved rate via the methodology described in this chapter. The Director of Health Facilities Rate Setting may apply a non-recoverable 20 percent reduction to the RATF's latest approved per diem rate. This reduction will remain in effect until the facility has submitted an acceptable cost report to the Department of Health. This non-recoverable reduction will not be subject to an appeal under N.J.A.C. 8:31C-1.16.

(c) Once the Department has determined that the actual cost study submission is suitable for entry into the data base, it shall be so entered, no further substitutions or rearrangement of costs will be accepted unless it is deemed necessary by those performing the detailed, on site review pursuant to N.J.A.C. 8:31C-1.1.

1. For any facility proceeding under the screened methodology which has requested an Administrative Payment Rate (Level I Appeal), a date for the detailed review with the analyst shall be set within 60 working days of the issuance of the Screened Rate. At least 10 working days prior to the date so established, the facility shall submit written documentation of all items to be discussed. This documentation will specify each item, the costs associated with the item, and the facility's rationale for the request. Should the facility fail to submit the documentation in the allotted time or fail to appear on the established date, it shall have forfeited its right to an appeal and the Screened Rate will become the Final Administrative Rate. (The rate is equivalent to that received after Level II Appeal.)

(d) The Director, Health Facilities Rate Setting, may reduce or waive the penalty specified in (b) above, for "good cause" shown:

1. "Good cause" shall include, but shall not be limited to circumstances beyond the control of the residential alcoholism treatment facility, such as fire, flood, or other natural disaster;
2. "Good cause" shall not include acts of omission and/or negligence by residential alcoholism treatment facility, its employees, or its agents;
3. All requests for reduction and/or waiver of the penalty provision shall be submitted in writing, substantiating the reasons for the request in such detail as the Director may require.

(e) The reduction rates indicated in (b) above will be applied to the appropriate rate year.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Fiscal year changed to calendar year in (a). Penalties for failure to submit actual cost reports by March 31 added to (b). Requirements for rate adjustment requests added at (c).

Amended by R.1989 d.558, effective November 6, 1989.

See: 21 N.J.R. 2454(a), 21 N.J.R. 3505(a).

Base year data filing date extended to April 30 of the following year. Retroactive adjustment and non-recoverable reduction provisions added in (b).

Amended by R.1992 d.185, effective April 20, 1992.

See: 23 N.J.R. 3609(a), 24 N.J.R. 1495(a).

Administrative payment rate and level I appeal linked; level II appeal and final administrative rate linked.

#### 8:31C-1.4 Rate components

(a) The prospective rates will be calculated by applying standards and reasonableness criteria "limits" to the following rate components:

1. Property operating expenses;
2. Administrative costs;
3. Raw food costs;
4. Routine patient care expenses;
5. General service expenses;
6. Special patient care expenses.

(b) Compensation increases in excess of the economic factor should be made only through improved utilization of personnel, upgrading of the quality of employees, increases in productivity, and other cost containment efforts.

(c) The following components of cost will be limited to actual cost at the time of the development of the Final Payment Rate. Depreciation, interest, and rental and leases will not be increased by the economic factor.

1. Depreciation;
2. Interest;

3. Rental and lease costs;
4. Property taxes (land); and
5. Property taxes (building).

(d) All lease costs incurred as a result of related party transactions, will be excluded for reimbursement purposes. A "related party" is defined as:

1. A corporation, partnership, trust or other business entity:

- i. Which has an equity interest or 10 percent or more of the facility;
- ii. Which has an equity interest of 10 percent or more in any business entity which is related by the definition in (d)1i above; or
- iii. In which any party, who is a related party, by any other definition (in (d)1i or ii above or in (d)2 below) has an equity interest of 10 percent or more and which has a significant business relationship with the facility.

2. An individual:

- i. Who has a beneficial interest of 10 percent or more in the net worth of the facility; or
- ii. Who has a beneficial interest of 10 percent or more in an equity related by (d)1ii or iii above; or
- iii. Who is a relative of an individual who is covered by the definition in (d)2i or ii above; or
- iv. Whose beneficial interest is cumulative, if it relates to spouse, parent or children; or
- v. One party who has the ability to influence the management or operating policies of the other party to the extent that one of the transacting parties is not fully pursuing its own separate interest.

(1) This includes sole proprietorships, partnerships, non-profit entities and corporations or any individual or group with a vested interest in any entity associated with the operation of an RATF.

