

Department of Planning and Budget 2001 Fiscal Impact Statement

1. Bill Number HB2230

House of Origin ☐ Introduced ☒ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron Hall

3. Committee Health, Welfare & Institutions

4. Title Funding policy for indigent health care services

5. Summary/Purpose:

The bill establishes a funding policy for the Commonwealth with regard to support for indigent health care services provided by Virginia's three academic medical centers. The legislation declares that the Commonwealth shall appropriate 100 percent of the costs of the indigent health care services provided by or through the Virginia Commonwealth University Health System Authority and the University of Virginia Medical Center.

The substitute version of the bill establishes that it is the Commonwealth's policy to provide at least fifty percent of the costs of indigent health care services provided by or through the Medical College of Hampton Roads. The two public academic medical centers are required to submit estimates of the amounts needed for this purpose and the Medical College of Hampton Roads is required to submit such data and estimates as may be needed by the Director of the Department of Planning and Budget.

6. Fiscal Impact Estimates are: Preliminary

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2000-01	\$0		GF
2000-01	\$0		NGF
2001-02	\$11,900,000		GF
2001-02	\$4,500,000		NGF
2002-03	\$15,400,000		GF
2002-03	\$7,800,000		NGF

*Amounts above include inflation at 3 percent per year.

7. Budget amendment necessary: Yes. Item 319 (Department of Medical Assistance Services) and Item 261 (Medical College of Hampton Roads). The estimated fiscal impact assumes the 50 percent policy for the Medical College of Hampton Roads.

8. Fiscal implications:

Existing Policy: For many years, the Commonwealth of Virginia has provided funding to support indigent health care through a combination of state (general) funds and federal (Medicaid) funds. The general fund dollars, which cover about 50 percent of the indigent care costs provided by the

two teaching hospitals (Virginia Commonwealth University Health System Authority and the University of Virginia Medical Center), are appropriated directly to the Department of Medical Assistance Services (DMAS). In turn DMAS uses the general fund monies as the state's match to obtain federal funds through the Medicaid Program to cover the remaining 50 percent of the total cost of indigent care services. Currently, the Medical College of Hampton Roads (MCHR) receives a direct general fund appropriation in each year of the biennium to support its indigent care services. This amount has not increased since 1994.

Introduced Budget for 2001: Funding included in House Bill 1600 and Senate Bill 800, as introduced, for each of the three academic medical centers is shown below:

**Summary of Indigent Health Care Funding 2000-2002
(\$ in millions)**

Academic Medical Centers	FY2001	FY2001	FY2002	FY2002
	GF	NGF	GF	NGF
VCU Health System Authority	\$ 85.9	\$ 90.9	\$ 98.6	\$105.1
UVA Medical Center	\$ 43.4	\$ 46.3	\$ 41.4	\$ 44.1
Medical College of Hampton Roads	\$ 6.2	\$ 0	\$ 6.2	\$ 0
Total	\$135.5	\$137.2	\$146.2	\$149.2

The budget, as introduced, includes \$25.1million in additional funding in FY2002 to support indigent health care services provided by the VCU Health System Authority. The additional funding covers 100 percent of the indigent care costs at VCU in FY2002. No additional funding was recommended for UVAMC and MCHR.

Additional needs in 2001-2002: The University of Virginia Medical Center and Medical College of Hampton Roads have identified \$4.6 million and \$7.2 million, respectively, in additional funding needed to support 100 percent of indigent health care services in fiscal year 2002. In addition, the Department of Medical Assistance Services will begin expanding its Medicaid managed care program (Medallion II) in the Charlottesville area next year.

University of Virginia Medical Center: The Medical Center estimates that an additional \$4.6 million will be needed in FY2002 to accommodate increased hospital and faculty physician costs. This funding was not included in the Medical Center's Indigent Care Cost Report in FY2000, but will be included when the cost report is submitted for FY2001. The 2000 General Assembly provided an increase of \$4.2 million in FY2001, through DMAS, to cover the costs of providing indigent health care services. This funding would continue support in the second year of the biennium at relatively the same level as provided in FY2001. If federal Medicaid matching funds are utilized, the general fund requirement would be \$2.3 million in FY2002.

Medicaid Managed Care Program: The Department of Medical Assistance Services will begin expanding its Medicaid managed care program (Medallion II) in the Charlottesville area next year. This program was implemented in the Richmond area in the spring of 1999. The VCU Health System Authority reported \$7.7 million in unreimbursed costs associated with the Medallion II program last year. At this time, the costs to implement the Medallion II program in Charlottesville is unknown, however, the UVA Medical Center will require additional funding to meet 100 percent of its Medicaid and indigent health care services in the FY2002 because of this new program. For the

purposes of this analysis, the expenditure figures assume uncompensated costs of \$3.0 million in the second year of the biennium. Therefore, the general fund requirement in FY2002 is \$1.5 million (with a corresponding \$1.5 million in NGF from Medicaid funds).

Medical College of Hampton Roads: Currently, the Medical College of Hampton Road receives a direct general fund appropriation to support indigent care. In addition because MCHR is not a hospital entity, it is not required to submit a cost report to document indigent care expenditures. There is no existing policy to require a review of indigent health care costs provided by the MCHR faculty or the expenditures by the local associated teaching hospitals. However, MCHR proposes that the Commonwealth share in funding the uncompensated costs of indigent care by developing a mechanism that would fund 50 percent of the costs remaining after current payments are accounted for. In the past the faculty practice plans and the local partner teaching hospitals have absorbed the remaining, uncompensated indigent care costs. Under the MCHR proposal, the total unfunded need is estimated at approximately \$14.3 million, and the proposed state share of this is \$7.2 million.

