



# COMMONWEALTH of VIRGINIA

**Richard D. Brown**  
Director

*Department of Planning and Budget*

1111 E. Broad Street  
Room 5040  
Richmond, VA 23219-1922

November 14, 2005

The Honorable John H. Chichester  
Chairman, Senate Finance Committee  
General Assembly Building, Room 626  
Capitol Square  
Richmond, Virginia 23219

Dear Mr. Chairman:

Please find attached the official consensus forecast of Virginia General Medicaid, Mental Illness Services, and Mental Health/Mental Retardation Community Services expenditures through fiscal year 2008. While these estimates are based upon the best information available to date, please note that they are subject to change if additional information becomes available. A detailed forecast report will be prepared and communicated to your staff shortly.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard D. Brown".

Richard D. Brown

Attachment

cc: The Honorable John M. Bennett  
The Honorable Jane H. Woods  
Betsey Daley, Staff Director, Senate Finance Committee



# COMMONWEALTH of VIRGINIA

Richard D. Brown  
Director

*Department of Planning and Budget*

1111 E. Broad Street  
Room 5040  
Richmond, VA 23219-1922

November 14, 2005

The Honorable Vincent F. Callahan, Jr.  
Chairman, House Appropriations Committee  
General Assembly Building, Room 947  
Capitol Square  
Richmond, Virginia 23219

Dear Mr. Chairman:

Please find attached the official consensus forecast of Virginia General Medicaid, Mental Illness Services, and Mental Health/Mental Retardation Community Services expenditures through fiscal year 2008. While these estimates are based upon the best information available to date, please note that they are subject to change if additional information becomes available. A detailed forecast report will be prepared and communicated to your staff shortly.

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Richard D. Brown

Attachment

cc: The Honorable John M. Bennett  
The Honorable Jane H. Woods  
Robert Vaughn, Staff Director, House Appropriations Committee



# COMMONWEALTH of VIRGINIA

Richard D. Brown  
Director

*Department of Planning and Budget*

1111 E. Broad Street  
Room 5040  
Richmond, VA 23219-1922

November 14, 2005

Mr. Philip A. Leone, Director  
Joint Legislative Audit and Review Commission  
Suite 1100, General Assembly Building  
Richmond, Virginia 23219

Dear Mr. Leone:

Please find attached the official consensus forecast of Virginia General Medicaid, Mental Illness Services, and Mental Health/Mental Retardation Community Services expenditures through fiscal year 2008. While these estimates are based upon the best information available to date, please note that they are subject to change if additional information becomes available. A detailed forecast report will be prepared and communicated to your staff shortly.

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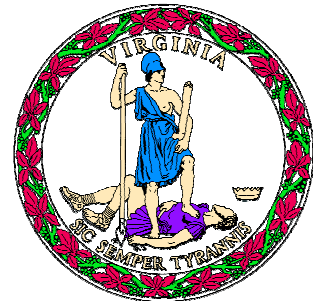


# Medicaid Expenditure Forecast Report FY 2006 – FY 2008

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*Department of Planning and Budget*

*December 30, 2005*

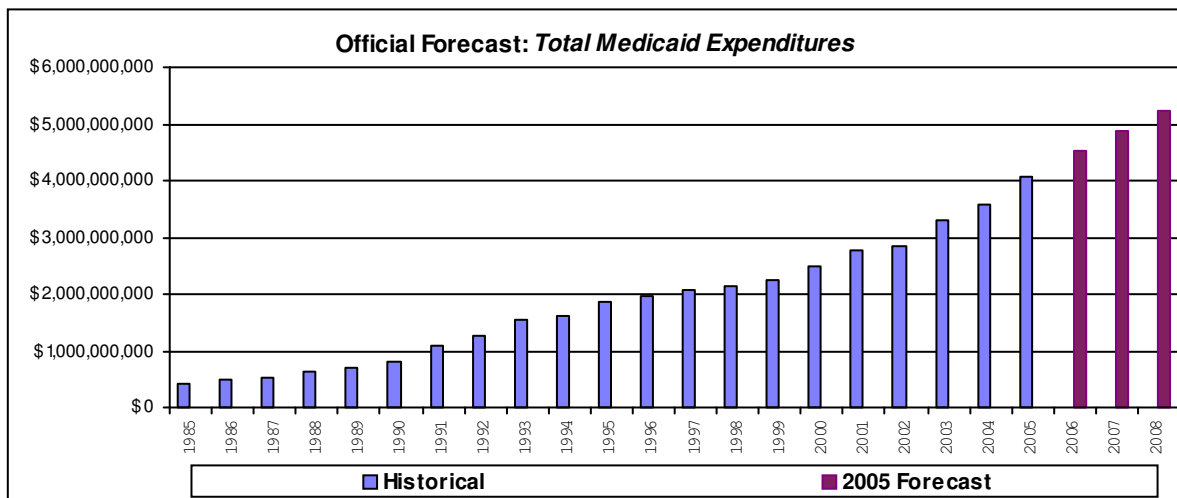


## Summary

Total Medicaid expenditures are projected to increase 11.41% (to \$4.526 billion) in FY 2006, an additional 8.00% (to \$4.888 billion) in FY 2007, and an additional 6.77% (to \$5.219 billion) in FY 2008.

Projections in this report include expenditures for General Medicaid, Mental Illness Services, Mental Retardation Waiver, and MHMR State Plan Option Services. The main factors affecting expenditures are:

- Continuing growth in the number of indigent adults and children enrolled in Medicaid. The growth rates in FY 2005 were 24.77% and 8.29%, respectively. The overall growth rate for the Medicaid enrollees was 7.61% in FY 2005, which was significantly higher than the average overall growth rate in the last decade.
- Increases in enrollment and in rates paid to HMOs.
- Increases in federally established Medicare Part B and Part A premiums and significant growth in Part A and Part B population as a result of outreach efforts to identify Medicare eligible recipients.
- Growth in private inpatient hospital costs.
- Increases in the cost per day of nursing facility care.
- Increases in outpatient hospital services costs as well as increases in utilization.
- Growth in utilization of other long-term care services and the reimbursement rate increases.
- Growth in utilization and rates for physician services.
- Historically lower, but moderate growth in pharmacy unit costs and utilization.
- Rate increase in dental services.
- Continuing growth in cost and utilization for mental health clinic services.
- Rate increase in case management services and continuing growth in utilization of MHMR state plan option services.
- Continuing growth in cost and utilization in the MR waiver program.

