

Health and Human Resources

The 2004-06 adopted budget for Health and Human Resources (HHR) provides a net increase of \$341.8 million GF and \$1.7 billion NGF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$402.9 million GF and \$1.7 billion NGF offset by reductions of \$61.2 million GF and \$14.3 million NGF.

Eighty percent of the net increase in GF appropriations is required to meet caseload and cost increases, comply with federal and state mandates, and offset nongeneral fund revenue losses. In addition, \$77.3 million GF is included to address the U.S. Supreme Court's Olmstead decision by increasing and strengthening community-based services for mentally disabled persons (see the table on "Olmstead Initiatives in the 2004-06 Budget" at the end of this section).

Medical inflation and increasing numbers of low-income families, elderly, and disabled in the Medicaid program require the addition of \$694.2 million in state funding during the 2004-06 biennium. Approximately \$609.4 million of this additional funding needed for the program will come from the newly created Virginia Health Care Fund and \$84.8 million is provided by the state general fund.

Funding the Forecast of Medicaid Utilization and Inflation (2004-06 Biennium)	
Virginia Health Care Fund	\$609.4 million
GF Appropriation	\$84.8 million
Medicaid Forecast	\$694.2 million

The Virginia Health Care Fund will be used solely for health care services and is comprised of revenues from the current cigarette tax, the 40 percent general fund share of the Tobacco Master Settlement Agreement, and all prior-year Medicaid recoveries. Additional revenues to the fund are expected from the enactment of House Bill 5018, which increases the state cigarette tax from 2.5 cents per pack to 20 cents per pack effective September 1, 2004, and 30 cents per pack on July 1, 2005. House Bill 5018 also imposes a 10 percent tax at the

wholesale level on other tobacco products such as cigars, pipe smoke, and smokeless tobacco, on March 1, 2005. This tax revenue will also accrue to the Virginia Health Care Fund.

Other caseload and cost increases account for added funding of \$106.7 million GF. The rising cost of serving at-risk youth, entitled to care under the Comprehensive Services Act (CSA), requires \$46.8 million GF. An additional \$31.3 million GF is needed for growth in the number of low-income children eligible for FAMIS and FAMIS-Plus, the state children’s health insurance program. Growth in the number and cost of serving children entitled to foster care and subsidized adoptions requires \$25.5 million GF. Finally, an additional \$3.1 million GF is proposed for increases in involuntary mental commitments.

Federal and state mandates and other requisite spending items account for additional funding of \$81.0 million GF. This includes \$29.6 million to offset a reduction in revenue at state hospitals, \$20.7 million to satisfy federal funding requirements for the TANF block grant program, and \$13.8 million to backfill funding from unrealized Medicaid revenue maximization initiatives. Also provided is \$7.2 million for the civil commitment and treatment of violent sexual predators, and \$650,000 to monitor and treat sex offenders conditionally released by the courts into the community. Finally, the total includes \$506,250 GF to support workload increases in determining eligibility for Medicaid disability services in the Department of Rehabilitative Services, and \$1.8 million GF for contractual costs to administer the federally mandated Electronic Benefits Transfer System for food stamps.

Olmstead Initiatives in the 2004-06 Budget

Description of Initiatives	Funding GF
Provide community-based mental retardation (MR) waiver services to 700 individuals on the “urgent care” waiting list	\$31.7 million
Discharge 77 long-term mentally disabled patients from state facilities and provide them with specialized treatment services	\$9.0 million
Provide community-based MR waiver services to 160 individuals who are ready for discharge from the state’s MR training centers	\$6.7 million
Provide a rate increase for MR waiver service providers	\$5.2 million

Add three programs of assertive community treatment for mentally ill adults	\$4.6 million
Increase community mental health services for children and adolescents with serious emotional and behavioral disorders	\$4.0 million
Provide community-based developmental disabilities waiver services for 105 individuals waiting for services	\$3.6 million
Provide a five percent rate increase for personal care service provided under Medicaid community-based waiver services	\$3.0 million
Provide community-based Day Support waiver services for 300 individuals on the “non-urgent” waiting list	\$2.9 million
Expand the purchase of short-term inpatient mental health treatment beds at local community hospitals	\$2.0 million
Expand brain injury services statewide	\$1.9 million
Fund early intervention services for infants and toddlers through the Part C program	\$1.5 million
Add five new Public Guardian and Conservator Programs to serve disabled adults	\$360,000
Restore funding provided to centers for independent living	\$320,000
Increase services provided through community rehabilitation workshops	\$300,000
Hire two licensing specialists to enroll qualified service providers and monitor the quality of services provided	\$200,000
TOTAL	\$77.3 million

Almost 75 percent of the Health and Human Resources budget savings (about \$45.5 million GF) comes from Medicaid cost avoidance and cost containment initiatives. Significant budget reductions include:

- \$28.0 million GF in savings from efforts to reduce teaching hospital reliance on general funds for indigent care;
 - \$10.3 million GF from reducing pharmacy program costs by implementing a maximum allowable cost program to contain generic drug costs;
 - \$3.5 million GF in CSA savings through better utilization of Medicaid, offsetting the need for general fund support;
 - \$3.4 million GF by reducing administrative funding for a disease management program and implementing the program on a more limited basis to test its ability to enhance patient care and control costs;
 - \$2.3 million GF by realizing savings from moving AIDS waiver program patients to the elderly and disabled waiver program and eliminating their case management services; and
 - \$1.0 million GF from imposing or increasing co-payment requirements for Medicaid services when permitted by federal law.
- **Comprehensive Services Act (CSA) for At-Risk Youth and Families**
 - *Increased Cost of Mandatory Services.* Adds \$18.9 million GF and \$21.6 million NGF the first year and \$27.9 million GF and \$27.0 million NGF the second year for the increased costs of serving children mandated for care under CSA. Spending growth for CSA over the biennium is projected to be slightly less than in recent years, averaging about 10 percent in FY 2005 and 7.3 percent in FY 2006.
 - *Technical Assistance for CSA Medicaid Providers.* Reduces \$1.3 million GF in FY 2005 and \$2.3 million GF in FY 2006 to recognize projected savings from better use of Medicaid funding for CSA services, coverage of a broader array of residential treatment services through the Medicaid program, and a decrease in Medicaid payment denials.
 - *Collection of Parental Co-payments in CSA.* Adds language strengthening the ability of localities, with assistance from the Office of Comprehensive Services, to pursue collection action when a parent or guardian fails or refuses to pay an agreed upon parental co-payment in a timely manner.

