

SENATE OF VIRGINIA

HHR Senate Finance Subcommittee

**Overview of the Budget
Reduction Process
and Potential Impact on
Health and Human Resources**

September 20, 2016

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Projected Revenue Shortfall

- FY 2016 General Fund collections finished **\$279.3 million** below forecast.
- The interim August Revenue Forecast reduced total General Fund revenues by **\$564.4 million** in FY 2017 and **\$632.7 million** in FY 2018.
- The FY 2017 budget includes a carryforward balance that is short due to the lower FY 2016 collections, resulting in a budget need, combined with the expected revenue shortfall, of **\$843.7 million** in FY 2017.



Withholding Spending Authority

- The Appropriation Act provides broad authority for the Governor to reduce spending if there is a declared shortfall in budgeted revenue.
- The Governor is required to submit a budget reduction plan to the Chairmen of the House Appropriations and Senate Finance committees prior to taking any action on the plan.
- The main restriction on the Governor is that he cannot withhold more than 15 percent of the operating expenses for an individual state agency or grantee funded directly in an agency's budget.
- It is expected that the Governor will submit a reduction plan in October 2016 to resolve the FY 2017 shortfall.

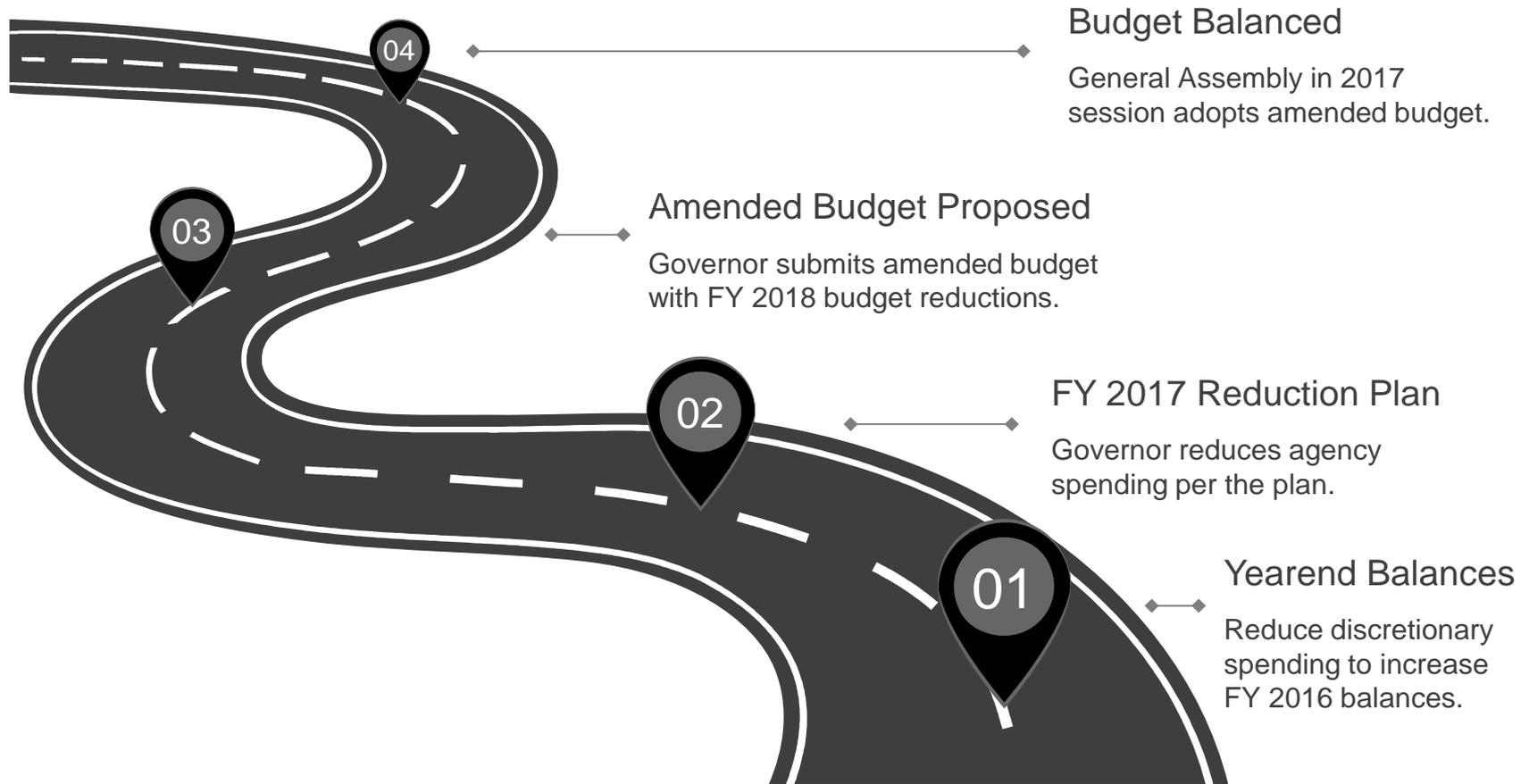


General Assembly's Role in Budget Reductions

- Due to the short sessions of the General Assembly, the Governor has been given the authority to restrain spending in order to not exceed revenues in any particular fiscal year.
- The 2017 Session does not end until well into FY 2017, meaning that the Governor's Reduction Plan is the primary mechanism to offset the budget shortfall for FY 2017.
- While the General Assembly may tweak some of the FY 2017 reductions during session, it is generally too late in the fiscal year to make a significant difference.
- The General Assembly's main role in the 2017 Session will be to consider the Governor's amendments to balance the budget in FY 2018.

