

Commonwealth of Pennsylvania

2006-07

*Governor's
Executive Budget*

Department of Public Welfare

February 8, 2006

Edward G. Rendell

Governor





The Safety Net in Pennsylvania

- Providing health care and other critical support services for children, the elderly, people with chronic illnesses, persons with disabilities and low income families and adults in Pennsylvania
 - Children
 - Early childhood education, health, child safety and well being, support for new mothers and babies
 - Older Pennsylvanians & Persons with Disabilities
 - Long term living, mental health and mental retardation services, and community based supports
 - Low Income Working Families and Adults
 - Access to jobs and training, work supports, energy assistance



Guiding Principles

- No One Currently Receiving Services Will Lose Eligibility
- No Changes to Services for Children
- Pennsylvania Will Meet Anticipated Demand for Services for Those in Need



Medicaid

The Nation's Largest Health Care Program

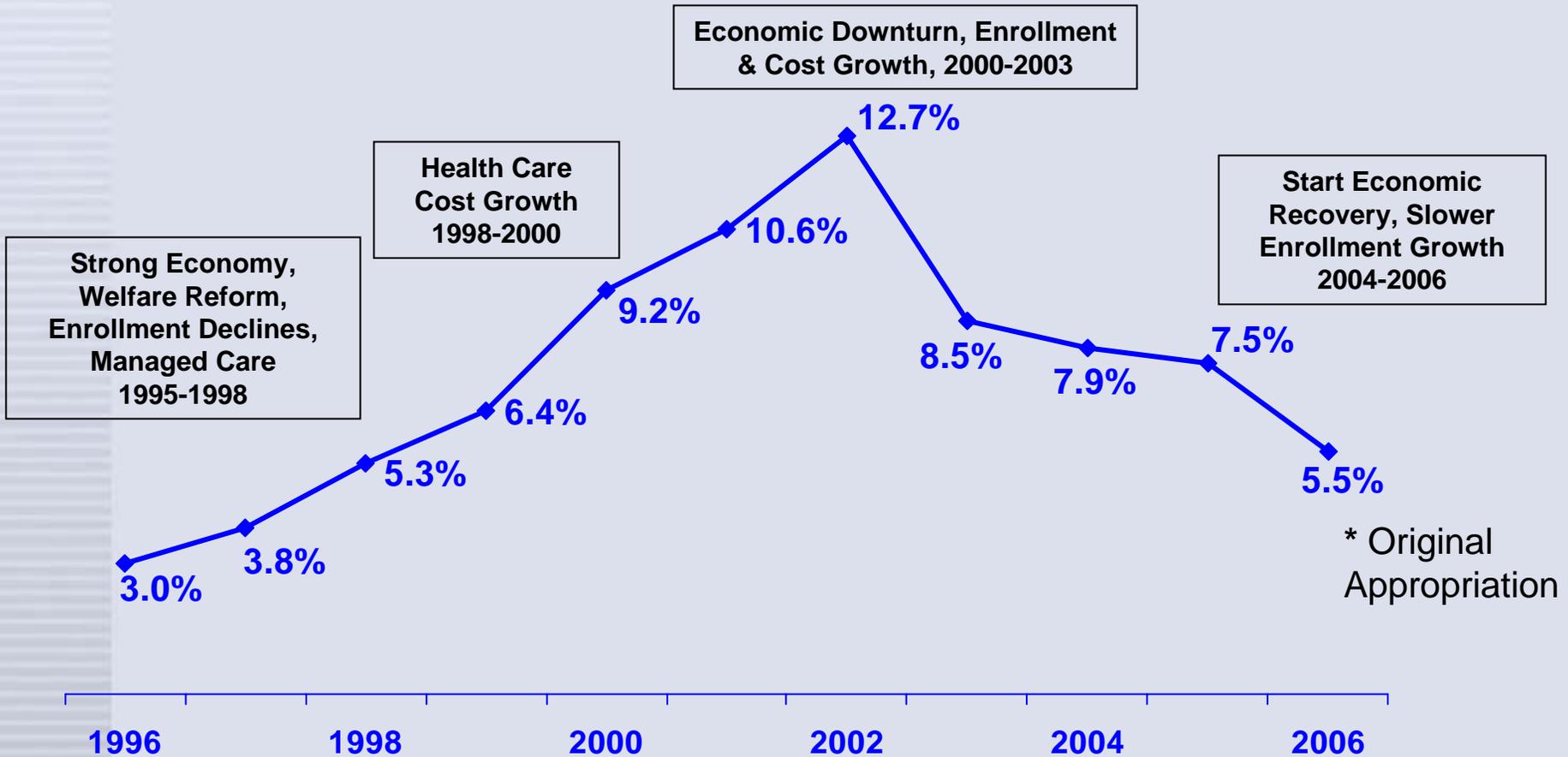
- **58 million U.S. children, parents, elderly and persons with disabilities enrolled in 2005**
 - Nationally, Medicare enrollment is 42 million
- **\$300+ billion in total 2005 Medicaid spending**
 - Nationally, Medicare also will spend \$300+ billion
 - Nationally, Medicaid is the largest single source of federal funds to states



