Health and Human Resources

The approved budget for HB 29 (Caboose Bill) in Health and Human Resources (HHR) includes net general fund savings of $115.5 million and net nongeneral fund increases of $94.8 million. General fund spending increases of $108.2 million 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, $9.8 million GF is to offset reduced revenue to the Virginia Health Care Fund (which is used as the state share of Medicaid spending), $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 savings in the Caboose Bill are from actions related to the Governor's September 2009 Budget Reduction Plan. Substantive additions announced in December 2009 include the expedited implementation of strategies to restrain the growth of Medicaid-funded, intensive in-home services as well as reduced rates for therapeutic behavioral health services and clinical laboratories, the elimination of the remaining 100 Mental Retardation/Intellectual Disabilities (MR/ID) waivers slated to be allocated on January 1, 2010 (the Governor previously announced in September 2009 that 100 MR/ID waivers would be withheld), and recognition of enhanced federal Medicaid matching funds for services provided through the Comprehensive Services Act (CSA).

The approved budget for HB 30 (2010-12 Biennium) provides a net increase of $1,064.2 million GF and a reduction of $294.3 million NGF compared to Chapter 781, 2009 Acts of the Assembly. The total reflects new biennial spending of $2,087.1 million GF offset by reductions of $1,022.9 million GF. Almost the entire increased general fund spending in HHR or $2.1 billion is required to comply with federal and state mandates to address caseload and cost increases. Most of the additional funding is attributable to Medicaid where general fund support is required to backfill the loss of temporary federal fiscal relief ($1.2 billion) beginning January 1, 2011 and to fund the increasing demand for health care services ($777.7 million).

At the same time that general funds are needed to replace disappearing federal support, caseload and cost growth in Medicaid has risen substantially requiring the addition of $777.7 million in the 2010-12 biennium. 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 care spending increases from the general fund include:

- $38.6 million to fully fund expected enrollment growth and cost increases for low-income children enrolled in the Family Access to Medical Insurance Security (FAMIS) program and the Medicaid expansion 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;
- $14.0 million to replace declining revenue to the Virginia Health Care Fund that is used as the state match for the Medicaid program;
- $6.1 million to address the medical costs of treating individuals who are temporarily detained through the mental health civil commitment process;
- $5.1 million to restore Medicaid payments to hospitals that serve a disproportionate share of indigent and uninsured patients;
- $2.3 million to restore Medicaid funding to community pharmacies for generic drugs;
- $2.1 million to continue the exemption of behavioral health drugs from the Medicaid Preferred Drug List; and
- $1.8 million to restore funding for Medicaid neo-natal intensive care payments to Children's Hospital of the King's Daughters.

Other high priority spending items include $3.7 million GF to fund enrollment and cost increases for adoption subsidies, $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 will 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 in HHR is minimal. The budget includes $7.3 million to accommodate increased growth in the Unemployed Parents Cash Assistance Program. In addition, $5.3 million is provided for Healthy Families Virginia, CHIP of Virginia, and local domestic violence grants to restore support that was previously provided from the federal TANF block grant. Finally, $1.0 million is added for the Federation of Virginia Food Banks in FY 2011 only.

General fund spending reductions exceed $1.0 billion for the biennium. Medicaid reductions total $736.8 million GF, accounting for 72.0 percent of the approved reductions. Cuts to provider rate reimbursements total $366.8 million GF and account for almost one-half of the reductions in Medicaid; these reductions also result in the loss of federal Medicaid matching funds of $371.2 million. The budget eliminates all inflationary increases to reimbursement rates for Medicaid providers that receive these adjustments. Budget language was added to restore many of the provider rate reductions <u>not</u> related to inflationary adjustments contingent upon a six-month extension of Federal Medical Assistance Percentage (FMAP) funding provided through the federal American Recovery and Reinvestment Act of 2009; however, the Governor has discretionary authority to restore funding in part or in full for these reductions based on the actual receipt of this funding for Virginia.

Changes to Medicaid eligibility account for the second largest category of general fund savings totaling $163.5 million or 22 percent. Most of the eligibility reductions are slated to take effect on January 1, 2011 or six months thereafter to comply with federal maintenance of effort requirements. These eligibility reductions are restored if Congress passes a six-month extension of FMAP funding.

Aside from Medicaid, two agencies account for most of the remaining general fund reductions in HHR: the Department of Behavioral Health and Developmental Services or DBHDS ($111.3 million) and the Comprehensive Services Act for At-risk Youth and Families or CSA ($85.9 million). DBHDS reductions can be attributed to less funding for community-based services, the closure of the adolescent and geriatric units at Southwest Virginia Mental Health Institute in Marion, the reduction in census at state intellectual disability training centers and administrative efficiencies at state facilities and within the central office. CSA reductions are primarily related to slower growth in the program.

HB 29 (Chapter 872)

- **Secretary of Health and Human Resources**
  - *Governor's September 2009 Budget Reductions*. In September 2009, statewide funding for child advocacy centers was reduced 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 budget includes a further reduction of 5 percent, resulting in a cumulative reduction of $100,000 for the program each year.

- **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, $5.0 million GF is reduced to reflect less demand for mental health services to children who are at-risk of placement in state custody if services are not provided.

- **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 will 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 will 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 approved 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, general fund support for poison control centers will be reduced 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 only;

    - 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 including 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

- The transfer of $1.0 million from undistributed cash balances from the Special Emergency Medical Services Fund and the Rescue Squad Assistance Fund to the Department of State Police for med-flight operations in FY 2010.

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 two exceptions. First, an unanticipated increase in federal Medicaid matching funds resulted in one-time savings of $97 million in FY 2010 only. The Commonwealth qualified for additional enhanced federal Medicaid funding under the ARRA of 2009 based on a revised calculation of unemployment, which was worse than previously anticipated. Second, in September 2009 the Governor eliminated funding for 100 MR/ID Waiver Slots; the reduction was increased to 200 slots in December 2009. While the 200 MR/ID waiver slots are eliminated in FY 2010, the General Assembly restored funding for 200 MR/ID waivers and added 50 slots to be made available on July 1, 2010. Substantive general fund reductions from September include the following:

September 2009 Budget Reductions Continued in FY 2010-12 Biennium

	FY 2010	FY 2011	FY 2012
Reduce VCU & UVA indigent health care funding by 3%	$7,000,000	$7,191,959	$7,855,994
Eliminate the addition of 100 MR/ID waiver slots	$1,235,099	*	*
Eliminate Assisted Living Payment Program ($3.00 & $6.00/day supplement for individuals needing more intense services on July 1, 2010. (September 2009 budget actions reflected 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 GF with NGF for Legal Alien Children Funding	$789,706	$724,324	$700,451
Reduce Residential Psychiatric Facility Rates	$288,281	$440,364	$496,450
Prior Authorization & Service Limits for 3 Dental Services	$146,692	$229,422	$241,775

**Funding for 250 MR/ID waivers is provided in the approved FY 2010-12 budget contingent upon the extension of Federal Medical Assistance Percentage (FMAP) funding; the restoration is at the discretion of the Governor.*

– *HB 29 Budget Actions.* The approved budget includes several substantive spending items and additional reductions in FY 2010 that were not contained in the September 2009 strategies. Caboose Bill spending includes:

  - $83.2 million GF to address rising caseloads, especially among low-income familes with children and higher expenditures in Medicaid;

  - $9.8 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 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 beginning February 1, 2010; and

  - $1.2 million GF by eliminating the remaining 100 MR/ID waiver slots that were to be allocated 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 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 reductions 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. Savings of $2.0 million GF annually 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. Savings of $4.0 million GF annually are realized in the 2010-12 biennium from this action.

