

## Chapter HRSC 3

## RATE SETTING

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**HRSC 3.01 Schedule for annual rate requests.** (1) **ANNUAL DATE.** Each hospital may submit one rate request annually. The rate request may be submitted up to 90 days before a date specified by the commission or at any time during the 12 months following that date. In addition to the annual rate request authorized under this section, any hospital may submit an emergency rate request as provided in s. 54.17 (1m), Stats. Rate review commences on the date the hospital notifies the commission it is requesting a rate increase. If the commission schedules its own review of the hospital's rates, rate review commences on the date scheduled.

(2) **FACTORS USED TO SET DATES.** The commission shall establish the annual date for submitting requests by each hospital based on the hospital's fiscal year and gross annual patient revenue and on prudent allocation of the commission's resources. The commission shall establish its schedule of dates by order and shall provide this schedule to the public on request.

**Note:** Section 54.07 (1), Stats., requires the commission to establish a schedule of dates when each hospital may submit its annual rate request. That statute also allows any hospital to submit an annual rate request after the scheduled date or up to 90 days before the scheduled date. If a hospital fails to request a rate change by its scheduled date, s. 54.07 (1), Stats., allows the commission to conduct a review on its own initiative.

Statutory law instructs the commission to keep the date it schedules for each hospital within 31 days of that hospital's fiscal year. This instruction will be the primary criterion the commission uses when it creates this schedule. Since the fiscal years of most hospitals cluster around June 30, September 30 and December 31, the commission will also need to develop the schedule in a way that spreads out its workload for more efficient operation. The commission will attempt to achieve this goal by segregating hospitals into groups according to gross annual patient revenue and uniformly spacing hospitals from each group throughout the scheduling period.

(3) **HOSPITALS SUBJECT TO REGULATION.** The commission shall, by order, list the hospitals subject to regulation under chs. HRSC 1 to 5 and shall provide this list to the public on request.

**History:** Cr. Register, December, 1984, No. 348, eff. 2-1-85; am. (3), Register, October, 1985, No. 358, eff. 11-1-85.

**HRSC 3.013 Notice of a rate request.** (1) **FORMAT OF NOTICE.** (a) Each notice a hospital is required to publish under s. 54.07 (2), Stats., shall include the following form, with all necessary information inserted:

## NOTICE OF HOSPITAL RATE REQUEST

On (date) the (name and address of hospital) has submitted to the Wisconsin Hospital Rate-Setting Commission a request to modify the rates it charges for patient care.

The (name of hospital) estimates that these rate changes will increase its annual revenue by (specify dollar amount) over its previous fiscal year's budgeted annual revenue, a (specify percentage) annual increase, and has requested that this rate request take effect on (date).

Any person who wishes to present testimony before the Commission, appear at formal or informal hearings or otherwise support or oppose the hospital's rate request must first become an interested party to this review by notifying the Commission in writing no later than 30 days after the date this notice is published. A letter to the Commission at the following address indicating your interest in this rate request and your intent to become a party to the rate review is sufficient. Write to:

(insert address of commission)

(b) 1. The notice required under par. (a) shall include the rate change, if any, the hospital is requesting for each of 25 charge elements the commission specifies by inserting the following addition at the end of the notice's first paragraph:

"The following are 25 examples of rate changes being requested:		
Service or charge	Existing rate	Requested rate"

(Specify each of the 25 charge elements for which a rate change is requested)

2. The 25 charge elements required under subd. 1 are those charge elements of the hospital that generate the greatest revenue per year. The commission may modify this list of 25 charge elements by order.

(c) Hospitals shall publish notices under this subsection in one or more newspapers likely to give notice to the hospital's patients and payers, such as a newspaper with a major concentration of circulation in the area surrounding the hospital. Each hospital shall also submit a copy of each notice it published to the commission and an affidavit of publication. If a hospital publishes a notice in more than one newspaper, the last date of publication commences the 30-day period in which persons may become parties to the rate review. If a hospital fails to publish this notice the commission is not required to continue reviewing the rate request.

Note: Section 54.07 (2), Stats., requires each hospital that submits its annual rate request to publish a notice within 10 days after the submission. The notice must inform the public of the review, summarize the rate sought and state the process by which interested persons may become parties to the review.

