

OMFS Update for Inpatient Hospital Services (Effective for discharges occurring on or after December 1, 2006)

1. Data Sources

a. The Medicare FY07 update to the inpatient prospective payment system was published on August 18, 2006 in the Federal Register (Vol. 71 FR 47870) and is entitled " Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates; Final Rule" (CMS-1488-F). An additional notice was published on October 11, 2006, in the Federal Register (Vol. 71 FR 59886), and is entitled "Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates: Final Fiscal Year 2007 Wage Indices and Payment Rates After Application of Revised Occupational Mix Adjustment to Wage Index" (CMS-1488-N). These documents are available at <http://www.cms.hhs.gov/providers/hipps/frnotices.asp>.

b. The factors to determine composite rate are available on the CMS website at <http://www.cms.hhs.gov/AcuteInpatientPPS/> The public use file used to calculate the composite rates is entitled "Impact File for IPPS FY 2007 Final Rule September 2006." The file contains wage data posted on the CMS website as of September 29, 2006.

2. Composite Rate Calculation

a. Update to the standardized amount. L.C. 5307.1(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 FY07 rates to determine the updated OMFS amounts, the estimated increase in the hospital market basket was applied to the FY06 OMFS 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 FY06 rate was \$ 4,738.91. The estimated increase in the market basket is 3.4%. The FY07 standard rate under the OMFS is \$ 4,900.03 ($\$4,738.91 \times 1.034$).

ii. The MMA provides that if a hospital's wage index is less than or equal to 1.0, the labor-related share is .62 of the standard rate. If the wage index is greater than 1.0, the labor-related share is .697. The wage-adjusted standard rate is determined as follows:

1. For discharges occurring on or after December 1, 2006 through March 31, 2007 use post reclass wage_a, which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006. For discharges occurring on or after

April 1, 2007, use post reclass wage _b, which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006.:

- a. If Post Reclass Wage >1.0, wage-adjusted rate
= $\$4,900.03 \times (.697 \times \text{Post Reclass Wage} + .303)$
 - b. If Post Reclass Wage <=1.0, wage-adjusted rate
= $\$4,900.03 \times (.62 \times \text{Post Reclass Wage} + .38)$
 - 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. The estimated increase in the capital market basket is 1.10%. The FY07 standard capital rate is \$424.68 ($\420.06×1.0110). 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.
 - iii. For discharges occurring on or after December 1, 2006 through March 31, 2007, use post reclass GAF_a, which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006. For discharges occurring on or after April 1, 2007, use post reclass GAF_b which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006.:
 1. Adjusted capital rate = $\$424.68 \times \text{Post Reclass GAF} \times (1 + \text{DSHCPG} + \text{TCHCPG})$ [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. When the hospital-specific composite rate (HSP 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. $\text{CCR} = \text{OPCCR} + \text{CPCCR}$
4. Hospital-specific outlier threshold
- a. The standard outlier threshold is \$24,485.
 - b. The standard outlier threshold is allocated to operating and capital components and adjusted for geographic location as follows:

- i. For discharges occurring on or after December 1, 2006 through March 31, 2007, use post reclass wage_a, which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006. For discharges occurring on or after April 1, 2007, use post reclass wage_b, which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006.:
 - 1. If Post Reclass Wage > 1.0, operating outlier threshold = $\$24,485 \times \text{OPCCR/CCR} \times (\text{Post Reclass Wage} \times .697 + .303)$
 - 2. If Post Reclass Wage <=1.0, operating outlier threshold = $\$24,485 \times \text{OPCCR/CCR} \times (\text{Post Reclass Wage} \times .62 + .38)$
- ii. For discharges occurring on or after December 1, 2006 through March 31, 2007 use post reclass GAF_a, which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006. For discharges occurring on or after April 1, 2007, use post reclass GAF_b which can be found in the Impact File for IPPS FY 2007 Final Rule September 2006:
 - 1. Capital outlier threshold = $\$24,485 \times \text{CPCCR/CCR} \times \text{Post Reclass GAF}$
- iii. Hospital-specific outlier threshold = operating outlier threshold + capital outlier threshold

5. Listing of Hospitals

- a. Any hospital that has become a certified critical access hospital (CAH), but is not reflected in the development of this table, should notify DWC.