- ***Service Reductions and Program Eliminations***. Reduces $487,767 GF in FY 2010 and $700,000 GF each year thereafter for the following services:

  - Funding for individuals with mental illness at state hospitals who require private hospitalizations; and

  - Funding and 9 FTE 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 for 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. Funding reductions include:

    - $51,000 for long-term employment support services;

    - $10,982 for brain injury discretionary services (representing a 5% reduction); and

    - $82,593 for personal attendant services (representing a 3% reduction in funding.

- *Replace General Fund Spending with Other Resources.* Replaces funding of $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.

- *Administrative Reductions and Efficiencies*. Reduces spending by $2.4 million GF in FY 2010 through a combination of administrative reductions and program efficiencies including eliminating 18 vacant positions and laying off 5 FTE positions and six wage staff, reducing discretionary spending within the Department.

- **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.

- **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. For example:

  - *Service Reductions and Program Eliminations*. Reduces funding for several programs, resulting in savings of $1.2 million GF in FY 2010, including:

    - $700,000 reduction 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 in FY 2010, which increases to $1.7 million each year or 24 percent in FY 2011 and FY 2012;

    - $400,000 less for "other purchased services" provided through local departments of social services. Additional reductions will phase-out funding, resulting in savings of $1.8 million in FY 2011 and $3.6 million in 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 FTE 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 $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 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 Temporary Assistance to Needy Families (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 caseload growth in the unemployed parent cash assistance program. This program provides temporary cash assistance to eligible low-income, two-parent families similar to the 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 falling caseloads. Caseloads declined by 21 percent from 2008 to 2009, as more children were adopted, and 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.

HB 30 (Chapter 874)

- **Secretary of Health and Human Resources**

  – ***Children's Advocacy Center Funding***. Reduces $100,000 GF each year ($50,000 from September 2009 and an additional $50,000 on July 1, 2010) and replaces the distribution formula for Children's Advocacy Centers (CACs). Currently, funding is distributed equally to (1) fully accredited CACs, (2) associate centers, and (3) centers that are under development but not yet accredited or associate members. The new formula will distribute 67 percent of funding for accredited CACs, 30 percent for associate or developing CACs, and three percent for administrative costs to the Children's Advocacy Centers of Virginia.

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

  – ***Continue Governor's September 2009 Budget Reductions.*** Reduces general fund spending by $38.6 million the first year and $36.6 million the second year to reflect lower utilization of CSA services.

  – ***Increase Local Share of Medicaid Residential Services***. Reduces funding by $4.0 million GF the second year by requiring localities to increase their share of Medicaid-funded CSA services when a child is placed in a residential treatment setting beginning July 1, 2011. In 2008, the local share of non-Medicaid residential services was increased to provide a financial disincentive for localities to place children and youth in residential treatment. Simultaneously, the local share of community-based services was decreased to provide an incentive for placement in the community.

– *Enhanced Medicaid Funding*. In FY 2011 only, reduces $3.8 million GF and provides $5.0 million NGF from enhanced federal Medicaid funding 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 NGF 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 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 as a result of 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 Governor's September 2009 Budget Reductions***. Reduces $1.4 million GF each year 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.

– ***Care Coordination Services for the Elderly.*** Reduces an additional $168,625 GF each year from care coordination services. Budget language is added requiring the Department to work with local Area Agencies on Aging to determine the best models for care coordination services in the Commonwealth.

– ***Increased NGF for Elderly Nutrition Programs.*** Adds $1.5 million NGF each year for increased 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 Governor's 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.*** Reduces $434,071 GF each year for the TAP program and supplants funding with from 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 funds the TAP program from nongeneral fund tax revenues, resulting in less funding for localities.

- **Department of Health**

  – ***Continue Governor's September 2009 Budget Reductions.*** Continues most of the budget reductions implemented in FY 2010 resulting in savings of $6.9 million GF in FY 2011 and $7.1 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. Substantive differences from the September 2009 reductions include:

    - An additional reduction of $1.0 million each year from poison control services. In September 2009, funding was reduced by 15 percent;

    - The phase-out of funding for the Patient Advocacy Foundation, resulting in biennial general fund savings of $286,875. Funding was reduced by 10 percent in the introduced budget;

    - An increase of $968,572 each year to restore funding for the Virginia Health Care Foundation, community health centers and free clinics that was reduced by 10% in the introduced budget; and

    - An increase of $48,500 each year to restore funding for sickle cell services that was reduced in the introduced budget.

  New Spending

  – ***Fund OCME Compliance with Supreme Court's Melendez-Diaz Ruling.*** The final budget includes $817,574 GF in FY 2011 and $1.1 million GF in FY 2012 to accommodate anticipated workload demands 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 TANF Funding with GF for CHIP of Virginia.* The adopted budget added $717,559 GF in FY 2011 only and reduced $1.1 million NGF from the federal TANF block grant each year for the Comprehensive Health Investment Project (CHIP) of Virginia. The first year addition of general fund dollars provides a temporary transition for the loss of federal TANF dollars. 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. In FY 2012, the approved budget reduces funding for CHIP of Virginia by $126,053 GF, resulting in a reduction of about 35.8 percent over the FY 2011 funding level.

Budget Reductions

– *Supplant GF for Environmental Health Services with Increased Fee Revenues.* Beginning July 1, 2010, the approved budget increases nongeneral funds from permit fee revenues for restaurants, hotels, campgrounds and summer camps and plan reviews. The additional fee revenue will supplant $3.8 million GF annually for agency operations and provide $2.3 million in revenues to maintain services in local health districts.

– *Funding for the Office of the Chief Medical Examiner (OCME).* The introduced budget supplanted $2.5 million GF each year with revenues generated from fee increases for Vital Records requests. The approved budget did not include the increase in Vital Records fees. Full funding was restored for the OCME in FY 2011 only.

– *Funding for the Office of Licensure and Certification (OLC) with Additional Fee Revenue.* The introduced budget supplanted $400,000 GF the first year and $604,415 GF the second year with increased fees from nursing homes, hospitals, home care centers, and hospices to cover the costs of regulating these industries. The approved budget does not include the fee increases and restores $400,000 GF for operating costs in the first year only.

– *Funding for the Marina and Shellfish Sanitation Program.* The proposed budget reduced $64,250 GF and added $64,250 NGF each year from permitting fees for sewage facilities at marinas regulated by the Health Department. The proposed budget also reduced $150,150 GF and included $150,150 NGF each year from fees for certifications, marine resources, and National Pollutant Discharge Elimination System permits. The fees were 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. The approved budget does not include the fee increases and restores general fund support for the agency's operations in FY 2011 only.