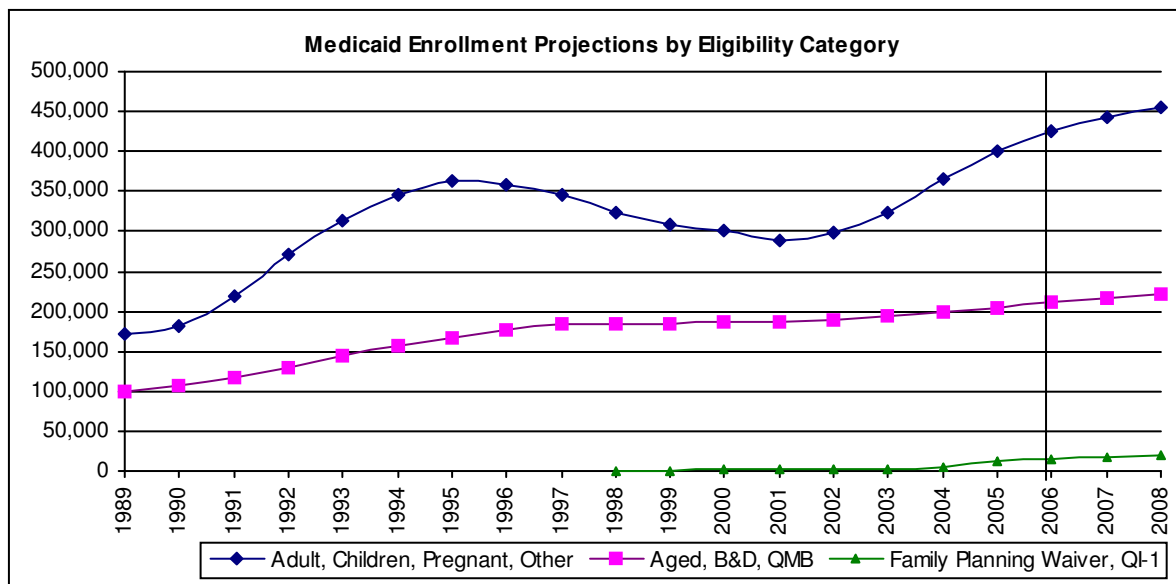


## Methodology

Section 32.1-323.1 of the *Code of Virginia* mandates that by November 15 of each year, DPB with the cooperation of DMAS, shall prepare and submit an estimate of Medicaid expenditures for the current year and the next two years. Both agencies prepare independent forecasts using time series and regression analysis on monthly level expenditure and utilization data. These forecasts are evaluated and a consensus forecast is adopted.

## Medicaid Enrollment Projections

Overall Medicaid enrollment declined significantly during the last half of the 1990s largely due to welfare reform and the strong Virginia economy. However, this decline reversed course beginning in FY 2002 and the indigent adult and children populations have been increasing since that time. A large portion of this increase is related to outreach associated with the Family Access to Medical Insurance Security (FAMIS) program and the identification of children eligible for Medicaid while screening for FAMIS eligibility. Thus, the highest projected growth is occurring among the children and non-disabled adults population. There has been consistent moderate growth in the Aged, Blind & Disabled population which is expected to continue.



<b>Fiscal Year</b>		<b>Adult, Children, Pregnant, Other</b>	<b>Percent Change</b>	<b>Aged, B&amp;D, QMB</b>	<b>Percent Change</b>	<b>Family Planning Waiver, QI-1</b>	<b>Percent Change</b>
2002	<b>Actual</b>	299,206	3.63%	188,970	1.25%	3,040	23.98%
2003		323,461	8.11%	192,904	2.08%	3,370	10.86%
2004		365,295	12.93%	197,928	2.60%	4,284	27.12%
2005		401,555	9.93%	204,537	3.34%	11,294	163.63%
2006	<b>Forecast</b>	426,295	6.16%	211,858	3.58%	15,604	38.16%
2007		442,612	3.83%	217,249	2.54%	17,450	11.83%
2008		455,752	2.97%	221,889	2.14%	19,291	10.55%

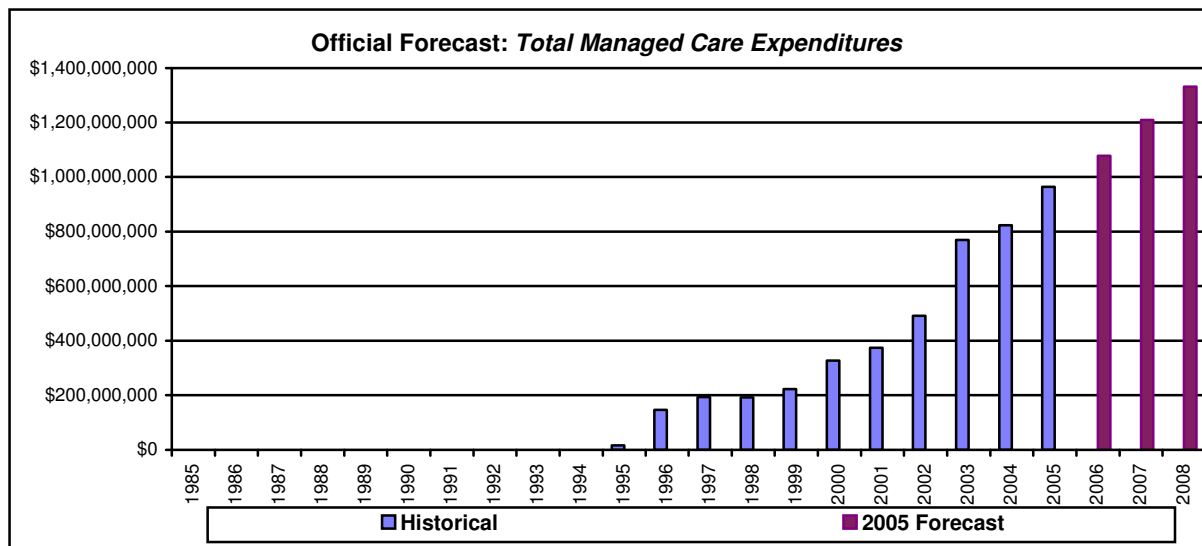


## Managed Care Expenditures

The Medallion II managed care program has been expanded five times, in January 1996, April 1999, October 2000, December 2001, and September 2005. Another expansion will go in effect in December 2005. In December 2001, the program was expanded to include 46 additional localities. This expansion resulted in the transfer of approximately 75,000 eligible persons from the fee-for-service population into the managed care population, dramatically shifting expenditures from the fee-for-service program to the Managed Care program. The FY 2003 expenditures include one month of premiums carried over from FY 2002. The two expansions in 2005 transfer over 25,000 additional recipients from the fee-for-service population to the managed care population, increasing the managed care projections and reducing the acute care fee-for service projections.

In addition to increases in the managed care population, HMO rates are also rising. Historically, HMO rates have been adjusted annually at the beginning of each fiscal year. The rates paid to HMO providers on average increased 3.7% (after adjusting for the removal of dental services from the HMO rates) in FY 2006 and the forecast projects an additional 7 % in FY 2007 and 2008.

The projections incorporate the increase in hospital adjustment factor to 76%<sup>1</sup> and an additional increase of \$18.1 million in FY 2008 to reflect higher rates as a result of scheduled inpatient hospital rebasing in FY 2008.



<sup>1</sup> The original fiscal estimate for this change was about \$11.8 million.

