COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING
BUDGET HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
HARRISBURG, PENNSYLVANIA

THURSDAY, MARCH 2, 2006, 2:00 P.M.

VOLUME III OF III
PRESENTATION BY DEPARTMENT OF PUBLIC WELFARE

BEFORE:
HONORABLE BRETT FEESE, CHAIRMAN
HONORABLE DWIGHT EVANS, CHAIRMAN
HONORABLE STEPHEN BARRAR
HONORABLE STEVEN CAPPELLI
HONORABLE CRAIG DALLY
HONORABLE GENE DiGIROLAMO
HONORABLE PATRICK FLEAGLE
HONORABLE DAN FRANKEL
HONORABLE HAROLD JAMES
HONORABLE KATHY MANDERINO
HONORABLE EUGENE McGILL
HONORABLE FRED McILHATTAN
HONORABLE ANTHONY MELIO
HONORABLE SCOTT PETRI
HONORABLE DOUGLAS REICHLEY
HONORABLE SAMUEL ROHRER
HONORABLE STANLEY SAYLOR
HONORABLE JOSH SHAPIRO
HONORABLE JERRY STERN
HONORABLE MIKE STURLA
HONORABLE THOMAS TANGRETTI

BEFORE: (cont'd.)
HONORABLE KATIE TRUE
HONORABLE DON WALKO
HONORABLE JAKE WHEATLEY

ALSO PRESENT:
MIRIAM FOX
EDWARD NOLAN

JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

I N D E X

WITNESSES

CHAIRMAN FEESE: I would like to call this hearing of the House Appropriations Committee to order. This is the time and date to hear testimony from Secretary Richman, Department of Public Welfare, concerning the Governor's proposed budget.

Madam Secretary, welcome.

SECRETARY RICHMAN: Thank you.

CHAIRMAN FEESE: Would the stenographer please swear in our witness? And we will begin.

(Witness sworn in.)

CHAIRMAN FEESE: Please proceed when you're ready, ma'am.

SECRETARY RICHMAN: Thank you.

Good afternoon, Chairman Feese, Chairman Evans, members of the committee, and staff. I am Estelle Richman, Secretary of the Department of Public Welfare.

Thank you for the opportunity to testify before you and present the 2006-2007 proposed budget for the Department of Public Welfare.

Contrary to what many believe, the Department does not see our primary responsibility as cutting welfare checks. It is true that we make cash assistance payments to some individuals, but our goal is to move people from welfare to work and to give

them the skills to break the cycle of dependency. In reality, the number of people receiving cash assistance from the Department is expected to fall by about 2 percent, while the number of individuals receiving all other services we provide is on the rise.

In reality, most of our money, about 80 percent, goes to provide a comprehensive range of healthcare services to nearly two million individuals. This includes people with mental illness and addictions, people with mental retardation, people with physical disabilities, and people with brain injury and people who live with autism. We are one of the largest revenue sources for most of our state's nursing homes, hospitals, pharmacies, and many doctors in the state. We are the primary funders of the counties for the provision of services for children who have been victims of abuse or neglect, mental retardation services, and mental health and drug and alcohol services.

DPW is the agency that enables our parents, grandparents, and neighbors to age in place, to stay in their communities while DPW provides the services and supports they need right in their homes.

Our agency also assists people with severe

disabilities and mental retardation, enabling them to live independently, with dignity in the community and not on a waiting list.

The Department also protects children who have been neglected or abused, finding adoptive homes and facilitating treatment for emotional scars. The Commonwealth is called upon to provide the resources needed to protect and nourish those children who have nowhere else to turn.

We also provide safe, affordable alternatives for child care.

This time last year when I came before you, I discussed the challenges our healthcare system is facing; and these challenges continue. Last week the Centers for Medicare and Medicaid Services projected that within a decade, one dollar out of every five will go for healthcare. Similar to last year, this year we are experiencing a $501 million decline in federal support and unfunded mandates. While the overall cost of healthcare and declining federal support are realities with which all states must contend, in Pennsylvania, the growth of our elderly population intensifies the pressure on our Medicaid program.

This past year has been challenging for the

Department. We had a difficult budget, and I am pleased to tell you today that we are on track to achieve the more than $330 million in savings we planned for the 2005-'06 budget year while preserving the essential services our clients rely upon.

We initiated a comprehensive overhaul of our Medical Assistance drug program, dropping drug costs by 12 percent per MA recipient. We also found more than $107 million in savings by working smarter. We increased collections from third parties and decreased fraud and abuse in the MA program, resulting in more than $20 million in savings. Our commitment to a leaner, more efficient department is demonstrated by a 13 percent reduction in DPW personnel from fiscal year '02-'03, when there were 21,373 employees. For fiscal year '06-'07, the number of employees is 18,679. And the list goes on.

As was the case last year, Medicaid continues to provide the lion's share of challenges to our efforts to control costs within the Department while maintaining eligibility for our most vulnerable people.

For the 2006-2007 budget year, we propose to continue our efforts to manage smarter and expect to realize an additional $200 million in savings through

numerous new management initiatives and policy changes.

To guide the development of this year's budget, we engaged a wide array of stakeholders across the state when we convened our eight-day Medical Assistance Listening Tour over the summer. The Listening Tour produced over 700 recommendations concerning ways to strengthen the Medical Assistance program, and many of the recommendations are in the budget proposal that is before you now.

Among them are the statewide expansion of Behavioral Health Health Choices; Managed Care Organization contract incentives aimed at disease management and prevention programs; various programs aimed at enhancing management efficiencies, including fraud and abuse and third-party liability; and better coordination of our long-term living services, which we did through the establishment of the Long-Term Living Council. The council has been charged with implementing Governor Rendell's vision of offering consumers a choice about where they wish to receive long-term living services while ensuring high-quality care in the most cost-effective environment.

We were also asked to continue to strengthen our community-based programs, so we are increasing

funding for our home and community-based waiver programs that serve those who are elderly or living with a disability. We will provide community-based services for 806 more people living with mental retardation.

In regard to child care, we are continuing our investment in our families by funding an additional 12,000 children in the Keystone Stars child care initiative aimed at improving the quality of early learning experiences and enabling more individuals to move from welfare to work.

These are some of the highlights of the proposed DPW budget which, I believe, manages to expand services in the face of major challenges tied to federal cuts and increased costs for healthcare.

We need to continue to be innovative and forward-thinking in our holistic approach to caring for the diverse group of citizens who rely on us.

Whether we're talking about serving more people in their communities, improving the quality of care, or ensuring that permanent homes are found for our children in protective care, we must always remember that we are dealing in human lives, many of them fragile.

This budget is a delicate balance between the

oft-times conflicting ideas of expanding services and controlling costs. We are committed to working with you on its enactment in a spirit of cooperation which will show that Pennsylvania really does care.

Again, thank you for the opportunity to testify before the committee. At this time, I would be happy to answer any questions committee members might have.

Thank you.

CHAIRMAN FEESE: Thank you, Madam Secretary.

At this time the Chair recognizes the gentleman from Franklin County, Representative Fleagle.

REPRESENTATIVE FLEAGLE: Thank you, Mr. Chairman.

Good afternoon, Secretary Richman.

SECRETARY RICHMAN: Good afternoon.

REPRESENTATIVE FLEAGLE: I have a question. Maybe I should have asked Secretary Masch when he was here. This budget shifts things around and takes things off line and it's really convoluted. But the proposed budget, total budget, puts a request in L&I for $10 million of new spending for nursing education. But at the same time, in your budget, there is a cut for professional education payments to hospitals under

Medicaid by -- somebody told me 33,000 but I verified 27 million.

SECRETARY RICHMAN: Right.

REPRESENTATIVE FLEAGLE: Some of those funds are going for nursing education. I was just wondering the rationale behind putting it into L&I and cutting nursing education under Medicaid. And I believe that if you cut Medicaid, you lose federal matching dollars associated with it. What's the rationale behind that?

SECRETARY RICHMAN: Well, you're right on the statement that when you cut Medicaid, you lose matching dollars. When I developed the DPW budget with all of our staff, we basically looked at how much money we will have available, how much growth we have, and what we need to cut to come within those budget numbers and what we have to do. So it's really not done with what else happens.

We usually start with a fairly significant deficit caused mostly by the cuts within the federal government. So we're looking at how to balance the budget within DPW. So I'm not sure that there's a cost shift between our budget and the L&I budget.

REPRESENTATIVE FLEAGLE: And I'm sure there's not.

SECRETARY RICHMAN: We're trying to control

the growth in the DPW budget. We're working with the hospitals around the medical education piece and the community assets piece. Part of what we want to accomplish in working with them is how those dollars are spent and whether there's a focus on developing education that directly benefits the Medicaid population. Those are Medical Assistance dollars, and we need to see that link and a little bit more visibility than we can see it now.

The communications and the discussions are actually going quite well. And our hope is that we can reach some agreement on how we handle many of these issues in the future. This year we didn't quite reach, the point that we would have liked to reach and the discussions go on.

But again, it is more of a way -- my goal is to basically figure out a way the Department of Public Welfare budget -- how to make it balance. That's in the light of having a huge inflation cost in healthcare.

REPRESENTATIVE FLEAGLE: And that's not totally fair to you for me to say, you shouldn't cut here, you shouldn't cut there. I guess this comes to the point that Secretary Masch should come to your department and L&I and say, well, we can get some

dollars from the Feds, we may have to go a little bit over here and Medical Assistance and DPW. But it's bad policy to put it over here in L&I when we're going to lose a lot of matching monies that could go to the hospitals over here.

I realize the constraints you're under. And I think we certainly are going to have to hold the line on DPW's budget.

SECRETARY RICHMAN: Right. And we work very hard to try to see that line, hold constant to that line, and get that budget as tight as we can possibly get it, which means there are a lot of things that we would like to put funding in, a lot of things that we would like to be able to keep at the same level that there just aren't the public dollars there to put in.

REPRESENTATIVE FLEAGLE: Right. And I know you would make that a priority. And we will be discussing that with Secretary Masch. I think it's very short-sighted to put it in one department and take it out of another that you can get federal matching funds in. But as I say, this budget is very convoluted.

The other question I have -- and I apologize. I saw the newspaper article probably two, three weeks ago. But as far as the federal TANF work

participation initiative, it seems to me -- and I don't know why nobody can tell me specifically -- that Pennsylvania has one of the lowest rates -- and 7 percent sticks out in my mind.

SECRETARY RICHMAN: It's actually 7 and a half percent. But those were '04-'05 numbers. The new number, incidentally, for your information, is 15 percent. That's still too low, incidentally.

REPRESENTATIVE FLEAGLE: What happens? Do they slap us on the wrist if we don't meet 40 percent? Is there a penalty if we don't meet goals? And I guess my big question to you is, what are you doing in this coming fiscal year to make sure that that's up, to -- and granted, 7 and a half percent to 15 is good -- bring it up at least within the norms, and what are you going to do next year?

SECRETARY RICHMAN: The goal from the federal government is 50 percent. So we have to reach 50 percent by October 1st.

REPRESENTATIVE FLEAGLE: Or what?

SECRETARY RICHMAN: Or we get fined. They have already told all the states their fine. Our fine is $70 million.

REPRESENTATIVE FLEAGLE: Is that worked into your budget here?

SECRETARY RICHMAN: No way, because we're going to make the goal.

REPRESENTATIVE FLEAGLE: How are you going to do that?

SECRETARY RICHMAN: We've already begun to -- I personally now am micro-managing this one because I am that concerned about how this is going to work and how we do it. I will be glad to go over it in a lot of detail. I can probably talk an hour on the TANF and how we're going to go after it.

REPRESENTATIVE FLEAGLE: If you could summarize your strategy and bring that up -- not here.

SECRETARY RICHMAN: Let me summarize it real quickly.

REPRESENTATIVE FLEAGLE: Okay.

SECRETARY RICHMAN: We believe that there are approximately 68,0000 people that fall under the purview of this group. We have to have about 34,000 of them working. Right now we have about 10,000 of them working. So we have 17,000 that are working but not enough hours. The Feds say they have to work 30 hours. We have people working 20 hours, 25 hours, 10 hours. Those people that are working, we need to get the numbers of hours they are working up. That's one group.

We have another group of about 18,000 who are involved in other programs that we don't have enough hours on to even track them right now. Some of them are in school. Some of them are teenagers that are in school that we didn't count the right way. So some of them are at home with adults with disabilities that we can get credit for. So we're going through those 18,000 persons person by person.

REPRESENTATIVE FLEAGLE: I applaud you for that. That's an excellent goal. I hope you can make it.

SECRETARY RICHMAN: I have to make it. I don't have $70 million.

REPRESENTATIVE FLEAGLE: Exactly my point. I'm not criticizing you. I'm criticizing the Administration because I have been saying all along that come January 1st, the election will be over and everybody will have big smiles on their faces. And after Christmas, they will say, whoopsie, we're $70 million in the hole. We didn't meet this. We'll have to come up with this $70 million. And there's a lot of other holes in this budget that appear to be hitting the fan on January the 1st.

