

NOTICE OF PROPOSED AGENCY ACTION

SUBJECT: MassHealth: Payment for Chronic Disease and Rehabilitation Hospital Services effective October 1, 2014

AGENCY: Massachusetts Executive Office of Health and Human Services

SUMMARY OF PROPOSED ACTION: Pursuant to the provisions of M.G.L. c. 118E, §13A, rates and terms of payment for services rendered by chronic disease and rehabilitation hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1 *et seq.* are established by contract between the MassHealth program and participating hospitals. This notice describes the proposed methods and standards for the establishment of rates of payment by contract for rate year (RY) 2015 which begins October 1, 2014, between the Executive Office of Health and Human Services (HHS) and participating chronic disease and rehabilitation hospitals.

DESCRIPTION OF PROPOSED METHODS AND STANDARDS

HHS proposes to establish a comprehensive inpatient per diem rate for each participating hospital, covering both routine and ancillary services provided to inpatients. HHS proposes to derive the inpatient per diem rate from the 2003 operating and capital cost information for each hospital. The operating costs will be updated from fiscal year 2003 using a composite index comprised of two cost categories: Labor and Non-labor. These categories shall be weighted according to the weights used by the Center for Medicare and Medicaid Services (CMS) for Prospective Payment System (PPS)-excluded hospitals. The inflation proxy for the labor cost category shall be the Massachusetts Consumer Price Index. The inflation proxy for the non-labor cost category will be the non-labor portion of the CMS market basket for hospitals. The RY 2015 update factor for operating costs will be 1.672%. The CMS Capital Input Price Index will be used in computing an allowance for inpatient capital, which is derived from fiscal year 2003 patient care capital expenditure data. An individual efficiency standard is applied to inpatient overhead costs. The efficiency standard is the median base year unit cost.

HHS also proposes to pay chronic disease and rehabilitation hospitals located in the Commonwealth that serve solely children and adolescents with complex acute rehabilitation and chronic needs, in accordance with Section 271 of Chapter 224 of the Acts of 2012.

The MassHealth program proposes to establish a rate for administrative days (AD). The AD rate will be comprised of a routine per diem and an ancillary add-on. The routine per diem will be derived from the weighted average Medicaid rate in calendar year 2003 for nursing facility case mix category T (10). The weighted average ancillary add-on will be derived from hospital ancillary claims data for AD patients in hospital fiscal year (HFY) 2003. For each participating hospital, the AD rate will be supplemented by an adjustment that will increase the AD rate to equal 64% of the difference between each hospital's rate year inpatient per diem rate and the statewide AD routine and ancillary per diem amount of \$513.05.

The MassHealth program proposes to utilize a hospital-specific cost-to-charge ratio for outpatient services that is derived from historical cost and charge information. The cost-to charge

ratio will be applied to the hospital's usual and customary charges on file with the Center for Health Information and Analysis (CHIA) as of July 1, 2014 for outpatient services.

The methods and standards described herein are being proposed in order to establish rates by contract that accurately reflect the efficient and economic provision of chronic disease services and/or comprehensive rehabilitation services. The proposed methods and standards described herein are projected to result in a 1.56% increase in annual aggregate expenditures in RY 2015. The actual change in aggregate expenditures is estimated to be \$1,012,720.00 but may vary depending on actual utilization of services.

Included with this notice are the proposed rates of payment, effective October 1, 2014. Please contact Lenora Mobley, MassHealth Office of Long Term Services and Supports, One Ashburton Place, 5th Floor, Boston, MA 02108, to send any written comments regarding this notice. Copies of this notice detailing the proposed changes in payment methods and standards are also available in each county court law library in the Commonwealth.

STATUTORY AUTHORITY:

M.G.L. c.118E; 42 USC 1396

Related Regulations:

42 CFR Part 447

EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES

CHRONIC DISEASE AND REHABILITATION HOSPITALS

PROPOSED METHODS AND STANDARDS

FOR RATES EFFECTIVE OCTOBER 1, 2014

The following sections describe the proposed methods and standards to be utilized by the Executive Office of Health & Human Services (HHS) to establish rates of payment by contract, to be effective October 1, 2014, for services rendered by chronic disease and rehabilitation hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1 *et seq.*

Section 1: Inpatient Per Diem Rate

The Inpatient Per Diem Rate is an all-inclusive daily rate paid for any, and all, inpatient care and services provided by a hospital to a MassHealth member, with the exception of any, and all, Administrative Days (see Section 3). The Inpatient Per Diem Rate is derived using the following method: (a) the sum of a hospital's base year inpatient Operating Cost (Section 1, paragraph B) plus the Adjustment to Base Year Costs (Section 1, paragraph C) is divided by a hospital's base year patient days; plus (b) the Allowance for Inpatient Capital.

