



BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

October 22, 2009

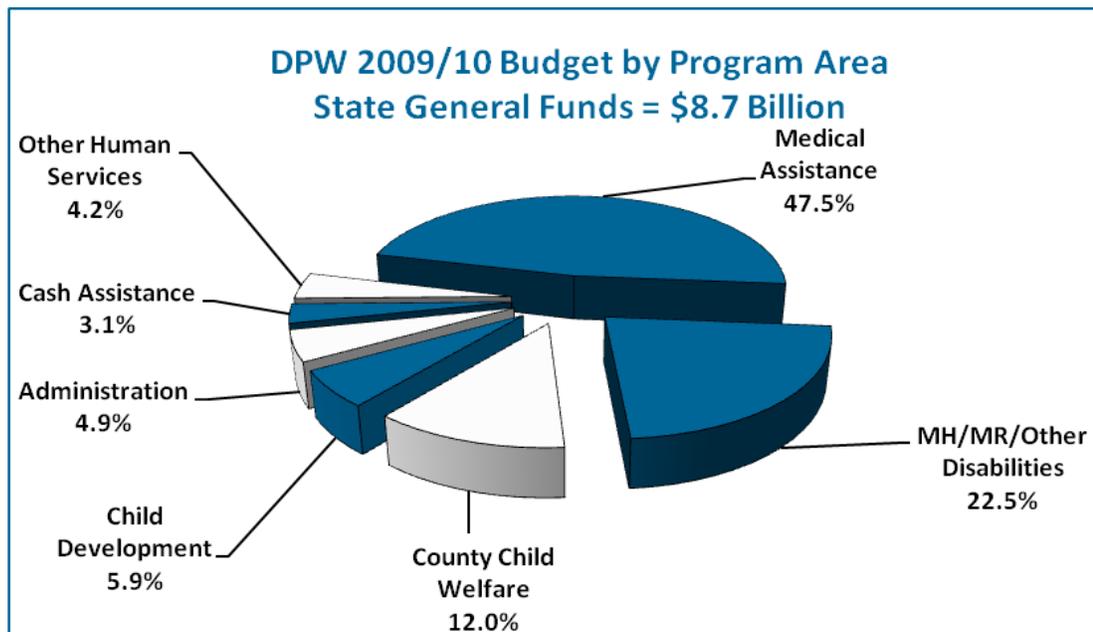
2009/10 Budget: Department of Public Welfare

The Department of Public Welfare (DPW) budget is a significant component of the Commonwealth's overall budget, accounting for more than one-third of state General Fund spending and total spending (state, federal and other funds). As the Commonwealth's human services agency, **DPW administers and oversees a comprehensive array of programs that range from services for toddlers with disabilities to nursing home care for seniors.** These programs touch the lives of more than two million Pennsylvanians and their families.

The 2009/10 enacted budget did not implement the Administration's recommendation to reorganize the Department of Aging, which would have required moving certain programs from DPW to the newly reorganized agency. Consequently, the following

programs -- Medical Assistance Long Term Care, Attendant Care, and Services to Persons with Disabilities -- will continue to be administered by DPW and remain in the department's budget.

This briefing provides an overview of DPW's 2009/10 budget, including its distribution across major program areas, a description of the various funding sources used by the department, and a summary of the major initiatives in the enacted budget. A series of separate briefings will provide more detailed analyses of specific program budgets, including: Medical Assistance; mental health/mental retardation; and other disability programs.



Enacted Budget by Program Area

The 2009/10 DPW budget totals \$24.7 billion, with state General Funds comprising \$8.7 billion of the overall agency budget. Most of DPW's budget is for the following programs:

- **Medical Assistance** (MA), which provides health care and long-term care to more than two million of our poor, elderly, disabled and chronically ill population.
- **Disability** programs that provide community-based services as well as institutional care to an estimated 230,000 individuals with mental retardation, mental illness, autism, and physical disabilities.
- **County child welfare** services that promote the safety and well-being of approximately 250,000 children who have been (or are at risk of being) abused or neglected.

As shown in the pie chart on page 1, these three program areas account for 82 percent of state General Fund dollars appropriated to DPW in 2009/10. (The percentage increases to 85 percent when all funds are taken into consideration, with Medical Assistance alone accounting for more than 60 percent of the overall DPW budget). In many cases, the programs and services are not discretionary. Rather, they are prescribed by state or federal law, regulation, legal agreements or negotiated contracts that must be altered in order to achieve significant funding changes.

