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WEST VIRGINIA HEALTHCARE AUTHORITY

Memorandum

To: Hospital Administrators
Hospital CFOs
Hospital Consultants

From: D. Parker Haddix, Chairman D. Parker Haddix

Date: March 30, 2000

Subject: Policy Statement **2000-2** – Outliers **except** for **Benchmarking**
(Note: this policy replaces Policy Statement 2-96)

As a result of the Authority's ongoing efforts to review, streamline, and modify the rate application process, a revised policy is being issued on the treatment of outlier revenues. This statement includes the handling of both increases (overage justification) and decreases (a potential budget reduction) in outliers beginning with the FY 2001 rate applications.

I. Increases In Outlier Revenue Per Discharge:

The Authority continues to recognize that hospitals may have little, if any, control over patients whose length-of-stay is significantly beyond the norm or who incur a significantly greater amount of charges than the average patient. Further, the effect of these patients can be significant on the hospital's average rate. Therefore, it is the Authority's position that the hospital's gross outlier charges per discharge should be considered when determining rate compliance.

To accomplish this, the Authority compares the projected actual year's experience to the prior year. In the event that outlier revenue per discharge increased during the projected actual year over what occurred in the prior year, then the hospital may have justification for an inpatient overage.

In order to determine how much justification the increase in outlier revenue accounts for, first, the projected actual outlier revenue of the current year is divided by the projected actual discharges (CBM-9 Line 2) to calculate the outlier revenue per discharge. This is then compared to the prior year's average outlier revenue per discharge, which will now be adjusted for the inpatient rate increase/(decrease) given in the prior year's rate order. If the average outlier revenue per discharge increases over the average for the prior year, the amount of the increase equals the amount of overage justification provided by an increase in outlier revenue. As further explanation note the following example, which is given as if it occurred in a FY 2001 application. (Also, see revised CBM-9 instructions for more detail.)

Example 1. Increased Outlier Revenue Per Discharge:

Line	FY	Explanation		Amount
1	2000	Projected Actual Charge Per Discharge		$5,000.00
2	2000	Allowed Charge Per Discharge		$4,800.00
3	2000	Overage Per Discharge		$200.00
4	2000	Dollar Value of Case-Mix Increase		$150.00
5	2000	Remaining Unjustified Overage		$50.00
6	2000	Projected Actual Outlier Revenue	$300,000	
7	2000	Projected Actual Nongovernmental Discharges	3,700	
8	2000	Average Outlier Revenue Per Discharge	$81.08	
9	1999	Projected Actual Outlier Revenue	$200,000	
10	1999	Projected Actual Nongovernmental Discharges	3,600	
11	1999	Average Outlier Revenue Per Discharge	$55.56	
12	1999	Inpatient % Rate Increase From Most Recent Order	2.00%	
13	1999	Adjusted Outlier Revenue per discharge (Line 11 increased by Line 12)	$56.67	
14	2000	**Increase in Average Charge due to Increased Outliers (Line 8 – Line 13)**		$24.41
15	2000	Amount of additional overage justification		$24.41
16	2000	Remaining Unjustified Overage		$25.59

I. Decreases In Outlier Revenue:

In regard to decreases in outlier revenue, the Authority will continue to monitor the reductions in the average outlier revenue per discharge from the prior year. If the average outlier revenue per discharge decreases, then the hospital's rate may be reduced to remove the excess (unused) outlier revenue. However, the Authority has developed a method to determine whether reduced outlier revenues are justified.

In order to determine if or how much a hospital's rates should be reduced for a decrease in outliers, several factors will be considered: (1) whether the hospital is under its allowed rate, (2) case-mix increases, and (3) **the increase or decrease in the granted rates**. If the hospital's rate is under the allowed rate then that underage plus any case-mix increase, less the percentage increase or plus the percentage decrease granted in the prior year will be used to show that the hospital's outlier revenue is not excessively carried in its projected charges. The following examples demonstrate these various scenarios, however, the hospital is not responsible for calculating the justification – this will be done by the Authority during the review process. (Also, see revised CBM-9 instructions for more detail.)

Example 1. Decreased Outlier Revenue Per Discharge With Hospital Under The Allowed Rate And An Increase In Case-Mix Resulting In No Penalty:

Line	FY	Explanation		Amount
1	2000	Projected Actual Charge Per Discharge		$6,300.00
2	2000	Allowed Charge Per Discharge		$6,400.00
3	2000	**Underage** Per Discharge		$100.00
4	2000	Dollar Value of Case-Mix Increase		$200.00
5	2000	Underage After Additional Case-Mix Justification		$300.00
6	2000	Projected Actual Outlier Revenue	$650,000	
7	2000	Projected Actual Nongovernmental Discharges	3,450	
8	2000	Average Outliers Revenue Per Discharge	$188.41	
9	1999	Projected Actual Outlier Revenue	$850,000	
10	1999	Projected Actual Nongovernmental Discharges	3,400	
11	1999	Average Outlier Revenue Per Discharge	$250.00	
12	1999	Inpatient % Rate Increase From Most Recent Order	2.00%	
13	1999	Adjusted Outlier Revenue Per Discharge (Line 11 increased by Line 12)	$255.00	
14	2000	Decrease in Average Outlier Charge After Adjustment for Rate Increase (Line 13 – Line 8)		$66.59
15	2000	Amount of outlier reduction: Since Line 5 > Line 14 there is no outlier reduction		$0.00

