

Health and Human Resources

The introduced budget for HB/SB 29 (Caboose Bill) includes net general fund savings of \$110.5 million and net nongeneral fund increases of \$91.6 million. General fund spending increases of \$113.2 are offset by spending reductions of \$223.8 million. More than 90 percent of new spending in the Caboose Bill is either mandated or a high priority. For example, \$83.2 million GF is included to fully fund caseload and cost increases in Medicaid, \$14.8 million GF is to offset reduced revenue to the Virginia Health Care Fund (which is used as the state share of Medicaid spending), \$5.5 million for increased welfare caseloads in the unemployed parents program, \$3.3 million GF is appropriated for increases in the cost of administering mandatory health care and social service programs, and \$3.1 million GF is for the medical costs of persons detained through the mental health civil commitment process.

Most of the general fund reductions in HB/SB 29 were implemented in September 2009 and carried forward into the 2010-2012 biennium. Additional measures have been taken in Medicaid to restrain the growth of spending for intensive in-home mental health services and reduce provider rates for therapeutic behavioral health services and clinical laboratories. In addition, the introduced budget eliminates the remaining 100 MR waivers that were slated to be distributed on January 1, 2010 (the Governor had withheld 100 MR waivers in September 2009.) and recognizes the receipt of enhanced federal matching funds for Medicaid services provided through the Comprehensive Services Act (CSA).

The Governor's introduced budget for the 2010-12 Biennium in Health and Human Resources (HHR) provides a net increase of \$1,420.0 million GF and a reduction of \$62.6 million NGF compared to Chapter 781. Almost all of the new general fund spending within HHR will be used to restore funding for Medicaid that was temporarily supplanted with enhanced federal Medicaid funding, address rising costs of providing health and long-term care services to low-income families with children and the aged, blind, and disabled, and comply with federal and state mandates including the recent Melendez-Dias Supreme Court decision that will affect workloads within the Office of the Chief Medical Examiner.

On average, the federal government provides one-half the cost of most Medicaid spending. From October 1, 2008 through December 31, 2010, the federal share of Medicaid spending increased from 50 to 62 percent, and the Commonwealth's share declined from 50 to 38 percent. The adjustment, similar to a change made in 2003, was designed to provide states with temporary fiscal relief related to rising demand for health and long-term care services and declining state revenues. In Virginia, this temporary funding resulted in general fund savings exceeding \$1.0 billion in the 2008-10 biennium. Restoring this funding requires an appropriation of \$1.2 billion in the 2010-12 biennium to maintain services in the Medicaid program.

At the same time that state general fund appropriations are necessary to replace temporarily enhanced federal Medicaid support, caseload and cost growth has risen substantially requiring the addition of \$777.7 million in the 2010-12 biennium. Medicaid's average monthly caseload growth among low-income families with children has nearly tripled since FY 2008. Because most of these families are enrolled in Medicaid managed care

organizations (MCOs), payments to managed care companies have also risen to address the volume of new Medicaid enrollees and recognize the cost of serving these individuals. During the 2009 Session, Medicaid managed care payments were artificially reduced by 3 percent below what Medicaid's actuary indicated was necessary to accommodate cost and utilization. The 2009 Medicaid forecast includes funding to increase the rates paid to MCOs by 12 percent in FY 2011 and 8 percent in FY 2012.

Other significant health mandatory spending increases from the general fund include:

- \$38.6 million to fully fund expected enrollment growth and cost increases for the children's health insurance programs (Family Access to Medical Insurance Security or FAMIS, and the Medicaid expansion or SCHIP);
- \$32.6 million to replace declining revenues from the Virginia Health Care Fund that are used as the state match for the Medicaid program;
- \$31.9 million to recognize the cost of Medicaid-funded services provided at the state's mental health facilities and intellectual disability training centers;
- \$7.3 million for increased welfare caseloads in the Unemployed Parents Cash Assistance Program;
- \$6.1 million to address the medical costs of treating individuals who are temporarily detained through the mental health civil commitment process; and
- \$3.7 million to fund enrollment and cost increases for adoption subsidy programming.

High priority spending items include \$5.2 million to restore the general fund appropriation for the Drinking Water State Revolving Fund which was supplanted with federal ARRA funding in FY 2010, \$1.9 million GF for the Office of the Chief Medical Examiner to accommodate an anticipated increase in forensic caseloads resulting from the Supreme Court's decision in the Melendez-Diaz Case, and \$1.3 million to expand Medicaid coverage to pregnant women up to 185 percent of poverty if they have other health care insurance. Medicaid would cover the costs not covered by private insurance. This change is required to comply with the Commonwealth's Medicaid waiver for FAMIS.

Discretionary general fund spending has been kept to a minimum such as restoring general fund support for several providers previously receiving Temporary Assistance to Needy Families (TANF) funds (\$9.5 million) and one-time support for Virginia's food banks (\$1.0 million).

Along with the approximate \$107.0 million annually in reductions proposed in September 2009 (FY 2010), additional general fund spending reductions for the 2010-2012 biennium for HHR total approximately \$453.0 million. Medicaid accounts for almost two-thirds of the reductions with provider rates accounting for slightly more than one-half of the Medicaid reductions (\$226.1 million GF). All inflationary increases to reimbursement rates were eliminated for Medicaid providers that receive these adjustments. Reductions to

reimbursement rates ranged from 3 percent for indigent care costs at the state teaching hospitals to 14 percent for providers of intensive in-home services. In addition, service reductions are proposed for most Medicaid community-based waiver programs including a freeze on new enrollments in calendar year 2011, reducing the hours available for respite care by two-thirds, and eliminating funding each year for 400 MR and 67 DD waivers that were slated to be filled beginning July 1, 2010. Finally, eligibility will be reduced for individuals who spend down to qualify for Medicaid from 300 percent of the Supplemental Security Income (SSI) to 275 percent, resulting in \$53.3 million in general fund savings during the biennium.

Aside from Medicaid, two other agencies account for most of the GF reductions: the Department of Behavioral Health and Developmental Services or DBHDS (\$124.6 million) and the Comprehensive Services Act (CSA) for at-risk youth and families (\$79.9 million). DBHDS reductions can be attributed to less funding for community-based services, the closure of state mental health facility services for children and adolescents, the proposed reduction in census at state intellectual disability training centers, and staffing reductions in facilities and within the central office. CSA reductions are primarily related to slower growth in the program.

HB/SB 29

- **Secretary of Health and Human Resources**
 - *Governor's September 2009 Budget Reductions.* In September 2009, the Governor reduced statewide funding for child advocacy centers by 5 percent or \$50,000 GF. Prior to this reduction, the general fund base for the program was \$1.0 million. Beginning July 1, 2010, the introduced budget proposes a further reduction of 5 percent, resulting in a cumulative reduction of \$100,000 for the program.
- **Comprehensive Services for At-Risk Youth and Families**
 - *Governor's September 2009 Budget Reductions.* Reduces spending by \$36.6 million GF in FY 2010 to reflect lower utilization of CSA services. This reduction will continue in fiscal years 2011 and 2012. This annual reduction includes \$31.6 million GF to reflect lower caseload and expenditure growth. In addition, demand for mental health services to children who are at-risk of placement in state custody if services are not provided has not materialized, allowing for a reduction of \$5.0 million GF each year.
- **Department for the Aging**
 - *Governor's September 2009 Budget Reductions.* Reduces spending by \$992,642 GF in FY 2010 through a number of different budget strategies. All of these budget reduction strategies are continued in the FY 2010-12 biennium including:
 - 10 percent reductions for ten community-based service providers in FY 2010 that are proposed to increase to 15 percent beginning July 1, 2010;

- 3.2 percent reductions for transportation, adult day care, personal care, care coordination and homemaker services in FY 2010 that are proposed to increase to 4.7 percent on July 1, 2010; and
- Suspension of the Respite Care Grant Program beginning in FY 2010 and continuing in FY 2011 and FY 2012.

- **Department for the Deaf and Hard-of-Hearing**

- *Governor's September 2009 Budget Reductions.* Reduces spending by \$93,164 GF in FY 2010 for administrative efficiencies and an 18 percent reduction in local outreach service contracts. All of these reductions will continue in the FY 2010-12 biennium.

- **Department of Health**

- *Governor's September 2009 Budget Reductions.* The introduced budget includes general fund savings of \$9.6 million in FY 2010 that are accomplished through 54 different strategies including reductions to community-based service providers, administrative efficiencies, service reductions and program eliminations and the use of nongeneral fund revenue sources for programs and services. Significant reductions include:

- A 15 percent reduction in funding for three poison control centers in FY 2010. Beginning July 1, 2010, the Governor's budget proposes to consolidate funding at one poison control center, reducing GF appropriations by \$1.0 million annually;
- A 5 percent reduction in funding for the Virginia Health Care Foundation, the Virginia Association of Free Clinics, and the Virginia Community Healthcare Association in FY 2010. An additional reduction of 5 percent is proposed for each of these programs beginning July 1, 2010;
- The elimination of six local health district pharmacies and layoffs of ten pharmacists beginning in FY 2010 and a reduction of \$500,000 GF annually for local health districts through administrative efficiencies; and
- Reduced funding for pregnancy prevention services activities by eliminating the Girls Empowered to Make Success (GEMS) program in FY 2010 and reducing funding in FY 2010 then eliminating the Partners in Prevention program effective July 1, 2010.

