

## DPW Budget Overview

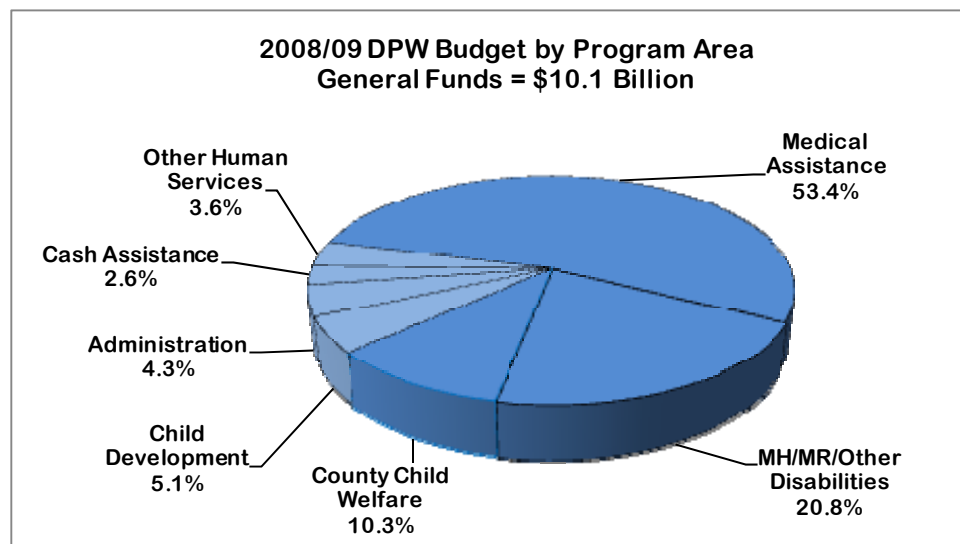
The Department of Public Welfare budget is a significant component of the Commonwealth's overall budget, accounting for more than one-third of both General Fund spending and total spending (state, federal and other funds). The 2008/09 enacted General Fund budget included \$10.268 billion for DPW; however, after two rounds of budgetary freezes, the DPW budget currently stands at \$10.116 billion.

### Most of DPW's spending is for programs that serve Pennsylvania's most vulnerable citizens:

- More than half is for **Medical Assistance (MA)** which provides health care and long-term services to nearly two million of our poor, elderly, disabled and chronically ill population.
- One-fifth is for other programs that serve approximately 200,000 **individuals with disabilities** including mental retardation, autism, mental illness, and physical disabilities.
- One-tenth is for **County Child Welfare** services that promote the safety and well-being of nearly 250,000 children who have been (or are at risk of being) abused or neglected.

As shown in the pie chart below, these three areas account for nearly 85 percent of DPW's General Fund budget. **In many cases, the programs and services are not discretionary.** Rather, they are prescribed by state and/or federal law, regulation, legal agreements or negotiated contracts that must be altered in order to achieve significant funding changes. The complexities associated with Medical Assistance, mental health/mental retardation, and county child welfare are detailed later in this document.

Other vital program areas in DPW's budget are child development (i.e., child care services for low-income families and early intervention for toddlers with developmental disabilities) and human services (i.e., supplemental assistance to the disabled and elderly on fixed incomes, homeless assistance and human services development funds to support county-run programs, and employment/ job training programs that assist families in becoming self sufficient). **Less than three percent (or just \$264 million) of DPW's budget is for cash grants to the so-called "welfare" recipients of TANF and General Assistance.**



**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, nearly 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 Funds that otherwise would be required to pay for programs.

The total DPW budget for 2008/09 is \$23.6 billion in state, federal and other funds.

