Medicaid Trends and Health & Human Resources 2025 Session Outlook

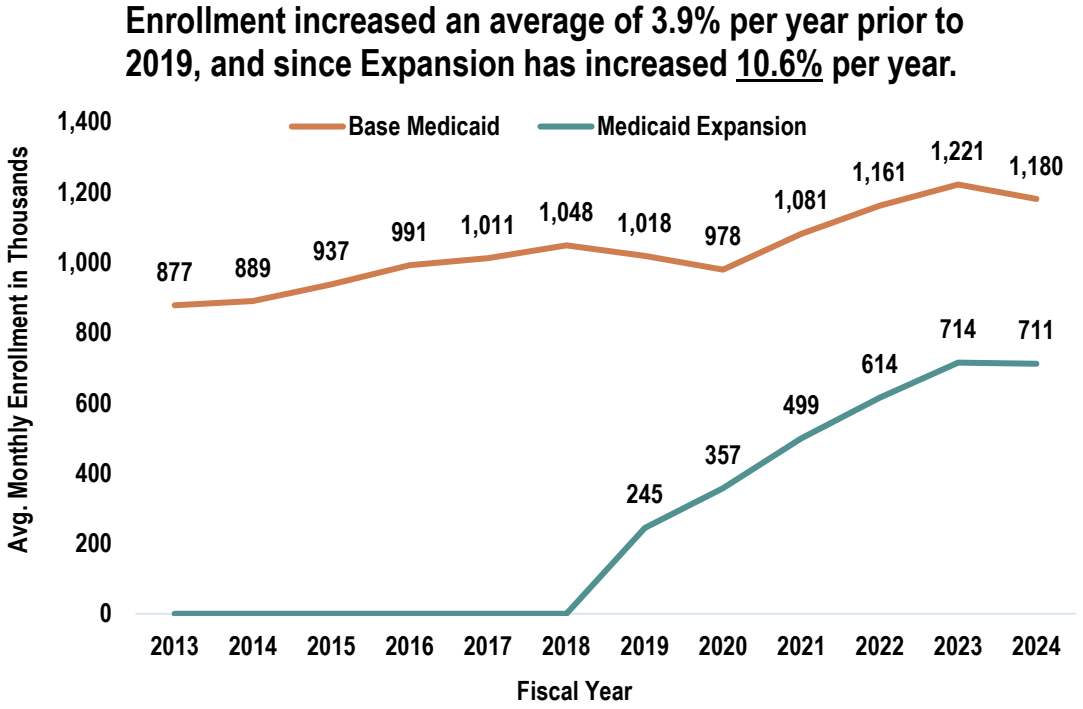
November 22, 2024

Outline

1. Virginia Medicaid Trends
2. FY 2024 Shortfall and Updated 2024-2026 Medicaid Forecast
3. Children's Services Act and Private Day Special Education
4. Update on Financial Issues at the Virginia Department of Health
5. Key Takeaways and 2025 Session Outlook for Health and Human Resources

Virginia Medicaid Trends

Medicaid Enrollment Declined in FY 2024 as Unwinding Occurred, but is Still Higher than Pre-Pandemic Levels

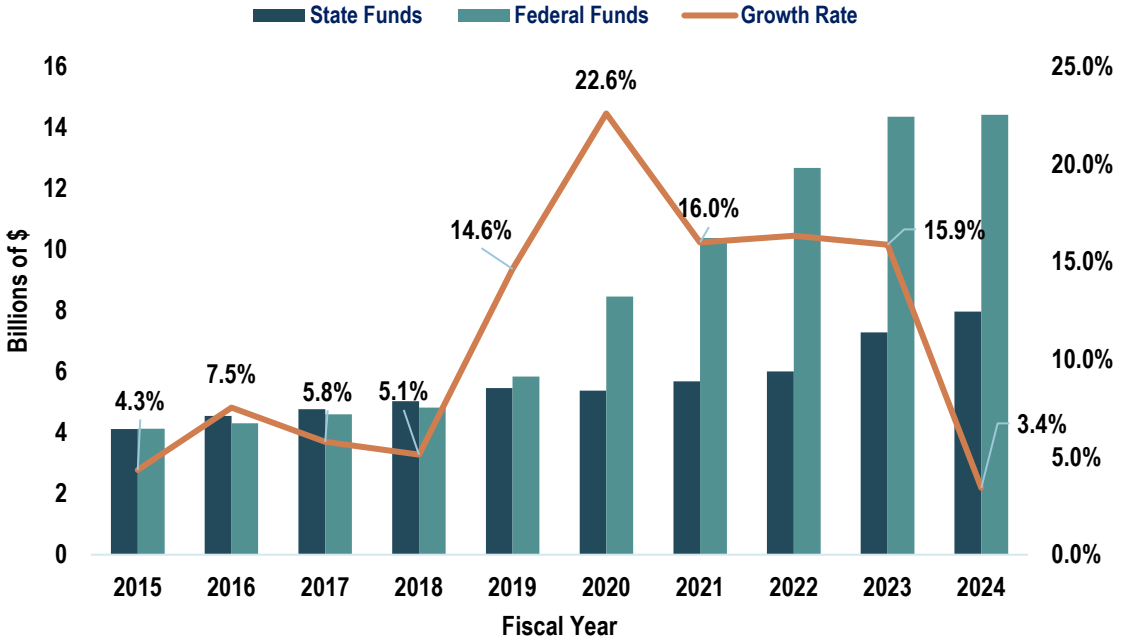


- FY 2024 enrollment is slightly lower by 2.3 percent from the previous year but is still 49.8 percent higher than FY 2019.
- In FY 2024, Medicaid Expansion enrollment represented 38 percent of total enrollment.
- Enrollment as a percent of state population has increased from 12.3 percent in FY 2018 to 22.2 percent in FY 2023.

Sources: DMAS monthly enrollment report for October 2024 (numbers reflect average monthly enrollment). Percent of population numbers are based on the Weldon Cooper Center and Census Bureau data.

Federal Share of Medicaid Spending Increased Rapidly Due to Expansion and the Pandemic, but State Share is Now Increasing

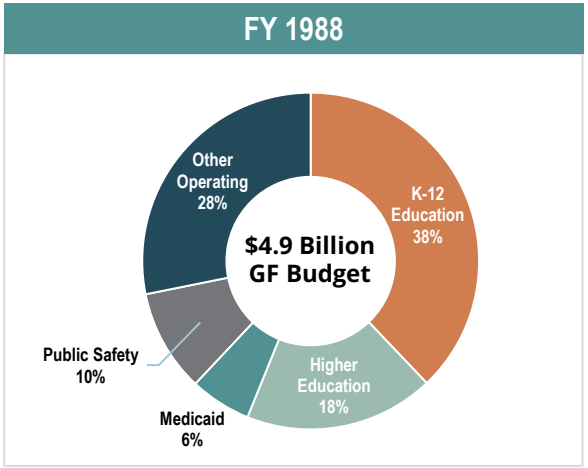
Medicaid spending increased an average of 5.7% per year from 2015 to 2018 and since 2019 is averaging 14.3%.

