

**Annual Report on the Estimated Costs of the  
State/Local Hospitalization Program**



**Department of Medical Assistance Services**

**December 2006**

## **Authority for Report**

§ 32.1-345. Counties and cities required to participate; allocation and payment of funds to and payments by counties and cities.

A. The governing body of each city and county in the Commonwealth shall participate in the State/Local Hospitalization Program for indigent persons established in this chapter.

B. The Director shall allocate annually to the counties and cities of the Commonwealth such funds as may be appropriated by the General Assembly for this program. The allocation of state funds shall be based on the estimated total cost of required services in each county and city less the funds, which shall be provided by the counties and cities.

C. Each county and city shall provide funds for a share of the estimated total costs as determined by the Director. The share for each county and city shall be calculated by dividing its per capita revenue capacity by the statewide total per capita revenue capacity, as determined by the Commission on Local Government, and by multiplying the resulting ratio by an aggregate local share of twenty-five percent. Each local share shall be adjusted according to local income, as determined by dividing the median adjusted gross income for all state income tax returns in each county and city by the median adjusted gross income for all income tax returns statewide. However, no county or city shall contribute more than twenty-five percent to the total cost for providing required hospitalization and treatment for indigent persons. The Director of Medical Assistance Services shall report each year by December 1 to the Senate Committees on Education and Health and Finance and the House Committees on Health, Welfare and Institutions and Appropriations on the estimates of the costs of the program, based on trend analyses of the estimated costs of the actual local per capita demand.

## Introduction

### THE STATE/LOCAL HOSPITALIZATION PROGRAM

#### *The Requirements for This Report*

Chapter 782 of the 1996 Virginia Acts of Assembly amends section 32.1-345 Code of Virginia and requires the Director of Medical Assistance Services to report each year by December 1 to the Senate Committees on Education and Health and Finance and the House Committees on Health, Welfare and Institutions and Appropriations on the estimates of the costs of the program, based on trend analyses of the estimated costs of the actual local per capita demand.

This report addresses the annual requirement that the Director report the estimated costs of the SLH Program.

Background: The State/Local Hospitalization Program (SLH) is a cooperative effort between the State and local governments designed to provide coverage for inpatient and outpatient hospital care, care in approved ambulatory surgical centers, and care provided in local health departments. It became a mandatory statewide program in 1989. The services covered by the SLH program are the same as the hospital and health department related services available to Medicaid recipients including:

- Acute care inpatient hospital services (excluding rehabilitation and free-standing psychiatric hospitals);
- Acute care outpatient services;
- Ambulatory surgical services; and
- Department of Health clinic services.

All counties and cities are required to participate in financing the SLH Program. Coverage for SLH health care services is only available to low-income people who are not Medicaid recipients. A person may be eligible for the SLH Program whether employed or unemployed, insured or uninsured, if the person meets the income and resource criteria established for the program.

The Department of Social Services (DSS), in the city or county where the applicant lives, must make determination of eligibility for SLH. An applicant may be eligible if his or her countable income is equal to or less than 100 percent of the federal poverty level established for the year in which the applicant is applying. Localities that had SLH income eligibility levels above 100 percent of the federal poverty level prior to June 30, 1989 may have a higher income level under the current program. Only Fairfax County currently has a higher level. The individual's resources are also counted when determining eligibility for assistance under the SLH Program. Resources are items of value, which could be sources of income to the individual.

