

method, relying on federal and state law, rules and regulations, in order to determine if the method proposed is reasonable for rate-setting purposes.

(2) **RETROSPECTIVE ADJUSTMENTS.** For medicare or medical assistance final settlements that occur no more than 12 months before the commission issues a rate order, the commission shall increase or decrease the estimate of medicare or medical assistance allowances used in this rate order by an amount not to exceed the difference between the amount of the allowance determined at the time of the final settlement and the estimated allowance used for rate-setting purposes for the period covered by the final settlement. If this difference requires a decrease in the estimate of medicare or medical assistance allowances and the decrease is so large that it would generate a private payer rate decrease, the commission may spread the retrospective adjustment over 2 or more years in order to reflect accurately the effect of medicare and medical assistance allowances on private payer rates.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85; r. and recr. (1) (a) 1. and 2., (b) 1. and 2. and (2), Register, May, 1986, No. 365, eff. 6-1-86.

HRSC 3.07 Incentives. (1) DISCRETIONARY INCENTIVES. The commission may award incentives designed to fit a hospital's particular circumstances.

(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 price increase that is less than or equal to the inflation rate most recently calculated under s. HRSC 3.09 (3). 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 inflation rate most recently calculated under s. HRSC 3.09 (3). 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.

(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.

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(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).

(4) **PRIOR INCENTIVES NOT PART OF BASE RATES OR FINANCIAL REQUIREMENTS.** No incentive awarded by the commission or Wisconsin hospital rate review program becomes a part of the recipient hospital's base rates or financial requirements in a succeeding year. Unless the commission specifies otherwise in a rate order, these incentives are one-time increases in the hospital's total charges and, at the conclusion of the fiscal year in which the incentive is received, the recipient hospital shall remove the rate increase generated by the incentive from its rates.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85; r. and recr. (1), am. (2) (a), cr. (4), Register, May, 1986, No. 365, eff. 6-1-86.

HRSC 3.09 Trend factors. In order to adjust the revenue thresholds specified in s. 54.26, Stats., the commission shall:

(1) **INFLATIONARY REVENUE ADJUSTMENTS.** Adjust the revenue thresholds each July 1, commencing July 1, 1986. In 1987 and thereafter, these revenue thresholds shall be recalculated based on actual inflationary figures for the preceding 12 months and then adjusted for the following year's estimated inflation levels.

(2) **APPLICATION.** Apply each revenue threshold against revenue figures reported on a hospital's most recent audited financial statements.

(3) **QUARTERLY CALCULATIONS OF AUTOMATIC APPROVAL PRICE THRESHOLD.** The commission shall, on a quarterly basis, establish the inflation rate that requested rate increases must be below in order for a hospital to qualify for automatic approval under s. 54.21 (2) (a) 2, Stats.

Note: Section 54.21 (2) (a) 2, 1983 Stats., required the Commission to use the same hospital market basket index used by the Wisconsin Hospital Rate Review Program. Although that law has been repealed and recreated, requiring the repeal and recreation of this rule, the Commission intends to continue using the same hospital market basket index. 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, which also publishes the consumer price index that the Commission will use.

History: Cr. Register, December, 1984, No. 348, eff. 2-1-85; r. and recr. Register, May, 1986, No. 365, eff. 6-1-86.

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

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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.