

**Explanation of Changes to Title 8, California Code of Regulations, section 9789.23  
Inpatient Hospital Services (For discharges on or after November 29, 2004)**

1. Data Sources

- a. The Medicare FY05 update to the inpatient prospective payment system was published on August 11, 2004 in the Federal Register (Vol. 69 FR 48916) and is entitled " Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2005 Rates" (CMS-1428-F). A correction notice was put on display at the Federal Register on September 30, 2004 and is entitled "Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2005 Rates; Correction CMS-1428-CN2." (publication date will be early October). A second correction notice is scheduled to be published mid-October. The first two documents are available at <http://www.cms.hhs.gov/providers/hipps/>; the third document should be available on the CMS website when it is put on display at the Federal Register.
- b. The factors to determine composite rate are available on the CMS website at <http://www.cms.hhs.gov/providers/hipps/ippspufs.asp>. The public use file is entitled "Impact File for IPPS FY 2005 Final Rule Updated to Reflect Wage Index Corrections." The file contains corrected wage data posted on the CMS website as of September 29, 2004 - including the corrections that will be published in the FR in mid-October- and therefore has all the data needed to update the OMFS rates.

2. Composite Rate Calculation

- a. Update to the standardized amount. L.C. 5307(g)(1)(A)(i) provides that the annual inflation adjustment for inpatient hospital facility fees shall be determined solely by the estimated increase in the hospital market basket. Thus, in lieu of using the Medicare FY05 rates to determine the updated OMFS amounts, we applied the estimated increase in the hospital market basket to the FY04 rates.
- b. OMFS rate for operating costs
  - i. Based on a provision of the Medicare Modernization Act (MMA), all hospitals are paid the same standard rate for operating costs (based on the rate for hospitals located in large urban areas). The FY04 rate was \$4,423.84. The estimated increase in the market basket is 3.3%. The FY05 standard rate under the OMFS is \$4,569.83 ( $\$4,423.84 \times 1.033$ ).
  - ii. The MMA provides that if a hospital's wage index is less than 1.0, the labor-related share is .62 of the standard rate. If the wage index is 1.0 or higher, the labor-related share is .71066. The wage-adjusted standard rate is determined as follows:
    1. If  $WIGRN \geq 1.0$ , wage-adjusted rate =  $\$4,569.83 \times (.71066 \times WIGRN + .28934)$
    2. If  $WIGRN < 1.0$ , wage-adjusted rate =  $\$4,569.83 \times (.62 \times WIGRN + .38)$

- iii. The wage-adjusted operating rate is further adjusted for any additional payments for teaching and serving a disproportionate share of low-income patients.  
Adjusted operating rate = wage-adjusted standard rate x (1 + DSHOP + TCHOP)
  - c. OMFS rate for capital-related costs
    - i. Two Medicare rates were in effect during FY04 for capital-related costs because of changes made by the MMA. In its update, CMS uses a simple average of the two rates, which equals \$413.83. We took the same approach and used the average rate as our starting point. The estimated increase in the capital market basket was 0.7%. The FY05 standard capital rate is \$416.73 (\$413.83 x 1.007). The standard capital rate is further increased 3% for hospitals located in large urban areas.
    - ii. The standard capital is adjusted for the capital geographic adjustment factor, teaching, and for serving low-income patients.  
Adjusted capital rate = \$416.73 x WICGRN x (1+ DSHCPG + TCHCPG) [x 1.03 if large urban].
  - d. The standard composite rate is the sum of the OMFS rate for operating costs and the OMFS rate for capital-related costs.
  - e. Sole community hospitals (PTYPE = 16) receive the higher of the standard composite rate or a composite rate based on a hospital-specific rate for operating costs plus the OMFS rate for capital-related costs. The hospital-specific rate for operating costs is the higher of OLDHSPPS or HSP96. When the hospital-specific composite rate is higher than the standard composite rate, the amount is shown in italics.
- 3. Cost-to-charge ratio (CCR) used to determine outlier payments is the sum of the operating and capital cost-to-charge ratios.  $CCR = OPCCR + CPCCR$
- 4. Hospital-specific outlier threshold
  - a. The standard outlier threshold is \$25,800.
  - b. The standard outlier threshold is allocated to operating and capital components and adjusted for geographic location as follows:
    - i. If  $WIGRN > 1.0$ , operating outlier threshold =  $25800 \times \frac{OPCCR}{CCR} \times (WIGRN \times .71066 + .28934)$
    - ii. If  $WIGRN < 1.0$ , operating outlier threshold =  $25800 \times \frac{OPCCR}{CCR} \times (WIGRN \times .62 + .38)$
    - iii. Capital outlier threshold =  $25800 \times \frac{CPCCR}{CCR} \times WICGRN$
    - iv. Hospital-specific outlier threshold = operating outlier threshold + capital outlier threshold
- 5. Composite Rate Data: To determine payment, the hospital-specific composite rate would be multiplied by the DRG relative weight and 1.20 multiplier.