<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$491,316,346		31.63%
2003	\$769,703,732		56.66%
2004	\$823,415,160		6.98%
2005	\$963,613,776		17.03%
2006		\$1,077,812,241	11.85%
2007		\$1,209,530,906	12.22%
2008		\$1,331,493,986	10.08%

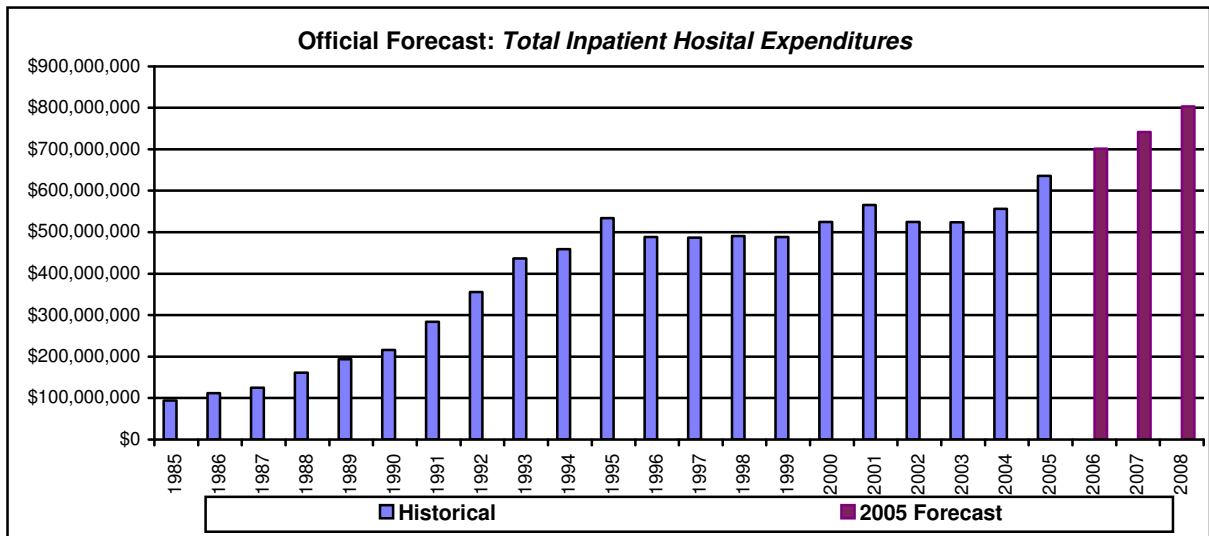
## **Fee-For-Service Categories: Inpatient Hospital Expenditures**

In the recent past, the inpatient hospital payments were relatively steady partly because of the managed care expansions. Even though the two managed care expansions are projected to reduce the inpatient hospital expenditures to some extent, increases in the fee-for-service population still results in an overall increase in this expenditure category.

The inpatient hospital services forecast includes \$287.8 million in FY 2006, \$305.5 million in FY 2007, and \$325.9 million in FY 2008 for non-claims based payments. The forecast incorporates the increase in hospital adjustment factor to 76%<sup>2</sup> beginning in FY 2006.

The forecast also reflects other planned rate increases and policy changes mandated in the Appropriation Acts. A summary of these adjustments is provided below.

<i>Description</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>
FY08 Rebasing of hospital rates	\$0	\$0	\$16,964,303
Neonatal intensive care unit disproportionate share increase	\$500,000	\$500,000	\$500,000

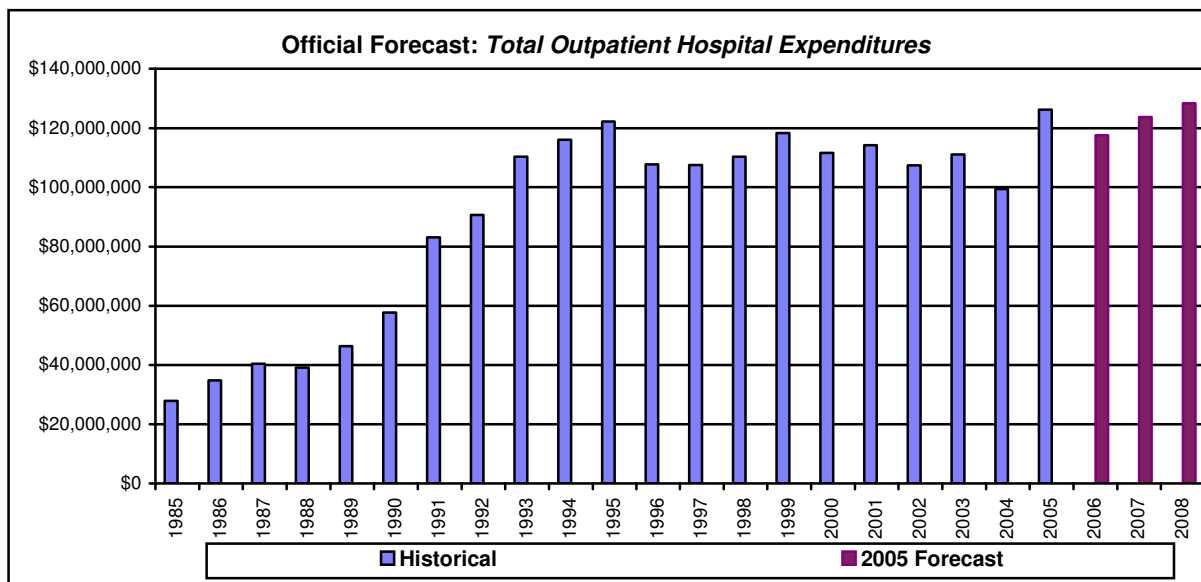


<sup>2</sup> The original fiscal estimate of this was about \$18.2 million.

<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$524,372,757		-7.21%
2003	\$523,374,267		-0.19%
2004	\$555,922,761		6.22%
2005	\$635,606,215		14.33%
2006		\$702,103,606	10.46%
2007		\$741,166,594	5.56%
2008		\$803,004,407	8.34%

## **Fee-For-Service Categories: Outpatient Hospital Expenditures**

The outpatient hospital payments have also been relatively steady as a result of managed care expansions. The decrease in FY 2004 resulted from a combination of cost saving initiatives such as reductions in reimbursement rates and capital payment rates for outpatient hospital services and partly from decreasing utilization. The sharp increase in expenditures in FY 2005 is due largely to a backlog of claims incurred in FY 2004 that were not processed in FY 2004 due to issues with the implementation of the new Medicaid Management Information System. The managed care expansions in the beginning of FY 2006 are projected to lower the expenditures in FY 2006, but the increasing utilization is projected to prevail thereon.



