



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-70 – Department of Medical Assistance Services Methods and Standards for Establishing Reimbursement Rates-Inpatient Hospital Services December 27, 2002

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The proposed regulations will reduce inpatient hospital reimbursements by approximately \$8.9 million in fiscal year (FY) 2003 and \$9.2 million in FY 2004. The proposed reductions have been already in effect under the emergency regulations.

Estimated Economic Impact

These regulations contain rules for Medicaid inpatient hospital reimbursements. The types of inpatient services include acute care provided to persons suffering from acute trauma or illness, rehabilitation services to persons needing physical therapy, occupational therapy, and speech-language pathology, long-stay services to persons who require all day licensed nursing care or specialized equipment, and inpatient psychiatric care services provided in an institutional setting. The total Medicaid inpatient hospital reimbursements in FY 2002 were about \$524.4 million and there are approximately 80,799 Medicaid inpatient hospital patients.

Pursuant to 2002 Appropriations Act¹, the Department of Medical Assistance Services (the department) proposes to reduce the inpatient hospital reimbursements by \$8,935,825 in FY 2003 and \$9,227,815 in FY 2004. These reductions will be distributed among hospitals proportional to their expected Medicaid inpatient revenues. This is estimated to amount to 3.24% reduction in inpatient revenues for each individual hospital in FY 2003 and FY 2004. The department also proposes a \$500,000 cap on the reductions so that the reduction may not exceed the cap for any one hospital. The proposed cap was the result of a negotiation with the Virginia Hospital and Healthcare Association. Approximately one quarter of mandated reductions have been already made under the emergency regulations.

Expected reductions for individual hospitals vary from no reductions up to \$500,000. The average reduction per hospital is approximately \$88,474 and there are three hospitals with the maximum \$500,000 reduction. Of the total reduction, about 91.4% will come from in-state acute care hospitals, 7.3% will come from out-of-state hospitals, and less than 2% will come from rehabilitation and psychiatric hospitals. The proposed reductions will be a loss for the hospitals from a projected Medicaid revenue increase that has a 6.1% inflation factor built in.

Lower reimbursements to hospitals represent costs to them, as they will not receive as much as otherwise they would for the same services they provide. Hospitals cannot respond to reduction in their revenues by reducing the services they offer since they are required to treat all patients. Instead, hospitals may choose to reduce the quality of services rather than the quantity of services they provide. Thus, low reimbursements have the potential to negatively affect Medicaid patients at the margin in terms of quality of care they receive. The expected effect is the difference in quality of care that would result with and without the proposed reduction in projected revenues.

On the other hand, the proposed changes will produce savings approximately \$4.4 million in general funds and \$4.5 million in federal matching funds in FY 2003 and \$4.5 million in general funds and \$4.7 million in federal matching funds in FY 2004. With the proposed changes, the Commonwealth will be able to use these savings for other purposes.

¹ Chapter 899, Item 325 KK.

Businesses and Entities Affected

The proposed changes will directly affect inpatient hospitals. Currently, there are 101 inpatient hospitals serving Medicaid patients in Virginia. All of these providers will likely experience a proportionate reduction in their projected reimbursements. The Medicaid patients may be indirectly affected and may experience some decrease in the quality of care they receive relative to that would result without the proposed reduction in funding. Approximately 80,799 Medicaid patients are provided inpatient hospital services in the Commonwealth annually.

Localities Particularly Affected

The proposed changes to the regulations apply throughout the Commonwealth.

Projected Impact on Employment

Approximately 3.2% reduction in reimbursements may cause a reduction in demand for labor at inpatient hospitals. However, hospitals are required to treat all patients regardless of their ability to pay, which is likely to limit the potential negative effect on the labor demand.

Effects on the Use and Value of Private Property

The value of private hospitals may decrease relative to what would they be without the proposed reductions. The proposed reduction in reimbursements is about \$8.9 million in FY 2003 and about \$9.2million in FY 2004, or about 3.2% of the expected revenues. Lower reimbursements will likely negatively affect the profitability of private hospitals and the future profit stream and thus their value.