Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-90 –Methods and Standards for Establishing Payment Rates-Long Term Care Services
Department of Medical Assistance Services
February 7, 2005

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G 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. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

Pursuant to Item 326 YYY of the 2004 Acts of the Assembly, the proposed regulations increase Medicaid per diem payments to nursing homes by $3 per recipient per day for fiscal year (FY) 2006. To make this increase permanent, the Department of Medical Assistance Services (DMAS) will add $3 to costs when it rebases ceilings for FY2007.

Estimated Economic Impact

The proposed changes increase Medicaid per diem payments to nursing homes by $3 per recipient per day for the period from July 2005 to June 2006. The estimated fiscal impact of this change is a $19.4 million increase in total Medicaid nursing home payments in FY 2006. In the event that ceilings are not rebased for FY 2007, the 2004 Acts of the Assembly also mandates an increase in ceilings for direct and indirect care starting from July 2006 until the rates are rebased using cost data reflecting the proposed $3 increase, thus making the increases permanent. However, DMAS will likely rebase ceilings for FY 2007 as planned and simply add $3 to nursing home costs while calculating the ceiling. Ceilings are rebased every two years using the most recent audited cost data available. Generally, a year's ceilings are set based on the cost data from four years ago adjusted for inflation. Because the actual nursing home cost inflation could diverge over time from the inflation-adjusted ceilings, ceilings are rebased every two years.

The fiscal impact of the proposed change in FY 2006 is straightforward. Each nursing home will receive an additional $3 per Medicaid patient per day. As mentioned above, the estimated total fiscal impact for FY 2006 is $19.4 million. The Commonwealth will finance approximately one half of this amount and the other half will be financed by federal matching dollars.

When DMAS rebases ceilings for FY 2007, it will be using cost report data representing periods prior to July 1, 2005, when the $3 increase goes into effect. Thus, DMAS will add an inflation-adjusted $3 to the costs used in rebasing, thus making the increase permanent. The direct care ceiling will be increased by an inflation-adjusted $1.68 and the indirect care ceiling will be increased by an inflation-adjusted $1.32. However, the increases in ceilings may not provide an increase in per diem rates for all nursing homes. DMAS sets prospective rates for nursing facilities based on the lower of the two, their prior year costs, or the ceilings. A nursing home would receive the $3 increase in payments resulting from ceiling increase only if its actual prior year costs are above the ceiling. Based on most current data, 72 nursing homes have both their direct and indirect operating costs below the ceilings, 82 nursing homes have both their direct and indirect operating costs above the ceilings, and the remaining 120 nursing homes have either direct or indirect costs above the ceiling.

Nursing homes with costs below the ceiling will receive additional payments only to the extent they have increased their allowable costs by $3 for all patient days, not just Medicaid patient days. This would require nursing homes to spend $3 from their own resources for non-Medicaid patients per day. If nursing homes below the ceiling do not spend $3 per day for non-Medicaid patients, their costs per patient across all patients, Medicaid and non-Medicaid, would increase by less than $3. Based on the average Medicaid occupancy rate of 65 percent, that would mean that they would increase their costs by about $2 per patient day rather than $3 per patient day. Given that some Medicaid nursing homes are likely to increase charges to non-

Medicaid patients, the average increase for all nursing homes below the ceiling is likely to be between $2 and $3 in FY 2007.

When DMAS rebases ceilings for FY 2009 using 2005 cost data, the fiscal effect could differ from the previous fiscal years. The 2005 cost data will partially reflect the $3 increase as many facilities have fiscal years ending in December 2005. However, the full effect of the $3 increase will not be fully captured until the ceilings are rebased in FY 2011 using 2007 cost data. In addition, the fiscal effect beyond FY 2008 is uncertain because we do not know whether the inflation adjusted ceilings rebasing will be higher or lower than the ceilings calculated from actual costs and because we do not know how the nursing facilities will spend the $3 increase. There is no information available to predict the direction of the likely effect beyond FY 2008 at this time.

In short, the fiscal effect of the proposed nursing home per diem increase is likely to be approximately $19.4 million in FY 2006. One half of this amount will be financed from the federal government. The fiscal impact will likely be less in FY 2007 and FY 2008 because some of the 192 facilities with direct and/or indirect costs below the ceilings will have increased payments by less than the $3 increase in FY 2006 and because they are likely to spread the $3 increase over all patients and not just over Medicaid patients. While the potential fiscal effect in FY 2009 and forward is uncertain, it should not significantly differ from the effect in FY 2008 as long as inflation adjustments closely mirror the actual nursing home cost increases.

The impact on nursing homes will be a net increase in their revenues. Increased revenues may or may not improve services as this depends on how the monies are spent. This reimbursement increase could also benefit private payers if nursing homes use the additional revenues to subsidize them. Nursing homes can shift costs between private payers and Medicaid under the current institutional structure. While this rate increase may help maintain current level of access to services, the department does not believe that any nursing home would have quit serving Medicaid patients if they had not been awarded the $3 increase.

The net impact on Virginia's economy is likely to be positive because of the federal match. While one half of the funds will come from state resources, the other half will come from the federal government. Thus, the federal match will be a net injection into the state's economy as it does not have a corresponding offset elsewhere and will have a net positive impact on state output.

Businesses and Entities Affected

The proposed regulations will increase the per diem rates for nursing homes serving Medicaid recipients. Currently, there are 274 nursing homes in Virginia.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed nursing home rate increase will likely have an expansionary effect on the state economy. To the extent increased funding, particularly the federal portion of the increase, is directed toward purchase of goods and services within the state, there could be a positive effect on demand for labor.

Effects on the Use and Value of Private Property

The proposed regulations are likely to improve revenues and the future profit streams of nursing homes. An increase in profits would, in turn, increase their asset values.