

Geographic Reclass 101

Presented by:

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*Smart about revenue.
Tenacious about results.*

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Cody has been in the healthcare industry for 10 years, working with industry firms and multiple healthcare providers. His experience includes auditing, net revenue and regulatory reimbursement, and reimbursement consulting.

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Agenda

- Geographic Reclassification in the Wage Index Context
- Terminology and Basics of Reclassification
- Eligibility Criteria
- The Application Process
- Withdrawals and Terminations
- Other Items to Consider

Geographic Reclasses in the Wage Index Context



Section 1886(d)(3)(E) of the Social Security Act requires the Secretary to:

“adjust [a] proportion...of the DRG prospective payment rates computed under subparagraph (D) for area differences in hospital wage levels by a factor (established by the Secretary) reflecting the relative hospital wage level in the geographic area of the hospital compared to the national average hospital wage level”

How is a hospital wage level measured?

- CMS utilizes data submitted on Worksheet S-3 Parts II-V of the Medicare 2552-10 cost report
- Required for all short-term, acute care hospitals
- Includes dollars and hours associated with:
 - Salaries
 - Contract Labor
 - Physician
 - Home Office / Related Organizations
 - Wage-Related costs (retirement, insurance, taxes, etc.)
- Data is used to compute an Average Hourly Wage (AHW)

How is a hospital wage level measured?

- Wage data for all hospitals within the same geographic area is aggregated
- The aggregated AHW is divided by the national AHW, with the result being the Wage Index
- Greater than 1.0 = positive adjustment; less than 1.0 = negative adjustment
- Wage Index values are further adjusted by many complicating factors
- This process is performed annually

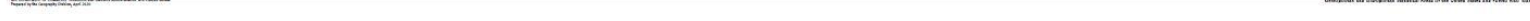
Simple Example of CBSA Wage Index Calculation

Provider	Wages	Hours	AHW
Hospital A	64,100,526	1,235,019	\$ 51.90
Hospital B	137,792,827	2,831,667	\$ 48.66
Hospital C	51,891,917	1,062,413	\$ 48.84
Hospital D	139,377,798	3,023,872	\$ 46.09
Hospital E	42,987,320	930,712	\$ 46.19
Totals	436,150,389	9,083,683	\$ 48.01

$\text{CBSA AHW } \$ 48.01 / \text{National AHW } \$46.47 = 1.0331 = \text{CBSA Wage Index}$

How is a Geographic Area defined?

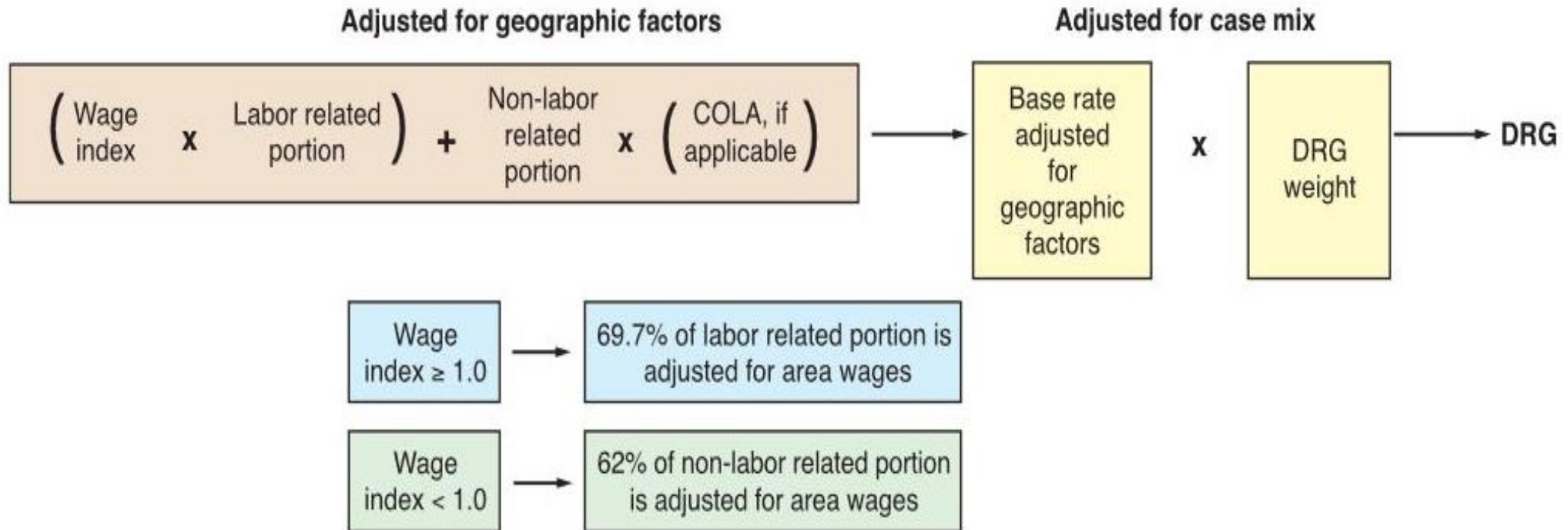
- Hospitals are assigned based on geography into a core-based statistical area (CBSA)
- Defined by the Office of Management and Budget (OMB)
- CMS assigns each hospital into either a specific CBSA or a statewide rural area
- CBSAs are periodically re-defined as areas change