(2) SPECIAL NOTICE TO INTERESTED PERSONS. Any person who wishes to receive a notice of pending rate requests for any particular hospital may submit a letter to the commission indicating the name of each hospital in which the person is interested. If any person requests notice of pending rate requests for more than one hospital the commission may require payment of a reasonable fee to defray the cost of delivery. The commission shall mail or deliver a notice that, to the extent practicable, is substantially similar to the notice required under sub. (1) to each interested person within 10 days after any of the following occurs:

(a) The hospital in which the person has expressed an interest submits a rate request.

(b) The hospital in which the person has expressed an interest requests the commission to issue an emergency order under sub. (3).

(c) The commission schedules its own review of the hospital's rates.

(3) **NOTICE IN EMERGENCIES.** (a) If a hospital requests the commission to issue an interim order because of an emergency under s. 54.17 (1m), Stats., the hospital shall publish the notice specified in sub. (1) within 10 days after submitting the request. This notice shall also describe the nature of the emergency involved.

(b) 1. Any person seeking to become a party to the commission's review of an emergency request shall notify the commission in writing within 10 days after the date the notice under sub. (1) is published; a hospital that submits an emergency request shall modify the notice it issues to indicate this deadline.

2. Notwithstanding subd. 1, any person seeking to become a party to the commission's review of an emergency request who receives a special notice under sub. (2) (b) shall notify the commission in writing within 10 days after the date of delivery.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.017 Calculating financial requirements.** (1) **SEPARATING NURSING HOME FINANCIAL REQUIREMENTS.** (a) If a hospital is jointly operated in connection with a nursing home the commission shall, to the extent practicable, exclude from its calculation of the hospital's financial requirements those financial requirements generated by the nursing home. Either of the methods specified in pars. (b) and (c) may be used to calculate the financial requirements of a hospital that is part of a combined facility.

(b) Hospital financial requirements may be determined based on the combined facility's own separation of its nursing home and hospital financial requirements, if the facility's auditor attests on the most recently audited financial statements to the fact that the facility's method of allocating expenses and revenue between the nursing home and hospital is reasonable for management and rate-setting purposes. The commission is not required to use this method if it shows that the nursing home's expenses materially exceed its revenues.

(c) 1. If the commission rejects the method specified in par. (b) because the method shows that the nursing home's expenses materially exceed its revenues or because the method is unavailable, it may determine the financial requirements of a hospital that is jointly operated in connection with a nursing home as the lesser of the following:

a. The level of gross annual patient revenue a hospital requests for the budget year under review.

b. The commission's estimate of the combined facility's total financial requirements for the budget year under review minus the commission's estimate of the nursing home's budgeted gross annual patient revenue for the nursing home's ensuing fiscal year.

2. The commission is not required to use the formula specified in this paragraph if it would shift nursing home costs to the hospital excessively.

(2) **ACCOUNTS RECEIVABLE AND BAD DEBTS.** (a) Each medium-sized or large hospital shall, as part of the information it submits under s. HRSC 2.17:

1. Indicate whether it participates in any interim or advance payment program for medicare or other payers and indicate the year-end balance in the account for each program.

Note: Medicare presently uses a periodic interim payment program, a method by which hospitals can reduce delays in billing and standardize cash flow by receiving a portion of the total payment prior to complete processing of their bills.

2. Estimate what dollar amount of bad debts it can reasonably be expected to incur during the budget year. This estimate shall include the controls it will use to limit the dollar amount of bad debts and to collect accounts receivable.

3. Explain its method for determining when to write off an account receivable as a bad debt or charity care and its provision for bad debt and charity care during the budget year. Commencing in 1987, the hospital shall also submit the actual charges billed during the 2nd fiscal year preceding the budget year under review, the payment received from those charges and the average lapse of time involved in receiving payments from each of the 3 categories of payers that generate the hospital's greatest revenue. Each hospital shall calculate the time involved in receiving payments from these payers, calculated commencing with the date of discharge. The hospital shall also break down the payments received from each of these payers by indicating the following information:

a. The total dollar amount of that payer's accounts receivable.

b. That payer's percentage of total accounts receivable.

c. The total dollar amount of that payer's accounts receivable that are in-house, or unbilled; paid within 1 to 30 days; paid within 31 to 60 days; paid within 61 to 90 days; and paid over 90 days.

4. Indicate whether it identifies returning patients with delinquent accounts from prior services and what types of financial counseling or other procedures it provides patients.