U.S Medicaid Spending Trends

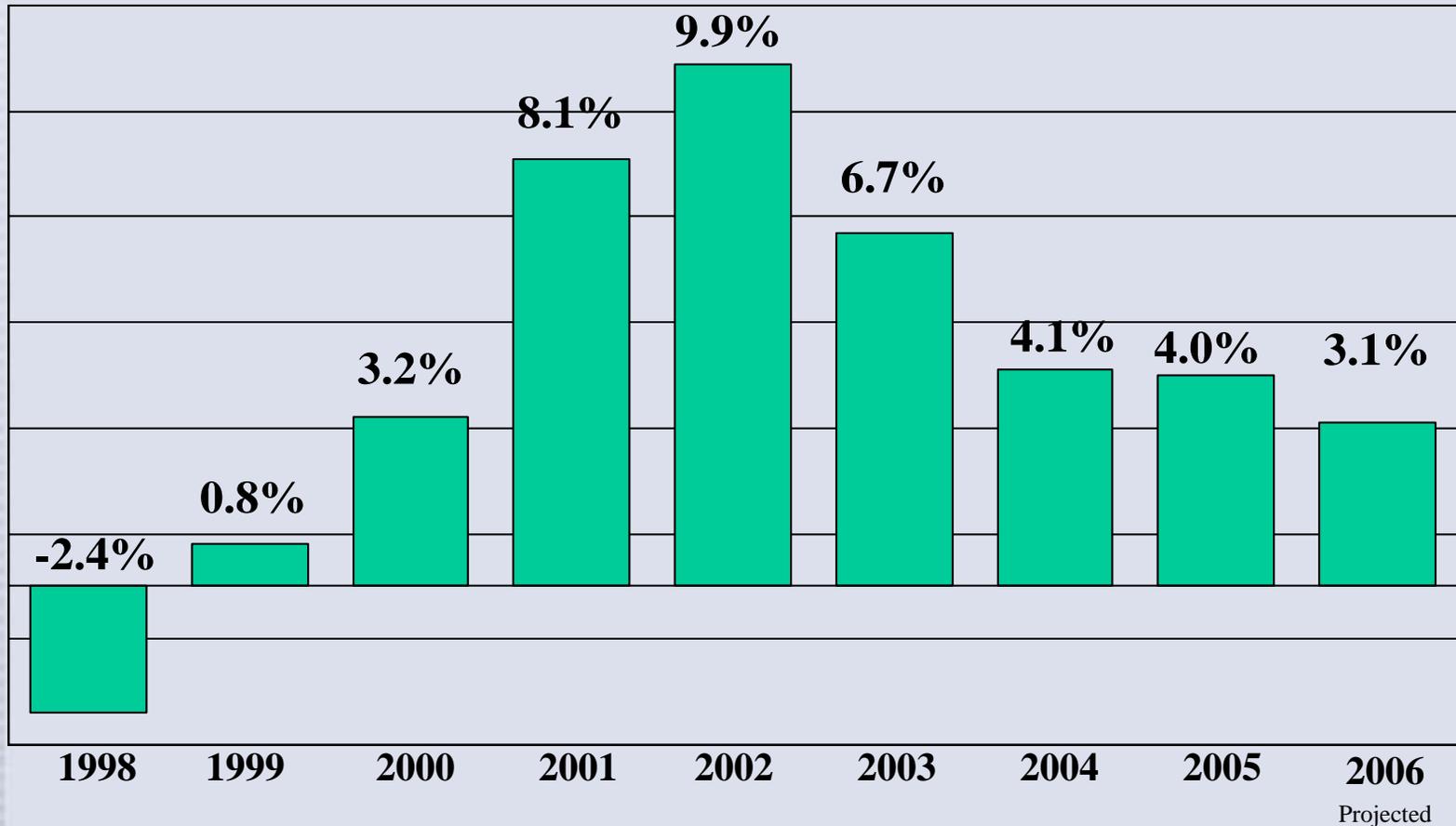
- National annual Medicaid spending growth dipped in 2003 (8.8%) and 2004 (7.9%) following two years of 10-12% growth (*CMS, January 2006*)
 - Slower spending growth reflects comprehensive and aggressive state cost containment efforts
- Congressional Budget Office projects national Medicaid spending growth to continue, but at a slower rate
 - 4-5% a year in 2005 and 2006
 - 8.4% a year from 2007 to 2015 (*CBO, August 2005*)

Medicaid Spending Growth, 1996-2006



NOTE: Estimates in State Fiscal Year. * FY 2006 estimate based on states adopted FY 2006 budget.
 SOURCE: KCMU analysis of CMS Form 64 Data and KCMU / HMA State Budget Survey, 2005

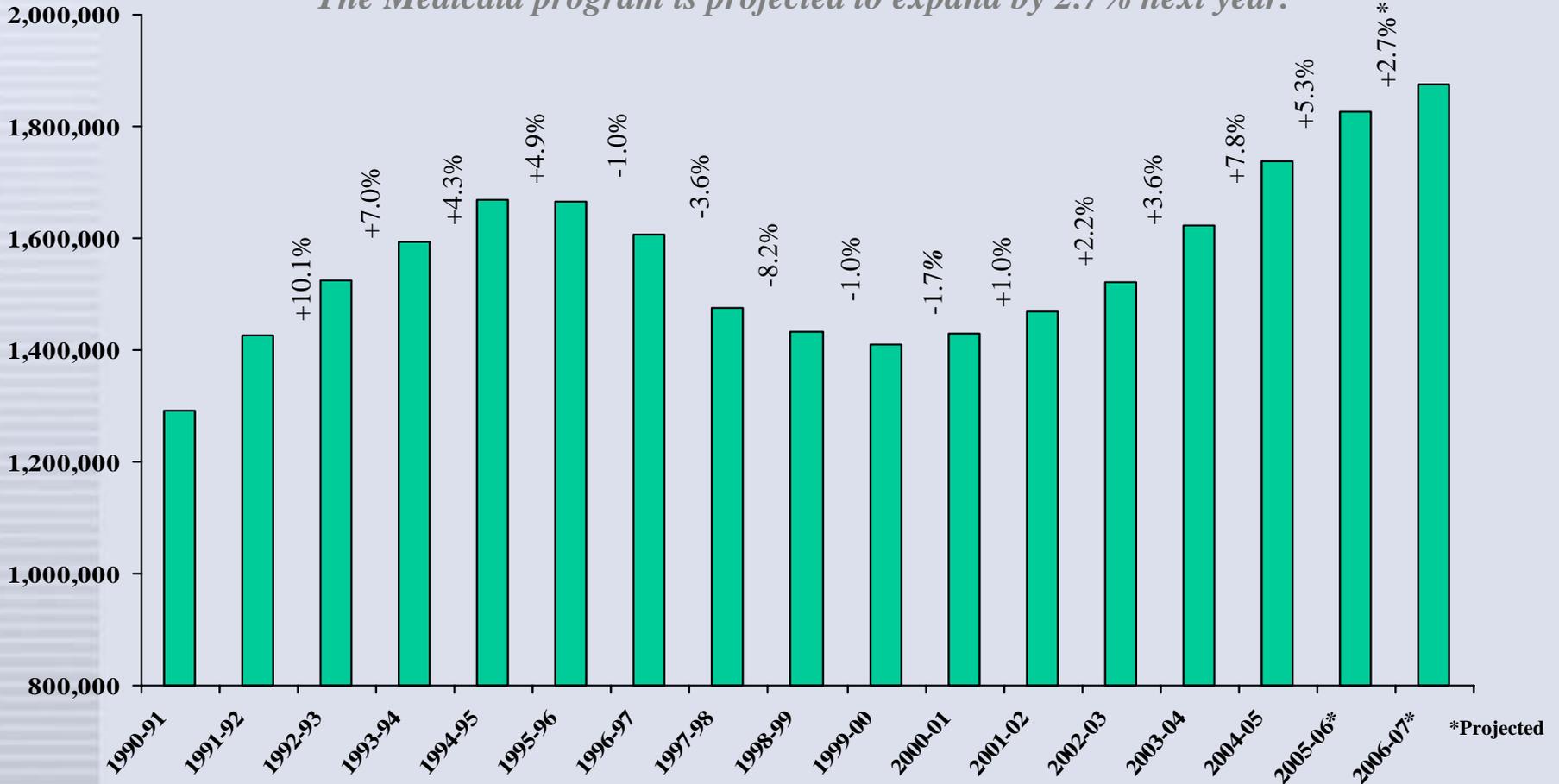
US Medicaid Enrollment Growth Slowing FY1998-FY2006



