



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-70; 80; 90 –Methods and Standards for establishing Payment Rates – Inpatient Hospital Services, Other Types of Care, and Long Term Care Department of Medical Assistance Services November 13, 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

Pursuant to a policy change by the Centers for Medicaid and Medicare Services, the proposed regulations discontinue supplemental payments made to state hospitals for inpatient and outpatient services, state clinics and non-state public hospitals for outpatient services; modify the payments made to non-state public hospitals for inpatient services, non-state public clinics for outpatient services, and non-state public nursing homes. The proposed changes have been effective since July 2005 under the emergency regulations.

Estimated Economic Impact

Prior to July 2005, Medicaid reimbursements rates for public providers were up to the maximum allowed under federal law and regulations. Local and state government entities financed the supplemental payments through intergovernmental transfers and the Commonwealth claimed additional federal matching funds to supplement the Medicaid operating budget. However, the Centers for Medicaid and Medicare Services has recently imposed

restrictions and indicated to all states that it will no longer pay federal matching funds on these types of supplemental financing transactions.

In order to comply with the new federal policy, the Department of Medical Assistance Services implemented emergency regulations on July 1, 2005 to discontinue supplemental payments made to state hospitals for inpatient and outpatient services, state clinics and non-state public hospitals for outpatient services and agreed to modify the payments made to non-state public hospitals for inpatient services, non-state public clinics for outpatient services, and non-state public nursing homes.

As a result of the proposed changes, the Commonwealth will lose approximately \$8 million in net revenues from the federal government. The loss of federal matching funds represents a net economic loss to the Commonwealth as it reduces injections to the state economy. The size of the net economic loss to the state will likely be greater than the original \$8 million when this loss ripples through Virginia's economy. It is well known that a dollar taken out of an economy reduces the economic activity more than the original amount over several years. The exact economic impact and the entities affected, however, will depend on precisely how the Commonwealth responds to this loss of revenue. For example, expenditures may be reduced in Medicaid operating budget or elsewhere or funds may be maintained by using existing or new sources. This information is not available at this time.

Also, public Medicaid providers were receiving a small participation incentive prior to this change. Of the \$8 million, approximately \$420,000 will be lost by public providers in terms of incentive payments received from the state. Similarly, the net economic effect on the public providers will depend on whether or not and how the revenue loss is made up.

Businesses and Entities Affected

The proposed changes affect six non-state public nursing homes, two non-state public hospitals, two state hospitals, 130 state clinics, and 40 Community Services Boards.

Localities Particularly Affected

The proposed changes apply throughout the Commonwealth.

Projected Impact on Employment

As a net reduction in Virginia's economic activity results, a net reduction in demand for labor in the Commonwealth should be expected.

Effects on the Use and Value of Private Property

The proposed changes apply to public providers. Thus, no direct effect on the use and value of private property is expected.

Small Businesses: Costs and Other Effects

The proposed regulations do not apply to private businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulations do not apply to private businesses.