Other vital program areas in DPW's budget are child development and human services. Child development programs include child care services for low-income families and early intervention for toddlers with developmental disabilities. Human services include: homeless assistance; human services development funds to support county-run programs; employment/job training programs that assist families to become self sufficient; and supplemental cash assistance to the disabled and elderly on fixed incomes. Please note that only three percent, or just \$269 million, of DPW's 2009/10 state General Fund appropriations pay for cash grants (including support allowances) to so-called "welfare" recipients of TANF and General Assistance.

Funding Sources

DPW's budget has several features that distinguish it from most other agencies' budgets. First, as the Commonwealth's human services agency, DPW administers billions of dollars in federal funds including Medicaid matching funds and various block grants. In fact, approximately two-thirds of all federal funds spent by the Commonwealth flow through DPW. Federal funds come with numerous requirements regarding their draw-down and utilization, which leads to a second important point: **DPW relies heavily upon other funds to earn federal Medicaid matching funds and to reduce the amount of state General Fund dollars that otherwise would be required to pay for programs.**

The total 2009/10 DPW budget is \$24.7 billion in state, federal and other funds.

- The \$8.728 billion in state General Fund appropriations represent only 35 percent of the agency budget.
- Federal appropriations account for \$14.156 billion, or 57 percent, of the budget. Federal funds are comprised largely of the federal Medicaid match (\$11.8 billion) which supports the Medical Assistance program and, to a lesser extent, mental retardation, mental health and other disability programs. As explained in greater detail below, 2009/10 federal Medicaid funds include \$1.7 billion in enhanced federal match (ARRA FMAP) that the Commonwealth expects to receive under federal stimulus. Other major federal funds include Title IV-E which supports county child welfare programs, the TANF block grant which supports programs for needy families (such as cash grants and employment/job training), and the Child Care and Development Fund (CCDF) block grant that supports child care programs.
- Other funds account for \$1.798 billion (or seven percent) of the budget, and are comprised predominantly of revenues that fund the Medical Assistance program. The largest component is assessments collected from MA providers (nursing homes, managed care organizations, and Philadelphia hospitals, and Mental

retardation centers) which total \$1.116 billion. This category also includes \$580 million from the following special funds that support MA programs: Lottery Fund (\$178 million) and Tobacco Settlement Fund (\$402 million).

Table 1 (below) shows the total funds budgeted for DPW in 2009/10 compared to 2008/09, a net increase of \$120 million (or 0.5%). When comparing the two budgets, it is important to note the rollback of \$826 million in Medical Assistance expenditures (\$285 million state funds and \$541 million federal funds) from July 2009 to the 2008/09 fiscal year. The rollback is a budgetary maneuver that simply alters the year in which the expenditures are booked. DPW will still pay MA providers for twelve months of claims during 2009/10; however, \$826 million will be paid with prior year state and federal funds as the result of concomitant increases in supplemental appropriations for 2008/09.

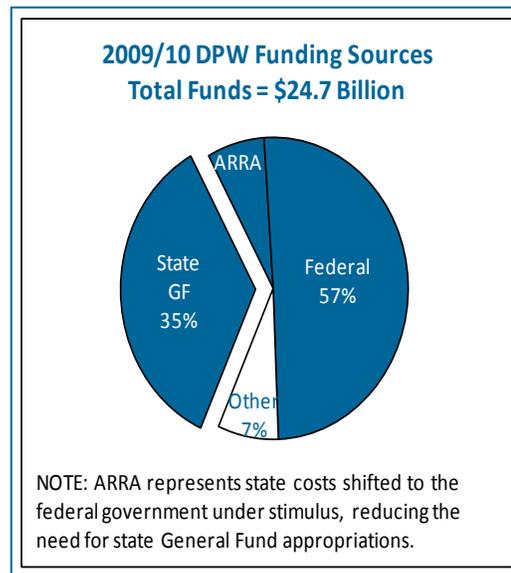


Table 1. DPW Budget by Funding Source
(Dollars in Millions)

| <u>Funding Sources</u> | <u>2008/09 *</u> | <u>2009/10</u> | <u>\$ Change</u> | <u>% Change</u> |
|-------------------------|------------------|------------------|------------------|-----------------|
| State General Fund | \$ 9,426 | \$ 8,728 | \$ (699) | -7.4% |
| Federal Appropriations | \$ 13,385 | \$ 14,156 | \$ 772 | 5.8% |
| Provider Assessments | \$ 863 | \$ 1,116 | \$ 253 | 29.3% |
| Tobacco Settlement Fund | \$ 346 | \$ 402 | \$ 55 | 15.9% |
| Lottery Fund | \$ 301 | \$ 178 | \$ (122) | -40.7% |
| Other Revenues | \$ 242 | \$ 102 | \$ (139) | -57.7% |
| TOTAL | \$ 24,563 | \$ 24,682 | \$ 120 | 0.5% |

* 2008/09 figures are preliminary amounts that reflect lapses and supplemental appropriations. Please note that actual expenditures may be lower when the 2008/09 books are closed.