- **Virginia Department for the Aging**
 - *Restore Services to Area Agencies on Aging.* Adds \$750,000 GF in FY 2005 and \$850,000 GF in FY 2006 to local area agencies on aging (AAAs) to restore services that were eliminated when funding was reduced by \$1.4 million each year in the 2002-04 budget. Funds may be used to address unmet need for in-home services, transportation, care coordination, home-delivered meals, and congregate dining as determined by local AAAs.
 - *SeniorNavigator Web-based Aging Information System.* Provides \$250,000 GF in FY 2005 and \$100,000 GF in FY 2006 for operational support of SeniorNavigator, a statewide web-based aging information system that provides information about available services for seniors, families, and caregivers. A companion amendment in Central Appropriations provides an additional \$150,000 GF bringing the total funding for SeniorNavigator to \$250,000 in FY 2006.
 - *Expand Public Guardian and Conservator Program.* Provides \$110,000 GF in FY 2005 and \$250,000 GF in FY 2006 to establish five new Public Guardian and Conservator Programs in unserved areas. Currently, nine programs operate throughout the state and serve elderly and disabled adults who have no family or friends able to provide guardian services. Funding for this program is part of the Olmstead initiative.

- **Department of Health**
 - *Anticipated Federal Funds for Public Health Activities.* Provides \$20.1 million NGF in FY 2005 and \$21.2 million NGF in FY 2006 for anticipated federal grants for cancer prevention and control, hospital preparedness activities, and the AIDS Drug Assistance Program.
 - *Offset GF with NGF for Emergency Medical Services System.* Reduces general fund support for EMS by \$3.2 million each year and provides \$10.4 million NGF each year from a portion of the additional \$2 surcharge on motor vehicle registrations passed during the 2002 General Assembly (\$4-for-Life).
 - *Substitute \$4-for-Life Funds for GF Support for Med-flight Operations.* Provides \$1.0 million NGF each year from the EMS \$4-

for-Life funds to replace the general fund support for State Police med-flight operations.

- ***Federal Funds for the Violent Death Reporting System.*** Provides \$414,659 NGF each year in federal funds for the development and maintenance of a National Violent Death Reporting System. These funds will be received by the Office of the Chief Medical Examiner.
- ***Allow Area Health Education Centers to Leverage Federal Medicaid Funds.*** Language is added to allow the Area Health Education Centers (AHECs) to use existing funds to match federal Medicaid funds available for the recruitment, retention and practice support of Medicaid providers in medically underserved areas or areas with medically underserved populations. In addition, local and private funds available to AHECs can be used to match federal Medicaid funds available for provider education, health promotion, and Medicaid outreach and enrollment.
- ***AHEC Cash Match for State Funding.*** Language is also added to require AHECs to match 100 percent of the funds received from the state for their activities. In the past, AHECs were required to match only 50 percent of the funding received from the state.
- ***Supplant Vital Records GF Operational Support With Vital Statistics Automation Fee Revenue.*** Reduces operational support of the Office of Vital Records and Health Statistics by \$967,904 GF each year and substitutes a portion of the fees collected for the Vital Statistics Automation Fund. Currently the State Registrar collects a fee, not to exceed ten dollars, for a certified copy of a vital record or for a search of the files or records when no copy is made. Four dollars of this fee is deposited into the Vital Statistics Automation Fund for the automation of vital records and statistics information. The adopted budget redirects \$2.00 of the automation fee for the Office's operations.
- ***Vital Records Fee Increase.*** Adds budget language requiring the current vital records fee to increase from \$10.00 to \$12.00 on July 1, 2004. Fee revenues are generated from requests for certified copies of a vital record or a search of the files or records when no copy is made. Revenues from the increase, estimated at \$890,000 each year, will be transferred to the general fund to offset state health care expenditures.

- *Transfer Wastewater Activities to DEQ.* Transfers \$552,006 GF and seven FTE positions each year to the Department of Environmental Quality for the regulation of sewage treatment plants pursuant to Chapter 614, 2003 Acts of Assembly.
 - *Case Management for Obstetrical Services.* Provides \$100,000 GF each year for case management services in communities that have lost obstetrical services. Services may include clinic visits, home visiting services, and other services to promote safe and healthy deliveries and infant care.
 - *Medication for People with Tuberculosis.* Adds \$50,000 GF each year for prescription drugs for individuals who have tuberculosis but who do not qualify for free or reduced drugs and who do not have adequate income or insurance coverage to purchase the required medication. It is estimated that 100 individuals with tuberculosis each year will receive services with this funding.
 - *Expand Statewide Pharmacy Connection Program.* Adds \$125,000 GF each year to expand access to prescription drugs statewide through the Pharmacy Connection Program administered by the Virginia Health Care Foundation.
 - *Virginia Health Care Foundation/Rx Partnership Program.* Provides \$75,000 GF each year to the Virginia Health Care Foundation to maintain and operate the Rx Partnership, a virtual warehouse that will be used to solicit and distribute free prescription drugs from pharmaceutical manufacturers to low-income Virginians.
- **Department of Health Professions**
 - *Enforcement and Adjudication Costs.* Adds \$2.2 million NGF in FY 2005, \$2.3 million NGF in FY 2006, and 27 positions to implement additional investigations, enforcement, and adjudication of misconduct by doctors of medicine, podiatry, and osteopathy. These additional efforts are related to the passage of Chapter 762, 2003 Acts of Assembly, which lowered the disciplinary standard of proof from gross negligence to simple negligence for misconduct by these health practitioners.
 - *Leverage Medicaid for CNA Regulatory Program.* Adds language allowing the department to transfer the revenue generated from Certified Nurse Aide (CNA) fees to the Department of Medical

Assistance Services to be matched by federal Medicaid funds. These combined funds would then support the CNA regulatory program.

