

Distribution: Hospital 02-08

Issued: June 15, 2002

Subject: FY'02 Outpatient Hospital Adjustor Pool

Effective: July 15, 2002

Programs Affected: Medicaid

Section 1645 of P.A. 60 of 2001 directs the Department of Community Health (DCH) to distribute \$14,011,000 in funds to eligible Michigan hospitals in the form of an outpatient hospital adjustor for state fiscal year (SFY) 01/02.

The first pool in the amount of \$5,604,400 will be distributed to hospitals based on each hospital's Title XIX fee-for-service outpatient hospital charges. The second pool in the amount of \$8,406,600 will be distributed to hospitals based on each hospital's Title XIX HMO outpatient hospital charges.

To receive funds from either pool, a hospital must be operating and enrolled in the Medicaid program on the date the payment is made. In order to calculate each hospital's distribution for each pool, outpatient hospital data will be drawn from hospital cost reports ending in SFY 99/00 (between October 1, 1999 and September 30, 2000). Outpatient hospital charges will be limited to those charges eligible for reimbursement under Title XIX. Charges will be converted to costs using each hospital's outpatient hospital cost to charge ratio. If a hospital's cost to charge ratio is greater than one, then one will be used. Costs will be inflated to a common point in time. Inflation factors will be taken from *Standard and Poor's DRI - Health Care Cost Review - Second Quarter 2001*. Hospital costs will be inflated using the inflation factor for the quarter in which the hospital's cost year ends. A hospital's distribution from a pool will be determined by dividing its adjusted costs by the adjusted costs for all eligible hospitals *times* the available funds in the pool.

Hospitals that filed more than a single cost report during the eligibility period for these pools will have their cost report data combined and annualized to allow for only twelve months of combined cost data. Merged hospitals will have their distribution payments combined. Payments will be made to the surviving hospital.

Charge data taken from hospital cost reports is subject to review and appeal at the time the cost report is filed. The hospital's outpatient hospital cost to charge ratio is subject to review at rebasing. No further appeal of either the charge data or the outpatient hospital cost to charge ratio, as part of the distribution of funds from these pools, will be allowed.

Aggregate Medicaid reimbursement to Michigan hospitals for outpatient services (including the special indigent pools) will not be allowed to exceed the federally mandated upper payment limit for outpatient services provided to Michigan Medicaid beneficiaries. To account for varying hospital year end dates, the test will be made based on data taken from hospital cost years ending during the same state fiscal year used to do the distribution (e.g. the test for 2002 will use hospital cost years ending between October 1, 1999 and September 30, 2000). If the test against the upper payment limit finds that the upper payment limit was exceeded, the size of these pools will be reduced proportionately by the amount in excess of the limit.

Inflation factors used to inflate costs to September 30, 2000 are as follows:

<u>Fiscal Year Ending</u>	<u>Inflation Factor</u>
12/31/99	1.042
3/31/00	1.030
6/30/00	1.016
9/30/00	1.000

Fee-For-Service Pool

Distributions from the fee-for-service outpatient hospital adjustor pool will be calculated as follows:

Charges are limited to outpatient hospital charges for provider type 40.

Hospital Charges = Title XIX FFS outpatient hospital charges
Hospital Costs = Hospital Charges x CC Ratio x Inflation Factor

$$Hospital's\ Distribution = \frac{Hospital's\ Costs}{\sum Hospitals' Costs} \times \$5,604,400$$

Title XIX FFS = Medicaid fee-for-service
CC Ratio = Hospital's outpatient FFS cost- to- charge ratio

Managed Care Pool

To receive funds from the managed care outpatient hospital adjustor pool, a hospital must meet by February 15, 2002, the following criteria:

- If no Medicaid HMO has been authorized by Medicaid to enroll beneficiaries in the county in which the hospital is located or in the hospital's service area within the county, the hospital will be allowed to participate in the distribution of funds from this pool.
- If only a single Medicaid HMO has been authorized by Medicaid to enroll beneficiaries in the county in which the hospital is located, the hospital must have a signed agreement with that HMO.

- If two or more Medicaid HMOs have been authorized by Medicaid to enroll beneficiaries in the county in which the hospital is located, the hospital must have a signed agreement with at least two of the HMOs.

At a minimum, agreements must provide for appropriately authorized, medically necessary inpatient hospital, outpatient hospital, emergency and clinical care arranged by a physician with admitting privileges to the facility and credentialed by the HMO.

Distributions from the managed care outpatient hospital adjustor pool will be calculated as follows:

Charges are limited to outpatient hospital charges for provider type 40.

Hospital Charges = Title XIX HMO outpatient hospital charges
Hospital Costs = Hospital Charges x CC Ratio x Inflation Factor

Hospital's Distribution = $\frac{\text{Hospital's Costs}}{\Sigma \text{Hospitals' Costs}} \times \$8,406,600$

Title XIX HMO = Medicaid Health Maintenance Organization
CC Ratio = Hospital's outpatient FFS cost- to- charge ratio

Distribution of funds from all pools will be made prior to September 30, 2002. Should a hospital fail to qualify for a distribution from either pool, its share will not be redistributed.

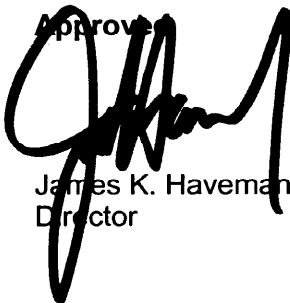
Manual Update

Manual pages will be updated in the future; **retain this Bulletin.**

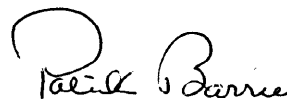
Questions

Any questions regarding this bulletin should be directed to: Provider Inquiry, Medical Services Administration, P.O. Box 30479, Lansing, Michigan 48909-7979, or e-mail at ProviderSupport@michigan.gov. When you submit an e-mail, be sure to include your name, affiliation, and a phone number so you may be contacted if necessary. Providers may phone toll free 1-800-292-2550.

Approve



James K. Haveman, Jr.
Director



Patrick Barrie
Deputy Director
Health Programs Administration