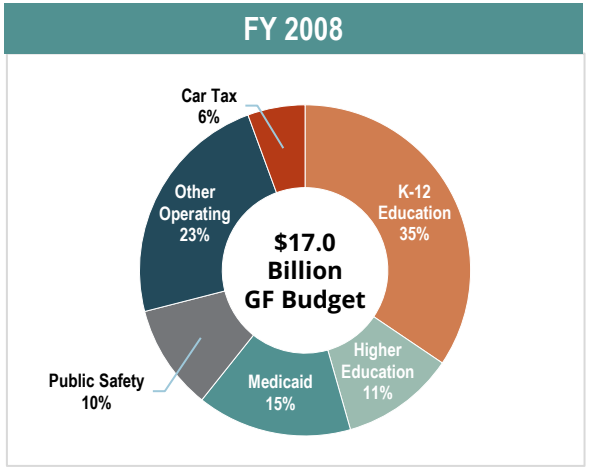


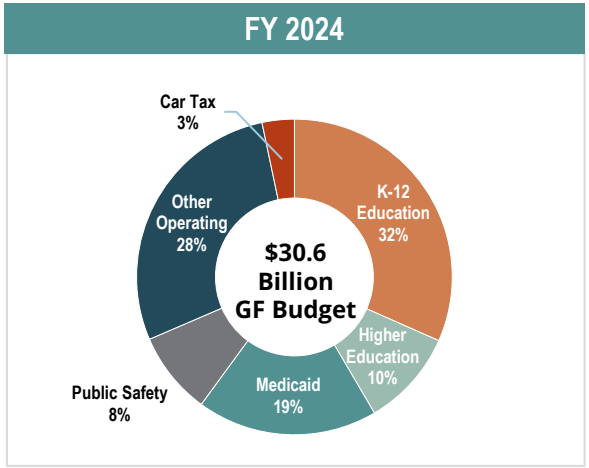
Source: DPB's Expendwise database of Cardinal accounting data. FY 2023 and FY 2024 spending is smoothed to reflect higher payments in FY2023 to maximize federal funding.

- Total spending has increased from $8.2 billion in FY 2014 to $21.6 billion in FY 2024.
- Federal funds make up nearly 65 percent of all Medicaid spending.
  - Prior to Medicaid Expansion, federal funds were closer to 50 percent.
- Since 2019, spending has reflected the expansion of Medicaid and the increased enrollment during the pandemic.
  - Medicaid Expansion spending was $7.0 billion in FY 2024; 32 percent of total Medicaid spending.
  - **The state share of Medicaid Expansion is 10 percent and paid by an assessment on private hospitals.**

Medicaid's Share of the General Fund Budget Continues to Increase



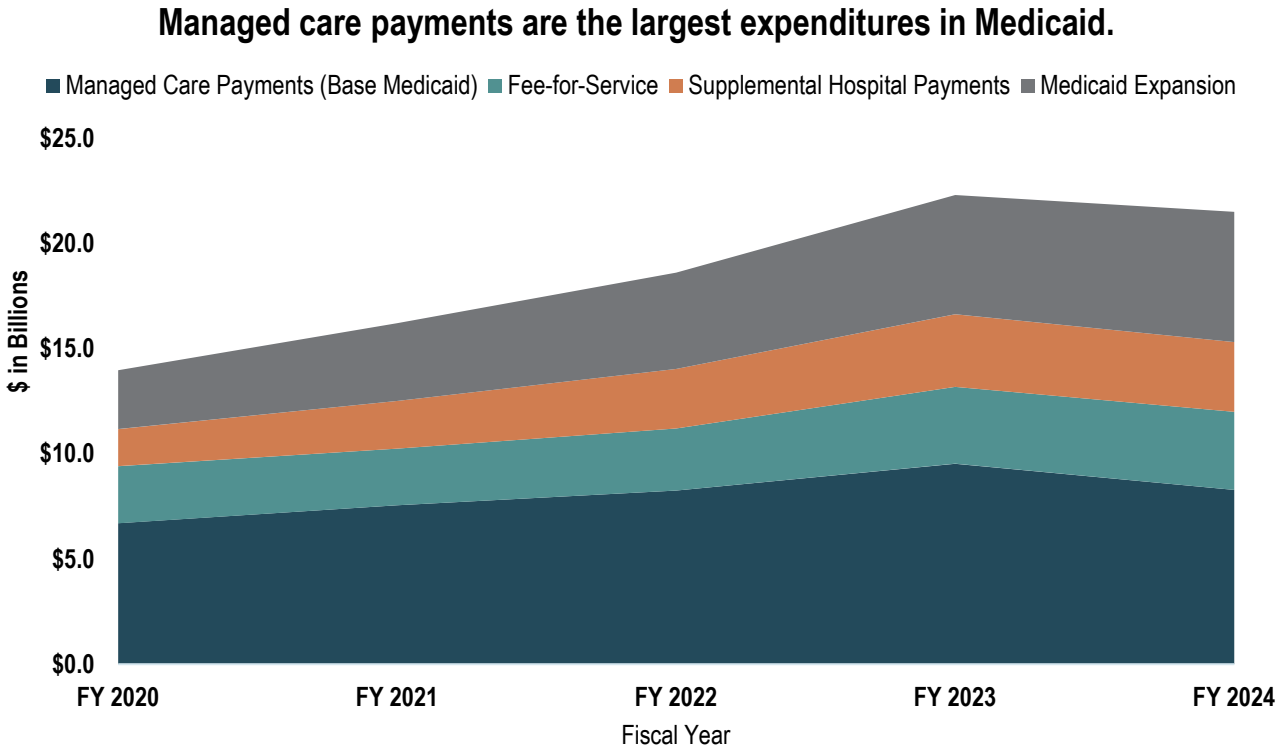




- Medicaid's growth rate has outpaced growth in GF revenue over the last three decades, increasing its share of the overall budget.
- Prior to the pandemic Medicaid's share was nearly 23.0 percent; however, it declined temporarily as enhanced federal funding was provided during the pandemic.

Source: Prior Appropriation Acts.

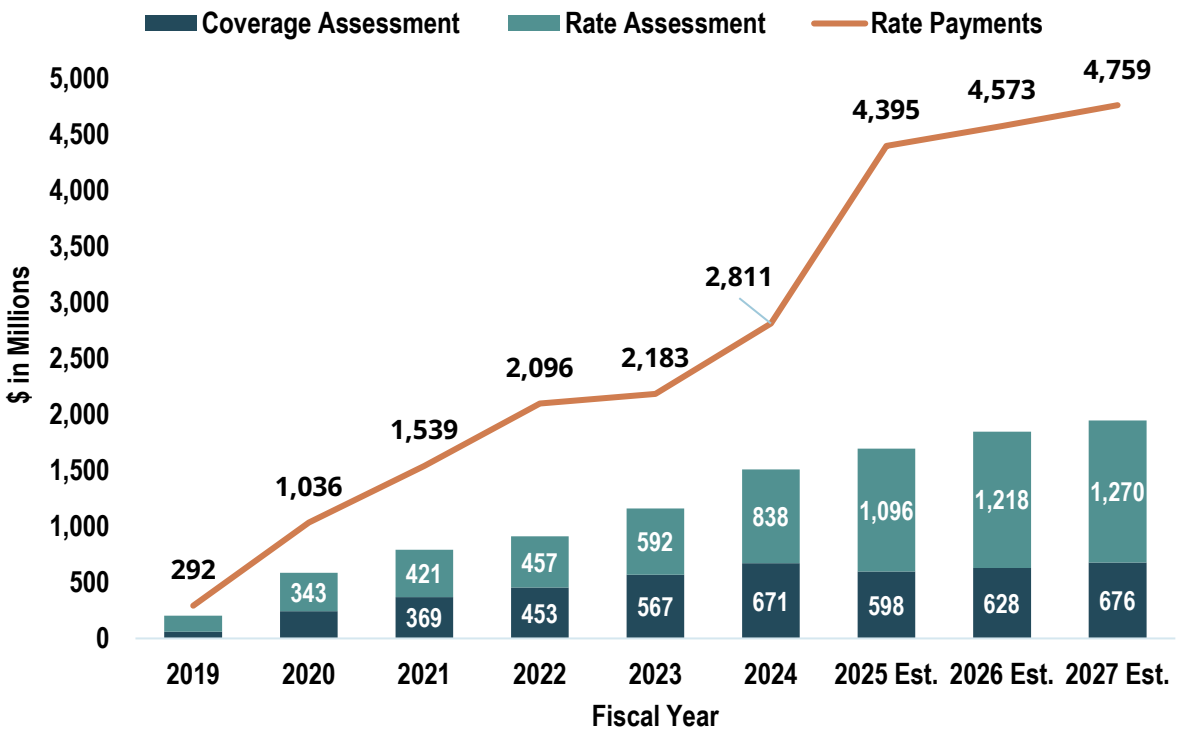
Largest Spending Category is Payments to Managed Care Organizations



- Most spending for Medicaid is through managed care, which includes most Medicaid Expansion spending.
- Supplemental hospital payments have grown due to enhanced rate payments.
  - State share of these payments are from an assessment on private acute care hospitals.
- Fee-for-service (direct payments for medical services made by DMAS) remains a major spending item.

