

2017/18 BUDGET BRIEFING

Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

December 29, 2017



Lottery Fund 2017/18 December Update

For the first time in 40 years, the Lottery Fund ended a fiscal year in the **red**.

After many years of using the Lottery Fund to help offset the General Fund's structural deficit, the fund closed 2016/17 with an \$18 million shortfall. Not since 1976/77, when the program was created to support older Pennsylvanians, has it finished a year with less revenue than it spent.

Lower than anticipated revenues contributed to the deficit, with no reserve money left to buffer against such circumstances. Lottery ticket sales fell \$37 million below the 2016/17 estimate and down \$134 million from 2015/16's record-high. Unlike 15/16, during which a world record Powerball jackpot drove lottery ticket sales, 2016/17 had no huge jackpots to attract more casual players. Due to lower ticket sales, profits generated by the Lottery for senior programs were down \$76 million compared to the prior year.

The enacted 2017/18 budget will spend \$1.25 billion from the Lottery Fund on senior programs, which is \$56 million less than 2016/17. This spending reduction reflects predicted savings with the governor's plan to lower dispensing fees paid to pharmacies in the PACE and PACENET programs

Gov. Wolf signed two bills Oct. 30 authorizing legislative changes impacting the 2017/18 Lottery Fund budget. House Bill 118 (Act 40) reduces PACE and PACENET dispensing fees from \$13.00 per prescription to \$10.49 per prescription (the governor had proposed a steeper cut to \$7 per prescription). House Bill 271 (Act 42), which expands gaming in Pennsylvania, includes the governor's proposal to boost Lottery sales through online lottery (iLottery) and internet instant games.

The Wolf administration projects Act 42 will generate \$8.9 million for the Lottery Fund in 2017/18. However, the deficit is expected to reach \$78 million by the end of the current fiscal year.

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

The Department of Revenue administers and operates the state program, including Lottery's marketing, game development, sales promotions, licensing agents to sell game tickets, and winner validation. Lottery tickets are sold through a statewide network of more than 9,000 retailers.

Lottery operation revenues 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.

State law requires at least 40 percent of gross lottery sales be paid out as prize money and at least 25 percent be dedicated to programs benefitting seniors.

Lottery Fund Financial Statement

Earlier this year, the governor's budget office released a preliminary financial statement for the Lottery Fund, which assumed the General Assembly would pass legislation in September to authorize *iLottery* and the Pennsylvania Lottery would begin offering online games in February 2018. Due to the General Assembly's delay in adopting the necessary legislation, *iLottery* implementation has been pushed back several months and the preliminary revenue estimate may need to be changed. We will know more when the governor releases his Executive Budget in February and we see a revised Lottery Fund financial statement.

The preliminary Lottery Fund financial statement (Table 1) shows \$1.78 billion available to spend in 2017/18, which includes the \$18.2 million deficit carried forward from 2016/17 and \$6.5 million in prior year lapses (unspent funds from previous budgets). Projected expenditures for prize payouts, operating expenses, and senior programs in 2017/18 total \$1.86 billion. This projection would deepen the Lottery Fund's deficit to an estimated \$78 million by June 30, 2018.

	<u>2016/17</u>	<u>2017/18</u>
Beginning Balance	\$26.9	(\$18.2)
Reserve from Previous Year	\$75.0	\$0.0
Total Beginning Balance	\$101.9	(\$18.2)
RECEIPTS:		
Net Revenue Estimate	\$1,709.2	\$1,781.9
Prior Year Lapses	\$23.2	\$20.0
Funds Available to Spend	\$1,834.3	\$1,783.7
EXPENDITURES:		
Total Expenditures *	(\$1,852.5)	(\$1,861.8)
Reserve for Current Year	\$0.0	\$0.0
Ending Balance	(\$18.2)	(\$78.2)
Source: Governor's Budget Office		
* Assumes a \$30 million supplemental appropriation increase for the PACE program.		