(b) Each hospital, whether small, medium-sized or large, shall maintain a sound credit and collection procedure for reducing its accounts receivable and bad debts. The procedure shall include prompt processing of all bills to payers. Commencing in 1986, each hospital shall submit as part of its annual report filed under s. HRSC 2.17 or 2.19 the average lapse of time involved in mailing a bill to each of the 3 categories of payers that generate the hospital's greatest revenue. The time involved in mailing a bill begins with the date the patient is discharged. The commission may disallow as unreasonable any portion of a hospital's unrecovered costs under s. 54.09 (1) (e), Stats., if the commission finds that the hospital's credit and collection procedure does not effectively control these costs.

(c) After reviewing the hospital's estimate of bad debts, its credit and collection policy for the budget year under review and its historic data on accounts receivable and bad debts in comparison with other hospitals, the commission shall establish reasonable levels of budgeted revenue in accounts receivable and of bad debts for the hospital and include these amounts in its rate-setting order.

Note: Section 54.21 (2) (b) 1, Stats., requires the commission to establish by rule appropriate levels of budgeted revenue in accounts receivable for hospitals. In addition, s. 54.09 (1) (e), Stats., authorizes the commission to disapprove as a financial requirement debts that a hospital has failed to recover due to unsound credit and collection policies. This rule estab-

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lishes a method for determining reasonable levels of budgeted revenue in accounts receivable and for establishing the soundness of each hospital's credit and collection policy.

(3) **EDUCATION OR RESEARCH PROGRAM PROPOSALS.** The commission may require any hospital to submit information describing medical education, allied education or research programs whose costs the hospital seeks to include in its financial requirements under s. 54.09 (1) (c), Stats. Unless the commission requires additional information, any hospital with a program accredited by a competent body need only provide the commission with the accrediting body's name in order to include the costs of the program in its financial requirements. Hospitals shall describe each unaccredited program to the commission, including a definition of the program's purpose and a statement of the program's direct and indirect costs. The commission may disapprove part or all of any program that it finds is not directly related to patient care services, overly expensive, duplicative or otherwise unnecessary.

(4) **EXCESS CAPACITY.** (a) 1. The commission may disregard as a financial requirement costs associated with excess bed capacity of a hospital, as specified in par. (b). In order that the commission may determine a hospital's occupancy rate and its bed capacity level, each hospital shall include with its annual report filed under s. HRSC 2.17 or 2.19 a statement indicating the number of approved beds that the hospital reported to the department of health and social services as allocated to its medical/surgery unit, its pediatric unit, its obstetrics unit, its intensive care/critical care unit, its psychiatric unit and its alcohol and other drug abuse unit, if any, and the hospital's peak and average daily census in each of these units during the fiscal year preceding the budget year under review. The commission shall calculate the hospital's occupancy rate for each of these units and compare the actual rate with the occupancy standard specified in subd. 2.

2. The commission shall compare the hospital's actual occupancy rate for each of the units specified in subd. 1 against the occupancy standard established by the department of health and social services in its rules or its state medical facilities plan, created under s. 150.83, Stats.

(b) Any hospital whose actual occupancy rate falls below the occupancy standard specified in par. (a) 2 shall suggest alternate uses for underused portions of the facility that are consistent with occupancy improvement plans the hospital is required to submit to the department of health and social services under ch. 150, Stats., and that will either produce sufficient revenue to pay some or all of the costs related to these underused portions, reduce hospital financial requirements or are otherwise reasonable. If the hospital does not suggest alternate uses it shall explain why such uses are not feasible. The commission may find the costs associated with the underused portions to be unreasonable and disregard these costs as financial requirements.

(c) If the commission finds that a hospital with an occupancy rate below the occupancy standard specified in par. (a) is a sole provider in its acute care service area, it may find part or all of the costs associated with the underused portions to be reasonable if the hospital's underused capacity is required to maintain a reasonable mix of services in the area. In this paragraph, "acute care service area" has the meaning specified by

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the department of health and social services in the rules it promulgates under s. 150.83, Stats.

Note: Section HRSC 3.017 (4) incorporates occupancy standards established by DHSS in its Wisconsin State Medical Facilities Plan for general acute care hospitals and short-term specialty hospitals. This rule also allows the commission to provide special consideration for small, rural hospitals and other hospitals that are sole providers in their acute care service areas.

