

Health and Human Resources

The Governor's proposed 2006-08 budget for Health and Human Resources (HHR) provides a net increase of \$886.0 million GF and \$399.8 million NGF compared to the 2004-06 biennial budget (Chapter 951) adjusted for technical changes. This total reflects new biennial spending of \$910.4 million GF and \$443.9 million NGF offset by reductions of \$24.3 million GF and \$44.2 million NGF.

Of the general fund increase in HHR, 78 percent or \$687.2 million is required to meet caseload and cost increases, address federal mandates, maintain services at current levels, and fund traditional high priority items. Biennial general fund increases are required to fully fund projected growth for Medicaid (\$483.5 million), the Comprehensive Services Act (CSA) for at-risk youth and their families (\$48.3 million), state and federally mandated adoption subsidy programs (\$28.9 million), TANF assistance and child care (\$14.8 million), and health insurance for low-income children (\$11.7 million).

Implementation of a prescription drug benefit (Medicare Part D) under the federal Medicare program is expected to result in a net general fund cost to the Commonwealth of \$80.1 million during the biennium -- marking the first time that states have been required to make a contribution to the federal government for a program that states do not operate.

Other high priority proposals contained within the Governor's budget include funding to provide prescription drugs to serve inpatient and outpatient consumers of the state's mental health, mental retardation and substance abuse services system (\$15.0 million), modernize the department's information system to ensure proper billing is completed for the new Medicare Part D program (\$1.5 million) and replace critical food service equipment at state mental health and mental retardation facilities (\$2.6 million).

More than one-half of new discretionary spending within health and human resources is proposed for mental health and mental retardation restructuring. The restructuring proposals, which include a sizeable capital program, add \$112.4 million GF and \$57.7 million in federal Medicaid matching funds to improve community investments in mental health and mental retardation.

The community-based mental retardation restructuring initiative (\$55.6 million GF) includes funding to expand mental retardation waiver services to individuals living in state training centers and in the community, a rate increase for mental retardation waiver services, start-up funding for MR waiver services and guardianship services for individuals with mental retardation.

The community-based mental health and substance abuse initiative (\$51.4 million GF) includes funding to expand discharge assistance, divert individuals from state hospitals to community services, expand crisis stabilization services including substance abuse services, create two new “systems of care models” to provide mental health treatment to children and adolescents, and expand mental health treatment for children and adolescents in juvenile detention centers.

Other discretionary spending initiatives total \$104.0 million GF and include proposals to: increase provider rates, primarily in the Medicaid program, for hospitals, nursing homes and physicians, as well as rates for local medical examiners (\$32.0 million); expand health and social services for low-income families, aged and disabled individuals (\$24.3 million); efforts to preserve access to health and social services through funding of safe drinking water projects, addressing the waiting list of infants and toddlers eligible for early intervention services and maintaining existing aging services provided by Area Agencies on Aging (\$21.3 million); maintain agency operations by funding energy, insurance and other cost increases (\$15.0 million); and promote efficient agency operations, such as the adoption of Electronic Health Records (\$11.3 million).

General fund spending reductions are primarily concentrated in two areas: Medicaid (\$11.7 million) and mental health, mental retardation and substance abuse services (\$5.5 million). Medicaid savings are anticipated from the discharge of residents at Central Virginia and Southeast Virginia Training Centers as additional resources are provided to expand community-based services. Savings are also anticipated at Eastern State Hospital as patients are appropriately discharged into community programs and additional resources are provided to divert individuals with mental illness from state facility care. State facility savings are also expected to materialize in the future as new, and presumably more efficient, facilities replace aging structures that are proving costly to maintain. Finally, Medicaid savings are expected from more rigorous compliance audits for pharmacy, durable medical equipment, and home health services, and the implementation of a Specialty Drug Program for chronic diseases that require expensive medications to treat.

- **Comprehensive Services Act for At-Risk Youth and Families (CSA)**
 - **CSA Caseload and Costs.** Adds \$48.4 million GF and reduces \$10.0 million NGF to adjust funding for mandatory services provided through the CSA program for emotionally disturbed special education and foster care children. Additional general funds will accommodate eight percent annual increases in the cost of services as well as higher caseloads. Nongeneral funds are reduced to reflect lower than expected Medicaid funding for services.

