51549 Reimbursement Formula

(a)

A hospital cost index (HCI) shall be established for each provider. This index shall consist of an input price index (IPI) and shall contain an allowance for changes in scientific and technological advancement, service intensity and productivity. The allowance shall be called the Service Intensity, Productivity, Scientific and Technological Advancement Factor (SIPTF). (1) The HCI shall be calculated to account for actual changes in the IPI after the close of each provider's accounting period. (2) The HCI shall be multiplied by the non-pass-through portion of the provider's MIRL reimbursement rate per discharge (tentative or final) for the prior fiscal period to determine the non-pass-through portion of its ARPD for the settlement fiscal period. (A) The prior period shall always be the base period for each settlement. (B) For the initial base period only, the non-pass-through portion of the ARPD shall be calculated as follows: 1. Step 1, add the amount of TPL for the initial base period to the MIRL (lowest of 51536(a)(1)-(3)) which includes amounts reimbursed under the AA and appeals process for the initial base period. 2. Step 2, recalculate Medi-Cal discharges for any initial base period in accordance with the definition of Medi-Cal discharges contained in Section 51545. a. The Department shall notify the provider of the revised count of Medi-Cal discharges for the initial base period. b. The provider may file an AAR on the count of Medi-Cal discharges for the initial base period only and only as it is used in the

settlement period MIRL. The AAR must be filed within 60 days of notification of the number of Medi-Cal discharges for the initial base period. c. The provider may file an appeal on the Department's response to the AAR in accordance with Section 51552. 3. Step 3, divide the result of step 1 by the result of step 2. 4. Step 4, multiply the percentage of non-pass-through costs for the initial base period by the result of step 3. 5. Use the result of step 4 in place of the PNPARPD in the ARPD formula in subsection (3) below. (3) The ARPD shall be calculated as follows: ARPD = PASPD + NPARPD. = PASPD + (PNPARPD * HCI) = (TPTC/THD) + (PNPARPD * ((AIPI * CMAF) + SIPTF)) Where ARPD = All-inclusive Rate Per Discharge. PASPD = Pass through per discharge = TPTC/THD TPTC = Total pass through costs in the settlement fiscal period THD = Total hospital discharges in the settlement fiscal period. NPARPD = Non-Pass-through All-inclusive Rate Per Discharge. NPARPD = PNPARPD * HCI PNPARPD = Prior year Non-Pass-through portion of the MIRL reimbursement rate per discharge which is, ((PMIRL - (PMCDIS * (PTPTC/PTHD)))/PMCDIS) Where: PMIRL = Prior fiscal period MIRL. PMCDIS = Prior fiscal period number of Medi-Cal discharges. PTPTC = Prior fiscal period total pass through costs. PTHD = Prior fiscal period total hospital discharges HCI = Hospital Cost Index = ((AIPI) ** (Days/730))* CMAF) + (SIPTF. **(days/730)) If the prior or settlement fiscal period is long (over 370 days) or short (under 360 days). If both fiscal periods are over 359 days and under 371 days HCI = (AIPI * CMAF) + SIPTF. Where: AIPI = Adjusted Input Price Index. SIPTF = Allowance for Service Intensity, Productivity, and Scientific and Technological advancement Factor. Days = Sum of days in the current and prior fiscal periods. CMAF = Case mix adjustment factor. * = Multiplication. ** = Exponentiation. (4) An annual allowance for service intensity, productivity and scientific and technological advancement shall be added to the allowable increase in the non-pass-through portion of the ARPD, as detailed in the

formulas in this section. This allowance shall be in addition to reimbursement for pass-through categories and shall be the net amount of changes for scientific and technological advancement, productivity improvement and service intensity, if any (excluding case mix), as recommended annually by the prospective payment assessment commission for the Medicare PPS for all FPEs during the PPS effective dates of the recommended allowance. (5) The pass-through categories are those hospital cost categories which, for purposes of tentative and final settlement, are not subject to the HCI. (6) Each pass-through category is listed below: (A) Depreciation. (B) Rents and Leases. (C) Interest. (D) Property Taxes and License Fees. (E) Utility Expenses. (F) Malpractice Insurance.

(1)

The HCI shall be calculated to account for actual changes in the IPI after the close of each provider's accounting period.

(2)

The HCI shall be multiplied by the non-pass-through portion of the provider's MIRL reimbursement rate per discharge (tentative or final) for the prior fiscal period to determine the non-pass-through portion of its ARPD for the settlement fiscal period. (A) The prior period shall always be the base period for each settlement. (B) For the initial base period only, the non-pass-through portion of the ARPD shall be calculated as follows: 1. Step 1, add the amount of TPL for the initial base period to the MIRL (lowest of 51536(a)(1)-(3)) which includes amounts reimbursed under the AA and appeals process for the initial base period. 2. Step 2, recalculate Medi-Cal discharges for any initial base period in accordance with the definition of Medi-Cal discharges contained in Section 51545. a. The Department shall notify the provider of the revised count of Medi-Cal discharges for the initial base period. b. The provider may file an AAR on the count of Medi-Cal discharges for the initial base period only and only as it is used in the

settlement period MIRL. The AAR must be filed within 60 days of notification of the number of Medi-Cal discharges for the initial base period. c. The provider may file an appeal on the Department's response to the AAR in accordance with Section 51552. 3. Step 3, divide the result of step 1 by the result of step 2. 4. Step 4, multiply the percentage of non-pass-through costs for the initial base period by the result of step 3. 5. Use the result of step 4 in place of the PNPARPD in the ARPD formula in subsection (3) below.

(A)

The prior period shall always be the base period for each settlement.