(2) In order to ascertain if any potential conflict may result, all persons in a decision-making capacity such as administrator, chief financial officer, chief executive officer, department head or board member must certify in writing if they have a contractual, financial, fiduciary or advisory relationship with any entity associated with the operation of the RATF.

(e) In related lease transactions, the rent paid to the lessor by the provider is not allowable as cost. The provider, however, would include in its costs the property expenses of ownership of the facility. These expenses include only depreciation, interest, property taxes and property insurance for the building and/or equipment. Other expenses of the lessor such as accounting fees, utilities, travel and other

direct or indirect overhead are non-allowable. The effect is to treat the facility as though it were owned by the provider. Other related party transactions will be screened for reasonableness.

(f) Related parties must disclose the nature of any contractual and/or financial relationship that they may have with any Residential Alcoholism Treatment Facility in the State of New Jersey.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Capital Facilities Allowance references deleted. Compensation increase provisions added at (b). Limitation of specific components to actual cost added at (c). Specification of allowable property expenses added to (d).

Amended by R.1989 d.558, effective November 6, 1989.

See: 21 N.J.R. 2454(a), 21 N.J.R. 3505(a).

Definition of related party clarified to include non-equity interests.

#### Case Notes

Residential alcohol treatment facility lease was "related party transaction"; cost not included in reimbursement rates. In Matter of Sunrise House Foundation, Inc. 92 N.J.A.R.2d (HLT) 24.

### 8:31C-1.5 Maintenance

(a) An allowance for the maintenance of land, land improvements, buildings, and fixed equipment, will be developed for each RATF as follows:

1. Fringed maintenance salaries and maintenance expenses will be reported for each RATF in the base period.

(b) The reasonableness limit per plant square foot for the RATFs salary region is determined as follows:

A = Median Maintenance Costs

B = Median Labor Cost

C = A - B = Non-Labor Costs

Limited by Region = x 1.1

(c) The dollar limit for each RATF will be determined by multiplying the reasonable limit per (b) above by the reasonable RATF plant square feet.

(d) Reimbursement will be based upon the lower of total eligible expenditures for maintenance in (a)1 or the dollar limit in (c) above.

(e) The per diem amount for maintenance and replacements will be determined by dividing (d) above by actual patient days.

(f) In establishing the capital-related cost of assets where an ongoing facility is purchased through a bona fide sale after July 1, 1987, the capital-related cost of the new owner would be based on the acquisition cost of the asset as entered on the books of the prior owner, less any depreciation taken on the asset by the prior owner. In addition, the new owner's capital-related costs must be determined using the same useful life and method of depreciation as used for reimbursement purposes in calculating rates for the previous owners.

(g) Fair market value and any goodwill will not be recognized as an acceptable valuation of assets for reimbursement purposes.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Repeal of rule on Capital Facilities Allowance. Recodification of rule from N.J.A.C. 8:31C-1.8. Provisions for maintenance and replacement deleted from (a) and (b). Capital related cost provisions for sales after July 1, 1987 added at (f). Fair market value and good will not recognized added at (g).

Amended by R.1992 d.312, effective August 3, 1992.

See: 24 N.J.R. 1463(a), 24 N.J.R. 2730(a).

Per diem now based on actual patient days.

### 8:31C-1.6 Per diem reimbursement

Actual base period patient days will be used to develop reasonable per diem amounts.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Repeal of rule on Capital Facilities Allowance; land. Recodification of rule from N.J.A.C. 8:31C-1.10. Application of target occupancy changed. Provision for new facilities deleted at (c).

Amended by R.1989 d.558, effective November 6, 1989.

See: 21 N.J.R. 2454(a), 21 N.J.R. 3505(a).

Reimbursement rate for adolescent RATF beds set at (c).

Amended by R.1992 d.312, effective August 3, 1992.

See: 24 N.J.R. 1463(a), 24 N.J.R. 2730(a).

Per diem now based on actual patient days.

### 8:31C-1.7 Property operating expenses

(a) Property operating expenses include property taxes, insurance, and utilities.

1. Property taxes (land and building) will be considered reasonable so long as they are based upon reasonable land area and value.

2. Reasonable land area (and related taxes) is established as follows:

i. For urban RATFs—Two acres

ii. For nonurban RATFs—Five acres

iii. For this purpose, a city, town, or township is considered "urban" if its population exceeds 25,000 and its average population density exceeds 7,000 per square mile. All other areas are considered "nonurban".

