

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT HOSPITAL SERVICES (CONTINUED)

IV. Special Payment Provisions (Continued)

G. Out of State Facilities

Out-of-state facilities will receive payments using the same payment formulas as stated in III.A.1 and III.A.2. However, the values of components of the formulas ~~may~~ differ from those used to pay in-state hospitals.

1. A Base Rate will be assigned to each participating out-of-state hospital based upon its peer group.
  - a. Border Teaching Hospitals: Defined as hospitals within 10 miles of the Vermont border that operate post-graduate training programs. For payments on or after ~~November 21, 2014~~October 1, 2012, the base rate will equal ~~\$4,584,004,976.00~~.
  - b. Non-Border Teaching Hospitals: Defined as hospitals greater than 10 miles of the Vermont border that operate post-graduate training programs. For payments on or after ~~November 21, 2014~~October 1, 2012, the base rate will equal ~~\$2,812,502,974.00~~.
  - c. Other Out-of-State Hospitals: Defined as hospitals not meeting the criteria of G.1.a or G.1.b. For payments on or after ~~November 21, 2014~~October 1, 2012, the base rate will equal ~~\$2,625,002,745.00~~.

e.H. Outlier Payments

Using the formula for outlier payments described in III.A.2, a

~~2. A Fixed Outlier Value, will be assigned to each participating out-of-state hospital based upon its peer group.~~

2. An Outlier Payment Percentage, and a Cost to Charge Ratio will be assigned to each participating ~~out-of-state~~ hospital based upon its peer group.

1. Fixed Outlier Value

- a. In-state Hospitals: \$24,000
- b. Border Teaching Hospitals: \$40,000
- c. Non-Border Teaching Hospitals: \$50,000
- d. Other Out-of-State Hospitals: \$50,000

2. Outlier Payment Percentage

- a. In-state Hospitals: 80%
- b. Border Teaching Hospitals: 50%
- c. Non-Border Teaching Hospitals: 50%
- d. Other Out-of-State Hospitals: 50%

3. Hospitals that are eligible for payment under the per diem methodology for psychiatric stays are not eligible to receive an outlier payment for cases in the psychiatric DRGs listed in IV.C.

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TN # ~~11-031~~  
11/21/1110/1/12

Supersedes

TN # ~~09-003~~

Effective Date:

Approval Date: 03/02/12

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT  
HOSPITAL SERVICES (CONTINUED)

IV. Special Payment Provisions (Continued)

3. The Cost to Charge Ratio (CCR) to be applied for calculating the outlier cost of the case will be assigned to each participating in-state hospital specifically on an annual basis based on a recently filed MCR. Each out-of-state hospitals will be assigned a CCR based upon its peer group.
  - a. Border Teaching Hospitals: The CCR to apply will be ~~calculated~~ assigned to each participating hospital specifically on an annual basis based on a recently filed MCR from the most recent available Medicare Cost Report for each hospital in the peer group.
  - b. Non-Border Teaching Hospitals: The CCR ~~that will be assigned to apply~~ will be the average CCR of all in-state hospitals.
  - c. Other Out-of-State Hospitals: The CCR ~~that will be assigned to apply~~ will be the average CCR of all in-state hospitals.

I. Extraordinary Access Issues

4. In order to ensure access to non-Vermont hospitals providing unusual and highly complex services, the State DVHA has the authority to establish rates on a case by case basis or by hospital.

HJ. New Facilities

New facilities under the DRG system will receive payments using the same payment formulas as stated in III.A.1 and III.A.2. If the new facility is an in-state hospital, it will receive the same base rate as other in-state hospitals and all other payment policies for in-state hospitals will apply. If it is an out-of-state hospital, it will receive a base rate based upon the out-of-state peer group it is assigned to. All other payment provisions will follow the policies for the out-of-state hospital peer group to which it is assigned or the authority as outlined in IV.G and IV.HG-5 above.

HK. New Medicaid Providers

Prospective payment rates for established facilities which had not been an OVHA participating provider prior to October ~~31, 2008~~ 12 will receive payments based on the same provisions that apply to new facilities as described in IV.HJ.