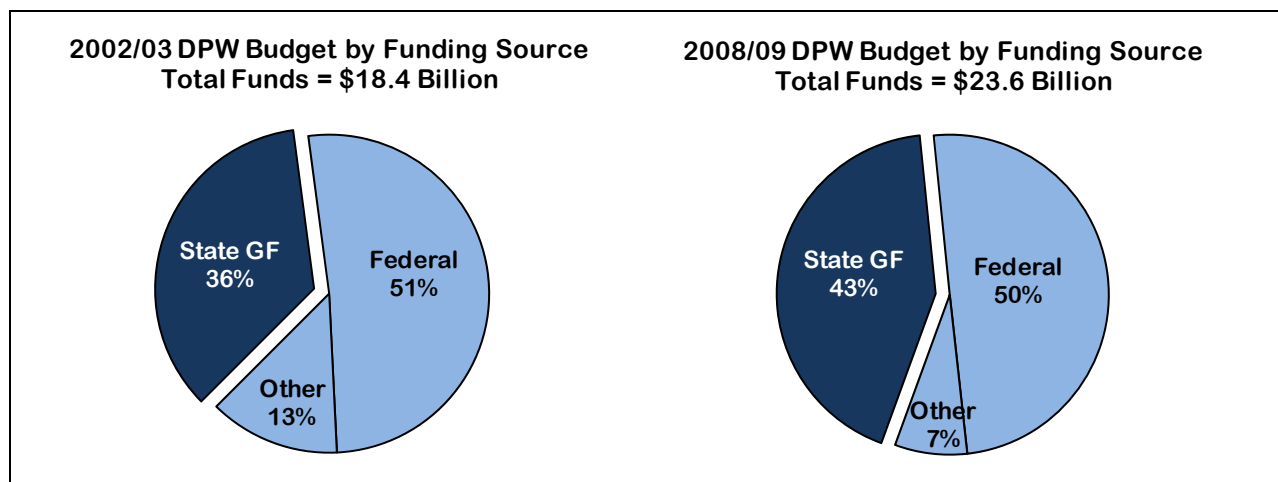
- The \$10.1 billion in **state General Funds** represent only 43 percent of the agency budget.
- **Federal funds** account for half the budget (\$11.8 billion) and are comprised largely of the federal Medicaid match (\$9.8 billion) which supports the Medical Assistance program and, to a lesser extent, mental health and mental retardation programs. 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 seven percent of the budget (\$1.7 billion) and are comprised largely of revenues that support Medical Assistance - namely assessments on providers (nursing homes, managed care organizations and mental retardation centers) that total \$880 million and county intergovernmental transfers (IGT) of \$185 million. It also includes special fund revenue from the Lottery Fund (\$298 million) and Tobacco Settlement Fund (\$222 million) for the MA program.

**Any serious analysis of DPW's annual budget must examine all funding sources and not simply the General Fund.** The amount of general fund spending in any fiscal year is impacted by the availability of alternative revenues that can be used by the department. Such funds enable DPW to shift expenses out of the General Fund; therefore, changes in General Fund spending are not a good measure for DPW expenditure growth. The appropriate measure is **total spending (state, federal and other) which takes into account all the revenues used by DPW to pay for programs.**

The pie charts below compare DPW's 2002/03 budget (under the Schweiker Administration) with the current budget. The 2002/03 budget included \$6.5 billion in state General Funds, accounting for only 36 percent of the department's total \$18.4 billion budget compared to 43 percent in 2008/09. The state share was much lower in 2002/03 because **DPW used alternative revenues in lieu of General Funds to pay for program costs**, including \$948 million of IGT for Medical Assistance and \$296 million of excess federal TANF for child welfare. Since 2002/03, the IGT has been nearly eliminated (due to a federal rule change) and there are no more excess TANF funds. **The loss of these revenues is reflected in the 2008/09 pie chart which shows the state General Fund accounting for a significantly larger share of DPW's budget.**

Consequently, **a significant part of the \$3.6 billion increase in state spending between 2002/03 and 2008/09 is due to the shifting of expenditures back to the General Fund.** The 55 percent increase in state General Funds includes the impact of this shift and thus overstates the growth in actual DPW costs.

As mentioned above, the change in total funds provides a more accurate measure of the increase in DPW spending. Total funds increased \$5.2 billion (or 28 percent) from 2002/03 to 2008/09, representing annual growth in total DPW expenditures of 4.7 percent during this six-year period.



