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HEALTH SERVICES COST REVIEW COMMISSION

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Memorandum

To: Chief Financial Officers

From: Dennis N. Phelps – Associate Director, Audit & Compliance

Date: April 29, 2010

Re: Establishment of an Observation Rate Center for Medical Observation Cases and Conversion of Same Day Surgery Rate Center

The purpose of this memorandum is to notify hospitals of the process for establishing an Observation (OBV) rate center and the process to for converting their Same Day Surgery (SDS) rate effective July 1, 2010. The information needed to develop the OBV rate center and for the SDS conversion must be received in the HSCRC's offices on or before June 1, 2010, in conformance with the details stated below.

Overview

The purpose of OBV is to determine whether or not a patient should be admitted to the hospital as an inpatient. The decision to provide OBV should be solely a medical decision. OBV must be ordered and documented in writing by a medical staff practitioner. OBV services include the use of a hospital bed and periodic monitoring by nursing or other hospital staff in order to evaluate the patient's condition. Because of the nature of OBV, patients may enter through the Emergency Department (EMG) or may be directly admitted to OBV from a physician's office. OBV may be provided in a distinct unit or at any location within the hospital.

There is currently a way to charge for OBV, i.e., the costs associated with observation services are compiled in EMG, and OBV is charged as EMG services (one hour of OBV services equals 1.5 EMG RVUs). However, because reducing one-day cases will result in the provision of more outpatient observation cases, the HSCRC has decided, at the suggestion of the hospital industry, that a separate and distinct OBV rate center should be established effective July 1, 2010.

Because one-day cases will be removed from the Charge per Case (CPC) system, the need to project how many one-day cases will become OBV visits in the future and to remove revenue and days from routine centers in setting up the OBV rate center has been eliminated. The most important issue in developing the OBV rate center is setting the OBV rate since, in most cases, the actual cost of an hour of OBV services will not be known until a full year's cost data are available.

Establishing a OBV Rate Center

The inconsistency in use of OBV services among Maryland hospitals dictates that there needs to be more than one methodology for the creation of the OBV rate center. For the purposes of establishing the OBV rate center, all hospitals fall into two general categories: 1) all hospitals that have been providing and charging for OBV services, i.e., they have been generating EMG units and revenue for OBV services; and 2) all hospitals that have not been providing OBV services or have been providing OBV services but not charging for them. Below you will find the methodology to be used in each case, with variations within each category. In addition, you will find the information that must be submitted in order to establish your hospital's new OBV rate center. In the new OBV rate center, 1 hour equals 1 OBV RVU.

METHODOLOGIES

Category 1 - Hospitals that have been providing and charging for OBV services - (Generating EMG units and revenue for OBV services.)

Sub-categories:

- A. Hospitals charging for OBV with all OBV costs in the EMG rate center (having accurately allocated OBV costs from routine centers):**
 - 1) Allocate OBV costs from EMG rate center based on EMG unit costs (unless there is a cost finding) and allocate OBV hours from EMG at 1 OBV hour
 - 2) times 1.5 EMG RVU;

- B. Hospitals charging for OBV that did not appropriately allocate all costs to EMG rate center:**
 - 1) Allocate new OBV units from EMG rate center (EMG RVUs times 1.5).
 - 2) Allocate costs from EMG and routine rate centers based on cost finding **or allocate from both EMG and routine rate centers based on Hospital's Medical/Surgical (MSG) cost per unit (patient day)divided by 24.**
 - 3) **Information to be provided to HSCRC: the rationale and supporting data for cost and unit of services reallocations, and a revised FY 2009 Schedule M so that the rate centers can be RATE REALIGNED in the IAS/PVPPPI process. New CPC and Charge per Visit (CPV) targets will be established based on the underlying costs.**

The first year after creation of new OBV rate:

At same volumes, Hospital will generate less revenue in its EMG rate center and, if applicable, its routine centers based on allocation of costs; it will generate new revenue in OBV rate center.

Reconciliation of OBV rate to actual cost first year after creation of new OBV rate:

When FY 2011 cost data are available, determine whether FY 2011 OBV revenue generated is appropriate by comparing direct cost per actual OBV unit to direct cost per unit used to establish OBV rate. If OBV rate was either understated or overstated, a onetime revenue adjustment will be made to the Hospital's total rate base before rate realignment.

Category 2 - Hospitals that have not been providing OBV services or have been providing OBV services but not charging for them. (No new revenue has been generated by OBV services. Rate centers where OBV costs have been reported have been overstated - - other rate centers understated):

- 1) In the absence of any historical data, the hospital's MSG rate divided by 24 should be used to set the OBV rate at a volume of 1.
- 2) **Information to be provided to HSCRC:** the rationale and supporting data for setting the OBV rate at other than the Hospital's MSG rate divided by 24. The new OBV rate can be established at the end of the Hospital's IAS/PVPPPI process, since no volume or revenue is used to determine the new OBV rate, and the new rate will not affect the CPC and CPV targets.

