

2014/15  
**BUDGET BRIEFING**  
 Report on Key Issues  
 HOUSE APPROPRIATIONS COMMITTEE (D)



**JOE MARKOSEK, DEMOCRATIC CHAIRMAN** Nov. 7, 2014

## The Lottery Fund

The Pennsylvania Lottery closed fiscal year 2013/14 with a record \$3.8 billion in ticket sales, an increase of \$99.9 million, or 2.7 percent, above the previous year's record. The lottery generated \$1.08 billion in profits for senior programs, which was \$14.1 million, or 1.3 percent more than the previous year's record. Profits for senior programs represented 28.5 percent of the lottery's ticket sales.

**The enacted 2014/15 budget spends \$1.438 billion of Lottery Fund revenues on senior programs, which is \$151 million more than 2013/14. However, very little of the increase is for new or expanded programs; rather, the increase reflects the additional shifting of \$160 million of the Department of Public Welfare's (DPW) Medical Assistance expenditures from the General Fund to the Lottery Fund. An additional \$14 million is budgeted to expand home and community-based programs in DPW and the Department of Aging so that 2,468 more seniors may receive services in 2014/15. The Lottery Fund will be left with only an estimated \$9.4 million ending balance at the end of 2014/15, after placing \$75 million in reserve - the lowest ending balance since 1994/95.**

Gov. Corbett's budget proposal included expanding the lottery to sell Keno and assumed legislation would be enacted to extend relief from its profit rate mandate. **On Oct. 31, the governor signed House Bill 2110 (Act 201), which permanently reduces the profit rate requirement from 30 percent to 25 percent, effective immediately.** According to the Department of Revenue, reducing the profit rate mandate gives the lottery the ability to offer games that maximize profits for senior programs. Keno legislation did not pass, in fact, the new law strictly prohibits the lottery from selling Keno, internet instant games, internet casino-style lottery games (i.e. video poker, roulette, blackjack and slot machines), and from selling lottery games online.

Established by Act 91 of 1971, the Pennsylvania Lottery provides funding for programs and services that benefit older Pennsylvanians. All revenue generated from lottery operations are deposited into the Lottery Fund. Profits, after paying for lottery prizes and operating costs, go towards services for seniors. State law requires at least 40 percent of gross lottery sales be paid out as prize money and at least 25 percent be dedicated to programs benefiting seniors (as modified by Act 201 of 2014).

### Lottery Fund Ending Balance

The Lottery Fund financial statement (see Table 1) shows \$2.15 billion in total revenue available to spend in 2014/15. This amount includes the \$202 million ending balance carried forward from 2013/14.

Expenditures budgeted in 2014/15 for prize payouts, operating expenses and senior programs total

\$2.065 billion. **This leaves the Lottery Fund with an ending balance of only \$9.4 million, after placing \$75 million in reserve as a buffer against unanticipated expenditures and/or lagging lottery ticket sales.**

**Table 1: Lottery Fund Financial Statement**

*(\$ Amounts in Millions)*

	FY 2013/14	FY 2014/15
Beginning Balance	\$161.2	\$202.2
Reserve from Previous Year	\$75.0	\$75.0
<b>Adjusted Beginning Balance</b>	<b>\$236.2</b>	<b>\$277.2</b>
Net Revenue Estimate	\$1,766.4	\$1,872.1
Prior Year Lapses	\$29.4	\$0.0
Total Receipts	\$1,795.8	\$1,872.1
<b>Total Funds Available to Spend</b>	<b>\$2,032.0</b>	<b>\$2,149.2</b>
Total Expenditures	(\$1,754.8)	(\$2,064.8)
Current Year Reserve	(\$75.0)	(\$75.0)
<b>Ending Balance</b>	<b>\$202.2</b>	<b>\$9.4</b>

## Lottery Fund Revenues

Lottery Fund revenues for 2014/15 are estimated at \$1.87 billion, an increase of \$76 million from the prior year (see Table 2). The 2014/15 revenues include:

- \$1.7 billion projected net lottery collections, which is the revenue generated from lottery ticket sales less the prizes paid directly by retailers (winning ticket holders may redeem prizes up to \$2,500 at lottery retailers) and the commission retained by retailers;
- \$162.8 million transferred from the State Gaming Fund to pay for costs associated with the expansion of the Property Tax/Rent Rebate program (Special Session Act 1 of 2006); and
- \$1.3 million of miscellaneous revenue (namely investment earnings).