– *Eliminate Funding for Local Health District Laboratories.* Closes ten health district laboratories and reduces 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 14 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 Obstetrical Service Projects.*** Eliminates $163,750 GF each year for two pilot projects related to obstetrical services in areas of the Commonwealth where such services were not available. The first reduction eliminates $100,000 GF each year for case management services in five health districts (Lenowisco, Cumberland Plateau, Three Rivers, Central Shenandoah, and Alleghany) that were created to ensure women had access to obstetrical services. Local health districts will develop their own strategies to support the project. In addition, general fund support of $63,750 each year was eliminated for a certified nurse midwife that supported services in southside Virginia. An additional year of funding was provided during the 2009 Session to allow time for the project to become self-supporting, but funding was not removed in the introduced budget.

Other

– ***Transfer Funds from Special Emergency Medical Services Fund to Med-Flight Operations.*** Beginning July 1, 2010, transfers $2.1 million annually from the Special Emergency Medical Services Fund to free up general fund savings within the Department of State Police for operations of the med-flight program. The introduced budget proposed the transfer of $1.6 million annually from the Rescue Squad Assistance Fund to State Police; this proposal was rejected.

– ***Transfer Balance from Trauma Center Fund to GF.*** The introduced budget proposed the transfer of $2.4 million from the Trauma Center Fund to the general fund each year of the biennium beginning July 1, 2010. The approved budget reverses that action by increasing the driver's license reinstatement fee to $100, generating $9.0 million annually. The fee increase will restore $2.4 million to hospitals that operate trauma centers with the balance of $6.6 million annually being deposited to the general fund.

– ***Drinking Water Funding.*** Reduces $2.6 million GF each year for local drinking water improvement projects. This funding was added during the 2006 to offset reductions in federal funding. Federal funding for drinking water projects is not affected by this reduction.

- **Department of Medical Assistance Services**

– ***Continue Governor's September 2009 Budget Reductions.*** Except as noted below, all of the budget reductions announced in September 2009 will continue into the next biennial budget resulting in general fund savings of $11.2 million in FY 2011 and $12.0 million in FY 2012. The exceptions are as follows:

  - A one-time increase in federal Medicaid funding that resulted in general fund savings of $97 million in FY 2010 is not continued;

  - The introduced budget eliminated 200 MR/ID waiver slots that were to be allocated in FY 2010 with the savings to be continued in the 2010-12 biennium. The General Assembly accepted the FY 2010 GF savings, but added funding for 250 additional MR/ID waiver slots beginning July 1, 2010 contingent upon an extension of FMAP funding through June 30, 2011; the restoration of funding is at the disecretion of the Governor; and

  - Funding for supplemental payments to assisted living facilities for non-Medicaid recipients in the Regular and Intensive Assisted Living Program is eliminated in the FY 2010-12 biennium; it was reduced in FY 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 $2.0 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 biennial 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 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.

- ***Federal Medical Assistance Percentage (FMAP) Funding.*** Legislation passed Congress extending federal fiscal relief for states by six months – from January 1, 2010 through June 30, 2010 – resulting in anticipated general fund savings exceeding $400 million. These additional federal revenues, however, have not been appropriated, because the legislation has not been finalized. Contingent upon passage of the FMAP legislation, more than $370 million in general fund budget reductions in Health and Human Resources, primarily Medicaid, will be restored. At his discretion, the Governor may reduce restorations made by the General Assembly in order to stay within the full allotment of FMAP funding.

- ***Medicare Part D Clawback Payment***. In February 2010, the federal government reduced the amount of funding the Commonwealth is required to contribute for the federal Medicare Part D Program -- prescription drug coverage -- for the elderly and disabled. This decision reduces the state's general fund obligation in FY 2011 by $85.7 million.

– ***Family Access to Medical Insurance Security (FAMIS) Utilization and Inflation.*** Includes 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 approved 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.*** Adds $3.1 million GF each year for 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 in FY 2010 is included in HB 29 to address rising caseloads.

Increased Funding

– ***Adjust Funding for the Virginia Health Care Fund.*** Adds $8.1 million in FY 2011 and $5.9 million in FY 2012 from the general fund to reflect net changes in 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 include:

  - Addtional general fund support to account for projected declines in cigarette tax revenues to the Fund and replace falling revenues from school-based revenue maximization initiatives; and

  - Reduced general funds as a result of increased tax collections on other tobacco products and an increase in the amount to be transferred from the Master Tobacco Settlement to the Fund from 40.0 to 41.5 percent of overall revenues. Currently, 10.0 percent of tobacco settlement funds flow to the Virginia Foundation for Healthy Youth; the allocation to the VFHY will be reduced to 8.5 percent or $2.0 million annually.

– ***Provide General Fund Match for State Mental Health and Intellectual Disability Training Centers.*** Adds $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.

- *FMAP – Add 250 Intellectual Disability Waiver Slots.* Includes $5.4 million the first year and $7.8 million the second year from the general fund and $6.8 million the first year and $7.8 million the second year from federal Medicaid matching funds contingent upon Congress extending federal FMAP funding until June 30, 2011.

- *Expand Medicaid Coverage to Pregnant Women to Comply With Federal Law.* Provides $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) that 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 each year 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)

The table below details all hospital provider rate reductions totaling $201.1million GF and $187.7 million from federal Medicaid matching funds over the biennium. A description of major hospital reduction strategies is included after the table. Funding is restored for a number of hospital reductions contingent on the receipt of an additional two quarters of FMAP funding in FY 2011 (see notes below). However, the Governor has the discretion to modify the funding if the FMAP received is less than projected for Virginia.

Summary of Hospital Provider Rate Reductions

Description	FY 2011 GF Savings	FY 2011 NGF Savings	FY 2012 GF Savings	FY 2012 NGF Savings
Inpatient Hospitals Inflation Adjustment	$29.4	$37.1	$46.6	$46.6
• Withhold adjustment each year of biennium				
Inpatient Hospital Operating Rates (a)	$14.6	$18.4	$24.2	$24.2
• Reduce by 3% in FY 2011 and 4% in FY 2012				
Inpatient Hospital Capital Rates (a)	$1.6	$2.0	$2.6	$2.6
• Reduce by 3% in FY 2011 and 4% in FY 2012				
Outpatient Hospital Operating Rates (a)	$6.9	$8.7	$10.8	$10.8
• Reduce by 3% in FY 2011 and 4% in FY 2012				
Indigent Care at State Teaching Hospitals (b)	$14.3	$0.0	$15.0	$0.0
• Continue Sept. 2009 budget reduction of 3%				
• Reduce reimbursement by 3% in FY 2011 & FY 2012				
Inpatient Hospitals Disproportionate Share	$8.7	$8.7	$9.2	$9.2
• Maintain DSH payments at FY 2010 level				
Out-of-State Hospitals	$5.2	$6.6	$6.2	$6.2
• Impose reciprocal payments (c)				
• Impose stricter requirements for Indirect Medical Education Payments and Disproportionate Share Payments				
Inpatient Hospitals GME & IME Payments	$2.1	$2.7	$2.8	$2.8
• Withhold inflation from Graduate and Indirect Medical Education payments				
• Redirect IME payments for high volume NICUs to Children's Hospital of the King's Daughters				
Long-Stay Hospitals (a)	$0.4	$0.6	$0.5	$0.5
• Reduce payments to average Medicaid allowable costs				
TOTAL, Hospital Reductions	**$83.2**	**$84.8**	**$117.9**	**$102.9**

Notes: Some reductions will be restored if Virginia receives two more quarters of Medicaid FMAP in FY 2011.
(a) Restorations would apply to reductions contained in each year.
(b) Restorations would apply only to reductions totally $7.1 million GF each year.
(c) Restorations would apply to first year reduction only.