First year after creation of new OBV rate center:

At same volumes, the Hospital will generate the same CPC revenue; however with the expected decreases in inpatient volumes, the routine centers will generate less revenue and CPC will have fewer cases, while generating new revenue in the OBV center.

Reconciliation of OBV rate to actual cost first year after creation of new OBV rate:

Use same methodology as in Category 1.

Surgical Cases – Same Day Surgery Recovery Services

The current structure of the Same Day Surgery (SDS) rate center is a fixed “per visit” charge per case for every outpatient surgical case. As part of the Commission’s initiative to reduce the number of one-day stay cases, including surgical cases, more difficult cases will migrate from inpatient to outpatient. In order to allow for more appropriate matching of resource use to charges, the SDS rate must be tiered.

- 1) The Commission has decided to permit the SDS rate to be tiered. Hospitals will be required to tier their SDS based on a reasonable matching of resources utilized to the rate charged. If the recovery costs for outpatient surgical cases have not been appropriately allocated to the SDS rate center, costs may be allocated to SDS from other rate centers.

- 2) **Information to be provided to HSCRC: the supporting data for cost reallocations, and a revised FY 2009 Schedule M so that the rate centers can be RATE REALIGNED in the IAS/PVPPI process.**

Reconciliation of SDS rate to actual cost first year after conversion of SDS rate:

When FY 2011 cost data become available, determine whether FY 2011 OBV revenue generated is appropriate by comparing direct cost per actual SDS visit to the direct cost per SDS visit used to establish the SDS rate. If SDS rate was either understated or overstated, a one time revenue adjustment will be made to the Hospital’s total rate base before rate realignment.

If you have any questions about the category that your hospital belongs in or technical questions about the methodologies, you may call me, Rodney Spangler or Chris O’Brien at 410-764-2605.

HOSPITALS THAT CHARGED FOR OBSERVATION SERVICES IN FY 2009 & FY 2010 - CATEGORY 1

To Calculate Observation (OBV)RVU rate:

- a. Divide actual 9 months FY 2010 Emergency Room (EMG) RVUs associated with OBV by 1.5 to get OBV hours (provide calculation).
- b. If hospital has done a cost finding, allocate OBV revenue from EMG (provide data).
- c. If there was no cost finding, allocate OBV revenue from EMG based on hospital's EMG rate. Hospitals wishing to establish an OBV rate at other than its EMG times 1.5 must provide rationale to staff.
- d. Hospitals that have been providing services to OBV patients in other hospital revenue centers and not allocating those costs to the EMG, allocate the appropriate costs from those centers to the new OBV center (provide data)

Hospitals that appear to fall into this category based on CPV data:

Holy Cross
Frederick
Harford
Bon Secours
Franklin Square
Washington Adventist
Montgomery
Suburban
Johns Hopkins Bayview
Memorial at Easton
Calvert
GBMC
Shady Grove
Franklin Square
Upper Chesapeake
Washington County
University
Johns Hopkins
Anne Arundel
Baltimore/Washington
Howard County
Doctors

HOSPITALS THAT HAVE BEEN NOT BEEN CHARGING FOR OBSERVATION SERVICES - CATEGORY 2

To calculate Observation (OBV) rate:

- a. If OBV hours and cost data are available, calculate OBV rate at a volume of 1.
(provide calculation.)
- b. If OBV hours and cost data are not available, hospital's OBV rate will be set at its FY 2011 MSG rate divided by 24 at a volume of 1. Hospitals wishing to establish an OBS rate at other than its MSG divided by 24 must provide the rationale for doing so.

Hospitals that appear to fall into this category based on CPV data:

Prince George's
St. Joseph's
Mercy
Dorchester
St. Agnes
Sinai
Garrett
PRMC
Union Memorial
Braddock
St. Mary's
Chester River
Union of Cecil
Carroll County
Harbor Hospital
Civista
Maryland General
Northwest
Mc Cready
SMHC
Laurel
Good Samaritan
Kernan
Fort Washington
Atlantic General

RY2011 Observation Conversion

Input 1A, 1B, 2:

Data Input for Medical Observation

For Hospital Currently Charging Observation via EMG:

January 2010 Approved EMG Rate	\$	34.00	1/1/10 IAS
RY2010 EMG Volume (RVU)		377,300	Monthly reporting
RY2010 EMG Observation Volume (RVU)		12,000	Hospital records
RY2009 EMG Level IV Cost	\$	10,200,000	RY2009 AF
RY2009 EMG Volume (RVU)		351,500	RY2009 AF

For Level IV Cost Reclassifications from Other Rate Center (MSG, etc.) to OBV:

Rate Center:	MSG		
RY2009 Volume	Days	10,400	RY2009 AF
RY2009 Level IV Cost		\$ 7,805,000	RY2009 AF
Level IV Cost per Day		\$ 750.48	
Level IV Cost per Hour		\$ 31.27	

Other Cost Finding Information as Needed.

