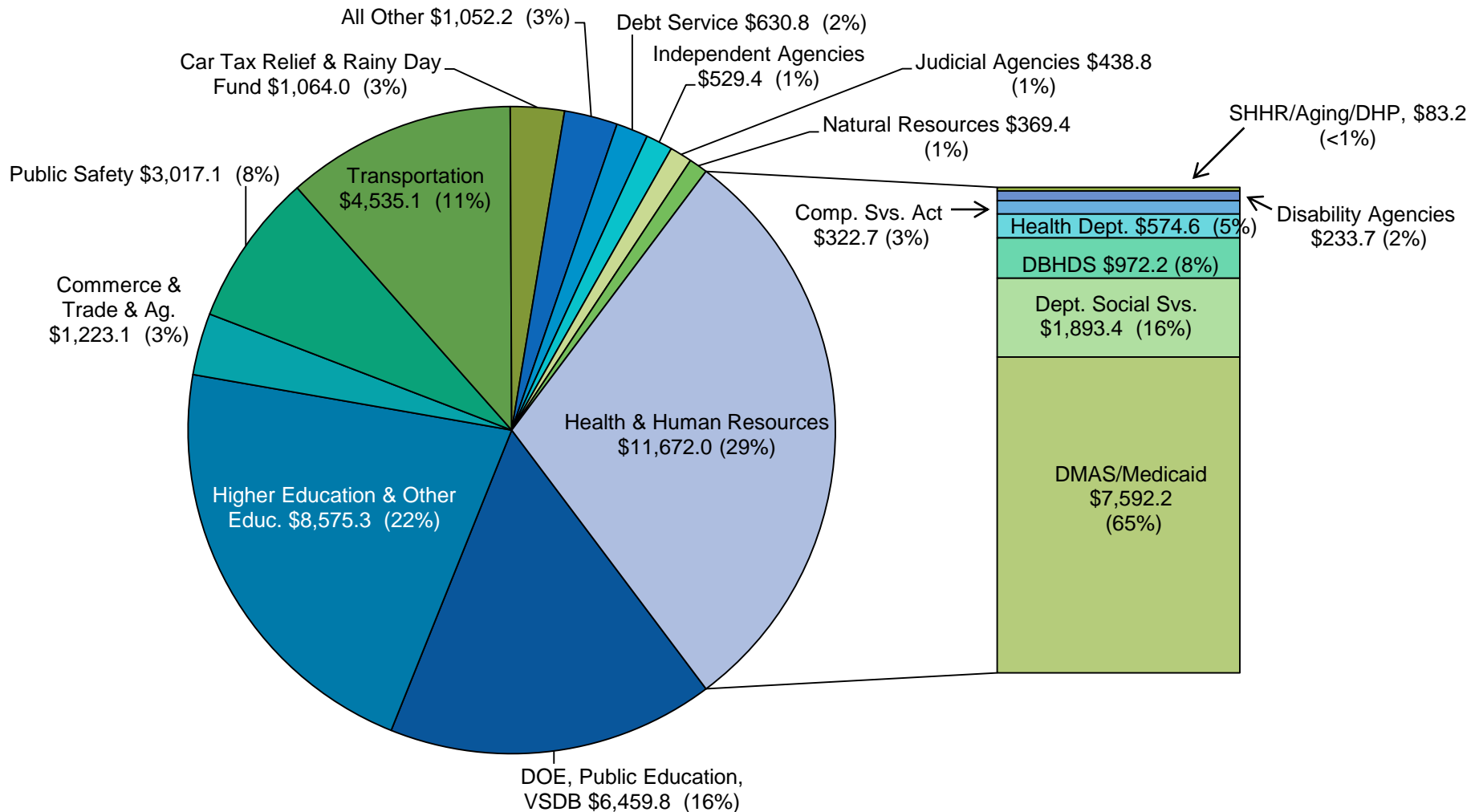


HEALTH AND HUMAN RESOURCES ISSUES

VML Finance Forum
Susan E. Massart, Fiscal Analyst
House Appropriations Committee Staff
December 1, 2011

FY 2012 State Operating Budget

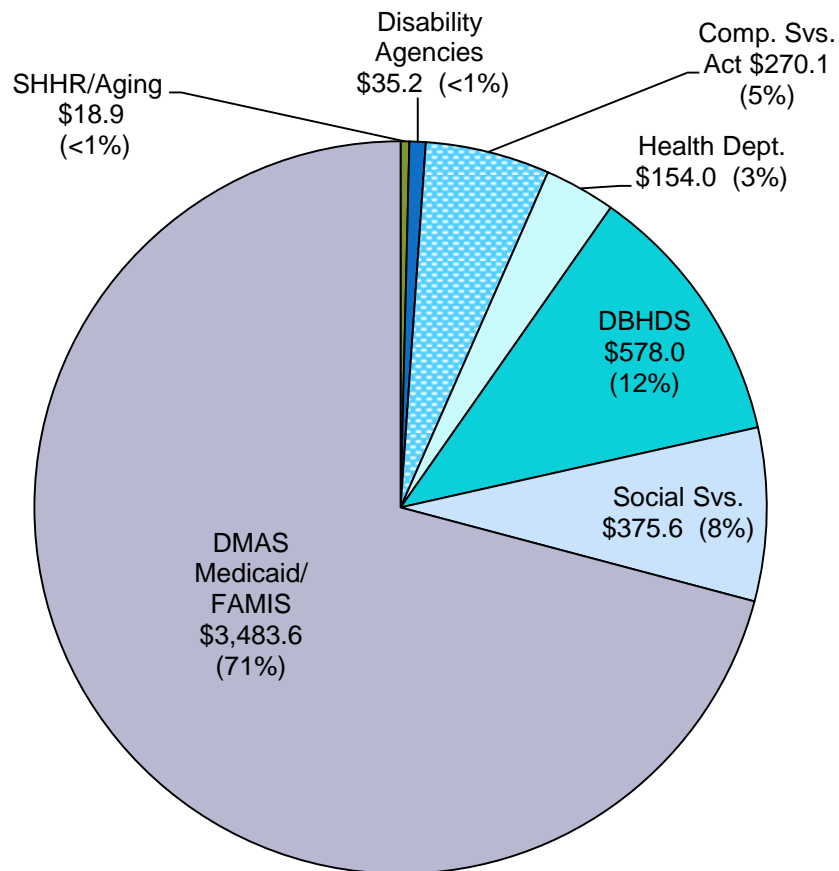
\$39,567.0 (Ch. 890 all funds - \$ in millions)