- **Department of Medical Assistance Services (DMAS)**

- *Increase for Medicaid Utilization and Inflation.* Fully funds the expected increases in enrollment and costs for the Medicaid program. Projected growth in Medicaid can be attributed to increasing enrollment, especially among children and families, and the rising costs of nursing home placements, managed care payments, mental retardation waiver services, and prescription drugs. The Medicaid program is expected to grow by 7.6 percent the first year and 8.8 percent the second year, requiring additional state funding of \$265.2 million in FY 2005 and \$429.0 million in FY 2006 to maintain current services for eligible persons.

These additional Medicaid utilization and inflation costs are funded from the general fund and the Virginia Health Care Fund (VHCF). The VHCF will be used solely for health care services and is comprised of current revenues from the cigarette tax, the 40 percent general fund share of the Tobacco Master Settlement Agreement, and prior-year Medicaid recoveries. In addition, \$308.9 million from an increase in the cigarette tax -- from 2.5 cents per pack to 20 cents per pack on September 1, 2004, and 30 cents per pack on July 1, 2005 -- and increases in other tobacco products taxes will be deposited into the fund over the biennium.

During the 2004-06 biennium, the VHCF will provide a total of \$609.4 million for the Medicaid program, diminishing the need for an additional general fund appropriation to fully fund the forecasted need for Medicaid utilization and inflation. Consequently, the budget proposes a net increase of \$84.8 million GF for the biennium.

- *Medicaid Low-Income Children Caseload Growth (FAMIS Plus).* Provides \$8.1 million GF and \$14.2 million NGF in FY 2005 and \$8.4 million GF and \$15.6 million NGF in FY 2006 for caseload growth in 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 service expenditures for these children at the same rate as that provided for the Family Access to Medical Insurance Security (FAMIS) program (about 65 percent). Enrollment of these children in FAMIS Plus is expected to

grow by 8 percent in FY 2005 and 6.7 percent in FY 2006, totaling about 28,400 children by the end of FY 2006.

- ***FAMIS Caseload Growth.*** Provides \$6.2 million GF and \$10.1 million NGF in FY 2005 and \$8.6 million GF and \$16.0 million NGF in FY 2006 for caseload growth in the FAMIS program. FAMIS enrollment has grown by about 14 percent in the past year, and enrollment is expected to continue growing significantly due to expanded outreach efforts. As of June 1, 2004 the program served about 36,658 children. Enrollment in FAMIS is expected to slow to 8 percent in FY 2005 and 7.4 percent in FY 2006. By the end of the FY 2004-06 biennium, the program is expected to serve about 46,000 children.

- ***Restore General Fund Support for Unrealized Revenue Maximization Initiatives.*** Adds \$6.9 million GF and reduces \$6.9 million NGF each year to account for unrealized revenue maximization strategies. Ongoing savings strategies assumed in the base budget to maximize federal Medicaid revenue did not materialize as expected and will probably not be feasible in the 2004-06 biennium.

Medicaid Provider Rate Increases

(GF only)

	FY 2005	FY 2006	Biennium
Nursing Homes	-	\$9,740,987	\$9,740,987
Inpatient Hospital Services	-	\$9,125,000	\$9,125,000
Mental Retardation Waivers	\$500,000	\$4,700,000	\$5,200,000
Personal Care	-	\$3,000,000	\$3,000,000
Neo-natal Intensive Care Unit (NICU) Hospitals with High Medicaid Utilization	\$750,000	\$750,000	\$1,500,000
Pharmacy Dispensing Fee	-	\$869,249	\$869,249
Emergency Room Physicians	\$140,302	\$148,719	\$289,021
TOTAL	\$1,390,302	\$28,333,955	\$29,724,257

- ***Increase Nursing Facility Reimbursement.*** Provides \$9.7 million GF and \$9.7 million NGF in FY 2006 to increase nursing facility reimbursements by \$3.00 per day.
- ***Increase Inpatient Hospital Reimbursement.*** Provides \$9.1 million GF and \$9.1 million NGF in FY 2006 to increase inpatient hospital reimbursements by modifying a payment adjustment factor used in calculating the state's reimbursement. Currently, the payment adjustment factor discounts 28 percent of allowable hospital inpatient costs, thus reimbursing hospitals for about 72 percent of their costs. This added funding would allow the department to decrease the discount to 25 percent, resulting in increased reimbursements covering 75 percent of allowable costs for hospital inpatient services.
- ***Rate Increase for Mental Retardation Waiver Services.*** Adds \$500,000 GF and \$500,000 NGF for a modest rate increase on July 1, 2004 and \$4.7 million GF and \$4.7 million NGF for a three percent increase on July 1, 2005, for services provided under the home- and community-based mental retardation waiver program.
- ***Medicaid Reimbursement for Personal Care Services.*** Provides \$3.0 million GF and \$3.0 million NGF in FY 2006 for a five percent rate increase for personal care services provided under community-based Medicaid waiver programs such as the elderly and disabled waiver. Personal care rates paid to providers will increase from \$13.38 to \$14.05 per hour in northern Virginia and \$11.36 to \$11.93 per hour in the rest of the Commonwealth.
- ***Enhanced Payments for Hospitals with High-Volume Medicaid Neonatal Intensive Care Unit (NICU) Births.*** Provides \$750,000 GF and \$750,000 NGF each year for an additional payment to hospitals for which Medicaid recipients account for more than one-half of all neonatal intensive care births at the facility. The enhanced payments will be proportionally distributed to hospitals based on each hospital's share of NICU Medicaid patient days.
- ***Restore Pharmacy Dispensing Fees for Generic Drugs.*** Provides \$869,249 GF and \$869,249 NGF in FY 2006 for a 25-cent increase in the pharmacy-dispensing fee -- from \$3.75 to \$4.00 per prescription per month -- for generic drugs dispensed through the Medicaid program. This increase restores one-half of the reduction for generic drugs that was included in the 2002-04 budget.