Source: KCMU Medicaid Budgets, Spending and Policy Initiatives in State Fiscal Years 2005 and 2006
Results from a 50-State Survey, October 2005

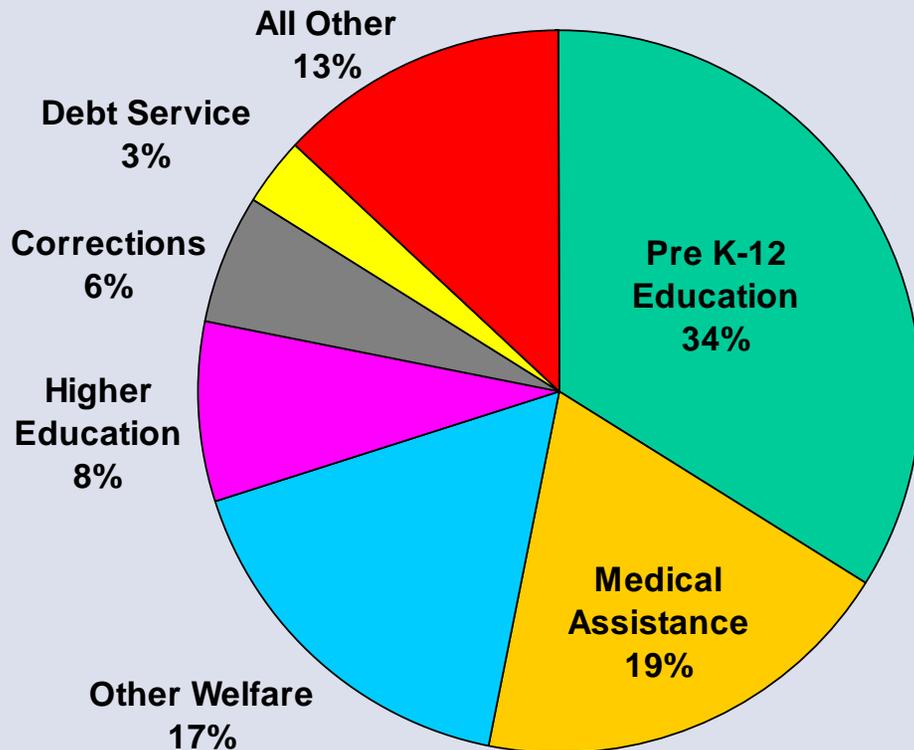
PA Medical Assistance Caseload Follows National Trends

The Medicaid program is projected to expand by 2.7% next year.



Medical Assistance is 19% of Proposed FY2006-07 Budget

The proposed General Fund budget increases State spending by \$924 million, or 3.8 percent. Removing increases for education, welfare and debt service, the budget proposes a 2.5 percent net decrease in funding for all other Commonwealth agencies and programs.



Spending on Education, Medical Assistance, other Public Welfare Programs, Corrections, and Debt Service comprises 87 percent of total General Fund expenditures.



Pennsylvania MA Still Challenged

- In FY 06-07, MA will provide health care coverage to almost **1.9 million Pennsylvanians, an increase of 2.7% over FY2005-06**
- Growing population of elderly creating increasing demand for long term living services
- Rising costs for services to persons with disabilities
- Health care costs continue to escalate
- Employer sponsored health insurance continues to decline

