

2016/17
BUDGET BRIEFING
 Report on Key Issues
 HOUSE APPROPRIATIONS COMMITTEE (D)



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January 31, 2017

Lottery Fund

The Pennsylvania Lottery had another year of record sales and profits in 2015/16, which delivered larger investments in programs and services that benefit older Pennsylvanians. Lottery achieved this unprecedented growth while spending less than 2 percent of its sales on operating costs. In fact, the agency's administrative costs decreased from 1.98 percent of total sales in 2014/15 to 1.89 percent last year.

State law requires at least 40 percent of gross lottery sales to be paid out as prize money and at least 25 percent to be dedicated to programs benefiting seniors. This briefing shows how Lottery Fund revenue is being used in the enacted 2016/17 budget, with particular emphasis on the \$1.34 billion budgeted for senior programs.

Established by Act 91 of 1971, the Pennsylvania Lottery funds programs and services benefitting older Pennsylvanians.

The Department of Revenue is responsible for Lottery's administration and operation, including marketing, game development, promoting sales, licensing agents to sell lottery tickets, and winner validation. Lottery tickets are sold through a statewide network of more than 9,000 retailers.

Revenue generated from Lottery operations are deposited into the Lottery Fund. Other revenues deposited into the fund include transfers from the Gaming Fund (pursuant to the Taxpayer Relief Act) to help support the Property Tax Rent Rebate Program, and investment earnings on securities and deposits. Lottery Fund profits, after paying for prizes and operating costs, go toward services for seniors.

Lottery Fund Financial Statement

The Lottery Fund financial statement (Table 1) shows \$1.91 billion available to spend in 2016/17; this includes the \$26.9 million ending balance carried forward from 2015/16 and \$75 million that was held in reserve during 2015/16. It also includes \$6.5 million in prior year lapses (unspent funds from previous budgets).

| | 15/16 | 16/17 |
|---------------------------------------|------------------|------------------|
| Beginning Balance | \$14.8 | \$26.9 |
| Reserve from Previous Year | \$75.0 | \$75.0 |
| Adjusted Beginning Balance | \$89.8 | \$101.9 |
| Net Revenue Estimate | \$1,903.7 | \$1,805.8 |
| Prior Year Lapses | \$23.4 | \$6.5 |
| Total Receipts | \$1,927.1 | \$1,812.3 |
| Total Funds Available to Spend | \$2,016.9 | \$1,914.2 |
| Total Expenditures | (\$1,915.0) | (\$1,906.5) |
| Current Year Reserve | (\$75.0) | \$0.0 |
| Ending Balance | \$26.9 | \$7.7 |

Source: Governor's Budget Office

Expenditures budgeted in 2016/17 for prize payouts, operating expenses and senior programs total \$1.91 billion. This leaves the Lottery Fund with an ending balance of only \$7.7 million, with no funds placed in reserve as a buffer against unanticipated expenditures and/or lagging lottery ticket sales.

Lottery Fund Revenues

Lottery Fund revenues for 2016/17 are estimated at \$1.81 billion (Table 2). The 2016/17 revenues include:

- \$1.67 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.
- \$148 million transfer from the state Gaming Fund; and
- \$1.3 million of miscellaneous revenue (namely investment earnings).

| Table 2: Lottery Fund Revenues | | |
|---------------------------------------|--------------------|--------------------|
| <i>(\$ Amounts in Millions)</i> | | |
| | FY 2015/16 | FY 2016/17 |
| Lottery Ticket Sales | \$4,135.2 | \$4,181.0 |
| Less Commissions & Field Paid Prizes | (\$2,459.2) | (\$2,524.5) |
| Net Lottery Collections | \$1,676.0 | \$1,656.5 |
| Gaming Fund Transfer | \$166.8 | \$148.0 |
| Miscellaneous Revenue | \$10.9 | \$1.3 |
| Loan From General Fund | <u>\$50.0</u> | <u>\$0.0</u> |
| Total Revenue | \$1,903.7 | \$1,804.5 |

Source: Lottery Fund Financial Statement, Governor's Budget Office

Ticket sales are projected to reach \$4.18 billion in 2016/17, an increase of nearly \$46 million, or 1.1 percent, above the \$4.14 billion sales record set in 2015/16. These projections reflect the impact of adding more than 300 Fine Wine & Good Spirits stores to Lottery's statewide retailer network, as permitted under Act 38 of 2016. Net collections are expected to decrease \$19.5 million in 2016/17 due to an increase in the amount of prizes paid by retailers to winning ticket holders.

