



COMMONWEALTH of VIRGINIA
Department of Medical Assistance Services

SUITE 1300
600 EAST BROAD STREET
RICHMOND, VA 23219
804/786-7933
800/343-0634 (TDD)
www.dmas.virginia.gov

February 22, 2010

MEMORANDUM

TO: The Honorable Charles J. Colgan
Chairman, Senate Finance Committee

The Honorable R. Edward Houck
Chairman, Senate Education and Health

The Honorable Lacey E. Putney
Chairman, House Appropriations Committee

Chairman, House Health, Welfare and Institutions

FROM: Cynthia B. Jones
Acting Director

A handwritten signature in black ink, appearing to read "Cynthia B. Jones".

SUBJECT: Report on the Estimated Costs of the State/Local Hospitalization Program

Section 32.1-345 of the *Code of Virginia* requires the Department of Medical Assistance Services (DMAS) to report on the estimated costs of the State/Local Hospitalization program to the Senate Committees on Education and Health and Finance, and the House Committees on Health, Welfare and Institutions and Appropriations. I have enclosed for your review the report for 2009.

Should you have any questions or need additional information, please feel free to contact me at (804) 786-8099.

CBJ

Enclosure

cc: The Honorable William "Bill" A. Hazel, Jr., M.D.,
Secretary of Health and Human Resources

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



Department of Medical Assistance Services

December 2009

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 (Attachment A) 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 indigent or needy 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.

Determination of eligibility for SLH must be made by the Department of Social Services (DSS) in the city or county where the applicant lives. An applicant may be eligible if his or her countable income is equal to or less than 100% of the federal poverty level established for the year in which the applicant is applying. Localities that had SLH income eligibility levels above 100% 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.

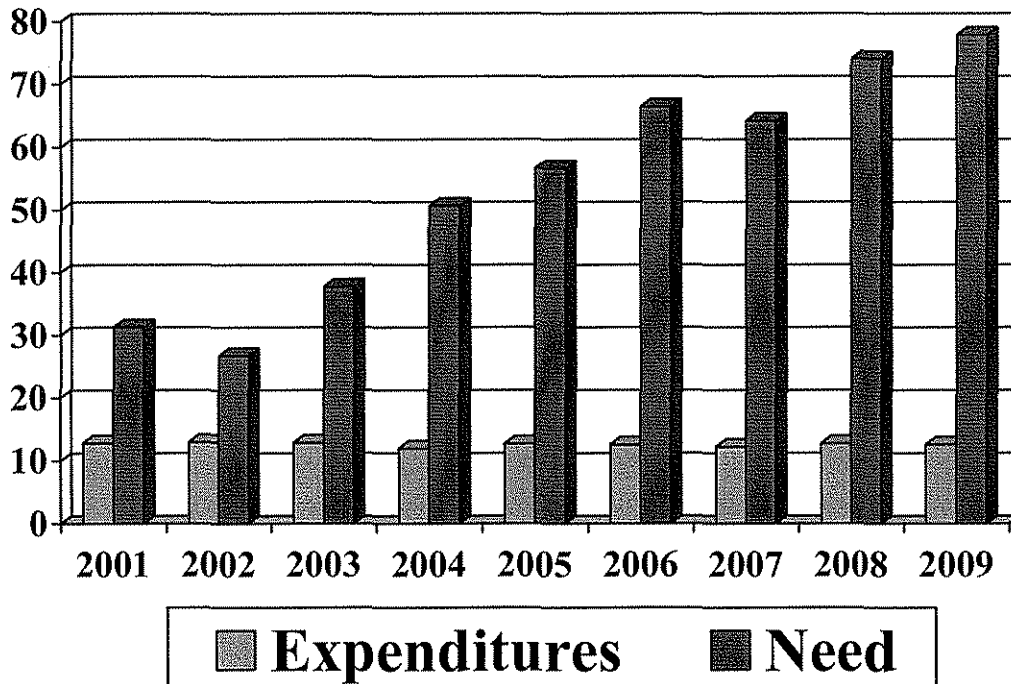
DMAS' Role: The Department of Medical Assistance Services (DMAS) calculates the state and local share allocations; administers financing, claims processing, and provider reimbursement; and is responsible for provider communications.

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%. 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% 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 2009, total SLH expenditures were \$12,570,694 (General Fund \$10,570,886 – Local Funds \$1,999,808).

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 2009. 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 assumed 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 2009 was \$77.8 million, as the six-month need was \$38.9 million. It must be noted that the State and Local Hospitalization (SLH) Program has been suspended. The 2010 State Budget Bill passed by the General Assembly and signed by the Governor did not include funding for the SLH Program for State Fiscal Year 2010 (July 1, 2009 – June 30, 2010).

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 4,500 Virginians were assisted with their medical bills by the SLH program in FY 2009. This is the fewest number of SLH recipients since the figures have been recorded (since FY 1990).

The last four 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 below.

Exhibit 2 Utilization of SLH Services

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of recipients:										
For whom claims were paid	6,885	6,673	6,383	6,748	7,440	6,191	5,393	4,632	4,643	4,464
For whom claims were partially paid (last claim before budget funds exhausted)	126	114	117	122	0	0	0	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	4,462	9,083	4,223
For whom claims were denied	3,114	2,936	2,697	3,047	4	8	14	29	7	1
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	1,696	1,498	1,459
Outpatient Services	5,350	4,985	4,744	5,195	6,380	5,032	4,386	3,844	3,841	3,762
Practitioner Services	168	507	315	298	269	213	172	56	35	67

Number of Inpatient Hospital Days Paid	69,788	61,818	65,104	62,109	10,705	10,439	9,164	8,873	7,738	7,508
Average Inpatient Length of Stay (Days)	11.1	12.0	11.4	10.9	5.2	5.2	4.9	5.2	5.2	5.1
Number of Inpatient Hospital Visits	6,290	5,136	5,689	5,713	2,484	2,376	2,137	2,064	1,747	1,709
Number of Ambulatory Surgical Center Visits	9	13	9	6	5	0	0	2	0	0
Number of Health Department Visits	264	2,068	858	965	494	374	297	139	48	102
Number of New Claims Received	31,298	30,881	28,675	30,648	30,402	30,238	27,289	24,776	36,179	22,330
Number of Claims Denied	5,180	5,680	4,489	5,376	4	9	7	50	44	8
Number of Claims Approved	26,118	25,201	24,186	25,272	30,398	30,229	27,195	24,726	36,135	22,322
Number of Claims Paid	17,867	17,867	16,242	16,981	19,057	14,058	12,327	11,982	11,573	10,920
Number of Claims Approved, but Funds Depleted	8,251	7,429	7,944	8,291	11,341	15,721	14,868	12,744	24,562	11,402

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.

In FY 2009, the state funding for SLH was \$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 2010 State Budget Bill passed by the General Assembly and signed by the Governor did not include funding for the SLH Program for the State Fiscal Year 2010 (July 1- 2010 – June 30, 2011). The State and Local Hospitalization (SLH) Program has been suspended.

Conclusion

The SLH program provided hospital, ambulatory surgical and health department services to qualified Virginia citizens who are not Medicaid eligible. Approximately 4,500 Virginians were assisted with their medical bills by the SLH program last year. Difficult budget decisions resulted in the program being suspended during State Fiscal Year 2010.

APPENDIX A

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.

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.