3. Property taxes ascribable to unreasonable area will be excluded from the prospective rate base.

4. The Department will review on an individual basis any inequities existing RATFs believe are brought about by unusual circumstances.

5. Where a lessor is paying the property taxes, the actual property taxes paid by the lessor are to be reported by the RATF operator as a property tax expense and deducted from the amount reported as rent. The property tax component of such leases will be subject to the above screens.

(b) Utility costs will be screened for reasonableness as follows:

1. Base period utility costs per bed will be deemed unreasonable to the extent that they exceed 150 percent of the Statewide median utility cost per bed.

(c) Property insurance costs will be screened for reasonableness as follows:

1. Base period property insurance costs per bed will be deemed unreasonable to the extent that they exceed 150 percent of the Statewide median property insurance cost per bed.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Repeal of rule on major movable equipment. Recodification of rule from N.J.A.C. 8:31C-1.11. Formula for property taxes deleted and reasonableness standard added. Property insurance cost screen added.

### 8:31C-1.8 Administrative costs

(a) The administrative screen will be applied to the aggregate reported costs of management, administrator, and other administrative costs for existing licensed RATFs in the base period. Total administrative costs will then be divided by actual patient days for each RATF in the base period. These per diem costs will be ranked in descending order on a Statewide basis. The reasonableness limit will be set at 110 percent of the median cost per day.

1. Compensation and special fringe benefits of all owners, officers, and related parties, management contracts, and home office costs related to chain organizations will be excluded from the development of the reasonableness limit per (a) above. RATFs with such administrative costs will be excluded from the development of the reasonableness limit.

2. Non-working officer, owner, or related party compensation and special fringe benefits are non-allowable.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on maintenance and replacements to N.J.A.C. 8:31C-1.5. Recodification of rule from N.J.A.C. 8:31C-1.12, with minor technical corrections.

### 8:31C-1.9 Raw food costs

Raw food costs per patient day for RATFs which provide their own food service will be determined for existing licensed RATFs in the base period. RATFs which contract for their dietary operations will be excluded. These per diem costs will be ranked in descending order on a statewide basis. The reasonableness limit will be set at 120 percent of the median cost per day.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Repeal of rule on property insurance.

Recodification of text from N.J.A.C. 8:31C-1.13.

### 8:31C-1.10 General fringe benefit allocation

(a) In order to equitably develop and apply screens in those cost centers with employee compensation components, the following computation will be made:

1. General fringe benefits will be allocated to function as a percentage of salaries reported to develop total compensation. Dietary adjustments will be calculated to determine the fringe benefit value of free and subsidized employee meals as follows:

- i. The average food cost per meal is developed by dividing total meals (patients and employees) into total reported raw food costs.

- ii. A fringe benefit per meal is imputed to the extent that the average price charged employees for a meal is less than raw food costs per meal.

- iii. The fringe benefit per meal is then converted into total dollars by multiplying the benefit per meal by the number of employee meals served.

2. Fringe rates will be calculated for each RATF. For this purpose, fringe benefits are the total of fringe benefits reported by the facility and dietary adjustments per 1. above. This total is then divided by total salaries.

3. Fringe factors are established at 1.00 plus the fringe rate.

4. Fringe compensation is the total cost of labor including fringe benefits. It is calculated by multiplying reported salaries by the fringe factor for each RATF. The net effect of calculating fringe compensation is to allocate fringe benefits to each cost center in proportion to its reported salaries.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on target occupancy levels to N.J.A.C. 8:31C-1.6.

Recodification of text from N.J.A.C. 8:31C-1.14.

### 8:31C-1.11 Equalized compensation and equalized cost

(a) Salary regions within the state will be developed in order to recognize the existence of geographic compensation differentials in comparing and analyzing reported cost data. Prevailing compensation rates within any one region are comparable. Each RATF will be assigned to a salary region based only on its geographic location as follows:

Area	Abbreviation	Counties included
1	PASSA	Passaic
2	HACK	Bergen
3	NEWT	Sussex, Warren
4	TRENT	Mercer, Hunterdon
5	NEWARK	Union, Essex, Somerset, Morris
6	JERCIT	Hudson
7	NEBRU	Middlesex
8	LBRAN	Monmouth, Ocean
9	ATCIT	Atlantic, Cape May
10	CAM/BURL	Burlington, Camden, Gloucester, Salem, Cumberland

(b) Equalization factors will be developed for each salary region. The factor for each region is based upon the ratio of the median compensation rate of the entire state to the median rate within that region. Salary data reported for nursing, counseling, dietary, laundry, and housekeeping personnel (plus fringes) are used in developing equalization factors.

