



Economic Impact Analysis Virginia Department of Planning and Budget

**12 VAC 30-70; 80 – Methods and Standards Used for Establishing Payment Rates:
Inpatient Hospital Reimbursement
Department of medical Assistance Services
March 2, 2010**

Summary of the Proposed Amendments to Regulation

The proposed changes will make permanent the reduction in Medicaid reimbursements to long-stay hospitals that has been in effect since July 1, 2009. The proposed changes also include a re-proposal of changes to outpatient rehabilitation facility reimbursement methodology that was finalized in a previous regulatory action in order to afford the public and the regulants additional opportunity to provide comments.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

Pursuant to Item 306 BBB, Chapter 781 of the 2009 Acts of the Assembly, the proposed changes make permanent the reduction in Medicaid reimbursement to long-stay hospitals. The proposed reduction is comprised of 1) the reduction of the incentive plan, 2) the elimination of and additional 2% annually added to the escalator, and 3) modification of the disproportionate share hospital (DSH) utilization threshold percentage. These changes have already been in effect since July 1, 2009 under emergency regulations.

According to the Department of Medical Assistance Services, the incentive plan used to pay a long-stay hospital up to 25% of the difference between the ceiling and its cost per day. The proposed changes reduce the maximum incentive plan to up to 10.5% of the difference between the ceiling and its cost per day. Also, the escalator, which used to be inflation plus 2%, is used to increase the ceilings and the operating cost per day. The proposed regulations change the escalator to just inflation. Finally, the proposed changes modify the DSH payments. DSH

payments are calculated by multiplying the difference between the Medicaid utilization percentage and the Medicaid utilization threshold and multiplying the result with the prospective cost per day. The regulation will increase the utilization threshold from 8% to 10.5%, effectively reducing the difference.

The proposed changes are estimated to create a \$990,000 in general fund savings and a \$990,000 reduction in federal matching fund annually starting in Fiscal Year 2010. Currently, there are two long-stay hospitals. The main economic impact of this particular change on providers is the loss of \$1.8 million revenue at the aggregate and the contractionary economic effects associated with reduced spending in the Commonwealth.

Another proposed change included in this regulatory action is the re-proposal of changes to outpatient rehabilitation facility reimbursement methodology that was finalized in a previous regulatory action. Exactly the same proposed language was already made permanent and published in Virginia Register of Regulations on February 1, 2010, VOL. 26 ISS. 11. In order to provide the public and the regulants additional opportunity to provide feedback, the Department of Medical Assistance Services proposes to the same language in this regulatory package.

Since the exact proposed language has already been finalized through a separate regulatory action and will become effective regardless of this action, there is no significant economic impact that can be attributed to this particular change other than the additional opportunity afforded to public and regulants to comment on the proposed language.

Businesses and Entities Affected

There are two long-stay hospitals receiving reimbursement from Virginia Medicaid. There are approximately 100 outpatient rehabilitation agencies receiving reimbursement from Virginia Medicaid.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The expected reduction in long-stay hospital reimbursement may reduce their demand for labor in long-stay hospital services.

Effects on the Use and Value of Private Property

The expected reduction in long-stay hospital reimbursement may reduce their asset values.

Small Businesses: Costs and Other Effects

None of the two long-stay hospitals receiving reimbursement from Virginia Medicaid are believed to be small businesses. Thus, the proposed changes do not have any costs or other effects on small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed changes do not have any adverse impact on small businesses.

Real Estate Development Costs

The proposed changes do not have any effect on real estate development costs.

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 107 (09). 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.