SECRETARY RICHMAN: This is one that I would expect by July 1st, we will have a better number. I

would expect by August 1st, we have a better number. In other words, this isn't just a number that's going to be measured on that one date and therefore they levy the fine.

REPRESENTATIVE FLEAGLE: Well, as long as you're willing to bet the farm on it.

SECRETARY RICHMAN: I have to bet the farm on it. Every now and then you just don't have any alternatives so you have to pull out all the stops and make sure that you do what you have to do to be able to make sure that you can meet the goal.

REPRESENTATIVE FLEAGLE: Of course, I like to hold people's feet to the fire. If you could give Chairman Feese a schedule of what you plan on doing to reach that goal and when you will be reaching that goal, that will give us a little better idea how to monitor that. And God forbid, if there is a $70 million hole, at least we'll know about it.

Thank you for that. That's encouraging. I hope you can pull that off. And I'm sure the Republican caucus will be glad to help you on that.

SECRETARY RICHMAN: Thank you.

REPRESENTATIVE FLEAGLE: Thank you, Mr. Chairman.

CHAIRMAN FEESE: The Chair thanks the

gentleman.

The Chair recognizes Chairman Evans.

REPRESENTATIVE EVANS: Thank you, Mr. Chairman.

Good afternoon, Madam Secretary.

SECRETARY RICHMAN: Good afternoon, Representative.

REPRESENTATIVE EVANS: Madam Secretary, I was looking over your testimony. And one of the things that you stated is, our goal is to move people from welfare to work to get them to break the cycle of dependency. Can you speak to that in a very specific way, how you think you're doing in moving people from the cycle of dependency and where you think we are?

SECRETARY RICHMAN: Sure.

REPRESENTATIVE EVANS: I think ultimately it is about empowering the people, putting them in a position where they can take care of themselves. And I think that's a very important cycle of dependency. I think a lot of times people think people want to be on public assistance. So you want to speak to that cycle?

SECRETARY RICHMAN: Well, one of the things that I think has been well documented and one of the factors that we discussed many times with some of our

congressional delegation was the importance of education in helping people move from a cycle of dependency. In other words, where we have been able to get a couple of years of community college education, been able to get a training program that has a job attached to it, been able to get people a little higher skilled level so there is a career track, they tend not only to get off public assistance in terms of cash, they also have a higher probability of getting off the four other entitlements.

My concern is not only having people get off one entitlement but having them get off all five. The five entitlements that come into play are cash assistance; medical assistance, helping people find jobs that have healthcare coverage; LIHEAP, having people make enough money that they can pay their utility bill; food stamps, have people make enough money that they can buy their food without assistance; and, five, child care, having people be able to pay for child care.

We need jobs that actually help people sustain their family. That's a tall order. That means that we have to have the job development that will actually pay people livable wages. I can tell you they wouldn't get there through working only at

fast food restaurants. They won't get there by working in jobs that virtually take very little training.

So where we have been able to get people into jobs where the education requirement and education lift gives them a career ladder, then we typically don't see them come back when there is a recession or if there's a downturn in the economy.

And we do have several initiatives right now that reaches that. We have a very strong initiative in working in partnership with the community colleges, which has people working and getting an education. I think most of us, probably while we were getting graduate degrees and in college, worked and went to school. We're trying to instill that kind of opportunity for people.

We have also been able to identify those people with any number of challenges in their life. Those challenges may be children with behavior problems. It may be having to stay home and take care of a child with autism. It may be staying home and taking care of a parent who is ill, aging, or elderly. But to work through some of those issues to help folks find alternatives in the community so they can return to the world of work. If we have a center for seniors

that they can be involved in, that frees up a caretaker.

We're helping people. And this program is called our MPP program, Management Productivity Program. We're looking very closely at that program. Nothing escapes scrutiny in our budget this year. Everything either got cut back, modified, higher requirements, because we are very focused on how do we absorb as much of the inflationary increase in healthcare within our budget as we possibly could.

Indeed, I don't think anyone would deny there are people who game the system. Our goal is to find those and try to find ways to turn them around and pretty much let them know that that's not going to be tolerated. But at the same time, we want to reinforce, encourage, find job opportunities, find opportunities for those people who really want an opportunity to work and the barriers or challenges within that life that don't precipitate that.

Most of the people that we come in contact with, given the opportunity, take advantage of the training and continue to move. We're pushing.

REPRESENTATIVE EVANS: The other issue that probably leads into the element of dealing with the individual, I think it was last year the Governor made

a statement -- I think it was in his budget address -- where he talked about the individual versus the provider. And that's always a rather difficult question. How do you separate the provider from the individual and vice versa?

My question is hospitals, managed care organizations, and long-term care, you know, under your budget, how are those people going to be affected? because fundamentally that usually means jobs, that usually means investment. It means all those things. That's one aspect.

The second aspect I want to raise with you is the issue about nursing home rates and the policy where the neediest people are getting -- we have a limited amount of resources. I want to give credit to Dennis Yablonsky who said when you have limited resources, you have to make choices.

Obviously, there's an issue about providers, there's an issue about individuals, and there's an issue about nursing homes. Can you speak to that?

SECRETARY RICHMAN: Let me speak to the first one. And then let me talk a little bit about the long-term care council. And then I will ask the director of the council to join me.

The challenge in this particular job is

knowing that the inflation across the country and here in Pennsylvania on healthcare is just continuing to grow. It grows for many reasons. And most of us, if we were sick or a family member of ours were sick, we would want to see inflation because we know it's producing more technology, better healthcare, more options for our doctors, and better medications. When we have to pay for it, we get a little bit more shaky.

But the reality is we're on a confined budget. It's been very clear. People don't want to have tax increases. They want us to manage this. So our goal is to try to manage it and try to make sure we make these dollars go as far as they possibly can.

Within that, we then get faced with, how do we sort it out? If I cut people, I hurt the hospitals because there are more people who are uninsured. If there are more people who are uninsured, they get hurt. If I cut managed care, then they don't have enough resources to do what they need to do.

The issue last year was, how do we spread that around? How do we begin to try to manage this as tight as we can? The key word is manage. We have to be able to manage a very tough budget that has a lot of inflation pressure on it. We have chosen to try to give everybody a little bit. We have tried, knowing

that many of the highest budget areas, the hospitals, the managed care companies, and the nursing homes, who have the greatest stress on their budgets, need money. We also know we don't have a lot of it. Therefore, we try to give them what we can, to work with it as we can and look for as many creative ways as we can to fill the gaps and understand what the pressures are going to be if they don't get money.

Again, the best example I often use is people often say, cut eligibility. When I cut people off of healthcare, all of those same people get hurt. The nursing homes don't get paid for clients who need to be in their nursing home, the hospitals all of a sudden don't get paid for people who need very expensive medical care, and the managed care companies' total population goes down. And therefore, they don't get capitated and there are still sick people. And they all end up in our counties and they all end up in our communities hitting something else that doesn't have the ability to pay for it.

Our goal is trying to make those very hard choices and manage this budget as tightly as we can to be able to make the dollars go as far as we can. I take any criticism that it's not good enough. And I'm not sure, given the inflation in healthcare, it will

ever be good enough.

But I do believe we can manage tighter. I believe we can manage stronger than we do and try to get the best bang for those dollars, along with the best quality we can, and hope that we can all get to a point where either there's a better national healthcare policy where there's either more revenue streams that we can tap or that the federal government doesn't hit the Medicaid program quite as hard at the current hit is right now.

With that, let me invite Mike up. Because of so much of the crisis in long-term living and the need to balance this and the need to have a single point of accountability, the Governor appointed a Long-Term Care Council. The council is composed of the secretaries of DPW, Aging, the Budget and Policy, along with the director of the Office of Healthcare Reform and the deputy chief of staff.

We actually spend a lot of time talking about this issue. Mike Nardone, my contribution, if you remember, in his appearance last year, he was my chief of staff. He also took my director of policy.

We feel that we have invested heavily in having a Long-Term Care Council running that can help manage this very difficult system in terms of the

pressures on it, how we both are able to control the cost of the growing number of people who are going to be in nursing homes and still at the same time keep people for as many years as we can living in their own home if that's what they wish to do so that we can save those dollars for people who are needing it.

Incidentally, some of the national figures I saw, for every body who leaves a nursing home, there are two people to take their place. I can't afford two people taking their place. I have to have one of those people maybe go into the nursing home and the other I need to move into the community so I can keep the nursing home as level as I can without giant increases, because I'm not going to be able to do much real decreasing because the baby boomers are going to get old and are going to keep pretty heavy pressure on that system.

REPRESENTATIVE EVANS: Before Mike responds, is there any state that you have seen that has gotten this right mix together?

SECRETARY RICHMAN: I think there are several states. And Pennsylvania would probably end up being one of them who are going to try fairly innovative things to try to do it. I think we're watching. We keep a watch on many states who I think have some

ideas that are a little different, a little different way of intubating it. We are studying that.

I'm a member of several groups that I take part in, as does Jim Hardy, the deputy secretary, several national groups, several discussion groups in Washington, several think-tank groups, to be able to look at firsthand information about what other states are doing. We're watching and at the same time we're planning.

MR. NARDONE: Good afternoon. My name is Mike Nardone. I'm the director of the Governor's Long-Term Living Council. As Estelle mentioned, I used to be her executive deputy secretary, so I'm comfortable sitting next to her.

Just to kind of follow up on your question that you gave the Secretary just a second ago. One of the things that we are doing is looking very closely at what is the experience of other states in terms of the balance between institutional care and home and community-based care in terms of the provision of long-term living services.

And basically, as you look at this, what you see is that Pennsylvania has made a lot of progress in the last few years in terms of balancing the system by increasing the resources available for home and

community-based services. Compared to other states, we really are at the low end in terms of balance between home and community-based care versus institutional care, meaning that we have a very heavy reliance on institutional care in terms of how we provide for our elder population.

And one of the things that we are focusing on in terms of council activities is how can we begin to build on the progress we've made in terms of balancing the long-term care system to basically increase our progress in this area as well as to look at other states who really have had some significant results in this regard.

We also are looking at what is the appropriate bed supply. Because as we move forward with long-term care into the future, clearly if we're going to meet the challenges, we really need to assess what are the needs in terms of long-term care services both in terms of home and community-based as well as institutional-nursing-facility-based.

We also have to look at how we manage more closely in terms of the resources of our home and community-based services to ensure both quality of care as well as to ensure that we are effectively managing the resources that we're given. And we also

have to look at what are the criteria for people's entry into the publicly funded long-term care system in addition to looking at barriers that may be in the way of people living in the home and community-based services.

So we have a fairly aggressive agenda moving forward to ensure that we are moving in a direction of choice in terms of where people receive long-term living services.

Just to give you some recent survey results that were part of President Bush's New Freedom Initiative that he released in the context of the '06-'07 fiscal year budget. Basically, the surveys indicate that for people who are over 50 -- and I include myself in that number -- more than 80 percent of individuals report that they want to remain -- if they need long-term living services, they would like to remain in their home.

Obviously, it has to be clinically appropriate for them to stay there. But that's basically their choice in terms of where they want to receive services. It's also a more cost-effective method of care in terms of service in the sense that for every nursing home bed, we can fund two home and community-based waiver service slots. It's also a

more cost-effective method of care.

As we look to the future, I think one of the things we need to do, as we begin to figure out how do we meet the challenges of long-term care as well as addressing what is it that individuals are saying that they would like to see in terms of that care, is move in terms of balancing the long-term care system.

REPRESENTATIVE EVANS: Mike, do you know -- I brought this name up earlier, Governor Thornburgh -- we started funding long-term care from the Lottery Fund back in 1983-'84? I don't know if a lot of people know that. And we're just kind of putting it back in the Lottery Fund. Is that your understanding? Did you know that?

MR. NARDONE: Yes. There's $210 million in this year's budget that supports long-term care. The long-term care appropriation, that will go to fund home and community-based services.

REPRESENTATIVE EVANS: I'm just trying to say that that's not a new practice.

MR. NARDONE: Right. That's what I'm told.

REPRESENTATIVE EVANS: I'm just saying it's not a new practice of moving it back to the Lottery Fund, right?

MR. NARDONE: Yes.

REPRESENTATIVE EVANS: One last question.

Madam Secretary, from where we are today -- and obviously you and your people have been trying to do the best. You stressed management a lot. I heard you use that work a lot. That must be the word of the day because Mike Masch was talking about the same thing.

SECRETARY RICHMAN: That's the key word to live in DPW these days.

REPRESENTATIVE EVANS: As we look ahead in the next couple of years -- and, obviously, with the federal government, you know, who can be against Medicaid Part D in terms of its mission? We may debate them about how it's being paid for, but who can be against what they are trying to do?

As you look at what is happening on the federal level and, obviously, on the state level, what are some of the other things that you think we can do as a state, you know, working with you in the Legislature? understanding the circumstances that we are under. The federal government has a huge deficit and they have their problems. This is not just unique to Pennsylvania. As you look ahead, what are you sensing and hearing in the area of Medical Assistance?

SECRETARY RICHMAN: I think that when I talk

particularly to my various colleagues in other states and some of the groups that I'm a part of at the federal level and groups that I participate in, institutes of medicine, in general, people try to couch this as a healthcare issue rather than just a Medicaid issue.

