

## **Section VIII**

### **Budget Reconciliation Methodology**

The budget reconciliation adjustment is used to align the VA unit costs derived from FY 2002 data with the total FY 2002 budget obligations. FY 2002 VA unit costs were developed from the methodology described in Section VII- VA Unit Costs. The starting unit costs were applied to the FY 2002 model utilization projections for each service line. The resulting projected annual expenditures for all modeled services— \$20,316,419,497— was compared to the FY 2002 total health care model budget obligations provided by VA— \$19,887,567,000 (excluding \$2,419,526,000 in Nursing Home and Home Health Care obligations). The total VA Enrollee Health Care Projection Model budget obligations, including Nursing Home and Home Health Care services, were reported at \$22,307,093,000. The VA Enrollee Health Care Projection Model’s utilization projections include workload Actual-to-Expected adjustments, therefore, the differences in these two amounts are predominantly due to the translation of VA expenses into the VA Enrollee Health Care Projection Model’s unit costs.

The unit costs were adjusted such that the FY 2002 projected annual expenditures for all modeled services were equal to the FY 2002 total health care model obligations of \$19,887,567,000. VA supplied actual FY 2002 budget obligation amounts for several categories of health care services. Using this detail, the total costs reported in the unit cost data, and specific cost allocation adjustments advised by VA, the modeled VA unit costs were adjusted using budget reconciliation adjustment factors calculated for the following categories of health care:

- Inpatient Acute Care
- Inpatient Non-Acute Care
- Outpatient Care
- Prescription Drug (Rx) Care
- Prosthetics Care

The budget obligation detail supplied by VA is attached as Exhibit VIII-1. The detailed obligation amounts were assigned to the health care categories listed above, as indicated in the final column of this exhibit. Under the direction of VA, the obligation amounts for CHAMPVA and Miscellaneous Benefits and Services were proportionally allocated to Inpatient Acute Care,

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Inpatient Non-Acute Care, and Outpatient and Prescription Drug Care. VA also advised the splitting of Prescription Drug Care obligations from the Outpatient Care obligations using the total Prescription Drug Care costs reported in the unit cost data provided by the Allocation Resource Center (ARC)— \$3,276,945,940 rather than the \$3,014,077,000 as reported in Exhibit VIII-1. The first column of Table VIII-1 contains the resulting preliminary amount allocated to each health care category, summing to the total model obligations of \$19,887,567,000.

The preliminary budget obligation allocations were further adjusted for specific cost allocation adjustments, as advised by VA. First, the budget obligation amount reported for Prosthetics included units provided during an inpatient bed stay. The health care model only includes utilization projections for units provided in an outpatient setting. For modeling purposes, Prosthetics obligations apply to the DME, Prosthetics, Glasses/Contacts, and Hearing Aid service lines. The Prosthetics budget obligation amount— \$632,921,000— was adjusted to outpatient only by removing \$113,851,135 of surgical implants (identified using detailed VA Prosthetics data) and \$115,000,000 of DME considered by VA to be related to inpatient. These obligation amounts were then added to the IP Acute Care budget obligations. Finally, VA recommended that \$136,000,000 of IP Acute Care obligations be shifted to Outpatient Care obligations based on cost shifting observed in the DSS cost reporting system. The second column of Table VIII-1 contains the resulting final amount allocated to each health care category, summing to the total model obligations of \$19,887,567,000.

The projected expenditures for services modeled using a VA unit cost basis in each health care category were adjusted to balance to the total health care obligations. The projected health care expenditures for services not modeled using a VA unit cost basis are \$71,642,878. These services include Maternity and Ambulance. The unit cost reconciliation adjustment was calculated by dividing the total health care obligations for each health care category, less the expenditures for services not modeled using a VA unit cost basis, by the VA unit cost based expenditure projections. For example, for Inpatient Acute Care, the budget reconciliation adjustment calculation is  $((\$7,323,571,609 - \$16,404,598) \div (\$7,012,482,103 - \$16,404,598)) = 1.0445$ , where the IP Acute Care obligations are \$7,323,571,609, the projected IP Maternity expenditures are \$16,404,598 and the projected IP Acute Care expenditures are \$7,012,482,103. Table VIII-1 contains the obligations allocated to each health care category (as discussed previously in this section) as well as the budget reconciliation adjustment factors.