(B)

For the initial base period only, the non-pass-through portion of the ARPD shall be calculated as follows: 1. Step 1, add the amount of TPL for the initial base period to the MIRL (lowest of 51536(a)(1)-(3)) which includes amounts reimbursed under the AA and appeals process for the initial base period. 2. Step 2, recalculate Medi-Cal discharges for any initial base period in accordance with the definition of Medi-Cal discharges contained in Section 51545. a. The Department shall notify the provider of the revised count of Medi-Cal discharges for the initial base period. b. The provider may file an AAR on the count of Medi-Cal discharges for the initial base period only and only as it is used in the settlement period MIRL. The AAR must be filed within 60 days of notification of the number of Medi-Cal discharges for the initial base period. c. The provider may file an appeal on the Department's response to the AAR in accordance with Section 51552. 3. Step 3, divide the result of step 1 by the result of step 2. 4. Step 4, multiply the percentage of non-pass-through costs for the initial base period by the result of step 3. 5. Use the result of step 4 in place of the PNPARPD in the ARPD formula in subsection (3) below.

1.

Step 1, add the amount of TPL for the initial base period to the MIRL (lowest of 51536(a)(1)-(3))

which includes amounts reimbursed under the AA and appeals process for the initial base period.

2.

Step 2, recalculate Medi-Cal discharges for any initial base period in accordance with the definition of Medi-Cal discharges contained in Section 51545. a. The Department shall notify the provider of the revised count of Medi-Cal discharges for the initial base period. b. The provider may file an AAR on the count of Medi-Cal discharges for the initial base period only and only as it is used in the settlement period MIRL. The AAR must be filed within 60 days of notification of the number of Medi-Cal discharges for the initial base period. c. The provider may file an appeal on the Department's response to the AAR in accordance with Section 51552.

a.

The Department shall notify the provider of the revised count of Medi-Cal discharges for the initial base period.

b.

The provider may file an AAR on the count of Medi-Cal discharges for the initial base period only and only as it is used in the settlement period MIRL. The AAR must be filed within 60 days of notification of the number of Medi-Cal discharges for the initial base period.

c.

The provider may file an appeal on the Department's response to the AAR in accordance with Section 51552.

3.

Step 3, divide the result of step 1 by the result of step 2.

4.

Step 4, multiply the percentage of non-pass-through costs for the initial base period by the result of step 3.

5.

Use the result of step 4 in place of the PNPARPD in the ARPD formula in subsection (3) below.

(3)

The ARPD shall be calculated as follows: ARPD = PASPD + NPARPD. = PASPD + (PNPARPD * HCI) = (TPTC/THD) + (PNPARPD * ((AIPI * CMAF) + SIPTF)) Where ARPD = All-inclusive Rate Per Discharge. PASPD = Pass through per discharge = TPTC/THD TPTC = Total pass through costs in the settlement fiscal period THD = Total hospital discharges in the settlement fiscal period. NPARPD = Non-Pass-through All-inclusive Rate Per Discharge. NPARPD = PNPARPD * HCI PNPARPD = Prior year Non-Pass-through portion of the MIRL reimbursement rate per discharge which is, ((PMIRL - (PMCDIS * (PTPTC/PTHD)))/PMCDIS) Where: PMIRL = Prior fiscal period MIRL. PMCDIS = Prior fiscal period number of Medi-Cal discharges. PTPTC = Prior fiscal period total pass through costs. PTHD = Prior fiscal period total hospital discharges HCI = Hospital Cost Index = ((AIPI) ** (Days/730))* CMAF) + (SIPTF. **(days/730)) If the prior or settlement fiscal period is long (over 370 days) or short (under 360 days). If both fiscal periods are over 359 days and under 371 days HCI = (AIPI * CMAF) + SIPTF. Where: AIPI = Adjusted Input Price Index. SIPTF = Allowance for Service Intensity, Productivity, and Scientific and Technological advancement Factor. Days = Sum of days in the current and prior fiscal periods. CMAF = Case mix adjustment factor. * = Multiplication. ** = Exponentiation.

(4)

An annual allowance for service intensity, productivity and scientific and technological advancement shall be added to the allowable increase in the non-pass-through portion of the ARPD, as detailed in the formulas in this section. This allowance shall be in addition to reimbursement for pass-through categories and shall be the net amount of changes for scientific and technological advancement, productivity improvement and service intensity, if any (excluding case mix), as recommended annually by the prospective payment assessment commission for the Medicare PPS for all FPEs during the PPS effective dates of the recommended allowance.

(5)

The pass-through categories are those hospital cost categories which, for purposes of tentative and final settlement, are not subject to the HCI.

(6)

Each pass-through category is listed below: (A) Depreciation. (B) Rents and Leases. (C) Interest. (D) Property Taxes and License Fees. (E) Utility Expenses. (F) Malpractice Insurance.

(A)

Depreciation.

(B)

Rents and Leases.

(C)

Interest.

(D)

Property Taxes and License Fees.

(E)

Utility Expenses.

(F)

Malpractice Insurance.

(b)

An IPI shall be established to compute the reimbursable change in the prices of goods and services purchased by the providers (except for pass-throughs). The IPI shall consist of a market basket classification of goods and services purchased by providers, a corresponding set of market basket weights derived from each provider's own mix of purchased goods and services, and a related series of price indicators. (1) Weights corresponding to market basket categories shall be derived and updated for each settlement fiscal period. These weights shall be computed

using the latest available information from each provider's Medi-Cal cost report. If information from this source is not sufficient to establish a hospital specific weight for a particular market basket category, the Department shall assign a weight based on information from the United States National Hospital Input Price Index published by the Department of Health and Human Services, or other available sources. (2) The IPI shall be calculated after the close of each hospital's FPE, to account for actual and/or estimated changes in the:(A) Hospital specific wage and benefit rates.1. The index for allowable changes in wages shall be computed as follows: Salary and Wage Index (SWI) = CLSA/ACSA. Where: CLSA = Summation of (PYHx * CYHRx) for all x. ACSA = Summation of all Actual Prior Fiscal Period Salaries for all x categories. x = The following categories: a. Technicians and Specialists. b. Registered Nurses. c. LVNs. d. Aides and orderlies. e. Clerical and other administrative. f. Environmental and food service. PYHx = Prior Fiscal Period Productive Hours. CYHRx = Current (Settlement) Fiscal Period Hourly Rate = CYSx/CYHx. CYSx = Current (Settlement) Fiscal Period salary Expense for each category. CYHx = Current (Settlement) Fiscal Period productive Hours. 2. The Employee Benefits Index (EBI) shall be computed as follows: EBI = (PYHT * CYBR)/PYB. Where: PYHT = Prior Year (Prior Fiscal Period) Paid Labor Hours for All Labor Categories. CYBR = Current Year (Settlement Fiscal Period) Benefit Rate = CYB/CYHT. PYB = Prior Year (Prior Fiscal Period) Benefits Costs. CYB = Current Year (Settlement Fiscal Period) Benefits costs. CYHT = Current Year (Settlement Fiscal Period) Labor Hours for All Labor Categories. 3. The SWI and EBI shall be annualized for any provider which has a short or long (under 360 or over 370 days) prior or current fiscal period.(a) The SWI shall be adjusted using the following formula: ASWI = SWI ** (730/Days). ASWI = Adjusted SWI. Where Days = Total days in the current and prior fiscal periods. (b) The EBI shall be adjusted using the following