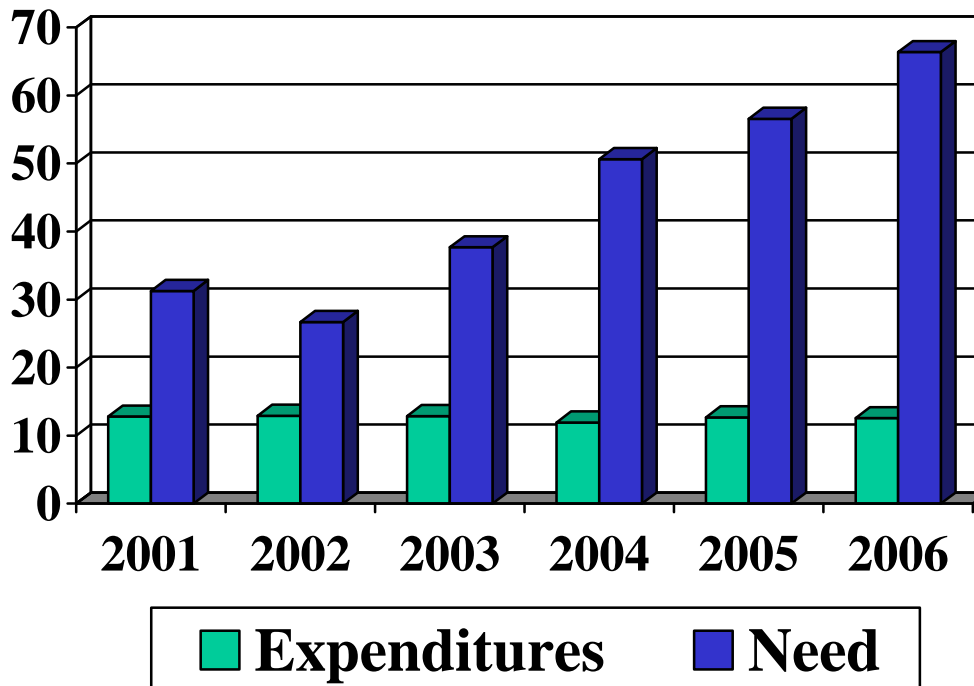
DMAS' Role: The Department of Medical Assistance Services (DMAS) calculates the state and local share allocations; administers financing, claims processing, and provider reimbursement; and is responsible for provider communications.

Funding History and Source: The SLH Program was established in 1946 with participation by localities on a voluntary basis. Under the original SLH Program, local expenditures were matched by state funds at a rate of 50 percent. This program was repealed and a new mandatory statewide program was enacted in 1989. The new program requires all localities within the Commonwealth to participate and mandates a local match, not to exceed 25 percent of the program benefit expenditures. This enabling legislation further transferred administration of the program from localities and DSS to DMAS. The SLH Program is financed entirely by state and local funds with the state providing at least 75 percent of the cost by allocating the amount of funds appropriated to each locality on the basis of current estimated demand for covered services. Funds allocated to a locality can be used to pay for services provided to residents of that locality only. In FY 2006, total SLH expenditures were \$12,558,459 (General Fund \$10,627,463 – Local Funds \$1,930,996).

The SLH program is not an entitlement program. Once locality funds are exhausted, payment cannot be made on claims for eligible SLH recipients.

As shown in Exhibit 1 (next page), SLH program expenditures have remained relatively constant over the years, while the need has more than doubled from FY 2002 to FY 2006. Prior to fiscal year 1997, localities were required to take applications for the full year, but many did not continue to take applications after funds ran out. Beginning in fiscal year 1997, localities have only been required to take applications for the first six months or until funds ran out. DMAS assumes for this analysis that annual statewide need would be double the approved claims in the first six months. Using this assumption, the annual statewide need in FY 2006 was \$66.4 million, as the six-month need was \$33.2 million.

### Exhibit 1: SLH Need vs. Expenditures (Millions)



Program Authority: Section §32.1-346 Code of Virginia establishes the State and Local Hospitalization Program (SLH) within the Department of Medical Assistance Services. The Department has promulgated State and Local Hospitalization Program Regulations at 12 VAC 30-100-70 et seq. (Part II).