– ***Eliminate Inflation Adjustment for Hospital Operating Rates.*** Reduces $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.

- *FMAP – Reduce Inpatient Hospital Operating Rates.* Includes savings of $14.6 million GF and $18.4 million NGF in FY 2011 and $24.2 million GF and $24.2 million NGF in FY 2012 by reducing inpatient hospitals rates by three percent the first year and four percent the second year. Language is added to restore funding contingent upon Congress extending federal FMAP funding until June 30, 2011 at the discretion of the Governor.

- *FMAP – Reduce Inpatient Hospital Capital Rates.* Reduces $1.6 million GF and $2.0 million NGF in FY 2011 and $2.6 million GF and $2.6 million NGF in FY 2012 from reimbursements to hospitals for inpatient hospital capital rates. The approved budget reduces inpatient hospitals capital reimbursement rates by three percent the first year and four percent the second year. Language is added to restore funding contingent upon Congress extending federal FMAP funding until June 30, 2011 at the discretion of the Governor.

- *FMAP – Reduce Outpatient Hospital Rates.* Includes savings of $6.9 million GF and $8.7 million NGF in FY 2011 and $10.8 million GF and $10.8 million NGF in FY 2012 by reducing reimbursements for outpatient hospital services by three percent the first year and four percent the second year. Language is added to restore funding contingent upon Congress extending federal FMAP funding until June 30, 2011 at the discretion of the Governor.

- *FMAP – Reduce Funding for Indigent Care at State Teaching Hospitals.* Reduces $14.3 million the first year and $15.0 million the second year from the general fund for the cost of delivering indigent care at VCU Health System and UVA Health System. The introduced budget included a 3 percent reduction for indigent care costs, but the approved budget included a further reduction of almost 3 percent. However, the additional reduction of $7.1 million GF each year will be restored contingent upon the extension of federal FMAP funding through June 30, 2011 at the discretion of the Governor.

- *Maintain Disproportionate Share Hospital (DSH) Payments at FY 2010 Funding Level.* The introduced budget included 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 to federal Medicaid matching funds by maintaining current DSH payments to acute and rehabilitation hospitals at the same rate in effect in FY 2010. DSH payments are provided to hospitals that serve a disproportionate share of indigent individuals compared to peer hospitals. This change did not include an inflationary adjustment for DSH, although it will allow that hospital-specific payments to be rebased in FY 2011. Because no additional funding was provided, however, some hospitals that qualify for DSH payment will receive additional support, while others will receive less. This outcome was dictated by the Department's policy that any changes be budget neutral. In addition, the threshold to qualify for DSH payments for hospitals was lowered from 15 to 14 percent of Medicaid utilization, resulting in additional hospitals qualifying for these payments.

The adopted budget restores $1.2 million GF and $1.3 million NGF each year to in-state hospitals who would have experienced a reduction in their DSH payments in the 2010-12 biennium due to these budget and policy actions. Consequently the net reduction in DSH payments totals $8.7 GF and $8.7 NGF in FY 2011 and $9.2 million GF and $9.2 million NGF in FY 2012.

– ***Out-of-State Hospital Payments.*** Reduces reimbursements to out-of-state hospitals treating Medicaid payments by $5.2 million GF and $6.6 million NGF the first year and $6.2 million GF and $6.2 million NGF from federal Medicaid matching funds. The following reductions will only apply to out-of-state hospitals bordering Virginia whose Virginia Medicaid patient days is less than 12 percent of their total Medicaid business. Strategies include:

  - ***Reciprocal Medicaid Payments.*** Reduces $2.3 million GF and $3.7 million NGF the first year and $3.0 million GF and $3.0 million NGF from federal Medicaid matching funds the second year by reimbursing out-of-state hospitals treating Virginia Medicaid recipients at the same rate their hospitals pay Virginia hospitals. Language is added to delay the effective data of this provision by one year contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

  - ***Impose Stricter Requirements on Indirect Medical Education (IME) Payments.*** Includes savings of $1.7 million GF and $1.7 million NGF the first year and $1.9 million GF and $1.9 million NGF from federal Medicaid matching funds the second year by imposing stricter requirements for out-of-state hospitals to receive supplemental IME payments from the Commonwealth. Out of state hospitals that do not meet the new threshold will see their IME payments eliminated. According to DMAS officials, none of Virginia's neighboring states provides IME payments for out-of-state hospitals.

  - ***Impose Stricter Requirements on Disproportionate Share Hospital (DSH) Payments for Out-of-State Hospitals.*** The introduced budget assumed 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 to federal Medicaid matching funds by tightening the requirements for out-of-state hospitals to qualify for DSH payments under Virginia's Medicaid program. The approved budget restores 50 percent of the reduction to out-of-state hospitals that do not satisfy the more stringent DSH requirement. 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.

- *FMAP – Reduce Funding for Long-Stay Rehabilitation Hospitals.* Reduces $449,298 the first year and $522,102 the second year from the general fund and $566,983 the first year and $522,102 the second year from federal Medicaid matching funds by eliminating the incentive plan for hospitals with costs below the ceiling for long-stay hospitals, eliminating inflationary increases each year, and freezing the ceiling on payments. Language is added to restore funding for the incentive plan each year contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

- *Indirect Medical Education Payments and High-Volume Neo-Natal Intensive Care Units (NICUs).* Modifies budget language restricting the additional payment for high-volume NICUs to hospitals with Medicaid utilization greater than 50 percent of total patient volume. Under current law, three hospitals receive an extra payment to recognize the high-volume of NICU births at their hospital -- Children's Hospital of the King's Daughters (CHKD), Inova – Fairfax Hospital, and Johnson City (TN) Memorial. This change eliminates approximately $500,000 GF each year for Inova Fairfax Hospital and Johnson City Memorial and redirects those funds to CHKD.

Other Provider Rate Reductions (except Hospital Services)

Other provider rate reductions not related to hospitals total $165.7million GF and $183.5 million from federal Medicaid matching funds over the biennium. The reductions are summarized in the table below. Additional narrative is included for major budget reductions.

- *Nursing Facility Reimbursement Rates*

  - *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 the rates paid for nursing facilities at the same level in effect in FY 2010. This budget action withholds an annual adjustment for inflation and triennial rebasing of the rates paid to nursing homes.