2015/16 Lottery Ticket Sales and Profits

Lottery ticket sales reached a record of \$4.1 billion in 2015/16, an increase of \$315 million (or 8.2 percent) above the sales record of 2014/15. This was the sixth consecutive year for record sales.

- Instant game sales were \$2.79 billion, an increase of \$201 million (or 7.7 percent) from the prior year.
- Sales for terminal-based lottery games (Powerball, Mega Millions, Cash 5 and other terminal-based games) were \$1.34 billion, an increase of \$114 million (or 9.3 percent) above the prior year.

Lottery generated \$1.12 billion in profits for senior programs, which was \$60 million more than the previous year's record. This marked the fifth consecutive year in which profits exceeded \$1 billion.

Lottery distributed its 15/16 revenue as follows:

- 63.8 percent to players as prize money;
- 27.8 percent to the Lottery Fund to support programs for older Pennsylvanians;
- 7.2 percent to retailers and vendors as commissions; and
- 1.89 percent for lottery administrative costs.

Lottery Fund Expenditures

The 2016/17 budget spends \$1.9 billion from the Lottery Fund, of which \$1.34 billion is for programs that benefit seniors. The remaining funds are for agency costs associated with administering senior programs, payment of lottery prizes to winning ticket holders, vendor commissions, and lottery operations. The pie chart on page 4 shows how Lottery Fund expenditures are distributed in 16/17.

Senior Programs

The 2016/17 budget includes \$1.34 billion for senior programs. Most of this, \$1.03 billion, pays for traditional programs supported by the Lottery, such as pharmaceutical assistance in the Department of Aging, property tax/rent rebate in the Department of Revenue, and transit programs under PennDOT. The remaining funds pay for Medicaid expenditures in the Department of Human Services.

Administrative Costs for Senior Programs

This fiscal year's spending plan includes \$24.5 million for costs incurred by agencies responsible for administering senior programs:

- The Department of Aging is getting \$9.3 million to administer and operate its programs; and
- The Department of Revenue is receiving \$15.2 million to administer the popular Property Tax/Rent Rebate Program.

The total spend reflects respective increases of \$214,000 and \$315,000 for the two agencies, which, primarily, are the result of higher personnel costs. Funding for Aging's administrative costs appear as an appropriation under the Lottery Fund in the General Appropriations Act, whereas funding for the Department of Revenue is made through an executive authorization that does not require approval by the General Assembly.

Lottery Bureau Operations

Revenue is also getting \$95.6 million for lottery operations support. Of this total, \$51.6 million is for administrative costs, including \$24 million for personnel (an increase of \$654,000); and \$27.6 million for other operating costs and fixed assets (an increase of \$5.6 million). Funding for advertising and promotional activities to enhance Lottery sales is unchanged at \$44 million. These Lottery operations are funded through executive authorizations.

Lottery Prize Payments

The 2016/17 budget includes \$372 million for the following types of Lottery prizes not paid at retailers: 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 these prize payouts is based on ticket sale projections and appears as an executive authorization under the Department of Revenue.

Vendor Commissions

The current budget provides \$72.6 million for vendor commissions, including the charge paid to the contractor who operates and maintains Pennsylvania's online game system. It also includes the payment of ticket testing and vendor commissions for the printing, warehousing and delivery of instant tickets to retailers. Vendor commissions are generally calculated as a percentage of ticket sales and appear as executive authorizations under the Department of Revenue.

Senior Programs

Lottery Fund expenditures for senior programs are \$1.34 billion in 2016/17, which is \$57 million more than 15/16. The increased spending is in traditional Lottery programs that benefit seniors, with the largest increase in pharmaceutical assistance (\$30 million) followed by PennCare (\$11 million) and Property Tax/Rent Rebate (\$18.7 million).