Changes Affecting Reimbursement: Chapter 782 of the 1996 Virginia Acts of Assembly amended the Code to conform the hospital reimbursement rate methodology for the SLH program with the inpatient hospital reimbursements rate methodology for the Medicaid program. Beginning July 1, 1996, the SLH program began reimbursing the Medicaid per diem established for the transition to the Medicaid prospective reimbursement system. During the 2003-2004 fiscal year, the Diagnosis Related Groups (DRG) reimbursement methodology for hospital payments was used for the first time. This methodology results in more accurate expense calculation for each claim. In the past, an average cost per patient day for each hospital was calculated and used, regardless of the diagnosis. However, since many SLH claims are higher in cost than the average hospital claim, the overall SLH need figure increased significantly in some localities, and for the state overall. In general, localities whose needs grew at a higher pace than other localities will get a larger percentage of the overall state appropriation.

The statute was also amended in 1996 to establish an alternate SLH program allocation and payment method for FY 1997. In subsequent years administrative requirements were lessened for local DSS, providers, and the state. The new method eliminates the practice of taking applications and submitting and processing claims for services once locality funds are exhausted, resulting in estimated savings to the state and participating providers of more than \$500,000 per year.

### ***Methods and Sources of Information***

This report, which was developed by staff at DMAS, draws upon prior year SLH claims and payment history. Most of the information was taken from the Virginia Medicaid Management Information System.

## Funding and Service Impact of the State/Local Hospitalization Program

### *Trends in Utilization*

Approximately 5,393 Virginians were assisted with their medical bills by the SLH program in FY 2006, 13% less than those assisted in FY 2005. This is the fewest number of SLH recipients since the figures have been recorded (since FY 1990). This is partly due to an increase in inpatient hospital rates in July 2004 ranging from 11-15%, while the overall funding for the program remained the same.

The last two years have reflected a decrease in the number of Virginians receiving assistance through the SLH program. Prior to 2004, from FY 2000 to FY 2004, the number served was relatively stable, from a high of 7,440 in FY 2004 to a low of 6,383 in FY 2002. This is depicted in Exhibit 2, on the next page.

## Exhibit 2 Utilization of SLH Services

Indicator	2000	2001	2002	2003	2004	2005	2006
Number of recipients:							
For whom claims were paid	6,885	6,673	6,383	6,748	7,440	6,191	5,393
For whom claims were partially paid (last claim before budget funds exhausted)	126	114	117	122	0	0	0
For whom claims were approved, but funds were exhausted	4,101	3,646	3,843	4,274	5,830	6,691	5,856
For whom claims were denied	3,114	2,936	2,697	3,047	4	8	14
Number of Recipients for whom claims were paid/ partially paid who received:							
Inpatient Services	3,055	2,742	2,816	2,783	2,050	2,005	1,876
Outpatient Services	5,350	4,985	4,744	5,195	6,380	5,032	4,386
Practitioner Services	168	507	315	298	269	213	172

Number of Inpatient Hospital Days Paid	69,788	61,818	65,104	62,109	10,705	10,439	9,164
Average Inpatient Length of Stay (Days)	11.1	12.0	11.4	10.9	5.2	5.2	4.9
Number of Inpatient Hospital Visits	6,290	5,136	5,689	5,713	2,484	2,376	2,137
Number of Ambulatory Surgical Center Visits	9	13	9	6	5	0	0
Number of Health Department Visits	264	2,068	858	965	494	374	297
Number of New Claims Received	31,298	30,881	28,675	30,648	30,402	30,238	27,289
Number of Claims Denied	5,180	5,680	4,489	5,376	4	9	7
Number of Claims Approved	26,118	25,201	24,186	25,272	30,398	30,229	27,195
Number of Claims Paid	17,867	17,867	16,242	16,981	19,057	14,058	12,327
Number of Claims Approved, but Funds Depleted	8,251	7,429	7,944	8,291	11,341	15,721	14,868

The SLH Payment Year begins May 1 of each year and ends the following April 30. The SLH Program begins making payment on claims with dates of service May 1 and later of each year after the beginning of the Commonwealth's fiscal year July 1. Payments are only paid after the locality pays its local share of the funding.