Net collections are expected to increase \$110 million in 2014/15, reflecting continued record growth in lottery ticket sales. **Specifically, sales are projected to reach \$3.96 billion, an increase of \$160 million, or 4.2 percent, above the \$3.8 billion record set in 2013/14.**

	2013/14	2014/15 *
Lottery Ticket Sales	\$3,799.6	\$3,960.0
Less Commissions & Field Paid Prizes	(\$2,201.6)	(\$2,252.0)
<b>Net Lottery Collections</b>	<b>\$1,598.0</b>	<b>\$1,708.0</b>
Gaming Fund Transfer	\$166.5	\$162.8
Miscellaneous Revenue	\$1.9	\$1.3
<b>Total Revenue</b>	<b>\$1,766.4</b>	<b>\$1,872.1</b>

\* Per Lottery Fund Financial Statement, Governor's Budget Office

These sales projections assumed the temporary relief from the lottery's profit rate mandate (27 percent) would expire after June 30, 2015. However, with passage of Act 201 of 2014, the rate is permanently reduced from 30 percent to 25 percent. The Revenue Department estimates that lowering the rate will generate an additional \$130 million in profits for senior programs over the next five years, compared to keeping the rate at 27 percent. When compared to the 30 percent rate, the reduction will generate nearly \$1 billion more over the same period. Also, projected sales reflect Pennsylvania's participation in a new multi-state game, Monopoly Millionaire's Club, which launched Oct. 19.

## Lottery Fund Expenditures

The 2014/15 budget continues the practice of shifting General Fund expenditures to the Lottery Fund. **Nearly one-fourth, or \$470 million, of all 2014/15 Lottery Fund spending is for Medicaid expenditures in the Department of Public Welfare (DPW) that were previously paid from the General Fund (see Chart 3).**

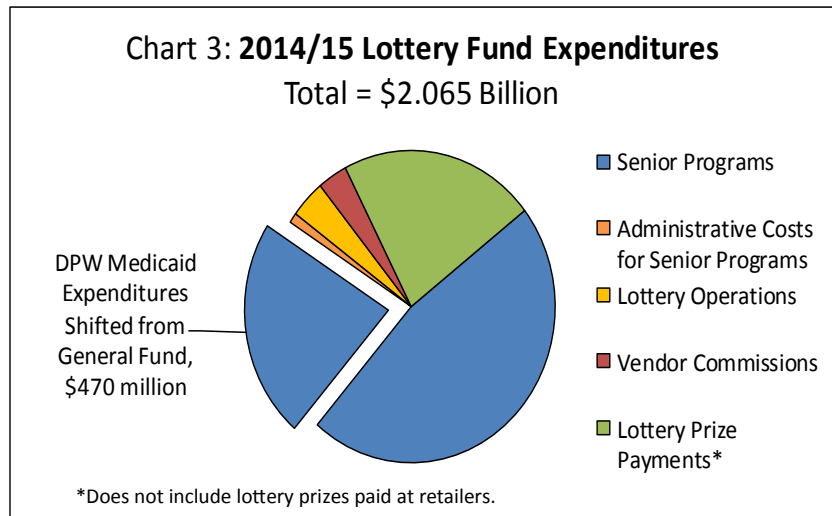


Chart 3 illustrates the distribution of Lottery Fund expenditures:

- \$1.438 billion is for various programs that benefit seniors, of which \$470 million represents the aforementioned Lottery Funds being used in place of General Fund revenue to pay for Medicaid expenditures in DPW. Detail on senior programs is provided in the following section.
- \$454.55 million is for payment of the following types of lottery prizes: online and instant game prizes that are more than \$2,500; prizes for which winning ticket holders choose to present their tickets at lottery headquarters for payment; and online prizes not claimed within 180 days and are more than \$100. The amount budgeted for this executive authorization is based on ticket sale projections.
- \$68.75 million is for vendor commissions. This includes the commission paid to the contractor that operates/maintains the terminal-based lottery system – payments are calculated at 0.835 percent of the total sales of all lottery games, including instant games. It also includes

the payment of ticket testing and vendor commissions for the printing, warehousing and delivery of instant tickets to retailers – the commission is equal to 0.91 percent of actual sales of the instant games, plus a bonus for increased profits.

- \$81.7 million is for expenses associated with lottery operations. This includes \$44.7 million for the Department of Revenue to administer and operate the lottery and \$37 million for advertising and promotional activities for the lottery. These operating costs represent less than 2.1 percent of revenue generated from lottery ticket sales.
- \$21.8 million is for the agency costs associated with administering senior programs. This includes \$13.8 million for the Department of Revenue to administer the Property Tax/Rent Rebate Program and \$7.9 million for the Department of Aging to administer and operate various senior programs.