And they begin to talk about how we are going to redo the entire healthcare system. How does it fit with the for-profit companies? How does it fit for not-for-profit companies? How does it fit for government? What should be the role of government versus the corporate world?

I think there's a lot of discussion going on around the responsibility of people who receive these services. Often people who receive Medicaid or Medicare can take care of themselves better. I think there's any number of discussions going on on how people would like to see what the challenges of healthcare are in our future.

I think we're trying lots of different things, a lot of things around wellness, a lot of things about responsibility, a lot of things around how states and the federal government meet the challenge.

I think if I were to take them altogether, it

is that we need to rethink how we fund healthcare in this country. And states are going to try a lot of alternatives. Most states don't think they can do it alone. I think that there are a lot of ways that state government, federal government, pharmaceutical companies, major hospital corporations, major managed care corporations are going to have to come together to figure out how we drop some of our internal partisan activity among hospitals, nursing homes, government, and get back to, what do we do about healthcare?

If we don't do anything, if we continue to play these systems against each other, what the prediction out of Washington was last week is that healthcare will account for $1 out of every 5 is what will be in our future. We can't afford that. And we can't afford it on two levels. We can't afford it in tax dollars and we can't afford it in health quality. So somehow we will come to a solution. This country will figure this out. And I think many of us will be around the table as we get it figured out. I'm not sure we will have it figured out by June 30th.

REPRESENTATIVE EVANS: Darn it.

SECRETARY RICHMAN: I heard someone say that we were going to have the budget done by his birthday.

REPRESENTATIVE EVANS: May 21st is the Chairman's birthday.

SECRETARY RICHMAN: Sounds good. But I don't think the healthcare challenges will be solved by then. But I think there are a lot of people working on them. And I think what we want is to make sure that we understand the scope of healthcare; we understand personal responsibility in healthcare; and we understand the stress on all of our economies because of healthcare.

REPRESENTATIVE EVANS: Thank you, Madam Secretary.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the gentleman, Representative Cappelli.

REPRESENTATIVE CAPPELLI: Thank you, Mr. Chairman.

Good afternoon, Secretary Richman.

SECRETARY RICHMAN: Good afternoon.

REPRESENTATIVE CAPPELLI: It's nice to see you.

SECRETARY RICHMAN: Yes.

REPRESENTATIVE CAPPELLI: I have to say that in the five years that I've been here, the last three

in particular, you have probably been the most pragmatic of the cabinet secretaries. I, for one, don't envy the daunting task.

SECRETARY RICHMAN: It's a good thing I don't like sleeping.

REPRESENTATIVE CAPPELLI: Along with the unending mandates that your boss places before you, I want to throw some numbers out. I want you to give me a yes or no relative to whether or not I'm close to being accurate. One, slightly less than 1.9 million Pennsylvanians are now receiving Medical Assistance?

SECRETARY RICHMAN: They will be probably by the beginning of the fiscal year, yes. That's close, close enough.

REPRESENTATIVE CAPPELLI: That's an increase of roughly 260,000 beneficiaries since fiscal year '03-'04?

SECRETARY RICHMAN: Yes. This is my budget director, so I have to get a little confirmation.

REPRESENTATIVE CAPPELLI: That's appreciated. And 280,000 citizens in our Commonwealth are receiving general assistance?

SECRETARY RICHMAN: Yes.

REPRESENTATIVE CAPPELLI: An increase of roughly 30,000 since fiscal year '03-'04?

SECRETARY RICHMAN: Yes.

REPRESENTATIVE CAPPELLI: I find that extremely troubling. If that's an indicator of a socioeconomic barometer of the health of this Commonwealth, then we are all facing a serious crisis, nothing of which to be proud of.

I recall, just several meeting ago, the Administration's economic forecasters appeared before this committee and all but assured us we would see another net loss of at least 14,000 manufacturing jobs during the next fiscal year. That's on top of the ones we already lost in the last three years. So the state of our economy, irrespective of some of the more optimistic predictions and forecasts made by the Governor's Office, is not borne out by the state.

I'd like to ask you a question, if I might, Madam Secretary, with respect to home health services. What is the difference between your department's home health services and the PDA waiver program?

SECRETARY RICHMAN: They are virtually very similar. I'm not sure there's enough difference that I would call it statistically different. In other words, home healthcare is based on the needs of the person rather than specifically the age of the person in terms of the characteristics of the services. The

PDA waiver pays for people over 60, while the home and community-based services in some of our waivers may be more specific to the different needs.

REPRESENTATIVE CAPPELLI: Okay.

SECRETARY RICHMAN: In other words, we have public community waivers that are targeted for people with mental retardation so they can live in the community and not in an institution. We have public community services for people under 50 so they can live in a community and work and not in an institution. The difference more would be the PDA waivers focus on a population group, while many of the home and community waivers that are managed by DPW are going to be within a younger or a more specific population group.

The PDA waiver, though, is funded out of our office and Medical Assistance, but it's managed by the Department of Aging. To be more precise, right now it's being managed by the Long-Term Care Council. What we really needed was a single point of accountability to make sure we can keep many of these things balanced and we didn't have the dynamics of two separate departments having to do it under two separate secretaries but rather we would work with one individual person so they could be that single point

of accountability.

REPRESENTATIVE CAPPELLI: The budget proposal put forth by the Administration is proposing to implement something called selective contracting. Can you explain to the committee exactly what is selective contracting?

SECRETARY RICHMAN: Yes, I will. And I will also sort of give a nod to my Medical Assistance people in case I get off track. I think I can explain this. But every now and then if I get too far afield, you will find that Jim plops himself up here, which means I did something that he later won't think he can live with.

Selective contracting is that we have lots of contracts out there. And because of the number of contracts, we sometimes aren't able to manage it into the best price, to the best accountability. By going to a selective contracting model, we will be able to tighten up what we spend and we will probably shorten the list of people who will be able to meet that standard. It's really targeting our contracting to a smaller group of providers with a very high standard to get a much better price.

REPRESENTATIVE CAPPELLI: How will that impact rural Pennsylvania and the availability of

services to these folks?

SECRETARY RICHMAN: One of the criteria that has to be in those standards is meeting the requirements of anyone who lives in a rural area with the same time line that we would have expected for someone in that area. In other words, it's the standards in the management that has to drive this. But we also are looking for more financial accountability. We've put lots of contracts out there. If we don't hold tight to a financial standard and to a quality standard, I'm not sure we're being as tight on your dollars as we can be.

As Representative Evans mentioned, the password in DPW right now is figuring out how we can get tighter management on everything. I need these dollars to be able to meet the healthcare inflation cost. So I have to get a whole lot better at managing them.

There's no doubt in my mind that there will be people that come back to you to complain that they didn't get one of those contracts because we're cutting the number of people who are going to get it. But if we're going to manage tighter, get a better price, and get a better product, our standards have to be high, our quality assurance has to be strong, and

we need to be able to manage it in a different way than we're managing it right now.

REPRESENTATIVE CAPPELLI: I applaud your effort to rebalancing the shifting of long-term care to expand community-based services. I just don't see in the budget where you're providing an increase in funding for the community-based in-home providers.

SECRETARY RICHMAN: It's in the long-term care appropriation.

REPRESENTATIVE CAPPELLI: If I can then just move on to one last subject area. It's one of those that's near and dear to me. And that's mental health and mental retardation.

SECRETARY RICHMAN: My very favorite.

REPRESENTATIVE CAPPELLI: You've heard it from me, Madam Secretary, and others for the last four years. We don't seem to treat all Medicaid providers the same. This year, for example, the Administration's proposal may be a 4 percent adjustment for nursing homes while our community-based MHMR providers are looking at another 2 percent increase.

Now, the federal home health market basket index, which is the indicator for the increase in costs associated with the delivery of those services,

indicates for the next fiscal year a 3.6 percent increase in the MHMR field. That's considerably more than the 2 percent fee for those. I'm just wondering how much longer can our MHMR industry, our community-based industry, our direct care workers staff these homes and continue to do so at an annual loss, if you will, in revenue versus actual costs? I just don't see how this is sustainable.

SECRETARY RICHMAN: It isn't sustainable. It's very difficult for them to do. It's very hard. It's a constant struggle for them to be able to balance their budget. My particular concern is that it's very difficult for them to recruit when they can't keep pace with some of the larger providers out there. They aren't able sometimes to get the same type of staff, although I think they do incredibly well. They are probably some of the best managers of dollars because they don't have much of them so they have to be very discriminating on what they do.

It's real difficult to figure out how to get this budget to come together. When we were sitting down and we started the DPW budget -- I guess this year was July 9th, when did you finish? We basically started the Monday after you finished working on this budget -- and trying to figure out how to make the

pieces fit together, the one thing that's always a constant in the budget is the recognized inflation need of the hospitals, the nursing home industry, and the managed care companies. They always tend to come in -- they would probably be happiest if I were talking numbers between 8 and 10 percent. That would probably have them smiling and probably not at your doorstep or mine.

When I say to them, all I can afford is 4 percent, they see that as a cut. Unfortunately, when I tell the counties they have 2 percent, they say, thank you. Can we have 2 more? What I'm trying to balance is how to get them up. Last year we actually had it pretty balanced. Everybody got 2 percent. This year, I can't quite get there. But my goal is to, again, in future years try to keep that percentage. They are under the same pressure. The county programs, hiring staff, running programs, reducing quality, being held to standards, have the same pressures as the Big 3.

So part of the goal is to try to keep that cost of living equal for everyone, realizing that we don't quite have the revenue yet to do it. If we learn to manage even tighter, if we try to keep that health inflation as tight as we possibly can,

hopefully we can get there. Unfortunately, this wasn't the year. And I'm actually very glad that we were able to maintain and put the 2 percent in the budget and to put it in with not quite as many strings as we put on it last year.

REPRESENTATIVE CAPPELLI: Madam Secretary, I thank you for your candor. Again, I want to reiterate the fact that I don't envy your position. Thank you.

SECRETARY RICHMAN: I'll trade with anyone on some days. Some days I like it.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the gentleman from Montgomery County, Representative Shapiro.

REPRESENTATIVE SHAPIRO: Thank you, Mr. Chairman.

Secretary Richman, good to see you.

SECRETARY RICHMAN: Good to see you.

REPRESENTATIVE SHAPIRO: Thank you for your leadership and consistently listening with your heart as you go and discharge your duties as Secretary of Public Welfare. Not an easy job.

SECRETARY RICHMAN: Thank you.

REPRESENTATIVE SHAPIRO: I enjoyed hearing your comment about how we need to rethink how we do

healthcare in the nation. Obviously, our job is to think about the Commonwealth. So I'll reserve my comments to that.

We have, as I understand, 1.3 million uninsured Pennsylvanians. The Governor tries to take a swipe at that number by Covering All Kids, which I certainly applaud. I think that as we go forward with providing affordable health insurance and healthcare for individuals that we ought to do so within the framework of the private marketplace to allow individuals to use their purchasing power and go out and purchase health insurance at reduced rates, spread the risk out, and be able to reduce administrative cost. And I have legislation that would do that.

I'm just curious as to whether or not that is something that you and your office has considered as you go out and rethink healthcare and whether or not you think that's a viable solution for Pennsylvania.

SECRETARY RICHMAN: Any way that we can begin to look at both partnerships and ways to go out and look at the healthcare market to be able to use those market forces to be able to both reduce our cost and to provide a better range of healthcare I think is something we want to be a part of and want to continue discuss around.

REPRESENTATIVE SHAPIRO: When Medicare Part D came along, a number of dual enrollees went to pharmacies around Pennsylvania. And because the federal drug program was not yet up and running, a lot of them were turned away initially. And then you and Governor Rendell put forward sort of a stop-gap program. It's my understanding the federal government has yet to reimburse the state for some of the monies we've laid out. Can you just elaborate on what the reimbursement plan or schedule is to make sure the Commonwealth receives the money from the federal government that we are owed?

SECRETARY RICHMAN: Our plan was approved to be able to get that reimbursement. I will have Deputy Secretary Hardy come in to give you more specifics on that.

Let me just take one second to brag a little bit about Pennsylvania. Our position was we wanted to not just be a stop gap. We wanted to work with the plans here in Pennsylvania to make sure they understood where the problems were and how to debunk the system. CMS has actually been -- as they do their weekly call with the Medicaid directors, they have actually told everyone they need to be like Pennsylvania. Just don't pay the bill. Try to work

out where the problem is and solve the problem.

And we have actually been very fortunate to work with a very good team of people to do that. Our cost has come more in administrative costs. We've added about 30 people to try to problem-solve this so that people actually are within the plan that should be paying the bill. The federal government has agreed to pay our administrative costs so that we don't have to sit with the administrative costs.

MR. HARDY: Jim Hardy, deputy secretary of Medical Assistance.

I just want to elaborate on that. Because of our efforts, we have actually only had to pay claims totalling about $400,000 since we began the program in mid-January. Some of our sister states, like New Jersey, when they implemented their program, they were spending one to two million dollars a day in their support of the programs. We do expect to get paid for both our administrative as well as those claim costs.

