



Since the data for the OHP Plus population is significantly more robust than the data for the OHP Standard population, it was used to determine the in-area/out-of-area cost differentials. An additional adjustment was applied to reflect the 7.5% reduction in non-par payments as required by the legislation. The hospital-specific per diems are shown in Exhibit 1.

### **Outpatient Hospital**

For outpatient hospital services, payments will be determined based on the billed charges on the claim, multiplied by the adjusted cost-to-charge ratio specific to each hospital and the 0.925 non-participating hospital payment adjustment.

The method used to determine the adjusted hospital-specific cost-to-charge ratios was as follows:

- Hospital-specific charges per visit were calculated for each month of the period January 2001 through December 2004. Each DRG hospital with average monthly outpatient charges of \$500,000 or more in the most recent 12 months of data was separately analyzed. Hospitals operating within hospital systems were aggregated, and all remaining hospitals were combined for analysis;
- Trends were estimated over the data period using regression analysis;
- The estimated trend, which reflects an annualized rate of change in charges per visit, was compared to the average annual cost trend of 3.20% used in the per capita cost and capitation rate development;
- Each hospital's cost-to-charge ratio was adjusted by multiplying the starting cost-to-charge ratio by the ratio of the cost and charge trend values, compounded from the midpoint of the data period underlying the per capita costs to the midpoint of the contract period. For the CY 2007 rates, the trend adjustment is compounded for 5 years (July 1, 2002 to July 1, 2007). A further adjustment of 0.72 is applied to recognize the reduction in DRG hospital funding built into the CY 2007 capitation rates.
- The 0.925 non-participating hospital payment adjustment is then applied to arrive at the fully adjusted hospital-specific outpatient hospital cost-to-charge ratios.

Exhibit 2 shows the development of the hospital-specific adjusted cost-to-charge ratios for outpatient services.

To determine its payment obligation for an outpatient hospital claim, a health plan would perform the following operation:

- Start with the billed charges on the claim; and

- Multiply by the hospital-specific adjusted cost-to-charge ratio.

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Please call Pete Davidson at 415-498-5636 if you have any questions regarding this memo.

**Oregon Health Plan**  
**Non-Contracted DRG Hospital Per-Diems**  
**January 2007 - December 2007**  
**Reflects DRG Hospital Funding at 72% of Costs**

**EXHIBIT 1**

| Hospital Name                                 | Provider Number | CMS Region | Per-Diem @ 100% | Per-Diem with 7.5% Reduction | with 7.5% Reduction |                      |
|-----------------------------------------------|-----------------|------------|-----------------|------------------------------|---------------------|----------------------|
|                                               |                 |            |                 |                              | In-area Per-Diem    | Out-of-area Per-Diem |
| Adventist Medical Center (Portland Adventist) | 022173          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Albany General                                | 001404          | Benton     | \$1,494.21      | \$1,382.14                   | \$1,339.13          | \$1,339.13           |
| Bay Area                                      | 015214          | Lane       | \$1,459.28      | \$1,349.84                   | \$1,307.83          | \$1,307.83           |
| Good Samaritan - Corvallis                    | 072652          | Benton     | \$1,494.21      | \$1,382.14                   | \$1,339.13          | \$1,339.13           |
| Kaiser Hospitals                              | 101550          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Legacy Emanuel                                | 046313          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$2,325.52           |
| Legacy Good Samaritan (Portland)              | 077404          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Legacy Meridian Park                          | 122499          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Legacy Mount Hood                             | 069526          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| McKenzie-Willamette                           | 045450          | Lane       | \$1,459.28      | \$1,349.84                   | \$1,307.83          | \$1,307.83           |
| Mercy Medical                                 | 123109          | Lane       | \$1,459.28      | \$1,349.84                   | \$1,307.83          | \$1,307.83           |
| Merle West                                    | 152371          | Jackson    | \$1,439.34      | \$1,331.39                   | \$1,289.95          | \$1,289.95           |
| Oregon Health Sciences University             | 041178          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$2,173.94           |
| Providence Medford                            | 125935          | Jackson    | \$1,439.34      | \$1,331.39                   | \$1,289.95          | \$1,289.95           |
| Providence Milwaukie                          | 047134          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Providence Portland                           | 023981          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Rogue Valley                                  | 012349          | Jackson    | \$1,439.34      | \$1,331.39                   | \$1,289.95          | \$1,289.95           |
| Sacred Heart                                  | 054028          | Lane       | \$1,459.28      | \$1,349.84                   | \$1,307.83          | \$1,631.39           |
| St. Charles                                   | 047399          | Lane       | \$1,459.28      | \$1,349.84                   | \$1,307.83          | \$1,307.83           |
| Saint Vincent                                 | 023023          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Salem Hospital                                | 047209          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Three Rivers                                  | 097808          | Jackson    | \$1,439.34      | \$1,331.39                   | \$1,289.95          | \$1,289.95           |
| Tuality Community                             | 045716          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Willamette Falls                              | 045963          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Willamette Valley Medical Center              | 090452          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Physicians Hospital                           | 158768          | TriCounty  | \$1,482.45      | \$1,371.27                   | \$1,328.59          | \$1,328.59           |
| Out of State Hospitals                        |                 |            | \$1,473.20      | \$1,362.71                   | N/A                 | \$1,809.83           |
| In-State Average                              |                 |            | \$1,473.20      | \$1,362.71                   | \$1,320.51          | \$1,809.83           |