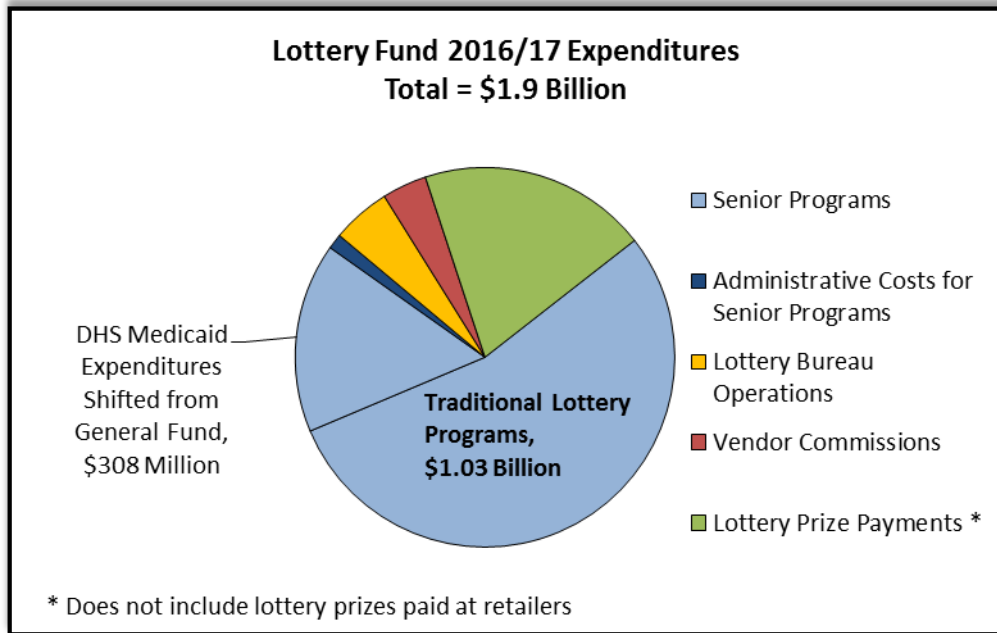


Table 3 details 2016/17 Lottery Fund expenditures by agency and appropriation. Expenditures for programs administered by Aging and DHS are appropriated from the Lottery Fund as part of the General Appropriations Act. Expenditures for programs administered by Revenue and PennDOT are made by executive authorizations that do not require the General Assembly's approval.

Approximately one-fourth (or \$308 million) of Lottery funds budgeted for senior programs will be used to reduce General Fund spending in three Medicaid programs administered by the Department of Human Services. This is \$1.6 million less than 2015/16, reflecting the reduction in Lottery Funds appropriated for the Medical Assistance Transportation Program, and is \$193.5 million less than the record spending enacted under the Corbett Administration in 2014/15.

PennCARE

This 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 that serve all 67 counties. The area agencies on aging use their funds to provide a broad array of services that meet the needs of the older population residing within their geographic area.

- The **Aging Services Program** includes home-delivered meals, congregate meals, personal care, home health, employment services, and recreation/socialization activities at senior community centers.

| Table 3: Lottery Fund Expenditures for Senior Programs <i>(\$ Amounts in Millions)</i> | | |
|--|-------------------|------------------------|
| Agency/Appropriation | Budget 2016/17 | Change from 2015/16 |
| Department of Aging: | | |
| PennCARE | \$325.2 | \$11.0 |
| Pre-Admission Assessment | \$19.9 | \$1.9 |
| Caregiver Support | \$12.1 | - |
| Pharmaceutical Assistance Fund Transfer | \$205.0 | \$30.0 |
| Grants to Senior Centers | \$2.0 | - |
| Alzheimer's Outreach | \$0.3 | - |
| Department of Human Services: | | |
| Medical Assistance Long-Term Care | \$184.1 | - |
| Home and Community Based Services | \$120.7 | - |
| Medical Assistance Transportation | \$3.3 | -\$1.6 |
| Department of Revenue: | | |
| Property Tax and Rent Rebate | \$289.9 | \$18.7 |
| Department of Transportation: | | |
| Public Transportation Trust Fund Transfer | \$95.9 | - |
| Shared Ride | \$83.0 | -\$3.0 |
| TOTAL | \$1,341.3 | \$57.0 |
| Source: Governor's Budget Office | | |

- **Attendant Care** provides in-home personal care services to people with physical disabilities who "age out" from the attendant care program in DHS, which only serves individuals under the age of 60.
- **Options In-Home** provides customized supports and services that enable seniors (who are not eligible for Medicaid) to remain in their homes and avoid relocating to a nursing facility.
- Other services include **Medicare Managed Care Education** (provides information and counseling for health insurance and benefit), **Elder Abuse Education and Prevention**, and Ombudsman activities (investigates and assists in resolving complaints made by older persons).

Aging allocates Lottery funds, along with federal funds, to the area agencies on aging in proportion to each area's share of the commonwealth's elderly population. The allocation formula includes five weighted factors: persons age 60+ years (weighted 0.1); persons age 75+ years (weighted 0.2); minority persons 60+ years (weighted 0.2); rural persons 60+ years (weighted 0.25); and persons 60+ years at or below 100% of poverty (weighted 0.25). Aging allocates funds to each area agency on aging based on the most current census data. A "hold harmless" provision in statute prevents area agencies on aging from receiving less than the prior year investment.