(5) **PENALTY PAYMENTS.** No hospital may include as a financial requirement any fine, forfeiture or other penalty whose value exceeds \$5,000.

(6) **DISCOUNTS.** (a) If a hospital enters into a contract to provide health care services at a rate that is discounted below normal billed charges, the commission may include additional financial requirements for the hospital in its rate-setting deliberations only in order to prevent shifting the savings generated by the contract to other payers. These additional financial requirements may not exceed the value of the savings generated by the contract and may only be included if the hospital demonstrates to the commission's satisfaction that the savings resulting from the contract equal or exceed the loss in revenue. The commission may not consider any loss of hospital revenue due to rate differentials under the discounted contract as justification for additional charges to other groups of patients.

(b) Paragraph (a) does not apply to charity care discounts offered by any hospital.

(c) Paragraph (a) does not apply to discounts required by medicare, medical assistance or general relief unless the governmental payer contracts with a health maintenance organization to provide service to its beneficiaries and the size of the discount exceeds the discount customarily demanded by governmental fee-for-service reimbursement. Paragraph (a) does apply to that portion of such a discount that exceeds the customary governmental fee-for-service discount.

(7) **CAPITAL.** (a) For the purpose of interpreting s. 54.09 (1) (i), Stats:

1. "Capitalized interest" means interest expenses incurred during construction of a capital asset that are added to the cost of the asset and depreciated over the useful life of the asset. "Capitalized interest" does not include interest costs that are recognized as operating expenses.

2. "Commitments for capital requirements" means expenditures that meet both of the following conditions:

a. The expenditure is budgeted, at the beginning of the hospital's fiscal year preceding the budget year under review, to be expended during the remaining portion of the fiscal year that has not yet occurred as of the date that rate review commences.

b. The hospital has a contractual obligation to pay for the budgeted expenditure.

3. "Debt retirement" means payments of principal on loans outstanding for plant or equipment.

(b) For the purposes of interpreting the restrictions on income assignment and on calculation of available funds under ss. 54.09 (1) (b) and (i) 1, Stats., donor-restricted or income-assigned donations do not include

donations to a hospital on which the hospital imposes its own restrictions or assignments.

(c) In lieu of creating a separate 3-year capital expenditure plan for submission under s. 54.09 (1) (i) 1, Stats., any hospital may submit to the commission a copy of its most recent proposed 5-year capital budget report required under s. 150.81, Stats.

Note: The capital expenditure review program of DHSS (formerly, the certificate of need program) requires that hospitals annually submit a 5-year proposed capital budget report. The commission will accept this report as sufficient to meet one of the conditions necessary for approval of prospective accumulations that finance future capital projects.

(8) **ENERGY COSTS.** The commission may determine any portion of a hospital's energy costs to be unnecessary if the commission required, in a previous rate-setting order, that the hospital be audited by an independent energy auditor but the hospital failed to comply with this requirement.

(9) **RELATED CHARITABLE ORGANIZATIONS.** (a) The commission may impute to a hospital the assets and liabilities of a foundation or other charitable organization that is related to the hospital under:

1. The criteria specified in s. HRSC 2.17 (17) (a) 1.
2. The criteria specified in s. HRSC 2.17 (17) (a) 2.
3. The criteria specified both in s. HRSC 2.17 (17) (a) 5 and in either s. HRSC 2.17 (17) (a) 3 or 4.

(b) Under this subsection the commission may apply the income from unrestricted donations to offset interest expenses, as provided in s. 54.09 (2), Stats., or to offset the cost of capital purchases proposed during the budget year under review. The commission may not apply the corpus of an unrestricted donation to offset interest expenses or the cost of proposed capital purchases and may only use donor-restricted gifts for the purposes specified by the donor. If a hospital has signed over to a foundation any donations that were not donor-restricted the commission may, regardless of whether the hospital is related to the foundation, also apply the income the hospital would reasonably have been capable of earning from those funds to offset interest expenses or the cost of capital purchases proposed for the budget year under review.

(10) **CONDITIONS IMPOSED.** In its rate review deliberations the commission may, by order, apply any conditions consistent with chs. HRSC 1 to 5 that were imposed by the Wisconsin hospital rate review program as part of a hospital's rate and that remain in effect on or after February 1, 1985, and may establish additional conditions pursuant to s. 54.17 (4) (f), Stats.

