House Republican Policy Committee
Public hearing on the Implementation of the Fiscal Year 2011-2012 DPW Budget

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Good morning Chairman Reed and members of the House Republican Policy Committee. My name is Tim Costa and I am the Executive Deputy Secretary at the Pennsylvania Department of Public Welfare (DPW). I am pleased to come before this committee to discuss the Implementation of the Fiscal Year 2011-2012 DPW Budget.

I would like to begin by briefly describing the Governor's budget in the context of the dramatic expansion of welfare spending that predated the economic slowdown and new fiscal realities facing Pennsylvania and the nation.

While it is certainly true that in times of economic distress we must maintain essential services to help those in need, we must not assume that our enlarged welfare system today is a response to economic slowdown. In fact, the reverse argument could be made that the welfare system, over time, has contributed to the problems that the country now faces. For years, if not decades, our welfare system has fostered unhealthy levels of dependency and family fragmentation that represents a staggering loss for our country and our state. The reality is that low income individuals today are far less capable of self-reliance – especially in this downturn – than they were when means-tested welfare became a growth industry in the late 1960s. Moreover, a much larger portion of our population today is welfare dependent than it was in 1970. President Reagan once remarked that we "declared war on poverty, and poverty won." He was and is correct.

Therefore, our long-range challenge is to transform our welfare system so that it becomes part of the solution, not the problem. The welfare system can only help the Commonwealth of Pennsylvania if it embodies self-sufficiency NOT dependency.

In times of economic distress, when people have lost jobs or are struggling to make ends meet, it is critical that Pennsylvania maintains essential services and programs to help those most in need. Now more than ever, our societal safety net must not only protect our most vulnerable citizens, but more importantly, empower them to lead lives free of government dependence whenever possible.

Secretary Alexander and I see DPW's mission as furnishing services so that when Pennsylvanians find themselves temporarily in need of assistance, those services are delivered timely, efficiently, and at a low cost. Our mission is not to create long-term or permanent dependency but to deliver short-term help to the truly needy to achieve independence, self-sufficiency, and dignity.

It goes without saying that there are some people, the intellectually disabled and frail elderly for example, who may require services for longer periods of time, but for most people public assistance should be a temporary backstop. And even when we do encounter people who need a more expansive array of services for a longer period of time, we should provide them in a way that allows persons and families to continue to develop and mature.

No doubt, our mission faces unique challenges this year. Like most states, Pennsylvania's economy has faltered and slowed due to the national recession. The downturn in the economy, coupled with federal actions that have dramatically expanded the definition of the truly needy to include members of the middle class – sometimes even the rich, have contributed to a reliance on and explosion of social, health and welfare services across the demographic spectrum, threatening our ability to serve those who need assistance the most.

Secretary Alexander and the department have a long-term goal to encourage and provide independence and personal responsibility for our recipients. The Department of Public Welfare budget for the current fiscal year has focused on three core themes –

(1) Increased accountability;
(2) Stepped up efforts to stop fraud, abuse and waste; and
(3) A comprehensive effort to reform the public welfare system.

In the current fiscal year, the department accounts for about 41 percent of Pennsylvania's total budget. Growth in the Medical Assistance program in recent years has outstripped both population and economic growth, significantly contributing to an increasing burden on working Pennsylvanians. In addition, growth in the number of eligible recipients is projected to increase with the full implementation of the federal Patient Protection and Affordable Care Act. Clearly, this level of growth is unsustainable and the department needs to act now to control spending.

Secretary Alexander and the department have been tasked with reducing the DPW budget in fiscal year 2011-2012 by $471 million and to continue to look for additional cost savings in upcoming years. This effort consists of finding $271 million in specific reductions and identifying approximately $200 million in reductions due to fraud waste and abuse.

The department is on target to ensure fiscal stability and meet budgetary requirements for the current fiscal year. Total expenditures through August 2011 totaled $2.475 billion compared to a projected spend of $2.399 billion Indicating an overspend of 3.1 percent. However, included in the actual expenditures is the 4th monthly payment of the Medicare Part D premium payments plus the 2nd quarter advance payment to counties for base payments for the Intellectually Disabled and for Mental Health Services. Since the majority of the identified cost containment measures included in the enacted budget will show results toward the end of the fiscal year, we expect the budget to be balanced by the end of the fiscal year.

Cost Containment Initiatives

In order to meet the budget objectives, the department has created a Cost Containment Monitoring Tool to identify and track the implementation of its cost containment strategies. The department has developed and implemented this novel budget and financial tracking device to ensure that managers are accountable and problems are identified as soon as practical. Staff in the department are working collaboratively to:

- Track the implementation (milestones and timelines) of cost containment initiatives
- Track actual expenditures against projected expenditures
- Monitor the status of key management metrics such as MA eligibility that influence overall expenditures
- Provide an executive level snapshot of the department's fiscal health; and
- Hold all managers accountable

DPW has implemented and is pursuing a multitude of initiatives, with a view toward balancing the needs of providers and recipients against the current and future budget requirements. As referenced earlier, many initiatives were included in the 2011-12 budget to meet the original $271 million in state savings, including for example:

(1) A prescription limit for Adults on Medical Assistance ($14 million);
(2) Increase in Hospital Assessment revenue ($50 million);
(3) Limits on Adult Dental Services ($20 million); and
(4) Increased copayments for subsidized child care ($16 million).