Most of the reductions above will continue with the exception of one-time savings of \$3.1 million in FY 2010 that were accomplished through internal cost control measures in anticipation of a revenue shortfall. Other actions to generate savings include:

- The transfer of 10 percent of cash balances from the Trauma Center Fund to the general fund in FY 2010 and beginning July 1, 2010, the transfer of \$2.4 million each year from the Trauma Center Fund to the general fund; and
- The transfer of \$1.0 million annually from the Rescue Squad Assistance Fund to the Department of State Police for med-flight operations beginning in FY 2010 and continuing in the next biennium.

Finally, cash balances in several agency funds were transferred to the general fund in FY 2010 only, including revenues in the Local Health District Service Fee Fund (\$3.6 million), Indirect Cost Recoveries Fund (\$1.2 million) and several smaller agency funds (\$1.7 million).

- **Department of Medical Assistance Services**

- *Governor’s September 2009 Budget Reductions.* Reduced spending by \$107.4 million GF in FY 2010 through 10 different budget reduction strategies including service reductions, lower payments to providers and administrative efficiencies. All of the reductions continue in fiscal years FY 2011 and FY 2012 with one major exception -- an unanticipated increase in federal Medicaid funding resulted in a one-time windfall of \$97 million in FY 2010. The Commonwealth qualified for enhanced federal Medicaid funding under the ARRA of 2009 based on a calculation of unemployment which was worse than previously anticipated. Substantive general fund reductions from September, some that were increased in the introduced biennial budget, include the following:

September 2009 Budget Reductions Continued in FY 2010-12 Biennium			
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Reduce funding for indigent health care costs incurred by VCU and UVA by three percent	\$7,000,000	\$7,191,959	\$7,855,994
Eliminate the addition of 100 MR waiver slots on January 1, 2010 (the elimination of the remaining 100 slots was also proposed as a targeted reduction in Dec. 2009)	\$1,235,099	\$5,494,508	\$6,223,500
Eliminate the Assisted Living Payment Program that provides \$3.00 and \$6.00 per day increase for non-Medicaid recipients based on the intensity of services on July 1, 2010 (in September 2009, an adjustment was made to reflect lower spending in the program)	\$350,000	\$1,461,478	\$1,461,846
Eliminate disease management program	\$446,901	\$964,030	\$1,025,106
Supplant funding for legal alien children with federal funding	\$789,706	\$724,324	\$700,451
Reduce residential psychiatric facility rates	\$288,281	\$440,364	\$496,450
Expand prior authorization and impose service limits for three dental services	\$146,692	\$229,422	\$241,775

- ***HB/SB29 Budget Actions.*** The introduced budget includes several substantive spending items and additional reductions in FY 2010 that were not contained in the Governor's September proposals. Caboose Bill spending includes:
 - \$83.2 million GF to address rising caseloads, especially among low-income families with children and higher expenditures in Medicaid;
 - \$14.8 million GF to backfill lower revenues to the Virginia Health Care Fund, which is used as the state share of Medicaid match, primarily from cigarette taxes;
 - \$3.5 million GF to transition Medicaid's information system to a new vendor and address increased claims due to program enrollment; and
 - \$3.1 million GF to fund the medical costs of individuals detained through the mental health civil commitment process

Additional savings proposals not presented in September 2009 include:

- \$7.5 million GF to capture enhanced federal Medicaid funding for CSA-funded services;
- \$5.2 million GF to adjust funding for the FAMIS program to reflect current enrollment and cost trends;
- \$3.4 million GF by reducing rates paid for intensive in-home mental health services on February 1, 2010; and
- \$1.2 million GF by eliminating the remaining funding for 100 MR waiver slots that were to be distributed on January 1, 2010.

- **Department of Behavioral Health and Developmental Services (DBHDS)**

- ***Governor's September 2009 Budget Reductions.*** Includes savings of \$39.7 million GF offset by an increase of \$4.7 million NGF in FY 2010 to implement the September 2009 budget reductions. Significant budget reduction strategies are outlined in the following paragraphs.
 - ***Administrative Reductions and Efficiencies.*** Reduces spending by \$17.5 million GF in FY 2010 and 42 FTE positions through administrative reductions and program efficiencies including layoffs, reductions in outside contracts, elimination of vacant positions, energy savings, consolidation of support services at state facilities, and reduction of expenses not associated with direct care at state facilities.
 - ***Reduce Funding for Community Services Boards (CSBs).*** Reduces funding to Community Services Boards by \$12.2 million GF in FY 2010. This represents a 5 percent reduction in funding for CSBs. This savings is continued into the 2010-12 biennium.

- ***Replace General Fund Spending for Community Mental Health Services with Other Resources.*** Supplants \$4.5 million GF in FY 2010 with one-time nongeneral fund balances to support community mental health programs provided by CSBs.
- ***Reduce Direct Care Positions in Mental Health Treatment Centers.*** Reduces spending by \$1.5 million GF in FY 2010 and 13 FTE direct care positions at mental health treatment centers statewide. Annual savings of \$2.0 million GF are realized in the 2010-12 biennium from this action.
- ***Reduce Support Positions in Mental Health Treatment Centers.*** Reduces funding by \$3.2 million GF in FY 2010 and 70 FTE support positions at mental health treatment centers statewide. Annual savings of \$4.0 million GF are realized in the 2010-12 biennium from this action.
- ***Service Reductions and Program Eliminations.*** Reduces \$787,767 GF in FY 2010 and \$2.1 million GF each year thereafter for the following services:
 - Funding designed to divert individuals with mental illness from jails;
 - Funding for individuals with mental illness at state hospitals who require private hospitalizations; and
 - Funding and nine positions for the direct management of the Community Resource Pharmacy.

- **Department Rehabilitative Services**

- ***Governor's September 2009 Budget Reductions.*** Includes savings of \$2.8 million GF offset by an increase of \$283,442 NGF in FY 2010 to implement the September 2009 budget reductions. Significant budget reduction strategies include the following:
 - ***Service Reductions and Program Eliminations.*** Reduces \$144,575 GF in FY 2010, for several programs that provide variable levels of employment and rehabilitation training services, and independent living services, depending upon the physical disabilities of the individual being served. These reductions continue into the 2010-12 beinnium for an annual savings of \$373,349. Proposed funding reductions include:
 - \$51,000 for long-term employment support services;
 - \$10,982 for brain injury discretionary services (representing a 5% reduction); and
 - \$82,592 for personal attendant services (representing a 3% reduction in funding).

- *Replace General Fund Spending with Other Resources.* Replaces \$283,443 GF in FY 2010 with federal funds and other agency resources for administrative costs in the Long Term Employment Support Services and Personal Assistance Services programs. This annual savings continues each year in the 2010-12 beinnium.
- *Administrative Reductions and Efficiencies.* Reduces spending by \$1.9 million GF in FY 2010 through a combination of administrative reductions and program efficiencies including eliminating 18 vacant positions and laying off five FTE positions and six wage staff, reducing discretionary spending within the Department. Savings from these strategies continue in the 2010-12 biennium, increasing to \$2.4 million annually.

- **Woodrow Wilson Rehabilitation Center**

- *Governor's September 2009 Budget Reductions.* Includes savings of \$884,413 GF for FY 2010 to implement the September 2009 budget by eliminating 13 FTE and 2 wage positions. This annual savings amount continues into the 2010-12 biennium.

- **Department of Social Services**

- *Governor's September 2009 Budget Reductions.* Includes savings of \$4.8 million GF and \$472,601 NGF for FY 2010 to implement the September 2009 budget reductions. Significant budget reduction strategies include the following:
 - *Service Reductions and Program Eliminations.* Reduces funding for several programs, resulting in savings of \$1.2 million GF in FY 2010, including:
 - \$700,000 in FY 2010 for chore and companion services provided to low-income, homebound elderly through local departments of social services. This represents a 10 percent reduction in funding, which continues in FY 2011 and FY 2012;
 - \$400,000 in FY 2010 in reduced support for a variety of social services provided through local departments of social services, termed "other purchased services," which increases to \$800,000 each year in FY 2011 and FY 2012; and
 - \$100,000 from the elimination of a stipend program for social workers earning their Bachelors and Masters degrees in Social Work, which increases to \$450,000 each year in FY 2011 and FY 2012.
 - *Administrative Reductions and Efficiencies.* Removes \$828,021 GF in FY 2010 through a combination of administrative budget reduction strategies, the largest of which eliminates 25 full-time and four part-time positions including 15 layoffs in the Department of Social Services' Central Office. These saving increase to \$1.3 million each year in FY 2011 and FY 2012.

