

DPW Budget Highlights

State General Funds for the Department of Public Welfare (DPW) total \$8.607 billion for 2010/11, a \$62 million decrease from 2009/10. This assumes the ARRA FMAP will be extended two quarters, through June 2011, and Pennsylvania will receive approximately \$850 million in additional federal Medicaid matching funds to pay for DPW programs.

The enacted 2010/11 state budget represents a \$545 million cut from the Governor's February budget request. Most of these cuts (\$407.5 million) can be attributed to two factors: reduced "clawback" payments to the federal government for Medicare Part D and state savings from a proposed statewide hospital assessment.

- **"Clawback" Payment Reduction (\$286.5 million).** In late February, after the Governor had presented his 2010/11 Executive Budget proposal, the federal government announced a policy change reducing the monthly payments states are mandated to make for dual eligibles enrolled in the federal Medicare Part D program – "dual eligibles" are low-income elderly and disabled persons who receive both Medicare and Medicaid benefits. This policy change impacted the state appropriation for **Payment to Federal Government - Medicare Drug Program**, applying to payments made during the federal stimulus period which began October 2008 and is assumed to end after June 2011. As a result of the federal policy change, Pennsylvania received a \$118.8 million credit for overpayments it made to the federal government from October 2008 through December 2009 – this credit is being applied against payments due in 2010/11. In addition to the credit savings, the reduction to the 2010/11 appropriation reflects a lower per capita monthly payment for each dual eligible enrolled in Part D as well as lower enrollment projections for dual eligibles in Part D.
- **Statewide Hospital Assessment Savings (\$121 million).** House Bill 254 amended the Public Welfare Code by adding a new Article VIII-G (Statewide Quality Care Assessment) which authorizes DPW to impose an assessment on most Pennsylvania hospitals for three years, beginning in 2010/11. The assessment will be applied to the hospital's net inpatient revenue at a rate of 2.69 percent in 2010/11 and 2.84 percent in 2011/12 and 2012/13. The following types of hospitals are exempt from the assessment: federal veteran's hospitals, free care hospitals, psychiatric hospitals, critical access hospitals, and long term care hospitals. The statewide hospital assessment is expected to generate \$498 million in 2010/11, of which the first \$120.9 million will go to DPW to reduce the state appropriation for **MA- Inpatient** services.

The remaining assessment revenue, plus federal Medicaid matching funds, will be used to benefit Pennsylvania hospitals as follows: (1) fund a new Medical Assistance hospital payment system that more appropriately supports patient needs and the levels of service unique to Medical Assistance patients; (2) restore the 2010/11 Executive Budget cuts to existing supplemental payments for qualifying hospitals; and (3) fund new supplemental payments to hospitals. The new payment system will impact hospital

expenditures in the MA fee-for-service program, with hospital rates based on the All Patient Refined-Diagnosis Related Group (APR-DRG) system, as well as expenditures in the MA managed care program, with managed care organizations receiving enhanced payments (Access Rates) for purposes of paying hospitals for inpatient services provided to managed care enrollees. The table below summarizes the revenue and payment components of the proposed hospital assessment model.

Before the statewide hospital assessment can be implemented, DPW must submit the proposed model to the Centers for Medicare and Medicaid Services (CMS) for its review and approval. Given all the complexities associated with meeting federal requirements, the assessment model ultimately approved by CMS will likely differ from the model submitted by DPW.

Proposed Hospital Assessment Model - FY 2010/11		
(Dollars in Millions)		
Total hospital assessment revenue (2.84% of net inpatient revenue)		\$498.1
<u>Revenue to DPW (used to reduce MA Inpatient state appropriation)</u>		<u>\$120.9</u>
Assessment revenue available for proposed hospital payments		\$377.2
<u>Plus Federal Medicaid matching funds</u>		<u>\$693.5</u>
Total funds for proposed hospital payments *		\$1,070.7
*Hospital assessment revenue will be used as the state share to draw federal matching funds for the following proposed payments to hospitals:		
<u>Description of Hospital Payments</u>	<u>State \$</u>	<u>Total \$</u>
Modernize MA hospital payment system	\$ 254.2	\$ 735.2
<i>Fee-for-service reimbursement (APR-DRG)</i>	95.4	262.5
<i>Managed care payments (Access Rates)</i>	158.9	472.7
Restore hospital payments cuts in Executive Budget	\$ 25.6	\$ 66.6
<u>New supplemental payments to hospitals</u>	<u>\$ 97.4</u>	<u>\$ 268.9</u>
Total Proposed Hospital Payments	\$ 377.2	\$ 1,070.7

The enacted budget further reduced DPW state spending by \$24.8 million below the Governor's request through the following two measures: cutting various administrative line items in the department and applying across the board cuts to certain human services programs. These savings are summarized below:

- **Administrative Cuts (\$21.1 million).** The enacted budget cut expenses for personnel and/or operations in the following administrative line items: **General Government Operations; Information Systems; Child Support Enforcement; County Assistance Offices;** and **Statewide County Administration.**

- **Across the Board Cuts (\$3.7 million).** The enacted budget applied broad-based cuts to a number of health and human services appropriations in DPW. The following human service lines were cut 0.8 percent from their 2009/10 funding levels: **Community MR Base Program**; **Special Pharmacy Services**; **Homeless Assistance**; **Child Care Assistance**; **Domestic Violence**; **Rape Crisis**; **Breast Cancer Screening**; and **Expanded Medical Services for Women**. The two appropriations which fund payments to medical schools – **Academic Medical Centers** and **Physician Practice Plans** – were cut 3 percent from their 2009/10 funding level. Finally, **Behavioral Health Services** grants to county programs were cut 3.8 percent from its 2009/10 level.

