

Health and Human Resources

The Governor's proposed amendments to the 2002-04 budget for Health and Human Resources result in a net increase of \$20.5 million GF for the biennium when compared to Chapter 899. This total reflects new general fund spending of \$263.6 million, offset by \$243.1 million in targeted reductions. Overall funding, including nongeneral fund amounts, will rise by \$189.5 million for the biennium.

Mandatory funding requirements in health and human resources programs result in most of the additional spending needs. Inflation in medical costs and increasing numbers of low-income families, elderly, and disabled require the addition of \$142.4 million GF for Medicaid. The rising cost to serve at-risk youth, entitled to care under the Comprehensive Services Act (CSA), necessitates \$35.7 million GF. An additional \$6.9 million GF is proposed to fund children who are entitled to foster care and subsidized adoptions.

A few non-mandatory, but traditionally high priority, items are also included in the Governor's recommendations. Funding for the state's two teaching hospitals is increased by \$31.5 million (\$18.4 million GF) to pay for indigent care services. An additional \$25.9 million NGF is provided from additional unanticipated revenues in the Family Access to Medical Insurance Security (FAMIS) trust fund and federal matching funds to fully fund anticipated growth in enrollment in the FAMIS program.

The Governor's proposed budget amendments also add \$30.0 million GF and \$30.2 million NGF in FY 2004 to fund the new Protecting Access to Healthcare or PATH program, which seeks to mitigate proposed payment reductions and maintain access to critical providers of Medicaid and FAMIS. Amendments also add \$15.6 million GF to Medicaid to fill a shortfall caused by unrealized general fund savings from federal revenue maximization strategies; \$8.7 million GF for increased costs of Medicaid transportation brokering services; \$3.8 million GF for involuntary mental commitments; and \$2.6 million GF for the Medicaid claims processing system.

About 42 percent of the budget savings from health and human resources come from Medicaid cost containment initiatives (\$100.4 million GF). Significant budget reductions include:

- \$56.9 million from deferring inflation adjustments in FY 2004 for Medicaid and FAMIS health maintenance organizations, nursing homes, and private inpatient hospitals;

- \$13.9 million from reducing pharmacy program costs by implementing a preferred drug list, decreasing the pharmacy dispensing fee from \$4.25 to \$3.25 per prescription, and increasing pharmacy copayments from \$2.00 to \$3.00 for brand name drugs;
- \$12.0 million by reducing reimbursement rates for outpatient hospital and rehabilitation services, durable medical equipment, and specialized rates for nursing home recipients.

An additional 41 percent of the overall budget savings in human resources comes from reductions in mental health, mental retardation, and substance abuse services and social services.

- Funding for the Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS) is reduced by \$56.3 million GF for the biennium. Three-quarters of the reductions (\$42.0 million GF) at DMHRMSAS are part of the Governor’s October reduction plans. Of that amount, \$30.8 million came from grants to localities to provide community-based mental health, mental retardation, and substance abuse services.
- Funding for the Department of Social Services (DSS) is reduced by \$43.5 million GF for the biennium. Similar to DMHRMSAS, most of the department’s budget reductions occurred in October 2002. The Governor proposes to reduce \$22.5 million from DSS by substituting federal dollars for state spending requirements (\$9.4 million), reducing general fund support for local administration (\$5.1 million) and substituting general funds in pre-kindergarten programs in the Department of Education to match federal child care funding (\$7.9 million).

Finally, a series of amendments is included to capture anticipated savings from the Governor's Information Technology initiative. These savings total \$7.1 million GF the second year from Human Resources agencies. The details of these savings are included in the spreadsheet (Appendix C).

- **Secretary of Health and Human Resources**

- **Funding Reductions.** Reduces funding by \$65,559 GF the first year and \$143,125 GF the second year for the Secretary’s Office. Of these amounts, \$64,159 GF the second year represents reductions contained in a central account in Chapter 899 reflecting a 4 percent reduction to Health and Human Resources agencies. The

remainder represents budget reduction actions taken in October by the Governor.