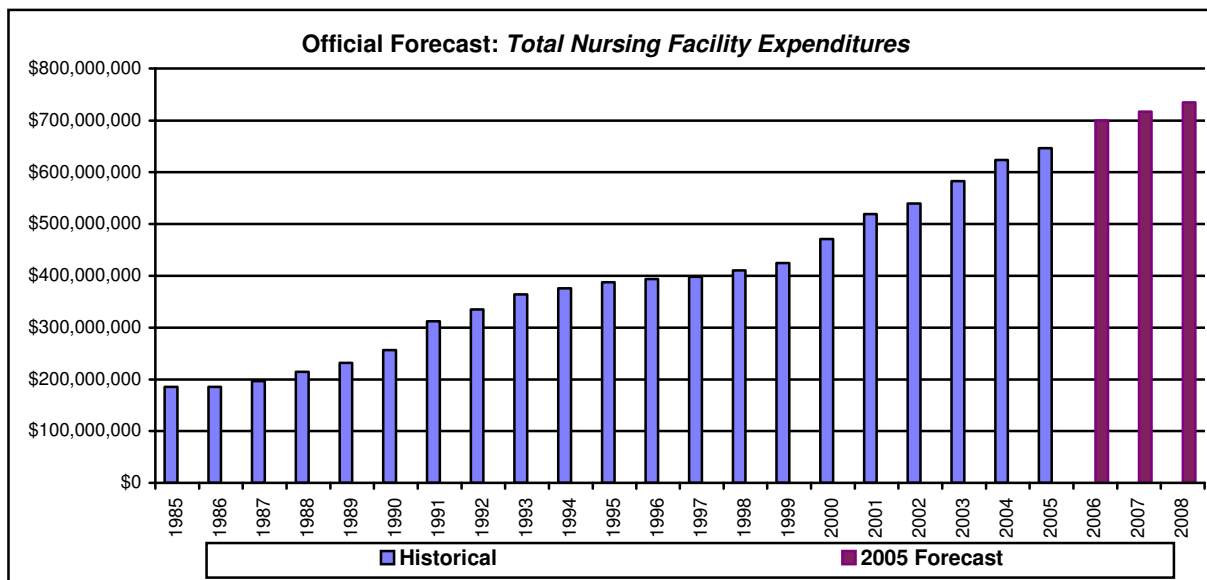
<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$107,438,441		-5.94%
2003	\$111,118,885		3.43%
2004	\$99,442,265		-10.51%
2005	\$126,275,548		26.98%
2006		\$117,599,736	-6.87%
2007		\$123,797,561	5.27%
2008		\$128,435,375	3.75%

## **Fee-For-Service Categories: Nursing Facility Expenditures**

The growth in nursing facility expenditures has been primarily a result of increasing costs, rather than utilization. Medicaid utilization of nursing home beds has actually decreased from its high point in the early 1990's as utilization in Medicaid home and community based waivers, which are designed to prevent institutionalization of Medicaid recipients, has increased. The utilization of nursing facility services has been relatively steady for the past decade and is expected to remain steady.

However, costs incurred by nursing facilities have increased significantly. The 1999 and 2000 Appropriation Acts provided additional funding for nursing facility reimbursements. Also, the 2004 appropriation act authorized a \$3-a-day increase in nursing facility rates for FY 2006. These rate increases were in addition to the inflation adjustments which nursing facilities receive annually. Also, regulations require that the nursing facility reimbursement rates be rebased every two years. The rates were rebased in FY 2003, in FY 2005 and will be rebased on July 1, 2006. The rebasing for FY 2007 is estimated to result in slightly lower expenditures than if the FY 2006 rates were adjusted for inflation without rebasing.

<i>Description</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>
\$3.00 per day rate increase	\$19,481,974	\$19,481,974	\$19,481,974

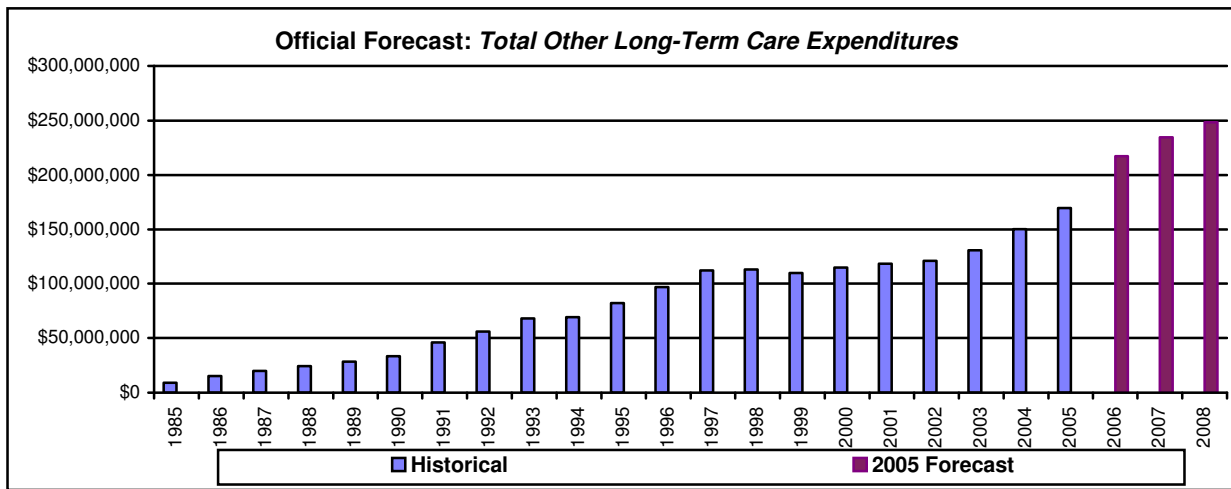


<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$539,268,035		3.88%
2003	\$582,787,275		8.07%
2004	\$623,759,304		7.03%
2005	\$646,557,497		3.65%
2006		\$699,509,744	8.19%
2007		\$717,159,138	2.52%
2008		\$735,077,396	2.50%

## **Fee-For-Service Categories: Other Long-Term Care Expenditures**

Expenditures for other long-term care services grew significantly during the 1990's as the number of individuals receiving personal care services more than doubled from 1990 to 1997. Utilization and expenditures were relatively steady until 2002 and since then have increased. Also, the Developmental Disabilities (DD) Waiver was initiated in FY 2002 and expenditures have increased significantly. The increase in FY 2006 is partly due to reclassification of personal care and respite care services provided to MR waiver recipients from the MR waiver category to the personal care/respite care categories within the OTLC arena.

The forecast incorporates \$3.7 million in FY 2006, \$3.8 million in FY 2007, and \$4.0 million in FY 2008 for new Alzheimer's/Dementia waiver. The forecast also incorporates a 5% rate increase for personal care starting in July 2005<sup>3</sup> and a 2% rate increase for personal care and adult day care services starting in May 2006<sup>4</sup>.



Fiscal Year	Historical	Official Forecast	Percent Change
2002	\$121,101,659		2.26%
2003	\$130,783,592		7.99%
2004	\$150,009,379		14.70%
2005	\$169,670,570		13.11%
2006		\$217,348,543	28.10%
2007		\$234,592,911	7.93%
2008		\$248,401,354	5.89%

<sup>3</sup> The original fiscal estimate for this was about \$6 million.

<sup>4</sup> The Original fiscal estimate for this was about \$218,488 for FY 2006 and about \$1.3 million thereafter.