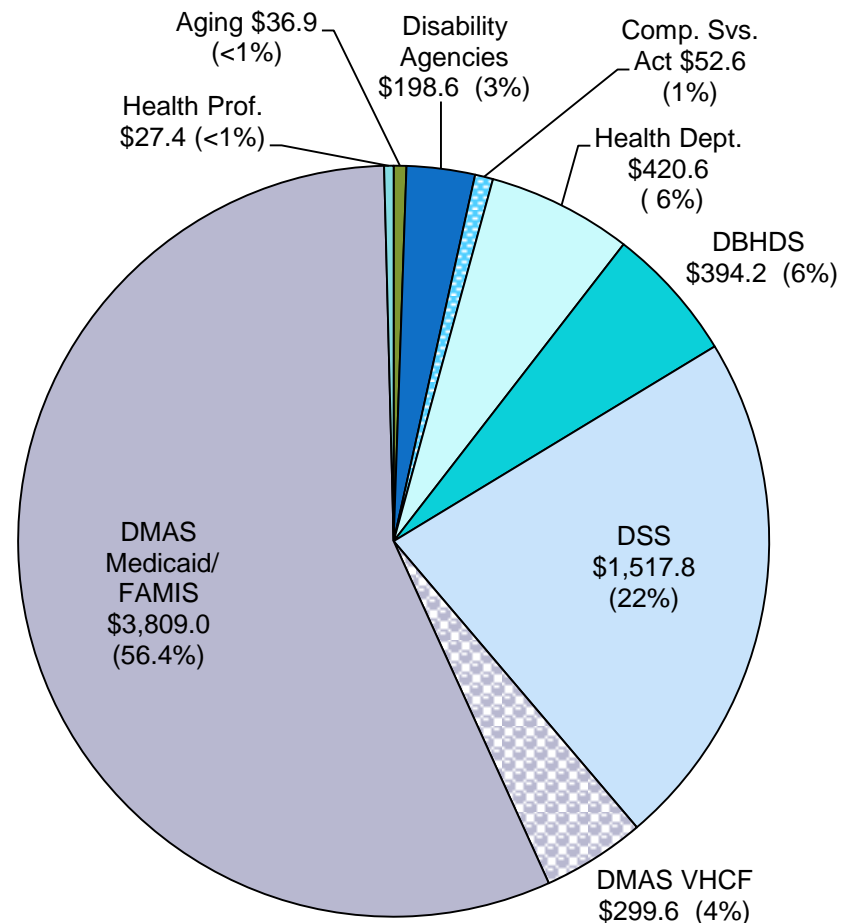
FY 2012 HHR Budget (Ch. 890)

General & Nongeneral Funds (\$ in millions)

GF = \$4,915.3



NGF = \$6,756.7



- Medicaid Growth and Federal Health Care Reform
- Behavior Health and Developmental Services
- Budget Control Act Reductions to Federally Funded Programs

Virginia Medicaid Program

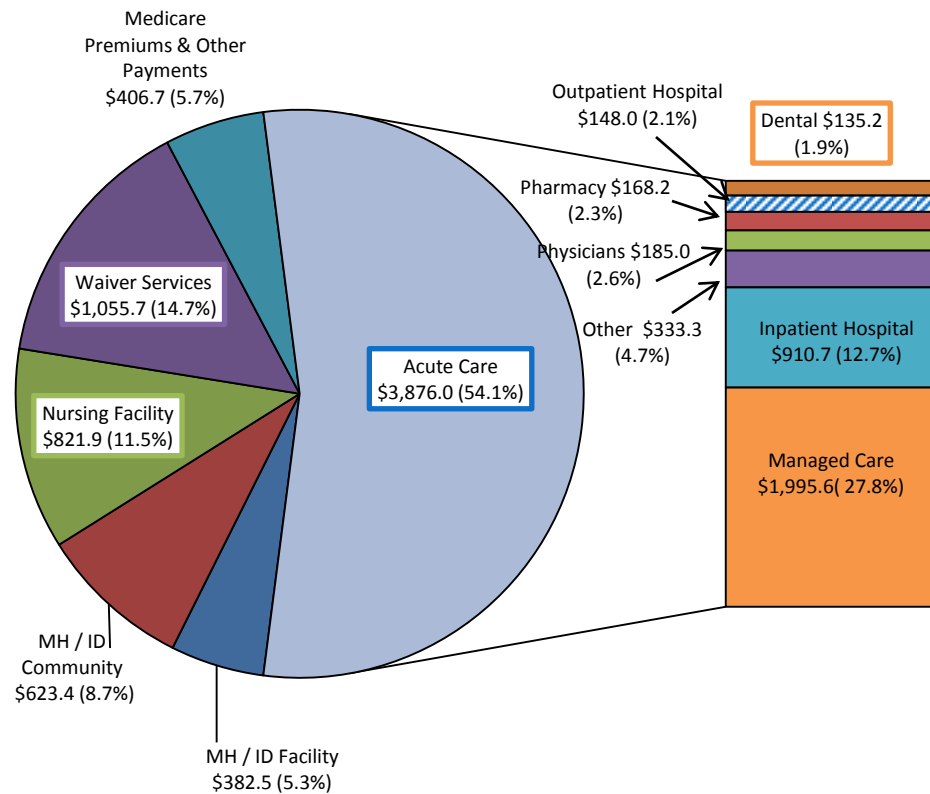
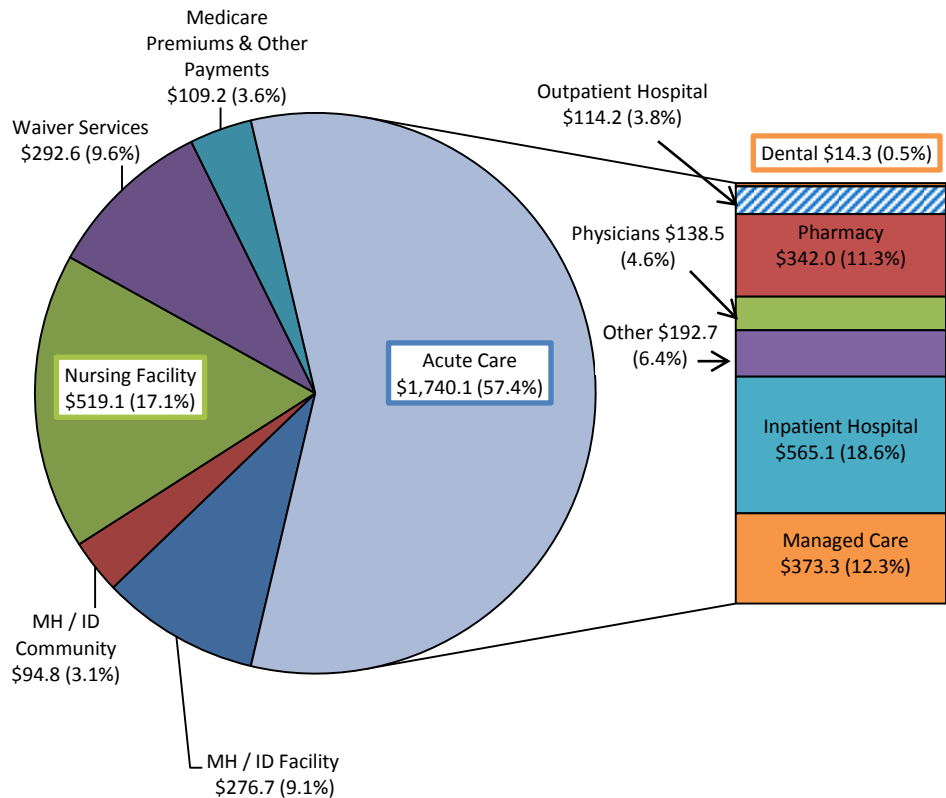
- Largest health care financing program for low-income persons in Virginia
 - Aged, blind or disabled
 - Children
 - Member of a family with children
 - Pregnant women
 - Certain Medicare beneficiaries
- In FY 2011, Medicaid provided payments on behalf of 992,800 recipients at a total program cost of \$7.2 billion
- Program costs are shared by the state and federal government
- Virginia's share is 50% in FY 2012 based on per capita income
- ARRA enhanced federal match ended on June 30, 2011