REPRESENTATIVE SHAPIRO: I have another question on Welfare to Work. I read with great interest your comments in an AP story recently about a nightmare, to use your word, as a result of the Bush Administration's deficit reduction plan going into place and a requirement that 50 percent of our welfare

families in Pennsylvania meet new work or training program requirements. We face an October deadline to get that 50 percent figure, which, I think -- given the fact that three-quarters of the state aren't even close to that 50 percent threshold.

Can you just expand on what you meant by that nightmare scenario and then elaborate on what the Commonwealth is doing to adhere to the Bush Administration's requirements?

SECRETARY RICHMAN: Certainly, the Welfare to Work provisions could be a nightmare, too, but the budget deficit reduction act -- actually, the nightmare part of it was the Medicaid reduction. That actually I consider more of a nightmare.

I think many of the states will be challenged with the changes we have to make to Welfare to Work. But I actually think we will get there on those. I think the harder challenge is how we accommodate the cuts in the Medicaid program. As we are faced with more people that have illnesses and facing how to manage a program where the national inflation rate is at

8 percent and no one has revenues of 8 percent -- inflation is at 2 and a half percent or 3 percent -- how do you manage such a healthcare program? That's

the nightmare. I think that nightmare continues.

On the Welfare to Work side, I think we have many challenges. I think we have to stay very, very focused over the next several months to make this. But I'm actually feeling pretty confident that we can make the change, get the number of people we need to get jobs to be able to get those numbers up and at the percentage that we need to do.

REPRESENTATIVE SHAPIRO: Great. And just a final question. Representative Siptroth, my colleague and actually classmate, represents Monroe and Pike Counties. He asked me if I can just relay to you a concern that many of his constituents in Monroe and Pike have with Access Plus. He has suggested that apparently residents in his district actually travel to Scranton and the Lehigh Valley because healthcare professionals in the area aren't able to take advantage of Access Plus.

I was just wondering if you could share some thoughts or possibly get back to Representative Siptroth later if that question is too detailed.

SECRETARY RICHMAN: I will have Jim come up on that one. We are just reaching -- yesterday, I believe, we reached the first anniversary of SS Plus. It started last March 1st. It was up to full speed by

the end of May. For the most part, the SS Plus contract has worked well for us. We believe that most people are getting a much better quality of service within the program. We think it's come in as a strong manager of the fee-for-service program. I will get back to him with more specific information on those two counties. But that's not what our expectation is. Our expectation is that people will be seen; they won't have to travel long distances; and that they will be able to attract the providers in the local community.

MR. HARDY: I think the problem in those counties is broader than Medical Assistance. Those counties have been some of the fastest-growing counties in the state. They really have become extensions of the New York marketplace. What we've seen is just the general scarcity of physicians as it relates to a proportion in the population. So when you think about getting those physicians to take Medicaid recipients, it's a challenge. They have very busy practices. With our reimbursement rates where they are, it's a challenge. It's not just an Access Plus issue. I think it's also a Medicaid issue and, in fact, an overall access-to-healthcare issue in those counties.

REPRESENTATIVE SHAPIRO: Fair enough.

SECRETARY RICHMAN: We will get back to him and look at ways that we make sure folks can get prompt medical care.

REPRESENTATIVE SHAPIRO: Great. Thank you again, Madam Secretary. Thank you for your leadership.

Mr. Chairman, thank you.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the gentleman from Lehigh, Representative Reichley.

REPRESENTATIVE REICHLEY: Thank you, Mr. Chairman.

Good afternoon, Madam Secretary.

SECRETARY RICHMAN: Good afternoon.

REPRESENTATIVE REICHLEY: Because of the broad scope of your department, there are a number of issues obviously to raise with you today. First, I would like to start off with something that came up in testimony that Ms. Greco gave almost two weeks ago. I believe it was last year your department advanced Medical Assistance payments of $7.2 million to the Woman's Hospital in the East Falls section of Philadelphia.

SECRETARY RICHMAN: Yes.

REPRESENTATIVE REICHLEY: One of the staff members from the Office of Healthcare Reform, who I think became a president of a non-profit but assumed ownership of the property, pledged to repay the $7.2 million in Medical Assistance. I'm curious if you can inform us at to what the status of the payment is.

SECRETARY RICHMAN: Let me tell you that we made seven payments to the Woman's Medical Hospital between September '04 and February '05. What we normally do -- and it's not unusual for us to give advances to hospitals who are in need or as they are beginning. We have done that actually on several occasions. Some of the hospitals that we've made advances to are Monsour, Aliquippa, Mercy of Philadelphia, and North Philadelphia Health System in Philadelphia. All are hospitals we have done some advance payments with on their Medicaid payments.

In many of those cases where it's been a hospital that has been billing us for a while, we are able to hold back on other Medicaid payments to be able to make sure we are paid back.

A hospital like this, one of the decisions I had to make was, how do we give this hospital an honest opportunity to function? Certainly, when

Governor Rendell and Senator Specter announced this joint proposal and they negotiated with the physicians of the Medical College of Pennsylvania to run the hospital as a non-profit, we needed to figure out what would be a prudent way for us to be helpful in that situation.

We looked at the circumstances, we looked at some of our past history, and we did make a total of $7.2 million.

As you have mentioned, we have not been repaid for those but the Department has filed for repayment in bankruptcy. And we are probably one the larger bankruptcy states, and we are actively involved in the bankruptcy case.

REPRESENTATIVE REICHLEY: So the answer is you haven't been paid?

SECRETARY RICHMAN: No, we have not. That's why we filed the bankruptcy case.

REPRESENTATIVE REICHLEY: I understand you have a historical precedent of providing these same kind of advanced payments to all those other hospitals. Those are businesses.

SECRETARY RICHMAN: Yes, they are in business, although some of them are in business because we are able to provide that. This one, it's a

risk. It's impossible for me to tell you that the decisions I make on a day-to-day basis don't have a certain amount of risk attached to them.

REPRESENTATIVE REICHLEY: I assume you are also aware that the land upon which the hospital is situated is worth $18 million.

SECRETARY RICHMAN: I was not aware of how much it was worth. I assume all land is worth a fair amount of money in Philadelphia.

REPRESENTATIVE REICHLEY: Secretary Masch had a rather vigorous conversation this morning with the committee in which we had some discussion about the legitimacy of some of the claims of payment of all the appropriations this year. One of the matters that came up was the furlough of payment of roughly $295 million in the MA long-term care program; is that correct?

SECRETARY RICHMAN: That's the cap.

REPRESENTATIVE REICHLEY: And so you are more or less saying you are not going to pay these providers?

SECRETARY RICHMAN: Well, we are going to pay the providers. We are going to roll the payment one month, which we hope to make up. We are not saying we will never look at this again. Our goal is to roll

that one payment from next June and then to try to figure out what our economic climate is.

We actually think that we are devising ways that we can begin to look at where else in our budget, again, as we have to do every year, that we can absorb that kind of debt. This is not new for us, unfortunately. We have this challenge every year. Next year it actually looks like a little better year for us because we don't have the IGT. Every year we had to overcome a fairly high hurdle of the dollars we have to make up. Unfortunately, next year we will also have a hurdle to make up because now we will have that to build back in.

We will, again, be looking how to manage where else in the program we can take cuts, where else in the program we can work tightly and come to grips with, as we have done for the last four years.

REPRESENTATIVE REICHLEY: I sympathize with the nature of the task in which you find yourself. But may I ask, did you consult the providers before you proposed this within the budget?

SECRETARY RICHMAN: I can't imagine any provider telling me that they would want this.

REPRESENTATIVE REICHLEY: Neither can I.

SECRETARY RICHMAN: One year when we were

looking at a pretty significant, pretty serious budget cuts, the providers offered, what about rolling it? Now, they didn't say as much of a roll as they had. But they offered two weeks, three weeks, and that would help out.

We did not consult with them this time. I don't want to give you that impression. But we have had discussions with them in the past about, how do we overcome these deep deficits in the Medical Assistance program and not do harm to your program?

Our goal is not to do harm. Our goal is to figure out how to manage this budget in a different way without asking for more money.

My goal is not to go back to the budget office and ask for more money. It's to manage all of the Department of Welfare within the framework that we have. That means I have to make incredibly difficult decisions where everybody doesn't get what they want, and it's not easy.

My hope is next year, by not having the IGT, I now have a roll to have to compensate for. But, again, I need to manage this budget in a way that doesn't come back and ask for more money and at the same time keeps it within the very tight framework that we have to live within. There's not a lot of

money out there.

REPRESENTATIVE REICHLEY: Again, I appreciate that. You have to catch Secretary Masch on a good day.

SECRETARY RICHMAN: He doesn't have it. He doesn't have extra money. You know, it's not as if there's money laying around. He doesn't have it. He expects me -- the inflation rate on healthcare is off the chart. He expects me to figure out a way to manage that so it's not off the chart.

REPRESENTATIVE REICHLEY: Right.

SECRETARY RICHMAN: You know, everybody wants me to go back to ask him for more money. He doesn't have any more money. I have to manage this in a way that gets us as tight as we possibly can. Unfortunately, all of us don't get the kind of money we need. I truly understand the pain they are going to be in. I've also been on that side of the table. My hope is that we can find some fairly creative ways, without asking for more money, to solve this problem as we go into '07-'08.

REPRESENTATIVE REICHLEY: You understand some of us are kind of curious as to why this particular method is being chosen. Let me move on.

SECRETARY RICHMAN: Okay.

REPRESENTATIVE REICHLEY: I understand that as of July 1st, DPW changed the reimbursement system of the nursing homes. Can you tell us a little bit more about how you intend to change this reimbursement formula? What exactly should the nursing homes expect or anticipate?

SECRETARY RICHMAN: One of the nice things about having the Long-Term Care Council, I can really stay focused on the Medicaid issues and have my friend here, Mike Nardone, as director of the Long-Term Care Council, be able to have a lot more of that knowledge base.

MR. NARDONE: Act 42 that was passed last year gave DPW the ability to look at the case-mix system and propose changes to the existing case-mix system for nursing homes. We have engaged in a process over the last three months, since December, where we have been meeting with the associations on pretty much a weekly basis to look at ways that we can change the existing system for reimbursement.

We went into the process really with several different priorities or goals on both the policy and fiscal side. We are looking at ways to revise the system so that we are encouraging choice in terms of where people receive long-term care services as well

as efficiencies in the long-term care system. We are looking at ways that we could improve on the quality of nursing homes by putting into play pay for performance in nursing homes. And we are also looking at ways to create some efficiencies and ensure that care is cost-effective.

As I said, we have been working for the last several months with the nursing home associations in terms of what that proposal might look like. We have shared with them a proposal. And we have actually also briefed legislative staff on what that proposal would look like, and one of the things that we will be continuing to do is engaging in a dialogue around what that system should be.

I would say that one of the real challenges that we all face is that the existing case-mix methodology we looked at will result in somewhere in the neighborhood of a 10 percent increase in payments for next fiscal year. So unless we are able to wrestle with this issue over the next several months and make some of these changes that we're talking about, we will have a substantial decision to make in terms of moving forward with nursing home reimbursement.

That's what we are trying to do. We are

continuing to have those conversations with the nursing homes. We will have to do -- if we are moving forward with this, we will do a public notice, official public notice, that will then receive public comment. We also are looking at regional hearings where we can get input from providers on the new system that we're looking at.

Right now we have a proposal that we will move forward with. But we are taking comments, again, both from associations as well as representatives from at least 20 different nursing homes to get their input. And really we are looking for ideas on how we can improve the current system as well as being fiscally responsible in terms of the amount of dollars that we have to manage with it.

REPRESENTATIVE REICHLEY: Thank you. I would like to move on to hospitals. The budget proposal cutting hospital funding by a disproportionate share and health professional education by $68.2 million, and when combined with the loss of federal matching funds, it amounts to a statewide reduction of about $150 million?

SECRETARY RICHMAN: That's correct.

REPRESENTATIVE REICHLEY: In my district, that would affect the hospitals there to the tune of

about $4.4 million. My question to you is, what is the rationale for going after hospitals that are providing assistance to low-income Medicaid patients, exemplifying their mission, and how do you justify the reductions?

SECRETARY RICHMAN: Again, part of it is, the dollars just aren't there. There has to be some way to live within the budget we have. Again, when we start every budget year, we look at all the dollars we have, we look at what are the dollars we think we can manage well, where are there some dollars that we wish that we could manage in a different way. And some of those are the hospital dollars.

REPRESENTATIVE REICHLEY: Right.

SECRETARY RICHMAN: We have been in discussions with HAP over the past year. I think both Jen and I have had discussions with HAP. I think our meetings are actually going well. I don't think we've reached a conclusion, unfortunately, which left us with a gap that we chose at this point not to fill by cutting something else to put in these dollars.

This system has not been rebased since '88 or '89. And part of the discussions are, one, how we rebase? How do we make sure we are using good Medicaid data to do that? How do we make sure that

medical education is going to be focused on the MA clients and MA consumers? And how do we make sure we hear the hospitals while at the same time understanding the pressure on the Medicaid budget?