- ***Reduce Funding for Nonstate Agencies.*** Reduces funding for several nonstate agencies by 10 percent in FY 2010, including Reston Interfaith, Visions of Truth Ministries, and Child Advocacy Centers. Funding for Reston Interfaith and Visions of Truth Ministries is eliminated in the 2010-12 biennium generating a combined savings of \$125,000 GF each year. The reduction for Child Advocacy Centers is increased by 5 percent to a total reduction of 15 percent in FY 2011 and FY 2012 generating savings of \$15,000 GF each year.
- ***Agency Balances Reverted to General Fund.*** Reverts agency balances of \$2.3 million in FY 2010 to the general fund and transfers \$100,000 in revenues from the regulation of child care and adult living facilities to the general fund.
- ***Implement a Uniform Rate Structure for Therapeutic/Treatment for Children in Foster Care or Special Needs Adoptions.*** Generates \$375,000 in general fund savings from the receipt of additional federal Title IV-E matching funds by implementing a uniform tool and rate structure to determine the amount paid to foster care and adoptive families for additional daily supervision of children with special needs for therapy or treatment.
- ***Increase Child Registry Search Fee.*** Reduces \$65,000 GF by increasing the fee for a central child registry search from \$5.00 to \$7.00. The Code of Virginia provides that the search costs be borne by the employee or volunteer unless the children's residential facility pays the cost at its option.

Spending Increases

- ***Fund Loss of Operating Revenue in Child Support Enforcement.*** Provides \$1.4 million GF to offset the decline in child support retained collections from noncustodial parents who make child support payments for children receiving TANF. The Commonwealth retains a portion of these collections to offset the administrative costs in child support enforcement and the cost of providing TANF to these families; however, these collections have declined over the past year.
- ***Fund Unemployed Parents Cash Assistance Program Increases.*** Provides \$5.5 million GF in FY 2010 to fund the increased caseload in the unemployed parent cash assistance program. This program provides temporary cash assistance to eligible low-income two-parent families similar to the Temporary Assistance to Needy Families (TANF) program. Caseloads in this program doubled from 1,181 to 2,074 cases in FY 2009 and expenditures increased by 72 percent.
- ***Fund VITA Costs for Increased Utilization of Eligibility Systems.*** Provides \$1.8 million GF and \$2.9 million NGF in FY 2010 for the increased computer costs associated with determining eligibility for benefit programs and administering the child support enforcement program. Caseload growth has driven the increased

use of information systems for mandated programs in the Department of Social Services.

Spending Reduction

- ***Foster Care and Adoption Subsidy Caseload and Expenditure Adjustments.*** Reduces spending on foster care and adoption subsidies by a net of \$2.8 million GF and \$4.9 million NGF in FY 2010. Foster care expenditures are expected to decline by about 11 percent in FY 2010, significantly lower than historical annual growth rates of 10 percent. A portion of this decline is due to the receipt of enhanced federal matching funds for Title IV-E foster care provided in the federal ARRA legislation (56.2 percent instead of an historical rate of 50 percent), resulting in a savings of almost \$3.3 million GF. However, some of the decrease is explained by declining caseloads. Caseloads declined by about 21 percent from 2008 to 2009 as more children were adopted and caseloads are expected to continue to drop in FY 2010.

Additional savings of \$544,152 GF are expected in federal Title IV-E adoption subsidies in FY 2010 primarily due to the receipt of the enhanced federal ARRA matching funds. These savings are offset by an expected increase of \$1.0 million (or 2.6 percent) in expenditures for special needs adoption subsidies.

- **Virginia Rehabilitation Center for the Blind and Vision Impaired**

- ***Governor's September 2009 Budget Reductions.*** Includes savings of \$24,165 GF in FY 2010 to implement the September 2009 budget reductions by supplanting all remaining general fund support in the vocational rehabilitation program with federal funds.

HB/SB 30

- **Secretary of Health and Human Resources**

- ***Continue September 2009 Budget Reductions.*** Reduces an additional \$50,000 GF each year beginning July 1, 2010. In September 2009, the Governor reduced statewide funding for child advocacy centers by 5 percent or \$50,000 GF in FY 2010. With this additional reduction, the general fund base for the program will be reduced by 10 percent from \$1.0 million to \$900,000.

- **Comprehensive Services for At-Risk Youth and Families**

- ***Continue September 2009 Budget Reductions.*** Reduces spending by \$36.6 million GF each year to reflect lower utilization of CSA services.
- ***Enhanced Medicaid Funding.*** Reduces funding by \$3.8 million GF and provides \$5.0 million NGF from enhanced federal Medicaid funding in FY 2011 through the American Recovery and Reinvestment Act of 2009 for Medicaid-eligible services provided to CSA youth.

- *Eliminate TANF funding for CSA Trust Fund.* Eliminates \$965,579 each year from the federal TANF block grant fund for community-based services to children.
- *Repeal Hold Harmless Clause for Residential Services.* Reduces spending by \$800,000 GF each year by eliminating a provision in the Appropriations Act that exempts the first \$200,000 in residential services each year from higher local match requirements based on FY 2007 expenditures. A hold harmless provision was included in the Act in 2008 to protect smaller localities that may experience one or two expensive residential placements in a year.
- *Increase Monitoring of CSA Outcomes.* Reduces funding by \$630,905 GF each year due to increased monitoring of outcomes for CSA providers.
- *Purchase of a CSA Information System.* Provides \$223,000 GF each year to continue funding for the State Executive Council’s Child Assessment of Needs and Strengths (CANS) assessment tool. This tool has been developed to ensure that children receive uniform assessments and appropriate services.

- **Department for the Aging**

- *Continue September 2009 Budget Reductions.* Reduces \$1.4 million GF in FY 2011 and FY 2012 by continuing budget reduction strategies begun in September 2009 including reductions for ten community-based service providers, reductions for transportation, adult day care, personal care, care coordination and homemaker services, and the suspension of the Respite Care Grant Program.
- *Increased NGF for Elderly Nutrition Programs.* Adds \$1.5 million NGF each year for additional funding provided through the federal Older Americans Act for elderly nutrition programs.
- *Increased NGF for Aging Service Programs.* Adds \$1.2 million NGF each year from federal grants for individual care services, an Alzheimer’s demonstration project, the Senior Community Service Employment program and a grant from the Center for Medicare and Medicaid Services.

- **Department for the Deaf and Hard-of-Hearing**

- *Continue September 2009 Budget Reductions.* Reduces spending by \$93,164 GF each year for administrative efficiencies and an 18 percent reduction in local outreach service contracts.
- *Supplant GF Support for Technology Assistance Program (TAP) with NGF.* Supplants \$434,071 GF each year for the TAP program with revenues generated through the Communications Use and Sales Tax. Under current law, revenues from the tax are provided to the Tax Department, the Deaf & Hard of Hearing Services’ Relay Center, and localities in that order. This change, which requires legislation, proposes to fund the TAP program from nongeneral fund tax revenues, resulting in less funding for localities.

- **Department of Health**

- ***Continue September 2009 Budget Reductions.*** Continues most of the budget reductions implemented in FY 2010 resulting in savings of \$7.8 million GF in FY 2011 and \$7.9 million GF in FY 2012 through a combination of strategies including reductions to community-based providers, administrative efficiencies, program reductions or eliminations and nongeneral fund revenue sources. The major difference from the September 2009 reductions is a proposal to consolidate Poison Control services at one center instead of the current three to achieve annual general fund savings of \$1.0 million. In September 2009, funding was reduced by 15 percent.

New Spending

- ***Drinking Water State Revolving Fund.*** Restores \$2.6 million GF annually for local drinking water improvement projects that was initially provided in 2006 to offset a reduction in federal funding. Funding was reduced in FY 2010 due to the availability of federal ARRA funding.
- ***Fund Office of the Chief Medical Examiner (OCME) Compliance with Supreme Court's Melendez-Diaz Ruling.*** The introduced budget includes \$817,574 GF in FY 2011 and \$1.1 million GF in FY 2012 to accommodate anticipated workload demands in the OCME due to this recent Supreme Court ruling. Funding will be used to hire 10 additional staff including death investigators, forensic pathologists, autopsy technicians and administrative support.
- ***Replace Eliminated TANF Funding with GF for CHIP of Virginia.*** Adds \$717,559 GF and reduces \$1.1 million NGF from the federal TANF block grant each year for CHIP of Virginia. Due to a structural imbalance in the federal TANF block grant fund and rising demand for TANF cash assistance, funding from the block grant was eliminated for CHIP.