For Hospitals Not Currently Charging for Observation

July 1, 2010 Approved MSG Rate (Rate Order)	\$	850.00	7/1/10 Rate File
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REVENUE CENTER RATE SUMMARY

INSTITUTION NAME:
INSTITUTION NUMBER:

ABC Hospital
0001

BASE YEAR
BUDGET YEAR

6/30/2009
6/30/2010

DESCRIPTION	CODE	COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7	COL 8	COL 9	----- C F A -----		LEVEL II
											UNITS OF MEASURE	DIRECT EXPENSES	
A1 Med/Surg Acute	MSG	10,404	3,085.5	1,541.4	1,127.8	///////			5,754.6	1,317.6	18.7		7,090.9
2 Pediatric Acute	PED	601	263.1	97.4	95.0	///////			455.5	91.2	1.1		547.8
3 Psychiatric Acute	PSY	2,638	1,152.6	705.5	425.8	///////			2,283.9	768.5	4.7		3,057.1
4 Obstetrics Acute	OBS	2,265	435.7	466.4	167.9	///////			1,070.0	428.4	4.1		1,502.5
5 Definitive Observation	DEF	7,848	3,808.4	554.9	1,345.0	///////			5,708.3	436.1	14.1		6,158.6
6 Med/Surg Intensive Care	MIS	1,139	1,222.2	447.3	441.0	///////			2,110.6	536.5	128.9		2,776.0
14 Newborn Nursery	NUR	2,070	683.8	33.5	239.2	///////			956.4	52.0	0.0		1,008.4
18 Emergency Services	EMG	351,503	4,387.8	1,446.7	1,703.4	///////			7,537.9	1,727.9	0.0		9,265.9
19 Clinical Services	CL	168,376	1,985.1	245.7	755.4	///////			2,986.2	420.0			3,406.2
21 Psych. Day & Night Care	PDC	2,080	408.0	1.8	148.5	///////			558.3	12.6			570.9
22 Lithotripsy	LIT	239	207.0	6.2	111.5	///////			324.8	6.4			331.2
23 Same Day Surgery	SDS	7,083	632.0	283.6	229.9	///////			1,145.5	118.3	0.0		1,263.8
25 Labor & Delivery Services	DEL	39,912	1,826.2	160.7	745.5	///////			2,732.3	56.5	0.0		2,788.8
26 Operating Room	OR	591,407	3,127.0	1,088.0	1,623.7	///////			5,838.7	1,362.5	412.7		7,613.9
28 Ambulance Services-Rebundled	AMR	353	13.3	0.4	4.6	///////	/////////	/////////	18.3	/////////	/////////	/////////	18.3
29 Anesthesiology	ANS	553,055	162.9	26.9	82.1	///////			271.8	41.6			313.4
30 Laboratory Services	LAB	4,650,852	5,073.4	326.5	2,252.9	///////			7,652.8	591.3	88.9		8,333.0
32 Electrocardiography	EKG	284,781	372.8	5.3	162.6	///////			540.7	19.3			560.0
33 Electroencephalography	EEG	48,920	97.6	4.4	45.8	///////			147.8	10.0			157.8
34 Radiology-Diagnostic	RAD	176,238	2,153.2	375.6	1,071.8	///////			3,600.5	369.2	404.1		4,373.8
35 Radiology-Therapeutic	RAT	21	0.8	0.0	0.3	///////			1.1				1.1
36 Nuclear Medicine	NUC	72,687	514.9	25.5	240.1	///////			780.4	55.9	20.2		856.6
37 CT Scanner	CAT	382,081	782.8	20.8	386.1	///////			1,189.7	54.9	5.3		1,249.9
38 Invasive Radiology/Cardiovascular	IRC	23,162	493.5	192.1	244.0	///////			929.6	104.6	2.7		1,036.9
39 Respiratory Therapy	RES	1,170,799	1,155.1	53.7	452.1	///////			1,660.9	117.2			1,778.1
41 Renal Dialysis	RDL	373	154.2	4.7	53.9	///////			212.7	4.8			217.5
42 Physical Therapy	PTH	88,623	370.1	130.8	135.9	///////			636.8	154.7			791.5
43 Occupational Therapy	OTH	54,340	202.7	0.1	72.4	///////			275.2	6.3			281.5
44 Speech Language Pathology	STH	38,035	103.2	0.1	47.9	///////			151.2	3.2			154.4
51 Magnetic Resonance Imaging	MRI	15,513	248.4	7.5	86.9	///////			342.9	7.7			350.6
54 Admission Services	ADM	8,333	/////////	1,243.4	237.9	///////	/////////	/////////	1,481.3	/////////	/////////	/////////	1,481.3
55 Med/Surg Supplies	MSS	14,693	10,454.4	894.5	403.6	///////	/////////	/////////	11,752.6	27.7	/////////	/////////	11,780.3
56 Drugs Sold	CDS	14,693	7,100.6	1,811.9	878.7	///////	/////////	/////////	9,791.2	56.1	/////////	/////////	9,847.3
57						///////							
B TOTAL		8,785,118	52,678.3	12,203.1	16,019.2				80,900.6	8,959.0	1,105.6		90,965.2