#### **Pennsylvania Lottery Ticket Sales & Profits**

For 2013/14, total lottery ticket sales reached a record of \$3.8 billion, an increase of \$99.9 million (or 2.7 percent) above the sales record set in the previous year.

- Instant game sales were more than \$2.44 billion, an increase of \$139.7 million (or 6 percent) from the prior year.
- Sales for terminal-based lottery games (Powerball, Mega Millions, Cash 5 and other terminal-based games) totaled \$1.35 billion, which is \$39.8 million (or 2.9 percent) below the prior year.

The lottery generated more than \$1.08 billion in profits for senior programs, which was about \$14.1 million more than the previous year's record.

For 2013/14, state lottery revenue was distributed as follows:

- 62.6 percent to players as prize money;
- 28.5 percent to the Lottery Fund to support programs for older Pennsylvanians;
- 7.0 percent to retailers and vendors as commissions; and
- 2.04 percent for lottery administrative costs.

For more background information, see the [PA Lottery & Lottery Fund Primer](#).

## **Senior Programs**

The enacted 2014/15 budget spends a total of \$1.438 billion on senior programs, or \$151 million more than 2013/14. However, very little of the increase is for new or expanded programs; rather, the increase reflects the additional shifting of DPW's Medical Assistance expenditures from the General Fund to the Lottery Fund.

One-third of the Lottery Funds budgeted for senior programs, or \$470 million, will be used to reduce General Fund spending in three programs operated by DPW. These funds, which will pay for existing program costs as opposed to supporting the expansion of services, are \$160 million more than what was used in 2013/14 to reduce General Fund spending. This includes the \$130 million requested by the governor to replace General Fund revenues for the Aging Waiver program. In addition, the final budget added another \$25 million of Lottery Fund revenues to pay for nursing facility care and \$4.9 million to help pay for Medical Assistance transportation.

Per the governor's request, \$14 million of Lottery Funds are budgeted to expand home and community -based services for 2,468 seniors in 2014/15:

- \$2.5 million is for PENNCARE in the Department of Aging, including \$1.1 million to provide services to 500 individuals on the OPTIONS waiting list and nearly \$1.4 million to provide attendant care services for an additional 204 older Pennsylvanians.
- \$11.6 million is for Home and Community Based Services in DPW, so that an additional 1,764 seniors will receive Aging Waiver services.

Table 4 on the following page details 2014/15 Lottery Fund expenditures for senior programs by agency and appropriation name.

- Expenditures for programs administered by the Department of Aging and the Department of Public Welfare are appropriated from the Lottery Fund as part of the General Appropriations Act.
- Expenditures for programs administered by the Department of Revenue and the Department of Transportation are made by Executive Authorizations which do not require approval from the General Assembly.

**Table 4: Lottery Fund Expenditures for Senior Programs**

*(\$ Amounts in Millions)*

State Lottery Fund Expenditures for Senior Programs	Final 2014/15	Change from 2013/14
<b>Department of Aging:</b>		
PennCARE	\$295.4	\$20.2
Pre-Admission Assessment	\$10.7	-
Caregiver Support	\$12.1	-
Pharmaceutical Assistance Fund Transfer	\$155.0	-\$35.0
Grants to Senior Centers	\$2.0	-\$0.2
Alzheimer's Outreach	\$0.3	-
<b>Department of Public Welfare:</b>		
Medical Assistance Long-Term Care	\$334.1	\$25.0
Home and Community Based Services	\$162.6	\$141.6
Medical Assistance Transportation	\$4.9	\$4.9
<b>Department of Revenue:</b>		
Property Tax/Rent Rebate	\$280.6	-\$11.8
<b>Department of Transportation:</b>		
Shared Ride	\$86.0	\$5.0
Free Transit	\$94.4	\$1.5
<b>TOTAL</b>	<b>\$1,438.0</b>	<b>\$151.2</b>

between providing a full year of services in 2014/15 and the partial year of services provided in 2013/14;

- \$1.376 million for attendant care services to 204 individuals who transfer from DPW’s program in 2014/15; and
- \$4.83 million for the increased cost associated with providing attendant care services to 2,562 current seniors.

**Pre-Admission Assessment**

This appropriation pays for the assessments, performed by the local Area Agencies on Aging (AAAs), of individuals applying for nursing facility care. Assessments are also performed to determine eligibility for Medicaid home- and community-based (waiver) programs as well as other alternatives to nursing facility care that are appropriate to the individual's needs and that will allow the individual to remain in his or her own home

or community. The assessment screening process involves a thorough review of each applicant's medical and functional needs to determine their eligibility for services. The 2014/15 appropriation is expected to fund about 111,000 pre-admission assessments and re-certifications.