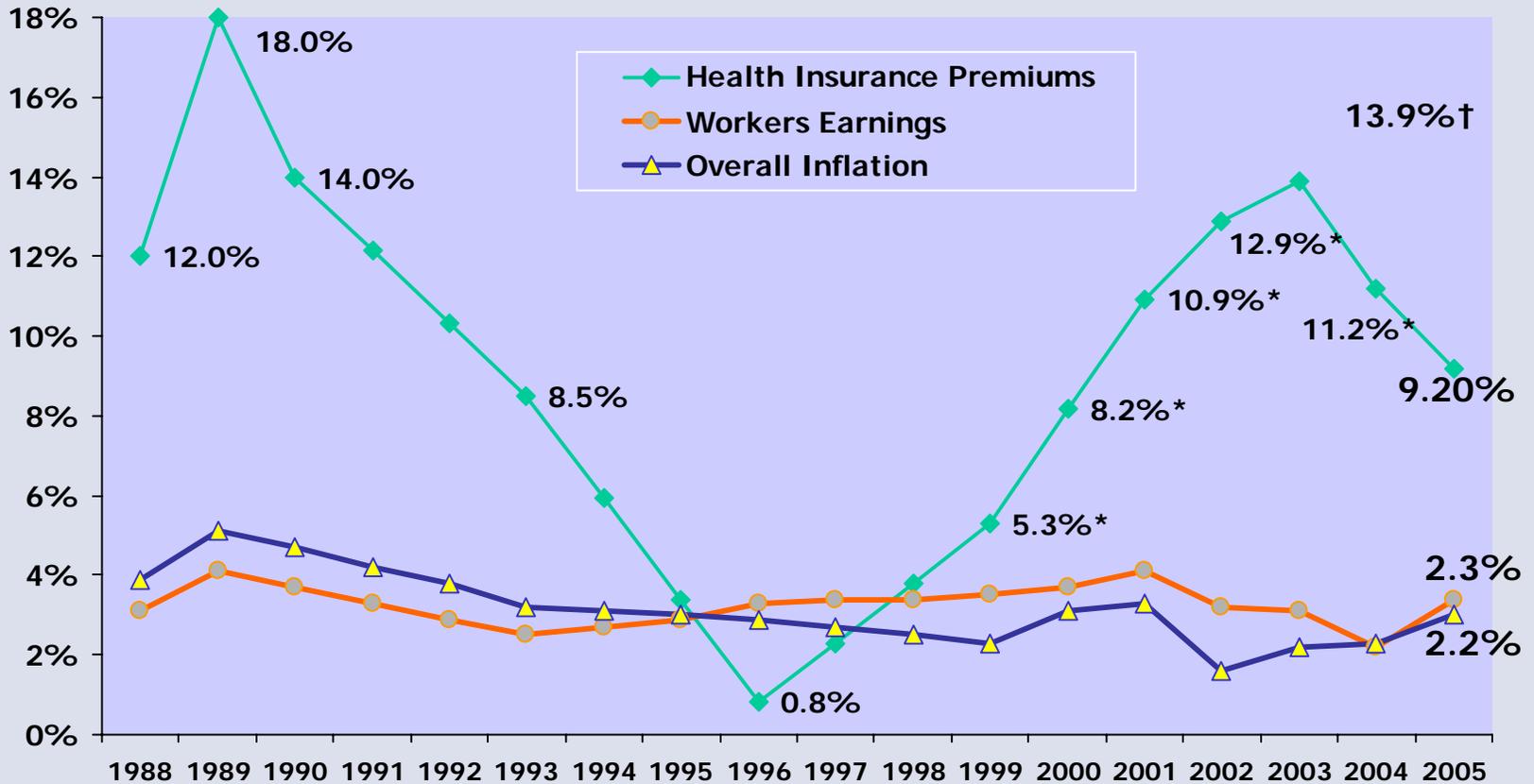


Increasing Health Care Costs

Health Costs to Grow at a High but Slower Rate in 2006

- “Health care expenses will rise at a slower rate in 2006...8 percent.After five years of double-digit increases, the crisis has become a chronic problem.” *2006 Towers Perrin Annual Health Care Cost Survey, September 29, 2005*
- While the growth rate is declining, the cost of health care continues to be a concern for government, business, individuals and families.” *HHS Secretary Mike Leavitt*
- “... the slowdown in the cost trend is stalled at 8.2 percent, and that is a pretty high rate of growth.” *Brad Strunk, Center for Studying Health Systems Change, June 21, 2005*

In the US, Health Insurance Premiums Are Growing Faster than the Rate of Inflation

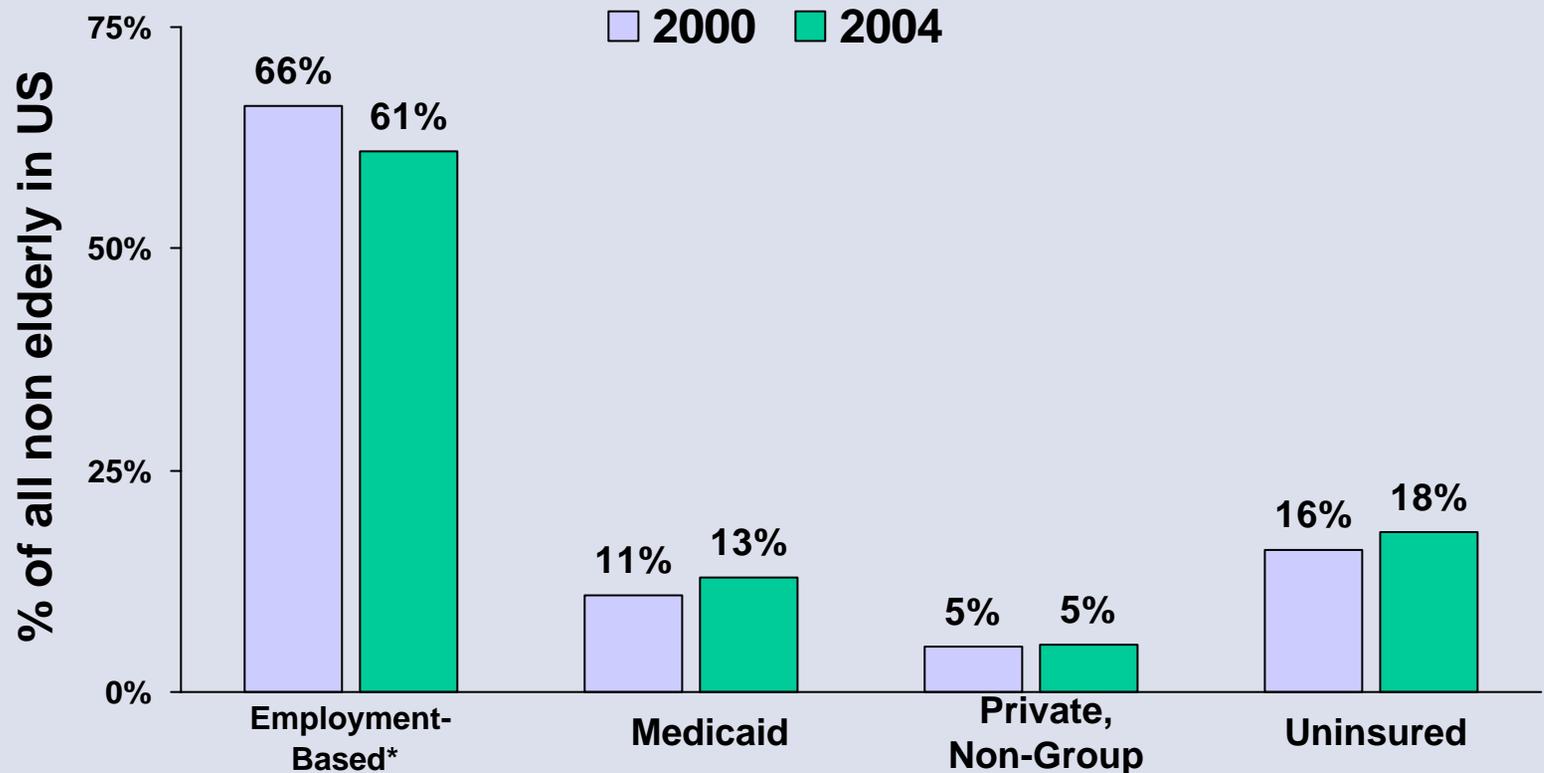


* Estimate is statistically different from the previous year shown at $p < 0.05$. † Estimate is statistically different from the previous year shown at $p < 0.1$.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999-2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index (U.S. City Average of Annual Inflation (April to April), 1988-2004; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2004.

