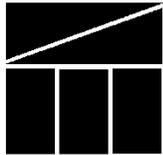


Adverse impact notification sent to Joint Commission on Administrative Rules, House Committee on Appropriations, and Senate Committee on Finance (COV § 2.2-4007.04.C): Yes Not Needed

If/when this economic impact analysis (EIA) is published in the *Virginia Register of Regulations*, notification will be sent to each member of the General Assembly (COV § 2.2-4007.04.B).



Virginia Department of Planning and Budget **Economic Impact Analysis**

12 VAC 30-80 Methods and Standards for Establishing Payment Rates; Other Types of Care

Department of Medical Assistance Services

Town Hall Action/Stage: 4360/7222

September 8, 2015

Summary of the Proposed Amendments to Regulation

The proposed regulation revises the maximum reimbursement for Type One physicians to 201% of the Medicare rate.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

Federal regulations allow Virginia Medicaid to make supplemental payments for Type One physicians. A Type One physician is a member of a practice group organized by or under the control of a state academic health system or an academic health system that operates under state authority. Type One physicians affected by this change are the physicians affiliated with the University of Virginia (UVA) and the Virginia Commonwealth University (VCU).

Supplemental payments are calculated as the difference between the maximum payment allowed and regular payments. The maximum payment allowed by the Centers for Medicare and Medicaid (CMS) is the average commercial rate (ACR). As the payments made by commercial providers change over time so does the ACR. The ACR has increased from 143% of the Medicare rate in 2002, to 181% in 2012, and to 197% of the Medicare rate in 2013. The current

regulation reflects 181% of the Medicare rate. However, the ACR went up to 201% of the Medicare rate in 2014 and CMS approved the change to the 201% rate on January 27, 2015. Pursuant to the 2015 Acts of Assembly, Chapter 665, Item 301.B (4), the new ACR has been retroactively applied to payments since April 8, 2014. The proposed change will incorporate the new ACR in the regulations.

The proposed ACR equates to a \$3.4 million increase that affected hospitals receive for Type One physicians. Since one-half of Virginia Medicaid is funded by federal matching funds, the state's share of this amount is \$1.7 million. However, the increase in the supplemental payments to Type One physicians is offset by an equivalent reduction in the need for the Disproportionate Share Hospital (DSH) payments Medicaid makes to the teaching hospitals. In other words, while the composition of the payments made to the Type One hospitals changes because of the new ACR, the overall total payment received by them from Medicaid remains the same absent any other changes. Thus, the proposed ACR does not cause an increase in overall payments to the teaching hospitals.

Even though the new ACR does not increase the total payment to the teaching hospitals, the proposed regulation is beneficial in the sense that it more accurately reflects the components of the total payment Type One hospitals receive from Medicaid.

Businesses and Entities Affected

The proposed new ACR applies to two physician practice plans: one for UVA and one for VCU.

Localities Particularly Affected

The proposed changes apply to two teaching hospitals which are located in the City of Richmond and the City of Charlottesville.

Projected Impact on Employment

The proposed amendments do not affect employment.

Effects on the Use and Value of Private Property

No impact on the use and value of private property is expected.

Real Estate Development Costs

No impact on real estate development costs is expected.

Small Businesses:**Definition**

Pursuant to § 2.2-4007.04 of the Code of Virginia, small business is defined as “a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million.”

Costs and Other Effects

The proposed regulation does not impose costs or other effects on small businesses.

Alternative Method that Minimizes Adverse Impact

No adverse impact on small businesses is expected.

Adverse Impacts:**Businesses:**

The proposed regulation does not have an impact on non-small businesses.

Localities:

The proposed regulation does not adversely affect localities.

Other Entities:

The proposed regulation does not adversely affect other entities.

Legal Mandates

General: The Department of Planning and Budget has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia (Code) and Executive Order Number 17 (2014). Code § 2.2-4007.04 requires that such economic impact analyses determine the public benefits and costs of the proposed amendments. Further the report should include but not be limited to: (1) the projected number of businesses or other entities to whom the proposed regulatory action would apply, (2) the identity of any localities and types of businesses or other entities particularly affected, (3) the projected number of persons and employment positions to be affected, (4) the projected costs to affected businesses or entities to implement or comply with the regulation, and (5) the impact on the use and value of private property.

Adverse impacts: Pursuant to Code § 2.2-4007.04(C): In the event this economic impact analysis reveals that the proposed regulation would have an adverse economic impact on businesses or would impose a significant adverse economic impact on a locality, business, or entity particularly affected, the Department of Planning and Budget shall advise the Joint Commission on Administrative Rules, the House Committee on Appropriations, and the Senate Committee on Finance within the 45-day period.

If the proposed regulatory action may have an adverse effect on small businesses, Code § 2.2-4007.04 requires that such economic impact analyses include: (1) an identification and estimate of the number of small businesses subject to the proposed regulation, (2) the projected reporting, recordkeeping, and other administrative costs required for

small businesses to comply with the proposed regulation, including the type of professional skills necessary for preparing required reports and other documents, (3) a statement of the probable effect of the proposed regulation on affected small businesses, and (4) a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation. Additionally, pursuant to Code § 2.2-4007.1, if there is a finding that a proposed regulation may have an adverse impact on small business, the Joint Commission on Administrative Rules shall be notified.

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