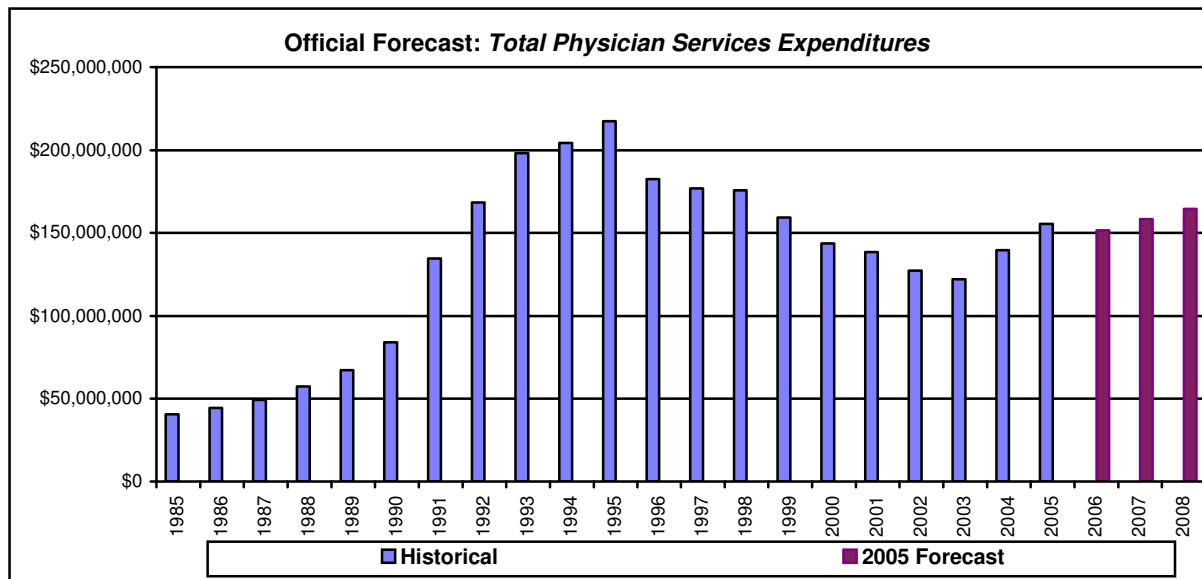


## **Fee-For-Service Categories: Physician Services Expenditures**

Physician services utilization is very responsive to enrollment changes. The utilization of physician services declined significantly since the second half of 1990s in response to the managed care initiatives. Absent managed care expansions increasing utilization started to cause an increase in expenditures starting in FY 2004. The FY 2006 expenditures are projected to decrease primarily because of the managed care expansions in September and December of 2005. After FY 2006, increasing utilization and the expenditures for physician services are expected to continue.

Following is the summary of the policy adjustments made to the forecast (the rate increases shown below take effect May 2006).

<i>Description</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>
2.5% Rate Increase for OB/GYN Services	\$179,867	\$1,122,373	\$1,167,267
5% Rate Increase for Pediatric Services	\$539,440	\$3,366,104	\$3,500,748
3% Rate Increase for ER Physician Services	\$73,319	\$457,511	\$475,811
5% Rate Increase for Primary Care Physician Services	\$416,571	\$2,599,401	\$2,703,377



<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$127,307,456		-8.05%
2003	\$122,063,767		-4.12%
2004	\$139,528,036		14.31%
2005	\$155,452,122		11.41%
2006		\$151,548,232	-2.51%
2007		\$158,294,231	4.45%
2008		\$164,507,922	3.93%

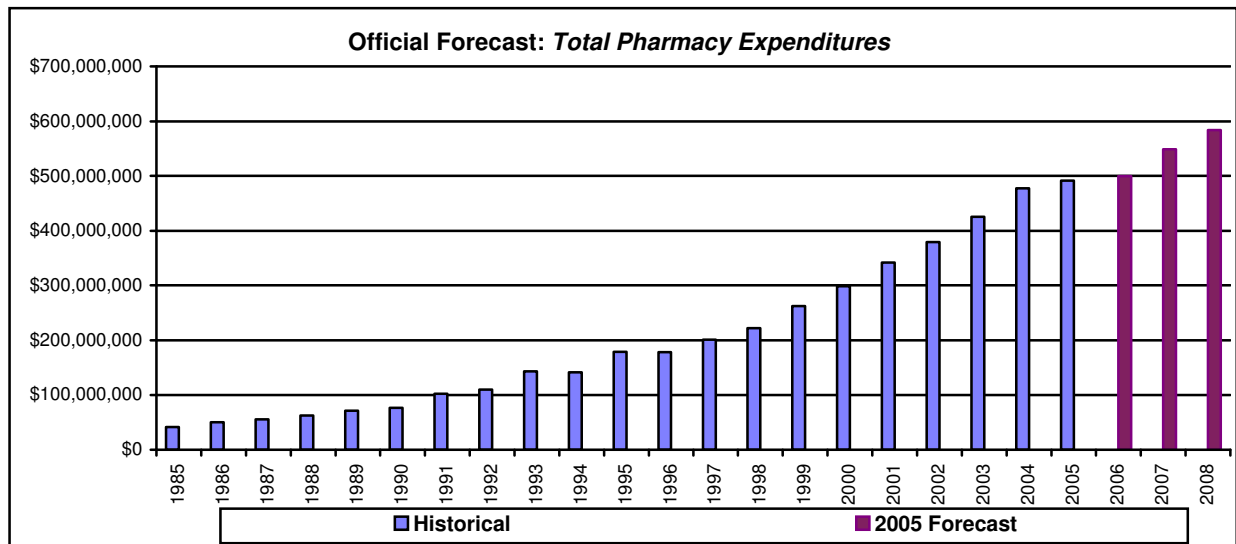
## **Fee-For-Service Categories: Pharmacy Expenditures**

The pharmacy expenditures are net of rebates collected. Despite continued decreases in the Medicaid fee-for-service population since the late 1990s, growth in pharmacy expenditures has been high. One reason for this was that the recipients with the highest costs were not included in the HMO expansions. Higher prescription drugs utilization and the introduction of many new expensive drugs into the market have and will continue to contribute to expenditure growth.

However, the implementation of the preferred drug list in the middle of FY 2004 appears to have moderated the growth rate in most recent pharmacy expenditures. The decrease in FY 2006 is primarily due to higher than expected pharmacy rebates. This forecast does not reflect the overall impact of Medicare Part D which is reflected in a separate addendum in the 2006 introduced budget.

A summary of the policy adjustments made to the forecast is provided below.