- **Office of the Inspector General Staff Reduction.** Reduces funding and one position in the Office saving \$50,000 GF in the second year.
- **Transfer Office of the Inspector General.** Transfers \$79,600 GF and \$162,469 NGF the second year to the Department of Mental Health, Mental Retardation and Substance Abuse Services to assume the functions of the office.
- **Comprehensive Services for At-Risk Youth and Families**
 - **Increased Cost of Mandated Services.** Adds \$19.0 million GF the first year and \$16.7 million GF the second year for increased costs of serving children mandated for care under CSA. Chapter 899 provided funding for growth of about 6 percent in FY 2003 and 8 percent in FY 2004, in a program that has been growing about 11 percent in recent years. CSA spending growth will likely exceed 11 percent each year.
 - **Maximize Federal Funding.** Adds language directing the office to maximize federal funding by seeking Medicaid reimbursement for an additional level of residential treatment for children and adolescents, and case management services that are currently supported with state dollars. It is anticipated that these savings will reduce future growth in the CSA program. These initiatives come from an interim task force chaired by the Secretary of Health and Human Resources.
 - **Local Administrative Funding.** Reduces \$250,000 GF in FY 2004 for local administrative support and coordination of the CSA program by maintaining spending at the FY 2003 level.
- **Virginia Department for the Aging**
 - **Federal Older Americans Act Funds.** Provides \$5.2 million NGF each year for increased federal funding for aging programs provided through the Area Agencies on Aging (AAAs).
 - **Chapter 899 Central Account Actions.** Reduces funding by \$629,144 GF in the second year to reflect reductions contained in a central account in Chapter 899. This amount represents a 4 percent across-the-board reduction to the agency.

- ***Governor’s October Reductions.*** Reduces funding by \$1.8 million GF each year as a result of the Governor’s October reduction actions. A majority of the actions reduce community grants to local Area Agencies on Aging and other community service providers by eleven percent as described below:
 - ***Reductions to Elderly Programs Provided through the Area Agencies on Aging.*** Reduces \$1.4 million GF each year in funding for elderly programs provided through the AAAs.
 - ***Other Community Organization Reductions.*** Reduces funding by \$103,191 GF the first year and \$105,578 GF the second year for a number of community organizations that provide special programs for the elderly, such as linking seniors with indigent pharmacy programs, companion care services, independent living services, adult day care, and respite care for individuals with Alzheimer’s disease.
 - ***Respite Care Grant Reductions.*** Reduces respite care grants by \$32,556 GF the first year and \$33,309 GF the second year to three community organizations that provide respite care through Virginia’s new Respite Care Grant. In addition, \$60,301 GF each year is reduced from the remaining grant funds, representing a 60 percent reduction of the unobligated funds.
- **Department of Deaf and Hard of Hearing Services**
 - ***Continue Relay Center in Norton.*** Language is added authorizing the continued operation of the relay center in Norton.
 - ***Budget Reductions.*** Reduces \$183,628 GF in FY 2003 and \$263,194 GF in FY 2004 to reflect Chapter 899 actions within the central accounts and the Governor’s October reductions.
- **Department of Health**
 - ***Federal Grant for Bioterrorism.*** Provides \$7.5 million in FY 2003 and \$22.0 million in FY 2004 from an anticipated federal grant for bioterrorism activities.
 - ***Move to James Madison Building.*** Provides \$1.0 million GF in FY 2004 for the cost of moving the Health Department from the Main Street Station Train Shed to the James Madison Building no later

than December 2003. The City of Richmond has purchased Main Street Station for use as a transportation hub.

- **Chapter 899 Central Account Actions.** Reduces funding by \$1.5 million GF and 3.0 positions and increases funding by \$500,000 NGF in the second year to reflect reductions contained in a central account in Chapter 899. This represents a 4 percent across-the-board reduction to the agency in the second year adopted by the 2002 General Assembly.
- **Governor's October Reductions.** Reduces funding by \$6.2 million GF and \$1.2 million NGF and 23.0 positions in FY 2003 and \$6.5 million GF and \$174,500 NGF in FY 2004 as a result of the Governor's October reduction actions. These actions implement administrative efficiencies, reduce grants to nonstate agencies, and reduce or eliminate some services as described below:
 - **Reduce Funds for Area Health Education Centers.** Reduces funding of the Area Health Education Centers (AHEC) by \$143,721 GF the first year and \$850,000 GF the second year. This represents a reduction of about 15 percent the first year and 90 percent the second year. The AHECs promote health careers and access to primary care for medically underserved populations through community and academic partnerships.
 - **Eliminate GF for Pfiesteria Monitoring and Control.** Eliminates \$104,330 GF each year and one position for the Health Department's waterborne hazard control activities. Federal grant funding will enable this function to continue during the biennium. Funding for the pfiesteria research unit was added during the 1998-2000 biennium to study the effects of the pfiesteria disease on seafood.
 - **15 Percent Reduction to Community Grants.** Reduces funds by 15 percent to a number of nonstate agencies that provide health care and pharmacy assistance to low-income uninsured persons or that promote health care access for medically underserved populations. This strategy saves \$480,348 the first year and \$644,990 the second year and affects the following organizations: Arlandria Health Center, Arthur Ashe Center, free clinics, rural health clinics, CHIP of Virginia, Olde Towne Medical Center, the Virginia Health Care Foundation, Women's Health Virginia, and the

Chesapeake Adult Medical Clinic. Funds for the Fan Free Clinic AIDS program and the Louisa County Resource Council were reduced by 50 percent, saving an additional \$33,750 the second year.

