

OUTPATIENT DISPROPORTIONATE SHARE HOSPITAL PAYMENTS EXPLORE ESTABLISHING A MEDICAID VALUE POOL

(FY2015 Appropriation Bill - Public Act 252 of 2014)

April 1, 2015

Section 1800: From the \$85,000,000.00 increase in funding in part 1 for outpatient disproportionate share hospital payments, the department shall explore establishing a Medicaid value pool that rewards and incentivizes hospitals providing low-cost and high quality Medicaid services. The department shall convene a workgroup of hospitals to assist in the development of the metrics utilized to determine value, and shall report to the senate and house appropriations subcommittees on community health the senate and house fiscal agencies, and the state budget director on the results of the workgroup by April 1 of the current fiscal year.

Disproportionate Share Hospital (DSH) Report

Background

In response to and in accordance with Section 1800 of Public Act 252 of 2014, the Department of Community Health (DCH) convened a workgroup to discuss the objectives outlined in the above boilerplate language. This report describes the conclusions of the workgroup.

The DSH workgroup convened on February 17, 2015 to explore establishing a value pool that rewards and incentivizes hospitals providing low-cost and high quality Medicaid services using funds allocated for outpatient DSH purposes. The workgroup was chaired by DCH and consisted of representatives of DSH hospitals and the Michigan Health and Hospital Association. Hospital representation was broad and diverse and included staff from small and large hospitals; teaching and nonteaching hospitals; urban and rural hospitals; and systems and unaffiliated hospitals.

Medicaid DSH Eligibility Criteria

To begin the session, DCH staff provided general information regarding the Medicaid DSH program, and informed hospitals that in order to qualify for any Medicaid DSH payment, hospitals must meet both of the following federal criteria.

1. Medicaid inpatient days must be no less than 1% of the hospital's total number of inpatient days.
2. The hospital must fall into one of the following categories:
 - Have two obstetricians on staff;
 - If in a rural area, have two physicians on staff that can perform obstetrics;

- Be a hospital serving inpatients predominantly comprised of individuals under 18 years of age; or
- Have existed in 1987 and not offered obstetrics at that time.

If these conditions are not met, the hospitals cannot participate in the Medicaid DSH program.

Outpatient Uncompensated Care DSH Pool

Since boilerplate section 1800 indicates the \$85 million DSH pool expansion is for outpatient DSH, MDCH provided information on the current outpatient DSH program. A summary is provided below.

Hospitals that meet federal DSH criteria described above may also qualify for the Outpatient Uncompensated Care DSH Pool.

The Outpatient Uncompensated Care DSH Pool is split evenly between the following two components:

- Small or Rural – hospitals with fewer than 100 acute care beds or hospitals in a rural county
- Large-Urban – hospitals with 100 or more acute care beds located in an urban county

Payments from the Outpatient Uncompensated Care DSH Pool are based on each hospital's proportion of outpatient uncompensated care relative to other hospitals in each component of the pool. The formula to calculate the distribution of payments from this pool is as follows.

1. Calculate hospital-specific Medicaid fee-for-service (FFS) outpatient payment to charge ratios.
2. Calculate hospital-specific uncompensated outpatient charges.
3. Standardize hospital-specific uncompensated outpatient charges by converting them to a Medicaid FFS payment equivalent. This is done by multiplying the results of Step 1 by the results of Step 2.

4. Determine each hospital's pool factor by dividing their Medicaid FFS payment equivalent by the sum of all Medicaid FFS payment equivalents of hospitals in the pool component.
5. Multiply each hospital's pool factor by the total pool component amount.

Workgroup Results

While not all members of the workgroup agreed that the Medicaid DSH program was the appropriate place to address hospital value and efficiency, most members felt that value and efficiency were important metrics and should be evaluated in some way, whether through Medicaid DSH or through another component of Medicaid hospital reimbursement. Despite these differences in opinion over whether the Medicaid DSH program is the most appropriate setting for value metrics, general agreement was reached on how to proceed with adding a value adjustment to a portion of the new DSH funding.

Workgroup members wanted to minimize administrative cost associated with developing a new value-based DSH system and encouraged the DCH to use measures that hospitals have the ability to impact and that currently exist for other programs and payers. In addition, the workgroup expressed a desire to minimize obstacles to receiving federal approval of the new value pool. To achieve all these goals, the workgroup recommended the following for the \$85 million outpatient DSH pool expansion.

- The FY 2015 Outpatient Uncompensated Care DSH Pool will be increased by \$80 million and allocated using existing payment formulas described above.
 - \$65 million will be allocated to hospitals that meet criteria for the Large-Urban pool component.
 - \$15 million will be allocated to hospitals that meet the criteria for the Small or Rural pool component.

- \$5 million will be allocated to hospitals in the Large-Urban pool component. Funds from this pool will be allocated using existing payment formulas described above, but will be adjusted by the Medicare value based purchasing (VBP) performance score that is published annually in the federal register. Hospitals recommended limiting participation in the value pool to Large-Urban hospitals because it is not mandatory for critical access hospitals to report on the Medicare VBP metrics and, therefore, they have no performance score.