



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **12 VAC 30-70, 80, 90 – Department of Medical Assistance Services Supplemental Payments for Inpatient and Outpatient Services February 11, 2003**

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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 authorize supplemental payments for Medicaid inpatient and outpatient services provided by state or non-state government owned or operated hospitals, clinics, and nursing homes. These payments will be used to claim federal matching funds to supplement the Medicaid operating budget. The proposed changes are effective since July 2002 under the emergency regulations.

### **Estimated Economic Impact**

The 2002 Appropriations Act<sup>1</sup> authorized the Department of Medical Assistance Services (DMAS) to increase Medicaid reimbursements rates for state and non-state owned or operated government providers up to the maximum allowed under federal law and regulations. To achieve its objective, the department implemented emergency regulations to maximize federal matching funds for supplementing its Medicaid operating budget. However, no reimbursements

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<sup>1</sup> Chapter 899, Items 325CC, 325DD, and 325RR.

have been made yet under the emergency regulations. The proposed action will replace the emergency regulations with permanent regulations.

The authority under the proposed regulations will allow the department to increase the reimbursements for state or non-state government owned or operated hospitals, nursing homes, and clinics by \$8 million (most current estimate) on an annual basis. The purpose of these regulations is to claim the additional \$4 million in federal matching funds for the Medicaid program pursuant to the Appropriation Act.

The department plans to enter into contractual agreements with these state or non-state governmental entities prior to these regulations becoming final to transfer to DMAS the total funds needed to make these supplemental payments. The explanation of expected flow of supplemental payments under the contract is as follows. The governmental entity will transfer the funds needed for the supplemental payment minus the participation fee to DMAS. DMAS will make Medicaid supplemental payments to the government-owned providers. The department will claim \$4 million matching funds from the federal government.

As a result of these transactions, the department will be able to increase its operating budget by the \$4 million federal participation amount minus any incentive payments to providers and transaction expenses. The department anticipates that only locally owned or operated hospitals, clinics, and nursing homes will require incentive payments. Further, the increase in Medicaid operating budget will spill over to some or all of about 230,000 Medicaid recipients by maintaining some services that would not otherwise be available.

## **Businesses and Entities Affected**

The proposed changes will affect some or all of 230,000 Medicaid recipients 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**

According to the department these funds will substitute for the general fund reductions already made. Thus, these additional funds that will be available in the Medicaid operating

budget are expected to maintain the providers' current demand for labor as the additional funds are spent for services.

### **Effects on the Use and Value of Private Property**

Maintaining the current level of funding is expected to maintain the Medicaid provider revenues and future profit streams, and consequently their values.