- ***Eliminate Medical Death Investigator Positions.*** Eliminates \$53,405 the first year and \$140,597 the second year and 3.0 positions in the Office of the Chief Medical Examiner to investigate death scenes. Four death scene investigator positions were added during the 2000 Session to address growing caseloads.
- ***Reduces GF for Drinking Water State Revolving Fund.*** Reduces \$1.1 million GF in FY 2004 for the Drinking Water State Revolving Fund (DWSRF). The fund provides low-cost construction loans for public drinking water systems and grants to ensure the owners of waterworks produce safe drinking water and to protect the construction loan investments. This reduction would leave almost \$3.4 million GF and \$11.0 million NGF for the fund in FY 2004. A state match of \$2.2 million is required to secure the federal grant.
- ***Supplant and Eliminate New GF Support for Improving EMS Services.*** Replaces \$1.6 million GF in FY 2003 for Emergency Medical Services (EMS) with federal Social Services Block Grant funding and eliminates \$985,823 GF the first year and \$3.2 million GF the second year for the improvement of EMS. The 2002 General Assembly added \$3.2 million each year to upgrade the system to address recommendations of the 1999 Emergency Medical Services Task Force and to improve the state's ability to respond to acts of terrorism. These actions will leave about \$614,177 GF in FY 2003 of the new \$3.2 million GF appropriated in each year by the 2002 General Assembly.
- ***Redistribute and Limit \$4-for-Life Funding Provided to the Virginia Association of Rescue Squads.*** Adds language to redistribute a portion of the \$4-for-Life funding currently provided to the Virginia Association of Volunteer Rescue Squads. Currently, the Code of Virginia specifies that the Association be provided up to 2.5 percent of the moneys collected under the \$4-for-Life program. Language limits the \$4-for-Life funds for the Association to \$257,125 and distributes any EMS revenue collected in excess of this amount to the Rescue Squad Assistance Fund. The Rescue Squad Assistance Fund receives 31.75 percent of the \$4-for-Life

funds and is used for a matching grant program to help nonprofit rescue squads purchase needed equipment and training.

- ***Substitute Rescue Squad Assistance Fund for GF Support for Med-flight Operations.*** Provides \$1.0 million NGF each year from the Rescue Squad Assistance Fund to replace general fund support to the State Police for med-flight operations.
 - ***Substitute Federal Grant for GF for New Epidemiologist Positions.*** Reduces general fund support by \$416,000 in FY 2004 for new epidemiologist positions that have not yet been filled at the Health Department. The 2002 General Assembly added \$800,000 GF the first year and \$1.0 million GF the second year to hire 15 additional epidemiologists over the biennium, as part of the terrorism preparedness efforts. Additional federal grants received by the department for bioterrorism initiatives will be used to fill any vacant positions.
 - ***Substitute TANF Funds for GF in Local Programs.*** Reduces general fund support by \$846,770 in FY 2004 and substitutes federal Temporary Assistance for Needy Families (TANF) funds for two prevention programs for low-income children and families:
 - \$446,770 GF for the Comprehensive Health Investment Project (CHIP) of Virginia. An additional \$223,385 in TANF funds are provided to compensate for any matching funds lost by CHIP due to the general fund reduction.
 - \$400,000 GF for teen pregnancy prevention programs.
 - ***Reduce GF Support and Substitute NGF for Physician Scholarships, Loans and Financial Incentives.*** Reduces general fund support for the physician scholarship, loan repayment and financial incentive programs administered by the Health Department by \$82,500 GF in FY 2003 and \$234,036 GF in FY 2004. In addition, the introduced budget substitutes \$560,568 in general fund support each year from nongeneral funds from health practitioner regulatory revenue collected by the Department of Health Professions. Language is added to replace physician scholarships and other financial incentives used to attract physicians to medically underserved areas with a loan repayment program only.
- **Department of Health Professions**

