

Department of Planning and Budget 2017 Fiscal Impact Statement

1. Bill Number: SB 1562

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

2. Patron: Dunnavant, Siobhan S.

3. Committee: Finance

4. Title: Medicaid Supplemental Rate Fund, created

5. Summary: The proposed legislation would remove the Retail Sales and Use Tax exemption for hospitals exempt from federal income taxation under I.R.C. § 501(c)(3) with annual revenues of \$300 million or more. The exemption will remain for the purchase of tangible personal property used directly in the operation of fee or reduced-cost clinics to benefit low-income persons. The impacted hospitals would be required to file monthly informational returns with the Department of Taxation (TAX) stating the total amount of Retail Sales and Use Tax in the preceding month. The bill would require the transfer of an amount equal to the state and local sales and use tax paid by such hospitals, based on the informational returns, to the Medicaid Supplemental Rate Fund. The Medicaid Supplemental Rate Fund is also created by the bill as a subfund of the Virginia Health Care Fund. All monies in this fund are to be used to raise base Medicaid reimbursement rates for hospitals and health care providers in the Commonwealth.

6. Budget Amendment Necessary: Yes. A budget amendment is needed to provide DMAS with the authority and appropriation to raise reimbursements.

7. Fiscal Impact Estimates: Preliminary

7a. Expenditure Impact: It is assumed that DMAS will establish reimbursement rates consistent with available revenue in the Medicaid Supplemental Payment Rate Fund. However, as the bill does not provide the specific authority or appropriation needed to increase these rates, the bill alone is not expected to increase expenditures.

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2017	-	-
2018	\$49.4 - \$86.0 million	Medicaid Supplemental Payment Rate Fund
2019	\$49.4 - \$86.0 million	Medicaid Supplemental Payment Rate Fund
2020	\$49.4 - \$86.0 million	Medicaid Supplemental Payment Rate Fund
2021	\$49.4 - \$86.0 million	Medicaid Supplemental Payment Rate Fund
2022	\$49.4 - \$86.0 million	Medicaid Supplemental

2023

\$49.4 - \$86.0 million

Payment Rate Fund
Medicaid Supplemental
Payment Rate Fund

8. Fiscal Implications:

Department of Taxation

The Department of Taxation (TAX) reports that the proposed narrowing of the Retail Sales and Use Tax nonprofit exemption would result in an unknown revenue increase to the Commonwealth; specifically, to the proposed Medicaid Supplemental Rate Fund. TAX identified 12 nonprofit hospitals in Virginia with annual revenue above \$300 million. Based on data supplied by nonprofit hospitals on the Form 990 and on the Sales and Use Tax Exemption Application for Nonprofit Organizations, the bill is estimated to raise between \$49.4 million and \$86.0 million in revenues annually that would be deposited into the Medicaid Supplemental Rate Fund beginning in Fiscal Year 2018.

TAX estimated the revenue impact of this bill using two methods. Based on information regarding potential taxable expenses provided by nonprofit hospitals with annual revenue above \$300 million on their most recently available Form 990, the Department determined that the foregone sales and use tax revenues from the exemption of such nonprofit hospitals would be approximately \$49.4 million in Fiscal Year 2018. In comparison, using the amount of estimated total purchases reported by such nonprofit hospitals on their most recent Sales and Use Tax Exemption Application for Nonprofit Organizations, TAX determined that the foregone sales and use tax revenues from the exemption of such nonprofit hospitals would be approximately \$86.0 million in Fiscal Year 2018.

Department of Medical Assistance Services

The bill is not expected to have any fiscal impact on the Department of Medical Assistance Services (DMAS) as, mentioned above, there is no specific authority or appropriation to raise the reimbursement rates. It is expected that any potential rate increases would be set at a level consistent with available revenue reserved in the Medicaid Supplemental Payment Rate Fund.

9. Specific Agency or Political Subdivisions Affected:

Department of Taxation

Department of Medical Assistance Services

10. Technical Amendment Necessary: Yes. There is no current chart of account element related to a 'subfund.' Therefore, it is unclear as to whether the Medicaid Supplemental Payment Rate Fund can be created as a subfund of the Virginia Health Care Fund. It is recommended that the bill's language be amended to create the Rate Fund as a separate fund.

11. Other Comments: None

Date: 1/25/17