Source: 2024 DMAS Official November 1, 2024, Medicaid Forecast.

Hospital Rate Assessment Continues to Provide Substantial Medicaid Support to Hospitals

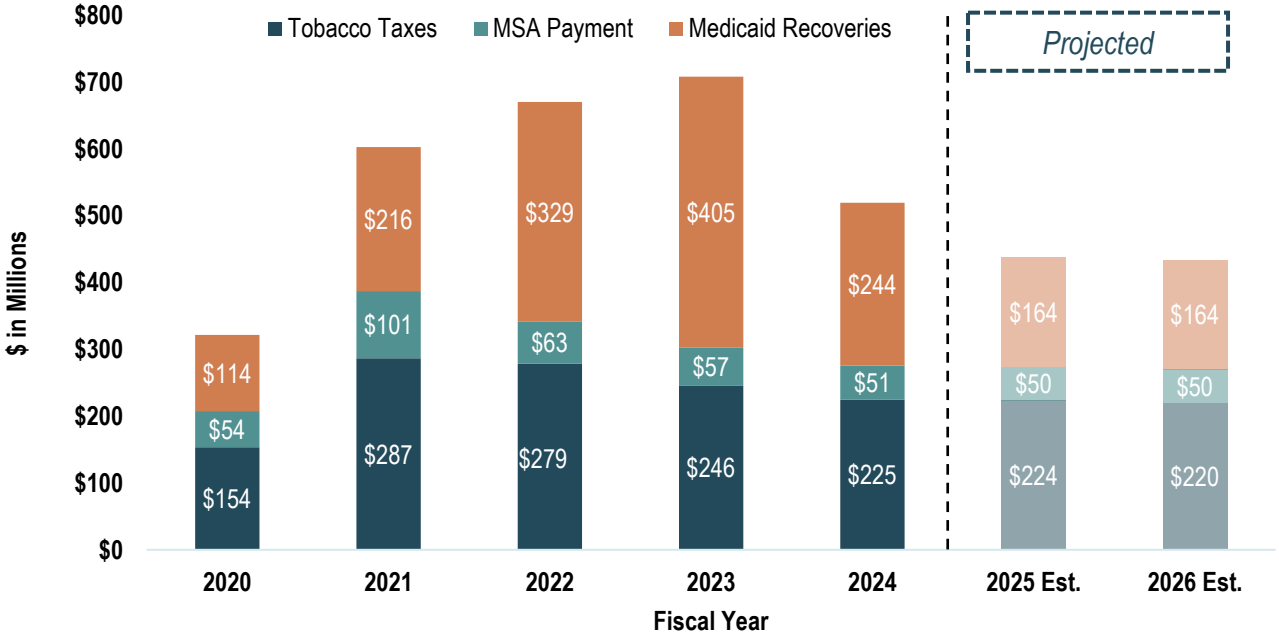


- The coverage and rate assessments are paid by 63 acute care hospitals.
- The amount needed for the coverage assessment to pay for Medicaid Expansion determines whether additional rate assessments may be used to increase Medicaid payments.
  - **Total assessments are limited by federal law to no more than six percent of net patient revenue.**
- In FY 2023, total Medicaid payments to hospitals were $7.5 billion, of which $3.3 billion were various supplemental payments.

Source: 2024 DMAS Official November 1, 2024, Medicaid Forecast, and the Hospital Supplemental Payment Report (2024 RD206) submitted March 21, 2024.

Health Care Fund Supports Medicaid, Any Revenue Decline Must be Offset with General Fund

Managed care repayments during the pandemic have receded.
Revenue is more stable although tobacco taxes will likely continue to decline.

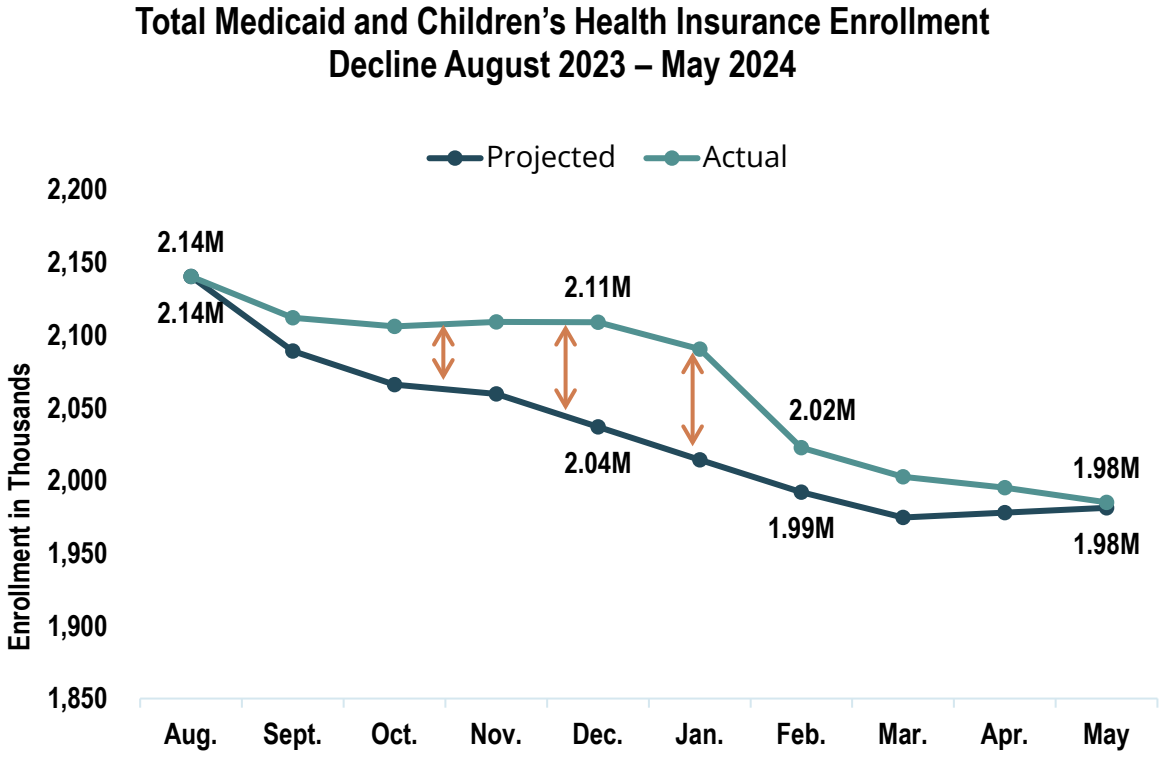


- Revenues are from tobacco taxes, the Master Settlement Agreement (MSA) with tobacco companies, and Medicaid Recoveries.
- Pharmacy rebates and one-time managed care repayments drove the FY 2021 through FY 2023 increases in revenues.
- Potential adjustments in the 2025 Session amended budget are estimated by staff to require $5.7 million GF.

Source: DPB's Expendwise system. Staff estimate of revenues for FY 2025 and FY 2026.

