

**DRAFT RECOMMENDATION REGARDING IMPLEMENTATION OF
CHARGE PER VISIT (CPV) METHODOLOGY FOR FY 2008**

Health Services Cost Review Commission
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April 22, 2008

This document is a draft staff recommendation to the Commission at the April 22, 2008 public meeting

Background

The Maryland Health Services Cost Review Commission at its June 13, 2007 meeting approved the staff recommendation titled, "Prospective Ambulatory Surgery Guaranteed Revenue Payment System." This system was developed in consultation with the hospital industry over a number of years. Under this system each hospital receives an individually determined Charge-Per-Visit (CPV) target for a defined set of outpatient services. Hospitals are to manage to these targets much as they do now under the Commission's inpatient Charge-Per-Case (CPC) targets. CPVs are based on the underlying resources needed to provide a range of outpatient services. CPVs are risk-adjusted using the Enhanced Ambulatory Patient Grouping (EAPGs) system. In addition, outpatient updates and hospital specific pricing factors are accounted for at the individual hospital level. Finally, a one percent allowance for cost growth unaccounted for by the case mix change or price change is allowed (the intensity allowance). Finally, the recommendation called for the system to be effective for FY 2008, using FY 2007 as the base year.

Status of CPV Implementation

To implement the CPV system a number of technical and process hurdles needed to be cleared including: the collection of complete outpatient data; the establishment of final EAPG weights; and, the setting of hospital specific CPV targets. Maryland hospitals and Commission staff have made great progress in these areas; however that progress has not been rapid enough to allow implementation of the CPV system for FY 2008. Staff therefore recommends that implementation of hospital-specific CPVs be delayed to allow for implementation of a more comprehensive CPV system (that will include emergency department and clinic services) in FY 2009.

Several related factors lead to this recommendation:

Collection of Complete Outpatient Data. Submission of complete outpatient data became a requirement for hospitals for the quarter beginning July 2007. As a result, the Commission did not have access to the first quarter's worth of FY 2008 until November 2007. Analysis of that data and subsequent submissions indicates that most Maryland hospitals have been successful in submitting complete outpatient data. A small number of hospitals are still experiencing submission difficulties. The need to collect and analyze complete outpatient data led to the next two reasons for delaying implementation of the CPV system.

Final Calculation of EAPG weights. As a final check on the FY2008 EAPG weights, Commission staff chose to use data from the first quarter of FY 2008 (when complete submission of outpatient data was required) to make final adjustments and exclusions. As a result, FY 2008 EAPG weights were not final until January 2008.

Final Calculation of hospital-specific CPV targets. The calculation of individual hospital CPV targets – the core of the CPV system- requires a combination of EAPG case weights, and individual hospital "price leveling" calculations. As the CPV calculations

for each individual hospital had to follow final case weights hospital CPV targets were not formally released until March 17, 2008.

Recommendation

The consequence of this schedule of data collection and analysis is that final CPV targets were not available to hospitals until the fiscal year was three quarters complete. Lack of a CPV target, combined with the effects of individual hospital rate realignment means that, as a practical matter, hospitals cannot effectively manage to their FY 2008 CPV targets. Staff recommends that the implementation of the CPV system be delayed until FY2009.

The delay until FY2009 will allow several improvements to the CPV system:

Incorporation of Emergency Department (ED) and Clinic Services into the CPV target. The incorporation of ED and clinic services into the CPV methodology has always been the goal of the Commission. Since July, the Commission has continued to analyze data and is prepared to present analysis of a more inclusive CPV methodology that will include ED and clinic services to the outpatient workgroup on Wednesday, April 23, 2008. Analysis conducted thus far indicates that the predictive power of the expanded CPV methodology is high.

Use of FY 2008 as the base year. Since regulations require complete submission of all FY2008 outpatient data it will provide a more appropriate base year than FY 2007 data.

Collection of Complete Data from All Hospitals. As was noted several hospitals have yet to submit complete outpatient data. These hospitals have been informed of the deficiencies in their submissions and the Commission staff is working closely with them to correct any problems. As hospitals have until the end of the fiscal year to submit complete outpatient data, Commission staff is confident that any remaining data problems will be addressed.

