



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**
Division of Health Benefits

JOSH STEIN • Governor

DEV DUTTA SANGVAI • Secretary

JAY LUDLAM • Deputy Secretary, NC Medicaid

SIGNATURE REQUEST MEMORANDUM

TO:

Jay Ludlam ^{DS} 

FROM:

Ashley Blango, SPA Manager

RE:

State Plan Amendment

Title XIX, Social Security Act
Transmittal #2025-0026

Purpose

Attached for your review and signature is a Medicaid State Plan Amendment (**Skilled Nursing Facility Rate Methodology**) summarized below, and submitted on December 18, 2025, with a due date of December 19, 2025.

Clearance

This amendment has been reviewed for both accuracy and completeness by:

Ashley Blango, Kathryn Horneffer, Todd Baustert, Tabitha Evans, Chris Gordon, Melanie Bush

Background and Summary of Request

It is recommended that you sign this State Plan Amendment submission per Centers for Medicare and Medicaid Services (CMS) protocol as head of the Single State Agency administering the Medicaid program.

The purpose of the revisions to the State Plan Amendment is to amend the Medicaid State Plan to implement rate methodology components required to transition the Skilled Nursing Facility (SNF) program from the Resource Utilization Group (RUG) version IV model to the Patient-Driven Payment Model (PDPM) rate structure.

The proposed effective date for the SPA is October 1, 2025.

Your approval of this State Plan Amendment is requested. If you have any questions or concerns, please contact me at 919-812-6145.

NC MEDICAID

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State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

.0101 REIMBURSEMENT PRINCIPLES

All certified nursing facilities participating in the North Carolina Medicaid Program are reimbursed on a prospective basis as set forth hereunder, except that state-operated facilities will be reimbursed their reasonable and allowable costs in accordance with the Medicare principles of reimbursement and with the provisions of Section .0103 and .0104 of this plan. This plan is developed in accordance with the requirements of 42 CFR 447 Subpart C – Payment for Inpatient Hospital and Long-Term Care Facility Services. Providers must comply with all federal regulations and with the provisions of this plan.

TN. No. 08-007
Supersedes
TN. No. 92-21

Approval Date 01/15/09

Eff. Date 07/01/08

State Plan Under Title XIX of the Social Security Act
 Medical Assistance Program
 State: North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

.0102 RATE SETTING METHODS

(a) A rate for nursing facility care is determined quarterly for each facility to be effective for dates of service for a three-month period beginning the first day of each calendar quarter. Rates are derived from audited cost reports for a base year period to be selected by the state. Audited cost reports for a base year is defined as desk audits performed on all Medicaid nursing facility cost reports filed for the base year plus a minimum of fifty (50) field audits on Medicaid nursing facility cost reports filed for the base year. The selection of field audits includes, but is not limited to, a risk based selection of providers with a direct cost per patient day above or below the Medicaid day weighted median direct cost per patient day. The selection of field audits also includes, but is not limited to, a risk based selection of providers with an indirect cost per patient day above or below the Medicaid day weighted median indirect cost per patient day. For rates effective January 1, 2008, the FY05 cost reports shall be used as the base year period. Cost reports are filed and audited under provisions set forth in Section .0104.

(b) Each prospective rate consists of two components – a direct care rate and an indirect rate – computed and applied as follows:

- (1) The direct care rate is that portion of the Medicaid daily rate that is attributable to:
 - (A) Case-mix adjusted costs defined as
 - (i) registered nurse (RN), licensed practical nurse (LPN) and nurse aide salaries and wages;
 - (ii) a direct allocation or proportionate allocation of allowable payroll taxes and employee benefits; and
 - (iii) the direct allowable cost of contracted services for RN, LPN and nurse aide staff from outside staffing companies.
 - (B) Non-case-mix adjusted costs defined as
 - (i) Nursing supplies;
 - (ii) Dietary or Food Service;
 - (iii) Patient Activities;
 - (iv) Social Services
 - (v) A direct allocation or proportionate allocation of allowable payroll taxes and employee benefits; and
 - (vi) Medicaid cost of Direct Ancillary services.

TN. No: 12-001
 Supersedes
 TN. No: 07-001

Approval Date: Dec 13, 2012

Eff. Date: 04/01/12

State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

(2) Each facility's legacy direct care rate shall be determined as follows:

- (A) The per diem case-mix adjusted cost is determined by dividing the facility's case-mix adjusted base year cost by the facility's total base year inpatient days. This case-mix adjusted base year cost per diem shall be trended forward using the index factor set forth in Section .0102(e). A per diem neutralized case-mix adjusted cost is then calculated by dividing each facility's case-mix adjusted per diem cost by the facility cost report period case-mix index. Prior to rates effective April 1, 2022, the facility cost report period case-mix index is the resident-weighted average (Point-In-Time) of quarterly facility-wide average case-mix indices, carried to four decimal places. For rates effective April 1, 2022 and after, the facility cost report period case-mix index is the resident-day-weighted average case-mix (Time-Weighted) indices, carried to four decimal places updated for every Medicaid participating nursing facility each calendar quarter. The quarters used in this average will be the quarters that most closely coincide with the facility's base year cost reporting period. Example: An October 1, 2000 – September 2001 cost report period would use the facility-wide average case-mix indices for quarters ending December 31, 2000, March 31, 2001, June 30, 2001, and September 30, 2001.
- (B) The per diem non-case-mix adjusted cost is determined by dividing the facility's non-case-mix adjusted base year cost, excluding the Medicaid cost of direct ancillary services, by the facility's total base year inpatient days plus the facility's Medicaid cost of direct ancillary services base year cost divided by the facility's total base year Medicaid resident days. This non-case-mix adjusted base year cost per Diem shall be trended forward using the index factor set forth in Section .0102(e).

State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- (C) The base year per diem neutralized case-mix adjusted cost and the base year per diem non-case-mix adjusted cost are summed for each nursing facility. Each facility's base year per diem result is arrayed from low to high and the Medicaid day weighted median cost is determined. Also for each facility, the percentage that each of these components represents of the total is determined.
- (D) The statewide direct care ceiling is established at 105 percent of the base year neutralized case-mix adjusted and non-case mix adjusted Medicaid day-weighted median cost.
- (E) For each nursing facility, the statewide direct care ceiling shall be apportioned between the per diem case-mix adjusted component and the per diem non-case-mix adjusted component using the facility-specific percentages determined in .0102(b)(2)(C).
- (F) Prior to rates effective April 1, 2022, on a quarterly basis, each facility's direct care rate shall be adjusted on the second quarter following the updated Medicaid average case-mix index to account for changes in its Medicaid average case-mix index. Example – Rates effective for the quarter beginning April 1, 2022 will be based on the quarter ending December 31, 2021 time weighted case mix. The facility's direct care rate is determined as the lesser of (i) or (ii) as calculated below plus an incentive allowance.
 - (i) The facility's specific case-mix adjusted component of the statewide ceiling times the facility's Medicaid average case-mix index, plus each facility's specific non-case mix adjusted component of the statewide ceiling.
 - (ii) The facility's per diem neutralized case-mix adjusted cost times the Medicaid average case-mix index, plus the facility's per diem non case--mix adjusted cost.
 Effective January 1, 2008, the incentive allowance is equal to 100% times the difference (if greater than zero) of (i) minus (ii) as calculated above.
- (G) For rates effective April 1, 2022 and after, on a quarterly basis, each facility's direct care rate shall be adjusted on the second quarter following the updated Medicaid resident-day-weighted average case-mix index to account for changes in its Medicaid resident-day-weighted average case-mix index. The facility's direct care rate is determined as the lesser of (i) or (ii) as calculated below plus an incentive allowance.
 - (i) The facility's specific case-mix adjusted component of the statewide ceiling times the facility's Medicaid resident-day-weighted average case-mix index, plus each facility's specific non-case mix adjusted component of the statewide ceiling.