SLH recipients whose claims are paid by SLH are relieved of any financial responsibility for approved claims. Like the Medicaid program, hospitals and other providers accept the SLH approved rate as payment in full. The difference between provider charges and the amount approved by the SLH Program is discharged as a contractual adjustment. However, if the SLH Program funds are exhausted the SLH recipient is fully responsible for the provider's charges.

DMAS pays claims on a first come, first served basis.

#### Estimate of State/Local Hospitalization Need for FY 2007 for Each Locality

The FY 2007 locality allocations were based on a series of calculations, as set forth in Section 32.1-343 et seq. The total need figure is derived from the last five years' averages of the first six months (May 1st through October 31st) of approved claims data per year. Localities get credit for all paid SLH claims plus all unpaid approved claims. The allocation of SLH funds among the localities is accomplished by multiplying the available funds times the ratio of the need for each locality divided by the total need for the entire state. The payment share for each county and city is calculated by dividing its per capita revenue capacity by the statewide total per capita revenue capacity, as determined by the Commission on Local Government, and by multiplying the resulting ratio by twenty-five percent. Each local share is then adjusted according to local income, as determined by dividing the median adjusted gross income for all income tax returns in the locality by the median adjusted gross income for all income tax returns statewide. The maximum local share any locality can contribute is twenty-five percent of the total cost. The resulting local, state and total shares for FY 2007 are shown in Exhibit 3.



### Exhibit 3

### SLH FY 2007 SHARES

	LOCALITY	LOCAL SHARE	STATE SHARE	TOTAL SHARE	LOCAL SHARE %	STATE SHARE %
001	ACCOMACK	6,563.29	60,684.08	67,247.37	9.76%	90.24%
003	ALBEMARLE	38,962.51	116,887.54	155,850.05	25.00%	75.00%
005	ALLEGHANY	7,006.19	49,839.54	56,845.73	12.32%	87.68%
007	AMELIA	3,081.06	16,470.32	19,551.38	15.76%	84.24%
009	AMHERST	8,683.29	62,597.86	71,281.15	12.18%	87.82%
011	APPOMATTOX	5,246.72	38,975.36	44,222.08	11.86%	88.14%
013	ARLINGTON	52,889.74	158,669.21	211,558.95	25.00%	75.00%
015	AUGUSTA	12,541.93	57,810.51	70,352.44	17.83%	82.17%
017	BATH	2,730.96	8,192.86	10,923.82	25.00%	75.00%
019	BEDFORD CO	18,807.10	73,008.08	91,815.18	20.48%	79.52%
021	BLAND	847.24	6,118.83	6,966.07	12.16%	87.84%
023	BOTETOURT	10,084.49	32,411.32	42,495.81	23.73%	76.27%
025	BRUNSWICK	3,639.12	41,055.75	44,694.87	8.14%	91.86%
027	BUCHANAN	6,404.62	53,017.45	59,422.07	10.78%	89.22%
029	BUCKINGHAM	5,872.55	53,529.44	59,401.99	9.89%	90.11%
031	CAMPBELL	15,961.72	108,766.33	124,728.05	12.80%	87.20%
033	CAROLINE	7,803.44	35,656.36	43,459.80	17.96%	82.04%
035	CARROLL	7,874.83	70,131.29	78,006.12	10.10%	89.90%
036	CHARLES CITY	3,933.05	18,350.11	22,283.16	17.65%	82.35%
037	CHARLOTTE	3,522.59	36,448.40	39,970.99	8.81%	91.19%
041	CHESTERFIELD	60,949.55	182,848.65	243,798.20	25.00%	75.00%
043	CLARKE	5,861.70	17,585.10	23,446.80	25.00%	75.00%
045	CRAIG	1,194.76	7,209.87	8,404.63	14.22%	85.78%
047	CULPEPER	17,903.83	59,385.83	77,289.66	23.16%	76.84%
049	CUMBERLAND	931.05	7,331.96	8,263.01	11.27%	88.73%