formula: AEBI = EBI ** (730/Days). Where: AEBI = Adjusted EBI. Days = Total days in the current and prior fiscal periods. (c) If the SWI and EBI are not annualized, then the ASWI = SWI and AEBI = EBI. (B) Price indicators for other non-pass-through categories. (C) Market basket weights for the following categories:1. Salary and wages. 2. Benefits. 3. Professional fees, medical. 4. Professional fees, other. 5. Food. 6. Drugs. 7. All other non-pass-through costs. (D) The non-pass-through costs "all other" category shall be weighted using the following weights for purposes of calculating the price indicator: CategoryWeight Chemicals12.16% Surgical and Medical Instruments and Supplies10.59% Rubber and Miscellaneous Plastics9.02% Business Travel and Motor Freight4.71% Apparel and Textiles4.31% Business Services14.90% All other miscellaneous44.31% (E) The weights for the seven market basket categories shall be the percentage of costs for each category as calculated from the Medi-Cal cost report. (F) Each market basket weight shall be multiplied by the corresponding price indicator. The results will be summed to obtain the unadjusted non-pass-through price index. (G) The price indicators for items under (C) (3 through 7) will be established for the end of each calendar quarter (March 31, June 30, September 30 and December 31). Any FPE other than on a calendar quarter shall use the price indicators under (C) above for the quarter in which the provider's FPEs. 1. The following five market basket categories and price indicators to be used in developing each provider's IPI are shown in the following table. Non-Pass-Through Market Basket Classification (Excluding Wages and Benefits) Market Basket CategoriesPrice Indicators VariableSource (1)Professional Fees for PhysiciansPhysicians' service componentConsumer Price Index, All Urban Consumers (2)Other Professional FeesHourly earnings, production or non supervisory, private nonagricultural employeesU.S. Department of Labor Bureau of Labor Statistic (3)FoodAverage of

processed foods and feedsProducer Price Index component of PPI and food and beverages component of CPIConsumer Price Index, All Urban Consumer (4)DrugsPharmaceuticals and ethical componentProducer Price Index (5)Other Costs: (a)ChemicalsChemicals and allied products componentProducer Price Index (b)Surgical and Medical Instruments and SuppliesSpecial industry machinery and equipment componentProducer Price Index Market Basket CategoriesPrice Indicators VariableSource (c)Rubber and PlasticsRubber and plasticsProducer Price Index (d)TravelTransportation componentConsumer Price Index, All Urban Consumers (e)Apparel and TextilesTextile products and apparel componentProducer Price Index (f)Business ServicesServices componentConsumer Price Index, All Urban Consumers (g) All OtherAll itemsConsumer Price Index, All Urban Consumers 2. The price index shall be 1.0 + the percentage increase in each service category as measured by the price indicator, expressed as a proportion. (3) The formula for the hospital IPI shall be: IPI = (PX1 * PGE1) + (PX2 * PGE2) + (PX3 * PGE3) + (PX4 * PGE4) + (ASWI * PGE5) + (AEBI * PGE6) + (PXO * PGE7) Where: IPI = Input Price Index. PX1 = Price Index for Medical Professional Fees. PX2 = Price Index for Other Professional Fees. PX3 = Price Index for Food Costs. PX4 = Price Index for Drug Costs. ASWI = Adjusted Salary and Wage Index. AEBI = Adjusted Employee Benefit Index. PXO = Price Index for Other Costs. PGE1 = Proportion of non-pass-through GOE which is for Medical Professional Fees for the prior fiscal period. PGE2 = Proportion of non-pass-through GOE which is for Other Professional Fees for the prior fiscal period. PGE3 = Proportion of non-pass-through GOE which is for Food Costs for the prior fiscal period. PGE4 = Proportion of non-pass-through GOE which is for Drug Costs for the prior fiscal period. PGE5 = Proportion of non-pass-through GOE which is for Salary and Wages for the prior fiscal period. PGE6 = Proportion of non-pass-through GOE which is for Employee

Benefits for the prior fiscal period. PGE7 = Proportion of non-pass-through GOE which is for Other Costs for the prior fiscal period. non-pass-through GOE = GOE minus total of all pass-through costs for the prior fiscal period. (4) Providers that do not supply the data needed to calculate the IPI, shall have an IPI equal to the hospital market basket increase as calculated by HCFA, for the closest corresponding time period. For hospitals with short FPEs, the closest corresponding time period shall be the one with the closest mid-point.

(1)

Weights corresponding to market basket categories shall be derived and updated for each settlement fiscal period. These weights shall be computed using the latest available information from each provider's Medi-Cal cost report. If information from this source is not sufficient to establish a hospital specific weight for a particular market basket category, the Department shall assign a weight based on information from the United States National Hospital Input Price Index published by the Department of Health and Human Services, or other available sources.

(2)

The IPI shall be calculated after the close of each hospital's FPE, to account for actual and/or estimated changes in the:(A) Hospital specific wage and benefit rates.1. The index for allowable changes in wages shall be computed as follows: Salary and Wage Index (SWI) = CLSA/ACSA. Where: CLSA = Summation of (PYHx * CYHRx) for all x. ACSA = Summation of all Actual Prior Fiscal Period Salaries for all x categories. x = The following categories: a. Technicians and Specialists. b. Registered Nurses. c. LVNs. d. Aides and orderlies. e. Clerical and other administrative. f. Environmental and food service. PYHx = Prior Fiscal Period Productive Hours. CYHRx = Current (Settlement) Fiscal Period Hourly Rate = CYSx/CYHx. CYSx = Current (Settlement) Fiscal Period salary Expense for each category. CYHx = Current (Settlement) Fiscal Period productive Hours.

