POLICY STATEMENT

To: Hospital Administrators
Hospital CFOs
Consultants

From: Sonia D. Chambers, Chair

Date: July 24, 2009

Re: Policy Statement 2009-2
Outpatient Overage Justification

EFFECTIVE DATE: September 30, 2010 Rate Applications

The purpose of this policy statement is to define the method of justifying an outpatient overage. This Policy Statement will replace Policy Statement 97-4, dated October 22, 1997, and Policy Statement 2006-2, dated March 22, 2006.

Currently a hospital submits a budget of high cost/low cost outpatient procedures with its rate application, which is intended to be used as justification for an outpatient overage the following year. The following year, in order to provide justification for an outpatient overage, the hospital must submit the projected actual revenue and utilization for all the previously budgeted high cost/low cost outpatient procedures (those with increased utilization as well as decreased utilization). This data is then used to calculate the amount of outpatient overage justification.

This Policy Statement changes the process in which the amount of justification will be calculated. Attached, the Authority has included a narrative "step-by-step" description of the method to be used by hospitals when presenting amounts to be considered for outpatient justification. Illustrated examples follow in a "table" format that coincide with the narrative directions. Hospitals are directed to use this standardized method of justifying outpatient overages in all future filings.

The attached outpatient justification methodology allows each hospital to detail high cost/low cost outpatient procedures in order to justify the impact the change in utilization of these procedures has on the hospital's average charge per outpatient visit. The hospital's budgeted average charge per high cost/low cost procedure must be used in the calculations of the projected actual.

The examples provided here are just examples and may not be applicable to every facility. It is each hospital's decision as to which high cost/low cost items are to be used for consideration as justification. In order for the Authority to allow the use of certain services as justification, the hospital must provide the budget for the upcoming fiscal year for the high cost/low cost services that it wants considered, including nongovernmental revenue, utilization and average charge per visit.

If you have any questions, please do not hesitate to contact Barbara Skeen, Director of Rate Review or your Rate Analyst at (304) 558-7000.

Outpatient Justification Methodology (Example)

Note: The hospital must provide a high cost/low cost outpatient procedures budget with the rate application in order for the hospital to be eligible for outpatient justification. Also, the hospital must include all high cost/low cost procedures included with the budget when calculating outpatient overage justification.

Table A:

(1) Using current projected actual data from the hospital's rate application forms CBM/B-1 and CBM/B-2, calculate the hospital's projected actual outpatient per visit rate. Subtract the projected actual from the current allowed (or weighted allowed) rate to determine the overage. (These should be the same numbers used on the CBM/B-9.)

Table B:

(2) List all high cost/low cost procedures that were submitted with the high cost/low cost outpatient procedure budget. In the first column, include the budget year revenues, visits, and calculated average revenue per visit for each procedure. In the second column, include the projected actual utilization, the **BUDGETED** average revenue per visit, and the amount of revenue for each procedure, which is to be calculated by multiplying the projected utilization by the **BUDGETED** average revenue per visit.

(3) In a separate column, reflect the differences between the current year budget and the current year projected actual revenue and visit for each procedure. Determine the differences by subtracting the current year budget from the current year projected actual data to determine the experienced change (column 2 minus column 1).

(4) At the bottom of the table, total the changes for revenues and visits of the high cost/low cost procedures. Reflect totals for the current year budget, current year projected actual, and for the difference column (columns 1, 2 and 3). The amounts determined in the difference column will be carried forward to Table C.

Table C:

(5) From Table B, carry forward the change in revenues for all high cost/low cost procedures. Subtract the hospital's total sum of changes in revenue (from Table B) from the hospital's projected actual revenues (from Table A) to equal "Calculated Revenue".

(6) From Table B, carry forward the change in visits of all high cost/low cost procedures. Subtract the hospital's total sum of changes in visits (from Table B)

from the hospital's projected actual visits (from Table A) to equal "Calculated Visits".

(7) Divide "Calculated Revenue" by "Calculated Visits" to equal "Calculated Revenue per Visit". Calculated Revenue per Visit will be carried forward to Table D.

Table D:

(8) Subtract "Calculated Revenue per Visit" (Table C) from the hospital's projected actual outpatient charge per visit (projected actual – Table A) to determine increases due to the change in utilization of high cost/low cost procedures as potential justification. These increases due to high cost/low cost procedures will be carried forward to Table E.

Table E:

(9) To determine the remaining unjustified overage, subtract increases due to a change in utilization for high cost/low cost procedures (Table D) from the overage (from Table A). A positive number indicates a remaining unjustified overage.

TABLE A

FY 2009 Projected Actual

1	Nongovernmental Acute Outpatient Revenue	35,000,000		
2	Divide by: Nongovernmental Acute Visits	65,000		
3	Average Projected Actual Rate per Visit		538.46	
4	Less: FY 2009 Allowed or Wtd. Allowed*		525.00	
5	FY 2009 Overage**			13.46

*Must match CBM/B-9 – Line 4 of the rate application **Must match CBM/B-9 – Line 5 of the rate application

TABLE B

High Cost/Low Cost Procedure Calculation

NOTE: The hospital must include ALL (those with increased utilization as well as decreased utilization) high cost and/or low cost procedures included with the budget when calculating the outpatient overage justification.

			FY 2009 - Current Year Budget (1)	FY 2009 - Current Year Projected Actual (2)	Difference (FY 2009 current projected actual less FY 2009 budget) Column 3 minus Column 2 (3)
1	CT Scans*	Revenues	6,000,000	6,200,000^^	200,000
2		Visits	6,000	6,200	200
3		Avg/Visit	1,000.00	1,000.00^	
4	MRI*	Revenues	3,000,000	3,150,000	150,000
5		Visits	2,000	2,100	100
6		Avg/Visit	1,500.00	1,500.00^	
7	Amb. Surgery*	Revenues	9,000,000	9,180,000	180,000
8		Visits	2,500	2,550	50
9		Avg/Visit	3,600.00	3,600.00	
10	Totals	Revenue	18,000,000	18,530,000	530,000
11		Visits	10,500	10,850	350

***High cost/Low cost categories may be changed as needed to include those high cost/low cost categories provided with the budget.**

^The FY 2009 current year projected actual average charge per visit must equal the FY 2009 current year budget average charge per visit.
^^The FY 2009 current year projected actual revenue is calculated by multiplying the FY 2009 current year projected actual utilization by the average charge per visit.

TABLE C
"Calculated" Per Visit Table

		FY 2009 Projected Actual Average (From Table A)	Less: Sums of FY 2009 Current Projected Actual less FY 2009 Budget (From Table B Column #3 – Totals)	"Calculated" Revenue per Visit
1	Revenue	35,000,000	530,000	34,470,000
2	Visits	65,000	350	64,650
3	Avg. per visit			533.18

TABLE D
Dollar Value of High Cost/Low Cost Procedures

1	Projected Actual Revenue per visit (from Table A, line 3)	538.46	
2	Less: "Calculated" Revenue per Visit (from Table C, line 3)	533.18	
3	Increase Due to Change in High/Low Cost Procedures		5.28

TABLE E
Calculation for remaining overages

1	FY 2009 Overage (from Table A, line 5)	13.46	
2	Less: Justification due to change in high/low cost procedures (from Table D, line 3)	5.28	
3	Remaining Outpatient Overage – (unjustified overage)		8.18