	LOCALITY	LOCAL SHARE	STATE SHARE	TOTAL SHARE	LOCAL SHARE %	STATE SHARE %
053	DINWIDDIE	6,618.10	37,027.51	43,645.61	15.16%	84.84%
057	ESSEX	4,626.67	24,138.70	28,765.37	16.08%	83.92%
059	FAIRFAX COUNTY	195,290.85	585,872.54	781,163.39	25.00%	75.00%
061	FAUQUIER	17,234.14	51,702.43	68,936.57	25.00%	75.00%
063	FLOYD	7,006.97	42,999.86	50,006.83	14.01%	85.99%
065	FLUVANNA	6,515.49	23,354.33	29,869.82	21.81%	78.19%
067	FRANKLIN COUNTY	20,962.96	108,224.82	129,187.78	16.23%	83.77%
069	FREDERICK	29,143.89	87,431.67	116,575.56	25.00%	75.00%
071	GILES	4,386.07	33,482.39	37,868.46	11.58%	88.42%
073	GLOUCESTER	4,822.06	21,322.71	26,144.77	18.44%	81.56%
075	GOOCHLAND	2,993.84	8,981.52	11,975.36	25.00%	75.00%
077	GRAYSON	2,853.72	28,274.65	31,128.37	9.17%	90.83%
079	GREENE	8,028.84	32,818.05	40,846.89	19.66%	80.34%
081	GREENSVILLE	1,884.27	22,234.00	24,118.27	7.81%	92.19%
083	HALIFAX	8,346.42	65,852.03	74,198.45	11.25%	88.75%
085	HANOVER	11,527.20	34,581.58	46,108.78	25.00%	75.00%
087	HENRICO	41,937.06	125,811.19	167,748.25	25.00%	75.00%
089	HENRY	12,968.24	141,523.89	154,492.13	8.39%	91.61%
091	HIGHLAND	1,405.39	5,576.96	6,982.35	20.13%	79.87%
093	ISLE OF WIGHT	14,032.10	50,541.62	64,573.72	21.73%	78.27%
095	JAMES CITY	12,895.91	38,687.72	51,583.63	25.00%	75.00%
097	KING AND QUEEN	1,991.97	10,426.45	12,418.42	16.04%	83.96%
099	KING GEORGE	1,532.29	4,596.88	6,129.17	25.00%	75.00%
101	KING WILLIAM	3,687.41	13,645.01	17,332.42	21.27%	78.73%
103	LANCASTER	1,216.59	4,403.85	5,620.44	21.65%	78.35%
105	LEE	4,296.05	70,714.72	75,010.77	5.73%	94.27%
107	LOUDOUN	38,291.04	114,873.11	153,164.15	25.00%	75.00%
109	LOUISA	23,719.02	71,157.08	94,876.10	25.00%	75.00%
111	LUNENBURG	2,992.67	36,586.22	39,578.89	7.56%	92.44%

