

High-Level Summary of the Revised 2014-15 Hospital Provider Fee Model

Overview

The Department of Health Care Policy and Financing (Department) and some hospitals found errors with data calculations supplied by our contractor, Public Consulting Group (PCG). These errors impact the 2014-15 hospital provider fee payment calculations approved by the Hospital Provider Fee Oversight and Advisory Board (OAB) in October 2014. These miscalculations come from the Uniform Cost Report (UCR) system developed by PCG which was intended to convert Medicaid and uninsured days and charges to costs. Because of this, the Department must recalculate the 2014-15 Hospital Provider Fee Model.

In response to this event, the Department has also undertaken a thorough review of all of the model's underlying assumptions and methodologies, including the upper payment limit (UPL) calculations and the data used for the fee calculations.

There are 5 payments in the 2014-15 Hospital Provider Fee Model:

- Payment for inpatient services
- Payment for outpatient services
- Payment for uncompensated care
- Payment to Disproportionate Share Hospitals (DSH)
- Payment based on hospital quality measures

The cost calculations impacted by the UCR errors are specific to hospital fiscal year 2012 Medicaid and Uninsured Cost calculations. These calculations were used as the basis of the supplemental payments for uncompensated care and DSH developed for the 2014-15 Hospital Provider Fee Model.

Overall Impact of the Errors

- **No Change in Overall Net Reimbursement**
 - No change in total payments
 - No change in total fees
- **Medicaid and Uninsured Costs from the UCR have been revised**
 - The Medicaid and Uninsured Costs are the basis for the estimated DSH Limits
 - Total Medicaid and Uninsured Costs declined approximately 10%
 - The Uninsured Costs are used for the distribution of the DSH payment and the uncompensated care payment made to hospitals with greater than 25 beds.
 - Uninsured Costs declined approximately 15%

- **While there are no changes in total reimbursement, payments to each individual hospital are impacted.**
- **The corrected data would have significant impacts on the payments for individual hospitals if no changes are made to the methodology.**
 - About 20% of hospitals would see changes of +/- \$2 million compared to what was approved by the OAB in October.
 - 4 hospitals would see changes of +/- \$10 million compared to what was approved by the OAB in October.
 - Rural Hospitals would experience a decrease in net reimbursement compared to what was approved by the OAB in October.

Changes to the 2014-15 Hospital Provider Fee Model

The OAB has established the following guiding principles for the development of the Hospital Provider Fee Model:

- Increase reimbursement for Medicaid and uninsured persons
- Expand access to health care services
- Improve quality of health care services
- Reduce uncompensated costs and cost shifting to private payers
- Minimize the magnitude of net losses and the number of hospitals that net losses

The OAB and the Department also established the following policy foundations for the 2014-15 Hospital Provider Fee Model:

- Increase transparency and ease of understanding for all stakeholders
- Clear focus on increasing Medicaid payment rates, funding the uninsured, and funding quality incentive payments
- Have payments based on under- and uncompensated hospital care for Medicaid and uninsured patients
- Have equity across UPL pools

When unexpected changes to payments have occurred in the past, the OAB has recommended that the Department seek to minimize the impact to hospitals with particular consideration to rural and safety net hospitals and hospital systems.

The changes to the data were substantial, and some providers saw drastic changes to their Medicaid and uninsured cost data. As a result, it was impossible for the Department to eliminate the impacts to providers. In accordance with the OAB's guiding principles and recommendations from the past, the Department has sought to minimize the impact to rural hospitals, systems, safety net hospitals, and to limit the number and magnitude of hospitals that have a net reimbursement loss. The Department did this to the extent

possible, while still adhering to federal requirements and the policy foundations for the 2014-15 hospital provider fee model, including giving consideration to maintaining consistent percentages across UPL pools.

Specifically, the Department has achieved this by increasing the portion of the uncompensated care payment for hospitals with fewer than 25 beds by approximately 10% and modifying the percentage adjustment factors for the inpatient and outpatient base rate payments.

Next Steps

The Department finalized its quality control review of the revised model and will be reviewing the revised model in detail with the OAB at its next meeting on March 17, 2015. The model documents will be sent to the OAB by March 6, 2015 and made available to hospitals.

If the OAB approves the changes and recommends the model, the Department will then be working with the Centers for Medicare and Medicaid Services (CMS) to make any necessary revisions to the State Plan Amendment (SPA) and to obtain CMS approval of the SPA.

After receiving approval of the SPA, the Department will then need to begin reconciliation from the interim payments to the final model giving consideration to hospital cash flows.

Going forward, the Department is committed to working with the Colorado Hospital Association to provide the data inputs for the fees and payments to hospitals for review before the model is developed.