I actually think that the discussions, which we encourage the hospitals to do, to continue talking with us, to continue working with us -- we understand their pressure. Actually, we hope to some degree that the CHIP program will give them a better opportunity to bill some more for kids that have been uninsured, that adultBasic inquiries will give them an opportunity to bill for people who have been uninsured, and that the lower MA caseload growth will also not have them sitting with as many people who they've billed Medicaid and will now be paid for by private insurance or in another way.

Indeed, the issues around the hospitals are always the very toughest ones to deal with because they are a safety net provider in our community. They have to be there. One of the ways to bring the budget into balance is to take more people off Medicaid. If I take them off Medicaid, they sit with those same people who are uninsured and receive nothing. I need to find a way to balance it. I really think that in our discussions, we will find a way to get there. And

my hope is that if you have ideas around how the hospitals and the Department close some of our gaps, we certainly want to work with you to do that.

I know Jim at this point is probably meeting with the hospitals on a fairly frequent basis to be able to resolve these issues because we need them and we need them to be resolved.

REPRESENTATIVE REICHLEY: Our concern is that at some point, you just discourage the providers so much by taking money out of the system that they just throw up their hands and say, enough. We can't help you out here. Or they try to extract it out of the private insurers.

SECRETARY RICHMAN: That's certainly the risk we have to take. There's not money gushing around. There's no one saying, raise my taxes so I can give the hospitals more money. So I have to manage within the framework that is put before us to be able to make sure we make it go as far as possible without undermining ourselves.

Certainly we understand the pressure on the hospitals. Certainly we need to make sure that they are viable; they don't go bankrupt; I don't have to spend a lot of time giving them advances; and we do what we can to make sure that as many people as

possible are going to be insurable or reimbursable for them.

REPRESENTATIVE REICHLEY: Right.

SECRETARY RICHMAN: But we still need to figure out the healthcare problem. And it's not just Medicaid. It's all of the healthcare problems. One of the complaints I had was, because of some of the changes in the pharmaceutical Medicare issue, the Philadelphia emergency room hospitals weren't being paid on some of their bills. It's a very complex system in how it interacts. I think it's going to take any number of us thinking together, working together, to try to figure out how to do it.

But the key for me is, I haven't found the spinning wheel or the pot of gold yet to make all of this come together for all of the people who want money, whether it's the MHMR administrators who want more money for the counties, whether it's Children and Youth who want more money and need space. What makes this job so tough is trying to find the right mix so people get enough of what they need without anyone having more pain than they can exist with, but there is pain.

REPRESENTATIVE REICHLEY: I understand that.

Finally -- I'm going to wrap this up very

quickly -- there was a front page article today in the Philadelphia Inquirer. The timing is perhaps coincidental with your testimony, I'm sure. But I guess I'm curious. While the information that your department released highlighted private employers, you also released information dealing with non-profits and public entities who also have their employees on Medical Assistance.

SECRETARY RICHMAN: Actually, not so much in anticipation, although obviously we knew the author had requested information. And I'm trying to gather for everybody, profit-making, non-profit, municipal government, what all those numbers are. I'm trying to get them clean. In other words, I need to split it out to understand what is just overlap, without any look at it, and what is legitimate, appropriate overlap.

In other words, we have a category called MAWD, Medical Assistance for Workers with Disabilities. In other words, this helps people with disabilities to work and pay taxes. It's unfair to penalize someone because they have taken a lot of disability workers on, which is where we want them to be, and they happen to overlap.

I also want to be able to look at the data

and make a determination about children with special needs. Because we don't have parity in this state in terms of mental health and physical healthcare, there are a lot of children who fall into Medical Assistance, even though the parents may have commercial insurance and may be working. I'm also not sure people should be penalized on that level either because of the way the system is set up.

Part of what I'm looking at will pull in all of that data also. And hopefully, Mr. Chairman, if we want to look at this more thoroughly, I believe that Representative Wheatley was going to pull together a task force. But if there's something that we can all do to begin looking at this -- clearly we believe that the private sector and the municipal sector has some obligation to provide healthcare. We don't want to be a substitute for that. We don't want to see costs shifting to the public tax dollars.

I don't want to give false information or inappropriate information or penalize people who are actually doing the job that we think they should be doing.

REPRESENTATIVE REICHLEY: Well, I certainly appreciate that. On this end of the panel, we sometimes like to refer to movies. This reminds me of

Field of Dreams. If you build them, they will come. If you keep telling employers, we're going to be broadening the amount of state access to the healthcare plan, yeah, they will continue to start dropping employees.

SECRETARY RICHMAN: That's right.

REPRESENTATIVE REICHLEY: And it's always fun and popular to bash Wal-Mart and say they are terrible. But it's not just Wal-Mart. It seems to me that your Administration has pushed all the chips over to the side of the table on accessibility, not looking at affordability too much.

We had the same conversation with Ms. Greco, that in three years we haven't heard anything from the Administration about looking at providing incentives to private employers to maintain and expand healthcare for their employees and dependents. Instead, we've looked at expanding CHIP, expanding adultBasic, expanding Medical Assistance, and really not trying to look at any of the private-side stimulus.

SECRETARY RICHMAN: I actually think we are trying to close as many of the loopholes as we can. Remember, one of the drivers in my budget is long-term care where people have used going into nursing homes and having Medicaid pay for it as their long-term

insurance policy.

We are trying to close as many of those loopholes as we can. We are very willing to work with you about closing as many loopholes as we possibly can to make sure that people who really shouldn't be on Medical Assistance shouldn't be there, that where they have commercial insurance, where they have the means to be able to pay for their services, they aren't on the public dime. That's critically important to us. And that companies that can afford to make those payments, make those payments.

REPRESENTATIVE REICHLEY: Right.

SECRETARY RICHMAN: The public dollar, the Medicaid program, should not be a safety net for people or for companies that have the means to pay for their employees or to pay for their needs. And I agree with you. In some cases, that's what it's become. We are looking at every single place we believe there is a loophole and trying to close down that loophole.

REPRESENTATIVE REICHLEY: Thank you, Madam Secretary.

Thank you, Mr. Chairman.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the gentleman from Allegheny, Representative Frankel.

REPRESENTATIVE FRANKEL: Thank you, Mr. Chairman.

I want to thank my colleague Representative Manderino for allowing me jump up in front of her because I have to get on the Turnpike shortly.

Madam Secretary, I'm a big fan of you in spite of the very difficult job you have and the difficult choices you have to make this year, last year, very painful choices. But I think it needs to be said -- and you may not be able to say it -- that while it's a very complex environment that you operate in, with many forces at work, one of the primary forces at work here has been our federal government, our Congress, and our White House that has decided to fight a war, has decided to perpetuate tax cuts, has decided to pay for the Gulf Coast recovery on the backs of working poor people by further cutting things like Medical Assistance. That has to be said here as one of the reasons that you are operating in this very difficult environment. And that should not escape our viewers or our audience today.

I want to turn to an issue that I think is a positive in this environment you are operating in.

And that is the fact that because the Governor was able to veto some language in last year's budget, that would have prevented us from going to Washington to get additional Medicaid dollars. We are now positioning ourselves to go to Washington to get a federal Medicaid waiver for family-planning agencies that will be able to provide us with additional dollars for breast and cervical cancer screenings, sexually transmitted diseases screening, and contraception for women -- uninsured women in our state.

Can you tell us what that dynamic is and how that works?

SECRETARY RICHMAN: Well, it's actually much broader than family planning. It's actually that any Medicaid provider will be able to bill for women between the ages of 18 and 45 who are both above 180 percent of poverty and who need to have services such as breast screening, pap smears, or contraceptive services, those services which have currently been either not paid for and any number of providers have had to eat that cost, which, indeed, makes the providers weaker. We now have a waiver request in Baltimore requesting for the ability to pay for those.

Incidentally, many states have actually been

instructed by their Legislature to go after those kinds of waivers because they put more money into the budget. And these are waivers that the federal government has willingly been paying for for a group of women that when you can provide this kind of care, you are actually saving yourselves probably Medicaid dollars or other healthcare dollars into the future.

So if you can be assured that this population that is very much at risk for any number of gynecological health issues now we're going to be able to have the preventive work that would give us an edge on not having those issues, we save dollars.

REPRESENTATIVE FRANKEL: What is the leverage that we're looking at here in terms of the state contribution versus the federal dollars that will be available for us?

SECRETARY RICHMAN: The state has to put in 10 percent for 90 percent.

REPRESENTATIVE FRANKEL: It's a nine-to-one match?

SECRETARY RICHMAN: Nine-to-one match, which is much higher. If I had everything on 90 percent, we could have a whole different conversation here. But unfortunately, most of our match is at 54 percent. But this is at 90 percent of the dollars coming from

the federal government.

REPRESENTATIVE FRANKEL: I understand there are states like Alabama and Mississippi that are pursuing these dollars.

SECRETARY RICHMAN: Absolutely.

REPRESENTATIVE FRANKEL: I want to congratulate you and the Governor for your fortitude in pursuing this. Whatever we can do to help you do that in other areas, we, on this side, are certainly prepared to help.

Thank you.

SECRETARY RICHMAN: Thank you.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the gentleman, Representative Barrar.

REPRESENTATIVE BARRAR: Thank you.

Good to see you, Madam Secretary.

SECRETARY RICHMAN: Good to see you.

REPRESENTATIVE BARRAR: Going back to the question from Chairman Evans on the $200 million from the Lottery Fund. This is the first time that it's being used since Thornburgh was our Governor; is that correct?

SECRETARY RICHMAN: I was not aware of that,

but Mike did confirm that.

REPRESENTATIVE BARRAR: My concern is that if we take $210 million from the Lottery Fund, then there's probably a reason that it was stopped. It may have been a bad practice. I guess maybe the Lottery Fund came under stress because of other finances. I'm sure you looked into reasons you can do it. Did you look into the reasons why it was stopped?

SECRETARY RICHMAN: I can't tell you. I don't know the reason. We will go back and do that research.

REPRESENTATIVE BARRAR: It's kind of like doing half the research. And most likely it was because the practice resulted in the elimination or the reducing of other services performed by the Lottery Fund. What happens next year -- we're going to see some of our casinos or slot parlors going on-line -- if the lottery funds next year don't produce the amount of money that we think they will? What happens to this funding?

SECRETARY RICHMAN: I think we need to go back and look at it. Remember, part of the reason this was done is that the Lottery Fund funded pharmaceuticals. It funded the PACE program. The PACE program has saved a lot of money because of

Medicare, of the change of the Medicare program, with the Feds picking up much of that cost that they used to pick up.

Some of those dollars -- this is not all of those dollars that they saved. With some of the dollars they saved, there was an expansion of PACE. Some of those dollars are supporting the PDA waiver so that they are still staying with aging, they are still staying focused on people who need the services of long-term care. But now, instead of paying for their pharmaceutical benefit, because the Feds picked up that cost, they are now paying for their ability to age in place in the community.

It's staying with the same population, very much staying focused on the same goals, but these are dollars that would be used to pay for something the Feds are now paying for.

REPRESENTATIVE BARRAR: To the Tobacco Fund, we are taking $99 billion from the Tobacco Fund to pay for long-term care also. And I understand the stress the budget is under because of long-term care. Again, it's going from $72 billion in this year's budget, which was a one-time agreement with the Legislature. We said that this would be one time. We took a lot of heat from the groups that did without, from the

cessation groups and from taking this money away from other parts of the tobacco settlement and put it into long-term care. It was a one time, one-year agreement.

What makes you think that the Legislature would agree to again basically another withdrawal from the Tobacco Fund? Again, I think we are the ones that are going to take the heat from the groups that will do without under the tobacco settlement.

SECRETARY RICHMAN: I will let Mike answer in more detail. But I think our hope is that we can work with you to give you sufficient justification of why it will be dollars well spent on our aging population. And in spending these dollars in this way, we can help people in need. We can help the nursing home industry in making sure they get paid for people who need to be there and for those folks who we can divert from the nursing home system that we can help them not need those services for a longer period of time.

And perhaps in that dialogue, if there's another way to accomplish that goal, if it's another way to keep the nursing homes paid and to be able to use and identify additional dollars within the Medicaid budget, within the DPW budget, to solve that problem, of course, we would be willing to work with

you and talk to you about where those dollars would be in the Medicaid budget.

REPRESENTATIVE BARRAR: But I think in prior testimony, we've heard that the tobacco settlement funds will probably bring in, what, is it $16 million less this year? And we are technically going to then expend the amount of money we're taking from it. Again, is there a contingency plan? especially with the tobacco settlement fund being challenged in court. The Attorney General gave us information that the whole tobacco settlement could go bust. What is the contingency plan if that would happen?

SECRETARY RICHMAN: If we don't have one, we will have one. I think the key again is that we go back to our budget, we look at it very carefully, and we determine where else in that budget we can begin to tighten, where else in that budget we need to be able to. My caveat is always, because we tighten the budget doesn't make the people go away who need the nursing home service. I also want to be aware that nursing homes still have costs, nursing homes still have issues of viability. And my moving money around, tightening that, reducing payments doesn't always fix the problem.