Budget Reductions

- ***Supplant GF for Environmental Health Services with Increased Fee Revenues.*** Beginning July 1, 2010, the introduced budget proposes an increase of \$3.8 million NGF from permit fee revenues for restaurants, hotels, campgrounds and summer camps and plan reviews. The additional revenue will supplant \$3.8 million GF annually for agency operations. Revenue generated from the fee increases accounts for only 62 percent of total revenues; the remaining revenues of \$2.3 million will be provided to local health districts.
- ***Supplant GF for Office of the Chief Medical Examiner (OCME) with Increase in Vital Records Fee.*** Supplants \$2.5 million GF each year for the OCME with revenues generated from a fee increase for Vital Records requests. Under current law, a copy of birth and death records costs \$12.00. The fees will increase to \$20.00 on July 1, 2010. In addition, a \$9.00 fee will be imposed for expedited requests plus the cost of on-line identity verification and mailing.

- ***Supplant GF for Office of Licensure and Certification (OLC) with Additional Fee Revenue.*** Proposes supplanting \$400,000 GF in FY 2011 and \$604,415 GF in FY 2012 with increased fees from nursing homes, hospitals, home care centers, and hospices..
- ***Establish Fee Structure for Marina Program and Shellfish Sanitation Program.*** Supplants \$64,250 GF with \$64,250 NGF each year from permitting fees for sewage facilities at marinas regulated by the Health Department. Also, supplants \$150,150 GF with \$150,150 NGF each year from fees for certifications, marine resources, and National Pollutant Discharge Elimination System permits. The proposed fees within the Office of Environmental Health Services are designed to recover the costs of regulating these entities pursuant to recommendations contained within a 2008 Health Department report to address increasing costs and workload issues for the shellfish sanitation program and marina applications, plans, and reviews.
- ***Transfer Balance from Trauma Center Fund to GF.*** The introduced budget proposes the transfer of \$2.4 million from the Trauma Center Fund to the general fund each year of the biennium beginning July 1, 2010. Currently, \$1.0 million annually is transferred from the Trauma Fund to the general fund. Annual revenues to the Fund, which is generated from driver's license reinstatement fees, have ranged from \$8.0 to \$9.0 million and are distributed to hospitals to defray the cost of operating trauma centers.
- ***Eliminate Funding for Local Health District Laboratories.*** Proposes the closure of ten health district laboratories and a reduction of 29 positions, resulting in savings of \$657,048 GF and \$438,032 NGF in FY 2011 and \$760,953 GF and \$525,424 NGF in FY 2012. Beginning September 1, 2010, health district laboratory services will be contracted out to private providers, similar to the way 25 other health districts provide laboratory services.
- ***Eliminate Funding for Local Health Department Pharmacies.*** Reduces \$607,115 GF and \$407,743 NGF in FY 2011 and \$674,430 GF and \$449,620 NGF in FY 2012 by eliminating state and local funding for pharmacy services in six local health districts. Ten of fourteen pharmacists employed in these health districts will be laid off, while four will be transferred to the Department's Central Pharmacy where local health districts will be able to purchase prescription drugs.
- ***Eliminate Funding for Local Health District.*** Reduces \$500,000 GF and \$333,333 NGF each year from local cooperative health department funding through administrative efficiencies and service reductions.
- ***Eliminate Funding for Case Management Obstetrical Service Projects.*** The introduced budget eliminates \$100,000 GF each year for case management related to obstetrical services in five health districts (Lenowisco, Cumberland Plateau, Three Rivers, Central Shenandoah, and Alleghany). These pilots were created to ensure women had access to obstetrical services in areas of the Commonwealth

where such services were not available. Local health districts will be required to develop their own strategies to support the project.

- **Department of Medical Assistance Services**

- ***Continue September 2009 Budget Reductions.*** With the exception of an unanticipated, one-time increase in federal Medicaid funding in FY 2010, all of the budget reductions announced in September will continue into the next biennial budget resulting in general fund savings of \$16.7 million in FY 2011 and \$18.2 million in FY 2012. Two substantive differences from September 2009 actions are:
 - The proposed elimination of supplemental payments to assisted living facilities for non-Medicaid recipients in the Regular and Intensive Assisted Living Program; and
 - The elimination of 100 MR waiver slots slated to be distributed on January 1, 2010. In September, the Governor withheld 100 of 200 MR waiver slots that were to be allocated in January 2010.

Forecast Changes

- ***Medicaid Utilization and Inflation.*** Adds \$277.3 million GF and \$511.4 million NGF in FY 2011 and \$500.4 million GF and \$848.8 million NGF in FY 2012 to fully fund expected increases in enrollment and medical costs for the Medicaid program. In addition, \$80.1 million GF and \$82.1 million NGF is provided to accommodate projected growth in FY 2010. Nongeneral funds are provided through matching federal Medicaid dollars. Annual Medicaid spending has risen substantially from the historic average of 7 percent to 8 percent in FY 2009 and 12 percent in FY 2010. In FY 2011 and FY 2012, projected growth in Medicaid is expected to be 11.4 percent and 8.1 percent, respectively.

The lengthy economic recession facing the Commonwealth has contributed to most of the recent growth in the program. Population groups that are more sensitive to economic conditions include low-income families with children. Higher payments to managed care organizations are assumed in the Medicaid forecast to accommodate recent enrollment growth and cost increases. In addition, steady enrollment growth is anticipated among low-income aged, blind and disabled individuals served by the program. Finally, the rising cost of health care services, including inpatient and outpatient hospital services, nursing facility services, and Medicare Part B premiums that are paid on behalf of low-income elderly recipients on Medicaid, require additional resources to fund the program's growth.

- ***Backfill Expiring Federal Medicaid Support with General Funds.*** The introduced budget provides \$376.8 million in FY 2011 and \$814.7 million in FY 2012 from the general fund to replace enhanced federal Medicaid funding that was provided in the American Recovery and Reinvestment Act of 2009 but is expected to expire.

The federal government provided temporary fiscal relief for states through the Medicaid program from October 1, 2008 through December 31, 2010 in the form of enhanced Medicaid funding. During this time period, the federal government increased its share of Medicaid funding in Virginia from roughly 50 cents per \$1.00 spent on Medicaid services to 62 cents. This increase allowed Virginia to reduce its general fund commitment to Medicaid for a 27-month period. Upon expiration of the enhanced federal funding, however, federal support must be replaced in order to maintain funding for current services in the Medicaid program.

- ***Family Access to Medical Insurance Security (FAMIS) Utilization and Inflation.*** Proposes funding of \$4.0 million GF and \$7.4 million NGF in FY 2011 and \$8.1 million GF and \$15.0 million NGF in FY 2012 to address anticipated enrollment and cost increases for the FAMIS program. FAMIS spending is projected to increase significantly (by 19 percent) in FY 2011 then slow to 7 percent in FY 2012. Children under the age of 19 in families with income between 133 and 200 percent of poverty are eligible for this program. Higher rates paid to managed care organizations that coordinate care for these children largely explain the projected increase in program costs.
- ***Medicaid State Children's Health Insurance Program (SCHIP).*** The introduced budget adds \$10.1 million GF and \$18.8 million NGF in FY 2011 and \$16.5 million GF and \$30.6 million NGF from federal Medicaid matching funds in FY 2012 to fully fund program growth for Medicaid-eligible low-income children living in families with incomes between 100 and 133 percent of the federal poverty level. The federal government matches Medicaid expenditures for these children at the same rate that is provided for the FAMIS program (about 65 percent). Enrollment in this program is up significantly due to the prolonged recession. Program expenditures are expected to grow by 18.7 percent in FY 2011 and 14.2 percent in FY 2012.
- ***Increased Funding for Involuntary Mental Commitments.*** Proposes an increase of \$3.1 million GF each year to address rising hospital and physician costs related to temporary detention orders. Legislative changes to the Commonwealth's mental health civil commitment statutes enacted by the 2008 General Assembly appear to explain recent growth in the program. Expenditures rose by 27 percent in FY 2009 but are expected to level off. Additional funding of \$3.1 million GF is included in HB/SB 29 to address rising caseloads.

