Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Kwame R. Brown**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: **August 25, 2011**

SUBJECT: **Fiscal Impact Statement – "HSC's Medicaid Reimbursement Methodology Rebasing Amendment Approval Resolution of 2011"**

REFERENCE: **Draft Resolution received on July 20, 2011**

Conclusion

Funds are sufficient to implement the proposed resolution in the FY 2011 budget and the FY 2012 through FY 2015 budget and financial plan period.

Background

The proposed resolution would amend the District of Columbia State Plan for Medical Assistance ("State Plan") to change the base year used to calculate the reimbursements for the HSC Pediatric Center (formerly Hospital for Sick Children, "HSC") and its sub-providers.

Under the Tax Equity and Fiscal Responsibility Act of 1982[1] ("TEFRA"), provider costs[2] are limited by a ceiling on the rate of increase, referred to as the target amount or target rate. Hospitals that do

[1] Pub.L. 97-248, 96 Stat. 324, enacted September 3, 1982.
[2] Hospitals that do not fall under the Medicare Prospective Payment System, and HSC is such a hospital, must be reimbursed on a *per diem* basis subject to the TEFRA Target Rate. HSC provides specialty care to infants, children, and adolescents, which is reimbursed on a *per diem* basis and subject to the TEFRA Target Rate ceiling. Title XVIII (Medicare) outlines the principles of reimbursement applicable to hospitals not included in the Medicare Prospective Payment System, and under Part 413 of Title 42 of the Code of Federal Regulations, which establishes Medicaid's principles of reasonable cost reimbursement and ceilings on the rate of increase in hospital inpatient costs.

not fall under the Medicare Prospective Payment System,[3] such as HSC, must be reimbursed on a *per diem* basis subject to the TEFRA target rate. This target rate is calculated by adjusting the *base year* audited costs for any increases in service costs and inflation.

HSC's current TEFRA target rate amount is based on FY 1998 costs. The proposed State Plan Amendment would rebase the TEFRA target rate on the hospital's audited allowable per diem costs for FY 2009. This revised target rate will become effective July 1, 2011.

Financial Impact

Funds are sufficient to implement the proposed resolution in the FY 2011 budget and FY 2012 through FY 2015 budget and financial plan period. The projected cost increases from the proposed rebase could be absorbed in the FY 2011 budget, and the existing resources in the FY 2012 through FY 2015 budget and financial plan period.

Shifting the base year from FY 1998 to FY 2009 would increase *per diem* costs from $1,023 to $1,181 for HSC and from $1,477 to $1,770 for its sub-providers. This increase in *per diem* costs would result in higher TEFRA target rates for years following the base year. The following table presents the TEFRA target rate under the current State Plan (FY 1998 base year) and the proposed amendment (FY 2009 base year).

Projected *Per Diem* Rates for HSC and its sub-provider under current State Plan and under the proposed State Plan Amendment, FY 2011 through FY 2015

	2011	2012	2013	2014	2015
HSC					
Base Year FY 1998	$1,072	$1,100	$1,128	$1,158	$1,188
Base Year FY 2009	$1,237	$1,270	$1,303	$1,336	$1,371
Sub-providers					
Base Year FY 1998	$1,547	$1,587	$1,628	$1,671	$1,714
Base Year FY 2009	$1,854	$1,902	$1,951	$2,002	$2,054

Given patients current utilization of the hospital, HSC is projected to receive reimbursements for 3,694 days, and its sub-providers are projected to receive reimbursements for 3,389 days. Given the rate change would be effective in the fourth quarter of FY 2011 the proposed State Plan Amendment would increase total expenditures by $412,812 in FY 2011. The District's responsibility is 30 percent of the total expenditures; thus the proposed amendment would increase FY 2011 local expenditures by $123,844. This amount can be absorbed in the FY 2011 local budget.

[3] Medicare Prospective Payment System is a per-case reimbursement mechanism where inpatient admission cases are divided into relatively homogeneous categories called diagnosis-related groups (DRGs), for which Medicare pays hospitals a flat rate per case for inpatient hospital care. This flat rate system is intended to provide incentives for hospitals to become more cost-efficient. For additional details on the Medicare Prospective Payment System, see Office of Inspector General Office of Evaluation and Inspections Region IX, "Medicare Hospital Prospective Payment System: How DRG Rates Are Calculated and Updated," August 2001 OEI-09-00-00200. Available at http://oig.hhs.gov/oei/reports/oei-09-00-00200.pdf, accessed on August 1, 2011.

The proposed State Plan Amendment would also affect the FY 2012 through FY 2015 budget and financial plan. The higher *per diem* cost would increase total reimbursements HSC and its sub-providers receive by $1.7 million in FY 2012 and $7.1 million in the four-year financial plan. Given that 30 percent of these amounts are local responsibility, District's local costs would increase by $508,256 in FY 2012, and by $2.1 million in the FY 2012 through FY 2015 financial plan period. The Department of Healthcare Finance can absorb these costs in its FY 2012 through FY 2015 planned budget for the State Plan. The table below provides the details on the cost estimates.

Estimated Fiscal Impact of HSC's Medicaid Reimbursement Methodology Rebasing Amendment Approval Resolution of 2011, FY 2012 – FY 2015

	2012	2013	2014	2015	Four year total
HSC					
Per diem difference	$170	$174	$179	$183	
Expected number of reimbursable days	3,694	3,694	3,694	3,694	
Cost increment	**$627,369**	**$643,681**	**$660,417**	**$677,587**	**$2,609,054**
Sub-providers					
Per diem difference	$315	$323	$331	$340	
Expected number of reimbursable days	3,389	3,389	3,389	3,389	
Cost increment	**$1,066,816**	**$1,094,553**	**$1,123,012**	**$1,152,210**	**$4,436,591**
Total Cost increase	**$1,694,185**	**$1,738,234**	**$1,783,428**	**$1,829,798**	**$7,045,646**
Local share (30%)	**$508,256**	**$521,470**	**$535,029**	**$548,939**	**$2,113,694**