Outpatient Upper Payment Limit Methodology

The Outpatient Upper Payment Limit (UPL-O) is the maximum Medicaid can reimburse providers and still receive federal financial participation for outpatient hospital services. The UPL-O is a prospective stand-alone calculation for any state fiscal year and is not reconciled to actual costs. The UPL-O must be a reasonable estimate of the potential provider Medicaid uncompensated costs under current conditions; it does not represent actual Medicaid reimbursement, actual Medicaid provider costs or actual Medicaid (or Medicare) reimbursement due to the provider for a specific fiscal year. The calculation is done for three separate provider categories: state owned government hospitals; non-state owned government hospitals and privately owned hospitals.

For the FY 2009-10 UPL-O calculation, the Department multiplied total Medicaid outpatient charges by the facility Cost to Charge Ratio (CCR) to arrive at total Medicaid outpatient costs. The CCR was calculated by dividing total outpatient ancillary cost center costs by total outpatient ancillary cost center charges. Costs were inflated to FY 2009-10 using the MEI - Hospital Market Basket and Medicaid utilization. Medicaid charges are 2007 charges from the MMIS.

The methodology used to calculate the Medicaid outpatient utilization inflation factor is summarized as follows:

1. Data

   The Department accessed outpatient hospital visits from the MMIS for seven state fiscal years from FY 2003-04 through FY 2008-09. An outpatient hospital visit is the Department's proxy for the outpatient utilization variable for the Outpatient Upper Payment Limit calculation. The Department's Budget Office maintains an historical and ongoing record of caseload. Caseload data was collected from FY 2003-04 through FY 2008-09 as well as the caseload estimate for FY 2009-10. The Medicaid caseload populations that were collected do not include Children (birth to age 18) or Dual Eligible clients.

2. Methodology

   The objective is to determine the change in outpatient utilization as a function of caseload, which can then be used to predict the utilization trend for the FY 2009-10 Outpatient Upper Payment Limit calculation. There is a strong correlation between caseload and utilization for the Medicaid population when excluding Children and Dual Eligibles. The observed correlation is .759.

   Using ordinary least-squares linear regression, a trend line was established and trend values for outpatient hospital visits were calculated based on the known caseload amounts and the Department's caseload estimate for FY 2009-10. The percent change in the trend line for outpatient hospital visits will be the change in outpatient utilization for calculating the Outpatient Upper Payment Limit.

3. Results

   The Calculated inflation rate based on outpatient utilization is 15.93%.

Outpatient Visits as a function of Caseload Excluding All Children and Duals						
Year	**Caseload**	**% Δ**	**Visits**	**% Δ**	**Outpatient Utilization**	**% Δ**
2004	147,523		850,491		847,762	
2005	158,152	7.20%	935,481	9.99%	953,041	12.42%
2006	160,507	1.49%	962,456	2.88%	976,372	2.45%
2007	157,208	-2.06%	936,146	-2.73%	943,690	-3.35%
2008	156,584	-0.40%	964,502	3.03%	937,514	-0.65%
2009	168,575	7.66%	1,065,590	10.48%	1,056,287	12.67%
2010	185,563	10.08%			1,224,566	15.93%

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The methodology to calculate Total Medicaid Outpatient Costs is summarized as follows:

1. The Cost to Charge Ratio – is calculated by dividing Total Ancillary Costs as reported on CMS form 2552-96, Wkst C, Part I, Col 5 divided by Total Ancillary Charges as reported on CMS form 2552-96, Wkst C, Part I, Col 8 to arrive at Cost to Charge Ratio. The Cost to Charge Ratio is reported on Wkst C, Part I, Col 9.
2. Total Medicaid Outpatient Costs – is calculated by multiplying the Cost to Charge Ratio calculated in Step 1 times the Medicaid Outpatient Charges from the MMIS.
3. Special Conditions

   A. Pikes Peak Regional Hospital and Pagosa Mountain Hospital opened in October of 2007 and January of 2008 respectively. Their Outpatient Medicaid Costs were estimated by averaging comparable hospitals Outpatient Medicaid Costs.

   The hospitals selected to be used for the estimates were Conejos County Hospital, Rangely District Hospital, and Sedgwick County Hospital; these were chosen based on similar bed size and their common designations as Critical Access Hospitals.

Medicaid payments are calculated as follows:

The Department cost-settles to 70% of Medicaid costs for outpatient services once audited cost reports are available. The Department performs a cost audit once the cost report is finalized by Medicare. The Department's methodology calculates the UPL-Outpatient equal to 100% of Medicaid costs, so Medicaid payments will equal 70% of those calculated costs and the available UPL-O is 30% of total Medicaid outpatient costs.