**Caregiver Support**

This appropriation pays for the state Family Caregiver Supports Program in the Department of Aging. The program provides financial assistance to qualified families caring for frail older relatives. Eligible caregivers may be reimbursed up to \$200 per month for services and supplies and up to \$2,000 in one-time grants for home modifications and assistive devices. The enacted budget anticipates serving 7,200 families in 2014/15.

**Pharmaceutical Assistance**

Lottery Fund revenues are transferred to the Pharmaceutical Assistance Fund to support three pharmaceutical assistance programs – PACE, PACENET and PACE Plus – administered by the Department of Aging. Approximately 280,000 seniors, age 65 or older, receive assistance, of which about 80 percent are enrolled in the PACE Plus program.

**PENNCARE**

The PENNCARE appropriation encompasses all of the Lottery-funded community-based and in-home service activities of the Department of Aging. The department distributes grants to the 52 Area Agencies on Aging (AAAs) that serve all 67 counties. The AAA uses its funds to provide a broad array of services that meet the needs of the older population residing within its geographic area.

The 2014/15 appropriation increases PENNCARE funding by \$20.2 million which, in accordance with the governor’s Executive Budget request, will be targeted towards reducing the waiting list for the OPTIONS program (the second year of an initiative begun in 2013/14) and funding attendant care for people with physical disabilities who “age-out” from the attendant care program in DPW which serves individuals under age 60. The additional \$20.2 million is budgeted as follows:

- \$1.1 million to provide home health services in 2014/15 to an additional 500 seniors on the OPTIONS waiting list;
- \$12.9 million to annualize services for the 5,400 individuals moved off the OPTIONS waiting list during 2013/14 – this represents the difference



- The PACE program is available to seniors whose annual income is \$14,500 or less for a single person and \$17,700 or less for a married couple. PACE participants pay no monthly fees or premiums. Their only costs are co-payments, which are \$6 for generic drugs and \$9 for brand-name drugs.
- The PACENET program assists seniors whose annual income is between \$14,500 and \$23,500 for single individuals and between \$17,700 and \$31,500 for married couples. PACENET participants pay a monthly premium at the pharmacy equal to the regional benchmark premium for Medicare Part D (which is \$35.50 for 2014). In addition PACENET participants pay higher co-payments for prescriptions, \$8 for generic drugs and \$15 for brand-name drugs.
- The PACE Plus Medicare program supplements PACE/PACENET drug coverage with the Medicare Part D drug benefit. Each year the department enrolls PACE and PACENET cardholders in Medicare Part D plans, where they continue to receive the same PACE/PACENET medications plus other prescriptions covered in the Part D plan. PACE Plus is designed so that out-of-pocket costs paid by enrollees are the same, or lower, as PACE/PACENET

The amount of the annual Lottery Fund transfer to the Pharmaceutical Assistance Fund is based on estimated state expenditures for the three programs. The PACE and PACENET programs are paid entirely with state revenue, whereas PACE Plus is funded largely with federal Medicare funds – the state only pays for the “wrap around” coverage provided by PACE Plus (i.e., the monthly premiums for PACE cardholders, differences in co-pays, drugs not included in the Part D plans and claims for drugs purchased by individuals in the donut hole). Because the federal Medicare program pays for most of the prescription drug costs in PACE Plus, enrolling seniors in this program significantly reduces state expenditures and frees up Lottery Funds that can be used for other senior programs.

The 2014/15 budget transfers \$155 million of Lottery Fund revenue to the Pharmaceutical Assistance Fund, which is \$35 million less than the amount transferred in 2013/14. The reduced transfer reflects, in part, the saving associated with Medicare Part D provisions in the federal Affordable Care Act

(federal healthcare reform) which close the “donut hole” and thereby reduce state expenditures required for the PACE Plus program.

### **Grants to Senior Centers**

For the second consecutive year, the budget includes funding (in the form of competitive grants) for senior centers. The 2014/15 budget includes \$2 million, as requested in the executive budget, to continue the grant program established last year to fund repairs, renovations and other needs of the senior centers. Compared to 2013/14, the funding for grants is \$150,000 less. Last fiscal year, the General Assembly added \$150,000 to the original \$2 million executive budget request; however, this year, it did not add any additional funds.

### **Alzheimer’s Outreach**

This appropriation funds programs that offer support, education, and community awareness services to address the needs of individuals and families affected by Alzheimer’s disease and related disorders. It also funds outreach activities to families, medical professionals, human service providers and the general public.

