



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

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### **12 VAC 30-80 – Department of Medical Assistance Services Methods and Standards for Establishing Payment Rates-Other Types of Care December 27, 2002**

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The proposed regulations will create a new group of physicians and authorize supplemental payments for their services, which will be used to claim federal matching funds from the Medicaid program for supplementing the Medicaid operating budget. The proposed changes are effective since July 2002 under the emergency regulations.

### **Estimated Economic Impact**

The 2002 Appropriations Act<sup>1</sup> requires the Department of Medical Assistance Services (the department) to develop and pursue cost saving strategies in conjunction with other state agencies or governmental entities that focus on maximizing upper payment limits. To achieve its objective, the department implemented emergency regulations to maximize federal matching funds for supplementing its Medicaid operating budget. However, no reimbursements have been

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<sup>1</sup> Chapter 899, Item 325, section AA.

made yet under the emergency regulations. The proposed action will replace the emergency regulations with permanent regulations.

The proposed regulations create a category of physicians called “Type I” physicians. These physicians are members 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 I physicians include physicians affiliated with the University of Virginia (UVA), Virginia Commonwealth University Medical College of Virginia (MCV), and Eastern Virginia Medical School (EVMS). Currently, there are 3,064 Type I physicians in group practices affiliated with these academic health systems.

Under the emergency regulations, the department was authorized to make supplemental payments for the services provided by these physicians in the amount of the difference between the Medicaid physician fee schedule and the lesser of billed charges or the Medicare physician fee schedule as authorized by the 2002 Appropriations Act.<sup>2</sup> With the proposed permanent changes the amount of the supplemental payments for Type I physician services will be the difference between Medicaid physician fee schedule and maximum allowed under federal law and regulation effective August 13, 2002.

Many private and public insurers including Medicaid and Medicare use Current Procedural Terminology (CPT) developed and copyrighted by American Medical Association in determining physician fees. CPT contains approximately 9,000 codes each corresponding to specific medical/surgical procedures. For each physician service, a fee is determined taking into account the relative value of the service compared to other physician services and geographical differences in costs of practicing medicine. Generally speaking, physician fees in the Medicaid schedule are lower than the fees in the Medicare schedule and Medicare fees are generally lower than the billed charges.

According to the department, current Medicaid physician reimbursements are approximately 70% of what would be paid under the Medicare program. The authority under the emergency regulations allows the department to increase the payments for Type I physician services from \$9.5 million to \$14 million on an annual basis or by 47%. Under the proposed regulations, this formula would be effective for the period, July 2 to August 12. Effective

August 13, 2002, the proposed regulations will provide authority to increase supplemental payments even more as the difference between Medicaid fees and the maximum allowed under federal law and regulation is greater than the difference between Medicaid and Medicare fees. Overall, it is estimated that the supplemental payments that can be made under the proposed regulations will total about \$17.9 million, or almost twice pre-emergency reimbursements.

The purpose of these regulations is to claim additional federal matching funds for the Medicaid program pursuant to the Appropriation Act. Of the \$17.9 million estimated supplemental payments, \$9.1 million is federal matching funds and \$8.8 million is state appropriations. The department plans to enter into contractual agreements with UVA, VCU, and EVMS prior to these regulations becoming final to transfer to DMAS the funds to cover the Medicaid supplemental payments.

The explanation of expected flow of supplemental payments under the contract is as follows. DMAS will make Medicaid supplemental payments to the physicians in group practices affiliated with the academic health centers. The academic health centers that organize or control the group practices will transfer the same amount minus any participation fee to the Commonwealth. The department will claim \$9.1 million matching funds from the federal government.

As a result of these transactions, the department will be able to increase its operating budget by the \$9.1 million federal participation amount minus any incentive payments to academic health centers and transaction expenses. The department anticipates that only EVMS will require incentive payments to be negotiated. The estimated transaction expenses such as consultant fees are about \$362,000. Further, increase in Medicaid operating budget will spill over to some or all of about 230,000 Medicaid recipients by making some services available that would not otherwise be available. The effect on UVA and VCU is expected to be insignificant provided that they do not require incentive payments to sign the contract.

## **Businesses and Entities Affected**

The proposed changes will affect some or all of 230,000 Medicaid recipients depending on how the additional funds are spent and the three medical schools.

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<sup>2</sup> Chapter 899, item 325, section EE.

## **Localities Particularly Affected**

The proposed changes are unlikely to affect any locality more than others.

## **Projected Impact on Employment**

According to the department these funds will substitute for the general fund reductions already made. Thus, these additional funds that will be available in the Medicaid operating budget is expected to maintain the providers' current demand for labor as the additional funds are spent for services. Incentive payments to EVMS also have a potential positive effect on labor demand depending on how the funds are used.

## **Effects on the Use and Value of Private Property**

Maintaining the current level of funding is expected to maintain the Medicaid provider revenues and future profit streams, and consequently their values.