Use of Revised EAPG grouper. On April 14, 2008 3M released version 3.1 of the EAPG grouper. The new grouper addresses some of the technical issues that were identified by Maryland hospitals in the earlier version of the grouper. Delaying implementation will address these issues as well as allow hospital and consultants ample time to analyze their data using the most current grouper.



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April 3, 2008

Robert Murray
Executive Director
Health Services Cost Review Commission
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RE: GUARANTEED OUTPATIENT REVENUE—AMBULATORY SURGERY

Dear Bob:

On behalf of our member hospitals, I am writing to ask you to delay implementation of the Guaranteed Outpatient Revenue (G.O.R.) system for ambulatory surgery until July 1, 2008. We recommend using FY 2008 as the base period, and recommend reconciling the base period outpatient data set within 1.0 percent of the outpatient financial data. Inpatient payment methodologies are based on reported data that have been reconciled. The same data standard should apply to the outpatient methodology.

At the June 13, 2007 HSCRC meeting, MHA expressed serious concerns with the July 1, 2007 implementation of the G.O.R. system and recommended delaying financial impacts to July 1, 2008. The two main reasons we asked the commission to delay were Version 3.0 of the 3M EAPG Grouper would not be available for use in hospitals until the end of CY 2007, at the earliest; and beginning July 1, 2008, a new complete outpatient data set would be submitted to the HSCRC. The commission approved the July 1, 2007 implementation, but agreed to mitigate the impact of the G.O.R. system with corridors on the level of gains and losses.

On December 20, 2007, we again asked to delay implementation, citing hospitals' inability to monitor their positions under the GOR system without a final methodology or way to measure outpatient case-mix. Much progress has been made over the past nine months. However, hospitals still do not have a way to monitor outpatient case-mix without the assistance of a consultant; the outpatient data set has not been fully reconciled to the outpatient financial data reporting; and, several key steps in the application of the methodology have not been decided. There has been no recommendation on how to apply a GOR penalty or reward to hospital's rates, and no decision on the size of the protection corridors.

Commission staff planned to make a recommendation on the size of the protection corridors after seeing actual data. Modeling of the GOR results based on the first six months of data (attached) shows hospitals' charges at \$48 million less than expected—an amount that would result in a \$7.6 million reward statewide (based on a 2 percent corridor) for the first two quarters of FY 2008. Ambulatory surgery charges of \$48 million less than expected for the first six months

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Robert Murray
April 4, 2008

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of the fiscal year are a result of huge differences in the rate order targets hospitals anticipated compared to the actual rate orders received in December 2007. Realigning unit rates with charge-per-case, while necessary, caused individual unit rates to change up to 15 percent or more, in addition to the annual update. Without final rate orders, hospitals conservatively estimated their allowed charges. The first two quarters of data do not reflect hospitals' management of ambulatory surgery resources; instead, the data reflect hospitals' accuracy in estimating their final rate order targets. It will be a challenge for hospitals to come into compliance with allowed targets over the second half of the fiscal year. Whether a hospital gains or loses under the GOR will depend more on its ability to manage its target than its ability to manage ambulatory surgery resources.

In summary, we recommend the following:

- Delay implementation of the ambulatory surgery GOR system until July 1, 2008
- Base period is July 1, 2007 to June 30, 2008
- Reconcile base period outpatient encounter data within 1 percent of outpatient financial data
- Provide hospitals a means to monitor outpatient case-mix without a consultant

We appreciate the HSCRC staff's willingness to work collaboratively with hospitals on the outstanding issues. I look forward to continuing to work with you in the further development of the new GOR system.