Lottery Fund Revenue

Lottery Fund revenues for 2017/18 are estimated at \$1.78 billion (Table 2) and include:

- \$1.63 billion projected net Lottery collections, which is the revenue generated from ticket sales less commissions and the prizes paid directly by retailers (winning ticket holders may redeem prizes up to \$2,500 at lottery retailers). This preliminary projection assumed *iLottery* would be implemented by February 2018, generating nearly \$48 million in revenue and, in turn, contributing \$10.5 million in profits for senior programs.
- \$145.7 million transfer from the state Gaming Fund.
- \$7.3 million of miscellaneous revenue (namely investment earnings).

	<u>2016/17</u>	<u>2017/18</u>
Lottery Ticket Sales	\$4,001.0	\$4,089.5
Less Commissions & Field Paid Prizes	(\$2,441.1)	(\$2,460.6)
Net Lottery Collections	\$1,559.9	\$1,628.9
Gaming Fund Transfer	\$148.0	\$145.7
Miscellaneous Revenue	\$1.3	\$7.3
Total Revenue	\$1,709.2	\$1,781.9
Source: Lottery Fund Financial Statement, Governor's Budget Office		

Ticket sales are projected to reach \$4.09 billion in 2017/18, an increase of \$88.5 million (or 2.2 percent) above the \$4 billion in sales in 2016/17. The Gaming Fund transfer decreases \$2.3 million, but this is offset by an expected \$6 million increase in miscellaneous revenue.

Act 42 of 2017

The gaming legislation signed by Gov. Wolf authorizes the Department of Revenue to operate iLottery and internet instant games, beginning in 2017/18, and lifts the 2014 ban that prohibited lottery from selling keno.

The new gaming law also establishes the Lottery Sales Advisory Council and a retail incentive program. The council is to develop recommendations for increasing lottery sales and encourage further cooperation between the state lottery and licensed lottery sales agents. The incentive program is designed to reward lottery sales agents who implement recommended best practices and, as a result, increase sales.

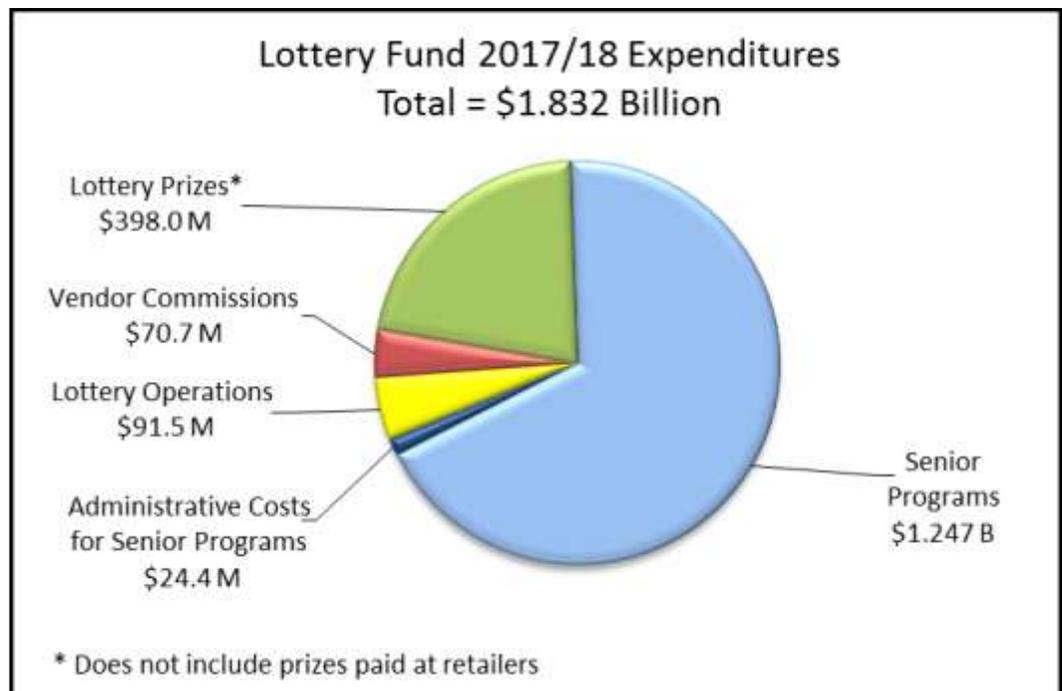
The commonwealth's entry into the online lottery industry will allow the Pennsylvania Lottery to remain competitive with other online gaming offerings and to expand its customer base with new games that appeal to younger players. Lottery officials project new online games will generate \$800 million in sales and \$160 million in profit for senior programs during their first five years.