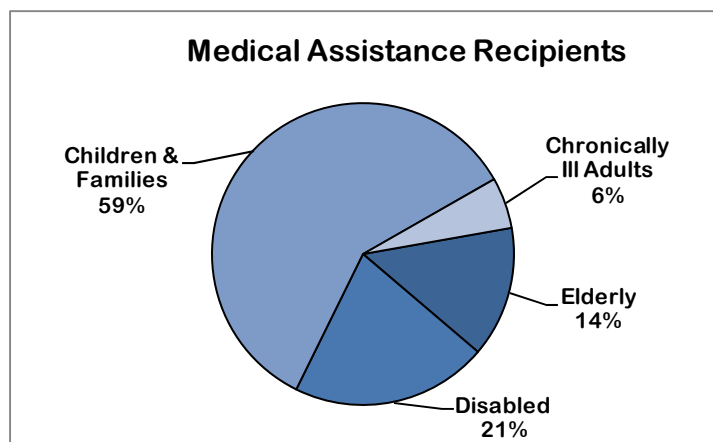
## Medical Assistance

Medical Assistance (MA) is the name of Pennsylvania's Medicaid program. It provides federally-entitled Medicaid benefits to eligible individuals and state-funded General Assistance benefits for adults who do not qualify for Medicaid but meet Pennsylvania standards.

MA is a comprehensive program that covers both health and long-term care services. **DPW administers the MA program, subject to oversight by the federal Centers for Medicare and Medicaid Services.** The program is jointly funded by the state and federal governments – currently, the federal government reimburses Pennsylvania for approximately 54 percent of costs. To receive federal Medicaid matching funds, DPW must cover certain “mandatory” groups in accordance with federal law.

**People who meet federal criteria regarding income, age, and health care needs are automatically Medicaid eligible and cannot be denied MA coverage.** The mandatory groups include: low-income pregnant women; low-income children; and persons receiving federal SSI benefits (low-income aged, blind, or disabled individuals). Medicaid is also an entitlement for families who are eligible for TANF benefits (regardless of whether they actually take the cash grant) – TANF eligibility is limited to the very poor with family income below 50 percent of the federal poverty level. **Unless they are pregnant or disabled, all adults without dependent children are excluded from Medicaid.**

Federal law establishes minimum income criteria for the Medicaid-eligible groups; however, **states have the flexibility to expand the income requirement beyond the federal standard and still receive federal matching funds.** For several Medicaid groups (such as pregnant women), Pennsylvania has opted to expand eligibility beyond the federal minimum income so that additional people may obtain MA coverage. In addition, Pennsylvania has opted to extend MA coverage to certain individuals who have incomes above the eligibility limits by allowing them to “spend down.” Under this process, individuals with high medical expenses (commonly hospital or nursing home care) may qualify for MA by using their medical expenses as a deduction to reduce their income to the eligibility level. Individuals who qualify through “spend down” are categorized as Medically Needy Only.



As of December 2008, Pennsylvania's MA caseload totaled 1,962,221. This means that **nearly one out of every six Pennsylvanians is enrolled in Medical Assistance.** MA recipients generally fall into one of four eligibility groups:

- low-income children and families;
- individuals with disabilities;
- the elderly; and
- chronically ill adults.

The first three MA groups include both mandatory and optional categories of eligibility, for which Pennsylvania receives federal Medicaid funds to help pay for MA coverage. **Chronically ill adults without dependent children are afforded MA coverage through the state-funded General Assistance program.** A summary of the major eligibility categories and enrollment trends for each of these four groups is provided on the following pages.