  - *FMAP – Nursing Facility Operating Rate and Capital Reductions.* Reduces $12.9 in FY 2011 and $16.3 million in FY 2012 from the general fund and $16.3 million each year from federal Medicaid matching funds by reducing nursing facility operating rates by three percent the first year and three percent the second year and reducing reimbursements for capital projects by 0.25 percent the first year and 0.5 percent the second year. Language is added to restore funding for this reduction contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

Summary of Other Provider Rate Reductions

Provider Payment Reductions	FY 2011 GF	FY 2011 NGF	FY 2012 GF	FY 2012 NGF
Nursing Facilities	$24.1	$30.4	$34.7	$34.7
• Withhold annual inflation rate adjustment, and triennial rebasing of facility rates				
• Reduce operating rates by 3% in FY 2011 and 3% in FY 2012 (a)				
• Reduce capital reimbursement rates by 0.25% in FY 2011 and 0.5% in FY 2012 (a)				
Home and Community-Based Services	$18.2	$22.9	$18.0	$18.0
• Reduce provider rates by 5 percent (a)				
Intensive In-Home Services	$9.3	$11.7	$10.5	$10.5
• Reduce rates from $70 to $60 per hour				
Practitioner Fees	$8.8	$11.1	$14.7	$14.7
• Reduce by 3% in FY 2011 and 4% in FY 2012 (a)				
Residential Psychiatric Facilities	$2.9	$3.7	$5.3	$5.3
• Reflect Sept. 2009 rate reduction of 1%				
• Withhold annual inflation rate adjustment				
• Reduce operating rates by 3% in FY 2011 and 4% in FY 2012 (b)				
Dental Services	$1.5	$1.9	$2.3	$2.3
• Reduce by 3% in FY 2011 and 4% in FY 2012 (a)				
Therapeutic Behavioral Services	$2.0	2.6	$2.8	$2.8
• Reduce day treatment rates by 3% in FY 2011 and 4% in FY 2012 (b)				
• Reflect FY 2010 5% rate reduction for certain children's residential behavioral services				
Clinical Laboratory Services	$1.6	$2.0	$1.4	$1.4
• Reduce reimbursement rate by 5 percent				
Durable Medical Equipment	$1.4	$1.8	$2.3	$2.3
• Reduce some rates from 100% to 90% of Medicare, modify fee & price schedules for other supplies				
Pharmacy Payments	$0.8	$1.0	$1.5	$1.54
• Reduce pharmacy dispensing fee from $3.75 to $3.50 in FY 2012 (c)				
• Reduce payments from the avg. wholesale price (AWP) minus 10.25% to AWP minus 13.1% (a)				
Freestanding Psychiatric Facilities	$0.3	$0.0	$0.4	$0.0
• Withhold annual inflation adjustment & rebasing				

Summary of Other Provider Rate Reductions *(cont'd)*

Provider Payment Reductions	FY 2011 GF	FY 2011 NGF	FY 2012 GF	FY 2012 NGF
Outpatient Rehabilitation & Home Health Agencies • Withhold annual inflation rate adjustment	$0.3	$0.3	$0.6	$0.6
TOTAL Other Provider Reductions	**$71.2**	**$89.4**	**$94.5**	**$94.1**

Notes: Some reductions will be restored if Virginia receives two more quarters of Medicaid FMAP in FY 2011.
(a) Restorations would apply to reductions contained in each year.
(b) Restorations would apply only to first year reduction only.
(c) Restorations would apply to second year reduction only.

– *FMAP - Reduce Provider Rates for Home and Community-Based Waiver Services by 5 Percent*. Reduces $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. Language is added to restore funding for home and community-based provider rates contingent upon Congress extending federal FMAP funding until June 30, 2011.

– ***Reduce Rates for Intensive In-home Mental Health Services.*** Captures general fund savings of $9.3 million in FY 2011 and $10.5 million in FY 2012 and savings in federal Medicaid matching funds of $11.7 million in FY 2011 and $10.5 million in FY 2012 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 29 because it is effective on February 1, 2010 (FY 2010). This community mental health rehabilitation 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.

– ***FMAP – Reduce Medicaid Practitioner Fees.*** Includes savings of $8.8 million in FY 2011 and $14.7 million in FY 2012 from the general fund and $11.1 million in FY 2011 and $14.7 million in FY 2012 from federal Medicaid matching funds by reducing practitioner fees by 3 percent the first year and 4 percent the second year. Language is added to restore funding for this reduction contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

– ***Psychiatric Residential Treatment Facilities.*** In addition, to the September 2009 budget reduction, which reduced residential facility rates by one percent, two changes reduce reimbursements for psychiatric treatment facilities during the FY 2010-12 biennium. Combined with the ongoing impact of the September reduction, these changes result in biennial savings of $8.2 million GF and $9.0 million NGF from federal Medicaid matching fund. Strategies include:

  - ***Eliminate Inflation Adjustment.*** Reduces $1.2 million GF and $1.5 million NGF the first year and $2.8 million GF and $2.8 million NGF from federal Medicaid matching funds by withholding an annual inflationary adjustment for residential psychiatric facilities each year of the biennium**.**

  - ***FMAP – Reduce Operating Rates by Three Percent and Four Percent in FY 2011 and FY 2011.*** Reduces facility operating rates by three percent the first year and an additional percent the second year to achieve savings of $1.3 million GF and $1.7 million NGF the first year and $2.0 million GF and $2.0 million NGF from federal Medicaid matching funds. Language is added to delay this reduction by one year contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

– ***FMAP – Dental Services Fees.*** Reduces $1.5 million GF and $1.9 million NGF the first year and $2.3 million GF and $2.3 million NGF from federal Medicaid matching funds by reducing dental service rates by 3 percent the first year and 4 percent the second year. Language is added to restore funding for this reduction contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

– ***FMAP – Therapeutic Behavioral Services.*** Includes savings from two actions affecting reimbursement for therapeutic behavioral services. First, savings reflect the FY 2010 five percent reduction in rates for Level A children's group home and Level B therapeutic group home psychiatric residential treatment facility (PRTF) services. Second, savings reflect a reduction in reimbursement for therapeutic day treatment services by 3 percent the first year and 4 percent the second year. Language is added to delay the rate reduction in day treatment services by one year contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor. In combination, these actions total biennial savings of $4.8 million GF and $5.4 million NGF from Medicaid matching funds.

– ***Reimbursement Changes for Durable Medical Equipment (DME).*** Includes multiple strategies to reduce spending on DME by $1.4 million GF and $1.8 million NGF in FY 2011 and $2.3 million GF and $2.3 million NGF in FY 2012 including:

  - 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;
- Modifying reimbursement for incontinence supplies based on competitive bidding;
- 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.

– ***FMAP – Pharmacy Reimbursement.*** The adopted budget includes savings from two actions affecting reimbursement for pharmacy services; however, language is added restoring the funding for these reimbursements contingent upon Congress extending enhanced federal FMAP funding through June 30, 2011. These actions include the following:

  - ***Drug Acquisition Costs.*** The adopted budget reduces the reimbursement rate to pharmacies for pharmaceutical products from the Average Wholesale Price (AWP) minus 10.25 percent to AWP mimus 13.1 percent. This action provides a savings to the general fund of $819,468 in FY 2011 and $927,000 in FY 2012 and a savings in federal Medicaid matching funds of $1.0 million in FY 2011 and $927,000 in FY 2012. The adopted budget adds language restoring pharmacy reimbursement to AWP minus 10.25 percent beginning in FY 2011, if Congress extends enhanced FMAP through June 30, 2011.
  - ***Pharmacy Dispensing Fees.*** The adopted budget reduces the dispensing fee paid to pharmacists by $0.25 effective July 1, 2011. This action saves $523,579 GF and $523,579 NGF in federal matching Medicaid funds in FY 2012. However, language is added to restore funding if Congress passes a six-month extension of increased FMAP through June 30, 2011.