Increased Funding

- ***Adjust Funding for the Virginia Health Care Fund.*** Adds \$17.4 million GF in FY 2011 and \$15.2 million GF in FY 2012 to reflect lower net revenues to the Virginia Health Care Fund. Revenues in the fund are derived from 40 percent of revenues from the Master Tobacco Settlement Agreement, tobacco taxes, and Medicaid recoveries. Because revenues from the Fund are used as a portion of the state's match for the Medicaid program, lower revenues require an additional general

fund appropriation to maintain currently-funded Medicaid services. Changes to the fund include the following:

- A reduction of \$19.5 million each year from cigarette taxes;
 - A reduction of \$3.5 million each year from school-based revenue maximization initiatives;
 - An increase of \$2.7 million each year from increased tax collections on other tobacco products;
 - An increase of \$3.6 million each year from tobacco taxes resulting from a policy change included in the introduced budget repealing the dealer discount; and
 - An increase of \$2.0 million each year resulting from a policy change included in the introduced budget that increases the amount to be transferred from the Master Tobacco Settlement to the Fund from 40.0 to 41.5 percent of overall revenues. This additional amount in annual revenues will be used to pay for children's health care through the FAMIS program. Currently, 10.0 percent of tobacco settlement funds are allocated to the Virginia Foundation for Healthy Youth; the allocation to the VFHY will be reduced by \$2.0 million annually or 8.5 percent.
- ***Provide General Fund Match for State Mental Health and Intellectual Disability Training Centers.*** Proposes \$31.9 million GF and \$28.1 million NGF from federal Medicaid matching funds in FY 2012 for the Medicaid costs of individuals served at state mental health and mental retardation facilities. In prior years, the Department of Behavioral Health and Developmental Services has transferred internal funds to the Department of Medical Assistance Services to draw down federal Medicaid dollars. Because DBHDS' source of internal funding has been exhausted, additional general fund support is necessary to receive federal funding. About \$2.0 million of the additional \$31.9 million GF reflects the loss of enhanced federal Medicaid funding provided through federal stimulus funds.
- ***Expand Medicaid Coverage to Pregnant Women to Comply With Federal Law.*** Proposes \$667,887 in FY 2011 and \$659,221 in FY 2012 from the general fund and \$727,887 NGF in FY 2011 and \$659,221 NGF in FY 2012 from federal Medicaid matching funds to expand Medicaid coverage to pregnant women with income between 133 and 185 percent of poverty who have other health insurance coverage. Under current law, low-income pregnant women who have access to health insurance coverage are not eligible for FAMIS coverage or Medicaid. Federal legislation passed earlier this year (Children's Health Insurance Program Reauthorization Act (CHIPRA) of 2009) requires that pregnant women be enrolled in Medicaid at these eligibility levels or the Commonwealth may have to forego enhanced federal funding for these women. In effect, Medicaid will become the secondary payer for pregnancy-related costs not covered by the private insurer.

- ***Additional NGF for Nursing Facility Improvement Grant Program.*** Includes \$250,000 NGF from civil penalties paid by nursing facilities that can only be used for nursing facility improvements according to federal law. Additional funding will be used to fund the Department's grant program to nursing facilities to improve work environments and reduce staff turnover.

Provider Rate Reductions (Hospital Services)

- ***Eliminate Inflation Adjustment for Hospital Operating Rates.*** Proposes a reduction of \$29.4 million GF in FY 2011 and \$46.6 million GF in FY 2012 and \$37.1 million NGF in FY 2011 and \$46.6 million NGF in FY 2012 from federal Medicaid matching funds by withholding the annual inflation adjustment to inpatient operating rates for acute and rehabilitation hospitals each year of the FY 2010-12 biennium. Under current law, the inpatient operating rates for hospitals are adjusted annually by an inflation factor based on current trends in hospital costs. Hospital operating rates will be rebased as scheduled on July 1, 2010 and are unaffected by this budget action.
- ***Maintain Disproportionate Share Hospital (DSH) Payments at FY 2010 Funding Level.*** Includes savings of \$10.0 million in FY 2011 and \$10.5 million in FY 2012 to the general fund and \$10.0 million in FY 2011 and \$10.5 million in FY 2012 in federal Medicaid matching funds by maintaining current DSH payments to acute and rehabilitation hospitals at the same rate in effect for FY 2010. DSH payments are provided to hospitals that serve a disproportionate share of indigent individuals compared to peer hospitals. While this proposed change does not include an inflationary adjustment for DSH, it will allow that hospital-specific payments are rebased in FY 2011. Because no additional funding is provided, however, some hospitals that qualify for DSH payment will receive additional support, while others will receive less. This outcome is dictated by the Department's policy that any changes be budget neutral. Finally, the threshold to qualify for DSH payments for hospitals is lowered from 15 to 14 percent of Medicaid utilization.
- ***Impose Stricter Requirements on Disproportionate Share Hospital (DSH) Payments for Out-of-State Hospitals.*** The introduced budget assumes savings of \$2.5 million in FY 2011 and \$2.6 million in FY 2012 to the general fund and \$2.5 million in FY 2011 and \$2.6 million in FY 2012 in federal Medicaid matching funds by tightening the requirements for out-of-state hospitals to qualify for DSH payments under Virginia's Medicaid program. Under current law, a hospital whose Medicaid utilization - measured by patient days - exceeds 15 percent qualifies for an extra payment known as DSH if they are serving Virginia Medicaid enrollees. However, an out-of-state hospital can qualify for DSH if 8 percent of its utilization is from Virginia residents and 8 percent from another state's Medicaid program. This change will impose a new requirement that at least 12 percent of out-of-state hospitals' Medicaid utilization must be comprised of Virginia residents. According to DMAS officials, none of Virginia's neighboring states provide DSH payments to out-of-state hospitals.

Proposed budget reduction strategies affecting hospitals (see table below) total \$119.1 million GF and \$112.0 million from federal Medicaid matching funds.

Summary of Proposed Payment Reductions to Hospitals				
<u>Description</u>	<u>FY 2011</u>		<u>FY 2012</u>	
	<u>GF Savings</u>	<u>NGF Savings</u>	<u>GF Savings</u>	<u>NGF Savings</u>
Inpatient hospitals:				
• Withhold annual inflation rate adjustment	\$29.4	\$37.1	\$46.6	\$46.6
Inpatient hospitals: Disproportionate Share				
• Maintain DSH payments at FY 2010 level	\$10.0	\$10.0	\$10.5	\$10.5
• Impose Stricter DSH Requirements for out-of-state hospitals	2.5	2.5	2.6	2.6
State Teaching Hospitals:				
• Reduce indigent care reimbursements by 3%	\$7.2	\$0.0	\$7.9	\$0.0
Inpatient hospitals: GME & IME Payments				
• Withhold inflation from Graduate and Indirect Medical Education payments	\$2.1	\$2.8	\$2.6	\$2.8
Inpatient hospitals: NICU Payments				
• Eliminate special Indirect Medical payments to hospitals with high-volume NICUs	\$0.9	\$1.1	\$1.0	\$1.0
Long-stay hospitals:				
• Reduce payments to average Medicaid allowable costs	\$0.4	\$0.6	\$0.5	\$0.5

Provider Rate Reductions (all other providers)

- ***Reduce Provider Rates for Home and Community-Based Waiver Services by 5 Percent.*** Proposes a savings of \$18.2 million in FY 2011 and \$18.0 million in FY 2012 from the general fund and \$22.9 million in FY 2011 and \$18.0 million in FY 2012 from federal Medicaid matching funds by reducing the rates paid to community-based providers of Medicaid waiver services by five percent beginning July 1, 2010. This reduction will not apply to skilled nursing services provided under the Technology Assisted waiver.
- ***Maintain Nursing Facility Rates at FY 2010 Level.*** Includes savings of \$11.2 million in FY 2011 and \$18.3 million in FY 2012 from the general fund and \$14.1 million in FY 2011 and \$18.3 million in FY 2012 from federal Medicaid matching funds by maintaining that rates paid for nursing facilities at the same level in

affect in FY 2010. This budget action withholds an annual adjustment for inflation and biennial rebasing of the rates paid to nursing homes.

- ***Reimbursement Changes for Durable Medical Equipment (DME).*** Proposes multiple strategies to reduce spending on DME by \$3.1 million GF and \$4.0 million NGF in FY 2011 and \$3.5 million GF and \$3.5 million NGF in FY 2012. The budget proposes that \$1.7 million in FY 2011 and \$1.8 million in FY 2012 from the general fund savings be transferred to the Productivity Investment Fund. The DME savings will be achieved by:
 - Reducing reimbursement rates from 100 to 90 percent of Medicare for equipment that has a Regional Carrier Rate;
 - Reducing fee schedules by category-specific amounts as recommended by a November 2009 report on DME;
 - Modifying the pricing schedule for incontinence supplies from cases to items to conform with industry standards;
 - Establishing rates for additional procedure codes where benchmark rates are available;
 - Reimbursing at cost plus 30 percent for any item not on the fee schedule;
 - Determining alternate pricing for any code that does not have a rate; and
 - Limiting service day reimbursement to intravenous and oxygen therapy equipment.

Further, proposed language amendments allow DMAS the authority to: (a) modify reimbursement for Durable Medical Equipment for incontinence supplies based on competitive bidding and (b) change the limit on incontinence supplies prior to requiring prior authorization.

Proposed reductions to all other Medicaid providers (see table below) total \$82.1 million GF and \$87.7 million from federal Medicaid matching funds.