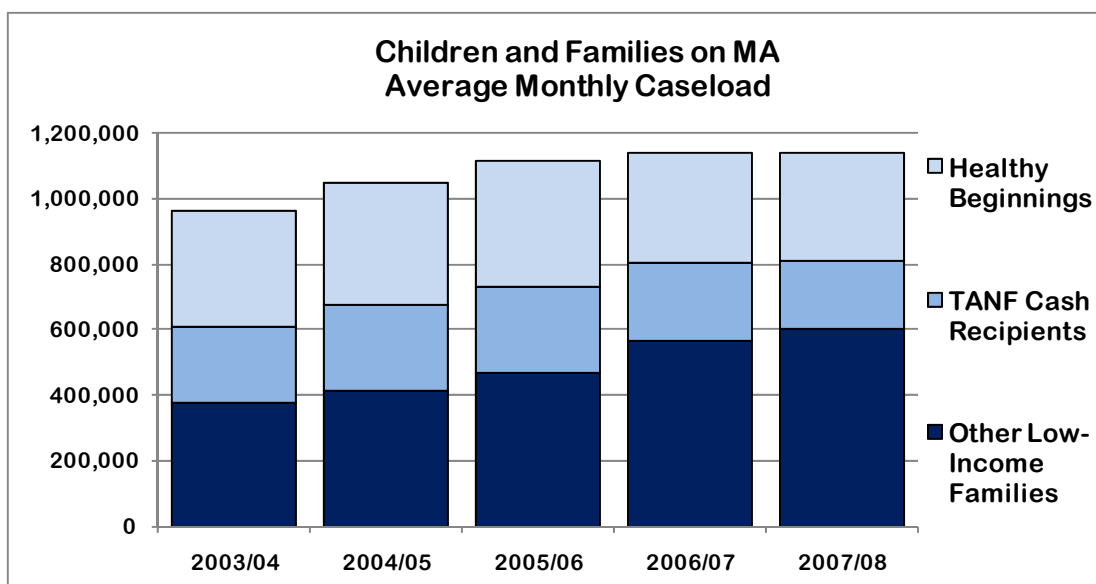
**The greatest share of MA spending is for the elderly and persons with disabilities,** reflecting their intensive use of acute and long-term care services. Although the elderly and disabled represent approximately one-third of all recipients, they account for over two-thirds of MA expenditures. By contrast, **low-income children and families represent the majority of Pennsylvania's MA recipients, yet they account for less than one-fourth of all MA spending.**

## MA Eligibility: Low-Income Children and Families

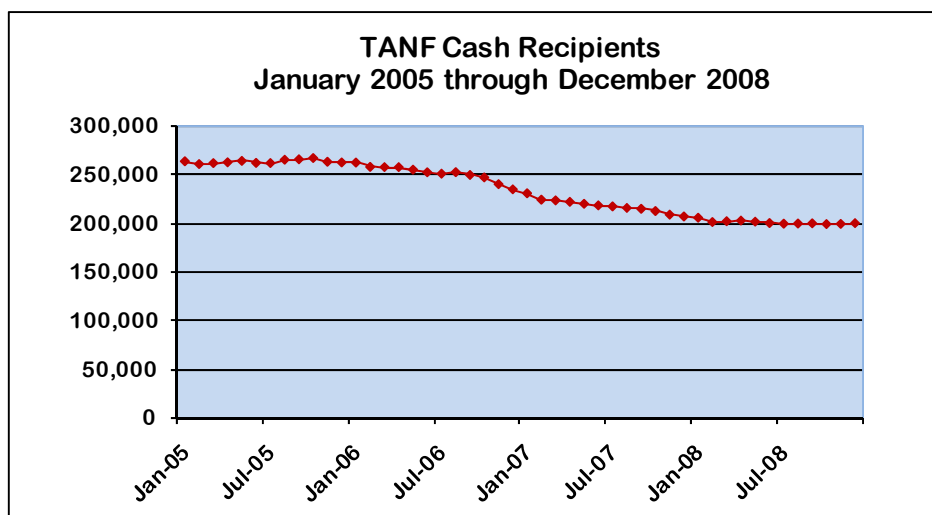
This MA group is comprised of federally-entitled families that meet the income eligibility requirements for TANF cash assistance (some receive monthly TANF cash grants while others only receive MA coverage) and Medically Needy Only families that qualify by spending down. It also includes federally-entitled low-income pregnant women and children receiving medical coverage in DPW's Healthy Beginnings program.

1,166,626 low-income children and adults are on MA as of December 2008. **More than half come from low-income families who do not receive any cash assistance.** Only 17 percent come from "welfare" families receiving TANF cash grants. Another 29 percent are children and pregnant women in the Healthy Beginnings program.

The bar graph below shows the five-year trend for children and families. Average monthly caseload increased 18 percent, from 965,000 in FY 2003/04 to 1,141,000 in FY 2007/08. **Caseload growth reflects the increasing number of low-income families** who only receive medical benefits from the state and do not receive cash grants – this group has grown nearly 60 percent over the past five years.



**MA growth is not driven by so-called "welfare" recipients who receive monthly TANF cash grants. In fact, the number of TANF "welfare" recipients has decreased 25 percent since October 2005** when recipients totaled 267,682. As of December, Pennsylvania had only 200,256 TANF cash recipients.