State Plan Under Title XIX of the Social Security Act
Medical Assistance
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- (ii) The facility's per diem neutralized case-mix adjusted cost times the Medicaid resident-day weighted average case-mix index, plus the facility's per diem non case -mix adjusted cost.
The incentive allowance is equal to 100% times the difference (if greater than zero) of (i) minus (ii) as calculated above.
- (H) The Division of Health Benefits may negotiate direct rates that exceed the facility's specific direct care ceiling for ventilator dependent and head injury patients. Payment of such special direct care rates shall be made only after specific prior approval of the Division of Health Benefits.
- (I) The statewide direct care ceiling will be adjusted annually using the index factor set forth in Section .0102(e). The facility's base year per diem neutralized case-mix adjusted cost plus the facility's base year per diem non-case-mix adjusted cost will be adjusted annually using the index factor set forth in Section .0102(e).
- (3) Effective beginning October 1, 2026, the direct care component will be subject to a blend of the legacy direct care rate and the PDPM direct care rate as follows:

Rate Effective Date	Legacy Direct Care Rate	PDPM Direct Care Rate
October 1, 2026	83%	17%
January 1, 2027	67%	33%
April 1, 2027	50%	50%
July 1, 2027	33%	67%
October 1, 2027	17%	83%
January 1, 2028 and after	0%	100%

- (4) Each facility's PDPM Direct Care rate shall be determined as follows:
- (A) The product of the statewide neutralized direct care case-mix adjusted ceiling and the facility's Medicaid average PDPM case-mix index, plus the direct care non-case mix adjusted statewide ceiling.
- (i) Effective October 1, 2026, until such time that the direct care costs are rebased, the statewide direct care ceiling shall be the October 1, 2025 value of \$150.33, trended forward. The statewide neutralized direct care case-mix adjusted ceiling is 65 percent of the statewide direct care ceiling. The direct care non-case-mix adjusted statewide ceiling is 35 percent of the statewide direct care ceiling.
- (B) The statewide direct care ceiling will be adjusted annually using the index factor set forth in Section .0102(e). The facility's base year per diem neutralized case-mix adjusted cost plus the facility's base year per diem non-case-mix adjusted cost will be adjusted annually using the index factor set forth in Section .0102(e).
- (C) During a rebase of the PDPM direct care costs the following methodology will be applied to calculate the direct care costs:
- (i) The direct care case-mix adjusted cost is determined by dividing the facility's case-mix adjusted base year cost by the facility's total base year inpatient days. A per-diem neutralized case-mix adjusted cost is then calculated by dividing each facility's case-mix adjusted per-diem cost by the facility cost report period case-mix index. The facility cost report period case-mix index is the PDPM resident-day-weighted average case-mix indices, carried to four decimal places updated for every Medicaid participating nursing facility each calendar quarter. The quarters used in this average will be the quarters that most closely coincide with the facility's base year cost reporting period. Example, An October 1, 2025 – September 2026 cost report period would use the facility wide average case-mix indices for quarters ending December 31, 2025, March 31, 2026, June 30, 2026, and September 30, 2026.
- (ii) The per-diem non-case-mix adjusted cost is determined by dividing the facility's

non-case-mix adjusted base year cost, excluding the Medicaid cost of direct ancillary services, by the facility's total base year inpatient days plus the facility's Medicaid cost of direct ancillary services base year cost divided by the facility's total base year Medicaid resident days.

- (iii) The base year per-diem neutralized case-mix adjusted cost and the base year per diem non-case-mix adjusted cost are summed for each nursing facility. Each facility's base year per diem result is arrayed from low to high and the direct care Medicaid day weighted median cost is determined. Additionally, each facility's per-diem neutralized case-mix adjusted cost is arrayed from low to high and the statewide Medicaid day weighted median per-diem neutralized case-mix adjusted cost is determined. The percentage of the statewide Medicaid day weighted median per-diem neutralized case-mix adjusted cost is also determined.
 - (iv) The statewide direct care ceiling is established at 105 percent of the base year neutralized case-mix adjusted and non-case-mix adjusted Medicaid day-weighted median cost.
 - (v) For each nursing facility, the statewide direct care ceiling shall be apportioned between the per-diem case-mix adjusted component and the per diem non-case-mix adjusted component using the percentage of the statewide Medicaid day weighted median per-diem neutralized case-mix adjusted cost as determined in .0102(b)(4)(c)(iii).
 - (vi) A facility's direct care rate will be the facility's specific case-mix adjusted component of the statewide ceiling times the facility's Medicaid average case-mix index, plus each facility's specific non-case mix adjusted component of the statewide average.
- (D) Each facility's PDPM direct care rate will, on a calendar quarter basis, be adjusted on the second quarter following the updated Medicaid resident-day-weighted average case-mix index to account for changes in its Medicaid resident-day-weighted average case-mix index.
- (E) The Division of Health Benefits may negotiate direct rates that exceed the facility's specific direct care ceiling for ventilator dependent and head injury patients. Payment of such special direct care rates shall be made only after specific prior approval of the Division of Health Benefits.

- (5) Effective for Medicaid rates beginning November 1, 2022, a direct care facility stabilization per diem is added to the nursing facility payment rate and is intended to reimburse providers for the additional direct care costs incurred beyond the standard inflationary rate adjustment. The Medicaid resident day add-on for each facility shall be as follows:

Beginning Effective Date of Rate Add-on	Add-on per Medicaid Resident Day
November 1, 2022	\$31.90
October 1, 2025	\$55.23
January 1, 2026	\$45.02
April 1, 2026 and after	\$41.71

- ~~(3)~~(6) The indirect rate is intended to cover the following costs of an efficiently and economically operated facility:

- (A) Administrative and General,
- (B) Laundry and Linen,
- (C) Housekeeping,
- (D) Operation of Plant and Maintenance/Non-Capital,
- (E) Capital/Lease,
- (F) Medicaid cost of Indirect Ancillary Services.

- ~~(4)~~(7) Effective for dates of service beginning October 1, 2003, the indirect rate will be standard for all nursing facilities. Each facility's per diem indirect cost is the sum of 1) the facility's indirect base year cost, excluding the Medicaid cost of indirect ancillary services, divided by the facility's total base year inpatient days plus 2) the facility's Medicaid cost of indirect ancillary services base year cost divided by

the facility's total base year Medicaid resident days. The base year per diem indirect cost, excluding property ownership and use and mortgage interest shall be trended forward using the index factor set forth in Section .0102(e) of this section. Each facility's base year per diem indirect cost is arrayed from low to high and the Medicaid-day-weighted median cost is determined. The indirect rate is established at 100 percent of the Medicaid-day-weighted median cost. The indirect rate shall be adjusted annually by the index factor set forth in Section .0102(e).

(c) Nursing facility assessments. An adjustment to the nursing facility payment rate calculated in accordance with Section .0102(b) is established, effective October 1, 2003, to reimburse Medicaid participating nursing facilities for the provider's assessment costs that are incurred for the care of North Carolina Medicaid residents. No adjustment will be made for the provider's assessment costs that are incurred for the care of privately paying residents or others who are not Medicaid eligible.

(d) Fair Rental Value Payment for Capital. Effective for dates of service on or after January 1, 2007, the nursing facility capital related costs shall be reimbursed under a Fair Rental Value (FRV) methodology. The payment made under this methodology shall be the only payment for capital related costs, and no separate payment shall be made for depreciation or interest expense, lease costs, property taxes, insurance, or any other capital related cost. This payment is considered to cover costs related to land, land improvements, renovations, repairs, buildings and fixed equipment, major movable equipment, and any other capital related item. This shall be the case regardless of whether the property is owned or leased by the operator.