Restoration of Provider Rate Reductions Contingent upon FMAP Extension

The approved budget includes language to restore funding for provider rate reductions included in the table below contingent upon the extension of Federal Medical Assistance Percentage (FMAP) funding by six additional months from January 1, 2011 through June 30, 2011. The Governor has the discretion to modify the amounts restored based on the actual amount of additional FMAP allocated to Virginia.

Medicaid Provider Rate Reductions To Be Restored Contingent Upon Receipt of Additional FMAP Funding

Description	FY 2011 GF	FY 2011 NGF	FY 2012 GF	FY 2012 NGF
Inpatient Hospital Operating Rates				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$14.6	$18.4	$24.2	$24.2
Inpatient Hospital Capital Rates				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$1.6	$2.0	$2.6	$2.6
Indigent Care at State Teaching Hospitals				
• 3% reduction each year of biennium	$7.1	-	$7.1	-
Outpatient Hospital Operating Rates				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$6.9	$8.7	$10.8	$10.8
Nursing Facility Rates				
• Reduce operating rates by 3% in FY 2011 and 3% in FY 2012 • Reduce capital reimbursement rates by 0.25% in FY 2011 and 0.5% in FY 2012	$12.9	$16.3	$16.3	$16.3
Home and Community-Based Waiver Services				
• Reduce by 5% in FY 2011 and 4% in FY 2012	$18.2	$22.9	$18.0	$18.0
Practitioner Fees				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$8.8	$11.1	$14.7	$14.7
Dental Services				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$1.5	$1.9	$2.3	$2.3
Out-of-State Hospitals				
• Impose reciprocal payments	$2.3	$3.7	-	-
Therapeutic Day Treatment Services				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$1.5	$1.9	-	-
Psychiatric Residential Treatment Facilities				
• Reduce by 3% in FY 2011 and 4% in FY 2012	$1.3	$1.7	-	-
Long-Stay Hospitals				
• Reduce payments to average Medicaid allowable costs	$0.4	$0.6	$0.5	$0.5
Pharmacy Reimbursements				
• Restore payments to Average Wholesale Price (AWP) minus 10.25 percent	$0.8	$1.0	$0.9	$0.9
• Reduce pharmacy dispensing fee from $3.75 to $3.50 in FY 2012	-	-	$0.5	$0.5
TOTAL, Medicaid Provider Rate Restorations	**$77.9**	**$90.2**	**$97.9**	**$90.8**

Eligibility Reductions

– ***FMAP - Reduce Income Limits for 300 percent of Supplemental Security Income (SSI) Eligibility Category.*** Under current law, certain individuals residing in nursing homes or being served through long-term care waivers are eligible for this optional Medicaid category if their income is less than 300 percent of SSI, equal to $2,022 per month. The approved budget reduces eligibility from 300 to 275 percent of SSI or $1,854 per month on January 1, 2011, and further reduces eligibility to 250 percent of SSI or $1,685 on July 1, 2011, resulting in fewer individuals qualifying for Medicaid long-term care services. These changes result in general fund savings of $16.9 million in FY 2011 and $72.9 million in FY 2012 and savings in federal Medicaid matching funds of $16.9 million in FY 2011 and $72.9 million in FY 2012. Language is added to restore eligibility to 300 percent of SSI contingent upon Congress extending enhanced FMAP funding through June 30, 2011.

– ***FMAP – Reduce Income Eligibility for the Aged, Blind and Disabled.*** Includes savings of $36.2 million from the general fund and $36.2 million from federal Medicaid matching funds in FY 2012 by reducing income eligibility for the aged, blind, and disabled from 80 to 75 percent of poverty effective July 1, 2011. Language is added to restore eligibility to 80 percent of poverty contingent upon Congress extending enhanced FMAP funding through June 30, 2011.

– ***FMAP – Reduce Income Eligibility in the FAMIS and FAMIS Moms Program to 175 percent of Poverty.*** Assumes savings of $19.3 million from the general fund and $35.9 million from federal Medicaid matching funds by reducing income eligibility for pregnant women and children enrolled in FAMIS or FAMIS Moms to 175 percent of poverty effective July 1, 2011. Language is added to restore eligibility to 200 percent of poverty contingent upon Congress extending enhanced FMAP funding through June 30, 2011.

– ***FMAP - Freeze Enrollment in Home and Community Based Waivers.*** Includes savings of $3.7 million in FY 2011 and $13.3 million in FY 2012 from the general fund and $3.7 million in FY 2011 and $13.3 million in FY 2012 from 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 allocation of waiver slots when a current waiver recipient leaves a waiver program. Language is added to lift the freeze contingent upon Congress extending enhanced FMAP funding through June 30, 2011.

– ***FMAP – Medically Needy Income Limits.*** Reduces $563,081 GF and $563,081 NGF from federal Medicaid matching funds in FY 2012 by maintaining income eligibility for the medically needy population at FY 2011 levels. Currently, the medically needy income limits are indexed by changes in the Consumer Price

Index (CPI) each year. This change eliminates the second year adjustment. Language is added to index income eligibility in FY 2012 by the change in CPI contingent upon Congress extending enhanced FMAP funding through June 30, 2011; the restoration of funding is at the discretion of the Governor.

– ***FMAP – Impact of Auxiliary Grant Rate Reduction on Medicaid Eligibility.*** Reduces $623,520 GF and $623,520 NGF from federal Medicaid matching funds in FY 2012 for a reduction in the number of individuals eligible for Medicaid due to their status as Auxiliary Grant recipients. The Auxiliary Grant provides a subsidy to low-income individuals receiving Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) who reside in assisted living facilities. The grant rate is reduced by 4 percent in FY 2012 in the Department of Social Services' budget. A reduction in the grant amount will mean that fewer individuals will qualify for the subsidy. Individuals that receive an Auxiliary Grant to pay for assisted living costs are automatically eligible for Medicaid. Language is added to restore the funding to maintain the current Auxiliary Grant rate and Medicaid eligibility contingent upon Congress extending enhanced FMAP funding through June 30, 2011; the restoration of funding is at the discretion of the Governor.

Medicaid Eligibility Restorations Contingent upon FMAP Extension

The approved budget includes $20.6 million in FY 2011 and $142.9 million in FY 2012 in general fund savings and a like amount of nongeneral fund savings from federal Medicaid matching funds by reducing eligibility for a number of Medicaid programs. The reductions are detailed in the table below. Eligibility levels will be restored contingent upon the federal government extending enhanced FMAP funding by six additional months from January 1 through June 30, 2011.

