



COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

CHERYL ROBERTS
DIRECTOR

SUITE 1300
600 EAST BROAD STREET
RICHMOND, VA 23219
804/786-7933
804/343-0634 (TDD)
www.dmas.virginia.gov

September 1, 2025

MEMORANDUM

TO: The Honorable Luke E. Torian
Chair, House Appropriations Committee

The Honorable L. Louise Lucas
Chair, Senate Finance and Appropriations Committee

Michael Maul
Director, Department of Planning and Budget

FROM: Cheryl Roberts
Director, Virginia Department of Medical Assistance Services

SUBJECT: Status of Section 1115 Waiver Application Report

This report is submitted in compliance with Item 292.XX.2. of the 2025 Appropriations Act which states:

The Department of Medical Assistance Services, in collaboration with the Department of Behavioral Health and Developmental Services, shall continue efforts to qualify for a section 1115 serious mental illness (SMI) waiver. The department is authorized to develop an 1115 SMI waiver application at the appropriate time. In addition to the waiver application, the department shall maintain a plan that includes any proposed service modifications, all potential fiscal implications (including cost savings) and a timeline for implementation. DMAS shall not implement any aspect of this proposed 1115 waiver without direct authorization by the General Assembly. The department shall provide the current version of the waiver plan by September 1 of each year to the Director, Department of Planning and Budget and Chairs of the House Appropriations and Senate Finance and Appropriations Committees.

Should you have any questions or need additional information, please feel free to contact me at 804-664-2660.

CR/wf

Enclosure

Pc: The Honorable Janet V. Kelly, Secretary of Health and Human Resources

Status of Section 1115 Waiver Application Report

September 2025

Report Mandate:

Item 288.XX. of the 2025 Appropriation Act states:

2. The Department of Medical Assistance Services, in collaboration with the Department of Behavioral Health and Developmental Services, shall continue efforts to qualify for a section 1115 serious mental illness (SMI) waiver. The department is authorized to develop an 1115 SMI waiver application at the appropriate time. In addition to the waiver application, the department shall maintain a plan that includes any proposed service modifications, all potential fiscal implications (including cost savings) and a timeline for implementation. DMAS shall not implement any aspect of this proposed 1115 waiver without direct authorization by the General Assembly. The department shall provide the current version of the waiver plan by September 1 of each year to the Director, Department of Planning and Budget and Chairs of the House Appropriations and Senate Finance and Appropriations Committees.

3. The Department of Medical Assistance Services shall have the authority to add coverage for services provided to Medicaid beneficiaries (ages 21 through 64) during short term stays (not to exceed 60 days) for acute care in psychiatric hospitals or residential treatment settings that qualify as Institutes of Mental Disease through an 1115 serious mental illness waiver. The department shall have the authority to implement these changes consistent with the effective date in the state plan amendment approved by the Centers for Medicare and Medicaid Services and prior to completion of any regulatory process in order to effect such changes.

Section 1115 Medicaid demonstration waivers are a way for states to test new approaches in Medicaid that vary from federal requirements. Federal priorities for 1115 demonstration waivers are communicated to states via letters to State Medicaid Directors, and states can also use generic templates to design their own projects for review. In 2018, Centers for Medicare and Medicaid Services (CMS) published a letter for State Medicaid Directorsⁱ announcing an opportunity for states to apply for demonstration projects under section 1115(a) of the Social Security Act (SSA) to improve care for adults with serious mental illness (SMI) or children with serious emotional disturbance (SED). The letter clarifies a number of strategies supported by CMS allowable in Medicaid currently and describes a new demonstration opportunity. The opportunity can be summarized as follows:

This SMI/SED demonstration opportunity allows states, upon CMS approval of their demonstrations, to receive Federal Financial Participation (FFP) for services furnished to Medicaid beneficiaries during short term stays for acute care in psychiatric hospitals or residential treatment settings that qualify as IMDs if those states are also taking action, through these demonstrations, to ensure good quality of care in IMDs and to improve access to community-based services.

Background

SFY 2025 Activities and Current Status

Virginia successfully submitted an application for this waiver opportunity December 31, 2024. Milestones achieved are as follows:

Date	Milestone
December 2022	Right Help. Right Now. Initiative launched, including focus on crisis care
January 2024	Additional crisis sites funded with state general funds; sites larger than 16 beds (e.g., co-located youth and adult facilities; co-located SUD and MH crisis facilities; facilities serving large population centers) envisioned as part of the needed crisis continuum
May 2024	Waiver design began; contractor onboarded, interviews and listening sessions with sister agencies, managed care health plans, other stakeholders
October 2024	Tribal notice
October 2024	Department of Planning and Budget notice; Senate and House Finance and Appropriations notice
November 8, 2024 to December 11, 2024	Public notice and comment period
November and December 2024	Public hearings
December 31 2024	Submission to CMS
January 2025	Completeness letter received from CMS
January – February 2025	Federal 30-day comment period
May 2025-current	Application technical assistance, initiation of special terms and conditions discussions

Currently, we are meeting monthly with CMS to clarify aspects of the implementation plan and complete the baseline Availability Assessment. The availability assessment is a comprehensive

assessment of community-based services in the Commonwealth which is a requirement for the SMI 1115 waiver.