- *Emergency Room Physician Payments.* Allocates \$140,302 GF and \$140,302 NGF in FY 2005 and \$148,719 GF and \$148,719 NGF in FY 2006 for a two percent rate increase for emergency room physicians effective July 1, 2004.

Medicaid Community-Based Waiver Increases				
(GF Only)				
Program	# of Slots	FY 2005	FY 2006	Biennium
Mental Retardation (MR) Waivers (community)	700	\$13,500,000	\$18,200,000	\$31,700,000
MR Waivers (Discharges from MR Training enters)	160	\$2,666,667	\$4,000,000	\$6,666,667
Developmental Disabilities (DD) Waiver	105	\$1,478,089	\$2,159,675	\$3,637,764
Day Support Waivers	300	-	\$2,918,700	\$2,918,700
TOTAL	1,265	\$17,644,756	\$27,278,375	\$44,923,131

- *Add 700 Mental Retardation (MR) Waiver Slots for Community Residents.* Adds \$13.5 million GF and \$13.5 million NGF in FY 2005 and \$18.2 million GF and \$18.2 million NGF in FY 2006 for 700 new community-based mental retardation waiver slots to address the urgent care waiting list. Language is also added requiring the Department of Medical Assistance Services, with assistance from the Department of Mental Health, Mental Retardation and Substance Abuse Services, to determine the capacity of the MR waiver system to absorb an additional 180 MR waiver slots in FY 2006.
- *Add 160 Mental Retardation Waiver Slots for Discharge of Residents from Mental Retardation Training Centers.* Includes \$2.7 million GF and \$2.7 million NGF in FY 2005 and \$4.0 million GF and \$4.0 million NGF in FY 2006 to allow 160 individuals who are currently residing in mental retardation training centers to be discharged and placed into a less restrictive setting in the community. The additional waiver slots are estimated to cost

\$25,000 GF each. Funding for this program is part of the Olmstead initiative.

- ***Add 105 Developmentally Disabled Waiver Slots.*** Provides \$1.5 million GF and \$1.5 million NGF in FY 2005 and \$2.2 million GF and \$2.2 million NGF in FY 2006 for 105 additional slots for the Medicaid waiver program serving developmentally disabled persons, including those with cerebral palsy, autism, and epilepsy. The additional funds will increase the number of waiver slots from 323 to 428. Funding for this program is part of the Olmstead initiative.
- ***Add 300 Day Support Waiver Slots.*** Provides \$2.9 million GF and \$2.9 million NGF in FY 2006 for 300 new Day Support waiver slots to meet the needs of individuals who are not considered to be urgent candidates. Day support is the primary request of individuals seeking MR waiver services. The provision of day support services will enable individuals to retain and enhance their independent living skills, provide respite care for caregivers, and, ideally, delay the need for more intensive MR waiver services.
- ***Involuntary Mental Commitments.*** Adds \$1.1 million GF in FY 2005 and \$2.0 million GF in FY 2006 to fully fund hospital and physician services resulting from involuntary mental commitments.
- ***Preferred Drug List (PDL) Program - Defer Certain Drug Classes.*** Restores \$2.5 million GF and \$2.5 million NGF in FY 2005 to delay the inclusion of antidepressants and antianxiety medications used for the treatment of mental illness on the PDL for one year. Budget language is added requiring the Department to provide a plan for including the medications on the list that (1) minimizes adverse impacts on consumers, (2) ensures appropriate provider education to promote effective prescribing practices that are medically indicated, and (3) ensures that inclusion is evidence-based, clinically efficacious and cost-effective.
- ***Medicaid Effect - Auxiliary Grant Program Increase.*** Provides \$991,219 GF and \$991,219 NGF in FY 2006 for 140 Medicaid recipients who are expected to become eligible for the program as a result of an increase in the monthly Auxiliary Grant program payment.
- ***Medicaid Dental Services Carve-Out.*** Adds \$300,000 GF and \$300,000 NGF in FY 2005 to pay for dental services provided by

Medicaid on a fee-for-service basis in order to encourage more dentists to participate in Medicaid and improve access to dental care. Currently, only 20 percent of children enrolled in the Medicaid or FAMIS program are receiving dental services they are eligible to receive and only 16 percent of licensed dentists in Virginia participate in the Medicaid program. Funding will be used to handle provider outreach, case management, help-line, and other provider enrollment functions currently handled by managed care organizations.

- ***Managed Care Analysis.*** Adds \$150,000 GF and \$150,000 NGF in FY 2005 and \$100,000 GF and \$100,000 NGF in FY 2006 and two positions to assess the compatibility of the department's information system and the encounter data collected by Medicaid managed care organizations to determine what system changes are necessary to permit the collection, transmission, and analysis of data on encounter claims. Funding will be used to hire a consultant to conduct the study and provide two positions to bolster the department's ability to oversee Medicaid managed care expenditures, which have grown as the program has transitioned from fee-for-service to a capitation-based approach to providing health care services. In fiscal year 2003, Medicaid managed care expenditures totaled almost \$769 million in state and federal funds.
- ***Adjust Medically Needy Income Limits for Inflation.*** Language is modified to provide an annual adjustment to medically needy income limits for the Medicaid program based on changes in the Consumer Price Index. This adjustment had been deferred in FY 2004 as part of the agency's budget reduction strategies. The Medicaid forecast for the 2004-06 biennium assumed the funding to provide this adjustment, estimated at \$500,093 GF and \$500,093 NGF each year.
- ***Develop Alzheimer's and Dementia Assisted Living Waiver.*** Adds language directing the Department of Medical Assistance Services to develop and implement a new home- and community-based waiver program to serve persons with Alzheimer's disease and related dementias, contingent upon federal approval. Language allows existing Medicaid funding to be used to implement the waiver, however, funding is not to exceed \$1.3 million GF and \$1.3 million NGF in FY 2005 and \$1.9 million GF and \$1.9 million NGF in FY 2006. Enrollment would be capped at 200 slots the first year. Language also directs the department to present the waiver

proposal to the Governor and Chairman of the Joint Commission on Health Care by October 1, 2004, in order to consider the waiver's fiscal impact during the development of the 2005 budget.