TN. No: 25-0026

Supersedes

TN. No: 22-0035

Approval Date

Eff. Date: 10/01/2025

State Plan Under Title XIX of the Social Security Act
Medical Assistance
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- (1) FRV Rate Year. Each provider shall receive a new capital per diem rate each year effective April 1st. The FRV payment rate shall be a facility specific per diem rate determined each year, using the data available from the Capital Data Surveys as of the previous September 30th. Capital Data Surveys will be submitted annually on or before December 31 covering the prior 12 month period ending September 30. For determining the new capital per diem rate effective April 1, 2022, the Capital Data Survey may cover a 24 month period ending September 30, 2021. The per diem shall be determined prospectively and shall apply for an entire FRV rate year. FRV data elements that are not provider specific, including those published by Gordian in its Square Foot Costs with RSMeans data publication (or its successor publication) and the rental rate as determined by the Rolling 3-Year Average of the 10 Year US Treasury Bond interest rate, shall be determined annually on or about July 1st and shall apply to provider rates effective on the subsequent April 1st.
- (2) Calculation of FRV Per Diem Rate for Capital. Effective October 1, 2021, the new value construction cost per square foot shall be \$222.96. For FRV Per Diem rates effective April 1, 2022 and annually on April 1 of each year thereafter, the new value construction cost of \$222.96 per square foot shall be updated based on the historical cost index factor each July 1st as published annually in the Square Foot Costs with RSMeans data publication. The standard square feet per nursing bed used in the rate calculation shall be the current actual square feet per nursing bed of the facility, subject to a maximum of 700 square feet per nursing bed and a minimum square footage per nursing bed. The minimum square footage per nursing bed shall be based on facility FRV age as follows: 0 up to 10 years, 425 square feet per nursing bed; greater than 10 up to 20 years, 400 square feet per nursing bed; greater than 20 up to 25 years, 375 square feet per nursing bed; greater than 25 up to 30 years, 350 square feet per nursing bed; greater than 30 years, 325 square feet per nursing bed. A nursing facility's fair rental per diem is calculated as follows.
 - (A) The fixed capital replacement value is calculated by multiplying the number of licensed beds by the standard square feet per nursing bed as determined above; multiply this product by the October 1, 2021 new value construction cost per square foot of \$222.96 (this value will be updated for rates effective April 1, 2022 and annually thereafter each April 1st); multiply this product by the appropriate location factor in the RSMeans data publication for rates effective April 1, 2021, and updated annually thereafter). Location factors are determined by the state and the first three digits of the facility location zip code.

TN. No: 21-0024
Supersedes
TN. No: 07-001

Approval Date March 25, 2022 Eff. Date: 10/01/2021

State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

To the fixed capital replacement value add the product of the total licensed beds times \$9,000 for equipment. This result shall be depreciated at 2.00 percent per year according to the weighted average age of the facility. Bed additions, replacements and renovations may lower the weighted age of the facility. The maximum calculated age of a nursing facility shall be 32.5 years in 2021; 33.5 years in 2022; 34.5 years in 2023; 35.5 years in 2024; 36.5 years in 2025; and 37.5 years in 2026 and thereafter. Therefore, nursing facilities shall not be depreciated to an amount less than 35 percent or $(100 \text{ percent} - (2.00 \text{ percent} * 32.5))$ in 2021; 33 percent or $(100 \text{ percent} - (2.00 \text{ percent} * 33.5))$ in 2022; 31 percent or $(100 \text{ percent} - (2.00 \text{ percent} * 34.5))$ in 2023; 29 percent or $(100 \text{ percent} - (2.00 \text{ percent} * 35.5))$ in 2024; 27 percent or $(100 \text{ percent} - (2.00 \text{ percent} * 36.5))$ in 2025; 25 percent or $(100 \text{ percent} - (2.00 \text{ percent} * 37.5))$ in 2026 and thereafter of the new bed value. There shall be no recapture of depreciation. This result is the total depreciable capital assets.

- (B) The land value is calculated by multiplying the fixed capital replacement value by 15 percent. The total replacement value is the sum of the land value plus the total depreciable capital assets.
- (C) A nursing facility's annual fair rental value (FRV) is calculated by multiplying the facility's total replacement value by a rental factor. The rental factor shall be determined by a rolling 3-Year average of the yield on the 10 Year US Treasury Bond (monthly frequency) as of July of the previous year plus a risk factor of 3.0 percent with an imposed floor of 7.5 percent and a ceiling of 9.5 percent. The risk factor of 3.0 percent with an imposed floor of 7.5 percent and a ceiling of 9.5 percent was negotiated with the nursing home industry. The Medicaid bed annual FRV is calculated by multiplying the annual fair rental value by the Medicaid utilization percentage.
- (D) Effective October 1, 2021, to calculate the Medicaid FRV per diem rate the nursing facility's Medicaid bed annual FRV shall be divided by the greater of (i) the facility's annualized Total Medicaid Days as reported on the 2019 Medicaid cost report; or (ii) 85 percent of the annualized licensed capacity of the facility multiplied by the Medicaid utilization percentage, to determine the FRV per diem (capital component of the rate). Each April 1st thereafter, the FRV calculation will utilize the most recent year of audited cost report patient days.

State Plan Under Title XIX of the Social Security Act
 Medical Assistance
 State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- (3) The initial age of each nursing facility used in the FRV calculation was determined from the 2004-2005 Capital Data Survey, using each facility's year of construction. This may be reduced for replacements, renovations and/or additions which are recorded on the Capital Data Survey to be filed annually by December 31st. The age of the facility will be further adjusted each April 1 to make the facility one year older, up to the maximum age of 32.5 years in 2021; 33.5 years in 2022; 34.5 years in 2023; 35.5 years in 2024; 36.5 years in 2025; and 37.5 years in 2026 and thereafter, and to reduce the age for those facilities that have completed and placed into service major renovation or bed additions. If a facility adds new beds, these new beds will be averaged in with the age of the original beds and the weighted average age for all beds will be used as the facility's age. If a facility performed a major renovation/replacement project (defined as a project with capitalized cost equal or greater than \$500 per licensed bed), the cost of the renovation project completed as of September 30th will be used to determine the weighted average age of all beds for this facility. To compute the weighted average of the beds, do a weighted average using the number of beds in the age group (value) as the weight. First, multiply each value by its weight. Second, add up the products of age multiplied by weight to get the total value. Third, add the weights together to get the total weight. Fourth, divide the total value by the total weights. The equivalent number of new beds from a renovation project will be determined by dividing the cost of the renovation/replacement project by the accumulated depreciation per bed of the facility's existing beds immediately before the renovation project.
- (4) Facilities exceeding the maximum age shall not receive greater than a \$1.00 per diem annual increase in the Medicaid FRV per diem rate.

(e) Index factor. The index factor shall be based on the Skilled Nursing Facility Market Basket without Capital Index published by Global Insight using the most current quarterly publication available annually as of August 1.

