



Jim Frazier

North Carolina
Department of Health and Human Services
Division of Medical Assistance
Financial Operations

1985 Umstead Drive - 2509 Mail Service Center - Raleigh, N.C. 27699-2509
Courier Number 56-20-06

Michael F. Easley, Governor
Carmen Hooker Odom, Secretary

Gary Fuquay, Acting Director

July 9, 2003

Ms. Rhonda R. Cottrell
Associate Regional Administrator
Division of Medicaid
Centers for Medicare and Medicaid Services
Region IV
Atlanta Federal Center
61 Forsyth Street, SW Suite 4T20
Atlanta, Georgia 30303-8909

SUBJECT: Provider Tax Waiver Request

Dear Ms. Cottrell:

The State of North Carolina is implementing a nursing facility (NF) provider tax program in accordance with 42 U.S.C § 1396b(w) and 42 CFR Part 433 Subpart B. The tax program will be effective October 1, 2003.

The tax will neither be uniform nor broad-based, however, the proposed tax plan will be redistributive as required under 42 CFR 433.68(e)(2). The tax program is structured as follows:

1. In accordance with 42 CFR 433.68(c), the tax will be imposed on all non-Federal and non-public providers;
2. The tax is imposed on a non-Medicare patient day basis as allowed for under 42 CFR 433.68(d);
3. NFs with Medicaid census representing less than or equal to 10% of their total patient days incur no provider tax;
4. The eleven (11) NFs with the highest number of Medicaid census days incur a tax of \$1.00 per non-Medicare patient day;
5. NFs with Medicaid census representing between 10.01% and 30% of their total patient days incur a tax of \$2.75 per non-Medicare patient day. NFs with Medicaid census representing greater than 30% of their total patient days incur a tax of \$8.25 per non-Medicare patient day.
6. In the aggregate, the tax will not exceed 6% of the total revenues of all NFs being taxed, thereby avoiding an indirect guarantee to hold providers harmless under 42 CFR 433.68(f)(3)(i). The computation of the 6% test is included as Attachment B.

As specified in 42 CFR 433.68(e)(2), tax programs that are neither uniform nor broad-based must meet the waiver of uniformity requirement. In Attachment A, we have calculated, using ordinary least squares, the slope of two linear regressions. In the first calculation, (B1), the independent variable is each NF's annual Medicaid census days that are reflected in column F in the attached excel spreadsheet. The dependent variable is each provider's percentage share of the total tax, based upon a uniform and broad-based tax program. The broad-based and uniform tax that generates the same total revenues as the waiver tax is \$6.125 per patient day. This tax amount for each NF and their percentage share of the total tax are reflected in columns J and K respectively, in the excel spreadsheet. The slope of this linear regression (B1) is .000000072549937 and is reflected in cell G15 in the excel spreadsheet.

The second linear regression (B2) calculates the slope under the waiver tax program. The independent variable is again, annual Medicaid census days, and is reflected for each NF in column F of the excel spreadsheet. The tax paid by each NF under the waiver program and their percentage share of the total tax (the dependent variable) are reflected in columns M and N respectively, in the excel spreadsheet. The slope of this linear regression (B2) is .000000071486864 with the ratio of B1/ B2 at 1.014871. These calculations are shown in cells G16 and G18 respectively, in the excel spreadsheet.

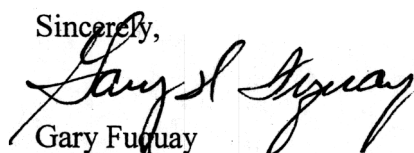
Under 42 CFR 433.68 (e)(2)(ii), since the ratio of B1/B2 is greater than 1.0, we believe we have met the requirements for waiver approval. We understand that there will be future reporting requirements as specified in 42 CFR 433.74, which CMS will provide to us.

Mr. Dave Mosley, Assistant Director of Finance Management, Division of Medical Assistance should be contacted with any questions you may have concerning this. He may be reached by telephone at (919) 857-4257 or by mail at the Division of Medical Assistance, Kirby Building, 2509 Mail Service Center, Raleigh, NC 27699-2509. Please make sure to copy him on any correspondence to this office concerning this matter.

This NF provider tax program is submitted for an effective date of October 1, 2003.

Your approval of this provider tax waiver is requested.

Sincerely,



Gary Fuquay
Acting Director
Division of Medical Assistance

CC: Ms. Carmen Hooker Odom, Secretary, DHHS
Mr. Dave Mosley, Assistant Director, DMA