

STATE OF MARYLAND
DEPARTMENT OF HEALTH AND MENTAL HYGIENE



John M. Colmers
Chairman

Herbert S. Wong, Ph.D.
Vice-Chairman

George H. Bone, M.D.

Stephen F. Jencks, M.D., M.P.H.

Jack C. Keane

Bernadette C. Loftus, M.D.

Thomas R. Mullen

Donna Kinzer
Acting Executive Director

Stephen Ports
Principal Deputy Director
Policy and Operations

Gerard J. Schmith
Deputy Director
Hospital Rate Setting

Mary Beth Pohl
Deputy Director
Research and Methodology

HEALTH SERVICES COST REVIEW COMMISSION

4160 Patterson Avenue, Baltimore, Maryland 21215
Phone: 410-764-2605 · Fax: 410-358-6217
Toll Free: 1-888-287-3229
hscrc.maryland.gov

MEMORANDUM

TO: Chief Financial Officers

FROM: Donna Kinzer, Ellen Englert

SUBJECT: FY 2014 Rate Orders

DATE: June 19, 2013

Multiple questions have been raised in regard to the July 1, 2013 and January 1, 2014 rate order process as a result of Commission action taken at the June 5, 2013 Public Meeting. The following information is provided in an itemized format to respond to the questions posed to staff at MHA's Financial Technical Issues Task Force meeting on June 6, 2013.

Fiscal Year 2013 Rate Compliance

- For FY 2013, there will not be a data lag to calculate compliance since we are delaying one-time adjustments until January 2014. Therefore, compliance will be calculated and settled for FY 2013 as a whole, the same as it was in the prior year. The FY 13 excluded/trim units and cases will be used to measure compliance for FY13.

Fiscal Year 2014 Rate Compliance

- There will be two distinct compliance periods. July 1, 2013 to December 31, 2013 and January 1, 2014 through June 30, 2014.
- If a hospital believes that there will be too much fluctuation in rates in the second half of the year as one time adjustments are recovered during the 6 month timeframe, then the hospital may approach HSCRC staff to relax the corridor.

July 1, 2013 Rate Order

- July 1, 2011 through June 30, 2012 revenue center volumes will be held constant
- Revenue center unit rates will be inflated by 1.65%
- Both the permanent and compliance targets will be inflated by 1.65%
- The base case mix index (FY 2012) will remain unchanged from the July 1, 2012 rate order, that is based on statewide weights calculated on APR-DRG grouper version 29
- CPC hospitals will be contacted individually regarding a conversion to CPE and targets recalibrated accordingly
- TPR hospitals will be issued a July 1, 2013 rate order which incorporates the permanent adjustments detailed in the finalized new three year agreement consistent with the aforementioned updates
- Hospitals affected by unit conversions for EKG, Interventional Radiology/Cardiology and Psychiatric Clinic will provide the necessary data to adjust these center(s) in lieu of a pro-forma M schedule
- Unit rate and target compliance methodologies shall remain in effect
- For compliance, this rate period from July 1, 2013 through December 31, 2013 will stand on its own, and hospitals must maintain compliance for the six month period. As mentioned above, relaxed corridors may be granted by staff for circumstances where this will generate large rate differences between the two rate periods due to one time adjustments.

January 1, 2014 Rate Orders

- Revenue center volumes will be updated to the time period July 1, 2012 through June 30, 2013
 - 1 day stays will be incorporated with June 5 approved policies
 - Outliers will be modified in accordance with June 5 policies
 - APR Grouper 30 as well as policy changes outlined above will be applied to develop new weights. We will need to focus on using the Fiscal Year 2013 case mix data to do these calculations, to incorporate the impact of further shifts to observation status.
 - Episode or ARR weights will be calculated to remove planned readmissions and to incorporate 1 day stays.
 - This presents a problem that needs to be solved with observation cases. Staff will focus on developing policies to include observation cases within the 30 day episode window. We cannot include 1 day stays in the readmission definitions without eliminating the opportunity to gain by shifting to observation status.
 - There may be other practical alternatives to eliminate gains due to patients within the 30 day observation window by an overall adjustment process.

