Program Memorandum Intermediaries

Department of Health and Human Services (DHHS)
HEALTH CARE FINANCING ADMINISTRATION (HCFA)

Transmittal A-01-44 **Date: MARCH 28, 2001**

CHANGE REQUEST 1618

SUBJECT: Standard Systems Changes Required to Incorporate Provider-Specific Payment-to-Cost Ratios into the Calculation of Interim Transitional Corridor Payments Under OPPS

This Program Memorandum (PM) provides instructions to standard systems maintainers on payment-to-cost ratios (PCRs) used to calculate interim transitional corridor payments.

Background - Payment-to-Cost Ratios

Under regulations at 42 CFR 419.70, hospitals and community mental health centers (CMHCs) that are subject to the outpatient prospective payment system (OPPS) may be eligible to receive a transitional corridor payment, frequently referred to as a transitional outpatient payment (TOP). The purpose of the TOP is to restore some of the decrease in the payment that a provider may experience under the OPPS. Providers that are eligible for TOPs receive monthly interim payments as described in PM A-00-36. However, the final TOP amount is calculated based on the provider's settled cost report. Final TOP payments for a calendar year are based on the difference between what the provider was paid under the OPPS, and the provider's "pre-Balanced Budget Act (BBA) amount," The pre-BBA amount is an estimate of what the provider would have been paid during the calendar year for the same services under the system that was in effect prior to OPPS. If the pre-BBA amount exceeds the actual OPPS payments a provider received during a calendar year, rural hospitals with 100 or fewer beds, qualifying cancer centers, and children's hospitals will receive the entire amount of the difference between their OPPS payments and their pre-BBA amount. All other hospitals and CMHCs will receive a portion of the difference as a TOP.

The pre-BBA amount is calculated by multiplying the provider's PCR, based on the provider's base year cost report, times the reasonable costs the provider incurred during a calendar year to furnish the services that were paid under the OPPS. For most hospitals and CMHCs, the base year cost report used to calculate the payment-to-cost ratio is the cost report that ended during calendar year 1996. However, if a hospital or CMHC did not file a cost report that ended in calendar year 1996, the payment-to cost ratio will be calculated using the provider's first cost report that ended after calendar year 1996 and before calendar year 2001.

Using the Newly Calculated PCR for Determining Final TOP Amounts

Final TOP amounts are determined for each calendar year, based on the calendar year or portion of a calendar year that falls within a provider's cost reporting period. The PCR is one factor used on Worksheet E, Part B, of the hospital cost report (Form HCFA-2552 - 96), and Worksheet J-3 of the CMHC cost report (Form HCFA-2088) in calculating the provider's final TOP amount. (Instructions for fiscal intermediaries to make these calculations will follow shortly in another PM, as noted below.) Once calculated, the provider's PCR will be used to calculate the provider's pre-BBA amount for all calendar years for which the provider may be eligible for a TOP payment. The PCR will not change each year.

Using the Newly Calculated PCR for Determining Interim TOPs

Providers that are eligible for TOPs receive monthly interim payments as described in PM A-00-36. The calculation of the monthly payment outlined in PM-00-36, under the section Transitional Corridor Payments, uses a national uniform PCR of 80 percent for all providers in step 1. Once

fiscal intermediaries calculate a provider-specific PCR, that PCR will be used in calculating monthly interim payments to the provider. (Instructions for fiscal intermediaries to make these calculations will follow shortly in another PM, as noted below.) The standard systems maintainers will populate the cost-of-living adjustment field of the Provider Specific File to reflect the provider-specific PCR. This field is not currently in use and will be renamed the PCR field. The standard systems maintainers will revise the monthly TOPs calculation to use the provider-specific PCR, taken from the Provider Specific File, in lieu of the national PCR of 80 percent. If the value in the PCR field in the Provider Specific File is blank (i.e., the fiscal intermediary has not yet calculated a provider-specific PCR), continue to use the national PCR of 80 percent. The change to the provider-specific file and the change in the calculation of TOPs payments will be effective on July 1, 2001.

As indicated above, instructions for fiscal intermediaries on how to calculate PCRs will follow. Those instructions will also include a process for payment adjustments, retroactive to August 1, 2000, that result from changes in PCRs as well as criteria for considering requests to recalculate providers' cost-to-charge ratios.

The *effective date* for this PM is April 27, 2001.

The *implementation date* for this PM is July 1, 2001.

These instructions should be implemented within your current operating budget.

This PM may be discarded after March 31, 2002.

If you have any questions concerning the PCR calculation, contact Valerie Barton (410) 786-2803.

Standard systems responsibilities to incorporate the PCRs into interim TOPs, contact: Karen Allen (410) 786-1705.