A. Data Sources.

1. The base year for inpatient costs and the outpatient cost-to-charge ratio is the (HFY) 2003. The MassHealth program utilizes the costs, statistics and revenue reported in the HFY 2003 HCFP-403 cost report.
2. Inpatient costs include only costs incurred or to be incurred in the provision of hospital care and services, supplies and accommodations and determined in accordance with the Principles of Reimbursement for Provider Costs under 42 U.S.C. §§1395 *et seq.* as set forth in 42 CFR 413 *et seq.* and the Provider Reimbursement Manual, the HURM Manual, and Generally Accepted Accounting Principles. All references to specific schedules, columns and lines refer to the HCFP-403 report filed with and reviewed by the Division of Health Care Finance and Policy (DHCFP). Except where noted, all references are to the HFY 2003 version of the HCFP-403.
3. The calculations use each hospital's costs and statistics, as adjusted as a result of prior audits or reviews conducted by DHCFP or successor agency. The MassHealth program may also request additional information, data and documentation from a hospital or DHCFP or successor agency as necessary to calculate rates.
4. If the specified data source is unavailable or inadequate, The MassHealth program will determine and use the best alternative data source and/or it may perform a statistical analysis to ensure comparability of data. If required information is not

furnished by a hospital within the applicable time period, it may not receive any increase to its rate.

B. Determination of Base Year Inpatient Operating Costs. Base Year Inpatient Operating Costs are the sum of Inpatient Direct Routine Costs, Inpatient Direct Ancillary Costs, and Inpatient Overhead Costs as described below.

1. Inpatient Direct Routine Costs. Inpatient Direct Routine Costs are a hospital's Total Inpatient Routine Costs derived from the HCFP-403.

2. Inpatient Direct Ancillary Costs. Inpatient Direct Ancillary Costs are calculated as follows:

a. Inpatient Direct Ancillary Costs are calculated by multiplying each hospital's chronic and rehabilitation inpatient ancillary expenses times the ratio of Total Direct Ancillary Expenses to Total Ancillary Expenses (including overhead). The resulting product constitutes the Total Inpatient Direct Ancillary Cost. For hospitals that reported costs in Sch. XIV, Column 2, Line 15 (Central Service/Supplies) and/or Column 2, Line 16 (Pharmacy), those costs are removed from Overhead costs and reclassified to Ancillary costs pursuant to Section 1, paragraph B.3.a.

3. Total Inpatient Overhead. Total Inpatient Overhead is calculated by comparing Total Inpatient Overhead to an efficiency standard as described below.

a. A HFY 2003 Inpatient Overhead per diem amount is computed for each hospital as follows:

- i. Inpatient Routine Overhead cost is calculated by subtracting Direct Inpatient Routine Cost from Inpatient Routine Cost after step-down of overhead.
- ii. Inpatient Ancillary Overhead Cost is calculated by subtracting the Total Inpatient Direct Ancillary Cost determined in Section 1, paragraph B.2.a from the Total Chronic and Rehabilitation Inpatient Ancillary Expenses reported on the HCFP-403.
- iii. The Central Service and Supplies and Pharmacy expenses are then reclassified to Ancillary costs as follows:

The Central Service/Supplies Direct Expense is multiplied by the ratio of the inpatient medical supplies patient service statistics to the total medical supplies patient service statistics, all as derived from the HCFP-403 report.

The Pharmacy Direct Expense is multiplied by the ratio of the inpatient drug patient service statistics to the total drug patient service statistics, all as derived from the HCFP-403 report.

The two products of these calculations are then added together to equal the Total Inpatient CSS and Pharmacy Expense.