- **Virginia Department for the Aging**
 - *Area Agencies on Aging (AAA) Hold Harmless Funding.* Adds \$1.3 million GF each year to implement the AAA funding formula to reflect recently updated census data. Due to demographic shifts in the state, the previous formula would have reduced funding to rural AAAs and increased funding to urban AAAs. The addition of \$1.3 million will hold rural AAAs harmless from reductions and accommodate the growth of the elderly populations in urban areas. The department uses this formula to distribute state general funds and federal Older Americans Act funding to local Area Agencies on Aging each year. A special task force established by the 2005 General Assembly recommended this funding option.
 - *Expand Public Guardianship and Conservator Program.* Provides \$150,000 GF each year to expand the Public Guardian and Conservator Program to unserved regions of the Commonwealth. Funding will be used to extend services to elderly and disabled adults who have no resources, family or friends to provide guardianship services. As part of a larger mental health, mental retardation, and substance abuse services initiative, \$720,000 in FY 2007 and \$1.3 million in FY 2008 from the general fund is included for individuals with mental retardation who are also in need of guardianship services. Additional funding for this program addresses the state's Olmstead Plan to strengthen community-based services for mentally disabled persons.
 - *Senior Navigator Program.* Provides \$150,000 GF each year to maintain support for the Senior Navigator program at \$250,000 each year. During the 2004 General Assembly, \$100,000 from the general fund was appropriated through the Department for the Aging for Senior Navigator, but an additional \$150,000 from the general fund was provided through central appropriations. This proposal maintains funding at \$250,000 each year consistent with funding appropriated by the 2005 General Assembly.
- **Department of Health**
 - *Drinking Water Construction Projects.* Adds \$5.0 million GF each year to provide grants to local communities for drinking water infrastructure improvements. As a result of a recent formula change, Virginia's allocation of federal funding from the U.S. Environmental Protection Agency decreased by \$2.6 million annually from \$11.5 million to \$8.9 million. This funding offsets that reduction and provides an additional \$2.4 million GF annually

to increase the Commonwealth's investment in local construction projects to ensure safe drinking water.

- ***Expand Use of Electronic Health Records.*** Adds \$3.8 million GF in FY 2007 and \$3.3 million GF in FY 2008 to encourage the development and use of electronic health records in the Commonwealth as a way to improve health outcomes and patient safety, and restrain the rising cost of health care services. Funds will be used to: (1) assist providers interested in purchasing electronic health records (\$3.0 million each year), (2) develop a Master Patient Index and Regional Health Information Organizations pilot project (\$500,000 one-time), (3) hire information technology specialists to administer the development of the pilot project (\$176,620 each year), (4) continue funding a pilot program involving Carilion Health System and local health departments, and (5) provide grant funding (\$50,000 each year) for the Virginia Health Information's patient level database.
- ***Rate Increase for Death Investigations.*** Adds \$615,520 GF in FY 2007 and \$648,740 GF in FY 2008 to increase the rate paid to medical examiners for death investigations from \$50 to \$150 per case. The low case rate currently paid by the Commonwealth has contributed to a decline in local medical examiners from 430 to 230 in the past ten years. This increase is designed to recruit and retain medical examiners in local communities, especially in 30 unserved counties.
- ***Expand Resource Mothers Program.*** Adds \$590,000 GF each year to maintain services for 2,200 recipients and expand services to 211 additional teenage mothers. The Resource Mothers program provides prenatal care, post-partum care, and support through the first year of infancy for pregnant teens who are at high-risk of poor birth outcomes.
- ***Replace NGF with GF for Physician Financial Incentive Programs.*** Adds \$280,284 GF in FY 2007 and \$560,568 GF in FY 2008 and reduces \$280,284 NGF in FY 2007 and \$560,568 NGF in FY 2008 to replace the financing of physician recruitment incentives from Board of Medicine physician license fee revenues with general funds. Physician license fees are intended to support the regulatory activities of the Board of Medicine. However, during the 2003 session, general fund support of loan repayment and scholarship programs was eliminated to achieve budget savings and replaced with physician fees in order to minimize program reductions. The scholarship and loan repayment programs are

- designed to encourage physicians to work in medically underserved areas, health professional shortage areas or government agencies in Virginia.
- ***Expand Breast and Cervical Cancer Screening Services.*** Provides \$405,176 GF each year to local health departments to expand breast and cervical cancer screening and diagnostic services to 2,144 low-income women. Funding for those women screened by the program who need breast and cervical cancer treatment is added to the budget in the Department of Medical Assistance Services.
 - ***Comprehensive Health Investment Program (CHIP) of Virginia.*** Provides \$396,000 GF each year to maintain services to 475 children by funding eight community workers previously funded with federal Title IV-E foster care prevention dollars. CHIP is currently funded with a combination of general funds (\$175,000 each year) and federal TANF funds (\$2.1 million each year). As funds shifted from general funds to TANF, other federal funding (e.g., Title IV-E foster care) that were expected to be available to local CHIP programs have not materialized.
 - ***Additional Food Safety Inspectors.*** Adds \$326,000 GF and \$130,400 NGF each year to ensure food safety by adding eight additional restaurant inspectors in targeted regions of the Commonwealth. Growing communities served by local health districts such as Loudoun, Rappahannock, Thomas Jefferson, and Prince William have been unable to keep up with the demand for environmental health services, particularly restaurants inspections.
 - ***Virginia Health Care Foundation.*** Provides \$250,000 GF each year to expand the number of medication assistance coordinators across the Commonwealth to provide outreach assistance to low-income, uninsured persons living in medically unserved or underserved areas of the state who need help in obtaining free prescription drugs.
 - ***Improve Local Health Department Facilities.*** Provides \$170,031 GF and \$111,085 NGF each year to make improvements to local health department facilities in the counties of Dickenson, Fluvanna, Nelson, and Warren, and the City of Waynesboro. These localities have been identified by the Department of Health as having the top critical needs due to health, safety, and other structural deficiencies. Funding will be used to pay the additional lease costs associated with new or improved facilities in these communities.