Summary of Proposed Payment Reductions to All Other Providers

<u>Provider Payment Reductions</u>	<u>FY 2011</u>		<u>FY 2012</u>	
	<u>GF Savings</u>	<u>NGF Savings</u>	<u>GF Savings</u>	<u>NGF Savings</u>
Home and Community-Based Services:				
Reduce provider rates by 5 percent	\$18.2	\$22.9	\$18.0	\$18.0
Nursing Facilities:				
Withhold annual inflation rate adjustment, and triennial rebasing of facility rates	\$11.2	\$14.1	\$18.3	\$18.3
Residential Psychiatric Facilities:				
Withhold annual inflation rate adjustment	\$1.2	\$1.5	\$2.8	\$2.8
Durable Medical Equipment:				
Modify reimbursement rates for DME	\$3.1	\$4.0	\$3.5	\$3.5
Clinical Laboratory Services:				
Reduce reimbursement rate by 5 percent on February 1, 2010	\$1.6	\$2.0	\$1.4	\$1.4
Therapeutic Behavioral Services:				
Reduce reimbursement rate by 5 percent on February 1, 2010 for children's residential services	\$0.5	\$0.7	\$0.6	\$0.6
Home Health Agencies:				
Withhold annual inflation rate adjustment	\$0.2	\$0.2	\$0.4	\$0.4
Freestanding Psychiatric Facilities:				
Maintain reimbursement levels at FY 2010	\$0.3	\$0.0	\$0.4	\$0.0
Outpatient Rehabilitation Agencies:				
Withhold annual inflation rate adjustment	\$0.1	\$0.1	\$0.2	\$0.2

Eligibility Reductions

- *Reduce Optional Eligibility Income Limits for Long-term Care Services. 300 percent of (SSI) Eligibility Category.* Under current law, certain individuals requiring long-term care services may be eligible for Medicaid services if their monthly income exceeds 300 percent of the federal Supplemental Security Income (SSI) payment level, equal to \$2,022. This proposal would reduce the eligibility standard from 300 to 275 percent of SSI or \$1,854 per month on January 1, 2011, resulting in fewer individuals qualifying for Medicaid long-term care services. Savings of \$16.9 million in FY 2011 and \$36.4 million in FY 2012 to the general fund and \$16.9 million in FY 2011 and \$36.4 million in FY 2012 NGF in federal Medicaid matching funds are assumed in the introduced budget. Proposed federal legislation may extend current maintenance of effort requirements related

to eligibility levels for an additional six months. If passed, this budget strategy would likely violate that requirement and would need to be reconsidered.

- ***Postpone Mandated Increase in the Mental Retardation (MR) and Developmental Disabilities (DD) Waiver Program.*** Proposes a reduction of \$12.1 million in FY 2011 and \$27.1 million in FY 2012 to the general fund and \$15.3 million in FY 2011 and \$27.1 million in FY 2012 in federal Medicaid matching funds by eliminating the planned increase in MR waiver and DD waiver slots by 400 and 67, respectively, each year. Legislation passed during the 2009 Session requiring the addition of slots each biennium to eliminate the current waiting list for services, and funding for this initiative was included in the 2009 Medicaid spending forecast.
- ***Freeze Enrollment in Home and Community Based Waivers.*** Includes savings of \$3.7 million in FY 2011 and \$13.3 million in FY 2012 to the general fund and \$3.7 million in FY 2011 and \$13.3 million in FY 2012 in federal Medicaid matching funds through the imposition of a freeze on new waiver slot allocations for calendar year 2011 (January 1, 2011 through December 31, 2011). Two waivers – the HIV/AIDS and Technology Assisted programs -- are exempt from the cap. The freeze will result in no new distribution of waiver slots when a current waiver recipient leaves the program. Proposed federal legislation may extend current maintenance of effort requirements related to eligibility levels for an additional six months. If passed, this budget strategy would likely violate that requirement and would need to be reconsidered.

Service Limitations or Eliminations

- ***Reduce Number of Hours Allowed for Respite Care.*** The introduced budget includes proposed savings of \$5.2 million in FY 2011 and \$21.2 million in FY 2012 to the general fund and \$6.6 million in FY 2011 and \$21.2 million in FY 2012 in federal Medicaid matching funds by reducing the number of hours that will be paid for respite care from 720 hours per calendar year to 240. With this change, caregivers who qualify for respite care under Medicaid's home and community-based waiver programs will receive 30, 8-hour days of service as opposed to 90, 8-hour days.
- ***Intensive In-home Mental Health Services.*** Proposes three changes for intensive in-home mental health services. This community rehabilitation mental health service is one of the fastest growing expenditure categories within Medicaid. Services are provided to children and adults up to age 21 who are either (i) at-risk of being moved into an out-of-home placement or (ii) are in an out-of-home placement due to a documented clinical need. Proposed changes include:
 - ***Increased Audits.*** The introduced budget includes net savings of \$750,000 GF each year and \$1.0 million in FY 2011 and \$750,000 in FY 2012 in federal Medicaid matching funds to reflect increased scrutiny of intensive in-home mental health services.

- ***Reduce Provider Rates.*** Proposes a reduction of \$9.3 million in FY 2011 and \$10.5 million in FY 2012 to the general fund and \$11.7 million in FY 2011 and \$10.5 million in FY 2012 in federal Medicaid matching funds by decreasing the hourly reimbursement rate for intensive in-home mental health services from \$70 to \$60 per hour. This change was included in HB/SB 29 because it is effective on February 1, 2010 (FY 2010).
- ***Prior Authorization.*** The introduced budget proposes reductions of \$307,312 in FY 2011 and \$347,638 in FY 2012 to the general fund and \$387,806 in FY 2011 and \$347,638 in FY 2012 in federal Medicaid matching funds by requiring prior authorization of intensive in-home mental health services beginning one week after services begin instead of after 12 weeks as currently required.
- ***Eliminate Coverage for Certain Medicaid Services.*** The introduced budget eliminates coverage for podiatry services and optometry (adults only) effective July 1, 2010. Repealing coverage for these two optional Medicaid services will result in savings of \$775,904 in FY 2011 and \$906,000 in FY 2012 to the general fund and \$935,686 in FY 2011 and \$906,000 in FY 2012 in federal Medicaid matching funds.
- ***Limit Annual Visits for Medicaid-Funded Therapy Services.*** Reduces \$161,642 in FY 2011 and \$173,711 in FY 2012 from the general fund and \$203,982 in FY 2011 and \$173,711 in FY 2012 in federal Medicaid matching funds by imposing an annual limit on physical, occupational and speech therapy services. Currently, there is no limit on the number of visits an individual can receive, although visits exceeding 24 must be authorized.

Other Budget Reductions

- ***Assessment on Providers of Intermediate Care Facilities for the Mentally Retarded (ICF-MRs) Services.*** Reduces \$4.2 million in FY 2011 and \$8.5 million in FY 2012 from the general fund and adds \$4.1 million in FY 2011 and \$8.4 million in FY 2012 NGF from federal Medicaid funds through the imposition of an assessment on ICF-MR providers. The introduced budget proposes an assessment of 5.5 percent on total revenues collected by providers of ICF-MR services to generate funds, which will be used to draw down matching federal Medicaid funds. The state would return the funding to these facilities in the form of Medicaid payments for their increased costs related to the assessment fee. The state would retain a portion of funding, thereby offsetting state general fund costs in the Medicaid program.
- ***Implement Pharmacy Management Savings.*** Proposes savings of \$4.9 million in FY 2011 and \$5.8 million in FY 2012 from the general fund and \$6.2 million in FY 2011 and \$5.8 million in FY 2012 from federal Medicaid funds through multiple strategies to reduce the cost of prescription drugs including:

- ***Drug Acquisition Costs.*** Reducing the reimbursement rate for pharmaceuticals from 10.25 to 13.1 percent of average wholesale price (AWP), the median reimbursement rate for all other states using AWP;
 - ***Preferred Drug List (PDL).*** Adding antidepressants, antianxiety and antipsychotic drugs to the preferred drug list (PDL). Drugs that are not included on the PDL must be authorized prior to being dispensed; and
 - ***Maximum Allowable Cost (MAC).*** Subjecting more generic drugs to the MAC reimbursement formula.
- ***Modify Eligibility Requirements for Children's Mental Health Demonstration Waiver.*** The introduced budget modifies requirements for eligibility in the Children's Mental Health Waiver allowing children to be considered as a family of one (i.e., only a child's income would be considered for eligibility purposes). Under current law, a family's entire income is considered when a child exits a Psychiatric Residential Treatment Facility. Because of this requirement, few children are eligible for the waiver. This proposed change will allow more children to qualify for the waiver, in effect; reducing expenditures that otherwise would be spent on more expensive residential placements. Savings of \$1.0 million GF and \$1.0 million in federal Medicaid matching funds are assumed in the budget each year.
 - ***Supplant GF for FAMIS with NGF.*** The introduced budget proposes to transfer 41.5 percent of revenues from the Master Settlement Agreement (MSA) to the Virginia Health Care Fund (VHCF) for coverage of health care service to children in the FAMIS program. Revenues from the fund will supplant the general fund share of FAMIS to achieve savings of \$2.0 million annually. Under current law, 40 percent of the Commonwealth MSA revenues are deposited into the VHCF.
- **Department of Behavioral Health and Developmental Services (DBHDS)**
 - ***Governor's September 2009 Budget Reductions.*** Continues the on-going strategies contained in September 2009 generating savings of \$34.0 million each year in FY 2011 and FY 2012.
 - ***Reduce Census at Intellectual Disability Training Centers Statewide.*** Projects net savings of \$10.0 million GF and a reduction of 200 FTE positions in FY 2012 by reducing the census at training centers statewide by 57 beds. Individuals will be discharged and transferred to community intellectual disability waiver slots that have been previously approved or through the federal Money Follows the Person grant program.
 - ***Reduce Beds and Positions at Southeastern Virginia Training Center (SEVTC) in Chesapeake.*** Projects net savings of \$500,000 GF and \$500,000 NGF and the reduction of 50 FTE positions by reducing 32 beds at the 200-bed state intellectual disability training center located in Chesapeake. Capital funding of \$23.8 million