FY 2024 Shortfall and Updated 2024-2026 Medicaid Forecast

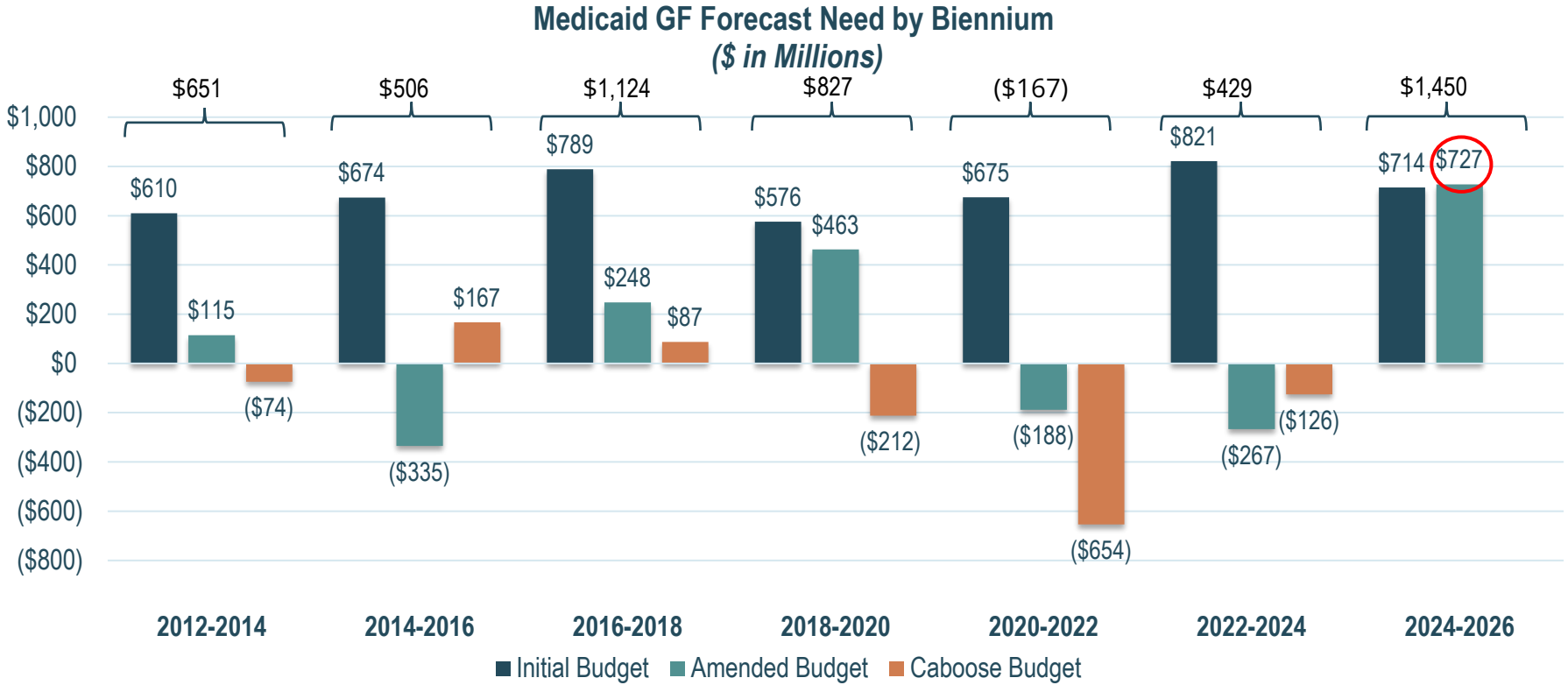
Medicaid Ended FY 2024 with a $160.0 million GF Shortfall as the Projected Enrollment Decline Lagged



Source: DMAS enrollment data and 2023 DMAS Enrollment Forecast.

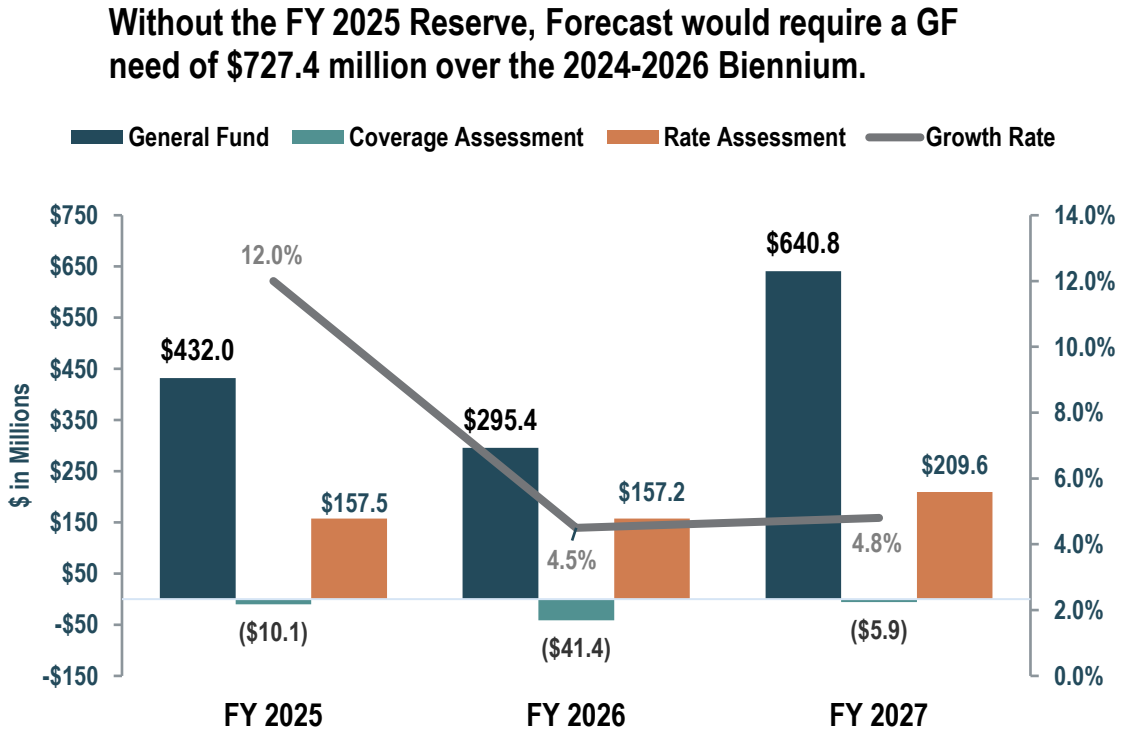
- By May 2024, enrollment in Medicaid and the Children's Health Insurance Programs (CHIP) finally met the November 2023 projection.
- The post-pandemic decline in enrollment lagged the projection for most of FY 2024, which resulted in a budget shortfall of $160.0 million GF in the Medicaid program.
- This shortfall resulted in payment delays into FY 2025, which are reflected in the November 2024 Medicaid forecast.

2024 Medicaid Forecast is Unprecedented for an Amended Budget (Reserve Reduces Actual GF Need to $632.4 million)



Source: Current and prior DMAS Official Medicaid Forecasts.

Medicaid Forecast Reflects Higher GF Need Than Expected; After the Reserve, $632.4 million Additional GF Need in 2024-2026 Biennium

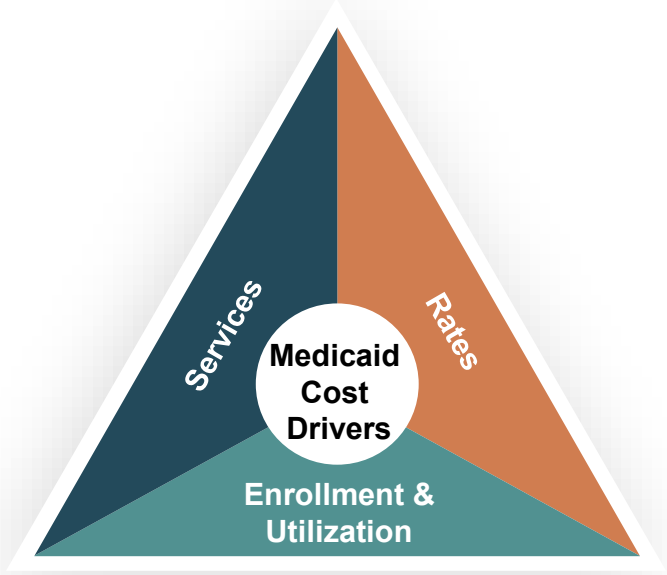


- Additional GF need for the amended budget is much higher than in a typical biennium.
- FY 2025 reflects $160.0 million GF in payments delayed from FY 2024 due to the budget shortfall.
- Chapter 2, 2024 Special Session I Acts of Assembly, includes a $95.0 million reserve, which reduces the actual GF needed to $632.4 million.