- HSCRC will work with the industry to make these adjustments and changes that might be necessary to the ARR agreements, if needed.
- Staff will seek to amend the following policies effective January 1 to account for the numerous changes noted above
 - Amend case mix policies so that applicable one day stays, while being included in the CPC weights and targets, will continue to be excluded from case mix for calculating the governor—that is, no benefit or detriment from incorporating 1 day stays in case mix for the governor
 - Amend case mix policies so that future growth in one day stays does not increase rate capacity beyond the associated charges of the case
- All one-time adjustments that usually would have been adjusted at July 1, 2013 will be adjusted at January 1, 2014, with the same annual impact as if they had been part of the July 1, 2013 rate order
 - One-time adjustments will be doubled to recover the impact over 6 months.
 - One-time adjustments will be made to mitigate prior year one time adjustments that had not been reversed in the July 1, 2013 rate order (through December 31, 2013)
 - One-time adjustments include such items as
 - Non target inpatient room and board and ancillary price variance
 - Outpatient unit rate price variance
 - Unit rate penalties where applicable
 - Charge Target variance
 - Charge target penalties
 - MHIP Funding
 - Health Care Coverage Funding
 - Deficit Assessment Funding
 - HSCRC User Fees
 - MHCC User Fees
 - QBR scaled adjustments
 - MHAC scaled adjustments
 - Maryland Patient Safety Funding
 - CRISP Funding
 - Nurse Support Program I Funding
 - Newborn Testing
 - TPR Cap savings/dissaving
 - TPR NSP II Adjustment (a pass through for charge target hospitals)
- All permanent adjustments that are usually integrated in the July 1 rate order will be adjusted at January 1, 2014, with the same annual impact as if they had been part of the July 1, 2013 rate order
- Permanent adjustments include such items as
 - Volume Adjustment
 - Change in markup
 - Capital Adjustments

- The shared savings adjustment for readmissions will be included to achieve the entire annual provision. This adjustment will be doubled to reduce rates for recovery in the second half of the year.
- This six month rate order will stand on its own for compliance and HSCRC will compliance for the six months (January 1, 2014 through June 30, 2014).

Case-mix measurement and settlement

For FY 2013

Base CMI--FY 2012

Current CMI—FY 2013 (This will be settled 1/1/2014)

For 7/1/13 to 12/31/13

Base CMI—FY 2012

Current Period is 6 months ending 12/31/2013_(This will be settled 7/1/2014)¹

For 1/1/14 to 6/30/14

Base CMI—FY 2013

Current Period is 6 months ending 6/30/2014 (Settlement to be discussed based on lag and potential new waiver)

Case mix governor policies will be applied as usual (2014 unknown at this time).

Data lag for rate compliance for 2014 and rate setting for FY 2015

- Many hospitals are concerned with the data lags and “disconnect” from approved revenue updates.
- This concern is likely to increase as we move toward the incorporation of population based models.
- We need to evaluate opportunities to reduce the data lag. Submission of case mix data monthly is one option, including the submission of OP data.
- Regulators need more timely case mix data for tracking under the current and proposed waiver. Monthly data would help increase the ability to monitor the waiver.
- We should seek to expand monthly financial reporting to include a Medicare breakout ASAP. This data should be fairly simple to provide.

Hospice

- Cases admitted for hospice level of care should be excluded from the CPC/CPE. Hospice cases will be identified based on Daily Service Code 10.

¹ HSCRC will evaluate adding 6 months of data from 1/1/13 – 6/30/13 for the sole purpose of evaluating the annualized case mix change

Observation

- HSCRC staff will be reviewing the growth of charges in this area, tracking the shift between inpatient and outpatient and other growth.

Rate realignment

- We will evaluate whether to realign rates using the FY 2012 Annual Filing M schedules, but holding the relationship of IP and OP revenues

Thank you for working closely with us during this complex process.

Further questions can be addressed to Ellen Englert at 410-764-2562.