	LOCALITY	LOCAL SHARE	STATE SHARE	TOTAL SHARE	LOCAL SHARE %	STATE SHARE %
113	MADISON	4,307.55	16,826.74	21,134.29	20.38%	79.62%
115	MATHEWS	1,793.69	7,085.04	8,878.73	20.20%	79.80%
117	MECKLENBURG	6,152.81	56,956.47	63,109.28	9.75%	90.25%
119	MIDDLESEX	2,161.52	7,218.24	9,379.76	23.04%	76.96%
121	MONTGOMERY	17,796.82	133,173.82	150,970.64	11.79%	88.21%
125	NELSON	10,551.83	40,486.98	51,038.81	20.67%	79.33%
127	NEW KENT	807.02	2,421.07	3,228.09	25.00%	75.00%
131	NORTHAMPTON	5,765.10	41,050.36	46,815.46	12.31%	87.69%
133	NORTHUMBERLAND	2,329.54	9,430.84	11,760.38	19.81%	80.19%
135	NOTTOWAY	3,457.63	37,771.58	41,229.21	8.39%	91.61%
137	ORANGE	9,401.53	33,991.32	43,392.85	21.67%	78.33%
139	PAGE	6,538.78	50,677.13	57,215.91	11.43%	88.57%
141	PATRICK	4,861.79	50,153.27	55,015.06	8.84%	91.16%
143	PITTSYLVANIA	15,752.91	134,961.96	150,714.87	10.45%	89.55%
145	POWHATAN	5,375.53	16,126.59	21,502.12	25.00%	75.00%
147	PRINCE EDWARD	2,996.81	31,099.13	34,095.94	8.79%	91.21%
149	PRINCE GEORGE	4,363.86	25,527.43	29,891.29	14.60%	85.40%
153	PRINCE WILLIAM	76,617.95	229,853.83	306,471.78	25.00%	75.00%
155	PULASKI	12,977.19	96,341.28	109,318.47	11.87%	88.13%
157	RAPPAHANNOCK	2,748.55	8,245.64	10,994.19	25.00%	75.00%
159	RICHMOND CO	495.51	3,576.01	4,071.52	12.17%	87.83%
161	ROANOKE CO	26,612.55	95,080.98	121,693.53	21.87%	78.13%
163	ROCKBRIDGE	3,728.91	17,663.40	21,392.31	17.43%	82.57%
165	ROCKINGHAM	17,647.63	93,161.25	110,808.88	15.93%	84.07%
167	RUSSELL	10,284.50	114,454.56	124,739.06	8.24%	91.76%
169	SCOTT	2,957.27	32,371.78	35,329.05	8.37%	91.63%
171	SHENANDOAH	12,453.74	65,787.09	78,240.83	15.92%	84.08%
173	SMYTH	4,479.70	51,767.76	56,247.46	7.96%	92.04%
175	SOUTHAMPTON	4,137.86	28,120.06	32,257.92	12.83%	87.17%

	LOCALITY	LOCAL SHARE	STATE SHARE	TOTAL SHARE	LOCAL SHARE %	STATE SHARE %
177	SPOTSYLVANIA	20,748.11	62,244.35	82,992.46	25.00%	75.00%
179	STAFFORD	16,160.75	48,482.24	64,642.99	25.00%	75.00%
181	SURRY	5,769.93	17,309.81	23,079.74	25.00%	75.00%
183	SUSSEX	2,553.15	26,827.65	29,380.80	8.69%	91.31%
185	TAZEWELL	12,928.35	128,057.98	140,986.33	9.17%	90.83%
187	WARREN	24,688.54	87,737.92	112,426.46	21.96%	78.04%
191	WASHINGTON	16,738.41	112,536.05	129,274.46	12.95%	87.05%
193	WESTMORELAND	5,624.55	31,331.72	36,956.27	15.22%	84.78%
195	WISE	6,103.85	70,728.96	76,832.81	7.94%	92.06%
197	WYTHE	9,440.07	71,034.04	80,474.11	11.73%	88.27%
199	YORK	11,345.29	34,035.87	45,381.16	25.00%	75.00%
510	ALEXANDRIA	60,009.37	180,028.11	240,037.48	25.00%	75.00%
515	BEDFORD	548.08	5,175.24	5,723.32	9.58%	90.42%
520	BRISTOL	4,506.71	37,363.61	41,870.32	10.76%	89.24%
530	BUENA VISTA	508.37	4,780.31	5,288.68	9.61%	90.39%
540	CHARLOTTESVILLE	25,126.10	120,427.40	145,553.50	17.26%	82.74%
550	CHESAPEAKE	66,078.77	272,851.17	338,929.94	19.50%	80.50%
570	COLONIAL HEIGHTS	7,597.21	29,069.54	36,666.75	20.72%	79.28%
580	COVINGTON	2,091.87	19,030.11	21,121.98	9.90%	90.10%
590	DANVILLE	11,197.47	130,824.95	142,022.42	7.88%	92.12%
595	EMPORIA	1,649.12	17,569.25	19,218.37	8.58%	91.42%
620	FRANKLIN	2,914.96	27,219.11	30,134.07	9.67%	90.33%
630	FREDERICKSBURG	11,008.53	33,025.60	44,034.13	25.00%	75.00%
640	GALAX	3,642.28	32,055.94	35,698.22	10.20%	89.80%
650	HAMPTON	24,663.94	210,468.30	235,132.24	10.49%	89.51%
660	HARRISONBURG	10,570.37	86,249.65	96,820.02	10.92%	89.08%
670	HOPEWELL	9,489.18	81,937.85	91,427.03	10.38%	89.62%
678	LEXINGTON	17.97	145.58	163.55	10.99%	89.01%
680	LYNCHBURG	20,129.93	152,373.59	172,503.52	11.67%	88.33%