that was set aside by the 2008 General Assembly for the renovation of SEVTC is being used to construct a smaller, 75-bed facility, addressing the needs of individuals requiring intensive, 24-hour care. In addition, \$8.4 million in capital funding is being used to construct 12 community-based intermediate care facilities (ICF-MRs) and six intellectual disability waiver homes in Health Planning Region V for individuals being discharged from the training center. This proposal assumes that a portion of that construction is complete in FY 2011 and 32 individuals will be transferred to appropriate community housing.

- ***Reduce Beds and Positions at Central Virginia Training Center (CVTC) in Lynchburg.*** Projects net savings of \$1.2 million GF and \$1.2 million NGF each year and the reduction of 50 FTE positions by reducing 24 beds and closing one living unit at the 432-bed state intellectual disability training center located in Lynchburg. Capital funding of \$43.0 million that was set aside by the 2008 General Assembly for the renovation of SEVTC is being used to build a smaller facility addressing the needs of individuals requiring intensive, 24-hour care. In addition, \$10.1 million in capital funding is being used to develop community-based intermediate care facilities and group homes for individuals being discharged from the training center. This proposal assumes that a portion of that community housing construction is complete in FY 2011 and 24 individuals will be transferred to appropriate community housing.
- ***Close Commonwealth Center for Children and Adolescents (CCCA) in Staunton.*** Projects net savings of \$2.9 million GF in FY 2011 and \$6.2 million GF in FY 2012 from the closure of a 48-bed facility that provides mental health treatment for children and adolescents as of June 30, 2010. From the Center's \$8.3 million general fund appropriation in FY 2011, \$2.1 million will be set aside for private, inpatient mental health services for children needing acute care. Children and adolescents not eligible for this funding are assumed to receive acute mental health services in the community through private insurance or Medicaid. Thirty full-time employees at the facility are expected to fill vacancies at Western State Hospital (WSH), adjacent to CCCA. The FY 2011 budget provides \$3.3 million GF to pay for WTA costs for the remaining 100 employees that will be laid off.
- ***Close the Adolescent Unit at Southwestern Virginia Mental Health Institute (SVMHI).*** Estimates a net savings of \$700,000 in FY 2011 and \$1.4 million GF in FY 2012 from the closure by June 30, 2010 of a 16-bed unit for children and adolescents with acute mental illness. It is assumed that children and adolescents can be served in the community with state resources, private insurance or Medicaid. The FY 2011 budget provides \$700,000 GF to pay for WTA costs for the 28 employees that will be laid off.
- ***Close the Geriatric Unit at Southwestern Virginia Mental Health Institute.*** Estimates a net savings of \$2.0 million GF in FY 2012 and a reduction of 50 FTE positions from the closure by June 30, 2010 of a 40-bed unit for geriatric patients at SVMHI. These patients will be transferred to the Piedmont Geriatric Hospital in Burkeville.

- ***Capture Savings from Pharmacy Management Practices.*** Reduces \$1.2 million GF in FY 2011 and \$5.8 million GF in FY 2012 from the implementation of better pharmacy management practices that were recommended as a result of a statewide study. These practices include use of prior authorization, implementation of a Preferred Drug List, and better use of generic drugs.
- ***Reduce GF for Waiver Start-Up Costs.*** Reduces \$660,000 GF in FY 2011 and \$760,000 in FY 2012 for mental retardation waiver start-up costs. This action eliminates all start-up funds by the second year as available slots will be filled by then.
- ***Agency NGF Balances Reverted to General Fund.*** Adds language to revert any nongeneral fund balances accumulated by the department in excess of \$20.0 million to the general fund on July 1, 2012, except for federal grants. It is expected that special fund balances may accrue by the end of the biennium from third-party payers such as Medicaid, Medicare and other insurers and will be available to offset general fund increases in Medicaid for individuals receiving care in state mental health treatment centers and intellectual disability training centers.

- **Department Rehabilitative Services**

- ***Governor's September 2009 Budget Reductions.*** Continues the ongoing strategies contained in September 2009 and generates additional savings through the annualization of savings strategies. In combination, these generate general fund savings of \$3.5 million in FY 2011 and \$3.8 million in FY 2012.
- ***Reduce Funds for Independent Living Part C Funds.*** Reduces funding by 5 percent for Independent Living Part C funds generating a savings of \$232,139 GF in FY 2012.
- ***Reduce Funds for Brain Injury Services.*** Reduces funding by 5 percent for Independent Living Part C funds and brain injury services generating a savings of \$194,931 GF each year in FY 2011 and FY 2012.

- **Woodrow Wilson Rehabilitation Center**

- ***Governor's September 2009 Budget Reductions.*** Continues the ongoing strategies contained in September 2009 generating savings of \$884,413 GF each year in FY 2011 and in FY 2012.

- **Department of Social Services**

- ***Governor's September 2009 Budget Reductions.*** Continues the ongoing strategies contained in September 2009 and generates additional savings through the annualization of savings strategies and additional reductions or elimination of funding for certain nonstate agencies. In combination, these generate savings of \$5.0 million GF in FY 2011 and \$5.0 million GF in FY 2012

- ***Reduce Funds for Local DSS Employee Training Contract.*** Saves \$1.4 million GF and \$1.7 million NGF each year by reducing funds by 50 percent for a local social services employee training contract with the Virginia Institute for Social Services Training (VISSTA) at Virginia Commonwealth University. Fewer training sessions will be available to local employees, resulting in decreases in VISSTA staff.
- ***Reduce or Eliminate Funding for Nonstate Agencies.*** Reduces or eliminates funding for several nonstate agencies generating saving of \$367,775 GF each year of the biennium. The following organizations are affected:
 - 15 percent reduction for the Virginia Early Childhood Foundation (\$225,000 each year in the 2010-12 biennium);
 - 15 percent reduction for the Virginia Community Action Partnership to support the Earned Income Tax Coalition (\$32,775 each year in the 2010-12 biennium);
 - Eliminate funding for the Georgetown South Community Center renovations (\$100,000 each year in the 2010-12 biennium); and
 - Eliminate funding for the Alexandria Parent Leadership Training Institute (\$10,000 each year in the 2010-12 biennium).
- ***Reduce Funds for Local DSS Operations.*** Saves \$1.2 million GF and \$1.2 million NGF each year in FY 2011 and FY 2012 by applying a 1 percent reduction to operating costs for local departments of social services.
- ***Reduce NGF Appropriation to Reflect Reduced Expenditures.*** Reduces \$40.8 million NGF each year in FY 2011 and FY 2012 to reflect revised estimates of federal matching funds for department administrative expenditures and reduced collections for child support for families receiving cash assistance.

Spending Increases

- ***Fund Foster Care and Adoption Subsidy Forecast Adjustments.*** Reduces general fund spending on foster care and adoption subsidies by a net of \$299,749 GF and \$2.1 million NGF in FY 2011 and provides additional funding of \$4.0 million GF and \$2.4 million NGF in FY 2012, to backfill the loss of enhanced federal matching funds from the federal ARRA legislation. Foster care expenditures in FY 2011 and FY 2012 are expected to remain at FY 2010 levels, significantly lower than historical annual growth rates of 10 percent, due to lower caseloads and the continued receipt of enhanced federal ARRA matching funds through December 31, 2010. Adoption subsidy expenditures in FY 2011 and FY 2012 are also expected to remain at FY 2010 levels.
- ***Unemployed Parents Cash Assistance Program Increases.*** Provides \$7.3 million GF to fund the annualized increased caseload in the unemployed parent cash

assistance program in FY 2011. No additional funding is provided in FY 2012 as the caseload is expected to decline as more jobs become available with the economic recovery.