Sincerely,



Robert Z. Vovak
Senior Vice President & CFO

Attachment

Ambulatory Surgery Guaranteed Outpatient Revenue Impact
 Base Year = FY 2007 Rate Year = FY 2008 Q1 & Q2

| A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S |
|--------|--------------------------------------|---------------|--|---------------|------------------|--------------------------------|---------------------|--------------|------------------------|------------------|---------------------------|----------------|------------------------|------------------|-------------------------------|------------------------------|---------------------------|-------------------------------|
| ID | Hospital | FY 2007 Cases | Base Year Average Charge per Visit (CPV) | Base Year CMI | CMI Adjusted CPV | Hosp Specific AS Rate Increase | Intensity Allowance | Total Update | CPV Target for FY 2008 | FY08 Q1&Q2 Cases | FY08 Q1&Q2 Average Charge | FY08 Q1&Q2 CMI | % CMI Change from Base | CMI Adjusted CPV | Approved CPV minus Actual CPV | Quarter 1 & 2 Revenue Impact | Difference as % of Target | Revenue Assoc. w/ 2% Corridor |
| 210001 | Washington County Hospital | 6,936 | \$2,646 | 1.21937 | \$2,170 | 13.46% | 1.00% | 14.46% | \$2,484 | 3,555 | \$2,847 | 1.2436 | 1.99% | \$2,290 | 194.20 | \$858,546 | 7.82% | \$219,621 |
| 210002 | University of Maryland Hospital | 11,518 | \$3,809 | 0.91045 | \$4,183 | 7.28% | 1.00% | 8.28% | \$4,530 | 6,421 | \$3,458 | 0.9094 | -0.11% | \$3,802 | 727.52 | \$4,248,239 | 16.06% | \$528,998 |
| 210003 | Prince Georges Hospital Center | 2,722 | \$3,036 | 1.03181 | \$2,942 | 7.62% | 1.00% | 8.62% | \$3,196 | 1,167 | \$2,883 | 1.0854 | 5.19% | \$2,656 | 539.80 | \$683,726 | 16.89% | \$80,953 |
| 210004 | Holy Cross Hospital | 7,589 | \$3,323 | 1.32210 | \$2,495 | 4.39% | 1.00% | 5.39% | \$2,629 | 1,289 | \$2,412 | 1.0899 | -18.18% | \$2,213 | 416.66 | \$2,397,740 | 15.85% | \$302,614 |
| 210005 | Fredrick Memorial Hospital | 7,121 | \$2,913 | 1.18876 | \$2,451 | 6.77% | 1.00% | 7.77% | \$3,089 | 1,186 | \$2,876 | 1.1945 | 0.48% | \$2,408 | 233.09 | \$860,033 | 8.83% | \$194,887 |
| 210006 | Harford Memorial Hospital | 2,234 | \$2,723 | 0.91939 | \$2,962 | 14.90% | 1.00% | 15.90% | \$3,433 | 1,186 | \$2,922 | 0.9306 | 1.22% | \$1,140 | 292.62 | \$322,958 | 8.52% | \$75,775 |
| 210007 | St. Joseph Medical Center | 13,300 | \$2,039 | 0.99675 | \$2,045 | 7.79% | 1.00% | 8.79% | \$2,225 | 6,251 | \$2,001 | 1.0229 | 2.62% | \$1,957 | 268.51 | \$1,716,792 | 12.07% | \$284,544 |
| 210008 | Mercy Medical Center | 14,164 | \$2,426 | 0.95524 | \$2,540 | 19.09% | 1.00% | 20.09% | \$3,050 | 8,408 | \$2,432 | 0.8937 | -6.44% | \$2,510 | 339.96 | \$4,057,348 | 17.70% | \$458,346 |