- ***Loan Repayment Programs.*** Instead of the Governor’s proposed October reductions of \$310,568 NGF, language is added to authorize the department to transfer \$560,568 NGF each year from health practitioner regulatory revenues to the Department of Health for financial incentives to encourage physicians to practice in underserved areas of the Commonwealth.
- ***Enforcement and Adjudication.*** Adds \$763,600 NGF and 11 positions to improve statewide enforcement and adjudication efforts among the Commonwealth’s licensed health professionals. Funding will be used to strengthen enforcement activities and decrease worker caseloads.
- **Department of Medical Assistance Services (DMAS)**
 - ***FAMIS Caseload Increase.*** Reduces \$4.7 million GF and adds \$15.0 million NGF in FY 2003 and reduces \$2.3 million GF and adds \$10.9 million NGF in FY 2004 by substituting FAMIS trust fund dollars for GF appropriations and increasing the amount available to match federal funds for the children’s health insurance program. The FAMIS trust fund is estimated to receive more funding than the amount assumed in Chapter 899. Funding will support more than 36,000 children by the end of FY 2003.
 - ***Involuntary Mental Commitments.*** Adds \$1.9 million GF in FY 2003 and \$1.8 million GF in FY 2004 to fully fund hospital and physician services resulting from involuntary mental commitments.
 - ***Indigent Care Payments to Teaching Hospitals.*** Increases funding by \$9.2 million GF and \$9.5 million NGF in the first year and \$9.2 million GF and \$3.6 million NGF in the second year for indigent care services provided by the Virginia Commonwealth University Health System Authority (\$12.0 million) and the University of Virginia Medical Center (\$19.5 million). Currently, both entities receive enhanced Medicaid payments for serving a disproportionate share of low-income, uninsured patients. However, the amount states can collect in enhanced federal Medicaid reimbursement is capped. Beginning in FY 2004, indigent health care expenses at the teaching hospitals will exceed the cap on federal funding for Virginia.
 - ***Medicaid Utilization and Inflation.*** Adds \$79.4 million GF and \$76.9 million NGF in FY 2003 and \$63.1 million GF and \$33.9 million NGF in FY 2004 for inflation in Medicaid costs and for

providing services to increasing numbers of low-income children, elderly and disabled persons. On average, the Medicaid forecast assumes expenditure growth of 7.6 percent each year.

- **Medicaid Transportation Services.** Adds \$2.8 million GF and \$2.8 million NGF in FY 2003 and \$6.0 million GF and \$6.0 million NGF in FY 2004 to pay for Medicaid transportation improvements that resulted from the renegotiation of the existing services brokering contract. Language is added allowing the department to transfer appropriations from the medical services program to the administrative budget, as necessary, to fund increased expenditures as a result of the contractual changes between the department and non-emergency medical transportation providers.
- **Reimburse Special Education Transportation Services.** Adds language to the Medicaid and FAMIS programs allowing school divisions to receive reimbursement for school-based transportation for children in special education. This provision, an outgrowth of the department's federal revenue maximization efforts, is subject to federal approval.
- **Reimburse Special Education Medical Services.** Adds language to the Medicaid and FAMIS programs allowing schools divisions to receive federal reimbursement for school-based medical and transportation services provided to children in special education. This provision, an outgrowth of the department's federal revenue maximization efforts, is subject to federal approval.
- **Unrealized Revenue Maximization Initiatives.** Adds \$7.8 million GF and reduces \$7.8 million NGF each year for unrealized general fund savings from federal revenue maximization strategies initiated. Chapter 899 assumed the department could achieve savings of \$19.0 million each year by identifying services and claims, which could be eligible for enhanced federal Medicaid funding. Some of the revenue maximization initiatives were not feasible, while others were not approved initially by the federal government (although they are being appealed).
- **Claims Processing System.** Adds \$1.5 million GF and \$12.1 million NGF in FY 2003 and \$1.1 million GF and \$8.6 million NGF in FY 2004 to complete funding for the development of the department's new Medicaid claims processing system.

Additional funding is necessary to complete final development of the system and ensure that the system is HIPAA compliant. Final testing and certification of the system will occur within the current fiscal year when the system is expected to be fully operational. Federal certification of the system is necessary to obtain enhanced federal reimbursement for 90 percent of the system's development costs.

- ***Mitigate Payment Reductions for Critical Providers.*** Adds \$30.0 million GF and \$30.2 million NGF in FY 2004 to mitigate proposed payment reductions for hospitals located in underserved areas or that serve high volumes of Medicaid clients, nursing homes that have a high volume of Medicaid clients, and managed care organizations through a new program called Protecting Access to Healthcare (PATH).
- ***Independence Plus Home and Community-based Services Waiver.*** Adds language directing the Department of Medical Assistance Services to implement the new Independence Plus Home and Community-based Services waiver program, contingent upon federal approval.