REVENUE CENTER RATE SUMMARY

INSTITUTION NAME: ABC Hospital
 INSTITUTION NUMBER: 0001

BASE YEAR: 6/30/2009
 BUDGET YEAR: 6/30/2010

		----- O F C -----		LEVEL III	PAYOR DIFFERENTIAL	LEVEL IV	CROSS SUBSIDY	MISC ADJ	HSCRC ADJ	ADJUST LEVEL IV	AVERAGE RATES
DIRECT	PERCENTAGE										
DESCRIPTION	CODE	COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7	COL 8	COL 9	COL 10
			-0.43%		0.1054						
A1	Med/Surg Acute	MSG	(30.6)	7,060.4	744.4	7,804.8				7,804.8	750.1682
2	Podiatric Acute	PED	(2.4)	545.4	57.5	602.9				602.9	1,003.1846
3	Psychiatric Acute	PSY	(13.2)	3,043.9	320.9	3,364.8				3,364.8	1,275.5252
4	Obstetrics Acute	OBS	(6.5)	1,496.0	157.7	1,653.7				1,653.7	730.1048
5	Definitive Observation	DEF	(26.5)	6,132.0	646.5	6,778.5				6,778.5	863.7242
6	Med/Surg Intensive Care	MIS	(12.0)	2,764.0	291.4	3,055.4				3,055.4	2,682.5570
14	Newborn Nursery	NUR	(4.3)	1,004.1	105.9	1,110.0				1,110.0	536.2128
18	Emergency Services	EMG	(39.9)	9,225.9	972.7	10,198.6				10,198.6	29.0143
19	Clinical Services	CL	(14.7)	3,391.5	357.6	3,749.1				3,749.1	22.2664
21	Psych. Day & Night Care	PDC	(2.5)	568.4	59.9	628.3				628.3	302.0866
22	Lithotripsy	LIT	(1.4)	329.7	34.8	364.5				364.5	1,525.2397
23	Same Day Surgery	SDS	(5.4)	1,258.3	132.7	1,391.0				1,391.0	196.3925
25	Labor & Delivery Services	DEL	(12.0)	2,776.8	292.8	3,069.6				3,069.6	76.9097
26	Operating Room	OR	(32.8)	7,581.0	799.3	8,380.3				8,380.3	14.1702
28	Ambulance Services-Rebundled	AMR	(0.1)	18.3	1.9	20.2				20.2	57.1274
29	Anesthesiology	ANS	(1.4)	312.1	32.9	345.0				345.0	0.6238
30	Laboratory Services	LAB	(35.9)	8,297.1	874.8	9,171.9				9,171.9	1.9721
32	Electrocardiography	EKG	(2.4)	557.6	58.8	616.4				616.4	2.1645
33	Electroencephalography	EEG	(0.7)	157.2	16.6	173.8				173.8	3.5519
34	Radiology-Diagnostic	RAD	(18.9)	4,354.9	459.2	4,814.1				4,814.1	27.3162
35	Radiology-Therapeutic	RAT	(0.0)	1.1	0.1	1.2				1.2	57.0694
36	Nuclear Medicine	NUC	(3.7)	852.9	89.9	942.8				942.8	12.9704
37	CT Scanner	CAT	(5.4)	1,244.5	131.2	1,375.7				1,375.7	3.6005
38	Invasive Radiology/Cardiovascular	IRC	(4.5)	1,032.4	108.9	1,141.3				1,141.3	49.2747
39	Respiratory Therapy	RES	(7.7)	1,770.4	186.7	1,957.1				1,957.1	1.6716
41	Renal Dialysis	RDL	(0.9)	216.6	22.8	239.4				239.4	641.8521
42	Physical Therapy	PTH	(3.4)	788.1	83.1	871.2				871.2	9.8304
43	Occupational Therapy	OTH	(1.2)	280.3	29.6	309.9				309.9	5.7028
44	Speech Language Pathology	STH	(0.7)	153.7	16.2	169.9				169.9	4.4675
51	Magnetic Resonance Imaging	MRI	(1.5)	349.0	36.8	385.8				385.8	24.8720
54	Admission Services	ADM	(6.4)	1,474.9	155.5	1,630.4				1,630.4	195.6526
55	Med/Surg Supplies	MSS	(50.8)	11,729.5	1,236.7	12,966.2				12,966.2	882.4666
56	Drugs Sold	CDS	(42.4)	9,804.9	1,033.8	10,838.7				10,838.7	737.6722
57											
B	TOTAL		(392.1)	90,573.1	9,549.6	100,122.7				100,122.7	//////////

