APPENDIX I – INTRA-STATE FUNDING FORMULA AND BACKGROUND

Background

The current Intra-state Funding Formula, or "allocation formula," was developed in 2004 and was approved and implemented for first time beginning with State Fiscal Year (SFY) 2005-06 allocations.

The 2000 census data revealed significant shifts in the older populations served by the Area Agencies on Aging. Pennsylvania's population aged considerably during the period between 1990 and 2000. Accordingly, Planning and Service Areas (PSAs), across Pennsylvania experienced high levels of growth in their older population with changes in their consumer mix. The seventy-five years of age and older cohort grew much faster than the total sixty-plus population. The proposed formula responds to these demographic shifts.

Model Development

The department examined the current model, reviewed federal and state laws and regulations governing the intra-state allocation of funds, and gave due consideration to the Area Agencies on Aging recommendations. It researched available empirical data and conducted a literature review to ascertain the impact of various subsets of the elderly population on the Area Agencies on Aging resources. It confirmed that clear differences existed on how the various demographic subsets of a population impact an Agency's resources.

The department's overarching goal was to arrive at a model by which to optimize the allocation of state and federal funds to the Area Agencies on Aging while minimizing any adverse impact. The following objectives facilitated the achievement of this goal:

- The model must operate within the parameters established in State and Federal law and regulation;
- The model must be populated with criterion variables for which data values are available from common, readily accessible and reliable sources;
- Updates or changes to the model data, input variables, and decision variables must be easily accomplished;
- The model must contain within its logic alternative decision points that will accommodate changes in State and Federal law and regulations;
- The model must fit all possible foreseeable situations and provide accurate and reliable output.

The New Allocation Formula ~ Public Review and Comment Process

The development of the department's Intra-state Allocation Formula is the result of a nine month, highly interactive process between the department, Area Agencies on Aging, state legislators, and other interested individuals. In October 2003, at its Annual Joint Quarterly meeting of the Area Agency on Aging and Pennsylvania Council on Aging, the department invited the agencies to become active participants in the process of informing the department's determination. Secretary Nora Dowd Eisenhower committed to an open, inclusive process, stating that the department would give full consideration to all recommendations. She asked the

Pennsylvania Association of AAA Directors (P4A) and its members to recommend strategies that would lead to an optimal, equitable formula, responsive to the panoply of service needs of older Pennsylvanian's.

As a result of this invitation, the P4A Board took the lead as the representative body for its constituent members. With full support from its membership, P4A endeavored to satisfy the department's request for a unified recommendation. As noted in their response letter to the department, "Faced with this unquestionably challenging opportunity, the Association began work in October – inviting Members to submit comments…in anticipation of a December meeting. These actions recognized the significance of affording 'all AAAs an equal voice and opportunity to exchange viewpoints in an informal and open forum.'" Members responded positively to this invitation as evidenced by the attendance of forty-four (44) persons representing thirty-five (35) AAAs in a December 4, 2003 meeting held by P4A.

On December 9, 2003, the department received P4A's letter advising that it would be unrealistic to incorporate all the factors discussed in the letter. Instead, it specifically requested that the department consider four factors: the number of persons 60+, poverty, minority, and rural status. P4A further advised that it would "rely on the department's ingenuity and experience" to decide how these factors should be weighted. (See attached letter). The Association also asked that the department make every effort to minimize the financial harm and avoid undue hardship to any AAA.

In response to these recommendations, the department hosted a day-long session on March 4, 2004, which included a half-day comprehensive training to familiarize AAA directors with the background and requirements of the formula and to facilitate individual and collective analyses and dialogue among Pennsylvania's fifty-two Area Agencies on Aging (AAA) and the Board of the P4A Directors. In preparation, the department developed a spreadsheet to facilitate "what if" analyses of the formula's components, factors and weights, which in addition to the four factors noted in the P4A recommendation, included others the department was considering. The department also provided an electronic spreadsheet to all interested AAAs. The afternoon was spent in a closed AAA session. In its on-going support of these efforts, the department provided technical assistance, as requested either by the P4A, or an individual AAA.