2. The Employee Benefits Index (EBI) shall be computed as follows: EBI = (PYHT * CYBR)/PYB. Where: PYHT = Prior Year (Prior Fiscal Period) Paid Labor Hours for All Labor Categories. CYBR = Current Year (Settlement Fiscal Period) Benefit Rate = CYB/CYHT. PYB = Prior Year (Prior Fiscal Period) Benefits Costs. CYB = Current Year (Settlement Fiscal Period) Benefits costs. CYHT = Current Year (Settlement Fiscal Period) Labor Hours for All Labor Categories. 3. The SWI and EBI shall be annualized for any provider which has a short or long (under 360 or over 370 days) prior or current fiscal period.(a) The SWI shall be adjusted using the following formula: ASWI = SWI ** (730/Days). ASWI = Adjusted SWI. Where Days = Total days in the current and prior fiscal periods. (b) The EBI shall be adjusted using the following formula: AEBI = EBI ** (730/Days). Where: AEBI = Adjusted EBI. Days = Total days in the current and prior fiscal periods. (c) If the SWI and EBI are not annualized, then the ASWI = SWI and AEBI = EBI. (B) Price indicators for other non-pass-through categories. (C) Market basket weights for the following categories:1. Salary and wages. 2. Benefits. 3. Professional fees, medical. 4. Professional fees, other. 5. Food. 6. Drugs. 7. All other non-pass-through costs. (D) The non-pass-through costs "all other" category shall be weighted using the following weights for purposes of calculating the price indicator: CategoryWeight Chemicals12.16% Surgical and Medical Instruments and Supplies10.59% Rubber and Miscellaneous Plastics9.02% Business Travel and Motor Freight4.71% Apparel and Textiles4.31% Business Services14.90% All other miscellaneous44.31% (E) The weights for the seven market basket categories shall be the percentage of costs for each category as calculated from the Medi-Cal cost report. (F) Each market basket weight shall be multiplied by the corresponding price indicator. The results will be summed to obtain the unadjusted non-pass-through price index. (G) The price indicators for items under (C) (3 through 7) will be established for the end of each calendar quarter (March 31, June 30, September 30 and December 31). Any FPE other

than on a calendar quarter shall use the price indicators under (C) above for the quarter in which the provider's FPEs. 1. The following five market basket categories and price indicators to be used in developing each provider's IPI are shown in the following table.

Non-Pass-Through Market Basket Classification (Excluding Wages and Benefits)

Market Basket CategoriesPrice Indicators VariableSource (1)Professional Fees for PhysiciansPhysicians' service componentConsumer Price Index, All Urban Consumers (2)Other Professional FeesHourly earnings, production or non supervisory, private nonagricultural employeesU.S. Department of Labor Bureau of Labor Statistic (3)FoodAverage of processed foods and feedsProducer Price Index component of PPI and food and beverages component of CPIConsumer Price Index, All Urban Consumer (4)DrugsPharmaceuticals and ethical componentProducer Price Index (5)Other Costs: (a)ChemicalsChemicals and allied products componentProducer Price Index (b)Surgical and Medical Instruments and SuppliesSpecial industry machinery and equipment componentProducer Price Index Market Basket CategoriesPrice Indicators VariableSource (c)Rubber and PlasticsRubber and plasticsProducer Price Index (d)TravelTransportation componentConsumer Price Index, All Urban Consumers (e)Apparel and TextilesTextile products and apparel componentProducer Price Index (f)Business ServicesServices componentConsumer Price Index, All Urban Consumers (g) All OtherAll itemsConsumer Price Index, All Urban Consumers 2. The price index shall be 1.0 + the percentage increase in each service category as measured by the price indicator, expressed as a proportion.

(A)

Hospital specific wage and benefit rates.1. The index for allowable changes in wages shall be computed as follows: Salary and Wage Index (SWI) = CLSA/ACSA. Where: CLSA = Summation of (PYHx * CYHRx) for all x. ACSA = Summation of all Actual Prior Fiscal Period Salaries for all x categories. x = The following categories: a. Technicians and Specialists. b.

Registered Nurses. c. LVNs. d. Aides and orderlies. e. Clerical and other administrative. f. Environmental and food service. PYHx = Prior Fiscal Period Productive Hours. CYHRx = Current (Settlement) Fiscal Period Hourly Rate = CYSx/CYHx. CYSx = Current (Settlement) Fiscal Period salary Expense for each category. CYHx = Current (Settlement) Fiscal Period productive Hours. 2. The Employee Benefits Index (EBI) shall be computed as follows: EBI = (PYHT * CYBR)/PYB. Where: PYHT = Prior Year (Prior Fiscal Period) Paid Labor Hours for All Labor Categories. CYBR = Current Year (Settlement Fiscal Period) Benefit Rate = CYB/CYHT. PYB = Prior Year (Prior Fiscal Period) Benefits Costs. CYB = Current Year (Settlement Fiscal Period) Benefits costs. CYHT = Current Year (Settlement Fiscal Period) Labor Hours for All Labor Categories. 3. The SWI and EBI shall be annualized for any provider which has a short or long (under 360 or over 370 days) prior or current fiscal period.(a) The SWI shall be adjusted using the following formula: ASWI = SWI ** (730/Days). ASWI = Adjusted SWI. Where Days = Total days in the current and prior fiscal periods. (b) The EBI shall be adjusted using the following formula: AEBI = EBI ** (730/Days). Where: AEBI = Adjusted EBI. Days = Total days in the current and prior fiscal periods. (c) If the SWI and EBI are not annualized, then the ASWI = SWI and AEBI = EBI.

1.

