



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

February 23, 2006

Summary of the Proposed Regulation

Pursuant to 2004 and 2005 Appropriation Acts, the proposed regulations provide supplemental indirect medical education (IME) payments to private hospitals with Medicaid neonatal intensive care unit (NICU) utilization greater than fifty percent or with Medicaid NICU days in excess of 4,500. These proposed permanent changes have been in effect under two separate emergency regulations.

Results of Analysis

The costs likely exceed the benefits for all proposed changes. A different design would likely yield greater benefits at the same cost for all proposed changes. However, the proposed designs are mandated by the statute.

Estimated Economic Impact

Item 326 HHH of the 2004 Appropriation Act directs the Department of Medical Assistance Services (DMAS) to provide \$1.5 million in IME payments to non-state hospitals with Medicaid NICU utilization greater than fifty percent. One half of the additional payments will be provided from state funds and the other half from federal matching funds. The Appropriation Act is specific in that eligibility for supplemental payments be determined based on the most recent utilization data available as of March 1, 2004.

In addition, Item 326 ZZZ of the 2005 Appropriation Act directs DMAS to provide \$500,000 in IME payments to non-state hospitals with Medicaid NICU days greater than 4,500. Similarly, one half of the additional payments will be provided from state funds and the other half from federal matching funds. The 2005 Appropriation Act is also specific in that eligibility

for these supplemental payments be determined based on the most recent utilization data available as of March 1, 2005.

DMAS has already implemented one set of emergency regulations in May 2005 to provide \$1.5 million to eligible private hospitals mandated by the 2004 Appropriation Act and another set of emergency regulations in July 2005 to provide \$0.5 million to eligible private hospitals mandated by the 2005 Appropriation Act. The intent of the proposed regulations is to make the two sets of emergency regulations permanent.

The main economic effect of the proposed regulations is to transfer additional \$2 million in IME payments from state and federal funds to eligible private hospitals with high Medicaid NICU utilization. Two hospitals were determined eligible based on the 2004 Appropriation Act and one hospital was determined eligible based on the 2005 Appropriation Act. Because the second set of emergency regulations has not been implemented in fiscal year (FY) 2005, the total payments to eligible hospitals were \$1.5 million in FY 2005 and will be \$2 million in FY 2006. Beyond FY 2006, DMAS will continue to make \$2 million in supplemental IME payments every year.

The additional funding to private hospitals providing NICU services should strengthen their incentives to continue to participate in Virginia's Medicaid program. In general, Medicaid does not reimburse 100% of the reported costs of providing care to provider hospitals. DMAS is certain that even with the additional \$2 million in IME payments, the total Medicaid reimbursement to the three hospitals will not reach 100% of the reported costs of providing care to Medicaid recipients. Thus, the additional IME payments to the three eligible hospitals are expected to reduce their unreimbursed Medicaid costs and strengthen their incentives to stay in the program. However, DMAS does not believe that any of the three hospitals would have stopped participating in Medicaid if they were not provided additional IME payments. Thus, no significant effect on access to medical care is expected.

As with most Medicaid reimbursements, \$1 million of the funding will be obtained from the federal government. These out-of-state funds enable Virginia to obtain the full benefit of the additional payments at a fraction of the cost. In other words, without the federal matching funds it would have cost the state double the amount to strengthen the incentives of the three hospitals to continue providing services to Virginia's Medicaid recipients. The additional federal funding

represents a net injection to Virginia's economy with well known expansionary effects on the economic activity.

The legislative requirement to use specific utilization data to determine eligibility and in the apportionment of additional funding for perpetuity could be a significant barrier in continuing to provide additional incentives to hospitals providing NICU services to Medicaid recipients. The statutory language specifically directs DMAS to determine eligibility and the apportionment of funds among eligible hospitals based on specific point-in-time Medicaid NICU utilization data. Thus, if a private hospital had high Medicaid NICU utilization in the relevant time period satisfying the statutory criteria, then it will continue to receive the same amount of funding in perpetuity regardless of the changes in its Medicaid NICU utilization. Because the eligibility and the amount of supplemental payments will not be re-determined, a hospital that does not currently qualify for this additional funding, which, in a subsequent period, has more than fifty percent Medicaid NICU utilization or more than 4,500 Medicaid NICU days, will still not be eligible for any portion of this additional funding. Conversely, current eligible hospitals will continue to receive exactly the same amount of funding every year even if their Medicaid NICU utilization becomes minimal, although, given the hospitals that currently qualify, this is highly unlikely. Not determining the eligibility on an ongoing basis and not recalculating the apportionment of funds among eligible hospitals based on the updated utilization data may be less effective in achieving the intent of the additional funding which is assumed to be strengthening the incentives of private hospitals to continue to participate in Virginia's Medicaid program. Also, the fact that the state budget is reviewed annually should mitigate the significance of the proposed design being a barrier in continuing to provide additional incentives to hospitals.

Businesses and Entities Affected

The proposed regulations will affect three private hospitals with high Medicaid NICU utilization in 2002 and 2003.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed regulations are not expected to create a significant direct effect on employment because it is believed that the three hospitals would have continued to provide services to Medicaid recipients without the proposed payments. However, the inflow of federal matching funds is expected to have an expansionary effect on economic activity in Virginia and to have an indirect positive effect on employment.

Effects on the Use and Value of Private Property

The additional funding provided to three private hospitals will improve their profitability and should increase their asset values.

Small Businesses: Costs and Other Effects

The proposed regulations will not affect small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulations will not affect small businesses.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.H 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. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the

regulation. The analysis presented above represents DPB's best estimate of these economic impacts.