Lottery Fund Expenditures

The 2017/18 budget spends \$1.8 billion from the Lottery Fund, of which 68 percent is for programs that benefit seniors. The remaining funds cover agency costs associated with administering senior programs, paying lottery prizes to winning ticket holders, vendor commissions, and lottery operations.

The pie chart below shows the distribution of Lottery Fund expenditures in the enacted 2017/18 budget:

- Nearly \$1.25 billion is for various programs that benefit Pennsylvania's seniors, as detailed in the following section.
- \$398 million is payment for the following types of lottery prizes: terminal-based 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 terminal-based game prizes not claimed within 180 days and are more than \$100. The amount budgeted for this executive authorization is based on ticket sale projections.
- \$70.7 million is allotted for vendor commissions. This includes the commission paid to the contractor that operates and maintains the terminal-based game system. It also includes ticket testing and vendor commissions payments for the printing, warehousing and delivery of instant tickets to retailers.
- \$91.5 million is for lottery operations. This includes \$47.5 million for the Department of Revenue to administer and operate the lottery and \$44 million for advertising and promotional activities.
- \$24.4 million is for the agency costs associated with administering senior programs. This includes \$15.5 million for Revenue to administer the property tax/rent rebate program and \$8.9 million for the Department of Aging to administer and operate various senior programs.



Senior Programs

The 2017/18 budget decreased Lottery Fund expenditures for senior programs by \$56 million compared to 2016/17. This is largely due to funding reductions for the property tax/rent rebate program and the pharmaceutical assistance programs.

- Two factors drive the decreased funding for the property tax/rent rebate program: an anticipated decline in the number of households claiming rebates in 2017/18, and the disappearance of one-time rebates paid in 2016/17 due to a class action settlement.
- Decreased funding for the pharmaceutical assistance program reflects savings associated with reducing the dispensing fee paid to pharmacies.

The table on the right shows 2017/18 Lottery Fund expenditures for senior programs by agency and appropriation. Expenditures for programs administered by Aging and the Department of Human Services 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 annual approval.

Approximately one-fourth (\$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 (DHS); this is \$200,000 more than 2016/17 and reflects the increase in Lottery Funds appropriated for the Medical Assistance Transportation Program.

It is also \$193 million less than the record Lottery spending enacted in 2014/15 to pay for Medicaid programs in DHS.

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 these funds to provide a broad array of services that meet the needs of the older population residing within their geographic area.

PENNCARE has three major program components:

- Aging services accounts for nearly half of all funding and includes congregate meals, home-delivered meals, personal care, home health, employment services, and recreation/socialization activities at senior community centers.
- Attendant care consists of in-home personal care services provided to adults with physical disabilities who "age out" from the attendant care program in the Department of Human Services which serves individuals under age 60.
- The OPTIONS program provides customized supports and services that enable seniors to remain in their homes and avoid relocating to a nursing facility.

Lottery Fund Expenditures for Senior Programs		
<i>(\$ Amounts in Thousands)</i>		
State Lottery Fund Expenditures for Senior Programs	Budget 2017/18	Change from 2016/17
Department of Aging:		
PennCARE	\$336,062	\$4,816
Pharmaceutical Assistance Fund Transfer*	\$125,000	-\$44,000
Pre-Admission Assessment	\$19,916	\$0
Caregiver Support	\$12,103	\$0
Grants to Senior Centers	\$2,000	\$0
Alzheimer's Outreach	\$250	\$0
Department of Human Services:		
Medical Assistance Long-Term Care	\$184,081	\$0
Home and Community Based Services	\$120,668	\$0
Medical Assistance Transportation	\$3,500	\$200
Department of Revenue:		
Property Tax/Rent Rebate	\$264,700	-\$5,200
Property Tax/Rent Rebate Settlement	-	-\$12,000
Department of Transportation:		
Transfer to Public Transportation Trust Fund	\$95,907	\$0
Older PA Shared Rides	\$82,975	\$0
TOTAL	\$1,247,162	-\$56,184

* This is the appropriation in Act 1A-2017, which was based on the assumption that the PACE dispensing fee would be decreased to \$7.