<i>Description</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>
Assisted Living Facility Rate Increase	\$3,435,250	\$3,607,013	\$3,787,363
Dispensing fee increase for Brand Name Scripts	\$83,314	\$524,876	\$551,120
Reduction in Rebates After Part D	\$0	\$3,500,000	\$7,000,000

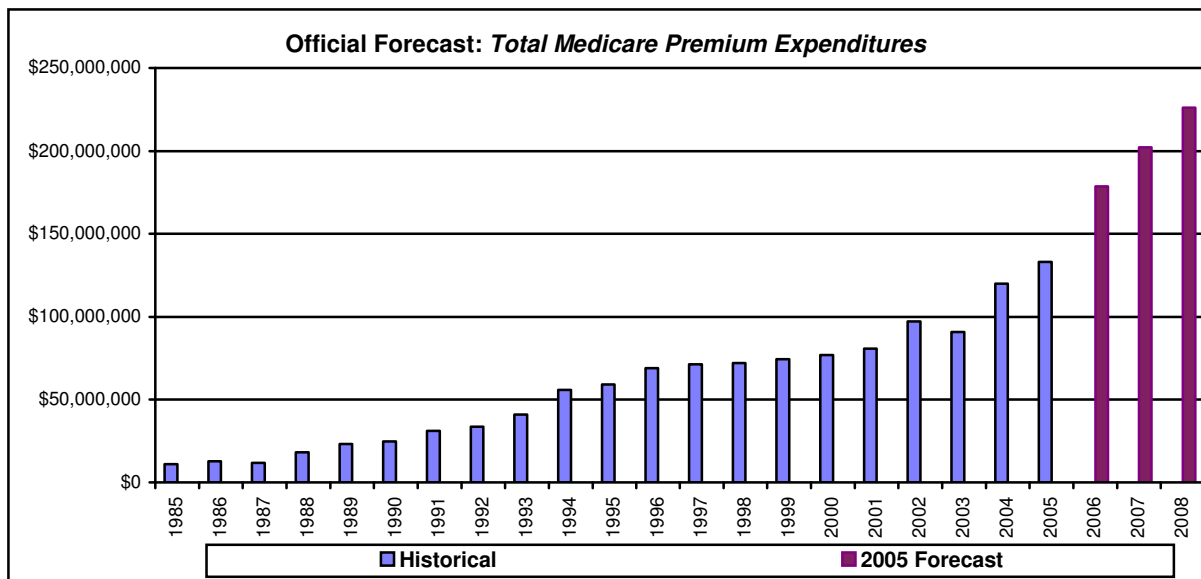


<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$379,585,080		11.00%
2003	\$425,408,787		12.07%
2004	\$477,255,331		12.19%
2005	\$491,158,054		2.91%
2006		\$499,289,019	1.66%
2007		\$548,891,859	9.93%
2008		\$584,187,187	6.43%

## **Fee-For-Service Categories: Medicare Premium Expenditures**

Medicaid covers the monthly Medicare premiums for the Medicare/Medicaid dual eligible population. The number of individuals for whom premiums are paid has increased steadily in recent years. The cost of the premiums is adjusted each January when the federal government revises the Medicare rates. The rate the federal government charges for Medicare premiums is adjusted annually each January. The rate increase for Part B premiums in recent years has been significantly higher than past history. The Part B premiums increased 13.5% in January 2004 and 17.4% in January of 2005 and are scheduled to increase an additional 13.2% in January 2006.

The projections for FY 2006 and forward is significantly higher due to continued double digit increases in Part B premiums and recent outreach efforts to ensure that all dual eligible recipients are enrolled in Medicare.



<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$97,298,222		20.29%
2003	\$90,894,139		-6.58%
2004	\$119,820,296		31.82%
2005	\$133,111,555		11.09%
2006		\$178,685,385	34.24%
2007		\$202,302,128	13.22%
2008		\$226,189,782	11.81%

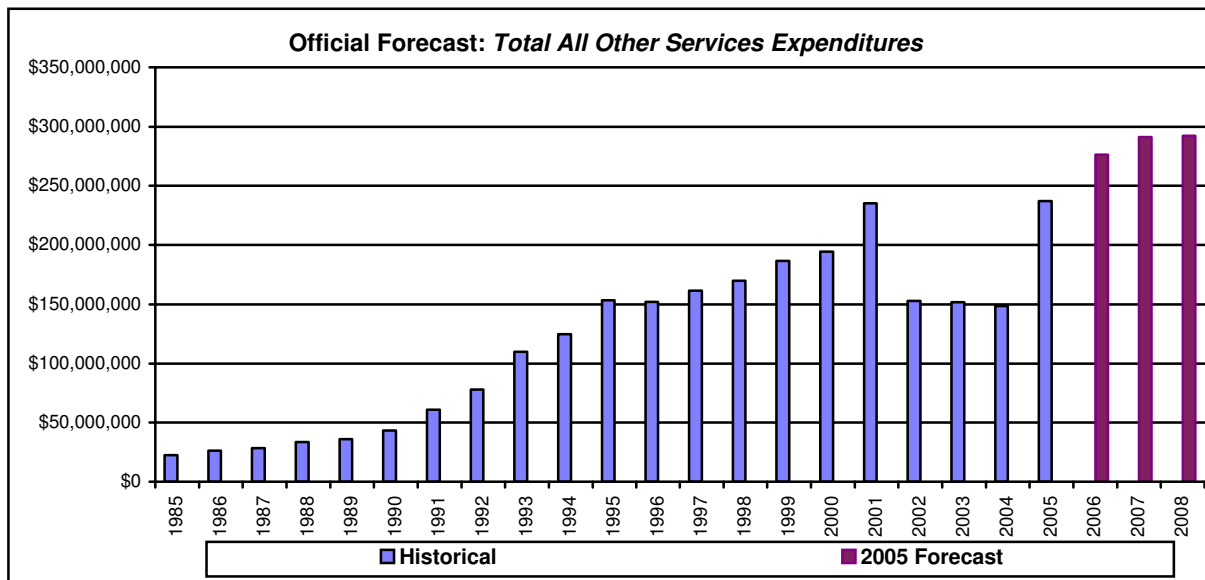
## **Fee-For-Service Categories: All Other Services Expenditures**

This category includes dental, emergency transportation, durable medical equipment, EPSDT screenings, and other clinic services (rural health clinics, Health Department clinics, physical therapy/occupational therapy clinics).

The significant reduction and increase in expenditures in FY 2002 and FY 2005, respectively, represents the shift of brokered transportation services to and from the administrative program. The current forecast incorporates the increase in dental expenditure due to rate increase (28% after July 2005 and 2% after May 2006)<sup>5</sup> and the carve-out of dental services from the managed care expenditures beginning in July of 2005.

The following table summarizes several other policy adjustments made to the forecast under this category.