(f) New Facilities and Transfer of Ownership of Existing Facilities

TN. No: 21-0024

Supersedes

TN. No: 16-006

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State Plan Under Title XIX of the Social Security Act
 Medical Assistance
 State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

(1) New facilities are those entities whose beds have not previously been certified to participate or otherwise participated in the Medicaid program immediately prior to the operation of the new owner and whose cost reports have not been utilized in a rebase. A new facility's rate will be determined as follows and will continue to be reimbursed under this section until the incentive allowance percentage referenced in the applicable Section .0102(b)(2)(F) or .0102(b)(2)(G) is equal to 100%:

- (A) Prior to October 1, 2026, the legacy direct care rate for new facilities will be equal to the statewide Medicaid day weighted average direct care rate that is calculated effective on the 1st day of each calendar quarter. After the second full calendar quarter of operation, the statewide Medicaid day-weighted average direct care rate in effect for the facility shall be adjusted to reflect the facility's Medicaid acuity and the facility's direct care rate is calculated as the sum of the following:
 - (i) Prior to rates effective April 1, 2022,
 - a.) 65 percent of the statewide Medicaid day-weighted average direct care rate multiplied by the ratio of the facility's Medicaid average case-mix index (numerator) to the statewide Medicaid day-weighted average Medicaid case-mix index (denominator).
 - b.) For rates effective April 1, 2022 and after, 65 percent of the statewide Medicaid day-weighted average direct care rate multiplied by the ratio of the facility's Medicaid resident-day-weighted average case-mix index (numerator) to the statewide Medicaid resident day-weighted average case-mix index (denominator).
 - c.) The statewide Medicaid day-weighted average direct care rate times 35%.
 - (B) Effective October 1, 2026, new facility direct care rates will be calculated in accordance with the PDPM Direct Care rate methodology at Section .0102(b)(4)(A) and subject to the blending methodology between the new facility legacy and PDPM direct care rates at the specified percentages in Section .0102(b)(3).
 - (C) Effective January 1, 2028, the direct care rate for new facilities will be calculated solely in accordance with the PDPM Direct Care rate methodology at Section .0102(b)(4)(A).
 - (D) Following any rebase that takes effect after January 1, 2028, the PDPM direct care rate will be equal to the statewide direct care ceiling as set forth in Section 0102(b)(4)(c)(v). After the second full calendar quarter of operation, statewide direct care ceiling shall be adjusted to reflect the facility's Medicaid acuity and the facility's direct care rate is calculated as the sum of the following:
 - (i) The product of the statewide direct care ceiling and the percentage of the statewide Medicaid day weighted median per-diem neutralized direct care case - mix adjusted costs as set forth in Section 0102(b)(4)(c)(iii) multiplied by the facility's Medicaid resident-day-weighted average case-mix index.
 - (ii) The direct care non-case-mix adjusted costs as determined by the product of the statewide direct care ceiling as specified in Section 0102(b)(4)(c)(iv) and one minus the percentage of the statewide Medicaid day weighted median per-diem neutralized case-mix adjusted cost direct care non-case-mix adjusted costs as set forth in Section 0102(b)(4)(c)(iii).
 - (E) The indirect rate for a new facility will be equal to the standard indirect rate in effect at the time the facility is enrolled in the Medicaid Program. The indirect rate shall be adjusted annually by the index factor set forth in Section .0102(e).
 - (F) A new facility's rate will include the direct care facility stabilization per diem determined in accordance with Section .0102(b)(25)(~~4~~) and the nursing assessment adjustment calculated in accordance with Section .0102(c).
- (2) Transfer of ownership of existing facilities. Transfer of ownership means, for reimbursement purposes, a change in the majority ownership that does not involve related parties or related entities including, but not limited to, corporations, partnerships and limited liability companies. Majority ownership is defined as an individual or entity that owns more than 50 percent of the entity, which is the subject of the transaction. The following applies to the transfer of ownership of a nursing facility:
- (A) For any facility that transfers ownership, the new owner shall receive a per diem rate equal

State Plan Under Title XIX of the Social Security Act
Medical Assistance
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- to the previous owner's per diem rate less any return on equity adjustment received by the previous owner, rate adjusted quarterly to account for changes in its Medicaid average case-mix index. The old provider's base year cost report shall become the new facility's base year cost report until the new owner has a cost report included in a base year rate setting.
- (B) Regardless of changes in control or ownership for any facility certified for participation in the Medicaid program, the Division shall issue payments to the facility identified in the current Medicaid participation agreement. Regardless of changes in control or ownership for any facility certified for participation in Medicaid, the Division shall recover from that entity liabilities, sanctions and penalties pertaining to the Medicaid program, regardless of when the services were rendered.

TN. No: 25-0026
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TN. No: 22-0035

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State Plan Under Title XIX of the Social Security Act
 Medical Assistance
 State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

(e) Each out-of-state provider is reimbursed at the lower of the appropriate North Carolina statewide Medicaid day-weighted average direct care rate plus the indirect rate or the provider's payment rate as established by the state in which the provider is located. For patients with special needs who must be placed in specialized out of-state facilities, a payment rate that exceeds the North Carolina statewide Medicaid day-weighted average direct care rate plus the indirect rate may be negotiated. A facilities' negotiated rate for specialized services is based on budget projections of revenues, allowable costs, patient days, staffing and wages, at a level no greater than the facility's specific projected cost, and subject to review.

(f) Specialized Service Rates:

- (1) Head Injury Intensive Rehabilitation Services –
 - (A) A single all-inclusive prospective rate combining both the direct and indirect cost components can be negotiated for nursing facilities that specialize in providing intensive rehabilitation services for head injured patients as specified by criteria in Appendix 3 to Attachment 3.1-A of the State Plan. The rate may exceed the maximum rate applicable to other Nursing Facility services. A facility must specialize to the extent of staffing at least fifty percent (50%) of its nursing facility licensed beds for intensive head injury rehabilitation services. The facility must also be accredited by the Commission for the Accreditation of Rehabilitation Facilities (CARF).
 - (B) A facility's initial rate is negotiated based on budget projections of revenues, allowable costs, patient days, staffing and wages, at a level no greater than the facility's specific projected cost, and subject to review upon the completion of an audited full year cost report. The negotiated rate shall not be less than the North Carolina statewide Medicaid day-weighted average direct care plus the indirect rate. A complete description of the facility's medical program must also be provided. Rates in subsequent years are determined by applying the index factor as set forth in Section .0102(e) to the rate in the previous year, unless either the provider or the State requests a renegotiation of the rate within sixty days (60) of the rate notice. Effective for dates of service provided on or after December 1, 2016 the rates are frozen at the rates in effect as of June 30, 2015. All rates are published on the website at <https://medicaid.ncdhhs.gov/providers/fee-schedules-archive>
 - (C) Cost reports for this service shall be filed in accordance with Section .0104 but there shall not be cost settlements for any difference between cost and payments. The negotiated rate is considered to provide payment for all financial considerations and shall not include the fair rental value adjustment as defined in Section .0102 but shall include the nursing assessment adjustment as defined in Section .0102. The negotiated rate will be paid to the facility for services provided to head injured patients only. The per diem payment rate for non-head injured patients shall be the rate calculated in accordance with Section .0102 (b)–(e).

State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

- (2) Ventilator Services:
 - (A) Ventilator services approved for nursing facilities providing intensive services or ventilator dependent patients are reimbursed at higher direct rates as described in Section .0102(b)(2).
 - (B) A facility's initial direct rate shall be negotiated based on budget projections of revenues, allowable costs, patient days, staffing and wages, at a level no greater than the facility's specific projected cost, and subject to review upon the completion of an audited full year cost report. The negotiated rate shall not be less than the North Carolina statewide Medicaid day-weighted average direct care plus the indirect rate. Rates in subsequent years are determined by applying the index factor as set forth in Section .0102(e) to the negotiated rate in the previous year, unless either the provider or the State requests a renegotiation of the rate within sixty days (60) of the rate notice.
 - (C) Cost reports for this service shall be filed in accordance with Section .0104 but there shall not be cost settlements for any difference between cost and payments.
 - (D) A single all-inclusive prospective per diem rate combining both the direct and indirect cost components can be negotiated for nursing facilities that specialize in providing intensive services for ventilator-dependent patients. The negotiated rate is considered to provide payment for all financial considerations and shall not include the fair rental value adjustment as defined in Section .0102. The negotiated rate will be paid to the facility for services provided to ventilator patients only. The per diem payment rate for non-ventilator patients shall be the rate calculated in accordance with Section .0102 (b) – (e). All rates are published on the website at https://ncdhhs.servicenowservices.com/fee_schedules.