Federal Stimulus

Both the 2008/09 budget and the 2009/10 budget reflect the utilization of **federal American Reinvestment and Recovery Act (ARRA) funds**, reducing the need for state General Fund appropriations to support DPW programs (see Table 2 on page 4). ARRA funds are a component of the federal appropriations, with approximately \$1.18 billion appropriated in 2008/09 (reflecting three quarters of federal stimulus) and \$1.73 billion appropriated in 2009/10 (reflecting four quarters of federal stimulus). The stimulus dollars are comprised predominantly of the enhanced federal Medicaid

reimbursement (ARRA FMAP) that Pennsylvania received beginning October 1, 2008 for qualified expenditures in DPW's Medicaid-related programs - namely the Medical Assistance program as well as the various community programs that serve individuals with disabilities. As a condition for receiving the enhanced ARRA FMAP, Pennsylvania could not reduce Medicaid income eligibility below what was in effect as of July 1, 2008 and had to meet federal requirements regarding the funding of home and community-based Medicaid Waiver programs for the elderly and disabled. Please note that the 2008/09 ARRA FMAP amounts in Table 2 are preliminary figures that may differ from the actual

enhanced reimbursement that the Commonwealth receives when final expenditure reports are

submitted to the federal government.

Table 2. Federal ARRA Funds Used to Reduce State Appropriations
(Dollars in Millions)

| <u>DPW Line Items Offset with Federal ARRA Funds</u> | <u>2008/09</u> | <u>2009/10</u> |
|--|-------------------|-------------------|
| ARRA FMAP: | | |
| State Centers for the Mentally Retarded | \$ 19.5 | \$ 31.8 |
| Medical Assistance - Outpatient | \$ 99.9 | \$ 161.2 |
| Medical Assistance - Inpatient | \$ 66.4 | \$ 98.0 |
| Medical Assistance - Capitation | \$ 504.5 | \$ 748.1 |
| Medical Assistance - Long-Term Care | \$ 306.8 | \$ 378.3 |
| Physician Practice Plans | \$ 1.8 | \$ 3.2 |
| Medical Assistance - Transportation | \$ 2.0 | \$ 3.0 |
| Intermediate Care Facilities - Mentally Retarded | \$ 24.0 | \$ 39.4 |
| Community Mental Retardation - Base Program ** | \$ 104.7 | \$ 2.2 |
| Community Mental Retardation - Waiver Program | ** | \$ 179.8 |
| Early Intervention | \$ 3.3 | \$ 5.8 |
| Autism Intervention and Services | \$ 0.4 | \$ 3.4 |
| Services to Persons with Disabilities | \$ 14.9 | \$ 29.0 |
| <u>Attendant Care</u> | <u>\$ 9.0</u> | <u>\$ 16.7</u> |
| Subtotal - ARRA FMAP | \$ 1,157.3 | \$ 1,699.8 |
| Other ARRA Funds: | | |
| Mental Health Services | \$ 3.4 | \$ 4.5 |
| County Child Welfare | \$ 13.4 | \$ 14.5 |
| Child Support Enforcement | \$ 2.4 | \$ 4.0 |
| Early Intervention (IDEA) | \$ - | \$ 7.6 |
| Total ARRA Funds | \$ 1,176.5 | \$ 1,730.5 |

** Beginning in 2009/10, the Community Mental Retardation Services line item is separated into two components: Community MR Base Program and Community MR Waiver Program. Please note that because the 2008/09 budget had a single line item for community mental retardation services, the total 2008/09 ARRA FMAP received for these services is shown under Community MR Base Program.

In addition to ARRA FMAP, the DPW budget utilizes other federal stimulus funds to reduce the need for state General Fund dollars. Increased disproportionate share payments for mental health hospitals are used to reduce the state appropriation for Mental Health Services. Also, an enhanced federal match equal to the ARRA FMAP rate on state maintenance payments for foster care, adoption assistance, and guardianship assistance care for eligible children is used to reduce state and

county costs under County Child Welfare. Under Child Support Enforcement, ARRA temporarily allows states to use federal incentive payments earned for high performance as their share of expenditures eligible for federal Title IV-D match, resulting in general fund savings. Additional Individuals with Disabilities Education Act (IDEA) funds available under ARRA for Early Intervention also offset some state funds in 2009/10.