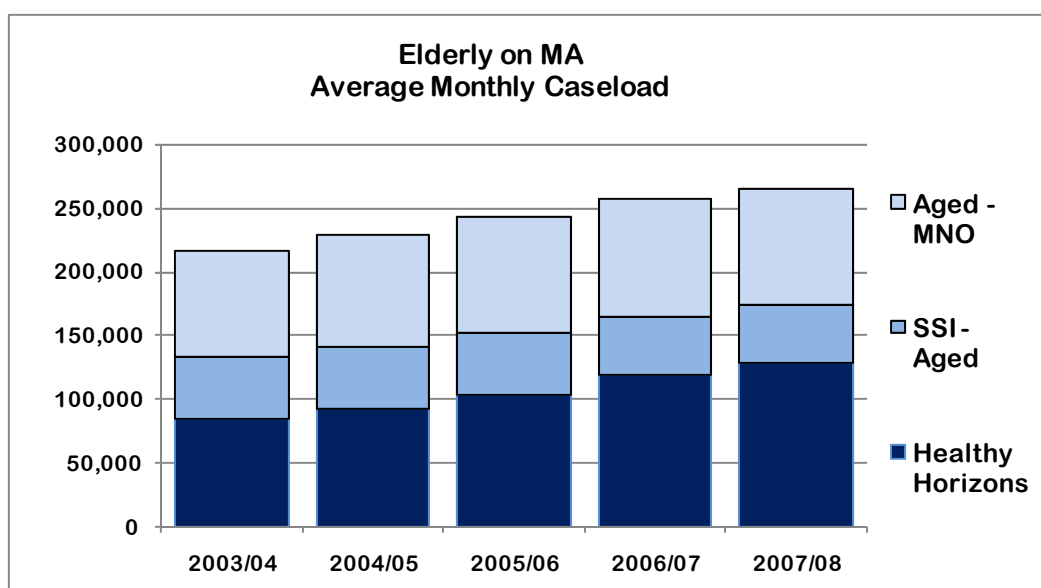


## MA Eligibility: Elderly

This group is comprised of elderly Pennsylvanians who require long-term care and other medical services – these are seniors who are SSI disabled (and thus federally entitled to benefits) as well as Medically Needy Only seniors who have spent down their income (namely on nursing home care) in order to qualify for MA. This group also includes federally-entitled low-income persons receiving financial assistance in paying their federal Medicare Part A and Part B premiums, deductibles, and co-payments through DPW's Healthy Horizons program.

274,771 seniors are on MA as of December 2008. Approximately 16 percent are SSI disabled for whom coverage is mandatory. One half are federally-entitled persons in the Healthy Horizons program. One-third are the optional Medically Needy Only seniors who qualified under spend down.

The bar graph below shows the five-year trend in elderly MA recipients. Average monthly caseload increased 23 percent, from 216,000 in FY 2003/04 to 266,000 in FY 2007/08. **Caseload growth reflects the increasing health care needs of Pennsylvania's aging population.**