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TN # ~~08-027~~  
10/031/0812

Supersedes

TN # ~~08-025~~

Effective Date:

Approval Date: 05/07/09

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HOSPITAL SERVICES (CONTINUED)

V. Ongoing Maintenance

As a part of ongoing maintenance of the payment system, the OVHA will change the following rate setting components either separately or in combination:

A. Annually

1. The DRG Grouper used to group claims. If a new DRG grouper includes a new DRG for which the OVHA does not have a relative weight assigned, the OVHA will use the Medicare relative weight to assign the DRG to a Vermont tier weight until such time as all DRG relative weights are updated.
2. The factors representing length of stay in payments for psychiatric cases made to eligible hospitals.
3. The Cost to Charge Ratio assigned to each hospital for use in establishing claim outlier status

B. At least once every four years

1. The base period of claims and Medicare Cost Report(s) used to establish DRG relative weight values
2. The DRG Relative Weight Values
3. The inflation factor used to best represent current costs
4. The Fixed Outlier Value
5. The Outlier Payment Percentage

Supersedes

| TN # 07-013A

Approval Date: 05/07/09

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT HOSPITAL SERVICES

Effective with dates of admission on or after October ~~31, 2008~~12, the ~~Office~~Department of Vermont Health Access (~~OD~~VHA) will reimburse qualified providers for inpatient hospital services under the prospective payment system as set forth in this plan.

I. Participating Hospitals

All in-state and out-of-state hospitals will be included in this payment methodology, regardless of any designation provided by Medicare. Hospitals may be eligible for special payment provisions in addition to payments made under this methodology as discussed in Section IV below.

II. Data Sources and Preparation of Data for Computation of Prospective Rates

A. Introduction

The calculation of prospective rates requires the use of claims data and cost report data. The historical claims data is obtained from a chosen base period and the cost for these claims is derived from Medicare cost report data for the corresponding period. Claim costs are adjusted to the year in which the rates are in effect to account for inflation. Claims are grouped together into a diagnostic related group (DRG) based upon the diagnoses present on the claim.

B. Data Sources- Initial Period

For the rate setting period effective October ~~31, 2008~~12, hospital cost report data from all in-state Medicaid providers plus Dartmouth-Hitchcock Medical Center for the fiscal years ending ~~2004, 2005, 2009~~6, and ~~2007~~10 were used to assign cost values to claims used in the rate development process. All hospitals included in the analysis have a fiscal year end of September 30 with the exception of one hospital (Retreat Health Care) which has a fiscal year end of December 31. The claims used to assign relative weight values and to develop base rates were from the same hospitals for which cost data was collected and were from the same period as the hospital cost reports.

C. Data Sources- Subsequent Periods

More recent cost report and claims data will be used to develop new base rates and relative weights no less than once every four fiscal years.

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| TN # 08-025-

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Approval Date: 05/07/09-

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT  
HOSPITAL SERVICES (CONTINUED)

III. Payment for Inpatient Hospital Services

A. Payment Formulas

1. Non-Outlier DRG Payment Per Case = (Base Rate Assigned to Hospital x DRG Relative Weight)

2. Outlier DRG Payment Per Case = (Cost of Case – Outlier Threshold) x Outlier Payment Percentage

where

Cost of Case = Allowable Charges x Hospital-specific Cost to Charge Ratio and  
Outlier Threshold = (Base Rate x DRG Relative Weight) + Fixed Outlier Value

3. Psychiatric DRG Payment Per Case = (Base Per Diem Rate Assigned to Hospital x DRG Relative Weight x Factor Representing Length of Stay)

where

Factor Representing Length of Stay = The factors assigned by the Medicare Inpatient Psychiatric Facilities Prospective Payment System effective October ~~31, 2008~~31, 2012

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| TN # 08-025

Approval Date: 05/07/09

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT  
HOSPITAL SERVICES (CONTINUED)