Targeted reductions

- ***Chapter 899 Central Account Actions.*** Reduces \$1.6 million GF and \$1.6 million NGF in FY 2004 for reductions contained in a central account within Chapter 899. This represents a 4 percent across-the-board reduction adopted by the 2002 General Assembly.
- ***Governor's October Reductions.*** Reduces \$2.4 million GF and \$2.6 million NGF in FY 2003 and \$2.9 million GF and \$3.0 million NGF in FY 2004 primarily through renegotiating contracts, reducing information technology spending, and deferring filling vacant positions.
- ***Prior Authorize Inpatient Hospital Admissions.*** Reduces \$2.0 million GF and \$2.1 million NGF in FY 2003 and \$2.0 million GF and \$2.0 million NGF in FY 2004 by applying stricter interpretations of the current standards for admission to adult and pediatric acute inpatient hospitals. The more rigorous standards have been in place since February 2002.
- ***Defer Inpatient Hospital Inflation Adjustment.*** Reduces \$4.3 million GF and \$4.4 million NGF in FY 2004 by not providing an

automatic inflationary increase for private inpatient hospital reimbursement that is expected to be four percent in FY 2004. This change does not affect the state's teaching hospitals.

- **Reduce Payments for Outpatient Hospitals.** Cuts \$4.2 million GF and \$4.3 million NGF in FY 2004 by reducing reimbursement rates for private outpatient hospitals from 95 percent to 80 percent of allowable costs with the exception of graduate medical education and reimbursements to the state's teaching hospitals.
- **Reduce Payments for Specialized Care Provided in Nursing Homes.** Reduces \$1.3 million GF and \$1.3 million NGF in FY 2004 by eliminating separate reimbursement rates for most specialized care services and special services for traumatic brain injury clients provided in nursing homes. The new nursing home reimbursement system known as RUGS accounts for patient acuity and is expected to reflect the cost of specialized services. Language added to the bill exempts specialized care for pediatric clients and specialized traumatic brain injury units.
- **Defer Nursing Home Inflation Adjustment.** Reduces \$16.5 million GF and \$16.6 million NGF in FY 2004 by not providing an automatic inflationary increase for nursing homes that is expected to be five percent in FY 2004. The 2002 General Assembly had deferred the automatic inflation increase for indirect care only in FY 2003.
- **Defer Medicaid HMO Inflation Adjustment.** Reduces \$34.1 million GF and \$34.3 million NGF in FY 2004 for medical inflation provided to Medicaid health maintenance organizations (HMO) through the Medallion II program. Per member per month rates paid to HMO providers will remain at the FY 2003 level.
- **Defer FAMIS HMO Inflation Adjustment.** Reduces \$1.9 million GF and \$3.6 million NGF in FY 2004 for medical inflation provided to health maintenance organizations providing services through the FAMIS program. Per member per month rates paid to providers will remain at the FY 2003 level.
- **Implement Preferred Drug List.** Reduces \$9.0 million GF and \$9.0 million NGF in FY 2004 by implementing a preferred drug list (PDL) in the Medicaid program beginning January 1, 2004. To implement the PDL, language is added requiring the selection of reference drugs and the collection of supplemental rebates. A

qualified panel of professionals will select reference drugs within therapeutic classes of drugs. A reference drug is considered to be the “best in the class,” based on such measures as clinical effectiveness, safety, outcomes, and quality for treating certain ailments. Drugs with prices below the cost of the reference drug would be placed on the preferred drug list. Drugs with prices above the reference drug would require prior authorization before being dispensed through Medicaid. Pharmaceutical manufacturers who agree to provide their products at the reference drug price (in effect a supplemental rebate) can avoid prior authorization. Language also requires the Department of Medical Assistance Services to work with the Department of Mental Health, Mental Retardation and Substance Abuse Services to develop a preferred drug list for non-Medicaid clients.