Why does Geographic Area matter?

- Hospitals in the same area see their AHW's aggregated
- Mix of hospitals in the area create the CBSA Wage Index
- Wage Index is ultimately the DRG payment adjustment factor
- Individual hospitals contribute to Wage Index but are also dependent on other hospitals

Operating Base Payment Rate



What is the purpose of reclassifying to another area?

- A hospital that reclassifies to another area can obtain a higher Wage Index
- If an individual hospital's AHW is higher than the overall CBSA AHW, this could be because the hospital's labor force comes at least partially from other areas
- Hospitals may qualify for reclassification under numerous circumstances

Polls & Questions



Terminology and Basics of Reclassification



Terminology and Basics of Reclassification

Acronym	Term
AHW	Average Hourly Wage
CBSA	Core Based Statistical Areas
CMS	Centers for Medicare & Medicaid Services
CSA	Combined Statistical Areas
FFY	Federal Fiscal Year
IPPS	Inpatient Prospective Payment System
MGCRB	Medicare Geographic Classification Review Board
MSA	Metropolitan Statistical Areas
OAA	Office of the Attorney Advisor for the CMS Administrator
OH CDMS	Office of Hearings Case and Document Management System
OMB	Office of Management and Budget
RRC	Rural Referral Center
401	Section 401 of Public Law 106-113, which established a procedure whereby urban hospitals can be reclassified from urban to rural status
SCH	Sole Community Hospital

Terminology and Basics of Reclassification

- All reclassification requests are overseen by the Medicare Geographic Classification Review Board (“MGCRB” or the “Board”)
- Applications must be received by the Board no later than the first day of the 13-month period preceding the federal fiscal year (“FFY”) for which geographic redesignation is requested (usually September 1)
- Each year starts a new 3-year reclassification “cycle” --- the most recent application cycle was FFY 2023 – 2025
- Therefore, once an application is approved, the reclass is in effect for 3 years

EXAMPLE: Hospital ABC submits an application on September 1, 2021. The board approves the request in January 2022, and the redesignation is in effect for FFY’s 2023, 2024 and 2025

Terminology and Basics of Reclassification

- A hospital may apply for geographic redesignation:
 - an individual application
 - a group application by all prospective payment hospitals in a county
 - statewide wage index area application by all prospective payment hospitals in a state
- CMS uses only the Metropolitan divisions to define urban areas. Therefore, all hospitals that are either in a Micropolitan area, or outside of a defined CBSA, fall into the rural (statewide) area
- Of the 294 IPPS hospitals in Texas, 232 are assigned as urban, and 62 assigned as rural
- CBSA's can span across state lines --- the Kansas City CBSA includes hospitals from several counties in both Missouri and Kansas