III. Payments Inpatient Hospital Services (Continued)

B. Discussion of Payment Components

1. Base Rates

The in-state Base Rate effective October ~~31, 2008~~<sup>12</sup> is based on claims with dates of ~~service~~<sup>discharge</sup> from October ~~31, 2003~~<sup>8</sup> to September 30, ~~2007~~<sup>11</sup> from all in-state hospitals plus Dartmouth-Hitchcock Medical Center. The cost values were assigned to each hospital claim on a claim-by-claim basis using data from each hospital's Medicare Cost Report (MCR). The cost report used to assign the cost for each claim was based on the ~~ending~~<sup>discharge</sup> date of ~~service~~<sup>of</sup> the claim. Claims with dates of discharge from October 1, 2008 to September 30, 2009 were assigned costs using the hospital's 2009 fiscal year end MCR. Claims with dates of discharge from October 1, 2009 to September 30, 2011 were assigned costs using the hospital's 2010 fiscal year end MCR.

Allowed charges on each detail line of the inpatient claim were multiplied by a hospital-specific cost to charge ratio (CCR). The CCR assigned to each detail line is based on the revenue code billed for the detail line. The mapping of revenue codes to CCRs followed the principles that were described in the Medicare Inpatient Prospective Payment System (IPPS) Final Rule for 2007 published in the Federal Register on August 18, 2006, with the following exceptions. The Medicare IPPS group for Routine Days was split into two groups—Adults & Peds and Nursery. The Medicare IPPS group for Intensive Days was split into three groups—ICU, Surgical ICU and NICU. The Medicare IPPS group for Other Services was split into four groups—Emergency Room, Clinic, Observation and Other Services.

The cost value of the claim is adjusted for inflation using Global Insight's Health Care Cost Review New CMS Hospital Prospective Reimbursement Market Basket moving average factors. Claim costs are inflated to the mid-point of the rate year.

The in-state base rate was derived by first computing the average inflated cost per case across all claims in the base period. This value is ~~\$6,8708,682~~. Because of funding limits imposed by the Vermont Legislature, the in-state Base Rate effective ~~July 1, 2010 was reduced by 2.1% to \$6,725~~October 1, 2012 for non-psychiatric DRGs is \$7,249.

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TN # ~~10-007~~  
7/01/10 10/1/12

Effective Date:

Supersedes

TN # ~~08-027~~

Approval Date: ~~11/30/10~~

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT  
HOSPITAL SERVICES (CONTINUED)

III. Payments Inpatient Hospital Services (Continued)

2. Relative Weights

Relative weights were assigned to each DRG in the CMS MS-DRG Grouper Version 269.0 based on Vermont hospital costs. The relative weight is the average cost of the claims grouped into the DRG divided by the average cost of all claims in the base period.

Before calculating the relative weight for a DRG, tests were conducted to ensure that there was sufficient volume and conformity among the cases in the DRG to set a stable relative weight. A DRG was found to have sufficient sample size to compute a relative weight if: (a) There was a minimum of 10 claims across the two years of data; and (b) There were sufficient claims to pass this statistical test: The standard error of the claims' costs is within 25% of the mean with a 90% level of confidence.

Before running the statistical test, low-cost and high-cost outliers were removed from each DRG, which are defined as any claim that was outside +/- two standard deviations from the geometric mean cost of the DRG.

This test yielded 253228 stable DRGs, 417403 unstable DRGs, and 73119 empty DRGs (no Vermont claims volume in the base period utilized). The 490522 unstable and empty DRGs were then collapsed into 2112 tier groups based on the Medicare relative weight for each DRG. After the claims were collapsed into these categories, a new average cost was computed for the claims in each tier and a relative weight was set.

Effective with dates of admission on or after October 31, 200812, all DRGs that were collapsed into a tier will share the same relative weight.

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Supersedes

| TN # ~~08-025-~~

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Approval Date: ~~05/07/09-~~

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT HOSPITAL SERVICES (CONTINUED)

IV. Special Payment Provisions

A. Rehabilitation DRG

In-state hospitals with a claim that groups into the Rehabilitation DRGs (DRGs 945 and 946 in MS-DRG Grouper Version 269.0) will be paid an additional \$300 per diem for the entire length of the patient's stay for the single episode of care. Border Teaching Hospitals will be paid an additional \$200 per diem. This payment is in addition to the Non-Outlier and Outlier DRG Payments per Case.