RY2011 Observation Conversion

Schedule 1A:

Conversion of Medical Observation from EMG; EMG ONLY / No other cost reclassification

Rate	Pre Conversion				Volume / Cost Adj. Applied to Schedule M Vol. Adj Costs		Post Conversion & Realignment				Rate Prior to Conversion	Rate Change
	RY2009 AF		RY2010 Actual/Adjusted		Volume	Cost	Volume	Cost	Rate	Revenue		
Center	Volume	Sch MA Cost	Volume	Sch MA Cost								
EMG	351,500	\$ 10,200,000	377,300	\$ 10,948,677	(12,000)	\$ (348,222)	365,300	\$ 10,600,455	\$ 31.15	\$ 11,378,228	\$ 31.15	0.0%
OBV	-	-	-	-	8,000	348,222	8,000	348,222	46.72	373,772	\$ -	100.0%
Total		<u>\$ 10,200,000</u>		<u>\$ 10,948,677</u>				<u>\$ 10,948,677</u>		<u>\$ 11,751,999</u>		

		Rate Realigned Revenue and Rates															
		Units per Schedule M	Revenue per Schedule M	Actual Inpatient Units	Actual Outpatient Units	Actual Total Units	Variable Cost	% Change in Units	Volume Adjusted Schedule M Revenue	Revenue Excluded From Rate Realignment	Prorated Current Revenue	Approved Rates	Inpatient Routine Revenue	Inpatient Ancillary Revenue	Outpatient Ancillary Revenue	Total Approved Revenue	
1 MSG	Med./Surg. Acute	10,404	7,805	10,452		10,452	1,000	0.5%	7,841		8,416,047	805,2093	8,416,047			8,416,047	
2 PED	Pediatrics	601	603	745		745	1,000	24.0%	748		802,567	1,076,7899	802,567			802,567	
3 PSY	Psychiatric Acute	2,638	3,365	3,193		3,193	1,000	21.1%	4,073		4,372,033	1,369,1125	4,372,033			4,372,033	
4 OBS	Obstetric Acute	2,265	1,654	2,140		2,140	1,000	-5.5%	1,562		1,677,062	783,6738	1,677,062			1,677,062	
5 DEF	Definitive Observation	7,848	6,779	8,173		8,173	1,000	4.1%	7,060		7,577,473	927,0970	7,577,473			7,577,473	
6 MIS	Med./Surg. I.C.U.	1,139	3,055	1,264		1,264	1,000	11.0%	3,391		3,639,537	2,879,3906	3,639,537			3,639,537	
10 NUR	New Born Nursery	2,070	1,110	1,967		1,967	1,000	-5.0%	1,055		1,131,926	575,5556	1,131,926			1,131,926	
24 ADM	Admissions	8,333	1,630	7,977		7,977	1,000	-4.3%	1,561		1,675,303	210,0079	1,675,303			1,675,303	
25 EMG	Emergency Services	351,503	10,199	93,897	271,421	365,319	1,000	3.9%	10,600		11,378,228	31,1480		2,924,530	8,453,698	11,378,228	
27 CL	Clinic Services	168,376	3,749	71	155,081	155,152	1,000	-7.9%	3,455		3,708,157	23,9002		1,689	3,706,468	3,708,157	
28 PDC	Psychiatric Day/Night	2,080	628		1,960	1,960	1,000	-5.8%	592		635,532	324,2511			635,532	635,532	
29 OR	Operating Room	591,407	8,380	150,261	480,311	630,572	1,000	6.6%	8,935		9,590,913	15,2099		2,285,454	7,305,459	9,590,913	
30 ANS	Anesthesiology	553,055	345	171,129	424,409	595,539	1,000	7.7%	371		398,742	0,8695		114,579	284,162	398,742	
33 SDS	Same Day Surgery	7,083	1,391		9,701	9,701	1,000	37.0%	1,905		2,045,062	210,8021			2,045,062	2,045,062	
34 DEL	Labor and Delivery	39,912	3,070	27,327		36,519	1,000	-8.5%	2,809		3,014,716	82,5627		2,255,891	758,825	3,014,716	
35 LAB	Laboratory	4,650,852	9,172	2,795,188	2,896,657	5,691,845	1,000	22.4%	11,225		12,048,382	2,1168		5,916,797	6,131,585	12,048,382	
36 EKG	Electrocardiography	284,781	616	165,324	147,099	312,423	1,000	9.7%	676		725,872	2,3234		384,108	341,764	725,872	