<i>Description</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>
Disease management program	\$4,534,957	\$7,774,212	\$7,774,212
IMD Audit Payback	\$0	\$3,900,000	\$0



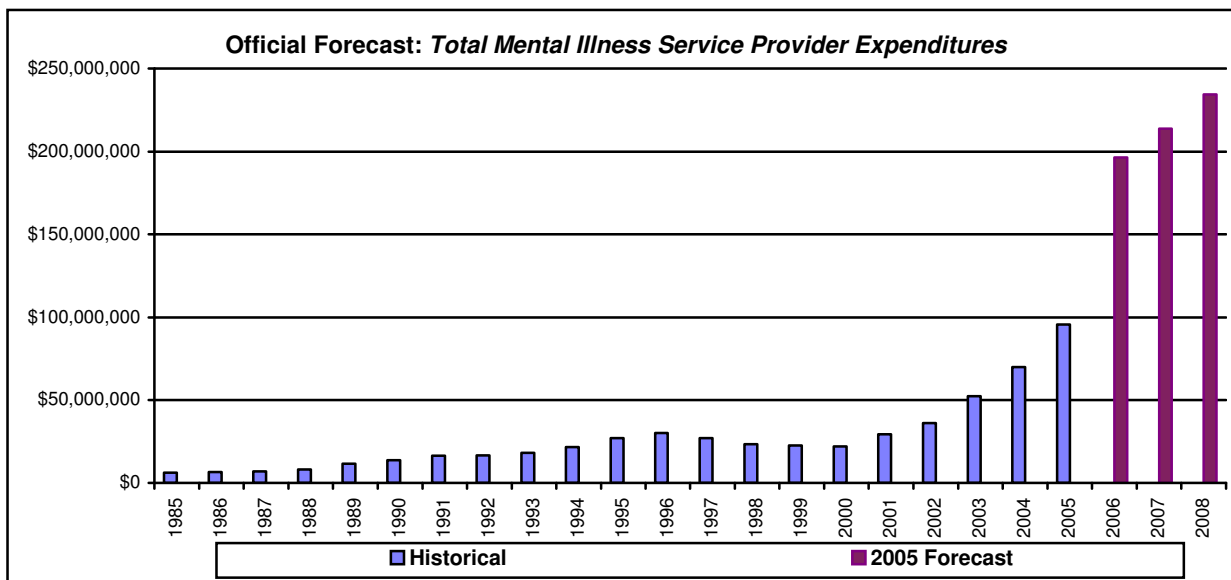
<sup>5</sup> The original estimated fiscal impact of this was about \$16 million.

<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$153,043,180		-34.95%
2003	\$151,814,760		-0.80%
2004	\$148,550,231		-2.15%
2005	\$237,084,634		59.60%
2006		\$276,330,746	16.55%
2007		\$291,250,721	5.40%
2008		\$292,273,475	0.35%

## **Fee-For-Service Categories: Mental Illness Services Expenditures**

As of July 2000, in response to direction from CMS, DMAS began enrolling private providers to provide mental health state plan option services. Previously, the provision of these services had been limited to Community Service Boards. Overall expenditures to private mental illness service providers increased substantially since then as result of increased utilization and costs.

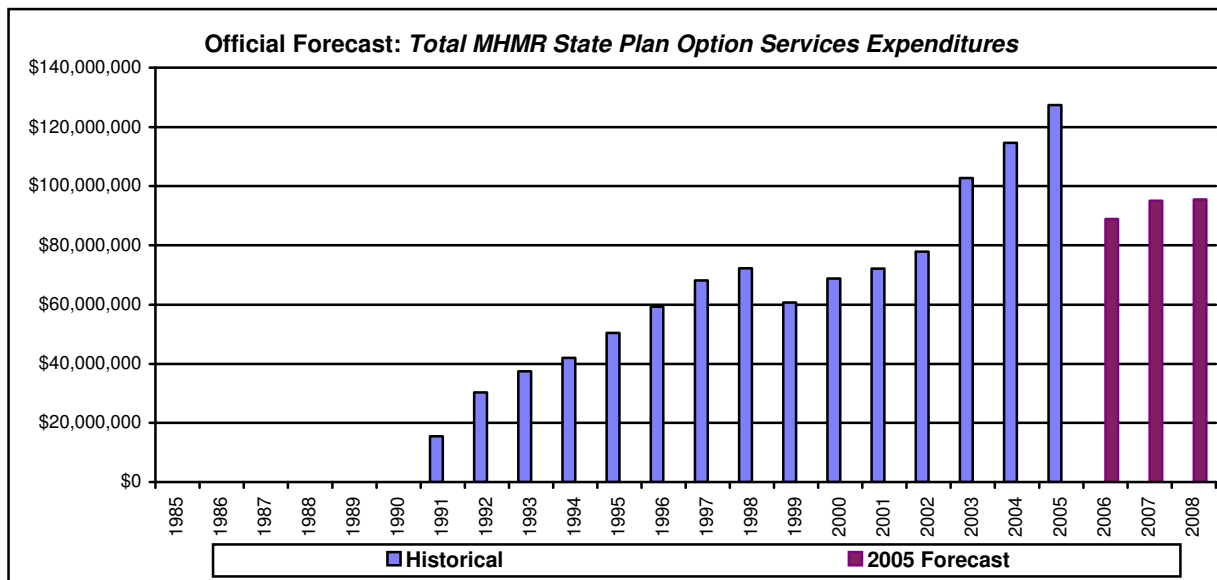
Prior to FY 2006, state plan option (SPO) services provided by a CSB (or CSB subcontractor) were charged to the state plan option services category, while SPO services provided by private health care providers were charged to the mental illness service category. As of FY 2006, all SPO services are being charged to the mental illness service category. The current forecast displays significant growth in FY 2006, which is associated with the restructuring of the reporting.



<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$36,136,184		23.32%
2003	\$52,375,927		44.94%
2004	\$69,926,619		33.51%
2005	\$95,651,635		36.79%
2006		\$196,371,837	105.30%
2007		\$213,927,148	8.94%
2008		\$234,535,374	9.63%

Fee-For-Service Categories: MHMR Case Management Services Prior to FY 2006 this category included all expenditures for MHMR State Plan Option Services provided through the CSB. Beginning in FY 2006 most SPO services were reclassified under the Mental Illness services category and the only services remaining in this category is MHMR case management services provided by Community Service Boards or organizations they contract with. The General Assembly provided a substantial rate increase for SPO case management services beginning in FY 2003.

The forecast incorporates rate increase in case management services from \$260 per month to \$326.50 per month starting July 1, 2005. The decrease in FY 2006 is due to the movement of SPO services provided by private health care providers from SPO services category to mental illness service category.



Fiscal Year	Historical	Official Forecast	Percent Change
2002	\$77,900,457		7.95%
2003	\$102,762,961		31.92%
2004	\$114,618,451		11.54%
2005	\$127,405,321		11.16%
2006		\$88,938,347	-30.19%
2007		\$95,040,079	6.86%
2008		\$95,511,095	0.50%