- ***Implementation of a Medicaid Buy-In Program.*** Adds language directing the Department of Medical Assistance Services to implement a Medicaid Buy-In Program, pursuant to Chapter 489, 2003 Acts of Assembly. The Medicaid Buy-In Program would serve up to 200 persons with disabilities, allowing them to return to work or remain in the workforce while receiving Medicaid benefits. Current law discourages work by denying Medicaid eligibility to disabled individuals with minimal levels of earned income. Language allows existing Medicaid funding to be used to implement the waiver, however, this funding is not to exceed \$223,463 GF and \$223,463 NGF in FY 2005 and \$455,767 GF and \$455,767 NGF in FY 2006.
- ***Retention of Medicaid Funds - School Health Services.*** Adds budget language capping the amount of matching federal funds the department can retain for administrative costs associated with the billing of school health services for Medicaid-eligible special education students who receive these services. Funding for the department will be capped at the level retained in FY 2006, thus providing school districts with additional federal reimbursements if their Medicaid school health billings increase.

Targeted Reductions

- ***Indigent Care Payments to Teaching Hospitals.*** Reduces general funds by \$15.6 million in FY 2005 and \$12.4 million in FY 2006 and increases nongeneral funds by \$2.3 million in FY 2005 and \$5.5 million in FY 2006 for indigent care services provided by the Virginia Commonwealth University Health System Authority and the University of Virginia Medical Center. The general fund reductions reflect efforts to reduce the teaching hospitals reliance on disproportionate share hospital payments. 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, requiring the hospitals to seek alternative funding sources for increased indigent care costs. These initiatives have resulted in the need for fewer general funds for indigent care in the 2004-06 biennium.

- ***Implement Maximum Allowable Cost (MAC) Reimbursement Methodology for Generic Drugs.*** Reduces \$5.2 million GF and \$5.2 million NGF each year by implementing a state maximum allowable cost reimbursement methodology to contain the costs of generic drugs in the Medicaid program. Budget language is added to clarify implementation of the MAC program.
- ***Implement a Limited Disease Management Program.*** Reduces funding by \$1.7 million GF and \$1.7 million NGF each year in anticipation of savings from implementing a limited disease management program. This program will be used to test cost effectiveness and quality improvement for certain Medicaid patients. Early attempts to aggressively expand the disease management program were unsuccessful in realizing savings of \$10.4 million GF estimated for FY 2004, because vendor proposals were too costly and could not guarantee programmatic savings. A portion of the savings (\$700,000 GF each year) is attributable to a reduction in administrative funding, which is not needed since a contract for disease management was not implemented. Budget language is added requiring the department to consider adding disease management initiatives that might positively impact the cost of health care services such as asthma and other chronic conditions.
- ***Move AIDS Waiver Patients to Elderly and Disabled (E&D) Waiver Program.*** Reduces \$1.2 million GF and \$1.2 million NGF each year by allowing the department to modify or merge the AIDS Waiver program into the Elderly and Disabled Waiver program. Savings will be realized by eliminating case management services, which are not covered under the E&D Waiver. Language is added to ensure that individuals who are eligible for AIDS Waiver services continue to receive necessary services whether the AIDS Waiver remains a separate program or is combined with the E&D Waiver program. Currently, 272 individuals are receiving AIDS Waiver services.
- ***Medicaid Recoveries from Noncustodial Parents.*** Adds budget language requiring the department to work with the Department of Social Services' Division of Child Support Enforcement to identify and initiate third party recoveries when a medical support order exists for a noncustodial parent to provide care for their child who is enrolled in either the Medicaid or FAMIS programs. A recent report from the United States Office of the Inspector General

suggested more aggressive pursuit of third party payors will result in additional Medicaid recoveries. It is estimated that \$1.2 million GF will be recovered in FY 2006 from this effort.

- *Co-payments for Medicaid Services.* Reduces \$500,000 GF and \$500,000 NGF each year by implementing or increasing nominal co-payments – not exceeding \$3.00 -- for Medicaid services where permissible under federal law.
- *Reduce Durable Medical Equipment (DME) Payments.* Reduces \$200,000 GF and \$201,043 NGF each year by eliminating the 30 percent mark-up paid for certain durable medical equipment items not included in Medicaid’s rate schedule. Language allows the department to set the rate for certain DME at the regional reimbursement level.
- **Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)**
 - *MH Facility Revenue Shortfall.* Adds \$14.8 million GF and reduces \$14.8 million NGF each year to reflect the loss of patient revenues at the state’s mental health facilities. As the number of patients receiving services at state facilities has declined and fewer Medicaid-eligible clients have been served, operating revenues have diminished, resulting in the current funding shortfall. In recent years, the department has been able to maximize federal Medicaid revenues through a year-end cost-settlement process. The declining number of Medicaid-eligible patients will not allow the department to rely on this strategy in the upcoming biennium.
 - *Mental Health Discharge Assistance Planning Funds.* Allocates \$3.6 million GF in FY 2005 and \$5.4 million GF in FY 2006 to allow for the discharge of 77 long-term rehabilitation patients who have been identified and are ready to be released from the Commonwealth’s mental health facilities. Funding, estimated at \$70,000 per individual, will be used to provide specialized services for individuals who face extraordinary barriers to placement in the community. Funding for this program is part of the Olmstead initiative.
 - *Establish Additional Programs of Assertive Community Treatment (PACT).* Provides \$2.0 million GF in FY 2005 and \$2.6 million GF in FY 2006 to establish three new PACT teams in communities. PACT teams provide crisis intervention and case management services

that allow adults with mental illness to receive intensive treatment services in the community, thereby avoiding placement in mental health facilities. Currently, there are 13 PACT programs across the Commonwealth. Funding for this program is part of the Olmstead initiative.

