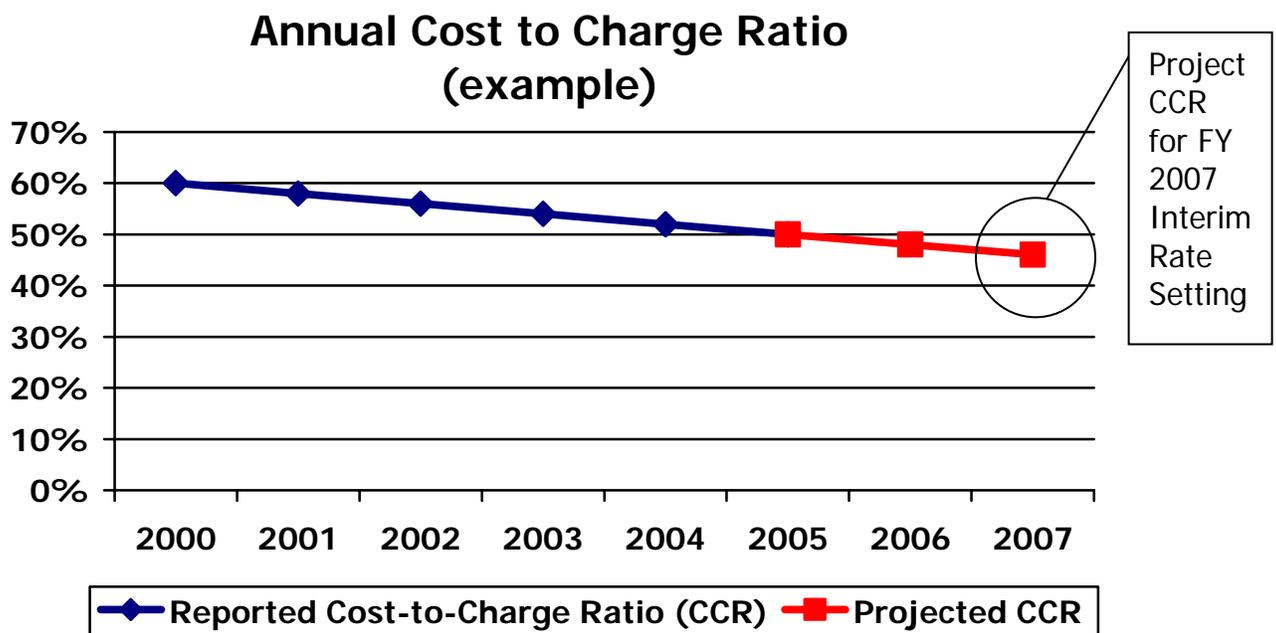




## FY 2007 Interim Rates Medicaid/PCK Outpatient Hospital Program June 2006

**RATE SETTING METHODOLOGY** - The department reimburses an interim rate to hospitals for most Medicaid covered services by applying a cost-to-charge ratio (CCR) to submitted charges. Upon receipt of a hospital's audited cost report, the department determines the actual cost for these Medicaid services. For critical access hospitals and state owned hospitals, final annual payments are equivalent to 100% of cost. For all other hospitals, final annual payments are equivalent to 85.6% of cost. The department compares annual interim payments to final reimbursable costs, and settles with the hospital for the difference. (NOTE: Some hospital services are reimbursed based on a fee schedule and are not subject to cost settlement).

**PROJECTING INTERIM RATES** - The department must utilize the most recent information available to establish interim rates. The department's goal is to calculate a cost-to-charge ratio that will most closely result in interim payments being equal to final cost-based payments. It is the department's intent to avoid large payouts or paybacks when payments are settled in the future. This requires the department to project what a future CCR will be based on available, historical data. The department first utilized this methodology when setting interim rates for FY 2006.



**VALIDATION OF METHODOLOGY** - The department evaluated the accuracy of applying a trend factor to estimate future CCRs by utilizing new data not previously available for FY 2006 interim rate setting. In July 2005, the department created trend factors by utilizing historic data from 1999 through 2003. The department now has access to 2004 data and has added it to the trend factor calculation to see if an additional point of actual data would significantly change the projection of FY 2006 interim rates.

After Applying 2004 Data:	# of Hospitals	Average Difference in Original vs. Revised CCR	Fiscal Impact (Overpaid)/ Underpaid
Interim CCR Higher Now then June 2005	49	4.3%	\$13,471,083
Interim CCR Lower Now then June 2005	101	(6.3%)	(\$31,345,452)
<b>Total</b>	<b>150</b>	<b>(2.8%)</b>	<b>(\$17,874,369)</b>

**COMPARISON OF METHODOLOGY FY 2006 v FY 2007** – The department will apply a very similar methodology in setting interim rates for FY 2007. Please see the following table for a comparison of data elements and methodology used for FY 2006 and FY 2007 rates.

DATA ELEMENT	SFY2006	SFY2007
Source of CCRs	Most recent filed cost report	Most recent filed cost report*
Typical cost report Fiscal Year End	2003 or 2004	2004 or 2005
Trend factor for CCR changes - Critical Access Hospitals	None	None
Trend factor for CCR changes - All other Hospitals	Peer group**	Peer group
Trend factor time period	Number of years between cost report FYE and SFY2006	Number of months from FYE to 6-30-2007
Hospital Financial Surveys used for CCR trend factors	1999 to 2003	2000 to 2004
Minimum CCR allowed	20%	20%
* Greater of as-filed CCR or DSH-audited CCR		
** A statewide trend factor calculated using the most recent audited cost reports was used if it resulted in a higher CCR.		

**COMPARISON OF AVERAGE INTERIM  
 COST-TO-CHARGE RATIOS BY PEER GROUP**

<b>Hospital Peer Groups</b>	<b>FY 2006 CCRs</b>	<b>FY 2007 CCRs</b>
< 51 beds	33.4%	29.3%
51-100 beds	32.9%	29.2%
> 100 beds and private	23.7%	22.2%
> 100 beds and public	32.6%	30.0%
Critical Access	66.9%	60.6%
Pediatric	41.1%	45.1%
<b>Total</b>	<b>39.2%</b>	<b>35.6%</b>

**COMMENTS:**

1. A decrease in the CCR (i.e., the percentage of charges paid) IS NOT necessarily a reduction in payments.
2. Hospitals will still be paid the same percentage of actual costs (85.6% or 100%) in SFY2007 as in SFY2006 when cost settlement occurs.
3. Assuming that cost inflation occurs, the amount paid for an outpatient service is expected to increase.
4. The decrease in the CCR, in effect, recognizes that hospital charges increase at a higher rate than inflation.