



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

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**12 VAC 30-50 – Amount, Duration and Scope of Services: Skilled nursing facility services, EPSDT, and family planning**  
**Department of Medical Assistance Services**  
November 28, 2008

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

Pursuant to Chapter 879, Item 306 OO of the 2008 Acts of Assembly, the proposed changes implement a prior authorization and utilization review program for community-based mental health services for children and adults. The proposed changes have already been implemented under emergency regulations since July 2008.

### **Result of Analysis**

The benefits likely exceed the costs for all proposed changes.

### **Estimated Economic Impact**

Pursuant to Chapter 879, Item 306 OO of the 2008 Acts of Assembly, the proposed changes implement a prior authorization and utilization review program for community-based mental health services for children and adults.

According to Department of Medical Assistance Services (DMAS), the utilization of intensive in-home services has increased substantially in recent years and the expenditures are expected to increase by 25% in fiscal year 2008. As a result, General Assembly passed legislation to implement a prior authorization and utilization review for intensive in-home services to ensure that the services are provided to those who truly need them.

Under the proposed regulations, after an initial period (currently 12 weeks), prior authorization will be required for reimbursement. Prior authorization is a well known cost-containment mechanism. DMAS estimates that it will cost \$1.4 million per year in total funds to implement the prior authorization program through a contractor. The savings in term of reduced expenditures is expected to be about \$2.9 million per year in total funds.

## **Businesses and Entities Affected**

The proposed regulations apply to intensive in-home services. In fiscal year 2007 there were 10,316 recipients. Also, there are approximately 279 providers that may be affected.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

## **Projected Impact on Employment**

The proposed prior authorization program will create additional demand for labor to administer the prior authorization program. However, a reduction in demand for in-home service providers is also expected. The net of the two opposing effects on employment is unknown.

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

The proposed regulations do not have a direct effect on the use and value of private property. However, increased demand for administrative services may have a positive effect on the asset value of the contracted prior authorization businesses and reduced demand for in-home services may have a negative effect on the asset value of Medicaid in-home services businesses.

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

All of the 279 affected providers are believed to be small businesses. So, the costs and other affects discussed above apply to them.

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

Given the legislative language, there does not seem to be an alternative method that would minimize the adverse impact.

## **Real Estate Development Costs**

The proposed regulations are not anticipated to have an impact 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 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.