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State Plan Under Title XIX of the Social Security Act
 Medical Assistance Program
 State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

(1) Geropsychiatric Services:

- (A) To determine the initial Medicaid rates for a Geropsychiatric unit, the projected costs for a start-up unit must be obtained (e.g., from the provider's operational budget, the State Certificate of Need Application, etc.). Only costs reflected for the geropsychiatry unit may be used in the projected rate calculation. To calculate the Projected Total Medicaid Reimbursement Rate, the total projected patient days, projected direct per diem costs, and projected indirect per diem costs must be calculated. Below is a description of the rate setting methodology:

- (1) Total Available Bed Days: Multiply the projected inpatient days by the projected occupancy percentage to obtain total available bed days. Therefore, the calculation is as follows:

(Total Available Bed Days = Projected Inpatient Days * Projected Occupancy %)

- (2) Projected Direct Per Diem Costs: To calculate projected direct per diem costs, all direct expenditures from the direct cost centers of the geropsychiatry unit are summed and divided by the total available bed days. Therefore, the calculation is as follows:

(Projected Direct Per Diem Costs = Projected Direct Costs/Projected Total Available Bed Days)

- (3) Projected Indirect Per Diem Costs: To calculate projected indirect per diem costs, all indirect expenditures of the geropsychiatry unit are summed and divided by the total available bed days. Therefore, the calculation is as follows:

(Projected Indirect Per Diem costs = Projected Indirect Costs/Projected Total Available Bed Days)

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State Plan Under Title XIX of the Social Security Act
 Medical Assistance Program
 State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- (4) Projected Total Medicaid Reimbursement Rate: The projected direct rate and projected indirect rate are summed. Therefore, the calculation is as follows:

(Projected Total Medicaid Reimbursement Rate =
 Projected direct Per Diem costs + Projected Indirect Per
 Diem Costs)

- (B) A facility's initial direct rate shall be negotiated based on budget projections of revenues, allowable costs as defined by the CMS Provider Reimbursement Manual, patient days, staffing and wages, at a level no greater than the facility's specific projected cost, and subject to review upon the completion of an audited full year cost report. Upon issuance of the facility's final Adjustment Report, referenced in Section .0104(e), the State may change (i.e., increase or decrease) the facility's initial, negotiated direct rate to reflect the facility's actual direct rate cost but not to exceed the North Carolina state-wide Medicaid day-weighted average for direct care. This will become the facility's base direct rate and shall be adjusted in subsequent year in accordance with (E) of this section.

A facility's initial indirect rate shall be negotiated based on budget projections of revenues, allowable indirect costs as defined by the CMS Provider Reimbursement Manual, patient days, staffing and wages, at a level no greater than the facility's specific projected indirect cost, and subject to review upon the completion of an audited full year cost report. Upon issuance of the facility's final Adjustment Report, referenced in Section .0104(e), the State may change (i.e., increase or decrease) the facility's initial, negotiated indirect rate to reflect the facility's actual indirect rate cost but not to exceed the North Carolina state-wide Medicaid day-weighted average for base indirect cost. This will become the facility's base indirect cost.

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State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: North Carolina

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

- (C) Cost reports for this service shall be filed in accordance with Section .0104 but there shall not be cost settlements for any difference between cost and payments. The cost data provided by these cost reports shall be used to determine reasonable Medicaid cost for the delivery of this service. Providers of this service are required to annually file a cost report with the Division. Any Provider delinquent 30 days from the required filing date shall be subject to a 20% withhold of Medicaid payments. The payment withhold shall continue until a completed cost report is received by the Division. Once the Provider is compliant, all withheld payments shall be returned to the Provider.
- (D) A single all-inclusive prospective per diem rate combining both the direct and indirect cost components can be negotiated for nursing facilities that specialize in providing intensive services for geropsychiatric patients. The negotiated rate is based on the most recent filed annual cost report as required by Section .0104. It is considered to provide payment for all financial considerations and shall not include the fair rental value adjustment as defined in Section .0102. The negotiated rate will be paid to the facility for services provided to geropsychiatric patients only.
- (E) Geropsychiatric unit rates are determined by applying the index factor to the current rate. The index factor shall be based on the Skilled Nursing Facility Market Basket without Capital Index published by Global Insight using the most current quarterly publication available. If necessary, the Division of Medical Assistance shall adjust the annual index factor or rates in order to prevent payment rates from exceeding upper payment limits established by Federal Regulations. Effective for dates of service provided on or after December 1, 2016 the rates are frozen at the rates in effect as of July 1, 2012. The agency's fee schedule rates were set as of July 1, 2012 and are effective for services provided on or after that date. All rates are published on the website at https://ncdhhs.servicenowservices.com/fee_schedules.
- (F) Either the geropsychiatric provider or the Division of Medical Assistance may initiate a written request to appeal or renegotiate the rate within sixty (60) days of the date of the Division of Medical Assistance's rate notification.

Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

(g) Religious Dietary Considerations.

- (1) A standard amount may be added to a nursing facility's rate for special dietary needs for religious reasons.
- (2) Facilities must apply to receive this special payment consideration. In applying, facilities must document the reasons for special dietary consideration for religious reasons and must submit documentation for the increased dietary costs for religious reasons. Facilities must apply for this special benefit each time rates are determined from a new database. Fifty or more percent of the patients in total licensed beds must require religious dietary consideration in order for the facility to qualify for this special dietary rate add-on.
- (3) The special dietary add-on rate may not exceed more than 140% of the base year neutralized case-mix adjusted Medicaid-day-weighted median cost determined under Section .0102(b)(2) for rate effective dates prior to October 1, 2026 or .0102(b)(4)(c) for rate effective dates after October 1, 2026 and adjusted for inflation each year until a new database is used to determine rates.

(h) Reimbursement Modifications.

- (1) Effective July 1, 2023, the final Skilled Nursing Facility rate calculated per the reimbursement methodology defined in pages 1-5 of Attachment 4.19-D will be modified to include a uniform add-on per diem amount of \$37.74.

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

0103 REASONABLE AND NON-ALLOWABLE COSTS

(a) Providers have a responsibility to operate economically and efficiently so that their costs are reasonable. Providers are required to provide services at the lowest possible costs in compliance with Federal and State laws, regulations for licensing and certification, and standards for quality of care and patients' safety. Providers are also responsible for the financial actions of their agents (e.g., management companies) in this regard.

(b) The state may publish guidelines to define reasonable costs in certain areas after study of industry-wide cost conditions.

(c) The following costs are considered non-allowable facility costs because they are not related to patient care or are specifically disallowed under the North Carolina State Plan:

- (1) bad debts;
- (2) advertising – except personnel want ads, and one line yellow page (indicating facility address);
- (3) life insurance (except for employee group plans);
- (4) interest paid to a related party;
- (5) contributions, including political or church-related, charity and courtesy allowances;
- (6) prescription drugs and insulin (available to recipients under State Medicaid Drug Program);
- (7) vending machine expenses;
- (8) personal grooming other than haircuts, shampooing (basic hair care services) and nail trimming performed by either facility staff or barbers/beauticians. The facility may elect the means of service delivery. The costs of services beyond those provided by the nursing facility are the responsibility of the patient;
- (9) state or federal corporate income taxes, plus any penalties and interest;

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

- (10) telephone, television, or radio for personal use of patient;
- (11) penalties or interest on income taxes;
- (12) dental expenses – except for consultant fees as required by law;
- (13) farm equipment and other expenses;
- (14) retainers, unless itemized services of equal value have been rendered;
- (15) physicians' fees for other than medical directors or medical consultants as required by law;
- (16) country club dues;
- (17) sitter services or private duty nurses;
- (18) fines or penalties;
- (19) guest meals;
- (20) morgue boxes;
- (21) leave days – except therapeutic leave;
- (22) personal clothing; and
- (23) ancillary costs that are billable to Medicare or other third party payors.