Terminology and Basics of Reclassification

- A hospital may apply for geographic redesignation
 - from a rural area to an urban area
 - from a rural area to another rural area
 - from an urban area to another urban area
- HOWEVER, Section 401 hospitals provide an exception. These are hospitals that are reclassified from urban to rural status under Section 401 at 42 C.F.R. § 412.103
- This is an entirely separate mechanism outside of the MGCRB purview
- Section 401 hospitals may apply for an additional reclassification (i.e., can reclassify back to urban OR to another rural area)

Eligibility Criteria – Individual & Group



Eligibility Criteria — Individual Applications

- Proximity is the FIRST of two criteria for an individual application and may be demonstrated with EITHER of:
 - Employee commuting pattern — 50% or more of hospital employees reside in the requested area
 - Distance
- Distance is defined as the miles between the hospital front entrance and the county line of the requested area
- Must be measured based on driving on established roads (not “as the crow flies”)

Eligibility Criteria – Individual Applications

The applicable distance is dependent on the status of the hospital:

Hospital Type	Maximum Distance to Requested Area
Urban	15 miles
Rural (or 401 hospital)	35 miles
Rural Referral Center (RRC) or Sole Community Hospital (SCH)	EXEMPT – may reclassify to closest urban area (or rural area if closer)

Eligibility Criteria – Individual Applications

AHW Thresholds is the SECOND of the two criteria for an individual application – hospitals must demonstrate that their AHW meets certain minimum thresholds:

Hospital Type	AHW vs Home Area	AHW vs Target Area
Urban	$\geq 108\%$	$\geq 84\%$
Rural (or 401 hospital)	$\geq 106\%$	$\geq 82\%$
Rural Referral Center (RRC)	EXEMPT	$\geq 82\%$

Eligibility Criteria – Individual Applications

What is the source of the wage data to be used for the AHW comparisons?

- Each cycle the CMS provides the official source file “Three Year MGCRB Reclassification Data for FY 20XX Applications”
- The comparison must be calculated using a weighted 3-year average for both the hospital and the area used in the comparison
- The calculation will be based on wages and hours from the 3 FFY’s preceding the upcoming application cycle (i.e., the upcoming FFY 2024 – FFY 2026 cycle will utilize wage data from FFY 2021 – FFY 2023)

Eligibility Criteria – Individual Applications

	Provider Three Year Wages and Hours							
	Produced Using Wage Data Dated and Occupational Mix Data Dated August 1, 2020							
Provider	2019 Wages	2019 Hours	2020 Wages	2020 Hours	2021 Wages	2021 Hours	FIPS Code	CBSA
010001	\$123,351,000	4,047,197	\$126,427,781	3,971,193	\$129,879,709	4,086,314	01069	20020
010005	\$57,158,354	1,946,220	\$58,862,393	2,008,958	\$60,531,825	2,039,119	01095	01
010006	\$57,872,112	2,028,312	\$58,314,427	2,001,471	\$58,490,212	2,043,710	01077	22520
010007	\$6,609,386	274,160	\$6,963,975	284,630	\$7,282,833	288,695	01039	01
010008	\$3,380,308	147,007	\$4,088,805	151,291	\$3,948,015	156,337	01041	01
010011	\$102,274,930	2,712,020	\$101,974,283	2,942,484	\$107,545,354	2,715,258	01073	13820
010012	\$20,276,223	766,893	\$20,714,967	766,778	\$22,056,530	744,212	01049	01
010016	\$77,057,543	2,289,229	\$69,842,955	2,166,116	\$69,460,862	2,027,756	01117	13820
010018	\$11,799,330	373,530	\$13,993,342	432,770	\$16,080,415	461,237	01073	13820
010019	\$38,516,946	1,379,558	\$40,102,196	1,458,732	\$41,091,208	1,442,449	01033	22520
010021	\$12,175,666	446,914	\$11,621,693	426,899	\$12,380,681	440,306	01045	01
010022	\$6,968,458	237,039	\$6,783,748	239,070	\$6,954,206	224,135	01019	01
010023	\$148,648,275	4,323,672	\$166,381,174	4,693,212	\$173,614,754	4,798,408	01101	33860
010024	\$73,129,395	2,457,651	\$81,584,836	2,678,870	\$100,827,207	2,984,172	01101	33860
010029	\$126,270,606	3,929,557	\$143,532,128	4,814,526	\$134,103,798	4,258,212	01081	12220
010032	\$3,759,407	162,480	\$0	0	\$0	0	01111	01
010033	\$540,046,291	15,130,240	\$579,935,161	15,565,234	\$630,366,427	16,552,607	01073	13820
010034	\$7,051,738	266,718	\$6,942,770	263,366	\$6,954,519	263,482	01051	33860
010035	\$44,157,051	1,493,133	\$45,627,224	1,500,139	\$48,872,606	1,573,768	01043	01
010036	\$14,296,732	472,357	\$13,962,557	464,606	\$16,800,508	489,358	01039	01
010038	\$20,192,161	655,376	\$20,142,917	672,602	\$19,660,260	626,372	01015	11500
010039	\$410,644,516	11,488,970	\$450,502,821	11,804,607	\$482,524,387	12,240,214	01089	26620
010040	\$74,806,611	2,612,143	\$76,161,208	2,596,384	\$78,132,324	2,557,187	01055	23460