- ***Increase Pharmacy Copayments.*** Reduces \$892,500 GF and \$897,153 NGF in FY 2004 by increasing the current Medicaid copayment for brand name drugs from \$2.00 to \$3.00 per prescription – the maximum level allowed under federal law.
- ***Reduce Pharmacy Dispensing Fee.*** Reduces \$4.0 million GF and \$4.0 million NGF in FY 2004 by decreasing the fee paid to pharmacies for dispensing medications through the Medicaid program from \$4.25 to \$3.25 per prescription per month.
- ***Modify Outpatient Rehabilitation Reimbursement.*** Reduces \$3.0 million GF and \$3.0 million NGF in FY 2004 by moving from a cost-based reimbursement system for outpatient rehabilitation services to a prospective rate methodology. Rate payments will be capped at 112 percent of the median for all facilities or the lesser of cost or charges, provided charges are not less than 60 percent of cost. This proposal would not apply to community service boards that provide outpatient rehabilitation services.
- ***Eliminate Substance Abuse Expansion.*** Reduces \$1.3 million GF and \$1.3 million NGF in FY 2004 by eliminating a planned Medicaid expansion of substance abuse services beginning April 2004. Originally, it was estimated that 16,000 low-income children and adults would be eligible for substance abuse services.
- ***Prior Authorize Certain Prescriptions.*** Reduces \$950,000 GF and \$798,031 NGF in FY 2004 by requiring prior authorization of pharmacy services for nursing home recipients when the number of unique prescriptions requested exceeds nine in a 30-day period or

for non-institutional recipients when the number of unique prescriptions requested exceeds nine in a 180-day period.

- ***Accelerate Family Planning Waiver.*** Reduces \$1.0 million GF and \$1.0 million NGF in FY 2004 by accelerating the scheduled implementation of the Medicaid family planning waiver program, resulting in cost savings for prenatal care, deliveries, and newborn/infant care.
- ***Prior Authorize Additional Visits for Certain Medical Services.*** Reduces \$520,112 GF and \$523,688 NGF in FY 2004 by requiring prior authorization of home health, outpatient rehabilitation, and outpatient psychiatric visits in excess of five when provided in Medicaid and FAMIS. Under current law, additional visits are prior authorized when the number of visits exceeds 32 (home health), 24 (outpatient rehabilitation), and 26 (outpatient psychiatric services). School based rehabilitation services will not be subject to prior authorization.
- ***Prior Authorize Certain Outpatient Services.*** Reduces \$1.3 million GF and \$1.3 million NGF in FY 2004 by requiring prior authorization of several high-cost Medicaid procedures such as Magnetic Resonance Imaging (MRI), Computer Axial Tomography (CAT) scans, and Positron Emission Tomography (PET) scans when provided in Medicaid and FAMIS.
- ***Eliminate CPI Increase for Medically Needy.*** Reduces \$500,093 GF and \$502,700 NGF in FY 2004 by freezing indefinitely a scheduled CPI increase for medically needy Medicaid recipients. Under this change, recipients who expend their income for medical care and thereby qualify for Medicaid as “medically needy” will need to spend more of their own resources to qualify for services.
- ***Limit Expenditures Counted as Patient Payments.*** Reduces \$68,228 GF and \$68,584 NGF by limiting out-of-pocket medical expenditures that count toward Medicaid eligibility to the amount Medicaid pays for these services instead of gross charges. In effect, Medicaid recipients will be asked to contribute more toward their cost of care.
- ***Reduce Durable Medical Equipment Payments.*** Reduces \$834,032 GF and \$838,380 NGF by restricting payments for durable medical equipment to Medicare reimbursement levels and eliminating a 30

percent mark-up paid for certain durable medical equipment items not included on Medicaid's rate schedule.

- ***Reduce Private Hospital Capital Payments.*** Reduces \$2.6 million GF and \$2.6 million NGF in FY 2004 by reducing capital payments for private inpatient and outpatient hospitals from 100 percent and 95 percent of allowable costs to 80 percent of allowable costs. This change does not apply to the state's teaching hospitals.
- ***Eliminate Transitional Medical Assistance for TANF Recipients.*** Reduces \$1.0 million GF and \$1.0 million NGF by eliminating transitional Medicaid coverage at the end of the current fiscal year for Virginia Initiative for Employment not Welfare (VIEW) recipients who lose their financial assistance due to welfare reform time limits. Congress has not reauthorized this provision of federal law.
- **Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS)**
 - ***Acute Care Services for Patients Diverted to Community Hospitals.*** Provides \$1.7 million GF in FY 2003 and \$1.9 million GF in FY 2004 to provide short-term inpatient psychiatric treatment at private community hospitals for mentally ill individuals who are diverted from admission to state facilities.
 - ***Shortfall in Community Medications.*** Provides \$1.4 million GF the second year to address a shortfall in funding for medications provided through the Community Services Boards.
 - ***Civil Commitment of Sexual Predators.*** Provides \$300,000 GF in FY 2004 and language to implement immediately a more narrowly defined civil commitment and treatment program for sexual predators, who may be released from custody prior to January 1, 2004, the effective date of the law establishing a statewide program for civil commitment of sexual predators. Language allows the department to provide housing and treatment at a facility operated by the department or through a contract with public or private facilities within or outside of the Commonwealth.