ARRA Enhanced FMAP			Regular FMAP
July 10 – Dec 10	Jan. 11 – March 11	April 11-June 11	FY 2012
61.59%	58.59%	56.59%	50%

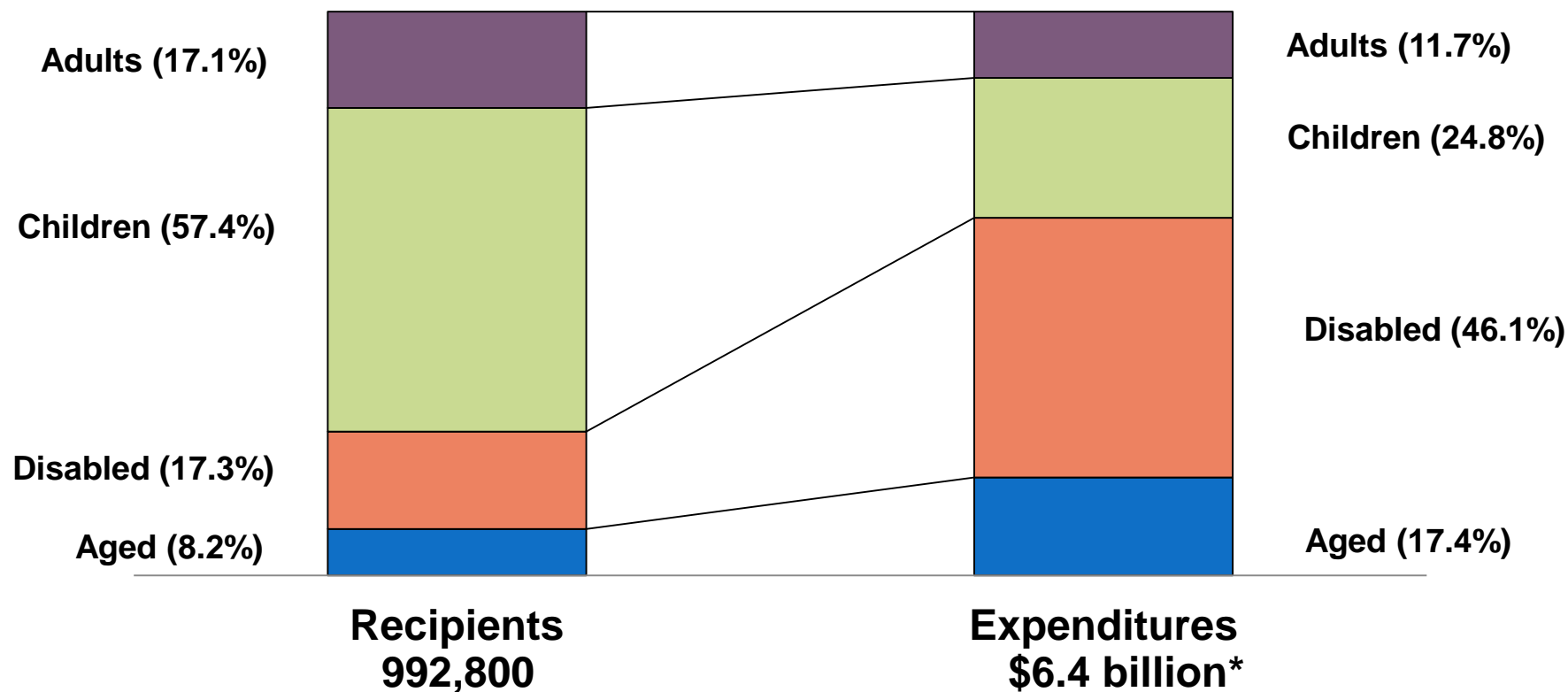
Comparison of Expenditures by Service Type FY 2001 and FY 2011

FY 2001 Expenditures = \$3.0 billion
(\$ in millions)

FY 2011 Expenditures = \$7.2 billion
(\$ in millions)