Provider Assessments

A major funding source in DPW's budget are the assessment revenues collected from nursing homes, managed care organizations, mental retardation centers (both state-operated and private facilities), and Philadelphia hospitals. Through these assessments, DPW generates additional federal Medicaid matching funds to help pay for the Medical Assistance rates paid to these same providers. The 2009/10 increase in assessment revenue reflects the new Gross Receipts Tax on managed care organizations which replaces the previous 5.5% managed care assessment that was terminated after September 30, 2009 due to changes in the federal Deficit Reduction Act of 2005. Beginning October 1, 2009, Pennsylvania's Medicaid managed care plans are now subject to a 59 mill (or 5.9%) state Gross Receipts Tax on payments received from DPW per their Medical Assistance contracts.

Special Funds

The DPW budget includes three programs that were established under Act 77 of 2001 and which are funded from the Tobacco Settlement Fund: Medical Assistance for Workers with Disabilities (MAWD); the hospital Uncompensated Care program; and Home and Community-Based Care. DPW also uses monies from the Tobacco Settlement Fund, as well as the State Lottery Fund, to help pay for Medical Assistance Long Term Care and thereby reduce the amount of state General Fund appropriations that otherwise would be needed for long term care.

Other Revenues

This category is comprised of non-state funding sources such as collections from patients at the state mental hospitals and state mental retardation centers. Prior to 2009/10, this category was comprised largely of county intergovernmental transfer (IGT) funds which were used primarily for Medical Assistance Long Term care as well as other health and human service programs. The 2009/10 reduction in other revenues reflects the disappearance of \$142 million in IGT funds that were used in 2008/09 to pay for programs, but are no longer available.

First instituted in 1990, the IGT became a significant funding source for DPW, allowing Pennsylvania to meet its growing Medical Assistance obligations (as well as other human service costs) without the need for significant increases in state General Fund spending. Previous DPW budgets relied heavily on the IGT to pay for programs, with the amount of **IGT funding escalating from approximately \$300 million in 1995/96 to a whopping \$1.85 billion in 2002/03** under the Ridge/Schweiker Administration. This represented an increase of more than \$1.5 billion which was unsustainable given a federal rule change scheduled to take effect in 2003/04.

In January 2001, the federal government changed its rules in order to curtail states' use of IGT funds. In accordance with this federal change, Pennsylvania was required to phase-out its IGT over a six-year period beginning 2003/04 and ending 2008/09. When the Rendell Administration took office in January 2003, it was immediately confronted with the need to find alternative revenue to replace disappearing IGT funds or reduce services. The Administration has responded to the IGT phase-out through a combination of actions, including: redesigning the Medical Assistance program to contain costs per Act 42 of 2005; instituting the various provider assessments described above; and utilizing money from the Tobacco Settlement Fund and the Lottery Fund to help pay for MA Long Term Care.

2009/10 Budget Highlights

Medical Assistance

The enacted budget does not "carve out" managed care pharmacy as proposed under the Smart Pharmacy initiative in DPW's budget request. Instead, managed care organizations will continue to provide pharmacy benefits to their Medical Assistance enrollees in 2009/10. Beginning October 1, 2009, managed care organizations (MCOs) pay the new Gross Receipts Tax – revenue generated from the tax, including federal matching funds, will be used to support Medical Assistance rates paid to MCOs. Physical health MCOs are budgeted to receive a statewide rate increase of approximately

three percent while behavioral health MCOs are budgeted to receive a statewide rate increase of two percent. The enacted budget does not fund pay for performance (P4P) payments to MCOs for meeting targeted outcomes.

