

Department of Planning and Budget
2026 General Assembly Session
State Fiscal Impact Statement

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ORIGINAL

Bill Number: HB66

Patron: Feggans

Bill Title: Department of Medical Assistance Services; Department of Social Services; administration of medical assistance and social services programs; technology modernization.

Bill Summary: Directs the Department of Medical Assistance Services (DMAS) and the Department of Social Services (DSS) to modernize the technological systems they use to administer federal medical assistance and social services programs to meet all eligibility determination, certification, data reporting, or other requirements for such programs. The bill requires DMAS and DSS to submit an implementation plan for such modernized technological systems to the Governor and the Chairs of the House Committee on Health and Human Services and the Senate Committee on Education and Health by December 1, 2026, and to provide quarterly reports on the implementation to the General Assembly thereafter.

Budget Amendment Necessary: Yes

Items Impacted: 338 (DSS)

Explanation: DSS will need appropriation in Item 338 to fund a contract with a vendor to complete an implementation plan as described in the bill. Additionally, DSS and DMAS will have indeterminate costs in the event the plan calls for information technology systems upgrades and/or replacements.

Fiscal Summary: The bill's requirement to develop a modernization plan will be absorbed by DMAS. However, DSS will require additional resources to contract with a vendor that will assist with these efforts. Based on the agency plans, it is expected there will be a significant cost to proceed with modernization efforts, as required by the bill. Such costs are indeterminate at this time.

General Fund Expenditure Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
DMAS (602)	\$0	Indeterminate	Indeterminate	Indeterminate	Indeterminate	Indeterminate
DSS (765)	\$0	\$318,145 / Indeterminate	Indeterminate	Indeterminate	Indeterminate	Indeterminate

Nongeneral Fund Expenditure Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
DMAS (602)	\$0	Indeterminate	Indeterminate	Indeterminate	Indeterminate	Indeterminate
DSS (765)	\$0	\$181,855 / Indeterminate	Indeterminate	Indeterminate	Indeterminate	Indeterminate

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Fiscal Analysis: This legislation requires DMAS and DSS to develop an implementation plan to modernize the systems they use to administer federal medical assistance and social services programs and ensure the modernized systems meet all eligibility determination, certification, data reporting, and other requirements for those programs. The plan is to be submitted to the Governor and the Chairs of the House Committee on Health and Human Services and the Senate Committee on Education and Health by December 1, 2026. Additionally, the agencies are required to provide quarterly update reports to the General Assembly after the implementation plan has been submitted. It is assumed that this language will require the agencies to start modernizing their systems after the December 1, 2026, report is submitted, which means that both agencies will require funding for modernization beginning in FY 2027. The bill does not limit modernization efforts to those systems that do not meet federal program requirements. It is expected that all state systems currently meet all federal requirements and will continue to do so. As such, it is assumed that there is a high likelihood that the agencies' plans will find opportunities to enhance impacted systems, and the agencies will be expected to proceed with such modernization efforts. To the extent that each agency identifies systems modernization, it is expected the systems overhauls will require an indeterminate but significant amount of funding.

While the funding amounts are indeterminate for potential systems modernizations that may be generated by the agencies, there are some recent funding requests that can demonstrate the potential magnitude of such efforts. Beginning in FY 2022, DSS was approved to begin modernization of their child support information system. The agency estimated at the time that the overall project cost for the replacement system would be approximately \$45.0 million and span several years. In that same timeframe, DSS requested funding to modernize and replace its Virginia Case Management System (VaCMS) at a development cost quoted from the vendor of the existing system of approximately \$50.9 million. The project, if it had been approved to move forward, would have spanned several years. It should be noted that these costs were initial projections and do not reflect likely cost overruns, impact on agency staffing, and inflation. Both DMAS and DSS maintain several systems that may be found to benefit from modernization when the final implementation plan is submitted in December 2026. Potential impacts to each agency and their respective systems are discussed in more detail below.

Department of Medical Assistance Services (DMAS)

DMAS assumes that the agency can absorb any costs it may incur in the preparation of the systems modernization implementation plan; however, the agency will need additional funding if the final plan indicates any of its systems need modernization. Those costs are indeterminate at this time.

Medicaid eligibility is currently determined by local departments of social services employees, who use the DSS VaCMS for purpose. That system is discussed below in the DSS section, as DSS is fully responsible for that system.

Medicaid billing and payment functions are managed through the DMAS Fiscal Agent Services (FAS) contract, which is actively being reprocured. DMAS has also received funding in the introduced budget to develop and update systems to determine compliance with community engagement and work requirements.

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Additionally, DMAS operates the Medicaid Enterprise System (MES), which is a modular technology platform that serves as the backbone of the agency's medical assistance programs. MES functions include: pharmacy benefits, care coordination, claims processing, plan management, adjudication, enrollment, provider reimbursement, and appeals. This system was launched in 2022 to replace the outdated legacy system. Because the system has recently been modernized, it is possible the implementation plan may indicate leaving this system untouched, but that is unclear at this time.

Department of Social Services (DSS)

DSS indicates that the agency will need to contract with a vendor to help the agency define project goals, develop a cost-benefit analysis, a budget and an implementation plan. The vendor would provide a governance structure, a roadmap for architecture, low-code application platform (LCAP) recommendations, cloud migration strategies, screen assessments, workflow upgrade/recommendation, payment error rate recommendations, artificial intelligence recommendations, phased approach and staggered implementations or pilots as well as assistance with vendor selection criteria if the decision is made to submit a Request for Proposal. The agency estimates this contract to be a one-time cost of \$500,000 (\$318,145 general fund and \$181,855 nongeneral funds). This vendor will also provide support to help establish uniform statewide data entry standards for local departments of social services, as prescribed by § 3 of the legislation.

In addition, DSS will redirect staff from within the agency to work closely with the vendor in the planning effort. Staff will include a technical program manager to coordinate schedules, a senior business analyst, and functional analysts to develop requirements, lead program workshops, validate scope and priorities, and ensure the plan reflects real business needs.

Before the agency can draw down federal funds to fund systems modernization, DSS is required to submit an Advanced Planning Document (APD) to the federal government for approval prior to beginning systems work. An APD outlines technical, financial, and management requirements to secure federal approval for technology systems design, development, and operation. Without federal approval, federal funds cannot be drawn down to support system costs. The vendor would help DSS to meet federal requirements so that when appropriation for a new modernized eligibility system is available, work can begin immediately.

As referenced earlier in this analysis, DSS maintains VaCMS, which is the agency's system of record for eligibility for federal social services programs such as Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, Low Income Home Energy Assistance Program, and Medicaid. This system interfaces with other DSS systems, along with the agency's CommonHelp platform.

The agency ascertains that it is not in a position to definitively list every affected system or quantify every change that needs to be made to meet the requirements of the legislation until the vendor is hired and the implementation plan is finalized.

Other: -