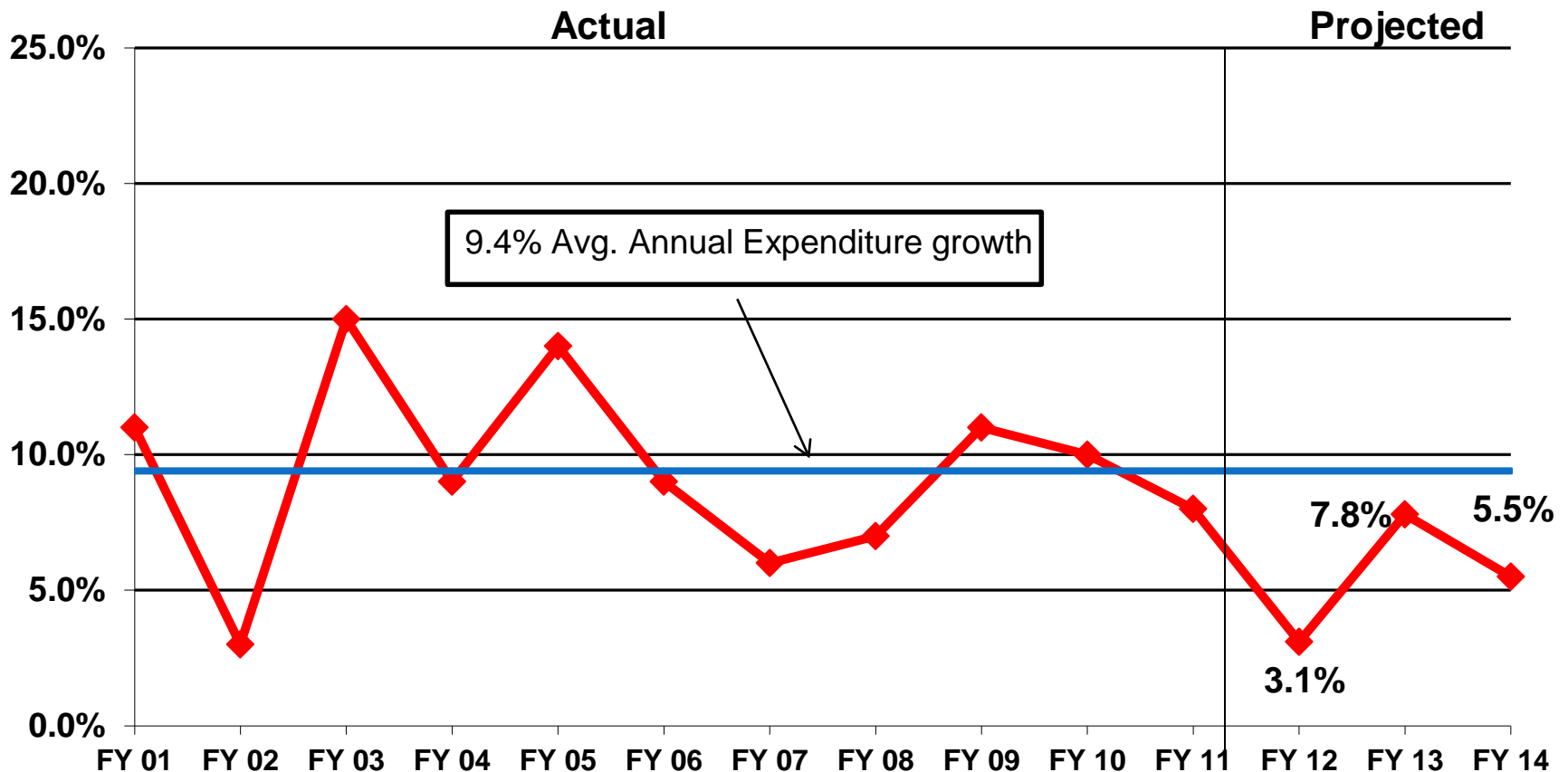
Comparison of Recipient Groups as a Percent of All Recipients and Expenditures (FY 2011)



*Does not include approximately \$815 million in lump sum expenditures that cannot be attributable to individual recipients.

Annual % Change in Medicaid Expenditures

(Does not include expenditure growth related to federal health care reform)



Note: Represents percentage change in all funds, state and federal, adjusted for payment timing changes, cash management, FMAP maximization.

Source: DPB and DMAS consensus forecast

Preliminary Medicaid Forecast GF Need

(GF \$ in millions)

Medicaid Forecast	FY 2012	FY 2013	FY 2014
Medicaid Expenditures Baseline Forecast	(\$85.4)	\$173.0	\$363.6
Expenditure Growth from Federal Health Care Reform			\$113.9
Total Medicaid Forecast of GF Need	(\$85.4)	\$173.0	\$477.5

Note: The GF need for Medicaid expenditure forecast will be adjusted further when the projected revenues for the Virginia Health Care Fund (VHCF) are finalized and the impact of recent CMS regulations are considered.

Factors Affecting Medicaid Changes in FY 2012

Factors Reducing Costs

- 3% decline in managed care (MCO) capitation rates
- Additional pharmacy rebates on MCO drugs
- Declines in Medicare Part A & B premiums
- Managed care expansion to Roanoke region

Factors Adding to Costs*

- 2.8% enrollment growth
- 8.6% growth in community mental health expenditures
- 8% growth in dental services expenses
- 5% growth in fee-for-service outpatient expenditures
- 2% growth in waiver expenditures

*Percentage changes in expenditures represent forecasted growth over current appropriations.

Factors Affecting Medicaid Spending Growth in 2012-14 Biennium

- Enrollment Growth
 - 2% growth rate in FY 2013 and 0.9% in FY 2014
 - Not reflective of new enrollees from federal health care reform
 - Lower than historical growth rate of 5.4%
 - Substantially lower than recessionary high of 10% in FY 2010
 - Historically enrollment growth has accounted for about one-half of Medicaid expenditure increases
- Increases in managed care (MCO) capitation rates
 - Required to be actuarially sound by federal government
 - Recommended by actuary
 - 5% rate increase in FY 2013 and 3% in FY 2014
 - \$105.7 million in FY 2013 and \$80.3 million in FY 2014 (all funds)

Factors Affecting Medicaid Spending Growth in 2012-14 Biennium

- Forecast includes hospital and nursing home inflationary adjustments and nursing home rebasing
 - Required by regulations
 - Methodology “catches up” payments by inflating costs from a base year for those years in which no inflationary increase was provided
 - Nursing home rebasing would take effect in FY 2013