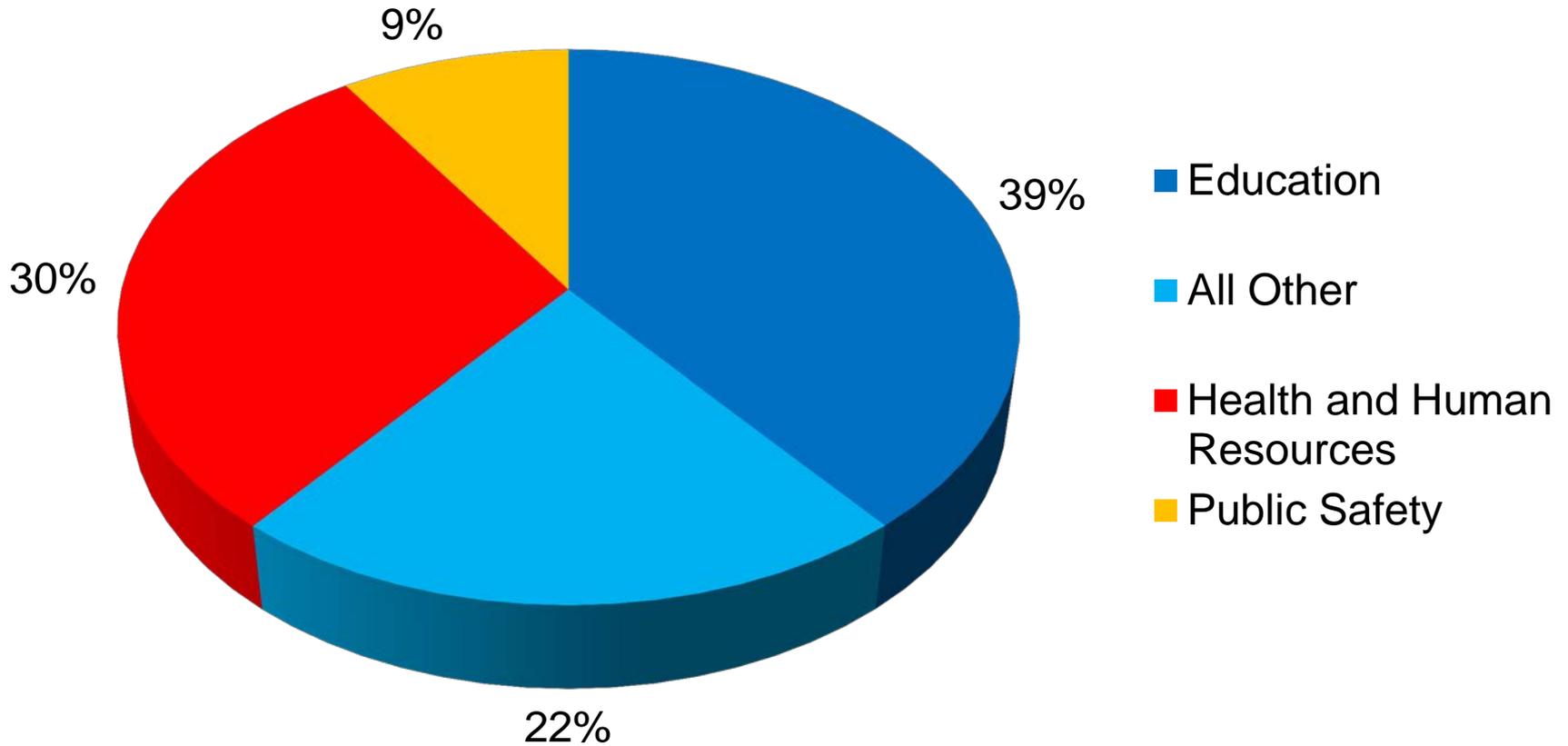


Balanced Budget Roadmap



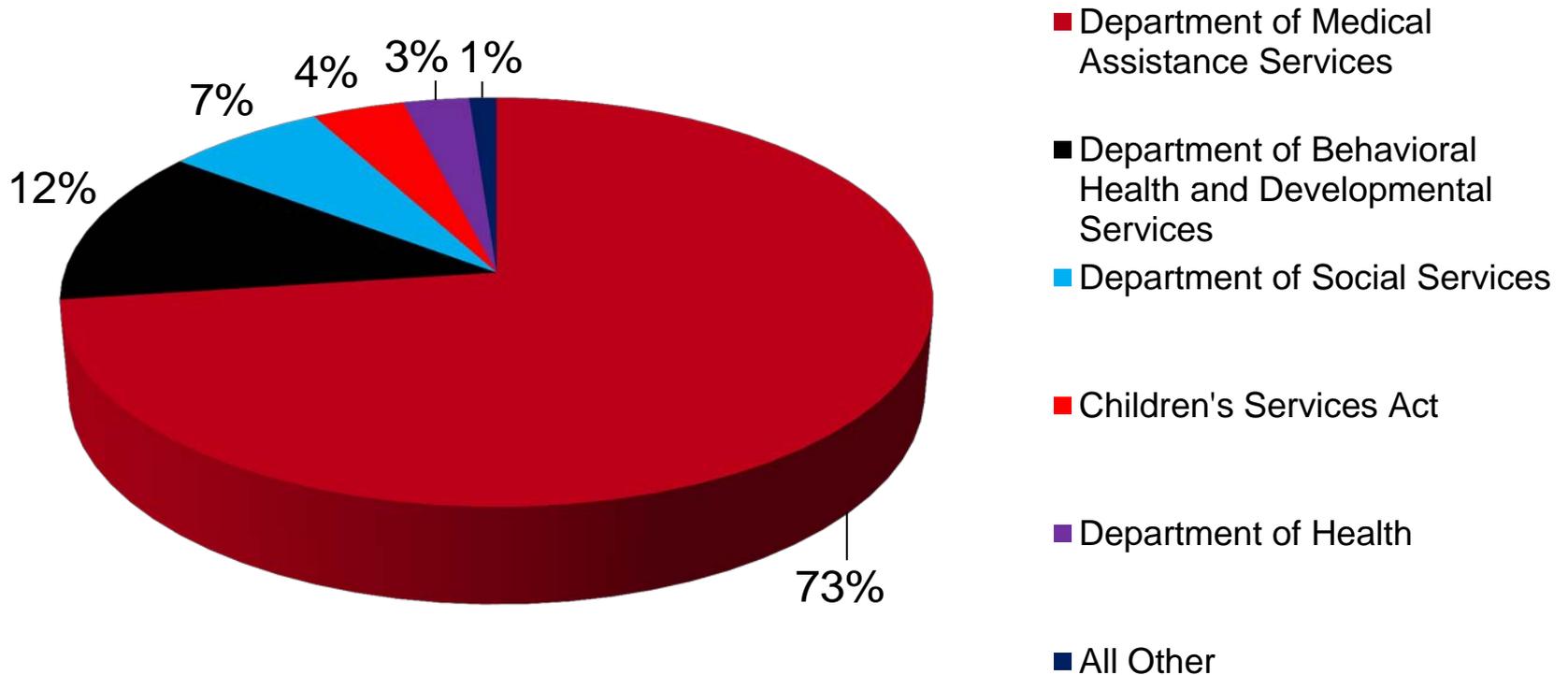
HHR is 30 Percent of the Budget

FY 2017 General Fund Budget
\$20.3 Billion



HHR Budget by Agency

**FY 2017 General Fund Budget
\$6.1 Billion**



Pledged Balances

- The Governor's first action related to the revenue shortfall was a request of state agencies to pledge balances at fiscal yearend.
- A memo to all agencies was sent out May 23, 2016 requesting agencies to reduce discretionary spending in order to leave balances at yearend to help reduce the budget shortfall.
- Any "pledged" balance would be used to offset FY 2017 budget reductions for the agency.
- The total amount pledged by all agencies was \$23.5 million.
- The HHR agencies pledged \$11.3 million, nearly half of the total.



FY 2017 Reduction Plan

- The next step in the budget reduction process is to develop a reduction plan for FY 2017.
- The Department of Planning and Budget sent instructions to state agencies in late August.
- State agencies have been asked to prepare a five percent reduction plan, minus exemptions, and adjusted for any pledged balance from FY 2016.
- These plans are due from agencies today – September 20, 2016.