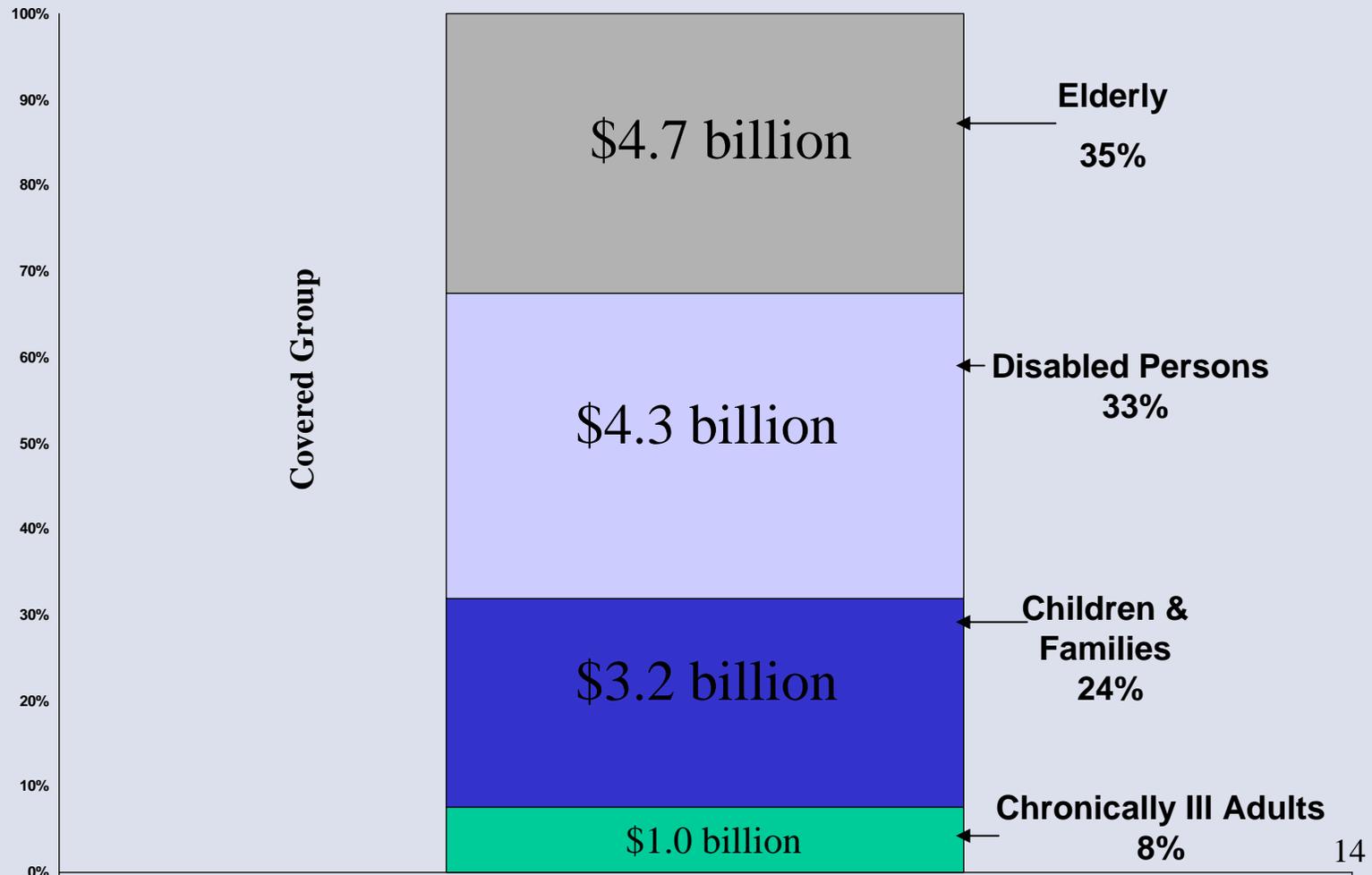
Decline in Employer Sponsored Health Insurance

National Data



Medicaid also includes S-CHIP and other state programs.