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**TABLE VIII-1**

<b>Budget</b>	<b>Preliminary</b>	<b>Final Modeled</b>	<b>Budget Rec.</b>
<b>Reconciliation Category</b>	<b>Obligations</b>	<b>Obligations</b>	<b>Adjustments</b>
IP Acute Care	\$7,230,720,474	\$7,323,571,609	1.0445
IP Non-Acute Care	1,376,799,041	1,376,799,041	1.0068
Outpatient Care	7,370,180,545	7,506,180,545	0.9140
Prescription Drug Care	3,276,945,940	3,276,945,940	0.9867
Prosthetics Care	632,921,000	404,069,865	0.9900
Total Modeled Care	\$19,887,567,000	\$19,887,567,000	

Exhibit VIII-2 contains the Budget Reconciliation Mapping. This mapping lists the budget reconciliation category assignment for each model service line as well as the budget reconciliation adjustment that was applied to each service line.

**Exhibit VIII-1**

**2002 Actual, 2004 President's Submission  
 Medical Care**

Activity	Total Obligations (\$000)	Non-Model Obligations (\$000)	Non-Modeled Item	Modeled Obligations (\$000)	Budget Reconciliation Category
Acute Hospital Care.....	\$5,593,571			\$5,561,487	IP Acute Care
Acute VA Medicine.....	\$3,003,136			\$3,003,136	
VA Surgery.....	\$2,259,189			\$2,259,189	
Non-VA Acute Hospital.....					
Contract Hospital.....	\$325,641	\$ (32,084)	Mill. Act Emergency Care	\$293,557	
St. Home Hospital.....	\$5,605			\$5,605	
Rehabilitative Care.....	\$510,332			\$510,332	IP Non-Acute Care
Psychiatric Care.....	\$1,218,274			\$1,218,274	IP Acute Care
Nursing Home Care.....	\$2,158,273			\$2,158,273	Nursing Home Care
VA Nursing.....	\$1,573,411			\$1,573,411	
Non-VA Nursing.....					
Comm. Nursing Home.....	\$262,573			\$262,573	
St. Home Nursing.....	\$322,289			\$322,289	
Subacute Care.....	\$342,792			\$342,792	IP Non-Acute Care
Residential Care.....	\$437,808			\$437,808	IP Non-Acute Care
VA Domiciliary.....	\$291,103			\$291,103	
Psych. Res. Rehab.....	\$109,956			\$109,956	
St. Home Domiciliary.....	\$36,749			\$36,749	
Outpatient.....	\$11,227,789			\$10,837,796	Outpatient/Rx Care*
VA Outpatient.....	\$10,484,594	\$ (181,169)	Non-Veterans	\$10,116,446	
Fee Basis Outpatient.....	\$487,308	\$ (186,979)	Dental Care	\$487,308	
Home Based Outpatient.....	\$255,887	\$ (21,845)	Community Res. Care	\$234,042	
CHAMPVA.....	\$214,232	\$ (182,393)	CHAMPVA Direct only	\$31,839	Allocated to IP & OP Care
Misc. Benefits & Services.....	\$1,299,750	\$ (80,123)	Readjustment Couns.	\$ 1,208,492	Allocated to IP & OP Care
		\$ (7,416)	Spina Bifida		
		\$ (3,719)	Foreign Medical Program		
<b>GRAND TOTALS.....</b>	<b>\$23,002,821</b>	<b>\$ (695,728)</b>		<b>\$22,307,093</b>	

(Included in Total Above but not separately Identified:)

Substance Abuse Treatment(IP/OP)	\$ 425,746	
Blind Rehabilitation (IP/OP)	\$ 59,820	
Spinal Cord Injury (IP/OP)	\$ 263,486	
Pharmacy (cost of drugs)	\$ 3,014,077	
Home & Comm-Based Care	\$ 261,253	Home Health Care
Prosthetics (Repairs & Appliances)	\$ 632,921	Prosthetics Units

\* Budget obligations for Home Health and Prosthetics were also removed from the Outpatient/Rx Care obligations.

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**Exhibit VIII-2**  
**Budget Reconciliation Mapping**  
**Final FY04 ELDA**