The index for allowable changes in wages shall be computed as follows: Salary and Wage Index (SWI) = CLSA/ACSA. Where: CLSA = Summation of (PYHx * CYHRx) for all x. ACSA = Summation of all Actual Prior Fiscal Period Salaries for all x categories. x = The following categories: a. Technicians and Specialists. b. Registered Nurses. c. LVNs. d. Aides and orderlies. e. Clerical and other administrative. f. Environmental and food service. PYHx = Prior Fiscal Period Productive Hours. CYHRx = Current (Settlement) Fiscal Period Hourly Rate = CYSx/CYHx. CYSx = Current (Settlement) Fiscal Period salary Expense for each category. CYHx = Current (Settlement) Fiscal Period productive Hours.

a.

Technicians and Specialists.

b.

Registered Nurses.

c.

LVNs.

d.

Aides and orderlies.

e.

Clerical and other administrative.

f.

Environmental and food service. PYHx = Prior Fiscal Period Productive Hours. CYHRx = Current (Settlement) Fiscal Period Hourly Rate = CYSx/CYHx. CYSx = Current (Settlement) Fiscal Period salary Expense for each category. CYHx = Current (Settlement) Fiscal Period productive Hours.

2.

The Employee Benefits Index (EBI) shall be computed as follows: EBI = (PYHT * CYBR)/PYB. Where: PYHT = Prior Year (Prior Fiscal Period) Paid Labor Hours for All Labor Categories. CYBR = Current Year (Settlement Fiscal Period) Benefit Rate = CYB/CYHT. PYB = Prior Year (Prior Fiscal Period) Benefits Costs. CYB = Current Year (Settlement Fiscal Period) Benefits costs. CYHT = Current Year (Settlement Fiscal Period) Labor Hours for All Labor Categories.

3.

The SWI and EBI shall be annualized for any provider which has a short or long (under 360 or over 370 days) prior or current fiscal period.(a) The SWI shall be adjusted using the following formula: ASWI = SWI ** (730/Days). ASWI = Adjusted SWI. Where Days = Total days in the current and prior fiscal periods. (b) The EBI shall be adjusted using the following formula: AEBI = EBI ** (730/Days). Where: AEBI = Adjusted EBI. Days = Total days in the current and prior fiscal periods. (c) If the SWI and EBI are not annualized, then the ASWI = SWI and AEBI = EBI.

(a)

The SWI shall be adjusted using the following formula: ASWI = SWI ** (730/Days). ASWI = Adjusted SWI.

Where Days = Total days in the current and prior fiscal periods.

(b)

The EBI shall be adjusted using the following formula: AEBI = EBI ** (730/Days). Where: AEBI = Adjusted EBI.

Days = Total days in the current and prior fiscal periods.

(c)

If the SWI and EBI are not annualized, then the ASWI = SWI and AEBI = EBI.

(B)

Price indicators for other non-pass-through categories.

(C)

Market basket weights for the following categories:1. Salary and wages. 2. Benefits. 3. Professional fees, medical. 4. Professional fees, other. 5. Food. 6. Drugs. 7. All other non-pass-through costs.

1.

Salary and wages.

2.

Benefits.

3.

Professional fees, medical.

4.

Professional fees, other.

5.

Food.

6.

Drugs.

7.

All other non-pass-through costs.

(D)

The non-pass-through costs "all other" category shall be weighted using the following weights for purposes of calculating the price indicator: CategoryWeight Chemicals12.16% Surgical and Medical Instruments and Supplies10.59% Rubber and Miscellaneous Plastics9.02% Business Travel and Motor Freight4.71% Apparel and Textiles4.31% Business Services14.90% All other miscellaneous44.31%

(E)

The weights for the seven market basket categories shall be the percentage of costs for each category as calculated from the Medi-Cal cost report.

(F)

Each market basket weight shall be multiplied by the corresponding price indicator. The results will be summed to obtain the unadjusted non-pass-through price index.

(G)

The price indicators for items under (C) (3 through 7) will be established for the end of each calendar quarter (March 31, June 30, September 30 and December 31). Any FPE other than on a calendar quarter shall use the price indicators under (C) above for the quarter in which the provider's FPEs. 1. The following five market basket categories and price indicators to be used in developing each provider's IPI are shown in the following table. Non-Pass-Through Market Basket Classification (Excluding Wages and Benefits) Market Basket CategoriesPrice Indicators VariableSource (1)Professional Fees for PhysiciansPhysicians' service componentConsumer Price Index, All Urban Consumers (2)Other Professional FeesHourly earnings, production or non supervisory, private nonagricultural employeesU.S. Department of Labor Bureau of Labor Statistic (3)FoodAverage of processed foods and feedsProducer Price Index component of PPI and food and beverages component of CPIConsumer Price Index, All Urban Consumer (4)DrugsPharmaceuticals and ethical componentProducer Price Index

(5)Other Costs: (a)ChemicalsChemicals and allied products componentProducer Price Index (b)Surgical and Medical Instruments and SuppliesSpecial industry machinery and equipment componentProducer Price Index Market Basket CategoriesPrice Indicators VariableSource (c)Rubber and PlasticsRubber and plasticsProducer Price Index (d)TravelTransportation componentConsumer Price Index, All Urban Consumers (e)Apparel and TextilesTextile products and apparel componentProducer Price Index (f)Business ServicesServices componentConsumer Price Index, All Urban Consumers (g) All OtherAll itemsConsumer Price Index, All Urban Consumers 2. The price index shall be 1.0 + the percentage increase in each service category as measured by the price indicator, expressed as a proportion.

1.

The following five market basket categories and price indicators to be used in developing each provider's IPI are shown in the following table. Non-Pass-Through Market Basket Classification (Excluding Wages and Benefits) Market Basket CategoriesPrice Indicators VariableSource (1)Professional Fees for PhysiciansPhysicians' service componentConsumer Price Index, All Urban Consumers (2)Other Professional FeesHourly earnings, production or non supervisory, private nonagricultural employeesU.S. Department of Labor Bureau of Labor Statistic (3)FoodAverage of processed foods and feedsProducer Price Index component of PPI and food and beverages component of CPIConsumer Price Index, All Urban Consumer (4)DrugsPharmaceuticals and ethical componentProducer Price Index (5)Other Costs: (a)ChemicalsChemicals and allied products componentProducer Price Index (b)Surgical and Medical Instruments and SuppliesSpecial industry machinery and equipment componentProducer Price Index Market Basket CategoriesPrice Indicators VariableSource (c)Rubber and PlasticsRubber and plasticsProducer Price Index (d)TravelTransportation componentConsumer Price Index, All Urban Consumers (e)Apparel and TextilesTextile products and apparel componentProducer Price Index (f)Business ServicesServices componentConsumer Price Index, All Urban Consumers (g) All OtherAll itemsConsumer Price Index, All Urban Consumers

2.