SMI 115 Waiver Plan

The full waiver application which represents the current plan can be found on the DMAS website: [1115 Demonstration Waiver | Virginia Medicaid](#)

The amendment application proposes the following enhancements to the array of inpatient service options for adults aged 21-64 with SMI by adding service settings that may:

- Cover short term inpatient psychiatric treatment for members 21-64 who meet medically necessary criteria in psychiatric facilities that meet the definition of an Institutions for Mental Diseases (IMD)ⁱⁱ, and
- Cover short term residential crisis stabilization for members 21-64 who meet medically necessary criteria in residential crisis stabilization units that meet the definition of an IMD. Inpatient psychiatric treatment and short-term residential crisis stabilization services are covered by Virginia’s Medicaid Plan, but coverage is limited either by age or by settings for the adult population aged 21-64 due to the federal IMD exclusion policy. Currently, DMAS Contracted Managed Care Organizations can only cover these services in IMDs in certain situations as an “in lieu of service” (ILOS), but the ILOS provision has a number of specific restrictions that limit effective service delivery for the SMI population as the ILOS option is not a required service delivery option, ILOS cannot be used for involuntary treatment such as inpatient treatment or residential crisis stabilization under a temporary detention order (TDO) and ILOS cannot be used for members in Fee For Service (FFS) Medicaid.

Fiscal Impact, Cost Savings and Federal Budget Neutrality

This report requires DMAS to describe any analysis of cost and cost savings that may be associated with this waiver opportunity. At this time, a reliable estimate of longer-term decreases in cost due to improved quality of care, care coordination, and a full continuum of community-based alternatives has not been made. Thus, below we provide the additional estimated costs of Medicaid and Medicaid managed care health plans more reliably paying for inpatient stays in facilities with more than 16 beds for longer than 15 days. State fiscal year 2024 data of these stays indicated that up to 873 members were served for more than 15 days in a facility with more than 16 beds. Claims ranged from 16 to 31 days, with an average stay being 5.65 days above 15 days. Applying a 4.1% growth factor (based on most recent overall Medicaid annual growth), additional estimated spending on this service is provided in the table below. If services were already approved and implemented, SFY 2026 costs would be

\$4,137,513.50, but the earliest possible start date would be March 2026, so the values reflect only 1/3 of the projected annual spend.

	Total Cost	Base	Expansion	GF	NGF
SFY26	\$1,324,920.76	\$741,132.94	\$583,787.83	\$421,608.03	\$903,312.73
SFY27	\$4,306,928.74	\$2,409,205.76	\$1,897,722.98	\$1,370,524.04	\$2,936,404.70
SFY28	\$4,483,280.89	\$2,507,853.46	\$1,975,427.43	\$1,426,641.72	\$3,056,639.16

Timeline for Implementation

Implementation will begin following CMS approval. Currently, CMS is reviewing both the renewal of the current 1115 waiver and this amendment. The renewal of the current waiver was extended until 12/31/2025. Milestones that must be achieved for implementation are:

- Continue to meet monthly with CMS to clarify aspects of the implementation plan (underway)
- Negotiate the 1115 waiver special terms and conditions with CMS (expected to begin soon)
- Submit the completed Availability Assessment as soon as feasible. The availability assessment is a comprehensive assessment of community-based services in the Commonwealth which is a requirement for the SMI 1115 waiver. (underway)
- Receive CMS approval
- State Plan Amendment and policy manual updates to ensure that these services are allowable once CMS approval has been granted (underway)

About DMAS and Medicaid

The mission of the Virginia Medicaid agency is to improve the health and well-being of Virginians through access to high-quality health care coverage. The Department of Medical Assistance Services (DMAS) administers Virginia's Medicaid and CHIP programs for over 2 million Virginians. Members have access to primary and specialty health services, inpatient care, dental, behavioral health as well as addiction and recovery treatment services. In addition, Medicaid long-term services and supports enable thousands of Virginians to remain in their homes or to access residential and nursing home care.

Medicaid members historically have included children, pregnant women, parents and caretakers, older adults, and individuals with disabilities. In 2019, Virginia expanded the Medicaid eligibility rules to make health care coverage available to more than 600,000 newly eligible, low-income adults.

Medicaid and CHIP (known in Virginia as Family Access to Medical Insurance Security, or FAMIS) are jointly funded by Virginia and the federal government under Title XIX and Title XXI of the Social Security Act. Virginia generally receives an approximate dollar-for-dollar federal spending match in the Medicaid

program. Medicaid expansion qualifies the Commonwealth for a federal funding match of no less than 90% for newly eligible adults, generating cost savings that benefit the overall state budget.

ⁱ [Opportunities to Design Innovative Service Delivery Systems for Adults with a Serious Mental Illness or Children with a Serious Emotional Disturbance \(medicaid.gov\)](#)

ⁱⁱ SSA §1905(i), Institution for mental diseases means a hospital, nursing facility, or other institution of more than 16 beds, that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services