We're hoping to work with you, to have

discussions. We will certainly go back -- and I also like to have Plan Bs for almost everything. We will certainly make sure that if, indeed, there are issues to be re-examined here, we will do that.

Mike.

MR. NARDONE: I was just going to add to what Secretary Richman said. It's a real challenge that we're struggling with in terms of how you fund long-term care. What we see is both an increase in the cost of services in terms of the number of people who need to be served as well as deep reductions at the federal level in terms of IGT.

So I think what we've tried to do is develop a proposal where we are able to meet the need. And basically we really are trying to deal with both an increase in demand for services as well as the diminution of federal support for those basic services.

And I think if it wasn't for the Tobacco Fund, we would have to find some other way to support that or to reduce services in other places to meet that need because it is an entitlement for services.

REPRESENTATIVE BARRAR: Again, there's another issue coming up that we probably don't have a contingency plan for, which is the nursing home

assessment tax phase-out next year in 2007. Act 25 of 2003 will expire in June of 2007. How will this impact long-term care?

SECRETARY RICHMAN: That will be a significant impact. We are developing plans for that. We know that both the nursing home assessment and the managed care assessment will be phasing out. And we are already discussing how we absorb those hits. Again, those are dollars that come back on Medicaid, back to DPW. The DPW needs to figure out how we rearrange, how we manage more tightly, how we begin to look at even our staffing complement to absorb those kinds of cuts.

REPRESENTATIVE BARRAR: But the enactment of that legislation will also hurt a lot of nursing homes and put them out of business. And I think it's going to be a tough thing for us to go back and look at that again and support the re-enactment.

SECRETARY RICHMAN: And again, what that does is just tell us that we have to find another way to absorb those dollars. Clearly, no new dollars. I mean, I'm working a zero-base budget. I can't put in new dollars, which only means I have to figure other ways to cut COLAs, cut services. But I can't cut people. The people are still there. And people in

this case still have an entitlement.

REPRESENTATIVE BARRAR: Right.

SECRETARY RICHMAN: I need to figure out -- maybe I can't do 4 percent all the time in COLA. Maybe I need to look at other ways. But I need to figure out how to bring our total budget down. And that's the challenge in the Department of Public Welfare.

REPRESENTATIVE BARRAR: There currently is a moratorium on new MA beds in nursing home facilities?

MR. NARDONE: No. We have a participation review process. And basically what the process is is that when there is a request for new beds to go on line, we do a review in that specific county to see how does the availability of long-term care services match up with the number of people who are projected to need long-term care services. And a determination is made based on that determination. And the Bureau of Long-Term Care makes those determinations.

REPRESENTATIVE BARRAR: What currently happens to a person that has been in a long-term care facility now once their assets are depleted if there's no MA bed available for them in that facility? Would they be forced to move to another one?

MR. NARDONE: The facility can choose to

either keep them in the facility or transfer them to another facility. Again, we have a fair amount of capacity in the existing long-term care system.

REPRESENTATIVE BARRAR: I have a new nursing home facility. Actually, it's a senior community with nursing home long-term capabilities. And they had some concerns about this.

SECRETARY RICHMAN: So much of the problem is, I need to keep the system tight. And everybody wants to expand it. And then people want to know why we are expanding.

REPRESENTATIVE BARRAR: We don't want you to spend any more money.

SECRETARY RICHMAN: Right. You don't want me to spend any more money. I don't want to spend any more money, which means I need to get it smaller, not continue to let it grow at the pace it would like to grow. This is why the dialogue becomes important. This is why the discussions with nursing home operators become so critical. We can't do both.

And clearly, the pressure on any healthcare budget, which this is a part of, means we can't grow at the rate we've been growing. We have to find other ways to work with people and provide services rather than continuing the expansion at the rate we have been

doing. We have tightened it. We still can't afford what we've tightened to. So, obviously, we need to tighten more.

REPRESENTATIVE BARRAR: One of the reasons I wanted to participate in your listening tour last year was the proposal, very controversial proposal, dealing with children with autism. Where are we at with that now? Will there be a proposal to expand that premium that you proposed last year? I imagine that the $20 million cost savings that you were projecting last year never materialized. Where are we at with that proposal this year?

SECRETARY RICHMAN: That specific proposal or the activities around the autism office?

REPRESENTATIVE BARRAR: Maybe you could give us both, actually.

SECRETARY RICHMAN: Let me talk a little bit about that and then let me take pride in introducing my autism director, Nina Wall-Cote. This is one obviously that is very close to my heart.

REPRESENTATIVE BARRAR: Nina is also one of my constituents. It's good to have her here.

The autism, the request to CMS around a contribution for families with children with special healthcare needs, is currently on the exchange between

DPW and CMS. And at this point, they've sent us questions and we are beginning to answer those questions. Actually, I have some of the answers and I'm working through them.

REPRESENTATIVE BARRAR: Could we have an idea what kind of questions? This has been going on since the budget was approved, since July. And we were kind of concerned where this stands right now. What kind of questions are they asking?

SECRETARY RICHMAN: Their questions are things like, is there an impact on the school district? There are a lot of questions in detail on that level. How are we actually setting the different rates within that framework? My staff have given me some of those answers. I need to look and read through them. It's an area that I've been very close to.

Again, one of my concerns is that the vast majority of these families have private insurance. And the private insurance is not paying for this particular child for this particular disability. If these children had a heart condition that was much more expensive or much more involved that would take a lot more care, they would pay for it and not blink. Because the diagnosis is autism, they won't pay.

I have an issue with the decision-making process on why they give a choice of costs shifting to the community, to the public dollar, because the corporate world doesn't want to pay for a particular diagnosis. That's my battle. And I need to be able to begin to play that out. And many of the families, I think, are very supportive of helping with that and understanding that issue. I don't want to hurt the insurance companies, but I want them to pay their fair way and not expect the taxpayers to do it.

Again, these are all tough issues. Everybody wants to be able to feel that there's a solution. We know we bear the burden of making this work because the people are so vulnerable.

REPRESENTATIVE BARRAR: During the listening tour, that was one of the things we heard from quite a few of the parents, that they were going to be assessed a premium while they were still paying very high premiums for medical insurance and couldn't figure out why that wouldn't cover them.

SECRETARY RICHMAN: I want to make sure that people that are already paying that high premium, that we have really pushed that envelope. And we still have a little more pushing to do.

Let me introduce Nina Wall-Cote, who is the

director of our autism office, to give you a quick summary of some of the things we're doing right now around this.

MS. WALL-COTE: Hello. My name is Nina Wall-Cote. And I'm very, very pleased to be here this afternoon. I would be delighted to share with you some of our activities around autism affairs this year going forward.

REPRESENTATIVE BARRAR: Great.

MS. WALL-COTE: As you know, there has been tremendous energy in the autism community for a very long time. A lot of that energy was directed into the work of the Autism Task Force which took place over the course of 18 months. And I think we identified, through the leadership of Secretary Richman and the attention that this issue was given, some of the really salient issues that are facing families of children with autism, people living with autism.

We also identified, with the input from family members, which was really tremendous -- over 50 percent of the membership of that task force were family members, -- things that needed to change in the system. It was a very honest dialogue that took place over the course of that 18 months.

I should say the work going forward this year

is based around the primary recommendations of the task force. Most of the work this year will be focused on establishing standards, standards around diagnosis, standards around assessment, standards around treatment.

We have great energy and expertise in the field of autism in the Commonwealth. We have really tremendous experts. And we're looking to things that are working. And where we have that expertise, we want to harness that and learn from it and grow it. We're looking to collaborate with as many entities as we can and looking to work very closely with the Pennsylvania Department of Education to begin to streamline a lot of what our systems are doing around intervention and support for children with autism. I think the need to develop the capacity to get people trained is something that we are facing nationally as a challenge.

We have recently issued an RFP and are looking for proposals on where there is great expertise in the field of autism, trying to identify where that is, and have given folks an opportunity to respond in identifying best practice, in supporting our families, and around intervention. And we are also looking for models of collaboration. We really

do face quite a daunting challenge with the increasing numbers of people living with autism, which mirrors the challenge at the federal level. So collaboration will be critical going forward.

We have a lot of work to do. We are looking to launch some pilots east, central, and west. And we're also looking specifically at the rural areas of the state where the challenges that families meet are particularly challenging. This is an isolating disability as a family to have to deal with when you live in a rural part of the state. It adds additional layers of complexity to that.

So we have a lot of work ahead. We have a very energized parent community, as you well know. We have wonderful support from the Legislature. We have wonderful support from Secretary Richman. And we're very excited about the work going forward.

REPRESENTATIVE BARRAR: Thank you.

I just have a couple budgetary questions and then I'll finish.

SECRETARY RICHMAN: Sure.

REPRESENTATIVE BARRAR: MA transition increased by $5 million this year. I guess I look at that and I'm not really sure what the line item is for but it's also the same year that the Governor is

cutting transportation costs to disabled veterans. He zeroed it out of the budget, and we are increasing a line item here by 5 million. I guess that's what caused me a little concern.

SECRETARY RICHMAN: Yes, the Medical Assistance Transportation Program, also know as MATP, basically is another one of the entitlement programs in that we have to provide transportation to people on Medical Assistance. It's been a tough one to manage. I think actually we're getting it sort of under control finally. But it's been the kind of thing that we basically provide those dollars to an entity. Frequently in a county, they contract it out and then they come back and ask for more money.

We have tried to really tighten that process so we control it on the front end. We understand and look at the clinical services connected with it. In other words, some of the challenges have been that people will choose a medical provider that is X distance from their home rather than Y distance from their home while Y is much closer.

We're going in and looking at many of the issues connected to that program. How do we make sure people are getting the medical treatment but at the same time that we have some mechanism to control the

amount of dollars that go into it on an unplanned basis.

REPRESENTATIVE BARRAR: This is not a line item that is thrown into public transportation as part of the --

SECRETARY RICHMAN: No. This is one that has historically been in DPW. It's called MATP.

REPRESENTATIVE BARRAR: One other question and I'll be finished, Mr. Chairman.

Uncompensated care. Is that increasing around the state? Is there a demand to increase the amount of money that we pay hospitals for uncompensated care?

SECRETARY RICHMAN: Uncompensated care is basically the cost that hospitals or other providers sit with for people who are uninsured. The number of uninsured nationwide has been going up. The Pennsylvania number is actually one of the lower numbers in the country. We are about 8 percent. I think the national average is around 11 percent. So we're a little below that.

The issue of the uninsured that has me most concerned about how we look at hospitals -- and would probably be some of my justification of why some groups get 4 percent and some groups get 2 percent.

The hospitals do treat people who are uninsured because they come into the emergency room. They have to be able to treat those folks when they happen because that's part of the Medicaid contract they have. They do do that.

Again, we're in discussions with the hospitals on how we handle those disproportionate shared dollars and to make sure that dollars are matched up with the hospitals. We are doing that. That is a discussion that has to go on between DPW and the hospitals.

The only other way I have to save money, if I'm going to save big dollars, is to make more people uninsured. That is counterproductive to what needs to happen. So somewhere in this equation, we need to make all of this match.

REPRESENTATIVE BARRAR: Thank you.

Thank you, Mr. Chairman. That's all I have.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the lady from Philadelphia, Representative Manderino.

REPRESENTATIVE MANDERINO: Thank you, Mr. Chairman.

Good afternoon, Madam Secretary.

SECRETARY RICHMAN: Good afternoon.

REPRESENTATIVE MANDERINO: I'm pleased to report to you that I have found a money tree. It is growing in the Health and Welfare office building courtyard and has your name on it.

SECRETARY RICHMAN: I will go over immediately. Please don't tell me it's in the midst of construction, though.

REPRESENTATIVE MANDERINO: I can't help but be struck by and reinforce one of the points you made earlier this afternoon. The reality is that 80 percent of your budget's money goes to a comprehensive range of healthcare services to nearly 2 million Pennsylvanians and whether they are low-income Pennsylvanians or disabled Pennsylvanians or special needs Pennsylvanians, you have a yeoman's job in trying to meet those needs with double-digit inflation in healthcare and not double-digit increases in your budget and your department spending. So I do very much understand that.

SECRETARY RICHMAN: Right.

REPRESENTATIVE MANDERINO: So I hope you will take my questions in that spirit, not so much as criticisms of cuts or changes that you are making but trying to understand how some of the changes we have

started to implement in a couple of earlier budgets are working or not working, what other adjustments, what are we seeing from those changes.

First, in the area of health choices, a number of people touched in general on the issue of their reimbursement rates to the managed care organizations. They're all telling us they need 8 to 10 percent. You have 4 percent in the budget. That 4 percent is not going to be an across-the-board 4 percent? I thought I understood that it's going to somehow be arranged and some may get more and some may get less. Can you explain what you're anticipating there?

SECRETARY RICHMAN: There are always negotiations on rates with the managed care companies. It's never a flat COLA. It has all sorts of factors that play in, one of the biggest ones being risk adjustment. And those that have the sickest clients may get a slightly different rate than those that may not have clients that are sick. So it's a straight negotiation with them. So it's not just handing out. That would probably be very unfair, given that their caseloads really are different.

