



Current and Emerging Fiscal Policy Issues

Presentation to Virginia Network of Private Providers

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October 8, 2014



Health & Human Resources 2014 Session:

Where Are We and How Did We Get Here?

- How Did We Begin the Year? 2014 Regular Session
- What Changed in the 2014 Special Session I?
 - Spring Revenue Changes
 - Impact of HB 5002 on HHR
- Impact of FY 2014 Revenue Changes and Adoption of HB 5010
- The Road Ahead

How Did We Begin the Year?

2014 Regular Session

- At the beginning of the 2014 Regular Session, the Governor's proposed biennial budget (HB 30) included a net spending increase of \$1.7 billion compared to the FY 2012-14 biennium
 - Assumed a \$536.5 million GF balance carried forward from FY 2014
 - Contained an unappropriated balance of \$50.9 million GF at the end of the biennium
 - Assumed growth rates:
 - FY 2015: 4.2% (4.1% without tax policy adjustments)
 - FY 2016: 3.9% (4.0% without tax policy adjustments)

How Did We Begin the Year?

Health & Human Resources (HHR)

- HB 30 included a net increase of \$823.8 million GF over the biennium for HHR, with 78% of new funding driven by mandated programs, primarily Medicaid
 - Net increase of \$625.9 million GF for Medicaid forecast
 - Net increase of \$101.3 million GF over biennium to address the DOJ Settlement Agreement, including assumed savings from training center closures
 - Included savings of:
 - \$55.7 million GF in FAMIS and SCHIP programs from change in federal matching rate (FMAP) from 65% to 85%
 - \$44.7 million GF from withholding Medicaid hospital inflationary increases in FY 2015
 - \$15.0 million GF by continuing indigent care reductions at state teaching hospitals in FY 2015
 - \$12.4 million GF from eligibility system modernization

HHR Issues for 2014 Regular Session

- Medicaid Spending
 - Forecast
 - Provider rates
 - Services
- DOJ Settlement Agreement
- Mental Health Services
- Medicaid Expansion and Safety Net Programs for the Uninsured

HB 30: Major Differences Between House and Senate HHR Budgets (GF \$ in millions)

Major Spending Actions	House	Senate
Medicaid & Other Provider Rates	\$44.6	\$24.4
Medicaid Waiver Slots	\$3.9	(\$7.8)
Other Medicaid Services	\$0	\$9.4
Health Safety Net Services	\$7.2	\$1.1
Mental Health Bills (ECO, TDO, Bed Reg., etc.)	\$5.2	\$9.0
Community MH Services to Support MH Bills	\$4.6	\$12.3
Children's Mental Health Services	\$0	\$1.5
Community Rehab. Services (CILs, LTESS, BI Svs.)	\$0	\$2.5
Domestic Violence Services	\$2.2	\$0.5
Other Social Services	\$0	\$2.9
Total:	\$67.7	\$55.8

HB 30: Major Differences Between House and Senate HHR Budgets

- Medicaid Provider Rates (biennial amounts)
 - Hospitals
 - House: Inflation 2.5% increase in FY 15 (\$35.3 million GF)
 - House: Prior year inflation adjustment for teaching hospitals (\$9.3 million GF)
 - Senate: Inflation 1.25% increase in FY 15 (\$17.6 million GF) no prior year adjustment for teaching hospitals
 - Senate: Removed \$2.7 million GF for Children's Hospital of the King's Daughters supplemental physician payments in introduced budget
 - Personal Care
 - Senate: 2% rate increase in FY 16 (\$6.8 million GF) and directed DMAS to review feasibility and cost to provide paid sick days for consumer-directed personal care providers

HB 30: Major Differences Between House and Senate HHR Budgets

- Medicaid Waivers

- House: Added 50 intellectual disability (ID) and 15 developmental disability (DD) waiver slots over biennium (\$3.9 million GF) for total of 750 ID and 65 DD slots
 - Conditioned on use of coordinated care model
- Senate reduces ID waiver slots by 225 and DD waiver slots by 10 in FY 2015 saving \$7.8 million GF
 - DOJ allows Commonwealth to count slots added above annual required number towards following year's requirement
 - Senate added language requiring DMAS review of waiver cost increase
 - Senate added \$23,314 and language to allow for payment of 1st month's rent for individuals transitioning from training centers to community

2014 Regular Session: House and Senate Budgets

- Adopted structurally balanced budgets
- Both reflected mid-Session revenue reforecast
 - Governor reduced FY 2014 forecast by \$125.0 million and FY 2015 forecast by \$15.0 million
 - Impact largely felt in FY 2015 because assumed carry-forward of balances – required identification of additional savings in HB 30
- Both provided for a reserve fund to protect against future downward forecast adjustments
 - House included a reserve of \$137 million and allocates it for employee compensation and VRS
 - Senate allocated \$49.2 million for employee compensation

2014 Regular Session: House and Senate Budgets

- Both identified savings related to the following items
 - Limited new initiatives and program expansions
 - Looked at technical adjustments/recalculations
 - Allocated additional Literary Fund and Lottery resources
 - Examined agency balances
- Similar spending priorities
 - Employee compensation
 - Mental health services
 - Restoring Medicaid payments for hospital inflation
 - Domestic violence prevention and services
 - Higher Education and K-12 funding

2014 Regular Session: House and Senate Budgets

- The House and Senate Budget Conferees found common ground on most of the major differences in each Chamber's budget in early March
- Different approaches to addressing the needs of Virginia's uninsured citizens could not be resolved, resulting in deadlock on the budget
 - House expanded funding for safety net programs such as free clinics and community health centers
 - Senate proposed Medicaid expansion through "Marketplace Virginia"
- House procedural resolution to extend the Session 30 days was rejected by the Senate, resulting in the end of the Regular Session and the need for a Special Session to resolve the budget
- 2014 Special Session I began on March 24, 2014
 - Adopted "Caboose" Bill (Chapter 1/HB 5001) to cover spending through 6/30/14
 - Both Houses passed versions of their budgets for 2014-16 biennium (HB 5002/SB 5003)

Special Session I: What Changed?

- After a strong April, the May daily deposits were far weaker and it became apparent that final payments would not meet the forecast
- By early June, revenues for FY 2014 appeared to be about \$350.0 million below forecast
 - Primary source for the shortfall was in estimated payments
 - Payroll withholding for FY 2014 continued anemic growth of 3%, consistent with the forecast, however the forecast for FY 2015 and FY 2016 assumed over 4% growth
 - Payroll withholding accounts for approximately 60% of general fund revenue collections
- Chapter 1 (“Caboose Bill”) assumed a balance of \$478.6 million – enough to offset the shortfall
 - Carry-forward balance was less than assumed in 2014-16 House and Senate budgets
 - Ripple effect of the 2014 shortfall was estimated to be between \$1.2 to \$1.4 billion over the 2014-16 biennium
- House and Senate began planning strategies to deal with anticipated shortfall

How Did We Build a Budget Given the Uncertainty?

- Power shift in Senate provided the key to unlocking the budget impasse
 - Medicaid expansion eliminated from Senate budget
 - Senate took up HB 5002 and amended it to reflect agreed upon changes
- HB 5002 assumed a potential budget shortfall of \$1.55 billion
 - FY 2015 = \$950 million
 - FY 2016 = \$600 million
- Prepared the 2014-16 budget in anticipation of lower revenues by building a large revenue reserve
 - The size of the reserve reflected the potential use of the Revenue Stabilization Fund (Rainy Day Fund) during the 2015 Session if the reforecast supported such action
- How was the reserve generated?
 - Examined all new spending proposed in House Bill 30, as Introduced, not otherwise affected by the House and Senate budget amendments
 - Examined spending included in House and Senate budget bills (HB Bill 5002/SB 5003), as amended

Strategies to Address Budget Shortfall

- Assumed Rainy Day Fund withdrawals of about \$707.5 million over 2 years
- Identified additional cuts/resources totaling about \$842.5 million
 - Reduced new, discretionary spending

Area of Government	Amount (\$ in millions)
Higher Education	\$183.9
K-12 Public Education	166.6
Health & Human Res.	80.1
Commerce & Trade	39.0
Public Safety/Vet. Affairs	27.0
Compensation/Other	168.3

- Additional balances and revenue adjustments of \$177.7 million
- Accelerated Sales Tax: delay \$29.9 million “unwinding” in FY 2016; \$20.8 million by requiring early payment in FY 2015 for retailers between \$26 and \$48 million

Impact of HB 5002 (2014-16 Budget) on HHR

- Maintained mandatory spending increases for:
 - Medicaid utilization
 - DOJ Settlement Agreement
 - Child welfare services (foster care and adoptions)
- Medicaid provider rates
 - Eliminated proposed inflation adjustments for hospital rates in 2014-16
 - Eliminated inflation adjustments for nursing homes in FY 2016 and reduced a proposed increase in capital reimbursements each year
 - Eliminated inflation adjustments for outpatient rehab and home health agencies included in the introduced budget
 - Continued reduction in indigent care provided at state teaching hospitals
 - Removed proposed increase of 2.0% for personal care services providers contained in SB 5003
- Used funds in the DBHDS Trust Fund to offset the cost of implementing the DOJ Settlement Agreement
- Eliminated proposed funding in House and Senate budgets for other discretionary HHR programs

Impact of HB 5002 on HHR

- Retained general fund savings strategies contained in House and Senate budgets
 - Eliminated a one-time payment to the federal government related to Medicaid payments that has been settled
 - Reduced general funds to reflect additional revenues to the Virginia Health Care Fund from tobacco taxes
 - Captured savings attributable to a re-estimate of indigent care costs consistent with the Affordable Care Act
 - Adjusted funding in FY 2015 to reflect mandatory increases in Intellectual and Developmental Disability waiver slots
 - Removed funding for supplemental Medicaid payments to Children's Hospital of the King's Daughters
 - Included additional savings from the federal Fostering Connections Act
 - Assumed savings by supporting localities when negotiating adoption subsidy agreements
 - Reduced anticipating underspending in the Auxiliary Grant program

Impact of HB 5002 on HHR

- Changes included the addition of new spending
 - Included new funding for 50 ID and 15 DD waiver slots in FY 2016 above those required by the DOJ Settlement Agreement
 - Increased funding to expand services for victims of domestic violence
 - Included funding from the introduced budget to enhance the community-based mental health system
 - Added funding for House and Senate budget priorities to expand crisis intervention “drop off” centers, Programs of Assertive Community Treatment, children’s mental health services, discharge assistance planning and purchase of local inpatient services by CSBs
 - Added funding to implement the Omnibus Mental Health Bill
 - Restored funding for poison control centers

Impact of Summer Revenue Changes and Adoption of HB 5010

- Revenues Declined More Than Anticipated After Passage of Chapter 2 (HB 5002)
- FY 2014 revenues and transfers finished \$437.8 million below the forecast, triggering the reforecasting process
 - The major tax sources - Corporate, Withholding, Nonwithholding, Sales and Recordation Taxes – were down \$559.1 million
 - This was offset by \$120.6 million in better than anticipated performance of refunds, insurance premium taxes, interest earnings, and other minor sources (ABC/Beer)
- Chapter 2 assumed a carry-forward balance from FY 2014 of \$128.6 million
- Based on the preliminary year-end close, that balance was \$40.1 million, or \$88.5 million less

Revised Economic Outlook for 2014-16

- Based on the FY 2014 shortfall, the Governor called for an official reforecast of revenues for the upcoming biennium
- The general fund revenue reforecast for FY 2014-16 is driven by:
 - The impact of the FY 2014 shortfall on the FY 2015 revenue base
 - The expectation that Virginia will continue to underperform the Nation
 - Continued sluggish job and wage and salary growth
 - Particularly in Northern Virginia, which typically accounts for half of the state's job growth and pays amongst the highest salaries
- Governor McAuliffe presented the revised revenue forecast to the Joint Money Committees on August 15th, based on the recommendations of JABE and GACRE
- The forecast was significantly lower than was anticipated in Chapter 2, and assumes the following:
 - Total general fund revenue growth of 2.7% in FY 2015 (reduced from 5.2% in Chapter 2)
 - Total general fund revenue growth of 2.7% in FY 2016 (reduced from 4.1% in Chapter 2)
- When the FY 2014 additional shortfall is factored in, the anticipated biennial deficit is expected to be \$881.5 million more than predicated in Chapter 2 (HB 5002)

Addressing the Shortfall

- Following the FY 2014 year-end close it became apparent that substantial adjustments to Chapter 2 would be required
- The Chairmen of the House Appropriations and Senate Finance Committees met to discuss whether legislative action was warranted
- The General Assembly is still in Session and already had planned to reconvene on September 18th
 - This was not the case in 2009 when Governor Kaine had to develop budget cut plans
- The Chairmen then met with the Secretary of Finance to discuss working together to fashion a template for legislative action
- Bipartisan leadership of both the House and the Senate met with the Governor and agreed upon the principles guiding introduction of legislation in the House and Senate

Overview of HB 5010

- What does HB 5010 do?
- It amends and reenacts Chapter 2
 - With the exception of the new sections outlined below, all other provisions of Chapter 2 are unchanged
 - When the Governor introduces his proposed amendments in December, actions taken in HB 5010 already will be reflected
- HB 5010 updates the revenues assumed in the budget to reflect the downward revisions to the general fund forecast and addresses the budget gap created by a lower FY 2014 balance
- Appropriates \$470.0 million in FY 2015 and \$235.0 million in FY 2016 from the Rainy Day Fund
- Takes action to close the *remaining* budget shortfall of \$345.5 million in FY 2015 and \$536.0 million in FY 2016 through the establishment of four reversion accounts

How Does the Bill Close The Shortfall?

(GF \$ in millions)	FY 2015	FY 2016
Front Page Resource Adjustments (balances, reversions, transfers, etc. – language reflected in the Miscellaneous Reversion Clearing Account)	\$149.1	\$65.1
State Agency Reversion Account	92.4	100.0
Higher Education Reversion Account	45.0	45.0
Aid to Local Government Reversion Account	30.0	30.0
Miscellaneous Reversion Clearing Account	40.6	284.9
TOTAL	\$357.1	\$525.0

Note: Yearly savings amounts differ from shortfall amounts detailed on previous page. FY 2015 balances will be used to offset FY 2016 shortfall.

Components of HB 5010

- Amends the “front page” of Chapter 2 to reflect the revised revenue forecast, use of Rainy Day Fund, and transfer and balance adjustments
- Adds 4 new items to Central Appropriations for the new reversion accounts
- Item 471.10 contains state agency reductions of \$92.4 million in FY 2015 and \$100.0 million in FY 2016 – approximately 4% each year
 - This total is not agency-specific and the Governor is given latitude to achieve the necessary savings within the confines of the agency plans, subject to the provisions of Chapter 2
 - This language provides limitations on how much the Governor can reduce spending in any one agency or program to 15% or less and prohibits any reduction to retirement system contributions
 - Governor requested each agency to plan for a 5% reduction in FY 2015 and 7% reductions in FY 2016
 - Plans were due to the Governor on September 19

Components of HB 5010

- Item 471.30 contains savings from state aid to local governments of \$30.0 million each year
 - Overall, aid to localities makes up almost half of the budget
 - Consistent with strategies utilized by Governors Kaine and McDonnell, localities will be given the flexibility to identify which programs to reduce to achieve the target
 - Targets will be established by the Department of Planning and Budget and will be distributed among localities on a pro rata share of total local aid received
 - Governors Kaine and McDonnell excluded funding for K-12 and car tax reimbursements from the calculation and from the local aid categories that may be reduced
 - \$30.0 million equates to less than 0.3% of total local aid
 - This strategy was first used in the 2008-10 biennium and continued through FY 2013
 - Reductions totaled \$60.0 million in FY 2011 and were eliminated by the General Assembly in FY 2014

The Road Ahead

- HB 5010, Paragraph F of Item 471.40 directs the Governor to develop budget reduction plans and other strategies for submission to the 2015 General Assembly to address the remaining FY 2016 shortfall of \$272.0 million not otherwise addressed in HB 5010
 - These plans are to be developed consistent with the provisions of § 2.2-1509
 - Plans will take into account any further changes to the revenue assumptions that occur as part of the annual reforecasting process undertaken pursuant to § 2.2-1503, Code of Virginia
- Actions included in HB 5010 will be incorporated into Chapter 2 as adopted in June
 - All other provisions remain in effect

The Road Ahead

- Caution will continue to be the guiding principle in any funding decisions going forward this biennium
- General fund spending in Health and Human Resources accounts for almost 30 percent of the general fund budget
- Due to the mandatory nature of many HHR programs, it is not likely that all programs will be subject to an across-the-board reduction
- Agencies will be selective in proposals to reduce budgets in order to preserve core programs
- Discretionary spending that is contained in Chapter 2 will be identified and likely targets for reductions
- Budget reduction plans being developed and reviewed now

The Road Ahead

- Governor's recent "Healthy Virginia" plan assumes the expenditure of an additional \$126 million GF over the 2014-16 biennium, beginning January 1, 2014
 - Proposes extending Medicaid coverage to individuals with serious mental illness (SMI) or serious emotional disturbances (SED) who have incomes up to 100% of the federal poverty level
 - Proposes Behavioral Health Homes for existing Medicaid recipients with SMI or SED
 - Proposes adding comprehensive dental services for Medicaid and FAMIS eligible pregnant women
 - Proposes expanding FAMIS to children of eligible state employees
 - This additional spending is not factored into the recent budget actions adopted by the General Assembly
 - Proposals will need to be approved by the 2015 General Assembly
- Medicaid expansion and other safety net funding will continue to dominate public policy debates
- Other HHR issues will continue to exert budgetary pressures
 - Medicaid forecast
 - Community capacity and State training center closures – Northern Virginia next facility to close
 - Growth in other mandatory programs
 - Comprehensive Services for At-Risk Youth and Families
 - Foster Care and Adoptions

Sources of Budget Information

Senate Finance Committee Website

<http://sfc.virginia.gov/>

House Appropriations Committee Website

<http://hac.virginia.gov/>

Commonwealth Datapoint (APA)

<http://datapoint.apa.virginia.gov/>

Department of Planning and Budget

<http://www.dpb.virginia.gov/>

Virginia Performs

<http://vaperforms.virginia.gov/>