



Proposed Regulation Agency Background Document

Agency name	DEPT. OF MEDICAL ASSISTANCE SERVICES
Virginia Administrative Code (VAC) citation	12 VAC Chapter 70
Regulation title	Inpatient Hospital Capital Costs
Action title	Reduce Inpatient Hospital to 80%
Document preparation date	; NEED GOV APPROVAL BY

This information is required for executive review (www.townhall.state.va.us/dpbpages/apaintro.htm#execreview) and the Virginia Registrar of Regulations (legis.state.va.us/codecomm/register/regindex.htm), pursuant to the Virginia Administrative Process Act (www.townhall.state.va.us/dpbpages/dpb_apa.htm), Executive Orders 21 (2002) and 58 (1999) (www.governor.state.va.us/Press_Policy/Executive_Orders/EOHome.html), and the *Virginia Register Form, Style and Procedure Manual* (http://legis.state.va.us/codecomm/register/download/styl8_95.rtf).

Brief summary

*Please provide a brief summary of the proposed new regulation, proposed amendments to the existing regulation, or the regulation proposed to be repealed. Alert the reader to all substantive matters or changes. If applicable, generally describe the existing regulation. Do **not** state each provision or amendment or restate the purpose and intent of the regulation.*

This proposed regulation reduces capital cost reimbursement levels for inpatient hospitals from 100% to 80%, found in 12 VAC 30-70-271.

Basis

Please identify the state and/or federal source of legal authority to promulgate this proposed regulation, including (1) the most relevant law and/or regulation, including Code of Virginia citation and General Assembly bill and chapter numbers, if applicable, and (2) promulgating entity, i.e., the agency, board, or person. Describe the legal authority and the extent to which the authority is mandatory or discretionary.

The *Code of Virginia* (1950) as amended, § 32.1-325, grants to the Board of Medical Assistance Services the authority to administer and amend the Plan for Medical Assistance. The *Code of Virginia* (1950) as amended, § 32.1-324, authorizes the Director of DMAS to administer and

amend the Plan for Medical Assistance according to the Board's requirements. Specific authority for this action is found in the 2003 Appropriations Act, Item 325 OOO. The Medicaid authority as established by § 1902 (a) of the *Social Security Act* [42 U.S.C. 1396a] provides governing authority for reimbursement to providers.

Purpose

Please explain the need for the new or amended regulation. Describe the rationale or justification of the proposed regulatory action. Detail the specific reasons the regulation is essential to protect the health, safety or welfare of citizens. Discuss the goals of the proposal and the problems the proposal is intended to solve.

The regulation governing reimbursement of inpatient hospital capital costs is 12 VAC 30-70-271. Prior to the July 1, 2003 effective date of the Emergency Regulation preceding this Proposed Regulation, inpatient hospitals were paid 100% of their actual allowable capital costs. This proposed change provides that, as of July 1, 2003, Type Two hospitals will be paid 80% of their actual allowable capital costs. This proposed action is not expected to have any direct impact on the health, safety, or welfare of citizens.

Substance

Please briefly identify and explain the new substantive provisions, the substantive changes to existing sections, or both where appropriate. (Provide more detail about these changes in the "Detail of changes" section.)

The section of the State Plan for Medical Assistance that is affected by this action is Methods and Standards for Establishing Payment Rates—Inpatient Hospital Services (Attachment 4.19-A -- 12 VAC 30-70-271). Prior to the July 1, 2003 effective date of the Emergency Regulation preceding this Proposed Regulation, inpatient hospitals were paid 100% of the actual allowable capital costs. The proposed amendment adds language providing that as of July 1, 2003, Type Two hospitals will be paid 80% of allowable capital costs.

Issues

Please identify the issues associated with the proposed regulatory action, including:

- 1) the primary advantages and disadvantages to the public, such as individual private citizens or businesses, of implementing the new or amended provisions;*
- 2) the primary advantages and disadvantages to the agency or the Commonwealth; and*
- 3) other pertinent matters of interest to the regulated community, government officials, and the public.*

If there are no disadvantages to the public or the Commonwealth, please indicate.

The effect of reducing the percentage of allowable inpatient hospital capital costs that will be reimbursed will be lower reimbursement expenditures for DMAS. The advantage is a significant savings to the Commonwealth. The disadvantage to the hospital community is that there will be a reduction in allowable capital cost reimbursement from DMAS for inpatient hospitals.

Financial impact

Please identify the anticipated financial impact of the proposed regulation and at a minimum provide the following information:

Projected cost to the state to implement and enforce the proposed regulation, including (a) fund source / fund detail, and (b) a delineation of one-time versus on-going expenditures	There is no cost to the state to implement this regulation
Projected cost of the regulation on localities	There is no cost to localities to implement this regulation
Description of the individuals, businesses or other entities likely to be affected by the regulation	The businesses likely to be affected by this change are inpatient hospitals.
Agency’s best estimate of the number of such entities that will be affected	106
Projected cost of the regulation for affected individuals, businesses, or other entities	\$5.2 million in total funds (includes state and federal shares)

Alternatives

Please describe any viable alternatives to the proposal considered and the rationale used by the agency to select the least burdensome or intrusive alternative that meets the essential purpose of the action.

No other options were available to DMAS in order to obtain the mandated budget reductions.

Public comment

Please summarize all comments received during the public comment period following the publication of the NOIRA, and provide the agency response.

DMAS' Notice of Intended Regulatory Action (NOIRA) was published in the July 14, 2003, *Virginia Register* (19:22). No comments were received during the NOIRA comment period.

Impact on family

Please assess the impact of the proposed regulatory action on the institution of the family and family stability.

This regulatory action will not have any negative effects on the institution of the family or family stability. It will not increase or decrease disposable family income or erode the marital commitment. It will not discourage economic self-sufficiency, self-pride, or the assumption of family responsibilities.

Detail of changes

Please detail all changes that are being proposed and the consequences of the proposed changes. Detail all new provisions and/or all changes to existing sections.

If the proposed regulation is intended to replace an emergency regulation, please list separately (1) all changes between the pre-emergency regulation and the proposed regulation, and (2) only changes made since the publication of the emergency regulation.

Current section number	Current requirement	Proposed change and rationale
12VAC30-70-271	Refers to 12 VAC 30-70-10 through -70-130 for methodology to determine capital cost reimbursement at 100% of allowable capital costs	Inserts a clause stating that capital costs will be settled at 80% for Type Two hospitals and 100% for Type One hospitals