As part of the enacted Budget and Act 22 of 2011, the department has been granted increased flexibility in the form of expedited rulemaking authority. This allows the department to implement necessary changes ensuring that assistance programs administered by the department do not exceed the aggregate amount appropriated by the General Assembly under this year's General Appropriations Act. Although we are still reviewing all available options for the use of this authority, this tool will, for example, allow us to pursue new regulations for the Office of Developmental Programs Home and Community-Based waivers that are intended to provide clear rules for providers and also reduce the reliance on exceptions to program policies and requirements.

In addition to the reductions specified as part of the enacted budget, we are to pursue a reduction of roughly $200 million for fraud, waste and abuse throughout the programs administered by the department. Implementation of the majority of initiatives in this area are on track. Some of the specific initiatives include:

- Implementing or increasing co-payments for certain services increasing personal responsibility.
- Further reductions in behavioral health managed care reinvestment funds
- Eliminating non-traditional rates for child care
- Reducing administrative costs for contracts

Through these and other cost containment initiatives, the department intends to realize the savings necessary to meet its current budget targets. However, we recognize that although these initiatives hold great promise, the cost containment initiatives and other efforts do not begin to address the programmatic and organizational reform and redesign necessary to contain growth and ensure the maintenance of adequate program benefits for truly needy Pennsylvanians.

Eligibility

Enrollments and the number of recipients served drive much of the department's budget expenditures. The budgetary trends on this front appear encouraging. Medical Assistance, the largest program managed by the department, saw a drop in eligibility in July by 19,619 recipients. August eligibility was further reduced by 15,337 recipients. Given cost containment efforts, overall enrollment in the Medical Assistance program has declined since the start of the state's fiscal year. This decrease is due to the timely semi-annual review of continued eligibility and the enforcement of current rules. From the standpoint of promoting fiscal stability and ensuring the maintenance of appropriate benefits, these efforts are helping to facilitate improvements in program operations.

To that end, at the beginning of the fiscal year, more than 154,000 cases were overdue for eligibility reviews. Additionally, there was a backlog of information from data sources that potentially affect eligibility and those items also needed to be reviewed. Because of our rigorous program integrity efforts to enforce current rules and regulations, the result of these reviews has been the closure of over 100,000 individuals from Medical Assistance. Some of these individuals were recently deceased, had moved out of the state, or were no longer eligible to receive these services.

Additional Points

I would like to take this opportunity to touch on several other issues that may interest the committee. First is the recent Auditor General's special report on the usage of Electronic Benefit Transaction (EBT) cards.

First, I believe it is important to note that, it is our intent, and will continue to be our intent, to cooperate fully with the Auditor General's office and provide all requested information related to the audit which includes both reports and transactional data related to the usage of EBT cards. The department supports all efforts to assist in identifying program areas and practices that are subject to fraud.

Unfortunately, in the case of the EBT card information, miscommunication kept the information requested from being released. Secretary Alexander believed in good faith that the matter had been taken care of in a timely manner, and he is personally seeing to it that the department is fully cooperating with the Auditor General's request.

This Administration takes very seriously its responsibility to taxpayers to ensure that funds are spent appropriately and benefits are only provided to those truly needy and eligible. We will not tolerate any type of fraud, waste or abuse. We continue to work closely with the Office of Inspector General on these and other matters.

In February 2011, Secretary Alexander directed the Department's Office of Income Maintenance (OIM) to develop and implement an internal process to monitor EBT card usage. Since that time, OIM directed staff to identify suspicious usage patterns including, but not limited to, suspicious out-of-state transactions. We have hired additional staff to assist with monitoring EBT card usage and are developing a strategic plan that will include policies and procedures for reviewing EBT-related reports on a consistent basis and utilizing trend analysis to identify high risk areas that require further review and/or referrals to the Office of the Inspector General (OIG).

Next, I would also like to mention some of the issues facing the department related to work participation rates and the Temporary Assistance for Needy Families (TANF) program. It's important to keep in mind the purpose of the TANF program; it is designed to be a work program.

In a 2005 TANF Report to Congress, the Keystone State ranked 45th in the nation on Adherence to the Federal Five-Year Time Limit. Only five other states reported a higher percentage of TANF caseloads being exempt from the time limit.

Approximately, 40 percent of our TANF caseload has been on assistance for more than two years and the number of households dependent on TANF for more than five years increased from 9.8 percent in 2005 to 16.6 percent of all TANF recipients today.

From August 2010 to August 2011, there has been a 21.2 percent decrease in the number of non-disabled TANF adults who are working. The causes of this change are not entirely clear; part of it could be attributed to the recession. However, the fact remains that we must improve the program and identify ways to get individuals back to work, while improving the monitoring and oversight of the program.

Most hard-working citizens are probably not aware of these facts, and they are a cause for concern. The department must continue to address these issues.

The members of this committee, and the citizens of the Commonwealth, should know that this budget is merely the beginning. Success in reforming the welfare system will require more than approval of this budget; it requires an overhaul of the system for the benefit of those Pennsylvanian's in need and strong, ongoing fiscal constraint with program changes that promote self-sufficiency, not dependency. We at DPW pledge to work with you over the months and years ahead to take a comprehensive look at this department and face the serious challenge of reforming the public welfare system. It will require a shared vision, prudent accountability and much greater transparency.

Thank you for your continued commitment and support of this vision. I will now take any questions you may have.