The 2016/17 budget appropriates \$325.25 million from the Lottery Fund for PennCARE. This is \$7.9 million above the governor's initial request and \$11 million more than 2015/16, which included a \$4.4 million supplemental appropriation.

Pennsylvania's attendant care program will use most of the additional funding (\$9.6 million) to provide services to 363 individuals transferring from the DHS program and to cover the increasing costs for current users in the Aging program. A new "Go Time" initiative, proposed by the governor to upgrade Aging's financial reporting system to better manage the funds allocated to area agencies on aging will spend the remaining \$1.3 million. The budget does not increase funding for other PennCARE programs, including the Options In-Home program, and various aging services.

Pre-Admission Assessment

Local area agencies on aging perform assessments of individuals applying for nursing facility care in the commonwealth. They also perform assessments to determine eligibility for various Medicaid home- and community-based waiver programs (operated by the Department of Human Services), which allow individuals to live in their own home or community rather than in a nursing facility. The assessment screening process involves a thorough review of each applicant's medical and functional needs to determine his or her eligibility for services.

The 2016/17 budget appropriates \$19.92 million from the Lottery Fund for approximately 119,000 pre-admission assessments. This is \$3.8 million above the governor's initial budget request and \$1.9 million more than 2015/16, which included a \$1.9 million supplemental appropriation.

Caregiver Support

The state Caregiver Support Program provides financial assistance to qualified caregivers who assist dependent adults 60+, and adults with chronic dementia. The caregiver need not be a relative nor live in the same residence as the person receiving care.

The program generally reimburses caregivers up to \$200 per month for out-of-pocket expenses on services and supplies. However, under certain circumstances, it is possible for caregivers to receive up to \$500. This monthly reimbursement can be used for such expenses as respite care, transportation, and incontinence supplies, as well as for education and counseling for caregivers. The program also provides one-time grants of up to \$2,000 for home modifications and assistive devices, including wheelchair ramps, grab bars and chair lifts.

The amount of financial assistance to qualified caregivers is based on income. Households with incomes up to 200 percent of the federal poverty income guidelines are eligible for 100 percent of the maximum financial benefit. The benefit decreases by 10 percent for every 20 percent increase in income. Households with incomes

above 380 percent of the federal poverty level are not eligible for the program.

The enacted budget appropriates \$12.1 million from the Lottery Fund for the program and anticipates serving 6,500 families in 2016/17.

Pharmaceutical Assistance

Lottery Fund revenues are transferred annually to the Pharmaceutical Assistance Fund to support three pharmaceutical assistance programs administered by the Department of Aging: PACE, PACENET and PACEPlus Medicare.

- The PACE program is available to single seniors whose annual income is \$14,500 or less, 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 single seniors whose annual income is between \$14,500 and \$23,500, and between \$17,700 and \$31,500 for married couples. Seniors in PACENET pay higher co-payments for prescriptions: \$8 for generic drugs and \$15 for brand-name drugs. PACENET participants also pay a monthly premium equal to the regional benchmark premium for Medicare Part D (\$35.30 in 2016).
- The PACEPlus Medicare program supplements PACE and PACENET drug coverage with the Medicare Part D drug benefit. Each year, the department encourages PACE and PACENET cardholders to enroll in Medicare Part D plans, where they continue to receive the same PACE and PACENET medications plus other prescriptions covered by the Part D plan. PACEPlus is designed so that out-of-pocket costs paid by enrollees are the same, or lower, as PACE and PACENET.

The amount of the annual Lottery Fund transfer is based on estimated state expenditures for the three programs. The PACE and PACENET programs are paid entirely with state revenue. PACEPlus is largely funded with federal Medicare dollars – the state only pays for the “wrap around” coverage provided by PACEPlus (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 PACEPlus, enrolling seniors in this program significantly help to reduce state expenditures and free up Lottery Funds that can be used for other senior programs.

The 2016/17 budget transfers \$205 million from the Lottery Fund to the Pharmaceutical Assistance Fund, which is \$30 million more than was transferred in 15/16. This increased transfer is due to escalating prescription drug prices. Approximately 260,000 Pennsylvanians, 65+, receive assistance, of which about 80 percent are enrolled in PACEPlus.