Eligibility Criteria – Group Applications

Proximity

- All hospitals in the county must jointly apply for reclassification
- The county must be adjacent to the target CBSA

Further criteria must be met based on the status of the county:

County Status	Criteria
Urban	Must be located in the same Combined Statistical Area (CSA) as the target CBSA
Rural	Must demonstrate metropolitan character – meets certain standards as an “outlying county”

Eligibility Criteria – Group Applications

Wage Levels

- The aggregate AHW for all hospitals in the group must be equal to at least 85 percent of the AHW in the adjacent urban area
- The data source to be used for calculating the aggregated AHW is the same file previously mentioned (“Three Year MGCRB Reclassification Data for FY 20XX Applications”)

Polls & Questions



The Application Process

The background features a large teal triangle on the left. On the right, there are overlapping dark blue and light gray triangles. The dark blue triangle contains horizontal white lines, and the light gray triangle also contains horizontal white lines.

The Application Process

- The board does not accept paper or email submissions -- providers must utilize the Office of Hearings Case and Document Management System (“OH CDMS”) portal
- Hospitals may be represented by outside parties (attorney or consultant) – each application must have a designated case representative (internal or external)
- All supporting documentation can be uploaded through the application process

Required Documentation

Individual	Group (County)
<ul style="list-style-type: none">- Name of hospital- Provider number- Letter of representation- Geographic address of hospital- County in which hospital is physically located- CBSA of the home area- CBSA of the requested area- Reclassification method – proximity or special access- Demonstration of current RRC/SCH/401 status, if applicable- Demonstration of having ever been RRC, if applicable- Map- Wage Data Comparison	<ul style="list-style-type: none">- County and state name- Names, addresses, and provider numbers of all hospitals- Letters of representation for all hospitals- Map- Documentation that the county has been designated as an outlying county (rural only)- Documentation that the providers are in the same CSA (urban only)- Wage Data Comparison

The Application Process

Office of Hearings Case and Document Management System

Introduction:

The Office of Hearings Case and Document Management System ("OH CDMS") is a web-based filing portal for parties to enter and maintain their cases and to correspond with the Office of Hearings ("OH"). OH supports three distinct administrative hearing functions:

- The Provider Reimbursement Review Board ("PRRB"): provider appeals of cost report audits and other contractor determinations per 42 C.F.R. § 405, Subpart R;
- The Medicare Geographic Classification Review Board ("MGCRB"): hospital applications to request geographic redesignation to an alternative payment area per 42 C.F.R. § 412, Subpart L; and
- The CMS Hearing Officer: diverse range of matters brought by healthcare institutions, insurance issuers, state Medicaid plans, organ procurement organizations, and other entities per various regulatory authorities.

Access to the various modules is granted as needed based on role. Access to specific cases is limited to the parties of each case.