Several other human service programs in DPW's budget received state appropriations less than amounts requested in the Governor's Executive Budget proposal. The reasons for these cuts were specific to the appropriation and are explained below.

- **County Child Welfare** was cut by \$26.443 million compared with the Governor's request. Please note that \$7.8 million of that reduction was the result of an ARRA Title IV-E recalculation and will be offset with federal funds. The remainder of the reduction was the result of across-the-board reductions throughout the department. The amount proposed in February was based on the counties' Needs-Based Budget reconciliation. County allocations will need to be revised to reflect the new spending level.
- **New Directions** was reduced by \$15.4 million from the Governor's request. This reduction will be offset with federal Temporary Assistance for Needy Families (TANF) block grant funds.
- **Mental Health Services** was cut \$15.5 million; however, \$10 million of this was due to the availability of other funds (including federal Medicare dollars) that reduced the need for state General Funds. The remaining reduction was not targeted – at this time, it is too soon to determine how DPW will use available funds. Savings from the December 2010 closure of Allentown State Hospital will be used, as proposed by the Governor, to move 155 current hospital residents into community mental health programs in 2010/11.
- **Autism Intervention and Services** was cut \$5.5 million, most of which was due to lower than anticipated costs to serve adults in the Autism Waiver program (\$5.4 million). The remaining \$109,000 reduction reflects a 0.8 percent across the board cut in the appropriation to expenditures not related to the Autism Waiver program nor the Adult Community Autism Program (ACAP). As requested by the Governor, the Autism Waiver and ACAP programs are budgeted to serve an additional 226 adults in 2010/11, increasing total enrollment in these two programs to 408 adults by June 2011.
- **Attendant Care** is \$8.1 million below the Governor's February request. Budgeted funds will provide continued services for disabled individuals currently in the Act 150 Program and the Attendant Care Waiver.

- **Early Intervention** reflects a \$3.2 million reduction from the February proposed amount. This reduction is the result of updated ARRA calculations and will be offset with those available federal funds.
- **Supplemental Grants** was reduced by \$512,000. The new appropriation amount also reflects adjustments in the caseload and grant costs, based on available data.

Not all DPW lines were cut below the Governor’s February budget request:

- Funding for **Child Care Services** remains at the original proposed amount. ARRA provisions for federal child care funding require state funding to be maintained at a certain level. The appropriation amount complies with these provisions.
- Funding for **Community MR Waiver Programs** is \$8.9 million above the Governor’s Executive Budget request.
- Funding for **Services to Persons with Disabilities** includes \$6.2 million for the expansion of services to an additional 770 individuals, as proposed by the Governor.

Finally, the enacted 2010/11 Medical Assistance budget includes \$3.883 billion in state General Funds for the five major MA appropriations: Outpatient, Inpatient, Capitation, Long Term Care, and Payment to Federal Government for Medicare Drug Program. Total funding (state, federal and other funds) for MA exceeds \$13.9 billion – this includes \$850 million in federal funds anticipated from an extension of the ARRA FMAP through June 2011 and \$498 million in other funds generated from the new statewide hospital assessment. With these funds, **DPW anticipates providing MA benefits and services to more than 2.1 million individuals (or one out of every six Pennsylvanians) during 2010/11** – this is an increase of 2.9 percent over 2009/10 average monthly enrollment in the MA program.

(Dollars in Millions)

Medical Assistance Appropriations	FY 2010/11 State Funds
MA - Outpatient	\$357.4
MA - Inpatient	\$267.0
MA - Capitation	\$2,478.4
Long-Term Care	\$584.1
Payment to Federal Government - Medicare Drug Program	\$196.1
Total Medical Assistance	\$3,883.0

The enacted MA budget represents a \$47 million decrease from 2009/10 and a \$467 million decrease from the Governor’s 2010/11 Executive Budget request. Most of the reduction in the MA budget is due to the reduced “clawback” payment to the federal government for Medicare Part D (\$286 million) and savings from the proposed statewide hospital assessment (\$121 million savings to the **MA-Inpatient** appropriation), both of which were explained earlier.

Another significant factor contributing to the reduced need for state funds in the 2010/11 MA budget is the federal drug rebates DPW will now receive for drugs dispensed in the managed care program. Federal health care reform enacted in March included provisions extending the federal Medicaid Drug Rebate Program to managed care organizations. As a result of this change, DPW expects to claim an estimated \$102.5 million in federal drug rebates during 2010/11. The drug rebate savings are reflected in the enacted state appropriation for **MA-Outpatient** services – please note that these savings already were assumed in the Governor’s February budget request.

Other highlights in the 2010/11 MA budget include the following:

- **Full restoration of hospital supplemental payments** – Outpatient Disproportionate Share, Inpatient Disproportionate Share, Medical Education, and Community Access payments – that were cut in the Governor’s Executive Budget proposal. As explained earlier, the state share of the restored payments (\$25.6 million) would be funded with revenue from the proposed statewide hospital assessment.
- Funding for the Governor’s requested **rate increases for managed care organizations** – an average increase of 4% for physical health and an average increase of 2% for behavioral health. Individual plans will receive actuarially sound rates.
- Funding for the **2008/09 pay-for-performance payments** to physical health managed care organizations.