The enacted budget does not fund an increase in hospital rates. However, it provides a total of \$301 million (\$125.4 million state General Funds plus \$175.6 million in federal matching funds) for the following supplemental payments:

- \$17 million state funds (\$50 million total funds) for Outpatient Disproportionate Share payments to hospitals that serve a disproportionate share of low-income or uninsured patients.
- \$35.7 million state funds (\$79 million total funds) for Inpatient Disproportionate Share payments to hospitals that serve a disproportionate share of low-income or uninsured patients.
- \$21.9 million state funds (\$64 million total funds) for Medical Education payments to hospitals with teaching programs for doctors and nurses.
- \$24 million state funds (\$49.3 million total funds) for Community Access Funds payments to hospitals that serve the uninsured.
- \$5 million state funds (\$11.1 million total funds) for payments to qualifying hospitals that provide obstetric and neonatal services to Medical Assistance recipients.
- \$5.1 million state funds (\$11.4 million total funds) for payments to Pennsylvania's six certified burn centers.
- \$4.9 million state funds (\$10.7 million total funds) for Critical Access Hospital payments to Pennsylvania's thirteen hospitals that meet Medicare's definition for "critical access."
- \$11.5 million state funds (\$25.5 million total funds) for payments to Pennsylvania's accredited trauma centers.

The enacted budget does not provide a per diem rate increase for nursing homes. However, it funds the quarterly acuity payment to nursing homes, which helps to fund the increased costs associated with providing care for patients who increasingly require more staff, medications and medical supplies.

Home and Community-Based Medicaid Waivers

The enacted budget includes \$95.8 million in total funding (32.7 million in state funds and \$63 million in federal matching funds) to expand home and community-based Waiver services for 4,933 elderly and disabled Pennsylvanians. Specifically, the budget provides the following for Waiver programs:

- \$6.4 million state funds (\$18.7 million total funds) in the Medical Assistance Long Term Care line item to expand the community Waiver program so that **an additional 2,000 seniors can receive services in their homes and communities as an alternative to nursing home care.**
- \$7.8 million in state funds (\$22.7 million total funds) for Community Mental Retardation Waiver Programs to serve an additional 793 individuals.
- \$6.8 million in state funds (\$20 million total funds) in the Autism Services line item so that 300 adults with autism can be served in the Autism Waiver Program.
- \$8.4 million state funds (\$24.6 million total funds) for Services to Persons with Disabilities to expand community Waiver programs for an additional 960 severely disabled individuals; and
- \$3.3 million state funds (\$9.8 million total funds) for Attendant Care so that an additional 660 individuals with physical disabilities can be served in the Attendant Care Waiver program.

In addition to funding the Attendant Care Waiver program, the enacted budget provides sufficient state funds for the Act 150 Attendant Care program to maintain services for individuals who were in the program in 2008/09 and to expand services for an additional 120 individuals in 2009/10. The Act 150 Attendant Care program is a component of the Attendant Care line item and serves disabled individuals who are not eligible for Medical Assistance. Consequently, this program does not receive federal matching funds and is supported entirely with state funds.

Mental Health/Mental Retardation

The enacted budget reduced funds allocated to counties for community-based mental health/mental retardation programs operated by the counties. State grants for community mental health services (funded through the Mental Health Services line item) were cut \$3 million, reflecting DPW's budget request for a two percent reduction.

State funding for community mental retardation base programs was reduced by \$12 million. Most of this cut does not impact county allocations. Rather, it reflects the lack of funding for a \$9.8 million payment that DPW had proposed for counties adversely impacted by the July 2009 implementation of a new payment system for the Community MR Waiver program. Prior to July 2009, DPW provided quarterly advance payments to counties to cover the costs for providers in the Community MR Waiver program. However, to comply with federal Medicaid requirements, DPW now directly pays Waiver providers through the State Treasurer and so counties can no longer benefit from the "float" earned on the quarterly advances.

Cuts to the state mental hospitals (funded through the Mental Health Services line item) and the state mental retardation centers reflect administrative

savings, including reductions in the number of positions funded in 2009/10.

Other Human Services

The enacted budget provides an additional state funding of \$12.7 million for **Behavioral Health Services**, replacing primarily the intergovernmental transfer funds (IGT) that were used in 2008/09 but are no longer available. The Behavioral Health Services line item provides grants to counties so they can provide mental health services and drug and alcohol treatment services to individuals who are not eligible for Medical Assistance. Senate Bill 850 had not replaced the IGT, leaving a \$12.1 million hole in county funding.

The budget funds **Child Care Services** at the level that is statutorily necessary to receive federal ARRA funds. Senate Bill 850 had not funded this appropriation at the requisite level, jeopardizing Pennsylvania's share of ARRA funds. The state dollars in this appropriation will be used to maintain the current program (approximately 60,000 slots). The additional ARRA funds received will help reduce the large waiting list in the program (adding approximately 4,300 slots); enhance the Keystone STARS program; and start a pilot initiative to promote early learning for infants and toddlers.



QUESTIONS AND COMMENTS

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