Medical Assistance Expenditures In Pennsylvania





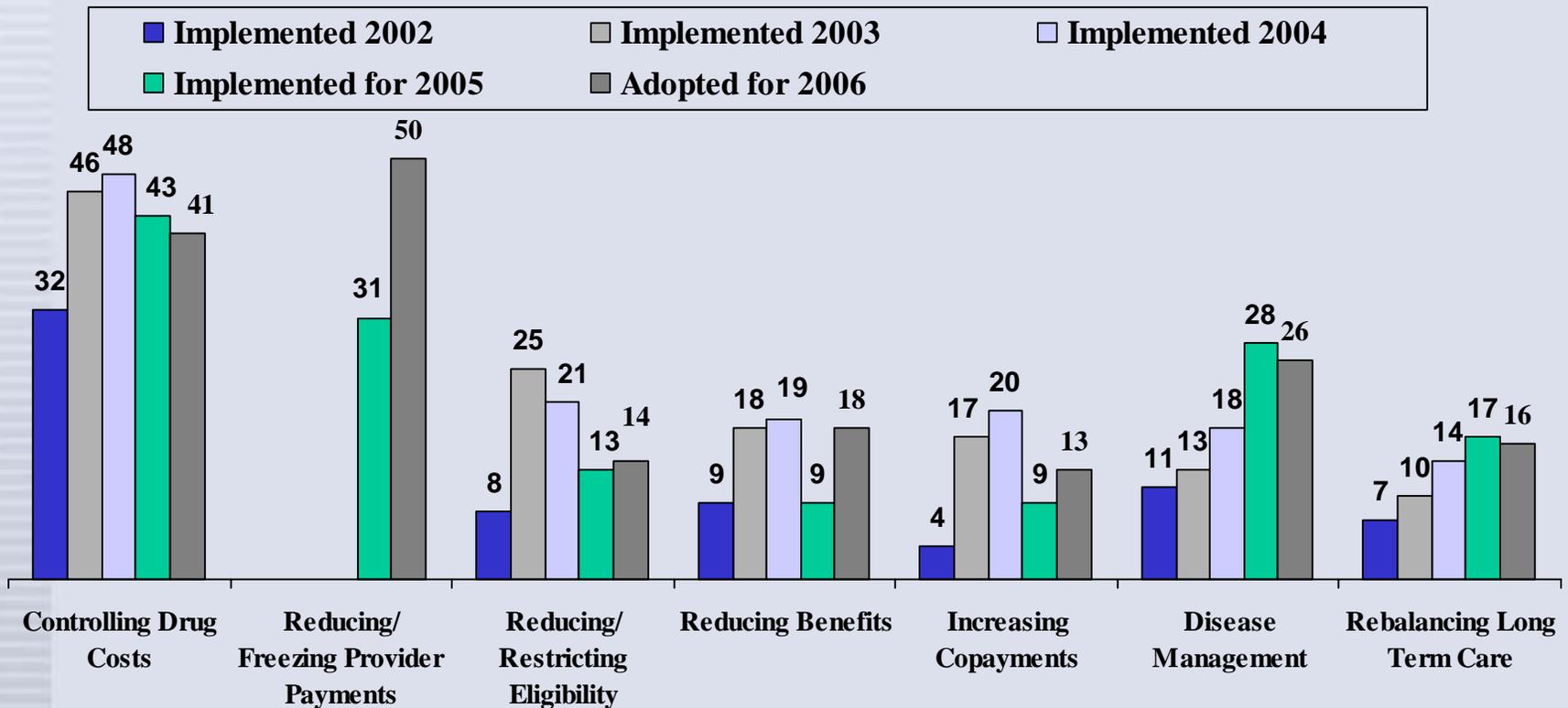
Federal Funding Cuts

Since fiscal year 2003, the federal government has cut its support to Pennsylvania by nearly \$1 billion.

- Pennsylvania is facing more than \$501 million in federal cuts and unfunded federal mandates in this coming fiscal year. These federal impacts include:
 - \$113 million cut in federal transfer funds;
 - \$27 million in lower federal match for medical assistance;
 - \$13 million in reduced health grants; and
 - \$348 million in Medicare Part D payments
- The additional cuts come on top of a \$497 million federal aid cut in the current fiscal year.

States Respond to Medicaid Pressures

Cost Containment Strategies FY02 – FY06



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September and December 2003 and October 2004. Additional data provided by PA state survey.

Provider payments data is for 3 years 2002, 2003, 2004 only and includes nursing homes, hospital and managed care



In Response to Budget Pressures, Some States Proposed Deep Eligibility Cuts in FY 2005-06

- **Tennessee** - eliminate coverage for adult expansion groups affecting 226,000 individuals.
- **Missouri** - reduce income eligibility for parents and aged and disabled beneficiaries affecting nearly 70,000 beneficiaries.
- **Florida** - eliminate coverage for 77,000 non-institutionalized Medicare eligible beneficiaries
- **Mississippi** - eliminate coverage for aged and disabled persons between 100-133% FPL affecting 65,000 individuals.

Effective Management Produces Results

Over \$275 Million Saved in FY2005-06

Major Initiatives Year-to-Date Progress/Year End Projected	Budgeted Savings	Year-to- Date	Projected Year-End Savings
Reduced administrative costs and enhanced efficiencies	\$106.8	\$41.0	\$116.6
Increased third-party liability collections and decreased fraud and abuse	\$20.5	\$18.2	\$21.2
Preferred drug list and other pharmaceutical efficiencies	\$82.1	\$52.3	\$82.1
Fee-for-service benefit package redesign	\$24.2	\$7.1	\$24.2
Other initiatives (academic medical centers, unpaid medical expense deduction and MATP efficiencies)	\$33.5	\$13.8	\$33.5



Governor's Medical Assistance
Listening Tour
Experience and Recommendations



Purpose

- To engage in vigorous discussions with a broad range of stakeholders to explore potential innovations and savings to address the extreme budget and service pressures on the Medical Assistance Program
- To inform the development of the Department's Budget request, the Governor's proposed budget, and the work of the legislature as it reviews and modifies the budget



Locations

- Pittsburgh
- Somerset
- Allentown
- Scranton
- Philadelphia
- Harrisburg (special session on long term living and behavioral health)
- Erie
- State College



Panel Composition

- Twelve legislators
- Six Cabinet Secretaries
- Senior Medicaid and Budget Office officials
- Six national Medicaid experts
 - including Diane Rowland and Jim Verdier



Results

- Over 700 recommendations logged and analyzed
- Major Themes
 - Strengthen Program Administration
 - Improve Behavioral Health Services
 - Focus on Prevention
 - Reduce Pharmaceutical Costs
 - Improve Acute Care/Disease Management
 - Balance Long Term Living System



Listening Tour Recommendations Included in FY 06-07 Budget Proposal

- Expansion of Behavioral Health Health Choices
- Enhanced Program Management
 - Selective contracting for specific MA services, including Pharmacy and Durable Medical Equipment
 - Fraud & Abuse
 - Third Party Liability
 - National Provider Identification
 - Provider Certification
- MCO contract incentives aimed at disease management and prevention programs
- Establishment of Long Term Living Council



**Office of Medical Assistance
Programs
Budget Initiatives
FY2006-2007**



Increasing Efficiency and Integrity

Total FY06-07 MA budget is \$14.2 billion

Includes \$5.3 billion state funds, a 7.3% increase over FY05-06

- **Selective Contracting**
- **Enhanced Program Management**
 - **Fraud & Abuse**
 - **Third Party Liability**
 - **Provider Credentialing**
- **Provider Rate Increases**
- **Hospital Payment Restructuring**



Selective Contracting

Specific MA Services, including

- Durable Medical Equipment
- Home Health
- Radiology
- Specialty Pharmacy

Benefits

- Establish best value pricing
- Improve access to appropriate care
- Optimize Utilization of Expensive Services
- Improve quality of care for MA consumers