It can be readily seen that the department exercised due diligence in including the four recommended factors, utilized its insight and experience in assigning their respective weights, and made every effort to minimize financial harm to any single AAA by setting a 4% financial minimization cap on losses, consistent with the P4A recommendations. Most important, it sought a funding formula that would distribute dollars optimally across all the diverse constituencies and interests within the commonwealth. In meeting this daunting challenge, the department necessarily chose a formula that would benefit the collective "whole" as opposed to an individual PSA. Using strategies to minimize losses, only twelve AAAs stand to lose less than 1% of their funding.

Not only did the department work closely with Area Agencies on Aging to develop the model, the department also convened a meeting in early July of interested state legislators and their representatives to review the formula. A great level of detail was provided on

Pennsylvania's changing demographics and the need to adjust the old formula to better address the needs of older Pennsylvanians.

The department made the allocation formula available to members of its primary advisory group, the Pennsylvania Council on Aging. No comments have been received from this sector to date. An educational segment on the allocation formula is planned for a future Council meeting.

In mid-July, 2004, the department posted on its web site the draft allocation formula for review and comment by the general public. Five comments were received, all from AAAs. The main trend in the comments from AAAs stressed the need to keep the rural factor in the formula, along with the total age 60 plus factor (a factor that had never before been used in Pennsylvania's allocation formula). As seen in the final allocation formula discussed below, these comments were accommodated.

In summary, the review and comment process on the new allocation formula was a detailed and meaningful endeavor. Not only did the department actively seek input from those most affected, it made strong efforts to ensure that the views of those who provided comments were accommodated in a meaningful fashion. At the same time, the department believes that the formula that has been put forth is the one most responsive to the changing needs of Pennsylvania's older population.

Model Description

The model consists of two distinct parts: a formula and a distribution methodology.

The first part, the formula, consists of selected factors, the factor weights, the values of the factors, census data, and calculated indices. The purpose of this part of the model is to determine the number of equivalent consumers within each Area Agency.

The formula composition and definition are as follows.
$(w_1F_1 + w_2F_2 + w_3F_3 + w_4F_4 + w_5F_5 + w_6F_6)$ = AAA Value

Where w_f is the weight assigned to each of the Factors. The weights were determined by the Pennsylvania Department of Aging with input from the Pennsylvania Association of Area Agencies on Aging. The weight provides the level of importance to the factor in relation to the other factors.

Where F_f is the factor. The factor, which can also be defined as an attribute of the consumer, is the level of demand or requirement placed on an Area Agency by a particular type of consumer. It is the census count of consumers of that type.

The State adjusted value is the sum of all Area Agency values and is the State number of Equivalent Consumers. Once the State number of equivalent consumers is calculated each Area Agency value is divided by the State value providing an index number for each Area Agency. This index number is simply the Area Agency's proportion of State equivalent consumers.

The second part, the distribution methodology, consists of allocation decision variables. These determine how and when the formula is applied.

The model takes into account the following precepts from the law and regulations:

- The federal rules require that the model take into account the geographical distribution of older persons across the state, including the proportion of the older persons with the greatest economic and social needs. It must also pay particular attention to low- income minorities.

- The state rules require that the model take into account that the allocation must be weighted by the proportion of the older poor in each Planning and Service Area (PSA), or AAA, in relation to the total older poor in Pennsylvania. State law incorporates a "hold harmless" provision that specifies that no AAA may receive less state funding than it received in the preceding year.

The formula is a mathematical expression of the requirements/needs of the consumer population within each AAA in relation to all the AAAs. Different types of consumers have different needs and therefore require varying levels of resources. Consumer characteristics are represented within the formula as "factors." Each factor represents a demographic subset of the overall sixty-plus population.

There are two criteria for considering a factor for inclusion in the formula. The first is that each factor must represent an exceptional or unique set of demands or requirements on an AAA's resources. The second is that there is a disproportionate distribution of the factor (consumer type) among the various AAAs.

In all cases the formula was first applied to the available funds to calculate the index base amount by AAA. Then, parameters that affect the allocation (i.e., hold harmless or loss minimization) are applied. The difference between the preceding (base) year's allocation and the current budget year index base amount is used to calculate the marginal indices.