- *Local Health Department Grants for Interpreter Services.* Provides \$125,000 GF each year for grants to local health departments for linguistically appropriate translation and interpreter services. Communications barriers may be contributing to inadequate patient care and inefficient utilization of local health department resources.
 - *St. Mary's Health Wagon.* Includes \$100,000 GF each year for the St. Mary's Health Wagon, a community-based health care provider serving the residents of Buchanan, Dickenson, and Wise counties. One-time funding of \$75,000 from the general fund was provided for the program in FY 2006.
 - *Recognize Richmond City Health Department as a State-operated Health District.* This technical change adds \$3.9 million NGF each year and 120 positions to reflect the City of Richmond's pending decision to revert the City's health department back to a state-operated health district. Nongeneral fund revenues reflect local health department match requirements, charges for health services, and federal grants.
 - *Office of Vital Records NGF Increase.* Increases the nongeneral fund appropriation for the Office of Vital Records by \$867,603 each year to reflect additional revenue collected due to growing demand for vital record information. As a self-supporting program, these revenues are used to support services provided by the office. Demand has increased for state and federal identification information such as, birth and death records, as a result of the Commonwealth's Legal Presence law and the federal Real ID Act.
- **Department of Health Professions**
 - *NGF for Investigative and Adjudication Costs.* Provides \$1.6 million NGF in FY 2007 and \$1.5 million NGF in FY 2008 to fund 14 new positions to investigate and assist in the adjudication of allegations of misconduct of health care practitioners. Funding will allow the department to address additional complaints resulting from legislation that increased the number of mandated reporters who must detail misconduct to the Board of Medicine and address a backlog of current cases. Additional nongeneral funds will be generated from current fee revenues or projected fee increases.
 - *Add Staff for Licensing Health Care Practitioners.* Adds \$340,292 NGF in FY 2007 and \$361,676 NGF in FY 2008 to add nine licensing and support positions, fund additional rent increases and provide

for costs associated with accepting electronic payments. Additional nongeneral funds will come from current fee revenues or projected fee increases.

- *Add Staff for Regulating Long-term Care Administrators.* Provides \$201,823 NGF in FY 2007 and \$191,823 NGF in FY 2008 and three positions to fund the costs associated with regulating long-term care administrators. Legislation passed during the 2005 session increased regulatory requirements of assisted living facilities. Nongeneral fund fee revenues will be generated as individuals seek licensure as long-term care administrators.
 - *Add Staff for Regulating Medication Aides.* Adds \$115,946 NGF in FY 2008 and one position to assist the Board of Nursing in licensing medication aides pursuant to legislation passed by the 2005 General Assembly. Nongeneral fund fee revenues will be generated as individuals become licensed as medication aides.
 - *Eliminate NGF for Physician Financial Incentive Programs.* Reduces existing transfer of nongeneral fund physician fee revenues from the Board of Medicine to the Department of Health for the financing of physician recruitment incentives from \$560,568 to \$280,284 in FY 2007 and fully eliminates it in FY 2008. During the 2003 session, general fund support of loan repayment and scholarship programs was replaced with \$560,568 from dedicated special revenues from physician's fees. This proposal reverses that action by phasing-in a restoration of general fund support in the Department of Health for these incentives over two years.
- **Department of Medical Assistance Services (DMAS)**
 - *Medicaid Utilization and Inflation.* Fully funds expected increases in enrollment and medical costs for the Medicaid program. Enrollment of low-income adults, children and pregnant women, which accelerated in FY 2001, appears to finally be moderating. While enrollment for this population grew by 12.9 percent in FY 2004 compared to the prior year, it is projected to grow less than four percent annually during the upcoming biennium. However, steady caseload growth for all Medicaid enrollees and the rising cost of health care services, including managed care payments, inpatient hospital services, and Medicare Part B premiums that are paid for low-income elderly recipients on Medicaid, require additional resources to fund the program's growth.

Medicaid program costs are expected to grow by 7.0 percent in FY 2007 and 8.0 percent in FY 2008, considerably less than the double-digit growth experienced during the past two years. Projected increases in enrollment and costs require the addition of \$164.6 million in FY 2007 and \$319.0 million in FY 2008 from the general fund to maintain current services for eligible persons.

Revenues to the Virginia Health Care Fund, which are dedicated to the Medicaid program and offset the need for general fund support, are expected to be slightly higher in the upcoming biennium. Compared to the previous fiscal year, revenues from the Master Settlement Agreement, tobacco taxes, and Medicaid recoveries are expected to be higher. Medicaid recoveries are expected to increase each year in spite of the implementation of Medicare Part D, which will substantially reduce projected revenue from pharmacy rebates by \$28.1 million for the biennium.