The Application Process

CMS.gov
Centers for Medicare & Medicaid Services

3/7/2018 - 8:44:50 AM EST

Welcome External Rep

Home

Help

Logout

General Information
Reclassification Period: FFYs 2019 - 2021

Provider Information
Provider Name/Number
Start typing Provider Number or Name

Representative Information
Representative Organization
Start typing Representative Organization

Provider's Authorizing Official
First Name
Enter First Name
Last Name
Enter Last Name
Title
Enter Title
Organization Name
Enter Organization Name
Email
Enter Email

Save Save and Continue Cancel

Withdrawals and Terminations

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Why would a hospital withdraw an application after submitted?

- Reclassification applications are submitted with the best data available at the time of application
- The calculus that goes into the reclassification decision will change between the time of submission and the release of the IPPS Proposed Rule in the spring preceding the upcoming FFY
- The data released with the IPPS Proposed Rule contains wage data for the upcoming FFY, which is not available at the time of the reclassification application
- The consequences of withdrawal are very different, depending on the timing of the decision

Withdrawals

A “withdrawal” occurs in either of the following situations:

- The hospital withdraws the reclassification application prior to the board issuing a decision
- The hospital withdraws the reclassified status after the board issues an approval, but BEFORE the first year of the 3-year cycle has gone into effect
- In EITHER case, a withdrawal will nullify the reclassified status for the entire 3-year cycle
- Crucially, in the case of group applications, a withdrawal request must be made by ALL HOSPITALS that are party to the reclassification
- A request for withdrawal MUST be received by the board within 45 days of the release of the IPPS Proposed Rule preceding the upcoming FFY

Terminations

A “termination” occurs in either of the following situations:

- The hospital terminates the reclassified status where the status has been in effect for 1 year
- The hospital terminates the reclassified status where the status has been in effect for 2 years
- The termination will be effective for the remainder of the cycle
- Hospitals in a group application may terminate the redesignation in its entirety OR any individual hospital within the group may individually request termination
- A request for termination MUST be received by the board within 45 days of the release of the IPPS Proposed Rule preceding the upcoming FFY

Cancellations

- An individual hospital or group of hospitals may cancel a withdrawal or termination in a subsequent year
- Referred to as a “Reinstatement”
- Withdrawals may only be cancelled in cases where the board has already approved the redesignation
- Reinstatement requests generally must be received by the board based on the same deadline as original reclassification applications

Polls & Questions



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Other Items to Consider

Other Items to Consider

- Reclassified hospitals create a “blend” when combining wage values with hospitals located in the area where they have reclassified
- Impact can be a positive or a negative
- All hospitals, whether geographically located or reclassified, will benefit if the blend is a positive
- HOWEVER, hospitals geographically located in the area cannot be negatively impacted by reclassified hospitals

Rural Floor Provision

- No hospital can receive a wage index less than the statewide rural wage index value for the state where the hospital is geographically located
- Recent legislation added a “State Imputed Floor” for states which do not have rural areas
- Urban hospitals which reclassify as rural (Section 401) can no longer drive up the rural floor wage index value

Out-Migration Adjustment

- Positive adjustment to a hospital's wage index for hospitals in counties that have a relatively high percentage of employees that reside in the county, but work in a different county with a higher wage index
- Hospitals cannot simultaneously receive the out-migration adjustment as well as a higher wage index by reclassifying to another CBSA
- Hospitals must evaluate most advantageous option

“Lugar” Hospitals

- Certain rural counties possess unique characteristics based on population density and resident commuter patterns
- Hospitals located in these counties are codified as “Lugar” hospitals, and are redesignated as urban for wage index purposes
- These hospitals are further eligible for a reclassification to a different area

Other Items to Consider

- Timetable and deadlines are strictly enforced
- No rounding allowed! 83.96% \neq 84%
- No “refresh” of the 3-year cycle allowed – a hospital that is already approved for a redesignation cannot apply for a reclass to that same area during the 3-year cycle

Questions?



Easy Work Papers is a software solution that automates the majority of the preparation for hospital cost reports and supporting workpapers.



Cost Report Preparation is an end-to-end service that includes completion and submission of the cost report to a hospital's specific Medicare Administrative Contractor.



Cost Report Reviews can fix common errors allowing hospitals to receive corrected payments without having to wait for final settlement of the Medicare Cost Report.

Email update@besler.com to tell us how we can help your reimbursement team

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