



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-90 – Department of Medical Assistance Services Methods and Standards for Establishing Payment Rates-Long Term Care Services November 12, 2003

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 325.LLL of the 2003 Appropriation Act, the proposed changes will permanently eliminate additional reimbursement to nursing facilities for the complex and rehabilitation parts of specialized care services for adults. The proposed changes have been effective since July 2003 under the emergency regulations.

Estimated Economic Impact

Current language in the regulations provides additional reimbursement to nursing facilities for the higher cost of specialized care in addition to regular reimbursements. There are three categories of adult specialized services: rehabilitative care, complex care, and ventilation/tracheostomy. Residents with special medical needs require higher levels of care, which necessitated additional reimbursement to nursing homes providing specialized services prior to the implementation of Resource Utilization Groups (RUGs) reimbursement methodology in July 2002. Since RUGs methodology takes into account the intensity of care when determining reimbursement rates, the referenced statutory changes eliminated the additional

reimbursement for the complex and rehabilitation parts of specialized care services to nursing facilities since July 2003 through the emergency regulations.¹

Compared to the previous reimbursement methodology, 22 nursing facilities providing specialized care services are estimated to receive approximately \$2 million less under the RUGs methodology for the same services provided. At the same time, the general fund savings for the Commonwealth is about one half of this amount. The estimated revenue losses amount to an 11% reduction in the total revenues received by all nursing facilities for specialized care services. The distribution of the revenue losses among the nursing homes, however, is not uniform as some facilities have more specialized care residents than others and offsetting payments under RUGs methodology will be different.

While the reduction in reimbursements reduces incentives to provide this type of care, the significance of this effect and therefore the actual economic outcome depend on whether the new rates are sufficient to cover actual costs of specialized care and allow a profit margin. The Department of Medical Assistance Services indicates that the 2001 reimbursements were 14.23 percent above the actual costs across all facilities, believes that the new reduced rates are sufficient to cover the costs, and does not expect a significant effect on provision of these services. Several nursing facility administrators contacted by phone disagree. They indicated 1) the reduction in the rates is significant, 2) the new rate is not sufficient to cover the costs of providing specialized care, 3) some facilities will likely stop providing rehabilitation and complex care services, and 4) these recipients may start being cared for in hospitals at a substantially higher cost. In particular, one of the nursing homes with multiple facilities in Virginia indicated that they no longer accept recipients needing comprehensive rehabilitation and complex care.

Businesses and Entities Affected

The proposed regulations affect nursing homes providing specialized care services. Currently, there are 22 such facilities in Virginia.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

¹ The additional reimbursement for mechanical ventilation and complex tracheostomy is retained because the RUGs

Projected Impact on Employment

If nursing homes stop providing rehabilitation and complex care services as a response to elimination of additional reimbursements for specialized care, the demand for medical personnel and staff at nursing homes would decrease. However, some of this decrease would be countered by increased demand for similar personnel at alternate special care facilities.

Effects on the Use and Value of Private Property

If the new cost-revenue structure significantly affects the future profit stream of nursing homes, their value would also be affected accordingly.