(d) For those non-allowable expenses which generate income, such as prescription drugs, vending machines, hair care (other than basic care), etc., expense should be identified as a non- reimbursable cost center where determinable. If the provider cannot determine the actual amount of expense which is to be identified, then the income which was generated must be offset in full to the appropriate cost center if the income reasonably covers the cost incurred. If income generated does not reasonably cover the cost incurred, an adjustment must be made to recognize a reasonable amount of non- reimbursable cost.

(e) For combination facilities (e.g. Nursing/Adult Care Home), providers must ensure that salary and wage expense coded or allocated to each area considers minimum staffing requirements (nursing hours per patient day or census statistics as appropriate).

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

.0104 COST REPORTING: AUDITING

(a) Each facility that receives payment from the North Carolina Medicaid Program must prepare and submit an annual report of its costs, including costs to meet the requirements of OBRA 87 (section 1919 of the Social Security Act) and other financial information to include, the facility's original working trial balance, year-end adjusting journal entries, and the facility's daily midnight census records for the cost reporting period. Pursuant to 42 CFR § 413, the report must include costs from the provider's fiscal period and must be submitted to the state; nursing facilities must submit cost reports within five (5) months after the provider's fiscal year end; hospital based nursing facility providers must submit cost reports pursuant to this plan, Attachment 4.19-A, Page 26, Paragraph (b). Facilities that fail to file their cost reports by the due date are subject to payment suspension as provided for under Section .0107(d)(4) until the reports are filed. The Division of Medical Assistance may extend the deadline 30 days for filing the report if, in its view, good cause exists for the delay. A good cause is an action that is uncontrollable by the provider. Cost report due date extensions must be requested by the facility and approved by the Division prior to the original filing deadline.

(b) Cost report format. For cost reports filed with the Division on or after January 1, 2012, for fiscal periods ending after September 30, 2011, nursing facilities shall use the CMS 2540 and hospital based nursing facility providers shall use the CMS 2552. These cost reports shall be completed in accordance with Medicare Reimbursement Principles and shall include supplemental schedules which are furnished by the Division to comply with the provisions of this plan. (c) Cost finding and allocation. Costs must be reported in the cost report and supplemental schedules in accordance with the following rules and in the order of priority stated.

- (1) Costs must be reported in accordance with the specific provisions of this plan as set forth in this Section.
- (2) Costs must be reported in conformance with the Medicare Provider Reimbursement Manual, CMS Publication 15.
- (3) Costs must be reported in conformance with Generally Accepted Accounting Principles.

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

(d) The state will publish guidelines, consistent with the provisions of this plan, concerning the proper accounting treatment for items described in this Section. These guidelines may be modified prior to the beginning of each cost reporting period. In no case, however, shall any modifications be applied retroactively. A provider should request clarification in writing from the state if there is uncertainty about the proper cost center classification of any particular expense item.

- (1) Nursing Cost Center includes the cost of nursing staff, medical supplies, and related operating expenses needed to provide nursing care to patients, including medical records (including forms), the Medical Director and the Pharmacy Consultant. The amount of nursing time provided to each patient must be recorded in order to allocate nursing cost between reimbursable and non-reimbursable cost centers.
- (2) Dietary Cost center includes the cost of staff, raw food, and supplies needed to prepare and deliver food to patients.
- (3) Laundry and Linen Cost Center includes the cost of staff, bed linens (replacement mattresses and related operating expenses needed to launder facility-provided items).

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

- (4) Housekeeping Cost Center includes the cost of staff and supplies needed to keep the facility clean.
- (5) Patient Activities Cost Center includes the cost of staff, supplies, and related operating expenses needed to provide supplies, and related operating expenses needed to provide appropriate diversionary activities for patients.
- (6) Social Services includes the cost of social workers and related operating expenses needed to provide necessary social services to patients.
- (7) Ancillary Cost Center includes the cost of all therapy services covered by the Medicaid program and billable medical supplies. Providers must bill Medicare Part B for those ancillary services covered under the Medicare Part B program. Ancillary cost centers include: Radiology, Laboratory, Physical Therapy, Occupational Therapy, Speech Therapy, Oxygen Therapy, Intravenous Fluids, Billable Medical Supplies, Parenteral/Enteral Therapy and life sustaining equipment, such as oxygen concentrators, respirators, and ventilators and other specifically approved equipment. Effective October 1, 1996, air fluidized beds (e.g. Clinitron beds), low air loss mattresses or beds and alternating pressure mattresses will be recorded in the life sustaining equipment cost center. This program is applicable to lease or depreciation expense incurred on or after October 1, 1996 regardless of when the equipment was initially leased or acquired.
 - (A) Effective October 1, 1994, a separate ancillary cost center shall be established to include costs associated with medically related transportation for facility residents. Medically related transportation costs include the costs of vehicles leased or owned by the facility, payroll costs associated with transporting residents and payments to third parties for providing these services.
- (8) Administrative and General Cost Center includes all costs needed to administer the facility including the staff costs for the administrator, assistants, billing and secretarial personnel, personnel director and pastoral expenses. It includes the costs of copy machines, dues and subscriptions, transportation, income taxes, legal and accounting fees, start-up, and a variety of other administrative costs as set forth in the Chart of Accounts. Interest expense other than that stemming from mortgages or loans to acquire physical plant items shall be reported here.
- (9) Capital/Lease:

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

- (A) This cost center includes all allowable costs related to the acquisition and/or use of the physical assets including building, fixed equipment and movable equipment, that are required to deliver patient care, except for automobiles and the special equipment, as specified in .0104(d)(1) or .0104(d)(7) of this plan. Except for automobiles and the special equipment noted in section .0104(d)(1) and .0104(d)(7), it includes the following items:
- (i) lease expense for all physical assets,
 - (ii) depreciation of assets, utilizing the straight line method, per AHA guidelines
 - (iii) interest expense of asset related liabilities, (e.g., mortgage expense),

TN. No. 03-09
Supersedes
TN. No. 96-05

Approval Date 04/05/2004

Eff. Date 10/01/2003

Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

- (B) In establishing the allowable cost for depreciation and for interest on capital indebtedness, with respect to an asset which has undergone a change of ownership, the valuation of the asset shall be the lesser of allowable acquisition cost less accumulated depreciation to the first owner of record on or after July 18, 1984 who has received Medicaid payments for said asset or the acquisition cost to the new owner. Payment of rent by the Medicaid enrolled provider to the lessor of the facility shall constitute Medicaid payments under this plan. Depreciation recapture will not be performed at sale. The method for establishing the allowable related capital indebtedness shall be as follows:
- (i) The allowable asset value shall be divided by the actual acquisition cost.
 - (ii) The product computed in step 1 shall be multiplied times the value of any related capital indebtedness.
 - (iii) The result shall be the liability amount upon which interest may be recorded at the rate set forth in the debt instrument or such lower rate as the state may prove is reasonable.

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Medical Assistance
State North CarolinaPayment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

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- (10) Operation of Plant and Maintenance/Non-Capital Cost Center includes all cost necessary to operate or maintain the functionality and appearance of the plant. These include: buildings and equipment, automobile depreciation and lease expense, property taxes and property insurance.
 - (11) Equipment expense. Equipment is defined as an item with a useful life of more than two years and a value greater than five thousand dollars (\$5000.00).
 - (12) Training Expense. Training expense must be identified in the appropriate benefiting cost center.
 - (13) The costs of training nurse aides in an approved competency and evaluation program must be identified separately on the cost report and may include the cost of purchasing programs and equipment that have been approved by the State for training or testing. These costs will be cost settled during the desk or field audit and are not included in the direct care and indirect cost centers.
 - (14) Home Office Costs. Home office costs are generally charged to the Administrative and General Cost Centers. In some cases, certain personnel costs which are direct patient care oriented may be allocated to “direct” patient care cost centers if time records are maintained to document the performance of direct patient care services. No home office overhead may be so allocated. The basis of this allocation among facilities participating in the North Carolina Medicaid program may be: (A) specific time records of work performed at each facility, or (B) patient days in each facility to which the costs apply relative to the total patient days in all the facilities to which the costs apply.