(c) Actual compensation costs (including fringes) will be adjusted (equalized) by these factors to neutralize the effect of geographic compensation differentials.

(d) The term "equalized costs" means the net amount of equalized compensation plus other expenses, less expense recoveries and non-allowable costs.

(e) For RATFs which provide services other than residential alcoholism treatment, equalized RATF costs will be determined by apportioning equalized costs in the same ratio as the apportionment of unequalized net expenses.

(f) Equalized costs for each RATF will be compared with reasonableness limits (screens) developed from equalized base period cost data. Unreasonable (excess) equalized costs will be calculated and then converted to fringed RATF costs so that each RATFs rates are based upon its own reported data exclusive of geographic compensation differential adjustment made in equalizing its costs. For example, if on an equalized basis, 10 percent of costs are considered unreasonable, then 10 percent of fringed RATF costs are then considered unreasonable.

Amended by R.1989 d.272, effective May 15, 1989.  
See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on property operating expenses to N.J.A.C. 8:31C-1.7.

Recodification of rule from N.J.A.C. 8:31C-1.15, with minor technical corrections.

### 8:31C-1.12 Routine patient care expenses

(a) For reporting purposes and for the application of the following guidelines, "routine patient care expenses" are defined as expenses relating to nursing and counseling services.

(b) Reasonableness limits for nursing services will be established as follows:

1. The Nursing Cost Center will consist of the aggregate reported cost of equalized salaries, contract fees, and other expenses.

2. Total nursing costs for each RATF in the base period (per (b)1 above) will be accumulated and then be divided by the base period patient days. These per diem costs will then be ranked in descending order on a facility basis (Detoxification and Other).

3. The reasonableness limit will be established at 110 percent of the median nursing cost per day.

(c) Reasonableness limits for counseling services will be established as follows:

1. The Counseling Cost Center will consist of the aggregate reported cost of equalized salaries, contract fees, and other expenses.

2. Total counseling costs for each RATF in the base period (per (c)1 above) will be accumulated and then be divided by the base period patient days. These per diem costs will then be ranked in descending order on a category basis (adult, adolescent).

3. The reasonableness limit will be established at 110 percent of the median counseling cost per day.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on administrative costs to N.J.A.C. 8:31C-1.8.

Recodification of text from N.J.A.C. 8:31C-1.16.

Per diem costs ranking changed from statewide to categorical.

Amended by R.1989 d.558, effective November 6, 1989.

See: 21 N.J.R. 2454(a), 21 N.J.R. 3505(a).

Nursing and counseling reasonableness limits in (b) and (c) established by accumulating the equalized costs.

Amended by R.1992 d.185, effective April 20, 1992.

See: 23 N.J.R. 3609(a), 24 N.J.R. 1495(a).

Costs ranked on facility basis.

### 8:31C-1.13 General service expenses

(a) For reporting purposes and for the application of the following guidelines, "general service expenses" are defined as expenses relating to the following cost centers:

Dietary	Housekeeping
Laundry and Linen	Other General Services

(b) The reasonableness limit for dietary services will be established as follows:

1. The Dietary Cost Center will consist of the aggregate reported cost of equalized salaries, supplies, and other expenses minus expense recoveries. RATFs which contract for their dietary operations will be excluded.

2. Total dietary costs for each RATF in the base period (per (b)1. above) will then be divided by base period patient days. The per diem costs will then be ranked in descending order on a statewide basis.

3. The reasonableness limit will be established at 110 percent of the median dietary cost per day.

(c) The reasonableness limit for laundry and linen services will be established as follows:

1. The Laundry and Linen Cost Center will consist of the aggregate reported cost of equalized salaries, salaries, supplies, contract fees and other expenses minus expense recoveries.

2. Total laundry and linen costs for each RATF in the base period (per (c)1 above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a statewide basis.



3. The reasonableness limit will be established at 110 percent of the median laundry and linen cost per day.

(d) The reasonableness limit for housekeeping services will be established as follows:

1. The Housekeeping Cost Center will consist of the aggregate reported cost of equalized salaries, supplies, contract fees and other expenses.

2. Total housekeeping costs for each RATF in the base period (per (d)1. above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a statewide basis.