(11) **EMPLOYEE COMPENSATION.** When the commission calculates a hospital's operating expenses it shall examine increased payroll costs of non-supervisory employees, including increases due to collective bargaining, increases that correct for past lags in compensation or increases that correct for past discrimination, even when the resultant costs exceed levels the commission would otherwise apply.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85; emerg. cr. (2) (d) to (f), eff. 2-7-85; am. (10), Register, October, 1985, No. 358, eff. 11-1-85.

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**HRSC 3.02 Rates.** (1) **TOTAL BUDGET.** The commission shall establish a total budget for each hospital. The total budget shall consist of the gross patient revenue and net patient revenue the hospital may generate during the budget year under review.

(2) **RATES FOR CERTAIN CHARGE ELEMENTS.** (a) The commission shall list 100 charge elements whose rates must be submitted by each hospital for its approval. After the commission sets a hospital's total budget under sub. (1), the hospital shall submit to the commission its proposed rate for each of these charge elements.

(b) A hospital that does not bill its payers for a charge element listed by the commission under par. (a) is not required to create a rate for that charge element and submit the rate to the commission for approval. If a hospital charges a rate for a charge element that is reasonably similar but not identical to a charge element listed by the commission, the hospital shall submit the information required for that charge element under par. (a) to the commission but shall note the difference between its charge element and the listed charge element.

(c) If the commission finds that the hospital's rates proposed in par. (a) will generate annual patient revenue that does not exceed the amount authorized under sub. (1) it shall approve these rates.

(3) **RATE OVERCHARGES.** No hospital may charge rates for the charge elements specified in sub. (2) that exceed the rates the commission approved for those charge elements. Any hospital may adjust its rates for these charge elements if it notifies the commission prior to implementing the rate change. The commission may disallow a rate change that it finds will generate annual patient revenue exceeding the amount authorized under sub. (1).

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85:

**HRSC 3.025 Approval of rate increases for exempt hospitals.** (1) **CRITERIA FOR EXEMPTION.** Any hospital that meets all of the following criteria is eligible for exemption under s. 54.21 (2), Stats:

(a) The hospital's gross annual patient revenue for the fiscal year preceding the budget year under review is within 3% of its budgeted gross annual revenue for that year.

(b) The commission determines that the gross annual revenue established for the budget year under review exceeds the amount budgeted for the fiscal year preceding the budget year under review by a rate that is within the limits specified in s. 54.21 (2) (a), Stats.

(c) The hospital meets the criteria specified in s. 54.21 (2) (b), Stats.

(2) **APPROVED BUDGETED REVENUE IN ACCOUNTS RECEIVABLE.** The commission shall set a reasonable level of budgeted revenue in accounts receivable for use in determining if a hospital is eligible for approval of its rate request under s. 54.21 (2) (b) 1, Stats., using the method specified in s. HRSC 3.017 (2).

(3) **STAFFING RATIOS.** The commission shall use the peer group average staffing ratio in determining if a hospital is eligible for approval of its rate request under s. 54.21 (2) (b) 3, Stats.

Note: Sections 54.21 (2) (b) 1 and 3, Stats., require the commission to adopt rules that set limits on each hospital's budgeted revenue in accounts receivable and on budgeted staffing ratios. Sections HRSC 3.025 (2) and (3) respond to that requirement.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.03 Disallowances due to excess revenue.** (1) **CALCULATING THE DISALLOWANCE.** The commission may determine if a hospital is subject to a disallowance because the hospital's patient revenue exceeds its budgeted patient revenue by more than the amount authorized under s. 54.13 (1) (b), Stats., by determining the extent that the hospital's net patient revenue for the fiscal year preceding the budget year under review exceeds the hospital's budgeted net patient revenue for that year.

(2) **ADJUSTING THE DISALLOWANCE.** Any hospital may petition the commission to determine the relative percentages of the hospital's fixed costs and variable costs. Any hospital seeking a determination that its variable costs exceed 65% of its total costs shall submit to the commission all relevant information based on available data. If the commission finds that a hospital subject to the disallowance specified in s. 54.13 (1) (b), Stats., has variable costs exceeding 65% of its total costs, the commission shall reduce the disallowance percentage using the following formula:

$$\begin{aligned} \text{Variable cost \%} - 65\% &= V\% \\ 40\% - V\% &= \text{Disallowance percentage to be used} \\ &\text{in s. 54.13 (1) (b), Stats.} \end{aligned}$$

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.04 Unfair labor practices.** If a hospital has committed any of the unfair labor practices or prohibited practices regulated under s. 111.18, Stats., the commission shall disallow from the hospital's financial requirements payments to persons for the activity that constituted the unfair labor practice.