37 EEG	Electroencephalography	48,920	174	28,427	148,876	177,303	1,000	262.4%	630		675,968	3,8125		106,377	567,591	675,968	
38 RAD	Radiology-Diagnostic	176,238	4,814	61,579	115,967	177,545	1,000	0.7%	4,850		5,205,701	28,3204		1,805,511	3,400,189	5,205,701	
39 RAT	Radiology-Therapeutic	21	1				1,000	-100.0%									
40 NUC	Nuclear Medicine	72,687	943	24,003	50,568	74,571	1,000	2.6%	967		1,038,174	13,9220		334,166	704,008	1,038,174	
41 CAT	CT Scanner	382,081	1,376	141,872	288,856	430,728	1,000	12.7%	1,551		1,664,639	3,8647		548,294	1,116,345	1,664,639	
43 IVC	Interventional Cardiology	23,162	1,141	9,919	17,132	27,051	1,000	16.8%	1,333		1,430,710	52,8900		524,599	906,112	1,430,710	
44 RES	Respiratory Therapy	1,170,799	1,957	1,098,948	225,184	1,324,132	1,000	13.1%	2,213		2,375,854	1,7943		1,871,812	404,042	2,375,854	
46 PTH	Physical Therapy	88,623	871	93,792	3,032	96,824	1,000	9.3%	952		1,021,653	10,5516		989,680	31,993	1,021,653	
47 OTH	Occupational Therapy	54,340	310	54,289	4,888	59,177	1,000	8.9%	337		362,240	6,1213		332,320	29,921	362,240	
48 STH	Speech Therapy	38,035	170	20,128	32,349	52,477	1,000	38.0%	234		251,642	4,7953		96,519	155,123	251,642	
51 RDL	Renal Dialysis	373	239	429	3	432	1,000	15.6%	277		297,625	688,9458		295,787	1,837	297,625	
68 MRI	MRI Scanner	15,513	386	16,049	6,600	22,649	1,000	46.0%		1,611,169	1,611,169		1,141,676	469,494	1,611,169		
69 LIT	Lithotripsy	239	365	49	172	221	1,000	-7.4%	338		362,356	1,637,1490		80,766	281,590	362,356	
70 AMR	Ambulance	353	20			8,000	1,000	-100.0%									
200 OBV	Observation					8,000	1,000		348		373,772	46,7214			373,772	373,772	
		8,755,731	76,318	4,988,583	5,297,459	10,286,052			81,890	1,611,169	89,509,055		29,291,949	22,112,535	38,104,571	89,509,055	
	Cost	10,454,428	12,966	5,544,781	5,262,627	10,807,408	1,000	3.4%	13,404		14,387,435	2,320,479		1,11654	7,381,527	7,005,907	14,387,435
101 MSS	Med./Surg. Supplies	7,100,600	10,839	2,861,420	5,041,460	7,902,880	1,000	11.3%	12,063		12,948,443	4,124,523		1,11654	4,688,283	8,280,161	12,948,443
103 CDS	Drugs	26,310,759	100,123	13,394,795	15,601,545	28,996,340			107,357	1,611,169	116,844,933		29,291,949	34,182,345	53,370,639	116,844,933	

RY2011 Observation Conversion

Schedule 1B:

Conversion of Medical Observation from EMG; EMG + Other Cost Findings

Rate Center	Pre Conversion				Volume / Cost Adj. Applied to Schedule M Vol. Adj Costs		Post Conversion & Realignment				Rate Prior to Conversion	Rate Change
	RY2009 AF		RY2010 Actual/Adjusted		Volume	Cost	Volume	Cost	Results from RR:			
Volume	Sch MA Cost	Volume	Sch MA Cost	Rate					Revenue			
EMG	351,500	\$ 10,200,000	377,300	\$ 10,948,677	(12,000)	\$ (348,222)	365,300	\$ 10,600,455	\$ 31.15	\$ 11,378,041	\$ 31.15	0.0%
MSG	10,400	\$ 7,805,000	10,450	\$ 7,842,524	-	\$ (250,160)	10,450	\$ 7,592,364	\$ 779.69	\$ 8,149,294	805.22	-3.2%
TBD1												
TBD2												
OBV	-	-	-	-	8,000	598,382	8,000	598,382	80.28	642,276	\$ -	100.0%
Total		<u>\$ 18,005,000</u>		<u>\$ 18,791,201</u>				<u>\$ 18,791,201</u>		<u>\$ 20,169,610</u>		