The price index shall be 1.0 + the percentage increase in each service category as measured by the price indicator, expressed as a proportion.

(3)

The formula for the hospital IPI shall be: IPI = (PX1 * PGE1) + (PX2 * PGE2) + (PX3 * PGE3) + (PX4 * PGE4) + (ASWI * PGE5) + (AEBI * PGE6) + (PXO * PGE7) Where: IPI = Input Price Index. PX1 = Price Index for Medical Professional Fees. PX2 = Price Index for Other Professional Fees. PX3 = Price Index for Food Costs. PX4 = Price Index for Drug Costs. ASWI = Adjusted Salary and Wage Index. AEBI = Adjusted Employee Benefit Index. PXO = Price Index for Other Costs. PGE1 = Proportion of non-pass-through GOE which is for Medical Professional Fees for the prior fiscal period. PGE2 = Proportion of non-pass-through GOE which is for Other Professional Fees for the prior fiscal period. PGE3 = Proportion of non-pass-through GOE which is for Food Costs for the prior fiscal period. PGE4 = Proportion of non-pass-through GOE which is for Drug Costs for the prior fiscal period. PGE5 = Proportion of non-pass-through GOE which is for Salary and Wages for the prior fiscal period. PGE6 = Proportion of non-pass-through GOE which is for Employee Benefits for the prior fiscal period. PGE7 = Proportion of non-pass-through GOE which is for Other Costs for the prior fiscal period. non-pass-through GOE = GOE minus total of all pass-through costs for the prior fiscal period.

(4)

Providers that do not supply the data needed to calculate the IPI, shall have an IPI equal to the hospital market basket increase as calculated by HCFA, for the closest corresponding time period. For hospitals with short FPEs, the closest corresponding time period shall be the one with the closest mid-point.

(c)

A volume adjustment shall be made to the provider's non-pass-through portion of

the ARPD for the settlement fiscal period if the number of annualized total hospital discharges in the provider's settlement fiscal period differs from the number of annualized total hospital discharges in its prior fiscal period. The volume adjustment is used to allocate fixed costs on a per discharge basis. Provider fiscal periods (both settlement and prior) under 360 or over 370 days shall be annualized to a 365 day period based on the following formula: ATHD = (365/DFP) * THD. Where: ATHD = Annualized total hospital discharges. DFP = Days in fiscal period. THD = Total hospital discharges. (1) The volume adjustment shall be calculated using the following formula which adjusts the rate per discharge for estimated changes in average costs resulting from changes in volume. VOLUME ADJUSTMENT FORMULA AIPI = IPI * VAF Where: AIPI = Allowable change in the prior year non-pass-through portion of the ARPD after volume adjustment, expressed as a proportion. This is the adjusted IPI, which has not been annualized and does not include any CMAF or SIPTF. IPI = Hospital Input Price Index. VAF =DISP + (VC* (DISF - DISp)) DISF VAF = Volume Adjustment Factor DISP = Total hospital discharges in the prior fiscal period (annualized if needed). VC = Variable cost as a proportion of total cost for the prior fiscal period. * = Multiplication. DISF = Total hospital discharges in the settlement fiscal period (annualized if needed). (2) Each provider's total costs, except for pass-through costs, shall be divided into the fixed and variable components shown in the following table. Data from the provider's Medi-Cal cost report or in the event it is unavailable, other direct report of expenses, shall be used to estimate the percentage of a provider's cost which varies with volume. A fixed to variable cost ratio of 50:50 shall be used when sufficient data from the provider are not available. CLASSIFICATION OF FIXED AND VARIABLE COSTS Fixed CostsVariable Costs Salaries and WagesSalaries And Wages Management and supervisionRegistered nurses Technician and

specialistLicensed vocational nurses Clerical and other administrativeAides and orderlies PhysiciansEnvironmental and food Services Nonphysician medical practitionersOther salaries and wages Employee Benefits-Distributed proportionately according to salaries and wagesEmployee Benefits-Distributed proportionately according to salaries and wages FICAFICA Unemployment insuranceUnemployment insurance Vacation, holiday, and sick leaveVacation, holiday, and sick leave Group insuranceGroup insurance Pension and retirementPension and retirement Workers' compensationWorkers' compensation Other employee benefitsOther employee benefits Other Direct ExpensesProfessional Fees InsuranceMedical Other direct expensesConsulting and management Legal Audits Other professional fees Supplies Food Surgical supplies Pharmaceuticals Medical care materials Minor equipment Nonmedical supplies Purchased Services Medical Repairs and maintenance Management services Other purchased services (3) A provider may submit additional data on the classification of fixed and variable costs for review by the Department with the AAR. If these alternative classifications and/or data are accepted by the Department, the provider shall continue to: (A) Utilize these accepted classifications of fixed and variable costs in all FPEs. (B) Submit to the Department, along with their filed cost report, any required data on fixed and variable costs necessary to do the alternative calculations for all subsequent FPEs. If the provider fails to supply the data with the cost report, they shall have their interim payments reduced by 20 percent. If the data has not still been supplied 60 days after the 20 percent reduction in interim payments begins, the provider shall have their interim payments reduced by 100 percent until the data are supplied. The provider shall be given 30 days advance notice to supply the required data before any reductions in interim payments are applied under this subsection. (4) All providers must

supply the data items for each FPE necessary to do the PIRL calculations. The data must be supplied as part of each provider's Medi-Cal cost report.

