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CLIENT ADVISORY

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# Don't Turn a Blind Eye: 2014 Medicaid Provider Reimbursement Changes You Should Know

On June 20, 2014, Governor Terry McAuliffe signed Virginia's 2014-2016 biennial budget. The budget includes a number of Medicaid provider reimbursement changes that will impact hospitals, nursing facilities, and other providers. It is important to understand these changes before they go into effect on July 1, 2014.

Reimbursement Changes Affecting Hospitals

1. The reimbursement change with the greatest impact on hospitals this year is the elimination of inflation for inpatient hospital operating rates (including long-stay and freestanding psychiatric), graduate medical education payments and disproportionate share hospital (DSH) payments in fiscal year 2015. This policy is a continuation of a change made in fiscal year 2014 and the adjustment is expected to cost Virginia's hospitals $32,694,706 over the next two years.
2. Private hospitals may now qualify for supplemental inpatient and outpatient hospital payments for partnerships with Type One hospitals (state-owned teaching hospitals). To qualify a hospital must be enrolled as a Virginia Medicaid provider and be owned, or operated, by a private entity in which a Type One hospital has a non-majority interest. The Type One hospital will have to enter into a transfer agreement with DMAS whereby the Type One hospital agrees to provide the state share in order to match federal Medicaid funds for the supplemental payments to the private hospital partner. Supplemental payments should provide an additional $3,422,675 to eligible hospitals over the next two years.
3. On July 1, 2014, DMAS will begin to implement the All Patient Refined-Diagnosis-Related Group (APR-DRG) reimbursement methodology for inpatient hospitals and gradually phase out the All Patient Diagnosis-Related Group (AP-DRG) methodology. The APR-DRG methodology will account for severity of illness and risk of mortality. For the APR-DRG grouper DMAS will develop budget neutral case rates and Virginia-specific weights using fiscal year 2011 as a baseline.
4. Finally, DMAS is establishing a new methodology for DSH reimbursement. Now a hospital's DSH payment will be determined by taking the DSH per diem and multiplying it by the hospital's eligible DSH days in fiscal year 2011. The amount of the DSH per diem will depend on the amount of the DSH allocation and the number of DSH eligible days for all hospitals. Eligible DSH days are the sum of all Medicaid inpatient acute, psychiatric and rehabilitation days above fourteen percent for each DSH hospital.

Reimbursement Changes Affecting Nursing Facilities

1. July 1, 2014, marks the beginning of the transition from a cost-based reimbursement methodology to a price-based methodology. Prices will be established for peer groups using a combination of Medicare wage regions and Medicaid rural and bed size modifications based on similar costs. The cost-based methodology will be phased out over the next four years and the price-based methodology will be fully implemented in 2018. During this transition a blend of the two methodologies will be used. In fiscal year 2015 the blend will consist of twenty-five percent of the price-based rate and seventy-five percent of the cost-based rate. This change is not expected to have any fiscal impact on nursing facility operators.

2. Another change includes an additional reduction to the rental rate floor for capital reimbursement. As of July 1, 2014, the rental rate will be reduced by a half of a percent to eight percent. This change is expected to cost nursing facility providers approximately $8,123,510 over the next two years.

Reimbursement Changes Affecting Other Providers

1. A change in this year's budget reduces clinical lab fees by twelve percent. This reduction is intended to bring the fees in line with lab rates paid by Medicaid managed care organizations. It is estimated that this reduction will cost providers $2,127,356.
2. An additional reduction was made to pay rates for Durable Medical Equipment (DME) items subject to the Medicare competitive bidding program. Rates for DME items were previously determined by DMAS in accordance with a 2009 report on DME reimbursement by the Senate Finance and House Appropriations Committees. Now the new rates will be the lower of either the current Durable Medical Equipment Regional Carrier minus ten percent or the average of the Medicare competitive bid rates in Virginia markets. This adjustment is expected to cost providers $4,866,000 over the next two years.
3. This year supplemental payments were increased for freestanding children's hospitals. For a freestanding children's hospital to be eligible it must have had more than fifty percent Medicaid inpatient utilization in 2009. The increased payments will be for indirect medical education (IME). Total IME payments combined with other payments cannot exceed the federal uncompensated care cost limit imposed on DSH payments.
4. New supplemental payments were established for Medicaid physicians affiliated with a public medical school in Eastern Virginia. The amount of this payment is determined by the difference between the average commercial rate approved by the Centers for Medicare and Medicaid Services (CMS) and the payments otherwise made to physicians.
5. For fiscal years 2015 and 2016 there will not be inflation adjustments for either outpatient rehabilitation agency or home health agency rates. This is a continuation of the last budget which eliminated inflation adjustments for these agencies in fiscal years 2013 and 2014.
6. DMAS cannot change the unit of service or rate of reimbursement for Mental Health Skill-Building Services until the 2015 General Assembly reviews a report on the impact of the 2013 emergency regulations that changed the eligibility and service description for those services.

How HDJN Can Help

If you have questions regarding any of these Medicaid provider reimbursement changes, or would like other compliance guidance, training or education, please feel free to contact Mary Malone, mmalone@hdjn.com, Emily Towey, etowey@hdjn.com, or Thomas Miller, tmiller@hdjn.com. They can also be reached by phone at (804) 967-9604. Additional information about Hancock, Daniel, Johnson & Nagle, P.C. is available on the firm's website at www.hdjn.com.