| 210009 | Johns Hopkins Hospital | 27,720 | \$2,929 | 0.94241 | \$3,108 | 11.44% | 1.00% | 12.44% | \$3,495 | 14,039 | \$3,023 | 0.9413 | -0.11% | \$3,221 | 273.56 | \$3,615,225 | 7.83% | \$923,667 |
| 210010 | Dorchester General Hospital | 3,316 | \$1,248 | 0.64320 | \$1,941 | 20.07% | 1.00% | 21.07% | \$2,580 | 393 | \$2,490 | 1.1243 | 74.79% | \$3,215 | 135.27 | \$59,768 | 5.76% | \$20,766 |
| 210011 | St. Agnes Hospital | 8,188 | \$2,511 | 1.04282 | \$2,408 | 10.61% | 1.00% | 11.61% | \$2,688 | 3,398 | \$2,621 | 1.0385 | -0.41% | \$2,523 | 164.55 | \$614,837 | 6.12% | \$200,877 |
| 210012 | Sinal Hospital | 10,629 | \$4,848 | 1.13507 | \$4,271 | 9.92% | 1.00% | 10.92% | \$4,738 | 5,042 | \$4,766 | 1.1393 | 0.38% | \$4,183 | 555.12 | \$3,188,879 | 11.72% | \$544,357 |
| 210013 | Bon Secours Hospital | 1,959 | \$3,447 | 0.97108 | \$3,550 | 27.88% | 1.00% | 28.88% | \$4,575 | 997 | \$3,737 | 1.0022 | 3.21% | \$3,729 | 846.47 | \$845,789 | 18.50% | \$91,432 |
| 210015 | Franklin Square Hospital Center | 9,796 | \$2,389 | 0.97645 | \$2,447 | 16.32% | 1.00% | 17.32% | \$4,575 | 4,250 | \$2,734 | 0.9477 | -2.94% | \$2,885 | -14.30 | \$57,593 | -0.50% | \$-57,593 |
| 210016 | Washington Adventist Hospital | 6,142 | \$3,336 | 1.12034 | \$2,978 | 13.47% | 1.00% | 14.47% | \$3,408 | 2,818 | \$4,107 | 1.1724 | 4.64% | \$3,503 | -94.57 | \$-312,416 | -2.77% | \$-225,207 |
| 210017 | Garrett County Memorial Hospital | 3,034 | \$1,166 | 0.76388 | \$1,527 | 11.2% | 1.00% | 12.2% | \$1,559 | 51 | \$373 | 1.0779 | 41.11% | \$3,46 | 1213.27 | \$66,697 | 77.87% | \$1,714 |
| 210018 | Montgomery General Hospital | 3,755 | \$2,858 | 1.13862 | \$2,510 | 11.59% | 1.00% | 12.59% | \$2,826 | 2,081 | \$3,291 | 1.1612 | 1.98% | \$2,834 | -8.41 | \$-320,329 | -0.30% | \$-20,329 |
| 210019 | Peninsula Regional Medical Center | 12,772 | \$2,121 | 0.94390 | \$2,247 | 12.12% | 1.00% | 13.12% | \$2,540 | 4,649 | \$2,540 | 1.1037 | 16.93% | \$2,301 | 241.16 | \$1,237,463 | 9.49% | \$260,880 |
| 210022 | Suburban Hospital | 6,683 | \$3,033 | 1.25982 | \$2,407 | 16.24% | 1.00% | 17.24% | \$2,823 | 3,221 | \$3,246 | 1.2284 | -2.49% | \$2,643 | 179.99 | \$712,177 | 6.38% | \$223,562 |
| 210023 | Anne Arundel Medical Center | 16,190 | \$2,325 | 1.11291 | \$2,089 | 5.76% | 1.00% | 6.76% | \$2,230 | 8,257 | \$2,717 | 1.1976 | 7.61% | \$2,269 | -38.46 | \$-380,319 | -1.72% | \$-308,319 |
| 210024 | Union Memorial Hospital | 12,342 | \$3,071 | 0.95110 | \$3,229 | 11.52% | 1.00% | 12.52% | \$3,633 | 5,853 | \$3,451 | 0.9355 | 0.90% | \$3,217 | 416.04 | \$2,336,714 | 11.45% | \$408,092 |