Note: Section 111.18, Stats., regulates certain unfair labor practices and prohibited practices, if those practices include payment to any person for services rendered with respect to concerted activity engaged in by the hospital's employes for purposes of collective bargaining.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.05 Estimating governmental payments.** (1) **ACCEPTABLE METHODS.** Acceptable methods that hospitals may use to estimate annual medicare, medical assistance or general relief payments under s. 54.17 (1) (a), Stats., are:

(a) A hospital may estimate its annual medicare payment for the budget year under review by using either of the following methods:

1. Submitting to the commission its total medicare charges and record of reimbursement for the most recent fiscal year in which final reimbursement adjustments have been made and adjusting this reimbursement level by an inflation factor.

2. Submitting to the commission a schedule showing its year-to-date charges and its diagnosis-related group reimbursement for the fiscal year

preceding the budget year under review, as well as the level of reimbursement for capital costs, outpatient services and medical education for that year, projected to the end of that fiscal year and adjusting this reimbursement level by an inflation factor. If the hospital expects a change in its reimbursement rates, volume or case mix during the budget year under review it shall document the reasons for this expectation.

(b) A hospital may estimate its annual medical assistance payment for the budget year under review by using either of the following methods:

1. Submitting to the commission a copy of the interim rate calculation workpapers of the department of health and social services to indicate the medical assistance inpatient and outpatient reimbursement levels.

2. Submitting to the commission its total medical assistance charges and record of reimbursement for the most recent fiscal year in which final reimbursement adjustments have been made and adjusting this reimbursement level by an inflation factor.

(c) A hospital may estimate its annual general relief payment by submitting a record of payments received during the fiscal year preceding the budget year under review and adjusting this amount by an inflation factor.

(2) **RETROSPECTIVE ADJUSTMENTS.** The commission shall increase or decrease the estimate of medicare or medical assistance payments used in its rate-setting order by an amount not to exceed the hospital's contractual allowance variance during the fiscal year preceding the budget year under review. The contractual allowance variance equals the difference between the estimated payment and the sum of the interim payments plus any retrospective adjustments.

Note: Section 54.17 (1) (a), Stats., requires the commission to promulgate a rule that establishes acceptable methods a hospital may use to estimate its annual medicare, medical assistance and general relief payments. The rule in s. HRSC 3.05 creates these methods.

The rule includes a method of modifying estimates when a hospital's estimate of government payments for services varies from the actual amount received. This portion of the rule avoids situations where a hospital could be reimbursed twice for its costs when the government contractual allowance is underestimated and avoids situations where a hospital is inadequately reimbursed when the government contractual allowance is overestimated.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.07 Incentives.** (1) **INTENSITY AND CASE MIX.** If the budgeted financial requirements of a hospital that are payable by the hospital's private pay patients increase by less than 1% over the budgeted financial requirements payable by private pay patients for the preceding fiscal year, after adjusting for inflation, working capital fluctuations, changes in the volume of private pay patients and changes in the level of expenses charged to government payers that are unreimbursed, the commission may allow the hospital to include a financial incentive under s. 54.09 (1) (k), Stats. This financial incentive, available only during the budget year under review, may not exceed the amount necessary to allow these adjusted financial requirements to increase by 1%.

Note: This incentive offers hospitals a 1% intensity and new technology increase. If, after adjusting a hospital's financial requirements for increases that are due to inflation, working capital fluctuations, volume and government shortfalls, the financial requirements payable by private pay patients have increased by less than 1% the hospital is eligible for an incentive. The commission will then allow the hospital's financial requirements to rise by up to 1% over the financial requirements of the preceding fiscal year.