(1)

The volume adjustment shall be calculated using the following formula which adjusts the rate per discharge for estimated changes in average costs resulting from changes in volume. VOLUME ADJUSTMENT FORMULA AIPI = IPI * VAF Where: AIPI = Allowable change in the prior year non-pass-through portion of the ARPD after volume adjustment, expressed as a proportion. This is the adjusted IPI, which has not been annualized and does not include any CMAF or SIPTF. IPI = Hospital Input Price Index. VAF =DISP + (VC* (DISF - DISp)) DISF VAF = Volume Adjustment Factor DISP = Total hospital discharges in the prior fiscal period (annualized if needed). VC = Variable cost as a proportion of total cost for the prior fiscal period. * = Multiplication. DISF = Total hospital discharges in the settlement fiscal period (annualized if needed).

(2)

Each provider's total costs, except for pass-through costs, shall be divided into the fixed and variable components shown in the following table. Data from the provider's Medi-Cal cost report or in the event it is unavailable, other direct report of expenses, shall be used to estimate the percentage of a provider's cost which varies with volume. A fixed to variable cost ratio of 50:50 shall be used when sufficient data from the provider are not available. CLASSIFICATION OF FIXED AND VARIABLE COSTS Fixed CostsVariable Costs Salaries and WagesSalaries And Wages Management and supervisionRegistered nurses Technician and specialistLicensed vocational nurses Clerical and other administrativeAides and orderlies PhysiciansEnvironmental and food Services Nonphysician medical practitionersOther salaries and wages Employee Benefits-Distributed proportionately according to salaries and wagesEmployee Benefits-Distributed proportionately according to salaries and wages FICAFICA

Unemployment insuranceUnemployment insurance Vacation, holiday, and sick leaveVacation, holiday, and sick leave Group insuranceGroup insurance Pension and retirementPension and retirement Workers' compensationWorkers' compensation Other employee benefitsOther employee benefits Other Direct ExpensesProfessional Fees InsuranceMedical Other direct expensesConsulting and management Legal Audits Other professional fees Supplies Food Surgical supplies Pharmaceuticals Medical care materials Minor equipment Nonmedical supplies Purchased Services Medical Repairs and maintenance Management services Other purchased services

(3)

A provider may submit additional data on the classification of fixed and variable costs for review by the Department with the AAR. If these alternative classifications and/or data are accepted by the Department, the provider shall continue to: (A) Utilize these accepted classifications of fixed and variable costs in all FPEs. (B) Submit to the Department, along with their filed cost report, any required data on fixed and variable costs necessary to do the alternative calculations for all subsequent FPEs. If the provider fails to supply the data with the cost report, they shall have their interim payments reduced by 20 percent. If the data has not still been supplied 60 days after the 20 percent reduction in interim payments begins, the provider shall have their interim payments reduced by 100 percent until the data are supplied. The provider shall be given 30 days advance notice to supply the required data before any reductions in interim payments are applied under this subsection.

(A)

Utilize these accepted classifications of fixed and variable costs in all FPEs.

(B)

Submit to the Department, along with their filed cost report, any required data on fixed and variable costs necessary to do the alternative calculations for all subsequent FPEs. If the

provider fails to supply the data with the cost report, they shall have their interim payments reduced by 20 percent. If the data has not still been supplied 60 days after the 20 percent reduction in interim payments begins, the provider shall have their interim payments reduced by 100 percent until the data are supplied. The provider shall be given 30 days advance notice to supply the required data before any reductions in interim payments are applied under this subsection.

(4)

All providers must supply the data items for each FPE necessary to do the PIRL calculations. The data must be supplied as part of each provider's Medi-Cal cost report.

(d)

Summary of ARPDL formula for provider with full settlement and full prior fiscal periods:(1) ARPDL = MCDIS * (2) (((RENTS + LIC + PTAX + DEP + LEAS + INT + UTL + MPI) / THD) + (3) (((PMIRL - (PMCDIS * (TPTCPP / PTHD))) / PMCDIS) * (4) (((((PX1 * (MPFP / (GOEPP - TPTCPP))) + (5) (PX2 * (OPFP / (GOEPP - TPTCPP))) + (6) (PX3 * (FOODP / (GOEPP - TPTCPP))) + (7) (PX4 * (DRUGP / (GOEPP - TPTCPP))) + Click here to view image (9) (SWP / (GOEPP - TPTCPP))) + (10) (((PYHT * CYBR) / PYB) * (11) (PYB / (GOEPP - TPTCPP))) + (12) (PXO * (OTCP / (GOEPP - TPTCPP)))) * (13) ((DISp + (VC * (DISf - DISp)))/DISf)) * Click here to view image (15) (STA + PI + SI)))) Where: ARPDL = All-Inclusive Rate Per Discharge Limitation. MCDIS = Medi-Cal discharges in the settlement fiscal period. RENTS = Rental costs for the settlement fiscal period. LIC = License fees for the settlement fiscal period. PTAX = Property Tax expenses for the settlement fiscal period. DEP = Total allowable depreciation expenses for the settlement fiscal period. LEAS = Lease expenses for the settlement fiscal period. INT = Allowable Interest expense for the settlement fiscal period. UTL = Allowable utility expenses for the settlement fiscal period. MPI = Total Malpractice Insurance costs for the settlement fiscal period. THD = Total