This methodology permits a gradual shift in allocations preventing AAAs from taking a drastic loss in one year. Conversely it prevents others from receiving a disproportionately large gain in a single year. The change can be spread over a period of years allowing AAAs to adjust and plan for changes in allocations. The rate at which the change occurs is a decision that can be made in conjunction with the AAAs and other stakeholders.

Current Status

After full consideration of many factors and weights, including those discussed with Area Agencies on Aging, the following factors and weights were chosen:

Factor	Weight
1. Poor (at or below 100% poverty)	.25
2. Rural	.25
3. Minority	.20
4. 75+	.20
5. 60+	.10
100%	

To focus resources on targeted, at risk populations, the poor and rural factors were weighted most heavily, followed by minority and persons 75 years of age and older. To respond to overall shifts in the older population, persons age 60 and older were also included as a factor and weighted accordingly. The department opted to minimize single agency losses to four percent (4%) in response to the Area Agencies on Aging' request. Using the factors and weights selected, the four percent loss minimization assures that only twelve of the 52 AAAs will receive fewer federal dollars. In addition, the "hold harmless" provision in Pennsylvania state law requires that the state funds AAAs receive be at least equal to the amount received in the previous year further minimizing the losses to any single AAA while being responsive to PSAs that experienced increases in various populations.

As a matter of policy, the department will utilize the most recent census data available when it allocates dollars annually. Pennsylvania's proposed allocation formula was approved by the Administration on Aging on September 30, 2004 and the department plans to continue to utilize the current allocation formula for the foreseeable future.