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

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- (15) Management Fees. Management fees are charged to the Administrative and General Cost Center. However, a portion of a management fee may be allocated to a direct patient care cost center if time records are maintained to document the performance of direct patient care services. The amount so allocated may be equal only to the salary and fringe benefits of persons who are performing direct patient care services while employed by the management company. Adequate records to support these costs must be made available to staff of the Division of Medical Assistance. The basis of this allocation among facilities participating in the North Carolina Medicaid program may be: (A) specific time records of work performed at each facility, or (B) patient days in each facility to which the costs apply relative to the total patient days in all the facilities to which the costs apply.
- (16) Related Organization Costs. It is the nursing facility's responsibility to demonstrate by convincing evidence to the satisfaction of the Division of Medical Assistance that the costs are reasonable. Reasonable costs of related organizations are to be identified in accordance with direct and indirect cost center categories as follows:
- (A) Direct Cost:
- (i) Compensation of direct care staff such as nursing personnel (aides, orderlies, nurses), food service workers, and other personnel who are accounted for in the direct cost center.
 - (ii) Supplies and services that would normally be accounted for in a direct cost center.
 - (iii) Capital, rental, maintenance, supplies/repairs and utility costs (gas, water, fuel, electricity) for facilities that are not typically a part of a nursing facility. These facilities might include such items as warehouses, vehicles for delivery and offices which are totally dedicated or clearly exceed the number, size, or complexity required for a normal nursing facility, its home office, or management company.
 - (iv) Compensation of all administrative staff who perform no duties which are related to the nursing facility or its home office and who are neither officers nor owners of the nursing facilities or its home office.

Medical Assistance
State North CarolinaPayment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

- (B) Indirect Cost:
- (i) Compensation of indirect staff such as housekeeping, laundry and linen, maintenance, and other personnel who would normally be accounted for in the indirect cost center.
 - (ii) Capital, rental, maintenance supplies/repairs, and utility costs which are normally or frequently a part of a nursing facility. This would include, for example, kitchen and laundry facilities.
 - (iii) Home office costs except for salary and fringe benefits of Personnel, Accounting and Data Processing staff which are allocated by approved methods are direct costs when the work performed is specific to the related organization that provides a direct care service or product to the provider.
 - (iv) Compensation of all administrative staff who perform any duties for the nursing facility or its home office.
 - (v) All compensation of all officers and owners of the nursing facility or its home office, or parent corporation.

The related organization must file a Medicaid Cost Statement (DMA-4083) identifying their costs, adjustments to costs, allocation of costs, equity capital, adjustments to equity capital, and allocations of equity capital along with the nursing facilities cost report. A home office, or parent company, will be recognized as a related organization. Auditable records to support these costs must be made available to staff of the Division of Medical Assistance and its designated contract auditors. Undocumented costs will be disallowed.

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Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

It is the nursing facility's responsibility to demonstrate by convincing evidence to the satisfaction of the Division of Medical Assistance that the criteria in the Provider Reimbursement Manual, Section 1010, has been met in order to be recognized as an exception to the related organization principle.

When a related organization is deemed an exception; (1) reasonable charges by the related organization to the nursing facility are recognized as allowable costs; (2) receivables/payables from/to the nursing facility and related organization deemed an exception are not adjusted from the nursing facility's balance sheet in computing equity capital.

(e) Auditing. All filed cost reports shall be desk audited in accordance with the provision of this plan. An Audit Adjustment Report shall be issued within one year of the date the cost report was filed or within one year of December 31 of the fiscal year to which the report applies, whichever is later. The state may elect to perform field audits on any filed cost reports within three years of the date of filing and issue a final Audit Adjustment Report on a time schedule that conforms to Federal law and regulation. If the state does not field audit a facility a final Audit Adjustment Report shall be issued based on the desk audited findings. The state may reopen and field audit any cost report after the final Audit Adjustment Report to comply with Federal law and regulation or to enforce laws and regulations prohibiting abuse of the Medicaid Program and particularly the provisions of this reimbursement plan.

(f) Penalties. Providers who fail to fully and accurately complete cost reports or who fail to furnish required documentation and disclosures for cost reports required under this Plan may be subject to penalties for non-compliance. Issues which are subject to penalties include, but are not limited to, material miscoding of cost from Indirect to Direct cost centers or from Non-Reimbursable to Reimbursable cost centers, inaccurate identification of census data or ancillary charges by payor type, and failure to disclose related parties including those deemed non-related by exception. Errors in a filed cost report which result in an adjustment greater than one percent (1%) of a provider's reimbursable total cost per the filed cost report reported in the cost report shall be subject to penalty. Penalty will be defined as the dollar value equal to five percent of the Medicaid percentage, as defined by occupancy, of the adjustment.

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State Plan Under Title XIX of the Social Security Act
 Medical Assistance
 State: North Carolina

Attachment 4.19-D
 Page 20

Payment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

.0105 CASE-MIX INDEX CALCULATION

- (a) The Resource Utilization Groups-III (RUG-III) Version 5.12b, 34 group, index maximizer model shall be used as the resident classification system to determine all case-mix indices, using data from the minimum data set (MDS) submitted by each facility to the Division of Facility Services. The following case-mix indices shall be the basis for calculating facility average case-mix indices and the resident-day-weighted average case-mix indices to be used in determining the facility's direct care rate.

RUG Code	Case-Mix Index	RUG Code	Case-Mix Index	RUG Code	Case-Mix Index
SE3	2.08	CB2	1.13	PE2	0.97
SE2	1.70	CB1	1.01	PE1	0.96
SE1	1.45	CA2	1.02	PD2	0.91
RAD	1.68	CA1	0.92	PD1	0.83
RAC	1.41	IB2	0.89	PC2	0.82
RAB	1.28	IB1	0.82	PC1	0.80
RAA	1.06	IA2	0.74	PB2	0.66
SSC	1.40	IA1	0.64	PB1	0.61
SSB	1.29	BB2	0.86	PA2	0.60
SSA	1.25	BB1	0.80	PA1	0.57
CC2	1.39	BA2	0.72		
CC1	1.23	BA1	0.61		

(b) Prior to October 1, 2021, each resident in the facility on the last day of each quarter with a completed and submitted assessment shall be assigned a RUG-III 34 group calculated on the resident's most current assessment available with an assessment reference date on or prior to the last day of each calendar quarter. This RUG-III group shall be translated to the appropriate case-mix index referenced in paragraph "a". If the most current assessment available with an assessment reference date on or prior to the last day of the calendar quarter is a delinquent MDS then the RUG-III code assigned shall be a BC1-delinquent and the lowest case-mix index in paragraph "a" will be applied. A delinquent MDS is defined as 121 days from the A2300 date of the MDS assessment reference date. From the individual resident case-mix index, two average case-mix indices for each Medicaid nursing facility shall be determined four times per year based on the last day of each calendar quarter.

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State Plan Under Title XIX of the Social Security Act

Medical Assistance

State: North CarolinaPayment for Services — Prospective Reimbursement Plan for Nursing Care Facilities

(c) Effective for assessments active as of October 1, 2021, each completed and submitted assessment that has been transmitted and accepted by CMS shall be assigned a RUG-III 34 group. This RUG-III group shall be translated to the appropriate case-mix index referenced in paragraph “a”. If the assessment is a delinquent MDS then the RUG-III code assigned shall be a BC1-delinquent and the lowest case-mix index in paragraph “a” will be applied. A delinquent MDS is defined as 121 days from the A2300 date of the MDS assessment (assessment reference date). Two case-mix indices for each Medicaid participating nursing facility shall be determined each calendar quarter. The facility resident-day-weighted average case-mix index shall be based on the resident assessments that are active for all residents in the facility during the calendar quarter calculated on a facility-average day-weighted basis. The Medicaid resident-day-weighted average case-mix index shall be based on the Medicaid resident assessments that are active for all Medicaid residents in the facility during the calendar quarter calculated on a facility-average day-weighted basis.