- ***Increase Community Mental Health Services for Children and Adolescents.*** Provides \$2.0 million GF each year to expand mental health services for children and adolescents with serious emotional disturbances and related disorders. While these children and adolescents may have the same diagnoses and illnesses as mandatory cases served through the Comprehensive Services Act (CSA), they are not eligible to receive CSA-funded services. For example, children whose parents retain custody of them, as opposed to relinquishing custody to the state, may be ineligible for mental health services, whereas foster care children are considered mandated cases. Funding for this program is part of the Olmstead initiative.
- ***Increase Inpatient Treatment Services Purchased at Community Hospitals.*** Adds \$1.0 million each year to expand the purchase of inpatient mental health services at community hospitals in order to reduce admissions to and potentially long-term stays within state mental health facilities. Language requires the department to report information from Community Service Board contracts with private inpatient service providers. Funding for this program is part of the Olmstead initiative.
- ***Part C Early Intervention Services.*** Adds \$750,000 GF each year for critical early intervention services, such as occupational, physical, and speech therapy; parental education; and other necessary supports for infants and toddlers (ages 0 to 3 years) who have developmental disabilities or delays. Funding will be used to maintain current services and meet annual caseload growth of 8 percent. Language requires annual reporting on Part C funding and services beginning in FY 2006.
- ***Services and Monitoring for Conditionally Released Sexually Violent Offenders.*** Adds \$325,000 GF each year to monitor, treat, and support sexually violent offenders who are conditionally released by the courts to the community.
- ***Replace Obsolete Computer Hardware.*** Adds \$400,000 GF in FY 2005 and \$175,000 GF in FY 2006 to replace outdated computer

hardware that the Department uses to operate its financial management systems, including procurement, patient cost accounting, and budgeting. New computer hardware will be purchased through the state's Master Equipment Leasing Program (MELP).

- *Additional MR Waiver Licensing Staff.* Provides \$100,000 GF each year for two licensing specialists to manage the increase in licensed providers resulting from the expansion of community-based mental retardation waiver services. Staff will license new applicants in a reasonable period of time, monitor services and investigate complaints as statutorily mandated to promote safety, and assure that treatment and care are provided as required.
- *Adjust NGF for Increased Revenues.* Adds \$9.4 million each year to adjust the nongeneral fund appropriation for the community services boards to reflect federal grant increases for mental health, substance abuse, and early intervention services. Provides an additional nongeneral fund appropriation of \$3.6 million each year to reflect: (1) increased federal revenues for the Southwestern Virginia Training Center and (2) increased federal grants for early intervention services for children, crisis counseling, outreach, the protection of human rights, and licensure activities.
- **Department of Rehabilitative Services**
 - *Expand Brain Injury Services Statewide.* Adds \$750,000 GF in FY 2005 and \$1.0 million GF in FY 2006 to expand the provision of services to individuals with brain injuries statewide. General fund support will be used to continue funding for existing programs and to expand programs to underserved or unserved regions of the Commonwealth. Language requires an annual report on the number of individuals served, services provided, and success in attracting non-state resources.
 - *Expand Services for Brain-Injured Individuals in Southwest Virginia.* Allocates \$75,000 GF each year to coordinate services for individuals with brain injuries who reside in Southwest Virginia.
 - *Centers for Independent Living.* Adds \$160,000 GF each year to restore funding for centers for independent living that was reduced in the 2002-04 biennium.

- *Community Rehabilitation Workshops.* Restores \$150,000 GF for services provided by community rehabilitation workshops, previously called sheltered workshops. Funding was reduced for these workshops in the 2002-04 biennium.
- *Additional Medicaid Disability Unit Workers.* Provides \$250,000 GF and \$250,000 NGF in FY 2005 and \$256,250 GF and \$256,250 NGF in FY 2006 to hire additional staff to determine whether applicants with disabilities are eligible for Medicaid. Federal law requires Medicaid disability applications to be processed within 90 days. The department has not fully complied with this requirement in recent years due to budget reductions that coincided with double-digit caseload increases.
- *Commonwealth Neurotrauma Initiative Fund.* Language requires grant applicants to submit plans for achieving self-sufficiency by the end of the grant period. Also, language permits the Commissioner of Rehabilitative Services to reallocate unobligated grant funds for new research grants on traumatic brain and spinal cord injuries.
- **Woodrow Wilson Rehabilitation Center**
 - *Replace Contractors with Classified Positions.* Saves \$75,000 GF each year by replacing employment placement services contractors with classified employees.
- **Department of Social Services**
 - *Mandatory Adoption Subsidy Payments.* Provides \$5.5 million GF and \$690,344 NGF in FY 2005 and \$8.6 million GF and \$1.9 million NGF in FY 2006 for caseload and cost increases in the adoption subsidy program. Expenditures for the program have grown significantly in recent years, largely due to the Adoption and Safe Families Act passed by Congress in 1997. This law requires states to expedite the adoption of children in foster care. State improvements in the adoption of Virginia’s children have resulted in the award of federal adoption incentive grants.
 - *Mandatory Title IV-E Foster Care Payments.* Adds \$3.9 million GF and \$3.9 million NGF in FY 2005 and \$7.4 million GF and \$7.4 million NGF in FY 2006 to fully fund anticipated caseload and cost increases in the federal Title IV-E foster care program. Foster care caseloads have risen as the department seeks to qualify foster care

children for federally funded foster care. At the same time, the number of children requiring intensive and expensive residential treatment services has also increased.