- iv. The Allowable Chronic Disease and Rehab Inpatient Overhead Expense is then determined by adding together the amounts in i. and ii (above) and subtracting from this the amount determined in iii (above). The resulting amount is then divided by HFY 2003 Patient Days.
- b. Separate efficiency standards are determined for chronic disease hospitals and rehabilitation hospitals. Hospitals are classified as chronic disease or rehabilitation using the following classifications:
 - i. The chronic disease hospital group consists of Kindred Hospital Northeast, Franciscan Hospital for Children, Radius Specialty Hospital, New England Sinai Hospital, Spaulding Hospital-North Shore, Vibra Hospital of Western Mass and Spaulding Hospital-Cambridge.
 - ii. The rehabilitation hospital group consists of Braintree Rehabilitation, Fairlawn Hospital, New Bedford Rehabilitation Hospital, New England Rehabilitation Hospital, Spaulding Hospital-Cape Cod, Rehabilitation Hospital of Western Massachusetts, Spaulding Rehabilitation Hospital-Boston, Whittier Rehabilitation Hospital-Bradford and Whittier Rehabilitation Hospital-Westborough.
 - c. The Inpatient Overhead Per Diem Cost for each chronic disease hospital is calculated and the median is set as the efficiency standard for the chronic disease hospital group.
 - d. The Inpatient Overhead Per Diem Cost for each rehabilitation hospital is calculated and the median is set as the efficiency standard for the rehabilitation hospital group.
 - e. If a hospital's Total Inpatient Overhead Per Diem Cost does not exceed the appropriate efficiency standard, its Total Inpatient Overhead Cost is calculated pursuant to Section 1, paragraph B.3.a., without further adjustment.
 - f. If a hospital's Total Inpatient Overhead Per Diem Cost exceeds the appropriate efficiency standard, the hospital's Total Inpatient Overhead Cost is the efficiency standard multiplied by HFY 2003 Patient Days.
- C. Adjustment to Base Year Operating Costs. Total Inpatient Routine Direct Costs, Total Inpatient Ancillary Direct Costs, and Total Inpatient Overhead Costs are updated using a composite index comprised of two cost categories: labor and non-labor. The categories are weighted according to the weights used by CMS for PPS-excluded hospitals. The inflation proxy for the labor cost category is the Massachusetts Consumer Price Index

(optimistic forecast). The inflation proxy for the non-labor cost category is the non-labor portion of the CMS market basket for hospitals. The year-to-year update factors used in the rate calculation are 2003-2004 2.21%; 2004-2005 1.198%; 2005-2006 1.84%; 2006-2007 1.637%; 2007-2008 1.588%; 2008-2009 1.459%; 2009-2010 0.516%; 2012-2013 1.643%; 2013-2014 1.571%; and 2014-2015 1.672%.

D. Allowance for Inpatient Capital

1. Each hospital's base year capital costs consist of the hospital's actual HFY 2003 patient care capital requirement for historical depreciation for building and fixed equipment; reasonable interest expenses; amortization and; leases and rental of facilities.
2. The limitations applicable to base year capital costs are:
 - a. Interest expense attributable to balloon payments on financed debt is excluded. Balloon payments are those in which the Final payment on a partially amortized debt is scheduled to be larger than all preceding payments.
 - b. Where there was a change of ownership after July 18, 1984, the basis of the fixed assets used in the determination of depreciation and interest expense is the lower of the acquisition cost to the new owner or the basis allowed for reimbursement purposes to the immediate prior owner. The depreciation expense is calculated using the full useful lives of the assets.
 - c. All costs (including legal fees, accounting, and administrative costs, travel costs, and the costs of feasibility studies) attributable to the negotiation or settlement of the sale or purchase of any capital asset after July 18, 1984 (by acquisition or merger), for which payment has previously been made by any payer, and which have been included in any portion of prior years' rates, are subtracted from capital costs.
3. Each hospital's base year inpatient unit capital cost equals the base year inpatient capital cost divided by the greater of: (i) the actual base year routine patient days; or (ii) eighty-five percent (85%) of base year maximum licensed bed capacity, measured in days. The CMS Capital Input Price Index adjusts the base year inpatient unit capital cost to determine the Inpatient Unit Capital amount. The year-to-year update factors used in the rate calculation are 2003-2004 .7%; 2004-2005 .7%; 2005-2006 .7%; 2006-2007 .8%; 2008-2009 .7%; 2009-2010 1.2%; 2012-2013 1.2%; 2013-2014 1.4%; and 2014-2015 1.5%.
4. The Inpatient Unit Capital amounts of all chronic hospitals is calculated and the median is set as the efficiency standard, which serves as the Chronic Disease Hospital Allowance for Inpatient Capital.