Example 2. Decreased Outlier Revenue Per Discharge With Justified Overage Resulting in No Penalty:

Line	FY	Explanation		Amount
1	2000	Projected Actual Charge Per Discharge		$6,000.00
2	2000	Allowed Charge Per Discharge		$5,900.00
3	2000	Overage Per Discharge		$100.00
4	2000	Dollar Value of Case-Mix Increase		$175.00
5	2000	Underage After Case-Mix Justification		$75.00
6	2000	Projected Actual Outlier Revenue	$125,000	
7	2000	Projected Actual Nongovernmental Discharges	3,800	
8	2000	Average Outliers Revenue Per Discharge	$32.89	
9	1999	Projected Actual Outlier Revenue	$214,000	
10	1999	Projected Actual Nongovernmental Discharges	3,900	
11	1999	Average Outlier Revenue Per Discharge	$54.87	
12	1999	Inpatient % Rate Increase From Most Recent Order	2.5%	
13	1999	Adjusted Outlier Revenue Per Discharge (Line 11 increased by Line 12)	$56.24	
14	2000	Decrease in Average Outlier Charge After Adjustment for Rate Increase (Line 13 – Line 8)		$23.35
15	2000	Amount of outlier reduction: Since Line 5 > Line 14 there is no outlier reduction		$0.00

Example 3. Decreased Outlier Revenue With Justified Overage Resulting In Partial Outlier Reduction:

Line	FY	Explanation		Amount
1	2000	Projected Actual Charge Per Discharge		$6,400.00
2	2000	Allowed Charge Per Discharge		$6,200.00
3	2000	Overage Per Discharge		$200.00
4	2000	Dollar Value of Case-Mix Increase		$250.00
5	2000	Underage After Case-Mix Justification		$50.00
6	2000	Projected Actual Outlier Revenue	$200,000	
7	2000	Projected Actual Nongovernmental Discharges	4,100	
8	2000	Average Outliers Revenue Per Discharge	$48.78	
9	1999	Projected Actual Outlier Revenue	$450,000	
10	1999	Projected Actual Nongovernmental Discharges	4,000	
11	1999	Average Outlier Revenue Per Discharge	$112.50	
12	1999	Inpatient % Rate **Decrease** From Most Recent Order	**-1.5%**	
13	1999	Adjusted Outlier Revenue Per Discharge (Line 11 increased by Line 12)	$110.81	

14	2000	Decrease in Average Outlier Charge After Adjustment for Rate Decrease (Line 13 – Line 8)		$62.03
15	2000	Amount of Outlier Reduction: Since Line 5 < Line 14 there remains an unjustified reduction equal to (Line 14 – Line 5)		$12.03
16	2000	Excess Amount of Projected Actual Total Outlier Revenue (Line 7 x Line 15)		$49,323.00
17	2001	**Penalty Per Budgeted Discharge – [Line 16 ÷ 4,200 (FY 2001 Budgeted Discharges)]**		$11.74

Example 4. Unjustified Overage – Gross Outlier Revenue Decrease Is Not Justified:

Line	FY	Explanation		Amount
1	2000	Projected Actual Charge Per Discharge		$6,500.00
2	2000	Allowed Charge Per Discharge		$6,200.00
3	2000	Overage Per Discharge		$300.00
4	2000	Dollar Value of Case-Mix Increase		$200.00
5	2000	**Overage Remains After Case-Mix Justification – No justification possible for any decrease in outliers**		$100.00

II. Highlights Of The Changes In Outlier Reporting:

This section serves to highlight three primary changes to the Authority's revised Outlier Policy Statement. These changes include:

(1) The justification of overages by an increase in outlier revenue will now have an adjustment made to the prior year's outlier charge per discharge. This adjustment is needed to eliminate the effect on outliers due to the rate increase/(decrease) granted in the last rate order.

(2) A change in the method of reporting outlier revenues from using year-to-date outlier revenue to using projected actual revenues and projected actual discharges for both the current and prior years. After reviewing the submissions of outlier data over the last few years, and discussing the issue with various hospitals, the Authority has determined that the effects of the changes in outlier revenues are more accurate and more easily verified by using projected actual revenue and projected actual discharges

than if year-to-date revenues and discharges are used. However, there will be an additional calculation required to show the hospital's method of projecting its year-to-date outlier revenue. Also, if this method is not completed on a straight-line basis (i.e. [7 months of actual data used in the application and the year-to-date outliers ÷ 7] x 12) the hospital will be required to explain why its method varies from the straight-line method and why it matches more closely to the projected revenues on the CBM-2 form.

(3) The prior Outlier Policy Statement 2-96 issued January 29, 1996 did not include any allowances for a decrease in outlier revenue. This policy, as discussed above, allows for justification of a decrease in outliers due to an underage or an increase in case-mix

Note: Please read carefully the revised CBM-9 instructions and revised CBM-9 form to include the above changes starting with the FY 2001 applications.