- ***Medicaid Impact of Medicare Part D (Federal Prescription Drug Benefit).*** Beginning January 1, 2006, Medicare beneficiaries will be able to receive, for the first time, outpatient prescription drugs under the program. Prior to the inclusion of a drug benefit under Medicare, most low-income elderly and disabled individuals who were eligible for Medicare and Medicaid (commonly referred to as “dual eligibles”) received their prescription drugs through Medicaid.

To avoid giving states a budget windfall and to reduce the cost of the new benefit to the federal government, federal law requires states to submit an unprecedented monthly payment to defray the cost of this program. The payment, known as the “clawback”, is based on calendar year 2003 Medicaid pharmacy spending, trended forward for inflation, and the estimated number of dual-eligibles expected to enroll in the program. The annual payment is calculated from an inflated base, prior to the state’s aggressive and successful efforts to control pharmacy spending. Medicaid pharmacy spending in Virginia has increased at one-half the national rate the federal government will use to inflate pharmacy spending from CY 2003 to CY 2006. In effect, Virginia is being penalized for its recent efforts to control pharmacy spending.

The general fund impact of the Medicare Part D program is \$37.9 million in FY 2007 and \$42.3 million in FY 2008. Of the biennial amount, the clawback payment -- the general fund amount to be paid to the federal government in excess of Medicaid savings -- accounts for \$36.5 million of the increase. Almost one-half of the

increase is due to projected losses of Medicaid rebates (\$28.1 million) from drug manufacturers as recipients' drug costs move to Medicare and the department's ability to negotiate rebates with drug companies declines. Finally, publicity and outreach is expected to result in additional Medicaid enrollment, accounting for \$15.5 million of the increase.

- ***Medicaid-related State Child Health Insurance (SCHIP) Low-Income Children Caseload Growth.*** Provides \$2.8 million GF in FY 2007 and \$5.3 million GF in FY 2008 and \$3.8 million in FY 2007 and \$8.3 million from federal matching funds to fully fund caseload growth for Medicaid-eligible low-income children living in families with incomes between 100 and 133 percent of the federal poverty level. The federal government matches Medicaid expenditures for these children at the same rate as that provided for the Family Access to Medical Insurance Security (FAMIS) program (about 65 percent). Projected monthly enrollment in Medicaid SCHIP is expected to grow by 18.5 percent from 33,899 in FY 2006 to 40,172 in FY 2008.
- ***FAMIS Caseload Growth.*** Increases funding by \$246,869 GF in FY 2007 and \$3.3 million GF in FY 2008 and \$360,280 NGF in FY 2007 and \$6.1 million NGF in FY 2008 from federal matching funds to address anticipated enrollment and cost increases for the FAMIS program. Monthly enrollment in FAMIS is expected to grow by 12.9 percent from 42,734 in FY 2006 to 48,255 in FY 2008.

Provider Rate Changes

- ***Increase Inpatient Hospital Reimbursement.*** Provides \$7.5 million GF in FY 2007 and \$8.4 million GF in FY 2008 and \$7.5 million in FY 2007 and \$8.4 million in FY 2008 from federal matching funds to increase inpatient hospital reimbursements by modifying a payment adjustment factor used in calculating the state's reimbursement. Currently, the payment adjustment factor discounts 24 percent of allowable inpatient costs, thus reimbursing hospitals for about 76 percent of their costs. This added funding would allow the department to decrease the discount to 22 percent, resulting in increased reimbursements covering 78 percent of allowable costs for inpatient hospital services.
- ***Increase Payments to Nursing Facilities.*** Adds \$3.9 million GF in FY 2007 and \$4.0 million GF in FY 2008 and \$3.9 million in FY 2007 and \$4.0 million in FY 2008 from federal matching funds to increase the direct and indirect cost ceilings from 112 to 117 percent and

106.13 to 107.0 percent, respectively. Currently, the nursing facility reimbursement system places upper limits on allowable Medicaid costs. This change increases reimbursement for direct and indirect patient care costs provided by some facilities

- ***Modify Rate Setting Methodology for Skilled Nursing Facilities.*** Removes budget language adopted by the 2004 General Assembly that increased direct and indirect cost limitation by \$3.00 per day and replaces it with language that removes limits on nursing home administrator salaries, medical director fees and management fees. Budget language also raises indirect cost limits from 103.9 to 106.13 percent. Adjustments to the nursing facility reimbursement rates will be paid for with the increase provided in 2004.

Under current law, Medicaid will not reimburse nursing facilities for indirect costs that exceed established limits. Eliminating limitations specific to administrator's salaries and medical director's fees may encourage nursing facilities to increase salaries and fees to retain and recruit qualified physicians and administrators. Nursing facility reimbursement will still be subject to direct and indirect cost ceilings, which are increased in a separate budget proposal described above.