Source: 2024 DMAS November 1, 2024, Official Medicaid Forecast.

Three Primary Drivers of Medicaid Costs All Impact Growth in Medicaid Expenditures

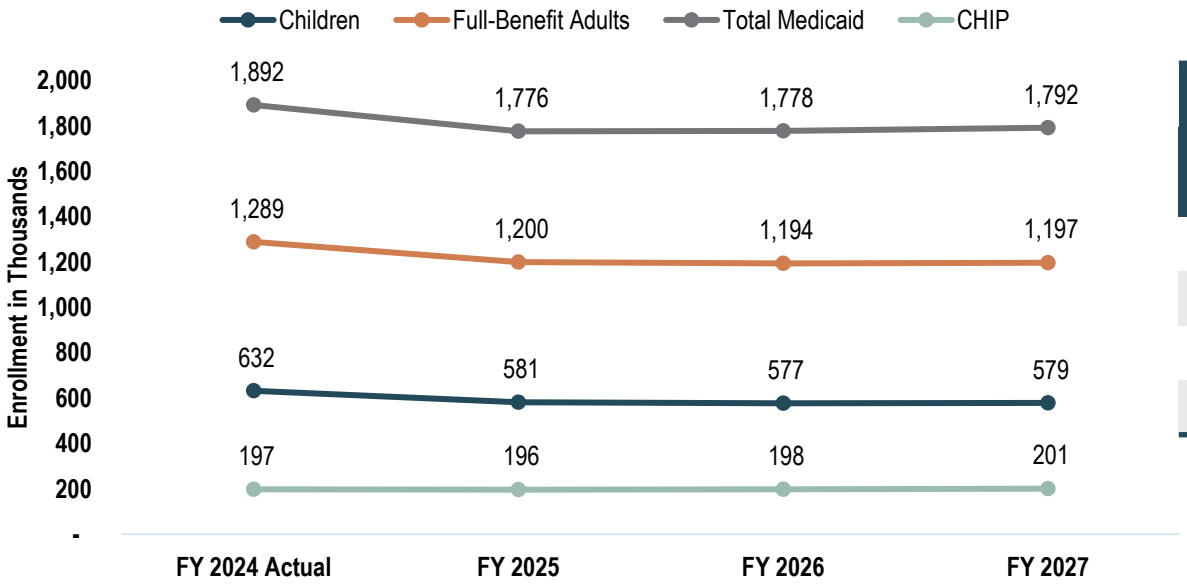
- Enrollment is 30 percent higher than pre-pandemic.
  - 409,560 higher in November 2024 versus March 2020.
- Managed Care rates have increased for acute care services. Other provider rate changes such as Developmental Disability waiver services were increased in the 2024 Session.
- Services have been increased (e.g. the addition of 3,440 Developmental Disability waiver slots approved in the last session.)



Source: DMAS Enrollment Report for October 2024.

Projected Enrollment for Medicaid and Children's Health Insurance Programs (CHIP) Expected to be Modest; Remain Higher than Pre-Pandemic

After the unwinding of increased enrollment from the pandemic, enrollment in Medicaid is expected to moderate through FY 2027.



Percent Change Year Over Year			
Category	FY 2025	FY 2026	FY 2027
Children	(8.0%)	(0.7%)	0.2%
Adults	(6.9%)	(0.5)	0.2%
Total Medicaid	(6.1%)	0.1%	0.8%
CHIP	(0.6%)	0.8%	1.5%

Source: 2024 DMAS Enrollment Forecast.

Managed Care Rates for Acute Care Require Additional Funding While Long-Term Care is Lower than Expected

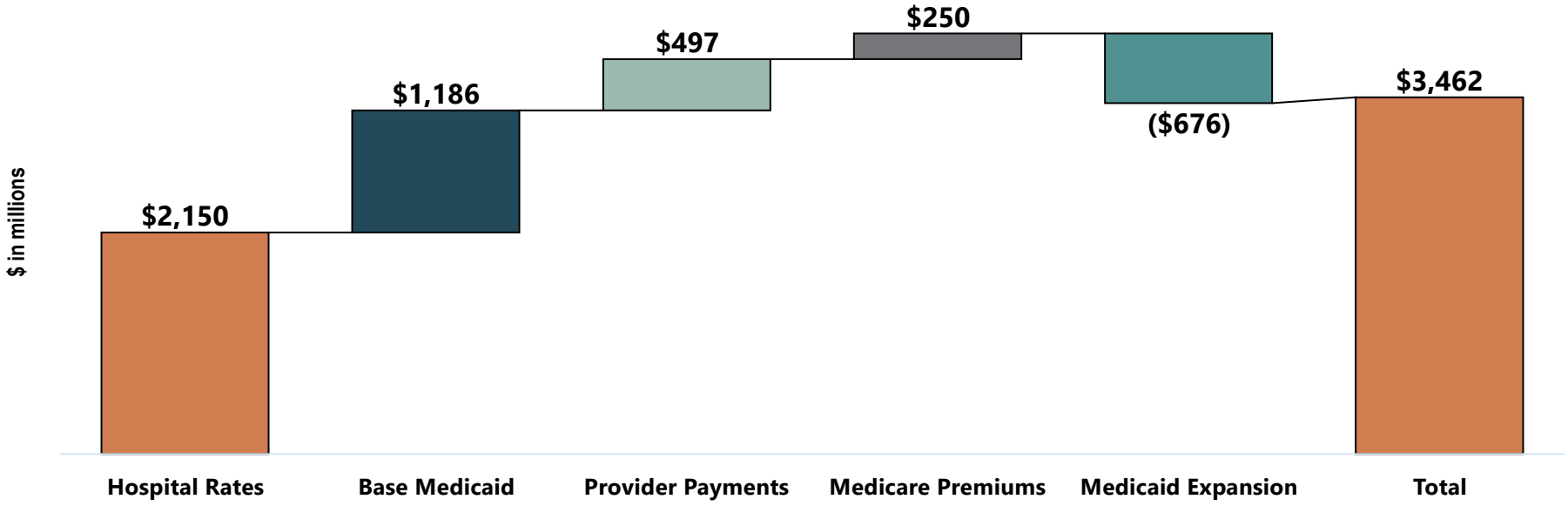
- While enrollment is the largest factor, Managed Care rates are a key factor in estimating Medicaid costs.
  - In FY 2025, $14.6 billion in Medicaid spending is projected for managed care payments.
- Managed care rates are set by a contracted actuary and required by federal policy to be actuarially sound.
- Actual FY 2025 rates were higher for acute care but lower for long-term care.
- FY 2026 rates are expected to be about the same as assumed in last year's forecast.
  - Higher rates than projected for FY 2026 are a potential fiscal risk in this forecast.

Managed Care Program	FY 2025 (Actual)	FY 2025 (Last Year Est.)	FY 2026 (New Est.)	FY 2026 (Last Year Est.)
Acute (Non-expansion)	**8.9%**	7.0%	**4.7%**	4.5%
Long-Term Care (Non-expansion)	**1.4%**	4.8%	**4.4%**	4.8%

Source: November 2024 and November 2023 DMAS Official Medicaid Forecasts.

2024 Medicaid Forecast for Total Expenditures are Up $3.5 Billion Over the 2023 Forecast

Largest increase in overall Medicaid spending (GF and NGF) is due to rate assessment payments to hospitals for which the state match is paid by the hospitals.



Note: Policy changes approved by the General Assembly during the 2024 Special Session I increased the annual cost of the program by $654.3 million.
Source: 2024 DMAS Official November, 1 2024, Medicaid Forecast.