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(2) **PLANT DEPRECIATION.** The commission may grant an additional financial incentive to any hospital, not to exceed its plant depreciation on a historical cost basis, if the hospital meets both of the following criteria:

(a) The hospital requests a percentage increase in annual revenue over its previous fiscal year's budgeted annual revenue that is less than or equal to the 12-month percentage increase in the hospital market basket index most recently calculated under s. HRSC 3.09. The amount of any plant depreciation incentive authorized under this subsection may not be so large as to increase the hospital's annual revenue for the budget year under review above the 12-month percentage increase in the hospital market basket index most recently calculated under s. HRSC 3.09. The amount of any plant depreciation incentive received under this subsection during the hospital's previous fiscal year shall be subtracted from its previous fiscal year's budgeted annual revenue for the purpose of completing the calculation under this paragraph.

Note: The first screen of the plant depreciation incentive compares a hospital's budget-to-budget percentage increase in revenue with the most recent 12-month percentage increase in the hospital market basket index.

(b) The hospital's adjusted average charge per admission for all patients during the year preceding the budget year under review is below the 25th percentile of charges used by the hospital's peer group. The commission shall make the following adjustments to determine eligibility of any hospital under this paragraph:

1. The commission shall determine the average salary per full time employe equivalent for the hospital's peer group and use the average salary, not the hospital's actual salaries, when calculating the hospital's adjusted average charge per admission.

2. The commission shall index the adjusted average charge per admission for all hospitals to a single date, allowing for inflationary increases in each hospital's charges in order to compare equitably the charges set early in the year for some hospitals with the charges set later in the year for other hospitals.

(c) Any hospital that receives a financial incentive under this subsection shall separately account for the amounts received.

(3) **PERFORMANCE AND MANAGEMENT AUDITS.** If the commission finds that the period since an independent management or performance audit has occurred at a hospital is unreasonably long, it may suggest that such an audit be conducted at the hospital. The hospital may submit cost-saving proposals derived from any management or performance audit to the commission; if the proposal does reduce a hospital's costs, the commission may grant an additional financial requirement to the hospital for the budget year following the year the proposal is implemented in the form of an incentive. This financial requirement applies only to the budget year under review and may not exceed 50% of the first year's cost reduction.

Note: A hospital's reasonable costs related to conducting an audit under the performance and management audit incentive will be considered necessary operating expenses and included in the hospital's financial requirements. The performance and management audit incentive is designed to encourage audits at hospitals that have no workable cost containment methods to submit under s. HRSC 2.17 (9).

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**HRSC 3.09 Trend factors.** (1) **QUARTERLY COMPUTATION OF THE MARKET BASKET INDEX.** Commission staff shall calculate the hospital market basket index quarterly for the purposes required under s. 54.21 (2) (a), Stats., and issue a report indicating the current level of the index.

(2) **ANNUAL ADJUSTMENT.** The commission shall annually use the hospital market basket index calculated under sub. (1) to adjust the revenue limits specified in s. HRSC 2.19 (1) and in ss. 54.13 (1) (b) and 54.21 (2) (a) 1, Stats., commencing its first adjustment on July 1, 1984.

**Note:** Section 54.21 (2) (a) 2, Stats., requires the commission to use the same hospital market basket index used by the Wisconsin Hospital Rate Review Program to calculate hospital rates. This index is published quarterly in the periodical "Health Care Costs" by Data Resources, Inc., 1750 K St., NW, Suite 300, Washington, D.C. 20006. Commission staff will use this index for its reports.

**History:** Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.11 Adjustments for partial-year rate increases.** A hospital may adjust a rate increase that commences between the 2nd and 7th months of its fiscal year, as provided in s. 54.17 (1) (d) 3, Stats., only if the hospital has requested a rate review on or before its scheduled date for review. In this section, a rate increase commences between the 2nd and 7th months of a hospital's fiscal year if the commission issues its rate order on or after the first day of the 2nd month and on or before the last day of the 7th month of the fiscal year.

**History:** Cr. Register, December, 1984, No. 348, eff. 2-1-85.

**HRSC 3.13 Charge elements.** For the purpose of listing the 25 most heavily used charge elements under s. 54.07 (5), Stats., the commission may, by order, determine use according to the total annual patient revenue that all hospitals generate with any charge element, according to the volume of care associated with a charge element for all hospitals or according to other criteria the commission establishes.

**Note:** Section 54.07 (5), Stats., requires the commission regularly to publish a list of the 25 most heavily used charge elements for hospitals.

**History:** Cr. Register, December, 1984, No. 348, eff. 2-1-85.