EMG Observation RVUs 12,000
 EMG Observation RVU/hour 1.5
 Observation Hours 8,000
 MSG Level IV "Cost per Hour" \$ 31.27
 Adjusted Level IV Costs
 to be reallocated to OBV \$ 250,160

ABC Hospital
Annual Unit Rate Adjustment
Rate Realignment
07/01/2010

\$ 115,233,763

		Rate Realigned Revenue and Rates															
		Units per Schedule M	Revenue per Schedule M	Actual Inpatient Units	Actual Outpatient Units	Actual Total Units	Variable Cost	% Change in Units	Volume Adjusted Schedule M Revenue	Revenue Excluded From Rate Realignment	Prorated Current Revenue	Approved Rates	Inpatient Routine Revenue	Inpatient Ancillary Revenue	Outpatient Ancillary Revenue	Total Approved Revenue	
1	MSG	Med./Surg. Acute	10,404	7,805	10,452	10,452	1,000	0.5%	7,592		8,149,294	779,8875	8,149,294			8,149,294	
2	PED	Pediatrics	601	603	745	745	1,000	24.0%	748		802,554	1,076,7722	802,554			802,554	
3	PSY	Psychiatric Acute	2,638	3,365	3,193	3,193	1,000	21.1%	4,073		4,371,961	1,369,0900	4,371,961			4,371,961	
4	OBS	Obstetric Acute	2,265	1,654	2,140	2,140	1,000	-5.5%	1,562		1,677,034	783,6609	1,677,034			1,677,034	
5	DEF	Definitive Observation	7,848	6,779	8,173	8,173	1,000	4.1%	7,060		7,577,348	927,0618	7,577,348			7,577,348	
6	MIS	Med./Surg. I.C.U.	1,139	3,055	1,264	1,264	1,000	11.0%	3,391		3,639,477	2,679,3332	3,639,477			3,639,477	
10	NUR	New Born Nursery	2,070	1,110	1,967	1,967	1,000	-5.0%	1,055		1,131,907	575,5461	1,131,907			1,131,907	
24	ADM	Admissions	8,333	1,630	7,977	7,977	1,000	-4.3%	1,561		1,675,276	210,0045	1,675,276			1,675,276	
25	EMG	Emergency Services	351,503	10,189	93,897	271,421	365,319	1,000	3.9%	10,600		11,378,041	31,1455		2,924,481	8,453,559	11,378,041
27	CL	Clinic Services	168,376	3,749	71	155,081	155,152	1,000	-7.9%	3,455		3,708,096	23,8998		1,689	3,706,407	3,708,096
28	PDC	Psychiatric Day/Night	2,080	628		1,960	1,960	1,000	-5.8%	592		635,522	324,2458			635,522	
29	OR	Operating Room	591,407	8,380	150,261	480,311	630,572	1,000	6.6%	8,935		9,590,755	15,2096		2,285,417	7,305,339	9,590,755
30	ANS	Anesthesiology	553,055	345	171,129	424,409	565,539	1,000	7.7%	371		398,735	0.8686		114,577	284,158	398,735
33	SDS	Same Day Surgery	7,083	1,391		9,701	9,701	1,000	37.0%	1,905		2,045,028	210,7986			2,045,028	
34	DEL	Labor and Delivery	39,912	3,070	27,327	9,192	36,519	1,000	-8.5%	2,809		3,014,666	82,5614		2,255,854	758,812	3,014,666
35	LAB	Laboratory	4,650,852	9,172	2,795,188	2,896,657	5,691,845	1,000	22.4%	11,225		12,048,184	2,1167		5,916,700	6,131,484	12,048,184
36	EKG	Electrocardiography	284,781	616	165,324	147,099	312,423	1,000	9.7%	676		725,860	2,3233		384,101	341,758	725,860
37	EEG	Electroencephalography	48,920	174	28,427	148,876	177,303	1,000	262.4%	630		675,957	3,8124		108,375	567,582	675,957
38	RAD	Radiology-Diagnostic	176,238	4,814	61,579	115,967	177,545	1,000	0.7%	4,850		5,205,615	29,3199		1,805,482	3,400,133	5,205,615
39	RAT	Radiology-Therapeutic	21	1				1,000	-100.0%								
40	NUC	Nuclear Medicine	72,687	943	24,003	50,568	74,571	1,000	2.6%	967		1,038,157	13,9218		334,160	703,997	1,038,157
41	CAT	CT Scanner	382,081	1,376	141,872	288,856	430,728	1,000	12.7%	1,551		1,664,612	3,8646		548,285	1,116,327	1,664,612
43	IVC	Interventional Cardiology	23,162	1,141	9,919	17,132	27,051	1,000	16.8%	1,333		1,430,687	52,8892		524,590	906,097	1,430,687
44	RES	Respiratory Therapy	1,170,799	1,957	1,098,948	225,184	1,324,132	1,000	13.1%	2,213		2,375,815	1,7942		1,971,780	404,035	2,375,815
46	PTH	Physical Therapy	88,623	871	93,792	3,032	96,824	1,000	9.3%	952		1,021,636	10,5615		989,644	31,992	1,021,636
47	OTH	Occupational Therapy	54,340	310	54,289	4,888	59,177	1,000	8.9%	337		362,235	8,1212		332,314	29,920	362,235
48	STH	Speech Therapy	38,035	170	20,128	32,349	52,477	1,000	38.0%	234		251,638	4,7952		95,517	155,121	251,638
51	RDL	Renal Dialysis	373	239	429	3	432	1,000	15.8%	277		297,620	688,9345		295,783	1,837	297,620
68	MRI	MRI Scanner	15,513	386	16,049	6,600	22,649	1,000	46.0%		1,611,169	71,1954		1,141,876	469,494	1,611,169	
69	LIT	Lithotripsy	239	365	49	172	221	1,000	-7.4%	338		362,350	1,637,1221		80,765	281,585	362,350
70	AMR	Ambulance	353	20				1,000	-100.0%								
200	OBV	Observation				8,000	8,000	1,000		598		642,276	80,2845			642,276	642,276
		Cost	8,755,731	76,318	4,988,593	5,297,459	10,286,052			81,891	1,611,169	89,509,504		29,024,852	22,112,190	38,372,463	89,509,504
101	MSS	Med./Surg. Supplies	10,454,428	12,966	5,544,781	5,262,627	10,807,408	1,000	3.4%	13,404		14,387,198	2,320,242	1.11654	7,381,406	7,005,792	14,387,198
103	CDS	Drugs	7,100,600	10,839	2,861,420	5,041,460	7,902,880	1,000	11.3%	12,063		12,948,230	4,124,310	1.11654	4,688,206	8,260,025	12,948,230
		Total	26,310,759	100,123	13,394,795	15,601,545	28,996,340			107,359	1,611,169	116,844,933		29,024,852	34,181,801	53,638,280	116,844,933