- ***Increase Reimbursement Rates for Physician Services.*** Adds \$6.9 million GF and \$7.3 million NGF from federal matching funds in FY 2008 to provide a three percent rate increase for physician services provided under Medicaid and FAMIS. With the exception of physician rates for obstetrical and gynecological (OB/GYN) services, emergency room care, and primary care and pediatric services, physician service rates have remained unchanged since 1991. Because the rates for OB/GYN services increased by 34.0 percent in FY 2005 and will increase by an additional 2.5 percent on May 1, 2006, these reimbursement rates would not be increased by this proposal.
- ***Increase Reimbursement Rates for Adult Day Care Services.*** Adds \$48,476 GF in FY 2007 and \$91,197 GF in FY 2008 and an equivalent amount of federal matching funds to increase the rates paid for adult day health care services by five percent effective January 1, 2007. Under current law, adult day care services will receive a two percent increase on May 1, 2006. As a result of these increases, adult day health care rates will rise to \$50.61 per day in Northern Virginia and \$48.41 in the rest of the Commonwealth in FY 2008.

Administrative Improvements

- ***Implement Specialty Drug Program.*** Reduces the general fund by \$593,040 in FY 2007 and \$770,111 in FY 2008 and nongeneral funds by \$593,040 in FY 2007 and \$770,111 in FY 2008 by creating a specialty drug program to control the cost of certain high-priced prescription drugs used to treat chronic conditions. The program would use pharmacists, registered nurses, and patient-care representatives to manage prescriptions that require special administration, refrigeration or handling. Specialty drug programs are largely mail-order businesses that rely upon professional clinical support to manage chronic illnesses.

- ***Outsource Compliance Audits for Various Services.*** Provides net savings of \$350,000 GF in FY 2007 and \$728,000 GF in FY 2008 and \$350,000 NGF in FY 2007 and \$728,000 NGF in FY 2008 as a result of contracting out compliance audits for Medicaid services such as, home infusion services, home health, durable medical equipment, and pharmacy services. Because provider agreements are complex and claims are processed manually, these services have been identified as vulnerable to fraud and abuse. Limited resources have inhibited the department from conducting comprehensive compliance audits. Outsourcing this function is expected to result in savings net of administrative costs.

- ***Outsource Payroll Processing for Consumer-directed Personal Attendant Services.*** Adds \$1.8 million GF in FY 2007 and \$2.0 million GF in FY 2008 and an equal amount of federal matching funds to contract with a fiscal agent to provide payroll processing services for personal attendants that deliver long-term care services at the direction of eligible waiver recipients. Growth in consumer-directed personal attendant services has outstripped the capacity of the department to efficiently manage payroll processing. The department will contract with an outside vendor to assume responsibility for this function.

- ***National Provider Identifier Initiative.*** Adds \$497,293 GF in FY 2007 and \$207,368 GF in FY 2008 and \$3.6 million NGF in FY 2007 and \$1.0 million NGF from federal matching funds for the cost associated with updating information technology systems to include National Provider Identifier fields for all Medicaid provider files. Beginning in May 2007, all required health plans and medical providers must use a standard federal identifier for all electronic transactions.

Service Expansions

- ***Eliminate Urgent Care Waiting List for MR Waiver Services for Children under Age 6.*** Provides \$2.5 million in FY 2007 and \$2.9 million in FY 2008 from the general fund and an equivalent amount of federal matching funds to create 110 new MR waiver slots for children under the age of 6 who have mental retardation or developmental disabilities and are on the urgent care waiting list.
- ***Increase the Personal Maintenance Allowance (PMA) for Community-based Medicaid Waivers.*** Provides \$1.0 million GF and \$1.1 million NGF from federal matching funds each year to increase the personal maintenance allowance for individuals enrolled in Medicaid home- and community-based waivers from 100 percent to 150 percent of the Supplemental Security Income (SSI) payment standard. The net effect of this change is to allow individuals on Medicaid waivers to retain up to \$290 more of their monthly income for rent, utilities and food. Under current law, this amount would be kept by Medicaid to offset the recipient’s cost of care. Allowing waiver-eligible individuals to keep more of their income for housing-related costs, which is not included in Medicaid waivers, should make housing more affordable for disabled individuals. The increase in the PMA does not apply to individuals served by the HIV/AIDS waiver, the mental retardation and developmentally disabilities waivers, and the consumer-directed elderly and disabled waiver. The HIV/AIDS waivers does not have a patient pay amount, while the MR and DD waivers already make allowances for recipients to retain more of their income.
- ***Medicaid Impact of Expansion of Breast and Cervical Cancer Screening Program.*** Adds \$695,417 GF and \$2.0 million NGF from federal matching funds each year to expand health care treatment services for women identified through the Department of Health’s proposed expansion of breast and cervical cancer screenings. Federal law requires state Medicaid programs to provide treatment services for women who are diagnosed with breast and cervical cancer through the Department of Health’s screening program.
- ***Implement Obesity Pilot Project for Children.*** Proposes funding of \$202,100 GF and \$179,900 NGF each year to establish a pilot project in Southwest Virginia to address children’s obesity through the Medicaid program. Up to \$32,000 from the general fund each year may be transferred to the Virginia Cooperative Extension Service for the provision of nutritional education services to participants in the pilot project.

- ***Implement Medicaid Buy-in Program.*** Budget language is added to allow the department, contingent upon federal approval, to implement a Medicaid Buy-In Program pursuant to Chapter 489, 2003 Virginia Acts of Assembly. The program would serve up to 200 persons with disabilities and allow 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. No additional appropriation of funds is made available for this purpose in the event the federal government approves the waiver request.