REPRESENTATIVE MANDERINO: What is the dollar figure on the 4 percent increase? Or maybe asked

another way is, with all of this discussion of every place we're tightening the belt -- I understand what they're saying. And in a real world, I don't think 4 percent -- or in the imaginary world, I don't think 4 percent covers their costs either, just knowing what I know about what's going on in healthcare inflation, assuming that we require them to continue to provide the exact same level of services.

And so I guess my question is, what are the trade-offs there? What are the dollar figures of anticipated need? Are there any areas where we are looking at what needs to be provided and whether or not we are requiring more than what we can afford to pay for?

SECRETARY RICHMAN: Each percent is worth about $26 million. So it's 26 times 4.

REPRESENTATIVE MANDERINO: So it's 104 million at 4 percent or 208 million, something like that?

SECRETARY RICHMAN: That's right.

Last year when we looked at the budget, we looked at every benefit combination that we possibly could as to what real savings we could really achieve, what we could do without seriously compromising ourselves on the total bill of healthcare, how do we

begin to manage this differently.

REPRESENTATIVE MANDERINO: One of the areas that I specifically recall cost containment initiatives that did go through, I know the legislature pulled back on some of those. But of those that did go through, one of them was the pharmacy and the preferred drug list. And I understand that everything that the Department hoped would go through maybe didn't all go through.

Can you explain what that is, what changes therefore we have to accommodate in this budget, how we're doing that, and what the impact of that is on people?

SECRETARY RICHMAN: That's a fairly complex question. Let me get Jim up here to help me with it a little bit. I'll try to start it.

We had gone in on a very aggressive plan for pharmaceuticals, including a PDL and a very strong move to generic medications. Both of those have been -- the fee-for-service PDL and the move to using more generic medications, we have actually done incredibly well with. And it's because we've done well on those that we probably won't have quite as much problem this year because the third part of that or another part of that was moving towards a PDL within the managed care

companies.

That had to go through a federal approval process. The Feds, as we have recently learned, as recent as Friday, are very reluctant to do this. They have shared that they don't think that they would have the authority to grant it. We will continue to pursue this. Obviously, we have dollars associated with those savings that we will not be able to keep so we have already begun to compensate for that in this year's package.

REPRESENTATIVE MANDERINO: How?

SECRETARY RICHMAN: First because of the move to generics and the PDL saved more dollars than we thought.

REPRESENTATIVE MANDERINO: So right now the plan is to continue to pursue until you get an absolute no with the Feds, but in the meantime keep status quo while you're doing it?

SECRETARY RICHMAN: No. In the meantime, we have to have a Plan B. We always have a Plan B because I still need to manage the budget. I'll let Jim talk about Plan B because we have now gone into -- because we know what the discussion with the Feds is, now the probability has changed on us. So the Plan B now becomes a much more probability for us. So now

Plan B has now taken shape.

MR. HARDY: Over the past year, we have done a number of things, the implementation of the preferred drug list inside of fee for service within that. A year ago our generic utilization rate was about 54 percent. It's 63 percent now. So we've seen a dramatic shift in that.

We also, with the help of the Legislature, put our pricing in line with what commercial payers pay for drugs. So we have seen a drop in your cost per script. The generic utilization all contributed to that. In general, for the quarter ending 12/31/05, our drug expenditures in fee for service were 12 percent lower than they were for that same quarter the previous year. In an area in the budget where typically in previous years we have seen 10 percent increases in drug costs, we actually this year have seen a negative trend of 10 percent as a result.

One of the things in managed care is that because of the federal statute established in 1990, the Medicaid managed care plans don't have access to the Medicaid fee-for-service rebates. So, for instance, last year the plans on average were only able to negotiate rebates of about 5.1 percent of their drugs spent. But we at fee for service get a 22

percent rebate. So there's a substantial spread of the rebate dollars.

A lot of people have always talked to us about carving drugs out of managed care in order to get those extra rebates. What we said last year and years before is that because they managed the benefit better that we did, because they had better pricing with the pharmacies than we did, that the math didn't make sense. We ended up giving more back than we would make in the extra rebates we would get.

REPRESENTATIVE MANDERINO: So we'll have the managed care organizations mad at us for the measly 4 percent and we'll have them mad at us potentially for the carve-out?

SECRETARY RICHMAN: However, if you really find the tree, you can solve the problem.

REPRESENTATIVE MANDERINO: On the behavior of the health side of health choices, I did follow and I'm glad to see the statewide -- I think we're ready for this budget year for the statewide expansion. One of the listening tours I happened to go to -- I went to a couple. But one of them Somerset. I know that I have a letter -- and I'm sorry I forgot to bring it -- from Bedford and Somerset Counties. The essence of it was, I'm glad they're going to managed care behavioral

health statewide. But we're still not able to compete because of something DPW is doing.

Can you explain to me how the roll-out is happening? Were the counties offered a right to first refusal? Does it have to do with the rolling money? Can you explain that all to us?

SECRETARY RICHMAN: Yes. The letter that came from Bedford/Somerset, basically at the point they sent that letter, what we were saying is that we were going to issue an RFP that would cover all of the counties that were currently in health choices. What Bedford/Somerset came back with, along with a handful of additional counties, they said they really wanted that right of first opportunity. They wanted to choose their own partner and not go with a statewide partner.

We said, okay. We'll give you that right. We held the RFP for about six weeks so they could have an opportunity to talk with their partners, talk with who they would look to, and to work with the county commissioners, because most of the counties are joiners, like Bedford/Somerset. And we gave them until January 22nd to get back to us -- February. I'm sorry. We gave them until February 22nd to get back to us, which they've done.

REPRESENTATIVE MANDERINO: Let me turn to the child welfare portion of your budget. I know I talked to you about these issues last year. I know Philadelphia County and other counties still have concerns and I want to see where we are.

SECRETARY RICHMAN: Sure.

REPRESENTATIVE MANDERINO: First, on the MA realignment process, where are we in terms of maximizing those federal dollars and making sure that the counties are able to kind of build towards those? Are they getting all their needs met? What are you hearing from the counties about backlogs, waiting lists, not being able to get people served, not being able to maximize dollars?

SECRETARY RICHMAN: Probably the biggest issue around MA realignment has been having the dollars in the wrong place. In other words, part of what we had to do last year was take a guess at which budget to put it in. Should it be in the child welfare budget or should it be in the health choices behavioral health budget? In some of those cases, our guess was pretty good; and in some of those cases, our guess was pretty bad. What we're doing now is trying to correct those guesses; in other words, make sure we can put the money or get enough money in the right

place so neither side sits with a deficit.

Unfortunately, we probably more frequently put more money on the behavioral health side than we did on the child welfare side so the child welfare people are the ones feeling some pain. We think we now are going back out to all of them. Both Joan and Deputy Secretary Ernie and Deputy Secretary Nancy Hardy are going out talking to the folks to rearrange it.

REPRESENTATIVE MANDERINO: So if I'm in a county where a welfare agency is sitting there with a deficit, so to speak, I can expect an attempt to help me kind of realign what was for this budget year and I should also expect not to be in the same predicament next year?

SECRETARY RICHMAN: Yes, that's correct. If you are in that predicament, we think we have an easier way to help you next year. So we sort of anticipated again that while there should be fewer problems next year, my expectation is there probably won't be zero problems.

REPRESENTATIVE MANDERINO: One of the other child welfare issues is the need-based budget. And as a matter of fact, Representative Petri talked about this earlier. Maybe it was with Secretary Masch or

somebody the other day. But I know that last year that the counties felt that DPW wasn't following, at least the way they historically had always done, the needs-based budget and expect to see numbers show up in your budget to the General Assembly.

SECRETARY RICHMAN: Right.

REPRESENTATIVE MANDERINO: And I had gotten an indication that this year maybe the numbers were a little bit closer but the number that you put in the budget is still less than what they think that the aggregate number for needs-based budgeting for the county should be.

Tell me what impact in this fiscal year the way of calculating needs-based budgeting happens and what impact that is having to the counties and what you're anticipating for the upcoming fiscal year.

SECRETARY RICHMAN: We are continuing -- the last year was the change year. What we are continuing to do is to base the needs-based budget on what actuals are spent as opposed to a number that appears to us that has a non-actual relationship.

We submit the budget to the Governor's Office, as required by law, the entire request made that we certify from the counties. That's required. We follow that. We do get that done.

REPRESENTATIVE MANDERINO: Okay.

SECRETARY RICHMAN: In the meantime, we also look at the needs-based budget in terms of where those actuals are and what our prediction is and how much money we need. Last year one of the controversies was on the TANF transition dollars and how it could be used. And there was a question about how they could use it this year. Actually, after all of that, very few people actually used the flexibility. But we are extending that same flexibility this year. It is a decrease in the pot. Last year it was $45 million. This year it's 30. The next year it will 15, and the following year it will go away.

The increase in the needs-based budget over last year is $57 million, so that it is a budget that again goes up. It's an obligation for it to go up. We've tried to work with all of the counties around those dollars and how we are spending them.

Again, we are in the same position. How do we make sure that we use the dollars wisely? How are we more accountable for them? How do we make sure that the children in the state are receiving the best quality of services? We are still trying to balance a very difficult budget without putting anybody at risk.

REPRESENTATIVE MANDERINO: I guess that was

going to be my bottom-line question on this. Do we have reports from the counties in this fiscal year of whether it's children who have needed services and families who have needed services and they are not getting them because the money isn't there or the wait is a lot longer? I know some counties were using the TANF dollars, which diminished for juvenile justice. Do we have reports of there not being places in detention or waiting for services?

SECRETARY RICHMAN: There are occasions that I've had counties call me or I had been visiting in the counties where they said they had to cut staff or had to cut programs because they don't have enough dollars. Upon hearing that information, I immediately sent the staff, including the deputy secretary, into the county to figure out how we can help them solve the problem without cutting programs.

My goal is not to put the county at risk or families at risk. Most of the counties have some level of appeal in to us in terms of their needs-based budget. We're in the process now, as we are every year, of trying to settle '04-'05 as we tangle with '05-'06. But we try to settle with them. We try to make sure that we can figure out -- because there's other counties where there's underspending. So we try

to make a match between those two.

I think the challenge, the transition challenge, for the counties is having enough county dollars to draw down the Act 148 dollars. If they don't have enough dollars down, it goes back into the pool and we distribute it to other counties. So the issue is trying to make the system work, trying to see what the realistic picture may be, and trying to make sure there are no children at risk because children at risk in this case end up in much more compromised situations. It's very penny-wise and pound-foolish not to be able to make sure we are taking care of these children in an efficient manner. That was the reason for MA realignment.

Certainly we're continuing dialogues with the judges on MA realignment. That's been an issue for them because it's an issue of whether they feel some of their authority has been usurped by the Medicaid program. We're also trying to make sure that doesn't happen.

But this is, again, a very sensitive area. It's an area that has a lot of passion and emotion in it. And it's an area that I have been involved in for a very long time trying to keep it balanced.

REPRESENTATIVE MANDERINO: And I guess to let

you end on somewhat of a positive note, I do notice that even in this tight budget of management that there are areas that you obviously made very difficult but a concerted effort to expand. And it seems to me that they were, again, kind of aimed at the individuals who really need the help from the Commonwealth, whether they were on waiting lists that we had for special needs populations, etc. But do you want to talk a little bit about those initiatives and who we are going to be able to serve that we haven't that have been waiting so long kind of thing?

SECRETARY RICHMAN: Probably the biggest place that we have put our expansion dollars is within the Office of Mental Retardation. There we have waiting lists at different levels for people that have day activities, residential activities, support services. Some of those waiting lists can be five, seven, eight years long.

We've tried to make a concerted effort to get people off that waiting list so they can live in the communities or their families can go back to work or any number of ways both to get people out of institutions and to support people living in the community.

This is one that I think at some point in

time every member of the Legislature has probably written me a letter about how to handle the mental retardation waiting list and how to get more communities and more support to families.

More people go on the waiting list every year than I can pull off. The waiting list, for the most part, is adults. And when someone leaves the educational arena, they leave school during the day, the issue is, do they have to sit at home and lose all those skills? And our goal is -- we'll have more people coming on to our waiting list than we can get off in any one year. For me, partial success will be getting to a point where no more people go on than I can take off and we can actually make some progress at getting more people off.

The office of mental retardation now is having quite a struggle with CMS. They have pretty much demanded that we totally change how we finance. They have been making this demand evidently of DPW and the Office of Mental Retardation for about 25 years. They have been intent on this for about seven years.

And they are giving us very few degrees of freedom. They said that you've had a long time to do it. This will put some challenges in this area. But we're trying to stay very focused on using the dollars

and managing the dollars and to make sure that we are beginning to reduce the waiting list.

REPRESENTATIVE MANDERINO: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN FEESE: The Chair thanks the lady.

The Chair recognizes the gentleman from Berks, Representative Rohrer.

REPRESENTATIVE ROHRER: Thank you, Mr. Chairman.

Madam Secretary, I think you're getting closer to the end. I have a question for you. This is more following up on a couple of things that were asked earlier. And I do want to say I always appreciate your straightforwardness in your answers.