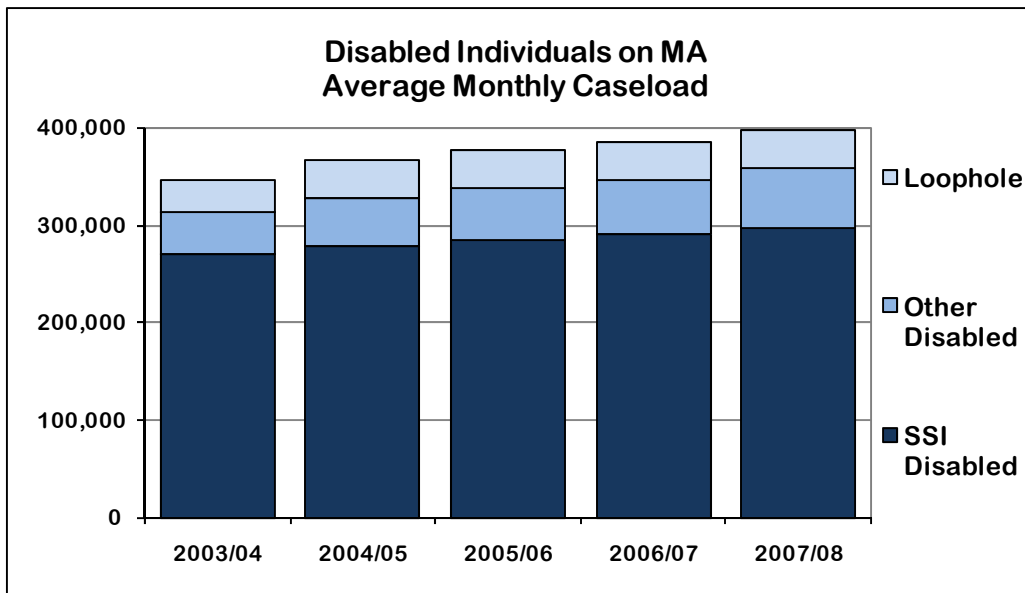


## MA Eligibility: Individuals with Disabilities

This group is comprised of non-elderly disabled individuals who have various health care needs. The vast majority are disabled adults and children who receive federal SSI benefits and are thus federally entitled to coverage. The non-SSI individuals in this group include: the so-called "loophole kids" who have disabilities such as autism or Down's Syndrome; uninsured women who are receiving treatment for breast or cervical cancer; and the working disabled who are in the Medical Assistance to Workers with Disability (MAWD) program -- these individuals purchase MA coverage by paying DPW a monthly premium equal to five percent of their monthly income.

413,306 disabled persons are on MA as of December 2008. Three-fourths are disabled adults and children who receive federal SSI benefits and are thus entitled to coverage. Ten percent are Loophole kids receiving comprehensive services and five percent are working disabled in the MAWD program.

The bar graph on the following page shows the five-year trend for disabled MA recipients. Average monthly caseload increased 15 percent, from 347,000 in FY 2002/03 to 398,000 in FY 2007/08. Both the number of SSI disabled and non-SSI disabled have steadily increased during this period.

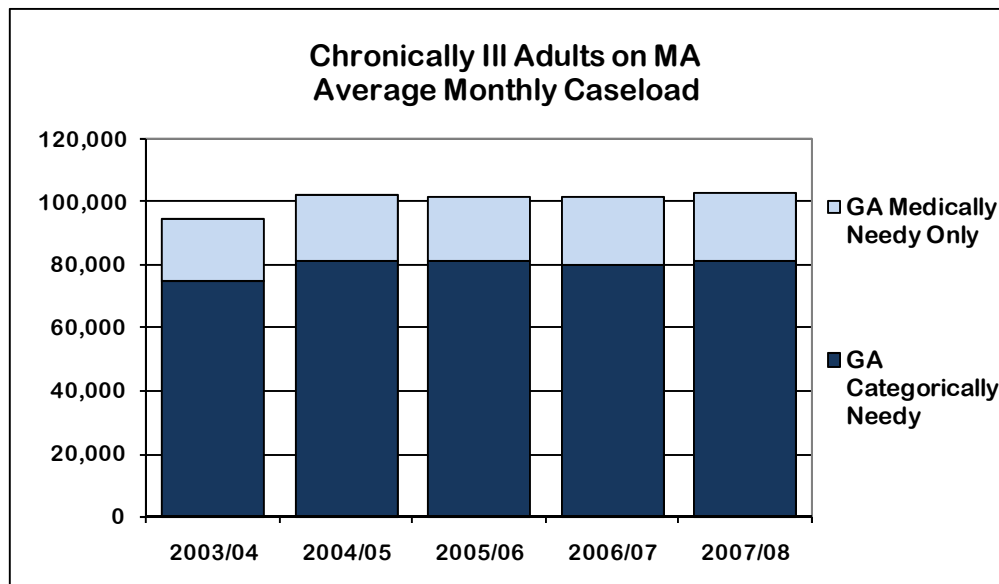


### MA Eligibility: Chronically Ill Adults

This group is comprised of low-income adults who have no dependent children and do not meet federal SSI eligibility criteria, but qualify for the state-funded General Assistance (GA) program because they meet standards established by Pennsylvania law.

107,518 chronically ill adults were on MA as of December 2008. Approximately 20 percent were Medically Needy Only adults who qualify for coverage by spending down their income due to high recurring medical expenses. Approximately 80 percent were “categorically needy” adults who meet one of the following criteria: have a documented physical or mental disability which lasts less than 12 months; are undergoing drug and alcohol treatment; or are a victim of domestic violence.