Reduce Fraud and Abuse

- Recipient Lock-In
 - For clients receiving excessive or unnecessary services
- Medi-Medi Project
 - Prevention and recovery of inappropriate payments by MA for Medicare-covered services
- Mental Health Coordination
 - Require MH facilities to participate with and bill Medicare first



Increase Third Party Recoveries

- **Medical Support Enforcement**
 - Data Matches to Identify Available Health Care Coverage for Dependent Children Through Absent Parent
- **Medicare Advocacy**
 - Recovery of Medicaid Payments to Home Health Providers that Should Have Been Made by Medicare



Provider Credentialing

- Ensure that MA Recipients Receive Services Only From Qualified Providers
- First-line Defense in the Prevention of Fraud and Abuse
- Improvement in Quality of MA Provider Network



Hospital Restructuring Initiative

- Recognize and Reward Hospitals for Their Risk Related to Providing MA Services
- Tie Special Payments for Hospitals More Closely to the Volume of Services Provided to Low Income Clients
- Provide Incentives for Providing Quality Inpatient Services



Continue to Prudently Purchase Services

- **Hospitals**

- 4% Rate Increase Proposed for 2006-07
- Increase for 2005-06 was 2%

- **Managed Care Organizations**

- 4% Rate Increase Proposed for 2006-07
- Increase for 2005-06 was 2%

- **Nursing Homes**

- 4% Rate Increase Proposed for 2006-07
- Increase for 2005-06 was 2.8%



**Office of Mental Health and
Substance Abuse Services
FY2006-07 Budget Initiatives**



Promoting Community Based Services

Successful Closure of Harrisburg State Hospital

- Harrisburg State Hospital closed on January 27, 2006
- 132 individuals discharged to the Community
- Resources followed individuals to the community
- Enhanced service and support capacity realized in all participating county MH/MR programs
- Employment opportunities for all employees of the Hospital
- Strong state/county partnership; many lessons learned and best practices established



Behavioral Health Services

- Total FY2006-07 OMHSAS state appropriation is \$724.3 million
 - Includes \$9.7 million for a 2% COLA for Community Services
- In FY2006-07, OMHSAS will serve 197,112 individuals in community and hospital settings



Behavioral Health Health Choices Expansion

- Number one recommendation from the Governor's MA Listening Tour
- One of five major objectives endorsed by the OMHSAS Statewide Advisory Council
- Counties who demonstrate readiness, financial capability, and commissioner support will be provided the right of first opportunity
- DPW will contract with private sector BH-MCO for counties that do not or are unable to accept the right of first opportunity
- Implementation is slated for January 1, 2007 for the DPW direct contract and July 1, 2007 for counties



**Office of Children, Youth and
Families
FY 2006-07 Budget Initiatives**



Safe and Stable Families

- **Serving children and families in their own homes**
 - Since FY2003-04, the number of children receiving in-home services has increased by 4.2%, while the number in community residential programs has declined by 6.3%.
- **Statewide Adoption Network - Connecting children to safe, permanent homes**
 - Since 1992, more than 18,000 children have been adopted from Pennsylvania's child welfare system.
 - Winner of the prestigious *Adoption Excellence Award* and the *Continuing Services to Adoptive Families* award



Safety, Permanency and Well Being for Children

- **Total FY06-07 State Appropriation is \$990 million, a 4.4% increase over FY05-06**
 - In FY2006-07, OCYF will serve 286,131 children
 - County Child Welfare will receive an increase of \$57.2 million
 - Includes 2% COLA for Community Services
 - Includes \$30 million in State Transition funds (no match required) to ease prior year reduction in TANF allocations



Office of Child Development FY2006-07 Budget Initiatives



FY2005-06 Work in Progress

- Enrolling 9,000 additional children in Child Care Works subsidized child care program
- Adding 12,000 children to the Keystone STARS program, and implementing the new Early Keys to Quality Program
- Providing Infant/Toddler Early Intervention services to an additional 2,000 children
- Serving 1,106 TEACH scholars, an increase of 343 over previous year
- Improved payment levels for early childhood programs serving our youngest children



FY2005-06 Work in Progress

Partners in Education

- First-ever state investment in preschool through state Head Start (\$15 million in 2004-05 doubled to \$30 million in 2005-06), serving nearly 5,000 children this year
- Expanded early childhood services through the Education Accountability Block Grants.
 - 40 districts established new or expanded pre-kindergarten, serving 3,052 children
 - 301 of 501 districts are offering full-day kindergarten, serving 58,318 children
 - 93 districts are reducing class size in K-3rd grade, serving 18,165 children



Higher Quality, Better Access

- **Total FY06-07 State Appropriation is \$376.5 million, a 27% increase over FY05-06**
 - Expand early learning experiences to 12,000 more children through Keystone STARS
 - Expand Infant/Toddler Early Intervention services to an additional 2,827 children and improve payment level for the program
 - Assure Child Care Works subsidy access to an additional 9,590 children on an average monthly basis
 - Expand Nurse Family Partnership program from 3,500 families to over 4,000 families and stabilize program with Medical Assistance funding
 - Unify subsidized child care service delivery
 - Continue Development of Autism Intervention/Services



**Office of Income Maintenance
FY2006-2007
Budget Initiatives**



Better Management, Better Service

CAO IMPROVEMENT PROJECT

- Improved accuracy in Food Stamp Program earned national recognition and \$5 million bonus
- Successful implementation of Medical Assistance Eligibility Automation in 1/3 of PA counties
- Implemented client call/change centers in Philadelphia, Westmoreland and Chester counties
- Progress toward paperless environment with scanning pilots in two district offices in Philadelphia



FY06-07 Management Goals

- **Total FY06-07 State Appropriation is \$749.8 million to fund:**
 - Assistance to 140,000 individuals in households without income due to disability or short-term health or mental health crisis
 - Temporary support to 139,000 individuals in families working toward self-sufficiency
 - Employment and training services to transition over 23,700 clients into work
 - Design and implementation of model CAO pilot - integrates new technology and staffing structures to improve service and efficiency
 - Centralized issuance of replacement Electronic Benefit Transfer cards
 - Simplified system to match with national employment data bases to improve benefit accuracy
 - Expansion of call/change centers
 - Automation of the eligibility renewal mailing process