| 210025 | Memorial of Cumberland | 6,476 | \$2,183 | 0.95005 | \$2,298 | 1.23% | 1.00% | 2.23% | \$2,520 | 4,299 | \$3,345 | 0.9435 | 7.48% | \$3,545 | 323.74 | \$637,043 | 12.36% | \$103,094 |
| 210027 | Sacred Heart Hospital | 4,827 | \$2,478 | 0.94744 | \$2,549 | -2.17% | 1.00% | -1.17% | \$2,520 | 1,449 | \$1,753 | 0.6460 | -9.93% | \$2,714 | -193.98 | \$-181,578 | -7.70% | \$-47,170 |
| 210028 | St. Mary's Hospital | 3,946 | \$1,819 | 0.78907 | \$2,305 | 2.79% | 1.00% | 3.79% | \$2,392 | 2,555 | \$2,457 | 0.6508 | -17.52% | \$1,970 | 421.82 | \$701,443 | 17.63% | \$79,562 |
| 210029 | Johns Hopkins Bayview Medical Center | 7,488 | \$3,438 | 0.87779 | \$3,917 | 13.80% | 1.00% | 14.80% | \$4,497 | 4,299 | \$3,345 | 0.9435 | 7.48% | \$3,545 | 951.59 | \$637,043 | 12.36% | \$103,094 |
| 210030 | Chester River Hospital Center | 4,534 | \$1,828 | 0.71721 | \$2,549 | -2.17% | 1.00% | -1.17% | \$2,520 | 1,449 | \$1,753 | 0.6460 | -9.93% | \$2,714 | -193.98 | \$-181,578 | -7.70% | \$-47,170 |
| 210032 | Union of Cecil | 4,827 | \$2,478 | 0.94744 | \$2,549 | -2.17% | 1.00% | -1.17% | \$2,520 | 1,449 | \$1,753 | 0.6460 | -9.93% | \$2,714 | -193.98 | \$-181,578 | -7.70% | \$-47,170 |
| 210033 | Carroll Hospital Center | 2,990 | \$2,577 | 1.01303 | \$2,544 | 28.53% | 1.00% | 29.53% | \$3,001 | 1,299 | \$2,108 | 0.9017 | -4.83% | \$2,338 | 663.30 | \$776,950 | 22.10% | \$70,312 |
| 210034 | Harbor Hospital Center | 4,885 | \$2,875 | 1.03570 | \$2,776 | 11.66% | 1.00% | 12.66% | \$3,127 | 1,615 | \$2,601 | 0.9468 | -6.54% | \$2,748 | 547.31 | \$836,853 | 16.61% | \$106,761 |
| 210035 | Civista Medical Center | 3,003 | \$2,833 | 1.10364 | \$2,567 | -3.79% | 1.00% | -2.79% | \$2,496 | 1,011 | \$3,006 | 1.0431 | 0.71% | \$2,882 | 245.09 | \$556,042 | 7.84% | \$181,879 |
| 210037 | Memorial Hospital at Eastern | 8,106 | \$1,409 | 0.78341 | \$1,798 | 20.07% | 1.00% | 21.07% | \$2,177 | 1,686 | \$3,063 | 1.3057 | 66.67% | \$2,346 | -168.87 | \$-371,765 | -7.76% | \$-99,853 |
| 210038 | Maryland General Hospital | 3,021 | \$3,742 | 0.80762 | \$4,634 | -5.66% | 1.00% | -4.66% | \$4,418 | 1,427 | \$3,207 | 0.8283 | 2.56% | \$3,871 | 546.35 | \$645,777 | 12.37% | \$104,430 |
| 210039 | Calvert Memorial Hospital | 5,126 | \$2,149 | 1.06677 | \$1,942 | 5.91% | 1.00% | 6.91% | \$2,076 | 1,960 | \$1,635 | 0.8953 | -19.10% | \$1,827 | 249.34 | \$437,531 | 12.01% | \$240,130 |
| 210040 | Northwest Hospital Center | 7,769 | \$3,091 | 1.01228 | \$3,053 | 9.14% | 1.00% | 10.14% | \$3,563 | 3,604 | \$3,180 | 0.9906 | -2.14% | \$3,210 | 153.07 | \$546,482 | 4.55% | \$245,744 |