	LOCALITY	LOCAL SHARE	STATE SHARE	TOTAL SHARE	LOCAL SHARE %	STATE SHARE %
683	MANASSAS	5,580.44	16,741.32	22,321.76	25.00%	75.00%
685	MANASSAS PARK	310.27	930.83	1,241.10	25.00%	75.00%
690	MARTINSVILLE	5,097.24	58,344.04	63,441.28	8.03%	91.97%
700	NEWPORT NEWS	53,459.63	431,505.35	484,964.98	11.02%	88.98%
710	NORFOLK	104,045.62	1,066,428.21	1,170,473.83	8.89%	91.11%
720	NORTON	2,129.23	16,495.32	18,624.55	11.43%	88.57%
730	PETERSBURG	13,050.12	158,282.26	171,332.38	7.62%	92.38%
735	POQUOSON	2,704.68	8,114.04	10,818.72	25.00%	75.00%
740	PORTSMOUTH	36,459.53	392,760.97	429,220.50	8.49%	91.51%
750	RADFORD	2,126.65	24,169.11	26,295.76	8.09%	91.91%
760	RICHMOND	67,169.09	383,235.46	450,404.55	14.91%	85.09%
770	ROANOKE	73,651.25	498,440.75	572,092.00	12.87%	87.13%
775	SALEM	4,724.49	23,468.38	28,192.87	16.76%	83.24%
790	STAUNTON	5,015.78	33,473.30	38,489.08	13.03%	86.97%
800	SUFFOLK	29,797.13	150,016.84	179,813.97	16.57%	83.43%
810	VIRGINIA BEACH	98,854.98	411,602.12	510,457.10	19.37%	80.63%
820	WAYNESBORO	5,035.05	34,389.86	39,424.91	12.77%	87.23%
830	WILLIAMSBURG	1,253.63	4,947.58	6,201.21	20.22%	79.78%
840	WINCHESTER	16,157.35	59,869.59	76,026.94	21.25%	78.75%

TOTAL

**2,007,267.40      10,752,228.00      12,759,495.40**

In FY 2007, the state funding for SLH is \$10.8 million in General Funds, with local matching funds computing to be \$2.0 million, for a total available funding of \$12.8 million.

The final SLH allocations are determined in July/August of each year. DMAS bills the localities for the local share and, once the majority of locality shares are received, DMAS begins processing claims for SLH recipients for the new payment year. This usually occurs in late September/early October.

In FY 2006, the locality shares range from the maximum 25 percent to a low of 5.73 percent.

If the locality has unspent local funds at the end of the previous fiscal year, this is credited to the locality's account for the next fiscal year.

### **Conclusion**

The SLH Program provides essential hospital, ambulatory surgical and health department services to qualified Virginia citizens who are not Medicaid eligible. Approximately 6,000 Virginians are assisted with their medical bills by the SLH program each year.

However, the SLH program continues to be underfunded to pay all qualifying medical costs. SLH annual funding has remained roughly \$13 since the program's inception. The locality share of annual funding is often close to \$2 million, while the state share is typically around \$11 million. In comparison, medical need in FY 2006 was projected to be \$66.4 million, when the six-month need figures are doubled.