Adopted Budget Actions in the 2024 Special Session I Account for a Portion of Medicaid Expenditure Growth

Adopted Budget Action ($ in millions)	Biennial GF	Biennial NGF
3,440 Developmental Disability Waiver Slots and 3% Rate Increase	$191.4	$198.2
Personal Care Rates Increase of 2%	56.1	65.7
Nursing Facility Value-Based Payments	40.0	41.6
Dental Rates Increase of 3%	11.3	21.3
Consumer-Directed Facilitation Rates	10.1	11.8
Children's Hospital of the King's Daughters	5.4	5.4
Durable Medical Equipment (enteral products, feeding kits and tubes)	4.8	5.9
Locally-Owned Nursing Homes	3.7	-
Graduate Medical Residencies	3.0	3.0
Therapeutic Group Homes	1.7	2.0
Other Actions	(8.2)	(19.9)
TOTAL	**$319.3**	**335.0**

Source: Chapter 2, 2024 Special Session I Acts of Assembly.

FY 2025 General Fund Budget Need is Mainly a Result of FY 2024 Payment Delays and Increased Utilization and Inflation

- FY 2025 spending is projected to have an additional need of **$432.0 million GF**.
- Medicaid Reserve of $95.0 million GF in FY 2025 reduces the actual GF need to **$337.0 million.**
- Higher costs are due to payment delays from FY 2024, higher acuity of the population, increased utilization, higher Medicare premiums, and managed care rates.

Major Cost Factor	GF Need ($ in Millions)
FY 2024 Delayed Payments	$160.0
Fee-for-Service Claims	136.7
Medicare Premiums (A, B & D)	80.9
Managed Care Rates	36.8
Supplemental Hospital Payments	36.2
Indian Health Clinics	25.4
Pharmacy Rebates	10.6

Source: November 2024 DMAS Official November 1, 2024, Medicaid Forecast.

Note: Tables highlights only major drivers of the forecast and does not total to the net Medicaid Forecast estimate.

FY 2026 General Fund Need Reflects Continued Growth for the Program

- The GF budget need in FY 2026 is **$295.4 million GF.**
- The growth is mainly due to increased utilization, lump sum payments to hospitals, the federal match rate change, and higher Medicare premiums.
- Indian health clinics are a new GF cost to the program.
- Costs could be higher if managed care rates for FY 2026 are determined to be higher than assumed.

Major Cost Factor	GF Need ($ in Millions)
Fee-for-Service Claims	$153.0
Medicare Premiums (A, B & D)	74.7
Federal Match Rate Decrease	50.0
Indian Health Clinics	33.8
Supplemental Hospital Payments	25.5
Pharmacy Rebates	22.2

Note: Table highlights only major drivers of the forecast and does not total to the net Medicaid Forecast estimate.

Source: November 2024 DMAS Official November 1, 2024, Medicaid Forecast.

Additional Focus is Needed by DMAS to Prioritize Cost-Effectiveness and Manage Expenditure Growth

Coverage of Weight Loss Drugs

- DMAS added newer drugs for weight loss to the preferred drug list in November 2022. Consideration of the fiscal impact was not conveyed to decision-makers.
- Significant increase in drug costs were noted by the managed care organizations by late spring of 2023.
- Medicaid spending on this class of drugs increased from $78.2 million in FY 2022 to $267.8 million in FY 2024.*

Emergency Room (ER) Utilization Program

- DMAS had an ER utilization program through 2015 to control ER costs. It was authorized again in 2020.
- In April 2023, a federal court invalidated Virginia's existing program due to a flawed federal approval process.
- General Assembly directed a new program for 2024, which DMAS has not implemented. ER managed care costs have increased 15 percent each year for the past two years. **

Indian Health Clinics (IHCs)

- DMAS established a higher enhanced rate for IHCs in 2021 to serve tribal members and allowed the tribes to bill for personal care.
- Questions remain regarding treatment of non-tribal members. DMAS has claimed 100 percent federal funding for all IHC payments.
- Updated FY 2025 and FY 2026 Medicaid forecast requires $59.2 million GF to cover specified non-tribal costs. Questions remain about federal match for non-tribal members.

Source: * Virginia Health Information's All Payer Claims Database reported on October 11, 2024. **DMAS presentation to the External Financial Review Council, October meeting.

Children’s Services Act and Private Day Special Education

Overview of the Children's Services Act (CSA)

- Created in 1992 to provide a collaborative system of services for at-risk youth and their families and children with disabilities.
- Localities are primarily responsible for delivering services to children under CSA and have staff dedicated to administering CSA.
  - The Family Assessment and Planning Team creates service plans for CSA children while the Community Policy and Management Team gives final approval for servicer plans and payment for services.
- The state allocates funding to localities for CSA services. Localities must match state CSA funding with match rates differing by locality and type of service.
  - When CSA was enacted, local funding streams were consolidated to determine each locality's base match rate. Base match rates were factored into new match rates, which have been in effect since 1997. Different match rates for different services began in 2008.
  - In FY 2024, CSA expenditures utilized $360.2 million in state funding and $182.0 million in local match funding. Localities also receive some federal funding such as Medicaid and Title IV-E funds for eligible children.

Source: JLARC, "Review of the Children's Services Act and Private Day Special Education Day School Costs", November 16, 2020.

CSA Provides Four Types of Services

Community-Based

- Community service
- Community transition services
- Intensive care coordination
- Intensive in-home care

Special Education & Wraparound

- Wraparound services for students with disabilities
- **Special education private day placement**

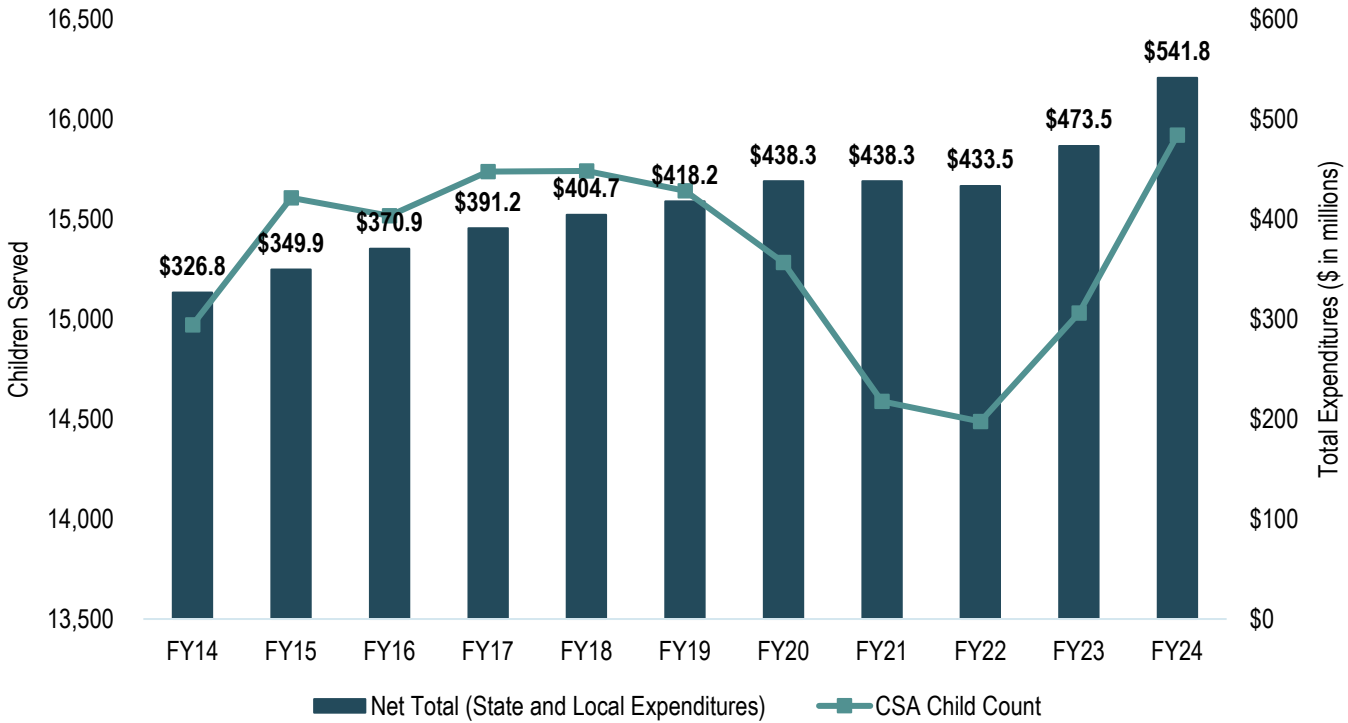
Foster Care & Independent Living

- Foster care basic maintenance payments
- Therapeutic foster homes
- Independent living stipend and arrangement

