

Department of Planning and Budget
2025 General Assembly Session
State Fiscal Impact Statement

regulations can be absorbed in existing resources, however, conducting an economic impact study will likely require a consultant as DBHDS does not have the resources to perform this function. Based on other economic impact studies, the cost will be approximately \$200,000 to contract with an appropriate consultant.

Department of Medical Assistance Services

The bill requires DMAS to provide for the payment of “medical assistance for care provided at level two, three, and four recovery residences for individuals diagnosed with a substance use disorder” upon its effective date. However, such coverage cannot be provided without service design and approval from the Centers for Medicare and Medicaid Services. Therefore, it is assumed that DMAS would develop the services in FY 2026 and medical assistance services costs would begin January 1, 2026.

Developing the required recovery residency services would require effort and expertise that is not available within existing DMAS resources. DMAS reports that this requirement would necessitate the development of services, protocols, and cost projections associated with these services. This would also include the development of actuarially sound rates for capitation and fee-for-service programs. It is also assumed the contractor would be informed by DBHDS efforts. Based on previous experiences, DMAS estimates that this bill would require one-time administrative funding of approximately \$1,000,000 (\$500,000 general fund) to procure the expertise, including actuarial services for rate development, necessary to develop this benefit within the timeframe required in the bill.

There is no way to determine an exact fiscal impact on medical assistance costs prior to completing the service design described above. However, using the following data and assumptions, DMAS was able to generate a general estimate as to the potential magnitude of the services authorized by the bill.

- All members utilizing substance use disorder residential services (11,972) would qualify for the recovery residency benefit.
- Each member would equally share the rent with two other residents (three residents per recovery residence).
- Members coverage would be 30 percent base Medicaid and 70 percent expansion Medicaid.
- The average length of stay at a recovery residency would be 10 months.
- The median rent in Virginia is \$1,950.

Based on the above, DMAS estimates that services required in the bill would have an annual cost of approximately \$78.6 million (\$11.7 million general fund) in the first full year of implementation. As such, the estimated medical assistance costs in FY 2026 (six months) is estimated to be \$39.3 million (\$5.8 million general fund). After which service costs are expected to grow by five percent year. Again, this impact is provided to demonstrate the potential future impact; to the extent Virginia’s program design varies so will costs. Should additional information become available, this statement will be modified.

Other: The introduced budget includes language in Item 288 that requires a reserve amount be appropriated for new Medicaid initiatives. In addition to the cost of the initiative, the reserve equals the difference between the general fund appropriated for the initiative in FY 2026 and the highest annual general fund cost

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of the initiative over the next six fiscal years. While not reflected in the table above, the reserve amount is estimated at \$9.1 million general fund for the initiative required by this bill. Act language also delays initiative implementation until the reserve requirement is met.