The bar graph below shows the five-year trend in chronically-ill adults. Average monthly caseload increased 9 percent, from 94,000 in FY 2002/03 to 103,000 in FY 2007/08. Caseload has remained relatively flat over the last four years.



## Mental Health/Mental Retardation (MH/MR)

DPW supervises and funds a comprehensive, statewide MH/MR system that consists of institutional care and community services. Institutional care is provided through state mental hospitals and state MR centers operated directly by DPW as well as private MR facilities under contract with the department. Community programs are administered by the county MH/MR offices.

### **The following state laws govern Pennsylvania's MH/MR system:**

- The Mental Health/Mental Retardation Act of 1966 establishes responsibilities for state and county government, identifies mandated services, defines eligibility, and creates procedures for commitment to state facilities.
- The Mental Health Procedures Act of 1976 further defines procedures for voluntary and involuntary treatment at state mental hospitals.

In addition, **Pennsylvania's MR program (which receives \$1.265 billion in federal Medicaid matching funds) must comply with federal Medicaid requirements** -- noncompliance could result in the loss of significant federal funds.

**The MR program must also comply with court-ordered settlement decrees regarding the safety and well-being of residents moved from the state MR centers into the community** – noncompliance could result in further court interventions and court-imposed requirements.

### Mental Health System

Pennsylvania targets community mental health services to adults with serious mental illnesses and to children / adolescents with or at-risk of serious emotional disturbances. The county MH/MR office determines a person's eligibility for service funding, assesses the need for treatment or other services, and makes referrals to appropriate programs. Most services are delivered by local mental health providers under contract with the county.

- **The MH/MR Act of 1966 requires the counties to establish mental health programs with nine mandated services.** The mandated services include: short-term inpatient treatment; partial hospitalization; outpatient care; 24-hour emergency services; rehabilitation and training; and aftercare services for persons released from state mental hospitals.

The state mental hospitals have the role of meeting longer-term psychiatric inpatient treatment needs of the Commonwealth. DPW operates eight facilities: seven psychiatric hospitals and one long-term nursing care facility for elderly former residents of state hospitals who no longer require mental health treatment but require nursing care. All seven hospitals provide general psychiatric inpatient treatment for adults with serious mental illness who require extended treatment. Additionally, three of the hospitals offer specialized treatment programs for mentally ill adult offenders and defendants. Only adults are in the state hospital system -- children and adolescents are treated in community-based facilities.

- **The appropriate staff levels must be maintained at the state hospitals to ensure the provision of active psychiatric treatment.**

In addition to the state General Fund appropriation, the mental health system receives federal funds (most of which consists of \$211 million in federal Medicaid matching funds).

- DPW uses state and federal funds to pay the operating costs of the state hospital system.
- DPW allocates state and federal funds to counties as direct grants to pay for community programs. In general, counties are required to contribute a 10 percent match for the cost of services, with the exception of inpatient treatment and partial hospitalization.

## Mental Retardation System

DPW operates five state MR centers and contracts with 205 private Intermediate Care Facilities for the Mentally Retarded (ICFs/MR), including 187 small facilities (4 to 8 people) and 18 large facilities (the largest serves 299). These institutions provide 24-hour residential care and specialized health and habilitation services to individual with mental retardation. **Individuals receiving institutional care have a wide range of disabilities and needs.** Most have a severe or profound level of mental retardation. Many have a co-existing mental health diagnosis or seizure disorder, and many have a visual or hearing impairment.

- **Each state MR center and private ICF/MR must meet federal Medicaid standards** related to program services, physical environment, and client health and safety. By meeting federal certification requirements, Pennsylvania receives federal Medicaid matching funds which pay for approximately 54 percent of the operating expenditures for these facilities.

Community MR programs consist of both residential and non-residential services.

- Residential programs help individuals become independent and encourage active participation in the community. Residential options include: licensed group homes for three or four people; single apartment with a roommate; and family living settings, in which 1 or 2 people receive services in the licensed home of an unrelated adult.
- Non-residential community programs provide services to individuals and their families. Day services help individuals with mental retardation develop their personal and vocational skills – services include adaptive equipment, employment and training programs, and socialization and recreation activities. Family support services help families who care for a family member with mental retardation -- services include respite care and adult day care.