(d) Prior to October 1, 2021, the facility-wide average case-mix index is the simple average, carried to four decimal places, of all resident case-mix indices. The Medicaid case-mix index is the simple average, carried to four decimal places, of all indices for residents where Medicaid or Medicaid pending is known to be the per diem payor source on the last day of the calendar quarter ending September 30, 2021 or prior.

(e) Effective for assessments active as of October 1, 2021, the facility resident-day-weighted average case-mix index is the average, carried to four decimal places, of all resident assessment case-mix indices. The Medicaid resident-day-weighted average case-mix index is the average, carried to four decimal places, of all indices for residents where Medicaid or Medicaid pending is known to be the per diem payor source.

(f) Effective April 1, 2026 and after, the RUG-III CMI values utilized in establishing the January 1, 2026 direct care component (inclusive of any MDS audit impacts) will remain in effect for rate setting through the transition to the Patient Driven Payment Model (PDPM) for purposes of the facility CMI calculation.

(g) Effective for assessments active as of October 1, 2025, each completed and submitted assessment that has been transmitted and accepted by CMS shall be assigned a PDPM component case-mix group for the Nursing, Non-Therapy Ancillary (NTA) and Speech Language Pathology (SLP) components. These PDPM groups shall be translated to the appropriate case-mix index based on the federal PDPM component case-mix groups and associated weights as detailed below. If the assessment is a delinquent MDS then the PDPM component code assigned shall be a BC1-delinquent and assigned the lowest case-mix index for each PDPM component. A delinquent MDS is defined as greater than 121 days from the A2300 date of the MDS assessment (assessment reference date). Any assessment records that cannot be assigned a Health Insurance Prospective Payment System (HIPPS) code and therefore a PDPM classification shall be a BC1-delinquent and shall be assigned the lowest case-mix index for each PDPM component. Two case-mix indices for each Medicaid participating nursing facility shall be determined each calendar quarter. The facility resident-day-weighted average case-mix index shall be based on the resident assessments that are active for all residents in the facility during the calendar quarter calculated on a facility-average day-weighted basis. The Medicaid resident-day-weighted average case-mix index shall be based on the Medicaid resident assessments that are active for all Medicaid residents in the facility during the calendar quarter calculated on a facility-average day-weighted basis

<u>PDPM</u> <u>Group</u>	<u>SLP</u> <u>Group</u>	<u>SLP</u> <u>CMI</u>	<u>Nursing</u> <u>Group</u>	<u>Nursing</u> <u>CMI</u>	<u>NTA</u> <u>Group</u>	<u>NTA</u> <u>CMI</u>
A	SA	0.64	ES3	3.84	NA	3.06
B	SB	1.72	ES2	2.90	NB	2.39
C	SC	2.52	ES1	2.77	NC	1.74
D	SD	1.38	HDE2	2.27	ND	1.26
E	SE	2.21	HDE1	1.88	NE	0.91
F	SF	2.82	HBC2	2.12	NF	0.68
G	SG	1.93	HBC1	1.76		
H	SH	2.70	LDE2	1.97		
I	SI	3.34	LDE1	1.64		
J	SJ	2.83	LBC2	1.63		
<u>PDPM</u> <u>Group</u>	<u>SLP</u> <u>Group</u>	<u>SLP</u> <u>CMI</u>	<u>Nursing</u> <u>Group</u>	<u>Nursing</u> <u>CMI</u>	<u>NTA</u> <u>Group</u>	<u>NTA</u> <u>CMI</u>

Attachment 4.19-D

K	SK	3.50	LBC1	1.35
L	SL	3.98	CDE2	1.77
M			CDE1	1.53
N			CBC2	1.47
O			CA2	1.03
P			CBC1	1.27
Q			CA1	0.89
R			BAB2	0.98
S			BAB1	0.94
T			PDE2	1.48
U			PDE1	1.39
V			PBC2	1.15
W			PA2	0.67
X			PBC1	1.07
Y			PA1	0.62

(h) A facility's PDPM CMI is determined by multiplying the following weights by each PDPM component and summing the associated products: Nursing (CMI Weight 68%), SLP (CMI Weight 10%), and NTA (CMI Weight 22%). The calculated PDPM CMI is then multiplied by a neutralization factor to ensure the statewide direct care component spend is not more than what the statewide direct care spend would be under RUG-III using the RUG III CMI's specified in paragraph "f" above. The neutralization factor is calculated for each rate setting period by dividing the estimated expenditures of the legacy direct care rate component (RUG III) by the estimated expenditures under the PDPM direct care rate component.

.0106 RECONSIDERATION REVIEWS

(a) Providers may either accept agency reimbursement determinations or request a reconsideration review in accordance with the procedures set forth in 10A NCAC 22I and 22J.

(b) Indirect rates shall not be adjusted on reconsideration review.

(c) Direct rates may be adjusted for the following reasons:

- (1) to accommodate any changes in the minimum standards or minimum levels of resources required in the provision of patient care that are mandated by state or federal laws or regulations.
- (2) to correct any adjustments or revisions to ensure that the payment rate is calculated in accordance with Section .0102.

TN. No: 25-0026

Supersedes

TN. No: 21-0024

Approval Date

Eff. Date: 10/01/2025

Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

.0107 PAYMENT ASSURANCE

(a) The state will pay each provider of nursing care services, who furnishes the services in accordance with the requirements of the State Plan and the Participation agreement, the amount determined under the plan. In addition, Nursing Facilities must be enrolled in the Title XVIII Program. However, State-operated nursing facilities are not required to be enrolled in the Medicare program.

(b) The payment methods and standards set forth herein are designed to enlist the participation of any provider who operates a facility both economically and efficiently. Participation in the program shall be limited to providers of service who accept, as payment in full, the amounts paid in accordance with the State Plan. This reimbursement plan is effective upon approval of the State Plan for Medical Assistance.

TN. No. 03-09
Supersedes
TN. No. 92-21

Approval Date 04/05/2004

Eff. Date 10/01/2003

Medical Assistance
State North Carolina

Payment for Services – Prospective Reimbursement Plan for Nursing Care Facilities

(c) In all circumstances involving third party payment, Medicaid is the payor of last resort. No payment will be made for a Medicaid recipient who is also eligible for Medicare, Part A, for the first 20 days of care rendered to skilled nursing patients. Medicaid payments for coinsurance for such patients will be made for the subsequent 21st through the 100th day of care. The Division of Medical Assistance will pay an amount for each day of Medicare Part A inpatient coinsurance, the total of which will equal the facility's Medicaid per diem rate less any Medicare Part A payment, but no more than the Medicare coinsurance amount. In the case of ancillary services, providers are obligated to:

- (1) maintain detailed records or charges for all patients;
 - (2) bill the appropriate Medicare Part B carrier for all services provided to Medicaid patients that may be covered under that program; and
 - (3) allocate and appropriate amount of ancillary costs, based on these charge records adjusted to reflect Medicare denials of coverage, to Medicare Part B in the annual cost report. For failure to comply with this requirement, the state may charge a penalty of up to 5 percent of a provider's indirect patient care rate for each day of care that is provided during the fiscal year in which the failure occurs. This penalty shall not be considered an allowable cost for cost reporting purposes.
 - (4) Properly bill Medicare or other third-party payors or have disallowance of any related cost claimed as Medicaid cost.
- (d) The state may withhold payments to providers under the following circumstances: