



Virginia Coalition of Private Provider Associations

Fiscal Year 2012 Revenue Update and Budget Outlook for the 2013 Session

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House Appropriations Committee

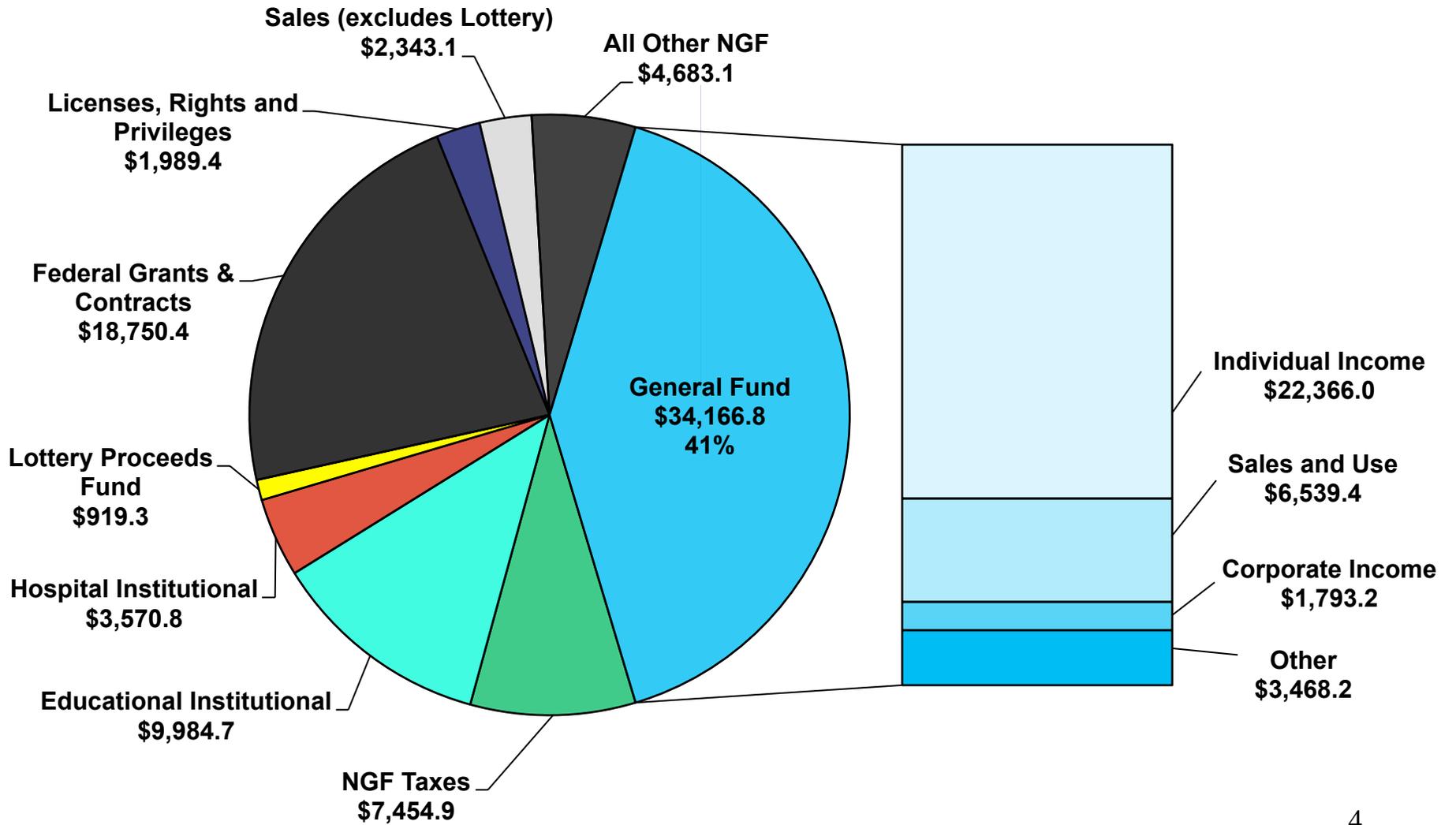
October 11, 2012

Virginia's Budget

- Composition of Budget: Resources, Spending, and Budget Drivers
- The Budget Shortfall and How the General Assembly Closed the Gap
- Recap of the 2012 Session
- FY 2012 Year-End Close and FY 2012-2014 Budget
- Looking Ahead: Critical Budget Issues for the 2013 General Assembly

Composition of Budget: Resources, Spending & Budget Drivers

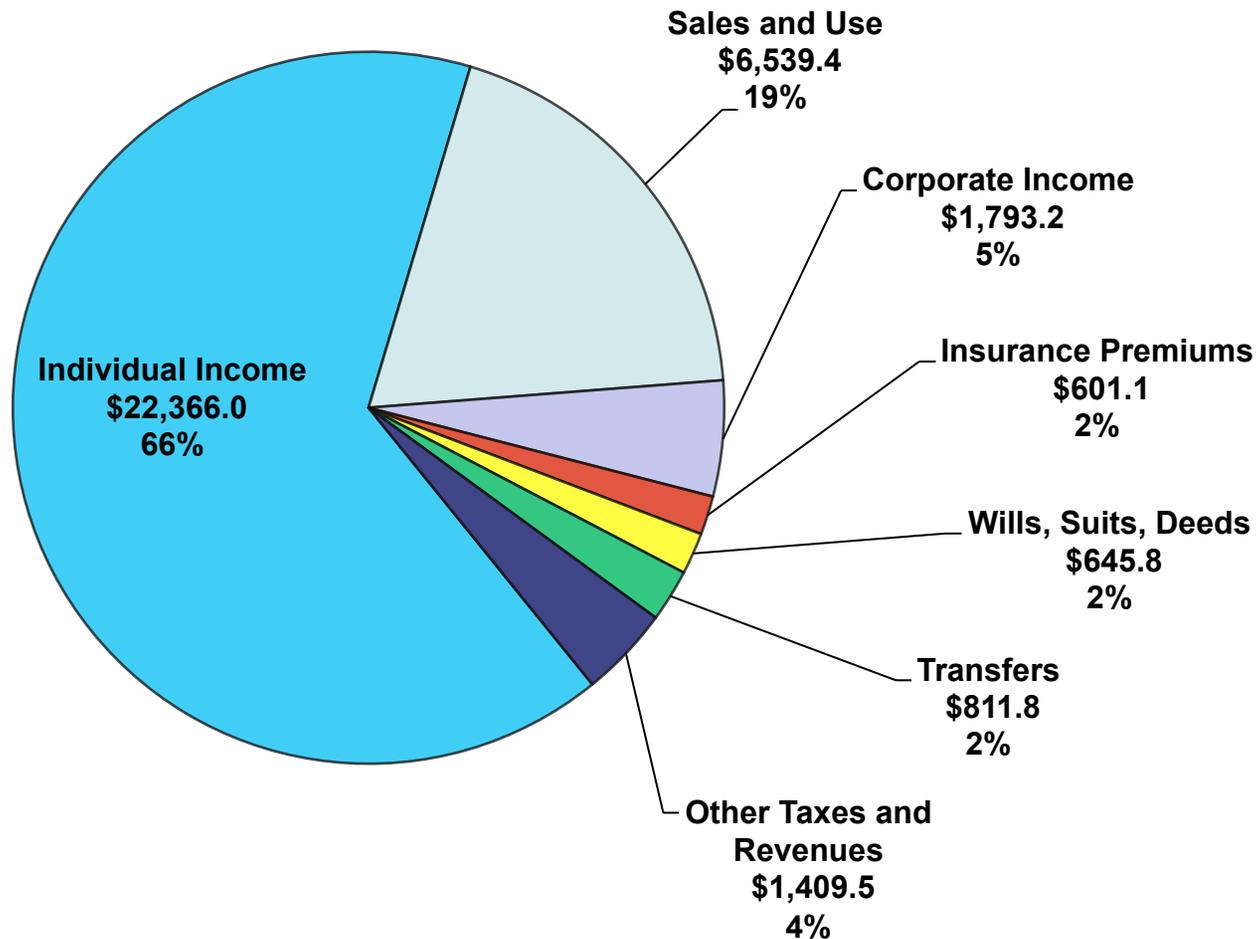
FY 2012-14 Total Revenues = \$83,862.5
Chapter 3 (HB 1301, as Adopted)
(\$ in millions)



General Fund Revenues

Economic trends are important because employment, wage gains, and consumer spending account for about 92 percent of all general fund revenues

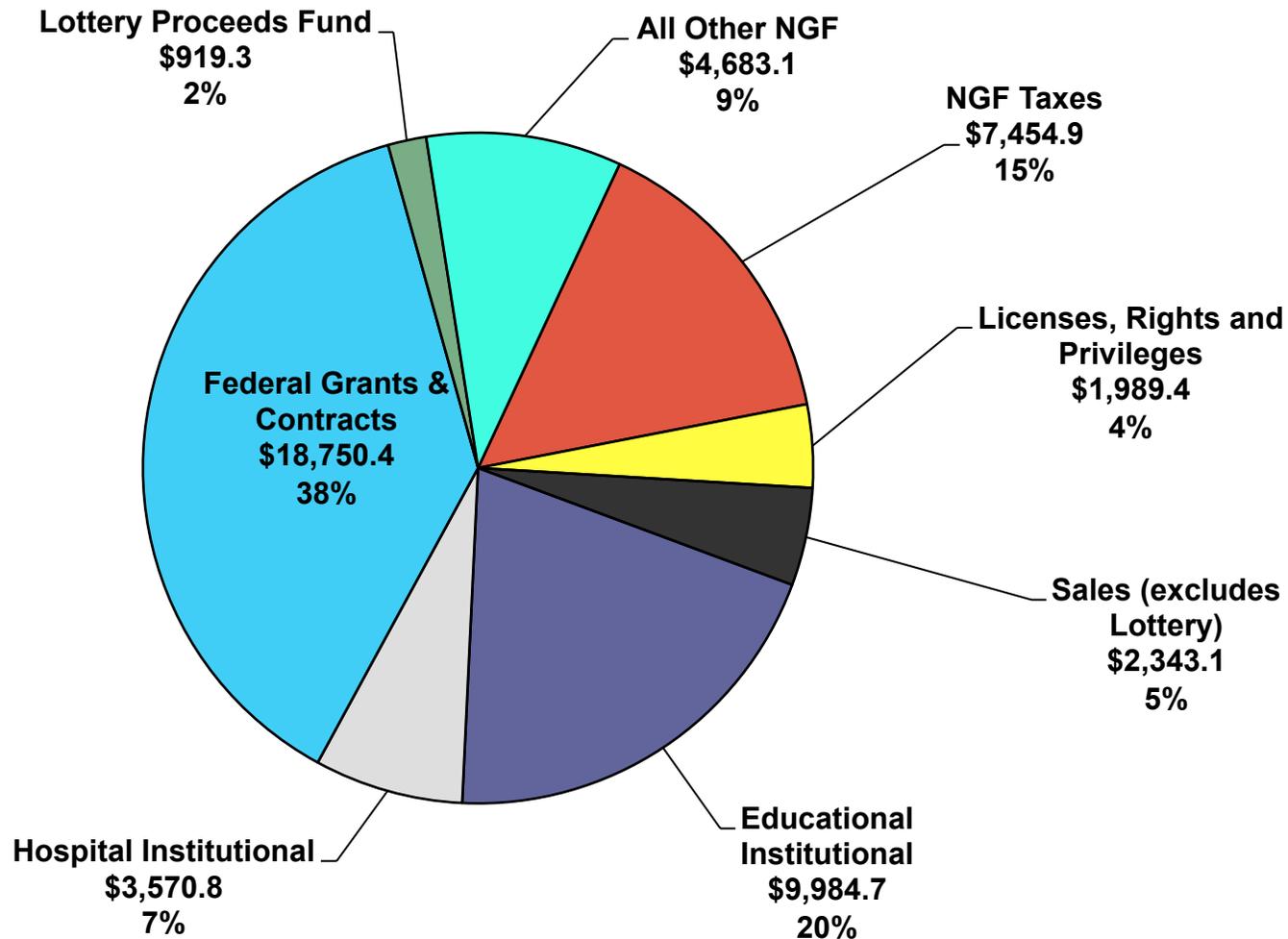
2012-14 General Fund Revenues = \$34.2 billion



Nongeneral Fund Revenues

Federal grants account for almost 40% of all nongeneral funds revenue

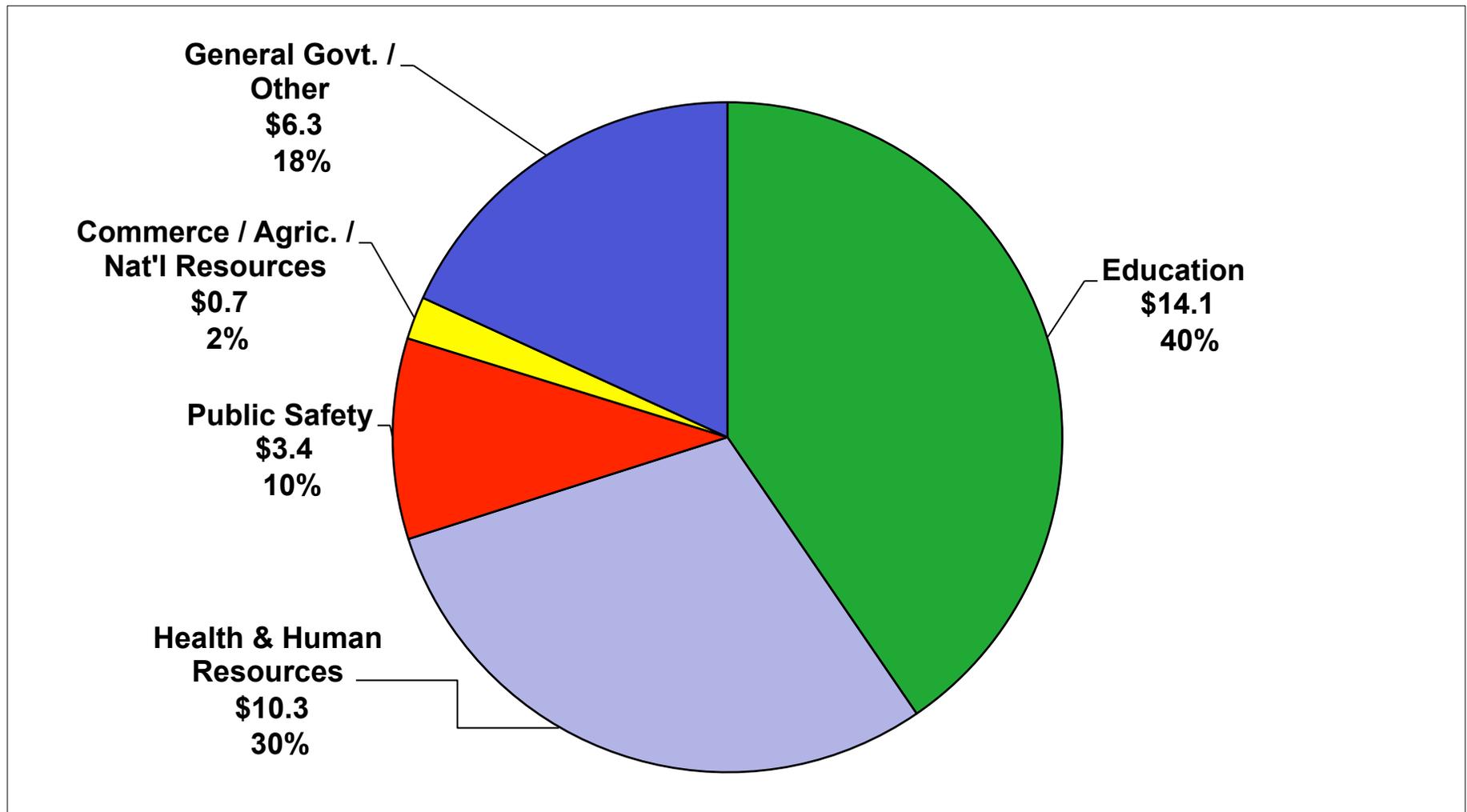
2010-12 Nongeneral Fund revenues = \$49.7 billion



Where the Money Goes

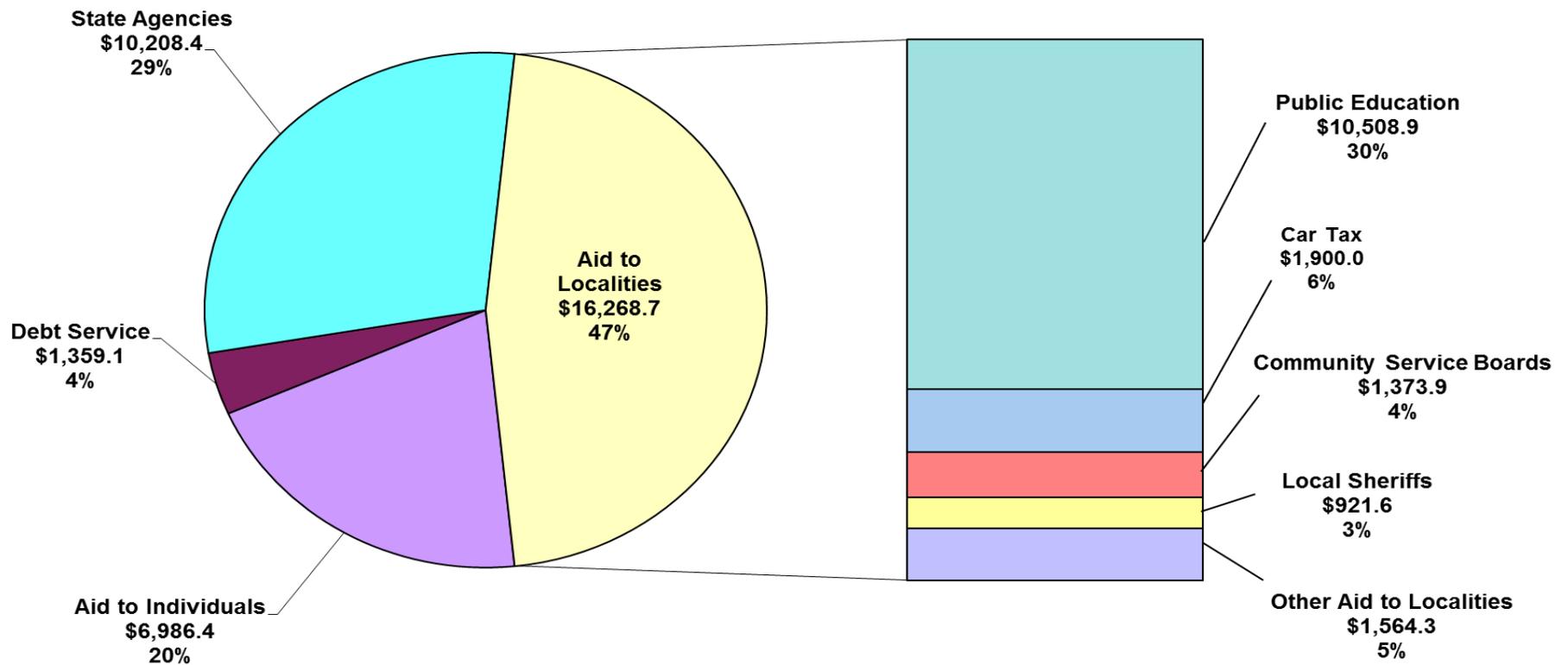
2012-14 (GF Funds) = \$34.8 Billion

80% of the GF Budget goes to Education, Health and Human Resources, and Public Safety



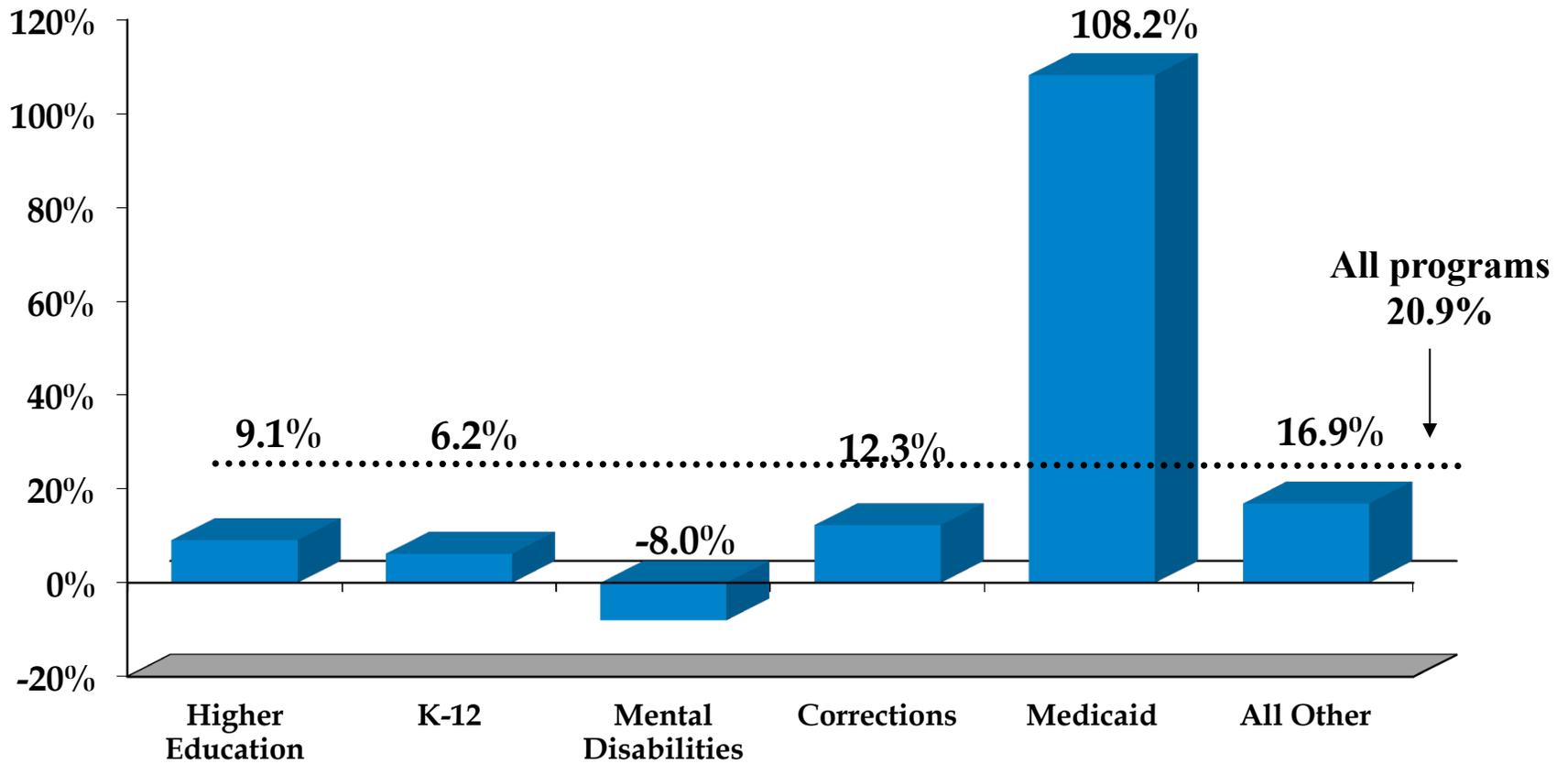
Almost Half of GF Budget Goes to Localities

2012-2014 GF Operating Budget = \$34,822.6
Chapter 3 (HB 1301, as Adopted)
(\$ in millions)



Major Budget Drivers: 2005 - 2012

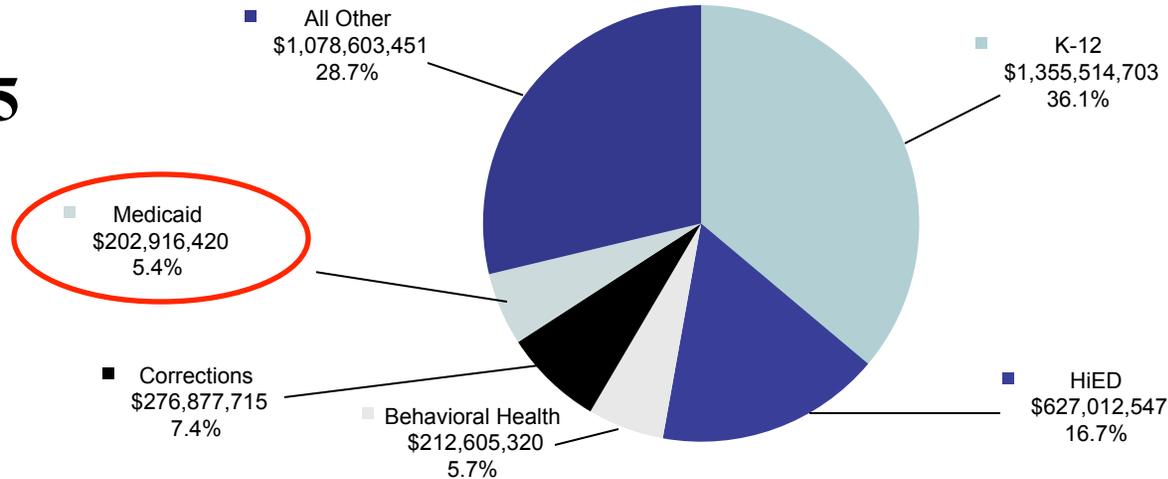
Percent increase in general fund budget



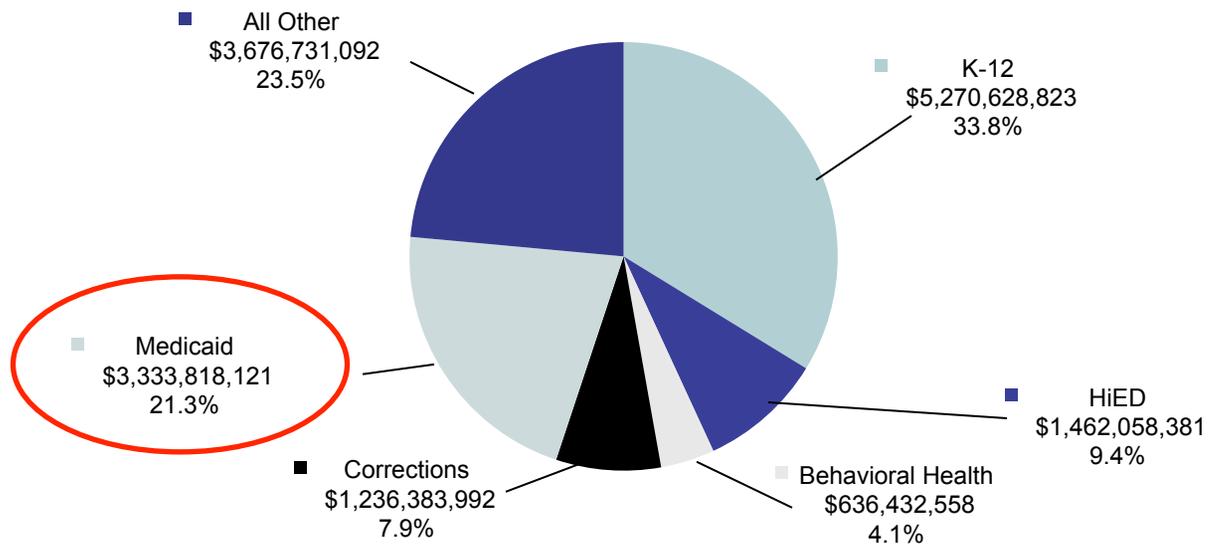
Data: 2005 (Chapter 951) compared to 2012 (HB 1500 Enrolled)

Mandatory Programs Use Growing Share of Budget: Growth in Medicaid as Share of GF Budget

FY 1985



FY 2012



A Look Back at the 2012 Session

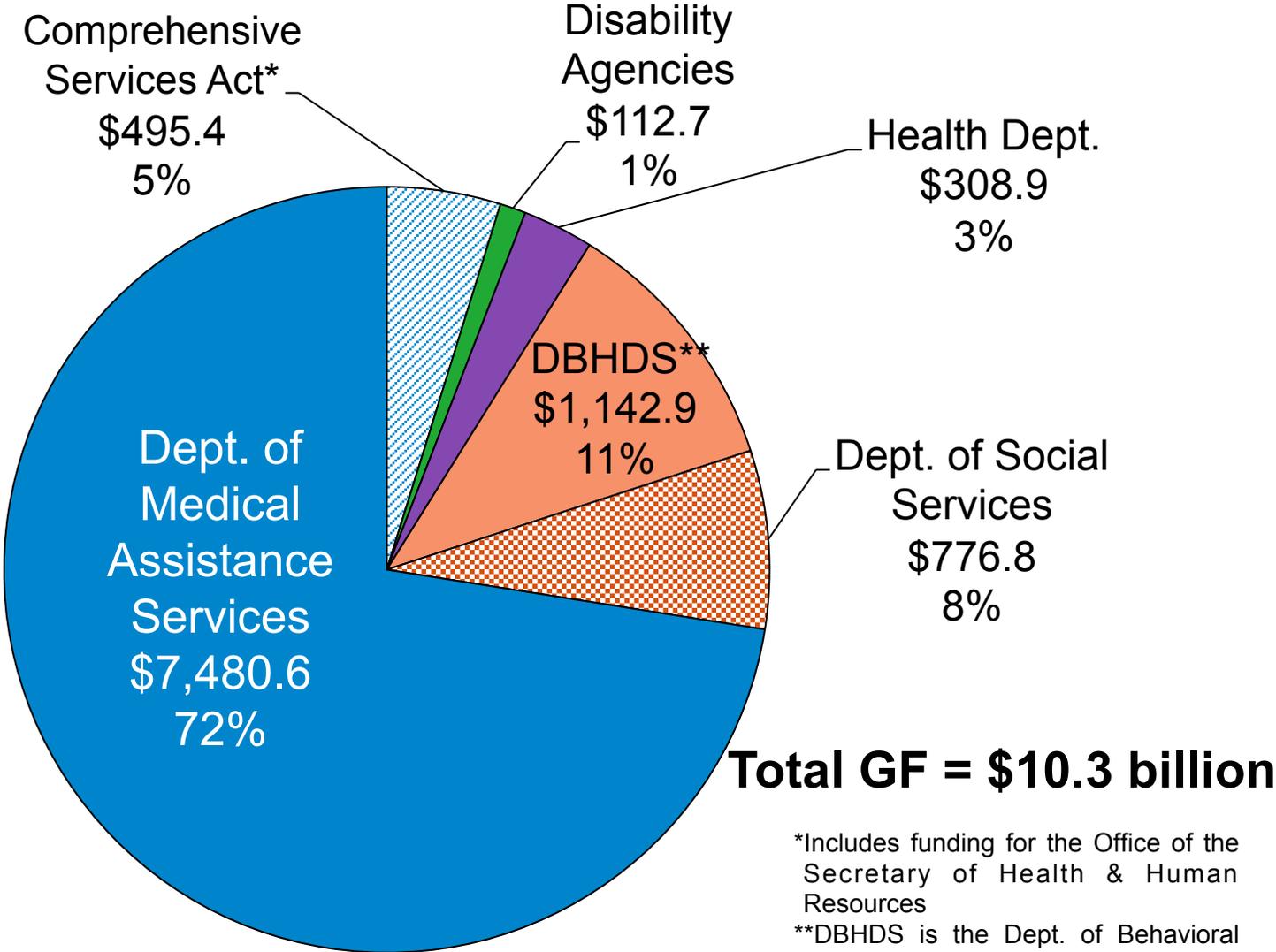
Key Objectives in the Adopted Budget

- Maintain structural balance in the budget
- Set aside more funding for the Rainy Day Fund
- Minimize state debt
- Selectively fund new spending:
 - Invest in education
 - Protect the health care “safety net”
 - Stimulate job creation
 - Address employee compensation
- Address the funding of the VRS, while keeping our promise to state employees
- Reduce the burden on Virginia’s businesses

Highlights of 2012 Session

- Additional available resources of about \$2.3 billion above the “base budget”, to address \$3.3 billion in spending for retirement rates, Medicaid, public and higher education
- Offset by \$1.1 billion in targeted reductions in K-12 education, Medicaid, and agency specific savings
- Created new hybrid retirement program, move toward full-funding of board-approved rates
- Continued “unwinding” accelerated sales tax

Health & Human Resources 2012-14 GF Budget (\$ in millions)



*Includes funding for the Office of the Secretary of Health & Human Resources

**DBHDS is the Dept. of Behavioral Health and Developmental Services

Highlights of the 2012-14 HHR Budget

- Net increase of \$486.7 million GF and \$1.8 billion NGF
 - Spending increases total \$976.2 million GF over the biennium, including technical adjustments
 - Reductions total \$489.5 million GF over the biennium
- Spending largely driven by mandated programs
 - \$610.2 million GF for Medicaid forecast
 - \$263.2 million GF Medicaid base budget adjustment to account for FY 2012 funding that was shifted to FY 2011 to take advantage of ARRA enhanced federal Medicaid funding
 - \$30.0 million GF in FY 2013 to meet the requirements of the U.S. Department of Justice Settlement Agreement
 - \$17.1 million GF to modernize eligibility determination information systems and implement electronic health records in state facilities
 - \$16.8 million GF for adoption subsidies
 - \$6.8 million GF to meet required state match for Vocational Rehabilitation program

HHR Spending Offset by Reductions / Savings

- Reductions/savings also driven by mandated programs
 - 85 percent of the spending offsets were realized in the Medicaid program (\$417.0 million GF)
 - Adjustments to the expenditure forecast to reduce or eliminate inflationary increases for hospitals, nursing homes, home health agencies and outpatient rehabilitation agencies;
 - Continuing reductions to indigent care spending at state teaching hospitals
 - Eliminating rebasing of nursing home costs
 - Restricting eligibility for certain long-term care waiver recipients beginning in 2014
 - Savings from managed care expansion
 - Savings from transitioning veterans on Medicaid to more comprehensive federal health care benefits
 - \$47.9 million GF over the biennium from lower caseload and expenditures in the Comprehensive Services Act
 - \$10.3 million GF over the biennium in savings in child welfare and child support funding from forecast changes in NGF funding and revenue

Budget Actions Impacting Medicaid

- Medicaid Eligibility
 - Adopted budget provides \$6.0 million GF to partially restore Medicaid eligibility for long-term care services for 1,494 elderly and disabled individuals effective Jan. 1, 2014
 - Partially restores eligibility from 250 percent to 267 percent of Supplemental Security Income (SSI) payment standard
 - Requires the agency to provide a more detailed analysis of the effect of reducing income eligibility from 300 percent to 267 percent of Supplemental Security Income (SSI)
 - Report due October 1, 2012
 - Adds \$1.1 million GF and \$1.6 million in federal matching funds over the biennium to fund the impact of legislation passed in 2012, which expands Medicaid and FAMIS benefits for legal immigrant pregnant women and children
- Medicaid Services
 - Restores personal care hours for certain Medicaid waiver recipients to 56 hours per week (\$2.0 million GF and \$2.0 million NGF over the biennium)
 - Continues the exemption of behavioral health medications from the Medicaid Preferred Drug List through FY 2013 until most individuals enter Medicaid managed care (\$2.1 million GF and \$2.1 million NGF)
 - Continues FAMIS outreach efforts by the Virginia Health Care Foundation (\$333,048 GF and \$582,518 NGF over the biennium)
- Medicaid Provider Rates
 - Partially restores hospital and nursing home rates and increases certain provider rates (table on next page)

Medicaid & Other Health Care Provider Payment Restorations*	General Fund	
	FY 2013	FY 2014
Medicaid Hospital Inpatient Payments (2.6% in FY 2013)	\$16,748,366	\$23,228,019
Medicaid Nursing Home Direct Care Payments (2.2% each year plus 1% operating rate ceiling adjustment in FY 13)	\$11,529,215	\$17,520,623
Medicaid Nursing Home Capital Payments (0.5%)	\$2,500,000	\$2,500,000
Medicaid Personal Care Rates (1%)	\$3,187,405	\$3,527,562
Medicaid Congregate Care Rates (1%)	\$1,996,773	\$2,110,177
Medicaid Early Intervention Case Management Rates (10%)	\$274,752	\$274,752
Medicaid Ambulance Rates (approx. 37%)	\$726,989	\$750,939
Auxiliary Grant Rates for Assisted Living Facilities	\$774,413	\$774,413
Total	\$37,737,913	\$50,686,485
*GF amounts for Medicaid payments will be matched with an equal amount of federal Medicaid matching funds. GF amounts for Auxiliary Grant Rates will be matched by 20% local funds.		

Intellectual & Developmental Disability Services

- Budget provides \$30 million GF in FY 2013 for expanding access to community-based developmental disability services to address the U.S. Department of Justice (DOJ) Settlement Agreement over the biennium
 - 450 community-based waiver slots for individuals with intellectual disabilities
 - 320 waiver slots to transition individuals with intellectual disabilities from state facilities to the community
 - 50 community-based waiver slots for individuals with developmental disabilities
 - Provide 1,000 individuals with family support services
 - Improve crisis services
 - Requires the submission of a plan related to the closure of state training centers in compliance with the settlement agreement, within one year of its approval, with input from stakeholders and providers
- Adds 225 Intellectual Disability (ID) community waiver slots to be phased in over the 2012-14 biennium
 - \$10.2 million GF and \$10.2 million NGF over the biennium
 - Slots are in addition to those outlined in the DOJ agreement
- Adds 80 Developmentally Disabled (DD) waiver slots to be phased in over the 2012-14 biennium
 - \$1.6 million GF and \$1.6 million NGF over the biennium
 - Slots are in addition to those outlined in the DOJ agreement

Behavioral Health Services

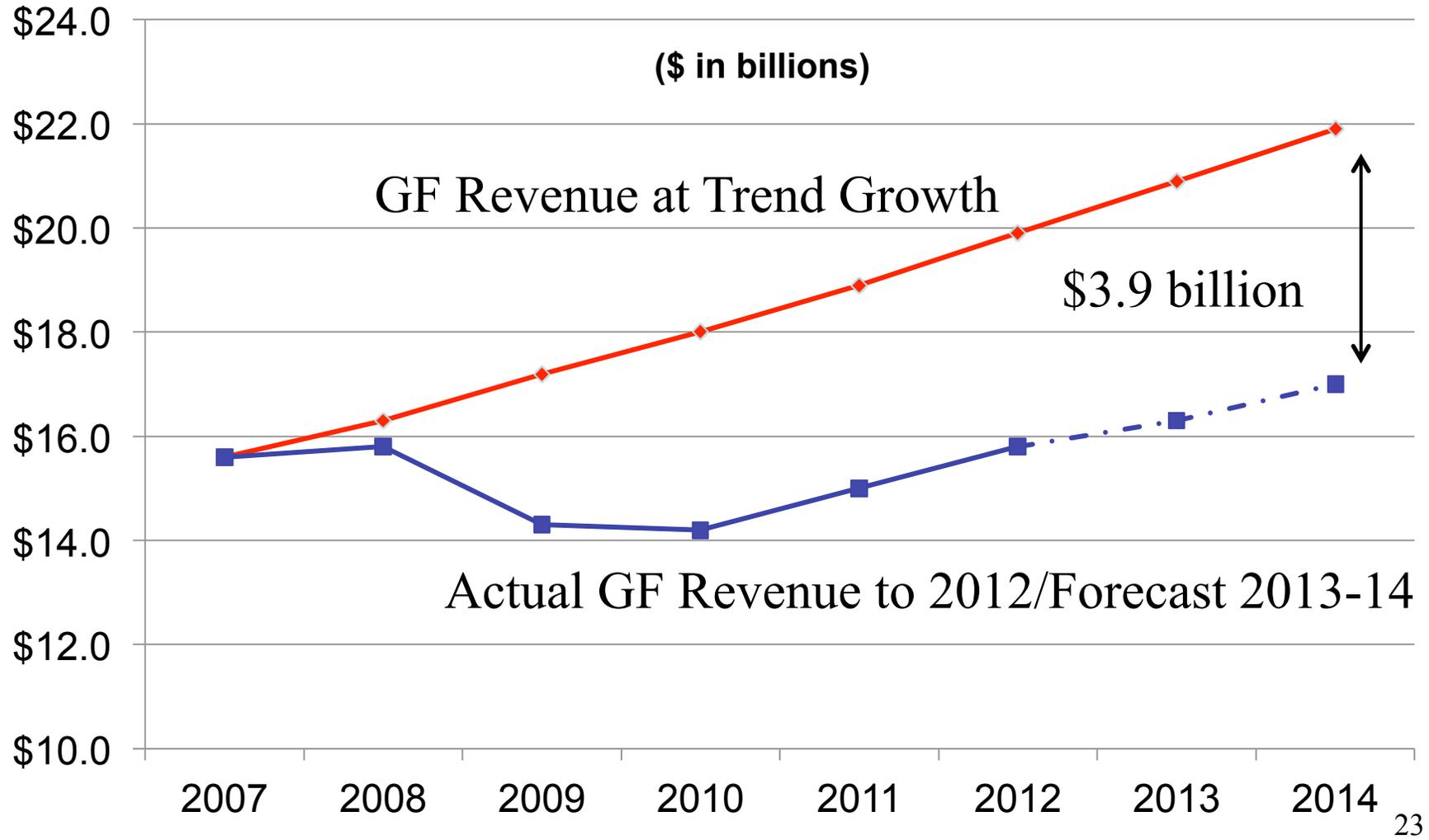
- Provides \$2.2 million GF each year to restore funding for wrap-around services for children in special education served through the Comprehensive Services Act
- Provides \$600,000 GF each year for up to five jail diversion programs to develop law enforcement drop-off centers
 - Funding targeted to existing programs with Crisis Intervention Teams that have planned drop-off centers
- Provides \$1.5 million GF in FY 2013 and \$1.8 million GF in FY 2014 for child psychiatry and crisis response services for children with serious emotional disorders
 - Allocates funding to health planning regions based on the availability of services
- Adds \$600,000 GF in FY 2013 to continue operating 13 temporary beds at the Northern Virginia Mental Health Institute (NVMHI)
 - Requires a long-term plan to ensure adequate bed capacity is available to serve individuals who require an inpatient bed for the treatment of acute mental illness in the NVMHI catchment area

Health Care Safety Net

- Budget provides \$7.2 million GF over the biennium to:
 - Fully restore funding for the free clinics, community health centers and the Virginia Health Care Foundation (\$4.8 million GF)
 - Restores \$967,944 GF and \$696,362 NGF and 20 positions in FY 2013 for dental services provided through local health departments
 - Adds language establishing an advisory panel to develop a comprehensive oral health plan, including an assessment of restructuring dental services provided by local health departments
 - Restores \$425,000 GF each year for the Comprehensive Health Investment Project of Virginia
 - Restores other small health safety net organizations (\$255,000) GF
 - Language is added to direct the Commissioner of Health to allocate a pool of funding to organizations impacted by FY 2014 budget reductions, provided the organizations enter into performance agreements that comply with the general provisions of the budget act
 - Provides \$250,000 GF and \$602,451 NGF in FY 2013 to reduce the waiting list for the AIDS Drug Assistance Program
 - Restores \$45,000 GF in FY 2014 for statewide sickle cell chapters

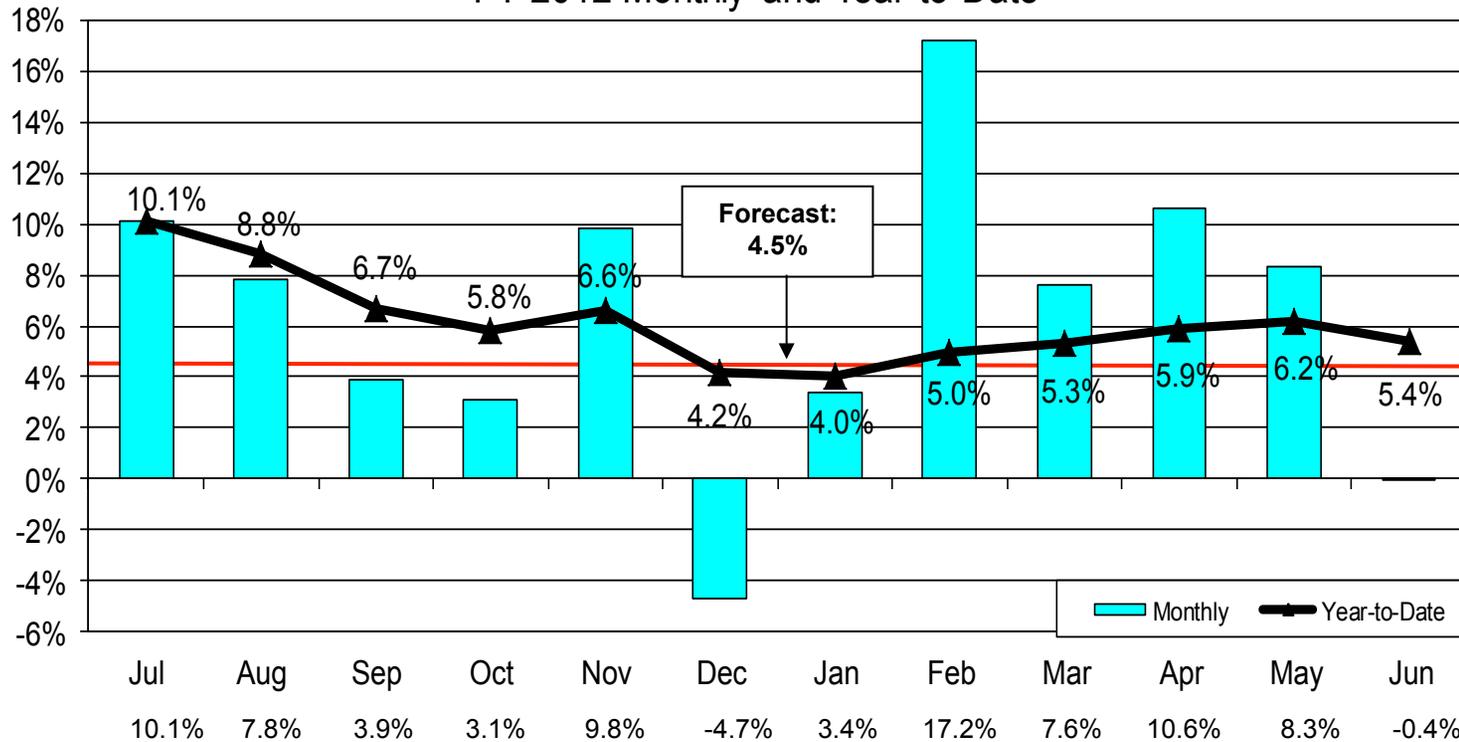
FY 2012 Year-End Close and the FY 2012-2014 Budget

FY 2012 GF Revenues Returned to FY 2008 Levels



Growth in Total General Fund Revenue Collections

FY 2012 Monthly and Year-to-Date



- Total general fund revenue collections exceeded the forecast by \$123.1 million in fiscal year 2012, a forecast variance of 0.8 percent.
- Total general fund revenue collections rose 5.4 percent, ahead of the revised annual forecast of 4.5 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 5.4 percent, ahead of the economic-base forecast of 4.7 percent growth

Where Did Surplus Come From?

- Payroll Withholding: \$33.7 million of surplus
 - Collections of payroll withholding taxes make up 65% of GF revenue; grew 4.2% compared to forecast of 3.8%
- Individual refunds: \$147.1 million of surplus
 - Refunds were down 4.5 percent, and below the estimate of a 3.3 percent increase; average refund down 7%
- Nonwithholding: (\$94.3 million) below forecast.
 - Nonwithholding makes up 14% of total revenues. Grew 8.2% percent in FY 2011 rather than projected 12.6%
- Sales Tax: \$55.5 million of surplus
 - Adjusting for AST, sales tax grew about 3.9%, ahead of the economic-based forecast of 2.5%
 - About \$21 million goes to transportation – representing the ½% share of sales tax still subject to AST
- Corporate Income Tax: \$32.1 million to the surplus
 - Collections grew 4.6%, ahead of the estimate of a 0.7% percent.

Required Commitments Against FY 2012 Surplus & Balances

\$98.0 million	Mandatory reappropriation of nongeneral funds – largely higher education
\$78.3 million	Revenue Stabilization Fund deposit from FY2012 surplus (This amount is in addition to \$166 million set aside in Ch. 3 for FY 14)
\$77.2 million	3% Bonus – contingent appropriation included in Ch. 3 (2012-14)
\$66.1 million	Transfer nongeneral funds historically reported as general funds
\$30.0 million	FACT Fund Deposit – mandatory carryforward in Ch. 2 (2012)
\$20.9 million	Pay Back Transportation for Its Share of the Accelerated Sales Tax
\$17.2 million	Natural disaster sum sufficient (in addition to existing amounts)
\$16.9 million	Water Quality Improvement Fund
Available Excess	\$41.8 million in discretionary reappropriations remain. Governor's budget amendments will either assume reappropriation of these amounts or propose using the balances for other one-time purposes

Does FY 2012 Performance Suggest a Stronger FY 2013?

- While total FY 2012 GF revenues performed better than expected, tax collections continue to grow at below-trend levels
 - Great uncertainty exists regarding the resolution of federal budgetary and tax policy actions. Virginia is especially vulnerable to reductions in federal spending in both the defense and non-defense sectors.
 - Already seeing continued weakness in the job market based on caution – makes bump in income tax collections unlikely
- However, because the FY 2012 collections exceeded the forecast by \$123.1 million, that amount ripples through to FY 2014 and then is adjusted for the new growth rates
 - Based on the current forecast (as included in Chapter 3) FY 2013 will have to grow only 2.9% to meet the appropriated expenditures
 - This rate compares to the 3.4% forecast assumption prior to accounting for FY 2012 actuals

Fall Forecasting Process Begins In October

- 2013 Session the General Assembly will consider amendments to the budget adopted for the FY 2012-2014 biennium
- In October, the Joint Advisory Board of Economists reviews the economic projections for the remainder of the current fiscal year and next year
- In November, the Governor's Advisory Council on Revenue Estimates will review the revenue forecast for the current biennium
- In December, the general fund revenue forecast will be finalized and Governor McDonnell's amendments to the 2012-2014 budget will be presented to the Joint Money Committees on December 17th

Amendments to the FY 2012-14 Budget

- In the “odd-year” short sessions the General Assembly considers amendments to the adopted biennial budget
 - Blueprint already in place
 - Legally, no actions have to be taken
- Over time, off-year adjustments have increased, and reflect both changes in the revenue forecast (i.e. additional available revenues or budgetary shortfalls) as well as adjustments to spending requirements
- Generally there are 2 types of budgetary pressures:
 - Forecast Driven: changes in estimates for programs driven by federal or state law: i.e., Medicaid, SOQ, “Rainy Day Fund”, adult and juvenile corrections forecasts, VRS, debt service
 - Priority Programs: Driven by historical commitments or enrollment demands i.e., ID waivers, higher education, indigent care at teaching hospitals and initiatives the Governor or General Assembly may have identified

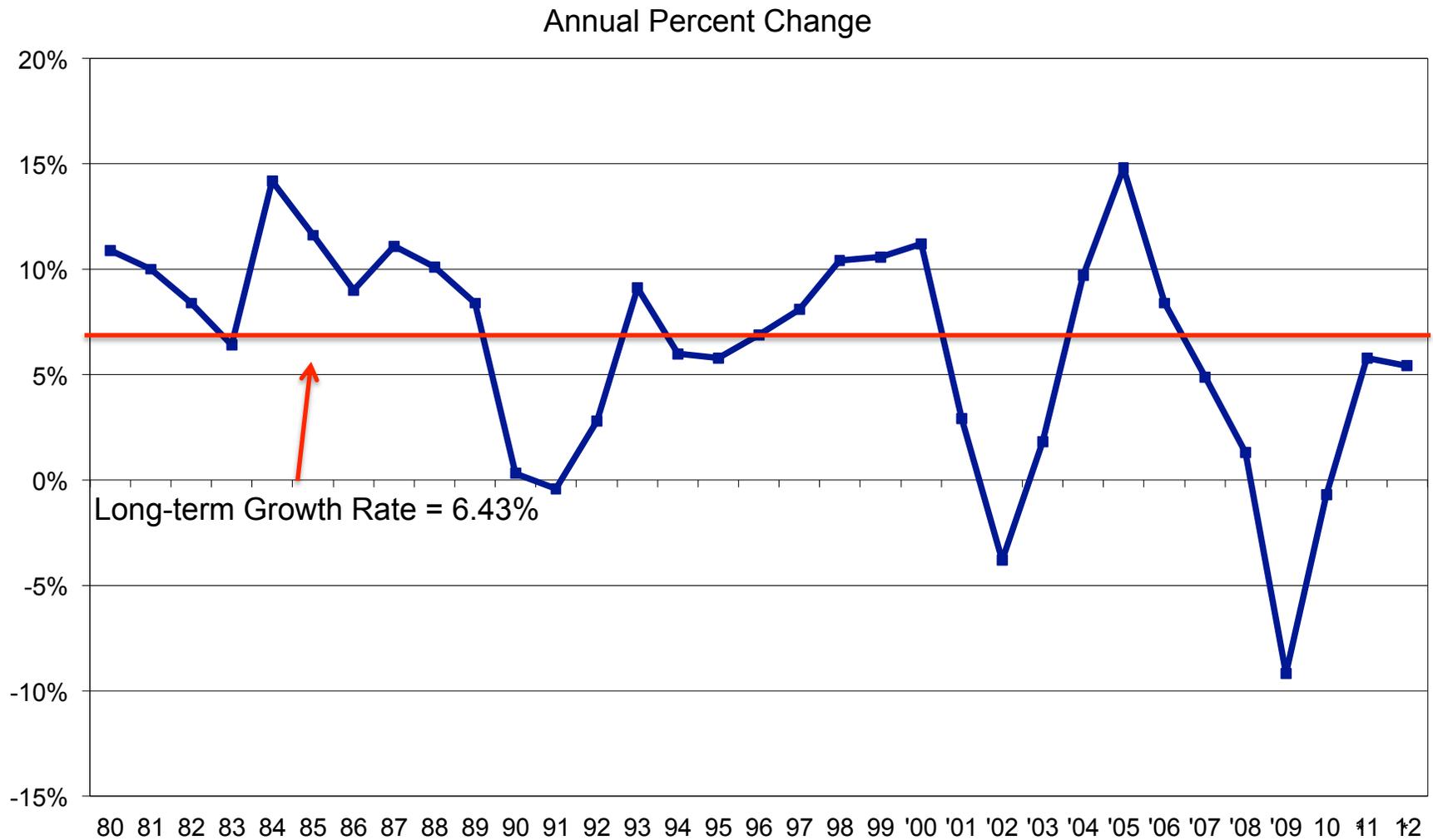
**Looking Ahead:
Critical Budget Issues for the
2013 General Assembly**

2013 Session –

Why Restraint Will Continue to Be the Rule

- Below-Trend Revenue Growth and Continued Volatility
 - State highly dependent on income tax as primary revenue source – job outlook not anticipated to change dramatically
- Unknown impact of Federal Budget Control Act of 2011 on Virginia
 - Unlikely for Congress to address issue of sequestration prior to Jan. 2 deadline
 - If changes are made, likely to occur during the General Assembly Session
 - Virginia will be the first state to complete its budget deliberations
 - Session schedule makes it difficult to allow the Governor and General Assembly to make adjustments to backfill cuts in any mandatory or high priority programs
 - Similar situation when ARRA passed in 2009
- Economists warn that the country could fall into another recession if a fiscal cliff isn't averted

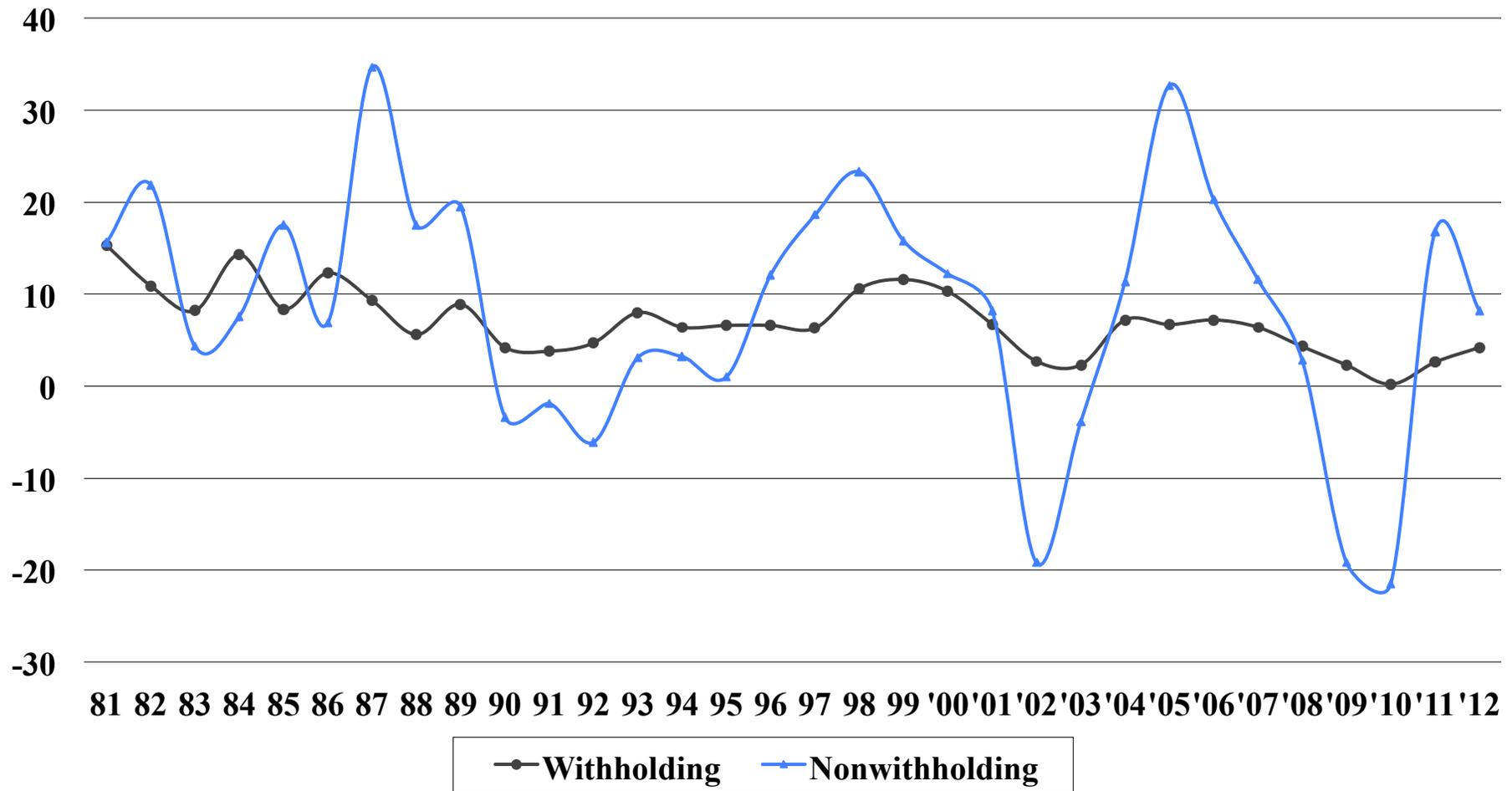
Total General Fund Revenues



Source: Secretary of Finance, August 15, 2012 presentation to joint money committees

Trends in Withholding Compared to Individual Non-withholding

Percent Growth Over Prior Year



Federal Health Care Reform

- Supreme Court's decision and upcoming federal elections add some uncertainty to how the health care reform will proceed
 - Unexpected flexibility on the Medicaid expansion by states
 - States' progress on setting up Health Exchanges vary considerably
 - Governor McDonnell has indicated that decisions on Virginia's direction will not be settled until after additional analytic work is complete and November elections have concluded
 - Components of the law are already in effect (e.g., coverage of dependent children up to age 26, etc.)
 - Questions on how to move forward will need to be addressed
- The Affordable Care Act is expected to cost Virginia about \$2.0 billion by 2022 (2010 estimate)
 - Provisions in the legislation include "Maintenance of Effort" (MOE) provisions for basic Medicaid services and the Children's Health Insurance Program
- Virginia faces a very uncertain situation if additional budget reductions are needed to address the impact of a future recession

“Sequestration and the Fiscal Cliff”

Budget Control Act of 2011

- The Act was adopted in August 2011 as part of agreement to allow a \$2.1 trillion increase in federal debt ceiling in exchange for budget reductions.
 - Pot 1: \$917 billion in discretionary spending over ten years via spending caps
 - Pot 2: \$1.2 trillion in cuts over a 10-year period
 - Created the Joint Select Committee, tasked with recommending up to \$1.5 trillion in federal spending reductions by November 23rd, 2011
- Pot 1: Sets caps on discretionary spending reducing it by \$917 billion (\$787 billion without interest savings) over ten years (through 2021) over the baseline estimate
 - No exemptions from this section and not across-the-board so appropriators will determine which programs reduced on an annual basis
 - No Congressional discussion about amending this component of the Act
 - No better than level funding over next decade and inflation adjustments and demographic adjustments out
 - Some programs will be decimated

Budget Control Act (BCA) of 2011

- The failure of the “Super Committee” to determine where to take the \$1.2 trillion in Pot 2 reductions by the deadline last year sets in motion sequestration on January 2, 2013, unless Congress intervenes
- \$1.2 trillion (\$984 billion without interest savings) over nine years
 - \$492 billion in non-defense discretionary/mandatory spending
 - \$492 billion in defense discretionary spending
 - With non-exempt mandatory programs omitted, the reduction to non-defense discretionary programs would be \$44 billion per year

Sequester: What We Don't Know

What is the across-the-board (ATB) percentage cut?

- OMB recently release its report that estimates the reduction at:
 - 9.4% reduction in defense discretionary spending and 10% for defense function direct spending
 - 8.2% reduction in non-defense discretionary spending and 7.6% for non-defense direct spending
- Exact percentage won't be known until January 2013

Sequester: What We Don't Know

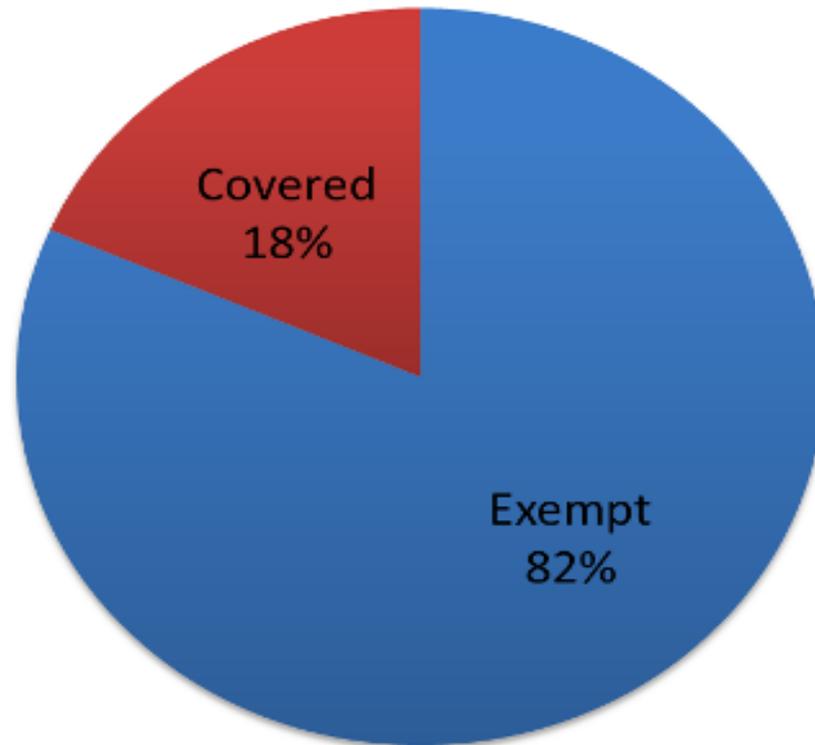
How much discretion do agencies have in implementing sequester?

- Virtually none
- Some influence over timing

Will Congress and the President modify the BCA?

- Various proposals, no agreement (explicit legislation required)
- Congress did approve legislation requiring OMB to provide sequester details (HR. 5872)

Most Non-Defense Programs Are Exempt... Which Means The Few Take Large Cuts



Total funding: \$586 billion

FFY 12 domestic discretionary and mandatory spending that goes to states

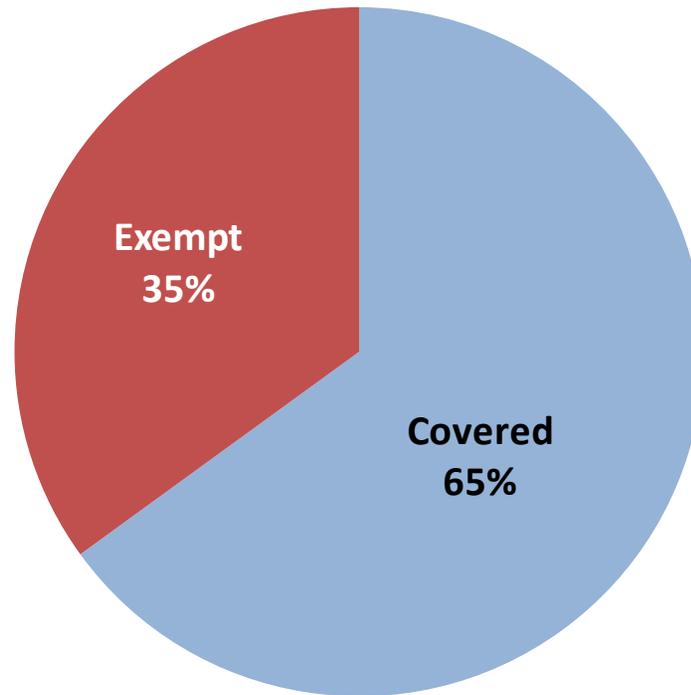
Selection of Programs Exempt from Sequestration

- Most Transportation Programs (first year)
- Medicaid (vendor payments and administration)
- Pell Grants
- Children's Health Insurance Program
- Most child nutrition and SNAP (Food Stamp) programs
- Most child care, child support enforcement, foster care and adoption assistance programs
- Abandoned Mine Reclamation Fund

Programs Not Exempt from Sequestration

- Education (elementary, secondary, vocational, higher)
- Employment and Training
- Energy
- Environment
- Agriculture/Natural Resources
- Justice
- Housing/Community Development
- Social Services (non-mandatory programs)
- Health (non-Medicaid/CHIP programs)
- National Forests/Mineral Leasing
- Defense

On The Defense Side, One-third of the Spending Is Exempt



Total Funding:
\$530 billion in
FY 2012

Key Dates in the Federal Fiscal Cliff 'Crash'

- September: Appropriations Deadline/Continuing Resolution until March
- November: Elections
- December: 2001, 2003, 2010 tax cuts expire
- December: Tax Extenders
- December: Payroll tax 2% cut ends, unemployment insurance extension ends, Medicare ?
- December: Reauthorizations
- January: Sequestration cuts to go into effect
- February: Debt ceiling hits max again
- March: End of Continuing Resolution

What Does This Mean for
Virginia?

Cuts In Defense Spending Would Have Broad Implications For Virginia's Economy

- If substantial across-the-board federal budget cuts occur, the greatest impact may not be at the programmatic level, but rather on a broader economic basis
- While Virginia receives less federal aid to state and local governments than any other state in the nation, Virginia is the number one recipient of federal procurement spending and federal defense spending on a per capita basis
 - Defense spending in Virginia totaled \$6,713 per capita -- 4.3 times the national average -- and accounted for 11.1% of all defense spending nationally
- Federal spending makes up 36% of the total economy in the greater Washington metropolitan area, with procurement alone accounting for 50% of economic activity

Cuts In Defense Spending Would Have Broad Implications For Virginia's Economy

- Similarly, the Hampton Roads region is heavily dependent on military spending, with major bases throughout the region as well as military-related manufacturing. Overall, the federal spending makes up about one-third of the Hampton Roads economy
 - Department of Defense spending in Hampton Roads increased in 2010 to an estimated \$20 billion, according to ODU's research
 - Spending has nearly doubled since 2000, growing at an average annual rate of 7% year
- Cuts in federal spending are not a matter of "if" cuts will occur, but when and how much
 - Impact on Virginia will be felt – difficult to assess the impact on the state budget; may be more of a 2014-16 budget issue?

Federal Budget Cuts and State Impacts: Budget Control Act of 2011

Top Ten State Employment Impacts of the Budget Control Act of 2011
Fiscal Years 2012 and 2013

State	Job Losses* DOD Cuts	Job Losses* Non-DOD Cuts	Total Job* Losses
California	135,209	90,255	225,464
Virginia	136,191	71,380	207,571
Texas	98,979	60,494	159,473
DC	15,169	112,238	127,407
Maryland	39,395	75,400	114,795
Florida	41,905	37,554	79,459
Pennsylvania	39,941	38,513	78,454
New York	28,809	41,201	70,010
Massachusetts	41,469	19,028	60,497
Georgia	27,609	26,903	54,512

Sources: GMU Center for Regional Analysis, Chmura Economics & Analysis. *Direct, indirect and induced job losses resulting from BCA-mandated federal spending reductions during FY 2012 and FY 2013; excludes impacts from cuts in entitlement programs.

Potential Impact of Budget Control Act on 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
 - Doesn’t guarantee that programs will not be reduced, e.g., recent SNAP reductions in FARRM Act
- \$711.3 million, about 14% of the total federal funds HHR agencies expect to receive (based on FY 2012 amounts) could be subject to sequestration
 - The potential reduction could be \$62.6 million

Potential Impact on Medicaid

- While Medicaid is exempt from across-the-board cuts under the federal Budget Control Act of 2011, proposals to limit Medicaid exist
 - 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
 - Legislation passed in October 2011 amended 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)

Likely Issues for the 2013 Session

- Medicaid Utilization and Inflation Forecast
 - Continued state efforts to restrain the growth of Medicaid, now about 21% of the general fund budget
- Dept. of Justice Agreement and ID Waiver Waiting List
 - Agreement may require additional resources
- Higher Education Enrollment Growth and Base Adequacy
- Debt Service/Maintenance Reserve
- Eliminate Remaining AST
- Second-year “holes” in the budget

Other Issues for the 2013 Session

- Impact of Supreme Court decision on health care reform?
- Impact of Federal elections?
 - Uncertainty about health care reform law
 - Federal budget reductions
- Continued pressure to backfill prior year budget reductions
- Other non-HHR spending pressures: public education, transportation, economic development

Questions?