3. The reasonableness limit will be established at 110 percent of the median housekeeping cost per day.

(e) The reasonableness limit for other general services will be established as follows:

1. The Other General Services Cost Center will consist of aggregate reported cost of equalized salaries, supplies, contract fees and other expenses.

2. Total other general service costs for each RATF in the base period (per (e)1 above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a statewide basis.

3. The reasonableness limit will be established at 110 percent of the median other general service cost per day.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on raw food costs to N.J.A.C. 8:31C-1.9.

Recodification of rule from N.J.A.C. 8:31C-1.17.

#### 8:31C-1.14 Special patient care

(a) For reporting purposes and for the application of the following guidelines, "special patient care expenses" are defined as expenses relating to the following cost centers:

Medical Director/Physician Services

Patient Activities

Laboratory Services

Pharmacy

(b) The reasonableness limit for medical director/physician services will be established as follows:

1. The Medical Director/Physician Cost Center will consist of the aggregate reported cost of salaries, contract fees, and other expenses.

2. Total medical director/physician costs for each RATF in the base period (per (b)1 above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a facility basis (Detoxification and Other).

3. The reasonableness limit will be established at 110 percent of the median medical director/physician cost per day.

(c) The reasonableness limit for patient activities will be established as follows:

1. The Patient Activities Cost Center will consist of the aggregate reported cost of salaries, supplies, contract fees, and other expenses.

2. Total patient activity costs for each RATF in the base period (per (c)1 above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a statewide basis.

3. The reasonableness limit will be established at 115 percent of the median patient activity cost per day.

(d) The reasonableness limit for laboratory services will be established as follows:

1. The Laboratory Cost Center will consist of the salaries, supplies, contract fees, and other expenses.

2. Total laboratory costs for each RATF in the base period (per (d)1 above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a facility basis (Detoxification and Other).

3. The reasonableness limit will be established at 110 percent of the median laboratory cost per day.

(e) The reasonableness limit for pharmacy will be established as follows:

1. The Pharmacy Cost Center will consist of the aggregate reported cost of a pharmaceutical consultant, medical supplies, legend drugs, and non-legend drugs.

2. Total pharmacy costs for each RATF in the base period (per (e)1 above) will then be divided by base period patient days. These per diem costs will then be ranked in descending order on a facility basis (Detoxification and Other).

3. The reasonableness limit will be established at 120 percent of the median pharmacy cost per day.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on general fringe benefit allocation to N.J.A.C. 8:31C-1.10.

Recodification of rule from N.J.A.C. 8:31C-1.18.

Amended by R.1992 d.185, effective April 20, 1992.

See: 23 N.J.R. 3609(a), 24 N.J.R. 1495(a).

Costs ranked on facility basis.

#### 8:31C-1.15 Economic factor

(a) The industry-wide economic factor for services rendered after January 1, 1991 shall be comprised of the percentage changes in the following proxies for their relevant cost components weighted by their percentage of re-

ported costs on Residential Alcohol Treatment Facilities Report forms for all facilities combined. The factor is determined exclusive of depreciation, interest, rental and lease, property insurance (land), and property insurance (building) costs.

1. Labor:

- i. Cost Component: Total Inpatient Salaries plus fringe benefits;
- ii. RATF Cost Center: All cost centers for which employee salaries are reported;
- iii. Proxy: DRI—McGraw Hill Health Care Costs average hourly earnings, Production workers, General Medical and Surgical hospitals—Northeast Region;

2. Other 1:

- i. Cost Component: Raw Food/Dietary (Total Inpatient Costs);
- ii. RATF Cost Centers: Raw Food, Dietary;
- iii. Proxies:
  - (1) Consumer Price Index (CPI):

Food at home (50 percent);

- (2) Producer Price Index (PPI):

Processed food (50 percent);

3. Other 2:

- i. Cost Component: Housekeeping (Total Inpatient Costs);
- ii. RATF Cost Center: Housekeeping;
- iii. Proxies:

(1) PPI: 0915-01 Sanitary Paper and Health Products (30 percent);

(2) PPI: 0722 Unsupported Film and Sheeting (30 percent);

(3) PPI: 0671 Soap and Synthetic Detergent (40 percent);

4. Other 3:

- i. Cost Component: Laundry and Linen (Total Inpatient Costs);
- ii. RATF Cost Center: Laundry and Linen;
- iii. Proxies:

(1) PPI: 0671 Soap and Synthetic Detergent (60 percent);

(2) CPI: Textile House Furnishings (40 percent);

5. Other 4:

i. Cost Component: Pharmacy (Total Inpatient Costs);

ii. RATF Cost Center: Pharmacy;

iii. Proxies:

(1) PPI: 0635 Ethical (Prescription) Drugs (70 percent);

(2) PPI: 0636 Proprietary (over the counter) Drugs (30 percent);

6. Other 5:

i. Cost Component: Laboratory (Total Inpatient Costs);

ii. RATF Cost Center: Laboratory;

iii. Proxies:

(1) PPI: 138 Glass Containers (40 percent);

(2) PPI: 061 Industrial Chemicals (60 percent);

7. Other 6:

i. Cost Component: Repairs and Maintenance/Other General Services (Total Inpatient Supplies);

ii. Cost Center: Repairs and Maintenance/Other General Services;

iii. Proxies:

(1) CPI: Maintenance and Repairs, Commodities;

iv. Source: BLS: Consumer Price Index.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on equalized compensation and equalized cost to N.J.A.C. 8:31C-1.11.

Recodification of rule on inflation, renamed "Economic factor", from N.J.A.C. 8:31C-1.19.

Deletion of (c), provisions for inflation disallowed.

Repeal and new rule by R.1991 d.88, effective February 19, 1991.

See: 22 N.J.R. 3468(a), 23 N.J.R. 412(a).

Proxies revised, consistent with SHARE and Chapter 83 proxies.

### 8:31C-1.16 Appeal process

(a) When a RATF believes that, owing to an unusual situation, the application of these rules results in an inequity, two levels of appeals are available: a Level I Appeal heard by representatives from the Department of Health; and a Level II Appeal heard before an Administrative Law Judge.

1. Level I Appeal: A request for a Level I Appeal must be submitted in writing to the Department of Health, Health Facilities Rate Setting, Room 600, John Fitch Plaza, CN 360, Trenton, New Jersey 08625 within 30 days of receipt of the notification of rates.



i. The first level of appeal will be heard by analysts from the Department of Health. A RATF should be prepared to provide such substantiating material as may be required for an informal discussion of the subject matter.

ii. Level I Appeals will endeavor to reach equitable resolutions of matters peculiar to an individual RATF. They will not be expected to resolve items which have policy implications or broad applicability.

iii. The analyst's recommended resolutions will be reviewed and approved by the Director, Health Facilities Rate Setting.

iv. Adjustments resulting from the Level I Appeal will be retroactive to the beginning of the prospective rate year.

v. Rates resulting from the Level I Appeal will be known as the "Administrative Payment Rate".

2. Level II Appeals (Administrative Law Appeal): If a RATF is not satisfied with the results of the Level I Appeal, it may request a hearing before an Administrative Law Judge.

i. The request for an Administrative Hearing must be filed with the Department of Health, Health Facilities Rate Setting and the Department of the Public Advocate, Division of Rate Counsel (under N.J.S.A. 52:27E-18) within 30 days following receipt of notification of the Level I Appeal determination.

ii. The Administrative Hearing will be scheduled by the Office of Administrative Law and the facility will be notified accordingly.

iii. Within 30 days subsequent to the request for an Administrative Hearing, the RATF shall furnish to the Department of Health, Health Facilities Rate Setting and the Department of the Public Advocate, Division of Rate Counsel a list of all items to be appealed and the costs associated with those items.

iv. The RATF may not submit documentation other than that provided to the Analyst at the Level I Appeal hearing, unless they can establish just cause for failure to provide the documentation earlier. Also, the documentation must be sent to the other parties at least 30 days prior to the Level II hearing.

v. After the Administrative Law Judge has filed his or her report, the Commissioner of Health will determine and approve the Final Administrative Rates and the RATF and its payers will be notified in the form of an administrative order over the signature of the Commissioner of Health.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on routine patient care expenses to N.J.A.C. 8:31C-1.12.

Recodification of rule on appeal process from N.J.A.C. 8:31C-1.16.

Supervisors deleted from first level of appeal at ((a)1.i). Adjustments resulting from Department errors deleted at (a)1iv. Technical changes made at (a)2.

Amended by R.1992 d.185, effective April 20, 1992.

See: 23 N.J.R. 3609(a), 24 N.J.R. 1495(a).

Administrative payment rate and level I appeal linked; documentation requirements added at (a)iv.