Let me go back to last year. If I remember correctly, when you were before us last year, you testified that the full issue of balancing the welfare budget was going to be very, very tough, nearly impossible. And I think you said at that point that you anticipated between a one and a one and a half billion dollar shortfall.

I know one of the questions that was raised earlier by one of the members talked about that, too, that $95 million deferred payment. That is perhaps one of the methods of reducing that one and a half

billion dollar shortfall. What else has been done? Are you anticipating, again, in this budget as it's laid out, that kind of shortfall? I'm curious. How did that work out? Where did that go?

SECRETARY RICHMAN: In last year's budget, we actually -- we track every month now where we are against the things that we want to do in cost containment so that we know where we are in saving the dollars that we predicted that we would be able to save. Some of those savings came very earlier in the process. Some of those savings are probably going to come closer in the second half of the year.

As an example, the preferred drug list and the move toward generics, we've actually saved more dollars at this point in time than we have predicted we'd save. One of the other areas is in our fraud and abuse activity. We actually were able to do more savings there than we had predicted and were able to get more recoveries in that area. So part of this is we track the --

REPRESENTATIVE ROHRER: I don't mean to interrupt you. Do you have the numbers? I haven't seen them. Do you have identified objective numbers of what has been saved?

SECRETARY RICHMAN: Yes. My understanding is

we have given them to the legislative staff. If not, we can make sure you get them.

REPRESENTATIVE ROHRER: And they would total that billion?

SECRETARY RICHMAN: No, no. It would be the cost containment part of that. The management of the program was closer to about $330 million. You gave us new dollars, some of the things that you put back into the budget. There's a combination. We could probably work our way to that total piece if you would like. There's a combination of things that took place.

REPRESENTATIVE ROHRER: If staff doesn't have it, I would like to be able to see where all of those add up to that. I haven't seen that. That would help.

Secondly, back to the 295 million delayed payment. I know we had a discussion with the Budget Secretary this morning asking him about the deferred payment. He insisted that that was not a real issue. But to me, as I look at it, it seems to be a real issue. To me that's not a whole lot different than telling our employees this year they are only getting 11 months of pay rather than 12 months of pay. It's got to come due somewhere. You're helping to confirm the discussion I had with the Secretary this morning

on that.

One other thing here, this question would tie in to some others that have been raised. I had seen a report made in May 2005 that reported that the Commonwealth's Medicaid physical health MCOs had saved the Commonwealth over the last five years in just health choices alone of 2.7 billion. Pretty staggering number. And as part of that, they said that they had been able to collectively hold down the annual medical cost escalation to 7.4 percent over the last several years as compared to 10.4 in the fee for service.

SECRETARY RICHMAN: Okay.

REPRESENTATIVE ROHRER: And then I think U.S. News World Report came back in October of '05 and said that Pennsylvania's MCOs ranked in the top 22. That being the case, and assuming that that is correct, walking over to the Access Plus program, you've described that as a form of managed care that really is effectively being done by the Department, correct?

SECRETARY RICHMAN: No, it's not done by the Department. We have a contractor.

REPRESENTATIVE ROHRER: You have a contractor?

SECRETARY RICHMAN: But it is managed care.

One is capitated and one is non-capitated. The managed care companies are in capitated managed care. The Access Plus program is managed care where we have a contractor, but that contractor is not capitated.

REPRESENTATIVE ROHRER: Okay.

SECRETARY RICHMAN: We're expecting a very heavy-duty management of the fee for service by the outside contractor. Prior to the outside contractor, it was done by DPW. And that's where we have said it was not a well-managed program.

REPRESENTATIVE ROHRER: That clarifies that part for me.

In taking that a step further, in the area where health choices for Medicaid behavioral health is being expanded, is there a reason why it's not being expanded for the physical health side of the equation?

SECRETARY RICHMAN: The main reason that the behavioral health was being expanded is because it's a partnership with the counties. This is actually a split of money. We already support behavioral health in the counties. We have a majority grant to every single county. And our goal is to unify those dollars.

In other words, counties work best in this particular area when the Medicaid dollars and the

program dollars that are already there can work together. So we already have an investment in those counties to do that. There's not a comparable structure within every county for physical healthcare.

REPRESENTATIVE ROHRER: Could that be developed though? I mean, since it's worked in the five counties, are you agreeing that it has saved money?

SECRETARY RICHMAN: You know, I have worked with the managed care companies in this state for a long time and have been a partner. They do a good job. I don't want to say they don't do a good job or they don't manage well. However, they also are challenged in the more rural areas of the state for some of those that overlap into those areas. They also have some of those challenges.

What we want to do is look at another model that perhaps we would be on a more retrospective payment as we have been on that would cost us fewer and that we would still have the same level of accountability. The question mark for me is -- and why we are still looking at the two systems -- our outcome is no different. In other words, can I, indeed, keep my costs down and can I have the same level of outcomes on both sides?

And the data from the SS Plus, now that it has been in operation for a year or will be rolling to a year, is beginning to give me that data. This first set of data says there's no difference in the outcomes. I'm getting the same quality of product from SS Plus that I have in my Health Choices counties. I'm not sure anyone in Health Choices would like to say that they don't have issues in their network. I'm sure both sides do.

Indeed, I don't want to take anything away from Health Choices. They've done a good job. They've saved the Department money. They need dollars too. Again, unless somebody knows where we begin to plug a whole lot of dollars into something, we all need to hold the costs down as much as we can.

Our challenge to them as partners -- they are our partner -- is to be able to figure out how we control costs as much as we can. How do we begin to manage tightly? How do we check fraud and abuse? Remember, they don't do the care. They contract for the care. How do they hold their provider system accountable for that higher level of care?

So this is very interactive. But certainly, they have done a good job in Pennsylvania. And, indeed, people look at us as a model. We have a very

mature managed care system. Some of the states are just getting into it.

REPRESENTATIVE ROHRER: Thank you. I appreciate that. I think that answers most of my questions.

Thank you, Mr. Chairman.

CHAIRMAN FEESE: The Chair thanks the gentleman.

The Chair recognizes the gentleman from Lancaster, Representative Sturla.

REPRESENTATIVE STURLA: Thank you, Mr. Chairman.

Secretary, thanks for being here today. Through these appropriations hearings, I've been trying to focus on sort of philosophical reasonings behind some of the numbers in the budget. I, for one, don't believe there is a money tree. But I do believe there are some people that would like you to drink some magic Kool-Aid. We can cut taxes. We can increase services. We can increase payments to providers. And we can still have a surplus at the end. I'm not drinking that Kool-Aid and I wouldn't advise you to either.

The other day I spoke at a United Way function and talked about poverty and, in particular,

the concentration of poverty. It's truly my belief that there are a lot of people that still don't quite get poverty. I had someone say to me recently that they weren't in poverty because they chose not to be in poverty. With rare exceptions, I haven't yet brought in people that just say, you know what? I just love being in poverty. That's why I do it.

When we look at these numbers in terms of MA recipients and those people that receive a lot of benefits that your department provides, how many able-bodied males receive any of this assistance?

SECRETARY RICHMAN: My guess is able-bodied that have no healthcare issues, no special needs, they aren't there.

REPRESENTATIVE STURLA: Yeah. Well, I think we eliminated them in 1993. But I still have people tell me if we just have able-bodied males off the roll that we'd have plenty of money.

SECRETARY RICHMAN: We'd be hard-pressed to find one.

REPRESENTATIVE STURLA: Yeah. I mean, do you know if there are people on the rolls that have turned down family-sustaining job offers? Do you know how many of the people on your rolls that are currently working? Because I think that number would probably

be alarmingly high.

SECRETARY RICHMAN: Actually, there are a lot of people on our rolls that are working and are engaged in work. And incidentally, for many of those folks, they're still on the foreign entitlement. Sometimes they are off cash assistance, but they are often still receiving Medical Assistance because they are in very low-paying-wage jobs and their employer doesn't offer health insurance so they still will qualify. Many of the families still qualify for Child Care, LIHEAP, and food stamps.

REPRESENTATIVE STURLA: That sort of goes to the next question I have that deals with how we provide healthcare in this country. If I were the CEO of Wal-Mart, I wouldn't want to provide any more health insurance than I had to if I had to compete in a global market.

And if I'm the chairman of General Motors and my car costs $2,000 more because of my healthcare cost when I compete with every other industrialized nation in the world that pays for that healthcare cost, I would be upset.

But until we come to some conclusion in this country as to whether we are going to mandate that all businesses provide healthcare and build it into their

cost, whether we say that we're going to go with a universal healthcare system that we, as a society, pay for and, in essence, free up those companies to go compete on a global market --

SECRETARY RICHMAN: Right.

REPRESENTATIVE STURLA: I think, right now we sort of have this disingenuous system. We say, business ought to provide it, but if they do, we ought to give them a tax cut. So, in essence, the government ought to pay for them to pay for that healthcare so they can claim they are providing it even though we're providing it. And we allow people to work minimum-wage jobs, which are, in essence, being subsidized by the fact that then people have to get healthcare and LIHEAP and food stamps.

Can you just elaborate on that a little bit more?

SECRETARY RICHMAN: Well, you know, I, again, have been invited by several of the bipartisan groups in Washington to talk to both congressional staff and to any number of other audiences about the Medicaid program, the changing face of Medicaid, the TANF program, and many others about this kind of crisis. And we at some point need to develop a national agenda on how to address these issues. We certainly want our

companies to be globally competitive.

REPRESENTATIVE STURLA: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN FEESE: The Chair thanks the gentleman.

You're just about done. The Governor's '05-'06 budget this fiscal year has a $660 million increase in spending for the DPW. We have to do a supplemental of about $230 million, so we're at $890 million. Savings are projected from changes that you enacted or implemented of $330 million.

If we do anything that the Governor has requested, what is our projected hole for '06-'07, and you said, a minimum of 500 million. And you emphasized a minimum. We are here with the Governor's proposal for '06-'07, which would increase your budget $305 million in the General Fund, would take from the Lottery Fund $210 million towards those programs, take from the Tobacco Fund an additional $25 million, with deferred payments of $295 million to another fiscal year which I think we should pay as we go, so that's about $835 million total, including the deferred payments. So we're running somewhere about $2 billion a year.

SECRETARY RICHMAN: Right.

CHAIRMAN FEESE: If we do everything that the Governor has requested, not pay our bills on time, increase the budget $305 million, take money from lottery for $210 million, take an additional $25 million from the tobacco settlement, how far are we in the hole beginning '07-'08?

SECRETARY RICHMAN: Again, I think probably about 500. We have the IGT coming out. We don't know what the Feds would do. If I want to do the pay-back of the cycle from the roll, that's about $300 million. So we have $420 million right there. So I know that those two could influence that. You could look at it as if we were in better shape than we were last year, when I said I knew I had, going in, $500 million.

I can tell you that all of the people we discussed here today, the managed care companies, the hospitals, and the nursing homes as being our largest, are going to want to see an increase of larger than 4 percent.

CHAIRMAN FEESE: For '07-'08?

SECRETARY RICHMAN: Yes. The figure that someone gave said they wanted 8 percent. You know, that's how this gets built to those very large numbers. And it comes back as, I can't do that large number. There are not enough dollars. Therefore, I

then begin the process of, how do I get the numbers down? How do we manage it differently? How do we get new ideas? What is the discussion that I have to have with CMS in Washington? What is the discussion that we need to have with all members of the General Assembly on what else can we do to cost-contain, to manage tightly, to be able to control a national inflation rate in healthcare that is still so far beyond revenue.

CHAIRMAN FEESE: And I'm not suggesting that in any way you are not doing everything that you possibly can. And I'm not suggesting that you haven't tried to be as accurate with your crystal ball as you can. I'm just trying from our committee's perspective to understand the potential exposure to the taxpayers in '07-'08.

SECRETARY RICHMAN: We definitely know the IGT is going away.

CHAIRMAN FEESE: And if we include anything from managed care, increases or whatever, we're talking hundreds of millions of dollars beyond that as well?

SECRETARY RICHMAN: That's correct. That's the challenge and sometimes the depression of this budget. There is no way to get to a point where the

demand is almost in reason because it's such a heavy lift and such a heavy demand. And it really is a part of the national healthcare inflation. And that's why I'm not sure Pennsylvania all by itself, as any other state all by itself, can solve the problem.

I do think the states are beginning to look at each other and trying to figure, well, maybe if I did a little bit of what you did there. And that's why states call us about our managed care program. That's one of the alternatives they are looking at, if they haven't gone there. We're looking at Florida, South Carolina, Massachusetts, all of the states that are looking at different ways to redefine themselves as we try to write up our plan to redefine ourselves.

The bottom line on all of that is probably going to be, we have a national crisis in healthcare that we need to continue to debate and determine where it lies in our national priorities.

CHAIRMAN FEESE: With that, that's all the questions I have, Madam Secretary. Thank you for your patience in answering all of our questions.

This committee is adjourned until Wednesday, March 8th, at 9 o'clock.

SECRETARY RICHMAN: Thank you very much.

(The hearing concluded at 5:05 p.m.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

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Jean M. Davis, Reporter
Notary Public