Other services funded under PENNCARE include Medicare managed care education (which provides information and counseling for health insurance and benefit), elder abuse education and prevention, and ombudsman activities (that investigate and assist in resolving complaints made by older persons receiving long term care).

The 2017/18 budget appropriates \$336 million from the Lottery Fund for PENNCARE; this is \$6.5 million above the governor's initial request and \$4.8 million more than 2016/17, which included a \$6 million supplemental appropriation. The increased PENNCARE funding will be used to pay attendant care expenditures for elderly adults with physical disabilities, including the costs for 480 individuals who, in 2017/18, will "age-out" from the attendant care program in the Department of Human Services.

Lottery Funds budgeted for all other PENNCARE programs and services, including aging services and OPTIONS, is maintained at the 2016/17 funding levels.

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 (\$39.45 in 2017).
- 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 Medicare is largely funded with federal Medicare dollars. Additional information about these programs can be found in the primer on [Senior's Pharmaceutical Assistance Programs](#).

The enacted 2017/18 budget transfers \$125 million from the Lottery Fund to the Pharmaceutical Assistance Fund, which is \$44 million less than was transferred in 16/17. This decreased transfer assumes the dispensing fee paid to pharmacies that participate in the PACE program would be reduced to \$7. On Oct. 30, the governor signed House Bill 118 that reduced the fee to \$10.49; the Office of the Budget projects a supplemental appropriation increase of \$30 million would be required to cover a \$10.49 dispensing fee.

Approximately 236,000 seniors per month are expected to receive pharmaceutical assistance in 2017/18, of which about 80 percent are enrolled in PACEPlus.

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 2017/18 budget appropriates \$19.92 million from the Lottery Fund for approximately 132,000 assessments and recertifications.

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

The state program generally reimburses caregivers up to \$200 per month for out-of-pocket expenses on services and supplies. 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 more than 5,000 families.

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. Award amounts range from \$5,000 to \$150,000. The grant application period closed Dec. 15. The Department of Aging will announce these grant awards in February.

Alzheimer's Outreach. The 2017/18 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 17/18 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 17/18 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 2017/18 budget appropriates \$3.5 million from the Lottery Fund for MATP, an increase of \$0.2 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. 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 2017/18 budget includes \$264.7 million for the property tax and rent rebate program. The budgeted funds are based on projections that 573,000 households will receive rebates for taxes and rents paid in the 2016. By comparison, \$269.9 million was budgeted in 2016/17 to pay rebates to approximately 578,000 households for taxes and rents paid in 2015. Additionally, the 2016/17 budget included one-time funding of \$12 million which was set aside to pay rebates in accordance with a class action settlement agreement reached in August 2016. The settlement required the department to pay property tax rebates to the estates of eligible Pennsylvania homeowners who died between 2004 and 2009.

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.

2016/17 Lottery Ticket Sales and Profits

Lottery ticket sales totaled \$4 billion in 2016/17, a decrease of \$134 million (or 3.2 percent) below 2015/16 sales which were driven by a world record Powerball jackpot that year.

- Instant game sales were \$2.73 billion, down \$66 million (or 2.4 percent) from the prior year.
- Sales for terminal-based lottery games (Powerball, Mega Millions, Cash 5 and other terminal-based games) were \$1.22 billion, a decrease of \$123 million (or 9.2 percent) from the prior year.

Lottery generated nearly \$1.05 billion in profits for senior programs, which was \$75 million less than the previous year.

Lottery distributed its 16/17 revenue as follows:

- 64.7 percent to players as prize money;
- 25.1 percent to the Lottery Fund to support programs for older Pennsylvanians;
- 7.0 percent to retailers and vendors as commissions; and
- 2.2 percent for lottery administrative costs.

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