Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-70 –Methods and Standards for Establishing Payment Rates-Inpatient Hospital Services
Department of Medical Assistance Services
December 21, 2004

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

Pursuant to Chapter 4, Item 326 OO of the 2004 Acts of Assembly, the proposed regulations increase Medicaid indirect medical education reimbursements to hospitals in order to offset the reduction resulting from the elimination of neonatal intensive care disproportionate share payments. Pursuant to Chapter 4, Item 326 NN of the 2004 Acts of Assembly, the proposed changes also exclude freestanding psychiatric hospitals from the standard re-basing action scheduled in fiscal year 2005. Both of the proposed permanent changes have been in effect since September 2004 under emergency regulations.

Estimated Economic Impact

Pursuant to Chapter 4, Item 326 OO of the 2004 Acts of Assembly, the proposed regulations increase Medicaid indirect medical education (IME) reimbursements to hospitals and at the same time eliminate neonatal intensive care disproportionate share payments (NICU-DSH). According to the Department of Medical Assistance Services (DMAS), no recent data is

available to calculate NICU-DSH payments. The most recent available data is from 1997, which is outdated and no longer appropriate for this purpose. As there is no available data to calculate appropriate NICU-DSH payments, DMAS proposes to increase IME reimbursements by the same amount to maintain budget neutrality. This proposed change is estimated to reduce DSH payments by $4.9 million and increase IME reimbursements by the same amount. Even though the proposed change is budget neutral at the aggregate, the DSH and IME reimbursement methodologies are not identical and change the total payments to hospitals at the individual level. Three hospitals are expected to experience a reduction ranging from $246,000 to $1 million, 28 hospitals are expected to experience an increase ranging from $2,000 to $687,000, and 83 are expected to experience no change in payments they receive from Medicaid. Thus, the main economic effect of the proposed change is a net reduction in Medicaid payments to three hospitals and a net increase to 28 hospitals.

Another important effect of the proposed change is a potential increase in the amount of federal funds the Commonwealth can garner. There is a cap on the federal matching funds for DSH payments. Currently, DSH allotment for federal fiscal year 2005 is approximately $165 million. This means that the Commonwealth can obtain about up to $82.5 million from federal government if it provides the other half. The federal matching funds are not available for DSH payments beyond the $165 million allotment. Therefore, if the Commonwealth wishes to increase DSH payments above and beyond the federal allotment, 100% of the funds must come from in-state funding sources. On the other hand, there is no similar federal matching cap for the IME reimbursements.[1] Because the proposed change reduces DSH payments with a corresponding increase in IME payments, the Commonwealth effectively increases the matching funds available for DSH payments it can draw down from the federal government.

Pursuant to Chapter 4, Item 326 NN of the 2004 Acts of Assembly, the other proposed change excludes the freestanding psychiatric hospitals from the standard rebasing scheduled in fiscal year 2005. Thus, five freestanding psychiatric hospitals continue to receive reimbursements based on fiscal year 2004 rates. If the scheduled rebasing had been applied, the total reimbursement to five hospitals would have been reduced roughly by a half a million

[1] There is an upper payment cap for IME payments based on operating costs. However, the IME upper payment cap is not the same as the cap on DSH payments. Also, current IME payments are far below the upper payment cap while the current DSH payments are near the cap.

dollars. Therefore, the proposed change avoids a half million dollar reduction in Medicaid reimbursements to five freestanding hospitals providing psychiatric services. This change is likely to have avoided a potential deterioration in access to psychiatric services and in quality of care at these hospitals that existed before this change. Maintaining the current access and quality levels could maintain the health status of those who uses these services and provide secondary economic benefits not only to people who utilize the services, but also to the Commonwealth. It is also important to note that the total cost of maintaining these benefits to the Commonwealth is one half the price because of the federal matching funds.

Businesses and Entities Affected

The proposed changes are estimated to affect 31 private hospitals and 5 freestanding psychiatric hospitals.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The first proposed change increases Medicaid payments to 28 private hospitals while reducing payments to 3 other hospitals. The amount of estimated transfers from 3 hospitals to 28 hospitals are the same. Thus, the positive employment effect at 28 hospitals should cancel out the negative effect at 3 hospitals at the aggregate. Furthermore, of the 28 hospitals, not all are expected to be significantly affected, as the individual increases in reimbursements to 16 hospitals do not reach $50,000.

The second proposed change is expected to have a positive impact on employment in terms of avoided reductions or suspensions of freestanding psychiatric hospital services.

Effects on the Use and Value of Private Property

The proposed regulations are not likely to affect the use and value of real property. However, the first proposed change is likely to have a positive impact on the profits and consequently the asset value of 28 private hospitals while having a negative impact on the asset value of 3 private hospitals. The second change is expected to have a positive impact on the utilization and therefore the asset value of five freestanding psychiatric hospitals because of avoided reductions in profitability.