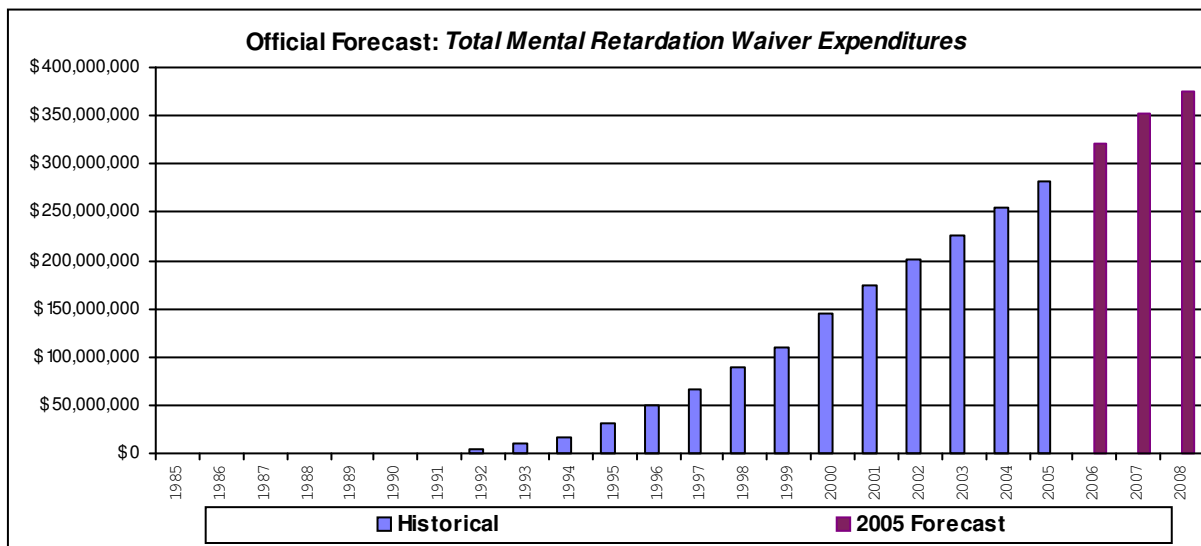


## **Fee-For-Service Categories: Mental Retardation Waiver**

Expenditures for the MR Waiver have grown significantly due to increases in appropriated funds. The increased funding has resulted in an expansion in individuals receiving services under the waiver. The average cost per recipient as well as the number of recipients is anticipated to be higher.

The additional 860 MR waiver slots added in July 2004 provides capacity for the increase in FY 2005 and FY 2006. The current number of available slots is 6,571.

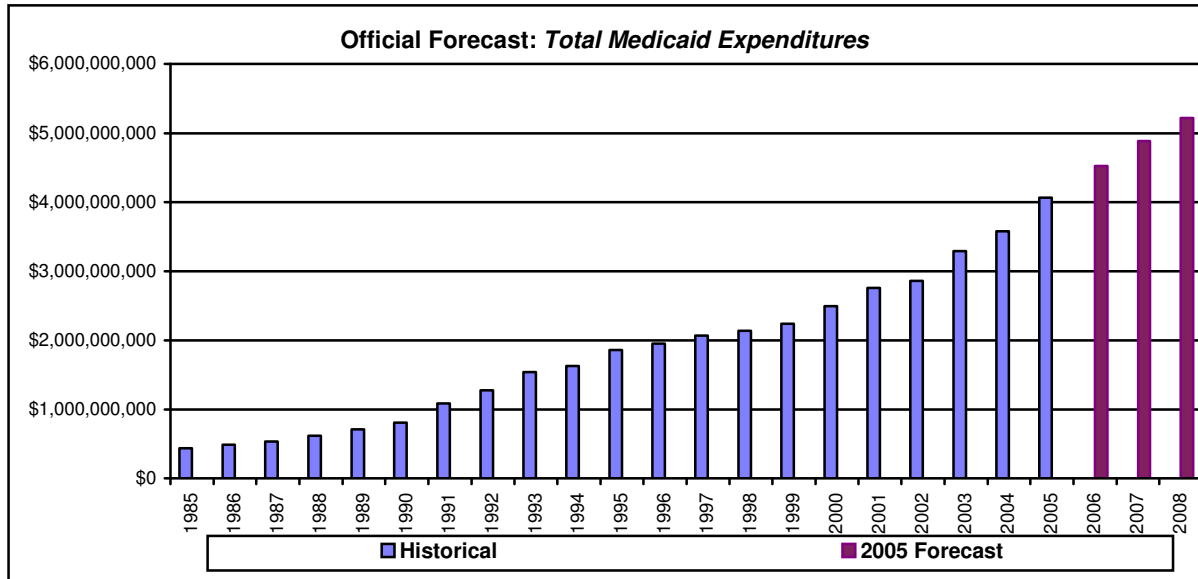
The forecast incorporates \$5.8 million in FY 2006, \$6.1 million in FY 2007, and \$6.4 million in FY 2008 for day support waiver services<sup>6</sup>. The forecast also incorporates 5% rate increase for MR waiver services. Finally, the movement of personal care and respite care services provided to MR waiver recipients from the MR waiver category to the other long-term care service category is incorporated.



<b>Fiscal Year</b>	<b>Historical</b>	<b>Official Forecast</b>	<b>Percent Change</b>
2002	\$201,908,132		15.80%
2003	\$226,224,386		12.04%
2004	\$254,831,687		12.65%
2005	\$281,251,878		10.37%
2006		\$320,946,290	14.11%
2007		\$352,544,972	9.85%
2008		\$375,662,267	6.56%

<sup>6</sup> The original fiscal estimated for this was about \$15 million in FY 2006, \$16.4 million in FY 2007, and \$17.3 million in FY 2008.

## Total Medicaid Expenditures: FY 2005 – FY 2007



*Total Forecast: General Medicaid, Private Mental Illness Service Providers, MHMR Community Services (45609, 45610, 45608)*

Fiscal Year	Historical	Official Forecast	Dollar Change	Percent Change
2002	\$2,856,675,949		\$94,158,908	3.41%
2003	\$3,289,312,478		\$432,636,529	15.14%
2004	\$3,577,079,520		\$287,767,042	8.75%
2005	\$4,062,838,805		\$485,759,285	13.58%
2006		\$4,526,483,726	\$463,644,921	11.41%
2007		\$4,888,498,248	\$362,014,522	8.00%
2008		\$5,219,279,620	\$330,781,372	6.77%

<b>Fiscal Year</b>	<b>Program</b>	<b>State Funds</b>	<b>Federal Funds</b>	<b>Total</b>
<b>2006</b>				
General Medicaid	45609	\$1,965,280,820	\$1,954,946,431	\$3,920,227,251
Private Mental Illness Service Providers	45610	\$98,185,919	\$98,185,919	\$196,371,837
MHMR Community Services	45608	\$204,884,637	\$204,884,637	\$409,884,637
		\$2,268,409,057	\$2,258,074,668	\$4,526,483,726
<b>2007*</b>				
General Medicaid	45609	\$1,645,576,468	\$1,629,657,533	\$3,275,234,001
Mental Health Services	45608	\$154,483,614	\$154,483,614	\$308,967,227
Long-Term Care Services	45610	\$652,148,510	\$652,148,510	\$1,304,297,021
		\$2,452,208,592	\$2,436,289,657	\$4,888,498,248
<b>2008*</b>				
General Medicaid	45609	\$1,771,969,292	\$1,758,122,842	\$3,530,092,135
Mental Health Services	45608	\$165,023,235	\$165,023,235	\$330,046,469
Long-Term Care Services	45610	\$679,570,509	\$679,570,509	\$1,359,141,018
		\$2,616,563,036	\$2,602,716,586	\$5,219,279,622

Note: Starting from Fiscal Year 2007, Nursing Facility Services and Other Long-Term Care Services are moved out of Program Code 45609 to Program Code 45610; Mental Illness Services are moved out of Program Code 45610 to Program Code 45608; MR Waiver Services moved out of Program Code 45608 to Program Code 45610.