### **Medical Assistance Long-Term Care**

This appropriation in the Department of Public Welfare uses Lottery Fund revenue to help pay for nursing home care provided to low-income individuals who qualify for Medical Assistance (the name of Pennsylvania’s federal Medicaid program). The appropriated Lottery Funds reduce the need to spend General Fund revenue on nursing home expenditures in the Medical Assistance program. The enacted budget appropriated \$334.1 million from the Lottery Fund for Long-Term Care, or \$25 million more than the governor’s request of \$309.1 million (the same as the amount appropriated in 2013/14).

### **Home and Community-Based Services**

This appropriation in the Department of Public Welfare funds the Aging Waiver program which provides personal care, home health care, specialized medical equipment, and other services to people age 60 or older who are Medicaid eligible and who would otherwise require nursing facility care. This appropriation was established in 2013/14, as requested in the executive budget, with Lottery Funds used to expand Aging Waiver services to 1,550 individuals. Per the governor’s request, the enacted

budget appropriates \$162.2 million from the Lottery Fund, including \$130 million to replace General Fund revenue that previously paid for the Aging Waiver program and \$11.6 million to expand services to an additional 1,746 individuals in 2014/15. The remainder of the appropriation supports the program costs associated with services for the 1,550 individuals added in 2013/14.

### **Medical Assistance Transportation Program (MATP)**

The MATP appropriation in the Department of Public Welfare funds the county-based program which provides non-emergency transportation services to Medical Assistance recipients who do not have other transportation to and from their medical providers. Non-emergency transportation includes transportation to and from doctor appointments, pharmacies for prescriptions, hospitals for tests, drug and alcohol clinics, mental health centers, and medical suppliers. The enacted 2014/15 budget added a new \$4.9 million MATP appropriation in the Lottery Fund, reducing the amount of General Fund revenues required for the program.

### **Property Tax/Rent Rebate (PTRR) Program**

The Department of Revenue administers the PTRR program which benefits senior citizens over age 65, widowed individuals over age 50, and permanently disabled individuals by providing rebates on property taxes or rent paid by eligible households.

Prior to 2006, the PTRR income eligibility limit was \$15,000 per household and eligible households could receive a maximum rebate of up to \$500. The Taxpayer Relief Act of 2006 expanded the PTRR program by increasing the income eligibility for homeowners to \$35,000 – income eligibility for renters remained at \$15,000 – and increasing the standard rebate for all recipients to a maximum of \$650. The 2006 Act also created supplemental property tax rebates for qualifying homeowners, providing an additional 50 percent in property tax relief for a maximum total rebate of \$975. Funding for the enhanced income limits and rebate amounts under the 2006 Act are paid for through an annual transfer of slots gaming revenue from the State Gaming Fund.

The 2014/15 budget includes \$286.1 million for the PTRR program, an \$11.6 million decrease compared to 2013/14. **The budgeted funds are based on a projected decrease in the number of households applying for rebates.** More than half of the funds budgeted for PTRR is supported by slots gaming revenue transferred to the Lottery Fund to pay for rebates afforded to seniors under the program enhancements in the Taxpayer Relief Act of 2006 – an estimated \$162.8 million will be transferred from the State Gaming Fund in 2014/15.

In October, several months after the 2014/15 budget was enacted, House Bill 1067 was signed into law (Act 156 of 2014). The act amends the Taxpayer Relief Act of 2006. **The new law permits people to maintain eligibility for a rebate if their income exceeds the income limit due solely to a Social Security cost-of-living (COLA) increase.** The change is effective for taxes or rents paid in 2013 through 2016. The administration indicated this change will increase the costs of the program by \$1.5 million in 2014/15, increasing to \$9.2 million by 2017/18. These additional costs will be paid with revenue transferred from the State Gaming Fund.

### **Free and Reduced Fare Transit**

The Department of Transportation administers two transit programs for Pennsylvanians over age 65.

The Free Transit program offers free rides on local bus routes and rapid-transit lines during all operating times on weekdays, weekends and holidays. This program is funded with Lottery Fund revenues deposited into the Public Transportation Trust Fund and distributed by the department to transit systems as part of their annual operating assistance grant.

The Shared Ride program offers door-to-door specialized transportation services (such as vans and mini buses) at a discounted fare. The department contracts with service providers who operate on a non-fixed route basis. Senior citizens, or approved third party sponsors (such as human services agencies), pay a discounted rate equal to 15 percent of the existing shared ride fare; the Lottery Fund pays the remaining 85 percent of the fare.

#### **House Appropriations Committee (D)**

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