- 6. DRG Relative Weights: Revised and final DRG relative weights are shown in the addendum of the notice published on October 11, 2006, in the Federal Register (Vol. 71 FR 59886), and is entitled “Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates: Final Fiscal Year 2007 Wage Indices and Payment Rates After Application of Revised Occupational Mix Adjustment to Wage Index” (CMS-1488-N) as “TABLE 5--LIST OF DIAGNOSIS-RELATED GROUPS (DRGS), RELATIVE WEIGHTING FACTORS, AND GEOMETRIC AND ARITHMETIC MEAN LENGTH OF STAY (LOS).” Section 9789.24. Diagnostic Related Groups, Relative Weights, Geometric Mean Length of Stay is revised to reflect these changes effective with discharges occurring on or after December 1, 2006.
- 7. Maximum Allowable Fees: To determine the standard payment rate, the hospital-specific composite rate would be multiplied by the DRG relative weight and 1.20 multiplier. Additional payments will be made for high cost outlier cases and for certain pass-through costs in accordance with the regulations.
- 8. Acute Care Transfers: Section 9789.22(i)(2)(A) is amended to conform to updates to the qualifying DRGs when an acute care patient is discharged to a

post-acute care provider. The revised and final Table 5 of the addendum to the additional notice published on October 11, 2006, in the Federal Register (Vol. 71 FR 59886, and is entitled "Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates: Final Fiscal Year 2007 Wage Indices and Payment Rates After Application of Revised Occupational Mix Adjustment to Wage Index" (CMS-1488-N) lists how the transfer policy will apply when an acute care patient in a particular DRG is transferred to a post-acute care provider. These documents are available at [http://www.cms.hhs.gov/providers/hipps/.](http://www.cms.hhs.gov/providers/hipps/))

Section 9789.22(i)(2)(B) is amended to conform to updates to the DRGs which were published on August 18, 2006 in the Federal Register (Vol. 71 47870) and is entitled " Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates; Final Rule" (CMS-1488-F), and the additional notice which was published on October 11, 2006, in the Federal Register (Vol. 71 FR 59886), and is entitled "Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates: Final Fiscal Year 2007 Wage Indices and Payment Rates After Application of Revised Occupational Mix Adjustment to Wage Index" (CMS-1488-N). DRG 544 (major joint replacement and reattachment of lower extremity) is no longer subject to payment in accordance with this section.

9. Section 9789.22 is further amended by Order of the Administrative Director as described in paragraph 10, below. In particular, the subsections which reference the Federal Register or Code of Federal Regulations are amended to incorporate by reference the Federal Register, August 18, 2006, Vol. 71 47870) and is entitled " Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates; Final Rule" (CMS-1488-F), and the additional notice which was published on October 11, 2006, in the Federal Register (Vol. 71 FR 59886), and is entitled "Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates: Final Fiscal Year 2007 Wage Indices and Payment Rates After Application of Revised Occupational Mix Adjustment to Wage Index" (CMS-1488-N) to be applied to discharges occurring on or after December 1, 2006.
10. Pursuant to Labor Code section 5307.1(g)(2), the Administrative Director of the Division of Workers' Compensation orders that to the extent references to the Federal Register or Code of Federal Regulations are made in any sections starting from section 9789.20 through 9789.24 of Title 8 of the California Code of Regulations, said section is hereby amended to incorporate by reference the applicable Federal Register final rule (including correction notices and revisions) and Federal Regulations in effect as of the date the Order becomes effective, to be applied to discharges occurring on or after December 1, 2006.