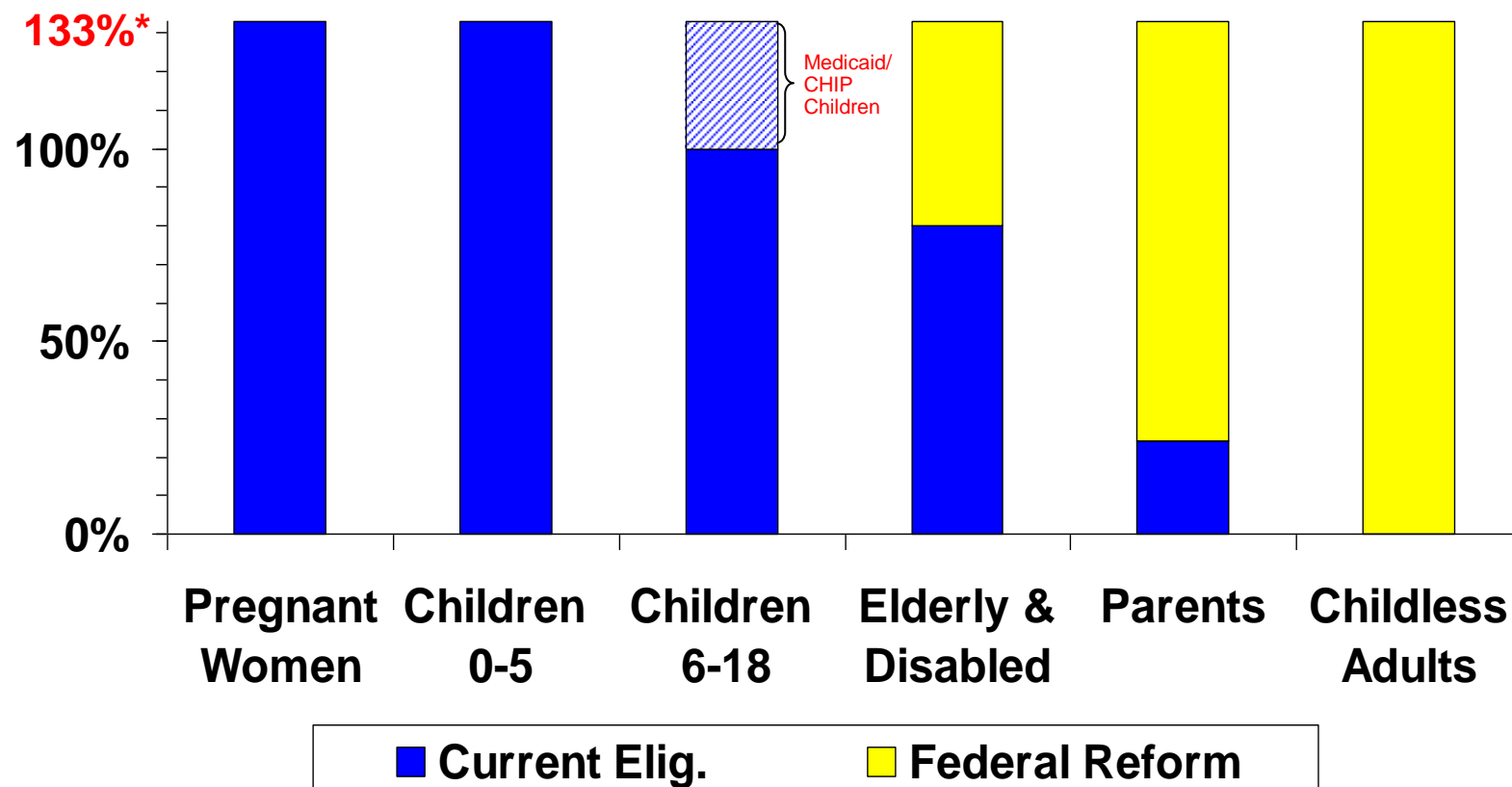
Impact of Hospital & Nursing Home Inflation and Rebasing			
\$ in millions	FY 2013	FY 2014	2012-14
Hospital inflation	\$195.0	\$114.8	\$309.8
Nursing home inflation and rebasing	\$50.0	\$28.0	\$78.0
Nursing home rebasing	\$12.0	0	\$12.0
All funds (state and federal)	\$257.0	\$142.8	\$399.8
GF Total	\$128.5	\$71.4	\$199.9

Factors Affecting Medicaid Spending Growth in 2012-14 Biennium

- Continued growth in waiver services
 - 7.4% growth in costs for FY 2013
 - 7.7% growth in costs for FY 2014
 - Rate of growth slowing from 10.6% in FY 2011
- Continued growth in community mental health expenditures
 - 10.3% growth in costs is for FY 2013
 - Includes savings of \$20.0 million in FY 2013 from implementing managed behavioral health care
 - 16.7% growth in costs for FY 2014
 - Projected growth is lower than the 25% average annual rate of growth experienced over the past 5 years

	(All funds \$ in millions)	
Service	FY 2013	FY 2014
Waiver Services	\$94.1	\$97.1
Community MH Services	\$59.4	\$95.5

2014 Medicaid Expansions Under Federal Health Care Reform Compared to Current Virginia Eligibility Levels



*Does not include 5% income disregard allowed in determining financial eligibility.

New Covered Groups Under Federal Health Care Reform

- Groups never covered before
 - Childless adults with incomes up to 133% of the federal poverty level (FPL)
 - Former foster care “children” up to age 26 (regardless of income)
- Groups currently covered in Virginia but at lower income levels
 - Parents and caretaker adults from 24% to 133% FPL
 - Disabled adults (not needing long-term care waiver services) from 80% to 133% FPL

Newly Eligible Groups Projected to Cost \$1.1 Billion

		\$ in millions		
Group	# Eligible	State GF	Federal NGF	All Funds
Newly Eligible (133% FPL)	299,764	0	\$1,099.7	\$1,099.7

- Cost of newly eligible groups borne by federal government initially
 - FMAP rate of 100% for FY 2014 to FY 2016
 - FMAP stepped down to 90% by FY 2021
 - Costs for the new groups may be overstated in FY 2014
 - Assumes newly eligible will enroll and use Medicaid-financed health care services in the first 6 months of FY 2014
 - Assumes current benefit package in Medicaid
 - Federal law allows for use of Medicaid benchmark plan equivalent to the “essential benefit” package with certain requirements
 - Secretary of HHS has not yet defined the “essential benefit” package
 - Benefit package could be less generous than current Medicaid program

Groups Already Covered in Medicaid

- Individual mandate in federal legislation may result in increased enrollment from a “woodwork” effect
 - If upheld by the Supreme Court, Medicaid could see increases in children and low-income families who are eligible under current eligibility standards
 - State will have to cover these individuals at the current Medicaid FMAP rate – 50% for Virginia
- Forecast may be overstated in FY 2014
 - Assumes newly eligible will enroll and use Medicaid-financed services in the first 6 months of FY 2014

		\$ in millions		
Eligible Group	# Eligible	State GF	Federal NGF	All Funds
Medicaid eligible today but not enrolled – “woodwork” effect	49,537	\$90.2	\$90.2	\$180.4

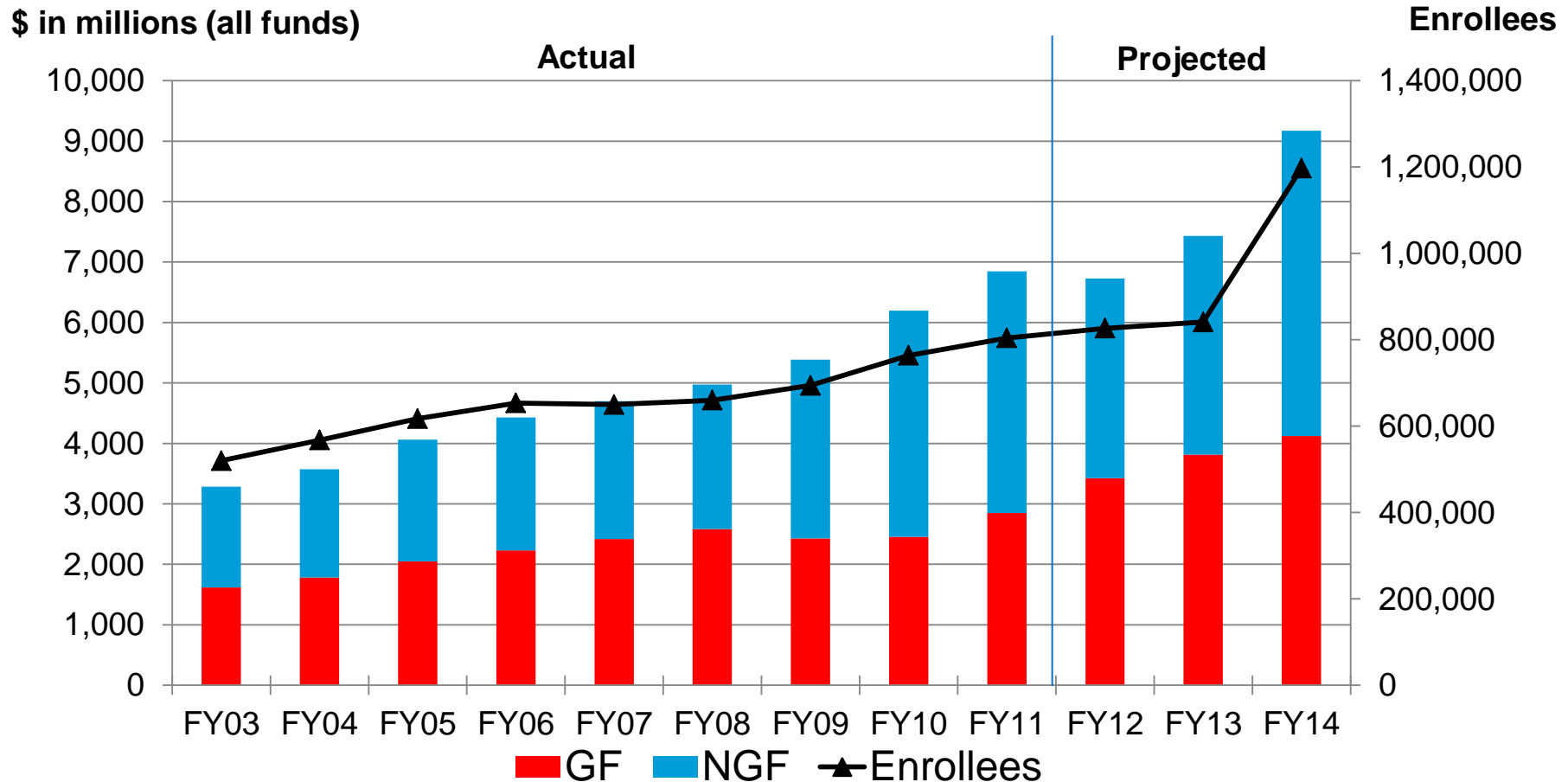
Groups Already Covered in Medicaid

- Medicaid children ages 6 to 18 in families with incomes between 100% to 133% FPL
 - Currently covered under Medicaid program
 - State receives more favorable FAMIS match rate of 65% under federal children's health insurance program (CHIP)
- Federal legislation reverts match rate to Medicaid FMAP
 - Now appears that CMS regulations may retain CHIP match rate

		\$ in millions	
Eligible Group	# Eligible	State GF	Federal NGF
FAMIS/CHIP children ages 6 to 18 with family income between 100%-133% FPL - incremental cost	48,530	\$7.6	(\$7.6)

Note: The full cost of covering this group is \$25.2 million GF and \$25.2 million NGF in the Medicaid program; however, the cost would have been \$17.6 million GF and \$32.8 million NGF if the state were able to continue receiving the CHIP FMAP rate of 65%. Thus, the incremental cost to the state of \$7.6 million GF represents the difference in the FMAP rates.

Impact of Federal Health Care Reform on Medicaid Forecasted Growth



Note: FY 10 expenditure growth is artificially high as it reflects Medicaid provider payments that were lagged from June of FY 2009 into July 2010. FY 11 expenditure growth reflects provider payments that would have been paid in FY 2012 based on prior budget actions to lag payments. FY 14 expenditure projections include estimates of expenses for new enrollees, the woodwork effect and the changes to the FMAP rate for Medicaid/CHIP children under federal health care reform.

Additional Federal Health Care Reform Changes Not Included in the Expenditure Forecast

Primary Care Rate Increase

- Federal law requires state Medicaid programs to increase payments for primary care services up to the Medicare reimbursement level
- Virginia Medicaid currently reimburses primary care services at 85% of the Medicare level
- 100% federal reimbursement in effect 2 years (2013 and 2014)
 - 100% FMAP rate ceases after this period
 - States could opt to continue at regular FMAP rate
- Estimated cost to increase rate:
 - \$35.3 million NGF in FY 2013
 - \$75.3 million NGF in FY 2014
- DMAS will need additional authority to modify rate structure for this period

DSH Reductions

- Forecast does not reflect any reductions in Disproportionate Share Hospital payments in FY 2014
 - DSH reduction scheduled to take effect federal FY 2014 (October 1, 2013)
 - Secretary of HHS has not yet defined how this will be implemented

- Medicaid Growth and Federal Health Care Reform
- **Behavior Health and Developmental Services**
- Budget Control Act Reductions to Federally Funded Programs

Intellectual and Developmental Disability Services Issues

- 2011 General Assembly Actions to address U.S. Department of Justice concerns
 - Provided \$30 million for the Behavioral Health and Development Services Trust Fund to transition individuals from state training centers to community-based services
 - Added 275 Medicaid Intellectual Disability (ID) Waiver slots
 - Added 150 Medicaid Developmental Disability (DD) Waiver slots
 - Partially restored respite care hours from 240 to 480 hours/year
 - Provided \$7.1 million in FY 2012 to address staffing ratios at state training centers
 - Added 6 staff to facilitate transition of individuals from state facilities to community (4 facility based coordinators and 2 central office staff for compliance and training)
- An anticipated settlement agreement with DOJ will drive budgetary decisions in this area during the upcoming biennium and beyond

Continued efforts to rebalance institutional and community resources

- 2011 General Assembly provided:
 - \$1.9 million GF to increase community behavioral health services in the Tidewater region to handle flow-through of clients at ESH due to the downsizing from 280 to 150 adult civil beds
 - \$2.0 million GF to expand crisis stabilization programs statewide
 - \$5.0 million GF to expand crisis services statewide to individuals dually diagnosed with intellectual disabilities and behavioral issues or mental illness
- Dept. of Behavioral Health and Developmental Services (DBHDS) is requesting additional funds for:
 - Children's behavioral health services, including crisis response services, psychiatric services, case management and intensive in-home services
 - Crisis and emergency response services
 - Substance abuse services
 - Additional hospital discharge assistance funding
 - Forensic services
 - Outpatient services to restore competency

Civil Commitment of Sexually Violent Predators

- 2011 General Assembly required a plan to address rapid growth in the commitment of sexually violent predators to the Virginia Center for Behavioral Rehabilitation (VCBR)
 - JLARC study (completed in November)
 - Provided \$16.8 million to address costs related to caseload growth in FY 2012 until study is complete
 - Prohibited initiation of a \$43 million capital project to build new facility pending outcome of study (allowed for life safety code and mechanical repairs to address increased capacity at current facility)
- JLARC recommendations could bend the curve in commitments and increased costs
 - Will require Code changes related to the actuarial risk assessment instrument and the risk assessment process
 - Program will continue to grow, but rate of growth may be reduced and the need for a new facility may be delayed until 2014-16 biennium

- Medicaid Growth and Federal Health Care Reform
- Behavior Health and Developmental Services
- Budget Control Act Reductions to Federally Funded Programs

Budget Control Act of 2011

- On August 2, the President signed the Budget Control Act of 2011 (BCA) to increase the federal debt limit while reducing long-term budget deficits. The bill includes 3 major provisions of relevance to states:
 - Established caps on discretionary spending through 2021, estimated to reduce deficits by more than \$900 million
 - Created a Joint Committee on Deficit Reduction (“Super Committee”) to propose at least an additional \$1.2 trillion in deficit reduction between 2012 and 2021
 - Committee includes 12 members: 3 from each party from each body
 - Recommendations due by November 23, 2011
 - Revenue changes may be on the table
 - Proposal must receive at least affirmative 7 votes to go to floor
 - Proposal goes to House and Senate for an up-or-down vote; no changes or amendments
 - If the “Super Committee” fails to act on required cuts by January 15, 2012, a process known as sequestration occurs. This “poison pill” was intended to force the Super Committee to act
 - Sequestration is the automatic, across-the-board cancellation of budgetary resources

Budget Control Act of 2011

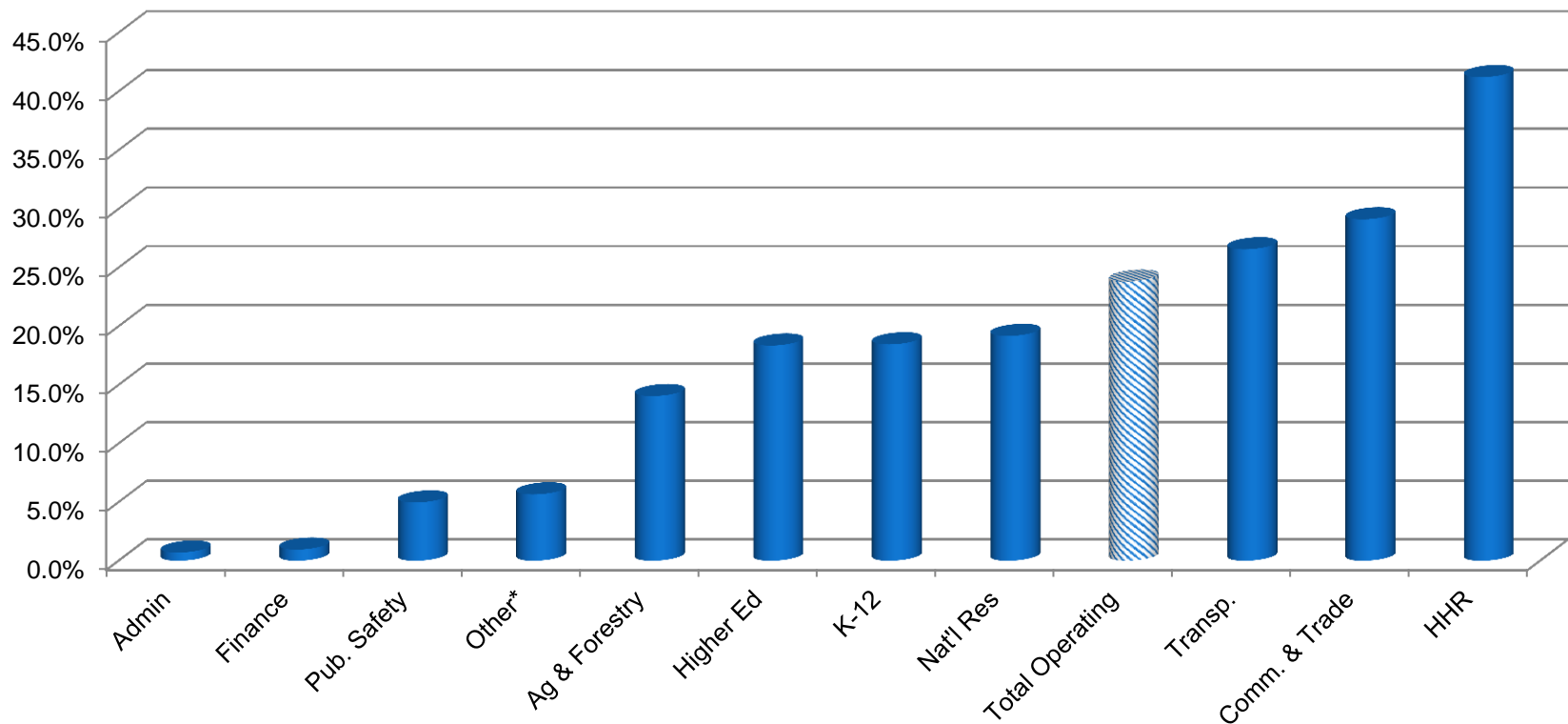
- If Congress does not act by the sequestration deadline, cuts of approximately \$109 billion a year split equally between defense and non-defense would be imposed
 - The cuts would take effect January 1, 2013 for FY 2013
 - For FY 2013, discretionary cuts would be achieved by across-the-board spending cuts. The scope of the reductions on discretionary programs would be about 8.8%
 - For FY 2014 and beyond, levels for specific programs will be determined through the regular appropriations process except that for nonexempt mandatory spending, automatic a-t-b cuts would take place each year
 - Reductions are intended to stem the growth of the cost-curve
- The cuts to the defense budget would not be applied across-the-board, but are assumed at the 10% level
- A number of major programs are exempt from the sequestration process, including: Social Security, Medicaid, Children's Health Insurance, TANF, food stamps, and federal-aid highway and transit funding
 - While not exempt, Medicare is limited to 2% reductions
- Current expectation is that something will occur and full sequestration will not take effect
 - Questions are how much will be agreed to, and when

Virginia's Reliance on Federal Grants

- Virginia received less federal aid to state and local governments on a per capita basis than any other state in the nation in FY 2010
- Nonetheless, federal grants amounted to \$10.6 billion in FY 2010 according to the Consolidated Federal Funds Report, and are estimated to decrease to \$9.4 billion in FY 2012, irrespective of additional federal budget cuts
- In FY 2012, expected federal dollars made up just under 1/4 of the state's operating budget
- The largest program areas supported by federal funding are within the areas of health and human resources and transportation, many of which are exempt from sequestration
- But many smaller agencies are highly dependent on federal funds as a percentage of their budget

Agency Reliance on Federal Funds Varies

- Although 24% of the FY 2012 operating budget is derived from federal revenues, dependence on federal funds varies dramatically. While this means some agencies will be adversely impacted by cuts beyond your control, this must be back-dropped against fact that agencies without federal funds are largely supported by general funds and have received a disproportionate share of the cuts in recent years



Other includes legislative, judicial, executive offices, independent agencies and central appropriations.