Language is also added to make the implementation of the statewide program contingent upon sufficient funding by the 2003 General Assembly to house and treat up to 25 civilly committed

offenders. Companion language is added in the Office of the Attorney General to initiate the program.

- ***Transfer Office of the Inspector General.*** Transfers \$79,600 GF in FY 2004 and 2 positions in the Office of the Secretary of Health and Human Resources to the department to assume the functions of the Office of the Inspector General.
- ***Discharge Assistance Projects.*** Proposes discharging 100 patients in state facilities to community care as part of a multi-stage plan to reduce state facility mental health services and expand community-based care. Language is added to make available \$12.7 million in FY 2004 from four mental health treatment centers to community-based mental health, mental retardation and substance abuse services programs that serve patients discharged from the facilities or to reduce facility admissions. The Commissioner is required to report quarterly on the implementation of the discharge assistance projects.

Language is also added to allow for the establishment of three community-based intermediate care facilities for the mentally retarded to aid in discharges from the mental retardation training centers. A certificate of need would not be required to establish these facilities.

- ***Forensic Services for Jail Transfers at Central State Hospital.*** Saves \$1.6 million GF in FY 2004 by resuming forensic services for jail transfers at Central State Hospital. These services were contracted out to a private provider during the 1998-2000 biennium due to renovations of the forensic unit at Central State Hospital and a shortage of available space.
- ***Chapter 899 Central Account Actions.*** Reduces funding by \$12.3 million GF and 63.25 positions the second year to reflect reductions contained in a central account in Chapter 899. This represents a 4 percent across-the-board reduction to the agency in the second year adopted by the 2002 General Assembly.
- ***Governor's October Reductions.*** Reduces funding by \$18.2 million GF and \$339,851 NGF and 83.5 positions in FY 2003 and \$23.8 million GF and \$726,845 NGF and 37 positions in FY 2004 as a result of the Governor's October reduction actions. These actions implement administrative efficiencies, defer discretionary expenditures, capture vacancy and turnover savings, implement

employee furloughs, and eliminate positions within the department. The reductions also include \$14.2 million GF the first year and \$16.6 million GF the second year in cuts to community-based mental health, mental retardation and substance abuses services provided through the Community Services Boards.

- **Department of Rehabilitative Services**

- **Indirect Cost Recoveries.** Adds \$3.5 million NGF each year to reflect the increased use of indirect cost recoveries for agency support activities at the five disability services agencies.
- **Long-term Supported Employment.** On a budget neutral basis, reduces economic development grants by at least \$600,000, which are used to develop new employment positions, and partially restore the Governor's proposed reduction for long-term supported employment services.
- **Chapter 899 Central Account Actions.** Reduces \$1.1 million GF in FY 2004 for reductions contained in a central account within Chapter 899. This represents a 4 percent across-the-board reduction adopted by the 2002 General Assembly.
- **Governor's October Reductions.** Reduces \$3.5 million GF and \$968,640 NGF in FY 2003 and \$3.6 million GF and \$996,337 NGF in FY 2004 by implementing administrative savings, utilizing nongeneral fund accounts, and delaying services. Some examples of budget reductions are listed below.
 - **Reduce Rehabilitation Services Incentive Fund.** Reduces general fund support by \$700,000 each year for the Rehabilitative Services Incentive fund, which is used to address unmet or underserved needs for individuals with disabilities through the development of community programs.
 - **Reduce Sheltered Employment Services.** Reduces general fund support by \$486,450 each year for services that support consumers in extended sheltered employment.
 - **Reduce Long-term Employment Services.** Reduces general fund support by \$362,094 in FY 2003 and \$325,944 in FY 2004 for long-term employment services for individuals with

significant disabilities. Language requires that \$600,000 from other DRS grant funds be used to offset this reduction.

- **Reduce Center for Independent Living Funding.** Reduces general fund support by \$317,169 in FY 2003 and \$285,504 in FY 2004 for Centers for Independent Living (CILs). The CILs provide life skills and training designed to allow persons with disabilities to live independently.
- **Reduce Brain Injury Services.** Reduces general fund support by \$191,074 each year for brain injury services.