Fiscal Presentation of the Allocation Formula by Area Agencies on Aging

	STATE			FEDERAL			TOTALS		
	State Allocation FY 06-07	**Change in State Allocation**	**Percent Change in State**	**Federal Allocation FY 06-07**	**Change in Federal Allocation**	**Percent Change in Federal Allocation**	**Budget Year Regular Block Grant Allocation FY 07-08**	**Base Year Allocation FY 06-07**	**Percent Change**
AAA AAA									
1 Erie	$ 3,576,471	$ 73,313	2.05%	$ 852,086	0	0%	$ 4,501,870	4,428,557	1.66%
2 Crawford	1,727,578	44,836	2.60%	404,513	0	0%	2,176,927	2,132,091	2.10%
3 CameronElk/McKean	1,643,734	43,740	2.66%	444,686	0	0%	2,132,160	2,088,420	2.09%
4 Beaver	2,735,366	116,625	4.26%	706,154	0	0%	3,558,145	3,441,520	3.39%
5 Indiana	1,509,187	72,054	4.77%	419,736	0	0%	2,000,977	1,928,923	3.74%
6 Allegheny	24,084,558	0	0.00%	4,965,412	0	0%	29,049,970	29,049,970	0.00%
7 Westmoreland	6,180,818	150,049	2.43%	1,515,169	0	0%	7,846,036	7,695,987	1.95%
8 Fayette/Greene/Washingto	8,095,528	58,325	0.72%	2,200,353	0	0%	10,354,206	10,295,881	0.57%
9 Somerset	1,783,797	65,849	3.69%	509,900	0	0%	2,359,546	2,293,697	2.87%
10 Cambria	3,199,783	0	0.00%	801,708	0	0%	4,001,491	4,001,491	0.00%
11 Blair	2,369,010	0	0.00%	539,611	0	0%	2,908,621	2,908,621	0.00%
12 Bedford/Fulton Huntingdon	2,452,365	64,801	2.64%	658,930	0	0%	3,176,096	3,111,295	2.08%
13 Centre	1,091,699	123,777	11.34%	276,523	0	0%	1,491,999	1,368,222	9.05%
14 Clinton/Lycoming	2,538,896	78,035	3.07%	634,721	0	0%	3,251,652	3,173,617	2.46%
15 Columbia/Montour	1,419,115	43,099	3.04%	314,929	0	0%	1,777,143	1,734,044	2.49%
16 Northumberland	2,372,290	0	0.00%	564,061	0	0%	2,936,351	2,936,351	0.00%
17 Union/Snyder	1,007,825	89,257	8.86%	265,460	0	0%	1,362,542	1,273,285	7.01%
18 Mifflin/Juniata	1,404,648	51,167	3.64%	393,415	0	0%	1,849,230	1,798,063	2.85%
19 Franklin	1,885,923	133,337	7.07%	519,318	0	0%	2,538,578	2,405,241	5.54%
20 Adams	1,002,087	136,144	13.59%	239,483	0	0%	1,377,714	1,241,570	10.97%
21 Cumberland	1,981,762	235,742	11.90%	417,239	0	0%	2,634,743	2,399,001	9.83%
22 Perry	583,805	55,424	9.49%	162,954	0	0%	802,183	746,759	7.42%
23 Dauphin	3,554,841	26,838	0.75%	804,633	0	0%	4,386,312	4,359,474	0.62%
24 Lebanon	1,566,282	105,461	6.73%	377,434	0	0%	2,049,177	1,943,716	5.43%
25 York	4,441,299	245,686	5.53%	889,843	0	0%	5,576,828	5,331,142	4.61%
26 Lancaster	4,470,754	440,182	9.85%	1,099,037	0	0%	6,009,973	5,569,791	7.90%
27 Chester	3,104,110	462,120	14.89%	693,204	0	0%	4,259,434	3,797,314	12.17%
28 Montgomery	6,700,730	601,210	8.97%	1,322,380	0	0%	8,624,320	8,023,110	7.49%
29 Bucks	4,272,592	560,044	13.11%	901,706	0	0%	5,734,342	5,174,298	10.82%
30 Delaware	6,490,660	168,300	2.59%	1,471,195	0	0%	8,130,155	7,961,855	2.11%
31 Philadelphia	45,512,206	0	0.00%	9,930,834	0	0%	55,443,040	55,443,040	0.00%
32 Berks	4,966,483	186,649	3.76%	1,116,291	0	0%	6,269,423	6,082,774	3.07%
33 Lehigh	3,869,453	135,379	3.50%	780,055	0	0%	4,784,887	4,649,508	2.91%
34 Northampton	3,328,898	152,619	4.58%	671,931	0	0%	4,153,448	4,000,829	3.81%
35 Pike	560,696	126,248	22.52%	157,203	0	0%	844,147	717,899	17.59%
36 BSST	3,088,609	148,344	4.80%	860,958	0	0%	4,097,911	3,949,567	3.76%
37 Luzerne/Wyoming	7,481,495	0	0.00%	1,694,383	0	0%	9,175,878	9,175,878	0.00%
38 Lackawanna	4,190,527	0	0.00%	1,030,843	0	0%	5,221,370	5,221,370	0.00%
39 Carbon	924,884	78,213	8.46%	253,972	0	0%	1,257,069	1,178,856	6.63%
40 Schuylkill	3,697,601	0	0.00%	940,315	0	0%	4,637,916	4,637,916	0.00%
41 Clearfield	1,724,888	19,579	1.14%	482,610	0	0%	2,227,077	2,207,498	0.89%
42 Jefferson	1,053,720	16,955	1.61%	253,095	0	0%	1,323,770	1,306,815	1.30%
43 Forest/Warren	827,709	45,629	5.51%	206,734	0	0%	1,080,072	1,034,443	4.41%
44 Venango	1,005,689	46,853	4.66%	248,508	0	0%	1,301,050	1,254,197	3.74%
45 Armstrong	1,595,471	30,621	1.92%	402,789	0	0%	2,028,881	1,998,260	1.53%
46 Lawrence	1,687,002	65,008	3.85%	419,579	0	0%	2,171,589	2,106,581	3.09%
47 Mercer	1,823,074	151,058	8.29%	500,095	0	0%	2,474,227	2,323,169	6.50%
48 Monroe	1,348,536	202,007	14.98%	355,107	0	0%	1,905,650	1,703,643	11.86%
49 Clarion	739,950	53,494	7.23%	215,993	0	0%	1,009,437	955,943	5.60%
50 Butler	2,018,754	204,623	10.14%	507,934	0	0%	2,731,311	2,526,688	8.10%
51 Potter	474,161	12,205	2.57%	123,392	0	0%	609,758	597,553	2.04%
52 Wayne	912,774	87,103	9.54%	256,586	0	0%	1,256,463	1,169,360	7.45%
STATE	**$ 202,080,093**	**$6,008,000**	**2.97%**	**$ 46,775,000**	0	0%	**$ 254,863,093**	**$ 248,855,093**	**2.41%**