### 8:31C-1.17 Special rate provisions for rates effective July 1, 1988

(a) For the rate period July 1, 1988 through June 30, 1989 reimbursement rates will be established based upon the greater of the facility's latest approved rate by the Department of Health effective July 1, 1987 through June 30, 1988, or the screened rate calculated pursuant to the previous sections of these guidelines.

1. The latest approved rate will be either the Blue Cross historical rate or the Department of Health's screened rate.

2. Reimbursement rates effective July 1, 1988 through June 30, 1989 will not be subject to an appeal under N.J.A.C. 8:31C-1.16.

(b) For the rate periods July 1, 1989 and thereafter, historical rates will no longer be calculated and, as such, will not be utilized in establishing the effective reimbursement rate.

(c) For the rate periods July 1, 1989 and thereafter, the prospective reimbursement rates will be based upon the methodology described in the previous sections of these guidelines.

(d) For the rate period July 1, 1989 through December 31, 1990, reimbursement rates will be established based upon the greater of the Department of Health's screened rate effective July 1, 1988 increased by an economic factor or the screened rate effective January 1, 1990 through December 31, 1990. This rate will be retroactive July 1, 1989.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on general service expenses to N.J.A.C. 8:31C-1.13.

Recodification from N.J.A.C. 8:31C-1.21.

Rate period changed. Approved rate changed.

Appeal disallowed for certain rates.

Amended by R.1989 d.558, effective November 6, 1989.

See: 21 N.J.R. 2454(a), 21 N.J.R. 3505(a).

Reimbursement period based on calendar year and on greater of two screened rates at (d).

### 8:31C-1.18 Final Payment Rate

(a) The Final Payment Rate will be based upon a certified audit performed by Blue Cross. The facility will be reimbursed at the lower of the approved rate or the Blue Cross certified rate. The Blue Cross certified rate will be subject to adjustments based upon major audit findings.

(b) The Final Payment Rate calculation for rates effective July 1, 1989 through December 31, 1990 will include an adjustment to the economic factor based upon the methodology applied to the reimbursement rates for services rendered January 1, 1991.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on special patient care to N.J.A.C. 8:31C-1.14.

New Rule, R.1989 d.272, effective May 15, 1989.

See: 21 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Amended by R.1991 d.88, effective February 19, 1991.

See: 22 N.J.R. 3468(a), 23 N.J.R. 412(a).

Text added at (b); rate calculation to be adjusted.

#### 8:31C-1.19 Unpredictable and uncontrollable costs

Should a facility be faced during the year with unpredictable and uncontrollable changes in its costs, the facility should notify the Director of Facilities Rate Setting who will consider the necessity for an adjustment to give relief from such occurrences.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on inflation, renamed "Economic factor", to N.J.A.C. 8:31C-1.15.

New rule.

#### 8:31C-1.20 Reimbursement rates for new facilities

In order to develop a reasonable rate, the Department of Health will evaluate the projected operating costs for the first year of operation, as well as the projection included in the Certificate of Need application. Facilities will be limited to the average of the Department of Health screened rate with those facilities of equivalent licensed beds. The facility will not be entitled to appeal the rate under N.J.A.C. 8:31C-1.16 of the RATF guidelines.

Amended by R.1989 d.272, effective May 15, 1989.

See: 20 N.J.R. 2960(a), 21 N.J.R. 1419(a).

Recodification of rule on appeal process to N.J.A.C. 8:31C-1.16.

New rule.

#### 8:31C-1.21 Administrative cost add-on

(a) A charge per patient day based on the latest available data shall be assessed each facility for which the Department of Health establishes prospective per diem rates.

1. The charge will be calculated by dividing the total 1992 Facilities Rate Setting program administrative expenses by the latest available Blue Cross inpatient days.

i. The per diem charge, as calculated, will be added to the facility's effective rate.

2. Each facility shall remit a check to the State Treasury covering the add-on amount. This reimbursement may be monthly, quarterly, semi-annually or annually, at the discretion of the facility, in accordance with the process illustrated by Appendix A, incorporated herein by reference.

New Rule, R.1991 d.579, effective December 2, 1991.

See: 23 N.J.R. 2243(a), 23 N.J.R. 3650(a).

## APPENDIX A

FEE STRUCTURE  
RATE

ASSUME: Administrative Costs \$100,000  
Patient Days \$ 55,739  
Add-On Fee \$ 1.79