Other

- ***Reduces Medicaid Reimbursement for Mental Retardation Training Centers.*** Reduces \$2.8 million in FY 2007 and \$6.4 million in FY 2008 from the general fund and an equal amount of federal matching funds to reflect a gradual discharge of residents from Southeast and Central Virginia Training Centers as additional resources are provided to expand community-based services to persons with mental retardation. The savings also reflects projected operational savings from constructing new, more efficient state facilities.
- ***Uninsured Medical Catastrophe Fund.*** Adds budget language transferring \$250,000 GF from the Medicaid program the first year to the Uninsured Medical Catastrophe Fund to pay for the medical treatment of uninsured individuals facing medical catastrophes. Eligible payments from the fund include life-threatening illnesses or injuries requiring specialized medical treatment, hospitalization, or both. No additional general funds are appropriated for this purpose.
- **Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)**
 - ***Mental Health Restructuring.*** The proposed budget adds \$24.7 million GF the first year and \$26.8 million GF the second year for initiatives to continue restructuring the mental health system from a facility-based to a community-based system. Funding will be used to pay for community services which will allow: (1) a reduction of inpatient beds at Eastern State Hospital and Western State Hospital, (2) discharge assistance for individuals in inpatient facilities across the state, (3) diversion of patients from state inpatient treatment to community care, (4) expansion of substance

abuse crisis stabilization services, and (5) expansion of system capacity to serve children and adolescents. Details on the initiative are contained in the table on the following page.

Mental Health Restructuring (\$ in millions)		
<u>Proposed Initiatives</u>	<u>FY 2007</u>	<u>FY 2008</u>
Community diversion services in the Eastern State Hospital service area*	\$4.8	\$6.9
Community diversion services in Western State and Northern VA Mental Health Institute service areas*	6.0	6.0
Expand existing crisis stabilization services and add two additional units to divert persons with substance abuse disorders from state facilities	4.7	4.7
Statewide targeted community-based services*	3.7	3.7
Statewide discharge assistance at state facilities	2.9	2.9
Discharge Assistance at Western State Hospital and Northern Virginia Mental Health Institute	0.6	0.6
Add 2 "systems of care" model projects for emotionally disturbed children and adolescents in communities	1.0	1.0
Expand mental health treatment for children and adolescents in juvenile detention centers	1.0	1.0
Total	\$24.7	\$26.8
*Community services may include: discharge assistance planning, inpatient treatment, in-home residential support, jail-based hospital diversion projects, psychiatric evaluation, crisis counseling, and expanded case management services.		

- *Reduce Operating Costs at Eastern and Western State Hospitals.* Reduces \$1.6 million GF in FY 2007 and \$4.0 million GF in FY 2008 and 62 positions at two mental health hospitals in anticipation of operating savings from decreasing the census through

restructuring efforts and rebuilding the facilities with a more efficient design. The redesigned facilities should promote a more efficient and effective use of staff in caring for patients. Staffing reductions are expected to result from vacancies and turnover, rather than layoffs.

- ***MH Facility Revenue Shortfall.*** Adds \$3.4 million GF and reduces \$3.4 million NGF each year to reflect the loss of patient revenues from third party payors at the state’s mental health facilities. The additional general fund dollars are provided through the transfer of excess revenues at the state mental retardation training centers.

- ***Mental Retardation (MR) Restructuring.*** The proposed budget provides a total of \$24.9 million GF and \$23.5 million NGF the first year and \$30.7 million GF and \$28.8 million NGF the second year to continue restructuring the mental retardation system from a facility-based system to a community-based system. The nongeneral funds for this initiative are from federal Medicaid matching funds which are contained in the budget for the Department of Medical Assistance Services (DMAS).

Funding will be used to pay for community services which will allow for: (1) an increase in Medicaid MR waiver rates to maintain and expand community capacity for those individuals served through the waiver program, (2) 149 additional Medicaid MR waiver slots in the community, (3) start-up costs for new waiver slots in the community, (4) a reduction of 52 residential beds at Southeast Virginia Training Center (SEVTC) and 97 residential beds at Central Virginia Training Center (CVTC) over the biennium, and (5) guardianship services for mentally retarded individuals in state facilities or at risk of placement in state facilities. The table below details funding for this initiative by including Medicaid funds to be matched in the DMAS budget.