| 210043 | Baltimore Washington Medical Center | 9,331 | \$2,642 | 1.07212 | \$2,464 | 16.67% | 1.00% | 17.67% | \$2,900 | 12,806 | \$2,686 | 1.0171 | -5.13% | \$2,641 | 259.12 | \$1,098,006 | 8.94% | \$240,130 |
| 210044 | GBMC | 27,447 | \$1,760 | 0.94079 | \$1,870 | -15.61% | 1.00% | -14.61% | \$4,397 | 478 | \$1,884 | 0.6694 | 17.28% | \$2,815 | 1582.25 | \$506,296 | 35.98% | \$72,862 |
| 210045 | McCreedy Memorial Hospital | 515 | \$2,939 | 0.97091 | \$5,150 | -15.61% | 1.00% | -14.61% | \$4,397 | 478 | \$1,884 | 0.6694 | 17.28% | \$2,815 | 1582.25 | \$506,296 | 35.98% | \$72,862 |
| 210048 | Howard County General Hospital | 8,610 | \$2,114 | 1.01415 | \$2,084 | 9.11% | 1.00% | 10.11% | \$2,295 | 3,955 | \$2,113 | 1.0169 | 0.27% | \$2,078 | 217.21 | \$873,590 | 9.46% | \$184,617 |
| 210049 | Upper Chesapeake Medical Center | 6,416 | \$2,436 | 1.12669 | \$2,162 | 22.62% | 1.00% | 23.62% | \$2,770 | 3,158 | \$3,000 | 1.1502 | 2.09% | \$2,608 | 162.43 | \$590,038 | 5.86% | \$238,668 |
| 210051 | Doctors Community Hospital | 7,455 | \$2,640 | 1.07588 | \$2,454 | 40.86% | 1.00% | 41.86% | \$3,481 | 3,269 | \$2,247 | 1.0488 | -2.52% | \$2,641 | 1338.48 | \$4,588,813 | 38.45% | \$238,668 |
| 210053 | Southern Maryland Hospital Center | 6,077 | \$2,914 | 1.10738 | \$2,631 | 24.41% | 1.00% | 25.41% | \$3,300 | 220 | \$2,713 | 1.0531 | -4.90% | \$3,075 | 225.06 | \$51,142 | 6.82% | \$15,392 |
| 210054 | Laurel Regional Hospital | 2,959 | \$2,636 | 1.01467 | \$2,597 | -1.94% | 1.00% | -0.94% | \$2,573 | 1,426 | \$2,733 | 1.0151 | 0.05% | \$2,673 | -99.91 | \$-144,635 | -3.88% | \$-74,492 |
| 210056 | Good Samaritan Hospital | 7,307 | \$2,189 | 0.79874 | \$2,741 | 7.97% | 1.00% | 8.97% | \$2,987 | 3,668 | \$2,124 | 0.7730 | -3.23% | \$2,747 | 239.24 | \$678,305 | 8.01% | \$169,358 |
| 210057 | Shady Grove Adventist Hospital | 11,404 | \$2,718 | 1.06266 | \$2,499 | 22.63% | 1.00% | 23.63% | \$3,090 | 5,567 | \$3,374 | 1.1634 | 6.96% | \$2,866 | 224.39 | \$1,453,282 | 7.26% | \$400,254 |
| 210058 | James Lawrence Kernan Hospital | 4,654 | \$3,810 | 1.16236 | \$2,718 | 2.35% | 1.00% | 3.35% | \$3,388 | 2,384 | \$3,975 | 1.2113 | 4.21% | \$3,281 | 106.85 | \$308,539 | 3.15% | \$195,677 |
| 210060 | Fort Washington Medical Center | | | | #DIV/0! | 0.00% | 1.00% | 1.00% | \$2,699 | 55 | \$563 | 0.2041 | | \$667 | -467.16 | \$-246,222 | | \$0 |
| 210061 | Atlantic General Hospital | 4,315 | \$1,712 | 0.69871 | \$2,450 | 9.18% | 1.00% | 10.18% | \$2,699 | 2,117 | \$1,830 | 0.7210 | 3.18% | \$2,538 | 161.32 | \$246,222 | 5.98% | \$82,390 |
| | State | 353,865 | \$2,614 | 1.00000 | \$2,614 | 12.05% | 1.00% | 13.05% | \$2,698 | 161,481 | \$2,725 | 1.0100 | 1.00% | \$2,698 | | \$48,802,843 | | \$7,623,038 |