Congregate Care

- Temporary care facilities and services
- Group homes
- Residential treatment facilities
- Congregate education services
- Psychiatric hospital/crisis stabilization unit

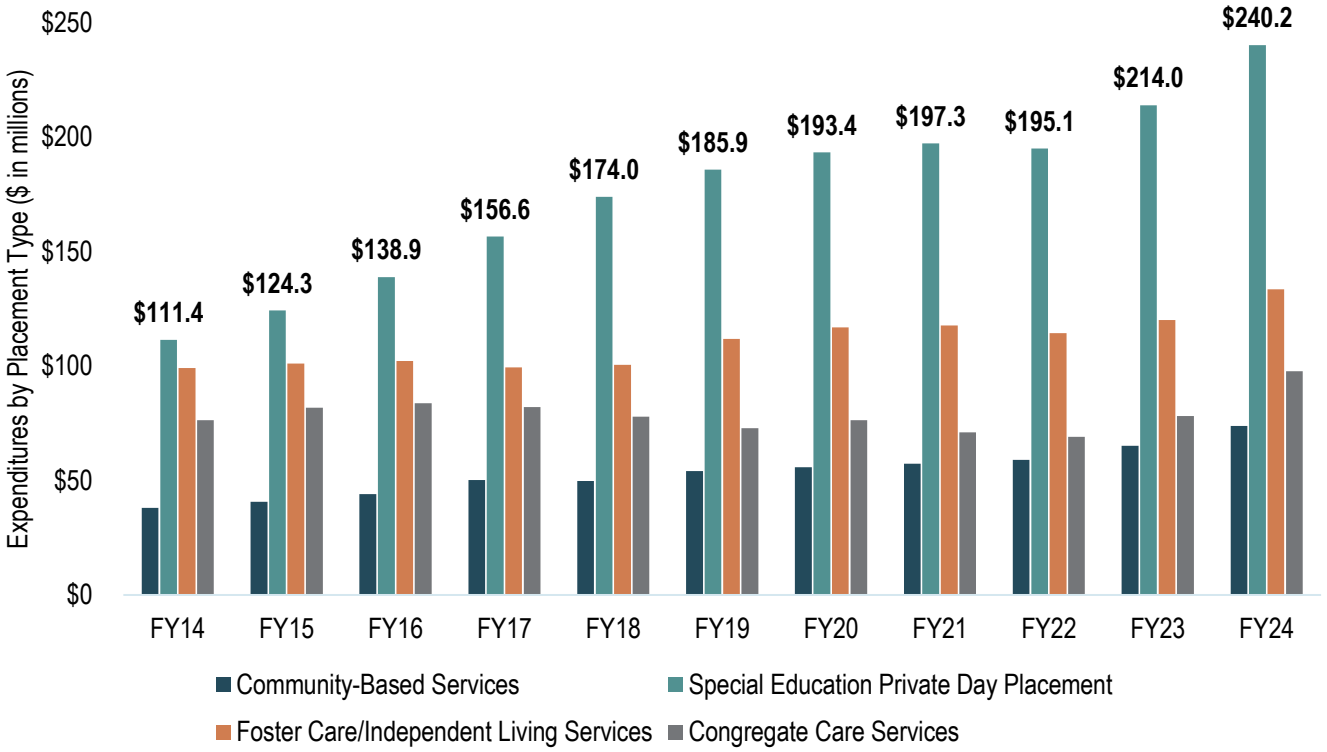
CSA Expenditures Post-Pandemic are Increasing Rapidly Again



- CSA expenditures have increased 65.8 percent since FY 2014 while the number of children being served has only increased by 6.4 percent.
- In FY 2024, private day special education spending accounted for 44.3 percent of total expenditures.
- CSA expenditures have increased by 5.3 percent annually, on average, with an increase of 14.4 percent from FY 2023 to FY 2024.

Source: CSA-provided data, accessed October 2, 2024.

Private Day Special Education is a Major Contributor to CSA's Rising Expenditures



Private day special education expenditures have increased by 115.6 percent since 2014, making its growth sizably larger than the other services.

Source: CSA-provided data, accessed October 2, 2024.

Several Groups Have Made Similar Recommendations for the Future of Private Day Special Education

2015	2016	2017	2020	2021
Commission on Youth Study	CSA's State Executive Council Report	SFAC and HAC Staff Report	JLARC Report	HB 2117/ SB 1313 Workgroup

- Similar conclusions and recommendations include:
  - Allow for state funds reserved for private day special education to be used for public school special education to prevent restrictive placements;
  - Allow for state funds reserved for private day special education to pay for services to help students transition from residential or private day placements back to public school;
  - Transfer funds reserved for private day special education from CSA to the Virginia Department of Education; and
  - Adjust localities' match rates based on "ability to pay" rather than the current CSA fixed match rate.
- HB 2117 and SB 1313, 2021 Special Session I, also required that CSA funds for special education only be expended to schools licensed by VDOE who report their tuition rates and added transitional services for private day special education students to the eligible population for use of the state pool of funds.

Source: SFAC staff review of CSA-related reports, Fall 2024.

Update on Financial Issues at the Virginia Department of Health

VDH is One of the Larger, More Complex Agencies in the Commonwealth

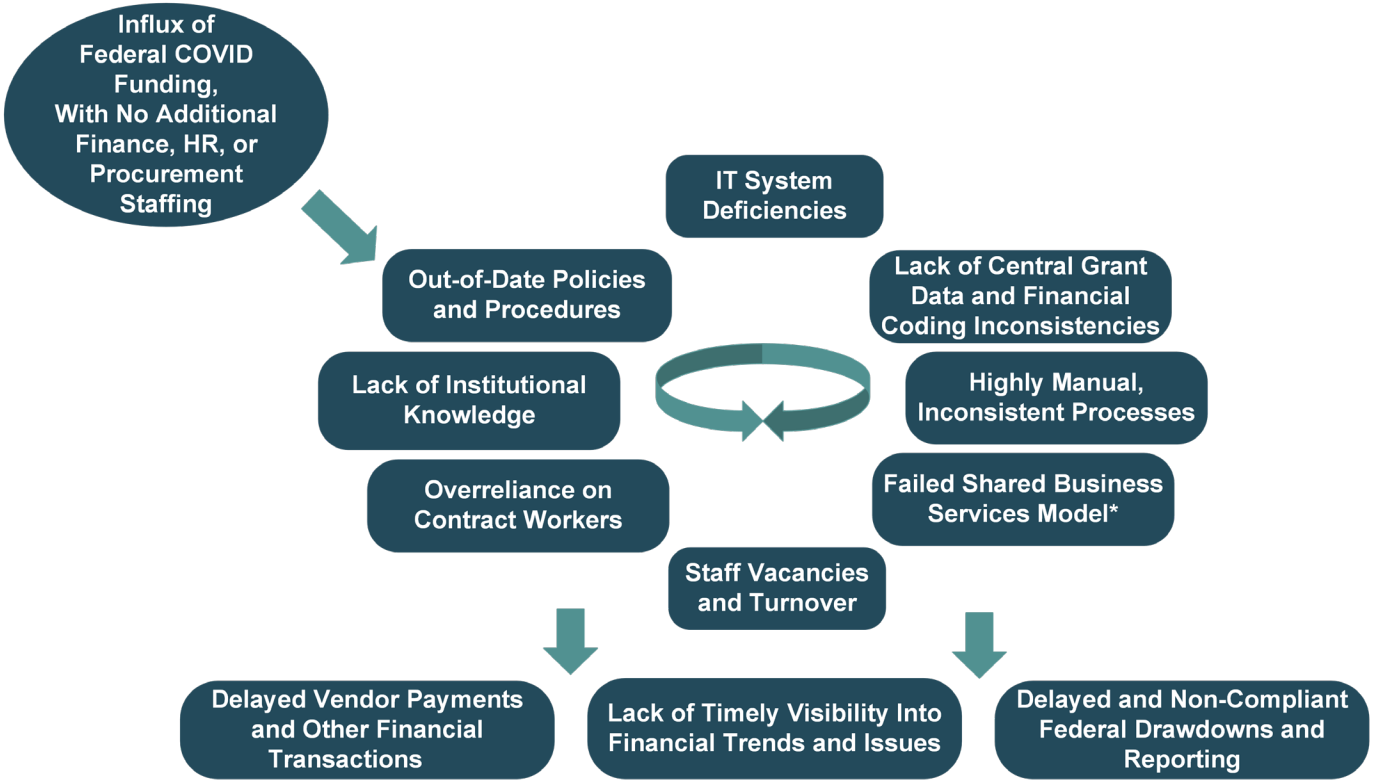
- Led by the State Health Commissioner with a central office in Richmond and 35 local health districts, each led by a director.
  - Three local health districts are independent: Fairfax, Arlington, and Loudoun.
- VDH has a total annual appropriation of $1.1 billion for FY 2025 and FY 2026.
  - $299.8 million GF for FY 2025 and $297.4 million GF for FY 2026.
- VDH oversees 20 offices including the Office of the Chief Medical Examiner, the Office of Drinking Water, the **Office of Emergency Medical Services** (OEMS), and the Office of Emergency Preparedness.