Mental Retardation Restructuring				
(\$ in millions)				
<u>Proposed Initiatives</u>	FY 2007		FY 2008	
	GF	NGF*	GF	NGF*
Medicaid MR Waiver Rate Increases - 10% for congregate living services, 5% for other services	\$17.4	\$17.3	\$17.4	\$17.4
149 Community Medicaid MR Waiver Slots – 80 in FY 2007 and 69 in FY 2008	2.5	2.5	4.6	4.6

Community Medicaid MR Waiver Slot Start Up Costs - \$4,000 per slot	0.3		0.3	
CVTC: MR waiver slots - 52 in FY 2007 and 45 in FY 2008	2.4	2.4	4.4	4.4
CVTC: Start-up costs for MR waiver slots - \$4,000 per slot	0.2		0.2	
SEVTC: MR waiver slots - 28 in FY 2007 and 24 in FY 2008	1.3	1.3	2.4	2.4
SEVTC: Start-up costs for MR waiver slots - \$4,000 per slot	0.1		0.1	
MR Guardianship Services	0.7		1.3	
Total Mental Retardation Restructuring	\$24.9	\$23.5	\$30.7	\$28.8

*NGF - nongeneral funds for MR initiatives are from matching federal Medicaid funds budgeted in DMAS

- *Reduce Operating Costs at Southeast and Central Virginia Training Centers.* Reduces \$5.6 million NGF in FY 2007 and \$12.9 million NGF in FY 2008 and 134 positions at two mental retardation training centers in anticipation of savings from decreasing the census through restructuring efforts and rebuilding the facilities with a more efficient design to achieve operational savings, including staffing efficiencies. The reduced nongeneral funds represent adjustments from matching federal Medicaid funds for individuals who will be transitioned to community care. Commensurate increases in matching federal Medicaid dollars are appropriated in DMAS for the care of these individuals in the community. Staffing reductions are expected to result from vacancies and turnover, rather than layoffs.
- *Transfer Excess MR Facility Revenue to MH Facilities to Address Shortfall.* Reduces \$3.4 million GF and increases \$3.4 million NGF each year at the state mental retardation training centers in order to transfer excess funds to address the shortfall in revenue at state mental health facilities. The additional nongeneral funds reflect the estimated amount of additional third party revenues which are expected to be collected by the training centers during the biennium.
- *Fund Shortfall in Facility Medications.* Proposes an increase of \$4.2 million GF in FY 2007 and \$5.0 million GF in FY 2008 to address a shortfall in funding prescription drugs provided through state facilities to individuals with mental illness and mental retardation. The cost of facility medications is expected to rise by 8 percent annually in FY 2007 and FY 2008. The rising cost of pharmaceuticals in state facilities is attributable to the escalating costs of medications, and the increasing medication needs of consumers with chronic medical conditions.

- ***Fund Shortfall in Community Aftercare Pharmacy.*** Adds \$2.0 million GF in FY 2007 and \$3.8 million GF in FY 2008 to address a shortfall in funding of prescription drugs, provided to individuals with mental illness served by Community Services Boards (CSBs) through the Aftercare Pharmacy program. A portion of the increased costs are due to the higher costs of newer medications which have fewer and less severe side effects for many individuals. It is anticipated that new medications will improve drug regimen compliance and decrease inpatient hospital costs.
- ***Part C Early Intervention Services.*** Adds \$4.1 million GF each year for early intervention services provided through the federal Individuals with Disabilities Act Early Intervention Program (IDEA Part C). The Part C program serves children from birth to age three who are developmentally delayed and need services such as, occupational, physical, and speech therapy; parental education; and other necessary supports. The new funds will be used to serve an additional 1,429 children, eliminating the current waiting list for services.
- ***Replace Food Service Equipment at MHMR Facilities.*** Provides \$859,698 GF in FY 2007 and \$1.7 million GF in FY 2008 to replace outdated food service equipment at nine mental health and mental retardation facilities. The equipment will be financed over a 10-year period through the Master Equipment Lease Program. The department uses a cook-chill method to provide food service at its facilities. This method requires special equipment to rapidly chill cooked food and keep it safely refrigerated for longer periods of time.
- ***Enhance Billing for Medicare Part D Program.*** Proposes \$759,000 GF each year to cover costs associated with the implementation of the federal Medicare Part D prescription drug benefit. Funding will be used to contract with nine pharmacy technicians to handle billing for prescriptions purchased by state mental health and mental retardation facilities through an approved Medicare Part D prescription drug plan.
- ***Develop Career Ladder for Direct Services Workers in State Facilities.*** The proposed budget includes \$148,658 GF in FY 2007 and \$811,861 GF in FY 2008 to develop a career ladder for direct service workers in mental health and mental retardation facilities. Turnover of direct service workers is more than double the statewide average of 11.1 percent. The implementation of a career ladder would provide for base salary adjustments for the successful

completion of education and training with the goal of improving client care and decreasing excessive facility overtime costs.