- The Governor will approve and reject strategies proposed by agencies, but the extent of the reductions on any one agency will not be known until the plan is released in October.



FY 2017 Reduction Plan Targets by Agency (\$ in Millions)

Agency	FY 2017 GF Budget	Exemptions	Adj. 5% Target	Pledged Balance*	FY 2017 Target
Medical Assistance Services	\$4,411.5	\$4,351.5	\$3.0	\$1.0	\$2.0
Behavioral Health and DS	752.6	349.7	20.1	3.4	16.7
<i>Grants to Localities</i>	331.1	331.1	-	-	-
<i>MH Treatment Centers</i>	294.0	-	14.7	0.9	13.8
<i>ID Training Centers</i>	34.7	5.8	1.4	1.4	-
<i>Center for Behavioral Rehab.</i>	35.4	-	1.8	-	1.8
<i>Central Office</i>	57.1	12.8	2.2	1.1	1.1
Social Services	410.2	322.2	4.4	4.2	0.2
Children's Services Act	237.7	235.9	0.1	0.1	0.0
Health	170.1	3.5	8.3	0.2	8.1
All Other	71.4	0.8	3.6	0.3	3.4
Total HHR	\$6,053.2	\$5,263.8	\$39.5	\$9.2	\$30.4

* Note: The total pledged balance amount for HHR is \$11.3 million, but agencies were only credited the balance up to their target amounts.



FY 2017 Reduction Plan

- Statewide and one-time actions (i.e. Rainy Day Fund, etc.) will help resolve a portion of the FY 2017 shortfall, with the remainder of the gap closed with savings from agency reduction plans.
- The final amount of the savings needed from agencies is based on the total of the statewide and one-time actions taken.
- The FY 2017 total statewide savings target from the agency reductions plans is \$122.7 million with \$30.4 million from Health and Human Services.
- Approximately 86 percent of the FY 2017 budget was exempted (mainly education, Medicaid and Aid-to-Localities). These areas require policy changes to reduce costs and will most likely be impacted by changes proposed in the Governor's amended budget in December.



Next Steps

- The Governor will submit an amended budget on December 16, 2016 that will include his proposals to offset the shortfall for FY 2018.
- The amended budget will contain the second year savings from the FY 2017 Reduction Plan for those strategies with recurring savings.
- Additional agency and programmatic reductions will likely be included.
- Major programs such as Medicaid may contain additional policy actions (i.e. provider rate changes) in order to balance the budget.
- The General Assembly will consider the proposals in the amended budget as part of the normal process in the 2017 Session.

