



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-70 –Methods and Standards for Establishing Payment Rates-Inpatient Hospital Care

Department of Medical Assistance Services

February 3, 2005

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 regulation will temporarily increase the disproportionate share hospital payment limit for hospitals from 100% of actual uncompensated Medicaid and uninsured costs to 175% for fiscal year 2005. The increased payments will be used to claim federal matching funds to supplement the Medicaid operating budget.

Estimated Economic Impact

Hospitals receive disproportionate share hospital (DSH) payments from Medicaid for serving a high percentage of Medicaid and uninsured patients. DSH payments help hospitals cover their uncompensated care costs. Under the 1993 Omnibus Budget Reconciliation Act, the amount of DSH payments a hospital can receive is limited to 100% of uncompensated costs. However, in 2000, the federal government allowed states through the Benefits Improvement and Protection Act to temporarily increase the DSH payment limit up to 175% of the uncompensated care costs for public hospitals for fiscal years 2004 and 2005.

The proposed regulations will take advantage of this option and will temporarily increase the DSH payment limit for public hospitals to 175% of the uncompensated care costs for fiscal year 2005. The purpose of these regulations is to claim an additional \$20 million in federal matching funds for the Medicaid program.

The Department of Medical Assistance Services (the department) plans to receive approximately \$40 million from the Virginia Commonwealth University (VCU) health system as an intergovernmental transfer. When this happens, the department will make a \$40 million additional DSH payment and claim \$20 million matching funds from the federal government. Thus the main impact of the proposed change is to maximize federal matching funds by \$20 million and supplement the Medicaid operating budget.

The net economic impact on Virginia's economy will likely be positive. The additional \$20 million in federal match will be a net injection into the state's economy without any offsetting effects on Virginia's economy. This increase in Medicaid operating budget may spill over to some or all of about 230,000 Medicaid recipients by maintaining or enhancing some services that would not otherwise be available. Improved services could also improve the overall health status of Medicaid recipients and produce some long-term cost savings.

Businesses and Entities Affected

The proposed changes could affect some or all of the 230,000 Medicaid recipients and Medicaid providers, depending on how the federal matching funds are spent.

Localities Particularly Affected

The proposed changes are unlikely to affect any one locality more than others.

Projected Impact on Employment

The proposed increase in DSH payment limit will likely have an expansionary effect on the state economy. To the extent that increased federal funding is directed toward purchase of goods and services within the state, there could be a positive effect on demand for labor.

Effects on the Use and Value of Private Property

Improving the current level of Medicaid federal funding could improve provider revenues and future profit streams, and consequently their asset values.