



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

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### **12 VAC 30-50 –Department of Medical Assistance Services Amount, Duration and Scope of Services: School Health Services April 20, 2004**

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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**

Pursuant to the 2003 Appropriations Act, Items 325 XX and EEE, the proposed regulations will expand the Medicaid coverage of school health services for special education children to include audiology, medical evaluation, school health assistance, and transportation services. The proposed changes will allow qualified school social workers and other health professionals, through the student's Individualized Education Program plan, to prescribe school health services. The proposed changes will remove service limitations and prior authorization requirements. These changes have been effective since July 2003 under emergency regulations. However, federal approval of the proposed changes is currently pending.

### **Estimated Economic Impact**

School divisions have mandatory responsibility under the federal Individuals with Disabilities Education Act to offer all special education and related services to children with certain disabilities. These proposed regulations contain rules for reimbursement of these school health services through the Department of Medical Assistance Services (DMAS) to children in

special education. All of the Virginia school divisions have the option to receive reimbursement for these services through Medicaid, which could result in approximately half of such costs being borne by federal funding. However, partly because of the limited scope of the services currently provided through Medicaid and partly because of the administrative restrictions with respect to referral and prior authorization, approximately half of the school divisions do not provide these services through Medicaid, but rather pay for them directly. As a result, the Commonwealth pays 100% of the cost of much of these services while approximately half of the costs could be saved if they were provided through Medicaid.

As a cost containment measure, the 2003 Appropriations Act, Items 325 XX and EEE direct DMAS to expand the Medicaid coverage of these services and to revise referral and prior authorization requirements for services provided to special education students. The proposed changes will (1) expand the school health services for special education children to include audiology, medical evaluation, school health assistance, and transportation services and (2) allow school social workers and other health professionals through the student's Individualized Education Program plan to prescribe school health services, and remove service limitations and prior authorization requirements.

The economic effects of these changes will be mainly realized through the federal matching funds available from Medicaid. These expanded services are currently provided by school divisions and not reimbursed by Medicaid. Thus, the proposed regulations are not expected to directly increase the quantity of services received by special education students even though there may be an indirect increase as discussed below. In fiscal year 2003, DMAS processed approximately \$5.37 million worth of school health services for 3,872 students from 68 school divisions, which did not include the newly expanded services.

The proposed expanded coverage will introduce new incentives to school divisions to finance these services through Medicaid. Schools divisions already participating in this Medicaid program can now realize greater savings because of the expanded scope of services. As more of the bills are paid through Medicaid, more federal matching dollars are drawn, providing greater savings for the Commonwealth. Estimated total payment for the newly expanded services is approximately \$1.54 million for those schools already processing claims

through DMAS. Half of this amount will be paid by federal matching dollars, saving the Commonwealth approximately \$770,000 annually.

Additionally, schools divisions currently not participating in this Medicaid program will face greater incentives to join in this program as they can now realize greater savings because of the expanded scope of services. Potentially, the savings that can be achieved through currently non-participating school divisions is greater than the additional savings that can be achieved through already participating providers. For example, if all of the remaining school divisions participate in this program, the total school health payments could be expected to double representing an increase by \$6.91 million. One half of this amount, \$3.45 million, would be funded through federal funds, which would increase total savings to the Commonwealth by \$4.22 million from all school divisions as a result of the proposed changes. However, the actual impact probably will be less as it is highly unrealistic to expect the full potential impact to materialize.

In addition, the incentives to all school divisions will be further enhanced because of less stringent referral, service limitations, and prior authorization rules. In the past, only physicians were allowed to prescribe school health services and there were prior authorization requirements for services beyond certain thresholds. The proposed rules will allow school social workers as well as other health professionals through the student's Individualized Education Program plan to prescribe school health services and remove service limitations and prior authorization requirements. These changes will reduce the administrative costs of providing school health services through Medicaid and strengthen the incentives to pay for these services through Medicaid. Thus, in addition to the savings expected from expanded coverage, less stringent referral and prior authorization rules are expected to cause an additional increase in the federal match dollars drawn for financing of these services, contributing to overall savings for the Commonwealth.

The actual amount of total savings will depend on many different factors including behavioral responses of school divisions, the size of the reduction in administrative costs, and the success of planned administrative efforts to increase awareness among the school divisions. The potential effects of these factors are inherently difficult to assess. Keeping in mind that there is a great deal of uncertainty involved, DMAS expects school divisions to process approximately \$8

million for additional school health services through Medicaid, providing about \$4 million in total savings from federal match to the Commonwealth.

As mentioned earlier, the proposed changes are not expected to directly increase the quantity of services received by special education students, as school divisions must provide these services regardless of the financing source. However, the savings that will be realized may make it possible for school divisions to address previously unmet needs of the special education children and increase the quantity of services provided indirectly.

One of the proposed changes will also remove the language related to early and periodic screening, diagnosis, and treatment services from these regulations due to double payment concerns raised by the Centers for Medicare and Medicaid Services. These services are covered under managed care plans on a capitated basis. Provision of the same services through these regulations would represent a double payment for the same service. DMAS plans to modify its rules for the managed care part of the Medicaid program to eliminate this problem. In the interim however, this language is removed from the regulation to secure federal approval. No change in the provision of these services will occur.

## **Businesses and Entities Affected**

The proposed regulations apply to approximately 130 school divisions. In fiscal year 2003, 68 school divisions participated in provision of school health services to 3,872 special education children through Medicaid. More school divisions are expected to provide school health services through Medicaid as a result of the proposed changes.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

## **Projected Impact on Employment**

No significant effect on employment should result unless the projected savings are spent on new state services involving new employment.

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

The proposed regulations are not expected to produce any significant effect on the use and value of private property unless the projected savings are spent in a way to cause otherwise.