Restorations of Medicaid Eligibility
Contingent Upon Receipt of Additional FMAP Funding

	FY 2011		FY 2012	
Description	**GF**	**NGF**	**GF**	**NGF**
SSI Income Eligibility Group				
• Reduce eligibility to 275% of poverty on January 1, 2011 and 250% on July 1, 2011	$16.9*	$16.9*	$72.9	$72.9
Aged, Blind and Disabled				
• Reduce eligibility to 80% of poverty on July 1, 2011.	-	-	$36.2	$36.2
Children and Pregnant Women				
• Reduce eligibility in FAMIS and FAMIS Moms to 175% of poverty on July 1, 2011.	-	-	$19.3	$35.9
Home and Community Based Waivers				
• Freeze enrollment during CY 2011	$3.7*	$3.7*	$13.3	$13.3

Restorations of Medicaid Eligibility Contingent Upon Receipt of Additional FMAP Funding *(cont'd)*

Description	FY 2011 GF	FY 2011 NGF	FY 2012 GF	FY 2012 NGF
Medically Needy Income Limits				
• Maintain eligibility at FY 2011 levels	-	-	$0.6	$0.6
Auxiliary Grant Recipients				
• Impact on eligibility of Aux. Grant rate reduction	-	-	$0.6	$0.6
TOTAL	**$20.6***	**$20.6***	**$142.9**	**$142.9**

*Funding must be restored in order to obtain the enhanced FMAP, so as not to violate Medicaid maintenance of effort (MOE) requirements contained in the federal American Recovery and Reinvestment Act of 2009.

Service Limitations or Eliminations

– ***Postpone Mandated Increase in the Intellectual Disability (ID -- formerly Mental Retardation or MR) and Developmental Disabilities (DD) Waiver Programs.*** Reduces $12.1 million in FY 2011 and $27.1 million in FY 2012 from the general fund and $15.3 million in FY 2011 and $27.1 million in FY 2012 from federal Medicaid matching funds by eliminating funding to increase the number of ID waivers and DD waivers by 400 and 67 slots, respectively, each year. Legislation passed during the 2009 Session requires the addition of these slots to eliminate the current waiting list for services. The additional funding for the slots was included in the 2009 Medicaid forecast for the 2010-12 biennium.

– ***FMAP - Reduce Number of Hours Allowed for Respite Care.*** The approved budget includes savings of $5.2 million in FY 2011 and $21.2 million in FY 2012 from the general fund and $6.6 million in FY 2011 and $21.2 million in FY 2012 from 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 would receive 30, 8-hour days of service as opposed to 90, 8-hour days. Language is added to restore funding for respite care services contingent upon Congress extending enhanced FMAP funding through June 30, 2011.

– ***Durable Medical Equipment – Limits on Incontinence Supplies.*** The adopted budget adds language to allow the agency to modify the limit on incontinence supplies prior to requiring prior authorization. This change should allow for more efficient and cost effective delivery of these supplies to Medicaid recipients.

– ***FMAP – Environmental Modifications and Assistive Technology Limits.*** Reduces $276,385 the first year and $625,306 the second year from the general fund and an equal amount of federal Medicaid matching funds by decreasing the annual amounts that can be spent for environmental modifications and assistive technology from $5,000 to $3,000 per project for most community-based Medicaid waiver programs. This change will also be made to the children's mental health demonstration program for environmental modifications only. Language is also added requiring the Department to report on the utilization and cost of providing these services. Finally, language is also added delaying implementation of this change until July 1, 2011 contingent upon Congress extending enhanced FMAP funding through June 30, 2011; the restoration of funding is at the discretion of the Governor.

– ***FMAP - Eliminate Coverage for Certain Medicaid Services.*** The introduced budget eliminated coverage for podiatry services and optometry (adults only) effective July 1, 2010. These actions result in combined general fund savings of $775,904 in FY 2011 and $906,000 in FY 2012 and savings in federal Medicaid matching funds of $935,686 in FY 2011 and $906,000 in FY 2012.

  The approved budget restores $430,950 GF and $543,830 NGF from federal Medicaid matching funds to delay the reduction for podiatry services until July 1, 2011. However, the adopted budget adds language restoring the second year funding for podiatry services the second year and restoring both years of funding for adult vision services contingent upon Congress extending enhanced FMAP funding through June 30, 2011; the restoration of funding is at the discretion of the Governor.

– ***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 from 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-MRs, beginning January 1, 2011. The assessment of 5.5 percent of total revenues will be collected from providers of ICF-MR services to generate general 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. Language is included delaying implementation of this provision if it violates federal maintenance of effort requirements should Congress extend enhanced FMAP funding through June 30, 2011.

- *Pharmacy Management Savings.* The adopted budget includes savings of $2.1 million in FY 2011 and $2.4 million in FY 2012 from the general fund and $2.7 million in FY 2011 and $2.4 million in FY 2012 from federal Medicaid funds through multiple strategies to reduce the cost of prescription drugs. The approved budget expands quantity limits and dose optimization, including diabetic supplies and insulin on the preferred drug list (PDL) and reduces reimbursements for drugs used in the treatment of hemophilia. Two cost savings strategies that were NOT adopted are described below:

  - *Preferred Drug List (PDL).* The introduced budget recommended adding antidepressants, antianxiety and antipsychotic drugs to the preferred drug list (PDL). Drugs that are not included on the PDL are subject to prior authorization in order to be dispensed. The adopted budget restores $989,396 in FY 2011 and $1.1 million in FY 2012 to the general fund and $1.2 million in FY 2011 and $1.1 million in FY 2012 from matching federal Medicaid funds to continue the exemption of these behavioral health drugs from the PDL.

  - *Maximum Allowable Cost (MAC).* The introduced budget would have subjected more generic drugs to the MAC reimbursement formula if two suppliers of generic drugs are used instead of three suppliers as currently required. The adopted budget restores $995,826 in FY 2011 and $1.3 million in FY 2012 from the general fund and $1.3 million each year from matching federal Medicaid funds to maintain the current reimbursement formula requirements requiring generic drug availability from three suppliers in order to subject the drugs to MAC pricing.

- *Intensive In-home Mental Health Services.* Makes two changes to ensure effective and appropriate utilization of 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. Changes include:

  - *Increased Audits*. The approved budget includes net general fund savings of $750,000 each year and savings to federal Medicaid matching funds of $1.0 million in FY 2011 and $750,000 in FY 2012 to increase audits of intensive in-home mental health services. The audits are needed to ensure that services are appropriately provided to Medicaid-eligible individuals.

  - *Prior Authorization*. The adopted budget includes 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 NGF to federal Medicaid matching funds by requiring prior authorization of intensive in-home mental health services beginning one week after services begin instead of afer 12 weeks as currently required.

– *Modify Eligibility Requirements for Children's Mental Health Demonstration Waiver.* The approved 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 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 from federal Medicaid matching funds are assumed in the budget each year.

– *Supplant GF for FAMIS with NGF.* The budget transfers 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.

– *FMAP - Retain Five Percent of Federal Financial Participation (FFP) for Administration.* The adopted budget allows the Department of Medical Assistance Services to retain five percent of FFP that under current law would flow to school divisions for Medicaid-eligible medical and transportation services effective July 1, 2011. The retention of five percent FFP will be used to offset agency administrative costs. Language is added making this reduction contingent upon Congress extending federal FMAP funding until June 30, 2011; the restoration of funding is at the discretion of the Governor.

– *Reduce Administrative Costs by 10 Percent.* Includes a reduction of $1.6 million from the general fund each year and the same amount of federal Medicaid matching funds for administrative costs at the Department of Medical Assistance Services. Costs related to claims are not subject to this reduction.