B. Neonate DRGs

In-state hospitals that do not serve a disproportionate number of neonate cases that have a claim that groups into a Neonate DRG will be paid an additional \$300 per diem for the entire length of the patient's stay for the single episode of care. Border Teaching Hospitals will be paid an additional \$200 per diem. This payment is in addition to the Non-Outlier and Outlier DRG Payments per Case.

In-state hospitals that do serve a disproportionate number of neonate cases that have a claim that groups into a Neonate DRG will be paid an additional \$400 per diem for the entire length of the patient's stay for the single episode of care. This payment is in addition to the Non-Outlier and Outlier DRG Payments per Case. A hospital with a disproportionate share of neonate cases is a hospital that had more than 50% of all of the neonate DRG cases in the rate setting claims period.

The Neonate DRGs paid under this methodology are those Neonate DRGs as assigned by the Grouper being utilized by ODVHA. Effective October 13, 2008~~12~~, this included the following DRGs:

- DRG 789: Neonates, Died or Transferred to another Acute Care Facility
- DRG 790: Extreme Immaturity or Respiratory Distress Syndrome, Neonate
- DRG 791: Prematurity with Major Problems
- DRG 792: Prematurity without Major Problems
- DRG 793: Full Term Neonate with Major Problems
- DRG 794: Neonate with Other Significant Problems

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| TN # 08-027

Approval Date: 10/08/09

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES – INPATIENT HOSPITAL SERVICES (CONTINUED)

IV. Special Payment Provisions (Continued)

C. Psychiatric DRG Cases ~~for High-Volume Psychiatric Case~~Provided by In-State Hospitals

In-state hospitals ~~that had more than 10% of the Psychiatric DRG cases paid by DVHA in 2006 or who had a distinct part psychiatric unit in place prior to October 3, 2008~~ will be paid for psychiatric cases under a DRG per diem methodology instead of a DRG per case methodology using the formula shown in III.A above.

The Psychiatric DRGs paid under this methodology are those Psychiatric DRGs as assigned by the Grouper being utilized by DVHA. Effective October ~~31, 2008~~12, this included the following DRGs:

- DRG 56: Degenerative Nervous System Disorders w MCC
- DRG 57: Degenerative Nervous System Disorders w/o MCC
- DRG 80: Nontraumatic Stupor and Coma w MCC
- DRG 81: Nontraumatic Stupor and Coma w/o MCC
- DRG 876: O.R. Procedure with Principal Diagnosis of Mental Illness
- DRG ~~877~~80: Acute Adjustment Reaction & Psychosocial Dysfunction
- DRG 881: Depressive Neuroses
- DRG 882: Neuroses Except Depressive
- DRG 883: Disorders of Personality & Impulse Control
- DRG 884: Organic Disturbances & Mental Retardation
- DRG 885: Psychoses
- DRG 886: Behavioral & Developmental Disorders
- DRG 887: Other Mental Disorder Diagnoses
- DRG 894: Alcohol/Drug Abuse or Dependence, Left AMA
- DRG 895: Alcohol/Drug Abuse or Depend. with Rehabilitation Therapy
- DRG 896: Alcohol/Drug Abuse or Depend. w/o Rehabilitation Therapy w MCC
- DRG 897: Alcohol/Drug Abuse or Depend. w/o Rehabilitation Therapy w/o MCC

On an ongoing basis, the factors applied representing the length of stay will be the same as those utilized by Medicare in its Inpatient Psychiatric Prospective Payment System. The factors applied are additive by length of stay.

~~The P~~psychiatric base per diem rates ~~were~~was set to ensure that ~~the payments for psychiatric cases in the new payment system were comparable to the previous payment system~~there is sufficient access to services for Medicaid beneficiaries in the state. Effective ~~July~~October 1, 2010~~2~~, the Base Per Diem Rates ~~are as follows:~~ for in-state hospitals is \$1,052.00 per diem.

~~For Institutions of Mental Disease (IMD):~~ ~~—~~ ~~\$1,092 per diem~~  
~~For all other eligible hospitals:~~ ~~—~~ ~~\$1,092 per diem~~

TN # ~~10-007~~

~~0710/01/102~~

Supersedes

TN # ~~08-027~~

Effective Date:

Approval Date: ~~11/30/10~~