**Outpatient Hospital Adjusted Cost to Charge Ratios for Non-Participating DRG Hospitals  
January 2007 - December 2007**

|                                                    |                     |
|----------------------------------------------------|---------------------|
| Data Period Annualized Cost Trend                  | 3.80% <sup>1</sup>  |
| Projection Period Annualized Cost Trend            | 3.20% <sup>1</sup>  |
| Composite Annualized Cost Trend                    | 3.32% <sup>2</sup>  |
| Statewide Average DRG Hospital Annual Charge Trend | 12.85% <sup>3</sup> |
| Trend Months                                       | 60 <sup>4</sup>     |

| Hospital Name                         | Adjusted Cost to Charge Ratios              |                                                          |                                                       |                                           |                                     |                |
|---------------------------------------|---------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|-------------------------------------------|-------------------------------------|----------------|
|                                       | Estimated Average Charge Trend <sup>3</sup> | Base CCRs Used in the 05-07 PCC Development <sup>5</sup> | With 72% DRG Hospital Funding Adjustment <sup>6</sup> | With Charge Trend Adjustment <sup>7</sup> | Non-par Hospital Payment Adjustment | Fully-adjusted |
| Adventist Medical Center              | 26.8%                                       | 40.5%                                                    | 29.2%                                                 | 10.5%                                     | 0.925                               | 9.7%           |
| Albany General Hospital               | 14.7%                                       | 51.4%                                                    | 37.0%                                                 | 22.0%                                     | 0.925                               | 20.3%          |
| Bay Area Hospital                     | 15.5%                                       | 47.1%                                                    | 33.9%                                                 | 19.4%                                     | 0.925                               | 18.0%          |
| Good Samaritan Hospital - Corvallis   | 14.7%                                       | 52.6%                                                    | 37.9%                                                 | 22.5%                                     | 0.925                               | 20.8%          |
| Kaiser Hospitals                      |                                             |                                                          |                                                       | 24.6%                                     | 0.925                               | 22.8%          |
| Legacy Emanuel Hospital               | 12.7%                                       | 47.9%                                                    | 34.5%                                                 | 22.4%                                     | 0.925                               | 20.7%          |
| Legacy Good Samaritan Hospital        | 12.7%                                       | 46.2%                                                    | 33.2%                                                 | 21.6%                                     | 0.925                               | 19.9%          |
| Legacy Meridian Park                  | 12.7%                                       | 39.8%                                                    | 28.6%                                                 | 18.6%                                     | 0.925                               | 17.2%          |
| Legacy Mount Hood Hospital            | 12.7%                                       | 46.2%                                                    | 33.3%                                                 | 21.6%                                     | 0.925                               | 20.0%          |
| McKenzie Willamette Memorial Hospital | 7.5%                                        | 55.8%                                                    | 40.2%                                                 | 32.9%                                     | 0.925                               | 30.5%          |
| McMinnville (see Willamette Valley)   | 7.5%                                        | 53.2%                                                    | 38.3%                                                 | 31.4%                                     | 0.925                               | 29.0%          |
| Mercy Medical Center                  | 18.9%                                       | 46.7%                                                    | 33.6%                                                 | 16.6%                                     | 0.925                               | 15.4%          |
| Merle West Medical Center             | 13.4%                                       | 33.7%                                                    | 24.2%                                                 | 15.3%                                     | 0.925                               | 14.1%          |
