MEDICAID POLICY INFORMATION SHEET

Policy Analyst: Kristi Walker

Phone Number:

Initial ☐ Public Comment ☒ Final ☐

Brief description of policy:

Effective October 1, 2024, the minimum payment amount on the principal balance or a payment amount totaling at least 0.1 percent of the total outstanding loan balance, whichever is greater, must be made at least annually for any loan that has a loan period of greater than four years and was issued on or after October 1, 2019 in order for the interest to be an allowable expense.

Reason for policy (problem being addressed):

To ensure that nursing facilities are making reasonable payments towards the principal balance of their loans in order to claim interest expense on their cost reports.

Budget implication:
☒ budget neutral
☐ will cost MDHHS $, and (select one) budgeted in current appropriation
☐ will save MDHHS $

Is this policy change mandated per federal requirements?

No.

Does policy have operational implications on other parts of MDHHS?

Yes - Financial Operations

Does policy have operational implications on other departments?

No

Summary of input:
☒ controversial Nursing facililities may be required to make minimal payments larger than they would have otherwise in order for the interest expense to be an allowable cost.
☐ acceptable to most/all groups
☐ limited public interest/comment

Supporting Documentation:

State Plan Amendment Required: ☒ Yes ☐ No If Yes, please provide status: ☐ Approved Date: ☒ Pending Approval ☐ Denied Date:	Public Notice Required: ☒ Yes ☐ No If yes, Submission Date:

DRAFT FOR PUBLIC COMMENT **Michigan Department of Health and Human Services**		
	Project Number: 2416-NF	**Date:** July 10, 2024

Comments Due: August 14, 2024
Proposed Effective Date: October 1, 2024
Direct Comments To: Kristi Walker
Address:
E-Mail Address: WalkerK32@michigan.gov
Phone: **Fax:**

Policy Subject: Principal Balance Payment Requirement

Affected Programs: Medicaid

Distribution: Nursing Facilities

Summary: Effective October 1, 2024, the minimum payment amount on the principal balance or a payment amount totaling at least 0.1 percent of the total outstanding loan balance, whichever is greater, must be made at least annually for any loan that has a loan period of greater than four years and was issued on or after October 1, 2019 in order for the interest to be an allowable expense.

Purpose: To ensure that nursing facilities are making reasonable payments towards the principal balance of their loans in order to claim interest expense on their cost reports.

Cost Implications: Budget neutral

Potential Hearings & Appeal Issues: Nursing facilities may be required to make minimal payments larger than they would have otherwise in order for the interest expense to be an allowable cost.

State Plan Amendment Required: Yes ☒ **No** ☐ **If yes, date submitted:**	**Public Notice Required: Yes** ☒ **No** ☐ **Submitted date:**

Tribal Notification: Yes ☒ **No** ☐ **- Date:** June 25, 2024

THIS SECTION COMPLETED BY RECEIVER

☐ **Approved**	☐ **No Comments**
	☐ **See Comments Below**
☐ **Disapproved**	☐ **See Comments in Text**

Signature:	**Phone Number**
Signature Printed:	
Bureau/Administration *(please print)*	**Date**

Proposed Policy Draft

Michigan Department of Health and Human Services
Behavioral & Physical Health and Aging Services Administration

Distribution: Nursing Facilities

Issued: September 1, 2024 (Proposed)

Subject: Principal Balance Payment Requirement

Effective: October 1, 2024 (Proposed)

Programs Affected: Medicaid

NOTE: Implementation of this policy is contingent upon approval of a State Plan Amendment (SPA) by the Centers for Medicare & Medicaid Services (CMS).

Letter L 24-08, issued February 13, 2024, provided clarification to bulletin MSA 19-28 that for interest to be an allowable expense, a principal balance payment must be made on at least an annual basis for any loan issued after October 1, 2019 that has a loan period of greater than four years.

The purpose of this policy bulletin is to inform nursing facility providers that effective October 1, 2024 the minimum payment amount on the principal balance or a payment amount totaling at least 0.1 percent of the total outstanding loan balance, whichever is greater, must be made at least annually for any loan that has a loan period of greater than four years and was issued on or after October 1, 2019 in order for the interest to be an allowable expense. Refinancing of a loan or refinancing multiple loans does not count as making a principal balance payment. This includes when a short-term loan balance is paid off with borrowed funds, including bridge and balloon type loans.

For loans issued on or after October 1, 2019, if a provider is prohibited from making principal payments or is unable to restructure/negotiate the payment of principal, the Michigan Department of Health and Human Services (MDHHS) will calculate allowable interest expense based on an audited amortization schedule with monthly principal payments of 0.1 percent of the declining loan balance amount.

All borrowings issued on or after October 1, 2024, must have a principal payment requirement of at least 0.1 percent of the total outstanding loan balance amount made annually to an independent financial institution in order for any interest expense or related loan costs to be allowable.

Any loan costs related to obtaining or negotiating principal payment compliant loans will be deemed allowable and amortized for the life of the loan. Pre-payment penalties will also be allowable for the initial conversion to a loan with compliant principal payments and amortized for the life of the loan.

Loans that are refinanced into federal Housing and Urban Development (HUD) loans are exempt from the principal payment requirement. If the loan is denied or the provider choses to withdraw from the federal HUD financing process, all interest expense reported in the preceding years will be removed in the current audit year.

All related party loan costs, including interest expense, are unallowable regardless of any principal payment requirements.