RY2011 Observation Conversion
Schedule 2:
Establishing OBV w/o Prior Experience

July 1, 2010 MSG Rate (Rate Order)	\$ 1,500.00
Hours per Day	<u>24</u>
New OBV Rate	<u>\$ 62.50</u>

RY2011 Observation Conversion

Input 3:

Data Input for Same Day Surgery Conversion

January 1, 2010 Approved SDS Rate	\$ 280.00
RY2010 SDS Volume	9,700
RY2009 SDS Level IV Cost	\$ 1,390,000
RY2009 SDS Volume	7,100

RY2011 Observation Conversion

Schedule 3:

Conversion of SDS; Reclassification of Cost from MSG to SDS

Rate Center	Pre Conversion				Volume / Cost Adj. Applied to Schedule M Vol. Adj Costs		Post Conversion & Realignment				Rate Prior to Conversion	Rate Change
	RY2009 AF		RY2010 Actual/Adjusted		Volume	Cost	Volume	Cost	Results from RR:			
Volume	Sch MA Cost	Volume	Sch MA Cost	Rate					Revenue			
SDS	7,100	\$ 1,390,000	9,700	\$ 1,899,014	-	\$ 781,751	9,700	\$ 2,680,765	\$ 296.62	\$ 2,877,605	\$ 210.80	40.7%
MSG	10,400	\$ 7,805,000	10,450	\$ 7,842,524	-	\$ (781,751)	10,450	\$ 7,060,773	\$ 725.15	\$ 7,579,224	\$ 805.22	-9.9%
TBD1												
TBD2												
Total		<u>\$ 9,195,000</u>		<u>\$ 9,741,538</u>				<u>\$ 9,741,538</u>		<u>\$ 10,456,829</u>		

Outpatient Surgical Recovery Hours on MSG
w/o Associated Cost Reclassification
MSG Level IV "Cost per Hour"
Adjusted Level IV Costs
to be reallocated to SDS

25,000
\$ 31.27
\$ 781,751