| OHSU                                  | 21.6%                                       | 68.5%                                                    | 49.3%                                                 | 21.8%                                     | 0.925                               | 20.2%          |
| Providence Medford Medical Center     | 10.3%                                       | 60.4%                                                    | 43.5%                                                 | 31.3%                                     | 0.925                               | 29.0%          |
| Providence Milwaukie Hospital         | 10.3%                                       | 50.2%                                                    | 36.2%                                                 | 26.1%                                     | 0.925                               | 24.1%          |
| Providence Portland Medical Center    | 10.3%                                       | 46.1%                                                    | 33.2%                                                 | 23.9%                                     | 0.925                               | 22.1%          |
| Providence St. Vincent Medical Cntr.  | 10.3%                                       | 42.5%                                                    | 30.6%                                                 | 22.1%                                     | 0.925                               | 20.4%          |
| Rogue Valley Medical Center           | 7.5%                                        | 73.8%                                                    | 53.2%                                                 | 43.6%                                     | 0.925                               | 40.3%          |
| Sacred Heart Hospital                 | 14.1%                                       | 49.6%                                                    | 35.7%                                                 | 21.7%                                     | 0.925                               | 20.1%          |
| Saint Charles Medical Center          | 9.5%                                        | 64.4%                                                    | 46.4%                                                 | 34.7%                                     | 0.925                               | 32.1%          |
| Salem Memorial Hospital               | 12.9%                                       | 62.5%                                                    | 45.0%                                                 | 28.9%                                     | 0.925                               | 26.7%          |
| Three Rivers Community Hospital       | 5.9%                                        | 48.1%                                                    | 34.7%                                                 | 30.6%                                     | 0.925                               | 28.3%          |
| Tuality Healthcare                    | 13.8%                                       | 55.7%                                                    | 40.1%                                                 | 24.7%                                     | 0.925                               | 22.9%          |
| Willamette Falls Hospital             | 7.5%                                        | 51.6%                                                    | 37.2%                                                 | 30.5%                                     | 0.925                               | 28.2%          |
| Physicians Hospital                   | 7.5%                                        | 37.4%                                                    | 26.9%                                                 | 22.0%                                     | 0.925                               | 20.4%          |
| Out of State Hospital                 | 12.8%                                       | 53.2%                                                    | 38.3%                                                 | 24.6%                                     | 0.925                               | 22.8%          |

- Notes:
- <sup>1</sup> From 05-07 Per Capita Cost Development
  - <sup>2</sup> Calculated based on the application of the Data Period trend for 12 months and the Projection Period trend for 36 months.
  - <sup>3</sup> Based on regression analysis of charges per visit for the period 1/1/01 through 12/31/05. The statewide average charge trend is displayed for informational purposes only. Hospital-specific charge trends were calculated for hospitals that averaged at least \$500K in average months billed charges to FCHPs for the period 1/1/04 through 12/31/04. Charge data for all other hospitals (excluding Kaiser) were grouped together for the determination of average charge trends. Hospitals within the Legacy, Providence, and Samaritan systems were also grouped together.
  - <sup>4</sup> The number of months from the midpoint of the Data Period (7/1/02) to the midpoint of the January 2007 Contract Period (7/1/07). The ratio of the Cost Trend to the Charge Trend is compounded over this period.
  - <sup>5</sup> From Hospital Settlement Reports
  - <sup>6</sup> These values represent the percentage of billed charges used in the calculation of the January 2007 capitation rates.
  - <sup>7</sup> The determination of the cost of a OP hospital visit for non-participating hospitals will be determined using these adjusted cost to charge