



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-70 –Department of Medical Assistance Services Methods and Standards for Establishing Payment Rates-Inpatient Hospital Services March 10, 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

The proposed changes will revise the Medicaid inpatient hospital reimbursement methodology to restore the payments that two teaching hospitals would have lost due to changes in federal regulations. The proposed changes have been already in effect under the emergency regulations.

Estimated Economic Impact

The purpose of the proposed reimbursement methodology changes is to maintain the current level of Medicaid reimbursement to teaching hospitals. A recent change in federal regulations, 42 CFR § 438.6, prohibits the Department of Medical Assistance Services making differential payments for services rendered by teaching hospitals in the managed care program (Medallion II). Since teaching hospital rates are higher than non-teaching hospital rates, the new

federal rule would mean a loss of approximately \$16 to \$20 million annually for the two teaching hospitals combined.¹

The proposed changes are designed to comply with the new federal rule while maintaining the current level of payments to teaching hospitals. This goal will be accomplished by 1) reducing the fee-for-service operating rates for teaching hospitals to a level commensurate with non-teaching hospitals, 2) enhancing the indirect medical education payments received by teaching hospitals to make up the exact amount of lost revenues for the teaching hospitals. Because disproportionate share (DSH) payments to teaching hospitals are calculated based on operating payments, a revision will also be made to DSH calculation methodology to undo the effect of changing fee-for-service operating rates.

Although the proposed regulations contain somewhat complicated changes in reimbursement methodologies, they simply maintain the current level of Medicaid funding for teaching hospitals. Thus, the main benefit of the proposed changes is the avoided costs of reducing teaching hospital reimbursements by about \$16 to \$20 million annually. Examples of these benefits may include continuing participation of teaching hospitals in the managed care program and continuing recipient access to Medicaid health care services in areas served by these hospitals.

Businesses and Entities Affected

The proposed regulations will affect two teaching hospitals.

Localities Particularly Affected

The proposed regulations apply throughout the commonwealth.

Projected Impact on Employment

The proposed regulations will maintain the current level of Medicaid payments to teaching hospitals. Since funding cuts would have probably reduced the amount of services provided by teaching hospitals, the effect on employment should be considered positive.

¹ Based on current data, the exact amounts of projected losses are \$16,327,873 in FY 2004, \$20,046,734 in FY 2005, and \$21,426,141 in FY 2006. These estimates are subject to change as new data becomes available.

Effects on the Use and Value of Private Property

The proposed regulations primarily affect two teaching hospitals. Thus, no significant effect on private property is expected.