Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-80 – Methods and Standards for Establishing Payment Rates; Other Types of Care
Department of Medical Assistance Services
March 27, 2009

Summary of the Proposed Amendments to Regulation

Department of Medical Assistance Services proposes to amend Medicaid reimbursement methodologies for ambulatory surgery centers and outpatient rehabilitation facilities.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

Department of Medical Assistance Services proposes to amend Medicaid reimbursement methodologies for ambulatory surgery centers and outpatient rehabilitation facilities.

The need to amend the Medicaid reimbursement methodology for Ambulatory Surgery Centers (ASC) is prompted by the change in Medicare's reimbursement methodology for the same services. Currently, Medicaid reimbursement methodology depends on the Medicare ASC procedure codes. These codes have no longer been used by Medicare since it changed its methodology on January 1, 2007. Since then Medicare has been producing the procedure codes for Medicaid so it could continue to reimburse these centers until it adopts a new methodology.

The proposed changes will establish a new ASC reimbursement methodology that will no longer depend on the old Medicare procedure codes. The proposed methodology is similar to the new Medicare methodology in that both use Ambulatory Patient Groups (APG) to determine reimbursement, but the Medicaid reimbursement methodology will no longer depend on the Medicare methodology.

According to Department of Medical Assistance Services (DMAS), the new APG methodology defines APGs for outpatient procedures and ancillary services that reflect similar patient characteristics and resource utilization. Each group is assigned an APG relative weight that reflects the relative average cost for each APG compared to the relative cost for all other APGs. The base rate for ASC visits is determined by dividing total reimbursement for ASC services by the total number of visits for ASC services. The total allowable operating rate per visit is determined by multiplying the base rate times the APG relative weight.

This methodology change will be accomplished in a budget neutral manner. To maintain budget neutrality, the base rate will be adjust by a "budget neutrality factor" that will be recalibrated every three years. Also, the weights will be updated at least every three years to incorporate any changes that may have occurred in relative average costs.

Since this change will be accomplished in a budget neutral manner, there should be no change in the total reimbursements for the ASC services. In Fiscal Year 2008, Medicaid's total reimbursement for ASCs was about $1.6 million. However, it is possible for providers to experience a slight increase or decrease in their reimbursement amounts as a result of the change in methodology.

In addition, while there is likely to be some administrative costs on DMAS to modify its information technology to incorporate this methodology, it will be accomplished by the use of its current funding. Also, the software that facilitates the implementation of new methodology, grouper, is provided to DMAS at no charge. Since the claim reporting requirements stay the same, little or no administrative costs on providers is expected. However, those who may be interested in utilizing the grouper for cash flow management purposes will likely have to purchase it out of pocket.

DMAS also proposes to change its reimbursement methodology for outpatient rehabilitation facilities.[1] According to DMAS, current Medicaid methodology is more than several decades old and is cost based. According to the proposed methodology, DMAS will establish prospective fee schedules based on CPT codes. The proposed methodology is not only

[1] Rehabilitation services furnished by community services boards and state agencies will continue to be reimbursed on a cost basis.

superior since its prospective, but also is similar to the methodology used by Medicare and commercial insurers including Medicaid managed care organizations.

The fee schedule will be developed to achieve savings of $371,800 in total funds as required in the Governor's budget. In fiscal year 2008, total reimbursement to outpatient rehabilitation facilities were approximately $5.6 million. Additionally, approximately $48,500 are expected to be realized in administrative cost savings as DMAS will no longer be auditing and settling cost reports. Similar to the other change in methodology, while there is likely to be some administrative costs on DMAS to modify its information technology to incorporate this methodology, it will be accomplished by the use of its current funding.

The main economic impact of this particular change on providers is the loss of $371,800 at the aggregate and the contractionary economic effects associated with reduced spending in the Commonwealth. However, this amount may not be distributed equally over all the providers. Under the proposed methodology, facilities whose costs were higher relative to others stand to see a decrease in their reimbursements and facilities whose costs were lower relative to others stand to see an increase in their reimbursements. Since costs are no longer be reimburesed, a significant improvement in production efficiency is expected throughout most if not all facilities. Finally, each of the 100 providers is expected to save approximately $2,000 per year since they will no longer have to prepare cost reports.

Businesses and Entities Affected

The proposed regulations apply to approximately 80 ambulatory surgery centers and 100 outpatient rehabilitation facilities.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth

Projected Impact on Employment

The reduction in reimbursement for outpatient rehab services may decrease labor demand for rehab personnel by the providers. Also, no longer needing cost reports may reduce labor demand for administrative services. However, the net effect on the labor demand will depend on what is done with the savings in rehabilitation reimbursements and administrative savings.

Effects on the Use and Value of Private Property

Reduced reimbursement on outpatient rehab services is somewhat balanced with the savings in administrative costs. The net impact is about $171,000 reduction in lost revenue which could reduce the asset value of the facilities through negative impact on profitability.

Small Businesses: Costs and Other Effects

There is no available information to estimate how many of the 86 centers and 100 facilities may be considered as a small business. If any of them are small businesses however, the costs and other effects on them would be similar to those discussed above.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There is no known alternative that would minimize the adverse impact on the providers.

Real Estate Development Costs

The proposed regulations are not anticipated to have any effect on real estate development costs.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H 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. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the

regulation. The analysis presented above represents DPB's best estimate of these economic impacts.