If the Commonwealth chooses to utilize the current general fund appropriation as the state match to obtain additional federal Medicaid funding, a mechanism would be needed to provide funding to Medical College of Hampton Roads via the associated teaching hospitals, to support indigent care services. However, the MCHR does not have a teaching hospital associated with its medical school like the University of Virginia and Virginia Commonwealth University. Instead, it partners with four local hospitals to act as its teaching hospitals.

The U. S. Health Care Financing Administration (HCFA) requires that federal DSH funding be provided to a hospital entity. At this time, it is not certain that approval can be obtained from HCFA to pay the four local hospitals the additional funds for the Medical College of Hampton Roads. In order to make additional DSH payments to these hospitals, DMAS would need to amend the State Plan to establish them as distinct hospital types from other local hospitals. This may not be possible since other local hospitals throughout the Commonwealth participate as teaching hospitals with MCV and UVA and do not receive additional DSH payments for this activity. These local hospitals do, however, receive some funding through the Indigent Care Trust Fund and the State/Local Hospitalization program.

MCV and UVA have been established by the State Plan regulations as distinct type hospitals because they are state owned and operated teaching hospitals. Because it is uncertain that MCHR's teaching hospitals can be given a similar designation, the cost estimates for MCHR in FY2002 assume the state's commitment to fund 100 percent of indigent care costs must be funded from the general fund, or \$7.2 million in FY2002.

Additional needs in 2002-2004: The University of Virginia Medical Center projects \$3.6 million in additional funding (plus continuation of the \$4.6 million identified for FY2002) will be needed to support 100 percent of indigent health care services in each year of the 2002-2004 biennium. The funding is required to accommodate estimated increases in hospital and faculty physician costs. At this time, the VCU Health System is not anticipating the need for additional funding above the FY 2002 levels (except for inflation). The expenditure analysis assumes that the \$25.1 million recommended in HB 1600/SB 800 is approved and will be carried forward in each year of the 2002-2004 biennium. Assuming funds are provided to cover 100 percent of all costs identified by the academic medical centers in FY2002, adjustments in future years should be limited to inflation, implementation of a the Medallion II program in Charlottesville, and any changes to the indigent care cost studies submitted by each hospital. Therefore, the general fund requirement in FY2003 is \$4.1 million (with a corresponding \$4.1 million NGF component to be funded from Medicaid funds).

Medicaid Managed Care Program: For the purposes of this analysis, the expenditure figures assume uncompensated costs of \$3.0 million in FY2003. Therefore, the general fund requirement in FY2003 is \$1.5 million (with a corresponding \$1.5 million in NGF from Medicaid funds).

Inflationary cost increases: In addition, funding will be required above and beyond current levels to support inflationary cost increases. Virginia bases its estimate of hospital inflation on Data Resource Incorporated (DRI) Virginia specific inflation index. This index is developed for DMAS by DRI. According to DRI, inflation has been estimated at about three percent in recent years. The general fund requirement for inflation totals \$900,000 in FY2002 and \$2.6 million in FY2003. The nongeneral fund requirement totals \$700,000 in FY2002 and \$2.2 million in FY2003.

Unknown factors: Many factors could complicate the Commonwealth's ability to implement a funding policy that provides 100 percent of the cost of indigent health care services in future years. Consideration must be given to such items as changes in patient loads at the various medical centers, changes in federal legislation relative to disproportionate share funding, and the Commonwealth's financial state.

The primary factor will be the availability of federal disproportionate share (DSH) funding that Virginia will have available to match state funds in future years. Recent federal action to freeze state DSH allocations at the FY2002 levels will allow the Commonwealth to continue funding, through a combination of state general funds and federal Medicaid funds, indigent care costs in the 2002-2004 biennium. However, after the 2002-2004 biennium, the Commonwealth could be faced with the issue of replacing the current federal funding with state general fund monies to fully fund indigent health care services at 100 percent. A significant infusion of general fund dollars to replace federal DSH funding could be required in future years.

Summary of Expenditure Assumptions (\$ in millions)

Academic Medical Centers	FY2002	FY2002	FY2003	FY2003
	GF	NGF	GF	NGF
VCUHS - Inflation	\$0.0	\$0.0	\$1.5	\$1.5
UVAMC – Unfunded costs	\$2.3	\$2.3	\$4.1	\$4.1
UVAMC – Medicaid Managed Care	\$1.5	\$1.5	\$1.5	\$1.5
UVAMC – Inflation	\$0.7	\$0.7	\$0.7	\$0.7
MCHR – Unfunded costs	\$7.2	\$0.0	\$7.2	\$0.0
MCHR - Inflation	\$0.2	\$0.0	\$0.4	\$0.0
TOTAL REQUIREMENTS	\$11.9	\$4.5	\$15.4	\$7.8

9. Specific agency or political subdivisions affected:

- ?? Department of Medical Assistance Services
- ?? University of Virginia Medical Center
- ?? Virginia Commonwealth University Health System Authority
- ?? Medical College of Hampton Roads

10. Technical amendment necessary: No

11. Other comments: None.

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cc: Secretary of Finance

Secretary of Health and Human Resources

Secretary of Education

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