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

– *Continue Governor's September 2009 Budget Reductions.* Continues most of the on-going strategies announced in September 2009 that generated savings of $33.6 million GF each year in FY 2011 and FY 2012 with one exception -- $400,000 GF each year was restored for services to individuals with a mental illness who can be diverted from jail or released with supportive services in the community.

– *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 MR/ID 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 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. These estimates assume 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 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. These estimates assume that a portion of that community housing construction is complete in FY 2011 and 24 individuals will be transferred to appropriate community housing.

- ***Commonwealth Center for Children and Adolescents (CCCA) in Staunton***. The introduced budget included GF savings of $5.0 million in FY 2011 and $8.3 million 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. The proposed budget also added $2.1 million GF each year for private, inpatient mental health services for children needing acute care. The approved budget reverses the proposal to close the facility. While the additional $2.1 million each year was eliminated, language is added to restore funding for community-based services if the federal government extends Federal Medical Assistance Percentage (FMAP) funding from January 1, 2011 through June 30, 2011; the restoration of funding is at the discretion of the Governor.

- ***Close the Adolescent Unit at Southwestern Virginia Mental Health Institute (SWVMHI).*** Estimates a net savings of $700,000 in FY 2011 and $1.4 million GF in FY 2012 and the reduction of 28 FTE positions 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 or, if necessary, at the Commonwealth Center for Children and Adolescents in Staunton.

- *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, 2011 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 Pharmacy Costs.* Reduces $738,725 GF each year by reducing funding for pharmaceutical costs. A greater proportion of pharmaceutical costs are being covered under the federal Medicare Part D prescription drug program than originally estimated.

- *Reduce GF for Waiver Start-Up Costs*. Reduces $660,000 GF in FY 2011 and $760,000 in FY 2012 for intellectual disability 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**

  - *Continue Governor's September 2009 Budget Reductions.* Continues the ongoing strategies contained in September 2009 and generates additional savings through the annualization of savings strategies generating general fund savings of $3.0 million in FY 2011 and $3.0 million in FY 2012.

  - *Supplant GF Support for Vocational Rehabilitation Services with NGF.* Replaces $1.4 million GF with $1.4 million NGF each year for vocational rehabilitation services.

  - *Reduce Funds for Centers for Independent Living.* Reduces funding by ten percent for Centers for Independent Living generating savings of $469,454 GF in FY 2011 and $466,866 GF in FY 2012.

- *Reduce Funds for Brain Injury Services.* Reduces funding by five percent for brain injury services generating a savings of $194,931 GF each year in FY 2011 and FY 2012.

- **Woodrow Wilson Rehabilitation Center**

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

- **Department of Social Services**

  - *Continue Governor's September 2009 Budget Reductions.* Continues the ongoing strategies contained in September 2009 and generates additional savings through the (1) annualization of savings strategies, (2) additional reductions including $1.0 million NGF each year from chore and companion services and $1.0 million GF the first year and $2.8 million GF the second year for other "purchased services" and (3) elimination of funding for certain nonstate agencies. In total, these generate savings of $6.4 million GF in FY 2011 and $7.8 million GF in FY 2012. Budget language restores $1.0 million in first year reductions for chore and companion services and other purchased services, if Congress passes a six-month extension of increased Federal Medical Assistance Percentage (FMAP); the restoration of funding is at the discretion of the Governor.

    - *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);

      - Eliminate funding for the Visions of Truth Ministeries ($75,000 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 and Supplant Child Welfare Funding.* Reduces $4.0 million GF in FY 2011 for child welfare services. The adopted budget supplants $1.0 million in FY 2011 with federal Social Services Block Grant funds. Budget language restores the remaining $3.0 million in FY 2011 if Congress passes a six-month extension of increased Federal Medical Assistance Percentage (FMAP); the restoration of funding is at the discretion of the Governor.

– ***Funding for Local DSS Operations.*** Reduces funding by $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. An additional reduction of 1 percent the first year ($1.6 million GF) and almost 3 percent the second year ($4.6 million GF) is included in the approved budget; however, funding will be restored if Congress passes a six-month extension of increased Federal Medical Assistance Percentage (FMAP) funding at the discretion of the Governor.

– ***FMAP – Reduce Funding for General Relief.*** Reduces funding by $2.4 million GF each year for the General Relief program. The General Relief Program is an optional local program designed to provide assistance to impoverished individuals, either maintenance or emergency, which cannot be provided through any other means. Budget language restores funding if Congress passes a six-month extension of increased Federal Medical Assistance Percentage (FMAP); the restoration of funding is at the discretion of the Governor. If FMAP is not provided, language is included to allow the Department to limit funding for services to "unattached children."

– ***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.

– ***FMAP – Reduce Auxiliary Grant Payments by 4 Percent.*** Reduces $2.4 million GF the second year by reducing the rates paid to assisted living facilities by four percent effective July 1, 2011. This reduction will not occur if Congress passes a six-month extension of increased Federal Medical Assistance Percentage (FMAP); the restoration of funding is at the discretion of the Governor.

– ***Reduce Administrative Funding by Five Percent.*** Reduces funding by $600,000 GF each year for administrative costs at the Department with the exception of costs related to information technology.

– ***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.

- ***Replace GF for Child Support Enforcement Operations in FY 2011.*** Adds $5.0 million GF the first year to address an anticipated shortfall in funding for child support enforcement operations. General fund support for child support was supplanted in the 2008-10 budget with $6.6 million from federal performance incentive awards provided to Virginia as a high performing state. Federal ARRA legislation allowed states to use their performance incentive awards as state match for federal child support enforcement funds. The introduced budget did not restore the base budget for child support enforcement to reflect the temporary nature of the ARRA funding which is due to expire on September 30, 2010. A decline in child support collections on behalf of TANF recipients has further exacerbated the general fund shortfall since a portion of these collections is retained for child support enforcement operations.

- ***Offset Portion of Temporary Assistance to Needy Families (TANF) Reduction to Healthy Families of Virginia.*** Provides $2.9 million GF in FY 2012 to offset reduced federal TANF support for Healthy Families of Virginia. Currently, the 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.

- ***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 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.

– ***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 approved 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 approved budget includes 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 $2.9 million of this reduction with general fund dollars the second year. The first year amounts will be restored if the federal government provides six additional months of federal Medical Assistance percentage (FMAP) funding.

- $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 67 percent of the reduction the first year with general fund dollars.

- $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.

- Elmination of $382,500 each year in TANF for local Partners in Prevention programs administered through the Department of Health.

- Elimination of $190,000 each year in TANF for Child Advocacy Centers.

TANF Block Grant Funding
FY 2010 and 2010-12 Budget

TANF Resources	FY 2010	FY 2011	FY 2012
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**
TANF Expenditures			
VIP/VIEW Core Benefits and Services			
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***
Administration			
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***
TANF Programming			
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**
Transfers to other Block Grants			
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**

- **Department for the Blind and Vision Impaired**

  – ***Supplant GF for Administrative Activities with Enterprise Funds.*** Replaces $454,850 GF each year with nongeneral fund fee revenue from enterprise activities.

  – ***Administrative Reductions and Efficiencies.*** Reduces spending by $45,240 GF each year in FY 2011 and in 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**

  – ***Continue 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