**A significant component of the community MR program is the two federal Medicaid Waiver programs** that provide services to certain individuals who would otherwise qualify for institutional care. The federal government oversees the waiver programs and provides Medicaid matching funds (currently 54 percent of program expenditures). To obtain federal approval for a waiver, DPW must ensure that waiver services are cost effective compared to the cost of institutional care and must demonstrate that it has safeguards to protect the health and welfare of persons served in the waiver program.

- The Consolidated Waiver provides residential and non-residential services for individuals who require high levels of support and monitoring. Most of the waiver participants receive residential services, often in small group homes.
- The Person/Family Directed Support (P/FDS) Waiver only serves people who live in their own home or their family's home. This waiver program provides non-residential services and caps individual expenditures at \$26,000 per year.

**The Medicaid waiver is an entitlement for those enrolled** – individuals in MR Waiver programs are entitled to fully receive whatever waiver services they need. The county MH/MR office determines a person's eligibility for services and assigns a supports coordinator to each eligible person. Individuals who are eligible for the waiver programs receive services, provided there is sufficient funding and capacity. Otherwise, they are placed on a waiting list.

DPW allocates state and federal funds to the county MH/MR offices based on the annual plans and expenditure estimates prepared by the counties, in accordance with DPW instructions. Counties are required to contribute a 10 percent match for the cost of non-residential services; however no county match is required for residential services.

- Waiver programs consume the lion's share of total funding allocated for community MR programs. Because services are an entitlement to those enrolled, **DPW must allocate sufficient funds each year to fully serve Waiver participants in order to comply with federal requirements and avoid the loss of matching federal Medicaid funds.**

## County Child Welfare

The child welfare system is designed to promote the safety, permanency, and well-being of children. The goals of the system include: protecting children who have been (or are at risk of being) abused or neglected; assisting children who have been temporarily or permanently removed from their parents' homes; and supporting and preserving families.

**Pennsylvania's child welfare system is supervised by DPW and administered by county agencies.**

The county Children and Youth Agencies administer child welfare services and the Juvenile Probation Offices administer juvenile justice services. DPW provides funding to the counties and is ultimately responsible for monitoring and enforcing the child welfare system.

**Federal and state laws provide the legal framework for Pennsylvania's child welfare system.**

Relevant state statutes include:

- The Public Welfare Code (gives DPW oversight authority and requires the state to reimburse counties for the cost of services)
- The County Code (requires each county to provide services)
- The Juvenile Act (defines dependent and delinquent children, establishes jurisdiction of the juvenile court, and provides for the placement of dependent and delinquent children)
- The Child Protective Services Law
- The Adoption Act

**All counties are required to provide the following services:** intake, investigation and assessment of children and families; a full range of placement services for children removed from their families; placement prevention services that enable children to remain safely in their homes; adoption services; and other services or care ordered by the court for dependent and delinquent children.

Each county Children and Youth Agency develops an array of social services that meets the needs of children and families in that county. These include: **in-home services** (such as counseling, treatment, and therapy); **prevention services** to address issues before abuse or neglect happens; **placement services** (foster care, kinship care, and emergency shelter); **family reunification services** with the goal of reuniting children and parents; and **adoption services** for children who cannot return to their families.

**DPW reimburses counties for a portion of the cost of services** - these state reimbursements are referred to as Act 148 payments. The rate of reimbursement varies depending upon the service:

- 100% for adoption services
- 80% to 90% for in-home services
- 80% for foster care and community-based placement services
- 60% for institutional placement services (other than juvenile detention services)
- 60% for administrative activities of county children and youth agencies
- 50% for juvenile detention services

Child welfare services are funded through a combination of state, local and federal funds. **The utilization of federal funds to help pay for services reduces the expenditures that need to be shared between the state and the counties.**

In accordance with Act 30, DPW uses a Needs-Based Plan and Budget process to determine funding levels for child welfare services. The department reviews county-submitted budgets and certifies a final budget for each county. DPW allocates state funds (Act 148 payments) and various federal funds to each county based on its certified budget - counties pay the balance of costs.