<u>Benefit</u>	<u>Benefit Description</u>	<u>Budget Reconciliation Category</u>	<u>Budget Reconciliation Adjustment</u>
1	IP Medical	IP Acute Care	1.0445
2	IP Surgical	IP Acute Care	1.0445
3	IP Psychiatric	IP Acute Care	1.0445
4	IP Subst Abuse	IP Acute Care	1.0445
5	IP: Maternity Delivery	No Adjustment	1.0000
6	IP: Maternity Non-Delivery	No Adjustment	1.0000
7	IP: SNF/ECF	IP Non-Acute Care	1.0068
8	LTC: Nursing Home	No Adjustment	1.0000
9	VA Special Program: Psychiatric Res Rehab Trt (PRRTP)	IP Non-Acute Care	1.0068
10	VA Special Program: Blind Rehab (VA Special Program: Model)	IP Non-Acute Care	1.0068
11	VA Special Program: Spinal Cord Injury (VA Special Program: Model)	IP Non-Acute Care	1.0068
12	VA Special Program: PTSD Res Rehab (PRRP) & PTSD Dom	IP Non-Acute Care	1.0068
13	VA Special Program: Sub Abuse Res Rehab Trt (SARRT) & SA Dom	IP Non-Acute Care	1.0068
14	VA Special Program: Homeless Chronic Ment Ill Comp Work Thrpy (HCMI CWT/TR)	IP Non-Acute Care	1.0068
15	VA Special Program: Respite Care	IP Non-Acute Care	1.0068
16	VA Special Program: Domiciliary	IP Non-Acute Care	1.0068
17	VA Special Program: Sustained Trt & Rehab (STAR I II III)	IP Non-Acute Care	1.0068
18	Ambulatory: Allergy Immunotherapy	Outpatient Care	0.9140
19	Ambulatory: Allergy Testing	Outpatient Care	0.9140
20	Ambulatory: Anesthesia	Outpatient Care	0.9140
21	Ambulatory: Cardiovascular	Outpatient Care	0.9140
22	Ambulatory: Consults	Outpatient Care	0.9140
23	Ambulatory: ER Visits	Outpatient Care	0.9140
24	Other: Glasses/Contacts	Prosthetics Care	0.9900
25	Ambulatory: Hearing/Speech Exams	Outpatient Care	0.9140
26	Ambulatory: Immunizations	Outpatient Care	0.9140
27	Other: Hearing Aids	Prosthetics Care	0.9900
28	Ambulatory: Maternity Deliveries	No Adjustment	1.0000
29	Ambulatory: Maternity Non-Deliveries	No Adjustment	1.0000
30	Ambulatory: Misc. Medical	Outpatient Care	0.9140
31	Ambulatory: Office/Home Visits	Outpatient Care	0.9140
32	Ambulatory: Outpatient Psychiatric	Outpatient Care	0.9140
33	Ambulatory: Substance Abuse	Outpatient Care	0.9140
34	Ambulatory: Pathology	Outpatient Care	0.9140
35	Ambulatory: Physical Exams	Outpatient Care	0.9140
36	Ambulatory: Physical Medicine	Outpatient Care	0.9140
37	Ambulatory: Radiology	Outpatient Care	0.9140
38	Ambulatory: Surgery	Outpatient Care	0.9140
39	Ambulatory: Sterilizations	Outpatient Care	0.9140
40	Ambulatory: Therapeutic Injections	Outpatient Care	0.9140
41	Ambulatory: Urgent Care Visits	Outpatient Care	0.9140
42	Ambulatory: Vision Exams	Outpatient Care	0.9140
43	Prescription Drugs	Prescription Drug Care	0.9867
44	LTC: PDN/Home Health	No Adjustment	1.0000
45	Other: Ambulance	No Adjustment	1.0000
46	Other: Durable Medical Equipment	Prosthetics Care	0.9900
47	Other: Prosthetics	Prosthetics Care	0.9900
48	Millennium Bill LTC: SNF/ECF	IP Non-Acute Care	1.0068
49	Millennium Bill LTC: Nursing Home	No Adjustment	1.0000
50	Blank	No Adjustment	1.0000

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**Exhibit VIII-2 (cont.)**

<b><u>Benefit</u></b>	<b><u>Benefit Description</u></b>	<b><u>Budget Reconciliation Category</u></b>	<b><u>Budget Reconciliation Adjustment</u></b>
51	Millennium Bill ER: Inpatient	No Adjustment	1.0000
52	Millennium Bill ER: Emergency Room	No Adjustment	1.0000
53	Millennium Bill ER: Ambulance	No Adjustment	1.0000
54	Ambulatory: Chiropractic	Outpatient Care	0.9140
55	Other: VA Program Equipment and Services	Outpatient Care	0.9140
56	Other: Compensation & Pension Exams	Outpatient Care	0.9140
57	OP Mental Health Program: Day Treatment	Outpatient Care	0.9140
58	OP Mental Health Program: Homeless	Outpatient Care	0.9140
59	OP Mental Health Program: Methadone Treatment	Outpatient Care	0.9140
60	OP Mental Health Program: Mental Health Intensive Case Management (MHICM)	Outpatient Care	0.9140
61	OP Mental Health Program: Work Therapy	Outpatient Care	0.9140
62	OP Mental Health Program: Community MH Residential Care	Outpatient Care	0.9140

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