- ***EBT Cost Increase for Food Stamps.*** Provides \$1.4 million GF and \$1.4 million NGF in FY 2005 and \$400,000 GF and \$400,000 NGF in FY 2006 for the increased costs of administering the point-of-sale Electronic Benefits Transfer system (EBT). EBT cards, which are used like Automatic Teller Machine (ATM) cards, are required by the federal government to issue food stamp benefits.
- ***Community Action Agencies.*** Adds \$500,000 GF in FY 2005 and \$500,000 GF in FY 2006 and reduces \$377,540 NGF in FY 2005 and \$377,540 NGF in FY 2006 from the TANF block grant program for community action agencies, resulting in a net increase of \$122,460 each year. These actions were necessary to balance the revenues and expenditures for the federal block grant.
- ***Increase Auxiliary Grant Payments.*** Authorizes an inflationary rate increase of \$12 per month, or 1.4 percent, for licensed assisted living facilities and adult foster care homes, consistent with changes in federal law effective January 2005. The adopted budget also provides \$2.2 million GF to increase the maximum rate for licensed assisted living facilities and adult foster care homes by 3.2 percent, from \$866 to \$894 each month, beginning July 1, 2005.
- ***Rebalancing the TANF Block Grant.*** Spending for the Temporary Assistance to Needy Families (TANF) block grant historically has relied on unobligated balances carried forward from prior years. These balances would have been depleted at the end of FY 2004 without adjustments to align TANF expenditures with TANF resources. Thus, several strategies were adopted to align revenues and expenditures for the 2004-06 biennium. First, \$20.7 million GF over the biennium was provided to satisfy the federal maintenance of effort requirement for the TANF program while simultaneously reducing reliance on federal TANF dollars. Second, seven programs funded with TANF dollars were reduced by 10 percent, funding for the Comprehensive Health Investment Project was reduced by 4.6 percent, and funding for Craig County Day Care Services was reduced by 50 percent. Third, twelve programs currently funded with TANF dollars will compete for \$1.5 million each year. With the exception of programs that will vie for funding through the Competitive Grant Program, budget language earmarking TANF funding for TANF programming was restored.

A positive TANF balance of \$2.0 million in FY 2005 and \$1.2 million in FY 2006 is expected based on the 2004-06 adopted budget. The following paragraphs describe the proposed general fund additions and nongeneral fund reductions needed to rebalance TANF spending. A detailed table showing expenditures in the TANF program follows this narrative.

- ***Restore GF for TANF Maintenance of Effort.*** Adds \$10.3 million GF each year to satisfy the federal TANF block grant requirement of spending at least \$128.2 million in state resources each year for TANF. Insufficient state and local expenditures on eligible TANF activities would result in a federal penalty equivalent to twice the amount the state underpaid.
- ***Restore TANF Child Support Supplement.*** Continues federal TANF block grant funding for the child support supplement at the FY 2004 level of \$7.8 million in FY 2005 and \$3.9 million in FY 2006. The program provides a supplemental payment each month to TANF families receiving child support, and will fund 85 percent of the amount of child support expected to be collected on behalf of eligible TANF families in FY 2005 and 42 percent in FY 2006, less any appropriate income disregards.
- ***Child Day Care Subsidies for At-risk, Low-income Families.*** Adds \$4.3 million GF and \$4.3 million NGF from matching federal child care funds each year for child day care subsidies for low-income families. This funding will replace \$8.6 million each year in child day care subsidies that is currently transferred from the federal TANF block grant to the Child Care Development Fund for these services. This action frees up TANF dollars to restore funding for core welfare reform activities.
- ***Expand Services for Healthy Families Virginia.*** Adds \$200,000 GF each year to Healthy Families Virginia in order to promote positive parenting, improve child health and development, and reduce child abuse and neglect. A companion amendment in Central Appropriations provides an additional \$259,980 GF each year bringing total general fund support for Healthy Families to \$459,980 GF in each year of the 2004-06 biennium. Funding in FY 2004 for Healthy Families Virginia included \$125,000 from the general fund and \$4.6 million from the TANF block grant. The new general fund support in 2004-06 offsets a 10 percent reduction in federal TANF funds for Healthy Families and allows the program to leverage other federal matching dollars for eligible services.

- **TANF Funding for Programs and Services.** Reduces \$10.6 million NGF in TANF funding for earmarked programs and services that were previously supported by surplus TANF dollars. Twelve programs that received \$4.3 million in TANF funds during FY 2004 will now compete for \$1.5 million annually. In addition, budget language "earmarking" TANF funds for these programs was deleted. Language requires the department to ensure that grants are awarded statewide to organizations with "a proven record of effectively delivering services and leveraging private and public sector dollars to carry out activities."

- **Restore TANF - Domestic Violence Grants.** Restores an earmark of \$1.1 million each year from the federal TANF block grant. In addition, \$108,422 GF is provided each year pursuant to Chapter 375, 2004 Acts of the Assembly 2004, which earmarked \$10 of the marriage license tax for domestic violence programs. This legislation will provide \$650,000 GF each year for domestic violence services.

TANF Block Grant Funding 2004-2006 Budget			
TANF Resources	FY2004	FY2005	FY2006
Annual TANF Block Grant Award	\$ 158,285,000	\$ 158,285,000	\$ 158,285,000
Bonus Award (FFY2001)	7,914,250		
Bonus Award (FFY2002)	7,914,250		
Carry Forward From Prior Fiscal Year	28,256,886	9,664,170	1,981,019
TANF Resources Available	\$ 202,370,386	\$ 167,949,170	\$160,266,019
TANF Expenditures			
<i>VIP/VIEW Core Benefits and Services</i>			
TANF Income Benefits	58,262,047	49,174,054	49,174,054
TANF Child Support Supplement	7,800,000	7,800,000	3,900,000
VIEW Employment Services	22,964,014	20,764,014	20,764,014
Caseload/TANF Reauthorization Contingency	-	3,000,000	-
Subtotal, VIP/VIEW Core Benefits and Services	\$ 89,026,061	\$ 80,738,068	\$ 73,838,068
<i>Administration</i>			
State Administration	2,852,250	2,203,893	2,203,893
Information Systems	3,589,500	1,678,560	1,678,560
Local Eligibility and Administration	14,133,977	14,133,977	14,133,977
Subtotal, Administration	\$ 20,575,727	\$ 18,016,430	\$ 18,016,430

