



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

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### **12 VAC 30-60; 90 –Standards Established and Methods Used to Assure High Quality Care; Methods and Standards for Establishing Payment Rates for Long-Term Care Department of Medical Assistance Services November 13, 2005**

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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 RR of the 2004 Acts of the Assembly, the proposed regulations permanently increase Medicaid payments to nursing homes by \$10 per recipient per day for residents who require a specialized treatment bed for a stage IV pressure ulcer. The proposed changes have been in effect since July 2005 under emergency regulations.

### **Estimated Economic Impact**

Pursuant to Item 326 RR of the 2004 Acts of the Assembly, the proposed changes increase Medicaid reimbursement rates to nursing homes by \$10 per recipient per day for residents requiring a special treatment bed for at least one treatable stage IV pressure ulcer.<sup>1</sup>

Nursing facilities provide special treatment beds to recipients with pressure ulcers. The proposed additional \$10 per day for recipients with pressure ulcers is intended to help cover the

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<sup>1</sup> Pressure ulcers are caused by unrelieved pressure on skin over bony prominences such as hips, sacrums, and heels and commonly referred to as "bed sores."

additional costs of providing these special beds. In fiscal year 2002, there were 1,147 nursing facility residents who had at least one stage IV pressure ulcer during at least one quarter of the year. Based on this data, the proposed changes are estimated to increase nursing facility payments by approximately \$1 million annually. The Commonwealth will finance approximately one half of this amount and the other half will be financed by federal matching dollars.

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 improve access to special treatment beds, it is unlikely that nursing homes would have refused to serve patients with stage IV pressure ulcer if they had not been awarded the \$10 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 Medicaid reimbursement rates for nursing homes for recipients with pressure ulcers. Currently, there are 280 nursing homes in Virginia.

### **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

### **Projected Impact on Employment**

The proposed nursing home rate increase for pressure ulcers 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.

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

The proposed regulations are not anticipated to have an adverse impact on small businesses.

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

The proposed regulations are not anticipated to have an adverse impact on small businesses.