hospital discharges for the settlement fiscal period. PMIRL = MIRL (Lowest of rate, costs and charges) for the prior fiscal period. PMCDIS = Medi-Cal discharges in the prior fiscal period. TPTCPP = Total allowable pass-through costs for the prior fiscal period. PTHD = Total hospital discharges for the prior fiscal period. PX1 = Price index for medical professional fees. MPFP = Allowable Medical Professional Fees for the prior fiscal period. GOEPP = Gross Operating Expenses (GOE) for the prior fiscal period. PX2 = Price index for Other Professional Fees. OPFP = Allowable Other Professional Fees for the prior fiscal period. PX3 = Price Index for Food costs. FOODP = Allowable food costs for the prior fiscal period. PX4 = Price Index for Drug costs. DRUGP = Allowable costs for Drugs for the prior fiscal period. PYHk = Prior fiscal period hours paid for employee classification k. CYHRk = Settlement Fiscal Period Hourly Wage rate for employee classification k. PYHRk = Prior fiscal period Hourly Wage Rate for employee classification k. SWP = Allowable costs for salaries and wages for the prior fiscal period. PYHT = Prior fiscal period paid hours. CYBR = Settlement fiscal period hourly benefits rate. PYB = Prior fiscal period benefits. PXO = Price Index for Other Costs. OTCP = Other allowable costs for the prior fiscal period. DISp = Total hospital discharges for the prior fiscal period. VC = Variable cost proportion for the prior fiscal period. DISf = Total hospital discharges for the settlement fiscal period. DRGCi = DRG weight for patient i in the settlement fiscal period. n = Number of DRG weights in the settlement fiscal period. DRGPj = DRG weight for patient j in the prior fiscal period. m = Number of DRG weights in the prior fiscal period. MCDISP = Medi-Cal discharges in the prior fiscal period. STA = Adjustment factor for Scientific and Technological Advancement. PI = Adjustment factor for Productivity Improvement. SI = Adjustment factor for Service Intensity. Lines 2 through 15 are the ARPD = All-Inclusive Rate Per Discharge. Line 2 is the PASPD = Pass-through cost per discharge. Line 3 is the PNPARPD = Prior fiscal

period Non-pass through MIRL Reimbursement Rate Per Discharge. Lines 4 through 12 are the IPI = Input Price Index. Lines 4 through 13 are the AIPI - Adjusted Input Price Index. Lines 4 through 15 are the HCI = Hospital Cost Index. Line 8 is the SWI = Salary and Wage Index. Line 10 is the EBI = Employee Benefits Index. Line 13 is the VAF = Volume Adjustment Factor. Line 14 is the CMAF = Case Mix Adjustment Factor. Line 15 is the SIPTF = Allowance for Service Intensity, Productivity, and Scientific and Technological Advancement Factor.

(1)

ARPDL = MCDIS *

(2)

(((RENTS + LIC + PTAX + DEP + LEAS + INT + UTL + MPI) / THD) +

(3)

(((PMIRL - (PMCDIS * (TPTCPP / PTHD))) / PMCDIS) *

(4)

(((((PX1 * (MPFP / (GOEPP - TPTCPP))) +

(5)

(PX2 * (OPFP / (GOEPP - TPTCPP))) +

(6)

(PX3 * (FOODP / (GOEPP - TPTCPP))) +

(7)

(PX4 * (DRUGP / (GOEPP - TPTCPP))) + Click here to view image

(9)

(SWP / (GOEPP - TPTCPP))) +

(10)

(((PYHT * CYBR) / PYB) *

(11)

(PYB / (GOEPP - TPTCPP))) +

(12)

(PXO * (OTCP / (GOEPP - TPTCPP))) *

(13)

((DISp + (VC * (DISf - DISp)))/DISf)) * Click here to view image

(15)

(STA + PI + SI)))) Where: ARPDL = All-Inclusive Rate Per Discharge Limitation. MCDIS = Medi-Cal discharges in the settlement fiscal period. RENTS = Rental costs for the settlement fiscal period. LIC = License fees for the settlement fiscal period. PTAX = Property Tax expenses for the settlement fiscal period. DEP = Total allowable depreciation expenses for the settlement fiscal period. LEAS = Lease expenses for the settlement fiscal period. INT = Allowable Interest expense for the settlement fiscal period. UTL = Allowable utility expenses for the settlement fiscal period. MPI = Total Malpractice Insurance costs for the settlement fiscal period. THD = Total hospital discharges for the settlement fiscal period. PMIRL = MIRL (Lowest of rate, costs and charges) for the prior fiscal period. PMCDIS = Medi-Cal discharges in the prior fiscal period. TPTCPP = Total allowable pass-through costs for the prior fiscal period. PTHD = Total hospital discharges for the prior fiscal period. PX1 = Price index for medical professional fees. MPFP = Allowable Medical Professional Fees for the prior fiscal period. GOEPP = Gross Operating Expenses (GOE) for the prior fiscal period. PX2 = Price index for Other Professional Fees. OPFP = Allowable Other Professional Fees for the prior fiscal period. PX3 = Price Index for Food costs. FOODP = Allowable food costs for the prior fiscal period. PX4 = Price Index for Drug costs. DRUGP = Allowable costs for Drugs for the prior fiscal period. PYHk = Prior fiscal period hours paid for employee classification k. CYHRk = Settlement Fiscal Period Hourly Wage rate for employee classification k. PYHRk = Prior fiscal period Hourly Wage Rate for employee classification k. SWP = Allowable

costs for salaries and wages for the prior fiscal period. PYHT = Prior fiscal period paid hours. CYBR = Settlement fiscal period hourly benefits rate. PYB = Prior fiscal period benefits. PXO = Price Index for Other Costs. OTCP = Other allowable costs for the prior fiscal period. DISp = Total hospital discharges for the prior fiscal period. VC = Variable cost proportion for the prior fiscal period. DISf = Total hospital discharges for the settlement fiscal period. DRGCi = DRG weight for patient i in the settlement fiscal period. n = Number of DRG weights in the settlement fiscal period. DRGPj = DRG weight for patient j in the prior fiscal period. m = Number of DRG weights in the prior fiscal period. MCDISP = Medi-Cal discharges in the prior fiscal period. STA = Adjustment factor for Scientific and Technological Advancement. PI = Adjustment factor for Productivity Improvement. SI = Adjustment factor for Service Intensity. Lines 2 through 15 are the ARPD = All-Inclusive Rate Per Discharge. Line 2 is the PASPD = Pass-through cost per discharge. Line 3 is the PNPARPD = Prior fiscal period Non-pass through MIRL Reimbursement Rate Per Discharge. Lines 4 through 12 are the IPI = Input Price Index. Lines 4 through 13 are the AIPI - Adjusted Input Price Index. Lines 4 through 15 are the HCI = Hospital Cost Index. Line 8 is the SWI = Salary and Wage Index. Line 10 is the EBI = Employee Benefits Index. Line 13 is the VAF = Volume Adjustment Factor. Line 14 is the CMAF = Case Mix Adjustment Factor. Line 15 is the SIPTF = Allowance for Service Intensity, Productivity, and Scientific and Technological Advancement Factor.