<i>TANF Programming</i>		No reduction (10)	
Local Foster Care/ Adoptions Staff	9,300,000	9,300,000	9,300,000
Domestic Awareness Campaign	127,500	127,500	127,500
Child Advocacy Centers	200,000	200,000	200,000
Dept of Health - Teenage Pregnancy Prevention Programs	910,000	910,000	910,000
Dept of Health - Resource Mothers	176,800	176,800	176,800
Local Domestic Violence Grants	1,062,500	1,062,500	1,062,500
St Paul's College Project	85,000	85,000	85,000
Centers for Employment & Training	637,500	637,500 ^r	637,500
Department of Housing & Community Development	4,910,128	4,910,128	4,910,128
People, Inc.	42,500	42,500	42,500
		10% Reduction (8)	
Community Action Agencies	3,775,399	3,397,859	3,397,859
Healthy Families/Health Start	4,599,800	4,139,820	4,139,820
Comprehensive Health Investment Project (4.6% red.)	2,245,155	2,141,890	2,141,890
Comprehensive Services Act Trust Fund	1,064,245	957,821	957,821
Dept of Health - Partners in Prevention	850,000	765,000	765,000
Hard to Serve Employment Services	2,550,000	2,295,000	2,295,000
United Community Ministries	42,500	38,250	38,250
Local Dept. - Employment Retention Program	4,190,368	3,671,331	3,671,331
		Competitive Grant (12)	
Competitive Grants (*)	-	1,500,000	1,500,000
Dept of Health - Abstinence Program	179,350	*	*
Dept of Health - Right Choices for Youth	332,350	*	*
Dept of Health - Preg Prevention Mentoring Program	76,500	*	*
Dept of Health - Virginia Fatherhood Campaign	340,000	*	*
Economic Improvement Program	170,000	*	*
Food Bank Service Expansion	212,500	*	*
TANF Disability Funds (was DRS)	711,875	*	*
Virginia's Mentoring Initiative	76,500	*	*
Transportation Grants	2,125,000	*	*
Greater Richmond Transit Company (GRTC)	200,000	*	*
Virginia Mentoring Partnership (One-to-One Mentoring)	42,500	*	*
Opportunity Knocks	425,000	*	*
Subtotal, TANF Programming	\$ 41,660,970	\$ 36,358,898	\$ 36,358,898
TANF Expenditures, TOTAL	\$ 151,262,758	\$ 135,113,396	\$ 128,213,396
		Transfers to other Block Grants	
CCDF Transfer - Child Care Licensing	5,233,474	5,233,474	5,233,474

CCDF Transfer - Child Care Services	20,128,984	9,561,531	9,561,531
CCDF Transfer - Craig County Day Care	42,500	21,250	21,250
SSBG Transfer - Local Staff Support	9,101,387	9,101,387	9,101,387
SSBG Transfer - Special Needs Adoptions	2,000,000	2,000,000	2,000,000
SSBG Transfer - Comprehensive Services Act	4,727,113	4,727,113	4,727,113
SSBG Transfer - Fredericksburg Child Dental Clinic	10,000	10,000	10,000
SSBG Transfer - Virginia Health Care Foundation	200,000	200,000	200,000
TANF Transfers, TOTAL	\$ 41,443,458	\$ 30,854,755	\$ 30,854,755
TOTAL, TANF Expenditures & Transfers	\$ 192,706,216	\$ 165,968,151	\$ 159,068,151
TOTAL, TANF Resources	\$ 202,370,386	\$ 167,949,170	\$ 160,266,019
TANF, Remaining Balance (**)	\$ 9,664,170	\$ 1,981,019	\$ 1,197,868
NOTES:			
* These programs and services will compete for \$1.5 million each year.			
** Remaining TANF balances are carried forward to the next fiscal year.			

- *Adjust NGF for Increased Revenues.* Adds \$94.7 million in FY 2005 and \$114.7 million in FY 2006 to adjust the nongeneral fund appropriation for the department due to changes in revenues. These changes include:
 - an increase of \$43.2 million in local funds eligible for federal matching dollars such as Medicaid, food stamps, and child day care services. These revenues flow directly to localities;
 - a decrease of \$1.0 million in the Welfare to Work program that recently sunset;
 - an increase of \$68.7 million in federal revenues from the department’s revenue maximization efforts related to the federal IV-E foster care program;
 - an increase of \$38.4 million in federal grants that were not previously reflected in the department’s budget (e.g., low-income energy assistance, Community Services Block Grant);
 - an increase of \$60.0 million in additional child support collections and payments.

- **Center for Behavioral Rehabilitation**
 - *Staffing at Virginia Center for Behavioral Rehabilitation.* Provides \$3.6 million GF and 63 positions each year for the civil commitment and treatment of sexually violent offenders at the Center. The new positions will be in addition to the 74 full-time equivalents currently employed. The Center currently treats nine patients, but the number of civil commitments is expected to grow significantly through FY 2006.

Center for Behavioral Rehabilitation		
	FY 2005	FY 2006
Projected Census	30	54
Eligible Pool of Offenders	205	214
Budget	\$3.6 million	\$3.6 million
Staff FTEs (Treatment)	57.0	57.0
Staff FTEs (Security)	80.0	80.0

- **Department for the Blind and Visually Impaired**
 - *Salary Reimbursement Study for Teachers of the Visually Impaired.* Adds language requiring the department to work with the Department of Education to study salary inequities for special education teachers for the visually impaired.
 - *Adjust Enterprise Appropriation.* Increases the appropriation for enterprise activities at the department by \$6.0 million NGF in FY 2005 and \$6.5 million NGF in FY 2006 to reflect the opening of new military supply stores and the addition of new product lines.