Office of Mental Retardation FY2006-07 Budget Initiatives



Office of Mental Retardation

Activities to respond to issues identified by the Centers for Medicare & Medicaid Services

- Retaining Administrative Authority
 - New Business Relationship with Counties/Joinders
 - Closer Monitoring of Counties/Joinders
 - Contract with Administrative Entity when Counties/Joinders Choose not to Participate



Office of Mental Retardation

Activities to respond to issues identified by the Centers for Medicare & Medicaid Services

- Meeting the Needs of Waiver Participants
 - Addressing Changes in Need- All identified needs must be met
 - Underserved must be fully served
- Implement Standardized Needs Assessment
- Standardized Rate Setting Methodology
- Statewide Provider Qualifications Process



Expanding Services, Improving Quality

- **Total FY06-07 MR Community Appropriation is \$1.5 billion in combined state and federal funds, an increase of \$90.9 million or 6.3 percent**
 - Continued services to 70,000 consumers
 - \$16.6 million to provide home and community-based services to 806 more people.
 - \$11.3 million to enhance service quality and strengthen program management
 - \$4.6 million to expand community support services
 - \$29 million for a two percent cost of living adjustment for community providers.
 - \$28 million to provide increased funding for the annualization of the FY 05-06 expansion.

Expanding Services to Meet Needs

Millions of dollars

\$9.7	Residential services to 282 individuals on the Waiting List
\$1.2	Community services to 156 individuals on the Waiting List
\$2.4	To provide day activities for 300 graduates of special education programs
3.1	To provide services to 68 individuals aging out of the EPSDT program
0.2	Additional supports and special initiatives
\$16.6	Total investment

Enhanced Program Management

Millions of dollars

\$4.0	To address the changing needs of individuals in the waiver
\$3.4	To implement a state-wide assessment tool
\$3.9	Other CMS requirements
\$11.3	Total Investment



Office of Administration FY2006-07 Budget Initiatives



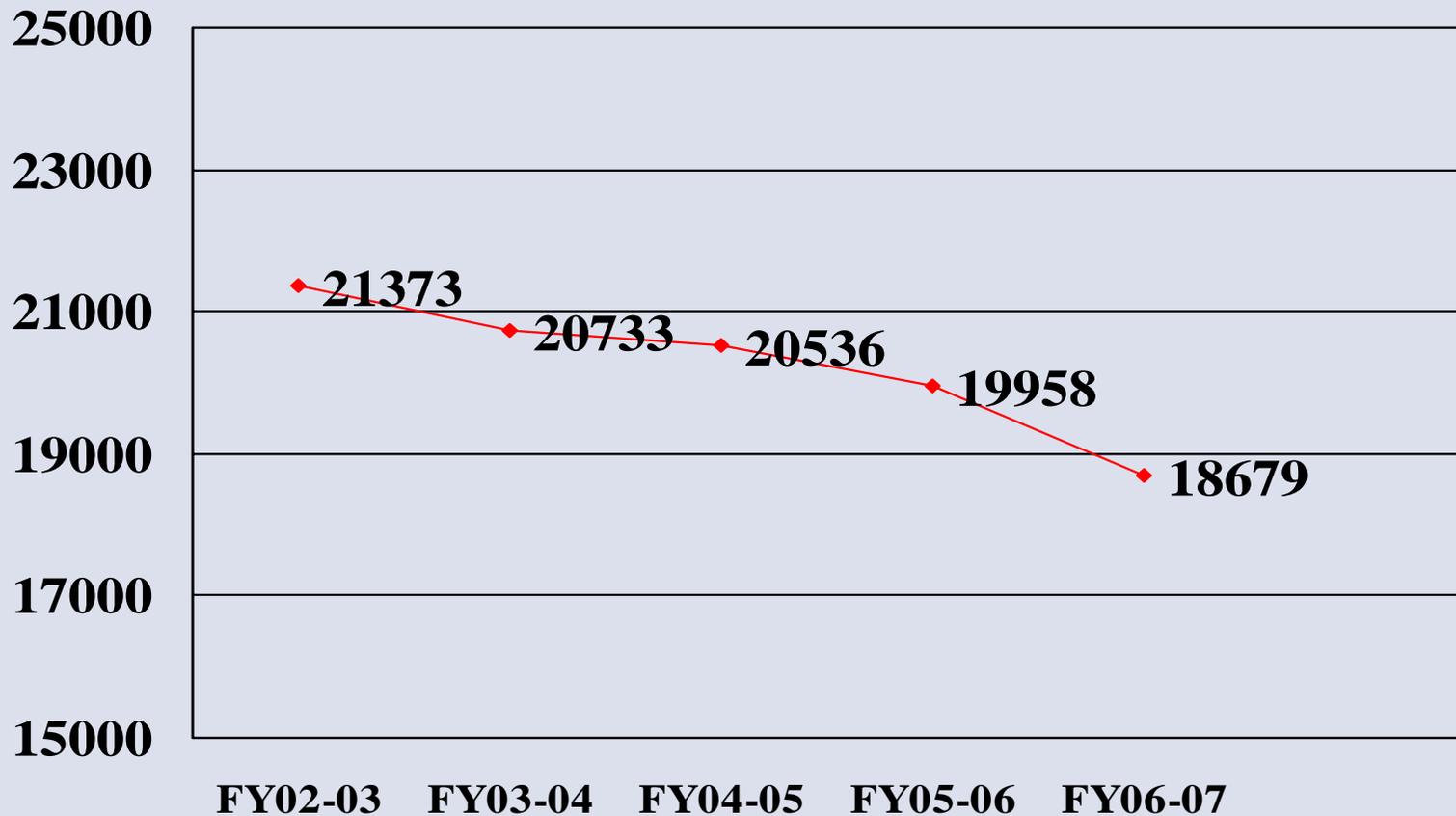
Administrative Efficiencies

FY 2006-2007 INITIATIVES

- Reduce Facility complement by standardizing classification filled levels
- Monitor travel reimbursement amounts
- Reduce Facility fleet vehicles
- Use video conferencing rather than face to face hearings

Reducing the Size of Government

13% Reduction in DPW Complement since FY 2002-03





Reform Procurement and Contract Management

- Redesign the Procurement Office and Processes to implement efficiencies
- Productivity Bank Proposal for additional staff to assist with contract reform, program changes, and contract management.
- Institute Best Practices to procure and manage contracts