- ***Offset Portion of Temporary Assistance to Needy Families (TANF) Reduction to Healthy Families of Virginia.*** Provides \$1.4 million GF in FY 2011 and \$4.9 million GF in FY 2012 to offset a portion of the proposed TANF reduction for Healthy Families of Virginia. Currently, the Healthy Families program receives \$5.4 million in TANF funding each year to provide services to at-risk families. However, additional TANF funding is needed to provide mandated cash assistance to families, requiring a reduction in spending to discretionary programs as described below. The general fund amounts provided to Healthy Families will result in a funding reduction of 10 percent in each year of the biennium.
- ***Offset Portion of TANF Reduction for Domestic Violence Grants.*** Provides \$555,000 GF in FY 2011 and \$1.2 million GF in FY 2012 to offset a portion of the proposed TANF reduction for local domestic violence grants. Currently, these grants receive \$1.4 million in TANF funding annually. The general fund amounts provided for local domestic violence grants will result in a funding reduction of 10 percent in each year of the biennium.
- ***Offset Funding for the Federation of Virginia Food Banks.*** Adds \$1.0 million GF in FY 2011 to purchase food for distribution through food banks throughout the Commonwealth. Budget language prohibits funding for administrative or overhead expenses.
- ***NGF for Child Support Enforcement.*** Adds \$40.0 million NGF each year in FY 2011 and FY 2012 to account for the estimated 3 percent increase in child support payments to custodial parents who are not receiving public assistance.
- ***NGF for Local Social Services Programs and Operations.*** Provides \$9.0 million NGF each year in FY 2011 and FY 2012 to account for (1) the federal funds that are matched by localities with local funds to support local staff and operations above that, which is required by the Commonwealth, and (2) revenues from various repayments received by local departments.
- ***NGF to Reflect Receipt of Federal Stimulus Dollars.*** Provides \$30.7 million NGF in FY 2011 to reflect the appropriation of the last quarter of federal stimulus dollars (first quarter of state FY 2011) that will be received for programs designated in the ARRA legislation. These include the following:
 - \$18.9 million for the Child Care and Development Fund;
 - \$4.0 million for the Community Services Block Grant;
 - \$3.3 million for Title IV-E foster care and adoptions;
 - \$2.6 million for the SNAP program (formerly food stamps);

- \$1.7 million for child support enforcement; and
- \$131,452 for AmeriCorps.

Temporary Assistance to Needy Families (TANF) Block Grant Funding

– *Reduce and Eliminate TANF Funding for Expanded Programs.* Current Temporary Assistance to Needy Families (TANF) spending relies on unobligated balances carried forward from prior years. These balances will be depleted at the end of FY 2012, requiring adjustments to TANF spending to align resources with expenditures. In addition, rising caseloads due to the recession require that funds be used for core TANF services such as cash assistance, Virginia Initiative for Employment not Welfare (VIEW) employment services and VIEW child care services. The introduced budget reduces TANF spending by a net of \$5.7 million NGF in FY 2011 and \$15.9 million NGF in FY 2012 to reflect the rebalancing of TANF resources and spending. TANF spending for non-mandated expanded programs has been reduced in FY 2011 by \$11.7 million and eliminated entirely in FY 2012 for a reduction of \$23.1 million. The introduced budget proposes the following reductions and eliminations of TANF spending, which are also shown in a following table:

- \$4.8 million in FY 2012 in TANF for a supplemental payment made each month to TANF families for a portion of the child support expected to be collected on behalf of these families;
- \$3.7 million in FY 2011 and \$4.9 million in FY 2012 in TANF for homeless assistance programs administered by the Department of Housing and Community Development (DHCD). A separate budget action in DHCD restores a portion of this reduction each year with general fund dollars, bringing total funding to 90 percent of the FY 2010 amount;
- \$1.4 million in FY 2011 and \$4.9 million in FY 2012 in TANF for Healthy Families Virginia. A separate budget action in DSS restores a portion of this reduction each year with general fund dollars, bringing total funding to 90 percent of the FY 2010 amount;
- \$2.1 million in FY 2011 and \$3.3 million in FY 2012 in TANF for Community Action Agencies;
- \$1.1 million each year in TANF for the Comprehensive Health Investment Project (CHIP) of Virginia. A separate budget action in the Department of Health restores a portion of this reduction each year with general fund dollars, bringing total funding to about 87 percent of the FY 2010 amount;
- \$693,750 in FY 2011 and \$1.4 million in FY 2012 in TANF for local domestic violence grants. A separate budget action restores a portion of this reduction each year with general fund dollars, bringing total funding to 90 percent of the FY 2010 amount;

- \$644,086 in FY 2011 and \$1.0 million in FY 2012 in TANF for the Child Care and Development Fund (CCDF). In FY 2010, \$8.1 million in TANF was transferred to the federal CCDF block grant to address additional need for at-risk day care subsidies. This action reduces that transfer to \$7.5 million in FY 2011 and \$7.1 million in FY 2012;
 - Elimination of \$637,500 each year in TANF for Centers for Employment and Training;
 - Elimination of \$455,000 each year in TANF for teen pregnancy prevention programs administered by the Virginia Department of Health;
 - Elimination of \$382,500 each year in TANF for local Partners in Prevention programs administered through the Department of Health; and
 - Elimination of \$190,000 each year in TANF for Child Advocacy Centers.
- **Department for the Blind and Vision Impaired**
 - *Administrative Reductions and Efficiencies.* Reduces spending by \$45,240 GF each year in FY 2011 and FY 2012 by limiting contracts for administrative operations.
 - *NGF for Rehabilitative Industries Program.* Adds \$1.5 million NGF each year for the rehabilitative industries program to reflect an increase in spending resulting from an increase in sales. The program will be opening two new stores in FY 2011.
 - *NGF for Endowment Fund.* Adds \$36,500 NGF each year in FY 2011 and FY 2012 from privately raised endowment funds to support Foundation program expenditures for Blind and Vision Impaired services, such as the Listening Ears radio program.
 - **Virginia Rehabilitation Center for the Blind and Vision Impaired**
 - *Governor's September 2009 Budget Reductions.* Continues the ongoing strategy contained in the September 2009 Reduction Plan which generates savings of \$24,165 GF each year in FY 2011 and FY 2012

**Governor's TANF Block Grant Funding
FY 2010 and 2010-12 Budget Proposal**

<u>TANF Resources</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Annual TANF Block Grant Award	\$158,285,000	\$158,285,000	\$158,285,000
Carry Forward From Prior Fiscal Year	34,502,916	26,668,522	9,677,600
ARRA Emergency TANF Relief Funds	22,938,187	4,002,246	
TANF Resources Available	\$215,726,103	\$188,955,768	\$167,962,600
<u>TANF Expenditures</u>			
<i>VIP/VIEW Core Benefits and Services</i>			
TANF Income Benefits	80,781,696	82,836,543	83,327,115
VIEW Employment Services	7,825,332	7,825,332	7,825,332
VIEW Child Care Services	0	0	0
Caseload Reserve	500,000	1,000,000	1,000,000
Subtotal, VIP/VIEW Benefits and Services	\$89,107,028	\$91,661,875	\$92,152,447
<i>Administration</i>			
State Administration	2,700,607	2,700,607	2,700,607
Information Systems	3,997,580	3,997,580	3,997,580
Local Direct Service Staff and Operations	33,549,000	33,549,000	33,549,000
Local Eligibility and Administration	12,168,977	12,168,977	12,168,977
Subtotal, Administration	\$52,416,164	\$52,416,164	\$52,416,164
<i>TANF Programming</i>			
TANF Child Support Supplement	4,800,000	4,800,000	0
DHCD Homeless Assistance & Prevention	4,910,128	1,227,532	0
Local Domestic Violence Grants	1,387,500	693,750	0
Centers for Employment & Training	637,500	0	0
Domestic Awareness Campaign	127,500	0	0
Child Advocacy Centers	190,000	0	0
Community Action Agencies	3,256,323	1,139,713	0
Healthy Families/Healthy Start	4,925,501	3,557,306	0
Comprehensive Services Act Trust Fund (CSA)	965,579	0	0
Comprehensive Health Investment Project (VDH)	1,070,945	0	0
Teen Pregnancy Prevention Programs (VDH)	455,000	0	0
Partners in Prevention Programs (VDH)	382,500	0	0
Subtotal, TANF Programming	\$23,108,476	\$11,418,301	\$0
TANF Expenditures, Total	\$164,631,668	\$155,496,340	\$144,568,611
<i>Transfers to other Block Grants</i>			
CCDF Transfer - Address Child Care Shortfall	8,100,413	7,456,327	7,054,139
CCDF Transfer to Head Start (Wraparound) Services	2,500,000	2,500,000	2,500,000
SSBG Transfer-Comp. Services Act	9,419,998	9,419,998	9,419,998
SSBG Transfer-Local Staff Support	4,405,502	4,405,502	4,405,502
TANF Transfers, TOTAL	\$24,425,913	\$23,781,827	\$23,379,639
Total, TANF Expenditures & Transfers	\$189,057,581	\$179,278,167	\$167,948,250