- *Greater Richmond Association for Retarded Citizens (ARC)*. Adds \$750,000 GF in FY 2007 for a one-time grant to the Richmond ARC for construction of a new facility.
 - *Add Architecture and Engineering Services Staff*. Adds \$285,541 GF each year and three positions in the Office of Architecture and Engineering Services. The new positions will oversee capital and building permit projects, facility physical plant services, and food service and dietary operations compliance with federal and state standards.
 - *Fund Full-time Staff and Related Expenses to Continue the Olmstead Community Integration Oversight Advisory Committee*. Adds \$233,398 GF each year to permanently fund staff and expenses related to the continuation of the Community Integration Advisory Committee. The Advisory Committee was originally convened as a task force to develop a plan for serving persons with disabilities in accordance with the *Olmstead* decision. That plan has now been developed and work on the plan was scheduled to be complete by the end of FY 2006.
 - *Add Licensing Staff*. Provides \$213,904 GF and \$34,224 NGF each year to add three inspectors in the Office of Licensing for added workload associated with statutorily-required responsibilities such as, licensing, inspecting and investigating complaints of providers of mental health, mental retardation, substance abuse, and brain injury services. The number of providers required to be licensed by the department has increased by about 65 percent since FY 2001, while the number of inspectors has increased by 25 percent.
 - *Resource Information for Families with Special Needs Children*. Adds \$100,000 GF in FY 2007 for a private/public partnership with Celebrating Special Children to improve access to resource information for families of children with special needs. Resource information will also be available to professionals who work with special needs children and their families.
- **Department of Rehabilitative Services**
 - *Long Term Employment Support Services*. Provides an additional \$763,550 GF each year for long-term employment support services for individuals with severe disabilities.

- *Brain Injury Services in Southwest Virginia.* The proposed budget adds \$285,000 GF each year to fund two positions and serve individuals with brain injuries in Southwest Virginia. Funding will be used to expand case management and service coordination in Southwest Virginia.

- **Department of Social Services**

- *Federal and State Mandated Programs*

- *Mandatory Adoption Subsidy Payments.* Adds \$12.5 million GF in FY 2007 and \$16.4 million GF in FY 2008 and reduces nongeneral funds by \$1.8 million in FY 2007 and \$1.4 million in FY 2008 for caseload and cost increases in the adoption subsidy program. Expenditures for the program have grown significantly in recent years, largely due to rapidly growing number of special needs adoptions and uncontrolled costs associated with these adoptions. Funding will be used to meet ongoing contractual obligations with adoptive parents for services to children with special needs and expected increases in caseload.

Language is added requiring the department, in collaboration with local social services directors, to conduct a comprehensive study of the policies and procedures guiding special needs adoption subsidies. The study is to focus on the cause of recent expenditure increases and make recommendations on changes to moderate growth while meeting the needs of affected children. The study findings are to be submitted to the House Appropriations and Senate Finance Committees, and the Department of Planning and Budget by June 1, 2006.

- *Add GF to provide day care needs of VIEW participants and address TANF shortfall.* The proposed budget adds \$6.8 million GF and \$3.0 million NGF in FY 2007 and \$8.0 million GF and \$4.5 million NGF in FY 2008 to provide child day care for TANF participants in the Virginia Initiative for Employment Not Welfare (VIEW) and address a shortfall in TANF spending. The proposed budget realigns spending in the Temporary Assistance to Needy Families (TANF) block grant to provide TANF benefits to an increasing number of working families who are eligible for child care. The proposed changes to the TANF spending plan assume that caseload growth will increase demand for child care services in FY 2007 and in FY 2008.

- ***Fund VITA Costs for Eligibility Determinations.*** Provides \$2.6 million GF in FY 2007 and \$4.3 million GF in FY 2008 for increased mainframe data processing costs to determine eligibility for the Temporary Assistance to Needy Families, Food Stamp, and Medicaid programs.

Service Improvements or Expansions

- ***Creation of Early Childhood Foundation.*** The proposed budget adds \$4.8 million GF in FY 2007 and \$3.8 million GF in FY 2008 to create an Early Childhood Foundation. The Foundation would be modeled on the Virginia Health Care Foundation as a public-private partnership to develop community programs with the goal of improving the health, safety and well-being of young children in Virginia.
- ***Community Action Agencies.*** Increases funding by \$514,786 GF in each year for Community Action Agencies to expand services to low-income individuals.
- ***Funding for Healthy Families Virginia.*** Provides an additional \$247,979 GF each year of the biennium to expand services to parents of children from birth to age five who are at-risk for child abuse and neglect. The program seeks to promote positive parenting, improve child health and development, and reduce child abuse and neglect. Language is added to reflect the additional funding of \$259,980 GF annually provided during the 2004-06 biennium for Healthy Families in Central Accounts.
- ***Increase Assisted Living Facility Payments and Personal Care Allowance.*** Adds language to continue the increase in the payment rate for licensed assisted living facilities and adult foster care homes by \$38 from \$944 to \$982 per month as proposed in HB 29/SB 29. The new rate includes a \$24 per month federal cost of living adjustment to the monthly Supplemental Security Income payment and an increase in the state Auxiliary Grant payment of \$14 per month. Together, these income sources pay for room and board of low-income aged, blind and disabled persons in these facilities. Language also increases the personal care allowance from \$62 to \$70 per month as proposed in HB29/SB 29. No additional dollars are added due to a decline in the caseload which has resulted in surplus funds in the auxiliary grant program.

Other Actions

- *Add Funds for Comprehensive Services Act (CSA) Administration.*
The proposed budget adds \$120,525 GF each year and one position for support of the executive director position in the Office of Comprehensive Services. Previous funding for the position was absorbed within the agency to create a Chief Financial Officer position for the CSA program.