



Economic Impact Analysis Virginia Department of Planning and Budget

**12 VAC 30-90 –Methods and Standards for Establishing Payment Rates: Long Term Care
Department of Medical Assistance Services
February 24, 2006**

Summary of the Proposed Regulation

The proposed regulations will establish, effective on July 1, 2006, a ceiling on specialized care ancillary service reimbursements to nursing facilities providing services to Medicaid recipients.

Result of Analysis

The benefits likely exceed the costs for all proposed changes. A different design would likely yield greater benefits at the same cost for at least one proposed change.

Estimated Economic Impact

These regulations contain provisions for determining Medicaid reimbursements for specialized care services provided by nursing homes. Currently, there is no ceiling on the Medicaid specialized care ancillary service reimbursements. Nursing homes are reimbursed for the reasonable costs for covered ancillary services. The proposed regulations will establish a ceiling on the reimbursements for ancillary care services at \$238.31 for per day which will be adjusted for inflation.

According to DMAS, over the past several years a wide variation in the cost of ancillary services has emerged among the facilities. This variation does not appear to be related to the severity of the patient's needs. The intent of the proposed ceiling is to reduce the variation in Medicaid reimbursements among the providers for similar services.

The main economic effect of the proposed regulations is to reduce reimbursements to four of the ten nursing homes providing ancillary services to Medicaid. The proposed ceiling corresponds to 150% of the average specialized care ancillary costs out of ten facilities providing these services to Medicaid recipients. Based on the most recent information, four of the ten

facilities had costs over the proposed ceiling. Thus, four facilities are likely to receive lower reimbursements. The reduction in reimbursements for specialized care ancillary services to four facilities is estimated to be \$464,400, or approximately 7% of the total reimbursements for ancillary services. One half of this amount will be saved by the Commonwealth and the remaining half will be a reduction in federal matching funds.

Reduced funding to four hospitals providing ancillary services may weaken their incentives to continue to participate in Virginia's Medicaid program. However, because these hospitals will still be receiving up to 150% of their reported costs, any adverse incentives in terms of discontinuing to provide services to Medicaid recipients are probably insignificant. Thus, no significant deterioration on Medicaid recipients' access to medical care is expected.

Approximately one half of the Medicaid reimbursements is financed from the federal government. The loss of approximately \$232,200 in federal funds represents a net leakage from Virginia's economy and expected to have a contracting effect on the economic activity. However, the size of the loss in federal funds is so small relative to the size of the Commonwealth's economy that it is unlikely to have any significant economic impact.

The fact that the ceiling is established from cost data when there were no cost containment incentives is likely to overstate the true average cost and the dollar value of 150th percentile. As mentioned, there appears to be a wide variation in costs for similar services among facilities. This suggests that the costs reported by some facilities are probably outliers. Inclusion of outliers when calculating averages results in overstatement of the true average. This issue could be addressed by recalculating the average from cost data that results in the presence of cost containment incentives. More specifically, the proposed ceiling will provide incentives to the provider facilities not to exceed it and reduce the chances of an outlier occurring. Thus, if the ceiling is recalculated after a reasonably long period of time such as three years, the recalculated ceiling is more likely to be reflective of the true 150th percentile of the costs.

Businesses and Entities Affected

Currently, ten facilities are receiving reimbursements for specialized care ancillary services.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed regulations are not expected to have a significant impact on employment.

Effects on the Use and Value of Private Property

The proposed ceiling is expected to reduce Medicaid reimbursements to four of the ten facilities providing ancillary services. A reduction in their revenues is likely to reduce their profitability and consequently their asset values.

Small Businesses: Costs and Other Effects

According to DMAS, of the four facilities expected to experience a reduction in their Medicaid revenues, one is a small business. This particular facility is estimated to receive \$188,000 less in its Medicaid specialized care ancillary services payments.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There is no known alternative method to minimize impact on the affected small business.

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 21 (02). 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.