5. The Inpatient Unit Capital amounts of all rehabilitation hospitals is calculated and the median is set as the efficiency standard, which serves as the Rehabilitation Hospital Allowance for Inpatient Capital.

E. Determination of New Inpatient Per Diem Rate in accordance with Section 271 of Chapter 224: The inpatient per diem rate for RY 2015 is derived by applying a factor of 1.5 times the hospital's rate year 2012 inpatient per diem rate established in RY 2012. After having applied the factor of 1.5, the update factors described in Section 1, paragraph C and Section 1, paragraph D.3. are applied to determine the final per diem. The administrative day per diem rate is calculated using the methodology described in Section 3 below.

Section 2: Determination of Inpatient Rate for New Hospitals (i.e., Newly Licensed as Chronic Disease or Rehabilitation Hospitals after October 1, 2004).

1. The allowable overhead and capital per diem costs will be established at the efficiency standards as calculated pursuant to Section 1, paragraph B.3, and Section 1, paragraph D, respectively.
2. The allowable routine and ancillary per diem costs will be established at the median of HFY 2003 per diem costs reported by chronic and rehabilitation hospitals.
3. The allowable per diem costs will be updated by the inflation factor calculated pursuant to Section 1, paragraph C.1. and paragraph D.3. and D.4.

Section 3: Determination of Rate for Administrative Day Patients.

A hospital will be paid for Administrative Days using an Administrative Day Per Diem Rate (AD Rate). The AD Rate is an all-inclusive daily rate paid for each Administrative Day. The AD Rate is comprised of three components: a statewide AD routine per diem amount, a statewide AD ancillary per diem amount and a hospital-specific supplementary per diem amount. The statewide AD routine per diem amount is derived from the weighted average Medicaid payment rate for case mix category T (10) patients in nursing facilities in 2003. The statewide AD ancillary per diem amount is derived from the statewide weighted average Medicaid ancillary payment for AD patients in Chronic Disease and Rehabilitation Hospitals in FY 2003. The sum of the statewide AD routine and ancillary per diem amounts for RY 2015 is \$513.05. For RY 2015, the supplementary per diem amount for each hospital is the AD routine and ancillary per diem amount of \$513.05 increased by 64% of the difference between each hospital's Inpatient Per Diem Rate and the statewide AD routine and ancillary per diem amount of \$513.05.

Section 4: Determination of Outpatient Rate.

A hospital will be paid for Outpatient Services using a hospital-specific Outpatient Cost-to-Charge Ratio. The Outpatient Cost-to-Charge Ratio is a fixed percentage that is applied to a hospital's Usual and Customary Charges for Outpatient Services, based on charges filed with

the Division of Health Care Finance and Policy, or successor agency as of July 1, 2014. Payment for a particular Outpatient Service shall be equal to the product of the Cost-to-Charge Ratio times the hospital's Usual and Customary Charge for the Outpatient Service in effect as of July 1, 2014. Any such payment shall not exceed the hospital's Usual and Customary Charge.

The Cost-to-Charge Ratio for a specific hospital is calculated by dividing its outpatient costs (Schedule XVIII) by its outpatient service revenue (schedule XI), as derived from the HCFP-403.

**Chronic Disease and Rehabilitation Hospital
Proposed Medicaid Inpatient and Outpatient Rates
October 1, 2014 - September 30, 2015**

Facility	Inpatient Per Diem	Inpatient AND Per Diem	Outpatient Cost/Charge Ratio
Braintree Hospital	754.24	667.41	50.92%
Fairlawn Hospital	692.42	627.84	40.80%
Franciscan Children	1,673.99	1,256.05	70.52%
Radius Specialty Hospital	876.00	745.34	18.89%
New Bedford Rehab Hospital	717.43	643.85	100.00%
New England Rehab	659.61	606.85	33.12%
New England Sinai	932.30	781.37	100.00%
Kindred Hospital Northeast	837.23	720.53	67.03%
Vibra Hospital of Western MA	804.83	699.79	N/A
Spaulding Hospital-Cape Cod	962.86	800.93	61.38%
Rehab West Hospital	622.06	582.82	29.14%
Spaulding Hospital-North Shore	817.74	708.05	51.66%
Spaulding Rehab Hospital-Boston	963.56	801.38	78.86%
Whittier Rehab-Bradford	771.43	678.41	87.43%
Whittier Rehab-Westborough	761.22	671.88	100.00%
Spaulding Hospital-Cambridge	971.00	806.14	100.00%