Virginia Department of Planning and Budget

Economic Impact Analysis

12 VAC 30-70 Methods and Standards for Establishing Payment Rates - Inpatient Hospital Services
Department of Medical Assistance Services
July 15, 2014

Summary of the Proposed Amendments to Regulation

The Board of Medical Assistance Services (Board) proposes to modify or establish supplemental payments for 1) physicians affiliated with Type One hospitals, and 2) Type One hospitals.[1] The Board also proposes to modify indirect medical education (IME) and graduate medical education (GME) reimbursement for Type One hospitals.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

All proposed changes are already in the State Budget and are in effect in practice. The "Supplemental Payments for Physicians" and "IME and GME Reimbursement Changes for Type One Hospitals" described below are directly specified in the budget; while "Supplemental Payments for Outpatient Hospital Services at Type One Hospitals," also described below, is a subcategory of an item specified in the budget. The proposed changes help ensure that the Commonwealth maximizes federal dollars received and do not increase current state expenditure.

Item 307 B.4 of the 2012 Appropriation Act allows the Department of Medical Assistance Services (DMAS) to increase Medicaid payments for Type One hospitals and physicians to compensate for limits on disproportionate share hospital (DSH) payments and to change reimbursement for GME to cover costs for Type One hospitals. The budget language also

[1] "Type One" hospitals means those hospitals that were state-owned teaching hospitals on January 1, 1996. (12 VAC 30-70-221)

directs DMAS to case mix adjust the formula for IME for HMO discharges for Type One hospitals and to increase the adjustment factor for Type One hospitals to 1.0. Currently, the only Type One hospitals in the state are the University of Virginia Health System and the Virginia Commonwealth University Health System. The effect of these changes is that it would increase reimbursement for these groups; however this does not represent an additional cost for the state.

Supplemental Payments for Physicians

The Centers for Medicare and Medicaid Services determined that the maximum payment allowable is the average commercial rate (ACR). Currently, these payments are calculated as the difference between the maximum payment allowable and regular payments. Since this program was first established in 2002, the ACR was 143 percent of Medicare. The 2012 Appropriation Act increased the maximum ACR to 181 percent.

DMAS estimates that this action increases physician supplemental payments for practice plans affiliated with Type One hospitals by $3.2 million (General Fund) annually and replaces funding that is no longer available from Disproportionate Share Hospitals (DSH).

IME and GME Reimbursement Changes for Type One Hospitals

The hospital inpatient reimbursement for Type One hospitals is amended to cover GME costs for Type One hospitals, to case mix adjust the formula for IME reimbursement for HMO discharges for Type One hospitals, and to increase the adjustment factor for Type One hospitals from .6709 to 1.0 for use in calculating the IME reimbursement for HMO discharges. These changes are designed to incorporate the directive in the 2012 Appropriation Act to fully reimburse Type One hospitals for the GME and IME costs associated with managed care services.

This action increases annual GME and IME reimbursement by approximately $84.4 million in total funds ($42.2 million General Fund) and will replace funding that is no longer available from DSH.[2]

Supplemental Payments for Outpatient Hospital Services

Federal regulations establish Upper Payment Limits (UPLs) for outpatient hospital services; these UPLS vary by classification as state, other government, or private hospitals and

are calculated on an aggregate basis. Currently in regulation outpatient regular payments for Type One hospitals are below the UPL, at approximately 92 percent of the cost. Regulatory language is changed to provide increased payments for outpatient hospital services to attain the 100 percent UPL for the Type One hospitals.

This action is estimated to generate an increase in annual reimbursement of $1.6 million in total funds ($800,000 General Fund) and replaces funding that is no longer available from DSH.[3]

Businesses and Entities Affected

The proposed amendments particularly affect the two Type One hospitals in the Commonwealth and their approximate 1,481 affiliated physicians.[4] Type One hospitals are those hospitals that were state-owned teaching hospitals on January 1, 1996.[5] The proposed amendments also affect physicians affiliated with Type One hospitals and their practices.

Localities Particularly Affected

The two Type One hospitals in Virginia are located in Charlottesville and Richmond.

Projected Impact on Employment

The increased funding for the two Type One hospitals may permit these entities to increase employment.

Effects on the Use and Value of Private Property

The increased physician supplemental payments for practice plans affiliated with Type One hospitals positively affect the value of practices of physicians affiliated with Type One hospitals.

Small Businesses: Costs and Other Effects

The proposed amendments particularly affect the two Type One hospitals in the Commonwealth. Neither of the two Type One hospitals are small businesses. Physician practices

[2] Dollar estimates provided by Department of Medical Assistance Services
[3] Ibid
[4] Data source: Department of Medical Assistance Services
[5] Definition source: 12 VAC 30-70-221

would qualify as small businesses. Physician practices that have physicians affiliated with Type One hospitals receive greater revenue under the amendments.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed amendments will not adversely affect small businesses.

Real Estate Development Costs

The proposed amendments are unlikely to significantly affect real estate development costs.

Legal Mandate

General: The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia and Executive Order Number 17 (2014). Section 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:

- the projected number of businesses or other entities to whom the proposed regulatory action 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.

Small Businesses: If the proposed regulatory action will have an adverse effect on small businesses, § 2.2-4007.04 requires that such economic impact analyses include:

- an identification and estimate of the number of small businesses subject to the proposed regulation,
- 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,
- a statement of the probable effect of the proposed regulation on affected small businesses, and
- a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation.

Additionally, pursuant to § 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 (JCAR) is notified at the time the proposed regulation is submitted to the *Virginia Register of Regulations*

for publication. This analysis shall represent DPB's best estimate for the purposes of public review and comment on the proposed regulation.

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Town Hall ID: Action 3883 / Stage 6446