



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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**12 VAC 30-70; 90 – Methods and Standards for Establishing Payment Rates-Inpatient  
Hospital Services and Long Term Care  
Department of Medical Assistance Services  
August 29, 2008**

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### **Summary of the Proposed Amendments to Regulation**

The proposed regulations will simplify Medicaid hospital and specialized care reimbursement methodologies.

### **Result of Analysis**

The benefits likely exceed the costs for all proposed changes.

### **Estimated Economic Impact**

Department of Medical Assistance Services (DMAS) proposes to simplify Medicaid hospital and specialized care reimbursement methodologies.

The specialized care nursing facility reimbursement will be simplified by eliminating the case mix adjustment and using the same inflation method used in the regular nursing facility reimbursement methodology. The reason for eliminating case mix adjustment is the fact that these facilities currently cover only ventilator dependent patients leading to very homogeneous mix of cases. In the past, the patient mix was heterogeneous because complex health and comprehensive services were covered by adult specialized care facilities.

Also, the specialized care nursing facility inflation methodology is much more complex than the inflation methodology for regular nursing facilities. The proposed changes will adopt the simpler regular nursing facility inflation methodology for specialized care nursing facilities.

Furthermore, DMAS proposes a new statewide ceiling so as to maintain the budget neutrality after the proposed changes. So, there is no net significant fiscal effect is expected as a result of the proposed changes. However, simplified reimbursement methodology is expected to

reduce administrative costs and staff time at DMAS. Providers are expected experience similar benefits.

Another change proposed will eliminate recapture of hospital depreciation when a provider hospital is sold. DMAS currently reimburses hospitals for depreciation. Any loss or gain that may accrue to the seller when a hospital is sold is paid or recovered by DMAS. It is reported that hospital sales are rare, the seller losses or gains are insignificant, and net payments or recoveries by DMAS are close to zero. Thus, no large fiscal effect is expected from eliminating the recapture of hospital depreciation as proposed. However, this proposed change will remove the sole reason that many hospitals and DMAS have been storing older cost reports and provide some savings.

The fiscal savings in administrative expenses and staff time at DMAS are estimated to be about \$50,000. Similar savings are likely to accrue to the providers as well.

Finally, DMAS is proposing to remove an example contained in the regulations. DMAS intends to provide access to a similar example on its website. Thus, while providers will likely still have access to the same information through the website, DMAS will not be required to update its regulations every time when assumptions in the example changes.

## **Businesses and Entities Affected**

These regulations apply to 8 providers of specialized care and approximately 95 hospitals.

## **Localities Particularly Affected**

The proposed regulations apply throughout the commonwealth.

## **Projected Impact on Employment**

The proposed simplified methodologies and reduced recordkeeping requirements are expected to reduce demand for labor.

## **Effects on the Use and Value of Private Property**

No significant effect on the use and value of private property is expected.

## **Small Businesses: Costs and Other Effects**

None of the effected entities are believed to be small businesses.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

The proposed changes are not estimated to have an adverse impact on small businesses.

## **Real Estate Development Costs**

No significant effect on the real estate development costs is expected.

## **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 36 (06). 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.