Health and Human Resources

- 86% of federal funds in Health and Human Resources –are outside the sequestration debate
 - Medicaid, Children’s Health Insurance, TANF, and SNAP (food stamps), as well as foster care and adoption assistance, mandatory child care assistance, child support enforcement, vaccines for children, and new summer feeding programs for children and adults
- \$711.3 million, about 14% of the total federal funds HHR agencies expect to receive in FY 2012 could be subject to sequestration
 - The potential reduction could be \$62.6 million

Impact on Medicaid

- While Medicaid is exempt from across-the-board cuts under the federal Budget Control Act of 2011, proposals being discussed to contain Medicaid costs could still go forward
 - Limits on provider taxes
 - Blended / lower match rates
 - President has proposal blending Medicaid and CHIP match rates beginning in 2017
 - Repeal or modify provisions of the health care reform legislation
 - House of Representatives passed legislation in October to amend the modified adjusted gross income (MAGI) definition that will be used to determine eligibility for Medicaid under health care reform
 - MAGI excludes the non-taxable portion of Social Security benefits in determining eligibility
 - Medicaid Block Grant
 - Conversion from open-ended entitlement financing to program with annual caps on expenditures
 - Preliminary estimates indicates states would experience a 22% reduction in federal Medicaid spending (assuming the repeal of federal health care reform)

Department of Social Services

- Department of Social Services receives \$811.3 million in federal funds, about 43% of its budget. About 3/4 is exempt from sequestration
- The \$224.3 million remaining could be subject to 8.8% reductions under sequestering, a potential reduction of about \$19.7 million. Largest programs outlined below

Federal Programs (\$ in millions)	Grant Award FY 2012	Potential Reduction
Low Income Home Energy Assistance Program (LIHEAP)	\$92.3	\$8.1
CCDF for at-risk day care	\$41.9	\$3.7
SSBG for local staffing & services	\$43.4	\$3.8
Child Welfare Services	\$12.7	\$1.1
CSBG for services through Community Action Agencies	\$10.8	\$1.0
Total	\$201.1	\$17.7

Impact Social Services Reductions

Federal Programs (\$ in millions)	Potential Reduction
LIHEAP	Reduction in heating assistance grants from \$350 to \$322 per client on average
CCDF for at-risk day care	800 fewer child day care slots, from 54,670 to 53,868
SSBG and Child Welfare Services	Elimination of 51 to 95 local DSS social worker positions
CSBG	Possible consolidation of 29 local Community Action Agencies and local service reductions

Department of Health

- Federal funds account for about 44% of Department of Health's FY 2012 budget of which 80% would be subject to sequestration
- If the \$271.0 million in federal funds for FY 2012 subject to sequestering were reduced 8.8%, you'd see a reduction of about \$23.8 million
- Largest programs outlined below

Federal Programs (\$ in millions)	Grant Award FY 2012	Potential Reduction
WIC nutrition services and supplemental food	\$104.5	\$9.2
Ryan White Act HIV/AIDS drugs & services	\$28.2	\$2.5
Bioterrorism and Hospital Preparedness Program	\$23.0	\$2.0
Various Grants for Disease Prevention & Control (STDs, TB, heart disease, cancer, chronic diseases)	\$19.9	\$1.8
Maternal & Child Health Services Block Grant	\$12.3	\$1.1
Drinking Water Loan Fund & Water Supply Superv.	\$10.8	\$1.0
Total	\$198.7	\$17.6

Impact of Health Department Reductions

Federal Programs (\$ in millions)	Potential Impact
WIC nutrition services and supplemental food	13,700 fewer served 98 positions eliminated
Ryan White Act HIV/AIDS drugs & services	124 fewer individuals will receive HIV drugs, from 4,200 to 4,076 6 positions eliminated
Bioterrorism Public Health Emergency and Hospital Preparedness Program	10 positions eliminated Training, emergency testing & hospital readiness activities reduced
Maternal & Child Health Block Grant	Elimination of injury prevention programs, health care services in local health depts. and clinics serving children with special needs
Drinking Water State Revolving Loan Fund & Water Supply Supervision	3-5 fewer drinking water construction projects 3-6 positions eliminated, resulting in delays in drinking water inspections

Behavioral Health & Developmental Services

- Federal funds account for about 7.5% of DBHDS' FY 2012 budget - none exempt
- About \$79.1 million in federal funds for FY 2012 could be subject to 8.8% reductions under sequestering, or about \$7.0 million
 - Majority of these funds flow to local community services boards

Federal Programs (\$ in millions)	Grant FY 2012	Potential Reduction	Potential Impact
Sub. Abuse Block Grant	\$42.9	\$3.7	1,000 fewer clients served, from 38,661 to 37,661 2 positions eliminated in DBHDS
Mental Health Block Grant	\$10.0	\$0.9	226 fewer clients treated, from 64,190 to 63,964 1 position eliminated in DBHDS
Part C Early Intervention Services	\$10.3	\$0.9	Potentially more than 1000 fewer children served
Total	\$63.2	\$5.5	

Department of Rehabilitative Services (DRS)

- Federal funds account for about 65% of DRS' FY 2012 budget
 - Exempt amounts account for about 1/3 of the federal funds and relate to disability determination funding from the Social Security and Medicaid eligibility determination for SSI recipients
- About \$59.9 million in federal funds for FY 2012 could be subject to 8.8% reductions under sequestering, totaling about \$5.3 million
 - Largest program subject to sequestration is the Vocational Rehabilitative State Grant totaling \$57.7 million
- Potential impact of federal reductions
 - Elimination of 40-48 vocational rehabilitation counselors or
 - Reduction in 3,900 individuals served from 24,375 to 20,475 or
 - Some combination of above

Department for the Aging

- Federal funds account for about 68% of Department for the Aging's FY 2012 budget - none exempt
- About \$41.8 million in federal funds awards for FY 2012 could be subject to 8.8% reductions under sequestering, or about \$3.7 million
- Majority of federal funds, about \$30.7 million, are received from the Older Americans Act and go out to local Area Agencies on Agencies
 - \$14.6 million is used for individual care services for the elderly, care coordination, senior centers, respite care, adult day care, transportation
 - \$16.2 million used to support provision of meals
- Potential impact of federal reductions
 - 121,158 fewer home delivered meals to elderly
 - 77,100 fewer congregate meals for elderly
 - Consolidation of local Area Agencies on Aging from 25 to 24 with fewer individual care services available statewide

QUESTIONS?