Grants to Senior Centers

This grant program delivers \$2 million to fund repairs, renovations and other needs at Pennsylvania’s senior centers to ensure a safe and healthy environment for seniors, attract a new generation of older adults, and increase participation and programming. A competitive application process evaluates proposals and recipients are awarded minimum grant amounts of \$5,000 and maximum grant amounts of \$150,000. Grant applications are due by Dec. 12, 2016.

Alzheimer’s Outreach

The 2016/17 budget appropriates \$250,000 for regionally based 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. The Department of Aging provides grants to its two contractual Alzheimer’s associations.

Medical Assistance Long Term Care

This appropriation funds nursing facility care for low-income individuals who qualify for Medical Assistance (the name of Pennsylvania’s federal Medicaid program). The appropriated Lottery Funds reduce, dollar-for-dollar, the amount of General Fund revenue required to pay for nursing home expenditures in the Medical Assistance

program operated by the Department of Human Services. Moreover, the Lottery revenue earns federal Medicaid matching funds. The 16/17 budget appropriates \$184.08 million from the Lottery Fund to help pay for long term care, thereby reducing General Fund spending by the same amount.

Home and Community-Based Services

This appropriation funds Pennsylvania's Home and Community-Based Waiver for Individuals Aged 60 and Over, commonly called the aging waiver, administered by the Department of Human Services, as an alternative to nursing facility care. The aging waiver program serves Pennsylvanians, age 60 or older, who are Medicaid eligible and require nursing facility-level care. It provides personal and home health care, transportation, specialized medical equipment and supplies, home-delivered meals, and other services that enable individuals to live safely in their home or community rather than in a nursing facility. The 16/17 budget appropriates \$120.67 million from the Lottery Fund to help pay for the waiver, which reduces the need to spend General Fund revenue for this program. It also earns federal Medicaid matching funds.

Medical Assistance Transportation Program, or MATP.

The MATP program in the Department of Human Services helps Medical Assistance recipients with non-emergency transportation to and from health care services and treatment. Non-emergency transportation includes rides to doctor appointments, hospitals for tests, drug and alcohol clinics, mental health centers, pharmacies for prescriptions and other medical suppliers. The 2016/17 budget appropriates \$3.3 million from the Lottery Fund for MATP, a decrease of \$1.6 million from the previous year. The appropriated Lottery investments reduce the amount of General Fund revenues otherwise required to pay for MATP.

Property Tax/Rent Rebate Program

The Department of Revenue administers the Property Tax/Rent Rebate program. It helps senior citizens age 65 and older, widowed individuals age 50 and older, and permanently disabled individuals age 18 and older. The program rebates property taxes or rent paid by eligible households on their occupied residence.

The annual income eligibility limit is \$35,000 for homeowners and \$15,000 for renters. Only half of Social Security income is counted in determining income eligibility. Act 156 of 2014 permits homeowners and renters to maintain eligibility for rebates (and prevents them from being disqualified from the program) if their annual income exceeds the income limit solely because of a Social Security cost-of-living (COLA) increase – this change is effective for taxes or rents paid in 2013 through 2016.

The maximum standard rebate for eligible renters and homeowners is \$500. Qualified homeowners may receive an additional 50 percent in property tax relief for a maximum total rebate of \$975. The amount of the annual rebate cannot exceed actual property taxes or rents paid during the year. The enhanced property tax rebate applies to the following senior citizens who have household incomes less than \$30,000:

- Senior citizens residing in Philadelphia, Pittsburgh and Scranton; and
- Senior citizens residing elsewhere in the state who pay more than 15 percent of their income in property taxes.

The 16/17 budget includes \$289.9 million for the Property Tax/Rent Rebate program, of which \$20 million is set aside per a class action settlement to pay real estate tax rebates to the estates of eligible Pennsylvania property owners who died between 2004 and 2009. The remaining \$269.9 million is for rebates of rent and property taxes paid by eligible household in 2015. The budgeted funds are based on projections that 578,000 household will receive rebates. Spouses, personal representatives or estates may file rebate claims on behalf of claimants who lived at least one day in 2015 and meet all other eligibility criteria.

More than half (\$148 million) of 16/17 Property Tax/Rent Rebate funding is comprised of revenue transferred from the Gaming Fund to the Lottery Fund in accordance with provisions in the Taxpayer Relief Act.

Free and Reduced Fare Transit

PennDOT administers two transit programs for Pennsylvanians over age 65: free transit and shared ride.

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 transferred to the Public Transportation Trust Fund. The department distributes the money to public transit systems as part of their annual operating assistance grants.

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.

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