Recently Highlighted Financial Issues at VDH, Including Those at OEMS

- 2020: VDH approved a salary increase for 55 Office of Drinking Water employees, with a fiscal impact of $1.4 million without ongoing funding to sustain the increases.
- 2022: Virginia EMS Symposium costs exceeded $1.6 million.
- Spring 2023: VDH began regular budget reviews.
- June 2023: OEMS was unable to make its Part 3 transfer to the general fund.
- July 2023: OEMS estimated to have unpaid debts and over-obligations totaling $33.0 million.
- December 2023: Governor Youngkin proposed suspending the transfer of $12.5 million to the general fund from the Four-For-Life program for two years and approved an $8.0 million carryover of VDH's FY 2023 balances. These actions were adopted by the General Assembly in 2024 Special Session I.
- July 2024: Former OEMS Associate Director pled guilty to mail fraud, federal program theft, and tax evasion. He embezzled at least $4.0 million over 2.5 years.
  - The federal government is seeking restitution, and some of these funds may be recovered.

Sources: Fitch & Associates, Consultant Report, "Commonwealth of Virginia Office of EMS", September 2024; VDH Financial Improvement Update, September 18, 2024.

VDH Has Experienced Financial Management Issues Since 2020 with a Large Influx of Federal Relief Dollars



*According to VDH internal review, in February of 2020, VDH created the new Shared Business Services unit which centralized all business managers into VDH's main office, resulting in ineffective financial operations and lack of institutional knowledge in individual units within VDH.

Source: VDH Financial Improvement Update, September 18, 2024.

Review of Joint Legislative Audit and Review Commission (JLARC) Report on VDH

- JLARC's study, released on November 7, 2024, found that:
  - Several overlapping developments, such as the pandemic and agency reorganization, created operational challenges for VDH;
  - VDH's financial mismanagement of state and federal funds has impacted other agencies and required legislative and executive action;
  - VDH is experiencing staffing challenges, and many VDH offices do not have adequate staff to handle workload;
  - The agency overly relies on contractors who do not receive enough training and do not create institutional knowledge; and
  - VDH staff do not feel the agency is well-managed and report a negative workplace culture with a lack of accountability.
- JLARC recommends that the General Assembly and executive branch should intervene to improve operations at VDH by requiring the agency to report on multiple aspects of its operations and by providing guidance and funding to improve efficiency.

Source: JLARC report "Virginia Department of Health's Financial Management, Staffing, and Accountability", November 7, 2024.

VDH Has Undertaken and Been Instructed to Undertake Several Actions to Improve Internal Financial Management

- In Chapter 2 (2024 Special Session I), the General Assembly:
  - Approved $1.8 million GF each year to fund additional positions in the Office of Financial Management to improve the compliance and audit processes;
  - Provided $557,010 GF each year to establish the Office of Grants Administration; and
  - Required multiple reports to monitor the financial status of the agency.
- As of September 2024, VDH has:
  - Adjusted its organizational structure to prioritize financial management;
  - Implemented personnel measures to retain and hire staff at competitive salary levels; and
  - Created two new databases for grant tracking and invoice management.

Sources: Chapter 2, 2024 Acts of Assembly, Special Session I; VDH Financial Improvement Update, September 18, 2024.

Key Takeaways and 2025 Session Outlook for Health and Human Resources

2025 Session Outlook: Summary of HHR Budget Requests by Agency

Agency (GF $ in Millions)	FY 2025	FY 2026
Children's Services Act	$35.1	$35.1
Department for Aging and Rehabilitative Services	-	5.5
Department for the Blind and Vision Impaired	-	0.5
Department for Deaf and Hard-of-Hearing	-	0.1
Department of Behavioral Health and Developmental Services	-	29.8
Department of Health	-	35.4
Department of Medical Assistance Services	-	8.8
Department of Social Services	0.8	7.4
Grants to Localities	-	6.0
Intellectual Disabilities Training and Mental Health Treatment Centers	-	4.0
Virginia Center for Behavioral Rehabilitation	-	0.4
Total for Health and Human Resource Agencies	**$36.9**	**$136.0**

Sources: Department of Planning and Budget, Operating Requests, accessed November 14, 2024.

2025 Session Outlook - Summary of HHR Budget Pressures

Budget Item (GF $ in Millions)	FY 2025	FY 2026
Medicaid Forecast	$337.0	$295.4
Health Care Fund (Used as State Match for Medicaid)	(27.7)	22.0
Children's Services Act (Growth in private day special education services)	35.0	35.0
Children's Health Insurance Program	42.0	40.9
Part C Early Intervention Services	-	1.5
Child Welfare Forecast	(14.6)	(10.9)
Total Mandatory Items	**$361.7**	**$383.9**
DBHDS: Address DOJ Court Order and Permanent Injunction	-	$4.6
DSS: Implement OSIG Child Protective Services Recommendations	-	1.1
DBHDS: Pharmacy Costs at State Facilities	-	3.3
Total High Priority Items	**-**	**$9.0**

Key Takeaways for Health and Human Resources

- The enrollment decline resulting from the end of the federal requirement to maintain eligibility for Medicaid did reach the projection, but the lag at the beginning of the disenrollment period resulted in higher costs in FY 2024, resulting in a budget shortfall of $160.0 million GF.
- The Medicaid Forecast requires an additional $632.4 million GF over the biennium, which is unprecedented for an amended budget.
- Higher enrollment post-pandemic, increasing health care costs, and expansion of services are all impacting Medicaid's expenditure growth.
- As the largest general fund budget driver, financial oversight of the Medicaid program needs to be prioritized. Changes may be needed to improve such oversight.
  - SFAC staff have suggested that DMAS review cost trends on a regular basis to identify fiscal issues earlier.
  - External oversight may be needed to ensure consistent and appropriate financial oversight of Medicaid.
- Private day special education continues to be the main driver of CSA spending due to the number of students and the cost per student.
  - Multiple entities have looked at the issue, but the solutions to manage the higher spending are complex.
- VDH is experiencing continued financial management and staffing issues and will need further guidance from the executive branch and General Assembly.