- **Department of Social Services**

- **Mandated Foster Care Maintenance.** Adds \$2.4 million GF each year for increasing caseloads in the federal Title IV-E foster care program and to pay for those children that require intensive residential services.
- **Adoption Subsidies.** Adds \$2.1 million GF in FY 2004 to pay adoptive families for the cost of caring for children with special needs and to fund caseload increases in the number of families eligible for federal Title IV-E adoption subsidies.
- **Consolidation of Local Departments of Social Services.** Adds language requiring the Commissioner to evaluate criteria and propose incentives for consolidating local social services departments, in cooperation with localities. A report is due to the Governor and General Assembly by September 1, 2003.
- **Expenditure of the Federal TANF Grant Balance.** Reduces the estimated TANF balance as of June 30, 2002 by \$250,000 to reflect the actual balance of \$46.7 million. Language reduces community eligible grants by \$1.0 million in FY 2004 and earmarks additional TANF funds in FY 2003 and FY 2004 for Community Action Agencies, Healthy Families, Hampton Healthy Start and CHIP of Virginia, and teen pregnancy prevention programs, as part of general fund reduction strategies. As a result, the year-end balance in FY 2003 and FY 2004 is estimated at \$26.3 million and \$0, respectively.
- **Consolidate Two Privatized Child Support Offices.** Adds 25 positions in the Division of Child Support Enforcement to allow for

the consolidation of two privatized Child Support offices in Northern Virginia.

- **Chapter 899 Central Account Actions.** Reduces funding by \$3.3 million GF and increases funding by \$1.7 million NGF the second year to reflect reductions contained in a central account in Chapter 899. This represents a 4 percent across-the-board reduction to the agency in the second year adopted by the 2002 General Assembly.
- **Governor's October Reductions.** Reduces funding by \$14.5 million GF in FY 2003 and \$13.3 million GF in FY 2004, while increasing nongeneral funds by \$13.0 million in FY 2003 and \$10.5 million in FY 2004 as a result of the Governor's October reduction actions. In addition, 55 positions are added, primarily to replace information system contractors with state classified employees positions at a lower cost. The October reductions include the following:
 - **Substitute TANF for GF for Community Action, Healthy Families.** Reduces general fund support by \$975,000 in FY 2003 and \$4.9 million in FY 2004 and substitutes federal TANF funds for Community Actions Agencies and for Healthy Families and Hampton Healthy Start projects. An additional \$500,000 per year in TANF funds is provided to Healthy Families to help offset the loss of matching funds.
 - **Substitute Federal Day Care Balances for GF in Day Care Subsidies.** Reduces general fund support by \$3.5 million in FY 2003 for child day care subsidies to low-income, working parents of school age children and substitutes one-time balances in the federal Child Care and Development Fund. No services are reduced or lost through this action.
 - **Substitute Pre-kindergarten Expenses in DOE for GF to Match Federal Day Care Funds.** Reduces general fund match in the department for federal day care funds by \$3.8 million in FY 2003 and \$4.1 million in FY 2004. Instead, pre-kindergarten expenses in the Department of Education (DOE) are substituted as the general fund match for the federal funds.
 - **Substitute Federal Funds and Streamline Administration of Local Social Services.** Reduces \$3.6 million GF in FY 2003 and \$1.5 million GF in FY 2004 in the administration of local social services by substituting one-time federal

reimbursements and merging the Food Stamp employment training program with the one-stop career system administered by the Virginia Employment Commission.

- ***Reduce Staff in Regional Offices.*** Cuts \$950,000 GF and \$950,000 NGF and 20 positions in FY 2004 in the five regional offices to eliminate activities that are carried out by central office staff.
- ***Reduce Staff in Central Office.*** Cuts \$550,000 GF and \$550,000 NGF and 13 positions in the central office.
- ***Substitute Federal Incentive Funds for GF in Child Support Enforcement.*** Replaces \$4.1 million GF each year in the Division of Child Support Enforcement with additional revenue earned from federal performance incentive award funding.
- **Virginia Board for People with Disabilities**
 - ***Budget Reductions.*** Reduces \$5,785 GF in FY 2004 for reductions contained in a central account within Chapter 899. This represents a 4 percent across-the-board reduction adopted by the 2002 General Assembly. In October, the Governor reduced the Board’s general fund budget by \$19,169 in FY 2003 and \$20,371 in FY 2004 through restructuring a service contract and reducing clerical staff.
- **Department for the Blind and Vision Impaired Services**
 - ***Budget Reductions.*** Reduces \$274,533 GF in FY 2004 for reductions contained in a central account within Chapter 899. This represents a 4 percent across-the-board reduction adopted by the 2002 General Assembly. In October, the Governor reduced the department’s budget by \$798,421 GF and \$75,150 NGF in FY 2003 and \$922,481 GF and \$75,150 NGF in FY 2004 by utilizing federal funds for rehabilitation teachers, reducing staff, and eliminating grants provided to service providers.